

New container insurance group may face regulatory opposition

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business insurance

for buyers of employe, property and liability protection

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Section of downtown Richmond, Indiana, after explosion and fires caused more than \$2,000,000 damage. The cause of the disaster, which affected 11 businesses, is under investigation. Wide World photo

Hoosier blast affects cover of 11

RICHMOND, Ind.—Insurance coverage for at least 11 firms may be involved in an explosion and fires that killed 39 persons, injured 125 and caused \$2,000,000 of damage to the downtown area of this city on Indiana's eastern border.

Gunpowder, possibly several thousand pounds, stored in the basement of the Marting Arms sporting goods store may have caused the disaster. Two persons,

including the owner of the sporting goods firm, are still missing and presumed dead.

William Scholl, General Adjustment Bureau executive manager for the Indiana area, said that almost every line the GAB has is split between several companies. For instance, as many as 20 or 30 insurance companies may have been involved with each business that suffered a loss in Richmond. As of April 15, the GAB had 145 inspections to make here, and Mr. Scholl estimated that these may represent as many as 85% of the claims.

MR. SCHOLL stated that the insured loss, discounting bodily injury claims, that the GAB is handling would be \$2,000,000.

Richmond fire chief, Donavon Johnson, referred to the GAB \$2,000,000 damage estimate as "conservative."

There are no state and city regulations on the amount of gunpowder which may be stored in any place. A city zoning ordinance, however, does limit the storage of gunpowder or any explosive to an area zoned "heavy industrial" with grant of a conditional use permit.

The ordinance states that no storage area in a heavy industrial zone may be used without "a report by the city health officer or the state board of health and the state fire marshal

that the uses applied for will not be injurious to the public health or safety."

The downtown area in which the disaster occurred is zoned "general business."

Dr. King family has coverage

NEW YORK—The family of the late Dr. Martin Luther King, Jr. will be provided for by a group insurance plan provided by the American Baptist Convention.

The insurance package includes life, health and accident, accidental death and pension benefits, *Business Insurance* learned.

A spokesman for the Baptist convention said, "Mrs. King will not be in want. A check for the full death benefit was delivered to her on the day of the funeral."

Dr. King was survived by his wife and two sons, 10 and 7 years old, and two daughters, 12 and 15 years old.

The Baptist convention also has an endowment fund which can be used to supplement income in the event of any need, the spokesman said. The hospital expense coverage and major medical will be continued for Mrs. King and her children, free of charge, the spokesman said. ■

Carriers eye riot load in more states, early federal backup o.k.

CHICAGO—Riots and looting in at least 90 communities across the U.S. in the wake of the murder of Dr. Martin Luther King Jr. provide an increased stimulus for insurance companies to press for riot loadings on fire and extended coverage policies and will increase chances for passage of a federal riot pool bill.

It will also mean increased pressure for insurance managers whose extended coverage policies are up for renewal. Carriers may try to eliminate the riot risk from standard property contracts, particularly if major property holdings are in "riot prone" areas, one insurance manager told *Business Insurance*.

Risk managers will then be faced with a decision to exclude the riot risk or pay at least the 2% or 4% riot loading that rating bureaus are asking in most states.

Riot loadings have already been approved in 12 states—New York, Ohio, Indiana, Nebraska, Minnesota, California, Idaho, Montana, Nevada, Utah, Alaska and South Dakota. It is expected that Michigan, Illinois and Wisconsin insurance departments may take action on the riot loading proposal in the near future. The 2% hike would be for counties of less than 250,000 population and the 4% hike for those with more than 250,000 population.

SEVERAL INSURANCE managers interviewed by *Business Insurance* said that while they do not like to see any increase in premiums, the projected riot loading is not exorbitant. One manager in a state that had not yet approved the riot loading said his carrier had left the riot risk out of his contract renewal and only his vehement protests put it back in, at no increase in premium.

Preliminary estimates of damage from the riots were set at \$30,000,000 but continued trouble in some cities and a more detailed study of the damage has boosted estimates up to \$45,000,000, not including the Kansas City disturbances. Forty-three deaths have been attributed to the riots.

Riot damage estimates are based on amounts insurance companies are expected to pay.

Insurance companies, through their lobby groups in Washington, plan renewed efforts to get a federal reinsurance pool for

riots. The bill had been bogged down in committee because of a disagreement among insurance groups over language regarding the relationship of the proposed federal reinsurance corporation and state regulatory bodies.

The American Insurance Assn., whose members write 80% of the fire and extended coverage business, were willing to accept the original version.

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Riot surcharge filing denied in Missouri

JEFFERSON CITY, Mo.—The Missouri insurance department has denied a request for a civil disorder surcharge for fire, extended coverage, burglary and glass insurance policies.

Missouri joined Maryland in denying the riot loading request from 350 insurance companies doing business in that state. At least 12 states have approved the riot loading and several other states are considering the filing.

Missouri insurance superintendent Robert Scharz said the riot loading requests were based on excerpts taken out of context from the President's National Advisory Panel on Insurance

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Deny auto rate hike in Pa., cite investment

HARRISBURG, Pa.—Pennsylvania has turned down a requested \$11,172,000 increase in automobile insurance premiums on the grounds that the increase was excessive and that the investment income made by insurance companies on unearned premiums is a "relevant factor" and must be considered in rate-making.

State insurance commissioner David O. Maxwell, in a decision similar to one in New Jersey, pointed out that "it is not necessary to argue who has the ownership of these reserves" or whether they are used for the benefit of policyholders.

The insurance companies have the use of the premium money before it has been earned by them, Mr. Maxwell argued.

Safety section in Business Insurance

In its upcoming May 6 issue, *Business Insurance* will publish a special section containing articles on safety subjects of interest to risk managers, employe benefits managers and plant safety directors. Safety articles will relate loss prevention to insurance cost reduction. New ideas in plant safety promotion, including the use of computers to allocate costs and charge on-job accidents, will be reviewed. The safety section will also carry case histories of loss prevention success stories. Risk managers will want to read, clip and use the article in the *Business Insurance* safety section in the next issue.



Corbally Dorn Cook Kelly Maitland

Some of the principals at the 12th annual Insurance Hall of Fame induction ceremonies in Columbus, O., were John E. Corbally Jr., vp-provost of Ohio State University, who made the presentations; Lowell M. Dorn, senior vp of New York Life, who accepted the membership for the late Arthur Hunter; William C. Cook, president of Republic-Franklin Insurance Group, president of the Griffith Foundation for Insurance Education; Ambrose B. Kelly, general counsel for Factory Mutual Insurance System, who accepted for the late Zachariah Allen; and the Hon. Alastair G. Maitland of the British Consulate, who accepted the Hall of Fame honor for the late Sir Joseph Arnold of England.

State unit studies phony grouping in wake of Hamilton Life seizure

By WILLIAM GUEST

NEW YORK—The state insurance department is cracking down on ineligible group insurance coverages as the result of irregularities which led the department to seize operations of Hamilton Life Insurance Co.

"Although it's impossible for each company to submit every case for us to review, we have an examining process by which we catch up and eventually see all coverage written," *Business Insurance* was told by William J. November, supervising actuary of the state's insurance department.

Every three years, Mr. November explained, examiners from the state's insurance department go into each of the licensed life insurance companies writing business in New York and give them an "extensive examination."

IT WAS THE RESULT of such an examination for the three year period ending Dec. 31, 1965, which led to the eventual downfall of Hamilton.

The report, which was completed in May, 1967, stated that a review of the group files indicated "substantial deviations from the manual, as well as violations of the insurance law."

Also noted were ambiguities in policies, groups which didn't meet the 75% participation requirements, "apparent wilful" incorrect computations of first year group life premiums, deviations from filed accident and health premium rates, small groups with principals covered for inordinately large amounts, and "suggestions" to prospective insureds on how to circumvent the New York insurance laws.

AMONG EXAMPLES cited was one in which Hamilton issued group policies to the trustees of the Horsemen's Mutual Welfare Fund providing coverage for life insurance and hospi-

tal expense. A review of the files by the examiner indicated that less than 40% participation was achieved, instead of the required 75%.

The report noted that an advertisement for open enrollment indicated that the combined plan was open to "everyone and anyone connected in any way whatsoever with horse racing who was under 70 years of age. Included specifically as eligible in the solicitation material were breeders, owners, trainers, management employees, pari-mutuel employees, track employees, etc."

PARTICIPATING employees in another multiple employer group policy were given the option of selecting one or more of several benefit schedules, according to the report.

"One employer with two employees was covered for \$110,000. The two employees each received \$3,500 coverage. Another employer was covered for \$85,000 and \$3,500 on his sole employee." The sole employee in this case was the man's wife.

IN A NUMBER OF cases it was found that less than the minimum rates required by insurance law was charged. "In several instances the undercharge was deliberate and the violation of the law wilful," the examiner stated.

In one instance, two officers in an employer-employee group were shown on the company's reinsurance census form as being 69 and 70 years of age. In the premium calculation made by Hamilton the ages were shown as 65 and 67. "The dates of birth on the enrollment cards appear to have been altered," the report stated.

THREE CLAIMS WERE declined by Hamilton because the insureds' death occurred more than 31 days after their dates of last employment. A review of

these claims indicated that no conversion notices had been given to the insureds, "thereby extending their coverages to 90 days as provided by the insurance law."

In this case, "as the three insureds died in less than 90 days after terminating employment," the company was directed to pay the claims.

Examinations present no problem in the case of a well-run company, Mr. November explained, "since it will worry about whether coverages conform with the insurance laws."

WHEN HAMILTON WAS licensed in 1960, the charter provided for an authorized capital of \$400,000. This requirement was recently raised to \$3,000,000.

Another safeguard for buyers of group insurance is New York's Life Insurance Guaranty Corp., which consists of established life insurance carriers. When a case such as Hamilton occurs, the Guaranty Corp. steps in and guarantees in full the payment of life insurance policies and any other obligations.

The state is attempting to rehabilitate the seized insurance company, but if this fails, Hamilton is expected to be liquidated. The insurance department estimates that liabilities exceeded assets by about \$800,000 at the beginning of March.

N.Y. passes retirement bill

ALBANY, N.Y.—The New York Assembly has passed a last-minute bill allowing legislators and legislative employees to retire at half pay after 20 years of government service.

The new benefit will affect all present and former senators, assemblymen and employees, who have at least five years service with the legislative or executive branches.

Members were unable to agree on a state budget but reached a decision on the pension issue without any debate.

Store sues 3 insurers over interruption claim

HARTFORD—Three insurance companies are being sued for total damages of \$130,000 in Connecticut superior court by Watson Brothers Inc., a Bridgeport department store, in connection with a dispute over business losses allegedly sustained by the plaintiff following a fire.

The defendants are Central Mutual Insurance Co., the Indiana Lumbermen's Mutual Insurance Co. and the Northwestern Mutual Insurance Co.

WATSON ALLEGES that on May 14, 1966, Northwestern Mutual insured the plaintiff corporation for a period of one year against actual loss caused directly by interruption of business due to damage or destruction in an amount not exceeding \$75,000.

On the same date, the complainant continued, Central Mutual and Indiana Lumbermen's Mutual provided insurance for amounts not exceeding \$30,000 and \$25,000, respectively, for similar losses for a similar time span.

Watson's place of business was destroyed by fire March 17-18, 1967, the department store alleges, causing an interruption of its business for approximately

ten-and-a-half months, and a loss in excess of \$100,000.

The writ contends that the defendant companies have not paid the loss despite plaintiff's compliance with all policy terms.

Watson seeks \$75,000 from Northwestern Mutual; \$30,000 from Central Mutual and \$25,000 from Indiana Lumbermen's Mutual.

New York probes surety restrictions

NEW YORK—The New York state insurance department is investigating charges that two construction contractors, bidding for work on a new state office building in Harlem, were unable to buy performance bonds because of excessive fees demanded by insurance bonding companies.

The insurance department, which issues licenses to bonding companies and brokers, confirmed the investigation but would not disclose details.

The probe stemmed from a law that requires companies working on state projects to post performance bonds before contracts will be awarded. The two contractors involved were said to be small companies with limited financial assets.

The demolition work on the new building was intended to be distributed to small firms in Harlem to stimulate employment and the growth of business in that area.

AGC strike insurance plan delayed

WASHINGTON—A strike insurance plan for the Associated General Contractors of America, originally slated for a March vote, is still up in the air pending agreement over what type of program will suit its members.

A legal expert for AGC said a survey of chapters is being conducted to see if a self-insurance plan or insurance company coverage can provide adequate protection at competitive prices.

Insurance companies will be called in for advice and quotations, although little immediate action is planned, he said.

The original plan outlined by the AGC last November was a self insurance program which would calculate premiums and benefits at about one-tenth of 1% of each contractor's value of contracts held at the beginning of each six-month period.

At that time AGC told *Business Insurance* it was unlikely that an insurance company would be used to administer the plan, but the group now seems to be giving more serious consideration to going the insurer route.

Another meeting is planned in Chicago this June when a spokesman said members will learn the results of the latest survey.

Because of the difficulties in finding a plan to satisfy most of the membership, the legal expert said AGC is "not likely" to have an operating strike insurance plan before the end of this year.

Tierney elected vp

C. W. Tierney has been elected exec vp of Toplis and Harding, Inc., Chicago. A. T. Persson was re-elected chairman of the board and chief executive officer and N. J. Tierney was re-elected vice-chairman of the board. T. E. Crowley, director and exec vp, retired after 44 years.

Marine rate boosts seen

NEW YORK—Reacting to staggering marine losses in 1967, both London and U.S. insurers made known to shipowners and forwarders that higher rates are in the offing.

In the U.S. the American Hull Insurance Syndicate, a major hull underwriter, reported that last year's profits were wiped out by a payment of \$8,250,000 for the \$17,000,000 Torrey Canyon disaster.

At the meeting last month Clifford G. Cornwell, chairman of the syndicate, said rate hikes were far behind the increase in losses suffered by U.S. insurers.

He said there is a need for insurers to have a premium reserve adequate to cover major losses in the year they occur.

Across the Atlantic in London, the Liverpool Underwriters Assn. reported that 163 ships were lost at sea in 1967.

A spokesman for the association maintained that inadequate rates and an increase in repair costs accounted for underwriting losses among most major marine insurers.

A marine source here contended that the major cause of most catastrophes was human error. He cited the Torrey Canyon disaster as a case of "pure negligence" on the part of the vessel's skipper.

Many run-of-the-mill losses are the result of over-age vessels, according to the source. However, he said, the major problems are with vessels of high unit losses such as the Torrey Canyon, which eat up an insurance company's reserves.

Here's how to bar insurance buying frauds

NEW YORK—Advice on how companies can avoid insurance fraud schemes was offered by public accountants, surety underwriters and investigators in the wake of the Crane insurance fraud case. (See column 3 below.)

Most experts generally agree that employee theft and embezzlement is a "growing problem," which now costs industry more than \$500,000,000 a year. They warned that top management is continuing to ignore the handwriting on the wall.

Employee dishonesty, according to Norman Jaspán, head of his own management consulting firm, usually starts at the top and generates to the bottom. He warned that employee dishonesty and indifference will have a

greater influence on profits than inflation will have this year.

DALE SIMPSON, president of Dale Simpson & Associates Inc., a Dallas-Houston investigative firm, added that security is "today's great untapped source of improved corporate profits."

There are many control techniques which companies can employ to minimize fraudulent acts by employees, but no system can be better than the people who run it, the Surety Assn. of America warned.

Members of Price Waterhouse & Co. agreed that internal control procedures should be designed to discover any irregularities in the beginning. The internal audit department, accord-

ing to Robert Field, a partner, can use basically the same procedure that "we as outside auditors use in examining financial statements going over the books but they are in a position to investigate procedures in greater depth."

AT PRICE WATERHOUSE it has become standard procedure to write letters to insurance companies verifying policies, premiums due, refunds and status.

Actually, the client writes the letter to the insurance company and the insurer replies to the auditor. Mr. Field warned that writing letters doesn't necessarily guarantee that a dummy in-

surance company will be discovered.

"You could send a letter to a post office box and get a reply from the dummy company," he added.

Two associates, Joe Roth, partner, and Jack L. McDonough, manager, advised that Best's Insurance Guide is a reliable source for checking out a bona fide insurance carrier. They added checking a company should be done if the name of a carrier isn't readily recognized.

GEORGE F. McDermott, formerly an assistant treasurer at Crane with insurance duties, allegedly paid premiums to a "paper" company domiciled in Antigua, British West Indies,

with headquarters in Lausanne, Switzerland and branches in Munich, Paris, London, Montreal, Madrid and New York. Mr. McDermott represented to management that the "paper" insurance company, the Global Risk Underwriters Ltd., was part of the Royal Globe group, an indictment charged.

The Price Waterhouse executives agreed that companies should have internal auditing departments which confirm policies, authenticity of the parties with whom the company is doing business, and the prices paid for coverage.

"Every company needs an internal system of checks and bal-

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Ocean going ferryboat Wahine lies beached on her side near Wellington, New Zealand. The vessel was insured in London. Wide World photo

New Zealand ferry had London coverage

WELLINGTON, New Zealand—London insurers will absorb all hull and liability losses resulting from the capsizing of the ocean-going ferry Wahine, according to U.S. insurance sources.

A raging sea, which turned the vessel on its side at the entrance to Wellington harbor, forced most of the 700 passengers to abandon ship. At least 52 drowned in the pounding sea buffeted by 125-mile-an-hour winds.

One insurance source estimated hull damages will reach at least \$3,000,000. Personal liability claims could far exceed the hull damage, he said, but the exact amount will not be known until suits are filed.

The vessel was covered by one of London's mutual property and indemnity clubs which normally write unlimited liability, according to the source.

THE WAHINE, owned by the Union Steamship Co. here, hit a

rocky shoal that ripped a hole in the vessel's hull as it approached the entrance to the harbor. The exact cause of the disaster was not known, although one insurance underwriter indicated the weather conditions made it obvious that navigating in that area under such perilous conditions was extremely dangerous.

He pointed out that the storm blew itself out and the sea calmed shortly after the vessel capsized—a factor that saved the lives of many passengers floundering in the open sea.

Whether the vessel's skipper should have waited for the weather conditions to change will have to be decided in court, the underwriter said.

A broker said the vessel was built in 1966 and was probably equipped with the latest navigation gear.

The 8,944-ton ship was nearing the end of an 11-hour run up the east coast of New Zealand's South Island from Christchurch to Wellington.

Police probe group cover

CLEVELAND—The administration of a dormant insurance surplus fund is the target of a police department probe here.

Chief Michael J. Blackwell has ordered an audit of police insurance funds handled by Lt. Howard A. Blackwell (not related). The inquiry was touched off when the chief asked Lt. Blackwell to account for surplus insurance funds that should have been distributed to policyholders when a former group life insurance plan was discontinued two and a half years ago.

Lt. Blackwell said he had never been ordered to distribute the funds.

Members of the department have also criticized Lt. Blackwell for receiving \$200 a month from premiums as pay for handling the insurance program, the chief said.

As the investigation is being conducted, the police themselves are beginning to question whether they have adequate insurance coverage. Under the present program, a younger man pays a lower premium.

Puzzled over Crane's premiums

NEW YORK—Reaction to an alleged \$870,000 insurance fraud by a former assistant treasurer of Crane Co. has been wonder at the apparently high price the company was willing to pay.

Other insurance managers surveyed by *Business Insurance* asked if a good system of checks and balances could be devised for companies to prevent similar occurrences.

According to an indictment, Crane apparently purchased its excess coverages through a "paper" insurance company set up in Antigua, British West Indies. The coverages were arranged by George F. McDermott, former assistant treasurer of Crane Co.

One insurance man—whose firm had once been asked to bid on Crane Co.'s excess coverage—said that "you could buy the moon" for the price Crane paid for its excess policies through the "paper" company, Global Risk Underwriters.

An insurance manager for a company about the same size as Crane said Crane's foreign excess liability insurance, for which it paid \$238,000 for a one-year policy, would have been "thrown in free" by its U.S. liability carrier.

ON THE OTHER hand, he said Crane's three-year multi-peril

policy, which cost \$379,000 for three years, was a "damn good thing for a large company."

Another insurance manager, whose company carries a multi-peril excess policy through Lloyds of London, admitted that the \$379,000 which Crane paid was, "on the surface, high." But the buyer said he wouldn't go on a "verbal fishing expedition" until he knew not only the perils involved but also the type of risks and concentration of values and whether the policy covered business interruption as well as direct damage.

"From the meager facts available," the buyer said, referring to the total \$870,000 excess premiums, "I'd say the premiums were kited. But I'm not surprised by this. What surprises me is that it hasn't happened before."

One insurance manager said his colleagues are "interested in a good system of checks and balances to get the bad apples before they worm their way in. I'd like to see us police this sort of thing ourselves. Insurance managers have the responsibility to take the one extra step to see that it doesn't happen again."

THE CASE of the accused perpetrator of the alleged fraud, Mr. McDermott, comes up for pleading before Supreme Court

Justice Mitchell D. Schweitzer April 22. Named as co-conspirator, but not indicted, was John Caldiero, a U.S.-born whisky distiller living in Antigua. Mr. Caldiero is said to be a witness for the state.

ALSO INVOLVED in the scheme, according to the indictment, but not indicted, was Miss Susan Seidner, whom Mr. McDermott had Global Risk Underwriters employ to "take messages" at her apartment in New York and "run errands" at a salary of \$135 a week plus rent.

Miss Seidner previously had been employed by Crane as a secretary in the advertising department, *Business Insurance* learned.

Her apartment at 315 E. 65th St. was listed as the New York mailing address of Global Risk Underwriters.

IN NOVEMBER, 1966, Miss Seidner opened an account at the Bank of Nova Scotia in New York in the name of Global Risk Underwriters, according to the indictment. At the same time she submitted papers to the bank designating herself as secretary of Global Risk with authority to draw checks on the account.

Eight months later, in June of

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N. Y. gets nation's 1st riot cover law

ALBANY, N.Y.—The nation's first law making fire and riot insurance available to slum property owners has been signed by Gov. Nelson Rockefeller.

A joint underwriting association will provide insurance in high risk areas when coverage is not available through normal channels. Every company that provides fire insurance in the state will be required to join the pool and share its costs, profits and losses.

The law goes into effect Sept. 1.

Adnams new manager

Arthur Adnams has been named vice president and manager of the Los Angeles office of Montgomery and Collins, an American insurance brokerage firm representing Lloyds of London. Mr. Adnams was born in London and spent 14 years as a broker for Lloyds before coming to Los Angeles in 1958.

Noise 'goes on trial' before U.S. health officials' June hearings

WASHINGTON—Are work-connected noises directly responsible for peptic ulcers and other health problems? What are their effects on mental health? Are they directly related to hearing loss in later years?

These questions, which have wide-ranging implications for corporate risk managers, are among the many noise-related issues which will be considered when "noise—a by-product of progress" goes on trial this summer in Washington.

Forum for the trial is the first annual Conference on Noise as a Public Health Hazard called by the U.S. Public Health Service's bureau of disease prevention and environment control. Date is set for June 13-14.

According to Dr. George E. Urban Jr., program otolaryngologist with the National Center for Chronic Disease Control and co-project officer for the conference, "Most people are not aware that noise is a health hazard. The organic and psychological effects on noise have not been clearly defined in many

areas. This is why we're calling this conference.

"People who live in relatively noise-free areas have less hearing loss in their later years than people who live in noise," Urban said.

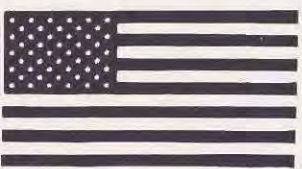
Lutz named Ward buyer

CHICAGO—Jerome J. Lutz, 39, has been named insurance manager for Montgomery Ward & Co.

He replaces H. P. Knapp who joined Continental Motors, Muskegon, Mich. in February as assistant director for insurance and pensions.

Mr. Lutz had been in the corporate tax department in the sales tax division. He will be responsible for protection of the company's assets, buying insurance and administration of the Ward self-insurance program.

He has been with Ward for ten years and prior to that with a certified public accounting firm here.



washington watch

Dr. King murder, riots may spur federal pool; other bills doubtful

WASHINGTON—The impact that the murder of Dr. Martin Luther King and the subsequent riots will have on the legislative scene is anyone's guess at this point.

Regardless of what develops, there is little question that the events following Dr. King's death will spur action on the administration's riot insurance proposal.

More subtle, but no less real, is the possible effect the riots may

have on other, unrelated bills because of their effect on the already-strained budget. Besides creating the possibility of direct government spending in blighted areas, the riots will have a significant depressing effect on tax revenues.

The list of bills which have already been dropped or set aside because of the money situation is almost endless. Among these is the proposed revamping of the unemployment insurance system

promised by the President in his January budget message.

SOME WASHINGTON analysts claim the President's announcement that he will not run again will have little if any effect on the legislative front because the tight money situation has made his legislative wishes meaningless for the time being anyway. Administration forces are hoping that Dr. King's death will open Congress's eyes to the

pressing social needs of this country and shake loose a tax boost to raise funds for long-needed action programs to help fill these needs.

IN ADDITION, they would like to see some of these funds spill over to finance at least a few of the large number of election year legislative programs which have been bogged down.

Regardless of the boost the riot insurance bill received from the nationwide display of need for such a plan in some form or another, the administration bill could well get caught up in Congress's unusual concern over money. The administration flood insurance bill, once thought to be a virtual shoo-in has been brought to a standstill in conference committee by a bi-partisan faction led by House appropriations committee chairman, Rep. George Mahon (D., Tex.). Rep.

Mahon objects to what he calls the "back-door spending" approach for funding the flood bill approved by the Senate. The Senate-passed bill would allow the Secretary of Housing and Urban Development to borrow from the treasury \$500,000,000 in standby funds needed before the insurance company pool provided for in the legislation can start writing coverage.

THE HOUSE authorized the \$500,000,000 but specified that it should be appropriated by Congress.

The riot proposal, although different in concept than the flood insurance bill, also provides for direct borrowing from the Treasury by HUD. Proponents of the bill fear that because of this it too may run into the same objection by the Mahon-led faction.

Much discussion over the bill's changes has centered on industry's objections to the relatively large amount of federal control granted by it. Backers, however, are confident the increased business which would be provided by the bill will tempt the insurers to support it and ignore their fears of "creeping federalism" in favor of the revenues.

ONE BILL which is almost assured passage regardless of cost is the administration proposal authorizing a \$2,000,000 Department of Transportation study of automobile insurance and its existing compensation system. Even industry has voiced support for the measure. Apparently it feels the bill is the lesser of a number of possible evils and will hopefully provide a cooling off period after a long hot spell.

However, Sen. Philip Hart (D., Mich.) plans to go ahead with his own probe into auto insurance with an eye on the desirability of continued state regulation of insurance.

The Senate antitrust subcommittee head has asked some 55 auto insurers, including the 35 largest, all state commissioners and the three rating organizations to respond to extensive and exhaustive questionnaires dealing with virtually every facet of the industry. Hearings are expected to begin some time in May.

Tight money is not the only problem faced by administration legislation. Seeing that its election-year labor bills were running into tight-money problems, the White House hastily drafted the inexpensive Occupational Health and Safety bill. The proposal would establish federal safety standards for all industries affecting interstate commerce and give the Secretary of Labor sweeping powers to enforce them. His power would even extend to being able to close a plant if in his opinion conditions there could cause "imminent harm" to employees.

IN ADDITION to a massive lobbying effort against giving the Labor department such powers, the bill is running into unforeseen problems apparently resulting from its hasty birth. The entire bill is said to have been drawn up in less than a week.

Of paramount importance is the possible effect the bill, as proposed by the Administration, could have on the nation's workmen's compensation system. By creating a federal obligation requiring employers to maintain a safe shop, it could give an employee, injured on the job, a federal cause of action against his employer. This could undermine the workmen's compensation

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Directors and Officers frequently ask:

"Is my personal fortune subject to a stockholders' suit?"



Yes, the possibility exists. Stockholders today are alert to their legal rights and many seek redress for allegations of an endless variety—exceeding corporate authority, misstatements to stockholders, even poor judgment. Careless investments, making an improper loan, failure to pursue rightful claims of the corporation, incurring of tax penalties and neglect in attending directors' meetings have also been highlighted in numerous court records. Adequate insurance in the form of Directors' and Officers' Liability is a needed safeguard.

In recent years there has been an acceleration of the stockholder derivative type suit with a higher and higher standard of care required

of those professional managers of business who have been selected by the shareholders—the corporate directors and officers. There is an increasing likelihood of damage suit litigation which can be both harmful and costly. The danger is ever present. Yet, not every company needs this protection. Size is not the only criterion.

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But ordinary problems can cause a little excitement on their own.

Poor lighting could make it difficult to see slippery steps. And slippery steps cause loud noises. Truly, the hum-drum problems deserve attention too.

Companies like the American Saint Gobain Corporation in Kingsport, Tennessee appreciate this attitude. So they ask for our advice. And they use it.

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Coordinated benefit plans help cut overpayments, AMA sessions told

(The April 8 issue of Business Insurance carried a story on an American Management Assn. seminar on trends in employee benefits. The following article deals with a related AMA session on cost control).

by ROBIN MENZ

NEW YORK—Employers need to utilize cost control methods so their employees "won't make a profit off hospital and medical

insurance benefits," American Management Assn. speakers warned here.

At a seminar on controlling medical costs and claims, speakers described such methods as coordination of benefits, minimum premium plans, claims audit control, hospital utilization committees, company medical departments, communication of benefits and admissions approvals.

Coordination of benefits ap-

plies when both husband and wife work for separate employers. Under this concept, according to Ernest S. Kachline, consultant, Towers, Perrin, Forster & Crosby, New York, benefits from two or more medical plans are coordinated so that it is possible for the individual to receive 100% of his total expenses but "not make a profit."

One speaker pointed out that such a plan is only as good as long as the employee helps the

carrier. Problems mount when the employee incorrectly files a claim application; he may fail to mention that his wife works or that he holds another position.

The same speaker said that his company has been able to reduce claims 3% to 5% through coordination of benefits.

Fred D. Duerr, group claims consultant, Marsh & McLennan, referred to a study on the reliability of information on claims conducted by a large insurer. He explained that a test sample of 11,700 cases was selected from 3-500,000 claims and that 3,500—or 31%—showed employees had supplied false information about other family employment and contributing insurance.

"About \$100,000 in overpayments was recovered," he said.

MR. DUERR URGED that carriers be rejected unless an "employee's statement of claim form" is fully completed and signed. This statement should include information about employment of other family members and additional insurance available.

Coordination of benefits works, according to Mr. Kachline, on a primary-secondary carrier principle. The primary carrier pays its normal benefit and the secondary carrier pays the remainder of the expenses up to the dollar limits of its own plan provisions.

The secondary carrier then determines how much would have been paid in the absence of dual coverage and puts the difference aside for any other medical expenses that may come up during the year.

He acknowledged that a coordination of benefits plan can be hard to administer, but that results so far indicate a 3% to 8% savings in claims dollars.

Mr. Duerr added that a covered item in one plan becomes an allowable expense in the other, even though that plan normally cover that item.

TWO ADVANTAGES he cited were elimination of waste and improvement of business relationships with doctors and other providers of care. He emphasized that employees will have less incentive for unnecessary utilization when they can't make a profit.

A device specifically designed for cost savings is the minimum premium plan under which the employer must insure the bulk of his claims—up to the "trigger or excess loss point"—and then purchases a thin layer of insurance beyond that point, Mr. Kachline said. Most of the savings arise from "a very much reduced premium tax but there may be other savings. The annual savings are typically about \$20,000 per year for each \$1,000,000 of annual premium."

Prior to 1966, Mr. Kachline said, it was believed that in order to avoid premium taxing the employer had to process his own claims; however, this interpretation has been reversed by the state insurance commissioners, and the employer can now use the carrier to process and supervise the payment of claims and still avoid the tax.

At present there are about 25 minimum premium plans in effect, at such companies as Alcoa, American Can, Caterpillar, Continental Can, Firestone, General Electric, Monsanto and Westinghouse. The 25 have been underwritten by Metropolitan, Prudential, Equitable, John Hancock, Provident Life & Accident and Aetna.

"CLAIMS CONTROL is not limited to approval mechanisms; it must be extended through the claims audit procedures to the point where the final claim is paid," said Leonard Davis, assistant managing director, provider relations, Blue Cross-Blue Shield of Delaware.

In addition to describing the claims audit procedure, Mr. Davis outlined methods such as admission approval, certification of admission, recertification of stay, approval by individual diagnosis and utilization review as other

Continued on page 28

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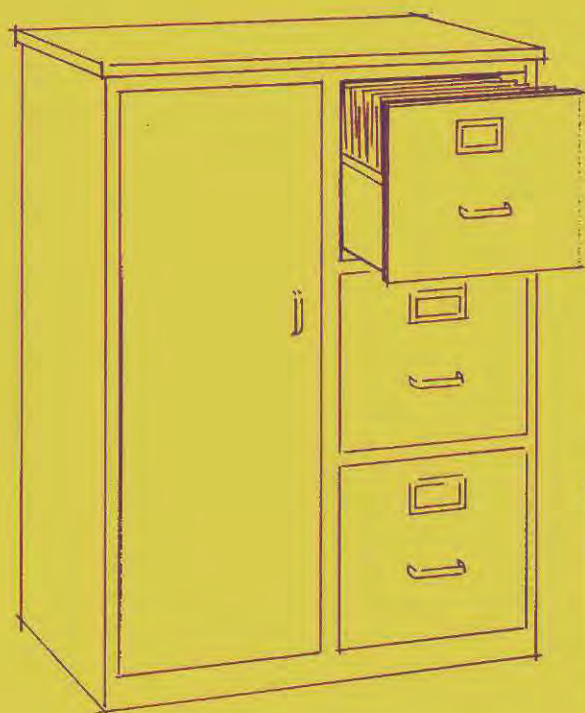
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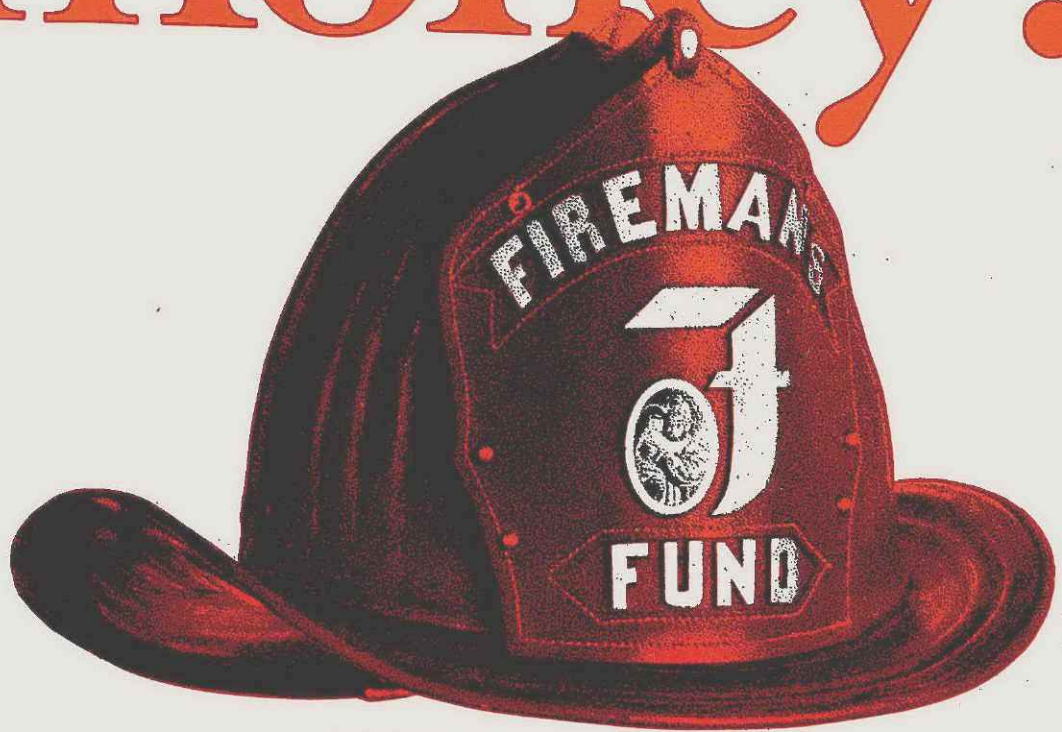
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As before, readers of *Business Insurance* are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush St., Chicago 60611.

• **"Three Giant Steps to Management Control of Injury Costs"** details successful procedures for highly accurate estimation of total injury costs and apportionment. The booklet is free by writing Miss Mary Biwer, Adv. Dept., Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401.

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• **"Analysis of Workmen's Compensation Laws, 1968 Edition"** is a completely updated version of the U. S. Chamber of Commerce's biennial bestseller. It is a 47-page compilation presenting in an easy-to-understand form the details of the workmen's compensation laws of all 50 states, the District of Columbia and the Canadian provinces. Single copies may be purchased for \$1 by writing: Chamber of Commerce of the United States, 1615 H. St., N.W., Washington, D.C. 20006. Ten or more copies are 80¢ each.

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• The **"AFIA Guide Pacific"** is a comprehensive treatment of the insurance markets in Australia, Guam, Hong Kong, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore and Thailand. The guide lists insurance requirements and summaries of fire marine and casualty classes and is free by writing Advertising Manager, American Foreign Insurance Assn., 110 William St. New York, N.Y. 10038.

• **"1967 Study of Employee Savings Plans"** is a 132-page comprehensive survey of employee savings plans which qualify for tax advantages. The book includes savings plans adopted by large corporations in the U.S., and also plans of several medium-sized and small companies. It is free by writing Mr. Charles E. Selinske, Ass't. Vice President, Bankers Trust Co., P.O. Box 1250, Church St. Station, New York, N.Y. 10008.

• **"Guidebook to a Modern Personnel Program"** discusses many of the problems and solutions for organizing the department, communications, employee services grievances and insured employee benefit programs. The 60-page guidebook, released by the Mutual Life Insurance Co. of New York, may be obtained free by writing Mr. Fred H. Rothschild and Associates, 100 W. Monroe St., Chicago, Ill. 60603.

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• **"1967 Annual Report,"** by Michigan Blue Cross, presents unique material on control of health-care costs in the face of the fact that this area of spending is rising at about twice the rate of the cost-of-living. Suggested areas for cost control are listed and the role of the public in a health care system is examined. For a free copy write Mr. Robert M. Hanson, Dir., Public Relations & Adv., Michigan Blue Cross/Blue Shield, 441 E. Jefferson Ave., Detroit, Mich. 48226.

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• **"Current Pension Developments of Interest to Financial Officers"** highlights accounting opinions on investment results and assumptions, general benefit levels, rate of past service amortization, the place of employee contributions in a plan's financing and Social Security changes. A free copy is available by writing Production & Coordination Dept., Johnson & Higgins, 63 Wall St., New York, N.Y. 10005.

• **"Do You Really Understand Coinsurance?"** defines clearly the frequently misunderstood coinsurance clause applied to fire insurance policies. The seven-page booklet is free by writing Mr. Andrew J. Stika, Jr., Public Relations Dir., American Appraisal, 525 E. Michigan St., Milwaukee, Wis. 53201.

• **"The Public Official and His Surety Bond,"** an 18-page booklet, presents a comprehensive view of the personal liabilities and responsibilities inherent in public office and the protective measures which should be taken by the bonded official in safeguarding his own interests. A complimentary copy may be obtained by writing Mr. Jack Derchin, The Surety Assn. of America, 110 William St., New York, N.Y. 10038.

• **"Corporate Insurance Programs,"** released by Cronyn, Pocock and Robinson Ltd., reviews the services of a major Canadian insurance agency serving corporate clients. The vulnerability of the modern corporation in a technical age is examined. The brochure may be obtained free by writing Mr. W. J. Kent, Exec. Ass't. to the President, Cronyn, Pocock and Robinson Ltd., P. O. Box 400, London, Ontario, Canada.

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• **"Recent Improvements in Your Social Security"** and **"Recent Improvements in Medicare"** explain the increase in cash benefits as a result of the 1967 Social Security Amendments. Single copies are available for 5 cents and 10 cents respectively from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402. If ordered in quantity for use as employee handouts the price is \$3.50 and \$7 per hundred.

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Utah eyes insurance regulations; considers new industry taxes

SALT LAKE CITY—An insurance subcommittee of the Utah Legislative Council has recommended a three-pronged extension of state regulation of insurance operations, including the taxation of Blue Cross and Blue Shield.

Purpose would provide greater protection to the public and more revenue for state operation, according to Sen. E. LaMar Buckner, subcommittee chairman, who is also an insurance agent.

Blue Cross and Blue Shield are nonprofit service organizations providing hospitalization and medical care.

A BILL, PREPARED by Jack G. Edwards, deputy insurance

commissioner, would extend state supervision over the two service organizations. An amendment to the bill, if enacted by the legislature, would impose the usual state 2.25% tax on premiums collected by the groups.

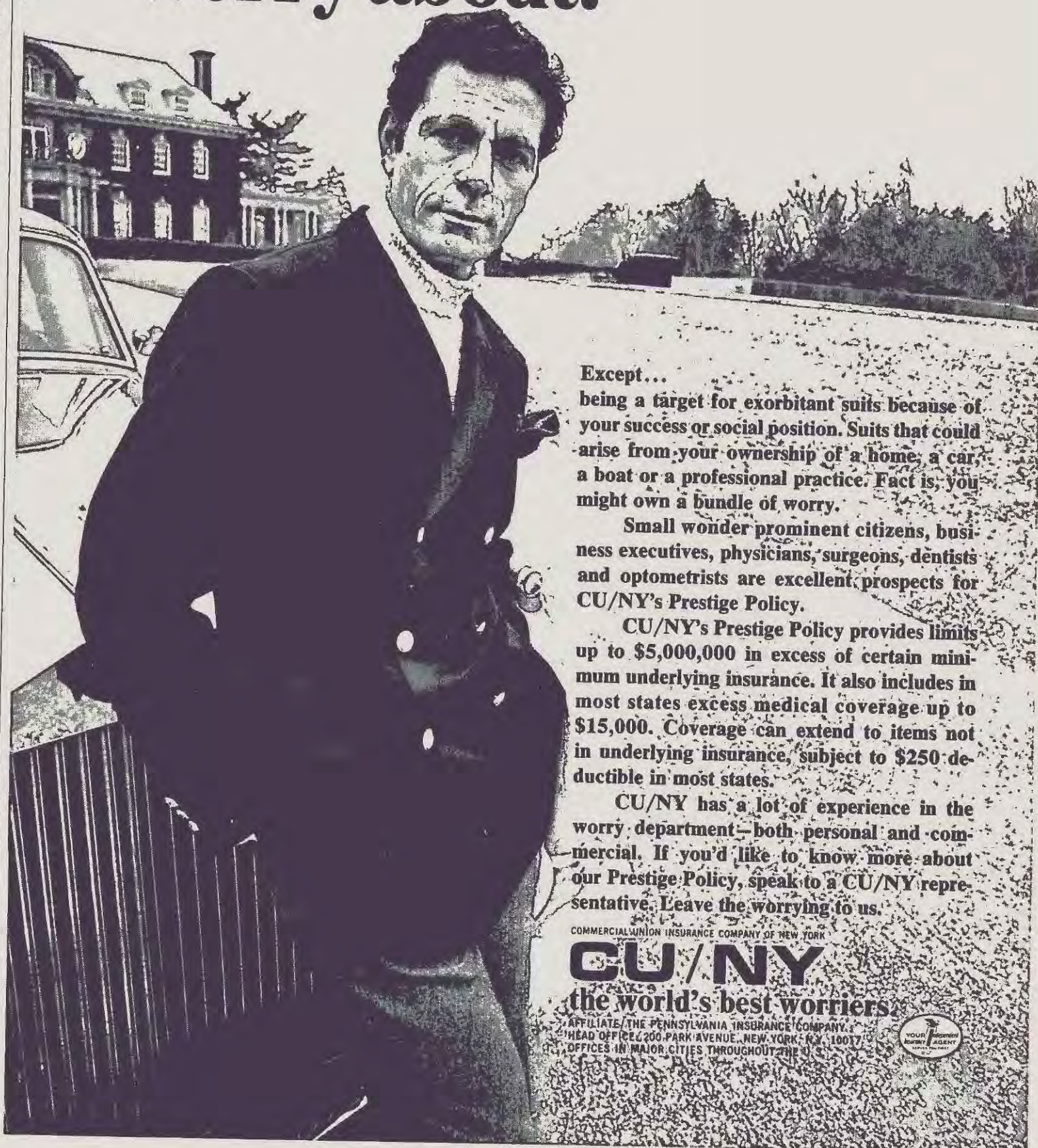
Sen. Buckner said the two organizations cooperated in preparing the bill. Similar action has been taken by other states, he said.

A second prong of regulation extension concerns writing of insurance by banks and lending agencies in connection with mortgages and sales contracts.

MR. EDWARDS SAID California has enacted a law divorcing insurance operations from lending institutions.

The subcommittee decided to meet with insurance spokesmen.

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Insurers test new ways to hold health cost line

(In the March 26 issue Business Insurance examined what hospitals are doing to cut health care costs. In this issue, Business Insurance takes a look at what insurers are doing in this area. Future issues will deal with the problem from the viewpoint of employers, unions and government).

NEW YORK—Insurers are taking a hard look at whether traditional methods of providing health care can do the job of holding the line on costs.

Because of basic insurance concepts—providing protection against unforeseen illness or accident after it occurs—carriers have not given much emphasis to preventive and diagnostic tech-

niques, some critics argue.

It's this area, however, that many experts give the greatest chance of success in putting the lid on medical costs. If the medical profession can spot trouble before it starts, or when an illness is in its early stages, patients can save on the \$50 to \$75 a day it costs to stay in a hospital, proponents of various out-of-hospital schemes contend.

THROUGH THE group practice approach, for instance, in which a number of doctors practice together in a clinic, it's hoped that the profession can achieve closer integration and organization of services, conserve the time of physicians and patients and better utilize new

technology and new types of personnel.

"In short," according to Morton D. Miller, vp and chief actuary of Equitable Life Assurance Society of the U.S., "it might be anticipated that productivity can be increased and better care for the patient result—not only for diagnosis and treatment of acute and serious diseases—but for health maintenance, early diagnosis and prevention of disease."

Life insurers are also experimenting with such cost-cutting methods as preadmission testing, incentive reimbursements to hospitals, and coverages for extended care facilities.

Daniel W. Pettengill, vp of the group division of Aetna Life & Casualty, Hartford, said that

carriers should test coverages for extended care facilities, home health agencies and community mental health centers.

MR. PETTENGILL also suggested that health insurers participate more fully in experiments with preadmission testing "whereby an individual believed to need hospital care has his x-ray and laboratory work done in the outpatient department rather than as an inpatient of the hospital."

If tests indicate the patient needs actual confinement on an inpatient basis, at least he's saved several days of room and board costs, the Aetna executive explained.

Mr. Pettengill told *Business Insurance* that with one or two exceptions, insurers offer only extended care benefits on a "if demanded" basis. He said he was "taking his own medicine," and this summer Aetna would start offering extended care benefits as a standard option to its major medical policies or as a standard basic option.

HE ADDED THAT Aetna sold only about two dozen group dental plans between 1955 and 1966, but it wasn't until the insurer came out with brochures and a

formal rate structure ("something to give our salesmen to really push") that the program gained in momentum.

Three things are needed, Mr. Pettengill said, before extended care benefits will be widely adopted. "If a doctor won't transfer his patients out of the hospital, they won't do any good; if the patient won't go they won't do any good; and if there's no insurance they won't do any good."

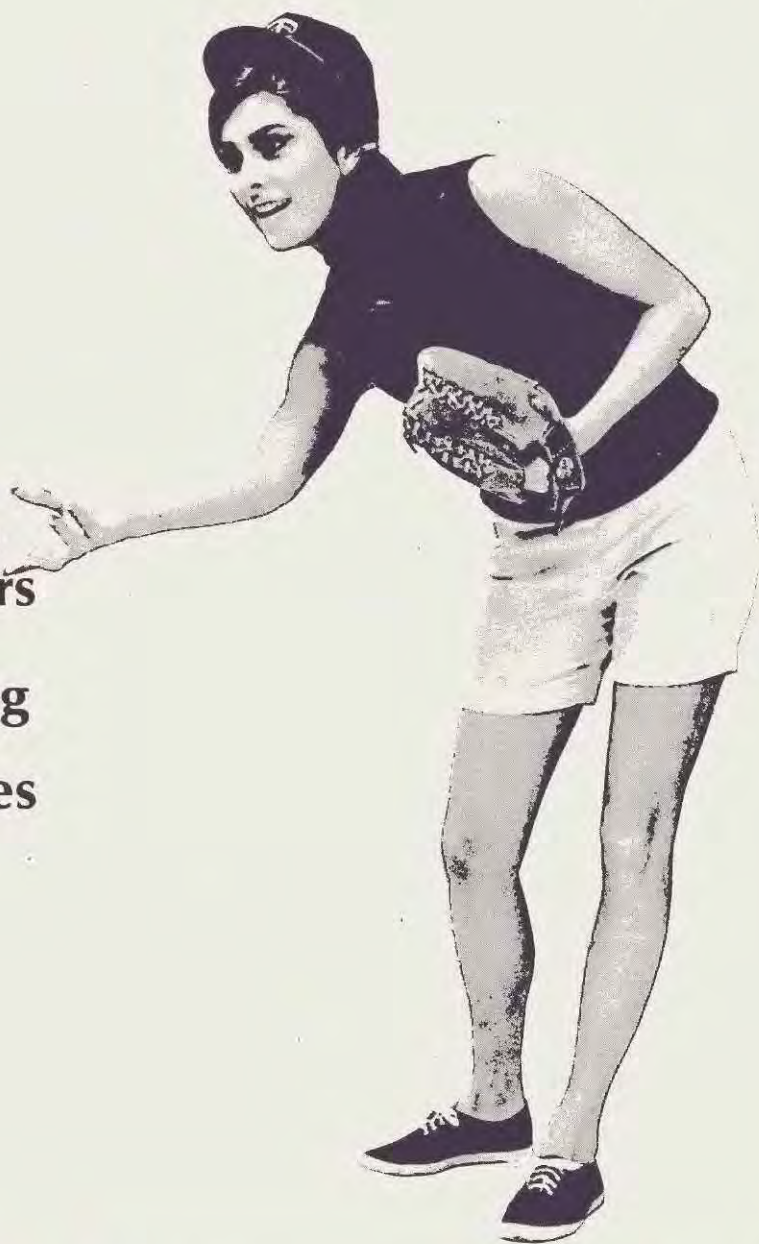
What is required, he contended, is more education of doctors and hospitals to let them know what insurers are providing. Mr. Pettengill said that Aetna has been offering diagnostic x-ray coverage since 1947 and that "well over" two-thirds of its group policies include diagnostic benefits.

BUT MOST DOCTORS don't know that insurers offer such coverage, Mr. Pettengill asserted, because they're "too Blue Shield oriented."

At least one Blue Cross chapter is trying out a bonus arrangement whereby it will pay hospitals extra cash for keeping their costs below average. Under the proposal, undertaken by Blue Cross of Northeast Ohio,

Continued on page 17

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Bill would take insurance job from Arizona industrial commission

PHOENIX, Ariz.—A three-man Arizona industrial commission—under fire since it raised workmen's compensation rates 50% about a year ago to make up a multi-million dollar deficit—would gain two members and lose its insurance functions under bill now before the state legislature.

A special session to consider overhauling the commission has been called for later this month.

It was stated that the commission could save \$8,000,000 a year by a 20% cut in the state's industrial accident rate. A provision for a safety division within the commission is expected to become a part of the bill.

As sent to the House after clearing the Senate 28 to 2, the measure would place insurance functions under a special administrator through creation of a private company with full authority over the state compensation fund, supervised by the state insurance director.

Broader powers are provided for investment of compensation fund surplus and reserve money, with insurance rate-making authority going from the commission to board of directors appointed by the governor. A five-year limit on the time allowed to reopen injury claims also is provided.

AT PRESENT, the state pays \$44,836 for operation of the commission's labor department and \$36,000 for the salaries of the three commissioners. The remaining costs of the commission and its 500-man staff are financed through insurance premiums. Without this source of revenue, the commission costs would have to be picked up by the state and could run as high as \$750,000 annually.

Arkansas to ask 10 to study auto insurance

LITTLE ROCK, Ark.—Gov. Winthrop Rockefeller will appoint a ten-man committee to study alternatives to the present automobile insurance system, Allan W. Horne, state insurance commissioner, has announced.

Commissioner Horne has said he thought the present system was outmoded. "It depends on whether a person is at fault whether he can recover anything," Mr. Horne said. "A person injured in an accident is entitled to some relief, even if at fault."

One of those already asked to serve on the committee is J. Bill Becker, president of the state AFL-CIO. Mr. Becker has criticized the insurance department for a hearing on proposed auto insurance rate increases.

Mr. Becker said that the public had been misled about the amount of increase. George Shadoan, a Washington attorney, represented the state insurance department last year, in turning down an auto rate increase. He will now represent the union.

In the rate increase denial last year, Mr. Shadoan primarily questioned the carrier's accounting methods and the extent to which the carriers include income from investment in their ratemaking.

Under the proposed legislation, commissioners' salaries would be increased from \$12,000 to \$15,000 to equal the pay of superior court judges, and their number would be increased from three to five.

The state labor department would not be affected, nor would workmen's benefits.

State Rep. Richard Dailey, (R., Tucson), one of the primary sponsors, says the bill, in effect, limits jurisdiction of the commission "only to those areas where it properly belongs and it will not allow the commission to further become an autonomous department such as now exists."

GOV. JACK Williams has termed reorganization of the industrial commission "possibly the most important issue facing the legislature this session."

As the state legislature went into its second week of payless overtime last week, Republican house leaders were planning to ask the governor to call a special session to take final action, possibly in late April or early May. Several lawmakers were predicting that some kind of compromise deal will be worked out meanwhile in a conference committee of house and senate members.

The proposed legislation is based on recommendations of a

nine-man investigating committee of legislators, appointed by Gov. Williams last July, as well as on reports by Arthur Stedry Hansen, consulting actuaries, and the auditing firm of Peat, Marwick, Mitchel & Co.

Headed by State Finance Director Ted Hawkins, the committee reported wasteful practices, discord and a need for drastic administrative and legislative reforms.

The auditors found that 90% of the commission outlays came from handling accidents and disease claims having industrial origins. Mr. Hawkins told the commissioners that 20% improvement in the state's industrial accident rate could reduce compensation costs as much as \$8,000,000 a year.

HE REPORTED that the compensation fund's deficit at the end of the fiscal 1966-67 was \$9,900,000, about \$3,000,000 in the oc-

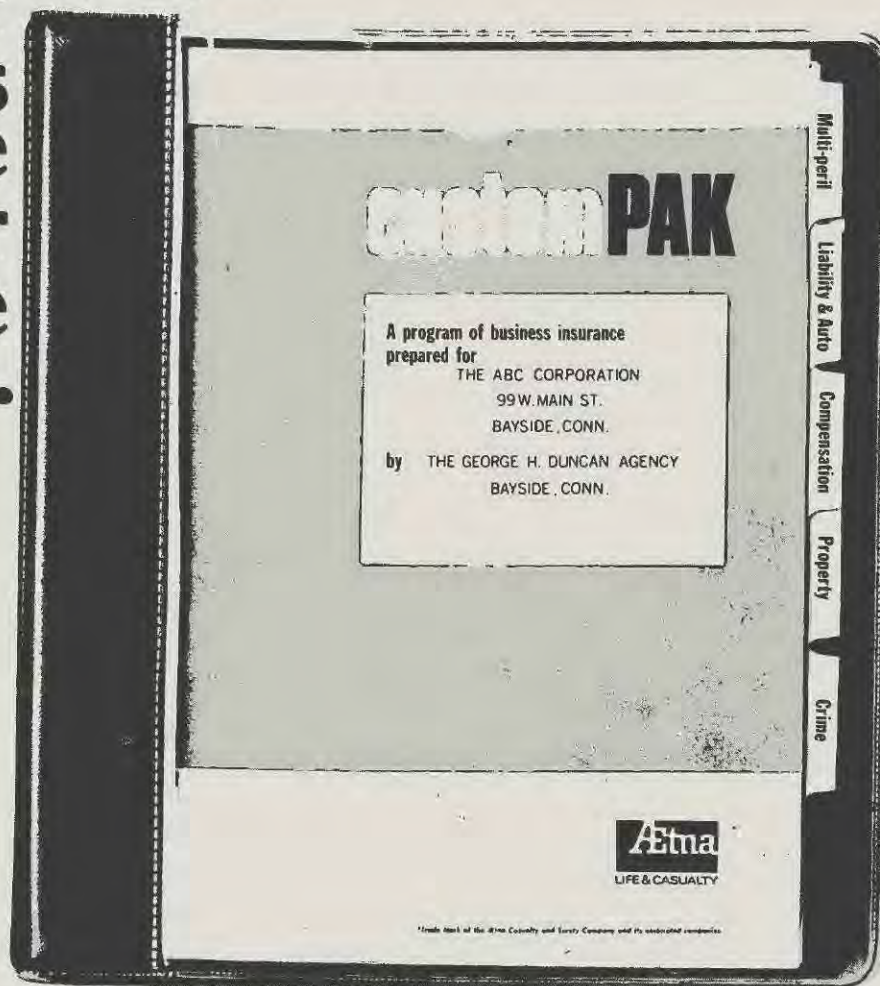
cupational disease fund.

The deficits came to light after commissioners agreed to raise rates an average of 50%, effective July 1, 1967, to compensate for a depletion of cash reserves.

This materially helped reduce the deficit, according to the actuaries' report. Rates have since been reduced to an average of 35% over those in effect prior to the July 1 boost. The actuaries estimate that "the recommended premium rates will complete the liquidation of the remaining deficit within three or four years."

A labor-backed proposal that a safety division be set up within the commission to reduce worker injuries and fatalities is expected to be packaged with the reorganization bill when it's ready for final action. It was originally presented before the house labor and management committee March 6 in the form of a 2,000-signature petition asking for a safety code.

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Capacity again plagues petrochemical field

By GEORGE YOUNG

PITTSBURGH—The capacity problem plaguing the petrochemical industry came into sharp focus again when Koppers Co. was refused renewal coverage by Insurance Co. of North America because London reinsurers turned sour on the risk.

The chemical manufacturer, said to have an excellent loss record, finally found coverage with the Oil Insurance Assn., the only remaining oil pool after the Simmonds group went out of business last year.

Because of the high loss potential and the poor loss experience in the petrochemical industry, insurance sources indicated that London reinsurers are continuing to look unfavorably at their business—a main factor contributing to the capacity problem.

IN ANOTHER development, *Business Insurance* learned that petrochemical companies that came over to the OIA from Simmonds are still waiting for premium quotations, which are expected to be high.

An oil industry source maintained that most of the 500 Simmonds accounts were accepted by OIA on binders which are preliminary agreements to provide insurance until rates and deductibles are set by underwriters.

He said OIA has not indicated what premiums will be charged and what deductibles the pool might decide to establish for each company.

ONE DANGER CITED by the oil source is that in the event a company has a large loss the oil pool can retrospectively rate the risk for the short binder period instead of waiting for the policy to expire—thus making immediate rate increases easier to attain.

He added that OIA, in the event of a loss, would be in a stronger position to dictate a high deductible or even refuse to write the coverage, a less controversial step than cancelling a policy already in effect.

"There is nothing the petrochemical companies can do for now," said the source, who indicated they are still considering other means of insurance, such as a captive arrangement or self insurance.

FRED A. GORHAM, general manager of the OIA, said there is a "general understanding" that unreasonable deductibles or rates would not be charged if a company suffered a large loss while under a binder agreement.

He said there would have to be rate increases, or possibly higher deductibles, but it would be "unethical" to make unreasonable demands on any company.

W. O. Bailey, vp of Aetna Life & Casualty Co. and newly elected president of OIA, said rate increases are in the offing for all petrochemical risks. "A dismal loss record and the high loss potential will continue to make insurance costly for the buyers," he said.

WHILE SOME BUYERS are still debating setting up a captive company or self insurance operation, the reinsurance markets and domestic capacity continue to shrink, according to industry spokesmen.

Insurance executives polled by *Business Insurance* generally conceded that a serious capacity

problem does exist for buyers hoping to find "low priced" coverage.

Fireman's Fund Insurance Co., however, maintained there is plenty of capacity and that the problem is one of buyers not wanting to pay the price.

"THERE IS A tendency on the part of all purchasers to equate availability of a product to availability of the product at their price, and this may be the key to shrinking capacity in the purchase of the insurance buyer," said Myron DuBain, vp of Fireman's Fund.

He said the petrochemical industry has been adequately served and has sufficient capacity available through OIA.

"Capacity is there when insur-

ance is written at an adequate premium. Lacking this incentive, the insurer cannot be interested and his capacity to accept the liability is withdrawn from the domestic market," said Mr. DuBain.

ACCORDING TO THE Fireman's Fund executive there will always be the unusual risk, which because of tremendous size or hazard will pose a problem. But, by and large, the normal offering can be accommodated in the domestic market—if the price is right.

Commenting on expanding the insurance market, Mr. DuBain said people who are placing their dollars in more profitable enterprises would be willing to invest more in the insurance industry

once it earns a reasonable rate of return compared with other major industries.

He said there is a need for insurance regulatory authorities to permit property and casualty companies permission for rate increases to make a profit.

GRAHAM WATTS, senior vp of Royal-Globe Insurance Cos., said "there is a need to reassess the sharing of risks on the part of the insured through reasonably high deductibles in relation to the insured's financial ability to carry part of his own risk rather than transfer it."

Calling for cooperation between industrial companies and insurers, Mr. Watts said companies in the petrochemical, aircraft and marine groups should

consider built-in protections against single large losses.

This has been a common criticism of the petrochemical companies among most insurers, who claim disasters like the \$36,000,000 Cities Service fire are caused by a lack of loss prevention planning in designing plants with high loss potentials.

W. J. GILMARTIN, vp of Continental Casualty Cos., said "it is not the first or last time major U.S. industries have faced a capacity problem."

He said each industry's capacity problems are caused by "indifference to poor results and a lack of specialized knowledge required to underwrite and service the markets."

Continued on page 13

Foolproof way to manage



Ask for a leave of absence.

Hole up for two years in an insurance college.

Allyn believes in central control of insurance

CHICAGO—The ideal insurance management of vast international holdings is through a centralized control system, is the view of Arthur C. Allyn, president of Artnell Co.

With such varied interests as the Chicago White Sox baseball team, a poultry breeding firm, an aviation company, oil well survey operations, a seating manufacturing firm, research laboratories, a motor hotel and others, Mr. Allyn feels there is only one way to "get the most" of insurance premium dollars—through that centralized control.

"THE APPROXIMATELY \$375,000 we pay a year in premiums is comparatively small in terms of the protection we get," he said.

Artnell manages its insurance program through H. D. Harris, who in turn works closely with Alexander & Alexander, a brokerage firm which helps plan and place all phases of the insurance responsibility.

Artnell's interests aren't limited to the U.S., but extend into England, Australia, Canada, South Africa and Nigeria, Mr. Allyn said, adding that "we get substantially preferential rates on the foreign subsidiaries by covering them through our central control along with operations in the U.S."

While enthusiastic about the coverage obtained through his company's system, Mr. Allyn is not without criticism for certain areas of the insurance industry. He feels too much attention is

paid by buyers to covering "nickel and dime" losses and not concentrating sufficiently on seeing that the "disaster potentials" are properly covered.

"THOSE NICKEL and dime things must cost the insurance companies more than they are worth, and the time business puts into filing claims for them is hardly worth the results," he explained.

Another of Mr. Allyn's complaints is that there is a growing tendency to make forms for filing of claims more and more complex. Through his company's central control system, efforts constantly are being made to find ways of simplifying procedures, but insurance company forms continually defy this effort.

The 1,400 employees of various Artnell subsidiaries come under an accident and health policy written by Providence Mutual, which Mr. Allyn feels has major advantages, because the company shares the cost with employees.

Mr. Allyn's philosophy is that if the employee has a direct interest in making the plan work, he will make every effort to keep its cost at a minimum.

"FOR EXAMPLE," he explained, "if an employee is having all of his hospital bill paid, he might be inclined to linger on there a number of extra days. But when he's paying 20% of the total, he's going to leave at the earliest moment that doctors will permit it. This keeps the total

cost down."

Under the Providence Mutual policy, the employee pays the first \$50 of medical expense as well as 20% of costs thereafter.

For the most part, Mr. Allyn feels that the unusual types of insurance required for Artnell's many interests provide maximum benefits for minimum premiums. He says that the coverage is spread among many companies through the management of Alexander & Alexander in order to assure protection as needed.

BASIC, BLANKET policies cover all of the subsidiaries—and they are many—but additional specific coverage is maintained for certain phases of the company's operations.

For example, umbrella policies for public liability are in force any time the White Sox play a game.

One element of coverage is provided for Artnell sports interests and does not come under the central control. The baseball league carries policies on each club, and the clubs contribute toward payment of premiums.

The White Sox team isn't the only Artnell sports interest, it also owns the Chicago Mustangs soccer club. The Mustangs come under the same umbrella policies as do the White Sox.

This public liability has a \$2,500,000 ceiling, with \$100,000 deductible, Mr. Allyn said. In most cases of public liability, the \$2,500,000 is in force, except that the umbrella policy goes to \$5,000,000 when related to operation of aircraft by the aviation subsidiary. In addition to the general bodily injury liability coverage for aircraft, an additional \$1,500,000 coverage is provided for property damage.

THE COMPANY'S own equipment is self-insured. Mr. Allyn said he believes the self-insurance pays off in the long run for Artnell because of the extensive holdings the company has. Infrequent losses have made it more economical to self-insure, he indicated.

Despite the fact that all Artnell activities come under insurance directed from the central control, and despite the fact that Mr. Allyn expressed satisfaction with the program, he indicated that frequent reviews are made to determine whether or not adequate coverage really is being provided.

"We have often debated about whether we have enough," he said, pointing out that as operations continue to grow the amounts probably will be increased.

Capacity...

Continued from page 12

Once the insurance industry is able to make a "consistent" profit, Mr. Gilmartin maintained the capacity problem will be solved.

According to a chemical official, petrochemical buyers will continue to mull the capacity problem and the possibilities of starting captive or self insurance operations—a road already taken by companies like Mobil, Ethyl and DuPont.

But sooner or later, he said, buyers will always have to face the and excess limits reinsurance markets for catastrophe coverage—the nucleus of the whole problem.

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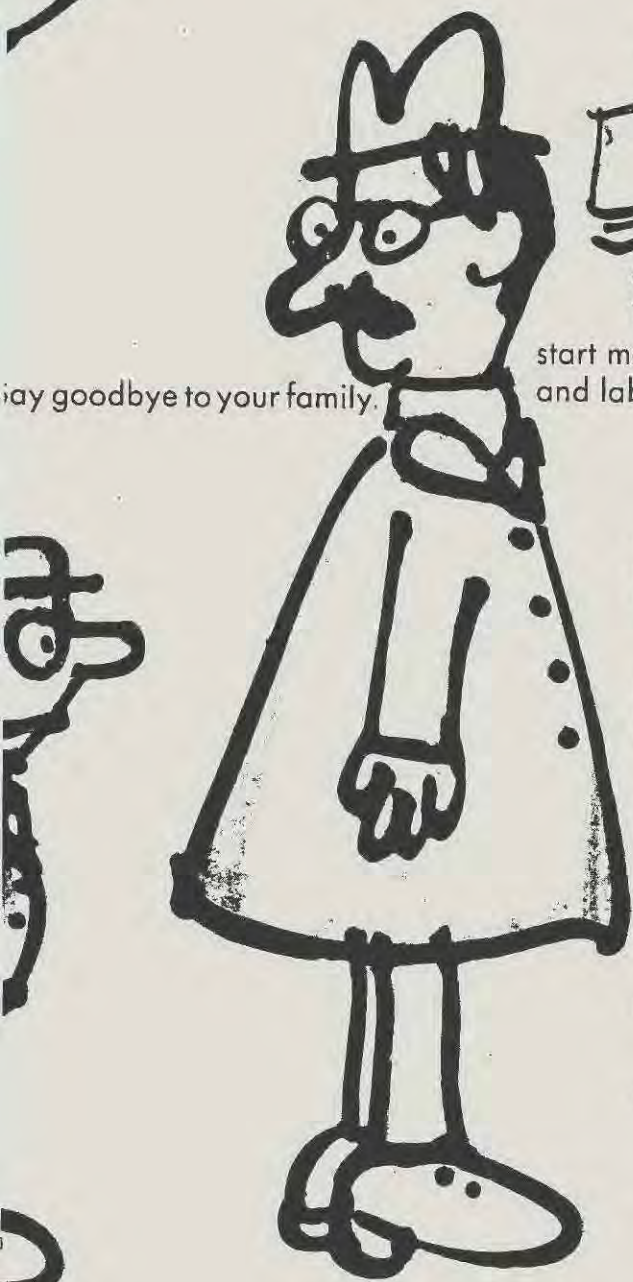
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opinions

The time is now

The assassination of Martin Luther King Jr. is a tragedy beyond words, because it removes from our land one of the few voices of moderation to which Negroes were willing to listen.

The job of keeping our cities from turning into infernos this summer is now made infinitely more difficult. But it's a job which we must all face.

We have maintained in past editorials that insurance buyers have as much responsibility for doing their part to reduce the hazard of riots as they have for reducing any other business risk.

Other groups are pitching in, and we strongly urge insurance buyers to lend their expertise to the problems of the ghettos. Why isn't it feasible to help small shop keepers in these areas to arrange a workable insurance program, and to initiate loss prevention programs and other risk management techniques applicable to the small business man?

And why can't insurance buyers help provide jobs for the disadvantaged as part of the President's Youth Opportunity Program? Buyers, brokers and insurance companies can cooperate in this effort, and perhaps turn up good recruits in the bargain.

Our society is facing the very real possibility of being ripped apart, with the blacks on one side and the whites on the other. If we are to mend this breach, if we are to learn—finally—to pull together as a cohesive society, everybody's got to help.

Or else we'll be caught without so much as a fiddle while our cities burn to the ground.

A sign of the times

We noted with considerable interest an announcement by Whirlpool Corp. that the firm was doing away with its warranty certificate and replacing it with a relatively simple letter to the customer.

It was Whirlpool's purpose to put warranty terms "in the simplest possible language," and we have a feeling that this action was taken as much for its own sake as for the convenience of the consumer.

The courts have consistently held that unclear or ambiguous insurance contracts should be interpreted in favor of the insured. We submit that the simplified Whirlpool warranties are meant to pin down the provisions by making sure everybody can understand them.

A lesson to be learned

An automobile insurer which had refused to settle a claim against an insured motorist within the policy limits after having several opportunities to do so is liable to the insured for the amount of the excess over the policy limits.

So says the court of appeals in Maryland in a recent case, and the court further noted that offers of settlement were not communicated to the insured, thus depriving him of the opportunity to contribute any sum toward the settlement, had he been so disposed.

The court, in holding that an insurance company must act in "good faith," defined certain elements that might effect the "good faith" posture of the insurer. They are: (1) the severity of the plaintiff's injuries giving rise to the likelihood of a verdict greatly in excess of

business insurance

for buyers of employee, property and liability protection

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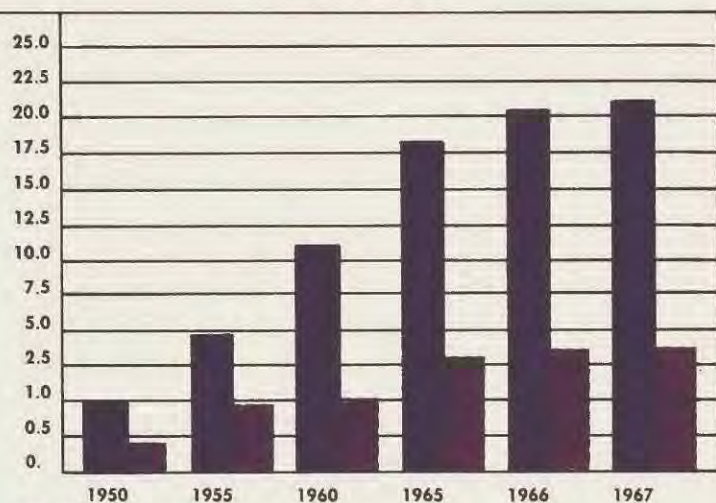
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COMPARISON OF BENEFITS PAID

DOLLARS IN BILLIONS



Black bars—Social Security Administration payments.

Gray bars represent private pension plan payments estimated from Institute of Life Insurance figures.

The rate of growth of private pension benefits has kept pace with the growth of Social Security disbursements since 1960, a period during which both forms of benefits have approximately doubled. Current estimates indicate that Social Security payments will reach \$21 billion for 1967 while private pension plans are expected to report payments of more than \$4 billion for last year. Payments into private pension programs by employers and employees are increasing at a rapid rate, an indication that the private pension system will show significant growth in years to come.

the policy limits; (2) lack of proper and adequate investigation of the circumstances surrounding an accident; (3) failure of the insurer to inform the insured of a compromise offer within or near the policy limits.

Also (4) pressure by the insurer on the insured to make a contribution toward a compromise settlement within the policy limit which demonstrate a greater concern for the insurer's monetary interests than the financial risk attendant to the insured's predicament, as an inducement to settlement by the insurer; and (5) action

This case, we think, is another example of how the courts are siding with the interests of the insureds—whether individual or corporate.

Too bad it always seems to take a protracted court battle to prove the point.

Back to haunt you

If you take a dim view of products liability insurance, please do us a favor and read one of the most recent decisions. The case holds that a driver of an automobile injured in a head-on collision is entitled to recover from GM for those injuries attributable to an alleged defect in the steering mechanism of his compact car, *even though the design defect was not the cause of the accident.*

The italicized words are the ones we want you to consider. When you read the case you'll realize how far the courts are going to pin the bill on the manufacturer. Design defects apparently can be dangerous whether it is a car or a washing machine.

Chicago's American

Costly ruling on riots

A ruling entered recently by circuit court Judge Abraham W. Brussell may cost Cook county taxpayers heavily, according to county commissioner George W. Dunne. Judge Brussell held that the county, as well as the city of Chicago may be liable for injuries or damage resulting from riots or mob action in the city limits.

Dunne, chairman of the county board's finance committee, points out that 217 cases against the city or the county are now pending in circuit court, charging personal injuries or property damage exceeding 4 million dollars. If Brussell's ruling is upheld by a higher court and the county has to help pay for damage incurred inside Chicago, he said, "we'll have to raise real estate and property taxes—where else could it come from?"

The state's attorney's office is appealing the Brussell decision to the Illinois appellate court, with a request that it be passed along to the Illinois Supreme court for an immediate hearing. We heartily hope that Judge Brussell's decision is reversed. The financial punishment to the county and its taxpayers is only one of the bad results to be foreseen from it.

The ruling seems to assume that police are always theoretically to blame for riot injuries and damage, no matter what the circumstances were. City and county police are supposed to prevent violence; so when violence occurs it must be their fault, whether or not there was anything they could possibly have done to prevent it.

In our view, the practical result of this theory would be to encourage a lax, so-called attitude toward mob violence on the part of police. If there's literally nothing they can do to keep a court from acting as though they were to blame, why should they try very hard?

We are not criticizing Judge Brussell, who undoubtedly based his findings on precedent and careful thought. We just hope his ruling does not stand.

letters

Psychiatric care coverage

To the Editor: Since psychiatric care is so often the neglected child in the health insurance family, it was heartening to find extensive coverage of the subject in two articles in the March 25 issue of *Business Insurance*.

Until recently, psychiatric care was almost universally considered a forbidden subject for insurers, as it was by fears of uncontrollable utilization and hence, unmanageable costs. Furthermore, there was little effective demand for such insurance from group purchasing representatives, who were inclined to feel that their members would shun such care anyway, even if the cost barriers were substantially reduced or completely removed.

To this day, such impressions are apparently still current among many insurers and potential group purchasers, and this may account in part for the comparatively slow growth of the type of psychiatric insurance that encourages early, preventive psychotherapy while discouraging psychoanalysis.

In 1959, Group Health Insurance Inc. (a nonprofit, fee-for-service, community-sponsored health insurer) launched a three-year pilot project to test the feasibility of psychiatric insurance with the American Psychiatric Assn. and the National Assn. for Mental Health as co-sponsors, and with financial support provided by the National Institute of Mental Health. The results of that project are reported in a book, "Psychiatric Care," by Helen H. Avnet, GHI research director, published in 1962 (a limited number of copies are still available without charge to those of your readers who might be interested).

The project demonstrated that many white collar and blue collar employees and their dependents who suffer from emotional disorders could secure substantial relief from short term psychiatric care, and that the cost of such treatments is insurable. It was also found, again contrary to preconceived impressions held by many, that blue collar workers will make use of psychiatry once the cost barriers are down, if efforts are made to overcome initial resistance, if coverage is provided from the first visit, and if all information is labeled confidential by the insurer. The experience indicated that the majority of short term respondents well to such treatment.

It was this study to which the late President Kennedy had referred in his February, 1963, Message to Congress on mental health, when he said, "The success of this pattern of local and private financing will depend in large part upon the development of appropriate arrangements for health insurance, particularly in the private sector of our economy. Recent studies have indicated that mental health care—particularly the cost of diagnosis and short-term therapy—is insurable at a moderate cost."

Subsequently, the formulators of the UAW psychiatric insurance plan relied on GHI's report for much of the information needed to proceed.

Following the lessons of its own findings, GHI has, since 1963, offered insurance for out-of-hospital psychiatric treatment to

Continued on page 16

Auto tort system causes want, waste for insureds: O'Connell

CHAMPAIGN, Ill.—The tort liability system for handling automobile accident claims combines "two of the most vicious evils in modern society, those of waste and want for the insured," Prof. Jeffrey O'Connell of the University of Illinois law school told a group of university insurance managers here.

"And the public is beginning to see that this waste and want is cheating them," he continued.

He said there is waste in the present system because only \$1 is paid in claims for each \$2.20 in premiums. He compared this \$1.20 in overhead to an average of two cents per \$1 in claims for Social Security and six cents to eight cents per \$1 in claims for workmen's compensation coverages.

He charged that waste is greatest in the handling of small- and medium-sized claims because carriers take the position that they "pay these claims quickly just to avoid nuisance problems."

ANOTHER AREA of waste is duplication of coverage. For example he cited the case of a driver who was struck by another automobile. The driver was paid \$20 from his group medical for a hospital x-ray, \$20 from his own auto insurer, \$20 from the other driver's carrier and \$60 for pain and suffering.

"There is something crazy and corrupting about a system that pays and misinterprets accidents," Prof. O'Connell stated. "The driver must not only remember events, but he is also under great pressure to remember that the other driver was at fault."

He charged that the want of the tort liability system is even more serious. "It affects the person involved in a serious accident who must wait years before final court settlement," he said.

He pointed out that the average delay in getting a case to trial is 30 months and ranges up to 60 months in some locations.

In the case of serious accident with serious injuries, the insured runs a real threat of not being adequately compensated.

Prof. O'Connell, along with Prof. Robert Keeton of Harvard law school, has devised a no-fault, basic protection plan using insuring principles similar to those in accident and health insurance or the medical payments portion of auto policies. Prof. O'Connell pointed out that each person would insure himself and not the other person.

Under the plan the insured would be paid for out-of-pocket

expenses up to \$10,000 and up to \$5,000 for pain and suffering. An assigned pool would pay for non-insureds, including out-of-state accidents.

Payments to insureds from other sources would be deducted from payments under the basic protection plan.

PROF. O'CONNELL pointed out that this plan would be well-suited to group plans, because credit could be given for other medical and accident coverages.

He dismissed criticism of the plan that contends it would reward drunk drivers as "fatuous nonsense."

"Insurance today has badly

skewed morality. Liability insurance is designed to protect those who have done wrong," he said. "The insured buys coverage for his negligent action."

Prof. O'Connell said basic protection bills have been introduced in California, Illinois, Massachusetts, Michigan, Minnesota, New Jersey, New York and Rhode Island.

He chided the insurance industry for lack of imagination and compassion in not pushing for change. He also pointed to the lawyers who charge one-third or more as contingent fees. "Why is it so cumbersome to give so much to lawyers," he asked rhetorically.



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Dock worker asks \$400,000

PORTLAND, Ore.—The commission of public docks, which carries its own insurance and processes its own claims, may suffer a \$400,000 loss if William H. Krismer has his way.

Mr. Krismer, a longshoreman, was injured Feb. 7 when a section of a dock collapsed under him.

Through his attorney, Mr. Krismer served legal papers on Mayor Terry D. Schrunk asking \$400,000 for his injuries.

The claim must now be reviewed by the commission.

letters

its subscribing groups, through an optional rider to its comprehensive medical care policy. Coverage under the rider pays up to \$20 per 45-minute psychiatric session for as many as 15 individual sessions per year for adults and 25 sessions per year for children, with no co-insurance or deductibles. Options are provided for the use of group therapy. Monthly premium rates are remarkably low—a very small fraction of medical insurance rates.

We are confident, thanks to the favorable experience recorded by our subscribers and comparable results experienced by others, that coverage for psychiatric care will be an increasingly large part of the health insurance picture in the very near future. The information published in your recent series will, we are sure, contribute to this growth.

Irving Baldinger

Director, Community Relations, Group Health Insurance Inc., New York.

Survivor income

To the Editor: We of New Jersey Life were most interested to read your report (in the March 11th issue) of the survivor income plan which was developed by Miller, Mason & Dickenson and is being offered by our company to the member firms of the South Jersey Manufacturers Association.

Naturally, we were pleased at the coverage you gave to what we truly believe to be a most valuable and unique insurance concept, particularly since your primary readership consists of those people who are interested in corporate insurance programs. I feel your magazine provides a valuable communications channel for those who buy and sell such protection plans and merits continued success.

John T. Scott

President, New Jersey Life Insurance Co., Newark.

'A must'

To the Editor: It is not unusual in the course of several working days for us to read, on a route slip basis, 15 or 20 magazines. However, I am pleased to note that your publication is definitely a standout. Being subjected constantly to a flood of insurance publications where subject matter by nature will have its peaks and valleys, I congratulate you on your material, organization and content.

For the corporate insurance buyer and manager, as well as the aggressive commercial lines insurance agent, I would consider your magazine a must.

J. R. Dunathan

Assistant Agency Secretary, Shelby Mutual Insurance Co., Shelby, O.

Air cargo cover

To the Editor: In your issue of March 11, we read with much interest the article about thefts at Kennedy Airport. According to this, a spokesman for the American Institute of Marine Underwriters had stated that if declared values were increased to even 25% of the real value insurance companies could subrogate for that amount which might lead the airlines to tighten security measures.

We handle a very considerable amount of diamond shipments

and our insurers have for quite some time required that 25%, or even 50%, be declared. Unfortunately this has had absolutely no influence on the claims experience and many insurers have now taken the position that they will not cover such valuable cargo by airfreight unless 100% be declared to the carrier. Many assureds have decided to insure directly with the airline, who actually quote much lower rates than could be obtained in the regular market for this type of business, but the disadvantages are many. To enumerate a few:

- Sometimes policies are placed on restricted conditions which are not even known to the shipper as no policy is issued.
- War, riots, strikes and civil commotion risks are not always covered and sometimes cannot be covered, even against payment of an extra premium.

• Coverage is only in effect while in custody of the airline and not on a door-to-door basis.

E. A. Eyl

Eyl Brothers, Inc., New York.

'A real service'

To the Editor: Thank you for sending the complimentary copies of your new publication, *Business Insurance*.

I read most of the articles with interest and have routed the magazine to others in our company.

Publishing the highlights of AMA insurance seminars and ASIM conferences is a real service to insurance buyers who are unable to attend in person.

C. T. Stewart

Insurance Manager, Stephens-Adamson Mfg. Co., Aurora, Ill.

Column for students?

To the Editor: The *Business Insurance* newsmagazine I find to be an invaluable tool of my profession and I keep each issue for a knowledgeable reference.

I would suggest that a column be set aside for the student, so to speak. For example, each issue discuss a specific policy, such as fire, inland marine, liability, etc., taking terminology and putting it into layman's terms.

I find that real objectivity is sadly lacking in most insurance publications. I fully understand the concept to insure, but not everything must be insured. Let's have a column on when not to insure.

Bernard J. Kuhn

Safety Director, C. W. Blakeslee & Son's, New Haven, Conn.

Editor's note: For some information about when not to insure,

see Carl J. Vogt's column in this week's *Perspective* section.

Answers

To the Editor: *Business Insurance* is the most comprehensive and up-to-date publication in the insurance field.

Since my position as insurance manager encompasses both the group and casualty lines I have found your newspaper an invaluable aid. It has answered questions for me that our brokers and insurance representatives did not clearly define. Your series on products liability I found very informative.

Your publication is what the insurance field needed for some time.

R. P. Sullivan

Insurance manager, Belden Corp., Chicago.

How
these shoes
from Italy
helped save
medicine
for Peru



Health costs...

Continued from page 10

participating hospitals which have a lower-than-average cost increase at the end of the year will receive a payment of 20% of the difference between its increase and the average increase of all 57 participating hospitals.

For example, if hospital costs in the area went up an average of 12% this year, and one of the hospitals eligible for the bonus reported its costs were up only 4%, it would receive a bonus of one-fifth of 8%.

THE BONUS MONEY could be used for capital improvement, medical education or research.

In a letter to former Secretary of Health, Education, and Wel-

fare John W. Gardner, the Blue Cross Assn. said it was concentrating its efforts on comprehensive protection "significantly beyond the basic benefit of inpatient hospital care—a need that we both have acknowledged publicly—and toward the development of incentives and controls."

At its annual meeting in San Francisco last month, it was disclosed that Blue Cross plans in Indiana, Chicago and Massachusetts have set up programs for coverage of preadmission testing of surgery patients, designed to reduce the hospital stay and thus the cost of care. It was estimated by Chicago plan officials that from one to three days of hospitalization can be eliminated for many surgical patients.

WILLIAM C. WHITE JR., director of health insurance rela-

tions at Prudential Life Insurance Co. of America, admitted that insurers were probably "paying too much" for doctors' services. He suggested that life insurance firms adopt the method used by Medicare in which doctors are paid their "usual" charge, not to exceed the prevailing rate for comparable service.

Mr. White also conceded that insurers have done "very little" in the area of claims review, in order to cut down on excessive use and costs of health care services. "It is difficult to evaluate the medical necessity of physicians' services, especially outside the hospital," Mr. White acknowledged.

"Yet some way must be found to make such an evaluation for services rendered in the physicians' offices, in extended care facilities and at the patient's homes."

Mr. White explained that under Medicare the insurers have set up committees to examine patterns of care supplied by doctors as a way of making sure their patients are not over-using hospital facilities.

"I'M AFRAID we haven't been as diligent in our own business as we have with Medicare," Mr. White told *Business Insurance*. He is of the opinion that insurers must develop within their own claims organization and in policy design "means of achieving the same goal as Medicare."

Mr. White feels that the biggest challenge facing insurers is to develop ways of dealing with hospitals directly, just as Blue Cross does. He pointed out that the New Jersey Blue Cross operation has a system (called "approval by individual diagnosis") by which it sets with the hospital

the number of days of hospitalization needed for, say, an appendectomy.

LIFE INSURERS should form similar alliances with hospitals, Mr. White said, but they can't move in this direction unless they have a contractual relationship with such institutions. "We're on the outside looking in," he said.

One idea insurers are "kicking around," Mr. White disclosed, is for carriers to band together for billing purposes, so hospitals wouldn't have to deal with 25 individual insurers in New Jersey alone. Hospitals in the state need deal with one Blue Cross unit, Mr. White pointed out.

In spite of all efforts, the Prudential executive stated, "I don't think you're going to be able to reduce costs. What you can do is to contain the rate of increase to a more rational level and get more for your money."

DR. ARTHUR A. Fischl, medical director and senior vp of Group Health Insurance, a non-profit community health organization, said that insurers were probably not doing enough in the area of education to convince subscribers that over-use of physician and hospital services costs them money.

"We have much to do to persuade and convince insureds that it does matter if they get more treatment than is necessary," Dr. Fischl told *Business Insurance*. "We need to take all possible safeguards against the needless utilization of facilities," he added.

Dr. Fischl said GHI, for its part, tries to keep costs in line by operating its basic medical and dental programs through panels of doctors and dentists who agree to specified fee schedules. Subscribers must utilize these doctors, who guarantee to provide service within the accepted levels.

One dictum of GHI is that physicians shouldn't make a profit on the services of someone else, and the organization has contracted with doctors who use the new automated laboratories that they won't charge more than a nominal fee for clinical services such as blood tests or urine analysis (usually about \$1.50 per test).

"I don't know what can be done to restrain unit costs," Dr. Fischl said, "but I do think much can be done to reduce the volume of units utilizing health services."



An East Coast importer of Italian shoes suffered severe losses from pilferage. He called MOA for help.

Our cargo surveyors examined the shipping boxes. On the sides and ends was a clear-cut description of the contents. It even told the would-be pilferer the size, style and color of the shoes inside. MOA recommended elimination of this labeling. Pilferage was cut drastically.

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shoes, an MOA cargo surveyor suggested replacing the specific labeling with code numbers. Again, the losses were dramatically reduced.

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Marine Office of America **moa**

What insurers do

Here are some steps insurers are taking to control health care costs, as listed by the Michigan Blue Cross.

- Health facility planning
- Progressive patient care
- Group institutional purchasing
- Eliminating duplication of expensive equipment in neighboring facilities
- Closing of outmoded facilities
- Merging of several small hospitals into a single modern service center
- Shared services, i.e., laundry, X-ray, blood banks, computer services, etc.
- More use of modern management techniques from industry and business
- Greater fee standardization by physicians



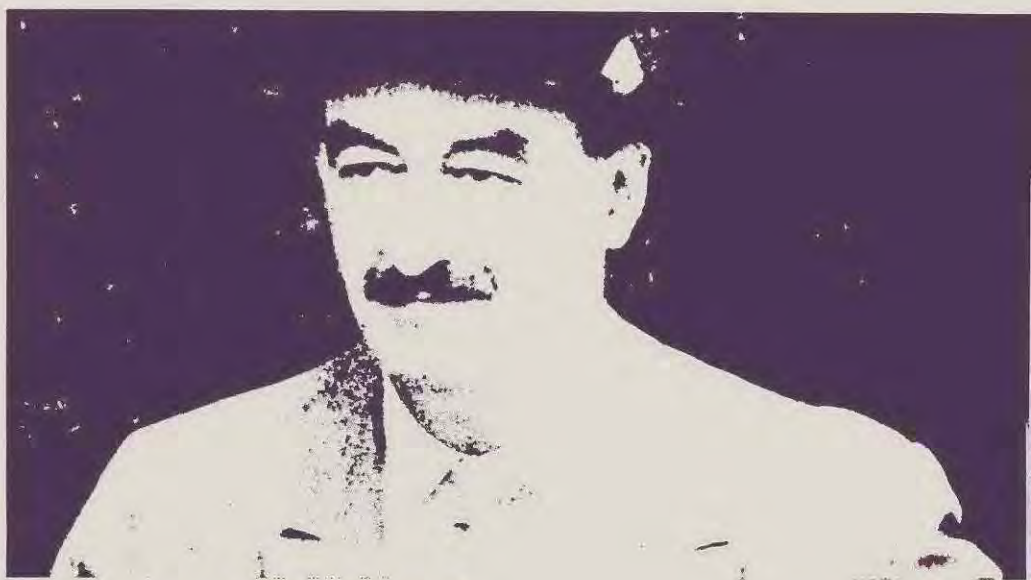
Don't worry about the details of Group follow-through

Group insurance has become a business necessity. It can vary from an employment inducement to a bargaining factor.

In any case, it involves planning and administrative work—and the real work starts after the group plan has gone into effect. Details, details, details. Pretty soon you wonder whether you should ever have gotten into it.

Yet you want to have fringe benefits that will make you competitive in the labor market. The value of group coverages is unquestioned, of course. You know that a competitor could skim the top talent if he had more to offer. You don't know what to do.

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business insurance/perspective

Should your corporation self-insure its workmen's compensation?

by Carl J. Vogt
supervisor of workmen's compensation
General Tire and Rubber Co.



Carl J. Vogt

Industry is taking a renewed interest in self-insurance. This interest stems from the need to cut costs. The painful squeeze on profits causes industry to re-examine its cost structure with scalpel in hand.

In industry's frantic gyrations to earn a profit, it initially took to the road of lower costs in Henry Ford's mass production. It has traveled through technology, automation and computerization, and is now in the land of merger and acquisition. This last stop has resulted in unprecedented growth. The business that now employs several thousand people, where it formerly employed several hundred, seeks savings in consolidated management and in self-administering services it heretofore purchased. This is not a new concept. The early industrial giants—

auto, coal, steel, and transportation—were the pioneers. It is becoming practical for many industries because of growth.

The first and most logical step in self-administration is workmen's compensation. This coverage is compulsory in every state in the union. The provisions of this coverage vary from state to state, but the fundamental concept is similar in all states. Forty-five states permit self-insuring this statutory risk by qualified employers.

THE HUGE NUMBER of employees employed by these newly expanded business conglomerates form a larger number of people than many successful insurance companies have as policyholders. Most of the businesses that have adopted self-insurance not only cut costs, but their executives were surprised by an unexpected bonus of improved efficiency in providing benefits, improved industrial relations, and a reduced incident of industrial injuries.

These benefits were far from automatic. They resulted from a careful analysis of the business of the employer. A sufficiently large number of employees to enable a spread of the risk is essential. The success of the program also depended upon the establishment of those services offered by an insurance company or a state fund. Management must know the benefits due an employee when he suffers an industrial injury. It must provide safety engineering, claims adjusting and competent medical services.

There are an ever-increasing number of businesses which employ sufficiently large numbers of employees to make it practical to critically examine and compare the cost factor in self-insuring workmen's compensation as against purchasing insurance to cover this risk. Each business entity must examine itself in

order to be in a position to answer the question of its readiness to embark on such a program.—It must plan, initiate, and order the proper program. Small- and middle-sized businesses can rule out self-insurance on a cost analysis. Where the cost of purchasing workmen's compensation insurance is less than the combination of average loss experience plus the cost factor for a staff qualified and equipped to handle all phases of an effective workmen's compensation system, cost dollars dictate a private carrier or state risk. In the larger business enterprise, which develops a manual premium for workmen's compensation insurance of as much as \$100,000, and which can qualify for the privilege of self-insuring, a cost comparison should be undertaken.

USING AN ARBITRARY measuring stick of a risk that develops a manual premium of \$100,000, let's break down the allocation of cost. A stock insurance company would allocate about \$41,000 of this premium for costs, other than the payment of losses. These costs would be acquisition, service, taxes, reserves and profit. Only \$59,000 would pay claims of injured employees. The insurance company would also realize considerable profit from the interest which is generated on the large sums of money it holds in reserves. The business must take these two money factors—\$41,000 for the costs incurred by an insurance company to provide benefits plus the use of reserves—to ascertain if a portion of this money could be placed on the profit side of its ledger.

If a business is to effectively self-insure its workmen's compensation risk, the responsibility must rest in a single individual. He must be responsive to the right of the employees, the close cooperation required by the state, and to the management team of the business. He

should be on the operating management level of the business with a corresponding salary. To administer benefits, he would need a clerk-typist with adequate office space and equipment. Other expense items to be considered are catastrophe insurance, application bond fees to the industrial board or bureau, license costs and other services.

The keystone of minimum workmen's compensation costs—safety—will have a greater impact when managed by a fellow employee. The cost of the above enumerated factors will vary considerably with the geographical location of the business. The salaries and wages also vary greatly between industries. To round out the benefits to be derived from self-insurance, add the use of the money held as reserves by an insurance carrier. This money can be of great assistance to a business either as income from investments or as purchasing power.

THE BUSINESS which must spend over \$100,000 in premium for its workmen's compensation policy up to \$200,000, cannot afford not to self-insure this risk. The same staff that was cost accounted for in the \$100,000 premium area could administer the program with very little added expense. An insurance carrier, on the other hand, will increase its charge based on the same factors. It may be persuaded to lower its costs because of the greater volume, but its increase will be substantial.

In my next column, I will outline the steps necessary to go to self-insurance and some of the organizations which offer assistance and experience in this area.

Carl J. Vogt, supervisor of workmen's compensation for the General Tire & Rubber Company, Akron, Ohio, attended Ohio Wesleyan University and received an LL.B from Ohio Northern University of Law in 1948. Mr. Vogt joined the Continental Insurance Companies in 1948, as claims adjuster and became claims manager in Akron in 1949. He has been with General Tire & Rubber since 1964. Mr. Vogt is a member of the Akron Bar Association and past president of the Akron & Cleveland Claim Managers Council. He is also a member of workmen's compensation committees of the Ohio Chamber of Commerce and Ohio Manufacturers Association.

'Found Money' in short-term investments for welfare and pension plans

by Elliot Beier
pension and profit-sharing manager
Nuveen Corp., New York

Welfare and pension plan trustees and administrators can "find money" by effectively putting to use idle funds in short-term investments, says Marvin Zalk, an administrator and a member of the board of directors of the National Foundation of Health, Welfare and Pension Plans. Following are some of Mr. Zalk's experiences and suggestions in this area:

The trustees of the Trucking Employees of North Jersey Welfare and Pension Funds are earning approximate-

ly \$1,000 a month through the use of short-term investments. Cash balances which might lie idle in checking accounts for several days or several weeks are invested, on almost a daily basis, in short-term paper for as short a period as two days or as long a period as thirty days.

The cash management techniques employed are the same as those used by corporate treasurers, college endowment funds, mutual funds, insurance companies and state funds. The program we used involved the following preparatory steps:

1) **DETERMINE THE AMOUNT** of cash available for short-term commit-

ment and relate the amount to disbursements to establish with reasonable accuracy the time period or duration for which each commitment may be made;

2) Develop a guide concerning credit quality of short-term investments;

3) Establish a work procedure to:

- Transfer funds to effect payments on date of purchase;
- Provide for delivery and safe-keeping of securities;
- Provide for redemption and transfer of funds at maturity;
- Maintain records detailing securities purchased, date of purchase, date of maturity, earnings and any other pertinent data required;

e) Accomplish the above with minimum expenditure of time and maximum efficiency of administration.

CONTRACTING EMPLOYERS are obligated to make weekly payments to the fund. The rate of contribution for most employees is \$23.80 per week and since there are more than 10,000 employees covered, the fund receives close to \$250,000 each week. Income and expenses on the welfare fund, over the course of a year, will be about the same. Pension fund income is, of course, invested in long-term situations. Therefore, short-term investments are making use of re-

Continued on following page

Continued from preceding page
ceipts between the time of receipt and expenditure.

As new contracts were negotiated calling for substantial increases in payments to the welfare and pension funds it became apparent that the balances that would be maintained in checking accounts would more than compensate the bank for all deposit and checking activity. A discussion with our banker substantiated this observation, and a minimum balance was established as a satisfactory level, providing adequate compensation for the account activity and services.

Arrangements were made for the bank to advise us on a daily basis of "good money" (collected deposits) in the account. These cash balances are related to known and expected disbursement dates and our investment calendar is established. For instance, a morning report of \$75,000 available is related to the next required but unfunded disbursement, which may be nine or ten days away. This disbursement is then "funded" with a short-term money market investment which matures on the disbursement date.

ESTABLISHING INVESTMENT standards is an essential part of the program. The result of taking this function too lightly was most apparent in the list of

investors in the certificates of deposit in the San Francisco National Bank at the time of its failure. Here the investors allowed a high yield to blind their attention to safety of principal and liquidity (the ability to sell the investment back to the dealer or to a third party). The yields offered by this bank were so high that they were a danger signal and it is axiomatic that yields that are disproportionate to going money market rates indicate risks which classify the instruments as something other than that of money market quality.

By working through a major money market and investment house (Lehman Brothers) we have confidence that the commitments we make have passed competent professional review. The notes we buy are major industrial, public utility and bank obligations readily recognized as substantial enterprises with long, untarnished business histories. As an example, during two representative months we owned Seaboard Finance, Franklin National Bank, Continental Mortgage Investment and others of similar quality. To satisfy our liquidity requirement, we find that our dealer is willing to reflect a money market bid for any obligations we hold and need to sell prior to maturity date.

The establishment of standing procedures for the handling of the investment

transactions allows the program to be administered with no additional staff requirements and in fact comparatively little time allocation. By a telephone call to the bank, we determine the cash each morning. This permits us to use the additional amount available as a result of checks that have not yet cleared.

THIS CASH REPORT is related to our planned disbursements and quick determination is made as to the duration for which it can be invested. We then call Lehman Brothers, advising them of the amount to be invested and the maturity required. We are immediately cited the investments available and the rate. We select the investment and are advised of the discounted proceeds required. The notes selected are delivered by Lehman Brothers to a safekeeping account and we notify our local bank to wire the funds to Lehman Brothers at their New York bank. At maturity, Lehman Brothers will collect the face amount of the notes for our account and deposit the proceeds in our bank through their New York correspondent. The New York bank immediately advises our local bank of the credit and our account receives the funds. We will disburse these funds later that day to meet long-term commitments or welfare disbursements.

Let me review a typical transaction:

on the 2nd of one month we purchased \$75,000 face amount of Seaboard Finance notes to mature on the 8th of the month at a discount of 4 5/8%. The net amount paid was \$74,942.19. On the 8th we received the face maturity value of the note by a \$75,000 credit to our account. The time involved for us in this transaction was less than ten minutes and we earned \$57.81 that would otherwise have been lost.

A great deal of professional attention has been given by welfare and pension funds to long-term investment commitments, but it appears that short-term cash management and its earning capacity is yet to be developed by the great majority of welfare and pension funds. ■

Elliot Beier, a graduate of Columbia Law School, heads the pension planning division of Nuveen Corp., New York. Mr. Beier was formerly with Ohlman & Co. and was editor-in-chief of Pension and Welfare News from its inception in 1964 and associate editor of Trusts and Estates Magazine. Mr. Beier is a member of the New York bar, the American Pension Conference, National Foundation of Health, Welfare and Pension Plans Inc. and the Eastern Conference of Health, Welfare and Pension Plans Inc. He lives in Valley Stream, Long Island, with his wife and four daughters.

Here's a resume of hospital plans in Canadian provinces

by J. E. Benoit
head of the insurance division
Expo '67



J. E. Benoit

Complete comparison of all provincial hospital plans in Canada would be impracticable in this type of column but we will attempt to give as concise and clear a picture as possible in the space available to us. We have included the 10 provinces, Northwest territories and Yukon territories in this summary.

CAPITAL FINANCING is handled in most provinces by matching Federal construction grants, by per capita taxes from municipalities or by payment of interest and principal installments on debentures.

ADMINISTRATION of the plan usually falls within the jurisdiction of the Department of Health although some provinces have it administered by a commission with a full-time chairman. These departments or commissions are then subdivided into primary divisions which could include eligibility, claims, standards, administration, accounting, construction, equipment, services, insurance and medical consultation.

BENEFITS are basically the same for all provinces. The usual provision is standard ward and all approved and available services for in-patients. Out-patient benefits range from what the hospital is able to provide to 24-hour emergency including physiotherapy, occupational and special therapy and radiotherapy.

WAITING PERIODS range from immediate availability in one province to the accepted standard of three months which is applied without qualification in eight provinces.

OUT-OF-PROVINCE BENEFITS vary considerably from province to province with the majority of the provinces paying for emergency treatment only and as approved by the commissioner or other vested authority. Alberta has no restrictions while Quebec pays full approved rates up to maximum of \$25.00 per day for adults and children and \$5.00 per day for new-borns outside Canada.

PROVINCIAL FINANCING is usually from consolidated revenue although Saskatchewan and Manitoba also have a hospital tax and Ontario charges premiums of \$39.00 per year single and \$78.00 per year family.

DETERRENT CHARGES are imposed by British Columbia, Alberta and Northwest Territories. The other provinces have no such charges.

CONTROLS are maintained in all

provinces by use of admission sheets and longstay forms for every patient to substantiate that hospitalization is medically necessary. Budgets are approved by a rate board or by the commission.

INDIGENTS are covered by most plans if they are qualified residents. This is true of all provinces except in British Columbia and Alberta where allowance is made for uncollectible accounts. Ontario pays premium for provincial welfare cases (blind, mothers' allowance, etc.) while the Municipality pays for municipal indigents.

Credit for much of the above information is given to Canadian Hospital Assn. who supplied us with a full description of the major changes in the provincial plans over the past two years as compiled by George McGracken when he was assistant director of the Canadian Hospital Assn.

The Provincial plans may be supplemented by individual or group plans which provide semi-private or private accommodations by paying the difference between the provincial plan allowance and the semi-private or private accommodation charge. These private plans will also include extended health benefits, usually by means of a major medical coverage. There is generally a deterrent feature in these plans either by limiting the daily hospital benefit to an amount which will not meet the total bill; by application of deductibles; by contribution by the insured (usually 10% or 20%); or by a combination of the three. Blue Cross is one of the main writers of these supplemental group plans and, because of the conversion privilege which is usually provided by Blue Cross, many individuals continue to be covered by personal policies issued by Blue Cross.

All Canadian government personnel are covered by a plan introduced by the government for the benefit of its employees, the members of the Armed Forces and the Royal Canadian Mounted Police. This plan is underwritten by 26

insurance companies and is serviced by one of the companies in the pool. Under this plan, surgical-medical benefits are mandatory while hospital benefits are optional. The government contributes equally with the employee for surgical-medical but the employee must pay the full premium for hospital coverage which is limited to \$4.00 or \$12.00 per day.

As a matter of interest, the monthly premiums for the hospital benefits for an employee with more than one dependent are \$1.10 for the \$4.00 plan and \$4.25 for the \$12.00 plan.

The major medical expense benefits are limited to 80% of the eligible expenses.

Public demand for hospital care is constantly changing and the hospitals must update and continually change their services to meet these demands. It follows that the agencies responsible for the reimbursement of the hospitals must continually change their budgets and administrative procedures in order to provide the necessary financing. It is also a known fact that, because of the reluctance or refusal of governments to control the cost of hospital services, it is absolutely mandatory that substantially higher premiums must be charged in some provinces. ■

Since 1963, J. E. Benoit has been head of the insurance division for Expo '67. For his work at Expo, Mr. Benoit was awarded the Canada Centennial Medal.

In June, he will join the insurance brokerage firm of Harry Price, Hilborn Insurance Ltd. Mr. Benoit will be in charge of Quebec operations. He will also form an insurance consultant firm under the name J. E. Benoit & Associates.

Mr. Benoit has been associated with Morris & MacKenzie Ltd., Stewart-Smith (Canada) Ltd., the Foundation Co. of Canada and the Insurance Co. of North America.

N.J. supreme court asked to rule on state's immunity to damage suits

TRENTON N.J.—While New Jersey has no authorized fund set up to cover sovereign immunity claims, officials may use their discretion in awarding small claims payments, according to state officials. Larger sums, however, must be included in special appropriations, depending on the case involved.

The subject came up when the state supreme court was asked to rule that the state cannot claim sovereign immunity in a suit when no state funds are involved. It was triggered by a case that involved the planned reconstruction of Kennedy Boulevard, a county road in Hudson County, which was to be carried out on a 50-50 basis with federal and county funds. Since the federal government does not deal directly with counties, the state acted as agent for the county.

When construction began in 1965, taxpayers objected to the removal of trees to widen the road, claiming it would be transformed into a superhighway. They won a court order calling for the redesigning of 80% of the remaining work.

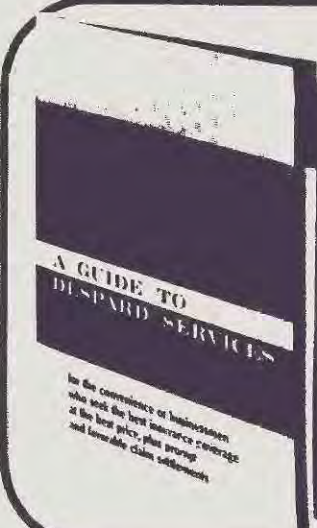
THE CONTRACTOR was subsequently sued by one of his subcontractors. The contractor in turn subsequently sued the State Transportation Department and Hudson County alleging that the state and county are responsible. The state won a judgment on

the grounds of its sovereign immunity from suit and the contractor appealed. Chief Justice Joseph Weintraub noted that such a contract is different from another kind of suit since the state, in entering into the agreement, pledges itself to a particular course of action and also puts aside funds to defray the cost of the work being done.

One difficulty facing the courts in damage suits against the state has been their reluctance to enter enforceable judgments, since only the legislature can appropriate money and the courts can't order the legislative branch to do so.

"It appears quite inequitable for the state to say to the other party here is the contract; you're bound by it but we're not," Judge Weintraub stated.

"Our insurance advisory committee is presently studying the problem," said Herman Crystal, deputy director for Charles F. Sullivan state department treasury director of the division of purchasing and property. "Roughly, we pay as we go along. Funds must depend upon legislative appropriations and if there isn't enough on hand to pay for special situations out of amounts on hand, then special provisions must be called for." ■



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but they all boil down to a concise description of the insurance services and facilities that can help you achieve two things:

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British firm coordinates pension plan

LONDON—The Turner & Newall Group, with member companies throughout the world, has introduced improvements in the company's pension scheme.

For all staff employees, the new pension benefits have been coordinated with the state retirement pension so that the total sum received each year by those with maximum service will be equal to at least two-thirds of their annual salary at retirement.

Those with less than maximum service will receive proportionately less. The contributions to be made by staff members during their service have been effectively reduced.

AN IMPORTANT feature for male staff members of the plan is the introduction of a widow's pension which, subject to service and other conditions, amounts to one half the member's earned pension, and is payable whether death occurs before or after retirement. There are also allowances for dependent children, cash commutation privileges and pension preservation rights.

For employees in the works category, the previous non-contributory scheme continues, but the pension and life insurance benefits have been doubled. The new benefits apply to works pensioners receiving pensions. ■

Denton joins FCIA

Reginald J. Denton, formerly a loan officer of the Export-Import Bank in Washington, has joined the Foreign Credit Insurance Assn. New York, as vp in charge of the newly organized special risks division.



Having fiddled and frittered away the long, hot summer, the grasshopper was unprepared for a true winter. MCRAL: An adequate loss prevention program, like an adequate ladder, requires full time effort, 365 days a year. Loss Prevention is our business. Manufacturers Mutual Fire Insurance Company, 1500 Turks Head Building, Providence, Rhode Island 02901. Founding member of the Factory Mutual System.

Urges unions, employers work together to control health costs

SAN FRANCISCO—Unions and employers should join together to "control the ever-escalating costs of health care," urged Ben Goodenough, of the Pacific Maritime Assn.

Mr. Goodenough believes that if costs are not curtailed "by 1975 Americans will have to spend 2½ times what they now spend on health care just to maintain current benefits."

In a talk to the Industrial Relations Research Assn., he traced much of the problem to health benefits negotiated by labor and management.

"Whenever new benefits are obtained," he said, "the doctors, hospitals, insurance companies and others invariably raise their

prices. This not only hurts labor and management but it also means that millions of Americans are denied decent health care."

He proposed that unions and employers "declare a moratorium" on new benefits and instead "bargain jointly with those who set health care prices to set up more efficient hospital operations and other elements of a cost control system."

"No other powerful group is moving to curtail costs," Mr. Goodenough concluded, "and if labor and management do not move soon the government will have to step in because mountains of discontent are building up."

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Hedges

Cristy

Budd

Rabbett

Four members of the Insurance Institute of America's risk management advisory committee discuss plans for 1968-1969 academic year. Bob A. Hedges, professor of insurance and risk, Temple University, makes a point while James Cristy, manager-finance, Upjohn Co., Edward Budd, vp of Travelers Insurance Co., and Gerard Rabbett, insurance manager of Chas. Pfizer & Co., give close attention.

Corn Products considers more self-insurance for work comp

NEW YORK—Corn Products Co. is "very seriously" considering becoming self insured for workmen's compensation in those parts of the country where there is sufficient claims volume to justify taking the step.

This disclosure was made by William R. Osmun, insurance manager, during an interview with *Business Insurance*. The insurance executive had some advice and ideas on the problems to be considered when acquiring another company, and he also warned against "trading dollars with insurance companies."

The first step in acquisitions, he said, is to make sure that the acquiring company is covering all exposures which will appear in the new company's program.

When Corn Products makes an acquisition, Mr. Osmun said, "We always ask that they continue with their coverages temporarily. There's no point in violently upsetting the existing program."

"YOU CAN ALWAYS work out the details later," Mr. Osmun continued, "such as deductibles and claims exposures. However, you must pick up all the gaps and

make the overall limits of liability apply, and this may take from six months to a year."

When reviewing acquisitions, Mr. Osmun observed, "I've often noticed that the buying of insurance has been done more on the basis of loss experience rather than on a potential catastrophe basis."

In other words insurance is being bought for those items which produce a claim every few months or several times a year, and these are actually a cost of manufacture since you're really trading dollars with an insurance company.

"WHY GIVE IT to an insurance company to get it back?" Mr. Osmun asked. "Trading dollars with an insurance company is bound to be expensive since they must charge for their cost of doing business."

"Therefore, why not self assume or take a deductible on those items where you run a claims experience," Mr. Osmun said, "provided they fall into a tolerable range."

It's much better, he said, to insure those hazards on which a company has exposure, and which would have really "far-reaching consequences."

Mr. Osmun admitted that "it's a constant struggle" to reassess what is being lost "if you don't have a deductible and then decide to assume one."

In the field of employee benefits, Mr. Osmun advised a "go slow policy" during the period of take over. Where the parent company has better benefits, "it takes time to bring the subsidiary into line."

It's not just the expense of the improved program but a matter of educating the new employees about their improved benefits, he explained. It's not a good idea to hand the new program to them all at once, because "it won't be appreciated."

WITH OVER 100 locations under his jurisdiction, the Corn Products insurance executive is constantly traveling. "I like to personally supervise and communicate with branch divisions."

"We want to know about any engineering problems and pay great attention to the causes. Prevention of loss must always be the objective of Corn Products," Mr. Osmun said, and "you can never start too soon in teaching your younger men the techniques of loss prevention."

Corn Products employs 13,000 people domestically and some 120,000 overseas of whom about 120 are U.S. nationals. It's "impractical to give the same employee benefits to overseas nationals," Mr. Osmun said, "since social benefits in some countries are really quite advanced."

Glass Blowers get monthly pension boost from \$3 to \$4

PHILADELPHIA—An increase in the pension formula from \$3 a month per year of service to \$4 is the chief employee benefit gained by the Glass Bottle Blowers union, ending a strike which began Feb. 1.

Although discussions are still taking place in Atlantic City on behalf of machine operators, who are covered under a separate contract, it is expected that pension benefits will be the same for the entire industry.

Employees may now retire at age 62 with full credited service and "no actuarial reduction in benefits," a union official explained. Early retirement may

also be elected at age 55, subject to 20 years service.

The Glass Bottle Blowers union, which represents 86 glass factories owned by 17 companies, has included portability and vesting of pension rights in its contract for the past three years, the union official said.

In the event of a shutdown, a worker may transfer within the industry and take pension benefits with him. Also a worker who takes another job within the industry and who is age 50 and has 15 years service may allow his credits to accumulate at his old job and collect a deferred pension at 65.

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Kennecott workers get rich settlement

SALT LAKE CITY—Kennecott Copper Corp.'s 12,000 employees have returned to their jobs, after an eight-and-a-half month strike, with the "richest contract in history."

The Kennecott workers were among 60,000 copper miners and production workers across the country who staged the longest strike in history against a single industry.

Kennecott and unions, represented by the United Steelworkers of America, reached an agreement on a new three-year contract during the last week in March.

UNION LEADERS hailed the settlement as the best ever, particularly in the area of pensions, which now double the previous allowance.

"The improvement in pensions was something the men had to have and we achieved it," said Verne Curtis, key staff member of the United Steelworkers of America and cochairman of the joint bargaining committee.

The new plan increases the pension allowance from \$2.50 to \$5 for each year of service for employees retiring after July 1, 1967.

FOR EXAMPLE, under the new plan, an employee retiring with 20 years of service would receive \$100 a month rather than the previous \$50.

Men already on retirement will receive sharp increases based on a new formula of \$3.50 per month for each year of service.

Some of these men were getting as low as \$1 a month for each year of service, according to Wes Madill, the other bargaining cochairman. If a man with 20 years of service, already on retirement under the old plan, were receiving \$20 a month, his new allowance would be \$70.

A NEW FEATURE is a pension for widows of 50% of what their deceased husbands would have received. This is for wives of employees who die while still working at Kennecott, provided they were 55 years old and had worked for 10 years.

Other provisions of the new plan, all retroactive to last July 1, include removing the 40-year limit of continuous service which previously had been the maximum years credited for retirement, providing a monthly benefit for disability retirement of \$100 and removing the 50% Social Security offset in disability retirement.

Previously, the pension of a person retiring because of a disability could be cut in half because of Social Security disability payments. Now, the disabled worker can get the full \$100, plus all Social Security to which he is entitled.

The new contracts also contain an early retirement feature under which an employee can retire by mutual agreement after 10 years of service, providing he is between 55 and 65 and if his age and service total 75, or if his age and service total 80. He can also retire at his own option at age 60 if he has at least 30 years of service.

In both cases of early retirement, the monthly benefit is the

same as for normal retirement, based on the employee's continuous service.

The settlement also eliminates the compulsory retirement age of 69.

Hospital-medical-surgical insurance coverage was broadened in the new contract, making it one of the best in existence, reported Mr. Madill.

KENNECOTT NOW picks up the entire tab for all types of insurance for all unions.

The company had been paying all contributions to the pension plan and for group hospitalization insurance for some years, but with the new contract, employee contributions for group life and accident death benefits

have also been eliminated. In addition, the \$1 a month payment by pensioners for hospital-medical-surgical coverage has been eliminated.

Previously, employees were paying 60¢ a month per \$1,000 of life insurance, which is based on their annual salary, and 42¢ a month for \$5,000 of accidental death benefits.

KENNECOTT AGREED to refund to each employee the insurance premiums paid for March and April and to allow each worker to take cash in lieu of his 1968 vacation.

"This would help workers catch up on debts if they desire to forego vacations," noted co-chairman Madill.

The deductible under the major medical portion of the hospitalization insurance was reduced from \$300 to \$100 per injury or disease and the \$5,000 maximum benefit limit was eliminated.

THE WEEKLY BENEFITS for an employee off work for nonoccupational sickness or accident have been increased from \$60 a week to \$80 a week and will continue for 52 weeks instead of 26 weeks.

In addition to the benefits package, Kennecott workers, located primarily in Utah, Nevada, Arizona and New Mexico, will receive across-the-board wage hikes of 37¢ an hour over the three years.



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Geery joins Goldstein

Donald R. Geery, formerly with the Union Central Life Insurance Co. as a pension representative, has joined L. J. Goldstein Inc., New York, as manager of the life department.

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Tucson prefers package insurance

TUCSON, Ariz.—Those responsible for risk management in the budget and research department of this city believe in bidding and packaging as much insurance as possible.

"This way we can get comprehensive bids on most coverage and still save money and get quality firms bidding," said Carl A. Landel, whose duties as administrative assistant to city budget officer George P. Wheeland include coordinating all property damage and liability insurance purchasing. Group medical and workmen's compensation insurance is handled by Mel Hamby in the personnel department.

Mr. Landel said Tucson once had a separate insurance department, but now the risk management function is a "godchild of the finance department."

IN THE PAST FEW years, he noted, fire insurance coverage has been increased from \$5,000,000 to \$7,000,000 and liability coverage now totals about \$1,500,000, valuable papers are covered up to \$1,400,000 and elevated tanks up to \$244,000.

"We haven't bid fire insurance in the past, but now the concept is to bid and gather all property damage insurance, including fire and extended coverage," Mr. Landel told *Business Insurance*.

"Consideration is being given to potential savings on fire insurance through a self-insurance fund for smaller buildings and then trying to cover only high-risk buildings of \$50,000 or more in value by bidding. We're getting new appraisals now to determine major risks."

MR. LANDEL WOULD rather see the city invest \$20,000 than

have that amount tied up in pre-paid insurance, as in the past. At 5%, he said, it could earn \$1,000 a year.

He said the city has recently secured \$1,400,000 coverage on the contents of the Tucson Public Library for \$1,225 yearly for three years on the low bid of American Employees Insurance Co.

Mr. Landel noted that in the past the city has been paying \$1,600 annually to insure valuable papers, but now expects to pay \$400 less.

ONE REASON THE city's \$1,500,000 umbrella liability policy with the Insurance Co. of the State of Pennsylvania costs \$7,000, Mr. Landel added, is that it includes false arrest coverage. Arizona has no governmental immunity.

Subject to City Council approval, the new city budget to be adopted July 1 would spend an estimated \$152,325 for insurance.

This includes \$12,418 for fire and extended coverage; \$120,000 for liability; \$1,225 for valuable papers; \$750 to bond the finance director; \$70 average for elevated water tanks; \$1,680 for theft and loss; and \$253 for boiler insurance.

THE CITY NOW has basic liability coverage with Firemen's Fund American Insurance Co. It was purchased through a local agent on a package bid. When it expires next year it will be bid again.

"But this time," said Mr. Landel, "we may just increase basic coverage with higher limits and riders for excess coverages."

As for insurance against vandalism and civil disturbances, Mr. Landel said the city had such

coverage but dropped it about two years ago as being too cumbersome, despite admittedly low rates, in favor of self-insurance. But there's a possibility the city may have a change of heart on this because of the riots triggered by the murder of Dr. Martin Luther King April 4.

Tucson and Phoenix, state capital, both experienced minor rioting last August. In Phoenix, Mayor Milton Graham declared a state of emergency in a wide

area, where rioting appeared to have racial overtones.

Disturbances in Tucson, with a much smaller Negro population, resulted from attempts to "crash" a Negro teen-age party by a group of youths and did not appear to have racial overtones.

There were only sporadic incidents of vandalism in Tucson after the assassination of Dr. King, and police were careful to point out that some of the incidents may have had no connection whatever with racial unrest.

Japanese newspaper asks higher auto liability limits

TOKYO—Scoring the fact that many traffic accident victims or their dependents fail to receive compensation awards granted by Japanese courts, Yomiuri Shim-bun, a major Japanese newspaper with daily circulation of 8,500,000, has editorially called for major revisions of the country's accident compensation system.

Yomiuri noted the most recent instance of survivors who will fail to receive court-awarded compensation, the Tokyo district court case in which the wife and family of a man killed in an accident were awarded \$44,444, the largest damages ever granted by a Japanese court for the death of one person.

It went on to cite a recent newspaper survey which had found two instances of absolutely no compensation and several cases where vehicle operators were ordered by courts to pay compensation to victims had avoided this by going into hiding.

"Something must be done if court-awarded damages . . . are not to be a mockery of tragedy," the newspaper declared. "Cannot the family courts, for example, step in with measures to enforce actual payments? This is all the more important because the system of compulsory vehicle insurance for third-party injury falls short of the need."

Yomiuri said that Japanese compensation insurance provided for a maximum of \$833 when instituted in 1956 and that subsequent revisions have boosted this to a maximum of \$8,333, as of August 1967. However, the newspaper noted,

"since compulsory insurance is renewed every two years, dependents of a person killed by a vehicle covered by a policy issued prior to August are entitled only to the previous maximum of \$4,167. Surely common decency if not common sense requires that all compulsory insurance policies should not protect victims with the new maximum of \$8,333."

Yomiuri scored that fact that, in any case, compensations in Japan are far too low by international standards. It pointed out that in Sweden, there is a minimum of \$194,444 and maximum of \$4,900,000. Elsewhere, the maximum in France is \$83,333, in the United States \$20,000, and in Britain \$42,000, the newspaper stated.

Reporting that an Osaka district court judge has urged that the Japanese maximum be boosted to \$13,889, Yomiuri advocated boosting it to at least \$16,667. "Moreover," the newspaper asserted, "the police must make every effort to ensure that compulsory insurance is indeed compulsory and properly acquired by all vehicle operators."

INA forms motor unit

Insurance Co. of North America, Philadelphia, has formed a motor transport department within the carrier's commercial insurance department. The new unit will have responsibility for risk and account underwriting of local and long-haul truckmen, automobile leasing, buses and taxicabs. Donald B. Allen, assistant vp, is director of the new department.

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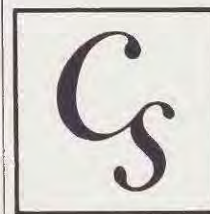
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Carriers eye... Surcharge...

Continued from page 1

The American Mutual Insurance Alliance and National Assn. of Mutual Insurance Companies pushed for a plan as originally suggested by the President's National Advisory Panel on Insurance in Riot Affected Areas.

UNDER THE PANEL plan, insurers would bear the brunt of normal property losses and a first layer of civil disorder losses. States would provide an additional layer and a third layer would be provided by the federal government by lending money to cover claims. This third layer would then be repaid from reinsurance premiums or from Congressional appropriation.

The AMIA protested that federal government would have authority to determine insuring conditions.

An AIA spokesman in Washington told *Business Insurance* that "the spate of riots and looting across the U.S. should accelerate consideration of the federal pool plan. Both the Senate and House banking and currency committees are working on the plan, and I am still hoping for early June enactment."

Among cities with riot damage, apparently Washington D.C., with \$15,000,000 in property loss, was the worst hit. In Chicago, damages originally estimated at \$10,000,000 were scaled down to something more than \$6,000,000 after more detailed inspection of damaged areas. The damage in Baltimore is put at \$10,000,000, in New York state, \$3,700,000; and New Jersey, \$1,000,000.

LOSSES IN Pittsburgh are set at between \$900,000 and \$1,000,000. Other cities with significant damage include Kansas City, Mo.; Trenton and Newark, N.J.; Stamford, Conn.; Richmond, Va.; Youngstown, Toledo and Cincinnati, O.; Nashville, Memphis and Chattanooga, Tenn.; Mobile, Ala.; Wilmington, Del.; Jacksonville, Fla.; Pine Bluff, Ark.; Atlanta and Savannah, Ga.; Durham, N.C.

In Chicago, of 452 individual losses inspected by the General Adjustment Bureau, 215 were unidentified as to occupancy and 162 were totally razed. The companies contend riot claims will have to be paid out of funds intended for the protection of policyholders, since little or no premiums have been collected for riot losses.

Of business and commercial property damaged in Chicago, there were 40 clothing stores, 28 liquor stores, 24 food stores, 18 appliance stores, 16 restaurants, 15 hardware stores, 15 department stores, 15 cleaners and laundries, 14 shoe stores, 12 variety stores, 11 taverns, and 10 drug stores.

Although most of these were small shops, some large chain operations were also hit, including several Walgreen drug stores, Jewel and A&P food stores, a Robert Hall clothing store and a Polk Bros. appliance center.

IN CHICAGO, six Walgreen stores sustained significant damage and an additional 15 stores required board-up operations. A Walgreen spokesman said that damage was insured, although the company has a "very high" deductible.

Additional problems for insurance managers are the curfews imposed by mayors that effectively close businesses.

(also called the Hughes report) and from recommendations by the National Assn. of Insurance Commissioners.

A SPOKESMAN from the Missouri insurance department told *Business Insurance* that the carriers wanted increased premiums but failed to provide a proposal to implement other recommendations of the Hughes report. He said the companies did not offer any program for providing riot insurance for urban area such as a voluntary pool or a housing inspection plan.

The department spokesman also said that insurance companies are making informational filings with the department on liability contracts that exclude riot and

civil disorder risks. He said the state insurance department did not have authority over these policies.

SEVERAL INSURANCE trade groups have leaned heavily on NAIC proposals and the Hughes report in defense of asking for riot loading increases.

The request asked a 4% hike in fire and extended coverage premiums for counties with more than 250,000 population and 2% in counties with less than 250,000 population.

In Illinois, John F. Bolton Jr., director of insurance, told a meeting of insurance company officials that he will prepare legislation for statutory pooling when the state legislature meets July 15. He said that he hoped the companies could devise a voluntary pool before that to provide property insurance for buildings in ghetto districts of urban areas.

Rehear suit over cigarets

NEW ORLEANS—The U.S. court of appeals for the fifth circuit has agreed to rehear a previous decision which held that a tobacco company was "absolutely liable" for diseases caused by smoking the firm's cigarettes.

The retrial will be en banc—before all 13 judges of the circuit court.

Since the case has been subject of an opinion by the Florida supreme court and not less than three opinions of the court of appeals (with two dissents), the court said it has "considerable doubt" that another round of oral argument would have any practical value.

The parties involved have been asked to submit briefs without oral argument.

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Puzzled...

Continued from page 3

1967, Mr. McDermott assertedly instructed Miss Seidner to sign blank checks drawn on the Bank of Nova Scotia. Then, according to the indictment, he filled in the blank check for \$20,000 and deposited it in his account at the Connecticut National Bank.

Later the same month, Mr. McDermott filled in another blank check for \$50,000 and also deposited it at the Connecticut National Bank, the indictment stated.

THE SERIES OF EVENTS allegedly started in September, 1966, when Mr. McDermott co-signed a check of Crane Co. to the order of Insurance Marketing Associates, Stamford, Conn., for \$238,000—the cost of a \$15,-

000,000 foreign excess liability policy for one year. Insurance Marketing Associates, a brokerage firm with which Crane still does business, then issued a check to Global Risk Underwriters for \$207,000.

Mr. McDermott allegedly deposited the check for \$207,000 to the account of Global Risk Underwriters with the Bank of Nova Scotia, St. John's, Antigua.

In January of 1967, the indictment stated, Mr. McDermott co-signed a check of Crane Co. to the order of Global Risk for \$379,000—the cost of a three-year premium for a \$10,000,000 excess multiperil policy. The check was deposited in the Handelsbank in Zurich, Switzerland.

Three months later, Mr. McDermott submitted an invoice to Crane from Global Risk for \$164,514, which he said was the net cost of an excess travel-accident policy.

Tell how...

Continued from page 3

ances," Mr. Field suggested.

And, in the case of insurance, Price Waterhouse advised that periodic reviews of the entire insurance program be made by an outside expert.

The surety association warned that a system of internal controls may not look good on paper but may not be working in practice. The association suggested the system be reviewed at least once a year. This is usually done during the annual audit by a certified public accountant.

IN GENERAL, public accountants have made numerous suggestions regarding sufficient internal control. For one thing, they recommended a plan of organization that clearly establishes lines of authority and responsibility. Accountants say that duties should be divided so that no one person handles a transaction from beginning to end.

Price Waterhouse, as do other CPA firms, urged a strong personnel selection and training program. Companies, said Mr. Roth, should investigate and verify the reputation of employees and officers. Such an investigation usually shows that a particular applicant might already have a police record. These methods help to eliminate applicants of poor character before they get into a company.

"Quite often the common problem of an employee in the receiving department conspiring with suppliers can be directly traced back to the lack of a thorough pre-employment inquiry," said Mr. Simpson.

"MANAGEMENT," he believes, "has an obligation to itself and to its own employees to conduct such inquiries."

A simple formula for protection against embezzlement is a good system of internal control supplemented by an independent audit plus fidelity insurance. According to Price Waterhouse, adequate controls make fraud more difficult but not impossible.

In studies conducted by the surety association, results show that more than 65% of the companies suffering losses were underinsured. In many instances firms had insured up to \$10,000 and suffered losses amounting to \$80,000, \$90,000 or more.

THE DIFFERENCE between what a company insures for and his actual loss is often enough to cause it to declare bankruptcy, the association warned.

Mr. McDonough contended that not only do companies tend to underinsure but they also tend to insure only employees who can run away with cash. However, he said, "Anyone can embezzle, and money isn't the only thing taken."

According to surety underwriters, companies are very unsure as to how to cover their employees and what limits should be secured. There are numerous policies which protect employees, including individual bonds, schedule bonds written either on a named or positioned basis, blanket bonds, comprehensive policies and blanket crime coverage.

ACCORDING TO THE association, a formula has been developed which gauges the minimum coverage appropriate for commercial firms.



Can big business get along without "Yes Men"?

Lots of big businesses we know, say no. Some have a fleet of trucks that needs protection. Others have a staff of people that needs looking after. Still others have large organizations that call for pretty diversified insurance structures. They just wouldn't be without the services of a "Yes Man." The men of Maryland American General are known as just that when it comes to the kind of special insurance service an organization like yours deserves.

What's more, our latest service arm, the Special Accounts Department, makes sure companies with large in-

surance undertakings get extra large helpings of "Yes" service: specialists in claims, engineering, production, underwriting and group life. Their job is to back up our agents. Their know-how means you get the best possible protection at the lowest cost—plus faster handling of your account with less red tape.

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Wash Watch...

Continued from page 4

laws which serve to relieve employers of liability from common law suits involving negligence and insure employer of compensation for job-incurred injuries irrespective of fault.

It is not believed that this was the intent of the proposal, but to erase this problem and leave a meaningful bill (at least from the administration and labor standpoint) will be a difficult task for Congress.

THE HOUSE select labor subcommittee has concluded lengthy hearings on the proposal and is currently in the process of considering amendments to it. The Senate labor committee held one day of hearings with only Secretary of Labor Willard Wirtz testifying.

Secretary Wirtz's earlier testi-

mony on the House side had been strongly questioned by subsequent witnesses and the Senate hearing was apparently designed to give him a chance to answer.

The Senate will probably wait until the House has finished with the bill before taking further action. It has, however, concluded hearings on the amendments to the Longshoremen's and Harbor Workers Act. In addition to increasing benefits, this bill would allow the Labor department to assess insurance companies for the costs of administering the act and for carrying on a safety program in connection with it.

INDUSTRY representatives fear that besides driving rates higher the provision would have the effect of laying the groundwork for a massive federal safety force to duplicate efforts of insurance companies at the expense of the insured.

Another disputed area of the

bill centers around demands by certain segments of industry that if compensation payments are going to be raised, a provision should be added to the bill relieving employers of the increasingly prevalent third-party actions.

In the area of pension bills the Administration's proposed Welfare and Pension Plans Disclosure act, or at least an amended version, was considered to be a certainty.

However, the unexplained absence of an Administration omnibus pension bill covering vesting, funding and reinsurance may put the damper on it.

SEN. JACOB Javits (R., N.Y.) has long been fighting for his own omnibus pension proposal and the feeling is that liberal Democrats in the Senate will be reluctant to bring a watered-down version of the rather bland

disclosure bill to the Senate floor with no bill at all on vesting, funding and reinsurance.

The Administration has already promised Sen. Javits that his bill will be considered along with the Administration pension bills, and liberal Democrats such as Sen. Ralph Yarborough (D., Tex.) are not likely to take a chance at being outmaneuvered by Sen. Javits.

Lawyers oppose R.I. basic protection plan

The Academy of Trial Lawyers of Rhode Island is rallying opposition to the compulsory basic protection automobile insurance plan proposed by Gov. John H. Chafee. The proposed action would base payments on the extent of injuries and disregard the fault factor in automobile accidents.

dates for buyers

APRIL

CPCU, Columbus, O. chapter, **marketing the hard to place risk**, April 22, Neil House Motor Hotel, Columbus, O.

National Assn. of Insurance Commissioners, Mid-Atlantic Group, April 27-30, Statler-Hilton Hotel, Baltimore.

MAY

U.S. Chamber of Commerce, **Hemispheric Insurance Day**, May 8, Hotel Pierre, New York.

Eastern Conference of Health, Welfare and Pension Plans Inc., **spring seminar**, May 9-12, Concord Hotel, Kiamesha Lake, N. Y.

AMA, **special conference on government and insurance and employee benefits**, May 13-15, Americana Hotel, New York.

National Fire Protection Assn., **annual meeting**, May 20-24, Marriott Motor Hotel, Atlanta.

CPCU, south-central region, **the constructing risk**, May 23-25, San Antonio, Tex.

JUNE

Assn. of Life Insurance Medical Directors of America and the American Medical Assn., June 15, Fairmont Hotel, San Francisco.

Milwaukee All Industry Insurance Day, June 5, Sheraton-Schroeder Hotel, Milwaukee.

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AMA session...

Continued from page 6

methods of cost control.

He encouraged his listeners to initiate an approval mechanism and an audit mechanism and to keep subscribers, physicians, hospitals and other providers well informed as to how these systems are operating.

Joseph Schneider, Medicare coordinator for Inter-County Hospitalization Plan, Glenside, Pa., described the organization and control of utilization committees, which were formed with the start of Medicare to assure that all inpatient service given was necessary and couldn't be provided as effectively in the home, office, hospital out-patient department, extended care facilities (nursing homes). These committees are formed within the hospital staff.

HE POINTED OUT that the utilization committee devotes attention to areas which generally account for ineffective utilization: Unnecessary admissions; excessive length of inpatient stay; delay in use, or over-use, of radiology labs or other diagnostic and therapeutic services.

The review committees are making recommendations along the lines of better outpatient services and cutting costs for preadmission testing. Mr. Schneider urged insurers to incorporate in their policies some of the recommendations.

Dr. I. S. Klemes, medical direc-

tor for J. C. Penney Co., New York, and Glenn L. Oster, manager of employee benefits, Dravo Corp., Pittsburgh, described two methods which employers can utilize to reduce costs.

Mr. Oster recommended an effective employee communication program to tell the employees what they are covered for; otherwise, "they'll begin to think they are covered for everything." He described the methods his company has employed to communicate benefits. Mr. Oster

added that communications programs can work to reduce claims.

AS RELATED TO union negotiations, a good communications program admittedly could be a "springboard to higher benefit demands but when employees know what they have they may not press quite so forcefully for increased benefits," he said.

Dr. Klemes described the organization of a company medical department set up to serve the

needs of employees. He contended that it isn't the care the employee receives at the medical department that counts but it's caring for him that makes the difference.

He defined a medical office as a privileged sanctuary where an employee can let off steam, release his hostilities and air his gripes, feeling secure it will go no further.

Dr. Klemes termed absenteeism the "cancer of industry" and recommended that spending a

little time with employees saves lost days; if they are brushed off they go home.

He also said that visits to an employee's home gives him an awareness of the employer's interest and also can uncover if an employee is faking.

The medical director advised that teamwork between the personnel and insurance departments, safety director, medical department and the employee's personal physician goes a long way in saving time and money. ■

Elect Marriott college buyers unit president

CHAMPAIGN, Ill.—The University Insurance Managers Assn. at its spring meeting here elected Robert E. Marriott Sr., insurance manager of the University of Missouri, president for the coming year.

Other officers include Charles S. Reddy, University of Notre Dame, vp, and James R. Roesch, Ohio State University, secretary-treasurer. In addition, James R. Gallivan, University of Illinois, and William Skea, University of Iowa, were added to the board of directors.

The UIMA also admitted seven new members to the association bringing total university membership to 21.

Another group of university insurance managers will meet in Washington, D.C. at Georgetown University May 2 and 3. Although it is not a formal organization, representatives from 20 schools have been invited to attend the conference.

Most original members of the UIMA were from the Midwest, but the group now has membership from two California schools and two eastern universities. ■

Hull and Co. gets Smart

Norman J. Smart has joined Hull and Co., Inc., as exec vp. Mr. Smart will handle treaty and facultative reinsurances with domestic and foreign markets and will be responsible for the organization's special underwriting programs.

Mr. Smart was formerly managing director of a firm of Lloyd's of London brokers and is an associate of the Chartered Insurance Institute. He came to the U.S. in February.



Sleep better

Longshoreman injury ruled compensable by high court

CHICAGO—The U.S. Supreme Court has ruled 8-0 that a suit for injuries to a longshoreman could be sustained after a federal compensation commission had declared the accident non-compensable.

The court based its decision on testimony from a subsequently discovered eyewitness who said

he saw the plaintiff struck on the head with a length of rope.

The case involved John Banks, a longshoreman working for the Chicago Grain Trimmers Assn. at the Norris Grain Elevator.

Mr. Banks fell down a flight of stairs in his home Jan. 30, 1961 and subsequently died. The suit was carried on by his wife and

three children against the association. First, he filed complaint that he was struck in the head at work several days before the accident in his home. This complaint was denied.

HE FILED a second complaint saying that he was hit in the head by a falling rope at work on the day he fell at home.

Mr. Banks, under district court order, was awarded \$19,000 settlement from the grain elevator in a separate action. The award for the Supreme Court action is

for \$54 weekly for the widow and three children. As the children reach age 18, the amount will be reduced. The insurer is the New Amsterdam Casualty Co., which in 1966 merged with Security Insurance Co. of Hartford.

Mark Braun, who represented the insurer, said the Supreme Court decision means that any payments for death or injury under the Longshoremen's and Harbor Worker's Compensation Act may now be reviewed within one year on the grounds that

new evidence has been found or a mistake has been made by the examiners.

Mr. Braun said he did not know if the association or insurer planned any additional legal action.

Travelers to operate mobile claims unit

Travelers Insurance Co., Hartford, has unveiled a mobile emergency claims unit, which will be garaged in St. Louis and driven to disaster areas when extra facilities and personnel are needed quickly. Upon arrival at a disaster area, Travelers said, the vehicle will be located as near to the scene of heaviest losses as possible.

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New container insurance group may face regulatory opposition

NEW YORK—A new foreign insurance group proposing unlimited capacity, lower rates and experience rating plans for shipowners and container forwarders may meet opposition from international regulatory authorities and conference groups, according to U. S. shipping interests.

The group, to be known as the Through Transit Marine Mutual Assurance Assn., was formed in London to provide an additional insurance market for the rapidly expanding container industry.

John J. McGowan, a spokesman for John F. Curry Agency, U. S. representative for the

group, explained that shipowners and forwarders who want to participate will in effect be members of the insurance group. They will be assessed a deposit premium which will be adjusted according to the group's loss experience.

"IF A SHIPOWNER or forwarder has good experience he could have a minus factor or it could work the other way in the event of heavy losses," Mr. McGowan said.

Initial premiums will be "rock bottom" low, he said, but adequate enough to meet average claims.

Some shipowners may reject proposals from the new group, according to a container company source, because the broadened coverages in effect increase a shipowner's liability for cargo.

Restrictive rules and regulations protecting the shipowners from conflicting interests may stall any attempts to get approval from international shipping organizations, he said.

Because each company will be mutually assessed for losses, the source said, a shipowner with a good record is not likely to change insurers to share losses with an operator with poor experience.

ANOTHER STUMBLING block may be that placing all coverage with one group eliminates the flexibility of bargaining for economical rates, the source pointed out.

He cautioned buyers that serious losses suffered by the group might tend to raise rates higher than those paid in domestic markets.

A spokesman for a leading brokerage company said it is "questionable" that new group will write unlimited coverage because of high container shipment values and history of large losses.

He added that domestic companies might think twice about placing an up to \$100,000,000 worth of annual insurance premium in a foreign market because of the U.S. balance of payments problem.

THE ACTUAL risks which the new group intends to cover both at sea and ashore include: cargo liability; loss or damage to containers; liability for damage to property; loss of life and personal injury; and other risks such as fines resulting from operations.

If the new group gets off the ground, it could lead the way for insurance companies to seek subrogation against shipping companies and container forwarders, contended a marine underwriter.

He explained that in the event of a container loss, cargo insurers may have recourse against the shipowner who will be covered by the new group.

The underwriter pointed out that shipowners usually limit themselves for cargo liability because of prohibitive insurance costs and that shippers are usually covered by their own insurance policies.

According to the Curry agency, managers of the new group include West of England Steamship Owners' Protection & Indemnity Associates, T. R. Miller & Sons, and Charles Taylor & Co.

The group is not expected to begin writing business until next August.

Drowne dies

NEW YORK—Brig. Gen. H. Russell Drowne, Jr., 70, chairman of Russell Drowne Inc., life and pension insurance broker, died April 7. He was a native New Yorker.

Gen. Drowne served as president of the corporation and was a former vp of Rollins, Burdick, Hunter Co., insurance broker, and of Culber Holyday, real estate brokers.

He served in both world wars and retired as a brigadier general from the Army reserve in 1957.

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Marsh & Mac 1967 report outlines income sources

CHICAGO—Marsh & McLennan in its recently released annual report for 1967 reports that major sources of its \$91,824,449 total income were property, marine and liability commissions and fees.

Property and marine business accounted for \$28,498,837 or 31% of the 1967 gross income dollar and liability business accounted for \$27,267,129 or 30% of gross income, according to the annual report.

Other income sources included fees and commissions from life business, \$12,291,606 (13%); pension, \$7,477,074 (8%); reinsurance, \$10,265,465 (11%); and other, \$6,024,338 (7%).

The annual report also states that total pension expense for its employees for 1967 was \$2,077,000 as compared with \$1,785,000 for 1966. The vested benefits for all plans exceeded the total of the pension funds and consolidated balance sheet accruals by almost \$900,000.

Among expense items was the annual rental cost of \$3,200,000. The company rents all of its office facilities under leases varying from 1 to 20 years, the report states.

One portion of the report is devoted to possible acquisition of businesses complementing pres-

ent activities. The company reveals that it has hired a consulting firm to explore "new growth areas of business."

The report goes on to state that it has 900 employees including 40 actuaries specializing in employee benefits out of 4,400 total employees.

The company reports a \$1,390,878 investment in American Overseas Reinsurance Co., at book value and a \$253,910 investment in foreign subsidiaries. Also included were 226,974 shares of common stock exchanged for outstanding capital stock of Bailis & Co. Inc., Flynn, Harrison & Conroy Inc. and Power and Dalziel.

In a "services keyed to the future" section, the report states that it arranged insurance coverage for "Telstar", the world's first privately owned satellite in 1963. It also designed coverages for various deep sea research operations, such as the "Deep Quest" undersea vehicle, two deep diving submarines, Aluminant and Alvin, and research vessels for Alpine Geophysical Associates Inc., Woods Hole Oceanographic Institution and Rebioff Oceanics Inc.

The report states that commissions, fees and other income were up 11.6% in 1967 over 1966 and net income up 21%.

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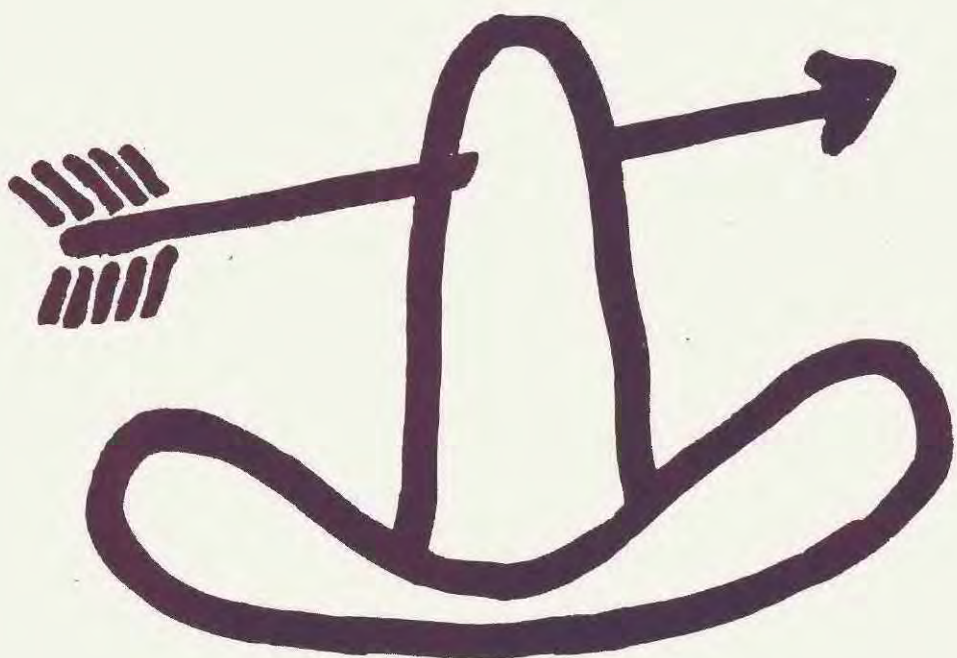


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