

Problem areas of property and liability insurance coverage

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business insurance

for buyers of employee, property and liability protection

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LBJ's decision fades chances of pension bill

WASHINGTON—The already slim chance for an administration omnibus pension bill going formally to Capitol Hill this session became even slimmer last week when President Johnson announced he would not seek re-election.

One administration source who has been helping to draft the proposal said, "We're not sure anyone even wants it now."

Most Washington political analysts feel that the President had probably sent to the hill before he made his announcement all the major proposals he had planned to send this year.

A pension bill establishing minimum federal standards for vesting, funding and reinsurance was thought last fall to be a certain election year proposal. But, as President Johnson's influence on Capitol Hill began to be taxed on other matters, the prospects for an administration push on this highly controversial issue diminished.

ANOTHER ROADBLOCK emerged when organized labor indicated it could not support a bill which treated multiemployer plans in the same manner as single company programs.

A second bill caught up in this controversy is Rep. John Dent's (D., Pa.) proposal to place uniform fiduciary responsibility on all persons handling welfare and pension funds. Hearings on the bill were just concluded.

The Dent bill, or at least a watered down version of it, was considered to be almost a certainty. However, Capitol Hill analysts are taking another look at its chances now that an omnibus administration pension proposal may not be forthcoming.

SEN. JACOB Javits (R., N.Y.) has long been fighting for his
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Atlantic Companies tell largest loss

NEW YORK—Atlantic Insurance Cos., in reporting a new high in net premiums for 1967, stated that during the year it suffered the largest single net loss in its 126-year history.

The insurer said the loss, involving the stranding of the Torrey Canyon, resulted in a net claim to the carrier of \$300,000. A spokesman added that Atlantic's total commitment on the Torrey Canyon was \$600,000, half of which was reinsured.



Water damage to Carson Pirie Scott & Co. in multimillion-dollar fire was covered by its Factory Insurance Assn. policy. Scene shows stairwell between sixth and seventh floors, hardest hit areas in the State street store. *Chicago Sun-Times photo by Duane Hall.*

Acrid odor of arson haunts Chicago fires

CHICAGO—Insurance covered property and business interruption losses suffered by four major Loop department stores hit by fires on March 29.

Worst hit was Carson Pirie Scott & Co. which is insured through the Factory Insurance Association, according to Herbert Schachtschneider, corporate treasurer. The store carries \$88,000,000 total coverage with a \$5,000,000 deductible.

Robert Hendy, assistant secretary-treasurer, said the estimate of \$20,000,000 damage was merely a first guess, and expected the final figure to be much lower.

THE STORE carries a blanket policy insuring to 100% value against fire, water and smoke damage. Schachtschneider also said the company has 100% replacement insurance on all items of furniture and fixtures as well as building damage.

Carson's took full-page ads in Chicago daily newspapers that, among other things, assured customers that "every aspect of fire-caused losses . . . is fully covered by insurance. All items of inventory are insured to 100 percent of value against fire, water and smoke damage. Similarly, we

have 100 percent replacement insurance on all items of furniture and fixtures, and on all building damage. Under the same blanket policy, Carson's also has full coverage against loss of profits while the store is closed. Our insurers are obligated also to pay all salaries and normal business expenses during this period."

Wieboldt Stores Inc., Montgomery Ward & Co., and Goldblatt Bros. Inc. were also struck by spot fires and suffered minor damage. All three stores, and Carson's, are within a five-block area. A Montgomery Ward store under construction in suburban Lombard was the scene of a fire the next day.

At all stores, automatic sprinklers functioned except on the sixth floor of Carson's where the system had been turned off during alterations.

CARSON'S WAS closed three business days but FIA is obligated under the business interruption clause of the policy to pay all salaries and normal business expenses. It also must cover the loss of profits.

FIA will bring in the General Adjustment Bureau to reach a
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Crane insurance buyer indicted for diverting cash to 'paper' carrier

NEW YORK—A former assistant treasurer of Crane Co., who had been relieved of his other duties to concentrate on revamping the company's insurance program, has been indicted in an \$870,000 insurance fraud scheme.

Now an ex-employee, George F. McDermott, 35, was released on \$5,000 bail after being charged with four counts of grand larceny and one count of conspiracy. Named as co-conspirator, but not indicted, was John Caldiero, an American-born whisky distiller living in Antigua, British West Indies.

Mr. McDermott is accused of setting up a "paper" insurance company, Global Risk Underwriters Ltd., in Antigua, with Mr. Caldiero as president, and funneling \$870,000 worth of Crane Co.'s excess coverage into Global Risk, which he fraudulently represented to management as part of the Royal Globe group.

CRANE, WHICH has recovered a large portion of the funds, is protected by fidelity bonds written through Royal Globe.

Crane, which reportedly had high regard for Mr. McDermott, was said to have recovered the funds seven days after its auditors had confirmed the scheme in a series of moves said to resemble "one of those 007 deals."

Mr. McDermott wrote four separate excess policies through Global Risk, which had headquarters in Lausanne, Switzerland, with branches in Munich, Paris, London, Montreal, Madrid and New York.

The first policy, which was supposed to provide \$15,000,000 coverage for foreign excess liability protection, went through Insurance Marketing Associates, Stamford, Conn., a brokerage firm with which Crane Co. still does business. Mr. McDermott was a principal in the firm.

ACCORDING TO THE indictment, Mr. McDermott then transferred \$207,000 of the \$238,000 premium for the excess liability policy to the bank account of Global Risk in the Bank of Nova Scotia, St. John's, Antigua.

Other policies written through Global Risk were a \$10,000,000 excess multiperil policy, through its London agency office, with yearly premiums of \$379,000; and an all-risk policy with premiums

each year amounting to \$88,500.

A fourth policy for excess travel-accident was for a premium of \$170,000, but Mr. McDermott assertedly told Crane management that since the company had a \$5,486 "credit" coming from "the Royal Globe group," the net payment was reduced to \$164,510.

It was his contention that premiums charged by Global Risk were at competitive rates, not in excess of what other insurance companies charged for similar coverage. The indictment charged that Mr. McDermott placed insurance on behalf of Crane at "exorbitant" rates.

BUT THE REAL problem, according to some insurance experts, is determining when a firm has enough excess coverage. Crane, for instance, operates industrial aid aircraft and manufactures component parts for atomic energy work—activities which have high potential liability.

"On analysis," a source told *Business Insurance*, "it became obvious that Crane's excess coverage was unnecessary. But at the time of Mr. McDermott's resignation, last June, the firm wasn't at all sure it had too much coverage."

Another source pointed out that had Mr. McDermott purchased the high liability limits through normal channels the only mistake that would have been committed would have been one of "damn poor judgment" on the part of the insurance manager.
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Tacoma Narrows insurance fraud of 1939 recalled

NEW YORK—Insurance men had to go back to 1939 to recall an incident similar to the \$870,000 insurance fraud scheme allegedly involving a former Crane Co. employee.

In that year a special insurance agent was arrested for pocketing \$8,000 in premiums on the Tacoma Narrows Bridge.

The scheme was discovered when the bridge collapsed in a storm and the insurance company found itself with \$800,000 insurance in force which it didn't know about.



Voicing their opinions on employee benefits at an American Management Assn. seminar in New York are Robert Collins, director of employee benefit plans services, Lybrand, Ross Bros. & Montgomery; John D. Ruckert, manager of employee benefits, National Dairy Products Corp.; Morris W. Stein, sales manager of Blue Cross of Greater Philadelphia; and Frank L. Griffin Jr., vp, the Wyatt Co. For story on seminar, see pages 3, 29, and 30.

Sterling has \$100,000,000 excess for products liability

NEW YORK—Sterling Drug Inc., hit with a \$550,000 products liability judgment against its Winthrop division, is protected by excess insurance coverage of up to \$100,000,000—the last layer of which was only arranged after the first of the year.

A U.S. district court jury in Jackson, Miss., made the award to Miss Mary Ann Morgan, who sued Sterling on the grounds that a rheumatoid arthritis drug, Aralen, caused her to become blind.

The judgment—which Sterling is appealing—is the largest in Mississippi and one of the biggest of its kind in the nation. Miss Morgan's attorneys argued that Sterling had not given timely or adequate warning to the medical profession concerning the harmful effects of Aralen, which was marketed by the firm in the late

1950s.

Sterling has products liability coverage, through Royal Indemnity Co., for \$5,000,000 per single occurrence and \$10,000,000 aggregate occurrences. In addition Sterling has obtained excess limits of \$50,000,000 per occurrence and \$100,000,000 aggregate through about ten carriers, split between the U.S. and London.

The first excess layer was obtained by Sterling's broker, Detroit Insurance Agency, in London. Interestingly, up until the first of the year, Sterling had limits of \$42,500,000/\$87,000,000, and the final layer was only added after that.

Another suit, also involving Aralen, was tried by the same U.S. district court jury. In that case an award of \$150,000 was made. Sterling is also appealing that decision.

39 publishers adopt long term disability plan; 3,400 covered

NEW YORK—A long term disability group insurance plan for members of the American Book Publishers Council has been adopted by 39 firms covering approximately 3,400 employees, since it was first offered four years ago.

"Many members consider it as important as their group life and medical coverages," observed Robert E. Kenyon Jr., exec vp of Magazine Publishers Assn., one of the five participating groups.

Mr. Kenyon pointed out that having the long term disability plan eases any difficult decisions an employer must make when an employee of long standing or high salary becomes disabled or unable to work.

BENEFITS FALL INTO two categories. One plan pays 50% of an employee's base salary up to a maximum benefit of \$1,000 a month, and another pays a benefit of 60% subject to a maximum of \$1,200 a month. Both plans are underwritten by the Connecticut General Life Insurance Co.

"Each employer can set his own eligibility requirements," explained William McManus, partner of Herbert L. Jamison & Co., New York, which is the administrative trustee of the plan.

"For example," he told *Business Insurance*, "participation can be limited to fulltime salaried employees with at least three months' service earning more than \$7,000 a year. As long as an

employer doesn't violate the New York State laws, eligibility requirements can be flexible, Mr. McManus said.

THE PLAN WAS tailor-made to accommodate small to medium companies as well as large ones, Mr. McManus stated. This was necessary because "it's in the smaller companies that you find a wider fluctuation of pay schedules."

Both plans are written on a "step rate" basis, which is based on the number of eligible employees in each participating firm.

Some companies pay the entire cost of the plan, and in others the cost is either divided or paid in full by the employees.

"THE INTERESTING thing, however," Mr. McManus said, "is that even in companies where the employee pays the entire cost, the participation is never less than 75%. It seems that nowadays people are very aware of the economic death that can be caused by permanent total disability."

Benefits start after a waiting period of 27 weeks, and continue for life if the disability is caused by an accident and up to age 65 if resulting from sickness.

Premiums are collected on a monthly payroll basis, no matter what method is used for contributing, and sent to Herbert L. Jamison Co. as the trustees.

Irish International Airlines crash rekindles Warsaw Treaty debate

by WILLIAM GUEST

NEW YORK—An Irish International Airlines turboprop Viscount, which plummeted into the Irish Sea March 24, was entirely covered by insurance in the London market.

Bound for London from Cork in southern Ireland in good weather, the plane fell an estimated 17,000 feet, killing 57 passengers and four crew members. An airline official indicated that the hull loss could probably be about \$500,000.

Estimates of the amount of passenger liability coincide with two U.S. supreme court decisions involving the Warsaw Convention limits of \$8,300 per passenger, handed down just last month.

THE 1929 WARSAW Convention set uniform liability limits for most of the world's major airlines, and also provided for uniform ticketing and other procedures.

The \$8,300 limit has been a subject of controversy for several years, and in 1965 the U.S. threatened to withdraw from the treaty because the figure was not considered realistic.

As a result of this threat, all international airlines serving the U.S. agreed in 1966 to raise the limit to \$75,000 a passenger. However, controversy has raged over whether these higher limits can apply to accidents which occurred prior to 1966.

The \$75,000 must be paid automatically to a passenger without proof of negligence on the part of the airline and is virtually considered a limit of absolute liability.

USING THIS as a precedent, the government may soon be moving into aviation accident insurance, if a draft bill written by the Justice department and currently being circulated among aviation experts receives approval.

The purpose of the bill, according to officials, is to establish a government trust fund which will automatically compensate victims in cases where the Federal Aviation Administration has been found at fault in an accident.

Since the FAA accepts responsibility for the safety in airline operations, the trend has been for courts to find it at fault. However, plaintiffs have been obliged to institute litigation in order to receive compensation.

No limit has been set on the amount the government will pay for each individual passenger in the proposed bill.

THE SUPREME COURT has done little to resolve this controversial point in two closely watched decisions reached in March.

The first case involved an Alitalia airliner which crashed at Shannon, Ireland, in February, 1960, killing 13 U.S. citizens.

A suit brought on the victims'

behalf charged that tickets issued by the airline didn't conform to the Warsaw treaty, which required that all tickets notified passengers of the \$8,300 limit.

IT WAS ALLEGED that the notification was spelled out in small, unreadable type. Two lower courts—a federal district and an appeals court—had upheld the suit.

In a surprise move, the Supreme Court split evenly on the issue, thereby automatically confirming the lower courts' decisions. It is assumed that other damage suits arising out of the Alitalia disaster can now be brought forward.

However, in another decision involving Eastern Airlines, the Supreme Court left standing a Philadelphia appeals court ruling that the airline wasn't liable for more than \$8,300 per passenger, in a case arising out of a December, 1955, crash near Jacksonville, Fla.

THE TICKET notification was also an issue in this case, but the lower appeals court held that even if a ticket gave passengers inadequate notice of the \$8,300 limit, a plaintiff suing for more than that amount would have to prove willful misconduct in the operation of the aircraft.

In the March 24 accident, Irish International was flying over the British Isles, which is still bound by the terms of the Warsaw

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SEC ruling may be aid to foreign captive

WASHINGTON—An offshore captive insurance company financed by a parent company's domestic foreign subsidiary may be aided by a Security and Exchange commission ruling aimed at attracting more overseas capital to U.S. foreign operations.

In effect, the purpose of the ruling is to promote the growth of the parent company's foreign operations without aggravating the balance-of-payments deficit.

According to the SEC, the rule exempts all finance subsidiaries from the Investment Company act of 1940, which places limitations on the operations of investment companies.

AN SEC spokesman explained that in the case of a foreign captive, a domestic finance subsidiary formed by the parent company could sell its securities to foreign investors for allocation to the foreign captive operation.

A legal expert on captive companies said the money invested in the captive operation by the domestic subsidiary could be used to increase its capacity to write additional business and to make a greater profit.

The ruling states that 90% of the domestic subsidiary's assets must be invested in companies in which the parent concern has a 100% ownership interest.

Agency changes name

Lynn Latta Agency, Yakima, Wash., has changed its name to Central Insurance Brokers Inc.

Expects tough British drunk driver law to save 1,600 lives

NORTHBROOK, Ill.—A member of the British Parliament told a national safety symposium that his nation's new strict drunk driving law seems to be working better all the time and now is expected to save 1,600 lives a year.

Anthony Grant, a Conservative member of the House of Commons, said that in the first few months the law had been in effect, the results "have been very encouraging indeed." Mr. Grant spoke to 300 persons attending the second annual traffic safety symposium, sponsored by the Insurance Institute for Highway Safety.

THE BRITISH highway safety act became effective last Oct. 9. It allows a policeman to administer breathalyzer tests to drivers involved in an accident or minor traffic violation.

The driver can be convicted when the alcoholic content of his blood is at least .08% by weight. This is slightly more than half the legal amount for conviction in some states now.

The British policeman first administers the test with a portable kit he carries with him. If it indicates a certain minimum amount of alcohol, the driver must go to a police station for more accurate blood or urine specimen tests.

MR. GRANT said that before the law was passed, auto accidents were the greatest cause of the country's violent deaths. Since passage, highway fatalities have dropped 13%, and 44% during the greatest drinking hours—10 p.m. to 4 a.m., he said.

The British Ministry of

Transport originally estimated that 200 lives would be saved annually. Last January the estimate was raised to 1,200 and now is 1,600, Mr. Grant said.

Mr. Grant said that at first the public had feared the power of policemen in administering the law. "But the policemen have not carried out their powers savagely at all," and enforcement has not been unfair, he said.

He said that British drivers and drinkers had largely changed their drinking and driving habits.

The symposium is sponsored by the Insurance Institute for Highway Safety, which represents more than 500 insurance companies.

McCarthy joins Petersen as risk manager

LOS ANGELES—Petersen Publishing Co. has named Don McCarthy insurance manager. The newly created position is part of a major expansion of the company's operation.

McCarthy, previously insurance manager for Consolidated Leasing Corp., will supervise all corporate insurance.

Petersen publishes various automotive magazines, including Hot Rod, Motor Trend, Sports Car Graphic, Car Craft, Rod & Custom, Guns & Ammo, Wheels Afield, Hot Rod Cartoons, Automotive Yearbooks and other specialty publications, as well as TEEN, Skin Diver and Surfing Magazines.



Flame-blackened cargo ship, African Star, lies imbedded in Mississippi River mud about 35 miles below New Orleans after a blaze engulfed the ship, killing 11 crewmen and injuring many more. Fire erupted when the ship and two oil barges collided in the river.

Wide World photo

Two barges, African Star collide on Mississippi; broker is mum

NEW ORLEANS—A collision between two oil barges and the cargo ship African Star on the Mississippi river March 16 killed 15 crew members, caused hull and cargo damages estimated at \$1,000,000, and left open for question how much, if any, protection and indemnity liability coverage was carried by the shipowner.

Farrell Lines and its insurance broker, Powdermaker & Co., both of New York, refused to comment on the cause of the accident and whether protection and indemnity insurance was carried.

An insurance source said that Farrell was probably covered for property and indemnity by American Club, a leading P&I writer, but a spokesman for that company also refused to disclose any details.

Protection and indemnity coverage can be included in marine policies and protects shipowners against punitive damages for the wrongs of their marine personnel.

A MARINE UNDERWRITER told *Business Insurance* that hull insurance was split between Lloyds and the U.S. but he said the biggest loss is expected to come from liability claims arising from the deaths and injuries.

Many crew members were seriously injured by the accident after a raging fire engulfed the vessel, whose cargo included

grain, cotton and 16 tons of rocket detonators.

A U.S. Coast Guard spokesman in New Orleans said a study was underway to determine the cause of the accident.

IF A COURT should find Farrell Lines negligent it could lead to a rash of large personal liability claims. The claimants would be backed up by a recent U.S. district court decision which said negligence on the part of a commanding officer, causing death or injury to crew members, leaves the shipowner liable for punitive damages.

In addition to claims arising from deaths, a marine underwriter indicated that "neurosis" claims would have to be considered in any loss adjustments. For example, a crew member who jumped over the side of the African Star might sue for a nervous disorder although no bodily injury resulted.

A SPOKESMAN for the National Maritime Union, which represented some of the crew members, said the accident pointed up the need for additional safety precautions. He said liability claims against Farrell would be initiated by the individuals involved, not the union.

The accident, which occurred about 35 miles below New Orleans, was said to be one of the worst on that river in recent years.

Pabst gets \$245,000 for business interruption during 1967 curfew

MILWAUKEE—Pabst Brewing Co. has been paid \$245,000 for a business interruption claim resulting from a curfew this city's mayor imposed July 31, 1967.

Pabst incurred no physical damage during the racial strife that plagued the city last summer, *Business Insurance* has learned, but claimed that it lost seven work shifts because employees could not get to work due to the city-wide curfew.

It is understood that Pabst was insured under a manuscript manufacturer's output policy which provides somewhat broader business interruption coverage than standard contracts.

THE PABST carrier is American Motorists Insurance Co., part of the Kemper Group, and the broker is Youngberg-Carlson Co. Inc.

This was the first major business interruption claim paid in the Milwaukee area because of the curfew. It is understood that several large insureds in this area have made business interruption claims but have received verbal denials from their carriers. When pressed for written denials, the carriers have demurred indicating that perhaps the claims are still open.

It is also understood that the Factory Insurance Assn. has turned down in writing business interruption claims of suburban companies affected by the strike but has not formally denied claims from three or four large insureds located in the riot area.

THE FIA policy has a section called "interruption by civil authority" separate from a section on "riot, civil commotion and vandalism."

The section reads, "This policy is extended to include the actual loss covered hereunder during the period of time, not exceeding two consecutive weeks, when, as a direct result of the peril(s) insured against, access to the described premises is prohibited by order of civil authority."

Milwaukee mayor, Henry Maier, sealed off the city for a 24-hour period last July and several nights following. He also asked for the National Guard and other civil forces to control a threatened riot in the core area of the city.

EARL L. WINKLEMAN, insurance manager for Louis Allis Co., in a presentation at the national American Society of Insurance Management conference

in Chicago last February, contended this separate section does not contain restrictions found in the riot clause.

In a letter to the Milwaukee Journal, Joseph R. Gray, vp and general counsel of Pabst, wrote that American Motorists had made a claim against the county and that Pabst had a claim with

that carrier under a use and occupancy policy. He said Pabst did not intend to make any claim against the city or the county.

More than 225 claims totalling more than \$600,000 have been filed against the city. In addition, claims totaling more than \$25,000 have been filed against Milwaukee county.

Detroit papers paid \$500,000 in strike insurance benefits

DETROIT—Detroit's two major daily newspapers, shut down for nearly five months, each received \$500,000 in strike insurance benefits.

Publishers of the Detroit Free Press and the Detroit News told a special committee of the Michigan senate, which is investigating the record-setting newspaper suspension, that strike insurance paid each paper \$10,000 a day for a 50-day period.

An official of the Free Press said that the paper's insurance was provided by a master policy carried by the parent company, Knight Newspapers Inc. Benefits began after a 10-day waiting period, he said. The carrier is Mutual of Bermuda, which insures a variety of newspapers and other publications against such risks as libel and strike losses.

THE DETROIT News was struck by the Teamsters Union on Nov. 16, 1967, and the Free Press suspended its operations the next day. The Teamsters and the papers have since reached a contract agreement, but four other unions are still on strike and nine additional unions have expired contracts.

The strike is one of the longest suspensions of newspaper publi-

cation on record, although other strikes that have not halted publication have lasted much longer. On March 28, the Detroit strike equalled the record 134-day strike closure of the same papers in 1964.

In testimony before the state senate hearing in Detroit, Lee Hills, publisher of the Free Press, said that strike insurance has become an issue in the newspaper shutdown.

"THERE IS a shabby implication that we somehow like a strike, for financial reasons. That is obvious nonsense. It is difficult to respond to a vague accusation that tries to put these great newspapers in the same category with some second-hand dealer who burns his place down for the insurance.

"Of course we carry insurance. Put yourself in our place. If you had the experience that your house is almost burned down every two to three years against your will, you would take out all the insurance you can get.

"As to our insurance, the Free Press had only \$10,000 a day for 50 days, which offsets only a very small part of our losses."

The News said that its coverage also provided \$10,000 a day for 50 days.

Bill to limit cancellation of auto policies introduced

SACRAMENTO, Cal.—New legislation that would permit the cancellation of automobile insurance policies only for nonpayment of premium and revocation of driver's license or motor vehicle registration has been introduced by Robert Moretti, chairman of the Assembly finance and insurance committee.

Automobile owners whose insurance policies may now be cancelled for a variety of reasons

may still drive. The Moretti bill has support from the automobile insurance industry.

Elsewhere, Oregon's State Insurance Commissioner James R. Faulstich predicted the Keeton-O'Connell plan "could very well be adopted by the Oregon legislature by next year."

The two college professors, Robert Keeton and Jeffrey O'Connell, propose insurance compensation to all accident victims regardless of fault.

Benefit men seek ways to reduce health costs

by ROBIN MENZ

NEW YORK—Representatives of insurance, management, labor and medical care communities aired their views on rising medical costs, trends in employee benefits and industry's part in controlling claims costs at two American Management Assn. seminars here.

During the seminars, speakers identified such benefit trends as a dental plan which could be incorporated into major medical coverage, psychiatric insurance with deductibles attached to the back end coverage, portability of pension plans, and lung cancer detection benefits.

Added to the fringe benefit forecast are prescription drug

plans, reduction in retirement age, survivor's benefits, more comprehensive coverage under medical plans, changes in the pension formula, vision care and automation funds used to train employees displaced by technology.

Employee benefits have come a long way from the days when partial medical coverage was considered a "big deal," it was generally acknowledged. But as benefits continue to get bigger and better and provide more comprehensive coverage, means must be devised to control costs and claims and to avoid duplication of benefits so that employees won't make a profit from their coverage, a number of speakers

stressed.

To control costs and claims, management can employ such tools as coordination of benefit, minimum premium plans, adequate communication of benefits—so employees know what they have—company medical department facilities, checks at point of claims payment and hospital certification arrangements, it was explained.

HOSPITALS CAN LEND a hand by making the most of their utilization committees, which were formed with the advent of Medicare. According to one speaker, utilization committees are not designed specifically to reduce claims cost but to assure

that all inpatient service was necessary and couldn't be provided as effectively in the home, office, hospital outpatient department or a more appropriate, available facility.

An equally effective tool to reduce claim costs, several speakers recommended, is to design health benefits so as to stimulate preventive medicine—that is treating a disease in the early stages before extensive hospitalization and/or surgery becomes necessary.

In order to encourage preventive medicine, plans need to be designed so that the deductibles or number of visits does not discourage an employee from seeing

a doctor at the first sign of trouble.

A NUMBER OF TIMES during the seminars, speakers pointed to the United Auto Workers contract as an example of upcoming union demands. One speaker identified the UAW as a "trend setter" and several speakers agreed that future union demands would follow suit in asking for either equivalent or better benefits.

(For comments of participants in the American Management Assn. seminars, see pages 29 and 30.)

Premiums soar for businessmen making trips to South Viet Nam

By LOUIS HAUGH

CHICAGO—U.S. businessmen making company trips to South Viet Nam are being "clobbered" with high accidental death and dismemberment insurance premiums.

Since the Tet offensive by the Viet Cong and North Vietnamese and the general intensification of the war after Jan. 1, insurance rates have soared to \$50 monthly for each \$1,000 of coverage, and rates can be as high as \$75 or more, especially if broad air travel coverage is included.

The high rates, in effect, "buy back" a war risk exclusion. One woman broker told *Business Insurance* that accidental death

rates for Viet Nam vary almost on a day-to-day basis.

SHE SAID that currently rates are about \$50 per \$1,000 and that as recently as six months ago, the rate was \$6 per \$1,000.

"If the businessman is part of a group, rates may be substantially lower," she said. "But individuals really get clobbered."

She said that there were two markets for such policies, Lloyds of London and a large U.S. international carrier. Other sources told *Business Insurance* that there were other markets, but that they were getting harder and harder to find.

Companies which have employees regularly assigned in Viet

Nam generally enjoy more favorable rates from group policies. For example, the Associated Press has 20 new men in Viet Nam, each covered by a \$100,000 term life policy.

THE NEWS SERVICE pays a higher rate for those assigned in Viet Nam than in other parts of the world under its worldwide policy.

Two AP news men have been killed in Viet Nam since 1961.

There have been seven news men killed in Viet Nam, out of a total in country press corps of 600. Between 250 and 300 are U.S. There are no estimates available on how many U.S. citizens visit or are regularly assigned in

South Vietnam; however, last year there were 6,500 U.S. civilians working for U.S. companies with government contracts.

A spokesman for a major television network, with between 20 and 30 employees in Viet Nam at any one time, provides its correspondents with \$100,000 group life, accidental death and group travel policies, all with no war exclusion.

THE NETWORK had to "buy back" the war exclusion in the accidental death policy, but the other two were bought some time ago with no war exclusion, the spokesman said. The network pays an extra premium for the war risk but less than \$20 per \$1,000.

The network has had no fatalities, the spokesman said, but several correspondents and camera crew men have been injured. The injured were covered under workmen's compensation and the government bills the network for any medical care in military hospitals. The spokesman said the network's Vietnamese employees have a lesser benefit schedule.

Ralph Gentry, insurance manager for the Los Angeles Times-Mirror Co., said each member of its three man news team in Southeast Asia has a \$50,000 accidental death policy with about an \$1,800 annual premium. Mr. Gentry said this was down from about \$4,000 a year to two years ago.

One major industrial manufacturer negotiated its travel accident policy two years ago without a war exclusion by arranging to advise the carrier if any employee visits South Viet Nam.

The carrier then bills the company at a rate established at the time the policy was negotiated,

something less than \$10 per \$1,000. About 25 employees have made the trip, the spokesman said.

AN INSURANCE manager for an industrial manufacturer said he arranged a \$60,000 travel accident policy with no war exclusion for \$1.50 per \$1,000 per man. It is a blanket contract covering anyone who travels or is assigned to Viet Nam.

He said he traveled personally outside the U.S. last month to arrange the coverage and that the contract will generate more than \$1,000 annually in premiums. The company has two employees assigned to Viet Nam, plus frequent business trips.

A midwest broker told *Business Insurance* that he was quoted a \$75 rate for a group of seven businessmen who were to make a trip to the country two weeks ago.

At times during the Viet Nam war, rates have been as low as \$3 per \$1,000, and these rates were equal to premiums for a visit to Korea. It is understood that policy periods are now quoted in monthly time periods. For example, a one-day trip would require a one month premium and a 32-day visit, a two month premium. Previously, rates were quoted for as few as 24 hours.

RATES FROM Viet Nam are now the same as during the Arab Israel war last year. After a couple days of fighting in that conflict, rates soared to as high as \$60 per \$1,000.

Rates are, apparently, based on the political and military situation, as well as the area to be visited and occupation. For example, reporters tend to have higher rates, especially if assigned to combat areas.

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Buyers for small companies told: 'Get in the act'

CHICAGO—Buyers of insurance for small- and medium-sized companies have been advised to "get into the act" by a broker-consultant who specializes in designing business insurance programs.

"Don't leave your insurance decisions to your broker. Review your entire program once or twice a year. And be sure to tell your broker of any changes in production techniques, new plants or revisions in inventory," the buyers were told by Howard C. Alper, president of the Alper Agency Inc.

"Remember," Mr. Alper went on, "that a loss is half settled before it occurs if coverage is written properly. The other half of the picture is the proof of loss

which requires the insurance buyer—whatever his corporate title—to get the facts, hire a public adjuster if necessary, and enlist his broker as someone in his corner during the loss settlement procedure."

MR. ALPER TOLD a Chicago Assn. of Commerce and Industry insurance seminar the "true test of insurance" is whether a company's balance sheet "remains intact" after a loss. To facilitate analyses of business insurance programs, the Alper Agency uses a form that breaks insurable risks down into property damage (balance sheet risks); income or cash flow losses (profit-and-loss statement risks), and legal liability claims (capital and surplus

risks).

Single copies of the "analysis of insurable risks" tally may be obtained from the Alper Agency Inc., 1 N. LaSalle St., Chicago, Ill. 60602.

Businesses, Mr. Alper said, should decide whether a risk is adequately or inadequately insured, uninsured, self-insured or not subject to insurance. "Insurance guarantees the stability of a company by insulating it against the financial consequences of an occurrence," Mr. Alper said. "But not every risk should be insured against."

He cited as an example a company that keeps only a small amount of petty cash on hand. Such a firm, the broker explained, would be ill-advised to

pay substantial premiums for theft coverage unless it also has on hand valuable equipment, supplies or merchandise. By such economies Alper's agency reduced the insurance premiums of a three-plant tool manufacturing firm from \$13,700 to \$10,900 a year.

UNTIL THE COMPANY analyzed its insurable risks each of its plants had been covered for a separate amount of insurance, a program that was revised to provide an economical blanket policy that did not make a division between building and contents. Such policies, the broker explained, provide ease in buying coverage and in adjusting losses in case of fire or losses

from other insured perils.

"For small businesses as well as large it is better to prevent a loss than to make an insurance claim," Mr. Alper explained. He recommends burglar alarms where appropriate and sprinklers and fire detection systems as protection against fire.

A simple but effective loss prevention measure suggested by Mr. Alper involves accounts receivable. "If such accounts are destroyed by fire the result is a lower level of collectible receivables because you depend upon the morality of customers."

One of Alper's clients averted the problem of records destruction by taking home each night copies of invoices for that day. In his closet at home the company executive kept a safe set of accounts receivable.

MR. ALPER pointed out that it is important to cover all company-connected persons, including officers, under blanket bonds. He recalled a case in which a company covered all but officers and then promoted to corporate officer an office manager who later absconded with company funds. "In this situation," Mr. Alper commented, "insurance did not keep up with the company's situation. It illustrates why insurance buyers should review their programs at least annually."

A practice Mr. Alper warned against is placing personal vehicles under company fleet coverage. He recalled a case in which the 17-year-old son of a company president got into a serious accident and discovered that he was not covered under his father's company's insurance program. "In this case, the company president should have had personal coverage but he mistakenly tried to save money by covering the car under a company policy that protected only those who drove the car on business," Mr. Alper said.

Mr. Alper also warned his listeners at the Chicago Assn. of Commerce and Industry that they should know that almost any business needs products liability coverage. "Even improper order filling," he warned, "can engender products liability claims."

Insurers give views on air cushion ships

LONDON—The government is proposing to introduce in the present session of Parliament legislation governing air cushion vehicles (hovercraft), and already insurers have been consulted for their views as to how these vehicles should be treated—particularly in connection with liability for third party, passenger and cargo liabilities.

It is uncertain at this stage whether the legislation will come into effect before the 160-ton SR-N4, which has already been launched, becomes commercially operational for crossings of the English Channel.

Already the aviation and marine markets at Lloyds have combined to produce a policy specially designed for the insurance of hulls of air cushion vehicles—although a number of these vehicles are still being insured on the special wordings which were drawn up before this form was available.

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() N.Y., ---BUSINESS UPSET---This was the scene yesterday in the office of a local realtor after a boiler exploded in the room below. Floor and roof collapsed, destroying office equipment. There were no occupants in the building at the time of the accident. () (bfw638594/8571kp) 1967

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'May well' use general revenue for Social Security funds: Surrey

WASHINGTON—A warning that Social Security funding "may well" include the use of general funds was sounded here by Stanley S. Surrey, assistant secretary of the Treasury for tax policy.

Speaking at a conference of the Assn. of Advanced Life Underwriters, Mr. Surrey said that "there are scholars in the Social Security field who feel that we may have to supplement or partially reduce the current payroll tax as means of funding. Such a move might well include the use of general funds—a departure from the traditional method of funding the Social Security system."

Mr. Surrey also predicted that

there will be further changes in the Social Security system, including increased benefits.

"ATTENTION SHOULD be given to two objectives," he said. "First, to determine how to provide our people with a minimum subsistence, and second, how to provide people who are disabled or retired with the replacement of their earning power."

Mr. Surrey noted that there is little expectation that significant steps will be taken in the area of tax law reforms until legislation on the 10% tax surcharge is resolved. He said, however, that government officials and others are examining ways to "equalize tax burdens" affecting founda-

tions, pensions, estates and gifts.

At the same meeting, Albert G. Schmerge was elected as 1968 president of the association. Mr. Schmerge is general agent for Mutual Benefit Life Co., New York.

Auto leasing firm to buy glass insurer

Nationwide Auto Leasing Systems, Great Neck, N.Y., said it has acquired 99% of the stock of Massachusetts Plate Glass Insurance Co., Boston, for \$1,100,000. Nationwide is primarily involved in leasing autos to individuals and fleet users. The insurer currently has \$15,000,000 of plate glass insurance in force.

info for buyers

To make it easy for *Business Insurance* readers to get additional information offered in editorial items below and advertising in this issue, Reader's Service cards are bound in at page 9. These cards should be used only for items that are offered *without charge*. Items shown below with a price have the complete address of the supplier and your requests for such items should be sent direct to the supplier with payment, indicating that you saw the notice in *Business Insurance*.

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 N. Rush St., Chicago 60611.

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• A four-page booklet published by The Surety Association of America, **"Here Is Your Answer,"** discusses the rising trend of employee theft and lists a formula for determining the necessary amounts of honesty insurance for any size or type of commercial firm. A copy may be obtained free by writing No. 167 on the Reader Service Card.

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• **"1967 Study of Employee Savings Plans"** is a 132-page comprehensive survey of employee savings plans which qualify for tax advantages. The book, released by Bankers Trust Company, is believed to include all savings plans adopted by large corporations in the United States, and also plans of several medium size and small companies. It is free by writing No. 171 on the Reader Service Card.

• **"Guide for Emergency Care and Health Services for Construction Workers"** has been devised by Employers Insurance of Wausau to help contractors minimize medical and compensation insurance costs and to bring about earlier return to productive work of rehabilitated employees. Single copies of the six-page booklet are free by writing No. 164 on the Reader Service Card.

• **"Digest of Boiler and Machinery Insurance"** sets forth the general scope of coverage afforded by the boiler and machinery policy. Published by Royal Globe Insurance, a free copy may be obtained by writing No. 140 on the Reader Service Card.

• **"The Harvest Years Corporate Retirement Program"** sample kit includes a copy of "Harvest Years," a monthly publication geared to provide employees with up-to-date detailed information on retirement housing, financial planning, use of leisure, facts on Social Security and Medicare, an index of articles that appeared in 1967; a copy of the bi-monthly newsletter; and a partial list of corporations using the Harvest Years program. The kit, prepared by the Harvest Years Publishing Co., is offered free. Write No. 160 on the Reader Service Card.

• **"Coloramics"** discusses the use of color to promote better employee relations, to improve efficiency of operations and reduce accidents, to maintain quality of product and to ease strain on the eye in industrial situations. Published by Marsh & McLennan Inc., a free copy may be obtained by writing No. 151 on the Reader Service Card.

• **"The 1967 C.L.U. Forum Report"** summarizes presentations at the 1967 Educational Forum on "Personal Investing and Retirement Planning . . . The Future Role of Life Insurance." This 87-page book is designed to have long-range educational value and may be ordered for \$2.25 from the American Society of Chartered Life Underwriters, 270 Bryn Mawr Avenue, Bryn Mawr, Pa. 19010.

• **"Questions and Answers on NON-COM Fire Protected Wood"** explains safety features of this fire-resistant construction material, its workability, applications, effect on insurance rates, cost and availability. A NON-COM wood product bulletin is also offered with this free, 12-page booklet published by the Koppers Company, Inc. by writing No. 161 on the Reader Service Card.

• **"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 is released by The Mutual Life Insurance Company of New York and may be obtained free by writing No. 165 on the Reader Service Card.

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• "Captive Insurance Companies" enumerates three factors which explain today's increased interest in this area. The bulletin, designed as a point of departure for development and evaluation of a self-insured program, is free to members of the Insurance Division of the American Management Assn. A price of \$2 is charged members of other divisions and the bulletin is available to nonmembers for \$3 by writing AMA, 135 W. 50th Street, New York, N.Y. 10020.

• Various forms of independent valuation counsel, including insurance uses, are detailed by the American Appraisal Co. for schools, hospitals and other public institutions as well as private and public companies in its publication "When Values Are Vague..." Also available with this 23-page booklet is a pamphlet describing the new "Boeckh Building Valuation Manual" which presents quantitative and specific cost data for building appraisals. Both books are free by writing No. 162 on the Reader Service Card.

• "Guide to Insurance Services and Facilities" is designed to help businessmen understand the function of insurance brokers in general and the specific services of Despard & Co. Copies are available without charge by writing in No. 145 on the Reader Service Card.

• "What Every Businessman Should Know about Pension and Profit-Sharing Plans" details the factors which induce a retirement plan, the factors which aid in choosing the type of plan best suited to the company and the funding of a retirement plan. This 40-page booklet, offered by the Provident Mutual Life Insurance Co. of Philadelphia, may be obtained by writing No. 159 on the Reader Service Card.

• "Workmen's Compensation" is a ten-page brochure that discusses the basic objectives of workmen's compensation and the services offered by Employers Insurance of Wausau. Write No. 154 on the Reader Service Card for a free copy.

• "Fact or Fiction" discusses some basic concepts of employee pension plans and analyzes the various factors which influence pension costs. This 20-page booklet, published by John Hancock Mutual Life Insurance Co., is available free by writing No. 156 on the Reader Service Card.

• "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. The booklet is released by The Surety Association of America and a complimentary copy may be obtained by writing No. 158 on the Reader Service Card.

• The American Foreign Insurance Assn. has published the "AFIA Guide Pacific," 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 available by writing No. 163 on the Reader Service Card.

Schering beefs up its group hospital benefits

BLOOMFIELD, N.J.—Schering Corp., an international pharmaceutical company headquartered here, has instituted a four-point improvement in its group insurance plan.

It provides an increase in maximum benefits for daily hospital room and board charges from \$25 to \$35 for active and retired employees and an increase in the number of days allowed in any one disability from 31 days to 120 days.

This increased the maximum room and board allowance for each disability from \$775 to \$4,200. Miscellaneous hospital charges for each separate disability were raised to \$250 from \$200. Normal pregnancy delivery charge allowance was increased to \$175.

A family deductible of \$250,

applying to major medical benefits, was set up for employees with two or more dependents. Formerly the \$100 deductible applied to each individual expense.

If an employee did not have expenses in 1967 sufficient to satisfy the deductible necessary to file a claim, then hospital and medical charges incurred during the last three months of 1967 may be applied toward the deductible in 1968.

The new program also provided for coverage of dependent children in accredited educational institutions through age 24.

"THESE IMPROVEMENTS stem in part from suggestions made by consultants and employees during the 1966 company-wide benefits seminar meetings,"

said H. C. Lundquist, compensation and benefits manager.

Schering's group insurance plan, as a result of periodical review by outside consultants, is judged to be one of the best in industry.

These latest changes, as are all others made since the plan's inception in 1953, have been made at no increase in rates paid by employees, although the costs to the company have gone up more than 100%.

Schering's improved medical coverage is also without cost to the retiree after age 65. A retiree and/or dependent wife under 65 will have the same health insurance benefits as an active employee at a cost of \$1.50 per person per month until age 65. Also, covered medical expenses are the same as those provided un-

der major medical before Medicare, such as prescription drugs and special nursing service and which includes many of the expenses Medicare requires the individual to pay.

UNDER SCHERING'S PLAN, after a calendar year cash deductible of \$200 is expended, major medical will pay 80% of all eligible expenses for the balance of the year not reimbursed by Medicare. The maximum lifetime benefit for each individual is \$10,000 with maximum payment during any calendar year not to exceed \$5,000.

The plan assumes that each retiree or his wife of age 65 or older is eligible and has enrolled for Medicare Part A (hospital) and Part B (medical) insurance.

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washington watch

Medicare mental illness coverage has begun but may go further

The previous Washington Watch column discussed a private study on the paucity of mental illness insurance coverage in the U.S. The column pointed out that one out of every ten Americans has some form of mental or emotional disorder requiring psychiatric care and lamented the rather light impact this has had on stimulating action by society.

It forecast a big push by Washington to broaden corporate health insurance programs significantly in the mental health area, and reasoned that like most employee benefits, a well-planned mental health insurance program could be a very valuable asset to a firm.

The column speculated that in the long run the employee who

neglects to get psychiatric care when he needs it, because he fears his employer will find out or because he is not insured at all, could end up costing his firm more than an adequate well-conceived insurance program.

In this column how the federal government integrates mental illness coverage into its Medicare program will be outlined. The

column will explore the reasoning behind the differences in coverage for normal illnesses and for mental illness. The problems being encountered by the government in administering the program, will be discussed in a future column.

WASHINGTON—The inclusion of mental illness coverage in the Medicare program was a landmark on the long road from the days when the mentally ill were thrown into dungeons or even burned as witches. But the journey has hardly begun as far as the government is concerned, and nothing highlights this fact more than the appointment late last month of Wilbur J. Cohen to Secretary of Health, Education and Welfare.

In Mr. Cohen's first official statement as secretary-elect, he reaffirmed his long time feeling

that the federal government should become increasingly active in the field of mental health.

Although the new secretary has of course made no definite announcement of his plans, nor will he until his appointment is confirmed by the Senate, it is known that he favors lowering the age limit on the Medicare program in the area of mental illness, thus providing coverage for persons of any age.

MR. COHEN is said to favor a modest expansion at first, providing perhaps a limited number of visits to one of the government sponsored community health centers. From this base he would hope to expand the program by including the extremely high cost of hospitalization for mental illness.

Currently Medicare's two parts (A, which provides hospitalization coverage, and B, which covers doctors' services) are tailored to encourage cure rather than extended-maintenance type care of the mentally ill. Both are quite restrictive in paying for the latter.

Part A sharply restricts payments to psychiatric hospitals such as state institutions, but provides full Medicare benefits for treatment in psychiatric units of short-term general hospitals. Part B discourages extended outpatient visits to psychiatrists, opting for providing the services of psychiatrist when the beneficiary is an inpatient of a general hospital.

PART A provides for payments of virtually all services (including treatment for mental illness) in a general hospital participating in the program for up to 90 days of inpatient care during any one "spell of illness." This is subject to a \$40 deductible and, after the 60th day, a coinsurance of \$10 a day. Under the 1967 amendments a "lifetime reserve" of 60 days was added. These reserve days are subject to a coinsurance of \$20 daily or hospital charges, whichever is less.

A "spell of illness" begins on the first day a person becomes an inpatient in a hospital or an extended care facility and ends when he has not been in any hospital or extended-care facility (nursing home) for 60 consecutive days. After this a new spell of illness can begin the next time he enters a hospital or extended care facility for covered services.

THEREFORE, within each spell of illness, a Medicare beneficiary can use up to the total allowed 90 days of hospital care benefits, any portion of the 60 day lifetime reserve that he may have left and the full allowed 100 days of outpatient ("extended care") benefits.

This coverage, however, does not apply to treatment of mental illness in full scale mental hospitals such as state mental institutions. In the case of these psychiatric hospitals, the part A program places a 190 day lifetime limit on the coverage provided for inpatient psychiatric services.

Thus, a patient who enters a psychiatric hospital for the first time (assuming he has been out of a hospital 60 consecutive days and was thus beginning a new spell of illness) would be reimbursed under Medicare for a maximum of 150 days (90 plus 60 lifetime reserve days).

In order for him to obtain reimbursement for the remaining 40 days of inpatient care "due" him under Medicare, he would

Continued on page 24

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Monsanto renews giant fire policy; U.S. participation up

CHICAGO—Monsanto Co., St. Louis, has successfully renewed its \$2,000,000 deductible, single-limit package policy covering fire, boiler and machinery, earthquake, flood and other perils.

Monsanto first purchased the policy three years ago in a radical departure from usual insuring procedures, Robert Chapman, Monsanto insurance manager, told a risk managers' conference sponsored by the American Management Assn.

In addition, Monsanto has added a separate policy for ocean cargo, inland transit and warehouse storage with worldwide coverage, except in those countries where prohibited by national law, for example Mexico and Brazil. This policy has a fixed premium based on a single annual report on inventory.

BOTH POLICIES have Lloyds of London backing, Mr. Chapman indicated, and U.S. companies participated in about 30% of the giant fire policy, up from 20% in the original contract. He commented that although the market was tight last year when it was renegotiated, Monsanto was able to get complete subscription of the risk.

Mr. Chapman revealed that the loss experience in the past three years had been "favorable" and that there were no losses paid by the underwriters.

He said Monsanto carries a \$3,500,000 book reserve, which receives no tax credit, to handle losses under the deductible. He said a portion of the reserve came from savings in premiums which had approached \$7,000,000 before the company changed to the large deductible.

DIFFERENT PLANTS have different deductible levels, depending on size, before reserve funds are used, he said. The plants must pay back the reserve fund in five annual installments.

"Although losses have been running about the same proportion as before," Mr. Chapman admitted, "our reporting of losses is much more complete and the frequency is down. In addition, one bad loss, a transformer burn-out, has distorted our picture."

"When plant managers stare a big deductible in the face, management has incentive to cut losses."

MR. CHAPMAN cited four major reasons the company re-

vamped its insurance coverage:

- A recognition of Monsanto's size and ability to absorb losses;
- A desire to stop swapping dollars with carriers on small losses;
- A desire to obtain coverage "tailored" to Monsanto's needs other than the currently offered standard programs; and
- A commitment to institute a maximum loss prevention program by the company.

Before approaching the market for the fire policy, Monsanto began a loss analysis program and set up a formal loss prevention group. Headed by expert engineers, the loss prevention group analyzes all losses and exposures within the company. ■



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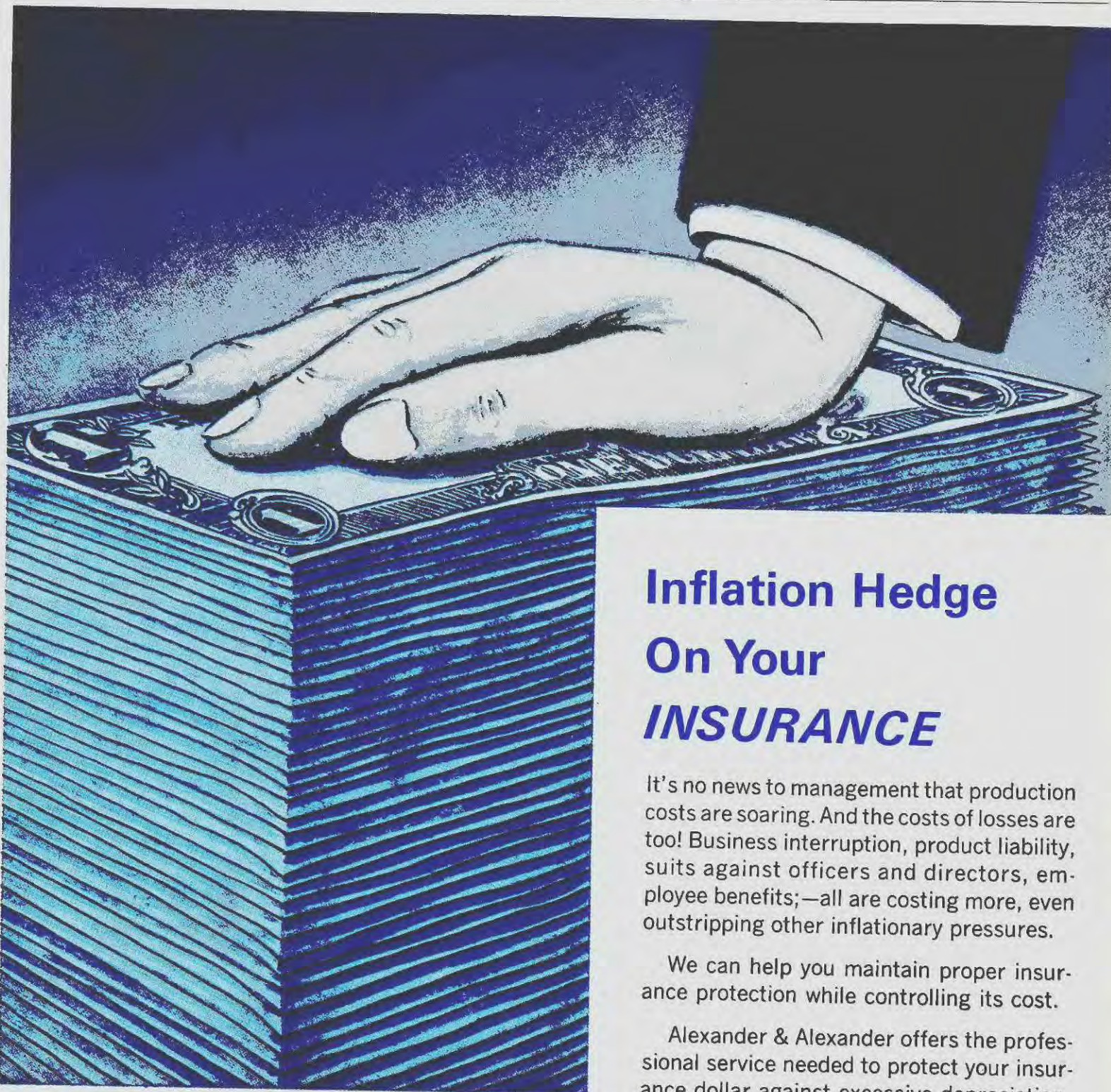
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Fishing group had no cover, court decides

OLYMPIA, Wash.—The state supreme court has ruled that the Halibut Producers Co-operative did not have insurance coverage for damages sustained in the 1964 Alaska earthquake.

The decision upholds a previous King County superior court ruling.

The dispute was between the co-operative and Fidelity and Casualty Co., New York, over coverage of part of the co-operative's processing plant facilities on a Seward (Alaska) waterfront. The plant was destroyed in the March, 1964, earthquake and tidal waves, and is now under about 40 feet of water. ■



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Ohio embarks on school bus safety drive

By MARDO WILLIAMS

COLUMBUS, O.—Ohio has embarked on a campaign to improve safety and efficiency of school bus operations through a new set of standards to be implemented this summer by the state board of education.

The new standards, which may be approved in time for use at start of the 1968-69 school term, are expected to result eventually in lower insurance costs.

However, explained J. Robert Oelberg, executive director of the Ohio Insurance Information Service, it will take time to evaluate the actual experience.

Stronger construction and any mandatory safety factor like power brakes, redesigned seats, elimination of standees and restricted usage will cause rates to trend lower, one casualty insurance official said.

PRINCIPAL REDUCTIONS, he stated, will be in physical damage rates and, to a lesser degree, in liability.

The Ohio department of education is setting up the mechanics for a statewide study of school bus insurance coverages, to be conducted possibly this summer.

Charles F. Galey, supervisor of pupil transportation, said the survey will embrace the types of coverages, the premiums paid, the types of vehicles used and whether or not it is a board of education-owned or contract-hired bus.

AT THE PRESENT time, Mr. Galey estimated, perhaps 500 to 800 of the approximately 13,000 school buses are contract vehicles.

Ohio law does not make insurance mandatory but, he said, "virtually every owner of a school bus apparently carries insurance. They would be dumb not to."

Preliminary inspection of records, he said, indicates that the premium varies from \$40 per year to \$200 per year on each of the 9-to-73-passenger buses in use throughout the state.

MOST CARRY at least bodily injury and property damage, and some also have policies protecting owner or child with medical pay, fire, comprehensive and collision insurance.

A recently enacted provision—amended House Bill 268—provides that operators of school buses may carry \$100,000 to \$500,000 in liability and property damage coverages. The amendment established the \$500,000 maximum.

Hanford L. Combs, chief of pupil transportation for Ohio, said

seat belts will not be required under the proposed new standards.

Belts are of dubious value in buses, he explained. Bus seats are just not safe. There is danger of them pulling loose and breaking into sections. Since seat belts are anchored to the floor and not to the seat, a child wearing a belt could suffer serious injuries if

the seat came loose or fell apart.

Mr. Combs said proposed standards would eliminate standees, now permitted at a rate of 10% of the vehicle's capacity; ban use of buses to carry non-participants to extracurricular school events; and provide for such improvements as power steering, improved seats and changes in seat anchorage and

bumper height.

Once the education department approves standards, all school buses sold in Ohio must conform to those standards, Mr. Combs said.

A recommendation that the seat height be lowered so smaller children could sit with their feet on the floor is being studied. This would improve safety for the

kiddies but restrict the bus use to elementary pupils. The answer might be a stronger seat with backs adjustable to the child's height, he said.

That the problem is immediate is indicated by the fact that the Buckeye State's school bus fleet is transporting more than 1,000,000 youngsters to classes each day.



Families of airline victims boost demand

TOKYO—Fifty representatives of families of 127 passengers killed in the February, 1966, crash of an All Nippon Airways jet plane are demanding increased compensation payment from the airline.

The families are demanding an increase in compensation after learning that the airline paid \$22,222 a person for victims of a later air crash. The families of victims of the February, 1966, crash had settled out of court for \$13,888.

Sleep better

Cattle rustling insurance coverage prohibitive

SALT LAKE CITY—Cattle rustling in the western states is big business for which there is virtually no insurance protection, according to the Utah Cattlemen's Assn.

In Utah alone, value of cattle stolen annually is estimated as high as \$250,000.

Cattlemen normally do not carry any insurance on range cattle, reported association execu-

tive director, Sherman Harmer. Usually, the only animals insured are prized purebred bulls, which are valued upwards to \$10,000, he said.

THE COST TO insure the hundreds of thousands of range cattle roaming the hills would be prohibitive, Mr. Harmer contended. He said there are about 750,000 range cattle in the state.

"The trouble in Utah and other western states is that there is so much wide open space," Mr. Harmer continued. The average spread in Utah is 900 acres with some ranches ranging up to 8,000 acres. Most of the range land is unfenced.

Cattle are taken to the range and then left alone. In a short time, they are spread out over several hundred acres, he said. It

is an easy matter for several head of cattle to be loaded into a truck without any one knowing about it.

THE MODERN SYSTEM of transportation, according to Mr. Harmer, makes cattle rustling in the new West an even greater problem than in the Old West.

In Utah, trucks carrying cattle are seldom stopped except at

checking stations on the main highways, Mr. Harmer lamented. "There are all kinds of roads to get around in this state without ever traveling on the main highways."

Mr. Harmer advocated stronger enforcement of the present laws and making the theft of cattle a felony, rather than a misdemeanor, as ways to cut down on rustling in the state. ■

U. S. names Miller, Lee to key posts

WASHINGTON—Two federal departments have realigned posts affecting insurance.

The Department of Labor has named Forest L. Miller director of the unemployment insurance service, succeeding William U. Norwood Jr., who has been named regional manpower director in Atlanta.

Mr. Miller has been deputy director of the unemployment insurance service since 1954.

The Department of Labor, in a move to unify management of the various health services under its direction, has assigned Dr. Philip R. Lee, the department's assistant secretary for health and scientific affairs, direct authority over the Public Health Service and the Food & Drug Administration.

Dr. Lee's responsibilities include health policy direction and coordination of Medicare and Medicaid.

In his new position, Mr. Miller will be in charge of the federal government's side of the federal-state system of unemployment insurance, which currently gives protection to 55,000,000 employees in private industry and government.

Unemployment insurance benefits paid under state and federal laws totaled more than \$2.2 billion for 1967, according to the Labor Department. ■

Imperial promotes MacDonald

A. Ross MacDonald has been appointed executive officer-group insurance of the Imperial Life Assurance Co. of Canada, Toronto. Mr. MacDonald has been in charge of Imperial's group insurance operations since 1964.

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opinions

Riot coverage is costly

Maryland's Insurance Commissioner Newton I. Steers Jr. raised some important and intriguing questions when he denied the insurance industry's application to drop riot liability coverage for government agencies and certain commercial properties and to impose a riot loading factor of 2% to 4% on extended coverage policies for commercial buildings.

"What is insurance for, if not to protect against uncertainty?" Mr. Steers asked. His question is based on the fact that the insurance industry voluntarily added riot and civil disturbance provisions to property and liability policies at a time when the American society was more tranquil. Now that riots and civil disturbances have occurred, the insurance rating bureaus contend they could not foresee the extent of losses and cannot accurately provide for them in rating structures.

Nevertheless, insurance industry sources estimate that the riot loading factor they seek on extended coverage premiums could yield additional annual premiums of \$100,000,000, little more than the industry paid out in riot damage claims following last year's disturbances.

Commissioner Steers also suggests that the insurance industry should wait for Congressional action on the creation of a federal back-up fund to provide reinsurance for properties in riot-subject areas. The insurance industry would like to know also the effect of building inspections and pools to cover properties in deteriorating neighborhoods where coverage was previously unavailable or difficult to obtain. These voluntary pools were set up by the insurance industry in cooperation with state insurance commissioners and local governments to head off action by officials that would have dictated underwriting standards to insurers.

The threat of civil disturbances in urban areas has caused insurers some real headaches in attempting to cope with the problem without resorting to highly unusual measures.

Expanding employer liability, part two

Buyers of marine insurance, especially for small craft, should examine the impact of a recent decision in the U.S. court which is novel and slightly alarming.

It concerns the owner of a private cruiser who found himself stuck on a sandbar. The Coast Guard appeared and offered to pull him off. A rope was bent around a stanchion on the yacht and an attempt made to pull the vessel free with a sidewise twist.

Under the pressure, the stanchion collapsed and whipped back onto the Coast Guard ship, blinding one of its crew.

While the suit has not been concluded against the owner, the court indicated on preliminary motion that if the boat was unseaworthy the plaintiff's claim is no different from one which might have been lodged by a crew member of any vessel injured under similar circumstances.

The whole point here is a new area of potential liability for boat owners, which we believe should receive serious consideration from

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CRIME INDEX TRENDS

Percent change 1967 over 1966, offenses known to police

TOTAL	+16
Murder	+12
Forcible Rape	+9
Robbery	+27
Aggravated Assault	+8
Burglary	+16
Larceny \$50 and over	+16
Auto Theft	+17

Serious crime in the U. S. increased 16% in 1967 over 1966, the Federal Bureau of Investigation reports. Of particular interest to insurance managers, because of the direct consequence to insurance premiums, are the jumps in burglary, up 16%; larceny, up 16%; and auto theft, up 17%. The FBI report also showed crime in cities with more than 1,000,000 population was up 7%; for cities with between 500,000 and 1,000,000, it was up 23%; for cities between 250,000 and 500,000 population, it was up 17%; suburban areas, up 16%; and for rural areas, up 13%.

the viewpoint of adequate liability coverage. Never before has a Coast Guardsman sued under similar conditions. The court has sustained his right to sue, despite the fact that he is an employee of the United States.

Good lobbying effort

Hearings continue on the administration's proposed Occupational Health and Safety bill, and although they become boringly repetitive at times, there emerges from all the hoopla a truly refreshing development—a good, effective lobbying effort on the part of business.

No bill, particularly an administration one, ever gets dropped and forgotten simply because its opponents scream how bad it is. What can happen, through a good lobbying effort, is that such a bill may be either delayed indefinitely or amended. It is the lobbyist's job to provide legislators with suggestions and information to permit reasonable discussion, changes or amendments to make legislation palatable to his special interest group.

J. Sharp Queener, safety director of Du Pont and lead-off witness for the U. S. Chamber of Commerce, which is spearheading the opposition, set the groundwork for such a campaign.

He explained to a House labor subcommittee that the proposed law would have serious consequences affecting the workmen's compensation system of the nation by creating a federal obligation that requires employers to maintain a safe shop. Thus, an employee injured on the job could bring a federal cause of action against his employer for breaching this obligation, he pointed out. This would undermine the workmen's compensation laws which serve to relieve employers of liability from common law suits involving negligence and insure employers of compensation for job-incurred injuries irrespective of fault, he said.

Mr. Queener expressed concern over the "extraordinarily broad" mandate granted the Secretary of Labor. Full discretion is placed in the secretary's office to set safety standards for every business affecting commerce in the U.S., he said.

He urged that any bill passed require that rules or standards be made pursuant to the appropriate provisions of the administrative procedure act. The placement of rule-making power for all industry in the hands of one man is extraordinary and not called for by the circumstances confronting us, Mr. Queener told the subcommittee.

All rulings under any such bill should be based on detailed findings of fact supported by "substantial evidence" on the whole record developed at public hearings, he said.

The establishment of detailed safety standards for American industry in the form of law is a big step even for the government and presumably won't be tackled without considerable soul searching.

Careful consideration of these two proposals will take a great deal of time and yet their very nature demands consideration. Observers in both parties feel that if the safety bill is not passed this session, it will probably die. The bill is primarily an election-year, labor sweetener and will have considerably less appeal following the election, they point out.

In line with this, both the Senate and the House labor committees are being deluged with requests by business interests to testify. This is not a novel approach but it is an effective part of an overall strategy in a year when Congress hopes to adjourn by Aug. 1.

Win or lose, it is good to see the business community waging a well thought out lobbying effort based on a solid appraisal of the opposition and the bill itself, instead of a lot of sound and fury signifying nothing.

letters

Devises own form

To the Editor: I agree completely with the statements in Mr. Robert's letter to the editor in the Jan. 15 issue of *Business Insurance* about the insurance company reporting form for use & occupancy values. The form always seemed to me to have been developed for a mercantile establishment.

We gave up trying to complete the insurance company form from the Rockwell accounting records. We developed our own form on which we take the necessary information directly from the Rockwell financial statements. We have about 25 manufacturing operations throughout the country and each plant accountant submits these U & O statements semiannually to headquarters where they are consolidated and the total value reported to the insurance carriers.

We have our insurance split between two of the major associations and we obtained approval through our brokers from both groups for the use of the Rockwell form.

Many thanks for sending me your publication. I find it very interesting and informative.

G. L. Clark

Insurance supervisor, Rockwell Manufacturing Co., Pittsburgh, Pa.

Retirement areas

To the Editor: Your article "Retirement Communities in the U.S." in *Business Insurance* for Feb. 26 leads me to inquire whether your information is taken from a published national directory of such communities. If so, I would appreciate receiving the name and publisher. If not, do you know of any such published directory or list?

I am enjoying *Business Insurance*. It is most interesting and informative.

Harold J. Hofflich

Professor of Insurance, College of Business and Public Administration, University of Arizona

Editor's note: Prof. Hofflich and other *Business Insurance* readers may find the following list of directories helpful:

Resort Retirement Facilities Register, Drake Publications, San Francisco.

National Directory on Housing for Older People, National Council on the Aging, New York.

1,001 Best Places to Live when You Retire, Dartnell Press, Chicago.

For the record

To the Editor: I have read your issue of March 11, 1968, and have been particularly interested in the article covering the interview with Francis X. McCall, insurance manager of Bristol-Myers Co.

I do, however, wish to point out that the Appalachian Insurance Company of Providence is a stock insurance company, but is wholly-owned by the Fireman's Mutual Insurance Company and not the Fireman's Fund. I have the highest regard for this latter organization, but I'm sure it would be appropriate to set the record straight.

H. E. Tornquist,

Executive Vice President, Appalachian Insurance Co., Providence, R. I.

Continued on page 18

Loss of 12 thoroughbreds points to tight market for livestock cover

NEW YORK—Twelve thoroughbred mares, insured by Lloyds of London for an estimated \$500,000, died in a fire at a Maryland farm last month. Experts believe the loss may act to tighten an industry already beset by a serious capacity problem.

Officials of the farm, owned by Canadian sportsman E. P. Taylor, said the animals were trapped in a barn that caught fire during the night and burned to the ground. Cause of the fire has not been determined.

While a \$500,000 loss is not considered overwhelming by property and casualty standards, insurance sources indicated it can bite heavily into the livestock industry's reserves and could have a serious impact on rates.

Fireman's Fund, one of the largest U.S. writers of livestock insurance, said that Lloyds, the primary direct and reinsurance market, raised its rates on thoroughbreds last January—a move that was followed by at least two U.S. companies.

ACCORDING TO Ross C. Cowan, manager, excess and special risk department of Fireman's Fund here, some U.S. companies act more as agents, writing a large face value policy here and reinsuring heavily in Lloyds—the main reason why Lloyds' rates directly affect those of U.S. insurers.

George B. McNeill, president of Frelinghuysen Livestock Agency, said U.S. insurers are currently vying for additional business. He estimated that there are some 50,000 thoroughbred horses registered in the U.S., not including pleasure horses, pacers, quarterhorses, saddle horses and other racing animals.

Insurance premiums on horses in the U.S. generate an estimated \$10,000,000 in annual premiums, according to the insurance underwriter, equally divided on face value between London and the U.S. All reinsurance is written in London, however, and a great percentage of the U.S. volume is known to be reinsured.

VALUES OF horses are increasing faster than the ability of the U.S. market to insure them, according to Mr. McNeill. For instance, he said, it is impossible for U.S. insurers to handle insurance for the thoroughbred, Buckpasser, which was insured for between \$2,000,000 and \$3,000,000 through some 32 members of Lloyds' syndicates. Frelinghuysen wrote a \$500,000 policy on Iron Ruler, a Kentucky Derby contender, much of which is reinsured in Lloyds.

Other thoroughbreds participating in the Kentucky Derby and races such as the Preakness, Belmont, Florida Derby and the Flamingo are insured for between \$200,000 and \$1,000,000, according to insurance sources, and values on some horses could even be higher.

Mr. Cowan said that many companies claim to write large policies on popular horses but that in reality much of the coverage finds its way back to London through reinsurance.

The U.S. market is highly competitive and only a small number of companies actively write livestock coverage. Fireman's Fund, Frelinghuysen, Old Colony, American Livestock, Hartford Livestock, Livestock & Casualty and the Insurance Co. of the State of Pennsylvania are

among the leading writers of the coverage.

Rates on horses are set in advance and average about the same for most U.S. insurers. For example, Fireman's Fund graduates its rates at 7% for the first \$10,000, 2.5 % for the next \$15,000, then up to 4.5% for coverage of more than \$25,000.

A livestock insurance underwriter said there are many exclusions in livestock policies because of the unusual nature of the risk. Rates on trotters, pacers and other types of horses are generally lower than those on thoroughbreds.

Most companies have already increased rates on thoroughbreds and other horses because of some \$100,000 losses.

Mr. McNeill pointed out that more Americans are becoming horse owners, which points up the tremendous need for additional domestic capacity.

"BEFORE IT was only wealthy families who owned horses," said Mr. McNeill. "Now the number of breeding farms has increased, and owners of one or two horses are becoming more aware that horses should be insured just like property and people."

But, he said, the big premium dollars are still paid on the thoroughbreds which participate in the stake races such as the Kentucky Derby and races at tracks like Aqueduct here.

Continued on page 16



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Aerospace unions spell out demands

LAKEWOOD, Cal.—The major employee benefit demands to be made by the two aerospace industry unions this summer have been spelled out in the official publication of United Auto Workers Local 148—with 32,000 members, the largest bargaining unit of McDonnell Douglas Corp.—and by other union locals around the country.

The publication stated that the UAW and the International Assn. of Machinists will be asking for full payment of semiprivate hospital accommodations for 365 days and full payment for all ancillary or extra charges.

The union said that daily dollar amounts and limited schedules are "outmoded and obsolete."

IN ADDITION, all contracts should provide for free individ-

ual choice of prepaid group practice plans, such as Kaiser Industries, where available, the UAW local said.

Paying physicians on the basis of "reasonable and customary charges" is also called for as a method of eliminating fee schedules and the "attending overcharges born by the patient."

At the same time, the UAW suggested that companies and unions join together in developing meaningful and workable cost and quality controls.

THE UNIONS want health plans to provide a full range of health services, including coverage for psychiatric illness, pre- and postnatal care, convalescent and long term illness and out-of-hospital services. In addition, the union is calling for a comprehensive prescription drug benefit, to

be underwritten and administered on a uniform national basis. "Comprehensive prepaid dental services must also be included in the broadening of health security programs," the UAW said.

Demands also include full payment of the premiums by the employer for health coverages for a worker and his family. In addition, the unions will ask that employers pay for health coverages or laid-off employees and their dependents, disabled employees and their dependents and retirees and their survivors.

As survivor's protection against untimely death and the loss of a worker's earning power, the unions will ask for an increase in lump sum life insurance, together with accidental death and dismemberment, in order "to provide an equitable

relationship to average annual earnings."

ALSO ON THE AGENDA will be a demand for a transition survivor's income for a widow aged 50 or over, whose children have ceased to qualify for Social Security family benefits. At the moment, there is a "significant gap" until she becomes eligible for a Social Security pension, the union stated.

Disability sickness and accident benefits must be increased and also payable for a full 52 weeks, the UAW stated. After these benefits are exhausted, the unions are proposing an extended disability program.

Basic pension benefits in the aerospace industry range up to \$5 per month times years of service, the UAW pointed out, and need to be "substantially increased." The basic benefit must also be available at age 62 "without any actuarial reduction."

Long service workers should

be entitled to retire early without any penalties, the union stated. Also, if a worker is forced by a physical disability into a "special early retirement" not considered serious enough to collect under either the pension plan or Social Security, the unions advocate paying a supplemental benefit until he qualifies for Social Security.

Vesting and portability rights are "especially important" in the aerospace industry, the union pointed out, "where technological changes and employment fluctuations are major factors."

Therefore, a "major contribution to retirement security" could be made if portability is applied to the entire industry allowing transferable pension credits. The union called upon the major aerospace companies to join the two unions in devising a practical scheme for achieving this end.

THE UAW ALSO stated that "no retirement system is complete which neglects the needs of the surviving spouse of a retired wage earner." Therefore, "all pension plans should include automatic survivor protection in the case of a worker who dies before retirement, but after the age at which he first could have retired."

Negotiations are expected to start in late May, since most contracts call for bargaining to begin at least 60 days before expiration.

Horses . . .

Continued from page 15

One of the major insurance perils facing livestock insurers is broken legs which, in many cases, can prevent a horse from racing, one reason why owners prefer to have a horse destroyed in order to collect on the insurance policy.

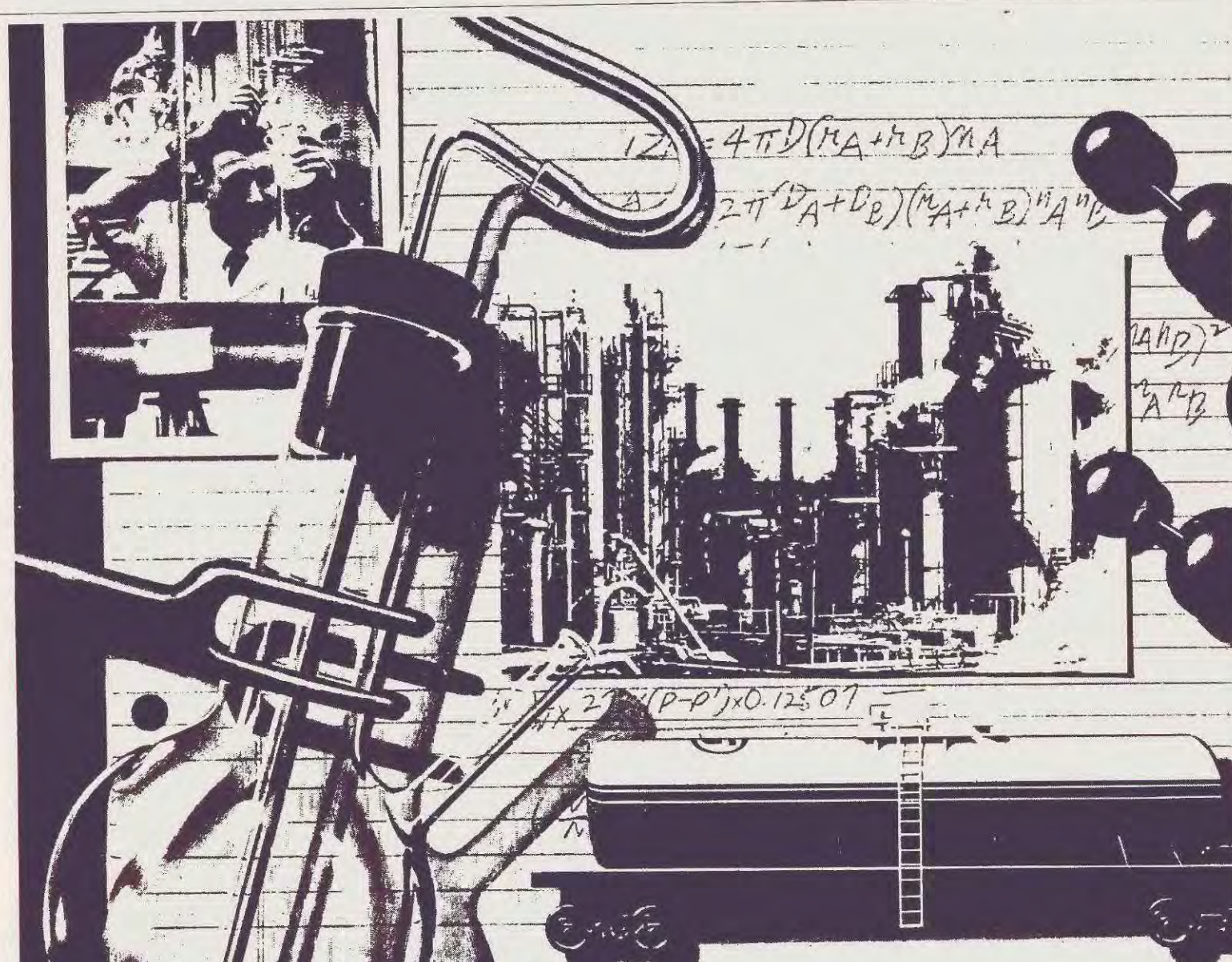
Mr. McNeill pointed out that Frelinghuysen on one occasion shared the nursing expenses with the owner of an injured stallion worth \$700,000. He said the horse was cured for a few thousand dollars and went on to become a winner at the major tracks.

HORSES, LIKE property and people, are insured for basic fire and extended coverage perils, sickness, disease and accidents—whichever leads to the horse's death. For example, Native Dancer, one of the all-time money winners, died from cancer, and the loss was split between U.S. and London insurers.

Determining the value of a horse is one of the most difficult jobs for a livestock underwriter, according to Adolph Vita, underwriting manager of Frelinghuysen.

In some cases, he pointed out, a horse can be insured for the price he is running for at the track. For example, in a claiming race, one of the lowest classes of racing, a horse could be insured for between \$2,000 and \$50,000. In routine runs—called allowance races—values range between \$10,000 and \$40,000. At stake races, such as the Kentucky Derby, values can go into millions of dollars.

A horse's insured value is based on his ability to participate successfully in one of the three major classes of racing—claims, allowance and stake. An owner can't get increased insurance coverage on his horse simply because he believes his animal can compete in races for higher stakes; the horse must prove his worth on the track.



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80 Corvair suits settled without judgment against GM, 70 pending

DETROIT—Out of 150 suits attacking the design of the 1960 to 1963 Corvair automobile, about 80 have so far been settled or dismissed without a judgment against the manufacturer, General Motors.

The suits generally alleged that the rear engine automobile tended to develop dangerous handling characteristics. Substantial engineering changes have been made in subsequent models of the Corvair.

Only five suits, however, have gone through trial, and in each case GM received a favorable jury verdict or judicial ruling. In three cases, verdicts were returned in favor of GM.

In a fourth suit, a jury verdict in favor of the plaintiffs was set aside by a trial judge on the grounds that evidence did not support the verdict. In a fifth case, a jury was dismissed when it failed to agree on a verdict.

General Motors told *Business Insurance* that it is "adequately"

insured against losing such design cases under public liability coverage carried with Royal Globe Insurance Co. The policy, GM said, covers all costs arising from the liability suits, including legal expenses, out-of-court settlements and adverse judgments.

GM, TO BE SURE, hasn't fully weathered the Corvair attack. Some 70 suits remain to be resolved and determination of at least two of those is imminent. A ruling is expected soon in a case tried last summer in a superior court in Sacramento, Cal., and a jury is being selected in another case in Hudson County, N.J., superior court.

The largest single disposition of Corvair suits involved some 47 cases brought against GM by David M. Harney, a Los Angeles attorney and his firm, Harney, Ford and Schlottman. In January, 1967, GM and the lawyer said that the cases, involving claims for \$25,000,000, had been settled at a cost of \$332,000.

"It was agreed that a substantial number should be dismissed outright, in exchange for a waiver of costs, that some would be settled for pure nuisance value, and others at a nominal amount," the parties said.

GM declined to say how much has been paid out in settlement of all of the 80 suits so far resolved.

Coverage costs cited as reason to leave state

PORTLAND, Ore.—Higher insurance and benefit costs in California were listed as "major reasons" for a move from the San Francisco bay area of Frank Winczewski and his Advance Stampings Inc.

The company, which produces small lots of stamped metal patterns for domestic and foreign industry, had been located for 11 years in Redwood City, Cal., a San Francisco suburb.

"When I assembled my 1967 fiscal year figures," Mr. Winczewski said, "I realized I had to get out of that never-never land and that I could not carry on my business economically in California any longer."

IN CALIFORNIA, he employed 22 workers and in 1967 had a 400% labor turnover. Shipping costs also were high, and he faced a 45% plant rent increase.

"In Oregon, however," Mr. Winczewski said, "I save \$750 or more on workman's compensation alone. I have the same insurance company. I send the premium payments to the same office. But I pay 75 cents less per \$100."

"The unemployment compensation assessments also are different." For example, 2.7% is the top rate for unemployment compensation, and it can go down below that if you don't have a turnover problem.

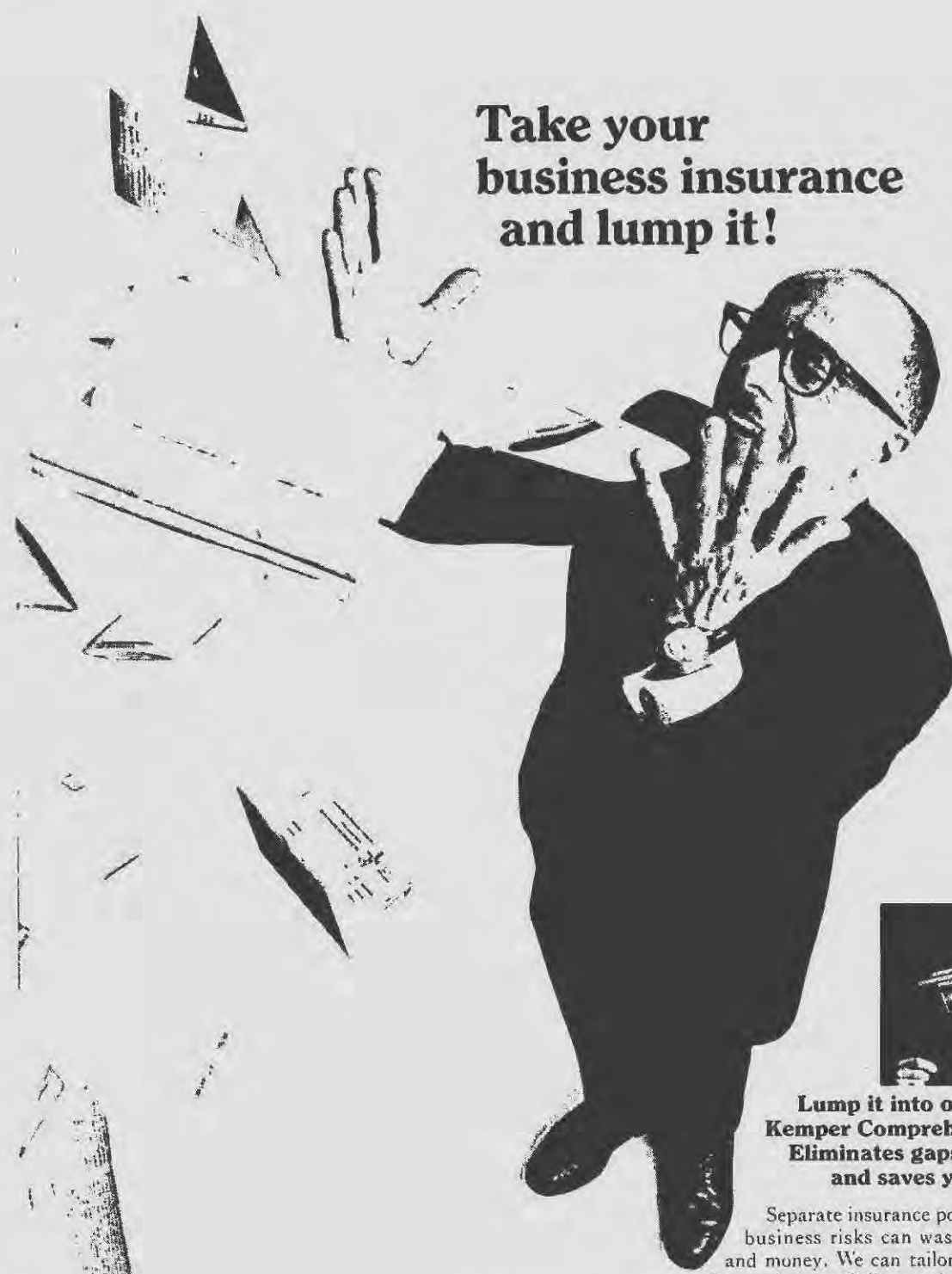
"In California, the lowest rate was 3.2% and at one time I paid 4.7%."

He now has 14 people on his payroll and to date no one has quit.

"I invoiced more production here, in December, with 14 men," Mr. Winczewski said, "than I did last June with 21 workers."

New firm opens

A new firm, Pension & Insurance Plans Inc., has opened offices at 330 Second Avenue West, Seattle. Principals are James H. Knowles, Jr., president, and Victor E. Lacey, Seattle, vp and treasurer. The newly formed company will have three departments: pension, corporate insurance and special plans.



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letters

Continued from page 14

Needs article

To the Editor: I was able to procure a copy of *Business Insurance's* Jan. 15 issue. I read a very interesting article by Louis Haugh on Caterpillar's foreign coverages. This issue had a note at the end of the article that the next issue of *Business Insurance* would have another article on Caterpillar's personal and inland and ocean marine foreign coverages. I was unable to find an issue but would like a copy of the second article by Louis Haugh.

If at all possible, would it be a lot of trouble getting a reprint of this second article? It is of great interest to our insurance people.

If there is a charge, please send me the copy and bill me personally.

Roy R. Buck
Naperville, Ill.

Editor's note: A copy of the second article on Caterpillar has been sent to Mr. Buck. Business Insurance readers are invited to inquire about extra copies and reprints of articles.

Suit's implications

To the Editor: I have enjoyed reading each issue of *Business Insurance* almost as much as I have enjoyed being one of its columnists. This letter is prompted by my "reader" reaction.

Your Jan. 29 issue carried the story headlined "Wheeling Steel Seeks Damages From Agency." I wonder if your readers realize the full implications of this story.

Wheeling is suing its former insurance agency (which also had a representative on the corporate board of directors) alleging that the agency, while ostensibly screening all competitive insurance bids, was actually freezing out the competition and that the result of this was that the corporation paid many hundreds of thousands of dollars in excess premiums.

Wheeling, of course, is entitled to file this suit and to collect the damages if they win. The obvious lesson for the corporation is to avoid the hazard of dealing with only one broker without ever sampling the market to see if better or cheaper products are available from other sources.

But more important than that, it seems to me, is the possibility of a minority stockholder suit against the corporation—or its directors—for dereliction of responsibility to the stockholders.

Here, by the mere filing of the suit, the Corporation admits that it was bilked out of hundreds of thousands of dollars. These are dollars which would otherwise have been profits and would have served to increase dividends.

As a stockholder, am I entitled to sue for misconduct? Was there a conspiracy on the board of directors to direct this business to one of their own number who made more than the normal profit on the transaction? Or did the board approve a company policy which reflects bad business judgement on their part?

Whether there is any validity to such a suit is secondary. What is more important and more embarrassing is the mere possibility that such a suit might be filed and that the corporation might have to go to court to defend itself.

If there are lessons to be

learned, risk managers should be very sure that they are buying competitively. And, for those brokers who are fortunate enough to feel that they "own" their accounts, it becomes very important to make sure always that they are only offering "the best" to their clients.

Ned A. Miller,
Partner, Romm, Miller & Lazarus, New York

'I do not agree'

To the Editor: The March 11 edition of *Business Insurance* carried a copy of a letter from Mr. Percy Chubb II to New York State Senator Bernard G. Gordon wherein he expressed his support for a reform on the automobile tort insurance system. Such reform he said "would obviously require major adjustments for the insurance business." With that statement, I do not agree.

Over the years we have seen the automobile pass from an item of luxury to an item of necessity. With this transition has also come an increase in economic loss to those injured, and to the families of those killed in automobile accidents. We have also witnessed a change in our social and moral obligations to each other, and have seen our social development advanced so that today the responsibility of the automobile owner to the injured person is similar to the responsibility of the employer to his employee as was established by the legislature over 50 years ago when there was enacted a workmen's compensation law on a no-fault basis.

This change will not "require a major adjustment for the insurance business." Such an obligation can be met by adapting the workmen's compensation principles to compensate the victims of automobile accidents in the same fashion that the victims of industrial accidents are compensated. This is not a new system—in fact it has been operating successfully and equitably for the past half century.

I have introduced a bill in the Massachusetts legislature to do that. It is presently being considered by a legislative committee.

Walter S. Attridge
Walter S. Attridge Insurance,
Boston, Mass.

Routes to others

To the Editor: It has been beneficial to me to receive your publication, *Business Insurance*. The articles on workmen's compensation help me to meet my responsibilities in this area.

Since the material in your magazine is so informative, I have started routing it to other men with similar interests. Thanks.

C. F. Stanley,
Safety Manager, General Telephone Co. of Florida, Tampa, Fla.

Records the pulse

To the Editor: I have read with interest your new publication and find it most welcome and useful. Your new, fresh approach in reporting records the pulse of the insurance market.

Insurance buyers, large or small, will find articles of direct interest, well written and easily understood. May we congratulate you on the excellence of your new publication.

P. A. Randall
Assistant Treasurer, Basic Construction Co., Newport News, Va.



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business insurance/perspective

Some problem areas of property and liability coverage

by Joseph H. Albert, partner
Meehan & Albert
Newton, Massachusetts



Joseph H. Albert

(The following article is based on a talk given by Mr. Albert before the Boston chapter of the Chartered Property & Casualty Underwriters March 12.)

As insurance consultants, we have had the opportunity of reviewing many insurance programs in the U.S., Canada, South America and Europe. Many of the companies reviewed had significant omissions, most required revisions and almost all could have been improved.

Let me illustrate a few of the problem areas we have encountered in the last few months.

Case history number one concerns a shoe manufacturer located in a New England town which leased a plant and warehouse. As shoe plants go, the company was not a bad risk for fire insurance. It was brick and frame and totally sprinklered. Because of the amount of coverage needed, there was a capacity situation with many companies involved in the insurance written. The coverage provided on the plant was specific insurance on machinery and equipment; specific insurance on stock; and a stock reporting policy combined with the specific insurance.

BECAUSE OF THE MANY policies involved we expected to find the usual nonconcurrency of coverage but much to our surprise everything was in order. However, there was no coverage for improvements and betterments, although the manufacturer had made such additions at great cost. (It was recommended that the machinery and equipment coverage be endorsed to provide improvements and betterments protection.)

Of even greater importance, however, was the fact that the manufacturer was reporting values \$100,000 in excess of stock inventory coverage. When the agent got the reports he added binders to cover the shortage but the manufacturer had been woefully short of coverage in the interim period.

The method of utilizing specific insur-

ance for machinery and equipment, specific insurance on stock inventory and then a reporting stock inventory policy is a technique used many years ago but not recommended under current practices.

WE REVIEWED THIS PROBLEM with the agent and recommended that he convert the coverage to one master stock reporting program with adequate limits of liability to include coverage for machinery and equipment, improvements and betterments and stock inventory. He saw the advantages to this and is in the process of changing the program.

We reviewed the lease agreement between the manufacturer and his landlord. The lease agreement did not contain a "waiver of subrogation" clause. This meant that the manufacturer could be sued by the insurers of the landlord in the event he was negligently involved in a fire at the plant. We explained the reasons why a "waiver of subrogation" clause would be beneficial to both the landlord and tenant. The shoe manufacturer discussed this with his attorney and proper amendments to the lease are being drawn.

We then reviewed the amount of insurance carried on machinery and equipment and then asked the manufacturer if he were able to support these values by his property records. He explained that the values were based solely on guesswork. We recommended that he purchase an outside professional appraisal to secure the necessary information to properly buy his insurance and to use in the presentation of a loss.

WE ARE STRONG BELIEVERS in appraisals. Some years ago, a large manufacturer who had acquired many plants over the years purchased a professional appraisal on our recommendation. When the appraisals came back many adjustments in the coverage were made, and at one plant the coverage was raised from \$1,000,000 to \$2,000,000.

One year later this plant burned to the ground and was a total loss. Because of his appraisal, the manufacturer was not only adequately insured, but was able to collect the full amount of insurance. A professional appraisal is the backbone of any well designed insurance program.

In addition to manufacturing shoes, the manufacturer was also a selling agent for a Puerto Rican manufacturer. The commissions being generated from the sales of this plant were large. We recommended that the manufacturer purchase profits and commissions insurance in order to protect the commission income in the event the Puerto Rican plant were to suffer a major fire or other loss. He readily saw the need for this coverage and will purchase it.

The manufacturer purchased a comprehensive automobile policy which was to provide coverage for owned, non-owned and hired vehicles. However, the sales corporation which had salesmen traveling throughout the U.S. was not named on the policy and therefore there was no coverage for this major exposure. The sales corporation was added to the policy at no additional cost and adequate coverage is now provided.

Case history number two involved a

Canadian conglomerate. The fire insurance program was well designed, providing \$25,000,000 of coverage for real and personal property located anywhere in Canada without the need to name locations. The coverage contained no co-insurance clause and provided for payment of losses on a replacement cost basis.

Unfortunately, the business interruption insurance was inadequate in concept. One division was building a complex item of equipment for both military and civilian use. The business interruption coverage was limited to a 12 month recovery. The total time to build these items was two-and-a-half years and the business interruption insurance was inadequate to cover this exposure. Also no business interruption coverage was purchased on other manufacturing facilities—each of which was important to profits.

A new program was designed with protection for all manufacturing facilities and the time limitation of 12 months was eliminated from the policy to provide the time necessary to replace the building, the equipment and the work in process.

DEDUCTIBLES WERE RECOMMENDED for both the property and business interruption policy to help keep the cost down. A joint loss agreement was executed between the boiler and fire insurers to avoid conflict in the event of loss.

In the liability program the limits were too low. An umbrella policy was recommended to supplement the low limits. The name of insured was broadened to automatically pick up any newly acquired or formed entities. While the policy included blanket contractual coverage it was required that notice of any new contracts be given to the insurance company within 60 days.

This procedure was not practical and was amended to eliminate the 60 day notice requirement, so that complete automatic contractual coverage was provided. The personal injury coverage contained a contractual exclusion. This manufacturer had a "hold harmless" contract with an alarm service company which included a hold harmless clause for not only bodily injury but personal injury. The contractual exclusion was eliminated.

THE GENERAL LIABILITY policy was intended to provide ground coverage for a small airline operation which the company owned. This could have resulted in a conflict with the aircraft liability insurance as to which policy would cover a passenger in a given loss. Because of this situation the "ground liability" was added to the aircraft liability insurance to eliminate any possibilities of questionable coverage.

The crime insurance program was redesigned to include higher limits of coverage and the inclusion of foreign subsidiaries. The burglary and theft coverage was not made part of the crime program but will be included as part of the difference in conditions (DIC) program.

There were a number of small miscellaneous tool and equipment floaters being purchased. Inasmuch as the insured was now self-assuming certain property risks by using deductibles it

was felt that these policies could be dropped.

Due to severe exposure it was also recommended that the insured purchase a sufficient amount of valuable papers coverage to protect itself from the large dollar investment contained in such items as engineering drawings and blueprints.

Case history number three was a large manufacturer with plants located in six states. Costs were excessive. Each division purchased its own insurance. We recommended that the insurance program be consolidated with the major elements of the program consisting of the following:

1. Fire coverage including business interruption protection will be combined with a superior risk underwriter. The coverage will be on a repair and replacement basis and deductibles will be used.

2. A difference in conditions policy will be purchased, including transit coverage. Again deductibles will be used to keep the cost down.

3. The general liability policy to be amended to include the following: Broad named insured; blanket contractual; personal injury; broad form vendors; and products recall coverage.

4. The workmen's compensation insurance will be combined on a one year retrospective program with a carrier that can provide proper loss prevention and claims handling service to keep control of workmen's compensation costs.

5. A blanket crime policy with adequate limits and including foreign subsidiaries.

6. A comprehensive auto liability policy will be provided.

7. A \$5,000,000 umbrella policy will be purchased to supplement the casualty program.

8. Valuable papers insurance will be purchased in an amount necessary to cover the exposures.

THESE CASE HISTORIES are typical, and they illustrate some of the problems that are found in many business insurance programs today. The business man often doesn't know that his coverage is inadequate, because such coverage is highly complex and technical. That's why a business insurance program should be continually reviewed to make sure it's providing the necessary protection based on changing business conditions.

Joseph H. Albert was born in Boston in 1932. He graduated from Bentley College of Accounting and Finance. After working as a public accountant, he entered the insurance agency business and was active in this area for three-and-a-half years. For the past ten years he has been an insurance consultant and during part of this period he served as editor of the John Liner newsletter, published by John Liner & Associates, Boston. Albert, a resident of Watertown, Mass., was formerly employed by the Richard D. Chase Insurance Agency, Quincy, Mass. He also served in the financial section of the U. S. Coast Guard.

Telling the benefit story

Do they dig you?

by Howard L. Peck
Partner
Hewitt Associates



Howard L. Peck

passes for benefit communication today is no such thing. Large sums of money are spent in packaging the incomprehensible, and dressing up the obscure.

Not that benefit communication is an easy job. Let's face it. When you set out to help people understand their rights and responsibilities under a pension plan, or group insurance, or a semideferred optional supplemental stock purchase and savings plan, you've undertaken one of the toughest communication assignments known to man. The moment you say "benefits" you have two strikes against you. The typical employee reflex is, "That's insurance and I don't understand it."

And you have a heavy responsibility. Lawsuits and costly labor disputes can spring from ignorance or misunderstanding. Early in 1965, New York's longshoremen walked out over a proposed package of pay and benefits. Said Time, "Education was at the heart of the matter, since the longshoremen had first turned down the new contract without really knowing what it was all about, gone on strike, and decided to approve the contract in a new vote only after International Longshoremen's Boss Teddy Gleason launched an educational campaign to convince them that it was the best ever." Estimated cost of the strike: \$750 million.

So, it's a tough job. How do you lick it? I don't pretend to have all the answers, but perhaps I can put up a few guideposts.

START WITH PLAN DESIGN: A lot of communication battles are lost before they begin because some plan designer was more concerned with legal and mathematical niceties than with understanding. Too often we find in benefit plans certain hairsplitting provisions that could be eliminated or simplified without any substantial effect on the plans' operation or equity—and with vast improvement in the ability of the partici-

pants to grasp their workings. For more on this, see Chapter 9 of "Employee Communications in Action" by Newcomb & Sammons; Harper and Brothers.

If you, the communicator, can get the designers and technicians to consult with you before they freeze the specifications, you can strike a blow against confusion at the very source.

GET RID OF THE JARGON: Plan documents and insurance contracts are full of lawyer language and financial talk that are meaningless to the man in the shop. When we start working with benefit communication we are aware of this, but after a time we tend to assume that people understand terms like "annuity," "accrual," "vested" and "equity investments." They don't. Sometimes it's hard to find adequate synonyms, especially when the legal department is looking over your shoulder. But generally they can be found. Or, if you can't get rid of the jargon words, you can at least define them simply. Of course, it's important not to throw out the meaning with the jargon. Some recent court decisions suggest that in cases where the popularized language is at odds with the legal, the conventional disclaimer won't get you off the hook.

BREAK IT UP: Even when we use reasonably common words in talking about benefits, we tend to put them together in unmanageable masses. Take this 87-word sentence from a booklet issued by one of the country's best-managed companies:

"Your benefit is an amount equal to 40% of your Basic Salary or Wage, subject to a maximum of \$1200 per month which will be reduced by any income received as employee benefits and any benefits received as primary benefits under the Federal Social Security Act together with all amendments thereto and any amounts received under any Workmen's Compensation law, but only to the extent that such benefits consist of payments on account of disability commencing after the date your insurance becomes effective."

You get the feeling that the writer was afraid to let go. This should have been at least three sentences.

Not only is it a good idea to break up your copy into digestible units of thought, but also to break it up visually—through typographic arrangement and integrated illustrations—so that it

doesn't look so forbidding. Remember, your reader thinks he isn't going to be able to understand it in the first place, and if you present him with large, unrelieved blocks of copy, you only reinforce this conviction.

TEST YOUR COPY: You've heard of the company that had in its personnel department a girl whose mental attainments were noticeably substandard. When asked why he kept her, the personnel director said, "We use her to test our communications to employees. If Susie can understand it, anybody can understand it." Maybe we need a few more Susies.

When the 3M Company changed its retirement plan, a new style of booklet was prepared. After the type and art were pasted up for the printer but before the booklet was printed, "overhead" transparencies were made of all the pages. These were taken to one of the company's plants and projected on a screen for small groups of employees to test understanding.

THE EMPLOYEES were asked not "Do you understand it?" (the implication being that obviously they were intelligent people) but, "Do you think this will be perfectly clear to the people you work with?" As a result of the test, several troublesome words and phrases were identified and changed.

The perfect benefit communication has yet to be designed, but you can do a lot to help them dig you, if you really want to be dug.

Howard L. Peck is a partner in the firm of Hewitt Associates, Libertyville, Ill., independent consulting actuaries, analysts, and advisers on pensions, profit sharing and employee benefits. He heads the firm's activities in employee communication. Mr. Peck, who has been active in the advertising and communication field since his graduation from Grinnell College, spent several years handling investment securities advertising. He was a program director for Wisconsin radio stations and for 15 years was an account executive and later vice president of a Milwaukee advertising agency. Since joining Hewitt Associates in 1952, Mr. Peck has handled employee communication projects for many companies in various parts of the country.

IRS rules on deferred profit-sharing plan

by Joseph S. Robinson
member of the New York Bar

One of the big advantages of a qualified, deferred profit-sharing plan is the exclusion of an employee's death benefit from his estate to the extent of the amount attributable to employer contributions.

Suppose a company sets up a profit-sharing plan and gives the employee this choice: Take each year's company contribution in cash or put it into a trust for his behalf. Will such election cause the estate tax umbrella to buckle? In other words, will contributions under an option arrangement be tantamount to employee contributions and as such, taxable to his estate?

The Internal Revenue Service recently ruled on this question when presented with the following facts:

A BANK ESTABLISHED a trusted profit-sharing plan in which it agreed to turn over a portion of net earnings into the trust for the benefit of eligible employees. The amount would not exceed 10% of total salaries. One feature of the plan allowed each eligible employee to elect annually whether to participate in

the plan and have all or one-half of his share of the earnings deposited with the trust and credited to his account or take the cash. But once the trust election was made, the money could not be later withdrawn by the employee.

Here's how IRS reasoned in permitting the estate tax exclusion upon an employee's death:

Since the money already transferred was locked up in the trust, it could not be turned over to the employee until he retired, resigned or died. Therefore, such sums were in fact employer contributions to a qualified plan and so entitled to be sheltered from the deceased employee's taxable estate.

KEEP IN MIND that it is important for a profit-sharing plan participant to name someone, other than his estate, as beneficiary if he wants to save the proceeds from the tax collector's clutches (See Revenue Ruling 68-89).

Compensating executives can take several tax favored roads

Recent Internal Revenue rulings and court decisions may serve as a handy reference when companies and execu-

tives get together to plot out pay plans above and beyond "the fringes."

One tried and true method for compensating top brass with little tax sting is the well known deferred compensation agreement which provides specified payments to the executive at a later date—usually upon retirement—lasting over a number of years. Quite often, there's a provision in the contract which contains payout guarantees to the widow in the event that the executive dies before he had a chance to draw out the money.

MANY COMPANIES INVEST in insurance on the executive's life to finance their commitment, with the proceeds payable to the company itself. If the executive lives, the policy can be "cashed in" and used to fulfill its obligations. On the other hand, should the executive die, the company has the entire proceeds (usually with windfall profits) to apply toward its contractual payments to the widow.

The tax aspects of this sort of arrangement are quite clear. The company cannot deduct the premiums since it is the beneficiary of the policy. But that's usually all to the good, since the proceeds (including excess over cost) are all tax free when received.

What about the tax aspect to the executive when his deferred compensation arrangement is financed through insurance?

WHILE TAX TECHNICIANS thought they knew the answer, they couldn't point to a Treasury ruling—up to now. Internal Revenue has finally come out with a ruling in the following situation:

An insurance policy was taken out on an employee's life to fund a company's retirement obligation pursuant to its employment contract with him. The company owned the policy, paid the premiums and was the beneficiary.

IRS reasoned that since the employee had no present economic benefit or interest in the policy, he should not be tagged with immediate taxable income on the amount of the premiums outlaid by the company. Of course, the employee will be taxed in the usual fashion when he ultimately receives payment under his deferred compensation arrangement (See Rev. Rul. 68-99).

NOT ALL MEN IN top management go for the delayed payment arrangement. Some key men endorse the "bird in the hand" philosophy where they take added

Continued on following page

Continued from preceding page
compensation now—but prefer to defer the tax until later.

The concept of immediate compensation with deferred tax treatment recently won approval from the IRS provided (a) the compensation is in stock—not cash; and (b) there are strings attached to the stock offer.

Here are the facts on which IRS gave the "all clear" sign: An executive was allowed to elect any time before Jan. 1 of each year to take his bonus in cash or in restricted stock of the company. The restriction forbade the employee to sell the stock (without company consent) before termination of employment. The restriction expired a stipulated number of years

after an employee's retirement.

As IRS sees it, the employee would have compensation only at the time the restriction ended (or on a previous sale by him)—not when he elected to take the stock or actually received it (See Rev. Rul. 68-86).

WHAT ABOUT THE forgotten man—the loyal employee who never was highly paid? When he dies, can the company make amends and set things right with the widow?

A case of this nature came before the tax court. It rules that the employer could deduct payments which it made to a former employee's widow, provided such payments were reasonable in

amount. Here, it was revealed that the former employee was under compensated (See *Way Baking Co. Tax Court Memo 1968-37*).

How company takeover affects profit-sharing payout tax

If one company (through acquisition), swallows up another but retains management and personnel, an employee will be hit with ordinary income on lump-sum distribution of his qualified profit share earned from the original company. A recent Tax Court decision hammered home this point.

Here are the facts: Philco had a non-contributory profit-sharing plan in which

a Mr. Gittens participated as an employee. Philco was taken over by Ford. A new Philco subsidiary was set up to continue the business. It kept the same managers, supervisors and other personnel that worked for the original Philco—including Mr. Gittens.

Mr. Gittens was given the choice to take his profit-sharing interest in cash or leave it until death or other separation from service. He elected the cash.

RESULT: Ordinary income. Since there was no substantial change in company operation, there was no real separation of service—a condition for capital gains treatment. So says IRS, and the tax court agrees. ■

Insurance certificates are binding

by John W. Giles
attorney-at-law
Washington, D.C.

Are the terms of the certificate of insurance issued to an employee under a group policy binding on the insurer, or must the employee rely on the terms of the master policy issued to the employer? The weight of authority is to the effect that the certificate of insurance controls the rights of the insured employee.

In a recent case decided by the California supreme court (*Humphrey v. Equitable Life Assurance Society*, Oct. 26, 1967), the plaintiff, widow of the insured under a policy of group insurance, sued to collect \$14,000 allegedly due her as beneficiary under the policy. The question was whether the deceased employee was at the time of his death, insured for \$1,000 as a retired employee, or for \$14,000 as an employee in the first year of disability as defined in the policy.

The deceased insured began employment in 1945 and was later issued a group insurance policy for \$14,000. The policy

required the employee to contribute a portion of the premium. The employer dealt directly with its employees in regard to the insurance, and the certificates were issued by the defendant insurance company and distributed through the employer.

THE CERTIFICATE of insurance provided among other things that if the employee became disabled by injury or disease, his insurance will be continued for a full period of disability up to but not beyond one year. The master group policy provided that if an employee ceased active work because of retirement, the amount of his insurance was subject to be reduced to \$1,000. In July, 1962, the deceased insured became so ill that he was unable to work and took sick leave, with regular pay, until Dec. 25, 1962.

THEREAFTER he was granted a leave of absence without pay to recover from illness. On April 25, 1963, still too ill to work, the deceased insured applied for retirement to be effective July 1, 1963. The employer then sent him a \$1,000 life

insurance policy upon retirement.

The employee died Aug. 26, 1963, and the insurance company paid his widow, the plaintiff, \$1,000.

THE TRIAL court found that the insured was totally disabled from July 27, 1962, to the time of his death, that he left his employment because of the disability and that under the terms of the master policy his coverage was reduced to \$1,000 on retirement.

On the appeal, the plaintiff maintained that the deceased insured was insured for \$14,000 under the provisions of the insurance certificate because the insured occupied the status of a disabled employee at the time of his death and that there was no language in the certificate requiring the reduction in insurance of a disabled employee who retired while he was entitled to coverage as such.

The plaintiff pointed out that under the master policy the one-year period during which the insurance of a disabled employee was continued, commenced to run either on the date his disability actually began, or if later, one year from the date his regular sick leave with pay had terminated.

THE INSURANCE company contended that the master policy governed, which stated that the insurance certificate was subject to its terms and that the master policy provided that if an employee ceased active work because of retirement, the face amount of his insur-

ance was reduced to \$1,000.

The California supreme court held that the terms of the insurance certificate prevailed. Nothing in the language of this document indicates that once an employee has attained disabled status, as the term is defined in the policy, and he is thereby entitled to one year of coverage, his retirement within the one-year period will result in the forfeiture of his right to full coverage for the full year of disability.

The retirement and disability provisions here are independent of one another, each setting forth separate circumstances under which termination of active work will not be deemed to constitute termination of employment. If there were some doubt about the matter, the court said, it would be compelled to hold that, in view of the rule that any uncertainties in an insurance policy, must be construed in favor of imposing liability and that the deceased insured's right to one year of full coverage during disability was not defeated by his retirement.

The court further stated that this result is easily justified on the ground that the individual certificate is the only document which the employee sees or is given at any time and the insurer who drafts the instrument in language it selects, cannot thereafter complain that it does not express the intention of the parties.

The court reversed the judgment and directed entry of judgment for the plaintiff for \$13,000, less the amount of insurance premiums which the deceased might have been required to pay. ■

Outline of an insurance department's objectives and strategy

The following is an outline of the objectives and strategy of a major conglomerate's insurance department:

OBJECTIVES

The insurance department has two prime objectives which serve the overall objective of building long term profit growth.

1. Effectively protect the company's assets against loss from other than speculative or business risk at the lowest possible cost.
2. Find ways to use our available business leverage to generate profits from insurance operations and to obtain use of the large funds which are inherent in the insurance industry in order to have them available to assist in achieving our goals in financial and other business areas.

STRATEGY

The first objective, protecting company assets, will be reached by the following plans.

1. Continuous analysis by insurance department personnel of all company operations, product facilities and procedures and loss statistics so as to be able to detect risks that might adversely affect the company's assets. This will be done by

reviewing reports, visiting plants, encouraging advance notice of new projects by operating personnel and otherwise searching out information by any and all other means available.

2. Educate, train and offer expert assistance to operating personnel at all levels so that they can effectively minimize or eliminate all insurable risks which will adversely affect the company's assets. Advise operating management how insurance costs are determined and how they can control them.
3. Eliminate risks when possible or reduce either the effect of or frequency of risks that cannot be eliminated. This will be done by working with the operating divisions, insurance industry loss prevention engineers and by insurance department analysis.
4. Assume risks when the losses will not significantly affect the company's operational or financial position. This will be done either by planned noninsurance, self-insurance programs or the use of deductibles. Analysis by insurance department personnel of losses and loss patterns, plus research into po-

tential cost savings available from the insurance market.

5. Purchase insurance only when we do not wish to assume the risk or when service comparable to that offered by insurance companies is not obtainable within the company or elsewhere at lower or comparable cost.
6. Control outside and inside administrative expenses in order to achieve the ultimate productivity for the money spent. As a matter of principle, everything that can be done as well or better and at the same or lower cost will be done internally. A continuous study will be conducted of service requirements necessary to properly carry out the department responsibilities as well as the caliber of service obtained from insurance companies and producers. Changes will be made when necessary to obtain optimum results.

THE SECOND OBJECTIVE

The study of methods of using insurance as a vehicle to generate profit, will require the following plans:

1. A detailed analysis of estimated

long range operating results in order to determine capital requirements, operating expenses and personnel requirements, fund accumulations and estimated period of time to reach profit position.

2. Study of all of the possible strengths or advantages that the company has which would be beneficial in starting an insurance company. This would consist of an analysis of our spheres of influence which could give possible marketing advantages and cost reduction. Determine how these strengths can be best used to reach the desired objectives.
3. Study of advantages and disadvantages and the pitfalls connected with starting (1) a property and casualty company, (2) a life insurance company and (3) an insurance brokerage firm. This will require detailed study of various legal aspects. Meetings with personnel of other industrial and investment firms that have started similar operations in recent years will be valuable sources of information. Discussion with re-insurers for small-to medium-size insurance companies will also be extremely useful. ■

Fish processing work comp costs rise in face of fewer employees

SACRAMENTO, Cal.—Workmen's compensation costs in this state's fish processing industry are nearing a million dollars a year.

Albert Beeson, director of the Department of Industrial Relations, this week reported that 15% of the nation's 40,000 employees engaged in fish canning and preserving now work in this state.

"In 1966," Mr. Beeson adds, "the payroll of California's fish canning industry exceeded \$28,000,000, with a basic premium cost of \$3.20 per \$100 of payroll." The state's fish canneries now ship more than \$200,000,000 worth of products a year, one

fourth of the U.S. total output.

"THE JOB injury rate in our fish canneries," Mr. Beeson reports, "has been climbing steadily since 1961, when the industry registered a low of 35.5 disabling injuries per 1,000 workers."

The 1966 injury rate rose to 61 lost time injuries per 1,000 workers and represented a rate increase of more than 70% during the past five years.

Although the number of persons at work in the state's fish canning industry declined 13% between 1961 and 1966, the 366 lost time work injuries of 1966 was nearly 50% above the total five years earlier.

IN COMPARISON, California workers disabled in job connected accidents totaled 16,208 last May, a drop of nearly eight % from the 17,560 injuries in May 1966.

Average employment in industries covered by the California Workmen's Compensation Act advanced just over 3% from the corresponding period a year ago.

"The figures indicate," Mr. Beeson said, "that, unlike many other industries, the injury experience of the largest employers in fish canning was not substantially better than for the industry as a whole."

Although men accounted for 42% of the work force in can-

neries, they sustained 56% of all lost time job injuries. Not only were men hurt more frequently than women but their injuries tended to be more severe.

More men (30%) were hurt while handling fish than in any other activity.

Mr. Beeson said that "a special hazard" seems to exist in fish canneries in wheeled baskets, racks and buggies in which fish are transported, cooked and stored.

About one in ten of the women disabled at work suffered occupational diseases, usually skin conditions or other allergic reactions to fish or shell fish.

A FEW OF the women devel-

oped tendonitis or bursitis over a period of time while working as fish cleaners.

Although the rate for lost time work injuries in the industry is more than twice that for all industries as a group, the industry record is relatively unmarred by fatalities.

IN THE SIX AND A HALF years between January, 1961 and June, 1967, only four deaths were recorded in fish canning and preserving.

These were deaths for which death benefits were awarded by the Workmen's Compensation Appeals Board or its predecessor, the Industrial Accident Commission.

Committee, industry differ over the bombing of Torrey Canyon

LONDON—The official report of the Committee of Scientists on the technological aspects of the Torrey Canyon disaster in the approaches to the English Channel (the most expensive casualty in maritime history) gave qualified approval to the British government's decision to bomb the vessel to destroy the oil remaining in her tanks.

Nevertheless, the report said that "much needs to be inquired into the field of salvage operations," adding that "there should be a rapid and dispassionate evaluation based on both professional and scientific advice of the chances of successful salvage."

IN CONCLUSION, the committee said "the Torrey Canyon incident revealed a painful ignorance about a number of matters which should now be urgently researched if oil is to be more

rapidly, safely and efficiently disposed of in any future incident—possibly on an international collaborative basis, perhaps co-ordinated through the Inter-Governmental Maritime Consultative Organization."

CAPT. A. F. DICKSON, chief marine superintendent of Shell International, has said that the view of industry is that one cannot foresee circumstances where firing oil would be the right answer. "It might be that you should abandon efforts to save the ship," he said, "but not abandon attempts to save the oil. Industry's opinion is that if the oil is contained in a tanker, it should not be let out into the sea in any circumstances. You should try to get that oil out, rather than burn it, because burning is not necessarily going to be efficient, either in the ship or in the sea."

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Five states, federal government map action on riot pool plans

CHICAGO—At least five states, New York, Michigan, Ohio, Connecticut and New Jersey, have moved to provide adequate fire protection for slum properties through various forms of insurance pools. In addition, action on a federal reinsurance pool is expected in the near future.

In New York, the state legislature has sent a bill to Gov. Nelson Rockefeller creating a mandatory fire pool creating a joint underwriting association for fire and extended coverage for difficult or impossible to insure properties.

Recently the American Insurance Assn. endorsed an urban areas plan to provide insurance for slum area dwellings in four Connecticut cities, Hartford, New Haven, Bridgeport and Waterbury.

The plan, similar to one currently being used in Cleveland, would provide fire and extended coverage under an inspection program in areas where such coverage is difficult or impossible to obtain. The AIA said the plan should be implemented "as soon as possible."

VOLUNTARY OR mandatory insurance pools are under review in Michigan and New York.

In New Jersey, the state's major insurers have agreed to a program to provide adequate fire coverage for ghetto properties.

But Horace J. Bryant, Jr., deputy insurance commissioner, warned that if the voluntary program doesn't work, "it will be made mandatory."

Insurance representatives made it clear that they considered the program, called Fair Access to Insurance Requirements (FAIR), a "temporary, emergency measure" that could only be made permanent if the insurance pool was created by federal and state legislation.

THE POOL would reimburse the companies for insurance losses caused by civil disorder. W. J. Heinrich of Allstate Insurance Co. stated that "we cannot stay in the market if we are faced with the losses sustained in Detroit and elsewhere. We cannot underwrite losses caused by the outbreak of civil disobedience."

Mr. Bryant said that the companies' shared risk program cannot be expected to handle losses "that could reach \$10,000,000 to \$15,000,000 in a day or two." Mr. Bryant said the backup pool is "vital" and said that a state bill is being readied similar to legislation being debated on the federal level.

He added that if the federal bill fails it will still be necessary for the state to consider financing the pool by itself. He said part of the money would probably come from a boost in fire and extended coverage rates.

Mr. Bryant said if the legislation isn't ready by the summer, "we may not be here in September."

A SPOKESMAN for the AIA told an audience of insurance officials in Chicago that he expected some action on a federal reinsurance pool for riot and civil commotion losses by May and perhaps a law by June 1.

AIA companies write about 80% of the business, he said, and therefore, "we have taken the position that we must urge Con-

gress to act as soon as possible." Currently, some factions are fighting over how the reinsurance pool should be funded, either through annual appropriations or a Treasury borrowing provision.

In New York, a voluntary pool formed by insurance companies to underwrite fire insurance in slum areas "has not fully met the need," according to Gov. Nelson A. Rockefeller.

The governor had proposed legislation making the pool mandatory for every company providing fire insurance in this state.

The new legislation would require the new underwriting association to draw an economically fair and nondiscriminatory

plan of operation within 90 days after the effective date of the legislation. The plan would be subject to approval by the superintendent of insurance.

The rates for the slum area properties would be initially set by the superintendent and would include surcharges for hazardous conditions.

Participation in the association would be in proportion to the amount of premiums written in New York by each company.

IN MICHIGAN, a compulsory fire insurance pool proposed by Insurance Commissioner David J. Dykhous has won strong endorsement from the state's top elected official, the governor.

Gov. George Romney called on Mr. Dykhous to come up with a remedy for urban fire insurance problems soon after the riots last July in Detroit.

The plan provides that the 295 property insurance companies licensed in Michigan will form a pool to accept properties that comply with local building codes but can't find insurance in the normal manner. The pool would be barred from turning down applications on the grounds of exposure to riot or external hazards.

MR. DYKHOUSE told *Business Insurance* that he is "optimistic" that the current session of the legislature will pass it.

An objection of the insurance industry to the plan has been stricken in the bill drafted for legislative study. The amendment sets a limit of 1% of a company's surplus that can be assessed in any one year if pool

losses exceed its premium income. In Mr. Dykhous's original proposal there was no limit.

The amendment provides that if an assessment exceeds 1% of a company's surplus, the excess amount may be carried forward until it is retired.

The assessment would be based on each company's share of the total fire and insurance coverage insurance written in the state.

Mr. Dykhous said that the aim of the change is to avoid a large cut into the surplus of a company that writes a substantial part of its business in Michigan.

McColloch to Penneys

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Continued from page 10

have to leave the hospital for 60 consecutive days, when a new spell of illness could begin.

ANOTHER CHECK on payments to mental hospitals is the provision that if a person is in a mental institution at the time he turns 65, the time he has spent in the institution up to that day is deducted from the maximum 150 days he may be reimbursed for during the first spell of illness. This time is not charged against the maximum 190 days due him.

Paradoxically, a patient who is in a mental hospital that is not participating in Medicare at the time he reaches 65 and who subsequently transfers to a participating mental hospital, does not have deducted any days of inpa-

tient care received in the former institution. Also, the deduction of days spent in a psychiatric hospital immediately prior to entitlement is not applicable when the patient enters a general hospital for diagnosis or treatment of an injury or illness not primarily psychiatric in nature.

Many psychiatric hospitals have established medical-surgical wards or units as a separate "provider" of services under Medicare. Hence, patients becoming "physically" ill who are cared for in the medical-surgical unit of the psychiatric hospital need not have this period of hospitalization charged against their lifetime limit of 190 days in the psychiatric hospital. In some psychiatric hospitals, the medical surgical unit only has been certified under Medicare and is classified administratively as a short-term general hospital.

In short, the Medicare "life-

time" reimbursement limitation of 190 days for inpatient care in the mental hospitals is conducive to keeping the patient out of these long-stay institutions or to limiting his stay there if at all feasible. In the case of needed hospitalization of a patient for an acute phase of mental illness, the law, encourages the physician to send him to a psychiatric ward in a short-term general hospital rather than to a mental hospital.

In order to become a beneficiary of part B of Medicare a person must pay \$3 a month to the government. For this the program pays 80% of the reasonable charges for covered physicians' services after a \$50 deductible has been met by the patient in each calendar year.

In the case of mental illness, however, the program places a limitation on the amount it will pay for physicians' services when the beneficiary is an outpa-

tient. A patient is viewed as an outpatient when he incurs expenses for psychiatric treatment outside a hospital, general or psychiatric.

REIMBURSEMENT for medical care for mental illness on an outpatient basis cannot exceed 50% of the expenses for such treatment, or \$250 in each calendar year, whichever is less. This reimbursement limitation does not apply when the physician renders medical or psychiatric aid to a mentally ill person when that person is an inpatient of a hospital.

In short, physicians' services for medical or psychiatric care of a mentally ill patient may be paid according to ordinary part B reimbursement regulations when the beneficiary is an inpatient of a hospital, regardless of whether or not the hospital is participating in the Medicare

program or whether the patient's 150 days of inpatient hospital services in a spell of illness or the 190 day lifetime limit on inpatient psychiatric hospital services have expired.

This circumstance, in view of the restrictions on reimbursement for psychiatric treatment of patients outside the hospital, encourages hospitalization in the case of needed extended psychiatric services which could perhaps be provided in an outpatient department.

Foster child group sets new life program

NEW YORK—Foster Parents Plan Inc., a worldwide organization dedicated to aiding destitute children, has installed a group life plan for its New York staff and overseas directors. Equitable Life Assurance Society has been named as carrier.

Benefits range from \$10,000 for directors and their assistants to \$2,000 for clerical help. "Naturally, we would like to buy the broadest coverage possible for our employees," said George W. Ross Jr., deputy executive director. "However," he continued, "since all our income depends upon voluntary contributions, we have to put our dollars to use where they can best serve their donors' intentions."

Founded in 1937 during the Spanish civil war, Foster Parents "has grown like Topsy" until now it is the largest child welfare organization in the world. "We have more than 47,000 children on our rolls," Mr. Ross explained, "and bear in mind this extends to their families as well."

"Many of our sponsors are corporations and employee groups," he continued. "For example, we include Bethlehem Steel, Pan-American Airways, Columbia Broadcasting and many other businesses among our list of foster parents."

ALTHOUGH GROUP life is a new employee benefit, an accident and health plan underwritten by Continental Casualty Co., Chicago, has been in existence for some years. Benefits pay up to \$1,000 for each illness or accident, subject to a \$25 deductible for directors and their families. There is no deductible for other employees.

"This is the most equitable way to take care of health and medical expenses for overseas American and Canadian nationals, and the 'each illness' benefit pleases us all," Mr. Ross stated. "Nationals of other countries qualify for their own governmental plans, which are often quite substantial," he said.

Until recently there was no mandatory retirement age for employees of Foster Parents. Effective June 20, 1968, this will be age 65.

Other coverages, such as fire and theft insurance on its New York warehouse, workmen's compensation, auto insurance and broad form money security, are placed with U.S. carriers by John C. Paige & Co., broker.

The cost of shipping goods and parcels, and transportation fees from the New York warehouse to the port of entry, is borne by the government because Foster Parents has been approved by the State Department. Insurance costs in transit, however, must be paid for by the plan.

We know a printing plant owner who insured a cafeteria.

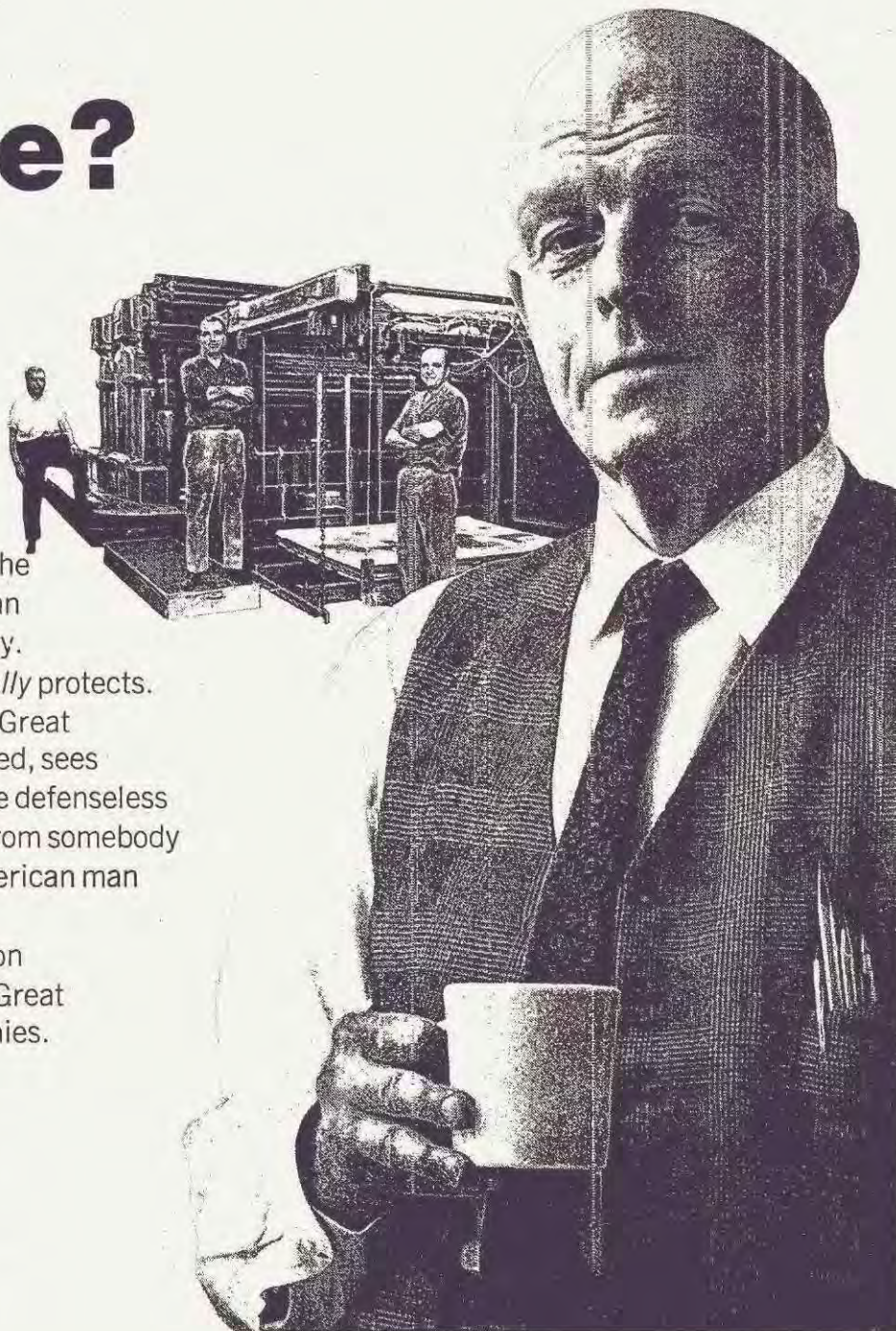
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HEW's Cohen: health insurance today incomplete, inadequate

WASHINGTON — "Voluntary health insurance today is incomplete and inadequate and not comprehensive enough to meet the needs of the American people," newly appointed Secretary of Health, Education and Welfare Wilbur Cohen said following announcement of his appointment.

Mr. Cohen, who has been acting head of the department since John Gardner resigned in February, is highly respected. He began his career in the field as a research director for President Franklin D. Roosevelt in 1934 and helped draft the original Social Security bill. He has through the years gained a great deal of respect in Congress.

Mr. Cohen's appointment signals increasingly expanding federal health and welfare programs with higher and higher industry contributions. His expressed dissatisfaction with the current health insurance system foretells an active future for corporate employee benefit managers.

MR. COHEN'S statement about health insurance was made in answer to a question whether he would favor some kind of basic benefit package to be provided under private and public programs, in the nature of a national health insurance floor minimum.

Mr. Cohen said he has met with representatives of the insurance industry and asked them to improve their coverages. He

said it is "the failure of the people to be covered under voluntary insurance, either because they are not covered at all or because their medical coverage is incomplete, that causes people to have to apply through the welfare system for medical care that comprises" 40% of the total welfare costs under either Medicaid, or the vendor payment. It is entirely possible in the next few years that 50% of the total welfare costs could be medical cost, Mr. Cohen said.

"I would like to see us strengthen as far as humanly possible the voluntary health insurance system of this country. But, it may well be that we will need

to have some kind of help for people with very low incomes or no incomes at all, people who are sick, people who are unemployed.

"**AS A FIRST** step in that direction, I would like to see all of the disabled who are receiving Social Security benefits covered under the Medicare system so that they would not have to have recourse to welfare as a method of meeting their major medical costs," Mr. Cohen said.

Of primary interest to the business community, of course, was Mr. Cohen's statement, "Maybe we should expand Social Security to cover part of welfare

and pay more payroll taxes—both the employer and the employee."

Mr. Cohen told a news conference two days after making the remark that he thought the press may have placed a bit too much emphasis on the statement.

HE SAID HE was suggesting, when he made the comment, "the possibility of the further expansion of the Social Security program as a method of reducing the extent to which people would need to be on welfare."

"I do not believe that it is possible to develop a plan of payroll tax financing that would be applicable to all problems and all persons who are now on welfare."

"But I do believe we could further expand the Social Security program in raising the level of benefits, applying them to more

individuals, improving the disability coverage, a number of other matters, raising the minimum benefit to \$70, in which payroll tax financing would take off a larger part of the burden that welfare now has to pay."

He said, however, that this was not something that could be done overnight. It is a logical progression of the policy that Congress has followed during the last 30 years, he said.

Asked if he was saying that taxpayers would today be taxed a certain percent to pay for those who are on the rolls, Mr. Cohen replied, "No, the idea is, looking down in the future—we have 8,000,000 today on welfare, and we have 26,000,000 people roughly in the poverty class who are not receiving welfare."

Mr. Cohen then said that about 40% of total welfare cost is for medical care. ■

Irish crash...

Continued from page 2

Treaty. However, the airline's international status could possibly open the door to expensive suits, according to a legal expert.

The Eastern Airlines and Alitalia cases have attracted worldwide attention, especially among nations operating their own commercial airlines. The \$75,000 passenger limit is considered very high in certain countries, an airline insurance executive explained, and not everyone feels that so much coverage is needed.

AFTER THE APPEALS court had overturned the \$8,300 limit in the Alitalia case, seven foreign governments protested to the U.S. State Department, and Italy and Great Britain filed briefs with the Supreme Court. All these countries claimed that the appeals court decision had violated the Warsaw Convention and that the purpose of the treaty had been misinterpreted by the rulings.

The Supreme Court tie-up in the Alitalia case resulted because Justice Marshall abstained from voting without giving an explanation. However, the question could be decided if a similar case is again heard, and he decides to participate.

IN THE MEANTIME, it is expected that lower court judges will proceed on their own, without having a clear cut Supreme Court decision as a guide.

"We now have the peculiar situation," commented a legal authority, "where the Warsaw Convention is enforceable in one circuit but unenforceable in another." ■



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Fires...

Continued from page 1

decision on amount of payment. Carson's does not employ an appraisal company, according to Mr. Hendy, but submits values to FIA annually through their own internal help and their broker, Critchell-Miller Agency.

"WE ARE TAKING inventory right now and of course the insurance companies are pressing for an estimate," Mr. Hendy commented, "but it will be next week at least before we obtain an accurate figure." He added that the major key right now was the amount of damage to the building itself.

At Wieboldt's, a fire in a notions stockroom did \$3,000 damage, according to O. E. Haedike, secretary. The damage is covered under their blanket policy with

St. Paul Fire & Marine Insurance Co. The store carries total coverage on contents for \$39,000,000 and has a \$1,000 deductible.

Mr. Haedike stated there were no business interruption losses.

The fire at Warc's downtown store did an estimated \$50,000 to \$70,000 damage. Warc, which is self-insured, suffered \$5,000 to \$10,000 damage in Lombard.

Investigations are being conducted by a force of more than 50 detectives, bomb and arson experts and laboratory technicians.

CHICAGO'S MAYOR Richard J. Daley and Fire Commissioner Robert J. Quinn referred to the cause of the fires as "undetermined." John T. Pirie Jr., board chairman of Carson's said, however, "It is definitely arson. We have evidence."

Mr. Pirie announced a \$25,000 reward for information leading

to the conviction of persons responsible for the fires in the firm's Loop store. The Chicago Tribune also offered \$25,000 reward.

Arsonists were believed to be responsible for a fire in a fitting room of south side Frank's Department Store. Jerry Frank, a manager, said, "Arson, no question about it."

Two dresses were burned but the fire was put out without aid of the fire department.

A Chicago fire protection engineer said that "certain people" should not have made such strong statements saying the fires were not the results of arson.

"THIS IS THE type of thing which has to be probed after things have cooled down," he continued, "and the rash of fires here and in New York is highly unusual."

The New York fires, which oc-

curred March 30, caused minor damage to Gimbel's, Klein's and Bloomingdale's. Damage at Gimbel's is covered by a fire and extended coverage policy. Klein's and Bloomingdale's refused to disclose information regarding extent of damage or insurance regardless of fault.

POLICE, FIRE departments and insurance companies involved are investigating evidence which points to arson.

In yet another Chicago fire, a Libby, McNeill & Libby warehouse storage site for 30,000,000 tin cans stockpiled for use later in the season, was discovered to be ablaze in the early morning April 2.

The warehouse was part of a 500-foot long complex separated from the main area of the Ford City shopping center south of the city by a 100-foot-wide parking lane.

According to a Libby spokesman, the loss is estimated at more than \$1,000,000. One of the big problems, he said, is finding someone to haul away the fire damaged cans. Libby leased the building and shared it with a sheriff's police auto garage. ■

Crane Buyer...

Continued from page 1

Mr. McDermott found himself in a position to carry out his alleged scheme when Crane relieved him of his other duties as assistant treasurer to concentrate on insurance. Administration reportedly wasn't one of his strong suits, however, and Crane's auditors were said to have kept pressing him to develop more orderly procedures.

EVEN SO, no one in the company became suspicious of Mr. McDermott, who was said to be "highly regarded" by management. Although the auditors were growing somewhat "restless" over his work, he was still beyond suspicion when he resigned.

Mr. McDermott's extracurricular activities came to light when his successor reviewed Crane's insurance portfolio but couldn't locate the excess policies which Mr. McDermott had placed with Global Risk. Marsh & McLennan, one of Crane's brokers, was called in to go over the excess coverage, and the broker confirmed that Crane had more than it needed.

Events after that were "almost one of those 007 deals," a source said. Once it was determined that Mr. McDermott had allegedly banked the funds in numbered accounts under the names of "Jonny" and "Whisky" in Zurich, Switzerland, Crane dispatched men to Europe and Antigua, and "in less than seven days the company got most of its money back," a source stated.

According to the district attorney, \$521,788 in cash has been recovered and Mr. Caldiero was said to have turned over a \$40,000 house that he owns in Antigua and his share of a distillery, valued at \$140,000.

Mr. McDermott, who is married and the father of four, joined Crane in 1961. Prior to that he served as the credit manager for Hedge & Mattheis, a Boston construction equipment dealer. ■

Pension bill...

Continued from page 1

own omnibus pension proposal and the feeling is that the administration will be reluctant to bring a watered down version of the Dent bill to the Senate 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.), chairman of the powerful labor subcommittee, are not likely to take a chance at being outflanked by Sen. Javits.

Sen. Javits is certain to rub their noses in not being able to do anything more for pensioners than the Dent bill proposes. ■

Athearn joins USC

Dr. James L. Athearn has joined the University of South Carolina faculty.

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Occidental group sales dip; combined sales top \$2.5 billion

LOS ANGELES—Occidental Life Insurance Co. group sales dropped 26.3% last year as compared with 1966 as individual life sales rose 7.8% to a record \$1.9 billion, and combined group and individual sales exceeded \$2.5 billion.

Occidental president Earl Clark reported assets of the firm, largest subsidiary of Transamerica Corp., increased a record 8.7% to \$1.391 billion and life insurance in force rose to a new high of \$19.018 billion.

Occidental, ranked 9th in the U.S. in life insurance in force, will place its \$20 billionth dollar of life in force by the end of this year, Mr. Clark predicted.

Last year Occidental sold more than \$50,000,000 of its new group/ordinary life plan offering individual, and ordinary life insurance through group sales.

Occidental started one life subsidiary and assumed ownership of another last year.

Transamerica Life Insurance and Annuity Co. began business July 1, 1967 and by the end of the year had more than \$14,000,000 of life insurance in force.

Also, last year the company assumed ownership of American Life Insurance Co., New York. This company concentrates in New York, the only state in which Occidental does not operate.

Occidental results

	1967	1966
Group sales	\$ 697,233,729	\$ 946,434,953
Per cent change	-26.3%	+5%
Total group in force	8,820,802,545	8,148,081,982
Individual sales	1,900,735,605	1,763,766,967
Ordinary in force	10,197,614,675	9,565,271,946
Total in force	19,018,417,220	17,713,353,928

Life insurance in force at American rose 34.8% to \$431,000,000 while assets increased 14.1% to \$12,500,000.

LAST YEAR Occidental also paid out a record \$226.9 million policy benefits; and crossed the \$2 billion level of life insurance in force in Canada.

War claims may be payable on goods held at Suez Canal

LONDON—Cargo worth about £3,000,000 is still on board the 15 vessels trapped in the Suez Canal.

It is estimated that the losses per vessel have been running at about £1,000 per day for ship-owners. Cargo owners also face severe financial losses, as well as possible deterioration of the cargo.

It is possible that claims may be payable on insurance policies, if this can be termed an effective restraint, since this is covered by the war clauses.

Luckily, the valuable consignments of fruit, which, it was thought, would suffer seriously both in deterioration and loss of

market in view of the very long delay, appear to be in good condition. It is quite possible that they will be saved.

A NUMBER of cargo owners are understood to have tendered notice of abandonment to underwriters, claiming a constructive total loss. No claim will, however, be paid if the ships and their cargoes are recovered, since there is no cover for deterioration of cargo due to delay.

Both the marine and war clauses specifically exclude loss, damage or expense proximately caused by delay or inherent vice or the nature of the subject matter insured.

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Harris-Upham \$504,520 award may be covered by brokers bond

NEW YORK—A \$504,520 award against Harris-Upham, New York stockbroker, has raised the question of whether coverage is provided under the terms of the brokers blanket bond carried by all members of the New York stock exchange.

A source at Harris-Upham "thought" that coverage would be provided, but no one knew for sure at the time *Business Insurance* went to press. However, an insurance broker and a spokesman for the New York Stock Exchange discussed some of the difficulties of pinpointing liability in the decision.

Harris-Upham is appealing the decision by a San Francisco

judge.

The case involved a 76-year-old widow in San Mateo, Cal., who in January was awarded damages amounting to \$295,800. At that time, the judge ruled that Harris-Upham and Asa Wilder, the broker, "grossly and unfairly" churned her account "for no justifiable reason other than to generate profits for the firm and indirectly for himself." (Churning an account means making excessive transactions in an investment portfolio).

WHEN HARRIS-UPHAM took over the widow's portfolio in May 1957 it was valued at \$533,161, the judge said. By

March 1964, the figure had dropped to \$251,308.

During that period, the judge pointed out, more than 10,000 transactions were made in security and commodity tradings.

Had the widow's portfolio been maintained intact, the net value by March, 1964, would have been \$1,026,755, the judge stated.

THE ONLY POSSIBLE coverage against the "churning" decision might be officers' and directors' liability, said an insurance broker. "Errors and omissions wouldn't cover errors in judgment," he said. "However, it's just possible that this could be

covered by a brokers blanket bond, if churning can be defined as dishonesty."

An insurance spokesman for the New York Stock Exchange said that all member firms are required by the exchange rules to carry a broker's blanket bond as a protection against dishonesty and fraudulent acts on the part of an employee.

The amount of the bond is determined by the minimum net capital requirement established by exchange rules for each member company, the spokesman said, and varies from firm to firm. "The bigger the firm, the larger the bond is a good rule of thumb," he said.

THE PROBLEM IN this case is deciding whether or not "churning" is a dishonest act, the spokesman continued. "If a man dips his hand into a till or steals securities, there's no doubt about it."

A source at the Surety Assn. of America told *Business Insurance* that this would be a difficult case to decide. "The facts will have to be very carefully considered by the bond carrier," he pointed out, "and a distinction made between dishonesty and bad judgment."

C&F expands operations in Caribbean area

The Crum & Forster Group of Insurance Cos., New York, has established a new Caribbean division within the C&F eastern regional department to handle all property and casualty lines in Puerto Rico and the Virgin Islands. The firm has also opened a claims service office in San Juan. Coordinator of the C&F Caribbean operations, located in New York, is Segundo Heurta.

Federal ships cover set at \$787,000,000

WASHINGTON—Ship loan and mortgage insurance contracts and commitments totaling of about \$787,000,000 for 123 ships and one barge were in effect as of Dec. 31, 1967, the Maritime Administration of the Department of Commerce announced, a net increase of 11 ships since June 30, 1967.

Total outstanding balances of contracts and commitments to insure under the Merchant Marine act of 1936 were approximately \$625,000,000. Applications for insurance for 39 ships, 713 barges and 10 tugs for an estimated total of \$341,000,000 are being processed, the administration said.

THE ADMINISTRATION is authorized to insure mortgages not to exceed 87.5% of actual cost on (1) passenger vessels, designed to be of not less than 1,000 gross tons and capable of a sustained speed of not less than 8 knots, to be used solely on inland rivers and waterways, (2) oceangoing tugs of more than 2,500 horsepower, (3) oceangoing barges or more than 2,500 gross tons, and (4) other vessels of not less than 3,500 gross tons and capable of a sustained speed of 14 knots.

On ships not meeting these requirements, and on those built or rebuilt with a construction subsidy, the agency may insure loans and mortgages for up to 75% of actual cost of building or rebuilding.

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Benefit men seek ways to reduce health costs

Continued from page 3

Robert E. Brick, manager of industrial relations, administration and personnel research, industrial relations department, Koppers Co., Pittsburgh, contended that to catch mental illness in the early stages "we shouldn't place economic deterrents such as deductibles or number of visits on the front end of coverage but at the back end."

He suggested that after the problem has been diagnosed, co-insurance factors, deductibles or limited visits could apply—but not at the beginning when there is still time to prevent serious complications. He maintained that it's more beneficial to treat a person while he can still stand up and walk around rather than when he becomes an in-hospital patient.

"It's the economic deterrents that keep employees from seeking help in the early stages of mental disorders," he said.

JOSEPH A. GAGLIANO, administrator, Mason Tenders District Council, Pension & Welfare Fund, supported this idea of early detection and treatment. He cited the need for similar coverage with lung cancer detection. Mr. Gagliano described a new, convenient method used for detecting lung cancer.

HE NOTED THAT although the detection method still is in the infant stage more than 30 unions in the New York area have approved this benefit for their members.

Mr. Gagliano prefaced his remarks by emphasizing the concept of preventive health care. "An ailment diagnosed and treated in the early stages saves money for the employer, welfare fund and the patient."

Mr. Brick listed ten goals

which industry should work toward in setting up effective mental illness programs. He cited the need for hospital coverage similar to that for physical illness, group therapy and family consultation coverage; psychiatric testing under a psychiatrist's referral and guidance; home visits by nurses and social workers under the psychiatrist's guidance; office visits; and coverage for drugs used to treat mental illness.

"There have to be dramatic changes in coverage to meet the needs of society and mental illness," he affirmed.

JOHN E. DELANEY, supervisor, group sales, Connecticut General Life Insurance Co., Hartford, described the most frequent features of group psychiatric plans.

He referred to coverages offered by Medicare, Ford and U.S. Steel.

FORD OFFERS ITS employees coverage in the hospital, including physicians' visits with a 45-day maximum for each confinement. Certain out-patient psychiatric care is provided, including visits to a physician, electroshock therapy and psychological testing. A \$400 maximum per year is imposed.

Mr. Delaney also described the workings of community mental health centers, of which there are currently about 259.

As in the dental area, coverage has to be devised so as to encourage early detection of problems and provide adequate coverage for restorative work. One speaker pointed out that a growing number of young adults have dentures because it's cheaper to have a tooth extracted then restored.

The trend today, is to include dental coverage as part of the

major medical expenses, using the same deductible. He estimated this procedure could increase premiums by \$3 or \$4, but separate dental care coverage could cost from \$10 to \$12.

Mr. Delaney, in referring to dental coverage, estimated that nearly 1,500,000 people are presently covered under insurance companies' dental programs; but growth in this area is certain, especially since the federal government has given impetus to such coverage.

Mr. Gagliano said that latest premium figures indicated that a dental program can be obtained for as low as \$2.05 monthly for an individual with no prosthetic benefits to as high as \$21.44 monthly for an entire family with full benefits.

Morris Stein, sales manager, Blue Cross of Greater Philadelphia, reported that the UAW has dental coverage under study.

He further mentioned that Ford in 1969 will begin its prescription drug plan, which will carry a \$2 deductible for each prescription. If a person uses a participating pharmacist, all costs beyond the deductible will be reimbursed; if he uses a non-participating pharmacist, only 75% of the costs will be reimbursed.

MR. GAGLIANO pointed out that some drug plans pick up the full tab for prescription drugs while others use a 50¢ or 75¢ deductible. One seminar participant added that the "pill" (the birth control pill) more than

likely won't be covered by prescription drug plans.

In the Greater New York area, according to Mr. Gagliano, 250,000 families are covered by a drug plan and more than 85% of the pharmacists have agreed to participate in the program. Prescription costs are based on the industry's Red Book rates, plus a percentage for profits and expenses.

"This is a valuable and popular benefit, since government figures show that more than 12% of every dollar spent by out-of-hospital patients for health care is for prescription drugs," he said.

Some insurance companies, he said, are offering the coverage as a drug rider. The monthly premium rate with no deductible is

Continued on page 30

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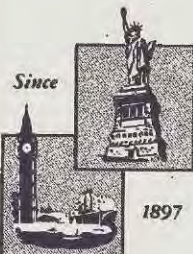
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Health costs...

Continued from page 29

about \$1.30 individual and \$4.10 family.

MR. DELANEY, on the other hand, reminded participants that any type of financing program, private or public, must of necessity add administrative costs to the cost of health services. Processing of small amounts, he stated, can be disproportionately costly. He recommended that prescription drug insurance, to be most economic, should be concerned with unusual expenditures and should be incorporated in a program concerned essentially with all or most other health care costs.

His recommendation was that prescribed drugs be included in the major medical or compre-

hensive medical expenses and that the deductible amount pertain to all insured medical expenditures. A coinsurance factor could apply to prescription drug coverage, Mr. Delaney added.

"Prevailing fee," "usual and customary"—these concepts are replacing the idea of surgery schedules in major medical plans, speakers said. And with the idea of prevailing fee comes the trend of full payment of the physician's charge.

According to one speaker, the principal factor upon which payment for service is based is the level of charges in the community—developed where possible from charge profiles for individual doctors.

BOTH MR. STEIN and Mr. Delaney said that the auto workers' contract provides for 100% of prevailing fees starting in September.

Mr. Delaney mentioned that the "prevailing" aspect easily could become lost to the employee and really mean to him the "actual charge." The plan also does away with the traditional coinsurance principle found in most surgical benefits, he said.

Although maternity benefits for single girls have not been readily accepted by society, the communications workers contract provides such coverage. Mr. Stein pointed out that such benefits have come up in a couple of union contracts but the benefit is "seldom utilized."

In designing medical coverage plans, Gerard J. Vyskocil, assistant director, group claims, Mutual Life Insurance Co. of New York, suggested the language be clear and unambiguous, the insured share in the cost and not be allowed to make a profit, the plan cover the newer medical procedures such as progressive

care and claims administration be simple.

HE RECOMMENDED dollar limits as the most effective means of including the insured in the cost of the claims. "By doing this the insured becomes a party more interested in his medical expenses."

He also suggested that major medical plans carry deductibles in order to "scent out small high frequency claims. The \$50 deductible introduced in 1950 is relatively unmeaningful now; we should see \$100 or \$200 deductibles."

Mr. Vyskocil said that eligible expenses and exclusions should be clearly enumerated.

ROBERT COLLINS, director, employee benefit plans services, Lybrand, Ross Bros. & Montgomery, New York, referred to early retirement as a practice employers are using for persons who have been displaced by technology. When the oil industry automated, for instance, the oil companies offered "quite generous retirement provisions."

COMPANIES MUST recognize that for early retirement they need to provide a subsidy until the retired person receives Social Security, Mr. Collins stated. They also need to decide that the subsidy is worth giving in order to induce early retirement, he said.

In place of early retirement or laying off workers because automation has taken over, industry is beginning to establish automation funds to retrain displaced employees, it was pointed out. The need for such a fund, according to Lloyd Jenkins, administrator, NMU Pension and Welfare Plans, New York, is determined by the industry and occupation involved. Such funds are tailor-made to meet specific requirements.

Another new benefit, cited by Mr. Jenkins, was the supplement unemployment benefit plan which is integrated with state plans. Here again the fund is tailored to the industry involved.

DURING HIS TALK, he also discussed a new medical benefit

— vision care — which in some cases includes contact lenses.

Bennett H. Shaver, Johnson & Higgins, New York, recommended the inclusion of survivor's income insurance in benefits packages. "This coverage," he said, "has become one of the most effective benefits to offer, especially to younger employees."

Survivor's income provides a widow with a guaranteed income based on percent of monthly salary. The benefit is paid for her lifetime provided the widow doesn't remarry; however, under most plans there is a guarantee period for which time the benefit will be paid regardless of the widow's marital status.

The plan that Johnson & Higgins offers its own employees has a guarantee period of ten years. Mr. Shaver recommended a guarantee period of at least one to two years, which is the hardest period of readjustment.

One problem with survivor's income is policing remarriage, he said, but spot checks at various intervals can be made to determine the status of the beneficiary.

Introduce bill to help bolster driver's fund

TRENTON, N.J.—Legislation requiring insurance companies to help the state prevent evasion of the uninsured driver's \$25 fee has been introduced in the New Jersey Senate with a bi-partisan sponsorship.

The bill is designed to bolster the state's dwindling liability fund which pays for damage caused by uninsured motorists. It is sponsored by Sen. Raymond Bateman and Sen. Norman Tanzman.

Provisions of the pending legislation would require a driver to present a certificate issued by his insurance carrier when he applies for his registration. Now the applicant merely says he is insured and gives the insurer's name.

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