

# Lloyd's gets rebound for Knicks knee injury

By MARIE KRAKOWIECKI

NEW YORK—Madison Square Garden Corp., owners of the New York Knicks, is suing Lloyd's of London over Willis Reed's right knee.

Lloyd's refused to pay an insurance claim when the Knicks captain was forced into early retirement after a November, 1973 knee injury, Madison Square Garden alleges in its breach-of-contract suit. The action was filed in federal district court here.

Lloyd's wrote a loss-of-services

insurance policy for Madison Square Garden which covered the Knicks team. It had limits of \$10 million for any one accident and \$1 million for permanent injury to players named as insureds.

Mr. Reed was specifically named in the policy, with a capital sum benefits schedule of \$1 million. His period of coverage was defined as between April 1, 1973 to May 6, 1973, and then from June 1, 1973 onward. The entire policy covered April 1, 1973 to October 1, 1974.

C. J. Reid & Co., New York, Madison Square Garden's long-time insurance broker (*Business Insurance*, March 11, 1968) also served as broker for the Lloyd's policy. The broker, the Knicks, Madison Square Garden and the attorneys for the Garden and for Lloyd's all declined comment.

There were apparently two premiums paid, this magazine learned. The first, apparently for basic coverage under policy number 73/ZP.792, was \$9,403. The second premium listed in court documents was \$25,799. This higher amount was recorded on Lloyd's forms that listed the names of eleven individuals as named insureds. Mr. Reed's name was among them. This second payment was apparently made for purchase of a rider to the basic policy, and that portion is identified as 73/ZP.792/3.

In its suit, Madison Square Garden states Mr. Reed was permanently disabled as a professional ballplayer as a result of an accident during a game on November 2, 1973, while the contract was in force.

Madison Square Garden continued to pay Mr. Reed's salary, approximately \$300,000 a year, as outlined in his contract, and

Continued on page 8

# business insurance

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

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## Air carriers hit 'holes' in federal war risk coverage, ask expanded policy

By RICHARD L. GORDON

WASHINGTON—The federal government's emergency aviation war risk insurance program is inadequate, the air carrier industry charged, causing Congress to direct the Ford Administration to study broader coverage.

The industry wants coverage to include, as war risks, damage "from detonation of an explosive, any weapon of war or any exercise of military power; and from any intentional or unlawful human action, including riots, civil commotion, hijacking, and any other act intended to cause loss or damage, however described."

Congress late last month ordered a 90-day study of the problem. This directive was part of a vote to extend the current war

risk insurance program, which would have expired Sept. 7, until May of 1976.

The federal insurance program, in existence since 1951, is activated when insurance from commercial underwriters is not available at "fair and reasonable terms."

No-cost insurance protection is offered to airlines operating under contract to the Defense or State Departments for such activities as the recent "rice lift" to Phnom Penh, Cambodia.

That protection is being offered to 18 airlines operating 400 aircraft under contract with the Defense Department and 84 aircraft under contract to the State Department.

The government offers a premium-based policy to scheduled

commercial air carriers when it determines that commercial insurance is unavailable at reasonable rates and that the routes are necessary to meet commerce needs.

Pan American Airways told Congress that the "hole" in the federal insurance program greatly complicated its effort to provide expanded service to Saigon as the situation collapsed last spring.

Pan Am's Stuart G. Tipton, senior vp-federal affairs, said that, almost simultaneously with the government's request for more Pan Am flights, the company's insurers "informed us that our war risk hull insurance liability coverage for that area would be withdrawn and that our war risk hull insurance premiums would be raised to impossible levels."

Hull insurance was quoted at

25 cents per \$100 of aircraft insured value per trip on additional flights into Vietnam, he said. This amounted to a per trip premium of \$12,500 for a Boeing 707 and \$62,500 for a Boeing 747.

He said that when the company examined the federal policy it discovered the policy did not cover all the risks insured by the commercial policy.

"Under the terms of our existing indenture and mortgage with our creditors," he said, "the company could not operate in any area of recognized hostilities unless fully covered by war risk insurance or a U.S. contractual indemnity." Such an indemnity later had to be arranged to continue Pan Am service to Saigon.

Continued on page 2

One of the air carriers involved in the recent "rice lift" to Cambodia was Flying Tiger Lines, working under contract to the federal government.



## Ponder fiduciary designation in policies

By MARGARET LeROUX

NEW YORK—Can a corporation be a fiduciary? Employe benefits managers, risk and insurance managers as well as pension plan administrators are divided on the issue.

Whether naming the corporation rather than an individual on a fiduciary insurance policy meets the requirements of the Employee Retirement Income Security Act (ERISA) was the subject of a lively discussion at a conference here in late July.

Lawrence P. Carrington, personnel manager, planning and development for American Telephone & Telegraph Co., told a session of the American Management Assn.-sponsored conference, "We favor the view that the company should be the named fiduciary."

Noting a difference of opinion even among Ma Bell's legal counselors, Mr. Carrington noted that viewing the company as the fiduciary "seems to make more sense."

A corporation may be considered a person under the definition of "person" contained in ERISA, according to the Department of Labor's interpretive bul-

letin issued in June.

However, the Labor Department noted that if a corporation names itself as a fiduciary, "it should provide for designation by . . . specified individuals or other persons to carry out specified fiduciary responsibilities . . ."

Mr. Carrington explained that AT&T's size gave it enough clout with its insurers to require them to carry the liability football.

"You can't really separate an individual acting for the corporation (in a fiduciary capacity) from the company itself," he said. "Fiduciaries don't act independently from the company."

Besides, "the company is the one who's going to be named in lawsuits," Mr. Carrington noted.

Louis Bruno, manager of the pension and retirement fund for Scovill Manufacturing Co., agreed. Discussing Mr. Carrington's remarks after the conference, he said Scovill's legal department is considering following AT&T's example.

Scovill has 21 divisions in the U.S., Mr. Bruno explained. "Managers keep changing and are not always available," he said.

Since the company is responsible for appointing the overseer of a plan, he

explained, the company should be the named fiduciary.

The AT&T approach "makes a lot of sense," was the reaction of another conference participant, Elmer Gustavson, manager of pension administration for Union Camp Corp.

"At present we have an individual signing the D2 forms," he said. "But we're inclined to consider having the company as both the plan sponsor and administrator."

"We're dead set against the use of individuals' names as fiduciaries," said George Harris, benefits administrator for Amax Inc. "We feel strongly that the company name would suffice."

Allen Minion, manager, benefit plans services for American Standard Inc. pointed out that insurance companies are very reluctant to accept any additional liability.

"I don't think a lot of companies have enough clout to follow AT&T's example," he said.

Similar reservations were expressed by Kathleen Dixon, manager, employe benefits for the American Automobile Assn.

"I don't think we can go ahead on

Continued on page 2

## Litton LTD to Reliance, and M&M

BEVERLY HILLS, CA.—Litton Industries transferred its corporate long-term disability insurance from Boston Mutual Life Insurance Co., Boston, to Reliance Insurance Co., Philadelphia, effective August 1, according to Jim P. Lang, director of insurance.

Mr. Lang told *Business Insurance* that Litton at the same time switched brokers on the account from Alexander & Alexander, Pittsburgh, to Marsh & McLennan, Los Angeles.

He confirmed reports that the account generates a \$1.5 million premium volume annually.

"We moved the account because we received a more competitive proposal from Reliance through Marsh & McLennan," he explained.

Mr. Lang said Boston Mutual believed Litton required a higher claims reserve than Reliance thought was necessary.

"Boston Mutual also predicted a higher loss ratio for LTD than we had projected," he added. Mr. Lang, however, acknowledged the aircraft industry has been beset with bad LTD loss experience.

A second insurance change at Litton, also effective August 1, is a move from Travelers Insurance Co. to Prudential Insurance Co. for medical/life coverage for three Litton divisions, about 10% of its total employes.

The change was made for better cost control, said Mr. Lang. ■

(AFFIX MAILING LABEL HERE)

# White Motor liability account goes to M&M

By ELISABETH M. WECHSLER

CLEVELAND—White Motor Corp.'s liability insurance account, estimated to generate over \$2 million in annual premiums, was moved to Marsh & McLennan's office here, away from the one-year-old Rollins Burdick Hunter Agency of Ohio.

No clear cut reason for the switch was confirmed by White Motor, Marsh & McLennan or Rollins Burdick Hunter. Knowledgeable sources here, however, cited as reasons for the account change "more sophisticated personnel" at Marsh & McLennan, the "timeliness of the account executive's sales pitch," and Marsh & McLennan's "better market access."

The account changed hands in January, just four months after Rollins Burdick Hunter (RBH)

took over the former W. F. Ryan Corp., but the subject still is touchy and none of the principals wanted to discuss it with *Business Insurance*.

It is known, though, that the general and auto liability and workers' compensation coverage was moved to Marsh & McLennan, while RBH remains the broker of record for White Motor's employe benefits coverage.

At the time of the liability broker change, at least one liability insurance underwriter reportedly also was changed. Product liability insurance is thought to be part of the new package, but not as a separate policy.

J. R. Mitchell, director-corporate finance for White Motor Corp., would say only that there were "good business reasons" for mov-

ing the account to Marsh & McLennan. He added that he has the "utmost regard for RBH" and confirmed that White Motor still does business with the firm.

The insured employe benefits account, still with RBH and estimated to generate over \$5 million in premiums, is not considered much of a consolation prize by some sources. The benefit coverage is "almost irrelevant because there's no room for much difference in brokerage commissions and premiums," one source said. "Any broker would get only a small fraction of the premium in profit."

The White Motor account is thought to have been RBH's biggest Cleveland account, though no one would go so far as to predict that the existence of this account at Ryan determined the decision by RBH to acquire the firm.

Ohio law was reinterpreted last year to allow major national

brokerage firms to do business in the state. One source said that the largest independent agency was snapped up by the "first national broker in the door," the second largest agency bought by the second national broker on the scene, and so on.

But there, the similarity in approaches stops. Marsh & McLennan reportedly started up its agency from scratch, while RBH apparently made few, if any, top management changes at Ryan after acquiring the agency.

One source commented that RBH is known for making management changes "very gradually," in the agencies it acquires. The short term effect of this philosophy, in the opinion of several sources contacted, is that Marsh & McLennan's office here was better able to offer national account servicing because of "highly trained and sophisticated personnel who are tuned into the best markets and availability of coverage." ■

# War risk . . .

Continued from page 1

An Air Transport Assn. official indicated such problems could occur again, particularly for carriers operating scheduled service into sensitive areas like the Middle East.

Continuing such service could easily become dependent on the whims of a jittery commercial insurance market, said Gabriel Phillips, vp-international services for the ATA. The fall-back federal program, as it now stands, might not be sufficient to replace the private coverage, he said.

"For over two years after the events in Jordan in September, 1970," Mr. Phillips said, "the commercial market refused to write any war risk insurance except at prohibitive rates."

"Further," he noted, "the commercial all-risk market has expanded the scope of its war risk exclusion. As a result of the court decision last year, in the suit by Pan American involving destruction of a 747 by the PFLP (Popular Front for the Liberation of Palestine), the all-risk insurers increasingly tend to separate such risks as riot, civil commotion, intentional damage and the like from classic war risks."

Broadening the coverage of the federal program, he said, "will assure the availability of insurance for operations required in the national interest when private coverage becomes unavailable because of extreme risk."

Activation of the federal program in the Indochina crisis earlier this year failed to produce any claims under the premium program. And only three claims, estimated at less than \$250,000, were turned in under the no-cost program for air carriers under government contract.

Insurance fund reserves in the premium program now stand at about \$13.7 million, according to the Federal Aviation Administration, which operates the insurance program. ■

# Fiduciary . . .

Continued from page 1

the basis of AT&T's action," she commented, though she added "as far as the insurance is considered, it would be an advantage not to name individuals as fiduciaries."

"It's my view that the named fiduciary has to be an individual," J.A. Nolen, employe benefit manager, assistant secretary for Anderson Clayton & Co. noted.

"No doubt, everybody's looking into this issue," said a spokesman for Diamond International. "Our inclination is to name the corporation as the fiduciary."

More objections to naming the company rather than individual plan administrators as fiduciaries come from corporate directors. A number of managers noted opposition from boards of directors to accepting fiduciary liability.

"Trustees don't want to be named," Mr. Harris of Amax said.

Mr. Carrington said that AT&T's directors opposed assumption of fiduciary liability.

"We're not going to extend our director's and officers' liability to cover fiduciary action," the Diamond International spokesman said. The company has a separate fiduciary liability policy, but is looking at its all-risk policies to see if there is any overlap. ■

# GUIDE TO FEATURES

Legal Brief . . . . .	4
Info for Buyers . . . . .	12
Opinions . . . . .	14
London Line . . . . .	16
Perspective . . . . .	19
People . . . . .	30

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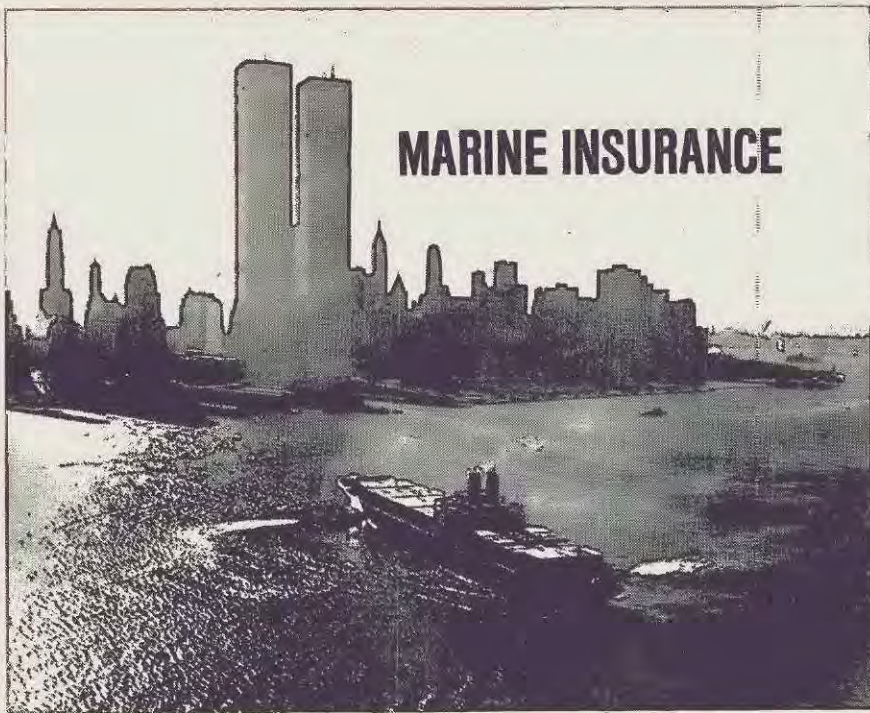
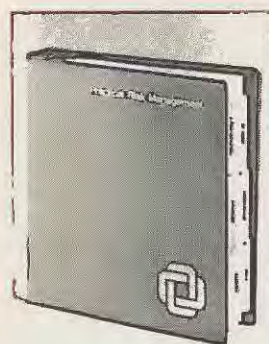
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# Fire rating system tested in Indiana for possible nationwide application

NEW YORK—The Insurance Services Office (ISO) is testing a pilot commercial fire rating schedule in Indiana, with the intent of launching it as a nationwide system of uniform charges for similar exposures.

It is the first pre-tested prototype of a uniform fire rating system intended for countrywide application that has actually been put into use, the ISO claims.

The two basic fire rating systems used today, the Universal Mercantile and Analytic System, are turn-of-the-century developments that have as many as 11 variations. They often carry different charges for similar construction, hazard or protection features.

The new Indiana program is designed to replace the outdated models, and to give insurers and

property owners whose operations extend over many different states a more efficient final rate.

P. Robert Bechtolt, manager of ISO's Commercial Fire & Allied Lines Division, said he expects the schedule will become effective in all 44 ISO states (the rating organization is not operative in Hawaii, Washington, Texas, North Carolina, Idaho, Louisiana, Mississippi, and the District of Columbia).

Chubb & Son Inc.; the Hartford Fire Insurance Co.; The Home Insurance Co.; Royal-Globe Insurance Co.; and the Kemper Insurance Cos. were all members of a special subcommittee of the ISO's commercial fire governing com-

mittee, which carried out all development work of the new schedule, Mr. Bechtolt said.

The governing committee itself, whose membership changes annually, had final review of the new schedule. Companies on the committee this year included the Aetna Insurance Co.; Aetna Casualty & Surety; the Federal Insurance Co.; Fireman's Fund; Great American Insurance Co.; New Hampshire Insurance Co.; Ohio Farmers Insurance Co.; St. Paul Fire & Marine; and the Century Insurance Co.

The computerized schedule has a separate set of conversion factors for each state. It evaluates factors affecting fire loss potential, then grades buildings and contents on

a point system. Each grading is multiplied by a conversion factor to produce an 80% coinsurance fire rate. The 80% rate will continue to be subject to the rate adjustment factors based on the experience for the class.

For pricing, the ISO has developed a fire class rate manual for small mercantile and service occupancy risks which lend themselves to a class rating approach.

Actual class rates in Indiana were calculated by tabulating rates on existing properties and reproducing the average rate level applicable to the same properties when they were specifically rated.

The idea of a uniform fire rating system was one of the original purposes of the ISO, which began operations in 1971. Chris Hansen, of the Pacific region of ISO was selected to head the project, which got underway in 1972. He was assisted by Joel Volker, formerly of the New York Fire Insurance

Rating Organization.

All the principal rating schedules in the United States were analyzed, as were a large volume of Underwriters Laboratories fire tests, in order to review the damageability of various building assemblies and materials. Before Indiana was chosen as the first state for actual implementation of the schedule, the ISO worked in Ohio to recompute rates for approximately 4,500 buildings.

Monitoring operations have been set up in Indiana to measure impact of the changes on total statewide premiums. Mr. Bechtolt explained the new schedule was being put in as properties come up for re-rating. He said there was no indication that risk managers or insurance buyers had any changes in corporate insurance programs in Indiana as a result of testing thus far. The ISO expects to spread the program to two other states once the monitoring is completed in Indiana. ■

## Purolator's second loss fully insured

CHICAGO—The \$150,000 which disappeared from a Purolator Security Inc. truck here last month was fully insured, according to a company official.

The money in a packet of mostly \$20 bills disappeared enroute from a company warehouse to a south suburban savings and loan association. The Federal Bureau of Investigation is making progress on recovery of the money and has arrested two Purolator guards in connection with the theft.

This is Purolator's second loss since last October's record heist in which \$4.3 million was stolen from company vaults. A search continues for \$800,000 of the \$1.2 million which is unrecovered but not spent, according to Joseph Woods, Purolator vp based here. (*Business Insurance*, Nov. 11, 1974 and June 2.) The company's customers were reimbursed promptly by Commercial Union Assurance Co.

Purolator's liability insurance came up for renewal in January and coverage remains "substantially the same," according to Robert A. Perham, vp of insurance based at the firm's Long Island headquarters. He would not comment on the amount of a rate increase for the coverage as a result of last October's loss.

Customers are guaranteed reimbursement up to \$50 million for any one shipment under the policy. Purolator's deductible is "modest," Mr. Perham said.

Commercial Union insures the primary layer of coverage up to \$5 million, he said. Frank B. Hall & Co. is the broker. Three layers of excess insurance follow that: One underwritten by American Home Insurance Co., another shared by a group of U.S. companies and the third layer placed with Lloyd's of London, Mr. Perham said.

The only change in Purolator's coverage, according to Mr. Perham, is the addition of a third excess layer.

"It's not needed from the customer standpoint," he said, but rather to "keep the coverage more in line with normal expansion" and other "operational" reasons.

The third layer, insured by Lloyd's, goes beyond \$50 million coverage per shipment, but Mr. Perham would not disclose further details. ■

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## legal brief

# Ransom paid to hijacker is covered under airline's blanket crime policy

THE SUPREME COURT of Minnesota has upheld an award of \$180,000 to an airline under a blanket crime policy for money paid to an airplane hijacker. The court ruled that the airline had suffered a loss by means of "wrongful abstraction" of money as defined in the policy.

This case involved a hijacking of a Northwest Airlines plane by a passenger boarding in Portland, Oregon. One of the hijacker's demands was for \$200,000 to be delivered to the airplane at Seattle. Northwest arranged

through its bank to have \$200,000 cash brought to its Seattle air freight terminal, where an airline official gave the bank a receipt for the cash.

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

The cash was then transferred from the terminal to a pilot designated by Northwest to transport it to the airplane. The pilot delivered the cash to a stewardess who, in turn, surrendered it

to the hijacker inside the plane. Thereafter, while in flight, the hijacker jumped from the rear steps of the aircraft. Neither he nor the money has ever been located.

Effective on the date of the hijacking was a "blanket crime policy" issued by Globe Indemnity Co. (Globe) to Northwest. The policy provided indemnity for covered losses not to exceed \$250,000, with a \$20,000 deductible clause. One loss covered by the policy was for "loss of money . . . by . . . wrongful abstrac-

tion thereof within the premises . . ." Northwest brought this claim for indemnity and was awarded \$180,000 by the trial court (\$200,000 less \$20,000 deductible).

On appeal Globe contended that since Northwest "consented" to the transfer of funds there was no "wrongful abstraction" under the policy. Even if there was a wrongful abstraction, Globe argued that it did not occur "within the premises" as required by the policy.

The supreme court declined to accept these contentions. Rather, the court pointed out that under the circumstances of this case to say Northwest consented to its loss is "contra to logic as well as law." The court believed that "wrongful abstraction" is "as broad in scope as it is possible to envision." If Globe wanted more restrictive terms in the policy it had a duty to include them, according to the court.

In the court's opinion the hijacking consisted of "a continuing course of related events beginning with the takeover of the airplane and culminating with the hijacker's successful escape with the money which was, when taken, owned by the plaintiff." As a result, the court concluded that coverage was not precluded simply because the \$200,000 was not at the covered premises at the moment the hijacker assumed control of the airplane. *Northwest Airlines Inc. v. Globe Indem. Co.*, Supreme Court of Minnesota, January 24, 1975, Yetka J. 225 N.W.2d 831 (BI/02/Au.-\$2).

### Business interruption

This action was brought by an oil refinery against the St. Paul Fire & Marine Insurance Co. to recover the loss of business earnings under a business-interruption clause of an all-risk insurance policy allegedly sustained as a result of an accident occurring during the construction of an addition to the insured's refinery. The Supreme Court of Minnesota ruled that although the accident caused damaged to property insured by the policy, no business interruption within the provisions of the policy resulted.

Specifically, the court pointed to the fact that neither the undamaged existing facility nor the facility as a whole suffered any loss of earnings during the suspension period specified in the policy necessary to restore the added facilities under construction to their pre-accident condition.

The policy provided coverage for "loss directly resulting from necessary interruption of business caused by insured perils to [insured property]." By its plain meaning, "interruption of business," the court noted, is a breaking or suspension of production earnings of an operating business rather than an interruption of a construction schedule. Merely because damage to insured property may be shown does not necessarily mean that a business-interruption loss occurred, the court observed.

The general purpose of business-interruption coverage, according to the court, is "to do for the business what the business would have done for itself had no loss occurred." Typically, this involves computing the earnings lost during the period necessary to restore the business to its pre-accident condition—referred to as the "suspension period."

However, the court pointed out that the damage from the accident here was confined to the area under construction. It was not undisputed that no loss of earnings from the operating facilities occurred during the suspension period.

Consequently, the court concluded that there could be no recovery for a business-interruption loss under the policy because there was no loss of earnings during the suspension period. The court stated that the business would not, by itself, have been able to produce additional earnings during that period. *Great No. Oil v. St. Paul Fire & Mar. Ins.*, Supreme Court of Minnesota, March 14, 1975, Rogosheske, J. 227 N.W.2d 789 (BI/03/Au.-\$2).

### Hospital's duty

This action for personal injuries and medical expenses against a hospital and its insurer arose out of a patient's accidental fall from a hospital bed. The Supreme Court of Louisiana held that the use of two partial rails on the postoperative bed of a 73-year-old patient, who had suffered a stroke resulting in persisting occasional dizziness and who was confused and heavily sedated after the operation, constituted negligence on the

Continued on page 6

## Flying tigers.

Meet Lee G. Barnes and a squadron of his "flying tigers" from the Sky-Life camp near Edinburg, New York. □ Lee, a former Navy and commercial helicopter pilot with over 10,000 accident-free hours, founded Sky-Life in 1963. It's the nation's oldest flying camp and the first one designed for the purpose of teaching youngsters to fly. □ To date, Lee has graduated over 250 licensed teenage pilots. Over sixty of his students have soloed on their 16th birthdays; many have gone on to earn higher ratings, and not a single one has ever had an accident during or after his Sky-Life training! □ Lee is justifiably proud of Sky-Life's safety record, but he's prouder still of the boys themselves. "They've made this camp what it is today", he says, "they built it, they run it, and they believe in it." □ USAIG believes in it too. We have insured Sky-Life from its inception and we are proud to be sharing in its growth and progress.

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## Legal . . .

Continued from page 4  
part of the hospital.

The central issue was whether the hospital provided adequate guard rails on the patient's bed, considering her condition at the time. The trial court ruled that two partial rails were not sufficient protection for a post-operative patient over 65 years old. This holding was based on the reasoning that even if the two partial rails were up, a restless patient could roll over and fall out because the partial rails provided no protection for the feet and legs to keep them on the bed.

The supreme court believed that under the circumstances of this case, the two partial rails were insufficient protection for this patient, and the hospital was negligent in not providing better protection. According to the court, this patient would probably have

fallen out of the bed whether the rails were up or not.

The court emphasized that a hospital is bound to exercise the requisite amount of care toward a patient that the particular patient's condition may require. "It is the hospital's duty to protect a patient from dangers that may result from the patient's physical and mental incapacities as well as from external circumstances peculiarly within the hospital's control," the court stated.

Two dissenting opinions focused on the absence of a private duty nurse from the room when the accident occurred. Since the hospital did not provide a nurse in the patient's room 24 hours a day, private duty nurses must be employed by the patient when this service is required. Accordingly, the family here employed private duty nurses, and one was on duty the night of the accident. The patient's doctor expected the private duty nurse to be principally re-

sponsible for the patient's care, but when the patient fell from the bed, the special duty nurse had left the room in order to empty a waste basket.

In the view of one justice, the primary and proximate cause of the injury to this patient was the absence of the private duty nurse from the room when the accident occurred. This, according to the justice, was not the fault of the hospital or its staff. *Hunt v. St. Paul Fire & Marine Insurance Co.*, Supreme Court of Louisiana, December 2, 1974, Barham, J., 303 So. 2d 745 (BI/05/MY.-\$2). ■

(Copies of the entire decisions described in this column may be obtained by writing to Business Insurance, ctn. Managing Editor, 740 N. Rush St., Chicago, IL 60511. Please enclose a \$2 check made out to Cases Unlimited Inc., for each case, and specify the code number of the opinion, which is at the end of each brief.)

## Hard to obtain excess coverage for securities

By JOANNE GAMLIN

LOS ANGELES—Edward W. Wedbush, president of a modest-sized stock brokerage firm here, is an angry man.

He is upset because, unlike the giant brokerage houses such as Merrill Lynch, Pierce Fenner & Smith, his firm, named Wedbush, Noble, Cooke Inc., has time and again been unable to obtain excess insurance protection for customer securities left for safekeeping with the house.

The Securities Investor Protection Corp. (SIPC) in Washington, begun in 1971, is the brokerage industry's equivalent of the Federal Deposit Insurance Corp. It insures individual accounts up to

\$20,000 for cash deposits and up to \$50,000 against securities losses under current law, although recent legislation has been introduced in Congress to make the SIPC more flexible.

Mr. Wedbush's brokerage firm is small, with about \$3 million in capital. But it has been hit with customer demands for additional insurance coverage. So when in 1973 Merrill Lynch arranged a deal with Aetna Life & Casualty Co. for an additional \$250,000 of insurance for customer securities left with the firm, Mr. Wedbush put in a similar request.

He was turned down flat.

"I then applied to the Insurance Co. of North America (INA)," Mr. Wedbush told *Business Insurance*. "They didn't even answer my letter."

However, INA does provide \$450,000 additional insurance for customers of Blyth Eastman Dillon & Co. Inc. and for Goldman, Sachs & Co.

The fact that his concern is at a disadvantage in protecting customers, charged Mr. Wedbush, who maintains that big brokerage firms obtain the additional coverage to use as a marketing tool against the smaller, regional houses like his.

The shun he has received from Aetna and INA has persuaded Mr. Wedbush to turn to politics. For more than a year, he has maintained a personal political crusade aimed at forcing insurance companies "to treat all customers alike."

Mr. Wedbush has been petitioning the Justice Department to re-evaluate legislation that exempts the insurance industry from the department's antitrust activities.

At the same time he has also turned to various California congressmen, such as Lionel Van Derlin of San Diego and John Moss of Sacramento, to use their muscle to make excess insurance available to stock brokerage firms of modest size.

"We're a profitable concern," he asserted. "There can be no question but that we can afford the coverage." ■

## Day-to-day OSHA control under Dunlop

WASHINGTON—Secretary of Labor John T. Dunlop has taken over day-to-day control of the Occupational Safety and Health Administration (OSHA).

Secretary Dunlop announced that Assistant Labor Secretary John H. Stender, in charge of OSHA since April, 1973, had requested an indefinite leave of absence effective July 14.

President Ford is expected to appoint a successor to Mr. Stender in the near future, the Secretary said.

The Labor Department also said two new positions had been created within OSHA—deputy assistant secretaries for operations and national programs.

Mr. Stender and the OSHA program had been under fire from both organized labor and large and small businessmen. Labor leaders had argued the OSHA program was not tough enough; the businessmen complained it was too expensive and bureaucratic. ■

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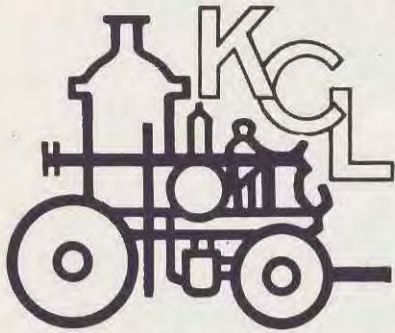
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## ARCO hit with \$26 million in 7 lawsuits

By JOANNE GAMLIN

DALLAS—Seven lawsuits were filed in four different Texas courts against Atlantic Richfield Oil Co., stemming from the February 2, 1975, spillage of poisonous gas from an oil well near Denver City, Texas. Eight people—two men and six women—died after inhaling the gas.

Damages sought in the seven suits total \$26 million, according to an ARCO attorney in Dallas.

Edward J. Kettel, insurance manager for Atlantic Richfield Oil Co., Los Angeles, told *Business Insurance* that his corporation is fully insured for the claims under a \$100 million general liability po-

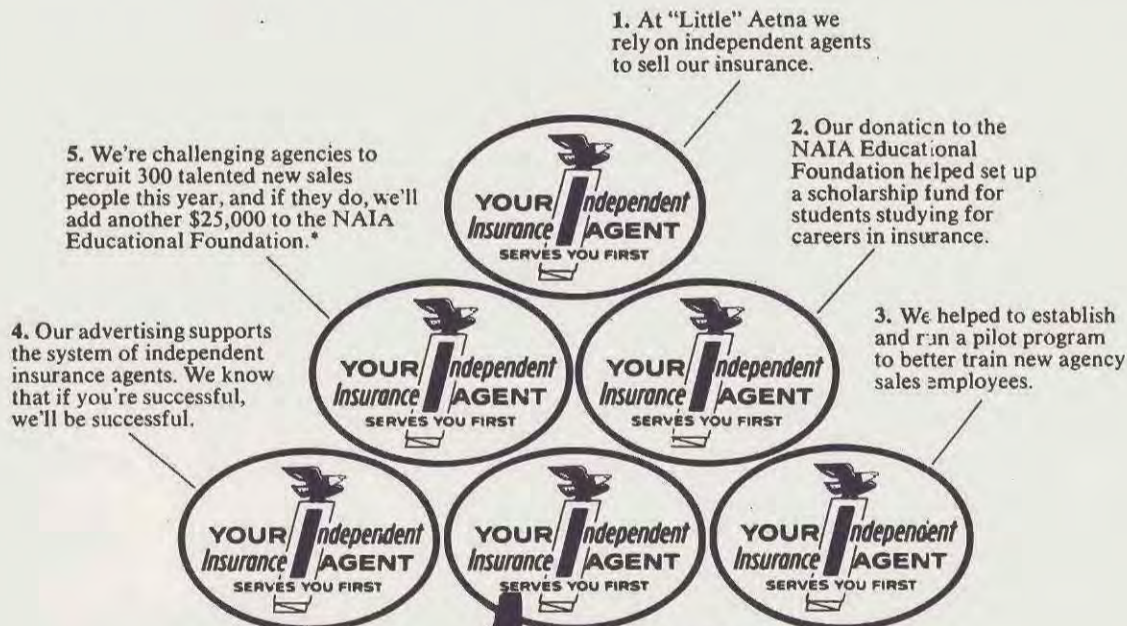
licy. The first \$2 million of the policy is written by the Continental Insurance Co., he said. The excess is in the London market.

Atlantic Richfield is denying negligence charged in all seven cases, said the Dallas attorney. He explained that ARCO does not believe the deaths were caused by its negligence "because, for one thing, the equipment which failed on the well was not manufactured by Atlantic Richfield."

The unusual weather conditions that prevailed on Feb. 21, 1975, are also part of ARCO's defense, he said. He added that ARCO thought it "was doing everything right" in regard to the Denver City oil well.

He estimated that a trial—if there is one—will not be held this year. The discovery and deposition stages of the suits have not yet begun. The first of the seven cases was filed May 1 and the latest during the third week of July. ■

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## Propose new termination procedures

WASHINGTON — Employee benefit administrators seeking to terminate a defined benefit pension plan would be required to submit detailed information to the Pension Benefit Guaranty Corp. (PBGC) much sooner under a proposal announced by the agency.

Under current PBGC procedures, pension plan officials must notify PBGC at least 10 days before the proposed termination date of the plan.

The initial notification at present only calls for basic identifying information about the plan. Under PBGC's proposal, much more detailed information would have to be included in the initial filing.

PBGC said the immediate furnishing of detailed information would speed up the processing of plan termination requests. ■

## Knicks . . .

Continued from page 1  
expected reimbursement from Lloyd's.

It claims to have suffered damages in excess of \$843,415, and demands that amount, plus interests and legal expenses, from Lloyd's.

In addition to Willis Reed, the following Knicks stars (some no longer with the club) were insured under the same policy for the following sums: Bill Bradley, \$250,000; Dave DeBusschere, \$600,000; Walt "Clyde" Frazier, \$1 million; Dean Meminger, \$500,000; Tom Riker, \$300,000; John Gianelli, \$250,000; Tim Barnett, \$300,000; Phil Jackson, \$300,000; Earl the Pearl Monroe, \$500,000; and Jerry Lucas, \$400,000.

Although those were the capital sums listed, the actual liability to Lloyd's was apparently somewhat less. The contract contained wording which would seem to jibe with a Pennsylvania insurance department study deeming the typical insurance policy more difficult to understand than Einstein's theory of relativity. The contract described Lloyd's liability as "One hundred per cent of seventy-two point nine nought per cent of fifty per cent of the amounts herein stated." ■

# West Coast construction firm leaves most risk management to its broker

By HARRIET KING

SEATTLE—Today, more risk managers are assuming functions once delegated to brokers or insurers. But at Howard S. Wright Construction Co., one of the West's oldest and largest builders, the insurance manager is content to leave those details to his brokers and thereby free his time for other company matters.

"I spend only 10% of my time on insurance because I have a good broker and rely heavily on his advice most of the time," says Wright's Daniel A. McDougall, whose brokers are Parker, Smith & Feek in Seattle. "I have a feeling that they're really working for us. They have a wonderful business philosophy; I can call six or eight individuals on any problem and I've never called down there when I couldn't get answers. They know they're a service organization and they're good."

"I have to have good advice or I'd have to hire a risk manager," says Mr. McDougall. As assistant secretary-treasurer and controller for Wright, "I'm more concerned with keeping the money coming in and going out."

Although Seattle-based, the company has \$120 million in annual sales on construction projects completed or underway across the country. Commercial projects include Seattle's Space Needle Coliseum, the Chet Huntley ski lodge, hotel and commercial center at Big Sky, Montana and the six curved towers that comprise California's Marina del Rey residential development.

Industrially, the 10 companies that comprise Howard S. Wright are expert at building nuclear power plants, crude oil processing modules for use in Alaska, and pulp and paper mills. The company has built 75% of the mills in the Northwest and Alaska.

Some of the services that Parker, Smith & Feek performs are "invaluable" complicated insurance estimates on the many projects Wright bids on. "Someone will call and say, 'I'm thinking of putting up a building but I need a ballpark estimate which of course includes the cost of insurance.' So we spend a good deal of time and money to draw up estimates," says Mr. McDougall.

Says Victor Parker, vp of Parker, Smith & Feek, "any time a construction company is that size, they have a tremendous volume of work under negotiation. A portion of the insurance estimates do come to fruition. We try hard to be certain bases are covered in advance, such as waivers of subrogation, and the various exposures presented by the specifications."

"Our goal is to educate the people at Wright on insurance matters so they know as much about it as we do. That way, they won't have to merely follow instructions," says Mr. Parker. He declined to discuss details of Wright's program, saying it would give other brokers an "open book view" of his brokerage firm's operations.

In spite of Wright's widespread interests, one of the reasons Mr. McDougall can rely so heavily on his brokers is that much of the insurance responsibility of various construction projects is assumed by the project's owner, through builder's risk covers.

"In essence, the construction project belongs to the owner, not the contractor. We furnish materials and we get paid once a month,"

says Mr. McDougall. The minute materials come on a site, the owner takes title.

"The owners normally provide builder's risk insurance although occasionally, we're required to furnish it. In many cases, such as pulp mills, where we are adding on to an existing facility, the insurance is endorsed on the owner's existing policy. It's cheaper in some cases for them to go out and get it. When we built the \$30 mil-

lion Seattle First National Bank building, for instance, the bank took out a \$30 million policy," says Mr. McDougall.

But he personally keeps a close eye on his company's risks. For instance, Wright is building 67 modules at a cost of about \$1 million each, that will house machinery to process oil on Alaska's North Slope. Oil fresh out of the ground is full of gas, acids and salt water

and must be processed in the modules to "pure crude" before it enters the pipeline.

"We've been working seven days a week because we only have six weeks in June and July to ship when the ice in Prudhoe Bay is broken up enough to allow our ships in. Components for modules not finished will be put into crates and shipped up for fabrication in Alaska. Now, we're negotiating for a contract to finish the work ourselves up in Alaska, but we have very serious insurance problems to resolve," says Mr. McDougall.

"First, there's the personal liability and physical damage rate; we have to see if the specifications

will fit our contracts. Then, there's the workers' compensation rate. We understand men work at about one-third of their efficiency there because it is so cold and even though we put several hundred dollars of cold weather clothing on men, what if someone freezes to death?"

Another risk for Mr. McDougall to watch is Wright's plant in Pasco, Wa. A Wright company is providing piping fabrication for the liquid metal system for several nuclear facilities including the Trojan Nuclear Power Plant in Rainier, Oregon for Portland General Electric Co.

Continued on page 13



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## info for buyers

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• Alexander & Alexander is offering its 1975 edition of **Notes on Old Age Benefits Under Social Security**. The booklet is designed to help retirement and benefit plan administrators estimate Social Security benefits. For a free copy, write on company letterhead to R. Norman Wood, vp, Alexander & Alexander, Consulting Actuaries Division, 2 North Riverside Plaza, Chicago, Il. 60606.

• **ESOP/ESOT: A Special Report** is available from Marshall and Stevens. Presenting the views of three independent authorities, the report includes benefits, applications, pitfalls and pointers on setting up a healthy employee stock ownership plan and trust. For a free copy write: John Heath, vp, Marshall and Stevens Inc., 1645 Beverly Blvd., Los Angeles, Ca. 90026.

• The Rough Notes Co. has published the **1975 Special Multi-Peril Guide**, containing new material on the underwriting guide for SMP condominium coverage, SMP condominium general property form MLB-29 and MLB-29A, and commercial umbrella loss examples. Other sections of the 112-page booklet have been significantly revised. Cost is \$3.50, less in quantity. Order from: The Rough Notes Co. Inc., 1200 N. Meridian St., Indianapolis, In. 46204.

• **Employe Communications Services**, a writing consultant firm, is offering a promotional brochure, **ECS**, which describes the firm's capacities in benefit communications, EBS-1, and ERISA disclosure reports. For a free copy write to Dr. B. J. Oakley, president, Employe Communications Services, P.O. Box 294, Baltimore, Md. 21030.

• Kwasha Lipton has published the full text of a speech on **Fundamentals of Savings Plan Administration with References to the Effects of ERISA**, given by Leonard Mactus, president of the Consulting Actuaries Division, at the Risk and Insurance Management Society conference in Dallas this year. He describes in detail the basics of sound record keeping for savings and thrift plans, with particular emphasis on items of concern to fiduciaries under ERISA. For a free copy write to Henry F. Magnusen, Kwasha Lipton Inc., 429 Sylvan Ave., Englewood Cliffs, N.J. 07632.

• The 10th edition of the **Standard for Flexible Cord and Fixture Wire**, UL 62, has been published by Underwriters Laboratories Inc. The 99-page standard gives safety requirements for specific-purpose cords; oil-resistant, oil-proof, and water-resistant cords; and cords for outdoor use and those resistant to temperatures of minus 58 degrees Fahrenheit. Price: \$3.50. Write to Underwriters Laboratories Inc., Publications Dept., 333 Pfingsten Rd., Northbrook, Il. 60062.

• **This is OSHA**, a U.S. Dept. of Labor film on job safety and

health, is available on a free loan or purchase basis throughout the country. The 16mm color film reports progress in the agency's first two years and covers standards-setting, inspections, training and education, state programs and voluntary compliance. The film may be obtained by free loan from any of 27 film libraries of the Modern Talking Picture Service in 19 states and D.C. For additional information write the U.S. Department of Labor, Occupational Safety and Health Administration, Washington, D.C. 20210.

• Underwriters Adjusting Co. has prepared an extensive monograph on **Hospital Liability**. The paper discusses investigative techniques, current trends and laws affecting hospital liability. For a free copy write Robert L. Tatro, manager, marketing, Underwriters Adjusting Co., 224 S. Wacker Dr., Chicago, Il. 60606.

• An eight-page brochure entitled **Pre-engineered Kidde Sentinel Systems for Industrial Fire Protection Applications** is available from the Walter Kidde & Co. Inc. It details the features, applications, basic system components and auxiliary equipment in the Sentinel fire protection system. For a free copy write Advertising Mgr., Walter Kidde & Co., Inc., 675 Main Street, Belleville, N.J. 07109.

• This brochure from X-Air Co. warns that if you **Mesh Around Long Enough, You're Liable to Get Burned**. The brochure describes X-Air grease filters for commercial kitchen exhaust canopies. The filters are Underwriters Laboratories classified, meet standards of the National Fire Protection Assn. and for fire codes, the brochure says. Free copies may be obtained by writing A. J. Pearson, X-Air Co., P.O. Box 512C, Wheeling, Il. 60090.

• **Objective Security Programming** is a brochure offered by Wells Fargo Guard Service which describes this analytic approach to developing a total security system. This program can become a working guide for establishment of procedures, security equipment and services. For a free copy of the brochure write Robert L. Arko, vp, Wells Fargo Guard Services, Randolph Park West, Route 10, Randolph, N.J. 07801.

• A federal government publication, **The Selection and Application Guide to Fixed Surveillance Cameras**, is a guideline for the use of these devices to reduce shoplifting and help combat armed robbery and employe thefts. "Do I need these cameras?" and "How much does it cost?" are among the questions answered from the buyer's viewpoint. Copies can be ordered prepaid at 85 cents each by specifying GPO Stock No. 027-000-0281-1 and writing to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

## Construction firm . . .

Continued from page 11

"The problem is, how much insurance do we buy for work in progress?" asks Mr. McDougall. The Pasco plant also builds tank vessels that go into oil modules. "We also have a tank reservoir full of coating in the plant. We know what the empty tank is worth, but what if it's destroyed when it's full and it delays other work?" Site liability on nuclear construction projects, however, "depends on the contract," says Mr. McDougall.

On liability, the company's primary risk after workers' compensation, Wright has a \$3 million policy. Broken down, that's \$1 million basic and \$2 million excess insurance. "Average claims are for property damage, and run from \$200 to thousands of dollars," says Mr. McDougall. "When we build mills, we frequently have a contract to install the machinery and get it working; in handling our customer's machinery, once in a while we drop and damage a piece," says Mr. McDougall.

"But our loss ratio has been good." In the last three years, the total composite rate per \$100 of payroll has steadily gone down. In 1974, Wright paid \$1,139; in 1973 it paid \$1,168 and in 1972, paid \$1,270.

Wright carries business interruption insurance for the company's data processing. (Wright was the first builder in the West to install complete computer facilities and to apply computers to cost reporting. McDougall had the job of "programming the darn thing but it turned out to be an exhilarating experience.") The Pasco plant also carries business interruption "because we have a lot of inventory going through there that we're responsible for."

Workers' compensation (in all states but Washington which is paid directly to the state) is covered by an all-state policy, carried by Argonaut Insurance Cos. The premium is about \$1 million. "We employ 4,000 people now, but in July, that number swiftly drops

## Small firms get dental packages too

HARTFORD — Companies which employ as few as 25 steelworkers can provide dental benefits at cost levels similar to those for major steel companies by creating a large pool of employees, according to Connecticut General Life Insurance Co.

The United Steelworkers union (USW) negotiated for dental benefits in the contract that takes effect on August 1 with the country's 10 major steel producers.

Connecticut General developed a plan "written specifically for equal benefit levels negotiated by the USW including routine examinations, teeth cleaning, X-rays, fillings, extractions, oral surgery, periodontal and endodontic treatment, root canal, bridgework, orthodontics and other treatment."

More than 1,000 companies in western Pennsylvania and north-eastern Ohio could qualify for the plan, according to Robert D. Kilpatrick, senior vp of group insurance operations.

Cost can also be reduced by including employe-paid deductibles from \$25 to \$100, he said.

Connecticut General is "one of the few companies" that offer dental coverage separately, Mr. Kilpatrick said. ■

to 2,000 when this year's Alaskan contracts are completed," says Mr. McDougall.

Most of Wright's equipment is self insured. "We've always done this; except for the real heavy stuff. Heavy cranes cost \$10,000 to \$350,000 for a hundred ton crane, which is more than we want to assume," says Mr. McDougall.

Wright has a bonding capacity in excess of \$100 million, but many of the company's projects

have been performed without bond. "We consider it a waste of money. We never bond unless the owner insists," says Mr. McDougall. "Since our company began in 1885, we've never failed to complete a job, so why should we spend all that money for a bond?" When necessary, Wright bonds with Safeco.

"But," he says, "in the future, we may be looking at bonding more as a hedge against subcontractors going broke. One did at Big Sky and wiped out every penny we had hoped to make, plus we had to swallow \$175,000 over our contract price. The contractor was

the only guy we could get to go up there in the middle of winter. We paid his bills, etc., but he didn't give us some bills and the holders had lien rights. We have the responsibility to keep property free from liens. The contractor walked off the job.

"I don't know of any coverage that would have covered that other than a bond." When required on a subcontractor, Wright pays for the performance bonds.

Wright also carries a fidelity bond, "but surprisingly, we have very little theft in our company. We've never had a claim on fidelity," says Mr. McDougall.

However, Mr. McDougall notes that in spite of his present close relationship with his brokers, "We've had tremendous growth recently. Just 10 years ago, our sales were only 40 million. Our work is getting so voluminous, we may be getting to the point where we may want to consider a fulltime risk manager."

He notes that Wright recently hired an in-house counsel to act as liaison between the company and their outside law firm. "Sometimes, it gets to the point where it is more economical to have our own in-house specialists." ■



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## editorial opinions

# New York benefits got out of control

A SURVEY JUST completed by an actuary employed by New York City is as good a place as any to look for an explanation of why the city has gotten itself into the fiscal jam it is in. It is an excellent primer for government officials in other parts of the country who would cave in to excessive pension benefit demands by state and municipal employees—and excellent, too, for benefits managers in the private sector who would go too far, if indeed there are any businesses in this country run in such a haphazard fashion.

The survey reveals that 80 New York Transit Authority workers accumulated enough final-year overtime pay (\$6,000 to \$17,000 per man) to cost the transit authority an extra \$4 million in funds needed for their pensions over their lifetimes, or \$50,000 per man.

More sensational, but true nonetheless, is the survey revelation that one Transit Authority worker, a bus driver earning \$13,000 a year, retired at the age of 50 recently with a \$15,600 pension annually for life. He took advantage of the regulation basing pensions on final-year earnings and was able to pile up \$17,000 in extra income by working overtime in his final year of employment. (It's a loophole that was closed a year ago by the state legislature, but it has 18 more years to run because it applies only to workers hired since then.)

The New York Transit Authority is now allocating 20%

of its operating budget to pensions due to significant pension benefit gains by unions during the past decade. The problem, of course, is only one contributor to the city's present financial crisis, but it is a highly visible one.

The final-year earnings rule, liberally negotiated into city labor contracts a few years ago, has been costly for the city and its taxpayers.

A city official, for example, says that 50 of the 179 bus operators and bus maintenance men retiring in 1974 had final-year earnings exceeding their base pay by more than 50% because of overtime, which means the incomes upon which their pensions were based exceeded \$19,500.

Another inequity of the rule, says the official, is that men in their 60s with 30 or 35 years of service have been retiring from the authority with smaller pensions than 50-year-olds with 20 years of service, because the younger man is able or willing to work far more overtime in his last year of employment.

Much of New York City's excessiveness with unions on pension benefits, of course, could have been avoided by better management. There is no reason for Transit Authority management to allow a person to accumulate \$17,000 in overtime in his last year before retirement.

It is high time that the nation's largest city begins running its affairs like any well-managed corporation.

# ISO's fresh approach is commendable

A PILOT PROGRAM begun by the Insurance Services Office (ISO) in Indiana in June could lead to a countrywide "Commercial Fire Rating Schedule" and bring fire insurance rating into the Twenty-first Century.

According to the ISO the pilot program is utilizing an "exhaustively pre-tested prototype of a uniform fire rating system," which would replace two basic rating systems now in use in this country (the mercantile system and the analytic system, which have been in existence in this country since the turn of the century).

The system being tried in Indiana could replace the diverse commercial rating methods originally used by state and regional fire bureaus, many of which, says the ISO, "are outdated in the way they analyze important rating factors."

"The new schedule," says the ISO, "is designed to achieve a number of objectives. The foremost goal is to provide insurers and property owners whose operations extend over many different states with a uniform fire rating system which will recognize all important hazard differences and, at the same time, produce a final rate in a more efficient manner."

We're not too familiar with the technicalities of the present rating systems in use in this country, but if the ISO says they're outmoded we'll surely take its word for it.

And we'll add that it is refreshing to see a pilot program such as this one in the works and the early results being looked upon favorably.

Too often, we find, the insurance industry and the various

service organizations it depends upon are victims of the 'Well, it's always been done this way' syndrome.

Insurance provides such a vital social function, yet the industry is too often victimized by its historic past and traditions that are hard to break. But it's never too late to look on things as they've never been done.

# Benefits brush-up

AT THE RATE the major life and health insurers have been picking up dental insurance contracts this year it appears that the future is upon us as far as this new employee benefit is concerned.

The Equitable Life Assurance Society of the United States, for example, picked up almost \$70 million in new annual dental insurance premium since the start of this year. Much of it comes from the steel industry and American Telephone & Telegraph/Bell System companies where dental benefits were won in contracts with labor unions late last year.

AT&T is the biggest corporation by far to add dental care to its package of employee benefits. More than one million AT&T employees and their dependents at 23 locations will be receiving the benefit. The cost to AT&T will be in excess of \$100 million annually.

Benefits managers who have not taken dental benefits seriously in the past would do well to brush up on the subject, it appears.

## letters

This column is a readers' forum. Letters are welcome. Address letters to the Editor of Business Insurance, 708 Third Ave., New York, N.Y. 10017.

### More on consultants

To the Editor: I am not quite sure what Leonard J. Silver CPCU's point is, in his June 30th letter to *Business Insurance*, but if he is trying to say that the Institute of Risk Management Consultants (IRMC) is open to question involving what constitutes an ethical practice, from my examination of their requirements for membership, I believe such a question could be raised.

When Mr. Silver talks about (working for an insurance carrier, broker or agent) constituting an "appearance of impropriety," I would go further and say that without more controls, it could give said carrier, broker or agent an appearance of competence to which he or she may not be entitled.

But when Mr. Silver says that the "risk management consulting fraternity is too small for two societies," he couldn't be more right. The division is ridiculous: both organizations are failing to notice now that a rascal could belong to either one, and that wouldn't keep him from being a rascal.

I started Insurance Consultants' Society (ICS) in 1964 and to my knowledge there is no finer, more integral people than the present members of either group. They number no rascals that I know of. One of my oldest friends has accused me of faintheartedness because I left the original ICS: what he is overlooking is that IRMC has just as sound a base and the same weaknesses, as ICS. So if I join either one, it would appear that I was taking sides.

It is my hope that a combined consultants' society will someday be formed. For our clients and potential clients have a right to know that an organization that serves the public interest, which is their interest, is really in existence.

**William Peet**

President & Senior Consultant,  
William Peet Co., St. Paul, Mn.

### Obtain book

To the Editor: Recently you published some articles from a forthcoming book "Risk Management in American Multi-National and International Corporations" by Dr. Norman Baglini. Where can we obtain a copy of this book?

**Mrs. M. E. Freeman**

Research Dept., Reed Shaw  
Stenhouse Ltd., Toronto, Canada

*Editor's note: The book is to be published by the Risk Studies Foundation at 205 East 42nd St., New York, N.Y. 10017.*

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## london line

# UK underwriters fix war risk rates for cargoes to Vietnam at 25¢ per \$100

LONDON—Underwriters have made significant changes in war risk rates for cargoes to Vietnam, Cambodia and Laos. Until recently rates were left to the underwriters' discretion, but beginning in July they were fixed at 25 cents per \$100.

This rate covers both North and South Vietnam, as well as Cambodia and Laos. If cargoes are destined for inland areas of those countries, there is a further charge for strike or riot cover of 12.5 cents for \$100.

There is no compulsion in the U.S. market to follow these rates, although, they are usually taken into account.

Air cargo rates for Vietnam are 12.5 cents per \$100 for war, strikes and riots. Rates for Cambodia and Laos are 20 cents per \$100.

These rates are still among the highest in the world as the areas are still regarded as trouble spots. Other high rate areas are certain African countries like Ethiopia, Angola, and Mozambique where there have been acute upheavals lately.

Improved conditions in one former trouble spot, the Suez Canal, led to a drop in rates from 25 cents per \$100 to 12.5 cents per \$100, the same rate applied to Egypt and surrounding countries in the Middle East Arab zone. This reflects confidence in the safety of the Canal as far as passages are concerned, although rates for cargoes destined for Israel are still left to the underwriter's discretion.

Aviation insurers are reviewing losses resulting from two recent international incidents. One was the Eastern Airlines Boeing 727 crash at New York, and the burning-out of an Air France Boeing 747 on the ground at Santa Cruz.

Both are expected to cost the market \$70 million, and possibly more, if passenger liability claims for the New York disaster run high.

"We expect claims running into millions of dollars," one leading U.K. insurer told *Business Insurance*, explaining that international convention limits are unlikely to apply to the Eastern disaster, as it was an internal domestic flight.

The number of major casualties so far this year is below the comparable period for 1974, but the cost of claims is equalling last year's levels, so that with almost half the year still to go, 1975 can produce quite bad results. But there is no change so far in the market's rating approach to risks.

The Easter tragedy is expected to cost \$5 million for hull value, and at least \$30 to \$40 million in passenger claims, with the cover split between the American and U.K. markets. Reinsurance, how-

ever, is likely to add substantially to the burden of the British insurers on this occasion. The Air France Boeing 747, which involved no loss of life, had a hull value of nearly \$30 million, covered 30% in France, 30% in the U.S. market, and 40% in London.

Mid-year surveys by Lloyd's underwriters suggest profits are dropping on recent accounts. Last year's operations were also down and thus may result in losses at the end of Lloyd's traditional three-year accounting period.

But new business is flowing to London, largely because of difficulties faced by companies in the U.S. and elsewhere in the world.

Havelock Hudson, chairman of Lloyd's, feels confident enough to tell his members: "We're in the happy position, at least for the time being, of being able to get realistic premium rates for many of our risks. It's important we should adapt to the situation for our benefit in the short term and also with an eye to the future. We must show the flexibility and strength of the Lloyd's market at a time when other markets have shrunk."

"Once more we are faced with the question of capacity. As inflation and premiums rise, the effective capacity of Lloyd's tends to decrease unless enough new names are elected and existing names opt for higher premium limits. The flow of candidates is currently satisfactory, and it's also encouraging that in the last twelve mon-

ths existing names have added a total of \$140 million to their premium limits."


Now that the British people have voted in favor of staying in the European "Common Market" group of nations, there will be opportunity to reap the benefits of its membership, he added.

Applications for Lloyd's membership so far in 1975 total 777, compared with 319 at the same time last year.

Global returns will be published in September, but in the meantime it is anticipated that the 1972 account will produce results comparable to the record profit of about \$190 million on the 1971 account.

Then may come two lean years, reflecting adverse underwriting for the 1973 and 1974 accounts.

Lloyd's American Trust Fund, into which all U.S. dollar premiums are paid and from which claims are met, totalled \$1.3 billion at the start of 1975. Steps are



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being taken to produce a scheme which will help settlements to take place between underwriters and brokers in an increased number of other world currencies so as to combat the rising cost of claims and the fall in the value of sterling.

\* \* \*

**Underwriters** covering marine risks should pay greater attention to the technical complexities of the exposures they cover. This view is held by Peter Quaile, a leading U.K. marine insurer, who told the Liverpool Underwriters' Assn.

"Traditionally marine underwriting has been based on historic experience, but in a period of rapidly advancing technology the attitude of relying on which underwriters to follow can surely not survive, as only a few possess real expertise.

"With values at over \$100 million at risk on any one vessel, can we defer judgment pending ap-

praisal of the claims experience. I think in the future we will have to play a more active part in approving a design or encouraging the use of an item of safety equipment.

"The fitting of inert gas systems to VLCC's (very large crude carriers) is a case in point. There are differing views on their effectiveness, but at least one market has introduced differential premiums to encourage their use.

"The current climate of political and social opinion expects underwriters to do more than pay lip service to loss prevention."

Chemical tanker fleets are facing considerable expansion, Mr. Quaile pointed out, and so are the shipments of bulk and parcel cargoes. But were underwriters reasonably expert in the loss potential of the new and complex interests they were covering? he asked.

\* \* \*

**British disasters** like the \$100 million Flixborough Nypro chem-

ical plant blast have led the 30,000 members of the Royal Institute of Chemistry to demand better safety rules for the control of hazardous industrial processes.

They have prepared a detailed code of professional conduct under which they are ready to accept social responsibility for new technological developments.

It is the first time in the history of the Institute, which was given a Royal Charter by Queen Victoria in 1877, that such a step has been taken.

Insurers are watching the situation with interest, because if the recommendations are accepted they could have a definite impact on product liability problems.

There is as yet no legal compulsion on members of the Institute to ensure chemical safety like that which is being demanded in the U.S. by environment leader Russell W. Peterson (*Business Insurance*, March 24).

But because of the prestige of

the Institute the advice of its members is likely to be followed.

The new code of conduct would cover manufacturers of pharmaceuticals, cosmetics, pesticides and food processing chemicals.

\* \* \*

**Los Angeles International Airport** has been named by airline pilots as lacking the full level of safety they would like to see adopted for world-wide operations.

The Los Angeles airport is the only U.S. airport included on a "critical list" of ten world airports which have been classified by IFALPA (the International Federation of Air Line Pilots' Assn.) as falling short of desired standards.

Captain Laurie Taylor, London-based executive secretary of the Federation, told *Business Insurance*: "Over the past few years I've met various aviation underwriters and tried to get them interested in the problems of leading world airline pilots.

"We've more than 50,000 members, and naturally operational safety factors figure high in our list of priorities. So we've prepared a list of ten airports which fall short of the standards we'd like to see.

"We'll be making presentations to the airport authorities to improve them. In the case of Los Angeles, our complaint is against the landing procedures, which compel us to make difficult approaches and departures over the sea from parallel runways.

"This can lead to conditions of poor visibility, especially at times of sea mist, and we'd like to see revised operating procedures with fewer approaches over the sea.

"The other airports include two in Japan (Osaka and Naha), several in Italy and Greece, and the airports in Hong Kong and Teheran.

"The trouble we find in getting any collaboration from aviation insurers is that they prefer to deal in total risks as far as premium ratings are concerned.

"They are apparently not concerned with individual airport procedures, and don't look at the problems in the way we do. So we've not made any formal approaches to them yet to aid our case, but would certainly do so if we felt it worthwhile."

The decision to include the Los Angeles airport in the list was made by pilots at their annual conference in Vienna, where they examined the facilities available at airports throughout the world.

"It doesn't mean the airport is dangerous to the point of extreme public concern or of calling for it to be banned, but a lot could be done to improve landing conditions there," Capt. Taylor said.

"Complaints against Los Angeles came not only from U.S. pilots, but also from pilots flying world airlines. You'll notice that no other U.S. airports are on the list, but we keep a watch on all international airports and get regular reports on their facilities."

### \$1.5 million damage

Insured damages reached \$1.5 million for wind and hail storms, tornadoes and floods which hit Minnesota and North Dakota on June 28 to 30, according to the American Insurance Assn. Autos and dwellings were the items most heavily damaged.

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## business insurance

# PERSPECTIVE

## Cargo loss prevention is possible by using the correct carrier, container

Alarmed by skyrocketing theft and damage losses of cargo in transit, INA believes risk managers should reassess the hazards of shipping goods to other cities, states and countries. Better loss prevention should result, especially in areas of theft and non-delivery.



Compiled by the Marine and Aviation Division, Insurance Co. of North America

**A**LMOST 70% OF ALL cargo losses are preventable. The prudent shipper recognizes that his efforts in prepaging, packing, and marking greatly influence successful delivery of his goods.

Pleased customers and repeat orders are only two of the benefits which stem from a professional approach to shipping cargo. Reductions of time and money spent in tracing, locating and making adjustments on lost, damaged or stolen merchandise can also be expected.

Attention to the basic principles and techniques of domestic and export packing will reduce the susceptibility of cargo to casual or organized pilferage and theft, will minimize damage from improper or unskilled handling and stowage, and protect against wetting damage.

The figures in the table on the following page are taken from our own loss experience and are based on a sufficiently large volume of business to be considered typical.

Carrier selection is tantamount to entrusting your business to a third party. Does the carrier offer ample cargo protection, clean stowage, modern equipment, and a fair claim policy?

Facts which explain why cargo is lost or damaged in transit is the most vital ingredient in judging carrier performance and implementing your own loss control program. This article suggests positive actions the shipper can take within his purview to reduce preventable losses. Beyond these actions the shipper can minimize his losses by selecting only the good carrier that merits support based on performance.

With almost one-half of preventable losses attributable to theft, pilferage and non-delivery, the wise shipper will take the following precautions.

- Use only new, well constructed packing for your product. Early deterioration or collapse of flimsy or previously used cartons, boxes or bags invites pilferage through exposure of the contents. Use all uniquely patterned gummed tapes will make possible quick detection of tampering. Corrugated fasteners will add to the security of wooden boxes. Shrink wrapping, strapping and banding will further contribute to package security.

- Don't advertise your product to thieves and pilferers. Descriptive labeling, illustrations or prominent display of trademarks and well-known company names on any type of cargo simplifies the pilferer's task. Use coded markings and change the codes frequently. The ultimate

retail customer rarely sees the shipping package anyway; therefore 'en route' advertising certainly can't impress him.

- Clear and complete delivery and handling instructions should appear on at least three surfaces of the exterior package. Limiting marks to only one or two surfaces invites rolling, tumbling, and flipping of packages in the search for marks and delivery information. Bright color coding of sides or corners of items in the same shipment facilitates identification and minimizes the number of strayed parcels.

- Utilize various-sized boxes, crates and pallets to consolidate small multiple or non-uniform parcels into single load units. Unitizing and palletizing as well as use of intermodal containers will help keep your cargo together and also make it inconvenient to thieves and pilferers.

- Insist on prompt pick-up and delivery. The longer your cargo rests on piers, in terminals or in truck bodies, the more it is exposed to loss by theft and pilferage. Make immediate reports of losses or non-delivery to law enforcement agencies, carriers and your insurer.

- The quicker you act, the greater the probability of recovery. Process documents and customs papers expeditiously to avoid unnecessary delay in pick-up or delivery.

- Use cautionary markings both in English and the language of the country of destination. Use of international handling symbols provides added effectiveness because handlers who lack the ability to read can readily understand graphic illustrations.

The use of intermodal containers for the transport of a great variety of cargoes has become increasingly popular in recent years. Intermodalism—a concept which embraces the movement and transfer of standardized cargo containers by sea, air and land—has enhanced the rapid movement of cargo. Development of specialized containers has provided the modern shipper with a selection of types, sizes and configurations, thereby permitting containerization of almost any type of cargo.

Prompt undamaged arrival of the complete shipment at destination is the primary objective of the shipper. In committing his goods to containerized transport, the shipper can be instrumental in realizing his objective by:

- selecting the proper container service for purposes;
- selecting the right type of container for goods;
- inspecting the container to insure proper accommodation and protection of goods;

- packing goods to withstand the hazards of the "toughest leg of the journey;"

- stowing and securing goods in the container to prevent damage to the goods, container and transport vehicle;

- properly inventorying and documenting the container contents, locking and sealing the container, and recording container and seal numbers on all shipping documents; and

- timely unloading at destination. A goodly portion of losses in containerized movement occurs while containers are awaiting offloading.

A number of independent firms provide testing and inspection services for intermodal container operators. Certification of adequacy of construction occurs prior to delivery of the new container to the carrier, and periodically thereafter.

The shipper should look for the certification seal on containers supplied for his use, as evidence the container has met adequate construction and maintenance standards.

Presence of the certification seal is not, however, a guarantee that the container is presently free from defects, as damage may have occurred since last inspection by a certifying agency.

The shipper is advised to proceed with a personal inspection of the container he is about to use, to be absolutely certain that

it is in condition to adequately protect his merchandise.

An understanding of the hazards to which the container may be exposed is essential. This knowledge will permit intelligent inspection of the container and also provide the background necessary for adequate preparation of cargo and stowage of the cargo in the container.

**HANDLING HAZARDS:**  
Rapid acceleration and deceleration during lifting and lowering.

Tilting during forklift operations.  
Pushing and dragging in inadequately equipped ports.

Dropping when improper material handling equipment or inexperienced labor is used.

**HIGHWAY HAZARDS:**  
Impact against loading docks.  
Coupling impact.

Braking and acceleration.  
Sway on curves.  
Vibration and road shocks.

**RAILWAY HAZARDS:**  
Acceleration and deceleration.  
Coupling impact (sometimes severe during humping operations).  
Sway on curves.  
Vibration.

**OCEAN AND WATERWAY HAZARDS:**  
Rolling, pitching, heaving, surging, swaying, and yaw motions.  
Wave impact (green water impacting on deck-stowed containers during heavy weather).

**WATER DAMAGE HAZARDS:**  
Rainwater entry, leaking container.  
Salt Water entry, leaking container.  
Condensation (ship's sweat).  
Condensation (cargo sweat).  
Flooding—(container stored on inadequately drained surface).

**THEFT AND PILFERAGE HAZARDS:**  
Exposure of cargo during transfer into or from container (other than Door-to-Door service).  
Hijacking of entire container.

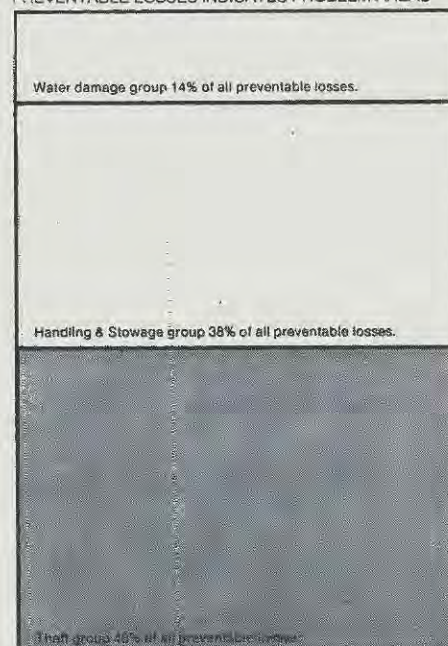
**CONTAMINATION HAZARDS:**  
Residual material or odors from previous cargoes.  
Incompatible cargo stowed in the same container.

**FIRE HAZARDS:**  
Ignition caused by friction.  
Ignition caused by spontaneous combustion.

The greatest benefits of containerization are realized when the shipper uses the container to carry goods directly from his premises to his customer's location. Per-

Continued on following page

COMPARISON OF PRINCIPAL CAUSES OF PREVENTABLE LOSSES INDICATES PROBLEM AREAS



PREVENTABLE LOSSES 1969-1973

## business insurance

# PERSPECTIVE

## Cargo . . .

Continued from preceding page

haps the only time the container will be opened while enroute is for customers' inspection. Reduced susceptibility to pilferage and theft, elimination of multiple handling of individual items of cargo and the least possible exposure to the elements are all attractive features of Door-to-Door service. In utilizing this type of service, the shipper assumes the additional responsibility of ensuring that his cargo is properly stowed and secured in the container, precluding damage to the cargo, container or transport vehicle.

(The tendency to reduce packing protection of cargo destined for Door-to-Door container shipment should be resisted. The ocean leg of the voyage will subject the cargo to severe motion stresses, considerably greater in force than during highway or rail movement of the container. Reduction of packing protection must be carefully evaluated and implemented only after due consideration of the hazards involved.)

When cargo volume does not provide for a full container load, or when the shipper or consignee does not have the facilities to load or unload the cargo into the container at his premises, he can utilize the services of forwarders, consolidators or the carrier to stow his goods in containers at the port of departure. This service is less attractive than Door-to-Door service, since the cargo is not in a container for the entire journey and consequently experiences increased exposure to weather, handling and stowage damage, and theft and pilferage. Maximum export packing standards are required when shipping Port-to-Port.

Combinations of Door-to-Door and Port-to-Port service are possible, depending on the desires of the shipper, capabilities of the carrier, and facilities available to the shipper and consignee. While any of these combinations may be more advantageous than Port-to-Port service, the cargo will be exposed to the hazards of theft, weather and additional handling during part of the journey. Accordingly, as in Port-to-

Port service, the cargo must be packed to the highest export standards.

During the past decade, United States-Foreign Air Trade exceeded a 20% growth rate each year. Air cargo service has become more attractive to shippers as aircraft capacity, frequency of service, terminal facilities and the number of points served have improved proportionately.

Unfortunately, this dramatic and vigorous growth has been accompanied by a rising incidence of cargo losses. Most of these losses can be controlled, with the shipper himself as the key figure in effective loss control.

Recognition of the hazards involved packing cargo to survive the toughest leg of the journey, and prudent selection of transportation services will assist the shipper in realizing successful, loss-free delivery of his goods.

Inadequate packing and improper marking of air cargo are the leading contributory factors in air cargo losses. It is this area in which the shipper can effectively influence the survival of his goods.

### AIR CARGO ENVIRONMENT HAZARDS INCLUDE:

#### IN THE AIRCRAFT:

**Acceleration/Deceleration** — Fore-and-aft pressures are exerted on cargo during take-off and landing.

**Turbulence**—Rough or "bumpy" flight conditions subject cargo to rapid alternating vertical movements, imposing heavier pressures one moment, and almost weightless condition the next.

**Altitude**—As altitude increases, atmospheric pressure decreases, subjecting liquid cargoes to leakage hazards.

**Temperature**—Aircraft cargo compartment temperatures normally range between 35°F and 70°F. If the aircraft is parked with cargo aboard in freezing or very hot weather, cargo will be subjected to unusual cold or heat conditions.

**Cargo Compartments**—The main cargo compartments of air freighters are normally well equipped for adequate stowage of cargo. Passenger aircraft belly compartments, however, are often loaded without provision for adequate restraint of cargo, permitting movement of cargo during

flight and inviting damage from adjacent cargo.

#### IN TERMINALS:

**Handling**—Up-to-date terminals are equipped with conveyor systems and mechanical cargo handling gear, permitting rapid and safe cargo handling. Overcrowded conditions contribute to handling damage as facilities are overtaxed. Manual handling is common as freight is stacked on pallets and in "igloos."

**Storage**—Modern terminals are equipped with special security cages for high-value cargo, and with cold storage facilities for perishables. Terminals not so equipped are

subject to increased theft, pilferage, and deterioration hazards. Overcrowded conditions may require storage of some cargo outdoors.

**Ramps**—Cargo is commonly exposed to the weather while en route to loading ramps. If cargo carts, pallets, and igloo openings are not adequately covered, water damage may result.

**Security**—Security conscious carriers provide maximum physical security measures to protect cargo from theft or pilferage. Use of restricted areas for employe and visitor control, application of modern locking and alarm devices, and strict cargo documentation are examples. ■

## PRINCIPAL CAUSES OF LOSS

CAUSE OF LOSS	Percent of all losses				
	1951-55	1956-60	1961-65	1966-70	1969-73
<b>Fortuitous Losses</b> (Sinking, Strandings, Fires, Collisions, Sea Water & Heavy Weather)	29%	22%	26%	19%	31%
<b>Preventable Losses</b>	71%	78%	74%	81%	69%
<b>PREVENTABLE LOSSES BY CATEGORY:</b>					
<b>Theft Group</b> Theft, Pilferage and Non-Delivery	24%	23%	28%	32%	33%
<b>Handling &amp; Stowage</b> Container Damage including Breakage, Leakage & Crushing, Contact with Oil & Other Cargo, Contamination	34%	42%	33%	40%	26%
<b>Water Damage Group</b> Fresh Water, Sweat Rust	13%	13%	13%	9%	10%
<b>Total</b> "Preventable" Losses	71%	78%	74%	81%	69%

## RISK MANAGEMENT NOTES

# Urge broader liability definitions, higher limits

By WARREN, McVEIGH, GRIFFIN  
& HUNTINGTON  
risk management consultants  
San Francisco—Newport Beach

ON SOME MANUSCRIPT liability policies (or special endorsements), the definition of "malpractice injury" essentially provides errors and omissions liability coverage for medical, dental, surgical, nursing, pharmaceutical, legal or electronic data processing service. If possible, this should be expanded to include all kinds of consulting or advisory services, i.e., all incidental professional liability exposures. This might be accomplished by rewording the definition to read as follows:

"Malpractice injury" means injury arising out of the rendering or failure to render professional, consulting or advisory services including but not limited to medical, dental, surgical, nursing, pharmaceutical, legal, or data processing services." (Note that the word "electronic" preceding data processing services has been deleted.)

### Advertising Liability

The definition of "advertising liability" on standard forms states that coverage ap-

plies only to injury because of:

- Infringement of copyright, title, or slogan.
- Piracy.
- Unfair competition or idea misappropriation.

We have seen forms considerably broader than this, providing coverage for any negligent act, error, or omission in use of advertising, promotional, merchandising, or publicity activities including infringement of property or contract rights.

If you carry standard advertiser's liability coverage, ask your broker whether it is possible to expand the definition of advertising liability.

### 'Expected or Intended'

Wording of many liability policies deletes coverage for injury or damage "expected or intended from the standpoint of the insured." This applies generally to all coverages except personal injury or malpractice.

The intent is understandable but the wording could lead to trouble. Consider this for example:

- The words "expected or intended" make it possible for the insurer to question coverage when the acts complained of consti-

tute more than ordinary negligence, i.e., gross or wanton negligence.

- Unauthorized acts of management personnel could be imputed to the named insured to deny coverage.

• The insurer also might allege that any prudent person committing the act should have expected the injury.

Removal or modification of this restriction should be attempted on all major liability contracts to forestall application of any of these assertions.

### Boiler Expediting Expense

A standard provision of most boiler policies is that expediting costs are insured, but only to a maximum of \$1,000. Boilers are usually critical items of production for which every effort will be expended to return to service.

Expediting expenses following a loss can be quite high when you consider that you may ask a supplier to work his plant overtime, send your plant officials to the factory for supervision, air freight heavy materials, and do many things under emergency conditions which could run up significant costs.

In the case of any important or sizable boiler, the \$1,000 limit is grossly inade-

quate. Limits well into the hundreds of thousand dollars are sometimes justified. You would do well to check the expediting costs limit of your policy, then raise it to a more realistic figure.

### Insurance Quotations

We were told in all seriousness by a representative of one of the "Big-5" brokers that if an account goes to any of the large brokers with essentially the same requirements, the price quotations will not vary appreciably.

His approach was that a brokerage firm should be selected on the basis of professional skills and service, ignoring price because in the end the cost difference would be insignificant.

There are probably many persons naive enough to accept this assertion as close to the truth. If so, consider the results of a recent situation.

Several brokers presented bids on identical specifications. The low was about \$45,000 and the high about \$110,000, both firms being among the top five brokers in the country. As a matter of poetic justice, the high bidder was the broker whose representative said that there is little price difference. ■

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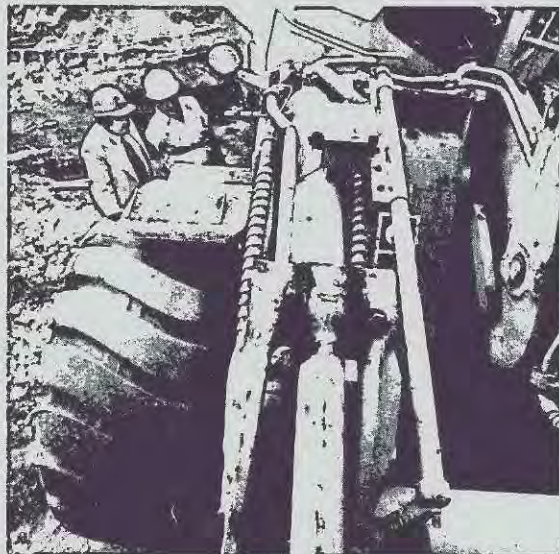
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**Benefits for executives  
show steady increase**

NEW YORK—More executives than ever are getting fringe benefit programs that include things like physical examinations, free legal advice, low cost loans and the use of company cars. These extra benefits are in addition to the staples of hospitalization and major medical insurance, life insurance and pensions normally provided under group benefit programs.

This is the finding of the latest report on executive compensation released by the Research Institute of America here, which surveyed 9,000 companies (including the Fortune 500 firms) on their compensation practices during 1974.

The typical company responding to the survey provides its ex-

ecutives with six fringe benefits. The top six benefits provided by a majority of firms in each of five industry categories, are: hospitalization, 92%; major medical insurance, 90%; life insurance, 89%; use of company car, 73%; pension plan, 71%; and long term disability insurance, 57%.

The results, compared with a similar Research Institute study in 1968, show a steady increase in fringe benefits. For example, companies providing long-term disability insurance increased to 57% last year from 49% in 1968.

The biggest increase in fringe benefits was for executives in the contracting, construction and mining industries, where 16% of the companies added extra compensation benefits in 1974.

The study says chief executives' total compensation—fringe benefits combined with wages—was higher last year than in 1973 by 16%. A typical chief executive, the survey says, earns \$50,000 a year in total compensation.

A second study, conducted by Dun & Bradstreet, showed a 9% increase from 1973 in the number of companies providing relocation benefits for executives and other employees. The nationwide study of 605 major corporations in 21 industry groups revealed almost one-quarter of the companies surveyed made substantial changes in relocation benefits.

Some of the most common benefits related to home-sale expenses included company payment for title and closing costs, attorney and escrow fees, and a mortgage rate differential between the employee's old and new home. ■

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**NTSB claims  
crew ignored  
warning alert**

WASHINGTON—The flight crew of an Eastern Air Lines DC9 were talking among themselves about a lighted tower in an amusement park and ignored a terrain warning alarm as they approached Douglas Municipal Airport in Charlotte, N.C. last Sept. 11, the National Transportation Safety Board (NTSB) disclosed.

Moments later, the aircraft hit trees and struck the ground killing outright 71 of the 82 persons on board. One other person died later.

The cockpit conversation before the crash covered a number of subjects, "from politics to used cars," the NTSB said.

The NTSB said it believed "that these conversations were distracting and reflected a casual mood and lax cockpit atmosphere which continued throughout the remainder of the approach and which contributed to the accident."

The crew's disregard of the terrain warning alarm prompted the NTSB to suggest that pilots may regard it "as more of a nuisance than a warning."

"If this is the case, the NTSB said, "the Board believes that airline pilots should re-examine their attitudes toward the warning alert least the purpose for which the device was installed be defeated."

The device aboard the DC9 was not the more sophisticated Ground Proximity Warning Device now being installed by many airlines.

The NTSB said the Charlotte crash "reflects once again serious lapses in expected professional conduct." ■

# Rehabilitation seen as moral duty

By LINDA MOSKOWITZ

NEW YORK—Although providing rehabilitation care for employees does not always produce a significant long-term economic savings for corporations, in the area of long-term disability (LTD) payments, many risk managers feel that benevolent concerns for employees are equally important.

"There is a moral responsibility to make an effort to return an employee to a productive capacity," said David Walker, employee benefits manager at Borden Inc. Borden is one of a growing number of corporations to put this philosophy to work by contracting the services of International Rehabilitation Associates Inc. (IRA), a firm established in 1970 to coordinate comprehensive rehabilitation programs for individuals.

"Medical management" is how George Welch, president of IRA likes to describe his service.

The firm offers its services through contracts with self-insured corporations, insurance companies, government agencies and programs, doctors and lawyers.

Borden has been using IRA's services for approximately two years after being introduced to them at an American Management Assn. seminar.

An arrangement was then made with the company's group carrier, Metropolitan Life, to contract IRA on a case by case basis.

Of three cases handled by IRA for Borden, it cost the company about 5% of the total LTD liability reserves, according to Mr. Walker.

In a more specific example, he said that a fee of \$230 paid to IRA on one case resulted in a \$12,000 saving in LTD benefits.

Borden also pays for the health insurance necessary for the medical specialists seen by the employee. These costs are in addition to the fees paid to IRA, which are taken from LTD reserves, Mr. Walker noted.

This policy at Borden, which pays for all fees including both health-related and rehabilitation services, was decided upon to provide the employee with an incentive to take advantage of the program available at the company, explained Mr. Walker.

Based in Philadelphia, IRA operates nationally through several branch offices, and in Canada where they are known as Rehabilitation Services.

The coordination of rehabilitation treatment is the main idea behind the service. IRA staff will visit the disabled individual and then provide referrals to the proper medical personnel in the area.

Psychological and vocational as well as physical counseling are provided.

IRA staff members stay with the individual during the entire course of rehabilitation, providing back-up service to their referrals.

"IRA will take their own medical staff and will recommend the best medical help at the best facility in their area. They will set up appointments and pursue the case," explained one satisfied customer, commenting that "this is one of their strengths."

The basic rate for service is usually \$30 an hour plus expenses, according to Mr. Welch, but he claims that this is flexible. Payment is often on a retainer basis or rates can vary depending on the number of cases served and the work to be done.

Among the corporate clients of IRA are 3M, Burlington-Northern, Bucyrus-Erie, Phillips Petroleum, Exxon, Allis-Chalmers, Georgia-Pacific, CIBA-Geigy, and International Harvester. A varying amount of work has been done for each.

"Fewer than 15% of our cases ever see a rehabilitation center," said L. Ronald Hogg, vp at IRA, explaining that the less severe disability cases are more numerous, with a greater exposure rate than the catastrophes.

The Florida State Division of Retirement is another IRA client. This agency began using IRA at the end of last year when they sought a private company that could verify the required medical documentation an employee must show to collect disability benefits.

IRA does no rehabilitation work for the state of Florida and only acts as a medical consultant.

This is largely due to the Florida workers' compensation system which offers payment only for permanent and total disabilities. Payment for successful rehabilitation work does not fall

into this category.

Several cases that have been successfully rehabilitated by IRA were discussed by Garret Sampson, employee benefit supervisor at Economics Laboratory Inc. (EL) of St. Paul, Mn. The firm manufactures cleaning compounds and

dispensing equipment.

In one case, an employee was diagnosed to have multiple sclerosis, but IRA found that the symptoms resulted from an infection. This employee is now working again on a full-time basis after treatment.

Mr. Sampson also mentioned the value of IRA work in psychologically motivating people back to work after they encounter phy-

sical disabilities.

He also believes his firm has gained a lot of valuable input from IRA. "By using rehabilitation service we have as comprehensive and accurate an evaluation of an employee's potential as we could get anywhere," he said.

Motivation for providing employees with rehabilitation service was largely humanitarian at EL, according to Mr. Sampson.

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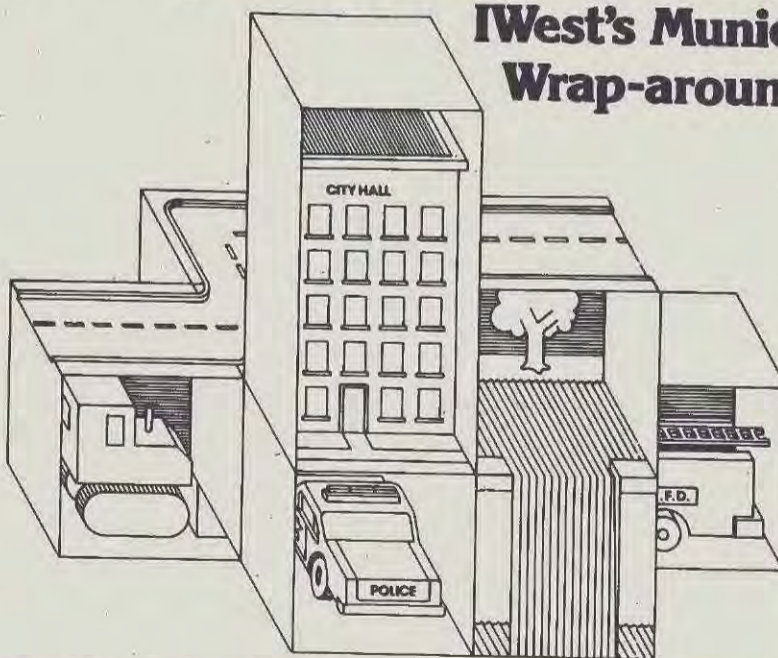
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## Bigger oil risks now that production nears

LONDON—Big new oil risks are now emerging for insurers here as platforms in the North Sea start to produce their first crude supplies for Britain after exploration by major corporations, including many with U.S. interests.

Condeep, a \$250 million-value production platform, has been sent on its way by Mobil Oil from Stavanger, Norway to the "Beryl field" where it hopes to start spudding this fall.

Graythorp II, another huge platform built in the U.K., has been handed over to the Brown & Root/British Petroleum venture.

In addition, the first oil ever obtained from the North Sea for

Britain's domestic consumption left Hamilton Brothers' "Argyll field" late June for a refinery in the Thames estuary outside London where it will be processed.

This historic occasion gave broker Sedgwick Forbes the chance to review and discuss with *Business Insurance* its oil drilling involvement which runs into the billions of dollars placed in the London markets since oil exploration in this part of the world began to move rapidly ahead.

Roy Dupont, director of Sedgwick Forbes Marine, told this magazine: "Underwriters have shown themselves ready to risk very large amounts of money on projects which in many cases bordered on completely new aspects of technical knowledge. But it's praiseworthy to feel that while much support has come from Lloyd's and from the London company market, there has also been tremendous backing from reinsurers in many parts of the world, particularly including the U.S."

Adequate limits of coverage for the huge risks can still be readily provided by the market, where there is enough capacity to enable any projects to be insured to their full value, brokers and insurers claim. Premium ratings, however, vary considerably.

For example, the Condeep platform, a concrete structure, is insured for its full value of around \$250 million. It represents a breakthrough in design because it is delivered virtually complete, unlike rival steel jacket designs.

The huge 220,000 ton structure was expected to take five to six days to reach its destination, under towage, but once it was positioned on the seabed, the only major installations then needed were the two main drilling derricks and associated equipment.

Oil from this platform, as with the semi-submersible rig, Transworld 58, in the Argyll field, will be loaded through an undersea line to a nearby single-point mooring buoy, where it will flow into tankers, which can work in quite heavy seas. The tankers then deliver the crude to refineries in Britain.

The combined cost of platform, buoy, and other production facilities at Beryl field for the first Condeep is estimated by Mobil at more than \$350 million.

For the Argyll field, the U.S.-based Hamilton Brothers consortium, which includes several U.K. finance groups, placed all risks insurance through Sedgwick Forbes for the installation of flowlines, single buoy mooring, river system and well-heads. Insurance cover in the North Sea for this group totals \$130 million.

Operating risk policies cover the Transworld 58 platform, for loss of use by accident and indemnity for the daily rate of the platform, and of course total loss.

Policies also cover control of blow-outs, seepage and pollution, and cover for the tankers which bring the oil ashore to the refinery in southern England.

Most drilling rig rates have fluctuated considerably according to underwriters' experience, but have lately been about 7% for jack-ups, 6.25% for non-propelled submersibles, and 5.5% for fully propelled semi-submersibles. Structural deficiencies caused the loss of the \$5.5 million Transocean III rig in the North Sea in January, 1974, according to the UK Government's Department of Trade report. ■

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# Hospitals already insured by St. Paul must shift to claims-made coverage

MINNEAPOLIS—The 1,500 hospitals already insured for professional liability by St. Paul Fire & Marine Co. must switch to claims-made coverage with the carrier offering limits of up to \$1.3 million annually per individual claim or \$1.9 million annually for aggregate claims.

Rates will be less under claims-made, which covers only claims reported during the policy year

from past incidents, according to a St. Paul spokesman. For this year, it will be 50% of the Insurance Services Office (ISO) filed occurrence rate, "which varies from hospital to hospital and from state to state," he said.

The second year rate is 70% of the ISO rate, the third year 80%, fourth year 85% and fifth year 90%, the spokesman said. The ISO occurrence rating bureau is

"often used by hospitals," he added.

St. Paul insures 1,500 hospitals in "smaller communities." About 80% are in towns under 50,000 persons with 200 beds or less, the spokesman said. "We're not interested in increasing our book of business," he said. The company insures hospitals in all states and the District of Columbia except Alaska, Hawaii and Utah.

The American Hospital Assn's (AHA) risk manager, James L. Groves, told *Business Insurance* that urban hospitals "have the greatest need for malpractice coverage" because the risk of claims is higher. The AHA is based in Chicago.

Primary coverage is offered up to \$300,000 for an individual per year or up to \$900,000 for all claims reported during any one policy period, the spokesman explained.

Excess coverage of \$1 million on each limit is also offered but only to a hospital already buying excess coverage from the carrier.

"The claims-made is no problem for hospitals," Mr. Groves said. "It never was as serious as it was for doctors."

The middle layer of coverage, \$300,000 to \$1 million, is "the

crunch" for hospitals, he said.

In addition, St. Paul guarantees to offer perpetual coverage in three annual installments to any hospital covered by the company's claims-made policy if it switches its coverage to another carrier or goes out of business. The carrier also guarantees not to cancel that perpetual policy.

The rate for perpetual coverage would depend on several factors, the spokesman said. A hospital with a claims-made policy with St. Paul for five years, for example, would pay 48% of the then ISO occurrence rate coverage for the first year, 27% for the second installment and 19% for third and "perpetual" coverage payment.

The company does not feel "the pressure is off" hospitals obtaining malpractice coverage in spite of joint underwriting associations being set up in some states and the AHA's reinsurance captive insurance company which is "ready to go if a clear need arises."

The new coverage, which includes hospital personnel, will be offered in current locations, pending government approval except in the states of Maryland, Massachusetts, North Carolina and South Carolina.

The claims-made coverage for hospitals "replaces" occurrence contracts, as it did with doctors' malpractice coverage in January. "Up to five years generally elapses before most of the malpractice injuries from any one year's medical practice or hospitalization are reported as claims," the company estimates.

"Given the severe deterioration of the medical liability lines of insurance, there is no longer any confidence in the accuracy of five-year actuarial projections of prob-

able claim costs," said Tom H. Swain, vp and assistant to St. Paul's president.

Mr. Swain said the company is in business to accept risk "as long as the risk is reasonably predictable and the company can evaluate its claims experience correctly from year to year."

St. Paul is shifting only professional liability coverage for hospitals to claims-made. Other coverage "normally written for a hospital" will remain on an occurrence basis, the St. Paul spokesman said.

## Environment testing lab is accredited

HARTFORD—An environmental testing laboratory run by the Hartford Insurance Group to help industrial policyholders detect hazardous noise and air pollutants in and near places of employment has been accredited by the American Industrial Hygiene Assn.

William Meade, the company's environmental services director, said the objective of accreditation was to upgrade standards of analysis and also to get independent verification of quality control procedures.

"It also gives our policyholders an outside check on our level of proficiency in analyzing samples," he added.

The lab, which was established by the company's loss control department three years ago, is equipped to measure noise, toxic vapors, dust, light, radiation, heat stress, and potentially explosive atmospheres.

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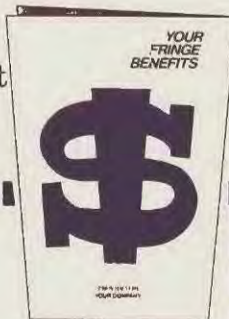
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# Asks for \$1.5 billion in latest class action suit against Lockheed

WASHINGTON—New York attorney F. Lee Bailey asked that punitive damages of \$1.5 billion be assessed against Lockheed Aircraft Corp. for its alleged wrongdoing in the crash of a Lockheed built C5A shortly after take off from Saigon last April.

The aircraft, flown by the U.S. Air Force, carried 330 persons, including 247 Vietnamese orphans. A total of 155 persons, including 98 orphans, were killed after an aft cargo door opened and control cables were cut.

Mr. Bailey filed his class action suit in the U.S. District Court for Southern Manhattan on behalf of Vivienne A. Clark, 56, of Woodbridge, Va., who was killed in the crash.

The suit asks \$10 million in compensatory damages for her death and an additional \$1 million for her estate. No estimate was made of damages for other members of the class.

The Bailey suit is just one of a number of suits filed against Lockheed, all seeking "class action" status.

A \$545 million suit against Lockheed was filed in U.S. District Court in Washington last month on behalf of Jo-An K. Pray, a 39-year old Army Department civilian employe killed in the crash.

That suit asks \$300 million in punitive damages and \$245 million in compensatory awards. (*Business Insurance*, June 30.)

Yet another class action suit, this one seeking \$100 million in punitive damages, was filed in the U.S. District Court in Springfield, Ill., on behalf of Marilyn P. Eichen, who was killed in the crash.

The suits asks \$300,000 in compensatory damages for her death and another \$75,000 for her estate.

A class action suit filed in the U.S. District Court in Chicago asks \$1 million in compensatory damages for the death of Vera Hollibaugh, and seeks about \$300 million in compensatory damages for all of the victims of the crash. It was filed by American National Bank & Trust Co., Chicago, administrator of her estate.

The Judicial Panel of Multi-District Litigation was to meet July 25 in Washington to decide what court these and any other Lockheed suits will be assigned to. Attorneys representing the company have asked that the case be assigned to the U.S. District Court in Atlanta, which is near the headquarters of Lockheed-Georgia Co., the Lockheed subsidiary that built the aircraft.

Lockheed is covered up to \$150 million for products liability, with the coverage 65% in the London markets and 35% in the U.S. with Associated Aviation Underwriters (AAU) and United States Aviation Insurance Group (USAIG). (*Business Insurance*, Jan. 7, 1974).

USAIG has been asked to handle the defense for Lockheed.

The company disclosed through the Securities & Exchange Commission that it believes any damages resulting from the suits against the company would be insured. ■

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Dallas-based Surplus General Agency Inc. and Havertown, Pa.-based William H. Vaughn & Co. announced consolidation of their offices through an exchange of capital stock. Surplus General, which plans to change its name to Vaughn and Van Wagoner Agency Inc., specializes in underwriting substandard fire, casualty, aviation, livestock, crime, malpractice and truck insurance. Vaughn & Co. owns Northeastern Fire Insurance Co. and underwrites "most classes" of surplus line business. Business emphasis for the new firm will be placed on insurance for clubs, franchise chains and associations.

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## people

**James R. Mascarella**, formerly manager of the insurance department at the Quaker Oats Co., Chicago, was named director of corporate insurance at Gould Inc., Chicago, effective Aug. 11. Mr. Mascarella's new responsibilities include property/casualty risk management, insured benefits coverage (but not administration) and some loss control work. He replaces **David R. Haight**, whose future plans are not yet finalized. Mr. Mascarella reports to the vp-finance.

Quaker Oats Co., Chicago, promoted **Michael R. Becker** to manager of the insurance department to replace James R. Mascarella, who joined Gould Inc. Mr. Becker formerly was manager of insurance administration at Quaker Oats and is seeking a replacement for that position. Mr. Becker's responsibilities include property/casualty coverage and loss prevention programs. He has worked at Quaker Oats for at least three years.

**Thomas G. Briggin**, formerly

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risk manager for the Sacramento Municipal Utility District and based in San Francisco, joined Risk Planning Group Inc., a consulting firm. As vp and resident manager of Risk Planning Group's San Francisco office, Mr. Briggin will direct the firm's West Coast activities as well as assist in the firm's nationwide consulting work. He replaces **Edgar S. Clark**, who joined Alexander & Alexander Inc. It has not been determined whether a replacement will be sought for the risk management position at the Sacramento Municipal Utility District, Mr. Briggin said.

Centex Corp., Dallas, promoted **Richard C. Harvey** in mid-July to vp, taxes and insurance. Previously, he was assistant vp, taxes and insurance. Mr. Harvey reports to the executive vp and is responsible for purchasing and administering property and casualty insurance, some employee benefits group coverage and works somewhat with loss control programs, he said. A certified public accountant, Mr. Harvey has been with Centex for eight years. No one will be designated to fill his former position, he said.

As of July 1, Brown & Williamson Tobacco Corp., Louisville, consolidated the administration of all employee benefit programs into one department. This department will also administer, on an ad hoc basis, benefits for the firm's holding company, Brown & Williamson Industries, and other companies owned by it, covering a total of 45,000 employees. **John W. Forbes**, formerly manager of the

pension department, is manager of the new department. He reports to the vp of personnel. **G. Mike McCall** is coordinator of profit sharing. Previously, he was employee benefits counselor, pensions department. **William R. Murphy**, who joined Brown & Williamson in 1957, was promoted to supervisor of profit sharing. **Paul L. Wagner** was named supervisor of life and health insurance programs. Before the department's consolidation, Mr. Wagner was supervisor of employee insurance plans. **John H. Lundblad** became supervisor of retirement programs, having work-

ed in the pension department since 1968.

The department is responsible for union negotiations, disclosure, communication of benefits, formulation of benefit programs for the board of directors as well as day-to-day benefit administration. Consolidation became necessary because different aspects of the benefit program were being handled by separate departments in the company, Mr. Forbes said.

Allen Group Inc., Melville, N.Y., elected **William Blick Jr.** assistant treasurer in addition to his

continuing responsibilities as corporate risk manager. The thought behind the promotion, Mr. Blick explained, was that the company believes the \$4 million annual premiums from Allen's worldwide operations mandates supervision by an officer of the company. Mr. Blick joined Allen in 1972 and his responsibilities as risk manager include property/casualty insurance, employee benefits, pensions and loss control program supervision.

He reports to the vp and treasurer and predicts his new title will "ultimately involve an expansion of duties."

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