

business insurance

for buyers of employe, property and liability protection

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Kansas City Southern freight train cars that exploded at Noel, Mo., left a huge hole in the railway roadbed (left). The propane tank (upper right) was vented by two employes of the Empire Gas Co. after a leak when the tanks started to burn. —Wide World photo

Fleet operators blast plan to make trucks 'strictly liable'

NEW YORK—The American Insurance Assn., in an effort to blunt criticism of its "no-fault" auto insurance reform plan, has proposed that operators of commercial vehicles be held absolutely liable for accidents involving private passenger cars.

The proposal, if adopted by state legislatures, would mean that commercial vehicle operators would meet the costs of injuries and property damage incurred by private passenger cars and their passengers involved in collisions with trucks and commercial cars. AIA has offered the plan to an automobile insurance study commission in Massachusetts.

Opposition to the AIA absolute liability proposal has come from the American Society of Insurance Management, many of whose 1,600 members are risk managers of companies that operate motor vehicle fleets.

William S. Mortimer, ASIM president and insurance director of Norton Simon Inc., Fullerton, Cal., told *Business Insurance* that ASIM has filed with the Depart-

ment of Transportation auto insurance study committee a statement that opposes the "absolute liability" rule. Instead, Mr. Mortimer suggested, an "equitable premium formula" be worked out if the no-fault auto program is adopted.

MR. MORTIMER said that ASIM members whose companies operate motor fleets are disturbed because figures used by the AIA to justify its proposal were gleaned from a limited sample that does not include most large truck fleets. "The AIA's own figures do not include many major truck fleets," he said.

AIA contends that under its "no-fault" auto insurance plan private passenger car operators would save 35% while commercial vehicle operators would save 55% on present premiums because of reduced claims handling and litigation costs. In a meeting this month with ASIM representatives, AIA officials contended that the "absolute liability" proposal would bring about parity between private and commercial

vehicle insurance premium reductions.

An ASIM representative doubted this assurance and recalled an old saying, "Figures don't lie, but liars figure."

Risk managers who met with AIA acknowledged that they were assured there would be further discussions and that they would be provided with additional information, including actuarial studies of the effect of the "no-fault" plan on commercial vehicle operators.

MEMBERS OF THE ASIM group that met with AIA included, in addition to Mr. Mortimer, Edward Lalley of Kraftco, chairman of the ASIM group; Robert Wiltshire, Bangor Punta; Richard Bland, Panhandle Eastern Pipeline Co.; Bill Hollingsworth, Olin Mathieson Corp., and Richard Lander, Merck & Co.

One risk manager who attended said that the "absolute liability" proposal would shift the emphasis of fleet vehicle safety programs to "defensive driving." "It might, in a sense, help our safety efforts,

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Primary insurance will cover Noel train blast

NOEL, Mo.—Primary coverage written by Railroad Insurance Underwriters will probably take care of the damage caused by a Kansas City Southern freight train that blew up and made a shambles of this town.

A spokesman for the General Adjustment Bureau here said that there is close to \$1 million in

insured damages. One person was killed and 40 others were injured; 20 homes were destroyed, 30 more suffered extensive damage and about 200 were also marred.

Kansas City Southern's primary public liability coverage has a \$100,000 deductible and a \$3 million limit, according to George E. Kellogg, vp of the railroad. Its rolling equipment coverage has a \$250,000 deductible and a \$5 million limit.

FRANK AHERN, of Railroad Insurance Underwriters, said that damage to Kansas City Southern's own equipment probably won't exceed the railroad's deductible.

"We're still trying to figure out what the exact loss is and what the cause of the explosion was," Mr. Ahern said.

The explosion occurred when the crew of the 115-car Kansas City Southern freight discovered a fire aboard one car. They tried unsuccessfully to extinguish the fire, but the car exploded just as the train pulled through the town.

Shortly thereafter a second explosion occurred. Five railroad cars were destroyed and huge, jagged pieces of metal were hurled several blocks through the center of town.

The force of the second explosion left a hole in the roadbed 15 feet deep and 50 feet wide. ■

Food blaze losses top \$15 million

BOSTON—A \$15 million dollar fire that destroyed a New England supermarket chain's warehouse, virtually wiping out one-third of the company's food reserves, was completely insured, *Business Insurance* has learned.

Furthermore, New Englanders will not go hungry while the company refills its bins.

Stop & Shop Inc., considered to be the number one retailer in the Boston area and number two in all of New England, suffered the loss Aug. 5 at the Hyde Park warehouse here. It's believed to be the biggest such loss ever in the industry.

PAUL C. KELLY, assistant to the president, confirmed the \$15 million figure and added that it could conceivably go much higher because of business interruption factors. Interruption clauses are

written into Stop & Shop's policies with both domestic carriers and Lloyd's of London, he revealed.

"It is my understanding," Mr. Kelly said, "that they (the insurers) will repay us for losses sustained because of an inability to use the asset," the asset being the warehouse. He added that the company also expects that its policies cover "the added expenses we incur while waiting for a new warehouse to be built."

It will take the chain about a year to 18 months to rebuild the destroyed warehouse, Mr. Kelly estimated. Meanwhile, the company's major suppliers are shipping goods to stores in the Stop & Shop chain on a direct basis. "This involves additional expense," Mr. Kelly noted, "and that should be fully insured if we read our poli-

cies correctly." Major suppliers now serving Stop & Shop outlets on a direct basis include General Foods, Scott Paper and Procter & Gamble.

Also lost in the blaze were 60 trailers that were unloading at warehouse bays and 14 railroad boxcars pulled up at the building unloading.

CAUSE OF THE fire has not been determined, Mr. Kelly said. Arson has been mentioned as a possible cause, he said, and the Massachusetts State Fire Marshal's office is still investigating.

The warehouse is located in a remote section. Some children had been seen in the area shortly before the fire broke out, according to reports. Stop & Shop is not experiencing any labor difficulties other than the "usual problems" at the moment, Mr. Kelly said.

The chain is generally considered to be the second largest retail food outlet in New England. "In states where we do business and in the greater Boston area we're first," the executive said, adding that the company does not have any stores in Maine and Vermont. No one is quite sure where A&P and First National stand in the area. Both chains have been phasing out some stores in New England without building new ones to replace them.

Mr. Kelly added that it was business as usual after the warehouse fire. "There are a couple of holes in the shelves," he said, "but we're doing well considering." ■

Steelworkers get automation benefits

PITTSBURGH—Major steel companies have agreed to provide compensation for 400,000 United Steelworkers of America union members whose wages are cut because of automation.

Workers who make less in a three-month period than they did during the same quarter of the previous year will be paid about 85% of their lost wages, according to the plan.

"This is undoubtedly the most massive coverage provided by any program designed to protect they paychecks of union members confronted with fast-changing technology," I. W. Abel, union president, said when the agreement was announced.

The plan is retroactive to Aug. 1, 1969.

Late news

Pay \$7.7 million for trapped ships

LONDON—British underwriters have agreed to make hull settlements totaling \$7.7 million for two British flag ships among 15 vessels trapped in the Suez Canal since June, 1967. The two ships are the Port Invercargill and the Scottish Star. According to the settlements, the United Kingdom War Risk Mutual Underwriting Assn. is to pay on the basis of what the industry calls "constructive total loss." Scottish Star is valued at \$4.32 million and the Invercargill \$3.36 million. Coverage excludes cargo.

Industry ho hums Franc devaluation

NEW YORK—The devaluation of the French franc will have no appreciable effect on the insurance industry, according to several sources involved in the international market polled by *Business Insurance*. In the words of one, who noted that the French insurance market was practically nil in this country, "The devaluation of the British pound didn't affect us much, so we're not getting overly concerned about the franc."

Hartford joins mass merchandising game with a UAW local proposal

HARTFORD—The Hartford Insurance group is jumping into the mass merchandising swim amid some reports that another company is finding that the water temperature varies from pool to pool.

Hartford has negotiated a reduced rate auto insurance contract with a United Automobile Workers local at the General Motors Buick division in Flint, Mich. Twenty-six thousand employees will be eligible for auto coverage under the plan, which was worked out with the Lake Insurance Agency in Flint.

Hartford is the second large insurer to get a toe hold in the mass merchandising field. Travelers Insurance Co. introduced similar programs with two aircraft manufacturers earlier this year. Re-

ports now, several months after these were begun, indicate that auto insurance under the program is selling faster at one than it is at the other.

GRUMANN Aircraft Engineering Corp. started offering some 1,000 employees at its Savannah, Ga., plant a package of insurance and financial services Feb. 1. The package, written with Travelers, includes auto insurance, individual life policies and homeowners insurance. (Grumann eventually hopes to offer mutual funds in the same fashion, but has set no starting date.)

A source at Grumann told *Business Insurance* that they were "more than gratified with response" to the program in the

Savannah plant. "Between Feb. 1, when we made this offer, and July 5 in excess of 28% had signed up for auto insurance under the payroll deduction plan," he said.

"This is rather remarkable considering the fact that people naturally don't want to cancel existing policies just to sign up with us. In a given six-month period we can only hope to reach 50% of the employees," he added.

At Grumann, individual life and homeowners policies are also being offered under the mass merchandising concept. "About 10% have taken advantage of the former, while closer to 4% have signed for the latter," he said.

"IN SAVANNAH," the source

continued, "we ran into a situation in which the homeowner policies weren't selling too well. Apparently the problem was that lending institutions were insisting that premiums be paid at least a full year in advance and sometimes three years in advance."

(A spokesman for Travelers said that they "are working on the problem" and have in fact recently asked the Federal Housing Administration for an opinion that monthly payment of premiums does constitute evidence of insurance. He said that there is no reluctance at Travelers to accept homeowners premiums in this manner.)

At Lockheed Aircraft Corp., Burbank, Cal., only about 10% have signed for auto insurance under the mass merchandising plan since it was first offered in three Lockheed plants four months ago. About 60,000 employees come under the program.

"We think it's a little too early

to tell," a source at Lockheed said when asked if the response there had been discouraging. "Of course you can never hope to sign up 100%. One fellow came to me and said, 'No, I can't do that. I get all my insurance from my brother-in-law.'"

A SPOKESMAN at Travelers rationalizes the difference between response at Grumann and that at Lockheed by the approach being used at both companies.

"At Grumann," he explained, "we are using the classic approach. Some 13 enrollers are allowed on the premises and are able to sit down with employees and do our own promoting."

"At Lockheed we were faced with a unique situation. We negotiated with the Machinists' Union and the plan is being offered through them," he added. Lockheed employees may also get life insurance, disability income and accidental death and dismemberment coverage on the payroll deduction plan, but these are written through group techniques, he explained. Auto insurance is the only form being written under the mass merchandising scheme.

Travelers, meanwhile, has had a legal monkey wrench thrown into the works in Georgia, although it has not yet interrupted implementation of mass merchandising in that state.

The Georgia Assn. of Independent Insurance Agents has filed a suit against Travelers Indemnity Co. claiming that the insurer charges its policyholders higher rates for automobile insurance than they would have to pay for the same protection from Travelers Corp. subsidiary.

THE INDEPENDENT Agents contend that individual policyholders who buy their auto insurance from Travelers Indemnity are charged up to 132% more than those working at Lockheed and Grumann plants where the subsidiary, Standard National Insurance Co., offers policies.

They cited two examples. A 20-year-old with a 1969 Stingray, for instance, would pay \$695 for full coverage from Travelers if they policy was written by an independent agent. If he worked at Grumann and could buy from Standard National, however, the policy would only cost him \$300. Similarly, the agents say, a two-car family would pay \$440 for coverage from Travelers but only \$313.20 from the subsidiary.

A spokesman at Travelers said that his company feels there is "no violation of any discriminatory laws," adding that under the mass merchandising concept costs of the insurance product to the consumer can be conveyed less expensively.



Harold just brightened the blackout period for 100 employees. He's reading his first thank-you note.

For years, Harold has been concerned about the blackout period — the gap in Social Security payments that starts the day a widow's youngest child turns 18. And doesn't end until the widow reaches 62.

That's why Harold was glad to learn recently that Mass Mutual

had an answer to the problem. Not only for his employees, but for his own family, too.

Briefly, it's a new group insurance provision under which the surviving husband or wife receives a guaranteed percentage of the wage-earner's income through the entire blackout

period. A plan that Harold could add to his existing Mass Mutual Group Life coverage at once.

He did. And now he's reading his first thank-you note. It's from Marjorie, widow of one of Harold's best shop foremen. Her blackout period has just been brightened by a Mass Mutual

Survivor Benefit check. Ask a Mass Mutual Agent to throw some light on the Social Security blackout for your employees.

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Media message: get errors, omissions coverage

SAN FRANCISCO—Advertising agencies and radio and tv media concerned with protecting themselves against lawsuits should think of errors and omissions insurance as the "eraser" needed when someone using a pencil makes a mistake.

Garrett Redmond, manager of the special risk division at Fireman's Fund American Insurance Cos., described the coverage as being "designed to protect radio and tv stations and ad agencies, as well as printed media, against a multitude of risks generated by the tremendous growth of creative service industries."

Mr. Redmond pointed out that national expenditures for such creative services now exceed money spent on manufactured goods. Thus there is a close analogy between products liability insurance and errors and omission insurance.

"SERVICE IS mostly an intangible product," explained Mr. Redmond, an assistant vp of Fireman's Fund. "To provide errors and omissions insurance there must be a way of measuring the service performed by an organization or individual.

"Just as a product manufacturer insures against damage caused to third parties by his operations or by what he makes for public consumption, creative groups need similar insurance," he said.

This insurance is written to protect broadcasters and agencies against third party claims arising out of a negligent act, an error or omission in performance of a service when the failure is brought about through a breakdown or malfunction in the established code, human method or mechanical system.

"This type of coverage," Mr. Redmond makes clear, "can be written only for established professions which recognize certain canons, ethics and stipulations as to means and methods to be followed—often prescribed by laws or control agencies such as the FCC—and a generally accepted procedure for carrying out a professional service."

MR. REDMOND pointed out that "even a chance remark" might be the basis for a lawsuit involving even the best run agency or radio or tv operation.

He cited a case involving the secretary of an ad agency account supervisor" who picked up the germ of an idea while chatting with another guest at an informal cocktail party.

The secretary passed the idea on to her boss who, in turn, brought it up during an agency brainstorming session to work up a presentation for a house account. The idea sparked an addition to the overall ad campaign, which the client bought.

Soon after the ads broke into print media, the secretary's chance acquaintance at the now long forgotten cocktail party, brought suit against the agency, alleging that his offhand conversation constituted a valid suggestion and was made only in anticipation of payment if it was adopted and used.

"THIS CASE," Mr. Redmond said, "falls under the heading of breach of implied contract and is one of the many possibilities of loss covered by the e&o policy for ad agencies."

The product of almost any creative group, be it photos, music, jingles, slogans or an advertising presentation, Mr. Redmond asserted, can be the subject of claims if someone contends prior ownership or origination.

"Safest course for an agency," he added, "is to insure against all

these risks, including exposure to copyright infringement, misappropriation of ideas, defamation of a client's competitor, his product, his premises . . . invasion of privacy and the ubiquitous risks of libel and slander."

The policy for advertising agencies is offered in limits as high as \$1 million, with even higher limits available in those special cases in which the situation warrants a greater amount.

FIREMAN'S Fund's policy has a "built-in flexibility" in that it can be written with or without a deductible and provides automatic defense coverage.

Mr. Redmond also emphasized that the defense feature can prove to be the most important benefit of the coverage.

"A properly handled claim," he noted, "in many cases will never reach the courts. However, it takes money to manage the background investigation of each claim and our policy takes care of that."

Another feature of the policy is protection against action brought in response to any advertising statement or claim that was unintentionally false or defamatory of another's products or services. It does not apply to the type of statement which would suggest that a certain product offers a specified benefit to the user, when, in fact, this might not be the case.

THE COST of protection usually is based on the gross billings during the prior year.

The broadcasters program covers

all risks instead of just named perils as in the usual libel and slander policy and Fireman's Fund provides defense of all claims made against the insured station, even when the policy is written under an optional deductible provision.

Mr. Redmond cited several case histories to illustrate the growing need for such coverage:

A station which broadcast a musical show was sued for piracy of the program idea. Plaintiffs sought \$50,000 and, although the case was settled before it reached court, it still cost nearly \$3,000!

IN ANOTHER instance, a telecaster made some unwise references to a local society and certain of its personnel. As a result, the station faced a \$2 million defamation suit. This cost some \$45,000

before it was settled.

Again, copyright infringement was charged during a telecast of a dramatic program. The suit was for \$500,000. As with the other cases, this was settled for far less, but the loss was not easy to take.

"Radio and tv stations that specialize in fast-breaking, live local news," Mr. Redmond said, "face severe hazards. The more the station concentrates on this coverage, the more chance there is of a claim."

"For example, a newscaster may say something highly critical of a national political figure and not involve the station in any trouble.

"BUT LET him say the same thing about the operator of a local hotel, restaurant or supermarket

Continued on page 10

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Our goal in managing pension fund money is to make all of it grow. Not just the equity portion. To do this, we abandon many of the traditional forms of fund management and work within a framework of prudently balanced risks and rewards.

Example: We believe a pension fund should be balanced by straight bonds, only if they represent an attractive investment alternative. In the past several years, our policy of substituting convertible debentures and certain common stocks of companies with moderate but stable growth has benefited both our client companies and their employees.

We have a sound history of investment management coupled with a progressive, flexible, current investment policy carried out by officers who are young, aggressive and fast-acting. Why not talk more about it with our Mark Saulnier, V.P. in charge of our Employee Benefit Trust Group, at (212) 530-1351. The Bank of New York. The bank that manages benefit plans.

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washington watch

View expansion of Social Security as threat to private pension plans

WASHINGTON—The likelihood of Congress eventually expanding Social Security from the "floor of protection" type plan it supposedly is now into a full-fledged retirement program for all Americans has caused much speculation on the future of the private pension plan system in the U. S.

Many businessmen fear that despite its huge, seemingly invulnerable size, the private pension plan system could eventually pass from existence if Congress un-

wisely boosts Social Security to the point where it stifles the incentive for private savings.

While it is sometimes hard for Americans to realize the implications of such a highly socialistic development, foreign countries that are dependent to a large degree on U. S. capital for growth have no trouble at all recognizing the dangers. Fears have been expressed time and again by foreign businessmen that the trend toward a completely Federal retire-

ment system in the U. S. would create a serious drain on investment capital so badly needed both here and abroad for continued economic growth. At the end of 1968, private non-insured pension plans in the U. S. had assets totaling \$80.5 billion.

IN AN EFFORT to extend the private pension plan benefits to more Americans, Senator Ted Stevens (R., Alaska) introduced a bill that would grant the same tax

benefits of the Self-Employed Individuals' Tax Retirement Act (Keogh plan) to all employed Americans not now covered under an employe retirement program. And, the Administration announced plans to issue a new guaranteed security, which it hopes will attract pension and trust funds into housing mortgages where funds are badly needed.

Senator Stevens pointed out that his bill is a logical extension of the Keogh plan, which makes it possible for self-employed individuals such as doctors and lawyers to build a retirement fund with tax advantages previously available only to corporations. The Keogh plan was passed in 1962 and was substantially liberalized by a 1966 amendment.

Senator Stevens quoted statistics showing that at the end of 1967 some 30.8 million employes did not have any private pension coverage. This compares to about 27.6 million workers covered by

private pension and deferred profit-sharing plans, he said.

Supporters of the bill point out that if only a fraction of the workers that would benefit from the bill take advantage of it, the public's vested interest in the private pension system would be substantially increased and the need for a dramatically expanded Social Security program would be substantially diminished.

THE NIXON Administration's proposed new security is designed to correct the fact that only 5% of the assets of the non-insured pension plans are currently invested in housing mortgages.

Proponents of a strong private pension system point out that the system should welcome the new securities, both because of their obvious attractiveness from an investment standpoint and because they will help the system to further establish itself as a living, vital part of our growing nation.

The new security has been expected for some time; however it was thought that it would be a bond-type, fixed-interest rate instrument. Instead, it is a "pass-through" type security that will be sold in minimum lots of \$5 million by the issuer, probably a mortgage banker, who has pooled holdings of home mortgages backed by the Federal Housing Administration, the Veterans Administration and the Farmers Home Administration.

The security will be drawn so that new principal and interest (after administration and service expenses) will be paid to investors as they are collected monthly. The word "pass-through" refers to this monthly pass-through of principal and interest payments to the investor.

The Government National Mortgage Assn. will guarantee the monthly payments of principal and interest to the investor. Term of the security is to be for the calculated life of the mortgage pool. Interest rate on the securities will probably be "competitive" with 8%.

Washington studies work comp change

OLYMPIA, Wash.—Revision of Washington's unemployment insurance law will be placed before a special session of the state legislature which Gov. Dan Evans has indicated he will call in January.

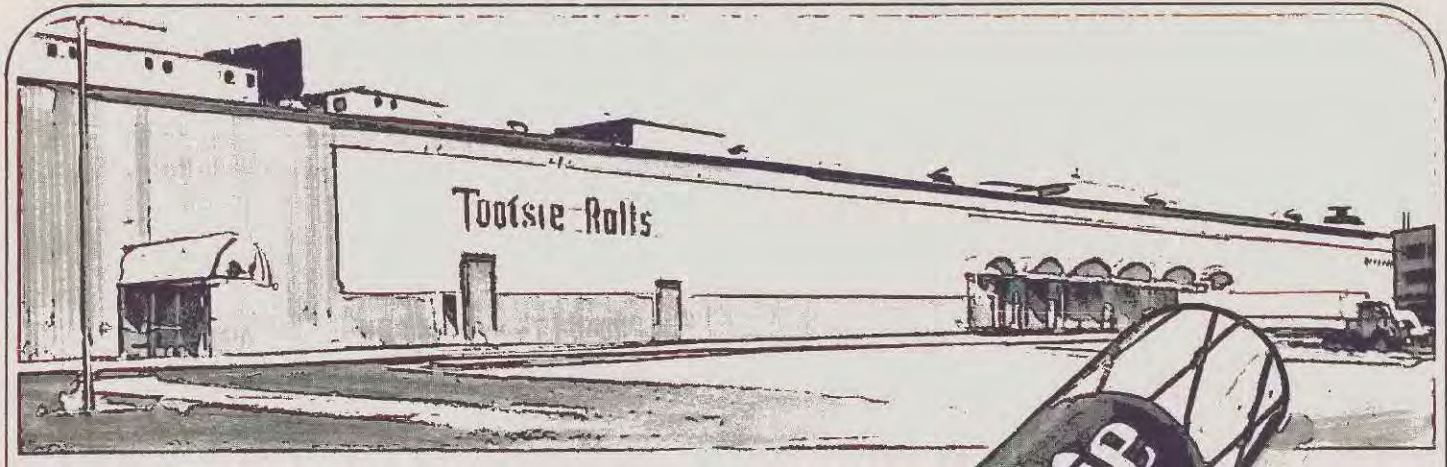
The controversial issue has been added to the agenda of the legislative council's labor committee at the request of House Speaker Don Eldridge, Mount Vernon Republican and chairman of the council.

The labor committee also plans a study with the legislative agricultural committee of bringing agricultural workers under the workmen's compensation insurance law by classifying their work as "extra hazardous."

The two committees also plan a two-year study of all aspects of workmen's compensation.

Drivers eschew cash

Rising insurance costs and the safety of drivers were two factors considered in adopting the new system that beer and wine truck drivers in King County, Wash., were not to accept cash for deliveries. Local 174, Teamsters' Union, and employes have agreed to discontinue truck drivers' collections of cash for deliveries in a move to counter increased robberies. Payment now will be made by check, it was reported.



Tootsie Roll Industries enjoys the good taste of an insurance package from Paige O'Brien Russell



Last year Tootsie Roll Industries completed its big move to a new, highly automated plant in Chicago. With the vastly increased capacity, lower direct costs and plenty of room for further expansion, the future looks sweet. Tootsie Roll's insurance calls for packaged protection by...

Paige O'Brien Russell

Touchy Question #36

How come more and more men are refusing to be directors of big corporations?

Simple.

Their titles are becoming targets.

Today a man who accepts company responsibility is fair game for any stockholder who doesn't like what's going on. And stockholders are suing company officers for anything and everything. The general areas in which most claims fall are:

Wrongful use of his position, by the director or officer, for special advantage or private gain to himself or others.

Failure to use "good business judgment."

Failure to discover and prevent misconduct by another or others.

Violation of Federal Securities Laws.

Mere failure to attend a director's meeting has been ruled admissible in evidence to show "failure to discover and prevent" an unwise act

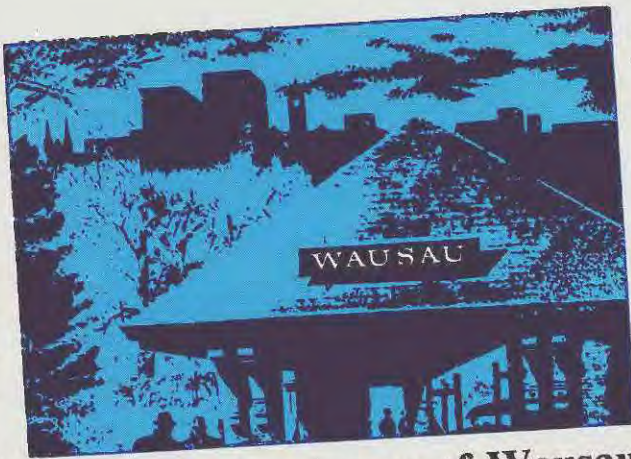
by the rest of the board. So heaven help you if you had the flu that meeting.

Now, what kind of leadership can be expected from men who have to be ducking dangerous suits? You can't look ahead and over your shoulder at the same time.

So Employers offers Director's and Officer's Liability Insurance. Not so much as a rear guard protection against hostile shareholders, but more affirmatively, to free your prize officers to do the jobs you've groomed them so long to do.

Employers Insurance will be glad to talk to you and fashion a real "freedom policy" for your officers. No matter how many calls it takes, or hours expended. It's The Wausau Way. When you can breathe easier we can all breathe easier.

Why not put us to work right now?



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Torrey Canyon claims talks begin in Britain

LONDON—Talks have begun to settle Britain's \$15,000,000 claim for oil-slick ravages to its West Coast beaches around Devon and Cornwall two years ago. The American-owned tanker Torrey Canyon has been blamed for the disaster since it grounded on an off-shore reef with a cargo of crude oil (estimated at 117,000 English tons) in March, 1967.

Claims that were filed by both the British and French governments for coastal damage at the time are now under review by lawyers. It is hoped that lawsuits

set for hearing next year will now be settled by agreement between all the parties involved.

Underwriters engaged in the compensation claims against the U.S.-controlled Barracuda Tanker Corporation believe there may be a decision in the fall.

The tanker was wrecked off Land's End, with wide-spread pollution caused on both sides of the English Channel as its Kuwait-loaded oil dispersed.

Its sister ship Lake Palourde was arrested under maritime law in Singapore four months later so

that Britain could begin litigation against the owners.

* * *

BRITAIN is showing its determination to deal with international oil pollution because of the threat it poses to coast resorts and fishing interests.

Top legal brass at its government-controlled Board of Trade has asked the Panamanian government to take action against a tanker under its maritime flag that was spotted dumping oil in the English Channel.

The tanker was chased by Royal Navy helicopters after it seemed to have left a ten-mile long oil slick in the English Channel. It proceeded to Rotterdam and scientific experts analysed traces of oil that were fished from the sea by one helicopter crew. They hope this ingenious method of proving the source of dumped oil by laboratory analysis of the oil's chemical make-up will satisfy international law, even though tankers or other suspect vessels may have escaped from territorial waters before they can be stopped.

To prove that it will back up its word to support world-wide maritime law, Britain is bringing a court action against one of its own cruise liners, the Royal Mail Lines ship Andes (26,000 tons), after a French complaint that it discharged oil wrongly last January.

* * *

REFORMIST lawyers in Britain are urging that the whole of employers' liability for industrial accidents should be taken over by social security services.

Insurance firms that specialize in this business may have to rally to meet the concept because there are some quite influential Members of Parliament backing it.

Current practice is for most firms to insure against any major liability for accidents involved in lawsuits. But under a state-run fund there is a partial payment for any injured worker so that he can meet his immediate bills.

This provides for \$40 a week for a family man, who might normally be earning about \$55, if he is off work for about a month with a minor injury.

THE FUND is financed jointly by employers and workers, through weekly deductions from pay packets, plus a government contribution of 20%.

Insurance companies take over responsibility for major accidents, with an estimated premium income from industry of more than \$150 million a year. But now lawyers are urging that the two should be merged, and any recourse to lawsuits to get damages should end.

One report suggests that the Canadian system in which injured workers are automatically entitled to compensation should be introduced in Britain, and another urges that New Zealand's proposed scheme to end lawsuits for personal injuries be adopted.

Safety expert C. Curson, of the government's Factory Inspectorate Department, estimates that one million people are hurt at work in Britain every year. He believes that too little is spent on prevention or research work and suggests that the whole field of industrial injuries would gain from a cost-benefit analysis study. The average time absent by workers through injury is three-and-a-half weeks, though naturally many are off for only a few days, and fatalities total 2,000 a year. But because so much of the loss is covered by insurance, he believes there is a lack of positive financial incentive for firms to improve safety measures.

This aerospace machinist is insured by Pacific Mutual Life.

And so are all the other IAM members in over 400 companies.

Planning group insurance for multi-employer negotiated trusts, unions, and associations is always a complex assignment. But one that PML welcomes.

The case in point is our plan for thousands of members of the International Association of Machinists and Aerospace Workers and their dependents.

These men and women work for over 400 different employers, all over the country.

For the trustees of the IAM National Health and Welfare Plan (representing both labor and management), we put together a package of life, accidental death, disability and medical insurance.

It provides the same level of benefits for employees wherever they work.

The package is flexible, offering seven basic plans with numerous options. PML offers to tailor a special plan for companies with more than 100 employees. Employers' contributions can be leveled for periods of one, two or three years.

Our computers enable us to cut the cost of insurance, speed claim service, and provide policyholders with quarterly management information reports identifying paid medical claims, utilization and trends.

Look into the advantages of service, cost and coverage available from PML. Whether you have ten employees or ten thousand, call your PML group insurance representative, agent or broker.

Pacific Mutual Life

The West's largest mutual life insurance company





Your catastrophe has arrived, Mr. Merriweather.

The catastrophe business is picking up. And the biggest ones often come in the form of enormous *liability* judgments against small or medium-sized companies. But not Merriweather's company.

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Study portends railroad safety law

WASHINGTON—Recent release of the Railroad Safety Task Force Report with no dissenting minority views is thought to be conclusive evidence that there will be a railroad safety bill passed this Congress, maybe even this session.

The only drawback observers see now is if key legislators seek to stiffen too much the forthcoming Administration draft proposal, which will be modeled after the task force suggestions. The possibility of this happening is diminished by the fact that both the House and Senate committees that will be handling the legislation have representatives at the drafting, which is expected to be completed very soon.

The key provision in the draft bill will ask that the Secretary of Transportation, through the Fed-

eral Railroad Administration, be given authority "to promulgate reasonable and necessary rules and regulations establishing safety standards in all areas of railroad safety."

AMONG THE BILL'S other provisions will be a call for an expanded program of grade crossing safety, utilizing established Federal and state agencies and advisory groups to set uniform procedures and standards. New sources of funding will be provided for this program.

Significance of the task-force-advised proposals is that they represent the first time that state and local governments and railroad labor and management have been able to get together on a program for solving the increas-

ing problems of railroad safety.

Congress has been ready for legislation in this area for some time and has recently had this readiness primed by public uproar over the continuing rise in derailments and accidents involving hazardous materials.

During the week the task force report was released, two spectacular train wrecks occurred. There are, on an average, 100 derailments each week.

A passenger-train derailment outside Washington, D. C., killed one person and injured 100. The apparent cause was a buckled rail.

And a freight train carrying 750-pound bombs caught fire in the Nevada desert, blowing 15-foot holes in the roadbed and

Continued on page 11

info for buyers

Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance*.

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

• **U.S. Trade Expansion through FCIA Export Credit Insurance** is a free brochure explaining the services offered by the Foreign Credit Insurance Assn. and what FCIA insurance covers. Also included is a brief discussion of recent program innovations. To obtain a copy, write the association at 250 Broadway, New York, N. Y. 10007.

• **The Mutual Benefit Life Insurance Co.**, 520 Broad St., Newark, N. J. 07101, has released a 12-page booklet free to corporate insurance buyers, employee benefit plan managers, insurance brokers and consultants. **Developing the Company's Retirement Plan** explains in non-technical terms the essential elements involved in establishing a corporate pension plan. It covers tax advantages from the standpoint of both the company and the employee, standard and optional provisions that can be included, factors responsible for short- and long-term costs, and the different contracts and services provided by a life insurance company for underwriting the plan. Several auxiliary pamphlets are included. Write the director of group pension sales at the company on your letterhead.

• **Exploring New Insurance Horizons . . .** presents the history and philosophy of Eliel and Loeb Co. In its booklet, the brokerage firm lists case-history type summaries of work completed for various kinds of companies. For a

free copy write the company, in care of David L. Glueck, vp, 175 W. Jackson Blvd., Chicago, Ill. 60604.

• An eight-page item of interest to captive insurers, self-insureds, brokers and consultants has been offered by Eastman Kodak Co., Business Systems Markets Div., Rochester, N. Y. 14650. **Information Systems for Insurance Companies** explains the use of microfilm systems for effective, economical information management. The item is free on request.

• **The Industrial Policy** is an illustrated brochure from the Home Insurance Co., 59 Maiden Ln., New York, N. Y. 10008. The literature dissects the policy in terms of property damage, business interruption, automobile liability, crime and fidelity, excess and catastrophe coverage, workmens compensation and ocean marine insurance.

• Buyers of benefit plans will be interested in two booklets published by Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606. Under the heading of **Understanding Benefits**, the two informational items cover group disability benefits and group term life insurance. For information on quantity prices, contact the publisher.

• Notifier Co. offers guidance in planning protection systems that are designed into building plans. An engineer follows the progress of each system and provides any assistance needed from conceptual planning through installation to final check-out. For information on this service write the company at 3700 N. 56th St., P.O. Box 4584, Lincoln, Neb. 68405.

• A report examining the reasons for the influx in products liability exposures, claims and procedures has been prepared by John L. McMahan, consultant and president of Exemplar-McMahan. For a free copy, write Exemplar-McMahan, on your company stationery, at Exemplar Bldg., 1168 Teaneck Rd., Teaneck, N. J. 07666



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• A catalog illustrated with diagrams and photographs explains **Honeywell Fire Alarm Systems and Components**. It is free from Honeywell Automation, 2701 4th Ave., S., Minneapolis, Minn. 55408.

• A six-page brochure and accessory list is available from the **Alarm Lock Corp.** concerning its **Series 2000 Monitor Console**. Write the corporation at 33 Powerhouse Rd., Roslyn Hts., N. Y. 11577. The unit is connected by low-voltage wiring to the doors in question and unauthorized opening of a door or cutting of a wire results in a buzzer alarm or flashing light on the unit.

• A concise, 12-page glossary of reinsurance terms is free from **J. H. Lea & Co. Inc.**, 111 W. Jackson Blvd., Chicago, Ill. 60604.

• **Safety Color That Shouts** is a 30-minute, oral-visual presentation featuring numerous accident-prevention applications for fluorescent color. It is offered by the **Day-Glo Color Corp.** The presentation shows how color can contribute to increased safety, explains what fluorescent color is, demonstrates its uses and explains application procedures. Contact the corporation, 4732 St. Clair Ave., Cleveland, O. 44103, regarding presentation dates available.

• **Combined Insurance Co. of America** offers a brochure of special interest to association officers or brokers who deal with associations. It details the company's attitude that high membership participation is achieved by tailoring programs to individual association needs. **Insurance and the Association** includes comments from association officers. Write the company at 5050 N. Broadway, Chicago, Ill. 60640, for a copy.

• **Social Security and Employee Benefit Plans in Europe** answers questions related to insurance legislation, supervisory authorities, contracts and rules, and tax regulations encountered while establishing multi-national insurance plans. The item is published by the international division of **Winterthur Group**, associated with the insurance subsidiaries of **CNA Financial Corp.** For a copy, write **Communications Dept., CNA Financial Corp.**, 310 S. Michigan Ave., Chicago, Ill. 60604.

• An eight-page outline entitled **Advantages and Disadvantages of Various Methods of Financing German Pensions** is free from **Swiss Life Insurance and Pension Co.** International Dept. Topics covered include book reserves, pension funds, support funds, and direct and indirect group insurance. The company is at 40 General Guisan Quay, CH-8022 Zurich, Switzerland.

• **International Insurance and Employee Benefit and Pension Management** offers seven separate articles highlighting various phases of international insurance. Published by **American Management Assn.**, copies are \$4.50 to nonmembers and \$3 to members. Write: **American Management Assn.**, 135 W. 50th St., New York 10020.

• **Are Your Company's Assets Abroad as Safe as Those at Home?** is a booklet on international insurance and employe benefits, from **Alexander & Alexander's** international division. It emphasizes that foreign laws and customs need not create a mystery about insuring foreign risks. It is free by writing **Public Relations Dept., Alexander & Alexander Inc.**, 225 Broadway, New York, N. Y. 10007.

CHICAGO—Advertising agency employes are not only enjoying larger salaries these days but they are also taking comfort in the fact that insurance benefits including salary continuation plans—have increased as well.

That word comes from the **Rubel Service**, a quarterly management service for advertising agencies, which has completed a survey of current agency practices relating to employe insurance benefits.

Based on information secured from questionnaires answered by nearly 400 agencies, the report further concludes "that an advertising agency can afford to spend between 2.75% and 5.05% of its gross income (commissions, fees, percentage charges) for employe

welfare (group insurance) and retirement benefits. Of this amount," the survey adds, "about .75% to 1% of the gross income should be spent for employe benefits."

Basic hospitalization, according to the **Rubel Service**, is the type offered by the greatest number of agencies, with major medical and group life almost as widely offered. Salary continuation is the least common.

THE REPORT notes that the larger the agency the greater the chance of its offering employe insurance in all four basic types and that a vast majority of all agencies billing more than \$2 million do offer all four types.

One of the more surprising findings of the **Rubel survey** is

that 65% of all agencies questioned offer their employes salary continuation, although larger agencies provide this coverage most often. For example, 75% of all agencies billing more than \$20 million offer continuation, while only 29.5% of agencies billing less than \$1 million follow suit. The smaller agency is more likely to pay the entire cost of the premium, however, and the larger agency some of the cost.

The study also revealed that "there is a tendency for smaller agencies to pay more of the premium than do larger agencies."

FOR EXAMPLE, it states, 42% of agencies billing less than \$2 million pay the entire premium for hospitalization, whereas only

about 25% of agencies billing more than \$10 million pay the entire premium. Agencies billing in excess of \$40 million pay the least amount of the premium. At least part of the premium for hospitalization coverage is paid by 48.5% of the agencies, although in one size group (those billing \$2-5 million) 21% pay no part of the cost.

The premium for major medical is paid by 45% of all agencies, with 46% paying part and only 9% paying no part. (In the very large agencies, 28% pay no part.)

A majority of agencies of all sizes (except the very largest) pays all the premium for group life coverage; practically none of them fails to contribute at least part of this coverage.

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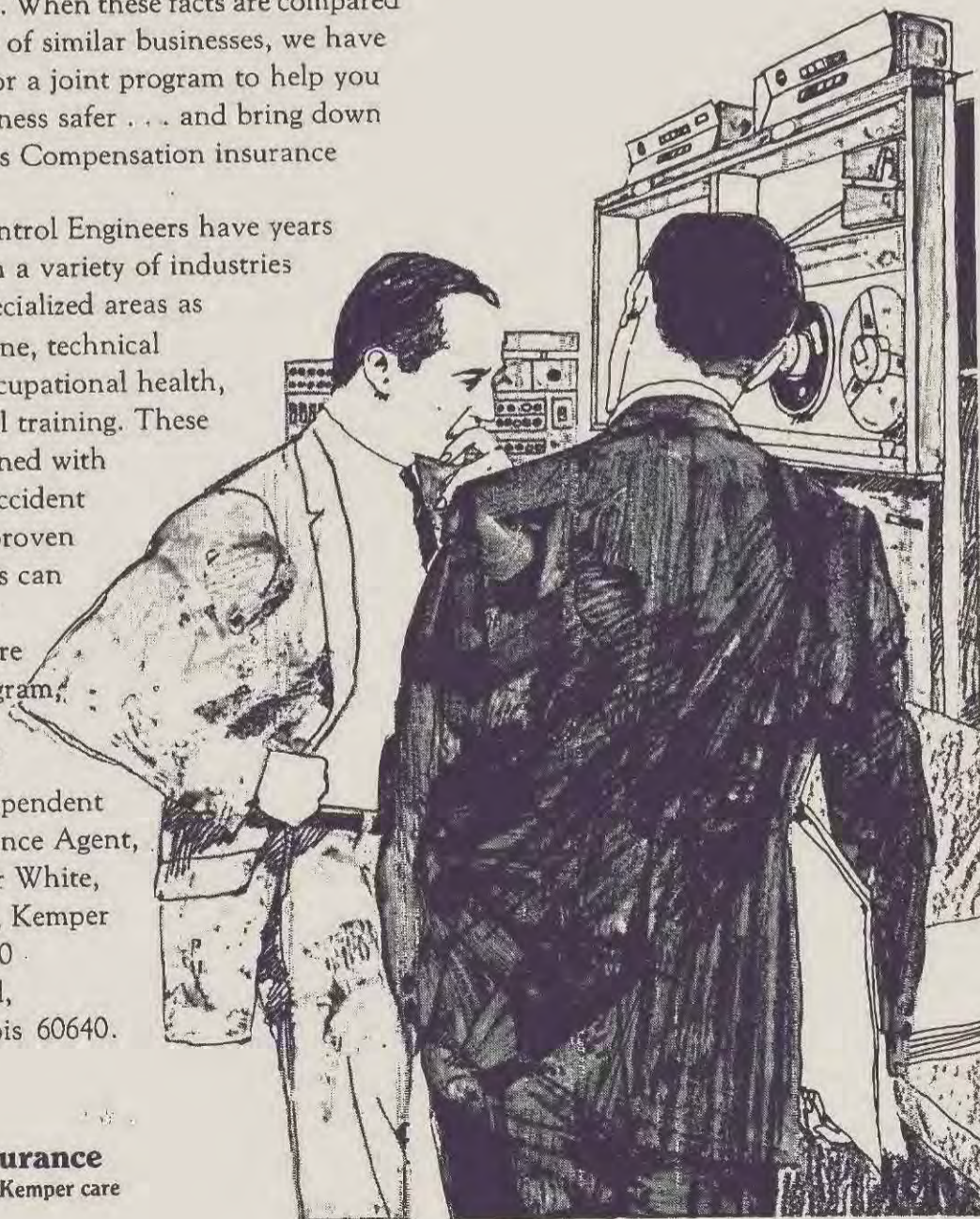
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Ice cream vendor must caution child about passing car, says court

By JOHN W. GILES
Attorney-at-law

WASHINGTON—When a five-year-old child can't borrow pop-sicle money from her sister to give the ice cream vendor, she is crushed, but if in addition she is injured by a passing car, is the ice cream vendor who lost the sale liable?

In this case, the Tennessee vendor selling ice cream from a vehicle parked in a public street was held under a duty to warn children of approaching traffic. This, in spite of the fact that the child was not an actual customer.

The court said that having induced the child into the street, the invitor bears a duty to warn an invitee of a dangerous condition existing on a public street or sidewalk adjoining his business, which because of the invitor's special benefit, convenience or use of the public street, creates a danger.

The presence of children is in itself a warning requiring the exercise of care for their safety. Since it was foreseeable that the lives of children would likely be endangered by moving traffic unless the vendor undertook some precaution to prevent injuries to them, he should have anticipated

that such an accident as did happen, with or without some degree of negligence on the part of passing motorists would occur.

Therefore, the negligence of the driver of the automobile which struck the child does not excuse the negligence of the vendor. Under this extraordinary doctrine, can you imagine the potential liability of Santa Claus standing at a busy intersection? (Tenn. Sup. Ct. *Hastings v. Smith* 6/23/69.)

* * *

IF YOU HAVE excess automobile insurance, and your primary

insurer and you reach a settlement with the injured party, does that relieve the excess insurer of liability?

A New Jersey court has recently considered this question. The decedent was killed when the car in which he was riding as a passenger, was involved in a collision. The decedent's wife, the executrix of his estate, sued the owner of the car and the driver for damages under the New Jersey Wrongful Death Act.

The owner of the car carried \$50,000 primary insurance with the Allstate Insurance Co., and \$10,000 excess insurance with another insurance company. The widow and executrix settled with Allstate for \$46,500, and then executed a "covenant not to sue on claim."

This covenant released only the owner of the car and the driver and Allstate Insurance, but reserved the right to proceed against the excess insurer. The covenant

provided that the widow in no way released the excess insurer and no rights were waived against the owner and driver as named insureds in the policy of the excess insurer.

THE EXCESS insurer claimed that the release to its insured discharged it from all liability under its excess insurance policy. The widow then brought an action to have her "covenant not to sue" judicially construed. The superior court of New Jersey held that there were no reported cases on the point.

The court said that there was a strong public policy in New Jersey favoring the availability to insured persons of the liability insurance of those whose negligence is the cause of their injury.

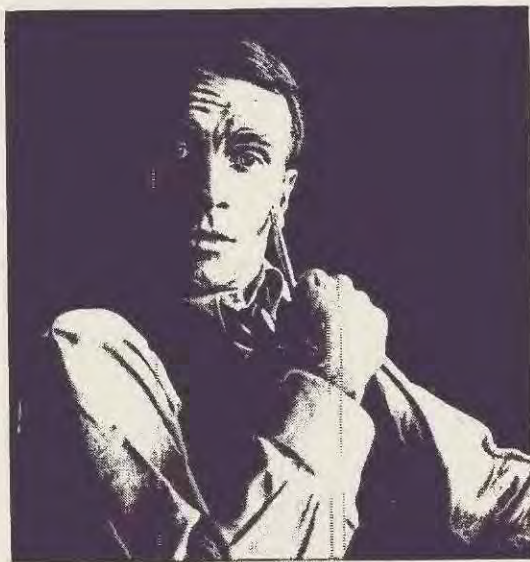
The court said that the partial settlement, with the conditional release, did not prejudice the excess insurer. The legal effect of a release on strangers to the release should be determined by the intent of the parties to the release. The parties to the release fully intended that the excess insurer should not be released. (*Deblon v. Benton*, 247 At. 2nd 172.)

* * *

YOU UNDOUBTEDLY know that your X-rays in the files of a hospital cannot be examined without your permission. The reason for this is that the law recognizes the importance of respecting the confidential nature of the re-

Continued on page 45

Wouldn't you prefer an income protection plan that covers employee and employer needs—and is tax deductible?



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Media . . .

Continued from page 3

and the station will probably face a lawsuit."

MR. REDMOND said it is not only the man in the street who can cause a radio or tv station legal headaches. If the action reaches court, he explained, "the station must prove its conviction that the allegations or statements they made are true and they must also prove that the news was carried without malice."

He offered a few tips to broadcasters on how to "minimize" the chance of a lawsuit or loss:

- When generating spot news of a serious nature, avoid disclosures from sources which may be unreliable, even if they are eye witnesses. Quoting them or using their remarks in a taped interview does not necessarily free the station of liability.

- Avoid use of preliminary police reports, even from the arresting officer at the scene. The classic example of this involved a man obviously under the influence of alcohol, involved in a newsworthy personal injury auto accident. The arresting officer might say the man will be cited for drunk driving. This allegation may be repeated over the air by a newsmen. But if the driver is not charged with drunk driving but is booked for some other charge, the station has left itself wide open to a lawsuit.

BEWARE OF the disc jockey or talk show type who, with lack of sufficient information, becomes entangled in local issues. He may make some heated reference to someone or something which is not factual. If damaging, the next stop may be the courts.

- Be cautious when using old news as background for a fresh approach to a long-term story. Mr. Redmond cited the misfortune of a radio station involved in a series of broadcasts on organized crime. The station spliced in a taped interview with a long "retired and clean" ex-mobster. Some of the taped material backfired and he sued, successfully, for invasion of privacy.

Here's the latest episode in the jumbo jet drama

NEW YORK—Will the airlines soon to get delivery on the 400-passenger Boeing 747 find adequate liability coverage now that the industry's captive insurance operation has been postponed until Jan. 1, 1971?

Will the captive operation get off the ground in 1971—or ever?

Whatever the outcome of the industry's latest daytime drama, one thing is clear: People who normally worry about such matters were not panicking last week.

THE SITUATION at a glance is this:

The captive insurance company formed by the major world airlines, Air Transport Insurance S.A., which was to have gone into operation Jan. 1, 1970, in time to insure liability coverage for the Boeing 747s going into service late this year and next, announced it was postponing the start of its operation a year because of "insufficient time" to complete preparations this year.

When confronted with the announcement last week, airline insurance people—who were counting on the captive company for 40% of liability coverage on the mammoth new jets—did not seem overly concerned.

Waller Smith, director of corporate insurance for United Airlines, said that he—along with others—has been working on a project to get life insurance money to cover their passenger liability. Airlines would buy death and dismemberment policies and apply this coverage to legal liability arising from the death or dismemberment of passengers.

He said that while \$75 million to \$100 million is available to most large airlines now, with another \$5 million to \$10 million in primary, "there's more coverage available at the primary level." With primary and excess big airlines would be able to get about \$110 million now. He described this as "not inadequate" but "still uncomfortable."

United won't get its first 747 until next June. "I hope somebody else solves our problem by then," Mr. Smith said.

Pan Am, which will get its first 747 next month, has about \$110 million (primary and excess), sources estimated. The airline, however, will be flying the planes on overseas flights only at first, thus under the Warsaw and Montreal agreements, which have per passenger liability limits. In the case of the Warsaw agreement, the limit is \$8,300 per seat and in the case of the Montreal it is \$75,000 per seat.

TWA, which gets its first 747s shortly thereafter, has a greater problem. It will be flying the jumbos domestically, for which seat liability claims have been running \$125,000 to \$150,000. That would mean primary liability would run about \$50 to \$60 million per plane.

SAID A source at an airline due to get delivery of one of the first 747s that roll off production lines, "Sure, we're worried about capacity. Everyone in the world is worried about insurance capacity. But anything is available for a price. In the meantime we're going down the line programming liability coverage for the 747 in normal fashion, just like we would any other year."

He added that the biggest problem his company is faced with at the moment concerns rates. "We haven't found the answer to that yet. In the early years of a new aircraft there's always a problem establishing rates," he said.

Another airline source was a little more concerned about the

problem, which must be considered the biggest one airlines now face.

ALTHOUGH his company will not put a 747 into service until at least mid-1970, he admitted that "we're studying the problem actively. The matter is in the hands of our brokers and we're waiting word from them." What might happen if they couldn't find the capacity by the middle of next year? "We'll cross that bridge when we come to it," he answered. And if he does come to it? "It's frightening," he said.

Some were guarded, saying they weren't sure what was going to happen. Others—and these were in the majority—adopted a "what the heck . . . the insurance will come from somewhere" atti-

tude. The "somewhere" they indicated was not from thin air—or necessarily from the captive—but from the existing world insurance market.

A source at Boeing Aircraft, however, told *Business Insurance* that he would "hardly say we're unconcerned. We're exploring various possible solutions to the problem but I cannot comment on them at this time. Obviously everyone is interested in what Boeing is going to do," he added.

ASKED WHETHER the solution might come from the existing world insurance market, again he said he would rather not comment.

"I don't think the capacity is there that everyone might like for full coverage of the craft," he

said. Asked whether that might mean 747s might be going into the air without full coverage, he added, "No, I wouldn't say that."

(Boeing insures with U.S. Aviation Insurance Group and the London market and was able to obtain hull coverage of about \$21 million each on five test 747s.)

ONE SOURCE within the aviation insurance industry said that he "doesn't see why" it should affect present schedules to put the 747 into service. (Pan American World Airways and Trans World Airlines are scheduled to have 747s in service late this year.) "It (the liability coverage) will come from the existing market," he predicted.

Another insurance source looks on the situation more pessimisti-

cally.

"I really don't know," he said when asked if it was a safe assumption that all 747s going into service within the next year would be able to get adequate liability protection. "People in the business are working with the problem, but it's going to take all the capacity in the world to cover these aircraft."

HE ADDED, however, that "in a month or so this should be clarified." A "new and unique" approach to the problem may be in the works now, the source said, but refused to bend when prodded further on the subject.

While the problem of getting liability coverage for the 747s going into service initially does

Continued on page 38



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Heinz hopes top-level incentives will motivate corporate execs

PITTSBURGH—H. J. Heinz Co. has replaced its management profit-sharing program with an incentive plan that measures individual, division and corporate performance against goals established at the beginning of the fiscal year.

The management incentive or MIP plan is designed to motivate some 200 top executives worldwide in a position to have a direct impact on corporate performance, according to James A. Foltz, director of management development at the company's world headquarters here.

The amount of the incentive award is to be calculated on the basis of 15 "steps" or points, Mr. Foltz explained. Three of these

steps measure corporate performance against annual goals, six measure the subsidiary or profit center performance and six the performance of the individual.

ALSO CONSIDERED are the position the individual holds, which is expressed in numerical rank, and the location of the center where he is employed, Mr. Foltz said. The incentive award is to conform with local practices and will vary considerably from one country to another.

H. J. Heinz, with 13 major subsidiary companies in the United States and Europe, Australia, South America, Japan, Mexico and Canada derived almost half of its \$790 million earnings for the

last fiscal year from overseas operations, Mr. Foltz said.

The giant food company is celebrating its 100th anniversary this year, and has had overseas installations for the last 50 years, Mr. Foltz said. Almost all overseas executives to participate in the management incentive plan are nationals of the countries where the individual installation is located.

The final formula for determining the amount of the incentive award is:

- Total number of performance steps.
- Point rank of the individual.
- Pricing formula for the individual country.

Those executives eligible to

participate fall roughly in the \$20,000 and up salary range, and the incentives can amount to from 0% to 70% of base pay, with most incentive payments expected to fall in the 30% to 50% of base pay range, Mr. Foltz said.

The amount of each incentive award will be calculated at the close of the fiscal year, after results are in, and payment will be made annually in July. The individual may elect to receive payment in cash, deferred cash or shares of restricted stock.

The incentive award will be treated as additional income for group life and pension benefits where legally possible, Mr. Foltz said.

The plan replaces a wider management profit-sharing plan that had distributed quarterly payments based on corporate earnings per share to some 500 management members. Participants in this plan were offered the choice of retaining their shares or cashing

them in for shares of restricted stock, and those participants not eligible for the new incentive plan have been compensated by an upward salary adjustment Mr. Foltz said.

The more limited incentive program, developed after consultation with the Hay Co., Philadelphia, executive compensation specialists, reflects an effort to zero in on those key executives with a direct influence on corporate results and offer them a performance incentive, Mr. Foltz said. ■

Liability ...

Continued from page 1

but it would lessen the effect of safety messages on private passenger car drivers, whose safety record is much worse than that of commercial drivers," he commented.

Mr. Mortimer added that he presented statistics to AIA that showed that Norton Simon's drivers were at fault in only 10% of their accidents. In 70% of accidents involving the company's drivers, the Norton Simon driver was neither at fault nor could he have prevented the collision, Mr. Mortimer contended, and in 80% of the fatal accidents involving Norton Simon drivers, the company's driver was neither at fault nor could he have prevented the mishap.

"It was the position of AIA," Mr. Mortimer said, "that we ought to forget about objections to their 'absolute liability' plan and its inequities because we would save money anyhow."

ONE CRITIC of the AIA plan, who had pointed out the disparity between savings for the public versus savings for commercial vehicle operators, said:

"For months, AIA has been wrestling with an insoluble problem—that of allocating equitably the cost of automobile injuries in a first-party, no-fault system. The problem is exemplified by the relative reduction in premium to which a commercial user of the highways, such as a long-haul truckman, is entitled if pure first-party rating is used. It is not surprising that no better solution has been found than the AIA suggested in its original report. Their solution is the unjust and probably unconstitutional provision that the operator of a commercial car be held strictly liable for injuries sustained in a private passenger car with which it collides."

Another observer said, "This shows the weakness of the AIA plan. They don't really want to shift entirely to a first-party system of auto victim compensation. Further, AIA's proposal raises the question of what is a commercial vehicle, a question that may be difficult to settle in specific accident situations."

T. Lawrence Jones, president of AIA, revealed the "absolute liability" proposal in an interview, apparently using it as a trial balloon to test the reaction of commercial fleet operators at the time AIA introduced the proposal to the Massachusetts auto insurance study commission.

Mr. Jones last year categorically denied a *Business Insurance* story of July 29, 1968, that said the AIA would propose a "no-fault" insurance plan. He denied the story several days after the executive committee of his association voted to support the "no-fault" principle and to introduce it as a reform measure in state legislatures. ■

Report group sales

Metropolitan Life Insurance Co., New York, has reported a 5.2% decline in group life sales for the first six months of the year.



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NASA indemnification law still bogged down

WASHINGTON — "Indemnification problems are never brought home to legislators until something unfortunate happens. It's hard to get action on this thing, let's face it."

So said Herbert Roback, staff director of the House military operations subcommittee, about chances of enacting legislation to gain government indemnification for contractors involved in the space program.

Mr. Roback told *Business Insurance* he didn't think the National Aeronautics & Space Administration's highly successful Apollo 11 moon landing would improve the prospects of allowing NASA to indemnify against unusually hazardous risks.

THE HOUSE military operations subcommittee has held hearings on a bill to set up a commission authorized to study military procurement—including various government indemnification practices. During June the subcommittee heard two days of testimony on the indemnification problem specifically.

At the hearings in June, Paul G. Dembling, general counsel of NASA, said the space agency "for ten years has sought authority to assure adequate protection to the public and to government contractors for widespread injury, death or property damage that may arise out of certain accidents."

Such accidents, he said, were those that might occur as a result of activities which involve space vehicles, toxic fuels, "and other equipment and materials that have the potential to cause widespread destruction."

Mr. Dembling noted that three bills were introduced during the 87th Congress to provide NASA with authority to indemnify against third party liability and property loss or damage arising out of contracts with NASA which involved unusually hazardous risk.

HEARINGS were held in the House and the Senate, but only one of the bills was passed by the House, while the Senate took no action.

In 1963, Mr. Dembling said, a report was issued by Columbia University entitled: "Catastrophic accidents in government programs." A key recommendation of the study, he explained, is that provision should be made in any legislation for interim relief under which "prompt and effective compensation would be paid while the specific liabilities and damages were being settled in the courts."

But he pointed out that right now injured members of the public have an "uncertain remedy." This uncertainty, Mr. Dembling said, "is increased by the fact that available insurance protection is limited in amount and does not approach the amount of coverage required to protect a company against a very large incident where claims in the aggregate might run into the hundreds of millions of dollars."

"Not many companies would be able to survive such a liability, and the injured public would, in such event, not be able to collect damages."

"INSURANCE coverage in
Rejects 1% tax

The Massachusetts State Legislature has rejected a proposed measure that would have levied a 1% tax on employers, the revenue to have been used to help defray Medicaid program costs.

No insurance on moon samples

HOUSTON—NASA spokesmen here report that no special insurance will cover the moon samples either while in transit or in the possession of universities or scientists.

"What price tag can you put on the moon samples—the cost of the whole Apollo program?" a spokesman asked. "There's no way to insure something that's irreplaceable."

amounts above \$10 million is acquired by relatively few companies. Whatever the maximum amount of insurance obtainable

by the very largest companies today may be, it is evident that it falls far below the potential liability of companies engaged in hazardous government programs," Mr. Dembling told the subcommittee.

He pointed to the fact that the Department of Defense has had available to it since 1952 authority to indemnify its research and development contractors against claims arising out of direct performance of their contracts which result from "unusually hazardous" risks. This authority doesn't apply to NASA, however.

One alternative which may be open to NASA—termed "better than nothing" by Mr. Roback—is a public law giving at least limited indemnification to NASA contractors.

But the law was watered down somewhat by a phrase which prohibits government indemnification beyond available appropriations, Mr. Dembling said.

"THE EXECUTIVE order limitation in effect required agencies using this authority to make any indemnification agreement 'subject to the availability of appropriations.' Such a contractual undertaking is quite unclear as to its legal effect. In fact NASA adopted a policy against the use of Public Law 85-804 for indemnification purposes because of this lack of clarity."

The Department of Justice, responding to a query by NASA and the Department of Defense, has held that deletion of the "restrictive language" in an executive

order implementing the public law would permit use of the law for indemnification of public contractors by NASA and other agencies.

However, Mr. Roback said that the Budget Bureau is currently "sitting on" the executive order, and he doesn't see any action on the horizon to pry it loose.

The revised executive order, in any event, wouldn't automatically guarantee the assumption of liability by NASA, Mr. Roback explained. What the agency is looking for is a law that "lays out the ground rules" of indemnification.

Mr. Dembling said that "at the present time steps are under way" to revise the executive order and to draft regulations covering the use of the public law for indemnification purposes.

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U.N. ponders liability questions of fallout from outer space probes

NEW YORK—Although they still haven't defined what outer space actually is, the lawyers at the United Nations are trying to settle insurance problems arising from man's exploration of the atmosphere.

For five years problems of liability and compensation for accidents related to outer space have been on the agenda of the legal subcommittee of the U.N. committee for peaceful uses of outer space.

One big question is: What is the responsibility attached to a rocket booster jettisoning improperly and crashing to earth in a populated region?

The nations most worried about

such holocaust are small ones, uninvolved in space gymnastics. Special talks at New Delhi are crystalizing desires for an unlimited liability to any "launching state causing damage on the surface of the earth" through its spacecraft during "launch, transit, or descent." The U.S. is pushing for a ceiling of some kind, although figures, in the hundreds of millions, vary from source to source.

SURPRISINGLY enough, the Soviets have an equal desire for an unlimited liability plan and have joined the ranks of India, Hungary, Belgium and Italy in formulating a treaty that would

stipulate such compensation.

The procedure by which compensation would be awarded is another debated subject. Some diplomats are asking the fault of the launching state be definitely proved before compensation is initiated. Others are calling for *ipso facto* awards of total damages for any destruction wrought by a launching state. However, the majority of international lawyers are seeking a plan of third party compulsory arbitration, to be enforced by the U.N.

But the U.N. lawyers are not restricting their dialog to earthly catastrophes. The possibility of in-space tragedy has commanded a great deal of attention. Once again

the onus is being directed toward the launching state, and reparations have been spoken of in very general terms.

In fact, according to one source at the U.S. mission to the U.N., "For the past five years these people haven't said anything but general terms. They haven't gotten specific and there's no telling when they will. But the trend is toward responsibility for all damage stemming from a launching state's activities."

Other recommended areas of discussion touch the legal aspects of direct broadcast from satellites and spacecraft, and accidents on other celestial bodies (perhaps with a foreshadowing that the same traffic problems that sprung from the single brave ocean-going vessel, horseless carriage, or Kitty Hawk aeroplane will attach to outer space travel.)

Judging from progress seen, insurers and reinsurers won't have

space liability headaches for quite some time. And even when the space lawyers finally agree on a liability limit or the lack of it, as one insurance source summed it up, "This will be the absolute limit. Any insurer who'll be crazy enough to underwrite outer space explorations will not only be out of his head, he'll be out of this world."

Fidelity & Casualty pays loss

NIAGARA FALLS, N. Y.—The Niagara Falls Urban Renewal Agency has learned somewhat abruptly from URA Director Daniel W. Collins that \$140,000 worth of loan notes issued last summer have been lost.

Actually, no one from City Hall had anything to do with the loss, according to Mr. Collins, and the indemnity firm retained by the New York stock broker that lost the loan notes has agreed in writing to cover the loss in case someone makes a redemption claim on the negotiable securities, which matured on August 8.

The chronology of the incident is this: Last August, the URA issued \$816,000 worth of preliminary loan notes for financing of Highland-Hyde Park and Allen-Mackenna Industrial urban renewal projects—\$605,000 on the first project and \$211,000 on the second.

FIRST NATIONAL City Bank of New York won the bid and purchased the notes. The brokerage firm of Hornblower & Weeks, Hemphill, Noyes, purchased \$140,000 worth of the notes—four in \$10,000 denominations—as a custodial agent for one of its clients.

On June 19, the Fidelity & Casualty Co. of New York advised Mr. Collins that Hornblower & Weeks claimed the notes "were missing and believed to have been accidentally thrown away in the waste." Hornblower & Weeks promised that the insurance company will furnish a bond to deliver the notes, should they be found, to the URA for cancellation.

The insurer also agreed to indemnify the local agency, the bank involved, and the Department of Housing & Urban Development from "any and all claims, actions and suits, whether groundless or otherwise, and all liabilities, losses, damages, costs, charges, counsel fees, and other expenses of any nature and character" which the URA, bank, or federal government might incur from loss of the notes.

IN OTHER WORDS, the URA won't have to pay the \$140,000 twice.

If Mr. Casey gets his money from the insurer and the bonds turn up later, according to URA Counsel Benjamin Gold, the person or firm with the original notes will have to show how he obtained the securities and prove he did it legally.

HUD, says Mr. Gold, authorized First National City Bank to pay the broker the maturity value due on the notes on August 8 as long as the agency has the insurer's bond.

Ozark gets loan

Aetna Life & Casualty Insurance Co., Hartford, has committed a \$2.6 million loan to Ozark Airlines, Inc., St. Louis, bringing the insurance firm's total commitment to \$8.6 million. The airline will spend \$13.5 million on new equipment.

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Government flood insurance program gets going

HARTFORD—The long-awaited start of an intensive flood insurance program, a massive venture of some 77 companies pooling \$40 million, is under way, with the insurers jointly participating in expenses and loss-sharing.

The move, three years in the making, has been nursed into reality by the National Flood Insurance Act of August, 1968.

In years past, the American insurance community has aided the property owner in earthquake, lightning, windstorm, rain and hail loss, but flood was something else again—an element delicately avoided in view of staggering damages that have hit as much as \$1 billion annually.

No so long ago, the insurance community looked upon flood insurance as something with too much of a locked-in risk factor. Moreover, prohibitive premiums would cause owners of flood-prone land to refrain from seeking coverage.

MUCH OF THE basic thinking contained in this precedent-making effort in flood coverage is attributed to Dr. Don G. Friedman, associate director of research, corporate research and development, Travelers Insurance Cos., Hartford.

The \$40 million figure is the private enterprise share of initial program participation, with the Federal government functioning as co-insurer, and also, in return for a reinsurance premium paid to the U.S. Department of Housing and Urban Development, giving reinsurance for catastrophe flood losses.

The actual *modus operandi* shapes up like this:

As each locality becomes qualified, residential and some commercial property owners—including those in seashore, hurricane-prone and river-bottom regions

surveyed by the U. S. Corps of Engineers—will be able to buy broadly defined flood protection (up to \$35,000 on structure, \$10,000 on contents).

EACH LOCALITY is surveyed for premiums based upon the key element of true exposure, but the Federal government is expected to absorb the bulk of premium cost in the high-risk zones.

The national flood insurance program has the equally important task of encouraging local communities to adopt sound land-use measures, seeking to reduce flooding hazards and damages.

All localities that seek to become eligible for flood insurance must enact appropriate zoning laws to prohibit rebuilding in low-lying, flood-prone areas by

June 30, 1970.

A government spokesman told *Business Insurance* that flood insurance policies are now being written for homeowners in Fairbanks, Alas. (site of costly quakes two years ago), and in Metairie, La. (a New Orleans suburb hit by water on the rampage during the memorable Hurricane Betsy).

DR. FRIEDMAN started his research for this project five years ago; his past experience has included application of simulation techniques and high-speed electronic computers to geophysical hazards as related to insurance operations.

Four years ago, his summation of flood hazard and flood insurance feasibility forcefully brought home to the Johnson administra-

tion the need for action.

Dr. Friedman, working on computers at the Travelers data center here, developed a mathematical model, used to simulate loss experience to dwelling properties on both inland and coastal flood plains. A second model simulated operation of a National Flood Insurance Program, covering the hazards—including various possible financial arrangements between industry and government.

Admittedly, little pertinent information on flooding experience has been directly available for computer feeding. Dr. Friedman based his findings on detailed data from surveys conducted in some 40 flood-prone areas of the U.S. by the Tennessee Valley Authority, U.S. Geological Survey and Corps of Engineers.

He remarks: "Man's life span is short and he can't afford to wait for nature to produce all of the possible combinations of frequency, location and severity of geophysical events."

"The modeling and simulation approach provides one means of approximating the effect of these combinations."

As a significant example: One thousand years' experience in flood damage can be simulated in less than 10 minutes on the UNIVAC 494 computer at the data center.

These techniques are being meticulously applied by Dr. Friedman.

And what he comes up with is watched avidly by government, insurers and reinsurers around the world.

Court ends malpractice suit limits

ALBANY—The New York court of appeals has ruled that the state's three-year statute of limitations on malpractice suits is not applicable in a case where a foreign object has been left in a patient's body.

In a 4-3 decision the appeals court reversed supreme court and appellate division rulings and held that the three-year statute of limitations would apply in all malpractice cases except those involving foreign objects.

Associate Justice Kenneth Keating, writing the majority opinion for the court, stated "where a patient cannot discover that an act of medical malpractice has taken place in which a foreign object has negligently been left in the patient's body, the statute of limitations will not begin until the plaintiff could have reasonably discovered the malpractice."

"THE UNSOUNDNESS of the traditional rule as applied in the case where an object is discovered in the plaintiff's body is patent," Justice Keating held.

The decision leaves Mrs. Josephine Flanagan, of the Bronx, free to press a \$1.5 million damage suit against the estate of Dr. Max Eisenstadt and Mount Eden Hospital.

Mrs. Flanagan underwent gall bladder surgery in 1958, and doctors eight years later discovered that surgical clamps had been left in her body. Another operation was necessary to remove them.



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opinions

'Does that make Bolton a bad guy?'

In the wake of *Business Insurance* articles regarding the investment practices of former Illinois Insurance Director John F. Bolton Jr., a reporter for this magazine discussed with a Chicago precinct captain Mr. Bolton's placement of \$526,000 in claimants' funds in a small, politically-oriented bank.

The precinct captain, as expected, defended Mr. Bolton, a veteran political warhorse with strong City Hall connections. Finally, the reporter said, "But John Bolton sent more than a half million dollars to his buddies' bank." The political worker answered, "Does that make Bolton a bad guy?"

Later it was learned that Mr. Bolton's wife was a charter stockholder in the depository he chose, the Civic Center Bank, the focal point of an Illinois judicial scandal that has led to the resignation of two justices of the state's supreme court.

Mr. Bolton denied any conflict of interest and stated the ethical question this way: "Since I had a duty to invest the funds of liquidated insurers, is it incumbent upon me to avoid placing these funds in banks in which my family or I may hold stock?" We think that the answer to this question is an emphatic yes. In fact, the question ought to be turned around to: "Isn't it incumbent upon me to divest myself of interest in any bank in which I place claimants' funds placed in my care?"

Corporate buyers of insurance recognize the hazard of investing claimants' funds in politically-favored institutions. But they ought also to recognize the hazard of having the insurance industry regulated by appointees of Mr. Bolton's type.

Is this law needed?

Not long ago we received an urgent plea from a major insurance association to call attention to the proposed Federal Insurance Guaranty Corp. The bill, introduced as S. 2236 in the current session of Congress, would require insurers to participate in a Federal insolvency fund covering all lines of insurance except life.

We cannot be sure of the workability of such a fund, but we share the concern of the general public about the number of auto accident claims that go unsatisfied because of failures among auto insurers.

Legitimate insurance companies have stressed their willingness to meet all reasonable claims. And some have backed up this assurance with such things as uninsured motorist provisions in auto insurance policies that assure compensation for those who suffer injury or damage at the hands of motorists supposedly covered by insolvent companies.

Nevertheless, we believe that there is a sufficient gap between legitimate public expectation and insurer performance that a Federal

business insurance

for buyers of employe, property and liability protection

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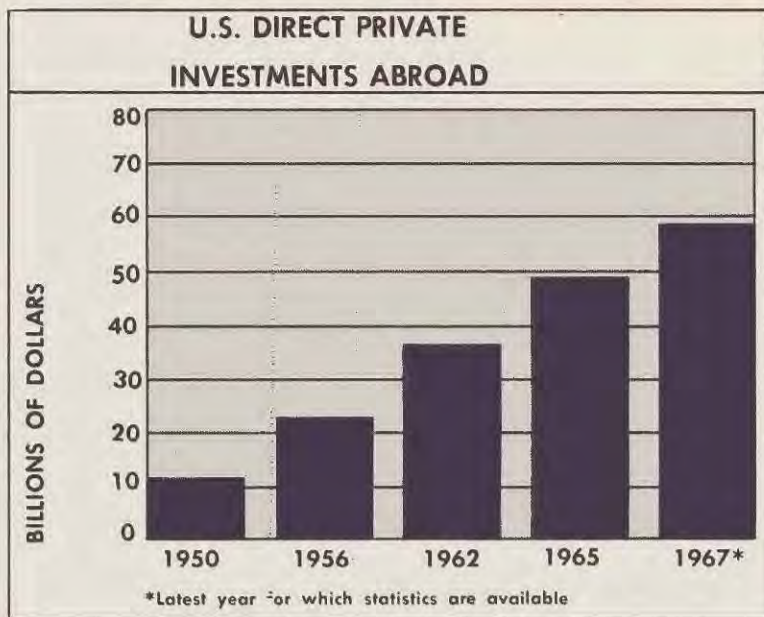
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Insurance needs to cover U.S. investments abroad have grown in proportion to the sharp rise in U.S. private direct investments abroad. This chart, prepared for *Business Insurance* by the U.S. Department of Commerce, shows that investments in foreign enterprises with U.S. ownership interest of at least 10% have increased from \$11.8 billion in 1950 to \$59.3 billion in 1967, the most recent year for which statistics are available. How U.S. business meets the insurance requirements of overseas enterprises is told in articles in the special *Business Insurance/International* section that appears in this issue.

Source: Office of Publications and Information for Domestic and International Business, U.S. Department of Commerce.

Insurance Guaranty Corp. might be a viable idea, or at least something that thoughtful risk managers and citizens might consider.

Debate on the measure, as well as testimony from representatives of the public, business and the insurance industry should be enlightening. We doubt that Congress will enact such a law without ample evidence both that it is needed and that it offers a workable solution to a pressing problem.

Are we asking too much?

It is easy to buy insurance, easy to study the type of claims that your company may be subject to, easy to talk about the general principles of negligence law, but what does all this amount to compared to the science of preventing litigation against your particular corporation?

Of course you need insurance, but what you need more is the secret of preventing claims from being filed against you. The fewer the claims, the lower your insurance cost.

So may we suggest that while your purpose is to insure your company against all types of claims that you can reasonably foresee, the insurance buyer can increase his value to a corporation immeasurably by suggesting increased safety measures for employes, more careful dealings with agents and brokers, more careful attention to manufacturing processes, more careful examination of products before they leave go into distribution, more careful examination of premises from the standpoint of potential fires, and more carefully drawn contracts with officers, employes and third parties.

In other words, the insurance buyer should regard himself as the guardian of corporate assets in the realm of potential claims, and his major thoughts should be (1) how can I prevent the claim before it happens? And (2) if a claim is made, do I have adequate protection from a reputable insurance company? But the first consideration is undoubtedly the more important, as we see it.

Are we asking too much?

Mr. Farmer is right

We welcomed and agree with some ideas proposed by James Farmer, on appointee to the department of health, education and welfare and founder of the Congress of Racial Equality (*Business Insurance*, August 4).

Mr. Farmer urged some 600 Negro delegates at the 49th annual conference of the National Insurance Assn. in Miami to become actively involved in pressuring government to aid black insurance companies.

And Mr. Farmer made some excellent points. For example, he told his Negro audience: "White businesses get large sums of money to train people for management. You should be getting money too."

Black-operated firms are losing trained black employes to white-operated insurance companies that feel "they must have a showcase Negro" and make some ovation of compliance with equal opportunity employment guidelines, the civil rights leader said.

"That's all right," Mr. Farmer added. "Black men must keep getting jobs wherever they can get them. But you (the Negro insurance executives) must build jobs into the companies which you have created. It can be done, but only if you are well represented in Washington."

In conclusion, Mr. Farmer told the black men involved in insurance, "What we must do is to move minority groups into the mainstream of American life"—which is in theory about as American as anything that could be said.

letters

Errors and omissions

To the Editor: In your June 9, 1969, issue of *Business Insurance* there was a short article concerning errors and omissions insurance. There is one very glaring error that I hope you will correct in a future issue. The article indicates that where there are 2,500 or fewer employes, the minimum premium is \$42 for \$100,000/\$300,000 limits. The correct amount is \$462 annually.

It is also indicated in the first sentence that this coverage is to protect union trustees of pension and welfare funds. Employer trustees are equally protected under the same policy.

Your assistance in publishing these corrections will be appreciated.

Frank O. Watt

Mack and Parker Inc., Chicago.

More on captive

To the Editor: In your publication dated June 23 there was a more than usually interesting article, appearing on page 47, titled "Engineers start captive for liability."

The writer is most anxious to consult with Mr. Edward B. Howard whom you mentioned as being president of the council's Risk Analysis and Research Corp. and would appreciate your, if possible, supplying us with their address so that I might communicate with them directly.

Herbert Hauth

President, H. C. Hauth Co. Inc., New York, N. Y.

Editor's Note: You may contact Mr. Howard by writing the main office of the council at: 1155 15th St., N.W., Washington, D.C. 20005.

'Indebted'

To the Editor: *Business Insurance* has been a most welcome and valued addition to our "working tools" since its inception and we look forward to each issue. We had thought it your plan to send it without charge until you had us "hooked" and, frankly, we have been prepared to ante up for some time now. The news that insurance managers of companies with more than 150 employes receive the book without charge makes us that much more indebted to you.

Robert W. Butler

Manager, Insurance, Fruehauf Corp., Detroit, Mich.

Needs address

To the Editor: Please advise the mailing address of the American Risk and Insurance Assn. Inc., which your publication listed as having a forthcoming meeting at the Sheraton Gibson, Cincinnati, on Aug. 25-27.

Seymour I. Kawaller

Albi Manufacturing Co. Inc., Rockville, Conn.

Editor's Note: You may contact the association concerning its annual meeting through either Michael W. Collins, information director, 2621 Carew Tower, Cincinnati, O. 45202 or the executive secretary, William T. Beadles, 112 E. Washington St., Bloomington, Ill. 61701.

'BI' gets second look

To the Editor: *Business Insurance* is an excellent paper. It affords news and insight from the buyer's direction, a viewpoint not expressed in any other periodical. Every issue is scanned, put aside, and then re-read.

Murray Guth

Proprietor, Murray Guth Agency, Lincroft, N. J.



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Test for credit insurance measure to come in fall, Senate aide says

WASHINGTON—The first crucial test for a bill that would set Federal limits on credit insurance costs will come early in the fall when the Senate banking and currency committee meets in executive session to decide whether to report the measure favorably to the Senate floor.

A banking and currency committee source told *Business Insurance* that the vote in committee is expected to be close, and that if the bill does clear the committee it is expected to have smoother going before the full Senate and the House.

But another source reports that the Federal Reserve Board, charged with responsibility for

setting maximum credit insurance rates under the proposed legislation, has been cool to the prospect of assuming this additional burden.

WHILE THE NIXON administration has so far taken no official position on the consumer protection measure, Mrs. Virginia Knauer, the President's special assistant for consumer affairs, has declined an invitation to testify on the bill.

Labor unions, which generally support the bill, have determined to keep credit insurance in state hands, have successfully persuaded the Nixon Administration to keep its consumer spokesmen from testifying in its favor and also

have pressured reputable insurance companies and leading government officials not to testify for the bill.

The measure is running into strong opposition from some state insurance commissioners who are determined to keep credit insurance regulation at the state level and from a powerful lineup of banks, finance companies and installment stores.

Subcommittee chairman William Proxmire (D., Wisc.) and Sen. Philip A. Hart (D., Mich.) are co-sponsoring the bill, which would direct the Federal Reserve Board to set the maximum rate a consumer could be charged for insurance guaranteeing his creditor full

payment of debt in the event of his illness or death.

SEN. HART'S anti-trust and monopoly subcommittee during the last Congress held extensive hearings on credit insurance activities. The current bill is a result of those hearings.

Sen. Hart said in testimony before the banking subcommittee that lenders and stores are often offered commissions and rebates by insurance companies on the credit insurance they sell to borrowers.

He stated that the overcharge alone on credit insurance amounted to approximately \$220 million annually, and that consumers were charged at least 36% more than the amount they might reasonably have been expected to pay for the coverage.

Some of the nation's largest companies, he said, pay out as little as 24¢ of each premium dollar in benefits, while the profit from the sale of credit insurance provides the lender with 35% of total income from finance charges.

SEN. PROXMIRE, at a subcommittee hearing, said that while reputable insurance companies return an average of 25¢ of each premium dollar to the creditor as commission, high-charging companies return 50¢ on each premium dollar.

Witnesses testifying in favor of the measure have charged that some states' efforts to set limits on credit insurance rates have been overwhelmed by lobbyists for financial, credit and installment interests.

Iowa house minority leader William J. Gannon said in testimony that before a bill to regulate credit insurance rates was defeated in the Iowa house in 1967, after having passed the year before, "House members, and particularly commerce committee members, were subjected to some of the most intense lobbying activity and pressure I've ever seen."

HARRY O. MILLER, former chief deputy insurance commissioner of California, said the "political repercussions were immediate and massive" when that state attempted credit insurance rate limits in 1967. Legislation was introduced to reverse the regulations before the hearings

had been completed, he said.

"In one of the most progressive states in the union with a tradition of consumer protection," he said, "the auto dealers, finance companies and their dominated or owned credit life insurance companies were able to easily win a victory that cost the consumers of California millions of dollars a year."

"I think it is clear from our experience in California that the states, no matter how effectively regulated, are unable to regulate credit insurance," he stated.

Richard D. Barger, the new California insurance commissioner, told the subcommittee that "we do not believe any Federal action is necessary," because state regulation "has been and will continue to be effective in protecting the consumer against abuses in the credit life and credit health field."

ALTHOUGH THE National Assn. of Insurance Commissioners favors keeping rate control in state hands and argues that the states are doing an adequate job of regulating credit life rates, not

Continued on page 46

The Primacy of Quality

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following the funds

Big Board reviews possibility of creating spot for big investors

By ALLEN M. WIDEM

HARTFORD—Informed insurance industry sources here predict savings in the millions of dollars under a proposed New York Stock Exchange rules change.

James Torrey, senior vp, Connecticut General Life Insurance Co. commented:

"We're very happy to see that the New York Stock Exchange has not only approved public issue of stock for member firms, but that it is also beginning to bend on the problem of tremendous costs of institutional investors."

AT THE TIME the New York Stock Exchange announced it would finally permit member brokerage houses to go public (several weeks ago), the exchange also remarked consideration was being given the granting of some form of exchange membership to qualified financial institutions—i.e., mutual funds, pension funds and insurance companies.

The objective would be a marked reduction in brokerage fees now charged to the institutional investors concerned traditionally with multi-million-dollar transactions," he said.

Mr. Torrey added: "It has been difficult for us to see that the services being performed are anywhere comparable to the fees being charged."

Another observer remarked that the special arrangement for institutions comes as a "small price" for the brokerage houses' right to raise capital through the means of stock issues.

"AS PART OF its effort to keep institutional business away from competing markets, the Big Board plans to institute another reduction in the commission charged on large transactions.

"This probably will reduce the income of some brokerage houses. Some may even go out of business. But the overall effect of opening the spigots of public equity capital and reducing commissions for the sake of competition, could be to increase the Big Board's share of market volume."

Convict two in Besco fire fraud case

PORTLAND, Ore.—Albert Eugene Hunt Jr., 46, former Newburg insurance adjuster, has been convicted here of obtaining money and property by false pretenses in an alleged three-year, \$500,000 insurance swindle.

A jury in circuit court returned its unanimous verdict after a 14-day trial during which Judge Charles Redding dismissed three other charges against Mr. Hunt.

Mr. Hunt was charged with filing a fraudulent loss statement with Farmers Insurance Group after an April 13, 1968, fire which damaged the Besco Construction Co. warehouse.

He was accused of cooperating with Evans Smith, 39, president of Besco, in a fraud scheme involving verifying loss of 8,621 gallons of paint in the fire. Mr. Smith received \$27,000 from the insurance company for the loss.

Institutional investors are annoyed over the fact that, until last fall, huge stock transactions carried the same brokerage rates as much smaller ones.

It was argued by the institutions that a single transaction for 100,000 shares could not possibly be as costly to handle as, say, five smaller transactions totaling 100,000 shares.

But the same rate of commission prevailed.

INSTITUTIONS' rate was chopped considerably last fall, but

Hartford insurance people contend "it is still about twice as high as it should be."

It is noted here that the latter-day stock exchange action happens as institutions become sizable enough to bypass the Big Board in large stock transactions, thus escaping high prices of brokerage houses.

The year 1969 has seen emergence of a new breed of broker—one specializing in the needs of the institutional elements at "bargain" prices.

For example, when an institu-

tion has 200,000 shares of General Motors Corp. stock to sell, it can work through a broker and complete the transaction without the added trials and tribulations of going through the stock exchange.

ESCALATING costs of utilizing the Big Board are serving to threaten a move of key stock listings—plus their volume—to other exchanges.

Last year, in response to a problem of similar proportions, the element of "associate members" appeared on the American Stock Exchange.

A broker who is an associate member of the American Stock Exchange is not entitled to trade on the floor—in the manner of full members—but he does obtain special commission rates on transactions through the exchange.

Insurance and stock brokerage news sources here told *Business Insurance* that this has not had significant impact to date on in-

surance investors since they deal primarily in the bigger organizations represented on the Big Board.

THIS TYPE of membership, it now seems evident, may be extended by the Big Board to insurance companies, mutual funds, pension funds and other institutional investors.

A Big Board spokesman remarked that the exchange's board of governors will, in all probability, choose between these two alternatives:

(1) Another sizable chop in commissions without the creation of special memberships.

(2) Creation of special membership niches, eligible for low rates, and, equally important, obligated to respect certain self-polishing rules of the exchange.

The decisions may occur as early as Sept. 18—date of the New York Stock Exchange policy committee's meeting.

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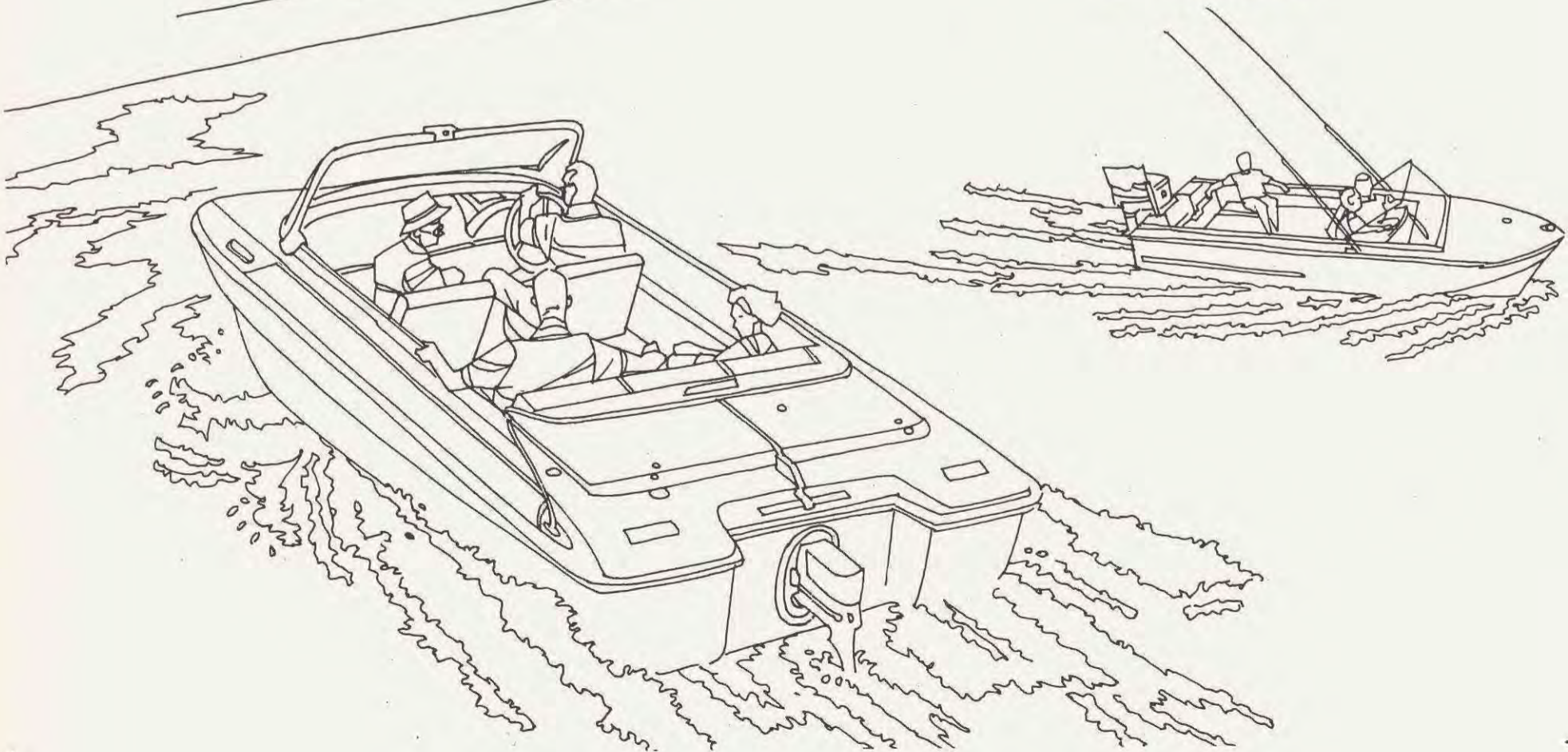
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business insurance/perspective

Telling the benefit story abroad

by Howard L. Peck,
partner,
Hewitt Associates,
Libertyville, Ill.



Howard L. Peck

the international benefit field reveals that when it comes to communicating benefits there is work to be done.

SAYS JOHN C. ROBERTS, partner in Hewitt Associates and a Fellow of the Institute of Actuaries of Great Britain, "Admittedly, there are certain aspects of providing benefits that are more advanced in the U.S. than elsewhere. Communication is one of these. There appear to be several reasons why this is so.

"For one, there has been little effort to sell employers on the need for an adequate job of communicating. As a result, in England many employers are willing to settle for insurance company standard materials, or booklets put together by the consulting actuary and the solicitor, neither of whom is an expert on communication.

"Another deterrent to effective communication may be that many pension schemes give the trustees (representatives of management) discretion to provide greater benefits than those set out in the rules, provided that these benefits do not exceed the maximum allowed by the Inland Revenue.

"One factor that may help stimulate better communication in Europe is the law in France that now requires employers to provide profit sharing for their employees. For example, IBM-France, one of the first foreign companies to create an employe

which have developed extensive employe communications programs is quite limited. This is not to say that leading companies like Shell and Philips are behind U.S. practice. There are firms which utilize highly sophisticated media to convey to employes the importance of their total benefit package as well as other aspects of employe relations.

"The current situation in Europe bears a close resemblance to the period of the early 1950's in the U.S. Progressive companies led the way in the development of employe communications programs. Gradually other companies came to see the value and the necessity in keeping employes informed on the protection and costs involved in the total compensation package."

One of the most vigorous exponents of aggressive benefit communication in Latin America is R. E. Kennedy of Asesores de Pensiones, S. A., of Mexico City. Mr. Kennedy reports, "Pension plan communication is a very special problem due to the complexity of both the problem and the solution of retirement incomes. In addition to group meetings, we strongly urge our clients to have an individual private interview with each eligible employe, particularly if the plan is contributory.

"AS EVIDENCE of lack of knowledge of Mexican employes, it should be pointed out that less than 1% of the population in

ists to a greater degree in Mexico due to the basic lack of sophistication in personal financial planning and in the concept of profit-sharing and employe benefit plans.

"In general, we use the same type of communication media as are used in the U.S. For example, group meetings with flip charts and color slides followed up by question-and-answer sessions. We also urge the use of illustrated explanatory booklets for distribution to the employes as well as articles in house organs and bulletin board notices. The annual statement is also a very useful and necessary tool in communicating pension plans."

John F. Abel, vice president in charge of international operations for Towers, Perrin, Forster & Crosby, Inc., was asked about the essentials for successful communication with employes overseas.

"THE MOST IMPORTANT requirement in communicating effectively with foreign workers is sensitivity to the cultural, social and other conditions which shape local attitudes," said Mr. Abel. "These can dramatically affect the way any management message is received and understood.

"A French worker may have an almost inborn suspicion of all employers—particularly foreign ones—that exists to a much milder degree in his German counterpart. Of the same two, the German may be much more interested in the workings of his pension formula than the Frenchman. You have to be aware of these differences to communicate effectively; it's never safe to generalize because attitudes shift markedly from region to region, even in the same country."

Mr. Abel cited the importance of having the benefit communicator both aware of local problems through on-the-spot experience and highly trained in modern communication techniques.

The dangers of basing decisions on inadequate knowledge of the local situation was stressed by another TPF/C man, Fritz Hadrich of the firm's Wiesbaden office, who said, "Introduction of a U.S.-style benefits communication program in a climate where prior communications have been limited or nearly nonexistent would at least risk producing widespread confusion, and it could generate serious worker distrust."

Continued on following page

'A limited survey of the international benefit field reveals that in communicating there is work to be done.'

trust fund under the law, went to considerable lengths to inform its 14,000 employes about the advantages of the new trust fund."

JOHN ALAN James, managing director of Knight Wegenstein, S. A., in Brussels, sees European employers moving in the direction many U.S. companies took some years ago.

"Fringe benefit costs (legal and optional) can run as high as 70% of basic payroll in Italy," says Mr. James. "In Germany and Belgium they are approximately 45% to 50%. In spite of these sizeable expenditures, the number of European companies

Mexico is covered under individual personal life insurance policies. Mexican social security provides medical services and the familiarity of the public with health insurance plans is therefore even more restricted than in the field of life insurance. Profit sharing in Mexico is compulsory and most employes are under the impression that the profits are distributed to them by the government rather than by the employer, and this of course tends to provide no incentive to the employe to improve his performance.

"We can generalize by saying that we face the same problems as in the U.S., only more so. In other words, the problem ex-

'Aggressive role' advocated in shaping risk programs of overseas subsidiaries

by Robert E. Abrahamson,
corporate insurance manager,
Control Data Corp.,
Minneapolis, Minn.

Risk managers of multi-national corporations invariably get involved, at least to some extent, either by design or by chance, in the property-liability insurance programs of their foreign subsidiaries. Some of them may be complacent in the

belief that worldwide difference in conditions covers provide them with adequate protection in the event of a fortuitous loss or that the foreign subsidiary can run their own insurance programs.

It is imperative, however, that they get involved periodically in reviewing a foreign subsidiary's primary insurance program. This is essential if they are going to be able to provide valuable counsel and accomplish a smooth integration of locally arranged programs within the scope of the

worldwide corporate insurance and self-insurance programs administered by the parent company in the U.S.

There are various and sundry risk management approaches taken by U.S. corporations for their foreign operations. Those newer companies which have a wholly-owned or controlling interest in the foreign operation and are already exercising a great degree of control are fortunate indeed. Long-time foreign broker and insurance company relationships are sometimes

difficult to change and any proposed changes should always be handled with a great deal of finesse. Rapport with the foreign subsidiary, when established, is vital to effective risk management and it must be sustained in order to accomplish the desired goals and objectives.

MOST FOREIGN countries are not as sophisticated or educated in the area of third party liability as the claim-conscious
Continued on following page

Peck . . .

A Briton with a lively interest in benefit communication is A. R. Escolme of Metropolitan Pensions Assn., Limited. Mr. Escolme reports, "As you know, the United Kingdom is behind the U.S. in the sophistication and depth of benefit communications. Employe booklets are continuing to improve, but there are still far too many at the insurance company level of unimaginative printing, and other shortcomings. "Also, we keep coming across self-administered schemes where members are issued a copy of the rules and if anything else, a one- or two-page badly written summary poorly presented. "Employe meetings are standard practice

with Metropolitan Pensions Assn. where a new scheme is installed, an existing one significantly altered or a subsidiary company brought into an existing scheme. It is also normal practice I believe with a number of other consultants but very rare with consulting actuaries. Life and pensions brokers rely on insurance company officials, which results in no meetings at all or, at best, meetings being held only when a new scheme is put in.

"ONE OR TWO insurance companies produce individual benefit statements covering pension and death benefit plans but in my opinion they do not do the job very well. A few employers produce the statements themselves but again only covering the pension and death benefit plans."

One factor that has an influence on the character of benefit communication outside the U.S. is the fact that in some countries there is less government regulation than we "enjoy" here.

It is not unusual for British companies to make informal increases in pensions to offset increases in the cost of living. Often the trustees hesitate to communicate this flexibility for fear of implying a commitment they are unwilling to make.

The flexibility works in other ways, too. Mr. Roberts commented on a discussion he had with an official of a large English brewery. "How do you handle the problem of long-term disability?" he was asked. "We bend the rules of the pension scheme," was his reply. Try communicating that to your employes. ■

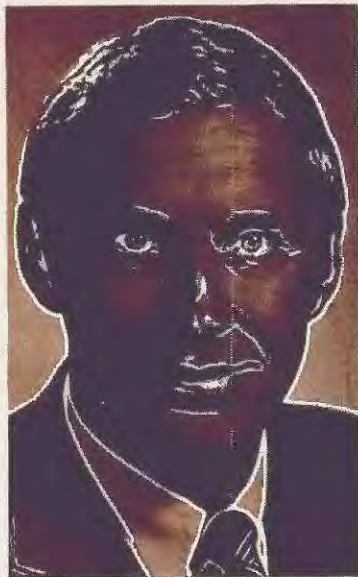
Howard L. Peck is a partner in the firm of Hewitt Associates, Libertyville, Ill., independent consulting actuaries, analysts, and advisers on pensions, profit sharing and employe benefits. He heads the firm's activities in employe communication. Mr. Peck, who has been active in the advertising and communication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

Abrahamson . . .

U.S. is, and sometimes liability coverages, when purchased, are arranged in a haphazard manner by local foreign management. The scope of the foreign operation often seems to dictate the attention given to liability coverage arrangements locally. This is where the international risk manager can demonstrate his true professionalism by getting involved in foreign insurance program arrangements, regardless of the size of the operation.

The time and effort spent on any specific country's insurance program, of course, is dependent on the extent of the company's operations there. It also, sometimes unfortunately, is dependent on the time the risk management function can spend on the international insurance scene.

More often subject to direct control than foreign liability coverages are various types of property and marine insurance. This is because of the relative ease of a true worldwide arrangement by the parent company. A number of progressive underwriters are writing so-called worldwide property insurance covers for multi-national corporations. Prudent risk management dictates the purchase of these worldwide home-foreign programs, whether they provide total property coverage (subject



Robert E. Abrahamson

to any deductibles) for the subsidiary or are difference in conditions in excess of locally arranged property insurance, maybe because of the use of a nonadmitted carrier.

Whether a home office purchases total admitted insurance in all foreign countries or for just those few countries (Mexico and France notably have the most severe laws) that have stringent nonadmitted insurance laws is a matter of corporate policy or philosophy of the individual risk manager, his international broker or the insurance company writing the risk. It is quite often a combination of these factors and others.

The subject of a worldwide insurance program is a big one—and whether or not one believes in the one broker, one insurance company, or the multi-broker and/or multi-insurance company approach is not the most important consideration. It is important to maintain a consistent yet flexible corporate policy and to effectively communicate that policy to cognizant U.S. management and individuals within your foreign operations, whether it be to a plant manager, controller or marketing manager.

There must be a close working relationship between the corporate insurance department and the other international functional areas within the corporation such as finance, traffic, legal, marketing, manufacturing, engineering and construction and real estate, among others. The proper rapport may be difficult to establish, but once accomplished becomes an essential part of managing the international risk.

The international insurance broker and the insurance company normally play an important role in the management of foreign programs. They have the specialists and the risk manager quite often will seek their advice and counsel. A combined team effort with the risk manager as captain will quite often produce the desired results.

The risk manager should utilize the services provided by the broker and insurance company to the greatest extent possible while still exercising the necessary degree of control over all aspects of any international programs within his jurisdiction. The scope of his jurisdiction will surprisingly quite often depend on just how aggressive or passive he may be. ■

Robert E. Abrahamson is corporate insurance manager of Control Data Corporation with headquarters in Minneapolis, Minn. He is a graduate of the University of Minnesota with a B.A. degree. Prior to becoming a risk manager, he was employed for a number of years by a major stock property-liability insurance carrier. He is a member of the board of directors of the Minnesota chapter, of the American Society of Insurance Management, a member of the American Management Assn. insurance division, and is associated with the Machinery and Allied Products Institute insurance council.

Risk management notes

prepared by Warren, McVeigh & Assoc., San Francisco, Cal.

Fidelity

Has your company failed to employ persons with prison records because of inability to get fidelity bonding? If this is so, you should be aware that fidelity bonding for such persons—and others who may not be bondable for similar reasons—is available without cost in amounts up to \$10,000. Funds are provided through the Federal Manpower Retraining Act, though policies are written by a private company, United Bonding Co., Washington, D. C.

Along similar lines, many corporate executives are not aware of the standard bond provision that automatically cancels coverage for any employe as soon as management becomes aware of his having committed a dishonest act, either in the course of current employment or previously. This is one of the many aspects of risk management which should periodically be brought to the attention of line management. Personnel people, in particular, should be regularly advised of this coverage restriction.

When making risk analysis surveys, be sure to check the activities of persons who are not literally employes but who may be in a position to embezzle. Sales or pur-

chasing representatives are examples of such persons. Coverage is not provided under the standard fidelity bond, though such employes may be added by being specifically named.

Liability

Umbrella policies come in two forms which must be read carefully to be distinguished. The most common form has its own insuring agreements and exclusions. Though it provides coverage in excess of underlying policies, it does not automatically provide excess coverage where the underlying policy may have broader wording. Unless you are certain your umbrella wording is broader in all respects, you could be confined to primary policy limits for some losses. A better umbrella form automatically includes coverage as provided by underlying policies by specific reference to inclusion of underlying coverage.

All liability policies, except for certain malpractice and professional liability policies, provide that the insurer may settle "any claim or suit as it deems expedient." You as the insured have no control over how or when or to what extent the claims adjuster may decide to settle. This could lead to a settlement prejudicial to your company's broader interests.

Several methods are possible for ameliorating this situation. First, close communi-

cations with the company's adjusters on all significant claims can develop a cooperative approach which should relieve most problems, though procedurally it is not simple. Second, liability insurance can be purchased on a deductible basis, where claims adjusting is done by contract with independent adjusters. This can lead not only to more responsive claims handling, but to lower total costs since insurance company overhead in excess of actual claims and legal costs is eliminated.

Have you checked the liability you are picking up by contract when one of your employes signs a rental car contract? This varies widely from one rental car company to another and is not likely to be a consideration in choosing the renter. Some of the caveats are listed on page 12 of the April 14, 1969, issue of *Business Insurance*. One other point should be mentioned to protect employes and prevent possible involvement of their personal auto policy: When an employe signs a rental agreement, he should sign with the company name first, then his own name. This makes it clear that any liabilities incurred are corporate rather than personal.

With respect to auto rentals, it is desirable to clearly communicate to all employes the fact that they should reject the optional waiver of the collision deductible. Look

at the figures: at a charge of \$1.50 a day, you are paying an annual premium of \$547 for \$100 limits.

Another point to emphasize at regular intervals is the high cost of buying trip insurance from vending machines at airports. Most companies carry blanket travel accident policies which provide all necessary coverage. Nevertheless, this irrational coverage has an emotional appeal. Many travelers buy it and put it on their expense accounts, sometimes buried under some other expense category. If the scope of blanket coverage is publicized, these costs might be somewhat controlled.

General

A prominent insurance executive recently told a meeting of the American Management Assn. that the current problem of obtaining adequate amounts of insurance will get worse in the months ahead. In fact, he expects it to be so bad that U.S. investments overseas will be curtailed for lack of adequate insurance. If you are planning foreign construction programs, be sure that insurance in adequate amounts can be obtained. It may be that changes in layout or fire protection facilities could make a plant insurable.

Are insurance requirements written into all purchase orders and contracts for services? If you require certificates of insurance to be submitted and properly check them for adequacy and date of expiration, have you analyzed the cost of this administrative burden against the results to be expected? ■

More businessmen ought to be treated like cattle.

When the average American Hereford steps on the train, the value of his insurance is as current as the last pound he gained.

When the average American businessman steps out on company business, the value of his insurance probably hasn't been upgraded since the day he got it. If he got it at all.

At CNA, we don't think any corporation should risk unsophisticated travel insurance for their people. (So many more businessmen are traveling now.) That's why we recommend our Group Travel Accident coverage. It's as current as the changes in your company.

For example, we've made a lot of our coverage automatic.

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Some companies won't insure that kind of risk.

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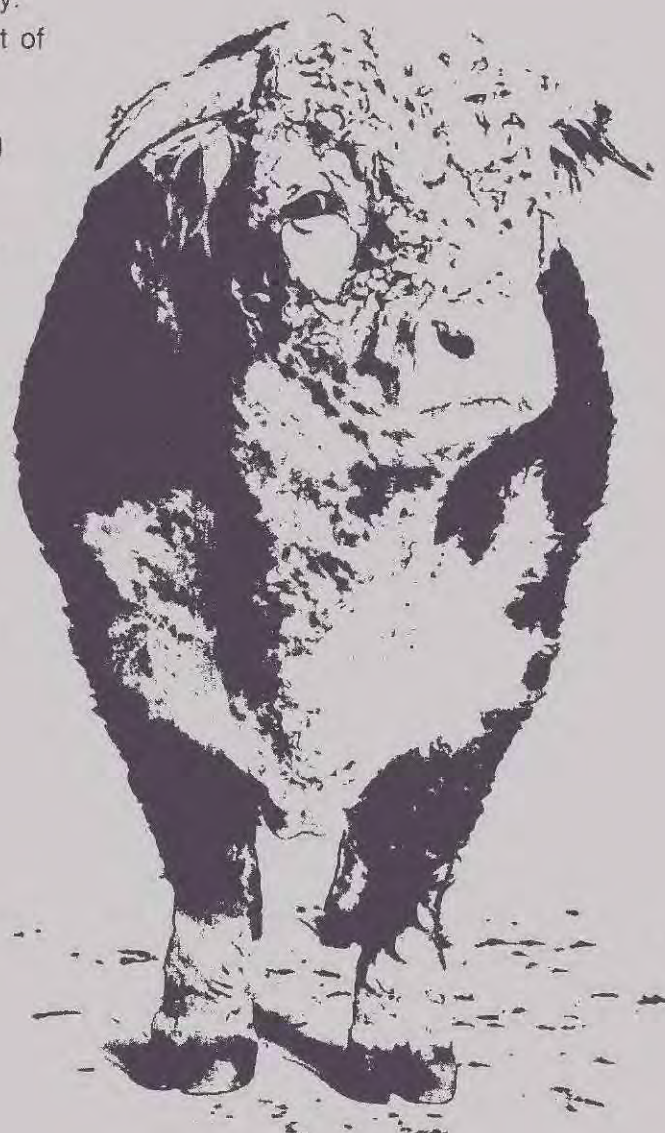
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kind of local service they could count on all the time. All over the world.

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These are just a few of the reasons why The Coca-Cola Export Corporation is one of 87 of the largest companies in America doing business overseas that insures with AFIA.



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One of the world's largest ship loaders can transfer 8,000 tons of ore an hour to giant cargo vessels. Here, the ship Osumi Maru is being loaded at Port Hedland, marking the first commercial shipment of Mt. Newman ore to Japan on April 1, 1969.

World's largest mining project pays \$2 million a year for covers

NEW YORK—Backers of one of the largest mining ventures ever undertaken, the Mount Newman iron ore project in Western Australia, are paying about \$2 million a year in insurance premiums, it was disclosed here.

The project, with insurance values of some \$200 million, involved the construction of a 265-mile railroad stretching from Port Hedland on the Indian Ocean to Mount Newman; construction of ore loading facilities at the port; dredging of a channel to accommodate 1,000-ton ships; and the building of two villages—one at the port and the other inland at the mine site.

Originator of the venture was American Metal Climax Inc. here. Joining AMAX in the consortium are Colonial Sugar Refining Co. Ltd., Sydney; Broken Hill Pty. Co. of Melbourne; Selection Trust Ltd. of London; and a joint company set up by Mitsui & Co. Ltd. and C. Itoh & Co., both of Tokyo.

UNDERWRITERS were asked to come into an essentially primitive area and insure risks which were heretofore considered uninsurable, according to Gerald W. Wilson, who handles foreign insurance matters for AMAX.

Originally, he said, the partners had discussed insuring the project on a maximum possible loss basis, and absorb normal recurring losses themselves, but Mr. Wilson told *Business Insurance* this procedure wasn't possible "because nobody

could figure out what the losses would be." Instead, the companies decided to insure first dollar losses.

"They decided to put insurance at the bottom rather than at the middle or the top," he explained.

Underwriters were especially wary of the railroad, Mr. Wilson said. "We thought we'd have difficulty getting any insurance at all on the railroad due to the fact that insurers have taken a terrible licking on railroads throughout the world."

THE CONSORTIUM took several steps to make the railroad as safe as possible. The contractor used heavy duty rails, standard spans for easy and fast repair and built bridges on top of concrete piers to guard against flash floods. (Last February the area recorded about 1,400 inches of rain—as against a mean rainfall for the period of 365 inches.) Tunnels, another hazard, were not used.

Even so, insurers nevertheless demanded a \$500,000 deductible on rolling stock and \$200,000 deductible on other railroad property—both for difference in conditions perils—as part of a \$10 million all-risk policy written through Lloyd's of London and Australian companies.

Difference in conditions risks include floods, earthquakes, collisions or upsets. The deductible for fire and extended coverage for railroad risks remained at \$20,000—the same as for other areas of exposure.

To bring the DIC deductible down to a more manageable \$200,000, the consortium obtained two "buffer" policies through an Italian company and Lloyd's.

MR. WILSON said that the broker for the mining project, Price, Forbes, Leslie, and insurance representatives of each of the members of the consortium were meeting in Melbourne to work out several matters "concern." AMAX's representative is Raymond A. Severin, director of insurance, who was instrumental in working out details of the coverage.

One of the matters being discussed in Melbourne is the requirement of insurers for certification that the train will not exceed a certain speed or length. The trains are required to carry Hasler recorders to verify their speed, which is "creating some difficulties," Mr. Wilson stated.

The "crucial, key point" of the operation is the port loading facilities. The consortium has contracted to ship 5 million tons of ore this year—that works out to 20,000 tons a day—and, as Mr. Wilson said, "you can't handle tonnage like we're talking about with wheel barrows."

The worst thing that could happen, from the consortium's viewpoint, is that an ore ship would sink, blocking the harbor. To guard against this possibility the backers are extending the pier some 1,000 feet to take two ships or a larger vessel.

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Bahama Islands get first insurance code; captives seek new home

By CAROL RATISHER

NASSAU—American offshore captive insurance operation in the Bahamas are quietly pulling out in the midst of formal enactment of the local government's omnibus insurance act.

The Bahamas' Insurance Act of 1969 requires that all insurance companies register with the government, maintain minimum capital reserves and annually publish financial statements in an official newspaper. It restricts borrowing power and gives the government certain other regulatory powers.

Although the measure is designed to protect the public against corrupt insurance operators and in general clean up the insurance industry in the islands, the captive insurance companies have not been exempted. This is being taken on many sides as a sign that the government is tightening up on controls of foreign insurance and other companies in the colony.

TWELVE TO 15 American captives have left the Bahamas for Bermuda or other places in the year and a half since the measure was first introduced in the legislature, while another dozen or so are now in the process of closing their Nassau operations, according to New York and Bermuda financial sources.

The new legislation—particularly the sections calling for public disclosure of income and general government regulation of investments—"has scared hell out of the captive insurance companies," according to one New York tax attorney close to the Bahamas captive situation.

One consultant called the measure "a nationalistic piece of legislation," and it is being widely interpreted as a harbinger of increasing regulation of the foreign business community on the part of the local government.

Prime Minister Lynden O. Pindling's black liberal party government approved the measure last January. In power since January 1967, it is the first black government in the history of the colony, where blacks are an 80% majority, and it shares some powers with a British colonial governor and other appointed officials. In Nassau, some observers think independence could be only three or four years away.

FRED REISS, president of American Risk Management, a concern that sets up and manages captive insurance companies around the world, called the colony "an emerging underdeveloped country" marked by "poverty, illiteracy and the uneven distribution of wealth" and in need of social welfare programs.

These conditions, Mr. Reiss said, make taxes a possibility, with the business community, and particularly the foreign business community, the only real source of taxable wealth. He noted that it tends to be easier for a government to tax foreign concerns than its own enterprises.

The Bahamas, unlike other popular nesting places for captives, offers no tax treaty guaranteeing

certain foreign companies long-term immunity from taxes that might later be imposed. Bermuda, for example, promises foreign companies exemption from currency control and the transaction of local business tax immunity until 1996, the Cayman Islands until 1994, and other places offer similar guarantees.

The reputation the colony has acquired in international insurance circles as a base for scandal-ridden insurance activities is another reason corporations have soured on Nassau as a base for insurance subsidiaries.

"**THESE SCANDALS** never happened in Bermuda," Mr. Reiss noted. There, a new insurance company is granted a charter in the form of a private bill passed by the colonial parliament after close examination of capitalization and assets and other conditions. It is a procedure favoring the well-established and well-financed firm.

In addition to Bermuda, other locations now being considered by captives are the Cayman Islands, the Channel Islands, Switzerland, Lichtenstein, Malta, Aruba, Granada and others, Mr. Reiss said.

"The majority of American captives in the Bahamas have made or are in the process of making proper arrangements to leave for other places," Mr. Reiss said. "I would think that they would be well advised to leave," he added.

At Alexander & Alexander, a feasibility study on the creation of an offshore captive prepared for a client recommended that "cost and ease of formation," "minimum statutory supervision over operations and investments," "low taxes for the present and future," and "economic and political stability" be considered in the choice of a domicile.

THE LOCATIONS being considered "with some interest" by that company were Malta, Bermuda, Panama, Lichtenstein and Switzerland.

H. Felix Kloman, an exec at A&A, noted in his appraisal of the current Bahama situation that "there are other locales which on

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Commercial crime losses down: BIA

LONDON—Member companies of the British Insurance Assn. paid out \$39.1 million in crime losses in 1968, up about \$960,000 from the previous year.

Business losses were the lowest in four years, the association reported, down to \$11.5 million. The figure compares with a peak of \$13.2 million in 1966.

Transit losses in 1968 fell 12% to \$8.9 million.

Losses of personal property rose 17%, to reach a record \$18.7 million, the association said.

Kenneth Bevins, chairman of the BIA crime prevention panel, said that the insistence of insurers on high security protection standards for commercial premises "seemed to be paying off."

American woman broker seeks way to Israel

DURHAM, N. C.—“I know Israel is in a war. But I want to leave America, live in Israel and do what I can to help build that nation. And the thing I do best, is in the insurance field. I want to be a broker in Israel.”

Hilda H. Tucker, a non-Jew with 20 years' brokerage experience, told *Business Insurance* she is making her appeal to brokers, corporations with branches in Israel and to anyone who can guide her.

“I love those people,” she said, “and only someone who has been there, over in Israel, and seen those people working, can value the true sense of destiny and purpose that so markedly is the atmosphere.”

“BUT I THINK they're missing



Hilda H. Tucker

one thing. They've got an adequate defense network that's really quite marvelous, and they have a well-planned agricultural sys-

tem. But I think they're missing a developed middle-class merchantry, and I believe I have the American know-how that can cut through red-tape, establish a working system, and spark the merchantry to a new height of activity.”

According to Mrs. Tucker, the problem facing much of Israel's business community is a lack of manpower. “These men cannot be spared for things like company accounts when they are needed for defense. Either that or the amount of talent that is permitted to stay active is nominal,” said the native Virginian insurance broker.

So Mrs. Tucker is appealing to American corporations, which maintain operations in Israel, hop-

ing that she can handle a few accounts for them in Israel. Said Mrs. Tucker, “Since I have a familiarity with the American companies, and speak English, I could easily handle branches of corporations. I would either set up my own independent firm, or work for a Hebrew brokerage, where my background would make me valuable to American accounts.”

“This would free a man who is badly needed to aid in the defense program. I can do a man's work in this field,” said the 50-year-old woman, “and I have been for 20 years.”

THE MOTHER of two children, Mrs. Tucker has efficiently managed the insurance account of the world-wide Nello L. Teer Co. To

increase her abilities she successfully completed courses for the degree of Chartered Property & Casualty Underwriter, and later became a Chartered Life Underwriter, “to be sure that I was making the wisest possible decisions for my customers at all times regarding their life insurance.”

Having such accounts as Triangle Research Institute, Duke University and the Terro account on her record positioned Mrs. Tucker as a force to be reckoned with, and she eventually became president of the Durham Insurance Exchange Inc., in her home town here. She has also been president of North Carolina's CPCU chapter, and president and state director of the North Carolina chapter of the National Assn. of Insurance Brokers.

Mrs. Tucker reported that it came as an unbelievable surprise to her friends, relatives, and colleagues when she began learning to speak Hebrew and joined the local Hadassah, a Jewish/Israeli organization, preparing to switch bases from Durham to Jerusalem.

“My boss doesn't believe this under any circumstances,” said Mrs. Tucker, “and the people in town can't see their way to this either. I haven't told any of my big accounts yet because I don't want them to start looking for a new broker, but I guess the cat's out of the bag with this article.”

THE FEMALE insurance broker is willing to relinquish her American citizenship in favor of Israeli citizenship. “This is a second life for me; I've fulfilled my role as a good American. I've reared two fine children, been a prominent businesswoman, and a law-abiding citizen. Now I'm going to roll up my sleeves and do whatever I can to help a new nation striving toward internal strength.”

“I can wash dishes or dig ditches if I have to. I think my greatest contribution would be a business contribution, but I'm willing to bend my back and do anything to help those people.”

At first Mrs. Tucker thought her notions little more than a story-like yearning to travel to a foreign country. Her impressions were filled with the romance of a new nation, building itself from within. “But I've come to realize,” says Mrs. Tucker, “that destiny is truly in Israel. For that country is destined to be a great nation one day. And everyone who participates in that effort has an equal destiny.”

If there are corporations with Israeli operations, or if there is anyone with a contact who can help Mrs. Tucker, write to her at 212 Corcoran St., Durham, N.C. ■

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City workers' kin get cover

PORTLAND, Ore.—This city has offered its employees a “pay package” that increases wages by about 9% but that also includes a health insurance program covering employe and family rather than just the employe.

The agreement, with the District Council of Trade Unions, covers some 1,400 Portland city workers.

The contracts also provide for continuation of the previous city-paid \$1,500 life insurance coverage.

An option of additional life insurance in lieu of a health plan will cease. Those who wish to continue present maximum coverage of \$15,000 will be permitted to do so with payroll deduction. ■



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Lloyd's 'put faith in wrong people,' acknowledges U.S. rep Morton Smith

By STEPHEN GILKENSON

PROVIDENCE, R. I.—Underwriters at Lloyd's, the London firm that insured Betty Grable's gams but never had a claim, are finding their own trusty legs shaky in this country, said a Lloyd's agent here.

Morton Smith, president of Morton Smith Inc. and its subsidiary, Medway Insurance Co., said in an interview recently that Lloyd's of London is not the U.S. insurance power it was ten years ago. Furthermore, he added, if its mode of operation continues much longer it will become a "third rate" insurance carrier in this country.

A Lloyd's representative in this country since 1961 and a dealer on a less formal basis for ten years before that, Mr. Smith is in a relatively good position to comment on the situation.

HE IS THE ONLY Lloyd's agent in this, the nation's smallest state, who writes every kind of insurance available with the British insurers, from privately owned jewelry to retail stores to a local toy manufacturer.

He also makes frequent trips to London where he maintains close contact with his broker and members of his syndicate at Lloyd's. ("I just got back from my 71st two weeks ago.")

Mr. Smith attributes Lloyd's condition in this country to two things, the second a result of the first.

"They've had some horrible losses in the last ten years—a ton of money. And, as they've had losses they have also lost valuable 'names' in the syndicate," he explained.

(Lloyd's is made up of several hundred syndicates of upwards to 6,000 individual underwriters who pledge their personal assets to cover policies their syndicates write. Their capacity is their combined total assets. Thus, as individuals leave the Lloyd's fold for more profitable investments, capacity decreases.)

"LLOYD'S IS loaded with integrity. They've never tried to duck a claim. In fact," he went on, "they do business on faith. The trouble is they have put faith in some wrong people in recent years. Some agents in this country (there are in the neighborhood of 250) have given them wrong information. An agent would insure a building for flood, for example, and not tell Lloyd's the building was located on a river with a history of flooding. Until now they have done little investigation before writing a policy," he added.

There are indications that this is all changing, that Lloyd's is wising up and attempting to streamline its U.S. operation. However, the operation is still not computerized, Mr. Smith said, and as a result it is always three years behind in paperwork.

"They're now looking at figures from 1965. Hurricane Betsy is just

being cleared from the books. They had one loss in New Orleans that cost them \$20 million," he said.

Lloyd's is very concerned about its business in this country, Mr. Smith went on. "Sixty-seven per cent of its world premium income comes from North America. If they stop writing this kind of business here, their income is going to go to hell," he said.

ALTHOUGH PROFITS appear to be better for this and last year (no one will be sure until the books are clear three years hence), Mr. Smith feels the trend will not reverse itself until Lloyd's adds more insurance capacity. "Names," in other words.

Until a year ago, he cited, a Rhode Island retail store was carrying an all-risk \$40 million policy with Lloyd's. Had been for years. When renewal time came last year, he said, the London insurer would not cover it.

"All they would take was \$250,000 of the first million. I had to go to three domestic companies for the other \$750,000. Then I went to another domestic company for a \$3 million policy with the first million deductible. Now we had \$4 million covered. Next I went to another company and wrote \$6 million with \$4 million deductible. Now we had \$10 million covered. Then I went to another and wrote a \$10 million with \$10 million deductible . . . And so on. That's the way it goes. Of course, the higher you go the lower the premium because you're playing with big deductibles."

HOPEFULLY, Mr. Smith said, Lloyd's will add more names to avoid this cumbersome—and more expensive—method of insuring U.S. companies for all risks. It recently took a radical step in this direction when it began inviting those outside the United Kingdom to become underwriters in its syndicates—a radical move for a British firm that had done without foreigners since 1688. Ten Americans, including one woman, are now members.

Mr. Smith was among those invited to join. He declined, investing instead in a 1969 Rolls Royce Silver Shadow to replace his 1967 model. It is "probably the only one in Rhode Island. . . . No, I think there's another," he says. The automobile is not insured by Lloyd's, by the way, since Lloyd's does not insure automobiles in this country.

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Farmer gets trade secret court award

JUNCTION CITY, Kan.—A Ramona, Kan., farmer has been awarded more than \$85,000 in a trade secret infringement decision handed down by Geary County, Kan., District Judge Albert Fletcher Jr.

Frederick W. Mann filed the suit in 1967 against Gilmore-Tatge Chemical Co., with plants in Herington and Clay Center, Kan., and Merwin Gilmore and Harlan Tatge, of Clay Center, owners of the chemical company.

MR. MANN alleged the company manufactured a device to combat face fly in cattle after he had shown Mr. Gilmore and Mr. Tatge a similar device that he invented on his farm.

He sought 10% royalty for all such devices manufactured by the firm.

In his ruling, Judge Fletcher awarded Mr. Mann 5% royalty on each device sold and on all future sales.

Using nonadmitted insurers is an intricate game

By RANCE CRAIN

NEW YORK—Two insurance buyers—whose managements swore them to anonymity—talked about the delicate subject of using insurance companies overseas that aren't approved by local governments.

Up to now, most insurance executives have been unwilling—either on or off the record—to discuss the intricacies of bypassing locally admitted insurance firms in favor of “nonadmitted” carriers.

But one buyer for a conglomerate told *Business Insurance* that a big reason for high international premiums at his company—\$6 million overseas vs. \$3.5 million in the U. S.—is that buying insurance from admitted carriers costs about “twice as much” as from nonadmitted insurers.

BUT THE INSURANCE manager pointed out that because his firm works closely with governments around the world, and is under “close scrutiny” by them, “we want to be legal.”

He added that there are “substantial” penalties for buying insurance from nonadmitted insurers in some countries. In Italy, for example, the government exacts a penalty of double the insurance premium for buying from a nonadmitted carrier.

But he confided that he buys crime insurance on a nonadmitted basis, explaining that if he is forced to produce a policy he can get one through an admitted carrier that has a working relationship with a U. S. insurer.

A financial executive for an overseas chemical concern said his company uses locally approved insurance firms to handle most coverages, but he said that “more control and better communications is best achieved by consolidation, especially now that insurance companies are getting around the admitted, nonadmitted business with the help of insureds.”

HE SAID, for instance, that he is trying to interest a group of U. S. mutual companies in writing property insurance for his company on three overseas continents on a nonadmitted basis. The premium, he said, “would be considerably less than I would pay anywhere else, partly because brokers wouldn't be involved.”

He said that “I don't know if we can pull this off because of the corporate relationship with our brokers, but if we found there was a considerable amount of premium savings possible management might be swayed.”

Both the conglomerate and the chemical company maintain worldwide policies with limits above those needed in any country. The chemical firm has excess liability coverage of \$50 million written through ten different carriers. And the conglomerate puts its overseas fire and business interruption through a pool of several U. S. insurers, with the pool writing \$25 million coverage on any one loss involving both types of losses.

The pooling arrangement is the “only way” to handle the business, the buyer explained, because no one insurer is authorized to write in every country his firm deals in and also because no one insurer has enough capacity to handle the entire risk itself.

HIS COMPANY is currently in the process of arranging a similar pool setup for worldwide liability coverage, but the executive said “it's very tough to get the limits we want at a reasonable price.” He indicated the company was

trying to line up liability limits of \$10 million.

He explained that liability limits currently vary from a few thousand dollars for one installation in a South American country to over \$10 million for a unit in England. What he'd like to arrange is a minimum primary for subsidiaries in all countries, with excess coverage—“depending on

what the market will bear” over the primary.

The biggest international insurance problem facing the conglomerate is “gaining cooperation from local people.” He observed, “It's purely a matter of salesmanship—to convince them that what you have is good.” The buyer said that foreign managers often like to maintain relationships with local

carriers because it helps them obtain financing.

Also, he suspects “an undertone of nationalism has something to do with some units refusing to adopt the world-wide insurance program of the parent.”

CONSOLIDATION is the key word for the overseas chemical concern. The firm's assistant

treasurer is currently hard at work trying to consolidate the unit's comprehensive general liability, workmen's compensation and some of its auto coverage with one insurer.

The financial exec said he is also consolidating a multi-country group life and health program, hopefully with retention costs af-

Continued on page 41

Suppose your key man is on a banana plantation in Nicaragua. Or suppose he's an Italian trouble shooter in France. Or a French engineer in Algeria. A Swiss mover in Spain. A Spanish liontamer in Africa. An African dye maker in India. An Indian rug maker in England. An American ship builder in Japan. Or an Englishman in England. A Frenchman in France. An Italian in Italy. A German in Germany. An American in America. No matter who he is. No matter where he is. We can insure his life. Do you know another insurance company that can do that?

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Arranging complete cover complex on Northern Trust's British move

By THOMAS LUTZ

CHICAGO—Arranging insurance coverage for a new neighbor of Lloyd's of London and the Bank of England is more involved than it might first appear. "We had no difficulty placing the coverage," Thomas H. Lueck, an officer of the Northern Trust Co. of Chicago, told *Business Insurance*. "It was simply a matter of making sure everything was covered."

When Northern opened its London office early this month, it became the first U.S. bank to establish a branch operation on the famous London financial street of Lombard, joining some 25 other U.S. banks now in England to service multi-national corporate customers. It also became the first state-chartered bank in Illinois to apply to board of governors of the Federal Reserve System for and be granted the right to establish an overseas branch. (Illinois prohibits branch banking in the U.S. but approved the right of banks to establish overseas branches in 1968).

Because Northern was establishing its first branch office, and because it was embarking on its first overseas adventure, Mr. Lueck, who acts as the bank's insurance manager, had to start from scratch in developing an overseas insurance program.

"IT WAS DECIDED at the start that all insurance—property, liability and employe benefits—would be handled here at the Northern Trust in Chicago," he said. Northern officials wanted the officers who were sent to London to concentrate on providing banking service and not be burdened with the responsibility of arranging insurance coverage.

With that decision made, the first problem was to provide the London operation with adequate banker's blanket bond coverage. Because such bonds have no territorial limitations, Mr. Lueck extended the bank's Aetna Casualty and Surety primary bond, a standard \$1 million-limit cover, to protect the overseas branch.

The same extension was also possible with Northern's excess bond coverage, which is underwritten by Lloyd's, its public liability protection, which is also provided by Aetna, and its employer's liability. Although Mr.



Thomas H. Lueck

Lueck declined to name the limits on these coverages, it is thought that Northern, with about \$1.4 bil-

lion in assets, would buy between \$12 and \$18 million in excess bond coverage, \$3 and \$12 million in liability protection, and about \$1 million in employee's liability.

Property insurance was the next major consideration. Mr. Lueck explained that Northern acquired a fire insurance policy underwritten by Phoenix that had a £191,000 limit. This coverage, which Northern would pay for, came as part of the lease agreement for the prestigious 38 Lombard street building. But, Mr. Lueck pointed out, it was necessary for Northern to buy additional fire insurance, and since fire policies in the United Kingdom normally exclude riot and earthquake protection, extra cover-



38 Lombard St.

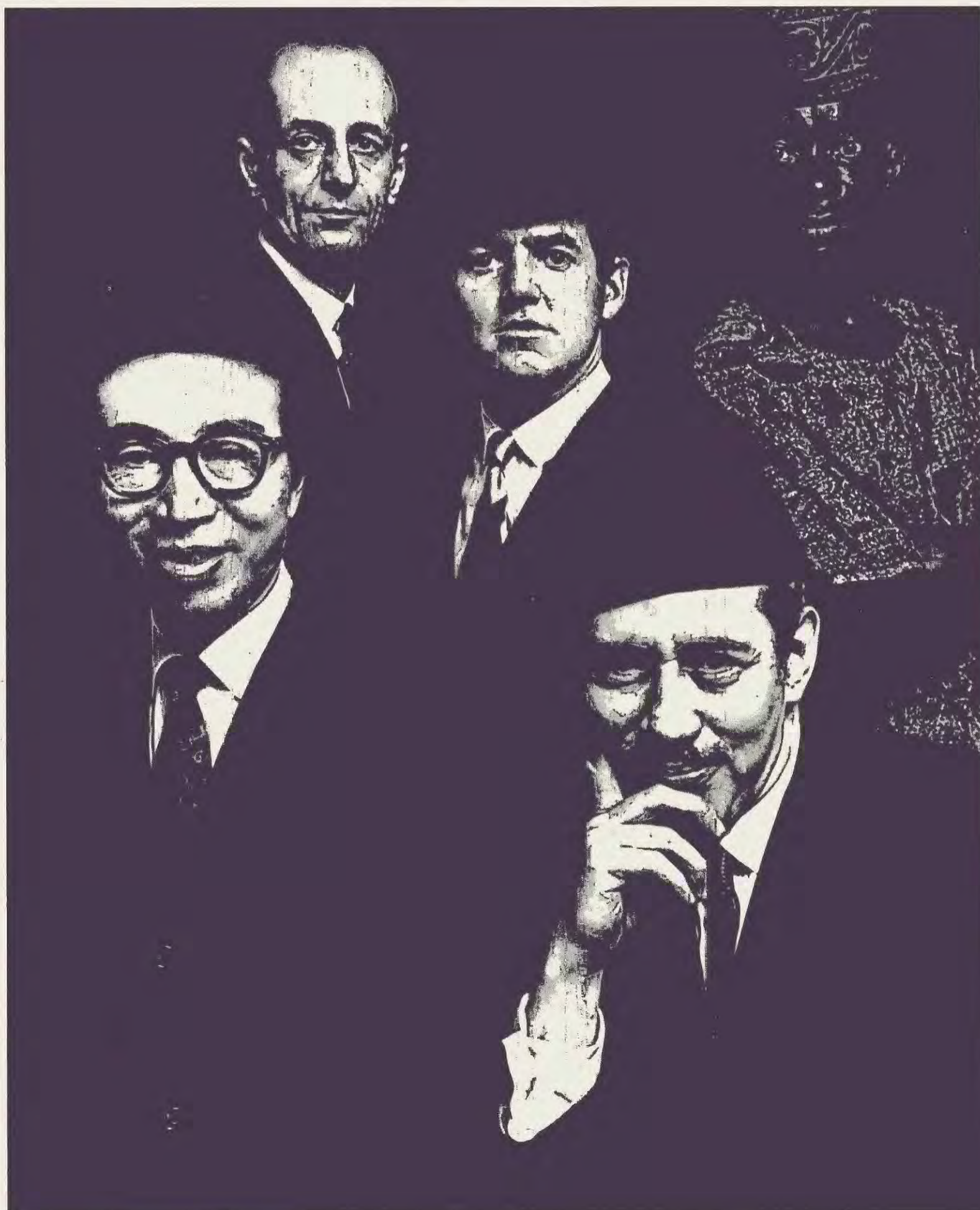
age was obtained for those risks.

Because a considerable amount of work was done in connection with the building—both inside and outside—it was also necessary for Mr. Lueck to arrange an improvements and betterments coverage. It is now estimated that between \$250,000 and \$300,000 will be spent on these improvements.

Mr. Lueck said that two other types of special coverage were required in connection with the building. These were boiler and lift (elevator) insurance and building contents coverage.

Cash in transit and valuable papers coverage, except when cash or paper are sent through the mails, was provided by the extension of the bank's blanket bond. Northern's mail insurance, however, presented some problems. Its registered mail contract through the Hartford group provides world-wide protection, but the first class mail policy held by

Continued on page 32



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IBM's subsidiary spreads risks across entire British market

LONDON—IBM is big business, with its British subsidiary having a growing turnover of more than \$300 million every year.

Its insurance demands are a vital factor in its financial accounting, with the need for close assessment of every phase of its operations being an equally important matter.

By now the assets of IBM United Kingdom Ltd., which began its U.K. operations in 1951 and is the offshoot of International Business Machines Corp., have grown to just about \$250 million. This embraces plants in three centers, and approximately 10,000 personnel in 35 locations.

DEREK K. England, its insur-



Derek K. England

ance manager, has been selected from its finance division to supervise the insurance.

He took the job on after being with the company for 10 years, during which time he has dealt mainly with financial matters.

The firm preferred internal promotion for such a post, rather than going outside to the insurance industry, when it expanded its insurance operation.

Mr. England was trained as an accountant and was on the finance side of the Beecham Group before moving to IBM.

BUT HE HAD been closely engaged on IBM insurance matters for some years, so that he knew the insurance market well by the time his department was formed.

He gave this assessment of his job as U.K. insurance manager within one of the world's biggest industrial concerns:

"My basic philosophy is to make sure that the company is at

all times fully insured, with no exposures to major risks left unguarded. We do this by spreading our risks in the normal way across the British market.

"My approach at this point in time is to employ a firm of insurance brokers with specialized knowledge who can provide first-class service and expert advice and who are attuned to our ever-changing needs.

"I KNOW THERE are different schools of thought about this. Some people place their insurance direct; others may prefer captive insurance companies. I am not against captives. It depends on the particular situation at the time. IBM does not have one in the U.K."

The major aspect of his operation is the insurance of those computers and other equipment that the company both manufactures and markets from its U.K. base.

This is Mr. England's concept: "I do this throughout the United Kingdom on an all risks basis, with one all embracing policy. The aim is to get the widest coverage for all insurable contingencies.

"I try not to be restrictive, and aim to get very wide policy wording.

"I find I have the market facilities in U.K. to do this. It may be that the same market facilities are not available in other European countries. Here in the U.K. I am given a free choice of how to operate my insurance in the British insurance market."

Employers' liability, public liability, plant risks, buildings and contents, auto and other equipment cover are naturally among risks he insures.

As IBM United Kingdom Ltd. is still rapidly expanding, he ensures that he gets into any new construction projects at an early stage with his brokers, as well as with the construction team and fire-hazard specialists, so as to achieve the best possible premium rate, and to reduce any potential risk to a minimum.

"It is no good making insurance representations when the building has been completed," he said. "You have to get in at the drawing board stage."

If you're still depending on them to insure your overseas shipments, don't say we didn't warn you.

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Warning: Is your shipment insured from warehouse to warehouse? Are you sure exactly where the overseas-placed insurance attaches? You may find yourself a heavy loser because you assumed you had the coverage you would have placed.

Warning: What do you know of the insurance company of your overseas supplier? For example, do they have the capability and expertise to assist in preventing damages and losses?

Warning: Insurance premiums are based on risk experience. Are you paying a higher final price for your shipment, a price inflated by insurance costs, because of the poor risk experience of your overseas contact?

Warning: Do you have an absolute guarantee that the proper marine and war risk insurance will actually be placed on your shipment? Your buyer or supplier may say that he will take care of the insurance and then forget about it. Or he may insure only a fraction of the value to save money on premiums.

Warning: Your buyer may be uncertain about his loss liability and not authorize payment of drafts on goods that are damaged or fail to arrive. You take the loss.

Warning: Exchange controls of some foreign countries won't permit payment until customs clearance. Damage or total loss prior to that time may prohibit securing of payment and you, again, take the loss.

Warning: The financial risk on your exports is switched to you during the period the money is outstanding. Suppose your overseas buyer gets into financial difficulty while the shipment is en route and the shipment is lost or suffers damage. His insurance pays him, not you. And you become just another creditor—instead of being reimbursed in full if you placed the insurance yourself.

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Information also obtainable from your insurance agent or broker, or any Field Office of the United States Department of Commerce.

Shippers to Israel contend spiraling war risk rates are 'unjustifiable'

TEL AVIV—Shippers to and from Israel are expressing growing discontent here over what has been termed by Israeli officials as "a very unfair attitude on the part of London underwriters in determining war risk rates on cargo flowing to or from Israeli ports."

"It is very peculiar," said an Israeli source near the Minister of Finance, "that every time a shot is heard in the Mid-East, London must react with increased war risk rates. Let me say that the question of state supported war risk insurance is a priority discussion among the economic minds of the government, and there will come a time—soon—when London will ask too much, and Tel Aviv

will respond with an emphatic no."

This statement followed a plea by the Israeli Assn. of Maritime Users for the Israeli treasury to create its own war risk fund. According to an association spokesman, the latest premium hike will add \$3.6 million in costs to import-export trade each year.

THE ASSOCIATION'S secretary claimed that this increase came despite an agreement reached in London to maintain the previous rates, unless "something unusual occurred to change the situation." The accord between the association and the chairman of the cargo rating committee was reached last month,

with the understanding that another meeting, this one concerned with rate reduction, would take place in August. The group called London's actions unjustifiable, and submitted their formal request to the Israeli treasury.

War risk rates for the Middle East have been doubling since an Israeli raid on Beirut International Airport, which saw the destruction of the entire Middle East Airlines fleet. The increases generally affect the entire Middle East community, but one Israeli economist maintained that "these rates have a more serious effect on Israel than its neighbors, for they can still trade amongst themselves, whereas Israel is totally cut off from trading with

her neighbors, and must rely entirely on exporting and importing from abroad."

Presently, Zim Inc., a merchant marine concern, and El Al Airlines are the two firms burdened the most, although the companies said they hadn't suffered a war risk loss within the last 20 years. Despite this, war risk rates for Zim for the week of July 20 were quoted at 25¢ per \$100 of cargo valuation, and seven days later premiums were increased to 50¢ per \$100 of cargo valuation, according to Zim.

ISRAELI OFFICIALS contend that warfare has been restricted almost exclusively to the Suez Canal area, where there are no cargo shipments. Israeli insurance people complain: "I guess London just doesn't believe the reports when they say war is primarily contained in the Suez area."

One Lloyd's representative noted that "war risk rates are sub-

ject to change without notice from day to day. I have seen war risk rates change as much as twice a day. In fact, as far as the Israeli conflict is concerned, we get the words 'To be advised.' That means if they want a rate, we have to apply to London.

"But you know," said the representative, "we have similar war risk rates in other parts of the world. Look at Honduras and Salvador; they've got a mess down there now too. True, they're not as high as Middle East rates, but they don't have Russian MiGs or French Mirages down there."

An official at the U.S. War Risk Re-Insurance Exchange said the ten-man committee that sets rates bases its decisions on news dispatches, United Nations reports and observers from various governments.

The answer to Israeli woes, as that nation's insurance experts see it, is to self-assume a greater portion of war risk coverage—if not the entire amount. The plan urged by the Assn. of Maritime Users calls for setting up a domestic insurance program headed by the government.

Right now, industrial complexes in Israel pay approximately 55% of their profit for income tax. A surtax of .8% automatically insures firms against any war risk. Manufacturers involved in export activities pay only about 28% income tax for the first five years, receiving the war risk insurance without paying the surtax.

Yuval Reinsurance Co., formally owned by the state but later sold to a private group, is the Israeli reinsurer that absorbs part of the loss for any destruction incurred through war actions. "In the 20 years the program has been in existence," commented the Ministry of Finance source, "we haven't paid out a single claim. And this also applies to our cargo shipments to and from Israel. We haven't had one enemy-responsible loss there either. When we tell this to London, though, they say we are fortunate. Of course, we prefer the term, 'organized.'"

But right now Yuval isn't big enough to carry the load of underwriting or even reinsuring the government for underwriting war risks, said the finance official.

"Of course," he continued, "This is a matter of time. Soon Yuval will be big enough to take on greater responsibility. And then, if London quotes us a price that we think is not warranted by the action, and it proceeds in this manner for a long time, we will have an alternative. Right now we have not." ■

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Bank . . .

Continued from page 30

the bank does not cover mailings outside the U.S. It was therefore necessary for Mr. Lueck to arrange for insured shipments from the London office to be sent registered mail.

Workmen's compensation presented no great problem, because the U.K.'s National Insurance Act is similar to the state funds in the U.S. Mr. Lueck did, however, arrange for a supplemental voluntary compensation cover under Illinois law to provide Northern employes from the U.S. working in the London office with the same coverage that Northern employes in Chicago have.

By and large, employe benefits for the two operations are basically the same, Mr. Lueck said. For U.S. citizens working in London, the bank's benefits programs include hospitalization and major medical, life insurance and a pension plans. A separate plan, taken out in England, provides the English nationals with basically the same coverage as employes in Chicago. ■

Ackerman joins Sheraton, handles expansion abroad

BOSTON—Richard P. Ackerman has joined Sheraton Corp. of America as director of insurance, a newly created post at the international hotel and motor inn subsidiary of IIT.

In his new position, Mr. Ackerman will be responsible for creating insurance coverages for Sheraton's \$1 billion overseas capital expansion program. This duty will involve buying coverages "from conception to birth to the grave" for the 120-hotel expansion program, Mr. Ackerman told *Business Insurance*. He is now arranging builder's risk and other coverages.

Mr. Ackerman is also responsible for insurance coverages protecting Sheraton's 50 hotels and 90 motor inns in the U.S. At the moment, Boit, Dalton & Church Inc. is the Boston-based brokerage firm that handles Sheraton's 90% self-insured workmen's comp program; American Mutual is the direct writer of the hotel system's liability coverage; Fairfield & Ellis, another Boston-based brokerage house, handles Sheraton's property coverage; and Field & Cowles, also of Boston, is the broker for the insurance coverage on the 15 Sheraton locations now in operation overseas.

IN ADDITION, the new director of insurance will manage the employe benefits insurance program and coordinate safety and security activities of the corporation. This responsibility includes the operation of a \$65,000 annual safety contest.

Pror to joining Sheraton, Mr. Ackerman was assistant to the director of insurance for IIT Continental Baking Co. His experience also includes employment as an underwriter for several insurance firms and a credit manager for Universal CIT Finance.

A native of Williston Park, New York, Mr. Ackerman holds a B.A. from Hofstra University and has taken graduate courses at Brooklyn Polytechnic Institute. He is a member of the American Society of Insurance Management, American Management Assn., Greater New York Safety Council and the National Safety Council. ■

Covenant liberalizes vacations

HARTFORD—The Covenant Group, Hartford insurance organization comprised of Covenant Insurance Co., Covenant Life Insurance Co. and Mutual of Hartford, has instituted what it terms is the most progressive vacation policy outside of the teaching field in Connecticut.

Covenant is offering all employes hired prior to July 1 of any year, three weeks vacation after their first full year of service and four weeks vacation after their second and following full years of service.

In addition, special "bonus weeks" of vacation time are being offered to long-term employes (ten or more years of service).

Covenant employes are receiving one-extra week in their 11th year, two extra weeks in their 16th, three extra weeks in their 21st, and four extra weeks in their 26th year of service.

Under the new plan, Covenant is working a 37½ hour week, beginning at 8 a.m. and ending at 4 p.m., with a 30-minute lunch period and no earned days. ■



Richard P. Ackerman

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Joint freight rate for overseas cargo won't affect insurance, buyers say

NEW YORK—Recent government moves toward the establishment of joint freight rates for goods moving over both land and water between points in the U.S. and abroad are expected to have little immediate effect on shipping insurance rates, a *Business Insurance* survey indicates.

The proposal, made originally by the Interstate Commerce Commission but now complicated somewhat by a challenge from the Federal Maritime Commission, would mean that single transportation companies could ship products between any foreign and U.S. point with the costs—truck, rail and ocean transport rates, port charges and insurance—being included on

one bill.

All of the several shippers and over-land carriers queried agreed that the order will have no appreciable effect on insurance rates, since such coverage is usually subject to "warehouse-to-warehouse" clauses. Most admitted, however, that they had had little time to study the ICC move and its complete ramifications.

JUST WHAT those ramifications might be is the subject of conjecture among international carriers. Most feel that it will speed the development of "containerization," the movement of freight in van-sized containers that can be loaded on trucks, rail

flat cars or ships.

"Of course," said the insurance manager of one company that does considerable international trade, "containerization should lead to less handling, less chance for damage and thus, in the long run, to lower insurance rates."

Advocates of the method contend that it represents the most efficient and cheapest way of moving general products in world trade, but some complain that the works are being snagged by the truckers, railroaders and steamshippers who want to maintain control over the revenue on each leg of the trip.

Still others contend it is the "obstructionism of the insurance

industry" that is holding back containerization.

MAKING THE CHARGE recently before a Northeastern University seminar on trends and development in physical distribution was Eugene R. Birchler, vp of Container Transport International Inc.

"There is nothing a marine insurance man would rather talk about than how a container carried as deck cargo was swept overboard in a North Atlantic storm," he said. "The insurance people are exaggerating outrageously the losses from incidents of this kind."

Citing incidents in which containerization has reduced losses, Mr. Birchler said that his own company, which now has a fleet of 30,000 containers, has received claims which were "uniformly small." He added, "They have never even involved an insurance company but were settled as carrier liability." Mr. Birchler also cited a report of the Insurance Institute of London, which maintained that various container users surveyed by the institute have had fewer insurance claims than those shipping by conventional method.

The two largest container losses in recent years have involved roughly \$1.2 million. The largest occurred in 1967 when Sea-Land Service Inc. lost 57 containers in one accident, with a cargo loss of \$900,000. The second involved a loss of approximately \$250,000 when 22 containers washed off the deck of a Honolulu-bound Matson Navigation Co. ship late last year. The accident, according to Matson's insurance manager, John V. Bearhs, was "the first of any consequence" suffered by the firm in the last 10 years.

MOST ADVOCATES of the method also contend that containerization has reduced losses in two other areas, that of hijacking and pilferage.

Hijacking has been reduced at Matson, notes Mr. Bearhs, because the containers are not placed on wheels until they are to be transported.

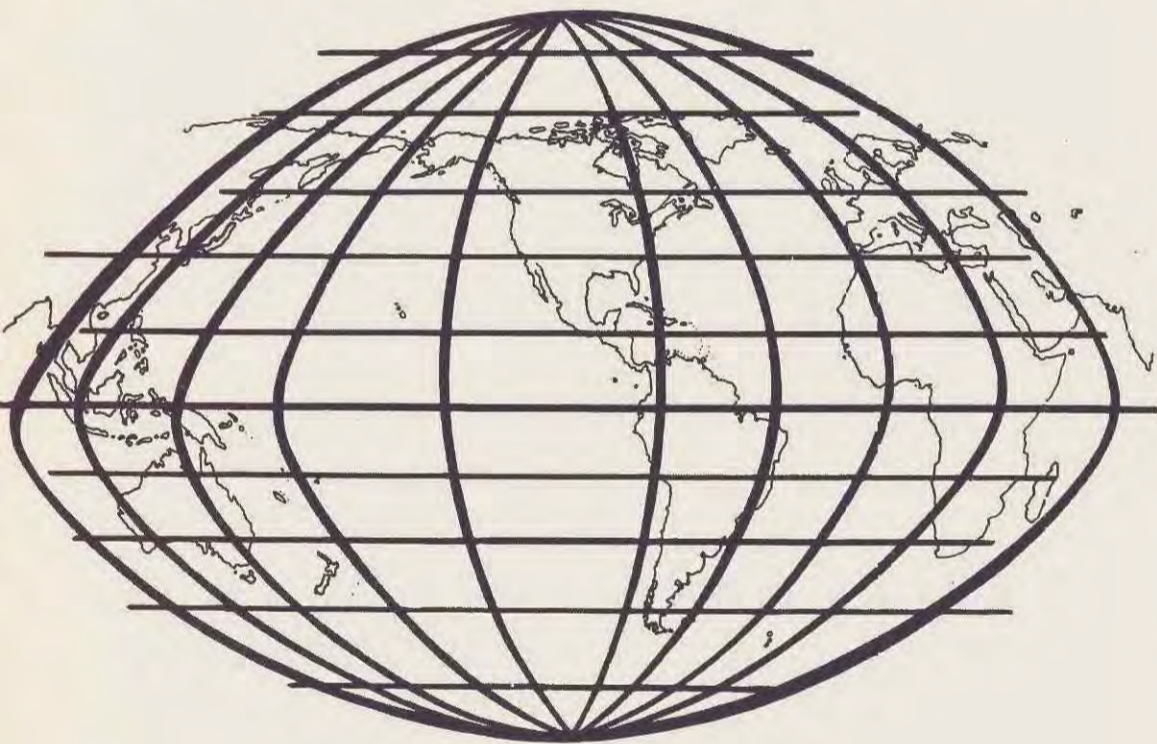
As for pilferage, Mr. Birchler makes a strong case, claiming it is virtually eliminated by containerization. Citing Mayor Richard J. Daley's effort to end the \$15 million-a-year pilferage problem on the Chicago waterfront, he said, "If Mayor Daley wants to stop pilferage in Chicago, I suggest he take steps to put as much merchandise as possible into containers."

Before containerization can become accepted as a conventional method of transporting goods from warehouse to warehouse a simplification of freight documents and rate structures is needed, those not now using containers believe. The ICC order lifting the ban on the establishment of joint freight rates for goods moving over both land and water, issued July 15, would have led to those simplifications. The order, however, has since become involved in a minor bureaucratic dispute.

SEVERAL DAYS after the proposal was announced by ICC chairman Virginia Mae Brown, Federal Maritime Commission chairman Admiral John Harlee, U.S.N. retired, wrote a sharp but politely worded letter to Mrs. Brown, saying in effect that the domestic regulatory agency had encroached on the Maritime Commission's domain in issuing permission for carriers in international trade to issue a single rate for all modes of transportation.

"It is perplexing," wrote Admiral Harlee to Mrs. Brown, "when a government agency which traditionally deals with domestic transport, suddenly enters the field of ocean-borne foreign shipping. It is even more disturbing when this is marked by a failure to have consulted with other responsible agencies."

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Foreign Study League students on the scene in Rome brush up on their sketching. They are covered by a comprehensive medical and accident policy.

Foreign Study League has \$3 million limits

SALT LAKE CITY, U.—The French Mediterranean may be a long way from Camp Runamok, but when a school was launched to send students abroad for summer study, the only insurance cover it could find for its charges was a package designed for summer campers.

The Foreign Study League, a subsidiary of Transamerica Corp., established in 1964, has for the past seven summers sponsored academic study and travel programs for high school and some college students at foreign campuses around the world.

This summer, more than 7,000 students are enrolled at campuses leased from boarding schools and universities in 41 cities in 13 European and Asian countries. The schools are staffed and administered by the league, and instructors are both European and American.

THE SIX-WEEK, travel-study package includes stopovers in two other foreign countries, in most programs, in addition to the campus stay. Academic studies range from Japanese language in Tokyo and English drama in London to art history in Florence and music in Salzburg, with all courses taught in their native setting.

Dr. Robert Debry, executive director of the league, recalled that when the program was first begun the organization could not find a standard package of medical, accident and travel insurance to give its young travelers. The St. Paul Fire & Marine Insurance Co. finally offered a package designed for youngsters going to summer camp, to which an additional travel cover was added.

Lloyd's of London two years later tailored a group insurance package for the organization, and last spring the policy was moved to the Pacific Fidelity Life Insurance Co., Los Angeles, and the Transamerica Insurance Co., another Transamerica subsidiary.

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Continued on page 44



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AMAX . . .

Continued from page 25

During the construction phase of the project, the consortium bought two ocean cargo policies—one providing limits of \$2 million for any one occurrence, the second giving separate \$100,000 coverage for loss of cement bags. After the construction was completed, backers took out the broadest form transit policy they could get—\$2 million through Lloyd's, covering physical loss or damage.

Both during and after construction the four partners of the Mt. Newman iron ore project arranged property coverage of \$10 million and excess liability of \$15 million. The excess liability was over and above any primary liability coverage, and if none existed the extent of the cover was \$15 million—subject to a \$25,000 deductible.

The property cover after construction was completed also included an additional \$500,000 for debris removal and \$500,000 for expediting expenses.

Mr. Wilson said both property and excess liability coverage were arranged through Australian facilities, plus Lloyd's, "without canvassing the world markets for additional capacity."

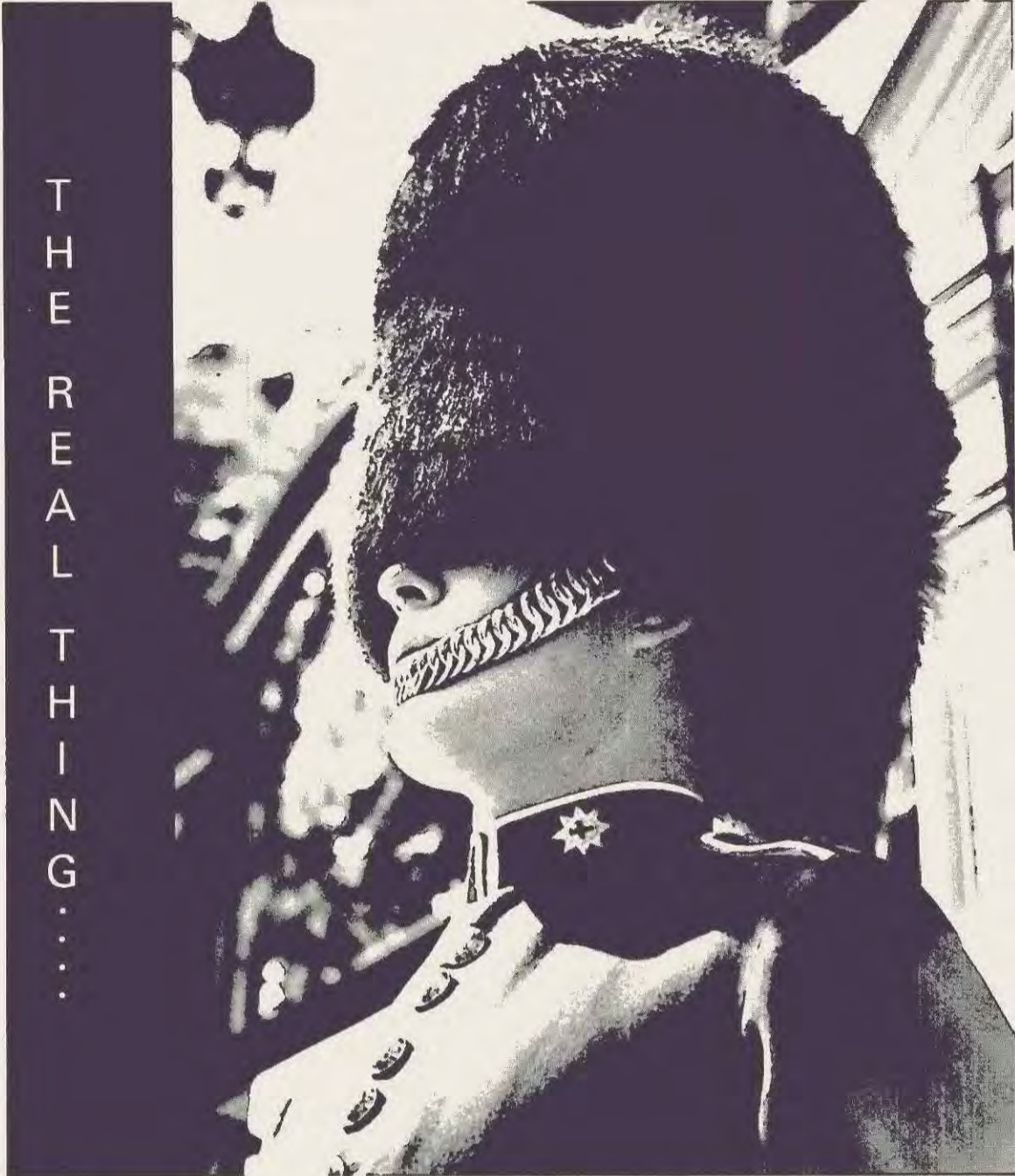
DURING THE construction and post-construction phases, primary liability was maintained by Mt. Newman Mining Property Co. Ltd., the manager of the project, to the extent of \$500,000 per occurrence, through Commercial Insurance, Newark. This was subject to a \$2,500 deductible for each property claim.

Primary and excess fidelity coverage for the post-construction period is \$2.77 million.

Two major areas of exposure are not insured by the project, Mr. Wilson said: Business interruption and boiler pressure vessel and machinery breakage. Mr. Wilson

went on to say that the project arranged for stand-by engines for most of the areas, such as conveyor belts and crushers.

Each of the participants is free to arrange its own business interruptions insurance, however, to cover its own interest.



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This aerial view shows ore-loading facilities of the Mt. Newman iron ore project. The pier is being extended some 1,000 feet to accommodate two ships or a larger vessel.

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International capacity crunch hits buyers with overseas operations most

CHICAGO—Corporate insurance buyers and the brokers who serve them find that the international capacity crunch presses hardest of those U.S. companies that operate installations in foreign countries. Brokers and buyers, in fact, are combing international markets—including some behind the Iron Curtain—for the insurance capacity they need but cannot find.

Veteran international insurance experts told *Business Insurance* that the capacity crisis is most acute for those who want coverage for overseas properties. They cite these reasons:

- U.S. insurers have reinsurance treaties that do not cover underwriting in foreign countries. Reinsurance typically applies only to writing done in the United States, and therefore American companies are unprotected by reinsurance in foreign areas.

- Writing insurance in foreign countries is specialized work that demands expertise to assure sound underwriting. Carriers that might have additional capacity may not have the underwriting know-how to enter into insurance contracts covering foreign installations.

- In many countries of the world, France for example, strict nonadmitted insurance laws require that risks be covered by domestic companies. But the domestic companies, buyers and brokers complain, are small and have not developed underwriting capacity that would enable them to cover major installations built by American companies.

- There is a reluctance on the part of U.S. companies that belong to the American Foreign Insurance Assn. or to the American International Underwriters to commit funds to foreign operations beyond their share of AFIA or AIU business.

THIS WORSENING capacity problem has made brokers and buyers alike scour international insurance markets for needed capacity. In addition to looking to the established London market, seekers of international coverages have turned to Japan, Rumania and companies domiciled in countries throughout the world.

The insurance manager for a Midwestern manufacturer said that when he gained coverage recently in London he understood that part of the risk was taken by Black Star, a Rumanian company. Another risk manager suggested that this might be a good thing because companies in the Black Sea and Baltic areas that participate in the London market are "more punctilious than anybody in paying claims. They are the first ones to have their money on the table."

One broker suggested that an untapped market might be Ingosstrakh, an insurance company operated by the Soviet government to insure foreign risks. He suggested, however, that it might be illegal for American businessmen to do extensive business with the Soviet Union's socialized insurer. But an insurance manager disagreed.

THIS VIEW WAS seconded by the international insurance manager for a broker. "Markets are so bad that if you do find a market it's like gold and you don't tell anybody about it," he told *Business Insurance* "but unfortunately this business is such that nearly everybody can find out where you've uncovered additional capacity."

Both brokers and buyers in the

international market complain that finding new markets is difficult because scraping up capacity often involves crossing one's own tracks. One broker explained: "London underwriters have a tight, well-woven network of reinsurers. A liability risk might be passed off to Switzerland; a marine risk might go to Japan, which has several large ocean marine insurers, once you've been to the London market for coverage, you've in effect checked many markets for fresh capacity."

A factor that complicates the task of an American looking for insurance capacity is that insurance people in other countries, notably Europeans, cannot understand why Americans cannot find

capacity in their own country. "Europeans," one Englishman said, "think that U.S. stock companies are a source of vast, untapped capacity. They can't conceive of the situation as it is—that U.S. companies are hard pressed to write profitably and fill domestic insurance demands."

Relief from the international capacity crunch may come from one solution mentioned by several experts interviewed by this magazine. That would come from increasing development of capacity by companies domiciled in countries besides U. S. and England.

ONE MAJOR brokerage house has asked its foreign offices to seek insurance and reinsurance

locally before they approach the London market. "Not only may we unearth some additional capacity this way," the head of the broker's international department said, "but we may educate some foreign insurance firms to the realities of the capacity crisis and to the mounting demands for capacity posed by growing concentrations of values and by worldwide inflation."

Another capacity seeker agreed, saying that if his organization sought to place a risk of \$1 million to \$5 million in the French insurance market, "we'd be into the capacity of every company writing in France." That country, he explained, has no vastly expensive high-rise buildings, no Torrey Canyons and no expensive offshore oil drilling installations.

"That's the problem," he complained, "and insurance buyers for American companies with overseas installations may have to live with the 'capacity crunch' in certain

areas until local insurance facilities catch up in some measure with the world's economy."



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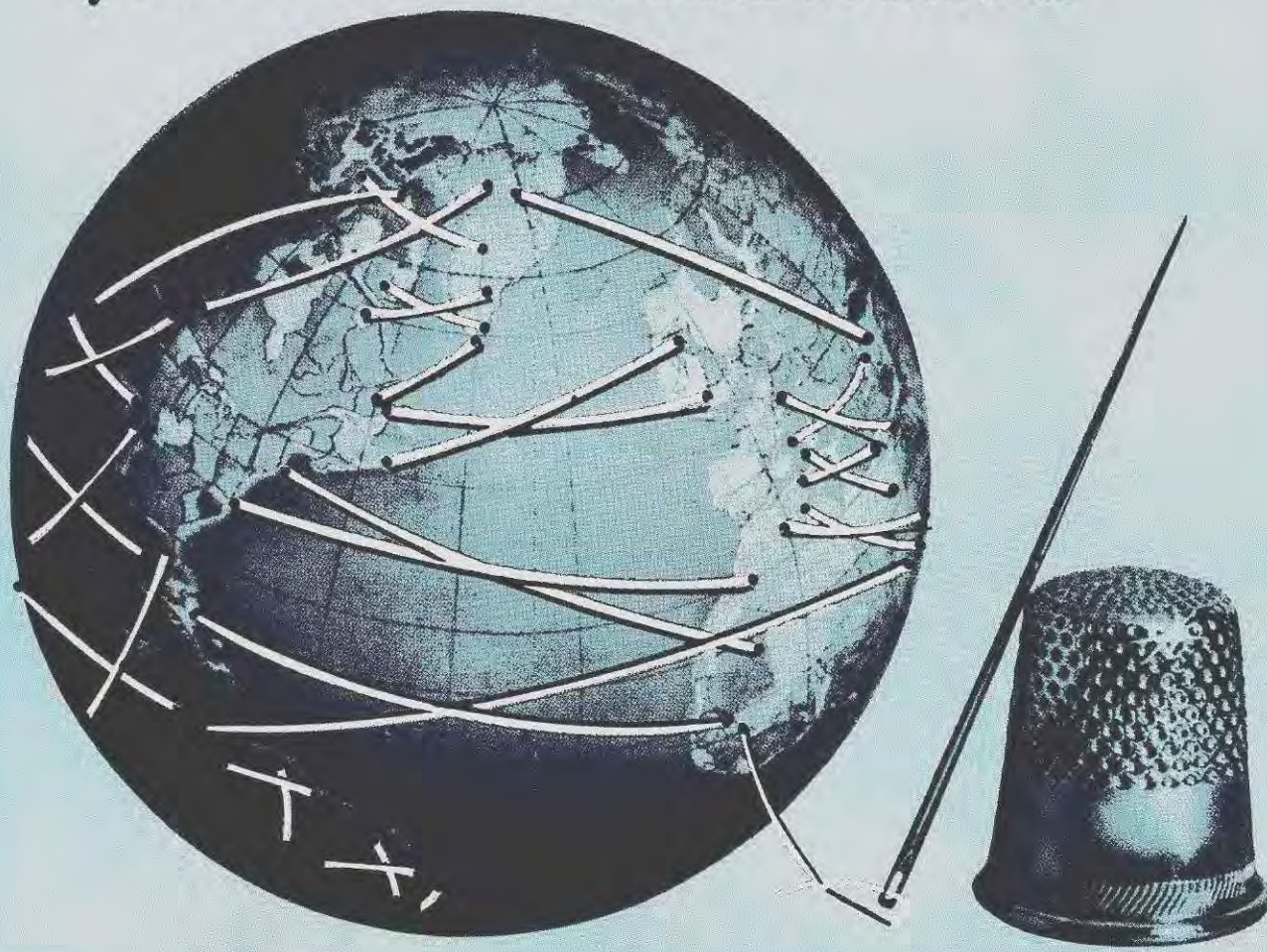
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British buyer group expands role with survey of member companies

LONDON—Growing determination is being shown by insurance managers in Britain to forge ahead with their status in industry. Their role, aiming to match that of comparable executives in the U. S., is reflected in the rapid expansion of the Association of Insurance Managers in Industry and Commerce (AIMIC), the British counterpart of American Society of Insurance Management.

This is the professional body that is through in a vital breakthrough in communications.

It will produce a survey this fall, for the first time ever, that will show exactly how strong it is in the important British insurance market.

Advance indications given to

Business Insurance are that corporate businessmen will be surprised at the group's strength, as well as in the diversity of industries AIMIC represents.

For Britain, though traditionally conservative in its methods, has a solid core of expertise that maintains its key place in the world insurance.

Now its insurance managers are "showing their hand" to prove they are fully comparable with their American brethren in balancing the exacting demands of corporate insurance for the benefit of their company chairmen and stockholders.

ALREADY AIMIC has more than 300 members representing

over 240 companies. This is a rise of ten times since it was founded nearly six years ago.

The survey will show how much insurance business these personnel are responsible for to their companies.

AIMIC chairman A. S. D. Cross, who supervises British-based insurance for the world-wide Nestlé Group, says: "It's anybody's guess just how much business is placed every year by the members of our association. So we are going to find the answer in the interests of everyone."

It is the policy of AIMIC not to do anything that will prejudice the corporate interests of its members. So the survey was conducted through a secret question-

naire in which only the overall details are being tabulated.

All trace of the source of individual company returns was carefully destroyed, under the supervision of a top British bank, so that competitors will not gain any advantage.

But the outcome will be a total assessment of insurance techniques by a big cross section of British industry that will be of tremendous value in furthering the future of insurance management.

How many brokers are used, how much business is placed directly with insurers, how many captives are in existence, will emerge in the survey. Some of it may have to stay confidential. Some of it may be published for internal guidance. But it will help AIMIC in judging the importance of its membership, and the varying techniques employed by them in the insurance market in Britain.

British send 'best wishes'

LONDON—Insurance managers from famous British firms are eager to review the international issue of *Business Insurance*.

The issue was mentioned at an executive council meeting of the Assn. of Insurance Managers in Industry and Commerce in London, the British counterpart of the American Society of Insurance Management.

AIMIC chairman A. S. D. Cross said: "We would like to have this issue of *Business Insurance* send our best wishes to the American Society of Insurance Management."

RR bill . . .

Continued from page 8

hurling bombs more than 300 yards. The apparent cause was a faulty axle bearing.

A major proponent of railroad safety legislation, Senator Vance Hartke (D., Ind.), chairman of the subcommittee on surface transportation that will be handling the Administration proposal, recently held two days of hearings on the Johnson Administration's much-stronger proposal.

Action by the committee was then postponed until the task force report was released and subsequently drafted into an Administration bill. Indicating his continued hot interest in the subject, Sen. Hartke recently announced that he was breathing down the neck of the task force to get its report out so he could again open hearings on the subject and get a bill to the floor of the Senate this session.

747s . . .

Continued from page 11

not seem to be upsetting any nervous stomachs in aviation insurance circles, the future of the captive operation is gnawing at the back of a few minds.

One airline source, while admitting it would be "a while yet" before his company gets the 747, said that he was taking a "wait and see" attitude on the whole captive operation.

"IT'S NOT TOO surprising to me that it was put off a year. One of the biggest stumbling blocks to the plan is whether or not the major domestic airlines can get approval from their big lenders to pour money into the captive.

"Personally," he added, "it's extremely doubtful whether or not it will ever get off the ground because airlines have such mammoth capital requirements in other areas. Paying for the 747s is one of these," he said. "I just don't know where the money is going to come from for the captive operation."

He also cited two other hurdles the captive operation had not yet faced—approval by the Justice Department and by the Civil Aeronautics Board.

ANOTHER AIRLINE source echoed his feelings saying, "If the economic picture with the airlines is as bad next year as they say it will be, what with paying for the 747, then I doubt if any of them will be able to put the capitalization necessary into an investment that will probably not make a return for years."

Whatever the future of the captive operation all aviation insurance insiders agree on one thing: There is a need for a much broader world-wide insurance market for the aviation industry and the captive would provide it.



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Retailer insures its imported goods from overseas factories of origin

CHICAGO—Sale of imported goods accounted for more than 10% of Carson Pirie Scott & Co.'s \$140 million net retail sales in 1968. The large midwest department store picked up the insurance coverage on the majority of those imports as soon as they left the factory in their country of origin.

Bob Procknow, corporate import manager, told *Business Insurance* that the price of items not covered by this ex-factory method includes the cost of insurance coverage by the manufacturer. In generally describing the perils the store insures against, he said, "Everything—you name it."

Carson's imports items in the home furnishings and ready-to-wear lines from countries such as Austria, Denmark and Italy.



Carson Pirie Scott & Co. imports items in the home furnishings line for its popular Scandanavian Shop.

THE DEPARTMENT store has a blanket policy with a \$250,000-per-shipment limit with Atlantic Mutual on imported merchandise. They have first-dollar coverage on container-shipped goods. Premium rates are based on a computer analysis of the store's previous years' experience. A \$1,000 deductible is presently in force on each shipment.

"Our deductible used to be \$250," Mr. Procknow said, "but we're heading more and more toward self-insurance."

In the annual rate negotiations, the import manager works with Herb Schachtschneider, corporate treasurer, and Bobby Schmitt, special assistant to the treasurer. The Critchell-Miller Insurance Agency is the store's broker.

Sixty per cent of Carson's imported goods come over water. Of that 60%, 70% are now shipped in containers. Mr. Procknow credits this and the use of air shipping for a substantial decrease in losses due to theft. Carson's began using steel containers six years ago.

BESIDES LOWERING insurance rates, containerization eliminates the necessity of special security measures for costlier-than-average shipments because no one is able to tell that the merchandise is more valuable than ordinary, he said.

"Some items don't lend themselves to containerized shipping because of their cubic size," he explained, and this accounts for the 30% shipped loose. "It would be wonderful if everything we import would fit into a container."

Of course, the import manager pointed out, if there is a loss it is greater because of consolidation of goods but because this incidence has decreased so markedly for Carson's, "we don't worry about that."

"Forty per cent of our goods are air shipped," he continued, "and that reduces the number of people handling them and, therefore, reduces the pilferage problem."

MR. PROCKNOW, who has been with the store nine years, said that Carson's was one of the first department stores to ship containerized merchandise via the Great Lakes, although in recent years security problems at lake ports have forced the company to seek other facilities.

Most of their merchandise now comes in through the Norfolk, Va., port, he told *Business Insurance*. Ports at Baltimore, New York, Seattle, San Francisco and Chicago are also used.

The department store uses both Conference and non-Conference shipping lines. (The Conference determines competitive shipping rates.)

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U.S. insurers to write more overseas: Twomey

NEW YORK—London's insurance squeeze could provide the U.S. market with the impetus to put a bigger portion of its billions of dollars in capacity on the line, in the view of one underwriter here who specializes in overseas risks.

"London is going through a difficult time," said Michael J.

Twomey, vp of American International Underwriters, "and the situation could help American insurers live up to their potential."

Mr. Twomey admitted that when London was in a healthier condition he and other U.S. underwriters would turn to the United Kingdom for a quick reinsurance placement. "It used to be

that I could make one phone call to complete the coverage, but now it takes lots of phone calls and many cables. That's why I'm trying to widen my circle of acquaintances and broaden my contacts in the U.S. market," he said.

Mr. Twomey sees solid evidence that U.S. underwriters are becoming more adventuresome in putting

up capital. For instance, he said a large mining venture in Central America, with a probable maximum loss of somewhere around \$10 million, is completely insured in the American market.

"And I could cite 20 risks where the Americans have really performed, and on accounts that used to be written in London,"

the AIU executive added.

"I've got a lot of faith in the American market," Mr. Twomey said. "In my opinion they're pretty big-time operators."

The lion's share of overseas property business written by U.S. insurers is handled by AIU, AFIA, Insurance Co. of North America and Continental Insurance, Mr. Twomey stated.

Placing an overseas risk can be a risky proposition, he indicated. "If someone wants to insure a fertilizer

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Michael J. Twomey

plant in Goa, it's probably the only fertilizer plant in Goa. You just can't push a button and have a number pop out giving you the premium you should charge or justifying the premium you've already charged."

That's why insurers try to get as much data as possible about a risk before they put up their money. In reinsuring a huge pipeline-gas treatment complex, the pipeline running across Azerbaijan, the northernmost province of Iran, all the way to Russia, underwriters wanted to know about such things as the process flow, soil conditions, depth of the pipe, fault lines and even flooding possibilities.

"The idea is to estimate intelligently the probable maximum loss," Mr. Twomey said, "so when you're talking to your reinsurers you're not guessing. You can say your engineers have walked the risk."

The Iranian pipeline was reinsured by AIU, AFIA, Continental, INA, Travelers and Ingosstrakh, the Russian foreign insurance company, from Bimeh, Iran. The reinsurers took the first \$10 million in their own facilities, Mr. Twomey reported, and bought an excess of loss cover for their common account to take care of the rest.

MR. TWOMEY gave credit to an Internal Revenue Service ruling for providing the incentive for U.S. corporations to allow their overseas subsidiaries to place their own insurance, through so-called "admitted" (locally approved) carriers. These admitted carriers are either companies set up in each country by U.S. insurers such as AIU or AFIA or carriers owned and run by local people.

The IRS ruling, handed down in the mid-1950s, held that U.S. corporations couldn't get a tax deduction for paying the insurance premiums of their overseas subsidiaries, and that loss payments paid to the parent company must be treated as income to the parent.

The ruling had the effect of pushing U.S. brokers into setting up operations in countries around the world to service the foreign subsidiaries of their U.S. customers. The brokers paid the premiums to the admitted carriers in behalf of the overseas subsidiary, and loss payments went directly to

Continued on page 40

If you want your overseas employees to be happy, there's very little you have to do.



Britons laud American management of risks

LONDON—Praise for American concepts of risk management was given by top speakers when shoplifting losses of \$750 million annually in British department stores were revealed to a crime-prevention seminar at Cambridge University.

British government delegate Elystan Morgan, whose department helps to control Scotland Yard, told the audience:

"The concept of risk management has existed for some time in North America, and it is making some headway in Britain. But we in Britain are not moving fast enough, for so far in this country it is seldom that insurance and security are linked in the chain of organizational responsibility.

"THE OBJECTIVES of insurance and security are in the final analysis the same. The first objective must be to eliminate risk, and then to have recourse to insurance.

"If you get your priorities right, you might find that not only do you reduce losses, but you also reduce the cost of protection."

Mr. Morgan criticized British firms for giving only limited or haphazard support to crime prevention. He said that even after his own top minister, Mr. James Callaghan, who as home secretary supervises Scotland Yard, had appealed for support from managements, there still remained much to be done. Crime in Britain had doubled in the past ten years.

He told the conference: "Shoplifting is by far the most serious source of loss to retailers, particu-

larly in supermarkets and department stores. The tragedy is that it has come to be accepted as an inevitable overhead, and few retailers do very much to prevent it.

"MUCH THEFT of this kind can be prevented by supervision, and by a thorough check of all employes and applicants for employment.

"For dishonest employes can 'fiddle the till' by recording less than the amount received from a customer. Undercharging relatives and friends is not unknown, and in some cases there is complicity with shoplifters."

Dealing with retail shops that also lost another \$300 million annually by direct thefts by criminals, he asserted that some firms

suffered as much as 3% of turnover affected in this way.

Mr. Morgan, who was addressing industrial and commercial lawyers, said:

"UNDERWRITERS are increasingly setting minimum security standards as a condition of insurance. Companies are therefore being forced to take some security measures. Moreover, premiums are fixed to reflect the amount of losses by theft sustained by companies. Eventually it may become cheaper, and it is certainly far more effective, for companies to improve security than to pay increased premiums."

After dealing with this overall \$1 billion crime wave, Mr. Morgan, who is a ministerial adviser to Prime Minister Harold Wilson on police matters, praised the forceful American method of law and order as opposed to less-vigorous British approaches to the problem. ■

Nonadmitted

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affected by the large volume buying of his firm's domestic operation. "Now, it's mostly on an individual country basis and in some cases group life and/or medical coverage are attached to the pension."

Pensions present another major area of concern. "We're constantly evaluating pension plans. We find that the interest assumptions, employe turnover rates and actuarial assumptions tend to inflate, and we end up paying on the basis of conditions existing three years ago, which means that we're overpaying. This is especially true in Europe where actuarial evaluations, unless requested, are not completed annually."

For instance, his firm found itself making pension contributions on the basis of 9¼% of salary at one location. Employe turnover and investment yield percentages

used were investigated and after consultation with the actuary the company reduced its annual contribution to 5¾% of salaries. On the basis of the lower figure the company was able to reduce payments by some \$61,000 a year in the United Kingdom alone.

"We found ourselves accruing a large amount of funds for people who were not staying with our company," he explained.

Also, he said, his firm was getting a 4% interest on its pension money when it should have been receiving a 5.5% rate of return. In addition, too large a portion of the fund was tied up in fixed income investments, and the fund is now moving toward an emphasis on more common stock, or investments convertible into equity. ■

Bank promotes Pettey

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Labor calls IRS proposal 'restrictive'

WASHINGTON—The AFL-CIO told the Internal Revenue Service that a series of tax rules it proposes would "severely restrict" union negotiated, multi-employer health and welfare plans.

The IRS regulations would alter the code to waive tax exemption on union health and welfare benefits and employe beneficiary associations.

Bert Seidman, AFL-CIO director of social security, charged that the proposals could destroy some funds, eliminate benefits under others and disrupt collective bargaining.

ONE IRS proposal, Mr. Seidman charged, would limit tax exemption to life, sickness, accident or other benefits that are intended to safeguard or improve health or protect against the possibility of reducing earning power.

This would make union negotiated benefits such as scholarships, automobile insurance, day care centers and jobless benefits taxable, he said. He contended that such a limitation is "contrary to the approach taken by Congress in tax legislation" as well as IRS rulings over the years.

He also criticized a proposed change that would define an association of employes qualifying as tax exempt as a unit whose employes are members of a common working unit. This would endanger a fund formed by several unions for a variety of workers, Mr. Seidman contended.

And, he said, proposed IRS changes appear to narrow the definitions of employe and income and endanger funds that cover apprentices. ■

Bahamas . . .

Continued from page 25

balance seem to have greater potential for the parent of a captive insurance company."

The International Development and Investment Group Ltd., Nassau, an international firm incorporated in the Bahamas and staffed and operated by Americans, is an example. IDI is the parent of C&I Girdler and other subsidiaries in the fertilizer, construction and related industries.

While the insurance act was being discussed in the legislature last year, the company dropped the word "insurance" from its corporate name, and stopped offering insurance coverage as part of its fertilizer-construction package.

"WE WEREN'T doing anything wrong—we just didn't feel it was anybody's business who we were doing business with or how much money we were making," a company spokesman said. The compa-

ny does not do any business in the Bahamas, and the insurance service was a minor part of its operation.

IDI no longer offers insurance protection with its services. In a limited number of cases the company acts as broker in insurance transactions and accepts commissions for these services through its Bermuda office.

The Mobil Oil Corp. completed arrangements to close down the General Overseas Insurance Corp., its Nassau subsidiary, in March, 1968, several months before the legislation—long in the discussion stage—won approval.

HOWEVER, a Mobil lawyer said the company left for "private business reasons" and that any connection between the move and the insurance legislation was "inference."

Crucible Steel closed down its captive Southeast Casualty Co., Ltd., Nassau, last January, shortly after the steel company was taken over by Colt Industries. The captive had been used to insure the

company's domestic and overseas property risks.

The Seven Seas Insurance Co., a Nassau captive that Schenley established several years ago but never activated, was recently liquidated.

One insurance manager who works for a major company with a captive in Nassau said that with the black-white relationship what it is, "you're treading on difficult ground." He said that his company had been planning to consolidate its Bahama captive with others the corporation runs seven years before the government changed hands, and he stressed that the money has "nothing to do with the political situation there."

STANDARD OIL of New Jersey's Whitestone Insurance Co., Imperial Casualty Co., an independently run railroad pool, and Seagram Distillers Co.'s Gulfstream are among the captives remaining in the Bahamas.

But in the judgment of one consultant in the captive area, "all" companies with captives in

the Bahamas are reappraising positions and "in this kind of situation it's difficult to say what will happen from one day to the next."

The reluctance to disclose information considered privileged, the fear of increasing regulation of business activities, the uncertainty over the political course of the colony, and above all the specter of forced local investment or outright taxation are driving the companies out.

The captive insurance company has numerous advantages for the parent able to sustain it. It can charge lower premiums because it does not pay for advertising, salesmen or certain other personnel. It can coordinate international insurance and assume risks difficult to place in the world market.

BUT ALTHOUGH tax and insurance experts advise that a captive should not be formed for the purpose of creating an artificial tax advantage, the decision to set up the captive outside U.S. borders is normally a tax decision.

The parent company can, to begin with, write off all premiums paid to its captive as a tax deduction.

The captive can also invest its capital and reserves tax free overseas. A captive could also use its reserves to build a factory or buy a ship independently and lease it to the parent for additional tax free income.

This is often easy to do, since reserve requirements in the offshore locale are normally minimal or nonexistent. Bermuda requires \$14,000 in reserves. The Bahamas required none before the insurance act, and now asks \$300,000 for an insurer doing a life business, and \$140,000 or 20% of annual premium income, whichever is greater, for insurance business other than life.

IN ADDITION, the captive's profits from the insurance or reinsurance of foreign risks are free of U.S. taxes until a time when they are repatriated—if ever—so long as no more than 5% of the annual premiums are from U.S.

risks. The same is true of investment portfolio income from reasonable unearned premiums and reserves.

The point was established by the U.S. Revenue Act of 1962, which for the first time set official ground rules for the tax treatment of offshore captives. The Revenue Act in effect wiped out the tax advantage of offshore captives writing domestic risks, while retaining it for captive with 95% of premiums coming from foreign risks.

The Revenue Act of 1962 resulted in the weeding out of offshore captives insuring risks in the U.S., and the current situation where the major share of offshore captives are primarily foreign risk vehicles.

In the Bahamas, an officer of a British-run local trust company managing enterprises from captive insurance companies to mutual funds and multi-national corporations, recalls that the flight of American businesses in the wake of the Revenue Act was emphatic.

"**THE AMENDMENTS** became effective in December, 1962," he said, "and over the course of a year the number of companies leaving the colony had quite a noticeable effect," he said. Joining the exodus were such firms as offshore trading and shipping concerns and undeveloped Country corporations. The tie-in between taxes and offshore subsidiaries is never far.

Government officials in the Bahamas are slow to admit that certain provisions of the insurance act are driving legitimate captive and other insurance companies from the islands or that the legislation might foreshadow further controls waiting in the wings.

Three of Canada's largest life insurance companies closed down their local sales operations almost simultaneously last January, less than three weeks after the insurance act passed the Bahamian senate to become law.

The three—North American Life Assurance, Sun Life Assurance and Manufacturers Life Insurance—characterized the move as due to

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Who says your business is immune to employee dishonesty?

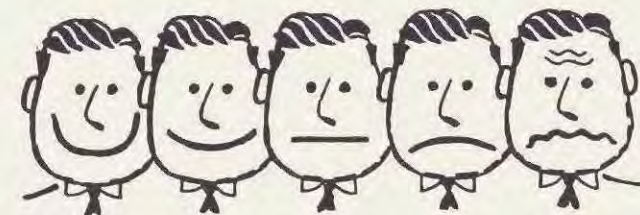
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Bahamas . . .

Continued from page 42

"Circumstances beyond our control."

THE NASSAU Tribune, however, reported that a prime factor in the pull-out was the fear that government might take steps to freeze their assets in a general trend towards forcing greater local investment by insurance companies. Trinidad, Barbados and Guyana have all taken steps to keep insurance assets within their own countries.

Liberal party assemblyman Joseph Ford hotly denied the report in a speech in the house of assembly, holding that the three had left for private business reasons, and charging that the newspaper was "hell-bent on destroying confidence in this country."

Finance Minister Carlton Francis at the same session said he had written to the three Canadian firms to find out why they had decided to close their operations in the Bahamas and would shortly inform the assembly members of their replies. He has not yet done so.

While the insurance act makes no reference to a curb on the flow of insurance funds in and out of the country, Senators debating the measure said that foreign insurance companies should feel obliged to invest in local development projects, such as low-cost housing.

SENATOR CADWELL Armbrister, chairman of the housing commission, said in debate that insurance companies had been asked to invest in government housing schemes, but only two were doing so. "They make their money from people of this country and still they are not prepared to put any back into this country," he charged.

Senator Kendal Isaacs said in support that "insurance companies should contribute some toward the economic development of the country and also toward raising the standard of living."

Liberal party assemblyman Maurice Moore, active in the debate on the measure, in response to a question on the possibility of government making local investment obligatory, told *Business Insurance* that "the government in my opinion will do no such thing."

He added that it was likely that the government would continue to encourage foreign insurance companies to elect to invest in local development.

JOHN R. Coddington, the British permanent secretary of the ministry of finance, told *Business Insurance* that the insurance act was essentially a sequel to similar legislation in the banking and finance area passed in 1965 and a move that might have been expected whether or not the government had changed hands.

"The Banks and Trusts Act was a great success," Mr. Coddington said. "In two and a half years the government cleaned up the banking industry in the colony."

Although there is "not quite the same undesirable business going on" in insurance, Mr. Coddington said, the experience with scandals and the absence of effective controls over the industry prompted government action. He noted that some operators had moved out of banking and into insurance.

The insurance act was carefully developed after consultation with experts in the U.S. and the United Kingdom and insurance interests in the Bahamas, and has been welcomed by the local insurance industry, the official asserted.

THERE IS NO reason for the legislation to discourage legiti-

mate enterprises, he maintained, or any but those suspect companies it was designed to eliminate. "If they move out now we might suspect there is something funny going on," he said.

Labor leader Randol Fawkes, former minister of labor and commerce who had a major hand in writing the bill and seeing it through the legislature, tells of one ring that would check into a local hotel and stay only long enough to collect premiums. The government has a thick file of many others, he told *Business Insurance*.

Locally-incorporated insurance companies have used the Bahamas as a base for setting up subscription or other insurance operations to fraudulently collect premiums by mail from the United States, Canada and Great Britain.

Another in a long line of fraud cases erupted late in May when the Trans-Continental Insurance Co., Nassau, came under fire from

Florida insurance officials for allegedly raking in hundreds of thousands of dollars in deposits for mortgage loans from all over the U.S. and then failing to come up with any loans.

The fact that the islands' insurance industry is long overdue for a clean-out is well documented but it is also clear that many respected insurance companies find the insurance act or its implications unpalatable and are pulling up stakes for less regulation-minded areas.

Last month, Charles A. Donaldson, a native Bahamian, was named to the newly created post of registrar of insurance companies and is now preparing the regulations to govern the new insurance act.

The impact of the act on the local captive community should be seen then as its provisions begin to take effect and, presumably, the identity of the captives staying on become public record. ■

California law would curb medical malpractice suits

SACRAMENTO, Cal.-Insurance companies specializing in medical malpractice insurance will rest a bit easier when Gov. Ronald Reagan, as he is expected to do, signs a controversial bill just adopted by the legislature which makes it more difficult to sue doctors and other members of the medical profession for malpractice.

The measure was introduced by Assemblyman Victor V. Veysey, R., Brawley, and was adopted in spite of a remark by Sen. George Moscone, D., San Francisco, branding it "a special interest bill for two insurance companies."

The new law, once signed by the governor, will require a person to post a \$500 bond before filing a malpractice suit. Sponsors

said it would slow "filing of nuisance suits in which the plaintiff has no chance of winning."

"**MALPRACTICE** suits are causing a steady increase in insurance rates," declared Sen. Gordon Cologne, Indio Republican, "and the doctor's cost of business is being passed on to patients."

Sen. Moscone replied that "the real culprit, if there is any culprit, is that third party that's never been mentioned at all . . . the insurance carrier."

Sen. Moscone said there are only two insurance companies in the U. S. handling malpractice insurance. He added that last year U. S. doctors paid out \$75 million in premiums, while malpractice awards totaled only \$18 million. ■

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Agents review risk handling services for small companies

SUNNYVALE, CAL. — Risk management applied to the small and medium-sized risk, was the topic covered here by a technical seminar sponsored by the Independent Insurance Agents Assn. of California.

A discussion panel was headed by Lee Fisher, Walnut Creek agent. Panel members were Ray Summers, insurance manager at San Francisco for Fibreboard Products, and Donn McVeigh, Warren, McVeigh & Associates, also of San Francisco.

Consensus was that the small and medium-sized risk "does not justify the full-time assignment of a risk manager . . . therefore the agent can render his greatest service in this area, by acting as

the risk manager for companies facing hazards in this category."

Mr. Summers, a former agent, indicated that even a company as large as Fibreboard "certainly would consider giving an agent at least a portion of its business if the agent has a real contribution to offer.

"TO QUALIFY for such consideration by the larger companies," Mr. Summers said, "the agent should always familiarize himself thoroughly with the business of the company he may be interested in."

Mr. Summers and Mr. McVeigh agreed that "the agent interested in assuming the role of risk manager must become consumer oriented rather than per-

ils oriented.

"He must be as much interested," Mr. McVeigh said, "in those exposures of his client which are uninsurable as those which are insurable."

BOTH PANEL members also agreed the agent "must be prepared to assist his client in risk reduction, the assumption of risk and the self-insurance of risk."

Mr. Fisher, as moderator, pointed out that agents, "instead of being salesmen attempting to get clients to add more and more coverage might well urge their clients to consider assuming the risk on some items which the agent may previously have been selling insurance on."

Mr. McVeigh added that "for clients with personal umbrella coverage, agents might find it desirable to urge their clients to consider assuming for themselves the initial layer of fire legal liability exposure."

Study . . .

Continued from page 35

• A \$400 charter fare insurance, if the student is sick or unable to depart on the date of the charter flight.

THE CATASTROPHE limit for combined claims in any one accident is \$3 million.

The insurance protection is automatically included in the cost of tuition. The league itself only undertakes to purchase the insurance and will not pay for or guarantee any losses not covered by the insurance or represent any participant in any dispute or action against the insurer.

There is at least one counselor for each 10 students, mostly high school teachers, who are also covered by the insurance package. Counselors, in addition, are covered by workmen's compensation insurance for accidents and disability incurred on the job.

The Foreign Study League protects itself against liability claims with a comprehensive general liability policy, with a maximum limit of \$1 million, through Transamerica Insurance Co. It is now arranging an additional \$2 million umbrella policy with a \$10,000 deductible, also through Transamerica.

THE LIABILITY policy, until this spring, contained an automa-

tically communist-country exclusion, according to Lamar Poulton, Poulton Insurance Agency, Salt Lake City, the broker for the organization's insurance transactions.

The communist-country exclusion on liability policies of this kind is not unusual, Mr. Poulton explained, since the carriers argue that they could not defend a claim if sued in a communist court.

Last spring the liability coverage was extended behind the Iron Curtain after the Foreign Study League agreed to assume responsibility for defending any court action in a communist country, and Transamerica Insurance agreed to reimburse the organization for its court costs and pay any claims resulting from unfavorable court action.

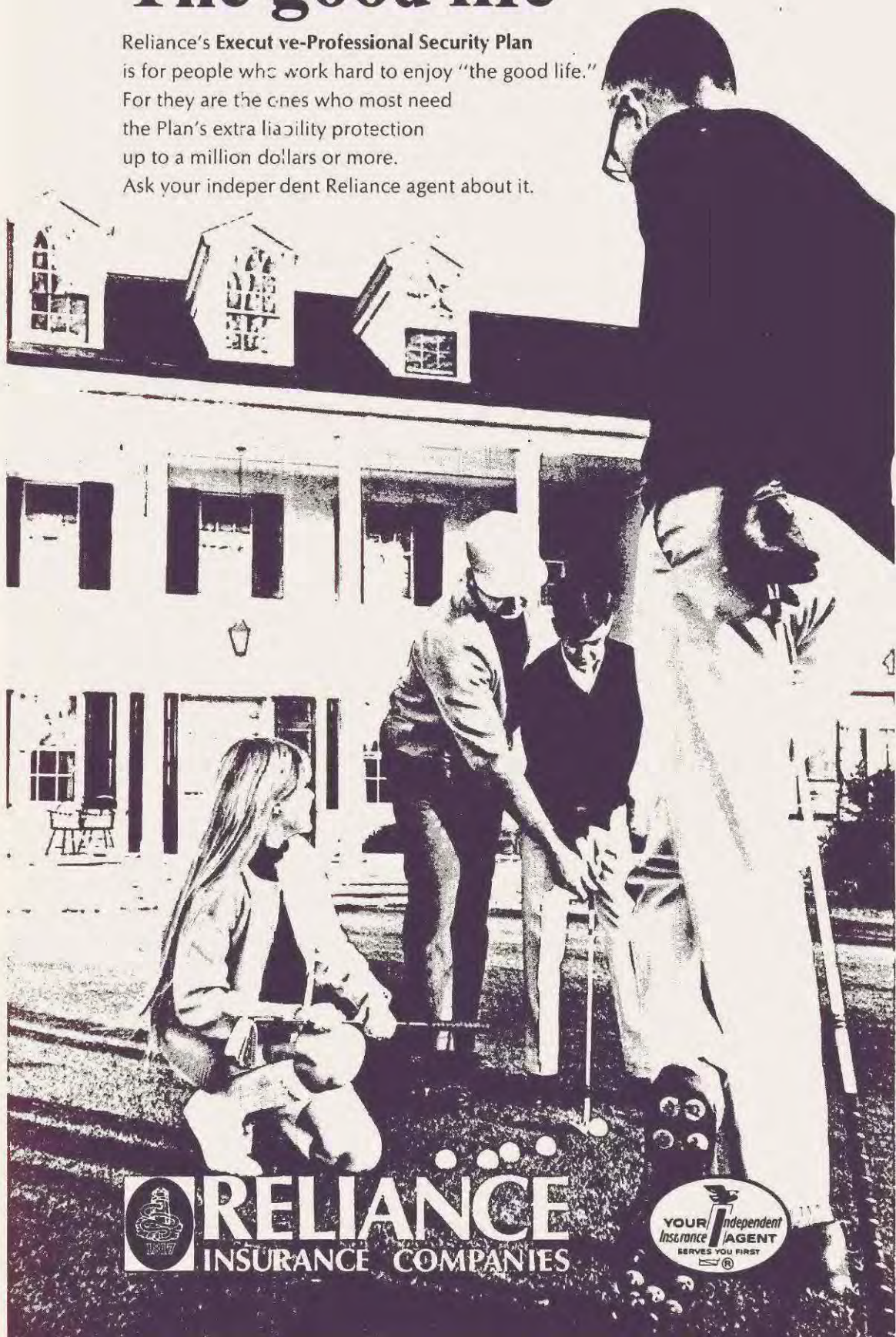
A FOREIGN STUDY League program in Russian language and Eastern European culture includes travel through Moscow, Leningrad, Prague, Budapest, Cracow, Warsaw and East Berlin.

There were some tense moments last summer when 135 students were in Prague during the Russian occupation of Czechoslovakia, but no harm was done and there have never been any insurance or other problems in communist countries.

There has never, in fact, been a major accident or liability claim in the seven summers the league has been sponsoring students abroad.

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Giles . . .

Continued from page 10

relationship between doctor and patient. So the doctor and hospital must remain silent, unless you give them permission to speak.

But suppose you sue the doctor or hospital for malpractice. Can one of the defendants see X-rays without your permission?

The New York supreme court has said "yes." By instituting suit, the plaintiff is deemed to have waived his privilege against the examination of these X-rays. (New York Sup. Ct. Kings Co. N.Y.L.J. 3/28/69.)

SUPPOSE ONE passenger in an automobile sues another passenger, charging that he negligently contributed to the accident. Is the passenger sued entitled to reimbursement from the insurance company of legal fees incurred in defending the suit? The driver's policy contained an omnibus clause that covered any person "using" the automobile.

The case arose in New Jersey and no precedent of any kind was found. In New Jersey, the standard under the "omnibus clause" is

prescribed by statute. Under that standard, "using" the automobile is not confined to physical operation. One being driven to his home in an automobile is making use of or using the automobile.

The history of the omnibus clause shows that the word "using" was inserted to enlarge the scope of the coverage. The plaintiff passenger recovered from the insurer. (N. J. City Ct. Union City *Gronquist v. Transit Casualty Co.* 4/16/69.)

\$20,000 is a lot of money to pay for a defective toilet seat—but that is what it cost a Maryland landlord. Although repeatedly warned that the seat needed repair, repairs were not made. The tenant, a woman, fell from the seat and broke her wrist. The plaintiff suffered a 25% permanent disability of her left hand and a 10% loss of left arm use. (*Sacks v. Pleasant*—Maryland Ct. of Appeals. Apr. 2, 1969.)

THERE IS SOME relief here for the harassed automobile manufacturer. The Federal court in Louisiana has held that an automobile manufacturer's design and use of an ignition lock that a thief could and did "short" in a matter of seconds does not render the manufacturer liable to those injured by the stolen car.

The court says the manufacturer's duty does not extend to protect the whole world, nor does it involve all of the risks which might result in harm.

The decision is based on the law in Louisiana which refuses to hold a car owner liable if he leaves his keys in his car and a third person is injured. For the same reason, Louisiana would not impose a duty to design a theft-free lock on the manufacturer for the protection of those who might be injured by the theft of the car. (U.S.D.C. E. La. *Dean v. General Motors* 4/30/69.)

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Twomey . . .

Continued from page 45

the subsidiary operations.

But now Mr. Twomey has noted a trend for U.S. corporations to bypass the admitted carrier route and write most of their foreign coverage through U.S. channels—in spite of the possible loss of tax advantages by having foreign subsidiaries pay the premiums.

"I see a tremendous upsurge in nonadmitted insurance," Mr. Twomey said. All the coverage is in one policy, written in English, and premiums are paid in dollars. "You don't fiddle around with local policies," he said.

"I REALLY CAN'T explain why companies are doing it this way, because I don't know how they're treating it taxwise," Mr. Twomey said. "But they're not just buying insurance any more. It's a money game now."

Mr. Twomey said it would be "a tremendous help" if insurance managers were to alert their underwriters about new overseas projects at the preconstruction stage. "That way we can get our engineers in the act" and make recommendations to lower exposures and insurance rates.

If insurers are brought in early enough, they might even be able to cut premiums on the contractor's all-risk coverage, he said.

What insurers want to know, Mr. Twomey explained, is information such as whether boilers are housed separately, how many sources of water are available, the presence of fire walls, etc. In some mammoth projects, with 500,000 square feet under one roof, exposures are so great that it's next to impossible to complete the coverage, he warned.

WHILE SOME countries may give 15% credit on insurance premiums for a single source of water supply, they give no extra credits for additional sources of supply. U.S. insurers, on the other hand, could give from 40% to 45% credit for additional water sources, depending on the risk's susceptibility to smoke damage, Mr. Twomey noted.

Nevertheless, he advised that it's often wise to put in the additional water supply, even though the foreign insurer won't give any premium credit for the move. "The best adjustment of a loss still doesn't put the employer back where he was before the loss," Mr. Twomey said.



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Credit test . . .

Continued from page 18
all state insurance commissioners agree.

Maryland Insurance Commis-

sioner Newton I. Steers said in favor of the bill that federal standards are needed to "jack up" existing regulations in some states and protect consumer in others, like Maryland, which do not control credit life rates.

Mr. Steers held that the prevailing premium charged for credit life insurance in Maryland of \$1 per \$100 of debt resulted in an estimated \$1.5 million in "excessive charges" each year.

Former Vermont insurance commissioner James Hunt argued that a reverse price competition prevails in credit insurance transactions. The higher the premium, the higher the commission the lender or retailer receives from the insurance company, he said. Previous testimony had stated that many established insurers had priced themselves out of the credit insurance market with low premiums, and that the share of the market going to well-established firms had declined in recent years.

ON THE OTHER side, banking, finance and credit interests have called the rate limits federal "price fixing," argued that the states have been doing a creditable regulatory job and in one case held that the "entire meaning of the Federal-state relationship is in dire jeopardy if further encroachment at the Federal level is to take place."

Charles V. Walsh, appearing for the Insurance Beneficial Management Corp., Morristown, N.J., told the subcommittee that the proposed controls would be similar to those of the office of price administration in World War II.

Max A. Denney, exec vp of American Industrial Bankers Assn., an association of companies extending cash and sales credit, also called the proposed measure "price-fixing" and argued that Federal regulation of the industry

was already provided by the truth-in-lending act.

The truth-in-lending act, which went into effect last month, requires that the cost of insurance and all other costs be itemized and disclosed before a loan is made, and states that credit life, health and accident insurance cannot be required by the lender.

HOWEVER, AFL-CIO's Andrew Biemiller, said in a statement submitted to the subcommittee that "lenders have taken unfair advantage of the fact that borrowers are unlikely to challenge the cost of the credit insurance, which often seems small in comparison with the other charges loaded in the contract."

Other witnesses had submitted case study material showing that in one test area lenders and creditors had managed to sell credit insurance on 97% of transactions, while in another area 100% market penetration had been achieved.

Banking, finance and credit witnesses have urged that regulation remain with the states. Household Finance Corp. assistant controller Richard L. Berker testified that his concern believed regulation of credit insurance "can best be left

to the states."

J. Edward Day, representing Bankers National Life Insurance Co., of which Beneficial Finance Co. is a subsidiary, testified that "Federal regulation of credit life and credit accident and health insurance is not needed, since the states are active in providing the necessary regulation."

But how far have the states actually gone in regulating credit insurance rates? In 31 states, insurers may charge 75¢ or more per \$100 of debt for credit life insurance, while in 18 of those states they are permitted as high as \$1 for each \$100 of debt.

Schroder is president

Charles J. Schroder, insurance manager of Avon Products, has been elected president of the New York chapter of the American Society of Insurance Management. He succeeds William F. Wynne, of U.S. Plywood-Champion Papers Inc. Other officers elected for the 1969-70 term are Robert B. Wiltshire, Bangor Punta Corp., 1st vp; Richard Van Wagoner Jr., Singer Co., 2nd vp; William F. Quinn Jr., Rheem Mfg. Co., treasurer; and Martin Siegel, New York University, secretary.



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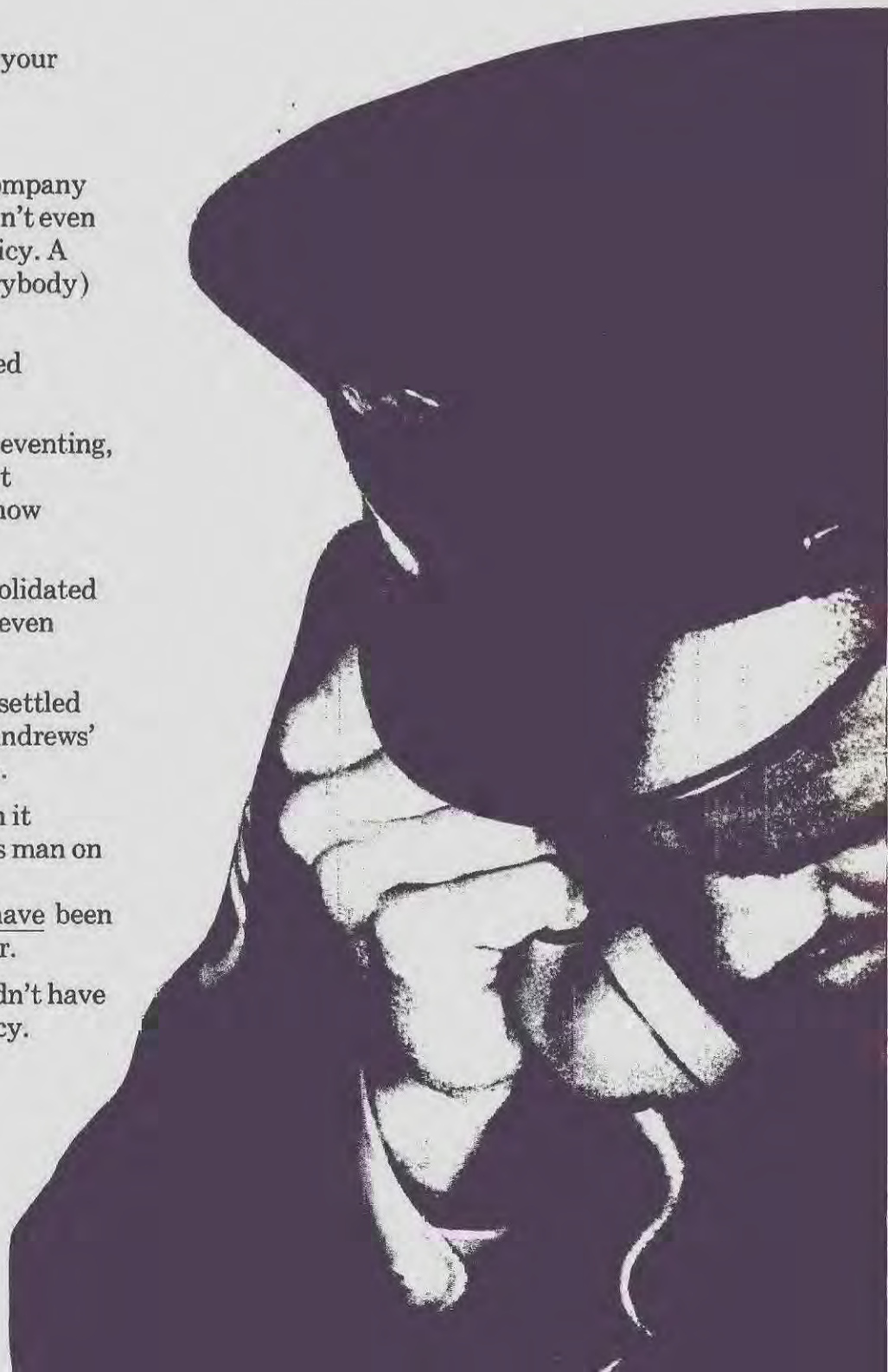
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