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April 10, 1972

business insurance

for buyers of employe, property and liability protection/pension investments/financial services

Illinois is on the road to risk management

By TERESA NORTON

CHICAGO—The State of Illinois controls in excess of \$4 billion in values and approximately 35,000 buildings. On April 17, handling of property-liability coverage for these assets will formally come into the domain of the state's new superintendent of risk management, William J. Gibbons Jr.

Illinois established the new division by statute in July, 1971. Mr. Gibbons, former director of insurance and administrator of employe benefits for Standard Kollsman Industries Inc., was selected on the basis of a report by the Illinois state property insurance study commission, which led to the new division, and recommendations by Ebasco Services Inc., its consultant.

Mr. Gibbons told *Business Insurance* that the new risk management division will coordinate the handling of all property-liability insurance exposures (excluding life, accident and health and workmen's compensation) of the state and its departments, divisions, agencies, branches and universities. The division, he explained, will have the power to:

- Develop and maintain loss and exposure data.
- Study the feasibility of self-insurance and reinsurance beyond the realistic limits of self-insurance.
- Prepare a plan to centralize purchases of property-liability insurance on state property under a master policy (or policies) contract.
- Evaluate existing provisions for fidelity bonds required of state employes and look into reduction of cost in this area without loss of coverage.
- Establish regulations to inventory property owned or controlled by the state.
- Investigate inclusion of school districts, junior college districts and other units of state government in the program for centralized purchasing of insurance.
- Implement such recommendations of the state property insurance study commission as the department of finance finds necessary in the performance of its duties to achieve efficient and comprehensive risk management.

MR. GIBBONS has been involved in the underwriting, brokerage, consulting and risk management phases of insurance since 1935. He served the past year as president of the Chicago chapter

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W. J. (Bud) Gibbons Jr.

Wilson says he's guilty in huge mail fraud case

By RICHARD BJORKLUND

MIAMI—Philip M. Wilson, indicted for a \$150 million mail fraud with 21 other persons, has entered a plea of guilty to conspiracy and seven counts of mail fraud and faces a maximum of 40 years in prison and fines of as much as \$17,000.

Sentencing of Mr. Wilson will follow the delivery of probation reports to Federal District Court Judge Joe Eaton, before whom guilty pleas were entered by Mr. Wilson and Charles E. (Carl) Brown, who faces a maximum term of 20 years.

Both Mr. Wilson and Mr. Brown are defendants in a July, 1970, mail fraud case in St. Louis involving minimutual insurance companies. That case, which developed after *Business Insurance* exposed the insurance operations of Mr. Wilson and his associates, centers around sales of allegedly worthless insurance coverage by illegal minimutual companies operated by Mr. Wilson and his associates through a loophole in Missouri regulatory law.

THE MIAMI indictment, to which Mr. Wilson and Mr. Brown and seven of their co-defendants have pleaded guilty, involves alleged instances of fleecing businessmen in an advance fee swindle in which prospective builders lost an estimated \$75 million in escrow money. Another \$75 million was lost by insurers and companies that purchased reinsurance from Trans-Continental Casualty Insurance Co.

The 78-count Miami indictment constituted the largest mail fraud prosecution in the history of the U.S. postal service.

Trans-Continental, formerly domiciled in Nassau, Bahamas, is



Philip M. Wilson

one of 255 "suitcase" insurance companies erased from Bahamian records by Bahamian Insurance Registrar Charles Donaldson.

Mr. Wilson is described by Asst. U.S. Attorneys Arthur Tifford and Richard Kirschner as "a major defendant" in the current indictment. Sources within the Department of Justice said that other indictments involving the Bank of Sark on the Guernsey Islands in the English Channel may be returned that will make Mr. Wilson the key defendant.

In the Miami mail fraud indictment it is alleged that some prospective loan clients were told that Trans-Continental was a recognized client of the Bank of Sark in order to provide a false facade of respectability for the "shell" company in Nassau.

Judge Eaton has set no date for sentencing Mr. Wilson and

Mr. Brown pending examination of their probation reports. "The length of their sentences is at the discretion of the court," Mr. Tifford told *Business Insurance*, "and it depends upon the presentencing investigation." He said that the remaining 10 defendants who pleaded innocent but are still in the jurisdiction of the court will go on trial April 10.

Defendant Bernard Greenberg is believed to have fled to Israel, which has no mail fraud extradition treaty with the U.S. Dr. Clifford Noe, whose activities have been reported in this magazine, is under detention in England. Another defendant, Wendell L. Thompson, is to undergo psychiatric examination before sentencing.

MR. WILSON'S insurance activities were first brought to public attention in a series of articles in *Business Insurance* that began on Dec. 2, 1968. The Miami indictment alleges that the \$150 million mail fraud began about that time and continued until the indictment was returned by a federal grand jury in January of this year.

Mr. Wilson, whose insurance agent's license was lifted by the Missouri insurance department, has an arrest record for possessing stolen goods in St. Louis, but his only conviction was on a contempt of court charge in Los Angeles arising out of the Bank of Sark operations.



Opening day came and went but Cardinals Joe Torre, Dal Maxvill and Lou Brock (left to right) were busy striking for higher pensions, not baseballs. St. Louis Cardinal's president August Busch Jr. (second from right) and team owners were still negotiating with the Players Assn. over pension benefits while the sun warmed empty grandstand seats across the country. For details see page 12.

—Wide World photo

Fund profited on ITT stock

By STEPHEN GILKENSON

NEW YORK—Authorities in Washington and Ohio are investigating the sale of more than 100,000 shares of International Telephone & Telegraph Corp. preferred stock to the State Teachers Retirement System of Ohio pension fund last July. The transaction, it was alleged last week, may have come about as a result of insider information known by the investment banking firm of Lazard Freres & Co.,

New York, and may have worked to the detriment of the fund.

At least one person, however, cannot understand what all the commotion is about. He is Herschel C. Pittenger, portfolio manager for the \$2.2 billion Ohio fund. Mr. Pittenger told *Business Insurance* during an interview last week that the series of stock purchases in question resulted in a realized gain of \$1.314 million for the fund. "I suppose," he said of the charges and the investigation they prompted, "they're

looking for some finagling at the top. But I'm satisfied that the whole thing worked out to the fund's advantage."

THE INQUIRES by the Ohio attorney general's office, the Securities and Exchange Commission and the U.S. Justice department were apparently triggered by Reuben B. Robertson III, a young attorney working with Ralph Nader.

Mr. Robertson's charges, made

Continued on page 2

Says Ohio fund made profit on sale of ITT stock

Continued from page 1

in a letter to Sen. James O. Eastland (D.-Miss.) casts an even wider shadow on the already muddled case involving ITT, its alleged intimacy with the Republican party and its influence with the Justice department's antitrust division.

Ohio Attorney General William J. Brown said that his office, the SEC and the Justice department are attempting to determine if the Ohio teachers' pension fund was damaged as a result of alleged use of inside information

by Lazard Freres. The investment banking firm sold slightly more than 100,000 shares of ITT Series N preferred stock to the fund during July of last year.

The Ohio fund paid from \$78 to \$83 a share for the stock. However, on July 31, just a day after the Ohio fund had completed buying blocs totaling 102,500 shares, the stock sank to \$69 a share. That was the day it was announced that a settlement of the Justice department's antitrust suit against ITT had been made.

Felix Rohatyn, an ITT director as well as partner in Lazard Freres, testified in Senate hearings last month that he was told of the proposed settlement agreement between ITT and Justice on June 17. He said he relayed this information to Harold Geneen, ITT's chief executive, but that tight secrecy surrounded handling of the information.

IN HIS LETTER to Sen. Eastland, who heads the Senate judiciary committee, which is investigating ITT's relationship with the Republican party, Mr. Robertson asserted:

"As a witness before the committee, Mr. Rohatyn testified that Lazard was both buying and selling ITT stock during this entire period of negotiations. While technically perhaps accurate, this statement was fundamentally misleading since it didn't properly indicate the magnitude of the sales."

Mr. Robertson said that Lazard Freres was "perhaps the most active seller in the world of ITT Series N preferred stock" in the weeks preceding the announcement of the agreement between Justice and ITT that allowed ITT to retain its most important acquisition in recent years, the Hartford Fire Insurance Co. Series N preferred was the stock that had earlier been issued by ITT in exchange for Hartford Fire stock.

Mr. Robertson also charged that Lazard Freres' Mr. Rohatyn had several secret meetings with Deputy Attorney General Richard G. Kleindienst in 1971 before the settlement offer was made and communicated to him privately on June 17.

"On or about the first day of July, 1971," Mr. Robertson charged in his letter to Sen. Eastland, and "immediately following a private meeting between Mr. Rohatyn and Mr. Kleindienst concerning the progress of the negotiations, Lazard sold off 30,000 shares in a single bloc" to the Ohio teachers' pension fund. Mr. Robertson further alleged that during the remainder of July and before the July 31 announcement that resulted in a healthy drop in the stock's price Lazard sold off another 90,000 shares to the Ohio fund.

In addition, the young attorney noted, "hundreds of thousands" of the same issue were sold to the public and trust departments of Chase Manhattan Bank, Chemical Bank, Central National Bank of Cleveland, Morgan Guaranty Trust Co., Hartford National Bank, Fiduciary Trust Co. of New York, Mercantile Trust Co. of St. Louis and Safe Deposit & Trust Co. of Springfield, Mass.

Lazard Freres has responded to the charges by saying that "all of the sales of ITT securities executed during (the June-July, 1971) period were as a result of unsolicited orders received by the firm from its clients."

Still somewhat puzzled by all the flap last week, however, was the pension fund's Mr. Pittenger, whose \$2.2 billion fund currently includes about \$800 million in equities.

Prior to last July's transactions, Mr. Pittenger disclosed to this magazine, the fund held 102,700 ITT common shares that it had bought for about \$51. Ear-

ly in July the fund sold the whole bloc for about \$62 per share and purchased 82,200 shares of ITT Series N preferred.

Between July 27 and July 30, Mr. Pittenger said, the fund purchased another 20,300 shares of Series N with new money that came into the fund. All of these July transactions cost the fund between \$78 and \$83 per share. When the ITT-Justice settlement was announced, however, the price dropped to \$69.

Mr. Pittenger further disclosed to *Business Insurance* that the fund continued to buy Series N stock even after the July 31 announcement. In August, for example, it acquired another 57,800 shares. Since last August, he added, the fund has traded some Series N for ITT Series J. However, it recently retraded the Series J for more Series N and now holds only ITT Series N stock—161,900 shares as of last week.

NOTING that the price of ITT common has also dropped the past year, Mr. Pittenger said that he feels the fund is still in better shape—by about \$1.314 million in realized gain—than it would have been had it not turned to the Series N issue.

The fund, however, does have an unrealized loss on the 161,900 ITT shares it now owns at a value last week of \$1.29 million. Net gain on the transactions, therefore, is \$24,000.

"Of course," he added, "it could be better. But you have to realize that the only reason the stock is down is because of this cloud hanging over its head." ■

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Equal Rights Amendment may overhaul state laws

By LESLIE MURRAY

WASHINGTON—If the proposed Equal Rights Amendment, recently passed the Senate, is approved by the necessary 38 state legislatures, widespread changes in state labor laws, Social Security and government hiring, promotional and retirement policies may be expected.

The main provision of the amendment states: "Equality of rights under the law shall not be denied or abridged by the United States or by any state on account of sex." Its backers, including the Citizen's Advisory Council on the Status of Women and its chief Congressional proponent, Congresswoman Martha Griffiths (D-Mich.), had consistently stressed that the amendment as worded would not affect purely private employment practices. Its major thrust focused instead, they said, on governmental actions.

Alleged sex discrimination in most areas of the private sector, as pointed out repeatedly during Congressional debate over the amendment, is covered by Title VII of the Civil Rights Act of 1964, Executive Orders 11246 and 11375 (authorized by President Lyndon Johnson) affecting equal employment practices for firms operating under government contracts, and the Equal Pay Act of 1963.

MOST OPPONENTS of the amendment, in fact, based their arguments on possible burdening of the courts and Constitution resulting from overlapping strictures of previous state and federal legislation. Proponents countered by citing sluggishness and failure of courts (particularly the Supreme Court) in passing down positive rulings on existing sex discrimination legislation.

Nonetheless, state labor laws, particularly "protective" labor laws for women regulating weight lifting, overtime restrictions and night work, could be severely altered or abolished should the amendment be ratified.

Those backing the resolution have contended that such protective legislation is merely veiled sex discrimination, especially in light of the changing nature of women's place in the work force.

Olga M. Madar, United Auto Workers vp, in urging Congressmen to defeat an amendment to the original resolution which would have exempted a worker "from compulsory military service or any other law of the United States or of any State which reasonably promotes the health and safety of the people," asserted that "discriminatory and outmoded" state laws regarding women violate Title VII of the Civil Rights Act.

"**THE DAY** of the discriminatory state laws is ending," said Miss Madar. "Judicial decisions in Title VII litigation leave no doubt on that score. Upwards of 45% of the complaints brought under Title VII have had to do with sex discrimination under state laws.

"Almost unanimously, the decisions have gone against the state laws and have upheld the principle of equal treatment of the sexes, which is the whole

point of the equal rights amendment."

The Senate judiciary committee, in its report favoring the equal rights amendment without modifying additions, concluded that, "Many of these laws (protective labor legislation) are not protective at all, but rather are restrictive, and have been shown to have a discriminatory impact when applied only to women.

"For example, a law which limits the working hours of women but not of men makes it more difficult for women to obtain work they desire and for which they are qualified, or to become supervisors."

IN THE OPPOSITE corner, Sen. Sam Ervin (D-N.C.) opposed the amendment *in toto*, maintaining that its passage

would be superfluous to previous federal and state action (such as Title VII and extended enforcement powers of the Equal Opportunity Commission) to abolish protective labor laws. "Resorting to an amendment to the Constitution to effect this purpose," he said in a minority rebuttal to the committee's report, "is about as wise as using an atomic bomb to exterminate a few mice."

Sen. Ervin also quoted from an AFL-CIO executive council report, stating, "We have opposed the equal rights amendment because of its potentially destructive impact on State labor legislation for women workers . . . Experience, to date, shows that 'equality' has been used to remove labor law protections for women, rather than to extend them or adapt them to man."

ERA backers had testified that, while some discriminatory portions of state labor legislation would probably be voided, other so-called "protective" laws could be extended to include men as well as women. For example, men might be granted longer rest periods or weight lifting limits depending on their size and strength.

AS STATED by the Senate judiciary majority report, "In those situations where a court finds a State or federal law in conflict with the Equal Rights Amendment, the legal infirmity will be cured either by expanding the law to include both sexes or nullifying it entirely . . . it is expected that those laws which are discriminatory and restrictive will be stricken entirely . . . On

the other hand, it is expected that those laws which provide a meaningful protection would be expanded to include both men and women, as for example minimum wage laws."

Mrs. Griffiths, in her testimony before the constitutional amendments subcommittee of the House judiciary committee, asserted that, "It should also be understood that under the Equal Rights Amendment many laws which treat men and women differently would not be struck down, but simply would be expanded in their coverage so as to include the sex previously discriminated against.

"Under established practice, when a court rules that part of a statute unconstitutional, the whole statute is not automatically

Continued on page 48



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washington watch

Dental cover has its growing pains; some see limited government role

WASHINGTON—Dental coverage appears to be edging into the spotlight of private-sector and government health insurance considerations.

Once almost an oddity—at least a very special item—in fringe benefit plans, dental care coverage has gained rapidly in the past few years. It's estimated by dental organizations to have increased from below 6 million Americans covered in 1965 to

more than 13 million now.

This is only about 7% of the population, compared to 70% who have some form of medical coverage. But there are strong indications that millions more than that 7% are becoming aware that families don't need to be limited to the choices of the past: paying big dental bills directly or simply doing without dental care.

UNIONS HAVE had a lot to do

with the increase in dental care group coverage. Many teamsters have it, some 300,000 aerospace employees recently worked it into their contracts, and the United Auto Workers came close to doing so in negotiations this year. (Their members at International Harvester did get it). The UAW will try again in future bargaining with the car manufacturers according to union sources here and steel workers are expected to

join them. As one labor spokesman put it, "This is a logical progression in health coverage. The need has been there all along. Now the insurance plans are there."

The coverage does not have its roots down very deep yet, however. Most commercial companies, dental groups and group insurers such as Blue Shield who are writing dental policies are said to be having difficulty breaking even on it.

This is seen as caused mainly by the rush to get dental attention when plans go into effect. There is also lack of experience with premiums (usually \$25 to \$35 a month with an employer chipping in less than half and an employee paying about 25% of charges for filling, extractions, etc. and more for special work). Often they have not met costs. In addition, there's the problem of dental fees increasing over the past few years.

Higher premium rates, how-

ever, would limit growth considerably. High costs were one reason the auto workers decided against making an issue out of dental coverage this year. Dental groups and insurers feel that time could solve this problem, however. They feel that once the initial waves pass and those covered are in better dental shape the plans can operate in the black at reasonable rates.

GOVERNMENT so far hasn't played a regulatory or assistance role in dental plan growth (through many state, local and federal employees have group coverage and were among the first to get it). Government has been quite active in pointing out the problem, however. The Health, Education & Welfare department's division of dental health has a continuous information program and has been pounding away with some hard-to-ignore statistics: about 50% of the children in the U.S. have decayed teeth by the age of five; most adults have tooth decay or gum disease; only 25% of the population receives dental care regularly.

The government's information efforts are officially applauded by the dental profession, but they're also considered slightly bothersome. The American Dental Assn., for instance, wouldn't mind a slowdown. "If you examine 100 people, almost invariably 99 of them will need some sort of dental care," said an ADA spokesman.

One reason the dental association would like to see less emphasis on the problem (and more on prevention) has to do with pending health legislation, specifically the Kennedy-Griffiths proposal for national health insurance backed partially by tax money and run by the government.

The Kennedy-Griffiths bill is the lone piece of health legislation at present that includes dental coverage. The care would be mostly for children. All those under 15 years of age would be provided with dental services without charge, and the coverage would expand for five years after enactment to cover everyone up to 25.

THE ADA says it's all for helping children in need of dental care, but, like nearly all opponents of the Kennedy-Griffiths proposal, it doesn't want the government running the whole show.

Yet the ADA figures some government aid—and policing power—should be brought into the dental care picture to supplement dental insurance plans, which not everyone can afford.

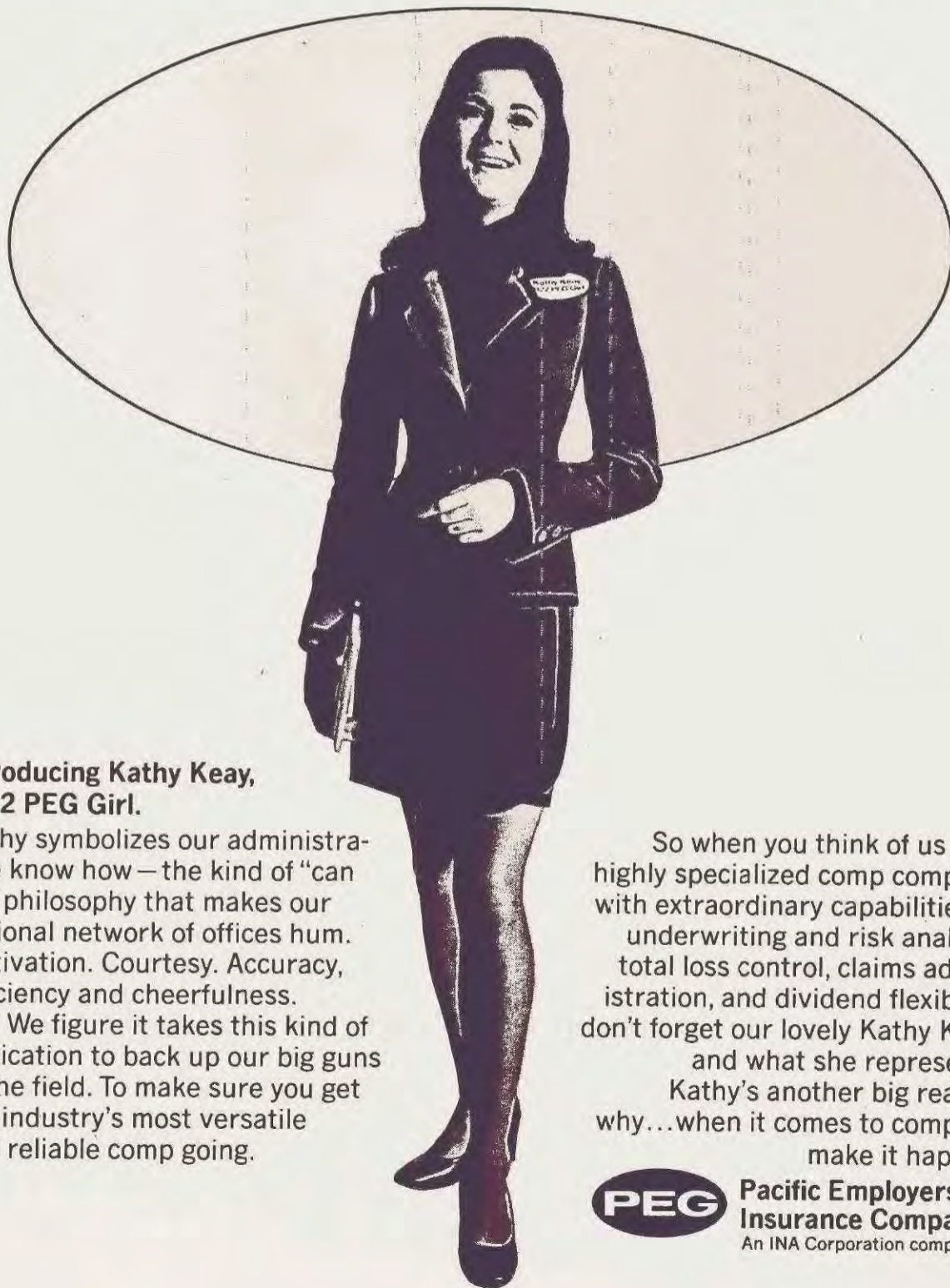
And there are indications the government may participate, whatever the fate of the Kennedy-Griffiths bill. The health insurance plan being pieced together by the House ways and means committee may well have some kind of dental care provision for families at the lower end of the income scale at least.

John P. Baker, assistant chief counsel of the committee, noted that during hearings last fall on proposed health insurance legislation there was considerable testimony in favor of a government dental care program. "It will have to be considered for inclusions," said Mr. Baker. "It definitely hasn't been ruled out." ■

Dental plan approved for Seattle workers

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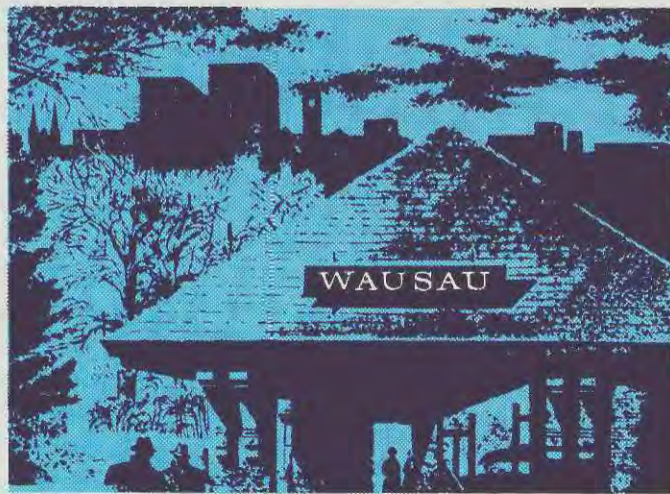
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Award of ITT pension slice being scrutinized

NEW YORK—The latest possible infraction uncovered in investigations into the Hartford Fire Insurance Co.—International Telephone and Telegraph Corp. merger concerns \$10 million of the ITT pension fund given to the management firm of Dreyfus-Marine Midland Inc., as trustees.

Although this is a very "insignificant" amount of the total fund, according to an ITT spokesman, the events surrounding the management business award are being held up to scrutiny by the Senate committee currently studying the ITT transactions. ITT's pension fund is in excess of \$1 billion.

In 1969, ITT was under considerable pressure to divest itself of Hartford stock in order to gain a favorable tax advantage from the Internal Revenue Service concerning the anticipated merger. A tax ruling is required in this type of merger to exempt shareholders from paying a capital gains tax when they exchange their old stock for shares of the acquiring company.

In Nov., 1969, ITT sold 1.7 million shares of Hartford stock to an Italian Bank, Mediobanca. Within two years, Mediobanca had converted the shares into ITT stock and had sold them to the Dreyfus Fund, a mutual fund in New York. A newly-formed subsidiary of Dreyfus, the Dreyfus-Marine Midland Management Corp. now called Dreyfus-Marine Midland Inc., was then awarded management of \$10 million of the ITT pension fund.

Several factors of the stock transaction indicate that the original sale of Hartford shares to Mediobanca may have had strings attached. In Oct., 1969, John F. Bogaard, chief of the IRS's Reorganization Branch,

specified that "ITT will unconditionally dispose of all shares of Hartford common stock which it holds by sale to third parties." However, in its sale to the Italian bank, ITT supposedly assumed the risk of a short-range market downturn which guaranteed that the bank could not suffer any losses on the stock until mid-1971.

Late in 1970, Dreyfus Fund allegedly bought 800,000 shares of ITT stock from Mediobanca. Then, as their management subsidiary was just beginning operations, ITT placed \$10 million of business with them in July 1971. ITT business with the fledgling firm is reported to account for approximately 5% of their pen-

sion business.

In an unrelated development in Hartford, Conn., Superior Court Judge Walter J. Sidor dismissed a suit filed by Ralph Nader and three ITT and Hartford stockholders to reverse the state insurance commissioner's 1970 decision approving the merger.

Mr. Nader and the stockholders charged that insurance commissioner William R. Cotter had yielded to political and economic pressures when he approved the merger. In an earlier decision in 1969, Mr. Cotter had ruled against the acquisition.

Judge Sidor ruled that Nader and his associates did not have sufficient standing to bring suit and that they did not prove they were injured by the merger. Ruben Robertson, one of the plaintiffs, expressed dismay that an individual stockholder was barred from bringing suit and noted that the Nader group might appeal the decision. ■

Profit sharing deemed to be part of wages

SAN FRANCISCO—The California court of appeals ruled here this week that a profit-sharing plan of Merrill Lynch Pierce Fenner and Smith Inc. is part of an employee's wages and thus is not subject to forfeiture.

In the precedent-setting decision, the appeals court also ruled that claims are now open to court in spite of any prior agreement to arbitrate issues at stake.

The case involves a claim by David Ware, former employe of the stock brokerage firm, for about \$22,000 vested to his credit in a profit-sharing plan maintained by the company which employed Mr. Ware from July, 1958, until March, 1969, when he quit to join Reynolds & Co.

The Merrill Lynch plan provides that a participant who voluntarily terminates his employment and engages in competitive occupation shall forfeit all rights to the profit-sharing plan and it also provides that controversy over the plan be subject to arbitration.

The appeals court ruled the forfeiture clause is illegal under California law and since profit-sharing should be considered wages, the employe has the right to bring his claim into court.

Ware's attorney, Joseph C. Barton, filed the suit as a class action and, to date, it involves 60 California residents who have at stake more than \$500,000 in profit-sharing funds. ■



Stanton Parker, manager of the western branch of the General Conference of Seventh-day Adventist Insurance and Risk Management Services, has been elected president of the southern California chapter of the American Society of Insurance Management. During the installation Mr. Parker commented: "ASIM is the only organized voice of the insurance consumer. The 1,900 corporate members making up the national society include over 90% of the Fortune 500 list and are collectively responsible for over \$9 billion in commercial insurance premiums annually. Adding to this the insurance interests of our employes, ASIM certainly has an obligation to act as the consumer watchdog of the insurance industry."

The advertisement features a grid of six product categories, each with a circular image of a component and a rectangular logo box below it:

- Top Left:** A circular component with a white arrow pointing towards the top right. Below it is the **HEWLETT hp PACKARD** logo.
- Top Right:** A circular component with a bell-shaped symbol inside. Below it is the **Western Electric** logo.
- Middle Left:** A circular component with a central vertical slot. Below it is the **SQUARE D** logo.
- Middle Right:** A circular component with concentric rings. Below it is the **CONTROL DATA CORPORATION** logo.
- Bottom Left:** A circular component with a crown symbol inside. Below it is the **Westinghouse** logo.
- Bottom Right:** A circular component that is mostly white. Below it is the **GTE** logo, with the text **GENERAL TELEPHONE & ELECTRONICS CORPORATION** and **730 THIRD AVENUE, NEW YORK, NEW YORK 10017** underneath.

following the funds

Private insured pensions leap 8.5%

NEW YORK—The 8.5% increase in the number of workers covered by private insured pension plans in 1970 was the largest increase for all types of plans, according to the Institute of Life Insurance. The overall increase in workers covered under all pension plans was 3.9%, or 1.8 million.

The number of workers covered by noninsured pension plans increased 2.9%.

PRIVATE plans also showed a higher increase in benefit dollars paid out and the number of pensioners receiving them than gov-

ernment-administered retirement plans, with a total of \$6.7 billion being paid to more than 4.7 million persons who retired because of age, length of service or disability. More retirees receiving benefits from private plans than from government-administered plans are also receiving Social Security benefits, the institute reports.

(The figures for pensioners in the accompanying chart do not include survivors or dependents of deceased workers or beneficiaries, except in a few instances, and the total number included is estimated by the institute to be relatively small.)

PERSONS COVERED BY PRIVATE RETIREMENT PLANS

Year		Insured	Noninsured
1950	workers	2,605,000	7,200,000
	pensioners	150,000	300,000
1960	workers	4,935,000	16,300,000
	pensioners	540,000	1,240,000
1970	workers	9,754,000	20,600,000
	pensioners	1,226,000	3,500,000

Source: Institute of Life Insurance



Robert A. Hevron, corporate insurance manager for P. R. Mallory & Co. Inc., Indianapolis, is the new president of the Indiana chapter of the American Society of Insurance Management. Mr. Hevron has been with Mallory since 1969 and prior to that was associated with the Provident Life & Accident Insurance Co. and the Indiana Insurance Group.

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PAOLI, Pa.—A national temporary help service here, PARTIME Inc., has made its employee insurance program available to all personnel.

The 10/10 Security Plan, according to the firm, is the only completely paid company insurance program for temporary workers in the industry. It was initiated for white collar workers in 1969 and will now cover blue collar workers as well. It allows \$10 per day for hospital coverage for one year and \$10,000 accidental death and dismemberment coverage.

To qualify for the benefits an employe must work a minimum of 200 hours during a period of three consecutive months. Eligibility is renewed on a quarterly basis.

Insurance Co. of North America underwrites the plan.

Golden Gate Bridge 'safest' quake refuge

SAN FRANCISCO—The Golden Gate Bridge has been described here as one of the "safest" places to be in future earthquakes, thus reassuring the bridge directors' insurance committee.

The committee, able to obtain no more than \$31 million in insurance, had asked Robert E. Shields, bridge engineer, for a study of its condition and the potential quake hazards.

Mr. Shields said the bridge is "between, and not on, any of the known earthquake faults of northern California and the greatest hazard to the bridge might be a repetition of the April 18, 1906, earthquake.

"Even with a quake of that proportion," Mr. Shields added, "I see no reason to expect material damage to the bridge. The foundations are on rock as stable as any to be found along the California coast."

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• **Products Liability: Guide For Management**, published by the Defense Research Institute Inc., asserts that product liability claims can be successfully avoided and offers extensive discussions of the legal theories involved in product liability claims, preventive procedures and claims handling and defense. Copies are available to DRI members for a \$1 handling fee, prepaid, from the institute, 1100 W. Wells St., Milwaukee, Wis. 53233.

• Yosemite-Great Falls Insurance Cos. has made available a booklet on its **Revised Restaurant/Bar Program** for California, describing liquor law liability and increased capacity on property. Copies are available without charge by writing P. J. O'Shaughnessy, underwriting mgr., Yosemite-Great Falls Insurance Cos., P.O. Box 7732, San Francisco, Cal. 94120.

• The 1972 **Drivers License Guide** shows every state's drivers license in full color with all special codes, required validation and other identifying marks. It also contains a section covering major national credit cards, and is used by banks, rental firms, retail stores and security and law enforcement agencies. The guide is available for \$3.95 plus 50¢ per order postage and handling from the Drivers License Guide Co., 1492 Oddstad Dr., Redwood City, Cal. 94063.

• The Insurors Press has released its 1972/1973 catalogue of educational products, listing books and devices in the areas of audio-manual and audio-visual, continuing manuals and licensing, professional education and topical books. A 50¢ handling charge may be applied to a buyer's first catalogue purchase. Write Insurors Press, catalogue sales dept., P.O. Box 1430, Santa Monica, Cal. 90406.

• The Bankers Life & Casualty Co. is offering a free brochure, **Wife Insurance Plan**, explaining how life coverage for under-insured wives to provide income for paying outside help can be added to existing employe benefit plans at no extra cost. For copies contact Sherman Jenson, gen. mgr. group div., Bankers Life & Casualty Co., 4444 W. Lawrence Ave., Chicago, Ill. 60630

• The United States Aircraft Insurance Group has made available the **Legal Liability of Manufacturers of Aircraft and Aircraft Components**. The pamphlet discusses the increasing scope of liability, sources of liability, aircraft design, fabrication and testing, components, aircraft repair, and safety features. Copies may be obtained by contacting USAIG, 110 William St., New York, N.Y. 10038.

• The Humetrics Corp. has released a pamphlet, **How Industry Can Cut Costs of Employee Heart Attacks**, written by James A. Schoenberger, M.D., and reprinted from Commerce. The article deals with the high cost to indus-

try of heart attacks and how to reduce the incidence of this major problem. For copies contact Kenneth L. Dufour, director of marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Cal. 90045

• **Insurance Certification and the Accountant**, an article by S. B. Ackerman, discusses the types of information an accountant requires in terms of insurance. Copies are available by writing S.B. Ackerman, Ackerman Associates, 500 5th Ave., New York, N.Y. 10036.

• **Violence and Vandalism**, a 16-minute color film produced by American Educational Films, discusses the causes of violence and vandalism and their cost to schools. Written by Marilyn Elias

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and narrated by Hugh O'Brien, the film proposes answers that young people can understand. For more information on possible uses and costs write American Educational Films, 331 N. Maple Dr., Beverly Hills, Cal. 90201.

• Huggins & Co. Inc. has released its November, 1971, bulletin containing a summary and discussion of Revenue Ruling 71-446 stating the new tax qualification rules for integration of retirement plans with Social Security. In addition to describing the ruling in some detail, it also focuses on areas where existing plans may require change. For a copy write the company at 1401 Walnut St., Philadelphia, Pa. 19102.

• **Flood Adjusters Handbook** is now available from the Mutual Loss Research Bureau, 20 N. Wacker Dr., Chicago, Ill. 60606. Designed for use by insurance adjusters handling flood or water damage losses, the 90-page manual covers basic facts about flood losses, safety tips for adjusters, emergency procedures, worksheets and forms. Single copies are \$2.50.

• Union Mutual Life Insurance Co. has made available a series

of forms, or "spread sheets," designed to simplify a company's analysis of group pension funding vehicles. The forms outline all pertinent information with regard to any company's deposit administration, immediate participation guarantee, investment contract or segregated accounts and lays the information out in a format that is easy to understand and evaluate. Direct requests to Joel P. Brightman, Union Mutual Life Insurance Co., 2211 Congress St., Portland, Me. 04112

• **The Risk Management Manual** is bi-monthly supplemented and covers exposure identification, risk analysis and evaluation, risk control (avoidance, elimination and reduction), retention, non-insurance transfer of risk, insurance, valuations, marketing disaster planning, loss handling and communications. Inquiries on price information should be sent to Jeanne Chesley, Promotions Manager, Insurers Press Inc., P.O. Box 1430, Santa Monica, Cal. 90406.

• **Commercial Property Product Lines** is a concise guide to the various commercial property product lines in which American Home Assurance Co. specializes. The booklet lists over 20 products the company is actively writing, with an explanation on each cover. For a free copy, write the company at 102 Maiden Ln., New York, N.Y. 10005.

• Bankers Security Life Insurance Society has produced a brochure, **Major Decisions**, dealing with the question of employe sick-pay and introducing the payroll continuation plan concept. The recently revised pamphlet includes current information on tax advantages and steps to making such a plan operational. It is available at no charge by writing A. C. Fluke, Bankers Security Life Insurance Society, 1701 Pennsylvania Ave., N.W., Washington, D.C. 20006

• A 173-page book covering the proceedings of the 1970 Public Employees Fringe Benefits Conference has been published by the National Foundation of Health, Welfare and Pension Plans. The book includes sections on trustee responsibility, investments, financing and methods of health care programs, contributory and non-contributory pension programs, national health insurance and communications and pre-retirement counseling. Non-members of the foundation can purchase the book for \$3.75 (less in quantities), members for \$2.75. For copies or more price information write the foundation, P.O. Box 69, Brookfield, Wis. 53005.

• The Equity Funding Corporation of America offers four brochures describing its new series of business insurance packages incorporating the company's leverage concept which enables individuals to purchase insurance and mutual funds in a coordinated program. The pamphlets cover Equity's close corporation, deferred compensation, key man and partnership programs. Copies may be obtained by writing Mr. Henry Gold, Equity Funding Corporation of America, 1900 Avenue of the Stars, Los Angeles, Cal. 90067.

• American International Life's **Voluntary Financial Program (VFP)** kit describes the company's new mutual fund life insurance program for employer-employee groups. It contains an explanatory brochure for the employer, solicitation material for the employee, and a message to

the insurance producer about the program. It is free to agents, brokers, and buyers by writing Dept. A-14, American International Life, 102 Maiden Lane, New York, N.Y. 10005.

• If you are retiring, the amount of your benefits under Social Security is important to you. Information on **Social Security Benefits, How to Estimate the Amount How You Earn Them How Much Credit You Need** has been compiled in leaflet form by the U.S. Dept. of Health, Education and Welfare. The leaflet helps a person estimate the amount of benefits payable on the basis of average income and amount of years working. This excellent employe handout can be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, for 15 cents per single copy and \$10 per 100 copies.

• The 1971-1972 edition of the **Design Data—Fire Resistance Manual** is available from the Gypsum Assn., 201 N. Wells St., Chicago, Ill. 60606. The publication contains extensive fire test data for 262 wall, ceiling, column, beam and roof deck assemblies using gypsum board or gypsum plaster, as well as considerable sound and structural data. Newly expanded to 100 pages, it provides detailed information for assemblies used in residential, commercial, industrial and institutional buildings plus a detailed sketch of each assembly listed. Copies are available in bulk at 70 cents each from the association. Single copies may be obtained at no charge.

• Two folders covering various phases of building security are available from Improved Risk Mutuals, 15 N. Broadway, White Plains, N.Y. 10601. The pamphlets describe various types of alarms,

locks, fences, flood lighting and other deterrents, and are available without charge in single sets by writing the company.

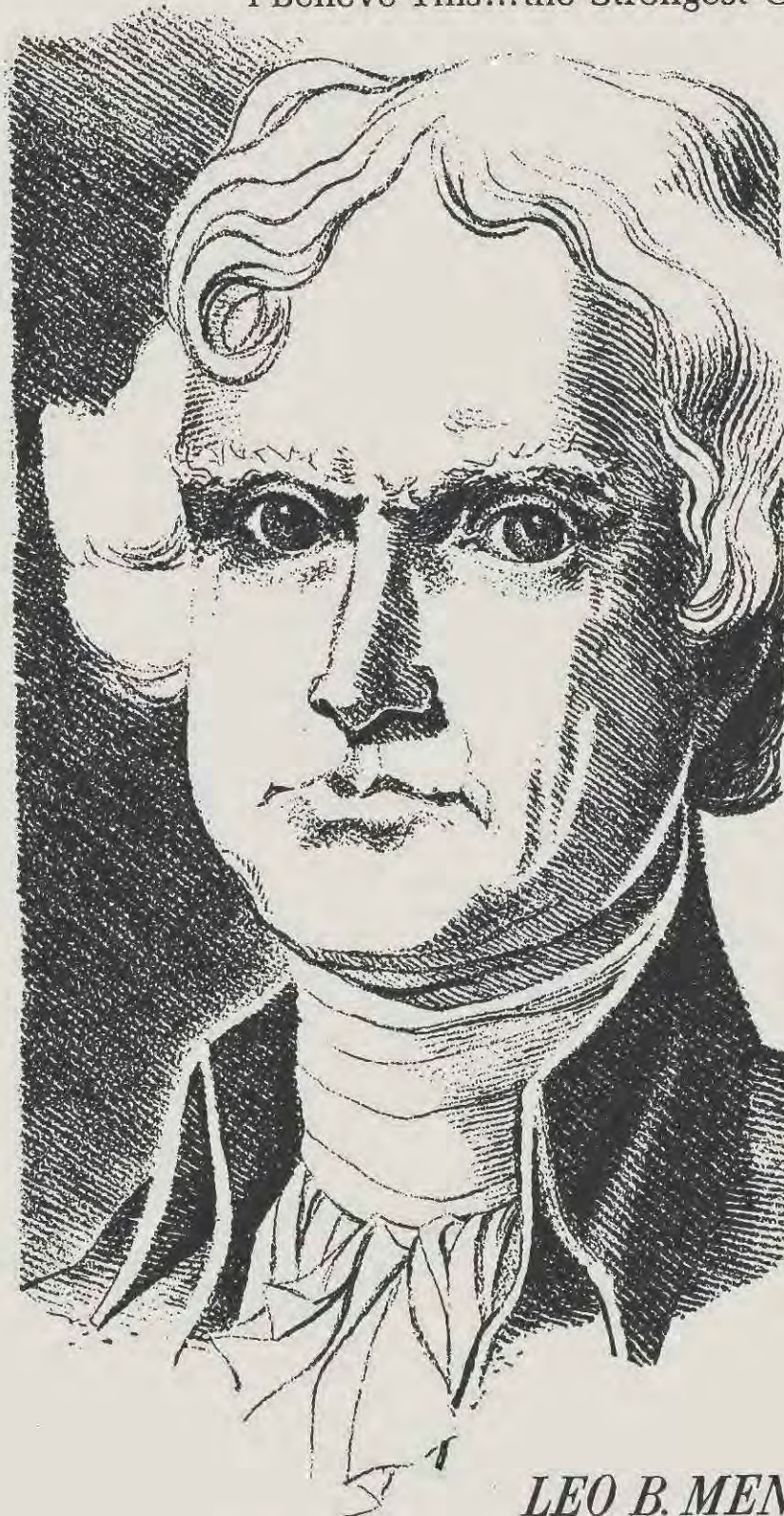
• The Swiss Life Insurance and Pension Co. has produced a pamphlet, **Risk Premium**, describing the nature and incidence of risk in relation to employe benefit plans and the actuarial determination of risk premiums. To receive a copy without charge write the company's international department, General Guisan Quai 40, 8022 Zurich, Switzerland.

• **Developing Policies and Procedures for Overseas Employee Benefit Programs**, a newsletter released by George B. Buck Consulting Actuaries Inc., Two Pennsylvania Plaza, New York, N.Y. 10001 is available free to *Business Insurance* readers from the company. The bulletin stresses pension planning in Japan.

• Marsh & McLennan has made available a **Survey of Group Life, Medical and Retirement Plans in the Republic of China (Taiwan)**. The report provides a description of social insurance practices, current benefit practices and makes recommendations for a benefit program in Taiwan. The booklet can be ordered from Marsh & McLennan International, 70 Pine St., New York, N.Y. 10005.

• **Third Country National Kit Portfolio** contains an explanatory brochure, proposal form describing the various benefits in detail, and various descriptive material about the need for broad insurance protection for a third country national employe. Produced by American International Life Assurance Co. of New York, the portfolio is available free by writing the company, Dept. A-14, 102 Maiden Ln., New York, N.Y. 10005.

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Captives: Bermuda, Colorado, taxes and beyond

By MARIANNE BURGE
Price Waterhouse & Co.
New York

Mrs. Marianne Burge is a manager in the international tax department of Price Waterhouse & Co., New York, and is recognized internationally as an authority on the tax implications of setting up a captive insurance company. This article is based on a luncheon address she gave late last month to the New York chapter, American Society of Insurance Management, and represents an up-to-the-minute step back from among the trees in order to look at the captive insurance company forest.

THE NUMBER of U.S. enterprises exploring the possibility of establishing an insurance

company—a "captive" insurance company—continues to grow. It's time to take a look at various kinds of so-called captives and some of the economic reasons why companies are turning to this kind of operation and the tax consequences as well as some important regulatory and tax developments.

There are three kinds of captive insurance companies which should be distinguished:

- There is the true captive, a wholly-owned subsidiary organized by a corporation to insure or reinsure the risks of the corporation and its affiliates and branches. The initial aim of the corporation is not to abandon its regular insurance programs, but to insure the uninsured or self-insured risks of the group. Such captives are generally incorpo-

rated abroad and U.S. risks are not generally insured in a foreign captive because of adverse U.S. income and excise tax consequences. Companies organizing foreign risk captives are generally the large multinational corporations with foreign properties, cargoes and liabilities outside the U.S.

- There is the association captive or industry captive, owned by a number of companies in the same industry wishing to insure specific risks which are peculiar to that industry. They generally have a sufficient number of members in order to avoid being a controlled foreign corporation for U.S. tax purposes. An example of an industry captive would be a group of utility companies forming a captive to insure nuclear power plants which they

use because of the difficulty of obtaining such coverage in the existing market.

- The third form of captive is really not a captive at all, although it may have started as one. This is the wholly-owned insurance subsidiary of a U.S. corporation, which starts off insuring its parent company's risks and becomes a regular insurance carrier. Such companies, often incorporated in the United States, move into the regular insurance market by selling insurance to their employees, their customers and other business contacts. Examples of these would include Sears Roebuck's Allstate Insurance Co. and a number of banks that sell credit life insurance coverage to their borrowers. The more sophisticated of these captives have subsequently incorpo-

rated off-shore captives to participate in the international reinsurance market. The possibility of participating in this reinsurance market is also drawing the interest of some wealthy individuals.

Somewhat akin to these insurance subsidiaries of noninsurance companies, which are basically moving into insurance as a business diversification, are the off-shore subsidiaries of regular U.S. insurance companies, also free to operate abroad through foreign subsidiaries and are doing so.

ONE MIGHT wonder why there has been such a renewal of interest in captives at a time when the U.S. tax rules and foreign investment situation are so much less favorable than they were ten years ago, before the enactment of the Revenue Act of 1962.

The answer is found in the insurance needs and cost of large U.S. corporations. Corporations have found that insurance premiums have increased enormously over the past five years or so; that at the same time deductibles have increased, so that the insured is bearing a greater part of the risk than ever before; that the insurance industry will simply not insure certain types of risks at any price, either because of a lack of capacity, or because of uncertainties in new areas of technology, or because of the gigantic losses involved in some recent natural and man-made disasters and the high judgments awarded in U.S. courts.

But it is not only a question of cutting insurance expense. Financial executives themselves are concerned with the possible exposures resulting from uninsured assets and risks, which could have serious effects on the financial condition of the company which is under their stewardship. The financial executive is faced with a choice between prohibitively high insurance costs and uninsured exposures. And as in many cases where a corporation cannot find the services it needs at an acceptable price, corporate management must explore the possibility of setting up its own organization to provide such services for its own affiliates. The decision to organize a captive is nearly always made for compelling business reasons. The principal purpose is to insure the deductibles and the uninsured risks of the group and thereby build up a separate and segregated fund of assets in a separate corporation which will manage the funds, gain insurance expertise and set up prudent tax deductible reserves against otherwise uninsurable risks. Subsequently the captive may be used to insure risks which can profitably be transferred from the regular carriers. Finally, once the insurance expertise has been built up, a captive may be used to go into the insurance business as a profit center.

ONCE THE NEED is seen, there are a number of other advantages of the captive:

- A company's attitude to risk management, safety and loss control may become more positive once insurance ceases to be regarded as merely an inevitable expense.

- A company's worldwide insurance programs are generally reviewed critically and the opportunity is often taken to bring greater uniformity to such programs with cost reductions resulting.

- The captive through its direct access to the reinsurance market, can save some costs in premiums.

Continued on page 47

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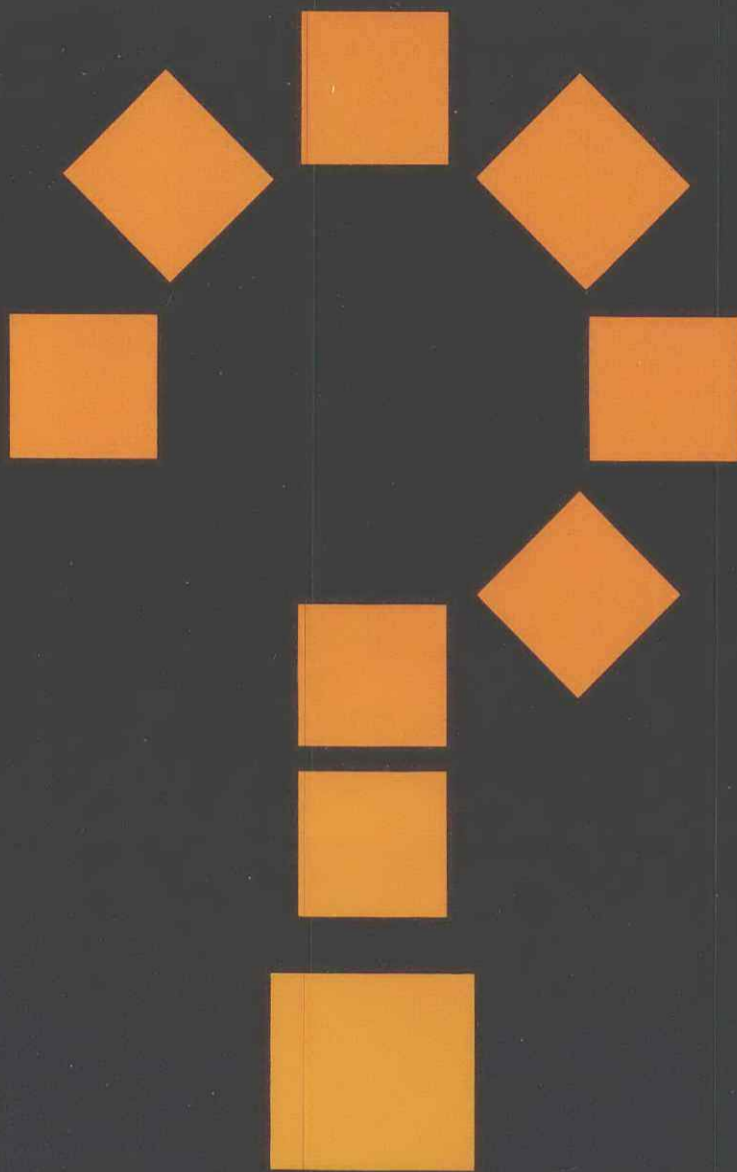
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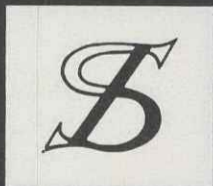
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Let them eat peanuts and Cracker Jacks...

By LYNN LATHAM

NEW YORK—With the threat of the current baseball players' strike extending far past opening day, the club owners have rejected proposals from Players Assn. representative Marvin Miller to raise players' pensions to offset a 17% cost-of-living increase since the present plan went into effect in 1969.

When negotiations began in January concerning the benefits, which expired March 31, Mr. Miller requested an additional annual contribution from the owners of more than \$1 million to fund the increase. The owners' present annual contribution to the health care and retirement program is \$5,450 million.

Since that time, the plan's ac-

tuaries have determined that a surplus existing in the pension fund is capable of funding the retirement increase, Mr. Miller said in a press conference here. "The money in the plan now generates enough to buy those benefits," he said. "Over \$44 million is invested in the plan with Equitable Life Assurance which returned 6% interest last year."

The fund is calculated to return 4.5% interest each year. According to Mr. Miller, the 1.5% gain created a \$675,000 surplus. "As the owners' excuse for not applying the added interest to increased pensions, they say 'How do we know the interest this year will be 6%?' " noted Mr. Miller. "Well, the Players Assn. has offered to guarantee any difference between a 6% return and

the 4.5% the fund is based on. We, in effect, are willing to put our money where our mouth is."

THE FUND has also produced surpluses in two other areas. An estimated \$200,000 excess exists because fewer players become vested than are allowed for in the program. "The fund is calculated as if every major league player is going to have another year of service. After 25 years we know the ratio of players that will leave without being vested. It's stupid to count that excess in the fund as credit," commented Mr. Miller.

In addition, the fund contains a \$100,000 surplus in the disability portion. "We have been funding for disability as if we had nine times as many disabled as we

do," he said.

Mr. Miller told *Business Insurance* that the excess had been calculated by John Gabel of Retirement Plans Inc., Cleveland, who has been the actuary for the plan for both the owners and players for 17 years.

An agreement is necessary between the owners and the players to change the current method of applying the surplus to pay off past service liabilities. The owners' representative, John Gaherin, said the clubs rejected the proposal as "an imprudent approach to the problem."

Mr. Miller feels the pension fund is one of the "healthiest around. Seventy-five percent of our liabilities are paid and we are paying them off at a much faster rate than was planned," he

noted.

THE OWNERS have offered to increase their annual contribution by \$490,000 to pay increased premium rates for the health plan which brings their total annual contribution to \$5,940 million. The players are willing to accept this as the final contribution increase. "We have said all along that money isn't the issue," explained Mr. Miller. "Under our present proposal, if the plan had an adverse experience, the owners wouldn't owe a cent."

The owners have adamantly refused to increase retirement benefits since negotiations began in January. They originally countered the 17% increase request with a \$372,000 offer to cover increased premium rates in the health plan and then, according to Mr. Miller, reduced the offer on March 8 to \$250,000. At that time, Mr. Miller, who has won more than \$13 million in benefits for the players since he took office in 1966, began touring the clubs for strike authorization from the players. The vote came in 663 in favor and 10 against, with two abstentions.

The owners consequently increased their offer first to \$400,000 and then to \$490,000 to cover new calculations in the premium increase. However, when negotiations failed to produce any improvement in the retirement plan and the benefits program expired, the players went on strike.

The owners, in an official statement rejecting the Players Assn. original demand for pension benefits, were quick to point out that salary increases for the players "have not only matched but have outstripped the impact of the increased cost of living." The average salary is somewhere between \$31,000 and \$32,000 per year with some star players receiving more than \$100,000.

THE CLUBS have a group annuity contract with the Equitable Life Assurance Society of the U.S. for retirement benefits. Most of the assets for the health care and retirement package are consolidated in one central trust with First City National Bank, New York, but, according to Mr. Miller, the monies cannot be moved back and forth between the insurance portion and the retirement part of the fund.

Under the present retirement plan, a player with four years of service is eligible for a reduced retirement benefit at age 45. Leo Durocher, manager of the Cubs at age 65, is not only making a handsome salary—but is drawing a monthly pension of nearly \$2,000 after 20 years in the league.

Currently, at age 65, a player with four years' service is eligible for \$618.04 per month. The players want a \$104.07 monthly increase for a total of \$722.11. A player with 10 years' service can draw \$1,545.11. They want a \$262.67 increase for a total of \$1,807.78.

In comparison, the National Football League's retirement plan also offers reduced benefits at age 45 but is oriented to retirement at age 55. A football player who retired in 1970 at 55 after five years of service is entitled to a monthly pension of \$370. A player with 10 years' credit can draw \$670. A player who joined the NFL in 1971 will be entitled to \$510 per month at age 55 after five years and \$1,035 after 10 years of service.

BOTH baseball players and
Continued on page 46

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American National's move brings a problem — also unique benefits

GALVESTON, Tex.—What does an insurance company do about its all-risk coverage when it has \$10 billion of insurance in force, admitted assets of more than \$1.3 billion, a ratio of \$117 in assets to each \$100 of liabilities, and moves into a new building?

American National Insurance Co. of Galveston, a life company founded in 1905, faced this decision as it dedicated its new 20-story home office building, the American National Tower.

Galveston, along the Gulf of Mexico, is known for its storms and hurricanes, and the American National people are quite cognizant of this. The American National Tower is believed to be the first major building on this Gulf Coast island to have a basement. Earlier structures were not given basements because of the high water table under the sandy topsoil, a mere three to five feet below the surface.

AMERICAN NATIONAL'S basement is a floating concrete shell, anchored by 1,400 pilings, each 50 feet long. The pilings are designed to offset 400 pounds per square foot of uplift to keep the basement from literally floating

Reinsuring at Lloyd's will build up OPIC

WASHINGTON—Overseas Private Investment Corp., whose government-sponsored insurance program has been on shaky ground since the Chilean copper expropriation, has reached a reinsurance agreement with Lloyd's of London aimed at bolstering its insurance stance in 73 other countries.

Under the agreement, Lloyd's will reinsure 10% of OPIC's outstanding insurance liability or \$250 million in coverage of American business operations abroad. Lloyd's underwriters will be assigned groups of countries, with the Lloyd's liability in each limited to \$7 million or no more than half the current expropriation coverage "in countries where the total OPIC expropriation coverage is less than \$13 million."

Reportedly, OPIC and Lloyd's have been discussing a fee which would amount to about 3% of OPIC's annual insurance fee income, which was \$28 million in fiscal 1971.

THE AGREEMENT "helps to spread the risk of this kind of insurance," an OPIC spokesman said. He said OPIC is also seeking reinsurance agreements with U.S. insurance companies as part of a program aimed at "putting us on a self-sustaining basis with adequate funds."

OPIC's current resources total \$95 million and it may have to request funds from Congress to cover its liabilities in the expropriation of Kennecott and Anaconda mines by Chile, which has indicated it will pay no compensation.

Total U.S. private investment covered by OPIC incentive programs in fiscal 1971 increased to \$694 million from \$580 million in 1970. Of the 1971 figure, \$428 million was in Latin America, \$27 million in the Near East and South Asia, \$230 million in East Asia and \$10 million in Africa

away. In addition, the basement could be totally under water and the building would function normally.

Questions about the types of coverage for this kind of structure bring a response from American National officials that the Gulf Coast is in a high risk area of Texas and such coverage would be hard to place. But, a spokesman said, the building is still under builder's liability and this coverage will be maintained until such time as new coverage might be obtained at a reasonable rate.

When this occurs, full hazard coverage will be purchased, "probably a \$100,000 deductible," a spokesman told *Business Insurance*.

Marsh & McLennan of Chicago is American National's insurance advisor and broker.

THE ART within the building will constitute a type of risk not often exposed with the frequency with which it is in this building. The building becomes a 20-story art gallery where more than 1,500 pieces of art will be included. Initially, some 600 pieces of art are being displayed at a cost of about \$500,000.

The art, in which everyone

with a private office gets somewhat of a choice, is but one of several unusual employee benefit features of the building.

Concerning the collection, president Glendon E. Johnson said: "We want our employees to have the finest equipment, and an atmosphere of beauty in which to perform those functions so vital to the operation of our company. To achieve this atmosphere of beauty, it was decided that the company would invest in fine art for every area of our new corporate home."

American National Tower has several other rather unique employee benefits.

The facility has a full-time industrial chaplain who serves as a resident minister and family counselor. There is also a non-sectarian chapel available for use by employees.

Another employee service is a six-room medical center. At present, the medical area is staffed by two nurses and deals with acute, minor emergencies such as fainting spells and minor cuts. The needs of American National for an on-site medical center are currently being studied by a combined committee of American National and University of Texas medical branch personnel.

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london line

Move is on in U.K. to provide fidelity coverage for ex-convicts

LONDON—Sympathetic people who hope to provide a better future for ex-convicts when they get jobs in industry are trying to plug a gap in fidelity risk cover in Britain.

They point out that there may be more than 300,000 employees such as clerks and salespeople who have to live with the knowledge that they have committed dishonesty. But because they cannot get fidelity bonds, they

are barred from many opportunities to restore themselves to good character in the community.

Backed by government approval, a charity agency known as Apex Trust has been exploring the extent of the problem. It reports that 10% of the people convicted of crime every year are so-called white collar workers, who want to have a chance to make good again for the sake of their families. But they find dif-

ficulty in getting bonded, even though they may have learned the lesson that crime does not pay.

FRED PENTNEY, who runs Apex Trust, explained: "I am sure there is an insurance company that will look on this as an insurance risk, and be prepared to offer such a service. This type of cover would well be less hazardous, for example, than providing auto risk cover.

"Such an insurance is sorely needed because of the growing number of jobs that are covered by fidelity bonds."

Insurance experts argue that while he might be right in his future forecasts, it is not up to them to provide an underwriting arrangement for this kind of risk.

The right place is for the government to provide funds to rehabilitate such social offenders, they say.

* * *

EXTENDED USE of credit cards is being urged in Britain as a means of cutting department store losses. It is felt they will save firms from being tricked by phony customers who try to plant ordinary bank checks on them without any intent to pay.

An insurance firm that was set up five years ago to protect businessmen from dishonored checks has gone bankrupt with nearly \$1 million in losses because it

misjudged the scale of the problem.

Now Leslie Seeney, secretary of Britain's National Chamber of Trade, says: "We are giving bankers' credit cards a lot of support, and have mounted a campaign to get stores to make more use of them."

* * *

MANAGEMENT representatives from Britain's chemical industry were told at a loss prevention seminar that they could learn useful guidance from U.S. experience.

Denis Pickbourne, of the British Chemical Industry Safety Council, advised them: Leaving insurance companies to look after your risks is unrealistic. Many U.S. insurers demand loss prevention programs before granting cover, and the same demands may be made in other countries.

"Accident prevention does not just mean minimizing risk of injury to employees. It also means preventing damage to plant, machinery, buildings, processes and raw materials."

* * *

SOCIAL SECURITY funds in Britain are being tricked out of more than \$20 million a year by bogus operators who present false claims to government offices.

Robin Page, former special investigator for the social services, declares: "It is commonplace to watch benefits being paid to claimants whose wallets are already bulging with cash but who pretend they have not enough money to live on."

He has written a book exposing the frauds after being sacked for disclosing his suspicions to the press.

While government officials deny the full extent of Mr. Page's allegations, they admit that far more people than ever before are taking sick leave at the expense of the National Health Service. Genuine illness is included in this, but there is a temptation to stay off work for two or three days for minor ailments because compensation from public funds is so high.

* * *

DETAILS of catastrophes that caused heavy losses are recorded by Swiss Reinsurance Co. (U.K.) Ltd. in a survey of world events last year.

They include earthquakes in several countries, including \$31 million insured losses in Los Angeles where \$1 billion damage is estimated to have been caused, and several U.S. hurricanes.

But hurricane claims on insurers were far below those from 1969 to 1970, the survey states. It reports increasing claims in many countries through railroad and other surface transport accidents.

* * *

GLOBTIK TANKERS, of London, plans a \$574 million fleet of liquid-natural gas carriers to be built at Quincy, Mass., by General Dynamics.

Its chairman, Ravi Tikko, says they will be used on the Persian Gulf to Japan sea route. He is expecting world insurance markets to have the capacity to insure the fleet by the time it is ready in 1976.

There will be seven ships, each with a capacity of 125,000 cubic meters, built for Globtik Tankers, which two years ago ordered a 477,000 ton oil tanker from a Japanese shipyard, a record size.

In London, Mr. Tikko said: "I have been given an indication that premium ratings will be 1% to 1.25% per annum, which compares very favorably for rates quoted for very large cargo carriers."



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editorial opinions

Reform workmen's compensation now

FINAL RESULTS of the *Business Insurance* reader survey on workmen's compensation clearly show that employers, no less than workers, see a need to reform and make more uniform the state system of workmen's compensation.

Results of the survey, presented to the National Commission on State Workmen's Compensation Laws at its final public hearing in New York City, indicate:

- That a majority (54%) of corporate buyers of workmen's compensation insurance believe that federal guidelines for state workmen's compensation laws should be set or that the system should be absorbed into the existing Social Security System.
- That nearly all insurance buyers (96%) believe that states should not be allowed to prohibit responsible employers from exercising their right to self-insure their liabilities under workmen's compensation laws.
- That federal guidelines should require coverage for the 20% of the work force not now covered by state workmen's compensation laws. Fifty-eight percent of survey respondents favored this requirement.

- That half of the employers responding to the survey supplement workmen's compensation benefits either by keeping work-injured employees on the payroll or by purchasing supplemental occupational disability insurance.

These results demonstrate that employers are keenly concerned with the functioning of the state workmen's compensation system, now 60 years old and growing increasingly out of touch with current employment conditions.

Readers also offered a number of innovative suggestions for making the system more uniform and for reducing litigation generated by workmen's compensation laws. Included among these were many demands for uniform reporting forms based on the samples included in the Occupational Safety and Health Act; suggestions that wage replacement benefits be set at a given

percentage of take-home pay that would permit job-injured workmen to live in dignity, and that labor-management conference groups seek to arbitrate cases which now require court tests.

The demand for change is unmistakable, but that brings up the knotty question of how to go about it.

Three basic approaches emerged from testimony before the commission:

- Absorb the present system in the federal Social Security system or pass a federal workmen's compensation law.
- Adopt federal minimum standards for the states with provision for direct liability for employers under federal law in states where the law does not comply with federal standards.
- Set forth guidelines or a model act and urge the states to adopt the provisions.

We believe that there are compelling arguments for retaining the state sys-

Close the loophole

CONGRESS, now ready to take a fresh look at the provisions of Title 18 of the Federal Criminal Code, ought to take a giant step toward law enforcement in the insurance field by adopting provisions that would make it punishable under federal law to knowingly impair the financial operations of an insurance company.

Such a provision would place insurance companies in the same status as other types of businesses. At present, under provisions of the McCarran Act of 1945, insurance companies are liquidated in state courts and those who criminally impair the solvency of insurance companies usually escape prosecution because state laws generally do not make such crimes punishable, or state prosecution is not likely because regulators are in part responsible for insolvencies.

Federal authorities now must proceed against such wrongdoers through

laborious and chancy mail fraud prosecutions in which documents must be found to have gone through the mails and intent to defraud must be shown.

By revising Title 18, Congress could now make possible the prosecution, for example, of criminal types who move into an insurance company with a high cash and bond situation and systematically drain it of its assets, often by investing the funds in worthless stock in companies controlled by the plunderers.

There is no suggestion here that the states be deprived of their regulatory powers or of their right to handle the receivership of defunct insurance companies. Rather, adoption of such a change in Title 18 would put financial criminals in fear of federal prosecution for looting insurance companies.

States have adopted insolvency guarantee funds to meet losses of failed insurers. Now what's needed is some good preventive action by Congress.

letters

(This column is a readers' forum. Letters are welcome. Address: Letters to the Editor, Business Insurance, 740 Rush St., Chicago, Ill. 60611)

'Amazed' by Info

To the Editor: We were amazed at the response to the five newsletters that we offered to your readers through your annual Info for Buyers issue. We received a total of more than 1,200 requests. It was necessary to order a re-printing of our newsletter on 501 (c)(9) trusts as more than 500 requests were received for this item. A relisting of this newsletter in your Feb. 14 issue resulted in almost 100 additional requests.

Obviously, your column is read widely by people who are actively involved with employee benefits.

David Gravitz

Consulting Actuary, George B. Buck Consulting Actuaries Inc., New York.

Editor's note: The experience of Mr. Gravitz's firm typifies the response to items listed in the annual Info for Buyers issue. More than 30,000 items were requested by Business Insurance readers who responded to offerings in the Jan. 3 issue.

Art registry

To the Editor: Please send me the address where I may reach Alan Baer, chairman of International Art Registry (U. K.), Ltd., and any pertinent information about the firm you can supply. Your magazine's article about the company in the February 28, 1972 issue prompts our interest.

Paul E. Thompson

Assistant Director, Lowe Art Museum, University of Miami, Coral Gables, Fla.

Editor's note: Mr. Baer may be reached at International Art Registry Ltd., 26 Columbia Turnpike, Florham Park, N. J. 07932.

Not representative

To the Editor: I cannot believe that William Dintleman's March 13 article "Risk managers: Don't worry about the carrier making profits" reflects the true opinion of most risk managers or is a valid analysis of the industry's problems.

A healthy insurance market with carriers making a fair profit is conducive to more favorable underwriting, competitive marketing and greater capacity. If the insurance companies are suffering severe underwriting losses, then the risk manager will suffer and it may be too late to worry.

Mr. Dintleman weighs the scale in favor of the insurance companies by virtue of their using retrospective rating plans and blames their problems on poor underwriting practices and staffing. I am certain retrospective rating plans only make up a small percentage of the total premium dollar and must point out that they are often favorable to the insurance buyer. I cannot understand why Mr. Dintleman omits inadequate rates, assigned risk pools, catastrophes and political interference as contributing factors to the industry's problems.

Mr. Dintleman even criticizes building a relationship with your carrier, stating that most people employed by the insurance industry are transient. The greater majority of the special risk underwriters I deal with have been with their companies in excess of ten years, are willing to intercede

Continued on page 22

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Published by Crain Communications Inc., Chicago, publisher of Advertising Age,
Industrial Marketing, Advertising & Sales Promotion.
M. A. HARTENFELD, executive vice-president: RANCE CRAIN, KEITH CRAIN,
J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, D. J. CLEARY, JR., LOUIS F.
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CRAIN, secretary and treasurer, RICHARD M. DAUGHERTY, controller.
Cable address: CRAINCOM

Published at 740 Rush St., Chicago 60611 (337-5200). Offices at 630 Third Ave., New
York 10017 (YU 6-5050); Nationa. Press Bldg., Washington, D.C. 20004 (Re 7-7659);
6404 Wilshire Blvd., Los Angeles 90048 (OL 1-3710). 45 cents a copy, \$10 a year
in U.S., Canada and Pan America. Elsewhere \$4 a year extra. WILLIAM STRONG,
circulation director. ROGER DIGREGORIO, subscription manager. Four weeks'
notice required for change of address. Address all subscription correspondence
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Possible newspaper shutdown leaves employees questioning pension rights

WASHINGTON—"I believe in the U.S. form of government, but if this isn't stopped, I swear to you that I will never vote in another election and I hope my children do likewise."

That's from the record of the Boston Herald-Traveler's attempt to get the Supreme Court to stay an order divesting the paper of its television station—one of many affidavits from Herald-Traveler employees who have been told the paper will fold immediately without television advertising income and that virtually all employees will be let go with no pension rights.

The court has denied the Herald-Traveler request, and the

federal license for the station, Boston's channel 5, now officially goes to a new group, Boston Broadcasters Inc., in line with a ruling by the Federal Communications Commission that capped a 15-year politically tinged battle for broadcasting rights. The final FCC action that was upheld by the court was based mainly on FCC opposition to newspaper ownership of the station.

WILL THE PAPER now shut down and its 2,500 employees be left with no comparable jobs in the Boston area and no pension rights whatsoever? Both are contentions that were made by the Greater Boston Labor Council,

AFL-CIO, and Herald-Traveler employees in briefs backing up the stay request.

In addition to the statement quoted, about a dozen other employee affidavits stressed to the court what the labor council called the "brutality and stark consequences" of the FCC action. These ranged from a 63-year-old advertising display manager's assertion that he will lose between 80% and 100% of his pension benefits to a slightly younger production employee's statement that he "would, of course," lose all of his pension, "which is all my wife and I have to look forward to."

If the council and the Herald-Traveler Corp. were side by side

in the fight to keep the station, they're not anymore. The corporation's officials deny that they have decided to fold the paper and, to a point, challenge the pension allegations.

Regarding vesting, the union statements appeared to hold up. "A guy 55 years old with 35 years on the job might not get anything if the paper folded," said Lawrence O'Connell, Herald-Traveler business manager, "but there's no question about people who are already on pensions continuing to get them."

ON RESPONSIBILITY for the pension plans, the company refuses to take the whole rap. "All the plans were worked out in negotiations between the company and the unions," Mr. O'Connell stated.

A total of 12 different unions represent Herald-Traveler employees, and, according to Mr. O'Connell, two of the biggest

have dual H-T employee pension setups, one into which the company contributes and another involving only member contributions. "Not everyone" would be without pension rights if the paper were to fold, he said.

Another Herald-Traveler official, Roger Talmadge, treasurer, said the various union and company-union plans vary so widely in reserves that he would be unable to say what percentage of employees would lose out in a shutdown.

In the meantime, other H-T officials, headed by Harold E. Clancy, company president, are looking for ways to keep the paper afloat without television revenue. Mr. Clancy has stated there are "no plans" to close the paper immediately. ■

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Lost loan leads to damage suit

MILWAUKEE, Wis.—Teachers Insurance and Annuity Assn. of America, based in New York, filed an \$8 million damage suit here Feb. 22 against Northridge Co., the developer of Northridge shopping center.

The federal court suit alleged that Northridge reneged on a \$17.4 million loan at 10% interest in 1970.

Teachers Insurance and Annuity claimed that because of the reneging, it lost the chance to enter other financing transactions in June of 1970 at a more favorable rate of interest.

According to the suit, the loan was for a 34-year mortgage on a 35-acre site for the shopping center, which now is under construction and is scheduled to open in August.

Teachers Insurance and Annuity also seeks payment of a \$261,000 promissory note. A cash payment of \$87,000 had been made by Northridge, the suit noted.

Sidney Kohl, one of the partners of Northridge and one of the defendants in the suit, said, "We have been advised by our attorneys that Teachers has been offered everything to which it is entitled under the terms of its agreement. This suit is unwarranted and we intend to take appropriate action."

\$330 million fire toll

Fire damage in Britain totalled about \$330 million last year, but this included heavy losses from explosions in Northern Ireland civil disturbances.

Letters

Continued from page 20

on my behalf when necessary, and are more interested in a lasting relationship than with a one year loss ratio. Perhaps if the author had the foresight to select his adjuster at the time the policy was issued, he would not have had the resulting loss problems.

To criticize an entire industry because of personal adverse experiences is not a fair appraisal of the situation. Through the careful selection of the broker, carrier and individuals working on the account, a risk manager can insure a profitable relationship for all parties.

Lawrence Geneen

Corporate Insurance Manager, Instrument Systems Corp., Jericho, N. Y.

Insurer doubts lead to indictments in two separate life insurance cases

NEW YORK—Suspicion on the part of two insurance companies over the circumstances surrounding the deaths of two insureds has led to criminal charges against three persons here.

Charges of murder have been filed against an airline luggage handler and charges of conspiracy and attempted grand larceny filed against a doctor and an insurance agent following allegations by New York Life Insurance Co. and Continental Assurance Co. that the deaths of their insureds were more involved than was first thought.

In the New York Life case, Douglas Lee, a former luggage handler, was arrested and charged with killing his wife only hours after the insurer had moved in court to block payments on a policy Mr. Lee had purchased to cover her life.

Investigation disclosed that Mr. Lee was the beneficiary of a \$300,000 straight life policy written by Metropolitan Life Insurance Co. At the same time, he was his wife's beneficiary under a New York Life policy that would pay \$100,000 upon her natural death and \$200,000 more if her death was accidental.

New claims director plan in California

SAN FRANCISCO—A new computer claims director system has been installed by the California state compensation insurance fund, which handles 25% of the workmen's disability and medical insurance in California.

The fund collects annual premiums for coverage in excess of \$150 million and pays claims of approximately \$100 million or more each year.

"Use of the computer claims system," explained Robert F. Hassard, president of the state fund, "will make for more efficient operations and will improve health care for the industrially injured. We expect it also to help control the skyrocketing costs of medical care and disability."

The state fund helped to finance the research and development of the computer system by Teknekron Inc., Berkeley. The \$500,000 system was installed by Insurance Technology Co., a subsidiary of Teknekron. The installation contract with the state fund runs to \$2 million, spread over a three year period.

The claims director system, according to Hassard, will manage the individual claims adjuster scientifically and will coordinate all the problems related to claims.

New hotel, motel rates

New advisory motel and hotel liability insurance classifications and rates have been established for Nevada, under the state's recently enacted rate regulatory law. Net effect of the changes for the insuring companies using the advisory rate recommendations is a reduction of 50% in the rate level. The change was announced by Daniel J. McNamara, president of Insurance Services Office, during public hearings by the Nevada insurance department.

IT WAS ALSO brought out by investigators that Mr. Lee had applied for a second New York Life policy that would have paid \$300,000 for natural death and double that for accidental death.

New York Life refused to pay on the first policy and Mr. Lee filed suit last February in an effort to force payment. While arguing this action, the company said that "many questions" had not been answered regarding the death of Mrs. Lee, who was stabbed to death last October. The company said it also regard-

ed Mr. Lee as a suspect in the crime.

Mr. Lee was arrested and charged with the crime the same day the insurance company made its allegations.

The other case revolves around a \$100,000 key-man life insurance policy written by Continental on the nurse of Dr. Geoffrey Richstone. She died last September of barbiturate poisoning, though her death was first listed as caused by viral pneumonia.

THE INDICTMENT against

Dr. Richstone and Edwin Weinberg, his accountant and insurance agent, charged that the two men, after learning of the nurse's death, conspired to defraud the insurance company.

The nurse, who had suffered from Hodgkins disease for the past 11 years, died on Sept. 18, just eight days after the doctor had taken out the policy on her. The indictment alleged that the two defendants had concealed her illness from the insurer and concealed her death for two days in an effort to make the circumstances appear normal.

As part of the plan, the indictment said that Mr. Weinberg would send \$1,900 in premiums to the company to complete the policy and that the body would be discovered the day after that.

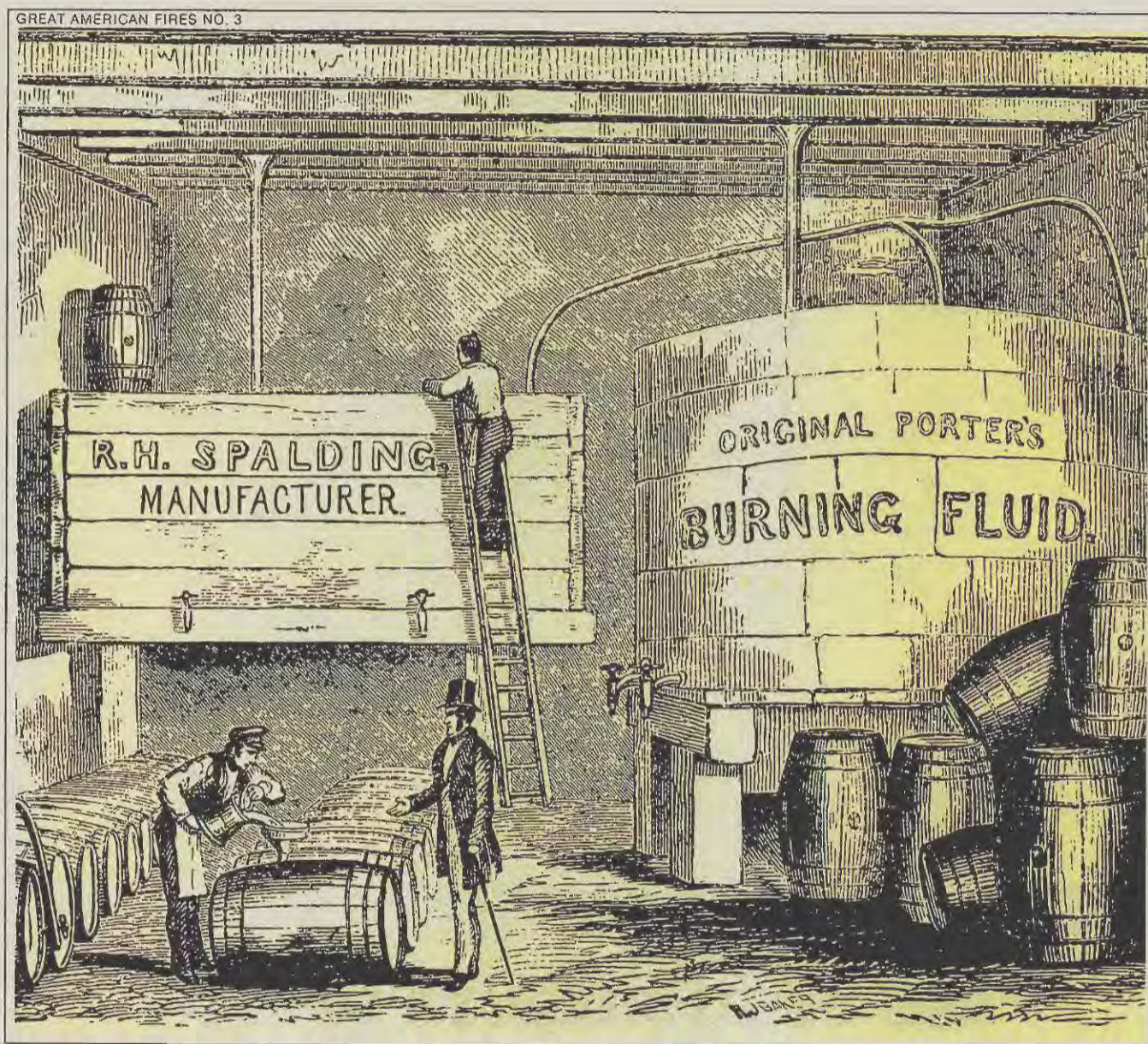
Then the insurance company would be notified.

Dr. Richstone allegedly duped an associate into signing a death certificate indicating that the death was normal.

Two months after the nurse had been buried, an insurance company investigator, Joe Healy (*Business Insurance*, Aug. 2, 1971), began a routine inquiry into the death and felt that the circumstances were suspicious.

Soon after that, other investigations were taking place and the body was exhumed. It was then that the real cause of death was discovered.

The possibility of accident has been ruled out of her death, but there have been no murder charges filed and suicide has not been ruled out.



Fire devastates chemical complex

Could Ansul Have Saved the Spalding Camphene and Fluid Works?

Prior to the disastrous fire which razed the firm's main plant, Spalding had been one of the great names in camphene—to say nothing of burning fluid.

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analysis, the debacle might have been prevented. We might have recommended installation of a Light Water Sub-surface system in the Burning Fluid vat. Powered by nitrogen, the Light Water would have been injected at the base of the vat, risen to the top and formed a vapor blanket. This in turn would have extinguished the fire and prevented reflash.

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We would have recommended strategic placement of dry chemical hand portable extinguishers throughout the complex; and possibly the addition of a large dry chemical hand hose line stationary extinguishing system to protect the neighboring camphene

works. However, this dazzling array of equipment would still be inadequate without thorough training in its use for Spalding employees. And of course, we would have seen to it that the equipment was regularly inspected and serviced by local representatives of our nationwide dealer network.

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THE ANSUL SYSTEM



Family allowance is a two-way Japanese benefit

By TOMIKO SHIRAKIGAWA

TOKYO—Adding a family allowance to the pay envelopes of employes is one way the Japanese corporation substitutes for the state as a provider of welfare.

This fringe benefit is a multiple warhead that reduces both overtime pay and lump-sum retirement payments, appeases the company unions, drives a wedge between wages paid to men and to women, and strengthens loyalty to the company.

It all goes back to the need to secure a stable supply of manpower for war procurement, after Japan invaded Manchuria in 1931. Family allowances were first paid in war-related industries, but after the war it was

still necessary to provide this benefit as Japan began to reconstruct. During postwar years, 1951 was the peak for provision of this benefit; 85% of all companies (excluding the agricultural, fishery and forestry sectors) were paying this allowance then. Soon thereafter the nation regained prewar economic levels, and use of this benefit declined to less than 60% in 1961.

SINCE THEN, however, Japanese corporations have revived their interest in the family allowance and in 1969 nearly three out of four enterprises (of those with more than 30 employes) were paying this benefit every month. The monthly amount paid to each employe ranges between \$10 and \$20.

Here is a summary of how some of Japan's major corporations pay a family allowance to employes. Matsushita Electric Works pays \$14.60 for the wife of each employe, and \$1.94 for each child. Toshiba also pays \$14.60 for an employe's wife, but only \$11.35 if they live in a company-provided house, and \$3.24 for each of up to two children. In the steel industry, both the Japan Steel Corp. and Nippon Kokan do not pay any family allowance. Sony pays \$38.95 for a wife and two children. Nippon Electric Corp. pays \$12.98 for a wife and \$9.74 for each other dependent.

At Ishikawa Harima Heavy Industries a wife only deserves \$1.94, the first, second and third child 97¢, and the fourth and fifth child 81¢. Kawasaki Heavy In-



These Japanese workers receive the traditional family allowance from their companies —Japanese Tourist Bureau

dustries adds \$3.24 to the pay envelope for the first dependent and provides \$1.28 for each other

dependent. Hitachi Shipbuilding (which is completely independent of Hitachi Ltd.) adds only \$1.94 for an employe's wife, and \$1.13 for each of the first five children. Mitsui Shipbuilding, however, does not give its employes any family allowance. Mitsubishi Heavy Industries adds \$2.27 for a wife and \$1.62 for each of the first two children, with an additional 97¢ for the third and fourth child.

In the automotive industry, Toyota pays \$2.27 for the first dependent, \$1.29 for the second and third, and 97¢ for the fourth and thereafter. Nissan is more generous than its chief rival, sending \$9.74 home for a wife and \$1.62 for each additional dependent. At Hitachi Ltd. the amount paid is determined by each branch rather than using a blanket company-wide ruling. Fujitsu pays \$2.98 for the first dependent and half of that for each other.

Mitsubishi Electric is more generous than Mitsubishi Heavy Industries, despite their ties and provides \$14.12 for a spouse \$7.14 for each of the first two additional dependents and \$4.54 for a third and fourth. Nihon Kogaku, maker of Nikon cameras, pays \$5.19 for an employe's wife plus \$2.59 for each child or grandparent living with the employe. Shiseido, Japan's major cosmetics maker, distinguishes between the first dependent's being the employe's wife (\$8.11) or not being his wife (\$3.08), and also pays \$2.10 for each additional dependent after the first one.

In the oil industry, Mitsubishi Oil pays \$9.74 for the first dependent and \$5.84 for each other dependent, up to five, while Maruzen Oil pays the same amount for the first dependent, \$5.34 for the second and third dependent, and \$4.54 for each dependent beyond that. In contrast to these Japanese oil companies, Esso Sekiyu, Shell and Mobil pay no family allowance.

Japanese corporations benefit from paying employes this money in several ways.

When overtime pay is calculated, family allowance (and commutation allowances) are included in the base for calculations. By providing these allowances and keeping base pay down, employers can pay only time and a quarter for overtime.

Lump-sum retirement payments are provided by all of the companies mentioned above and all other major corporations as well. Nearly 60% of the corporations in Tokyo and the surrounding prefectures make lump-sum retirement payments as the only means of providing for employes after retirement. According to the Tokyo Chamber of Commerce and Industry, an additional 37% combine lump-sum payments with an annuity. The amount of

Continued on page 27



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Josef Briffel, the Cartier jeweler who cut a rough diamond while touring in a Mercury Marquis through the streets of New York, had a lot riding on his aim and the car's shock absorbers. According to a spokesman at Canyon and Eckhardt Advertising Inc., the firm that dreamed up the smooth-riding promotion campaign, the diamond, which was valued at \$125,000 after being cut, was not insured. "Cartier owned the stone and to my knowledge they were unable to obtain coverage," he said. Cartier, which is insured by Lloyd's of London, would not comment on this particular incident.

Increases in annuities approved

OLYMPIA, Wash.—The Washington legislature approved a measure to increase benefits for some 60,000 public employees from 15 to 20%.

The measure was backed by the Washington Federation of State Employees AFL-CIO, it was reported.

Senate bill 458 does away with the present annuity system and substitutes a flat two percent formula. Women are given the same retirement benefits as men for equal length of service and earnings. Previously, women received lower benefits on the theory that they have a longer life expectancy.

The new plan also provides that up to five years of military service credit may be added after 25 years of credited service to the public employees retirement system. This may be done regardless of when the military service took place.

A person who retired last year with a pension of \$208 a month would receive about \$280 under the new plan.

The employer's contribution to the state employee's pension will be seven percent, effective July 1, 1973, instead of the present six percent rate. The employee's contribution will rise from five to six percent.

The measure would give the public workers a maximum monthly pension equal to 60% of their highest pay in any two years.

Considers group bill

CONCORD, N.H.—A measure which would allow State Insurance Commissioner John A. Durkin to bring group auto insurance into New Hampshire has been introduced into the state legislature.

The proposed bill would also repeal what the 1969 legislative session passed as "group auto insurance" guidelines: A minimum of 500 workers per company and a 75% participation level for five years.

The new measure's proponents contend that only two or three filings have been made under the present statute, which, they maintain, only set up "roadblocks and hindrances."

The first group insurance policy that Pacific Mutual wrote for Denny's, ten years ago, covered 35 management employees and two of their coffee shops. Since then Denny's has grown considerably. And our coverage has grown even more.

Now there are 315 Denny's Restaurants, 419 Winchell's Donut Houses, and 48 other company operated food concepts in the chain. Denny's also owns the 27-story Imperial Hawaii Hotel on Waikiki, the Grand Hotel across from Disneyland, and a construction company.

As Denny's Restaurants are located all over the United States and Mexico, there are many consequent variances in local medical costs.

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become one of the largest group insurance companies in the nation by tackling underwriting problems like this.

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Doctor predicts rise in malpractice suits; asks for no-fault coverage

WASHINGTON—The President's Commission on Malpractice has been told that the concept of no-fault should be extended to cover medical malpractice problems if automobile no-fault is enacted by Congress.

Dr. Charles H. Ramus, president of the American Osteopathic Academy of Orthopedics, told the commission, "When Congress enacts a no-fault automobile liability program, plaintiff-oriented personal injury lawyers presently engaged primarily in automobile liability cases will be unleashed onto the medical profession, inundating physicians with a flood of medical malpractice litigation.

"I foresee a cadre of personal injury lawyers descending like a plague of locusts upon physicians and their patients seeking to replace their lucrative liability lawsuits with actions against physicians," he continued. "The skills, the specialized knowledge of bodily injuries and the trial techniques employed against auto insurance liability carriers will now be turned loose against medical malpractice insurance carriers."

DR. RAMUS, who said he was not making comment on the benefits of no-fault auto insurance,

Cut schools' arson losses

MIAMI, Fla.—The self-insured Dade county school system suffered \$200,000 worth of arson damage in the past nine months.

The figure actually represents a sharp reduction from the \$880,000 in arson losses in the previous nine-month period, school officials say.

School officials have filed insurance claims totaling \$218,431 in damages with the Dade School Board's self-insurance commission.

That total includes renovation of classrooms, replacement of furniture, electrical repairs and painting, as well as overtime work required of employees to put the schools back in shape.

Claims recently approved by the self-insurance committee covered seven fires in six schools since last spring. ■

pointed out that many doctors were now practicing what he called "defensive medicine" because they felt the situation was so perilous. He defined defensive medicine as involving "the use of unnecessary and duplicating diagnostic procedures in anticipation and in preparation against a possibility of malpractice claims."

In other words, a whiplash victim from an auto accident may be X-rayed more than is necessary to actually determine the extent of his injuries.

Dr. Ramus, whose testimony was buttressed by the results of an American College of Physicians' survey, asked that the Department of Health, Education and Welfare be wary that auto

liability abuses not be transferred to malpractice.

"I fervently urge that this department recommend that any no-fault automobile legislation carefully consider the impact of such legislation upon malpractice claims," he said, "and that a study be done with a view towards application of the no-fault concept in the medical malpractice field."

THE RESPONSES to the College of Physicians survey showed that over half of the 7,647 doctors who answered felt that they had no choice but to practice defensive medicine.

Three main suggestions showed up in the physicians' question-

naires:

- Medical malpractice should be covered by no-fault insurance;
- Control or eliminate contingency fees for lawyers;
- Establish medical review panels.

On the other hand, a spokesman for the American Mutual Insurance Alliance told the commission that a number of "serious questions" about the feasibility of applying the no-fault concept to malpractice remained to be answered.

Richard E. Goodman, general counsel for the Alliance, warned that a no-fault system which paid benefits to anyone who got unexpected results from medical treatment would be very expensive.

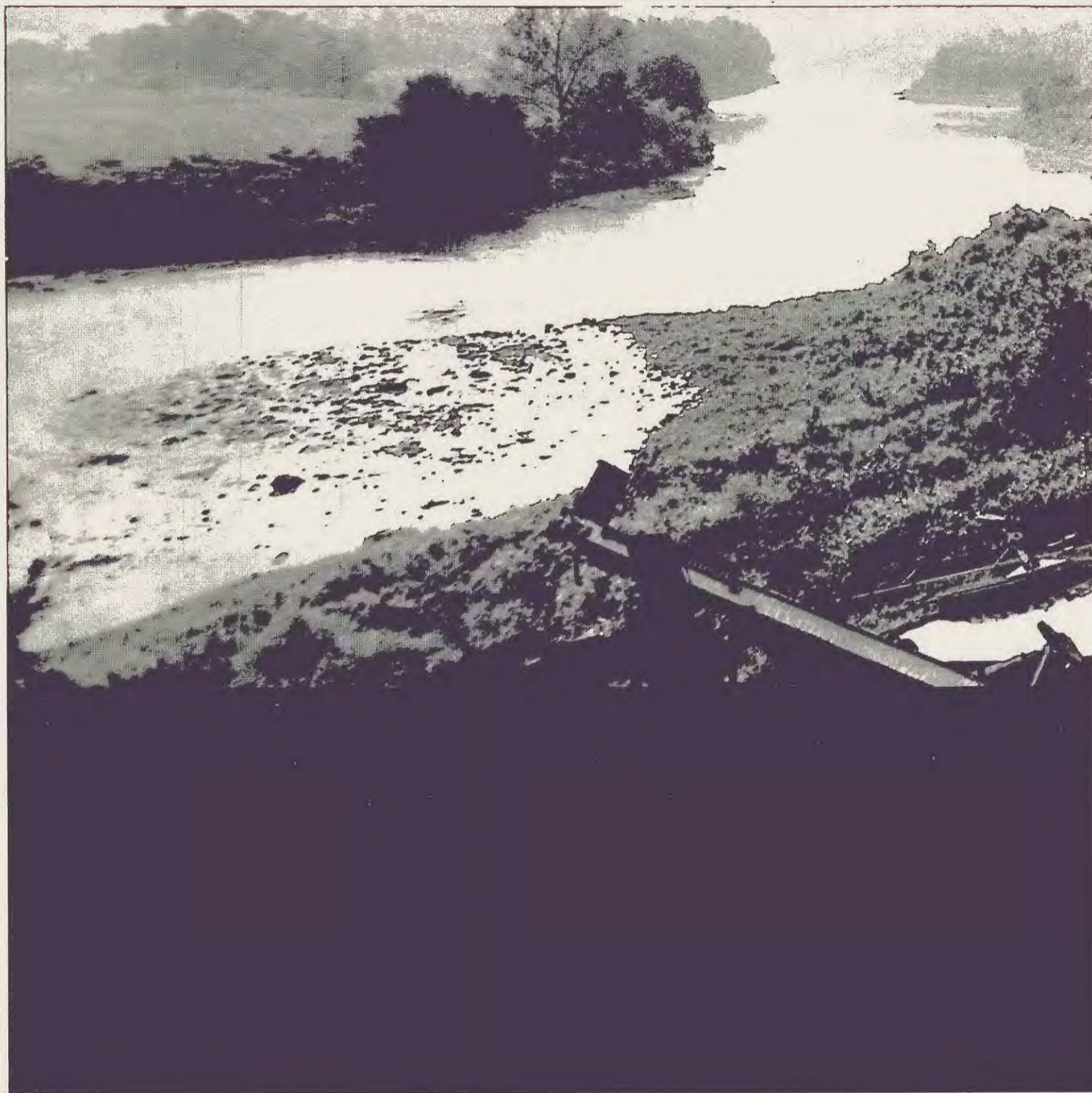
REGARDING no-fault malpractice benefits, Mr. Goodman said that it had not been determined whether payments should cover loss of income and survi-

vors or merely the cost of medical treatment necessitated by the original treatment.

Rather than no-fault, Mr. Goodman pointed to an experiment in Ohio, in which screening panels determine which cases have valid claims and then give expert medical testimony in behalf of those who do indeed have a right to sue, and urged further experimentation along those lines.

He also felt that arbitration panels should be used to settle malpractice claims, rather than courts.

Feeling that a malpractice no-fault system would need a great deal of study, Mr. Goodman said, "A more immediate and more readily attainable goal is to attempt to institute modifications within the framework of the present system which will facilitate the disposition of claims while retaining the fault principle." ■



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Colorado adopts lower farm worker comp rate

DENVER—The Colorado department of labor and employment has announced another change in its workmen's compensation premium rates for farm labor.

Executive Director James Shaffer informed State Sen. Kenneth Kinnie of Julesburg and Rep. Lowell Sonnenberg of Fleming that he is establishing a rate of \$3 per \$100 of payroll for temporary and migratory labor engaged in hand work.

The new rate contrasts with \$6.27 originally proposed by the department for all farm and ranch labor. It lends further encouragement to a bipartisan legislative campaign to reduce agricultural rates so that more work-

ers will be covered by workmen's compensation, it was reported.

The 1971 act, effective Jan. 1, 1972, brought some farm-ranch workers under the compensation program, but farm operators had complained that the premium rate of \$6.27 per \$100 was too high.

ABOUT A WEEK earlier, at the urging of Reps. Ruben Valdez of Denver and Bob Kirscht, Pueblo, the department announced a rate for truck-farm workers of \$2.10 per \$100.

Sen. Kinnie and Rep. Sonnenberg are co-sponsors of a bill that would remove workmen's compensation coverage from laborers working under a contract basis

by the hour or by the unit, effectively eliminating coverage for migrant laborers.

That bill was approved by the senate and now is resting in the house rules committee.

The new rate quoted by Mr. Shaffer will become effective May 1, covering temporary seasonal and migratory workers "employed in the care, culture and harvest of fruits, vegetables and sugar beets."

It would not apply to laborers who work with or near machinery.

Mr. Shaffer said he plans to make a comprehensive study during the year of all accidents involving agricultural labor to determine if separate classifications are feasible for various types of labor.

The department's position originally was that there was insufficient experience in Colorado to justify setting more than one rate.

Continental licensed in Japanese market

NEW YORK—The Continental Insurance Cos. have become the first U.S. group in more than a decade licensed to write direct business in the Japanese insurance market.

Continental will also write reinsurance.

Coverages the company will provide include ocean and inland marine, automobile, liability, burglary, glass, aviation reinsurance, fidelity, guaranty, third-party liability, machinery breakdown, builder's all risk and movables comprehensive.

Tokio Marine and Fire Insurance Co., for whom Continental acts as manager in the U.S. and Canada, will be Continental's general agent.

Family...

Continued from page 24

lump-sum payments is determined by the number of years of employment, the level of education completed before joining the company, and the reason for retirement.

THESE PAYMENTS account for nearly 5% of net wages, and at present a male high school graduate who has served the company for 35 years will get more than \$66,000 whether he leaves for his own reasons or because he has reached the compulsory retirement age. Top management is glad to do what it can to keep the increase in retirement payments from rising rapidly, but in one recent 10-year period, payments have roughly doubled. Family allowance payments are not figured as part of base pay, although education and years of employment are, so the benefit helps reduce retirement payments.

Unions are happy to have the family allowance increased because all married male employees receive this benefit. Any increase in this benefit is welcomed by the union. The key point to remember here is that almost all Japanese unions are organized on a company-by-company basis, rather than horizontally as in the U.S.

ALTHOUGH women are theoretically entitled to the same pay for the same job that men perform, in practice this is usually not the case. Starting salaries are a bit lower, and women are promoted at a slower rate than men. Further, they are often pressured to resign after only a few years—because their pay would increase if they were retained—and are not given the family allowance or dependents' allowance. This discrimination against women keeps the company's net cost of wages down.

The family allowance also contributes to the high level of employee loyalty as it provides another concrete example of how the corporation cares for its people.

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Blood assurance plan is a very flexible benefit

By TERESA NORTON

CHICAGO—During World War II, the government asked the American National Red Cross, because of its voluntary organization, to recruit donors to provide blood for military use. When the Red Cross began to close donor centers after the war many communities realized they were losing a valuable service and asked the organization to stay. Today the Red Cross is the largest single agency recruiting voluntary blood.

In an interview with *Business Insurance*, donor recruitment representatives from the Mid-American chapter of Red Cross explained that the World War II activities led to development of voluntary blood supplies for communities throughout the na-

tion. One of these is the Blood Assurance Program offered nationwide today on a group basis. The program, according to Mary Pat Mazurski, a Red Cross recruitment representative, offers assurance of a blood supply, flexibility of group make-up and no penalties to members unable to give.

There is no waiting period once the plan goes into effect for a group, said Sylvia Kete, her associate, and there are no exclusions on present or potential blood users within the group—such as those with bleeding ulcers, hemophilia or leukemia. Coverage under the program is good in the U.S., Canada or Puerto Rico, she added. Programs are handled similarly throughout the U.S.

A group is eligible to partic-

ipate in the Red Cross plan if it can establish an annual blood deposit equal to a minimum of 20% of the number of employees or members in the organization," the agreement states. "The first time around everyone worries about meeting his quota," said Mrs. Kete, "but once they find out how easy it is to give blood, their concerns diminish."

The only other obligations the group has are to appoint its own program chairman and to advise the Red Cross of eligible members who require blood replacement coverage; the request for blood is made on a simple, half-page form. If the group is large enough to warrant a mobile unit, the Red Cross will send one to receive donations. Branch offices are urged to contribute locally but can participate in the main

office program if necessary.

A person who is unable to donate blood is still eligible to receive it, the recruiters hastened to say, and a person who has donated can receive blood within the one-year plan period even if he leaves the group. They also stressed that no matter how much blood the group uses it has unlimited coverage, that the donation time is only about one hour total and that it takes only five to seven minutes to actually give the blood.

A group is also entitled to have its blood needs preplaced for certain kinds of surgery, which require fresh blood. The recruiters pointed out that blood is only considered "fresh" for 48 to 72 hours although it is usable for 21 days.

As for who qualifies to receive

the benefits of the blood assurance plan, there seems to be almost no boundary. Immediate families of group participants are assured blood, said Miss Mazurski, as well as any unrelated people living in the participant's household; because immediate families are covered, they are also eligible to donate blood to the plan. In certain plans, anyone



Although posters are helpful in recruiting blood donors, the Red Cross says that it is person-to-person contact within a Blood Assurance Plan group that does most of the "selling."

who is financially dependent on a participant, regardless of whether he lives in the participant's home, is also eligible for blood. If the group as a whole contributes an annual blood deposit equal to 25% of its membership, she continued, in-laws can receive coverage and if the contributions reach 30% even grandparents can be covered. In addition to these options, she added, a group may elect to include retired or part-time employees once the 20% quota is exceeded.

ANOTHER alternative for groups that surpass the donation quota, Mrs. Kete said, is that taken by the Fellowship Assn. of Commonwealth Edison in Harvey, Ill. For the past two years the association has given more than 100 units over quota and has released these as a community service.

Checks are run on all potential donors and Miss Mazurski pointed out that interviewers are trained to elicit honest answers in the 30-question medical history they compile. The donor's temperature, pulse and blood pressure are checked as well as the iron content of his blood. Tests for hepatitis and venereal disease are required by law, the recruiters told *Business Insurance*, but one reason honesty in the verbal interview is so important is that there are two types of hepatitis, one of which can be detected only 25% to 30% of the time by the Australian antigen test, the other of which cannot be detected at all. Malaria is also difficult to detect at the time of donation, they warned.

Recruiters within the participating group are trained by the Red Cross at a group meeting to answer most of the questions donors are expected to ask. The Red Cross also makes available informational booklets and a wide selection of posters, ranging from a Peter Max design that reads, simply, "Give a little," to the more traditional this-children-needs-your-help type. Groups are also encouraged to make up their own "donation gimmicks," said Mrs. Kete. Although these visual aids are helpful, she believes that "it's the person-to-

Continued on page 34

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Twin key may unlock theft puzzle

ROCHESTER, N.Y.—A duplicate key, which could have been made for less than \$1, may have been used by fast-working thieves who stole \$835,300 from an armored truck parked at Eastman Kodak Co.'s Hawk-Eye plant, according to Detective Capt. James J. Cavoti.

A key shop employe, who told of making an unusual duplicate key less than two hours before the theft, was studying photographs of numerous persons at police headquarters. If the truck was locked just before the theft—as its two-man crew insists it was—then “someone had to have another key,” Mr. Cavoti said. There was “no evidence of a forced entry” into the vehicle, he explained.

Present and former employes of Doyle Armored Service Inc., owner of the truck, will be questioned to determine whether any keys might have been misplaced even briefly or stolen recently.

THE THEFT occurred within a four-minute period after 10:36 a.m. when the truck's driver and messenger left it unguarded to deliver four bags of money to the Hawk-Eye plant. Witnesses told police they saw two men open a door on the passenger's side of the truck, remove bags, toss them into a sedan and drive away.

Stolen were six white cloth bags containing \$1 to \$100 bills. The money was being transported by Doyle's from Lincoln Rochester Trust Co. to Kodak plants for use at Eastman Savings and Loan Association offices, where many Kodak employes cash payroll checks. The serial numbers of the bills were not recorded.

It was the largest cash theft in Rochester history and few have been bigger nationwide. John A. Doyle, president of the armored truck company, noted that the loss was the first in the firm's 42-year-history. “The amount was fully insured,” he said. ■

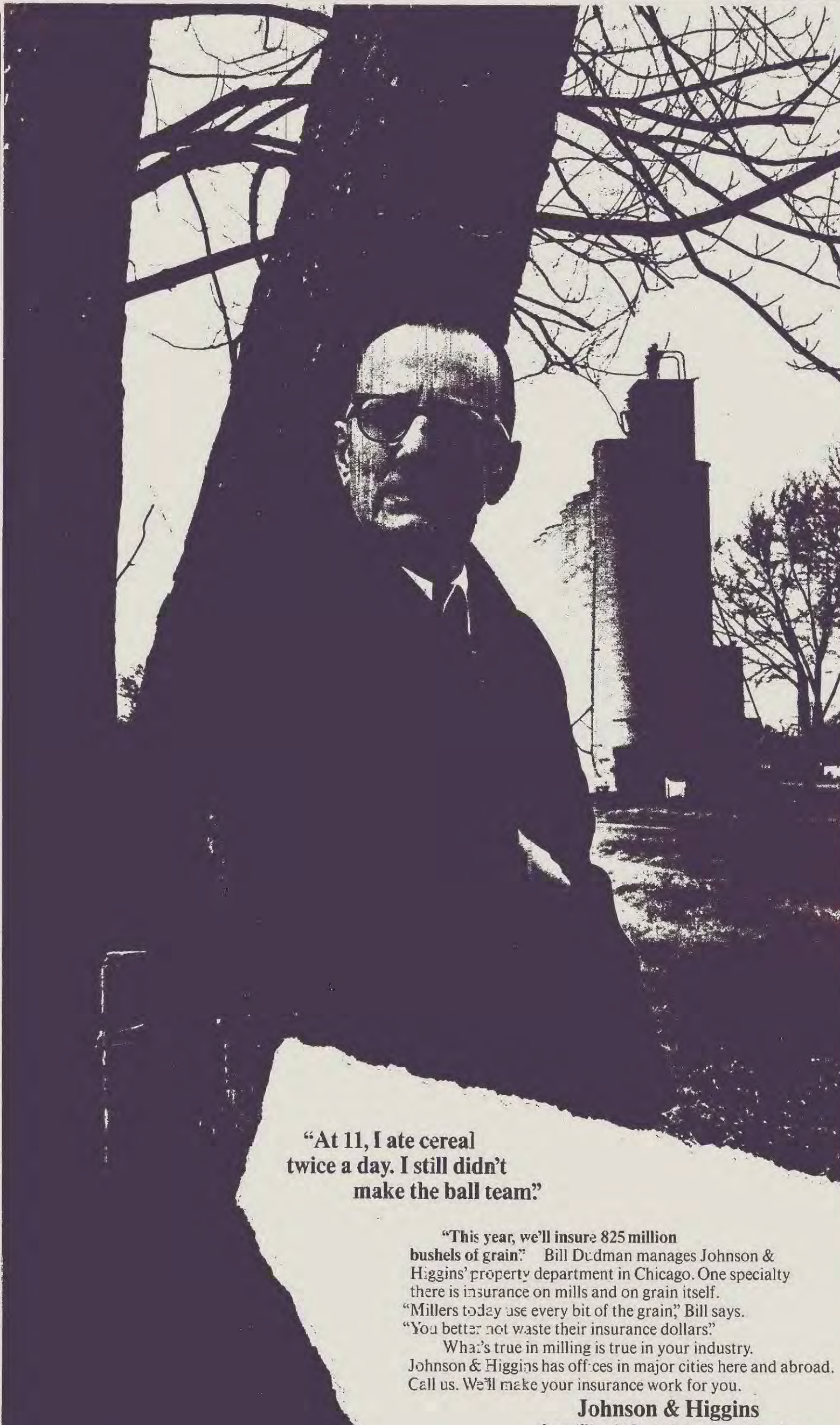
New policy disclosure requirements

MADISON, Wis.—An administrative rule to establish disclosure requirements and define deceptive practices in the sale of life insurance has been adopted by the Wisconsin insurance department.

Stanley C. Du Rose, state insurance commissioner, said the rule, to take effect June 1, would be the first to focus on the question of policy suitability.

According to the rule, an agent must tell a prospective policy buyer that he is acting as an agent. He must give the name of the company for which he works and provide the customer with a dated, written statement describing the major points in the policy. Mr. Du Rose noted that the deceptive practices provisions of the rule prohibited misleading statements.

He also announced the adoption of a rule calling for stricter disclosure practices when policies are replaced. That rule says that agents recommending a new policy must provide the buyer with a detailed form comparing his current policy with the one being proposed. ■



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USLIFE vp works to coordinate benefit plans of subsidiary firms

NEW YORK—Charles H. Frost, vp employe-relations at USLIFE Corp., just back from a trip around the country surveying USLIFE divisions, is "excited about the opportunities employes have in this organization." Mr. Frost is settling down in the newly created position at USLIFE, a corporation that has expanded from one life insurance company in 1966 to include 15 working subsidiaries.

"Since 1966, USLIFE has acquired 22 companies, created four and consolidated the total," noted Herbert Saslow, second vp and director of corporate communications. "Up to now, we did not have a specialist in employe relations. But with our fast growth rate, we needed to bring about a consistency in benefits and compensation. We wanted to pull all the loose ends together and have a uniformity among the companies."

Mr. Frost has overall responsibility for implementing existing employe relations programs and developing new ones. "Presently, all USLIFE employes have the same pension plan, life insurance, long-term disability coverage and similar benefits," Mr. Frost told *Business Insurance*. "They don't all have the same plans at the date of joining but usually do within five or six months."

"I don't think there is a pat answer when it comes to coordinating benefits of acquired companies. Clearly some companies operate on a subsidiary-to-subsubsidiary basis. My personal experience has been that unless the subsidiaries are awfully large, independent, autonomous corporations, the eventual thrust seems to be to join the parent company," said Mr. Frost who has held the title of director of employe relations at the Inmont Corp. and at Pfizer Inc. for their international subsidiaries.

"ALSO, THERE ARE numerous financial advantages to buying a mass plan rather than having scattered policies," noted Mr. Frost. Mr. Saslow, answering for the management side of the problem, said, "This concept tremendously simplifies administration. Just on the practical side, you have less paper to buy and less records to keep. Under this system, the employes have more and the company saves more."

Currently, USLIFE has about 3,500 full-time employes covered for benefits compared to 500 in 1966. The majority of the programs are insured through The United States Life Insurance Co., a USLIFE subsidiary.

The group life program offers benefits of approximately two times annual salary, up to a maximum benefit of \$200,000 (\$50,000 in Texas). The first \$2,000 worth of coverage is non-contributory. Each additional \$1,000 can be purchased for 35¢ per month.

Accidental death and dismemberment offers a principal sum of about two times salary to a maximum of \$100,000 at a cost of 6¢ per month per \$1,000. Major medical pays 80% of most medical expenses after a \$100 deductible to a maximum benefit of \$20,000. Certain hospital and surgical fees are fully covered. The cost of major medical varies according to an employe's coverage. An employe with a spouse and a child or children pays \$11.60 per month.

THE PROBLEM in most benefit programs, according to Mr. Frost, "is that we find ourselves going off on a tangent. If a com-

pany offers long term disability, they have to take Social Security into account. Many life insurance policies also provide for disability payments under certain conditions. Formerly, employes could draw off their life insurance without the LTD being taken into effect."

USLIFE's long-term disability pays 60% of monthly earnings up to a monthly maximum of \$2,500 after a 90 day waiting period. An employe is eligible after one month's employment if his salary is equal to or more than the maximum salary for Social Security benefits. If an employe's salary is less than the maximum counted for Social Security benefits, he can become eligible for



Charles H. Frost

long-term disability after three years employment. The cost is 57¢ per \$100 of basic monthly salary up to a maximum cost of

\$23.75.

Long term disability benefits are reduced under this plan if an employe receives Social Security, state disability benefits, workmen's compensation or company salary continuation benefits while disabled. The carrier for USLIFE's LTD coverage is the Union Mutual Life Insurance Co., Portland, Me.

USLIFE offers three non-contributory benefits programs. The business travel-accident plan covers employes for accidental death or dismemberment for \$50,000 or an amount equal to the total amount of group life insurance in force. A salary continuation plan covers employes unable to work due to illness. Benefits are calculated according to their length of employment.

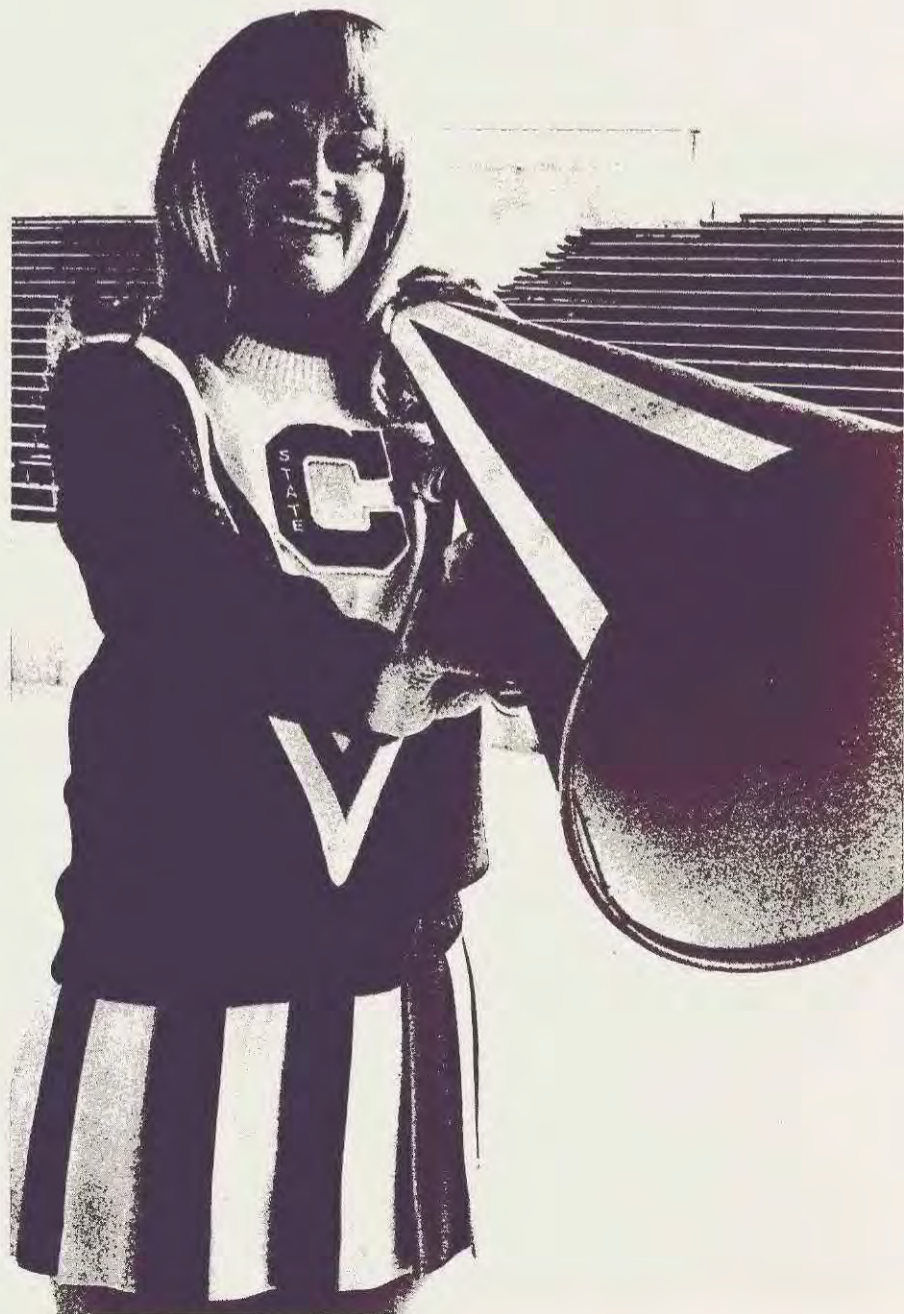
"THE COMPANY assumed the full payment of the retirement plan on July 1, 1971," noted Mr. Frost. Under this plan an em-

ploye is eligible for reduced retirement benefits at age 55 providing he has the consent of the company. Normal retirement is at age 65. Various options are available under the program which provide for joint and survivor income benefits, disability payments and level income benefits. If an employe elects to receive benefits under the level income option, he may receive increased benefits prior to commencement of Social Security and reduced monthly payments thereafter, so that the total income is as level as possible during retirement.

"We also have a voluntary monthly investment program in which a certain amount is automatically deducted from an employe's payroll to purchase USLIFE stock through a plan made available by Merrill, Lynch, Pierce, Fenner & Smith Inc.," explained Mr. Frost. "In this manner, employes can purchase stock and not pay commissions. ■

The amateurs meet the pros on Home grounds.

NEBRASKA'S CHADRON STATE COLLEGE AND PITTSBURGH'S THREE RIVERS STADIUM BOTH GET BIG-LEAGUE PROTECTION FROM THE HOME.



Suit asks disability pay for maternity ills

RICHMOND, Va.—The International Union of Electrical Radio and Machine Workers has filed a class action suit here charging General Electric Co. with violating the 1964 Civil Rights Act by not extending disability benefits to women employees who leave their jobs because of pregnancy.

The union, in supporting its allegations, said that a finding of the Equal Employment Opportunity Commission last May had charged an employer with a similar violation by denying "female employees weekly benefits for disability due to pregnancy."

The suit, which named seven women as plaintiffs but was actually filed in behalf of the

100,000 female workers employed by GE, complained that the firms pays 60% of straight-time weekly earnings for 26 weeks for all nonoccupational accidents and illnesses that "any of its male employees has ever had." The union felt that maternity problems should be treated the same way.

IF THE UNION wins the case, GE and many other companies could face rather substantial increases in their disability insurance premiums because of the increases in benefits paid. For example, it was noted that GE paid medical benefits to about 5,000 pregnant women last year. If the average weekly disability payment had been, say, \$90, 26 weeks of

benefit payment would have cost the insurance company a sizable \$11.7 million.

A similar grievance has been filed at General Motors' Delco Products Division in Rochester, N.Y. GM pays for six weeks of maternity absence while benefits for other absences vary according to cause and seniority.

The IUE has urged all its locals to file grievances on the pregnancy matter. One reason for this is that the union wants to rule out the possibility that it could be sued along with the employer by union members who became dissatisfied with their maternity benefits situation.

Record profits

General Accident Assurance Corp., Perth, Scotland, reports a record profit level on its U.S. business for 1971 and predicts equally favorable returns this year unless windstorm losses cause an unexpected setback.

Factory Mutual covers YMCA residence fire

NEW YORK—Sloane House, a 14-story, 40-year-old YMCA residence hall here which suffered a fatal blaze of suspicious origin late last month, was insured by the Factory Mutual System, *Business Insurance* has learned.

The YMCA of Greater New York has all of its 26 branches and satellite properties insured against fire by Factory Mutual, according to sources close to the Y. The policy, which covers all the buildings, has limits of \$23 million and contains no deductible. Johnson & Higgins is the Y's broker.

Liability for the fire which killed four persons and injured at least 40 others is, in the words

of a YMCA spokesman, "an unknown at the moment." A YMCA employe has been arrested and charged with murder and arson in connection with the fire and the question of the master-servant relationship could come up.

THE YMCA'S liability coverage is written by Consolidated Mutual Insurance Co., should the need arise. That policy has a \$3 million limit but the Home Insurance Co. writes a liability umbrella for \$5 million more.

The YMCA spokesman said that the cost of the fire had not been ascertained but that most of the damage had been confined to the seventh floor. The fire burned out the hallways of that floor but did not get into individual rooms. All four of the dead were found in the halls. Lower floors suffered water and smoke damage.

The 1,400 room Sloane House has been undergoing refurbishing for the past two years and it was reported that paint and painting equipment had been left in the seventh floor hallways. Fire officials, however, discounted the possibility of the paint supplies as the cause of the blaze.

Sloane House was described by YMCA officials as one of the largest of the Y's worldwide system of residences.

Continental is sued for \$50 million

NEW YORK—A spokesman for the Continental Insurance Cos. here said the amount of a suit filed against their subsidiary, Fidelity & Casualty Co. of New York, by Western Bancorporation, Cal., "is a question of interpretation." Western Bancorp. is suing for about \$50 million in losses incurred when its Swiss subsidiary, the Basel Bank, folded in 1970.

According to Western Bancorp., the losses, which were a result of fraudulent commodities transactions by its Basel officers, were insured under a fidelity bond issued by Fidelity & Casualty. The insurance company, however, rescinded the bond on Jan. 13, claiming that Western Bancorp. had concealed the extent of their foreign operations.

The bond is written for a \$10 million limit on each occurrence with a \$500,000 deductible. Western Bancorp. has filed suit for five separate losses totaling about \$50 million. They claim that falsified statements and accounts by the Basel officers cost Western Bancorp. \$42 million in payments to creditors and depositors and \$8 million in investments.

A spokesman at Continental refused to comment on the suit but stated that this type of claim "is always a problem." "Underlying the whole matter is how the deductible is to be applied—and whether this constitutes one specific loss or several," he noted.

School board liability

The Evergreen school board, Vancouver, Wash., has approved purchase of liability insurance to provide indemnity for board members and all employees of the district. Cost will be \$2,000 annually for three years. Evergreen district is buying the coverage from Stewart, Smith, Haidinger, Inc., Los Angeles.

Calling the right play is as important to insurance administrators as it is to coaches.

Those responsible for the protection of buildings on the 213-acre Chadron State College campus and of the new \$26.7 million home of the Pittsburgh Pirates and Steelers agree on strategy: cover a lot of ground with an Institutional Policy from The Home.

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Quebec employees get salary insurance plan

QUEBEC, Canada—The Quebec government has offered its 210,000 public service employees a "salary insurance plan" to protect the workers in case of short or long-term illness or disability.

Government negotiator Renald Langlois said that the four-point plan was presented to the common front of three-union federations at the central bargaining table set up to negotiate a new contract for public service workers.

Yvon Charbonneau, president of the Quebec Teachers Corp., said a strike is becoming "more and more inevitable."

The QTC, the Confederation of National Trade Unions and the Quebec Federation of Labor form the union common front.

Mr. Langlois said the unions must accept the four-point plan as a package deal. The plan calls for:

- A collective compulsory plan paid by the government which would guarantee workers 83% of their salary for illness or incapacity of less than one year.

- A collective compulsory plan for long-term illness or disability funded by the government and employees who sign up for it.

- A collective optional plan funded by both government and workers to provide a pension for survivors of workers who die before reaching retirement age.

- A compulsory medical insurance plan designed to cover expenses not paid for by the current medical-care program. ■



H. R. Rossell, right, insurance manager of Sun Oil Co., receives a plaque from H. Clay Johnson, president of Royal-Globe Insurance Cos., commemorating four decades of association among Gobe Indemnity Co., Sun Oil Co. and the Mather & Co. insurance agency of Philadelphia. Globe Indemnity underwrites automobile liability insurance for Sun Oil covering more than 5,000 vehicles of all types. Royal-Globe also provides general liability and workmen's compensation coverage for Sun Oil. Mr. Rossell has been insurance manager of Sun Oil for two years.

Connecticut General makes group changes

HARTFORD—Connecticut General Life Insurance Co. is back in the group health field "with both feet," chopping rates on the bulk of new business, introducing a new claims payment policy and, at the same time, resuming activity in major dental health coverage.

William W. Keffer, senior vp, group insurance, remarked that the rate chopping is not applicable to existing plans, but will affect all new policies written in the line.

"The standard rate changes in new business," he said, "will vary from market to market and will range from 2% to 9%."

What Connecticut General hopes, of course, is to find its position in the group insurance at-

phere enormously improved.

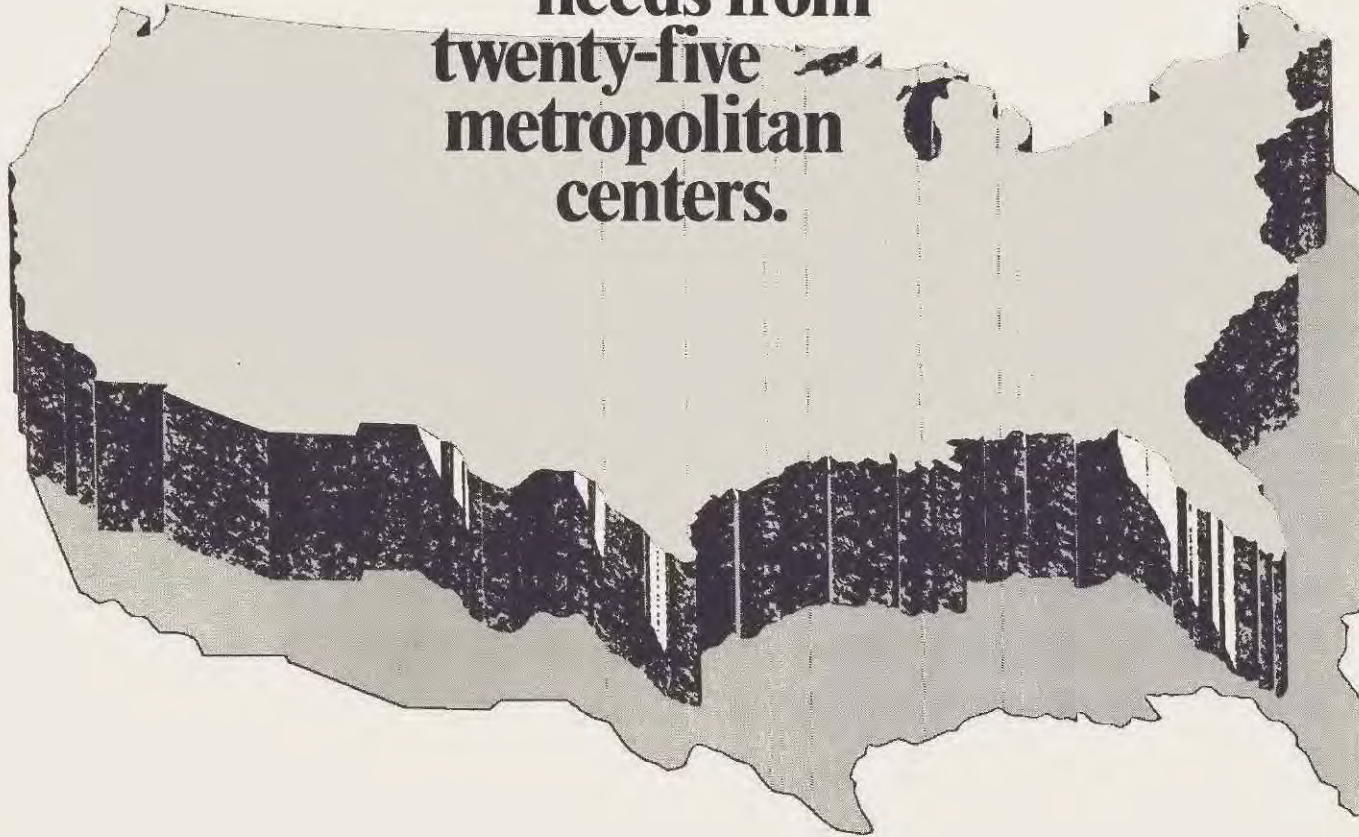
UNDER THE changes in group coverage, the company will eliminate the employer from claim payment procedures, the employees of participating firms to present to medical facilities a card guaranteeing coverage payment on a direct basis.

Moreover, the insurer is jumping back into the "unscheduled" dental insurance atmosphere; newly-developed information on dental cost patterns, enabling more precise underwriting practices, is cited.

Connecticut general got out of the "unscheduled" market last June. "Unscheduled" dental is a form of insurance coverage in which benefit payments are based on prevailing dental charges in a given locality.

A spokesman said the new group health rate structure is now in effect, the direct payment and dental plans gets under way during April. ■

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Dentists blast health plans

ATLANTA—The American Dental Assn. will not support the national health care plan proposed by the Nixon administration nor the so-called Kennedy-Griffin plan, the president of the ADA said here.

Dr. Carl A. Laughlin said in an interview that the dentists' association regards a plan submitted by Sen. Edward M. Kennedy of Massachusetts and Rep. Robert P. Griffin of Michigan as a step toward socialized medicine.

And, he said, the ADA objects to the administration proposal because it fails to include a provision for dental care.

In Atlanta to speak at a convention of the Thomas P. Hinman Dental Society, Dr. Laughlin said that the Kennedy-Griffin plan would "socialize health care in the United States.

"Socialized medicine has not worked in any country that has tried it," he said, "and it will not work in this country.

"The ADA endorses only a federally funded health care system for poor children, indigent and the medically indigent," said Dr. Laughlin. "We feel that people who can afford to pay for health care should not have this care paid for them by the federal government." ■

Harvey is self-insured

HARVEY, Ill.—The Village of Harvey is self-insured for a \$229,500 damage award given after an auto accident that injured a woman and her two daughters.

The village corporation counsel, William Donahue, told *Business Insurance*, "The cost of buying insurance is much more than what we can settle these claims for."

The award was made to Mrs. Marie Osborne, Chicago, after the jury heard testimony that the auto in which she and her daughters were riding plunged into a drainage ditch. Their suit contended that proper barricades were missing from the side of the ditch and that they were injured as a result of negligence by the village. ■

Plan insurer to cover liability for land use

SAN FRANCISCO—Risk liability insurance for building designers, engineers and other professionals in building construction may soon include insurance against all kinds of land failure in California.

Future formation of a company to provide such land failure coverage was described to the Insurance Company Managers Assn. of Northern California by Ed Howell, president of Risk Analysis and Research Corp.

Mr. Howell, consultant here for Design Professionals Insurance Co., told the association during its regular monthly meeting that "adequate insurance protection against land failure must be accompanied by proper policing of land developers.

"The company we hope to establish," Mr. Howell explained, "will insure against all of those varying kinds of land failure in California which are not already protectable with existing insurance.

"THIS MEANS of course, that use of land where there might exist any kind of risk, either from the land or the use, would be subject to pretty rigid scrutiny before policies could be issued."

Mr. Howell, an attorney and associated with Alexander and Alexander Inc. before he founded his own firm, described the Design Professionals Insurance Co. as "handling all of the risk problems of the building construction industry which the normal channels of insurance cannot or will not touch.

Propose Quebec no-fault

TORONTO—It may be a while before motorists will feel the benefits, but a sizeable section of the insurance industry wants lower auto insurance rates for some drivers.

Recently the Canadian Underwriters Assn., which represents 30% of the insurance industry, submitted a brief to the Quebec government suggesting that the province institute no-fault collision insurance. Similar recommendations are being made in New Brunswick and Nova Scotia.

Since 1970, no-fault coverage has been available in every province for injuries received in accidents. Now the industry would like to extend the principle to collision insurance. But provincial government consent is essential because the no-fault system means changing the fundamental legal principle that a person is responsible for the consequences of his own actions—in this case, for the property damage caused in an accident in which he is at fault.

Another four-day week

A three-month trial of the four-day work week has been started by Consolidated Insurance Cos. Employees of the company's San Francisco office will work from 8 am to 5:30 pm so that the total hours worked each week will remain the same. Half of the staff will work Monday through Thursday and the other half will work Tuesday through Friday.

"We have learned through the experience of this company," Howell added, "that the answer to most risk problems remains the simple matter of loss prevention.

"Unfortunately," he continued, "there is no collected body of knowledge relating to risk or loss prevention and, as a result, loss prevention has become a very individualized matter.

"Until that body of knowledge becomes available," Mr. Howell said, "insurance people as well as those insured must zero in on ways of influencing human behavior . . . of getting the building contractor to provide equipment he knows is safe . . . and of getting equipment users to check the safety prior to use."



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The Red Cross administers pre-donation blood, temperature and blood pressure tests to all participants in its nationwide Blood Assurance Program. All donors are also required to complete a 30-question medical history.

Blood...

Continued from page 28

person contact within a group that gets people to donate."

The Red Cross blood assurance plan staff is small and both women were quick to acknowledge the importance of the volunteer board of directors. "The success of our program is in its volunteer structure," Mrs. Kete said; "we wouldn't get anywhere without these people in business and industry who are so committed to our program. No amount of money or clout can make up for this interest."

CHAIRMAN of the volunteer blood assurance committee in the Mid-America chapter is Raymond Rinehart, president and chief executive officer of Clow Corp. Among companies whose support has been enlisted by the committee are Sears Roebuck and Co., Montgomery Ward &

Co., the Chicago Tribune; Continental Illinois National Bank & Trust Co. of Chicago, First National Bank of Chicago, Federal Bank of Chicago and Allstate Insurance Cos. "It is these people who open the door to other businesses and industries," said Mrs. Kete.

Other large groups in the blood assurance plan include Metropolitan Life Insurance Co., Hartford Insurance Co., Aetna Insurance Co., Ford Motor Co., Fischer Body Division of General Motors Corp. and several federal agencies.

On Dec. 1, 1971, the village of Skokie, Ill., put a blood assurance plan into effect to cover all 70,000 of its permanent residents and students under the age of 25 who are living away from home. Only 2,800 units are required to be donated a year to support the program.

Although the blood program has been available nationwide since World War II, it has only

been available in Chicago for three years. Newspaper articles in the city raised public concern over the hazards of hepatitis infection that accompany blood banking as a commercial business and helped the Red Cross establish its volunteer program. The program has been "well received," noted Mrs. Kete.

Discussing the Chicago situation led to a definition of the Red Cross approach to blood donation. "The Red Cross considers blood a human resource not to be trafficked," stated Mrs. Kete. The attitude is that no one should be penalized monetarily for using this resource, but everyone should be encouraged to replace the blood they have used by giving to the "needs of the community." Insurance, said the recruiter, should not pay for blood. This would encourage more volunteer blood donations, which have been statistically proven to be more reliable.

AS AN EXAMPLE of this Mrs. Kete referred to a study reported in the Journal of American Medical Assn. on post-transfusion hepatitis after open-heart operations that said: "The hepatitis carrier rate for commercial blood donors was 6.3%, but, for volunteer donors was less than 0.6%." The report further stated that "the chance of hepatitis developing is higher among patients given blood obtained from our commercial blood sources than among patients given blood supplied by local volunteer donors. We could not identify any factor other than the source of the blood which contributed to this difference."

Although the Red Cross believes insurance should not pay for the blood itself, it does regard laboratory work involved in the processing of blood as an insurable expense.

Mrs. Kete told *Business Insurance* that Canada traditionally has had an all-volunteer national blood-banking system, run by the Red Cross. Because of the nationwide system the chance of contracting hepatitis from donor blood is .1%, she said, and this is what the Red Cross is working toward as an immediate goal of its blood assurance program.

The long-range goal, another spokesman for the organization explained, is to promote the idea of donation of human resources as a social good, regardless of economics or science. "Blood is the first step in the human volunteer concept," he said, pointing out that the need for organ donations is even now becoming common. The Red Cross, he said, hopes to motivate people to donate for the good of society. ■

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AFL-CIO backs national blood bank

WASHINGTON—A spokesman for the AFL-CIO has backed the American National Red Cross as being in the best position to organize a nationwide, non-commercial blood banking system.

On a radio program produced by the AFL-CIO, Leo Perlis, the union's community service director, said a national system has been a long-standing goal of the AFL-CIO and that the sharp rise of both transfusion costs and the risk of disease from contaminated blood is due to "commercialism" in what ought to be "a service, not a business."

He said there are a number of proposals relating to blood banking now before Congress but that none of them totally eliminates commercialism.

Anderson says 'no' to buying libel cover

WASHINGTON—Jack Anderson, the controversial columnist who most recently made headlines by publishing an ITT memo allegedly connecting an ITT merger settlement with a Republican campaign donation, does not carry any libel coverage.

"I don't carry it because all the insurance companies we have approached want the right to require us to retract information," said Mr. Anderson whose column is syndicated in about 700 national and international newspapers. "I cannot sign my editorial prerogatives over to an insurance company."

Nor does Mr. Anderson have a battery of lawyers scanning his column prior to publication. "I've studied libel, so there's no need for that," he explained. "Truth is the best possible defense. I've told my reporters that a fact doesn't become a fact until we can prove it."

When Drew Pearson died in 1969, Mr. Anderson not only inherited full responsibility for the newspaper column but also a libel suit from a Mr. O'Brien in Washington. "I really don't know much about it: My name was appearing on the masthead when the whole thing came about," he commented. "We also have a suit pending by the United Mine Workers. It's just a nuisance suit. We've been keeping up a steady attack on them."

No-fault plan suggested in Nova Scotia

TORONTO, Ont.—The Insurance Bureau of Canada has recommended that the province of Nova Scotia adopt some form of no-fault car insurance plan, but in a brief to that province's royal commission on automobile insurance, IBC failed to recommend any one scheme.

Instead, the bureau, which represents companies writing the bulk of Nova Scotia's auto policies, presented the commission with two alternative proposals to restrict the right to sue for damages, on which no-fault insurance is based.

The first alternative calls for compulsory collision insurance for all vehicle owners, while the second is what the IBC calls a system of "inverse liability," where a driver's own insurance company would pay for his car repairs only to the extent that another driver was at fault.

However, neither of these alternatives will work without legislation, the brief warns, and it suggests the government has been cautious about responding to change. ■

Plan software cover in Japan

TOKYO—Japan's ministry of international trade and industry, concerned over the fact that Japanese insurers will not write policies to cover intangible software, is working to have such insurance available by fiscal 1973.

Japan has more than 400 software houses and computer service bureaus, and if any suffered a major loss it would be impossible to pay claims, resulting in the software house's bankruptcy.

The only Japanese company which has this type of coverage is the Tokyo Data Center, which signed a contract with American Insurance Union three years ago. The president of Tokyo Data Center, M. Nozaki, says "Japanese insurance companies lack full recognition of the nature of software, and are reluctant to write policies. There was no such problem with AIU."

Until the ministry is successful in having software coverage made available, most Japanese companies have no recourse but to maintain security as best they can. ■

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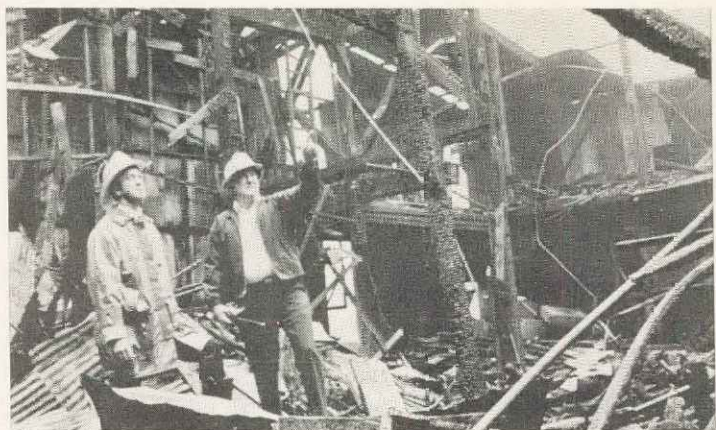
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A fire causing \$350,000 property damage to a Samuel Goldwyn Studio's commissary and grip department building that housed equipment for location studio shooting will not affect studio operations, according to Jack Forman, general manager. Arson has been blamed for the blaze, although no suspects have been named at this point in the investigation. Mr. Forman said the studio assumes a \$5,000 deductible and the first layer of coverage is reinsured by Goldwyn's carrier. —Wide World photo

Losses in mutual funds covered by insurance

SAN FRANCISCO—Legislation has become effective in permitting individuals or groups to purchase insurance to protect themselves against stock market losses.

The program, first in the nation for life insurance firms, will enable California investors in mutual funds to buy such insurance as soon as rules and regulations are adopted.

The law, adopted by the 1971 legislature, establishes no limits on the size of the investment or the number of funds covered for a single investor. Group plans, however, must cover at least 100 members with a maximum investment of \$20,000 each.

In all instances, the program is related to life insurance. It pro-

vides that if the value of a mutual fund drops by the end of a specified period, the insurance company makes up the difference so that the original investment remains intact.

IF DEATH occurs and the value of the fund has dropped, the estate would still receive the amount the investor began with.

Cost is expected to range between \$30 and \$40 per year, depending on age, on a \$10,000 mutual fund investment, with policies to run for 10 years and a renewal option after eight years.

The legislation was stimulated by San Francisco Attorney Clayton R. Jackson and was sponsored by Equity Funding Life Insurance

Co., Los Angeles.

Mr. Jackson said, "Computer analysis of the past 50 years of the stock market indicates such investment return insurance might have paid off in about 10% of instances recorded."

The legislation requires the state department of insurance to certify those mutual funds that can gain such insurance coverage.

To be eligible a company must have minimum capitalization of \$2 million as well as a \$1 million special contingency fund for possible losses from the investment program.

The legislation was introduced last year by Fullerton Republican Assemblyman John Briggs. ■

City's health plan costs up 3% this year

SAN FRANCISCO—The cost of health insurance for San Francisco city employees will rise July 1, with approval of the health service board here.

The increases will affect 64,000 people, including 22,885 current employees and their dependents, as well as retired and resigned employees and their dependents.

A city-administered plan covers 45% of those enrolled and pays 96% of the costs with a \$75 deductible. The cost for this will increase 3% for fiscal 1972-1973 as compared with a 12% jump last year.

FOR THE Kaiser plan covering slightly more than a quarter of the participants, the increase will be 10%, below last year's Kaiser increase of 16%.

The Blue Cross plan has slightly less than a quarter of the participants and costs will rise 25%. Last year the increase was 15%.

The Bay Medical Plan, a local program covering 5% of the participants will jump 10%, compared with last year's 11.5% increase. ■

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Braless fight led to work comp award for grandma

LITTLE ROCK—A braless, 38-year-old grandmother has been awarded workmen's compensation benefits by the Arkansas workmen's compensation commission because she suffered injuries in a fight with another woman who objected to the missing bra during working hours at Crompton-Arkansas Mills in Morrilton, Ark.

The three-man commission, in a 2-1 vote, said the company made itself liable for the injury and the payments when it sided with the woman who attacked Mrs. Flossie Cato, the braless mother of six children.

The commission ruled that Mrs. Cato was entitled to \$49 a week, the maximum under Arkansas law, for suffering partial disability in the fight with Mrs. Betty Williams, a fellow employee.

The company fired both women last June 9.

Mrs. Cato said she didn't wear a bra because it was uncomfortable in her job as an "overhauler" of the spinning wheels at the mill and because her doctor advised her not to wear a bra.

for the record

University switches cover to Prudential

BOULDER—The University of Colorado has changed to the Prudential Insurance Co. of America for its medical and life insurance coverage for 7,900 faculty and staff members.

Edward W. Murrow, CU deputy treasurer, said bids were accepted December 20 for new coverage, with the contract awarded to Prudential by the board of regents on January 26. Mr. Murrow cited as the main reason for the change: to equalize insurance coverage among the staff and faculty at the institution's various centers; to end fragmentation of plans and to utilize a larger purchasing power.

Prior to the change, the faculty at the Boulder campus, the Denver and Colorado Springs centers and a field office in Grand Junction carried health coverage with Metropolitan Life Insurance Co. and life coverage with Occidental Life Insurance Co. of California, it was reported.

Staffs at all campuses, including the medical center in Denver, were covered by Metropolitan. The medical center's 400 faculty members were covered by Colorado Blue Cross-Blue Shield.

The new plan offers employees two options on both medical and life coverage. It also will provide coverage for 120 days in the hospital, a \$1,000 maximum for surgery and will increase major medical coverage from \$25,000 to \$100,00 for both faculty and staff.

The new insurance plan was recommended by a benefits review committee composed of faculty and staff members named a year ago by Frederick P. Thieme, CU president, to investigate alternate insurance coverage.

School board okays stopgap package

DICKINSON, Tex.—The school board here approved another stopgap windstorm insurance package costing \$5,168.

The new extension covers from April 1 until July 1, said R. J. Bownds, insurance adviser for the school district. The extension takes place after expiration of a 60-day extension coverage.

Mr. Bownds noted that an extension was the only course open to the district because the state board of insurance has not established windstorm rates. "I would not recommend your going without windstorm insurance on a day when we're under a tornado warning," commented Mr. Bownds the day the board approved the extension.

The cost of the new extension is somewhat lower than the \$8,707 premium of the first extension because no penalty had been assessed against the district, he said. Mr. Bownds added he believes the insurance companies are hedging on setting new windstorm rates because they want to get another 25% rate increase based on 1972 prices. Last July rates were upped the maximum permitted—25%.

Employment tests grounds for comp claim

SAN FRANCISCO—Any "special risk" imposed by a business firm as part of a "test" for em-

ployment has been held by the California supreme court to be "essentially risks of employment" subject to coverage by workmen's compensation insurance.

In the decision, the supreme court overruled the California workmen's compensation appeal board to establish that compensation insurance benefits should be paid to an individual who had broken his foot while performing a physical agility test in trying out for a job. The appeals

Continued on page 38

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Record . . .

Continued from page 37

board had earlier denied benefits on the basis that the injured man had not done any actual work for the employer and therefore was not eligible for workmen's compensation insurance.

"The employer's program for the tryout," the supreme court ruled, "structured a relationship between the job applicant and the employe which although not necessarily resultant in permanent employment, was inchoate and visible.

"Pursuant to it, the applicant undertook special risks in performing designated, dangerous tasks; at this preliminary stage these were essentially risk of employment for which our compensation laws mandating liberal interpretation in favor of awarding compensation, compel coverage."

In another decision, the Cali-

fornia supreme court reversed a ruling by a district court of appeals and thus held that the workmen's compensation appeal board had properly denied compensation benefits to an employe who had been killed in a fight in which he was the aggressor.

Pension commission nixes N.Y. plan

NEW YORK—The New York state pension commission which had delayed recommendation concerning a 20-year half-pay, 40-year full-pay retirement plan for 121,000 city workers in district council 37 decided to rule against the measure after a \$36 million cost estimate for the first year of the plan was submitted. The legislature is expected to follow the commission's ruling.

Joseph Metz, executive director of the permanent commission on public employe pension and retirement systems told *Business*

Insurance that the bill had been rejected for a variety of reasons. "In our initial report to the legislature in January, the commission recommended that there be no substantive enrichment in the current benefit program," he explained. "The commission noted that the existing plans for the city are already extremely liberal."

"Also, there are no comparable benefits in any major industry or business—none even approaching those available to city employes," he commented. "We had to consider taxpayer capacity. The initial cost of this new plan is estimated at \$36 million by amortizing the prior service cost over a 35-year period. If, however, the prior service cost is spread over a 20-year period, which the pension commission feels is more realistic, the annual cost of the bill would run \$45 million."

According to Mr. Metz, the new bill would place non-uniformed employes on a par

with uniformed workers which has already prompted uniformed employes to ask for improved benefits. "This demonstrates the leapfrogging syndrome which is the only real logic being made in the demands in this area," he said.

Frostbite results in work comp payment

SALEM—The Oregon supreme court affirmed the award of monthly disability benefits to a Union Pacific Railroad employe who suffered frostbitten fingers while working during the winter of 1968.

As a result of the frostbite, Yancy Pope had to have his fingers amputated. The injury occurred while he was working to keep switches clear of ice and snow in 1968, it was reported. Mr. Pope was covered by a group policy provided by Benefit Trust Life Insurance Co. which allowed

payments for disability resulting from "bodily injury arising from accidental cause."

The insurance company claimed the injury was not "accidental," but the state high court ruled it was accidental within the meaning of the policy. The case had been tried in Multnomah County, Portland, in the circuit court of Judge James Burns.

Change in Colorado farm premium rates

DENVER—The Colorado department of labor and employment has announced a change in workmen's compensation premium rate for farm laborers, effective May 1, 1972.

James Shaffer, executive director of the department, informed Kenneth Kinnie state senator, and Lowell Sonnenberg, state representative, that he is establishing a rate of \$3 per \$100 of payroll for temporary and migratory labor engaged in hand work. The premium originally proposed by Mr. Shaffer's office for all farm and ranch labor was \$6.27 per \$100.

A 1971 act, effective January 1, 1972, brought some farm-ranch workers under the compensation program, but farm operators had complained that the premium was too high. Recently the department also announced a rate for truck-farm workers of \$2.10 per \$100.

The two legislators are co-sponsors of a bill that would remove workmen's compensation coverage from laborers working under a contract basis, by the hour or by the unit, thus effectively eliminating coverage for migrant laborers. The measure has been approved in the senate and now is resting in the house rules committee.

The new rate covers temporary seasonal and migratory workers "employed in the care, culture and harvest of fruits, vegetables and sugar beets." It would not apply to laborers who work with or near machinery.

Mr. Shaffer said he plans to make a comprehensive study during the year of all accidents involving agricultural labor to determine if separate classifications are feasible for various types of labor. The department's original position was that there was insufficient experience in Colorado to justify setting more than one rate.

Boiler insurer finds 'soft' economy raises profits

HARTFORD—A major insurer of boilers and power equipment has found the on-going "soft" economy markedly escalating corporate profits.

The paradox, involving Hartford Steam Boiler Inspection & Insurance Co., can be attributed to the obvious fact that when the country's economy is "strong," industry is busier, and, hence, policyholders' equipment tend to break down with greater frequency. And, of course, with less production, there's less use of equipment.

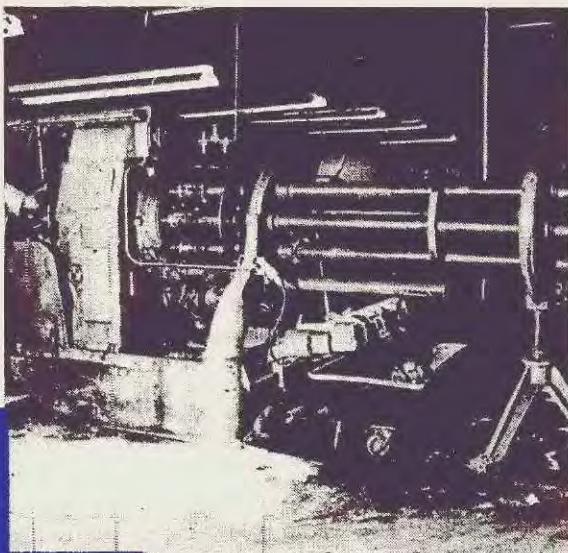
Hartford Steam Boiler stockholders have been advised that 1971's economic picture "served to reduce the severity and frequency of loss incurred under the companies' policies of insurance."

In the annual stockholders' report, Lyman B. Brainerd, chairman, and Wilson Wilde, president, remarked that the dollar amount of insured loss in 1971 amounted to the lowest in recent years. The loss ratio was 83.9%

Continued on page 52

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\$7.5 billion California health aid proposal bucks Reagan's plan

SACRAMENTO—A \$7.5 billion health care program to cover nearly all Californians has been introduced in the legislature here

Regulation appeal

WASHINGTON—The Federal Trade Commission's Bureau of Competition will appeal an FTC hearing examiner's dismissal of a complaint against the 1969 merger of American General Insurance Co., Houston, and Fidelity and Deposit Co. of Maryland, Baltimore.

The appeal to the full commission will be made on grounds that the states can't effectively regulate such interstate insurance mergers and thus cannot prevent nationwide anti-competitive effects, according to Ernest G. Barnes, the bureau's assistant director.

FTC hearing examiner John B. Poindexter said in dismissing the bureau staff's challenge of the merger that the McCarran-Ferguson Act of 1945 exempts the insurance business from federal antitrust laws "to the extent it is regulated by the states." He said both the Maryland and Texas insurance commissioners approved the merger and concluded that this left the FTC with no jurisdiction in the matter.

The FTC staff position, said Mr. Barnes, is that while states like Maryland and Texas have insurance regulation laws, they are unable to weigh the effects of mergers in their jurisdictions on competition in the insurance business elsewhere. American General, a multiple-line, property-liability and life insurance company, and Fidelity and Deposit, a property-liability company specializing in fidelity and surety bonds, both operate nationally.

If the commission agrees with the staff when it takes up the case, the companies could seek reversal in court. There could be no staff appeal, however, if Mr. Poindexter's ruling is upheld by the commissioners.

by George Moscone, Democratic senator from San Francisco.

The compulsory system would be paid for primarily through payroll withholding, by a graduated system based on pay rates but paid by both worker and employer. Employers would pay \$3.15 billion and workers \$1.05 billion, with \$400 million coming from the self-employed and \$2.90 billion from government agency employees.

Financing of the Moscone program is the same as provided in a health plan recently proposed by Gov. Reagan, which the governor said would cost \$300 million a year and cover 17.6 million Californians in the event of catastrophic illness.

"I EXPECT to discuss this program with Gov. Reagan," Mr. Moscone said, "but I don't expect the governor to quickly endorse my plan and I certainly don't expect those insurance companies making fat profits in this field to come to its aid."

Mr. Moscone's program would be open to all residents of the state, including Medi-Cal recipients, indigents and employed migrant farm workers. Government workers could participate by voluntarily paying the premiums. Federal employees would not be covered but could participate voluntarily by payment of premiums set by a proposed state health commission, a nine-member

group that would administer the Moscone plan.

The payroll deductions would be based on employees' gross income and there would be continued participation by both the state and federal governments in existing and future programs involving matching funds for health care activities.

The health commission Mr. Moscone proposes would consist of a majority of consumers and members would be named by the governor and be subject to state senate confirmation. The commission would assume jurisdiction over all state services operating in personal health areas as well as some agencies in the department of social welfare.

A HEALTH CARE trust fund would be created. Within that would be a health resources development fund, in the state treasury, with payroll deductions being handled by the department

of human resources development.

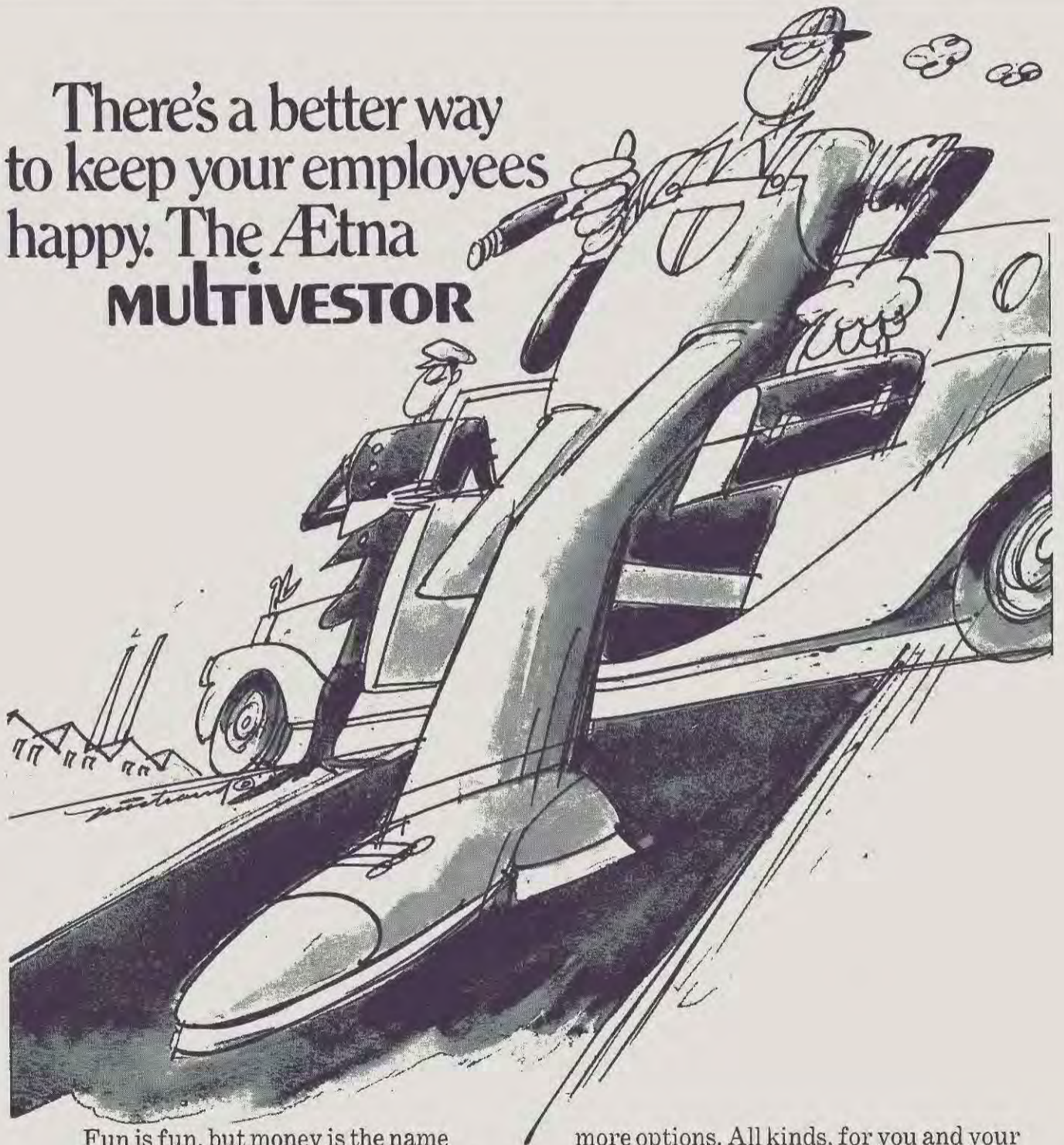
Self-employed persons would pay to the franchise tax board and counties would pay their shares through the state controller.

Benefits proposed by Mr. Moscone would include preventive medicine, screening, annual health examinations, diagnosis and treatment in and out of hospital, extended and nursing home care, medical rehabilitation, dentistry, psychiatric care in and out of hospital and prescription drugs.

Mr. Moscone said he envisioned doctors establishing their own "group services" to provide the medical care under his proposed program.

A worker earning \$10,000 a year would pay \$2.88 a week while his employer would contribute \$8.65 a week. Mr. Moscone also said his proposal would not preclude a union contract from requiring an employer to pay all of the cost.

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Stops disability pay discrimination—a bit

SALEM, Ore.—Insurance equality for women will be explored by Cornelius Bateson, insurance commissioner, as a result of refusal by Commercial Insurance Co., San Francisco, to give more than \$100 a week commercial income insurance to Coos Bay physician, Dr. Emeia Lipton.

Dr. Lipton took her complaint to Oregon's Democratic Congresswoman Edith Green, who in turn asked Mr. Bateson why insurance companies should be permitted to refuse professional women the same insurance protection afforded men.

The complaint was over the insurance company limit of \$100 on all female applications, regardless of income.

Spokesmen for the company said Dr. Lipton's application was being reconsidered and that the firm would approve whatever disability income insurance she requested and that it would lift its limit on women's disability policies to \$150 a week.

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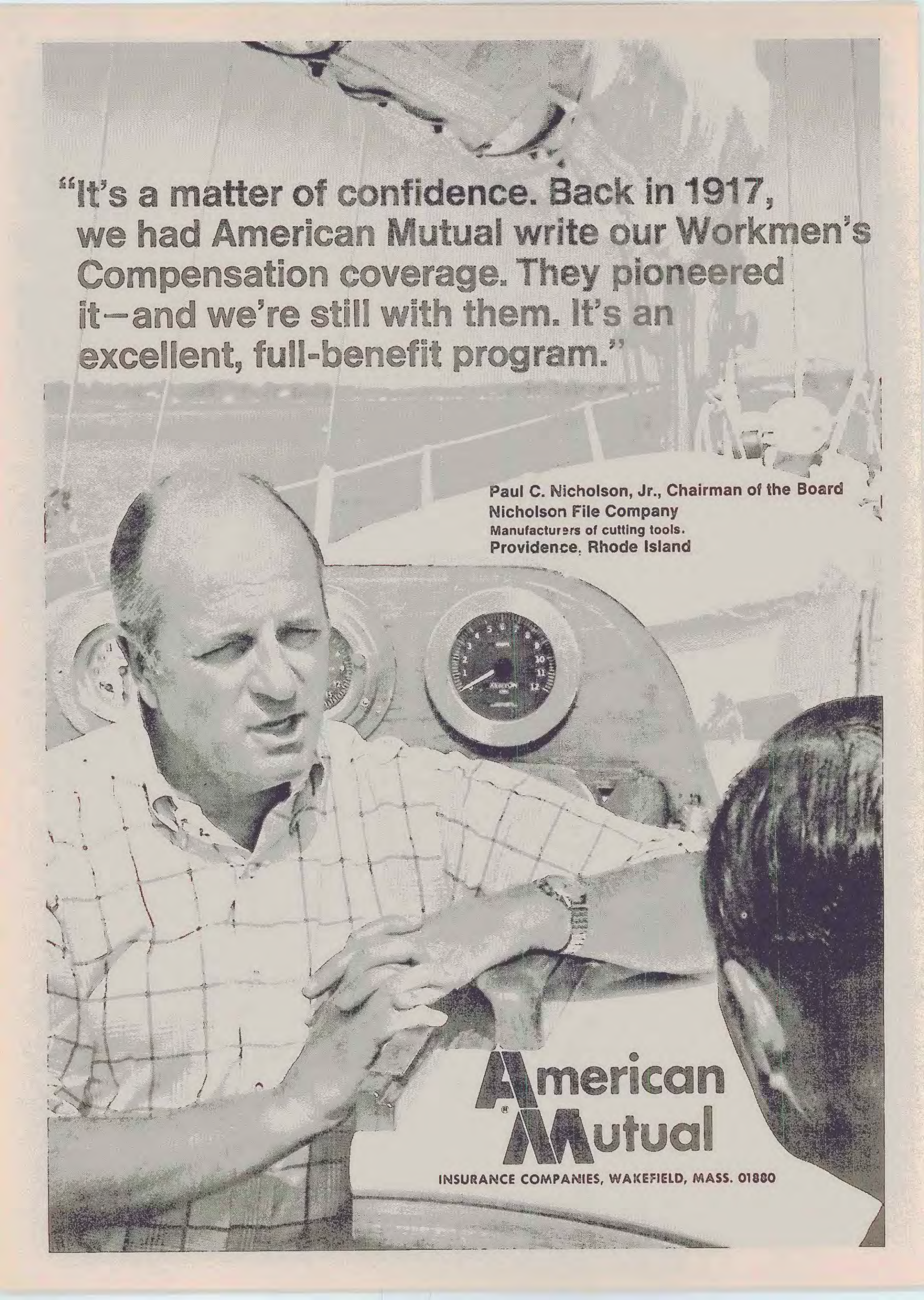
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business insurance

PERSPECTIVE

Business interruption — know where all your risk exposures lie



BY WILLIAM H. RODDA
president,
Marine Insurance Handbook Inc.,
Chicago

AN AIRLINE BUILT an interior mock-up of a 747 aircraft at a cost of \$300,000 to use in taking publicity pictures. It costs them \$100,000 for every day that a 747 is taken out of service, so they saved the cost of the mock-up every three

"Business interruption and loss of profits insurance in the U.S. is usually provided in segments that are piled one on top of another. Some of the possible contingencies for loss may be overlooked unless there is attention to every possible exposure to loss that may result from an interruption of business."

days that it was in use.

Loss of use following a disaster may be more costly than the physical damage that causes the interruption of business. Sales of merchandise at a store or the production at a factory may be stopped by a variety of occurrences. These may be summarized as follows:

- Damage or destruction of property at the business location.
- Inability of customers or workmen to reach the premises because of some occurrence in the neighborhood. This may be further divided into two parts: physical obstruction because of damage to neighboring property or the effects of a big snowstorm or similar occurrence, and legal prohibitions such as a curfew during civil disorders.
- Destruction of service facilities away from the premises, such as the interruption of power due to an accident at a power station, the breaking of power

lines, or the inability of a material supplier to make deliveries because of an occurrence at his plant.

Business interruption and loss of profits insurance in the U.S. is usually provided in segments that are piled one on top of another. Some of the possible contingencies for loss may be overlooked unless there is attention to every possible exposure to loss that may result from an interruption of business.

CONVENTIONAL business interruption insurance covers only the loss that results from damage at the premises named in the policy. It does not cover the contingent losses from occurrences outside of the premises or at a different location. This was a reasonably satisfactory coverage years ago before merchants and factories were dependent upon outside facilities to the extent that they are today.

An all risks type of coverage can be

secured by purchasing a special multi-peril policy with a business interruption endorsement attached. This covers against "all risks of direct physical loss" at the premises named in the policy. Its coverage of storm damage is equivalent to that of a policy that covered loss from "the elements" and that was the subject of a court decision a few years ago. A heavy snowstorm greatly reduced the attendance at an exposition that was covered by the policy. The insured claimed a loss under the policy. It was undisputed that the building housing the exposition was undamaged by the storm. The claim was based on the fact that the elements prevented the expected number of people from attending the exposition. The insurer denied liability because the policy contained the usual provision that coverage applied to "loss resulting directly from interruption of business caused by the perils insured against damaging or destroying the property at the premises described" in the policy. There was no damage to the property at the premises, and therefore no coverage for the loss of business due to the storm. The court upheld the insurer's denial of liability.

What kind of insurance did the sponsors of the exposition need? They needed a variation of what is generally sold as rain insurance. Rain insurance usually is sold to cover events such as fairs, outdoor theaters during special showings, and special racing events. It is also sold to merchants to cover sales on which merchants have spent substantial promotional funds. It is written to cover specific events rather than on a continuous basis. It is considered to be a surplus line, but a dozen or so insurers in the U.S. will write the coverage if there is a previous history of similar events on which the anticipated income can be measured.

BUSINESS INTERRUPTION insurance as written in the U.S. has an inherent limitation that often reduces the recovery below the actual loss. The policy covers "for only such length of time as would be required with the exercise of due diligence and dispatch to rebuild, repair or replace such part of the property herein described as has been damaged or destroyed." There are many cases where the insured's loss extends beyond the time when repairs are completed before business builds up to its pre-loss level. An illustration will show the effect of this limitation.

An Iowa bowling alley had a fire in
Continued on following page



BY BION H. FRANCIS
insurance consultant,
Milford, Conn.

This is the fourth of a series of articles by Bion Francis on buying corporate insurance. Mr. Francis discusses the problems to be expected, how to recognize them and how to surmount them.

WHEN TIMES are difficult, corporate management peers at every phase of corporate operations. What expenses can be reduced? The risk manager is not exempt. What can you do to cut costs?

Don't wait for management to ask what costs can be reduced

"Where there are a number of plants, each spread over a wide area, each plant should be regarded as a number of separate fire areas."

But the risk manager should not wait for these pressures from management. Each year—whether business is good or bad—he should ask himself what can he do to reduce costs.

If insurance is an important expense, is it necessary to buy insurance at all? If we don't buy insurance, how much can we save? To answer these questions, let us start by comparing premiums and losses for the past five years. Suppose we are buying fire insurance and our records indicate that the average annual figures work out as follows:

Average annual premiums	\$500,000
Average annual losses	275,000
Difference	\$225,000

Now we raise the question of credibility. To what extent can we rely, in the future, on these figures from the past?

Here are some of the questions we should ask:

- Is there enough spread of risk to permit operation of the law of large numbers? Where there are a number of plants, each spread over a wide area, each plant should be regarded, not as a single unit, but rather as a number of separate fire areas. Each fire area includes the property that could be destroyed in a single fire. The larger the number of operations for which you buy insurance, the greater will be the probability that past experience will continue into the future. The loss experience of a large corporation with a satisfactory spread of risk has high "credibility."
- Have there been recent changes which would affect losses? Such changes might include changes in the nature of manufactured output, physical changes

such as the installation of sprinklers, or a change in management with consequent change in the emphasis on loss prevention.

- Can the loss experience be reduced? The decision *not* to buy insurance can also be a change which affects loss experience. Suppose that losses are charged to plant operations with possible adverse effect on the bonus payments of plant managers.

- What is the maximum possible loss? In the example given earlier, the average losses are shown as \$275,000 a year. But suppose the maximum possible loss has been estimated to be \$4 million? The possibility of such a catastrophe must be considered.

- What deductible should you carry in your insurance? If you have to consider a possible maximum loss which is substan-

Continued on following page

business insurance

PERSPECTIVE

Business . . .

Continued from preceding page

July. It was established that the alleys could have been restored with due diligence and dispatch by Nov. 11. Actual loss of business from the time of the fire in July until Nov. 11 was agreed to be \$8,094.80. However, the proprietor was unable to accommodate bowling tournaments that had contracted to use his alleys starting in September. He contended that he should receive \$19,000 because that was the amount of his loss including the \$8,094.80 during the actual period of suspension plus the loss of tournament business that would have run subsequent to the restoration date. The court said, "No." Coverage was effective only during the time that it would take to rebuild, and there was no coverage for any loss after that time.

The English recognize that loss from interruption of business may not end when the premises are restored. Their profits insurance generally includes the full loss from the interruption even though the period of loss may extend beyond the time taken for restoration of the premises.

American insurers call this lag insurance because it picks up the lag in the restoration of the insured's business to its pre-damage level. Lag insurance that is written on an actual loss-sustained basis may be difficult to adjust. The insured may be overly optimistic as to the amount of business that he would have done if the loss had not occurred. A valued form could be written that would agree to an amount or a formula for the computation of the loss, but insurers are likely to be reluctant to write such a form unless the insured has a sustained record of business operations.

THE ENGLISH system of profits insurance requires a more precise accounting than is customary in the adjustment of business interruption losses in the U.S.

Predictions and computations of profits must consider price trends, increases or declines in business at the insured's location, population trends, and other economic factors. Similar problems are faced by insurers and insureds when lag insurance is written in the U.S.

Disputes have arisen concerning business interruption insurance when access to business property was prevented by order of public authority. Riot areas have been sealed off and curfews have been established. Current business interruption policies meet this situation partially by covering "actual loss as covered hereunder during the period of time, not exceeding two consecutive weeks, when, as a direct result of the perils insured against, access to the premises described is prohibited by order of public authority."

"The English recognize that loss from interruption of business may not end when the premises are restored. Their profits insurance generally includes the full . . . time taken for restoration of the premises."

The key words here are "as a direct result of the perils insured against." A policy that covers loss from riot would also cover the loss if access to the premises were prohibited by order of civil authority because of riot. But suppose the situation involved earthquake, flood, landslide, or explosion of steam boilers. These perils are excluded by many of the broadest of the business interruption policies. There is no coverage for the loss of business from action of civil authority unless the peril that prompted the civil action is covered under the policy.

The insured's need for business interruption insurance should be analyzed in connection with his possible need for coverage against direct loss from these and other excluded perils. A possible solution may be a difference in conditions policy. This may be written to cover on a very broad basis to fill in the gaps in coverage

of the basic policies, and business interruption coverage should be considered for difference in conditions coverage.

Acts of civil authority may cause losses of business even when access to the premises is not prohibited. For example, the sale of alcoholic beverages may be prohibited during riot conditions. The business interruption insurance as described above does not provide coverage for such loss. Access is not denied to the premises, and the policy wording is clear that coverage applies only when access is denied to the premises. Neither is there coverage if the insured closes voluntarily because of fear that his premises might be damaged.

Many business operations are dependent upon services that they receive from outside sources. Conventional business interruption insurance is tied to damage to property "at the premises described in this policy." Coverage for interruption of business from lack of outside services due to an occurrence away from the premises must be arranged specifically as contingent business interruption insurance. Interruption of services may affect power supplies, lack of materials that are needed for continued operation, or almost any

outside occurrence that would shut down the plant. Contingent business interruption insurance usually identifies the location and the property for which damage is covered, and the perils to be covered. For example, insurance to cover damage to power lines would specify the location and length of the lines, and the perils, such as wind, or fire. An accident to the power station could be included if specifically mentioned in the policy. Fire or wind damage at the plant of a material supplier could be covered.

CONTINGENT business interruption insurance is written in the U.S. as a separate item of insurance and usually under a separate policy. Our European counterparts in the insurance business are more flexible in this respect. They will consider writing the contingent coverages as part of the total package. An ideal policy

would cover all of the insured's locations, and all other locations where destruction could cause an interruption of the insured's operations.

A decision in a federal district court in Illinois a few years ago raised an interesting point regarding the length of an interruption. A disagreement between the insured and the insurer caused a delay of almost two months in the settlement of the property damage loss. The insured was unable to start reconstruction until the fire loss claims were adjusted. The court held that the period of reconstruction under the policy conditions was extended by the time that it took to adjust the fire loss to the building.

The same general procedures are used to determine the amount of business interruption insurance to buy and to settle a loss after damage or destruction. This is not difficult for the insured who has adequate business records of income, expenses and profits. It is important that records be kept where they will not be destroyed by a catastrophe.

There may be justification in some cases for a valued form of policy. This form provides for payment of an agreed amount for each day that business is suspended. Sometimes an insurer will start payments under a valued form without waiting for reconstruction to be completed. However, companies that write a valued policy require that the insured prove his probable losses with substantial evidence when the policy is written. The valued form is more trouble to write than the actual cash value form because of the detail that must be supplied, but it is easier to adjust because the amount of loss per day is already agreed upon.

This review of business interruption insurance has discussed a few of the oddities and deficiencies in coverage that may prevent an insured from collecting his entire loss when production or sales are suspended by a catastrophe. The insured must consider all of the contingencies that might stop his operations, including those that may happen at remote locations. He must also maintain excellent and detailed records of past operations so that he can prove his actual loss during a period of suspension. When loss occurs, he must act with dispatch in reconstructing the premises or replenishing his stock. He must use all possible means of reducing the loss, including the use of temporary premises or substitute materials if that will help to keep the loss down. Loss of use is an intangible, and detailed information helps to substantiate the amount. ■

Costs . . .

Continued from preceding page

tially in excess of the average annual loss, it may be advisable to limit the amount of self-insured loss which your corporation could suffer. This could be done by buying deductible or excess insurance. As you acquire experience, the areas of risk assumption could be broadened, if desired.

• Is your program logical and consistent? If you decide not to buy insurance on a major risk, this decision might carry logical implications for other insurance. If, for example, it has been decided not to carry fire insurance on a major plant, it would be illogical to insure plate glass windows, or to insure smaller outlying buildings, or to buy insurance on parcel post shipments from the plant. Once the decision is made to assume a major risk, application of the law of large numbers would be broadened by extending this decision to every suitable or lesser hazard of a similar nature.

There may be an exception when extending the self-insurance program to subsidiary companies. Suppose that it has been decided *not* to buy insurance on a major risk of a large corporation. In extending this decision to subsidiary companies, you may find that these subsidiaries have minority stock interests which would not be protected satisfactorily if the self-insurance program were extended to these subsidiaries.

• What is the competition of doing? Insurance can be an important element of cost. If a company makes the decision not to buy insurance, this can result in an

important competitive advantage. I once had the problem of how to buy insurance for plants manufacturing explosives when most of the competing plants did not have such insurance.

Small companies sometimes do not buy insurance as a calculated risk to gain an advantage over a large corporation. Large corporations may take the same action because they believe their financial position is such that they can assume the risk.

Where such conditions exist, competing companies must give serious consideration to assumption of risk in order to maintain their competitive position.

• Are you required to buy insurance? Before making a decision not to buy insurance, a corporation should determine whether it is required by law or contract to buy insurance. Insurance may be required under the terms of loans, mortgages, leases, contracts, and state or federal law.

• Is insurance the best way to meet the situation? I once had the problem of purchasing insurance to protect the sales records of a very large sales organization. After study of the problem, it was agreed that destruction of the records might cause a loss of business which would be for more serious than loss of the accounts receivable. In the end, the money which might have been used to buy insurance was used instead to install a microfilm system to protect the records. You may always raise the question "Is insurance the best method of meeting the situation?" or perhaps "Would it be better to use the money in some other way?"

• Can you save money by buying insurance? This question is taken up in the next article of this series. ■

Risk management notes

Screening watchmen is risk man's lookout

BY WARREN, MCVEIGH & ASSOCIATES
risk management consultants,
San Francisco—Los Angeles

THE DEC. 4 ISSUE of Business Week carried a provocative article titled "The guard you hire may be dangerous." It reports on a Rand Corp. report to the Justice department on the \$3.3 billion private police business. What business does, they say, is to "hire generally unskilled young men, give them guns with no training in their use, put them in uniform, and turn them loose to patrol a factory, office building or housing project."

Shortcomings of guards, both in-house and contracted, have long been evident to those who have observed the low pay scales. Too often guards are hired from the ranks of older people who can get no other job but, on the other hand, we have seen a number of alert, vigorous guards. Because a guard does not create any measurable volume of work, it is difficult to evaluate his performance and a complete noncompetent could go for years without anyone suspecting. The action of the risk manager, if he does not have direct control of guard hiring, should be to

see that someone does an effective job of screening guards, whether they are hired or provided by contract service. Questions should be asked about training received, specific experience in guard work, and general physical and mental qualities suited to the work. The function is too important to be taken for granted.

Personal Risk Management

When a company considers insurance versus self-insurance for auto physical damage, taxes do not enter the question because both premiums and uninsured losses are deductible. When you, as an individual, consider self-insuring physical damage to your automobile the tax question is significant. Personal auto insurance premiums are not tax deductible, whereas uninsured casualty losses are—at least that portion in excess of \$100. This is one additional reason why persons of reasonably substantial income should not purchase collision or comprehensive insurance at all, while those of moderate income should consider dropping these coverages as a car diminishes in value through the years. ■



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Bank management team investment results scored

NEW YORK—In a report on 1971 investments, the Investment Management Group (IMG) of First National City Bank here presented two representative trusts which showed a considerably higher gain for the year than the Dow Jones Industrial Average.

A stock common trust fund, a pooling of about 250 employee benefits accounts which contains approximately \$96 million, had a 22.79% rate of return compared to a 9.95% return for Dow Jones. An unnamed pension fund with assets of about \$34 million managed by IMG showed a 22.7% gain.

Thomas C. Theobald, executive vp of IMG, told *Business Insurance*, "We have done extremely well this year, but you have to look at the overall performance of the groups. I would say our performance this year was due to a concentration in growth oriented equities."

In 1970, the common trust fund declined 8.92% and the pension fund dropped 10.08% compared to a 9.28% gain in the industrial average. Over a six-year period, both trusts managed to average out well ahead of the industrial average, according to graphs in the report.

The report was released, explained Mr. Theobald, "because we were concerned that the public didn't know what the trust funds were doing."

IMG queried several thousand income beneficiaries of pension trusts during the year regarding City Bank investment policies and received several hundred replies. "This sample group supported corporate efforts to improve the environment, to help minority economic status, and to respond to various consumer oriented programs," IMG reported.

"Investment policy during 1971 took this kind of corporate responsibility into account," noted Mr. Theobald. IMG stated that a company lagging behind in its environmental obligations would eventually have to meet the cost of these obligations. Therefore, a firm with less impressive earnings that had undertaken greater environmental efforts might constitute a better investment in the long run.

IMG also came out against institutional memberships on stock exchanges. "It may be difficult for a fiduciary to reconcile its obligations with the potential conflict of serving as a broker to a trust account," concluded the management group. ■

Stop on that flashing amber light

SAN FRANCISCO—This city's Yellow Cab Co. is conducting a year-long, non-profit, fleet-wide test of Cyberlite, a new automobile deceleration warning system devised to reduce rear-end collisions.

The test started March 1, under a test permit issued by the California Highway Patrol.

Cyberlite was developed by John Voevodsky, Portola Valley scientist. His device is a warning signal whose pulsing amber light increases in tempo as an automobile ahead of it decelerates. Thus a driver noting a pulsing Cyberlite is informed not only that the car ahead is stopping but also how quickly it is stopping.

Cyberlite, according to Mr. Voevodsky, utilizes the principles of behavioral cybernetics and provides a continuous warning system to following drivers at all phases of deceleration from safe, slow stops to fast, dangerous stops.

The device separately augments standard brake lights and turn signals and is proposed for future use on a voluntary basis for all motor vehicles.

dates for buyers

April 20, American Society for Testing and Materials committee on consumer standards seminar, "Testing Consumer Products for Safety and Performance," Lake Tower Inn, Chicago. For more information write Mr. Norman R. Pugh, Dept. 817, Sears, Roebuck and Co., Chicago, Ill. 60607.

April 24-28, American Society of Insurance Management's 10th annual risk management conference, Queen Elizabeth Hotel, Montreal. For more information write ASIM, 500 Fifth Ave., New York, N.Y. 10036.

May 3-5, University of Wisconsin, Graduate School of Business and Office of the Commissioner of Insurance, State of Wisconsin seminar, "The Consumers' Interest in the Sale of Life Insurance and Alternate Financial Security Devices," University of Wisconsin, Madison. For more information write the Foundation for Insurance Education and Research, Graduate School of Business, University of Wisconsin, Madison 53706.

May 8-10, American Management Assn. orientation seminar, "Communicating Employee Benefits," AMA management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

May 10, American Management Assn. briefing session, "501 (c) (9) Trust—A Vehicle for Self-Insuring Employee Benefits," Barbizon-Plaza Hotel, New York City. **May 15**, same program, AMA management center, Chicago.

May 10-12, American Management Assn. orientation seminar, "OSHA Compliance for the Small Company," AMA management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

May 10-12, American Management Assn. workshop seminar, "Developing a Modern Employee Benefit Package," AMA management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

May 10-12, American Management Assn. orientation seminar, "Self-Insurance, Risk Retention and Use of Excess and Deductible Coverages," AMA headquarters, New York City. A workshop seminar on the topic will be held at the same time at the AMA management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

May 14-17, National Foundation of Health, Welfare and Pension Plans Inc. institutes for new trustees, advanced trustees and fund administrators, Del Monte Hyatt House, Monterey, Cal. **July 9-12**, same program, Chateau Champlain, Montreal. For more information write the foundation, P.O. Box 69, Brookfield, Wis. 53005.

June 5, National Foundation of Health, Welfare and Pension Plans Inc. regional seminar, Plaza Inn, Kansas City, Mo. Other regional seminars: **June 6**, Sheraton-Lincoln, Houston. **June 7**, Americana Hotel, New York City. **June 8**, Ponchartrain, Detroit. **June 9**, Hilton Hotel, San Francisco. For more information write the foundation, P.O. Box 69, Brookfield, Wis. 53005.

James still growing — merging with Paige

CHICAGO—Continuing its growing trend, Fred. S. James & Co. Inc. has reached an agreement to merge with John C. Paige & Co. Inc., Boston, and an agreed in principle to merge with John F. Sullivan Co., Seattle. Both brokers will be absorbed subject to the satisfaction of closing conditions.

John C. Paige, which has merged and un-merged within the last few years, will continue to operate under its own name and with the same personnel. Its offices in Boston, New York, Atlanta, Los Angeles and San Francisco will be consolidated with Fred. S. James

branches in those cities.

A spokesman for Fred. S. James told *Business Insurance* that Paige, whose clients include Rexall Drug and the Port Authority of New York, "will be bringing in the business of quite a few Fortune 500 companies. We were happy that many of their clients are compatible with ours."

WHEN ASKED what he meant by compatible, the spokesman said, "I mean there were some risks on which we handled part of the coverage and they handled part of it."

John F. Sullivan Co. is a reinsurance broker that also does general insurance brokerage business. The reinsurance business is done with insurance companies in both the U.S. and Canada. Aside from the Seattle headquarters, the firm operates offices in Los Angeles and Toronto.

Paige and Sullivan had combined earnings of more than \$1.5 million last year, approximately one-third the earnings posted by Fred. S. James. The two smaller brokers employ about 450 persons, who will be added to the 1,400 already working at James.

The James spokesman said that these were part of "a ton" of mergers involving his company over the past year. "Last year," he said, "we were involved in 10 combinations, four of which we announced in December. Of the 10, nine of them were poolings and the other was a purchase."

Under the merger agreements, James will exchange 750,000 shares of its common stock for the two companies. ■



Paul Penberthy Jr. has been elected to the advisory board of California Casualty Indemnity Exchange and is a director of California Casualty Insurance Co. Mr. Penberthy is vp of Penberthy Lumber Co., Los Angeles.



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Sure, the goods are covered in the warehouse, but what kind of protection does a small fleet owner have on goods-in-transit? Probably less than he used to.

Recent changes on the multi-peril policy forms indicate that cargo is better covered on a separate policy. Grain Dealers Mutual offers a Motor Truck Cargo policy that covers those goods from dock to delivery.

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Member Company: Improved Risk Mutuals

Congressmen become fire fighters in the wake of rising blaze losses

WASHINGTON—As if in answer to the National Commission on Fire Prevention and Control's call for a federal focus on fire losses, Congressional machinery is being rolled into place for an attack on the problem on several fronts.

In the House, Rep. Robert H. Steele (R.-Conn.) has introduced nine fire prevention and control bills whose provisions include a national fire academy, federal aid for research and training programs, and new laws governing construction materials.

Now a move is on in the Senate, also. Sen. Charles Mathias (R.-Md.) has completed a seven-bill package that closely parallels the Steele Proposals. Major provisions as specified in the Mathias package would:

- Create a National Fire Academy to serve as a national center for fire research and education.

- Authorize \$75 million for fire research and safety programs over the next three fiscal years.

- Authorize the Department of Health, Education & Welfare to pay 90% of the cost of training fire fighters and up to 90% of the cost of "fire science" programs.

- Provide financial assistance of up to 90% of the cost to local fire departments of purchasing new fire-fighting equipment.

- Establish a National Fire Data and Information Clearinghouse that would provide emergency information to fire departments throughout the U.S. on a 24-hour basis.

THE BILLS, which Mathias aides said may be co-sponsored in the Senate by Sen. Hugh Scott (R.-Pa.), Senate minority leader, would also amend the Flammable Fabrics Act to extend its provi-

sions to construction materials used in homes, offices, and factories or other industry facilities. Toxicity standards for the materials would be set. In addition, laws governing the transportation of hazardous materials would be amended to require identification by placard of vehicles carrying hazardous materials in interstate commerce.

Introduction of the Mathias bills followed by a few days the nine-month-old fire prevention and control commission's first report to President Nixon. It put fire losses at the same level as those caused by crime—about \$10 billion a year—and listed nine priorities for federal consideration. In the order presented, the

priorities are fire prevention, early detection and alarm, personal protective equipment, a national fire academy, fire control equipment, national fire reporting and analysis, research and development, community relations, and federal financial participation.

Commenting on federal assistance, Clayton Willis, the commission's director of legislative affairs, said the commission staff is checking into cost problems associated with increased use of the latest detection and prevention devices by industry but "has no position" on financial assistance in this area. He said it should follow that insurance costs would drop with better defenses against

fire. The commission will go into detail on insurance aspects of fire prevention and recovery aspects of fire at hearings to be held in Chicago Oct. 10 and 11. It has already held hearings in Washington on the general subject of life and property losses and has set losses in 1971 in the U.S. at 12,200 dead and 330,000 crippled or injured from fires, with property loss exceeding \$2.8 billion, about \$215 million more than property losses from fire in 1970.

The problems and needs of fire fighters and their organizations will be dealt with in hearings scheduled to be held April 24 and 25 in Dallas, and building fire safety will be covered in hearings to be held in Los Angeles and San Francisco in early July.

The commission has already come to some conclusions on fire safety in buildings. It believes high-rise buildings, because of modern materials and furnishings that produce heavy smoke and

toxic gases, can no longer be considered fireproof. Moreover, they should be termed "escape-proof" because stairwells, elevator shafts, and mail chutes vent smoke like chimney flues, the commission says. It adds that closed windows and air conditioning add to the problem and feels that "islands of safety" may have to be required for high-rises because of cut-off escape routes, including elevators that the commission says become inoperable in dense smoke.

Named administrator

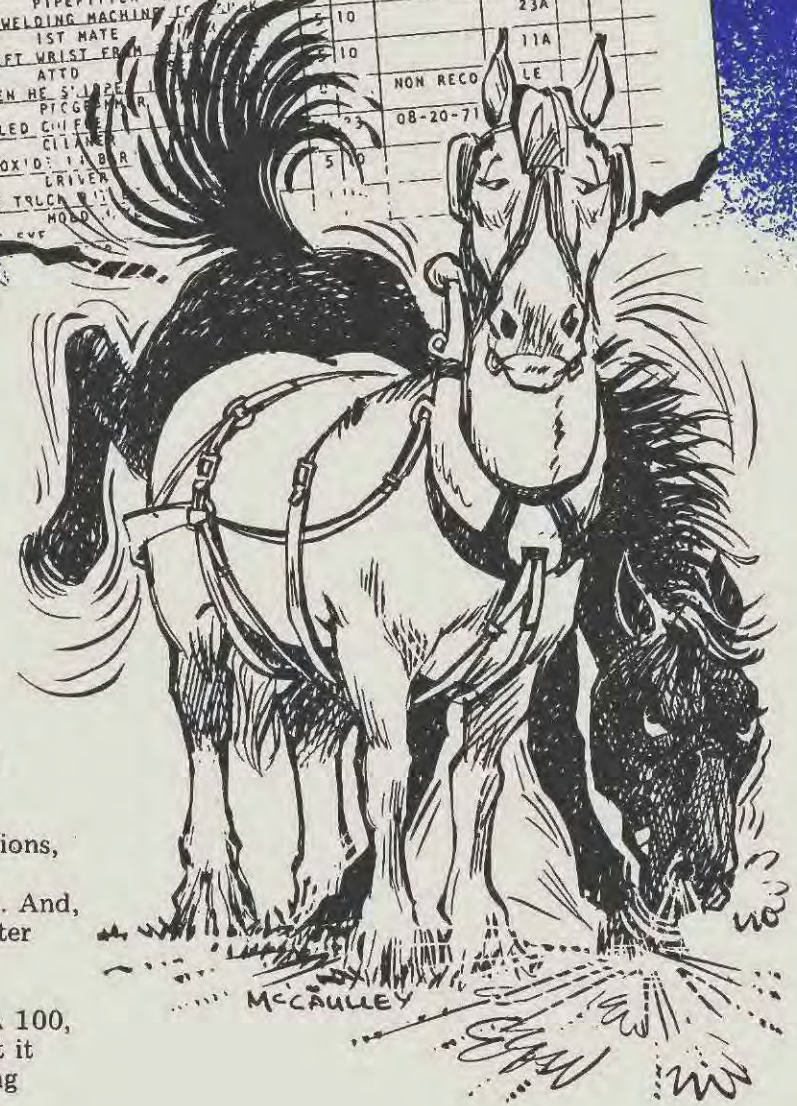
L. K. Lloyd & Associates, San Francisco, Los Angeles and Sacramento, specialists in disability insurance programs for professional organizations, has been named administrator of all insurance programs of the California Pharmaceutical Assn.

OSHA 100

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71C0005	08-13-71	ARNOLD JAMES	SLIGHT BURN FROM SPILLED OIL																				
71C0006	08-20-71	GREGORY RONALD L	ASPHYXIATION FROM MONOXIDE																				
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NIGHTMARE or WORK HORSE?

Gibbons . . .

Continued from page 1

of the American Society of Insurance Management and has been a member of the insurance planning council of the American Management Assn. He studied insurance at the University of Pennsylvania's Wharton school of finance and took fire, liability and marine insurance courses from the Insurance Institute of America. In January he was a member of the faculty at the Business Insurance Product Liability Workshop.

Mr. Gibbons said that there are many state loss prevention facilities he hopes to utilize before going to outside sources, and that he plans to work with major state departments, such as the penal institutions, to study the ways in which property-liability insurance purchases have been handled in the past. But he will be traveling for about the first two months to states with self-insurance funds, he said, "to study the success of their plans or the reasons that they went down the drain."

This summer he plans to utilize the state universities' insurance departments and "risk management-type students" in compiling an analysis of state needs. They will work with Ebasco Services to "get at the details" behind their recommen-

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Continued on page 46

Baseball . . .

Continued from page 12

owners have agreed that all benefits in force excluding pensions are ample. The owners foot the entire bill for a health care, disability, life insurance dental and widow's benefits program underwritten by the Equitable. The clubs have announced a decision to transfer the health care package to Blue Cross, but the benefits will essentially remain the same. Any player who has served on the league for 60 days is eligible.

A length of service requirement was deleted from the life insurance policy in 1969. Now, all active members (those on a club roster) are covered for \$50,000 regardless of their years of service. Inactive vested members (those who are not active but have served four or five years) are covered for \$25,000. Accidental death pays double.

The owners offer a widow's benefit equal to a player's accrued fixed retirement at age 65 and a dependency benefit of \$50 per month for each eligible dependent. All active, inactive vested

and retired members are covered.

A disability benefit of \$700 per month is written into the plan with \$50 allowable per month for dependents.

THE HEALTH program provides \$25,000 worth of coverage with no deductible. Surgical costs are co-insured with the player paying 20%. Maternity costs are fully covered for the first \$500 and 80% covered to a maximum of \$750.

Players received dental benefits for the first time in 1969. All active members and their dependents are insured for \$1,000 per person per year for dental expenses minus a \$25 deductible. Work involving orthodontic appliances, dentures, bridgework, gold fillings, crowns and inlays are covered for 60% of the costs. Other dental charges are insured for 80%.

An optional severance allowance was made available to inactive vested members for the first time in 1969. A player is eligible after one year but no later than two years from the time he last served as an active player during a championship season. During this interval, he may elect to take a cash payment of any amount

up to a maximum of \$1,000 for each of the first ten years of his service. His retirement and widow's benefits are reduced accordingly. However, he may elect to repay the severance allowance prior to retirement, plus interest, for full reinstatement in the pension program.

Besides accepting the monetary offer by the owners, the Players Assn. made one further concession in negotiations.

Mr. Miller announced that they were willing to accept a one-year benefits contract, which means that the plan would expire almost simultaneously with the Players' basic agreement. The owners want to negotiate these together next year. The Players Assn. had been asking for a four-year agreement. ■

Safety campaign on

Engineering corporates in Britain plan to cut accidents among their employes by 25% through a publicity campaign over the next two years. Denby Bamford, president of the Engineering Employers Federation, advised that in one metal corporate minor casualty rates were as high as 650 per 1,000 workers.

Gibbons . . .

Continued from page 45

dations to the insurance study commission. Mr. Gibbons added that another high priority is a meeting with the Illinois rating and inspection bureau.

Mr. Gibbons will report to John L. Gentile, deputy director of finance. The acting director of the department, John W. McCarter Jr., is also director of the budget, "which, under Gov. Richard B. Ogilvie, is a very important position," according to Mr. Gibbons. The risk manager's job is a "code position," he explained, and there are no political requirements involved.

MR. GIBBONS spoke highly of the work done by the property insurance study commission in creating the risk management division and said that the commission has now been established as a permanent body whose function is "that of recommendation."

The commission presently consists of several state senators, state representatives and public members, including insurance company executives, he said, but membership is not permanent. He told *Business Insurance* that in compiling statistics on existing insurance and values in the state, the commission corresponded with every state that has a self-insurance fund and took reports from every department within the Illinois government that purchases insurance. (The commission also utilized a separately

prepared report on local school systems other than state universities, he added.)

Illinois is the second state to establish a risk management department, according to Warren G. Brockmeier, director-western region of risk management department of Ebasco Services Inc.

West Virginia formed such a department about a year and a half ago, he said, but pointed out that West Virginia's department reports to the director of insurance.

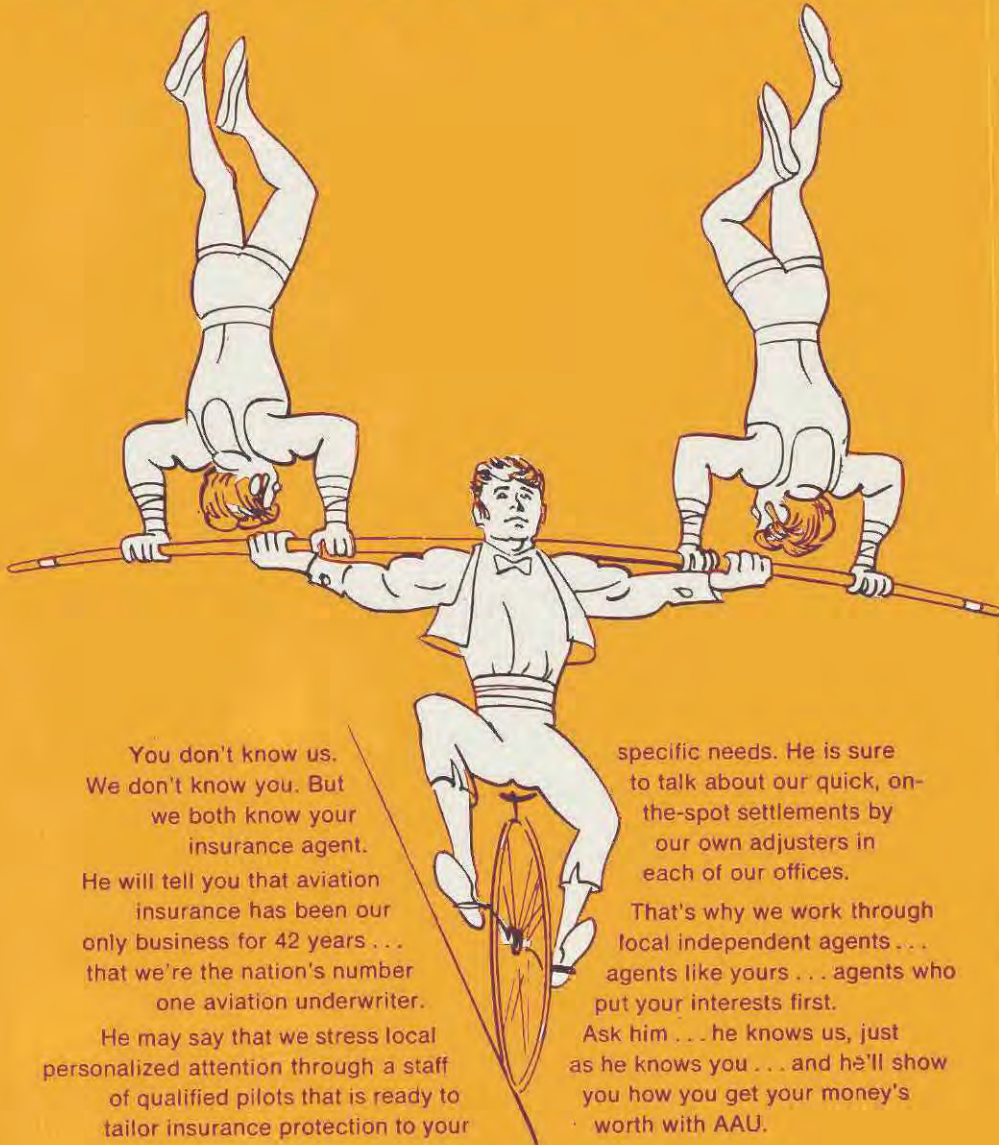
"**ONE DANGER** in this," he said, "is that the risk manager has to deal as a purchaser with the same people the insurance director is regulating, and this seems like a conflict of interest." He said that the organization in Illinois is, in his estimation, more professionally independent.

West Virginia's risk management program has been a success so far, Mr. Brockmeier claimed, with the risk manager having saved the state a considerable amount of money through consolidation of policies.

"I see more and more states going the risk management route," the Ebasco official said. "Most state governments are comparable to large business concerns in what they have to insure. And the financial squeeze on government today is going to lead to risk management."

He said that Ebasco is now doing a risk management study for the state of Nevada and that another consulting firm is conducting a study for Alaska. ■

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Captives . . .

Continued from page 10

• Once the captive has built up some surplus and reserves, additional risks may gradually be transferred to the captive, if this is considered prudent and profitable.

• By paying premiums to a captive, the cash does not leave the group and the reserves and surplus invested by the subsidiary enhance the group's consolidated statements. If the captive can earn a good rate of return on its investments and also save the profit normally taken by the insurance company, there will clearly be financial advantages. Since it is insuring selected and limited lines only, it would tend to be more profitable than a regulated insurance company which is required by state law to participate in unprofitable business.

• There can be tax savings when the captive is insuring otherwise uninsured risks, because it thereby obtains tax deductions in the countries in which it is doing business and invests the premiums.

Although captive insurance companies have been organized in the U.S., state insurance regulations have generally forced captives to seek a less regulated climate.

State insurance departments are generally slow in granting licenses and require a higher amount of initial capital than a captive would normally require in its early years. Permitted investments are very restricted and companies are required to participate in all manner of unprofitable state plans and pools. Captives have therefore over the years established themselves in countries with liberal insurance regulations and low income taxes, including the Bahamas, Panama and Bermuda, which has become the principal place of incorporation for captive insurance and reinsurance companies.

BERMUDA HAS the advantage of being able to offer more of the sophisticated business facilities than most island jurisdictions. It has thriving banking and office facilities, communications and hotels, and grants work permits to foreigners. Bermuda has been an insurance center for many years and has legal and technical expertise available. It is very much concerned to maintain its reputation as a business center for reputable enterprises and screens applicants for local incorporation carefully.

Bermuda imposes no income taxes and no taxes on premiums and no restrictions on an insurance company's investments. Companies can now be incorporated quickly and simply by filing an application for registration with a minimum capital for insurance companies of \$120,000, all of which must be paid in. To preserve the standing of Bermudian insurance companies, proposals have been made to introduce insurance regulations, which will require Bermudian insurance companies to be licensed.

Although the proposed licensing regulations have not yet been published, it would be reasonable to expect that companies wishing to incorporate insurance companies in Bermuda will in the future have to demonstrate to the Bermudian authorities their fitness to conduct such business and that they have adequate capital to conduct such business. To what extent these regulations will apply to purely captive insurers as compared with regular insurers doing business with the

public is not known, but if they apply to all insurance companies, the licensed captives in Bermuda would be able to demonstrate that they are licensed and regulated, which is probably a good thing for the reputable companies and will force others to seek other locations.

It is interesting to observe how the popularity of Bermuda has made the Bermudians take steps to limit the organization of new captives in their country. At the same time, the growth of the captive business has encouraged some of the U.S. states to consider liberalization of their state regulations for the captive company.

COLORADO IS the first state to enact a law providing for the regulation of captive insurance companies to be organized in that state. Under the Colorado act, a "pure" captive is limited to insuring the risks and liabilities of

its parent company and affiliates, and an industry or association captive, the risk of the members. The captive can also enter into certain reinsurance contracts. It is not permitted to provide personal insurance coverage for individuals.

A minimum capital and surplus totalling \$750,000 is required, but this can be provided by an irrevocable letter of credit from a state or national bank.

In order to receive a license, a "pure" captive must show that its business will develop premiums of a minimum of \$500,000 and in the case of an association captive, one million dollars. Both "pure" and association captives must also show that adequate insurance markets in the U.S. are not available for the coverage sought or are than such needed coverage is only available at excessive rates or with unreasonable deductibles.

A premium tax of 1% is imposed, but no other state taxes are payable. The captive will not be compelled to or contribute to any state plan or pool. The captive will be required to make investments in accordance with state insurance laws and may not charge rates which are excessive, inadequate or unfairly discriminatory. The insurance commissioner has ample powers to examine and investigate the financial condition, affairs and management of the captive.

A COLORADO company would be subject to federal income taxes and can be included in the consolidated U.S. tax return of its U.S. parent.

A very important aspect to consider in deciding whether to create a captive is the tax treatment of the captive. One of the problems in this area has been the enthusiasm of the proponents of the captive insurance company,

which has created the impression that the offshore captive gives valuable tax advantages to their parent companies in all situations. The truth of the matter is that the economic needs of the business have directed the interest of most companies to consideration of the feasibility of a captive and the tax advantages have been secondary benefits when they have existed. The enthusiasts have tended to turn a blind eye to the fact that the tax advantages for companies insuring U.S. risks have generally been negligible and even nonexistent since 1962.

The basic tax objective for the wholly owned offshore captive subsidiary is for the parent company and its worldwide operating affiliates to obtain tax deductions for the premiums paid to the captive, for the captive to establish reserves and earn investment income in a low tax country and

Continued on page 53



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EEOC issues strong women's rights ruling

WASHINGTON—In guidelines that take effect this week, the Equal Employment Opportunity Commission (EEOC) has established that benefits from health or insurance plans for sickness or temporary physical disability must be extended to women employees disabled by pregnancy, miscarriage, abortion, childbirth or recovery from any of these.

The guidelines, which significantly broaden the government's interpretation of women's employment rights, also establish that (1) hiring policies that exclude women from jobs because of pregnancy violate the Civil Rights Act of 1964 and that (2) firing employees because of ab-

sences exceeding allowed leave time may be unlawful if the practice has a disproportionate impact on sex. The latter, according to the EEOC guidelines, published in the Federal Register last week, basically means that an employer who gives employees five days leave time a year for illness may be violating the law if he fires a woman who, because of pregnancy, was out of work several weeks.

ACCORDING to one commission official, "This puts employers with unreasonably short leaves on notice that their policies may be illegal."

The new guidelines also pro-

hibit an employer from testing female applicants for work to determine if they are pregnant, unless the employer goes to similar lengths to determine if male applicants have ailments that may force them to leave the job in a few months. They also apply to fringe benefits and specify that medical, hospital, accident and life insurance benefits applied to male employees must also apply to female employees.

The guidelines adopted by the five-member commission are advisory and do not have the force of law. They are intended to give guidance to courts, employers and labor unions as to how the EEOC interprets the law. However, in the past courts have been strongly influenced by them. In addition, as a result of a law passed by Congress last month, the agency has the power to bring suit directly into federal court itself to seek orders to enforce its decisions.

In a related move, the federal agency also revised its existing guidelines relating to women's protective legislation adopted by many states. Previously, the agency had taken the position that state laws limiting the hours a woman could work, the amount of weight she could lift or the jobs she could do were in violation of the Civil Rights Act of 1964 barring employment discrimination because of sex.

The revised guidelines extend to men certain benefits which in the past have been limited by state law to women. These include lower retirement ages and minimum wage laws that have applied only to women. States that do not bring their laws into conformity with the EEOC guidelines will be open to court challenges from the federal agency on the grounds that they are in violation of the 1964 civil rights law.

Equal . . .

Continued from page 3

ly invalidated. If the court determines, in light of the statute's legislative history, that the legislature would have intended the statute to stand without its unconstitutional part, the statute will stand as so modified.

"Laws intended to protect against working conditions considered hazardous to health and safety should deal with the hazards, not the sex of the worker," the congresswoman concluded.

SOCIAL SECURITY also came under fire during committee and floor debate on the ERA. Mrs. Griffiths, in her subcommittee testimony, noted that "when a wife dies, only a husband who supplied less than half of the family's income during the wife's lifetime may draw on his wife's Social Security, but any wife—even the independently wealthy—may claim her husband's benefits.

"The question of whether a surviving spouse should be entitled to claim the deceased spouse's Social Security benefits logically might rest on an evaluation of the surviving spouse's need—but it is irrational for it to rest on the surviving spouse's sex."

As outlined by Sen. Hiram Fong (R.-Ha.) in his individual statement in the Senate judiciary committee report, a number of alternatives do exist for amending federal laws which treat men and women differently, among them, Social Security.

"Depending on cost and other factors, women's eligibility to all benefits under Social Security can be (1) kept at age 62 and men's lowered to that age, or (2) men's present eligibility age of 65 extended to women, or (3) a new age for eligibility applicable to both sexes can be fixed. The third alternative," the Senator commented, "may be the fair and feasible solution."

THE AMENDMENT, if ratified, would have momentous effect on government employees and equality under law. Governmental pension, insurance and retirement plans would be required to extend preference in treatment given to one sex or to survivors of one sex to the other sex, and public schools would be restricted from being unisexual.

Public institutions, particularly universities, would be restrained from requiring higher admission standards for either women or men, and promotional practices in all areas of government employment including school systems and universities) would have to be based on a criterion other than sex.

Section 3 of the joint resolution encompassing the amendment delays the effective date of the amendment for two years after ratification. (The amendment must pass the required number of state legislatures within seven years, although the longest period of time taken to ratify any previous amendment was four years.) According to the Senate judiciary committee report, "The purpose of this section is to give the States and the federal government an opportunity to review and revise their laws, regulations and practices so as to bring them into compliance with the Amendment."

Much debate had raged over the immense flood of litigation which might be fomented by ratification, and, according to spokesmen favoring the amendment, the third section would aid in alleviating much of that potential problem.

STATEMENT OF ASSETS AND LIABILITIES

December 31, 1971 and 1970

ASSETS	1971	1970
Cash in banks and on hand	\$ 5,125,508	\$ 2,938,007
Bonds:		
United States Government	15,462,960	18,307,388
Canadian Government	250,919	1,331,934
State, County and Municipal	130,439,868	106,570,595
Industrial and Miscellaneous	6,145,990	4,690,597
Stocks	82,610,698	62,461,904
Total cash and investments	240,035,943	196,300,425
Premiums in course of collection . . . admitted . . .	3,879,599	3,191,392
Funds held by ceding insureds	22,347,570	24,703,489
Deposits under reinsurance treaties	5,112,353	5,152,103
Interest accrued and other admitted assets	3,102,224	3,604,802
Total admitted assets	\$274,477,689	\$232,952,211
LIABILITIES, CAPITAL AND SURPLUS		
Reserve for claims and claim expense	\$119,508,084	\$104,923,211
Reserve for unearned premiums	77,056,367	69,249,125
Funds held under reinsurance treaties	12,238,713	9,342,469
Reserve for commissions, taxes and other liabilities	4,198,794	2,208,676
Total liabilities	213,001,958	185,723,481
Voluntary special reserves	2,639,535	2,813,563
Capital stock	4,980,000	5,000,000
Gross paid in and contributed surplus	5,830,339	5,830,339
Unassigned surplus	48,025,857	33,584,828
Surplus to policyholders	61,475,731	47,228,730
Total	\$274,477,689	\$232,952,211

Securities deposited as required by law are included above as follows: December 31, 1971, \$7,853,767; December 31, 1970, \$6,767,818. Bonds are valued on an amortized basis and stocks at prices prescribed by the National Association of Insurance Commissioners.

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Portland council fights commissioner's ruling

PORTLAND, Ore.—Portland's city council has authorized the city attorney to contest in court a state insurance commissioner's ruling that the city feels may be unconstitutional.

Insurance Commissioner Cornelius Bateson has refused to certify the city's insurance coverage for firemen and policemen as being equal to or better than that required under state law, it was reported.

The city wants to be excluded from compulsory purchase of state insurance and Mayor Terry D. Schruck has directed the city attorney to seek a judgment and injunctive relief on grounds that there is infringement upon the

city's home rule power.

Portland's fire and police disability and retirement fund, begun in 1949, has paid death benefits in seven cases since that time. Research by Richard Braman, senior deputy city attorney, shows that payments in the seven cases have totaled \$154,043 to date. In one case, death benefits reached \$57,828 before remarriage of the widow closed the book. In another case, the payments are at \$52,800 and continuing.

THE NEW STATE law enacted in 1971 requires a \$10,000 group term insurance coverage for each fireman and policeman for line-of-duty death. The insurance

would be bought through the state department of general services. A city is excluded only if its own public or privately purchased insurance is "equal to or better than" the state insurance.

Commissioner Bateson says Portland's is not and the law gives him the say-so, said the Oregon Journal.

Portland provides a \$3,000 group term life insurance for all employees . . . not just fire and police personnel. However, the fire and police death benefits under the city's disability and retirement fund are worth more than \$10,000, in the opinion of the city attorney's office.

Mayor Schruck said he believes that if the city bought the state insurance—at an estimated \$7,000-\$8,400 a year—"this would be only the opening wedge for the introduction of much proposed legislation stipulating fringe benefits for city employees." ■

IAM reports pension fund increase of 26%

WASHINGTON—The International Assn. of Machinists and Aerospace Workers has reported that the IAM labor-management pension fund showed a 1971 balance of \$65,548,087, a gain of 26% over the 1970 balance of \$51,867,937.

While the number of union members covered by the fund remained the same (85,000), the number of contributing employers rose from 1,734 in 1970 to 1,874 in 1971. The total amount contributed by employers also rose from 1970's \$14,115,346 to last year's \$15,694,013.

In 1971, 4,885 members received pensions. Of those, 3,013 were "normal" pensions—retire-

ment at age 65 with 10 to 25 years of service. One hundred and eighty pensioners were eligible under disability and 10 years' service and 1,692 received early retirement pensions (age 55 to 65). The 4,885 recipients total compares with 3,542 the previous year.

ADMINISTRATIVE costs for the fund dropped from \$482,053 in 1970 to \$476,684 in 1971—a figure representing 3.1% of total fund income.

All groups of IAM employees are eligible for the fund and fund negotiations, provided the employer agrees, through a written labor agreement, to contribute. ■

Liability cloudy in bus crash

CONGERS, New York—Several investigations are underway to determine liability in a collision involving a Penn Central freight train and a Nyack high school bus which killed three students and injured 47 here.

The accident occurred at a private crossing that had no warning lights, gates or bells and was marked only with a railroad sign. Community residents said they had been seeking improved warning devices at the crossing for about two years.

According to New York State law, a bus driver must stop at all rail crossings, open the door and look and listen for trains before proceeding. Penn Central claims that the bus driver failed to stop in accordance with the regulations. A preliminary investigation by Rockland County District Attorney Robert Meehan indicated that the bus driver had failed to stop but did not determine if the failure was due to mechanical difficulties.

The bus driver, Joseph Larkin, told investigators that he had stopped. A committee has been dispatched by the National Transportation Safety Board in Washington to study the matter.

The Nyack School District leases school buses from Rockland Coaches Inc. which is insured by the Continental Insurance Cos., New York. "There are several investigations being made," said a spokesman for Rockland. "The school district shouldn't be involved though. It will be a matter between us and Penn Central." An official at Continental told *Business Insurance* that they were conducting their own investigation. "However, it is too early for us to reach any conclusion," he noted.

Penn Central declined to relate specific insurance information, but one source said the railroad was covered by blanket excess liability insurance spread among 40 companies. ■

\$200,000 tv fire

Destruction by fire of a Eureka, Cal. television station, KQIV, may cost Fireman's Fund American as much as \$200,000 or more. The San Francisco based company insures the contents and equipment of the station under a policy written for the California Northwest Broadcasting Co. Inc. An overheated coffee maker in the station lobby is being blamed as cause of the fire which practically demolished the station.

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A dog's life takes on new meaning

NEWPORT BEACH, Cal.—From the land that brought you Ralph Williams and his used cars, as well as numerous other oddities, comes another zinger, only this one involves a staid, old Eastern institution—the Hartford Insurance Cos.

What the Hartford is doing, in conjunction with a firm called PETS (Pets Emergency Telephone Service Inc.), is offering the cats and dogs of southern California the opportunity to be covered for accident and sickness.

Pet owners who opt for the plan, which includes a first-year \$2 registration fee and annual premiums ranging from \$14.50 to \$30, will have their animals covered for up to \$50 for veterinary expenses for one accident or up to \$200 for two or more accidents during the policy period.

Also available is illness coverage—of \$100 for vet expenses on one illness and \$200 for two or more illnesses. This coverage contains a \$20 deductible.

Excluded under the coverage are pets that are less than two months and more than nine (that's 63 dog-years) years old.

ASIM members destined for London to talk mutual risk management woes

LONDON—Insurance leaders are planning a vigorous welcoming program for American Society of Insurance Management members who will be visiting the U.K. in May to see British insurance at work.

Their hosts will be the Assn. of Insurance Managers in Industry and Commerce, AIMIC, which has convened its annual convention so as to coincide with the visit. The U.S. delegates will attend the AIMIC convention session on May 3 at the Royal Garden Hotel, London, and will participate in a workshop seminar on risk management projects on May 4.

During their stay in the U.K.

they will also make formal visits to Lloyd's, the British Insurance Assn., and the Chartered Insurance Institute, and have a private dinner with British insurance managers under AIMIC sponsorship.

PETER H. LIECHTI, chairman of the welcoming committee, told *Business Insurance*: "We are really pulling out all the stops for this visit and plan to give them an interesting program. We have been in liaison with ASIM since 1967, and strengthen it year by year.

"Interchange of ideas is the aim. Risk management techniques have developed faster in

the U.S. than in Britain, but we are just as much involved as ASIM in improving the quality of our services to industry. We want to improve the performance of



Big Ben and the Assn. of Insurance Managers in Industry and Commerce will chime welcomes to ASIM members attending the AIMIC annual convention in London this May.

—British Tourist Authority photo

the insurance manager in industry so as to make him more professional in his job, and in turn get industrial firms to realize his value to their needs."

Mr. Liechti expects about 70 ASIM delegates and wives to travel to London.

Convention speakers on May 3 will be Dr. Robert Murray, medical adviser to the British Trades Union Congress, on occupational health; Glyn Hughes, director of Vickers Insurance Ltd. on employee benefits; Rex Wyeth, of the British Insurance Law Assn., on legal liabilities; and Alan B. Hunter, of International Insurance Services, U.K., on coping with aviation catastrophes.

Visiting delegates and AIMIC members will split up into study groups on various topics for the workshop seminar on May 4.

Members of the organizing committee are Roy G. White, of Shell Mex and BP., Peter H. Liechti, of the De La Rue Group, Graham D. Hole, of Chloride Electrical, and Dennis J. Farthing, of Massey-Ferguson. Between them their interests embrace oil, banknote printing and security electrical products, and agricultural machinery.

Settlement against GE

OAKLAND—A \$1.6 million out-of-court settlement, believed the largest ever in a single auto accident injury case, has been approved by Alameda County Superior Judge F. M. Van Sicklen.

The award will go to James Bailey, 43, former plant manager for an Oakland paint company, who had sued Terence O'Donnell, 47, San Ramon employe of General Electric Co.

Included as defendants in the suit were GE and Lease Plan Inc., owners of the car Mr. O'Donnell had been driving.

Mr. Bailey's attorney, Bruce Walkup, said Mr. O'Donnell's car struck one driven by Mr. Bailey on Oct. 10, 1969 and Mr. Bailey was permanently disabled.

Mr. Bailey's wife, Sharon, was awarded \$75,000 of the settlement for chest and leg injuries.

The loss would be paid by General Electric's self insurance, in the sense that the insurance company involved is owned by GE. Lloyd's of London carried the excess.

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FINANCIAL STATEMENT, December 31, 1971

Assets

Cash in Banks and Office.....	\$ 4,727,431
Tax Exempt Bonds.....	324,145,733
United States Government and Other Bonds..	43,309,283
Preferred Stocks.....	26,274,263
Subsidiary Company Stocks.....	34,931,865
Other Common Stocks.....	136,119,294
Real Estate.....	2,970,962
Premium Balances in Course of Collection...	55,298,489
Accrued Interest and Dividends.....	6,419,838
Other Admitted Assets.....	25,331,116
Total Admitted Assets.....	\$659,528,274

Liabilities

Reserve for Claims and Claim Expenses.....	\$285,151,781
Reserve for Unearned Premiums.....	136,563,346
Funds Held under Reinsurance Treaties.....	25,042,824
Reserve for Commissions, Taxes and Other Liabilities.....	28,888,307
Total Liabilities.....	\$475,646,258
Capital (shares authorized and outstanding 2,722,500).....	\$ 7,260,000
Surplus.....	176,622,016
Surplus to Policyholders.....	183,882,016
Total.....	\$659,528,274

Bonds are stated at amortized value in accordance with the requirements of regulatory authorities and would be approximately \$361,738,630 at December 31, 1971 if valued at market. Stocks are stated at market value except stocks in unconsolidated subsidiaries which are carried at estimated net worth.

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Doctors propose to add health care to Wisconsin unemployment cover

MADISON, Wis.—The State Medical Society of Wisconsin proposed last month that state-administered health insurance be included with the unemployment compensation program.

The society also proposed establishment of a system whereby bad risks who cannot obtain health insurance be covered at regular rates and that insurers be compensated for unusual expenses.

The proposals were sent to Gov. Patrick Lucey and all members of the state legislature.

THE SOCIETY, which operates Wisconsin Physicians Service-Blue Shield, said its studies showed that 50,000 to 65,000 Wisconsin residents faced the problem of being uninsured in 1970. Many health insurance policies are fringe benefits connected with a person's job, and when the job is lost, so is the insurance, the society said.

The society proposed that anyone who gets \$50 a week in unemployment compensation also receive health insurance.

Benefits would be those provided under Medicaid Group II, essentially 45 days of hospitalization for a single illness. Some care outside a hospital would be covered.

Such a plan, according to the society, would have cost \$11.2 million in 1970. It could have been raised by increasing the unemployment compensation tax by .32% of covered wages, the society added. Only the first \$3,600 of

an employe's earnings are subject to the tax. The amount collected would equal .14% of all workers' earnings in the state, the society said.

"THE QUESTION of whether these monies should be taxed solely to the employe, solely to the employer, or shared in some fashion, is beyond the scope of this report," the message said.

The report estimated 7,500 to 15,000 uninsurable persons in the state and that the cost of their care would be \$1,340,000 in the first year, \$4 million in the second year and \$6,750,000 a year after the program became firmly established.

The society recommended a risk pool between insurance companies and the Blue Shield plan under which standard premiums would be charged to those who apply.

According to the plan, coverage would be four-fifths of medical expenses over \$500 in any year up to a maximum of \$10,000.

"A PROPOSAL such as this one—if put into practice in Wisconsin—could serve as a model for the entire nation," the message said.

The recommendation also was sent to the governor's task force on health care.



Reproductions of this H. M. Bateman drawing, "Lloyd's broker furtively entering small company's office to finish his risk," are available to anyone in any branch of insurance anywhere in the U.S. by writing to: Stewart, Smith & Co. Inc., 116 John St., New York 10038. This newly printed drawing illustrates Mr. Bateman's concept of the tiny companies in the neighborhood of the Lloyd's building in London and the mixed feelings brokers have about trading with them.

If insurance is a personal service business, doesn't it make sense to insure through the most logical source of personal service—an independent broker? Assurex offices are independents, but united independents. United through Assurex, to provide you with multicity and multinational facilities. And professional excellence everywhere!



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New plan favored for retirement

PHOENIX.—Maricopa County employes recently voted 87% in favor of a new basic retirement plan already being used by some state employes and school teachers.

A total of 2,888 persons employed by the county on May 15, 1971, were eligible to vote. Tabulations approved by the board of supervisors showed that 2,520 voted for the new plan and 144 against, with 224 official ballots not returned and therefore counted as 'no' votes.

Those accorded 'no' votes will be allowed to remain in the old retirement system. A second election will give those employed by the county since May 15, 1971, a choice. In the future, all new employes will be required to use the new program, it was reported.

The retirement plan, to go into effect July 1, 1972, is said to be superior as it applies to career employes. One advantage cited is that the best five years of employment in terms of wages are used as a basis for determining retirement pay.

Under the system, the total amount contributed by the employe is the major component in determining retirement pay.

Plans profit reports

Nevada State Insurance Commissioner Rottman has announced plans to require insurance companies to submit "some sort of form" report on profitability, "whether it be in annual reports or some other form."

Record . . .

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—down from 1970's 93.4%.

At the same time, the report noted that the number of incurred losses increased 2%. The boiler and pressure vessel category was responsible for the hike, but there was a slight drop in machinery loss.

Statistically, Hartford Steam Boiler had previously reported new highs in net income, rising to \$8.9 million (or \$4.99 per share), as compared with \$5.45 million (or \$3.03 per share) in 1970. Written premiums jumped 21.2%, to \$55.5 million. In addition, there was an underwriting gain of \$8.6 million, up from \$3.06 million in 1970.

\$479,000 award

NEW YORK—An auto accident,

and an automotive recall that came too late, have cost General Motors \$479,000 in damages awarded to a woman whose husband died as the result of a crash caused by a faulty steering mechanism in his 1965 Pontiac.

A year after the accident, General Motors recalled almost 500,000 Pontiacs manufactured between Sept. 8, 1964, and Oct. 13, 1965, so the mechanism could be repaired. It was at that time one of the largest auto recalls in history.

The award came after a week-long trial in which the woman had sought \$600,000. Her attorney had argued that GM was negligent because a \$13 idler arm, which had a guarantee of lifetime lubrication, lost lubrication in certain Pontiacs of that model and year. He asserted that the car had only 11,000 miles on it but was unfit for driving.

It was not immediately known if GM would appeal the case but

it was pointed out that another suit involving the Pontiac steering mechanism is pending.

Ask interim halt of retirement plan

ALBANY, N.Y.—Complaining about the skyrocketing cost of the state's retirement system, seven Republican state senators here have introduced legislation to halt the program until a better one is devised.

Dalwin Niles, one of the co-sponsors, said the state, police and firemen retirement systems cost the state and local governments \$486.5 million in 1971, up 44% from 1970.

The combined membership of the three systems is 500,000 persons, according to the senators, who said there are about 200,000 New York state teachers and other related personnel covered in a separate state system.

New York City's employees are

covered in another state retirement system.

Says car cover should be sold on group basis

SAN FRANCISCO—Present methods of selling automobile insurance are inefficient, according to Thomas J. Ryan, president of Fred. S. James & Co. Inc., Chicago, and should be replaced by the group approach.

Mr. Ryan spoke at a meeting sponsored by Fred. S. James.

"Selling automobile insurance coverage, as well as home owner policies, to individuals is very inefficient," Mr. Ryan told investment brokers, "and the technique eventually will be replaced by methods such as our own James Life Funds Inc., through payroll deductions."

Mr. Ryan's company recently acquired John F. Sullivan Co. of Seattle, and John C. Paige Co. and now plans to move into the

international market through partnerships, to insure foreign properties of U.S. clients and to offer benefit programs to employees of clients on foreign soil.

Auto reform measure defeated in Maryland

ANNAPOLIS, Md.—The Maryland senate rejected a state-administration-backed no-fault measure late last month, and the bill's poor showing indicates that it may be dead for this session of the legislature.

Earlier last month the senate had defeated a measure which would have deleted the limited no-fault provision in the bill. However, the bill voted on March 28 did contain a provision which would have barred lawsuits in auto accident cases when the victim's medical bills were less than \$750.

Gov. Marvin Mandel's measure received its major opposition from the insurance industry writing business in the state because of a proposal in the bill which would have established a state-owned and operated insurance company to insure high-risk drivers who were rejected by private insurers.

Insurers lose suicide suit

CHICAGO—A U.S. district court jury has ruled that four insurance companies must pay \$1 million to the beneficiaries of Robert Usher, a Chicago businessman killed by a Norfolk & Western passenger train in 1967 while driving his car across railroad tracks.

Included in the award was a \$100,000 double indemnity life insurance policy, underwritten by Republic National Life Insurance Co., which funded a buy-sell provision. Mr. Usher was one of the owners of the Ideal Heating Co. here.

The insurance companies had withheld payment on the grounds that Mr. Usher died by suicide, pointing out that he had taken out the policies only one month before his death and clear warnings were operating when he drove his car onto the tracks. Mr. Usher had allegedly been in an auto accident six months before the fatal accident, resulting in blurred vision, and was involved in a minor auto mishap just weeks before he was killed.



Charles A. Koehne is the new safety and loss prevention coordinator for the Wyandotte Works, Wyandotte, Mich. He was previously involved in process engineering and the electrolytics technical group. Mr. Koehne reports to Ralph L. Hawk, works manager.

(No. 1 of a Series)

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Captives . . .

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to defer payment of U.S. taxes until the income is repatriated to the U.S.

The situations in which this desirable result is possible are limited and the captive and its parent must be prepared to operate to meet these requirements:

(1) Bona fide insurance operations

If the premiums paid to the captive, including an industry captive, are to be deductible by the related U.S. policyholder, the captive must operate as a bona fide insurance company. This means that the captive must be adequately capitalized in accordance with the commercial criteria normally adopted by an insurance company and might require a capital beyond the legal Bermudian minimum \$120,000. In addition, the captive should have available lines of credit from banks or other institutions in the event of exceptional losses, particularly in the early years, and should obtain reinsurance as appropriate.

The insurance contracts must provide for a shifting of significant risk of loss to the captive and a distribution of risks by the captive through the premium mechanism and through reinsurance.

In its dealings with related companies, the captive must charge premiums on an arm's length basis and may even be required by the IRS to reduce commercially computed premiums by a so-called commission or forwarding fee to the parent.

In two court cases involving banks which were channeling reinsurance premiums on customers' credit life policies to their (U.S.) captive, the IRS sought to allocate a sales commission of about 40% to the banks. The Supreme Court ruled in favor of the taxpayer, First Security Bank of Utah, in a recent decision, on the grounds that the banks were prohibited by law from receiving such commissions. However, this decision will probably not deter the IRS from seeking similar allocations in audits of captives and their parents, and this possibility should be considered when fixing rates to related companies.

The captive should maintain an office and adequate personnel

or management services to support its contention that it is an active operating company.

(2) Operating outside the U.S.

If the captive itself is to maintain a nontaxable posture in the U.S., it must not conduct activities in the U.S. and must maintain its operations outside the U.S. This means, in the first place, that the policies must be negotiated and signed outside the U.S. since this is a central part of the captive's insurance activities. It also means that the administrative and clerical activities should be conducted outside the U.S. and not, for example, by the parent company's insurance department in the U.S. Even in the situation where a Bermudian management company is rendering services to the captive, the captive should take care that its contractual arrangements with the management company do not result in the captive conducting a

business in the U.S. through an agent.

To summarize then, if the captive is an adequately capitalized Bermudian company, conducting a bona fide insurance business outside the U.S. which deals with its affiliates on arm's length terms, the premiums will ordinarily be deductible to the U.S. parent company.

(3) U.S. risks

However, if it is also desired that all the underwriting income and investment income of the captive be free of U.S. tax until remitted to the U.S., it is necessary, in the case of a captive, which is a controlled subsidiary, for the captive not to earn premiums for the insurance of U.S. risks beyond 5% of its total premiums. This restriction to U.S. risks only applies to controlled foreign companies and does not apply to industry or association captives. A controlled company,

or controlled foreign corporation, means any foreign corporation in which more than 50% of the voting power is controlled by U.S. shareholders, counting only those who own at least 10% of the voting power.

In the case of a company whose premiums for U.S. risks are more than 75% of total premiums, control exists if more than 25% of the shares are owned by U.S. shareholders. The industry captives avoid being controlled foreign corporations, generally by not allowing single U.S. participations which amounts to 10% or more or by other variations of the control rules. However, apart from the industry captives, or captives which are subsidiaries of foreign based corporations, most captives are controlled foreign corporations, including insurance subsidiaries which insure or reinsure outside risks as a business venture, and must then consider the

consequences of insuring U.S. risks beyond the 5% maximum.

All underwriting and investment income applicable to the U.S. risks premiums are taxed to the U.S. shareholder as if distributed as a dividend under Subpart F of the Internal Revenue Code, introduced in 1962.

There is also a federal excise tax on U.S. risk premiums paid to a foreign insurer. The tax is 4% on casualty premiums, 1% on reinsurance, health and accident.

Nevertheless, the insurance of U.S. risks through an offshore captive might have some tax advantages. In the first place, there could be some tax savings by virtue of the fact that the captive, being an insurance company, can set up tax deductible insurance reserves, which the parent company cannot do. Thus the parent deducts the full premium, but is only taxed on the net income of the captive, after

Continued on page 54

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Captives . . .

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deducting losses, expenses and reserves. This tax treatment could be obtained by a Colorado captive as well as a Bermudian captive, since U.S. tax is payable on the captive's income. The federal excise tax on premiums would be saved, but on the other hand the 1% Colorado premium tax would be due.

If the parent company is in business abroad, it may be in a position of using foreign taxes as credits against the income from the captive.

(4) Foreign risks

In the case of foreign risks, the U.S. tax treatment of the captive is more favorable. Both the underwriting income and, subject to some limits, the investment income can be accumulated out-

side the United States without U.S. tax. The tax deduction for the premium would be claimed in the country where the affiliate is doing business, which might be a U.S. corporation, but would normally be a foreign corporation. A captive insuring foreign risks can invest its reserves so as to minimize foreign withholding taxes.

There is, finally, a possibility of repatriating some of the captive's earnings at capital gains rates, if the captive is owned for at least 10 years and is a so-called less developed country corporation, such as company conducting most of its business in Bermuda, which is a less developed country for federal income tax purposes.

The problems to be considered in the case of foreign risks would include foreign premium taxes, such as Canada's 10% excise tax, and local restrictions on placing insurance with foreign insurers,

which often necessitates the use of fronting companies.

(5) Industry captives

The U.S. tax rules for industry or association captives are somewhat different, because the industry captive is not "controlled" by a U.S. parent company, if it has a sufficient number of members. If the industry captive is not a controlled foreign corporation, there will be no U.S. tax on its underwriting and investment income on the insurance of U.S. risks until the income is repatriated to the U.S.

However, in some circumstances the participants in an industry captive may be subject to interest equalization tax of 11.25% on their capital contributions, if any.

If the industry captive does not generally buy reinsurance it must establish through the premium mechanism that there is true contract of insurance, namely a shifting and distribution of

risks to the captive.

Naturally, the Internal Revenue Service is interested in satisfying itself that the tax treatment allowed to insurance companies be accorded only to those captives which are operating as true insurance companies. Accordingly, the IRS will pay particular attention to the question of whether there is true insurance—a genuine shifting of risks to a third party. If the IRS finds that the captive is not a true insurance company, the possible consequences would be:

- A disallowance of the premium deduction to the U.S. parent.

- Treatment of premiums paid by foreign affiliates as constructive dividends to the parent.

- Loss of some of the foreign tax credit with respect to foreign affiliates.

- Treatment of the captive as a sham and attribution of its income to the parent.

- Treatment of the capital and premiums as subject to interest equalization tax.

Other approaches include the imputation of a fee to the parent and disallowing premiums if

not computed on arm's length rates.

Finally, if the captive is held to U.S., its income would be subject to U.S. tax at ordinary corporate rates.

However, the law and regulations remain unchanged and if business needs dictate that a wholly-owned captive or industry captive be considered, then management should study the feasibility of a captive, taking into consideration the likelihood of challenge by the IRS in the areas mentioned. If management is prepared to organize and operate a viable, adequately capitalized company engaged in the business of true insurance, it should be possible to obtain the tax treatment outlined above. ■

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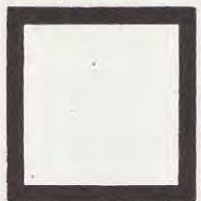
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