You MUST forget what you know when you provide benefits abroad

see page 15

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business insurance

for buyers of employe, property and liability protection 35¢ a copy; $8 a year August 26, 1968

Metropolitan sets up world benefits plan

NEW YORK—Recognizing a real demand to set up international group benefit programs for domestic clients, the Metropolitan Life Insurance Co. has entered the international scene through a reinsurance approach.

Metropolitan's program is worldwide and concentrates on group life, medical and pension plans. Marvin I. Crystal, director of international insurance, said a "whole range of benefits" are available and listed such benefits as medical, major medical, long term disability, accidental death and dismemberment, accident and sickness benefits where they apply, group life and pension.

He mentioned that a number of programs have been set up in Hong Kong, Turkey, Mexico and several Caribbean countries.

Because of the language barriers and the variations in customs and traditions, laws and social security regulations, the insurer recommends to clients that separate employe benefit programs be written for each country.

Through the International Group Service of the Swiss Reinsurance Co., according to Gilbert W. Fitzhugh, Metropolitan's board chairman, working agreements are now being arranged with a number of insurance companies, most of them in Europe. Similar arrangements will be made in the future with companies in other areas of the world.

He described the reinsurer as "the world's largest reinsurance company with financial and working relationships with companies throughout the world."

Metropolitan is also working toward portability of pension plans, said Mr. Crystal.

Claims will be handled by local insurance companies but Metropolitan will provide its clients with summarized details of the claims. ▪

Airlines near pact on captive

SAN FRANCISCO—The airline industry, after a two-day meeting here this month, is moving into the final stages of setting up a captive insurance operation.

"We're all optimistic," said one airline insurance manager. "If there were any dissension, we would have closed up shop right there, but everyone showed the greatest amount of cooperation."

The next step is to hammer out a program which encompasses the needs of both big and small lines throughout the world. ▪

Two uninsured Navy gunboats, valued at $1,700,000, were lost in this blaze that swept through the Tideflats industrial area in Tacoma, Wash. The $2,250,000 fire destroyed most of the Tacoma Boatbuilding Co.'s large assembly building, according to Frank H. Jacobs, manager of the city's General Adjustment Bureau. Losses to the building and equipment were covered by a dozen insurers. Wide World photo

'Insiders' case doesn't involve liability cover

NEW YORK—Texas Gulf Sulphur Co. was not protected by officers and directors liability insurance against a decision handed down by a Federal appeals court last week.

The court ruled that employes of the corporation were guilty of using inside information on a mineral discovery to make a profit in the stock market. "No other coverage is in force that would give protection in this case," an industry source told *Business Insurance*.

The court ruled that "anyone in possession of material inside information is an insider, and must either tell everyone about it, or refrain from trading in or recommending the securities concerned while such inside information remains undisclosed."

HIGH-RANKING officers at Texas Gulf are alleged to have bought company stock at prices ranging between $18 and $30 a share before disclosing to the public that a rich ore discovery had been made in Canada. Subsequently, the stock rose to nearly $160 during the next three years.

The decision is expected to result in giving impetus to about 20 stockholder suits which are currently pending against Texas Gulf and its officers and directors.

Directors and officers liability insurance is protection against executive malpractice, and covers the personal liabilities of directors and officers for damages, as well as for the expense of a claim which alleges that a "wrongful act" occurred. The company is also covered to the extent that it reimburses the directors and officers.

However, an authority on this type of insurance questioned whether Texas Gulf would have been protected in the "insider" case—even if a policy had been in force.

"LIABILITY incurred as a result of dishonesty is excluded," he pointed out, "and so is liability for unjust enrichment." In addition, personal profit or advantage which is not shared equally by other stockholders is also excluded—"which seems to be the whole crux of this case."

In other words, it was explained, the coverage does not protect directors or officers for legal consequences of actual fraud but only for negligence. As far as securities are concerned, any judgment which shows that the insureds were actually guilty

Continued on page 2

Red China makes a 'revolutionary move' on trade insurance

HONG KONG—Red China, because of its sympathies with "revolutionary struggles" throughout the world, has instructed its trading companies to stop insuring their export to the West against strikes, riots and civil commotions.

Companies trading with China have received a standard letter in the past few days informing them of this decision and stating the reason for it.

The Chinese decision leaves it up to importers to take out insurance against riots on imports from China.

Overseas risks made difficult by inflation and lack of communication

NEW YORK—Insurance managers with overseas responsibilities consider lack of effective communication their major problem, and they believe the most effective way of overcoming this disadvantage is with on-the-spot inspections.

As William D. Smith, vp of insurance of Gulf + Western Industries, puts it, "If you're going to handle a foreign insurance department and communicate effectively, you've got to make an overseas trip and go to the site in question—letters won't do it."

This is the only way to guarantee that corporate philosophy is understood, Mr. Smith feels, "and while the cost of the trip may take some justifying, in the long run it's a false economy not to make it."

A root problem in the field of foreign country employe benefit plans is the lack of up-to-date facts, according to Robert McPhail, manager of employe benefit plans at the Quaker Oats Co. "Within one day I can find out what the top 100 companies in the states are doing in a certain area," he said, but that is not generally the case in international operations.

Besides the easy exchange of information between companies, Mr. McPhail pointed out, benefit managers in the U.S. have the help of a great number of associations. In Europe, this information is not as readily available—companies don't exchange it as freely as here.

BECAUSE IT IS hard to evaluate the trends in foreign countries, Mr. McPhail continued, it isn't easy to decide if a request for a specific improvement is really made to help a company stay competitive.

"The impact of inflationary pressures, particularly in England and other European countries, has eroded pension benefits for retired employes and has created a problem that companies must consider," he continued.

"In general," he said, "it is very difficult to provide U.S. benefit levels to international subsidiaries. A far wiser course is to provide levels that are competitive in each particular country."

Quaker Oats has business involvements in Latin and South America, Mexico, Belgium, England, the Netherlands and Australia. Mr. McPhail added that the best approach to fully understanding the trends in each country is to actually make a visit rather than depend on overall surveys and reports that are now available. "Great progress, however, has been made," he concluded, "in the past few years in more up-to-date survey material being available."

ANOTHER HEADACHE, according to the employe benefits manager of a U.S. corporation employing 10,000 overseas people at 26 plant locations, "is the lack of qualified personnel to administer a program."

It's "dangerous" to assume that U.S. practices can automatically be transferred abroad, he continued, "and you also must get to know the economy of the country you're dealing with."

This point was emphasized by Carlos Michaelson-Terry of Towers, Perrin, Foster & Crosby, who said that "many pension and accounting terms used in the U.S. simply have no meaning or cannot be translated into another language." In his opinion, this is one of the first problems to be overcome in an overseas operation.

Local conditions often modify a company's insurance requirements. Caterpillar Tractor Co., for example, has found that in Brazil, which has socialized medical benefits, a local clinic and a company doctor administer medical treatment for employes' minor illnesses better than a government facility.

Ralph F. White, insurance

Continued on page 2

Business Insurance International

News articles and features on the increasingly important international insurance scene highlight this issue of *Business Insurance*. A wide range of information on international insurance programs and problems will be found on Pages 23 to 37. Many of the articles were developed by Senior Editor William Guest during a recent trip through Europe; other stories were written by *Business Insurance* staff writers and guest columnists. Be sure to see special international features in the regular *Business Insurance*/Perspective pages 15 and 16.

Self-insurance for fleets might result from no-fault plan: Bland

KANSAS CITY—If the coming evolution in automotive insurance goes the whole way to no-fault compulsory first-party insurance, "it is quite likely that most major corporate programs would become self-insured," according to the risk manager for a firm with about 1,000 vehicles.

R. W. Bland, risk manager for Panhandle Eastern Pipe Line Co. here, told *Business Insurance* that his company carries no physical damage insurance on the units themselves. "However," he said, "the liability insurance premium runs approximately 11 times the recoveries effected from others as a consequence of accidents for which other parties are clearly liable."

The risk manager for a company with one of the largest automotive fleets in the country told Mr. Bland that his ratio of auto liability premium to recoveries is 16 to 1.

A CHANGE TO A no-fault system, Mr. Bland contended, would effect a 91% saving in present costs to Panhandle Eastern and nearly 94% to the other company referred to.

"From an overall political and social standpoint this would seem to have quite an effect on the economics of the proposed plans. From the standpoint of the individual it seems there could not possibly be any reduction in cost if the big fleet operators leave this market and cease to subsidize an insurance program at ratios running at least as high as 16 to 1," he stated.

"I'm not an attorney and have absolutely no interest in the preservation of the tort liability system for the sake of legal fees its operation contributes to that profession.

"YET WHEN these alternative programs for no-fault first party insurance are presented to our legislatures, how can any conscientious risk manager avoid a blanket endorsement if they provide an opportunity to reduce corporate insurance cost by 90%-plus?" ▪

'Insiders' . . .

Continued from page 1

of active or deliberate dishonesty is specifically excluded.

"THE TROUBLE WITH this case," a broker pointed out, "is that the decision will make any executive frightened to express any opinion or give out any information on his company."

It will also be harder to pinpoint responsibility under an officers and directors policy. "Suppose, for example, a corporate executive gave away information at a party and by some strange line of events ended up in court. Would liability attach or would it fall under the dishonesty or personal profit exclusions of the policy?"

Texas Gulf is appealing the decision to the U.S. Supreme Court.

IN ANOTHER CASE, reflecting on the honesty of a securities brokerage firm, W. E. Hutton & Co. last week was ruled liable for "material misrepresentations" for the sale seven years ago of $1,300,000 in oil production investments to Johns Hopkins University.

The university invested in 23 oil producing wells in the middle south, an the basis of purported engineering studies shown to it by a Hutton representative.

There is a brokers blanket bond carried by such firms, it was explained, but this only covers against dishonest or fraudulent acts, such as an employe stealing his employer's money.

Hutton has been ordered to repay the $1,300,000 but intends to appeal the decision. ▪

Overseas . . .

Continued from page 1

manager for property and liability, also believes in on-the-spot assessments, and visits most large Caterpillar operations at least once a year.

At Corn Products Co., which employs some 16,000 people overseas, of whom only about 120 are U.S. nationals, William R. Osmun, insurance manager, feels that it's "impractical" to give the same employe benefits to all overseas personnel.

"In many countries," Mr. Osmun points out, "social security benefits are quite advanced, and there's no need to duplicate." The Corn Products insurance executive is also "constantly traveling" in order to supervise and communicate with the 100 branch locations under his jurisdiction.

Some companies have found that using local domestic insurance companies pays off. Phelps Dodge International Corp. was able to lower its fire rates from about 33% to 19% in Mexico, according to F. Brian Harvey, assistant vp. Mr. Harvey advises buyers to educate themselves about each market, and negotiate at the local level, in order to find adequate coverage at a fair price.

Charles E. Tosch, vp of Johnson & Higgins, also stresses that local practices must be followed when planning international employe benefits, "even though these may be vastly different from the U.S." Mr. Tosch points out, for example, that many American companies abroad provide a death benefit when there is no real need, "and even go so far as to provide for payment in dollars."

McGRAW-HILL Inc. is another company that has found by experience that all its overseas employes in 31 countries don't need the same base benefits. In England, points out Alan MacDonald, employe benefits manager, there is a comprehensive national health plan available to all residents, so duplicating this coverage would be unnecessary.

Most corporate insurance executives receive an annual report from all their overseas operations summarizing premium and loss experience for the previous year, and also a schedule of insurance in force for the current year.

"These reports," it was explained, "allow us to provide the treasurer with hard figures, which enable him to understand our problems. They also help us decide whether to adopt deductibles on even, in some instances, to eliminate insurance entirely, and assume a risk ourselves." ▪

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Electronics firm avoids cover on small claims, says company's buyer

ST. PETERSBURG, Fla.—With a basic insurance objective of "insuring against catastrophe," a major electronics firm headquartered here finds it necessary to include a variety of special policies in its portfolio.

Active in space, military and commercial programs, with last reported annual sales near $50,000,000, Electronic Communications Inc. includes most of the facilities of three divisions and an affiliated firm in basic policies.

The St. Petersburg division, where 2,200 of the company's 3,100 employes work, designs and produces communications systems and equipment for national defense and space.

A POLICY HELD BY the company for protection against catastrophe is written by Appalachian Insurance Co. of Providence with a $5,000,000 ceiling and $25,000 deductible. This is a "difference in condition" policy for major physical damage.

"We aren't looking for coverage on a lot of small claims," explained Willis J. Nolan, assistant treasurer who handles the insurance program under direction of Charles L. Lord, the firm's vp, secretary and treasurer. "We simply want to make sure we are covered for major damage."

Considered of vital importance to ECI is its policy for service interruption. With $5,000 deductible, the policy written by Factory Mutual System (MFB Mutual Insurance Co.) covers expenses due to loss of production. This policy covers service interruption from off-premises power failure.

Mr. Nolan pointed out that with a 24-hour operation and tight schedules to be met, power interruption which halted production could be costly.

THE COMPANY ALSO carries business interruption insurance on certain key suppliers, whose failure to deliver on schedule could result in output loss. Appalachian writes this.

Because company employes frequently go overseas, especially into the Vietnam war area for service of equipment, a special travel accident policy is provided covering employes on such missions. Travel accident insurance of $100,000 applies to any such employes, while group life amounts are based on similar insurance the employe has under standard policies while working at home. Insurance Co. of North America and Continental Casualty, respectively, write these special coverages, according to Mr. Nolan.

Employes testing equipment in military aircraft have similar INA travel coverage. Premiums in these cases are on a reporting basis.

BECAUSE A COMPANY like ECI often will have equipment of other companies on its premises for testing and development work, this property is covered under a policy written by Reliable Insurance Co. with $1,000 deductible. Standard 3-D coverage is written by Travelers (which also writes automobile liability insurance) with limits of $500,000 and $1,000,000.

Fire and property damage coverage is written specifically for each plant location by MFB Mutual.

John Hancock Mutual Insurance Co. writes a comprehensive

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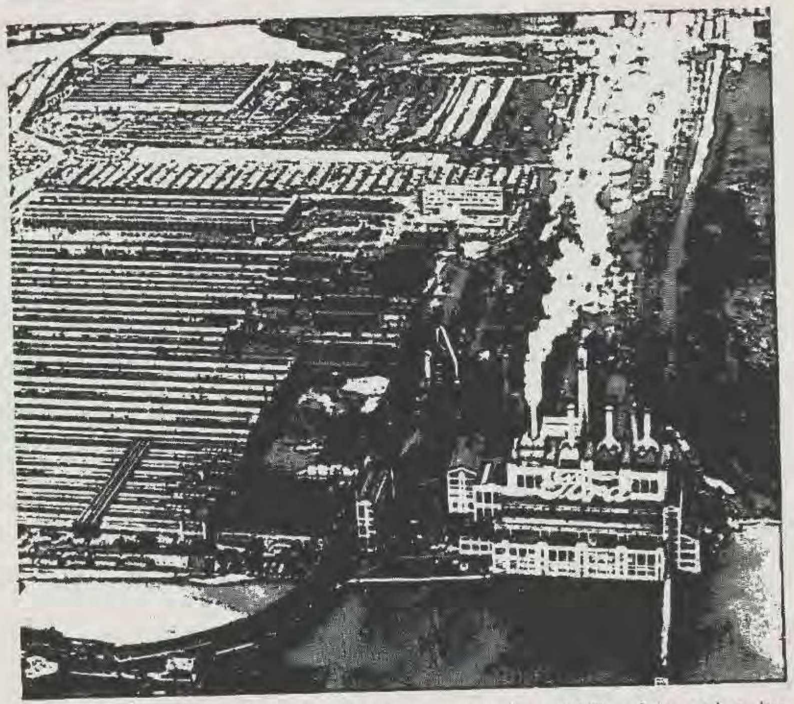

Ford's plant at Dagenham, England, is covered to 65% of its value by Trans-Global Insurance Ltd. a captive insurer set up early this year in Bermuda to cover Ford Motor Co.'s overseas installations. The plant is reputed to be the world's largest single loss exposure.

Ford's captive finds gaps in reinsurance

DETROIT—Ford Motor Co. has been unable to place more than half the reinsurance it wanted for its off-shore captive, Trans-Global Insurance Ltd., *Business Insurance* has learned from sources outside the company and had reluctantly confirmed from within.

It is understood that Ford envisioned that the captive would handle the first $10,000,000 of any loss, would reinsure in a layer from $10,000,000 to $45,000,000 and would retain any loss above that.

However, in negotiations with reinsurance markets, including some of the carriers that had primary coverage before it set up Trans-Global, Ford has been able to get only 50% of the middle layer reinsured, sources told *Business Insurance*. Ford set up Trans-Global on Jan. 1, 1968, in Bermuda.

ON A $50,000,000 loss, for example, Ford would retain the first $10,000,000, half the middle layer (or $17,500,000) and the remaining $5,000,000 for a net retention of $32,500,000.

This retention is the most Ford has assumed since it cancelled its property insurance in 1947 and self-insured its overseas risks, sources said.

Trans-Global is covering 65% of its Dagenham plant in England, reputed to be the world's largest single loss exposure, 50% of its West German operations and almost all other overseas property. Some South American properties are not with the captive.

John Sagan, Ford treasurer, at the time the captive was announced, said that the captive would provide business interruption and property coverages and that some of the foreign carriers would continue to play a part in Ford's insurance program.

FORD HAD BEEN concerned about the cost of its overseas property insurance and business interruption program because premiums had exceeded losses by four times. It is estimated that Ford's premiums paid to the captive are between $500,000 and $1,000,000 annually.

Roy Jacobis, Ford insurance manager, said that the captive was formed to provide a closer check on insurance expenses in its foreign operations. Premiums are paid directly to the captive by Ford's overseas subsidiaries.

According to its 1967 annual review Ford has 54 automobile manufacturing plants, 31 automotive assembly plants, six tractor plants, seven Philco-Ford manufacturing plants and 34 parts depots employing 172,050 persons overseas.

Ford's net property, plant and equipment investment overseas totals $1,249,500,000.

ONE REASON Ford may have such a large retention, one insurance source pointed out, is that any loss Ford would pay out that is noninsured could be a tax credit. For example, if the company's taxes were more than any loss it could have, it would be to its advantage to not pay any premium and remain uninsured, the source said. One complicating factor, he said, would be the varying tax regulations of the foreign countries in which Ford does business.

In 1967, Ford's provision for U.S. and foreign income taxes was $41,500,000 plus $30,000,000 in deferred taxes.

Blues get displaced workers at Conn. plant

HARTFORD—Connecticut Medical Service and Connecticut Blue Cross have made special arrangements to enroll Olivetti-Underwood employes displaced in the recent Hartford plant shuttering.

Joseph Cronin, business manager of the employes' union (District 26, International Assn. of Machinists and Aerospace Workers), said he has been informed this marks the first time in the history of the two state medical plans that they have opened membership specifically for displaced workers.

The 1,800 production workers at the Underwood typewriter plant were enrolled in a medical plan of Aetna Life & Casualty.

Aetna had been also "extremely cooperative" in the union's and company's efforts to ease the inevitable hardships of employe severance, according to Mr. Cronin. They have the option to remain in an Aetna plan.

Olivetti-Underwood announced late in June that it would close the long-established local facility and would dismiss most of the 2,000 employes.

Medical benefit arrangements have figured in severance negotiations between company and union.

Some 200 Olivetti-Underwood workers are handling mopping-up operations, as the plant phases out—a process estimated to last three to six months.

Mr. Cronin added that employes still on the Olivetti payroll would share all severance benefits.

Steers backs coordination of benefits

BALTIMORE—Maryland Insurance Commissioner Newton I. Steers Jr., has supported the coordination of benefits provision, now being included in most group hospitalization plans, which eliminates the possibility of families' collecting on two policies for the same hospital expense.

In a statement made this month, Mr. Steers said that increasing medical and hospital costs are of "great concern to everyone," and that people who can collect under more than one policy "can and do receive payments greater than the actual incurred expenses."

Without coordination of benefits, the commissioner continued, "some people make a profit out of being hospitalized, which results in higher premiums for everyone."

Stating that he has to "keep the lid on" over-insurance, Mr. Steers pointed out that nobody would expect to buy two fire policies on a house, and then collect in full from both of them, "because this would encourage people to commit arson."

Therefore, he said, the same principle should be applied to hospital expenses.

New risk consultants to serve businesses and professions

SAN FRANCISCO—Two new companies to specialize in consultation on insurance risk management have been organized here.

Risk Analysis & Research Corp., with offices at One Maritime Plaza in the Golden Gateway, will make studies and place insurance for business and professions in high-risk activities.

President of this firm will be Edward B. Howell, who formerly was a vp with Alexander & Alexander Inc.

David Warren and Donn P. McVeigh, both CPCU, have established Warren, McVeigh & Associates, with offices at the Wharfside Bldg., 680 Beach St.

Their firm will restrict its work to risk management consultation and will not engage in the sale of insurance. Consulting assignments will include analysis of property and liability contracts, loss prevention programs, risk management administrative practices, feasibility studies of self-insurance and similar problems.

McVeigh **Warren**

Most recently both men were with the San Francisco office of EBS Management Consultants Inc.

Dallas vandalism may hit $80,000

The total impact of vandals' raids on seven Dallas schools won't be known until insurance adjusters complete their work, but a rough estimate puts the damage between $80,000 and $90,000.

The biggest loss was at a junior high school where vandals started a fire that destroyed a wing of the building. The loss there may run as high as $60,000 under the fire policy plus other coverage on the building's contents.

Scars that show in 'birthday suit' are now compensable

DOVER, Del.—Scars visible when clad only in birthday suit will have some protection—workmen's compensation—according to a bill passed by the state senate.

Current law provides only for compensation when "such disfigurement is visible and offensive when the body is clothed normally."

However, Sen. Calvin R. McCullough, in the interest of cosmetology and labor, urged passage of a bill to allow payment when scars show "in more scanty attire—when you're in your birthday suit."

One objection came from Sen. Dean C. Steele, who reasoned that the "purpose of workmen's comp is to allow payment for injuries, not for scratches on the backside."

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washington watch

World watches government role in shaping benefits in U.S.

WASHINGTON—The fact that any change in the insurance climate in the United States can hold a wide range of international implications is not hard to understand when we consider the large export-import trade conducted by the U.S., the vast amounts of American capital invested abroad, the mounting world insurance capacity problems and the high degree of foreign travel by U.S. citizens.

Not so evident in its effect on the world, but equally important, is the change which is developing in another area of the U.S. business scene to which *Business Insurance* devotes its pages—employe benefits.

Specifically, this refers to the trend toward more Federal control of private pension plans and their assets and the increasingly large role being played in the overall American retirement scene by our Social Security program.

ON JULY 29 Robert S. Lane, counsel of Mobil Oil Corp., arranged a meeting in New York City between some American pension experts and Sven O. Hyden, chairman of the board of Pension Guarantee Mutual Insurance Co., Stockholm, Sweden.

Surprisingly, one of the number one concerns of this socialist-state businessman is whether the U.S. government is really serious about a Federal reinsurance program for private pensions as proposed by the administration's omnibus pension bill this year.

Despite its socialistic government, Sweden does have private pension plans, although they differ somewhat from American plans. Mr. Hyden's company is a private insurance firm established by Swedish employes to guarantee noninsured plans against losses caused by bankruptcy and his fear of an American move toward Federal reinsurance is based in part on the possibility that his government might follow suit.

However, he explains, the basis for his anxiety goes much deeper and is shared by businessmen throughout the free world. The feeling is that U.S. reinsurance of private pensions could lead to investment controls plus requirements that a per cent of pension assets be placed in government securities.

THIS WOULD begin a serious drain on new capital which is needed by industry to grow both here and abroad. The same consequence would result, it is reasoned, if our Social Security program grows to the point where no funds are available for private savings.

A constantly recurring question asked American businessmen by their European counterparts is, "Where does all that capital come from?"

Capital comes from private savings, and private pension plans play a major role in this picture. Since 1955, pension fund assets have grown almost 400% from an estimated \$27.4 billion to \$100 billion at the end of 1967. By 1980 it is estimated that pension fund assets will reach \$285 billion, and it is certain that a large share of this will be invested overseas.

Whether Mr. Hyden's fears are well-founded is anyone's guess. On the bright side it can be pointed out that during the 89th Congress only one significant piece of pension legislation was passed. This was a bill to liberalize the tax provisions of H. R. 10 plans. Since then the number of these self-employed plans has doubled.

AND, SO FAR in the 90th Congress, no major pension bills have passed and none seem likely to pass. The possible exceptions are the Disclosure Act amendments which have been changed in the House committees to a point where they are almost wholly acceptable to even the strongest opponents of the original proposals.

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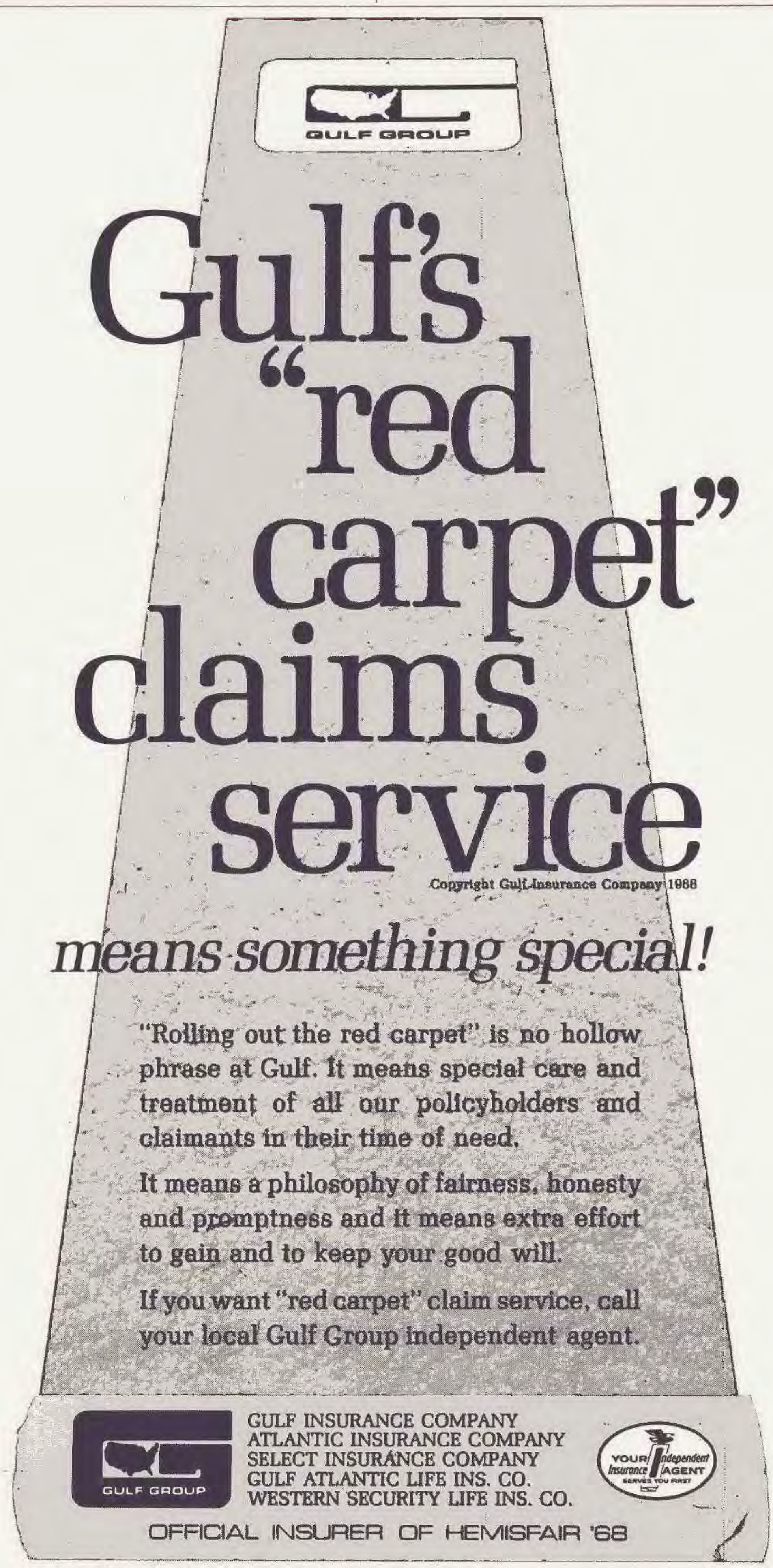

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City could save up to $100,000

ROCHESTER, N.Y.—The Rochester city government might save as much as $100,000 a year on its insurance policies, according to methods explained by both Republicans and Democrats.

Their comments followed the city's suspension of Frank R. Camelio as the city's official insurance agent.

Mr. Camelio's suspension came as a newspaper investigation revealed that he withheld a substantial amount of money from Travelers Insurance Co., which handles all the city government's insurance. Mr. Camelio, a Democratic ward leader, has repaid most of the money, the company said.

In 1960 to 1961, the last full fiscal year of the city government under the Republicans, the insurance costs were $331,000. This year the budget provides for $578,000 for insurance.

During a similar period, the Republican-run county government reduced its insurance costs from more than $400,000 to $275,000.

John Riedman, a member of the county's three-member citizens' advisory committee on insurance, said the savings were brought about despite extended coverage for new services, additional employes and increased payrolls.

"The county plan has worked very well and serves everyone's best interests," Mr. Riedman said.

He said the county has saved 20% or more on several policies by using informal competitive bidding.

The committee draws up specifications for a policy, picks three or four companies, gets price quotations and takes the lowest one.

CITY OFFICIALS, by contrast, do not use bidding.

"I don't think it's necessary," said City Comptroller Joseph E. Silverstein. "At least we've never done it." He said that drawing of specifications presents a problem.

City Corporation Counsel Robert A. Feldman said the law exempts insurance from required public bidding because "there is no possibility for savings." He said this is because the insurance business is heavily regulated with fixed rates and that the bids would be the same.

Mr. Feldman also said the law exempts other professional services like architect work, to allow government discretion to pick reliable firms.

Under the city system, all the commissions—estimated by Mr. Camelio at $30,000 to $35,000 a year—go to one man, picked by the city. Mr. Camelio said he in turn shares up to half the commission with other agents.

William Terra, a Democratic ward leader and a frequent critic of his party and city officials, said last night that the city could save "at least $100,000 a year."

Mr. Terra said the city should switch from a stockholders' company—like Travelers—to a mutual insurance company. ▪

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Electronics . . .

Continued from page 3

group insurance plan, which includes major medical, life and accidental death and dismemberment insurance. Long term disability insurance, also written by Hancock, is available to salaried employes.

Travelers Insurance Co. provides the company's workmen's compensation coverage and also writes bonds for all guards, who are sworn in as deputy sheriffs in Pinellas County, Fla.

With its components going into such sophisticated equipment as the Saturn, the satellite relay test program, Navy data link radio and a host of other advanced units, product liability insurance is provided through Travelers. In addition, aviation products liability coverage is provided through Bowes & Co. This type of coverage includes aircraft liability and liability to an airline should planes be grounded as a result of equipment failure. Mr. Nolan said the company has never had a claim for such grounding, although its equipment flies in many of today's commercial aircraft.

Employers Liability writes yet another policy carried by ECI, an officers and directors liability policy with $1,000,000 ceiling.

Messrs. Nolan and Lord indicated their approach to the company's insurance problems matches its avowed policy for development of its business.

Among programs being conducted at ECI installations is participation in the nation's planned, manned lunar explorations. The Benson division is providing water tanks and backpack assemblies for the astronauts.

Various microelectronic devices are being provided for instrument units as well.

Conduct of the company's insurance program is in the hands of Parker & Co. International. Mr. Nolan says the brokerage firm provides counsel in planning insurance coverage the company believes necessary. ▪

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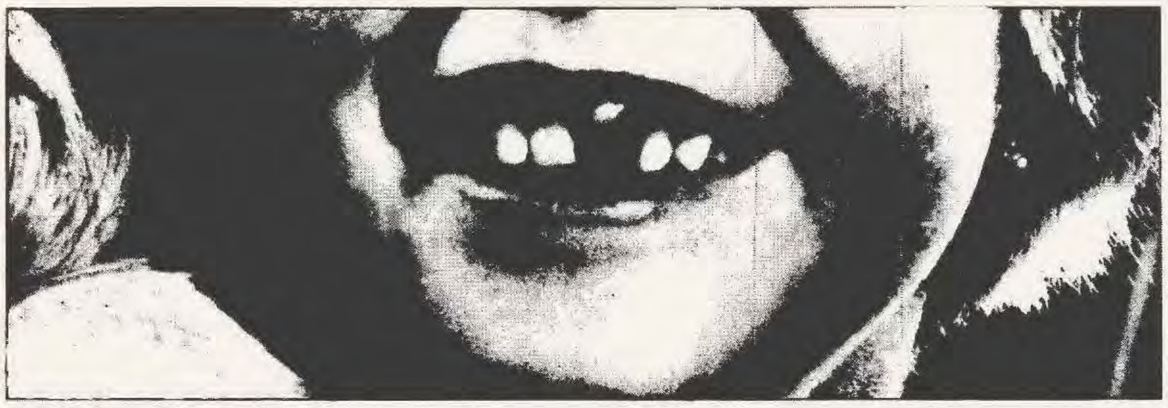
London insures drill rig loss

NEW ORLEANS—An offshore drilling rig which sank off the coast of Louisiana last week resulted in a total loss of $732,000, all of which was insured in the London market.

The rig, which was owned by Crown Petroleum Co., was being transported on board a chartered barge owned by McDonough Marine Service Co.

A spokesman for Southern Marine & Aviation Underwriters, which insured the coverage through London, said full payment will be made through the insured's broker, Marsh & McLennan.

The loss occurred in 280 feet of water and no immediate cause for the mishap was indicated. A source said Lloyd's of London will probably subrogate. ▪



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info for buyers

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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.

• **"A list of Worthwhile Life and Health Insurance Books"** is an 80-page booklet listing 473 book titles and 30 periodicals dealing with all aspects of these types of insurance. Sections of the reference guide are devoted to the use of life and health insurance by groups, businesses and professional persons. Single copies are available without charge on request to either the Institute of Life Insurance or the Health Insurance Institute, both at 277 Park Ave., New York 10017.

• Employers Insurance of Wausau offers a pamphlet, **"Self-analysis of Services You Should Be Receiving from Your Casualty Insurance Carrier."** It lists 1[illegible] questions prepared by the Associated General Contractors of America as a guide to services contractors should get from a casualty insurance carrier. It is free by writing Miss Mary Biwer, Adv. Dept., Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401.

• A handy **"Emergency First Aid Instruction"** sheet is offered by the Mid-America Chapter of the American Red Cross. The item, which could be used as an employe handout or placed in centrally located work areas, lists emergency treatment for wounds, burns, stoppage of breathing, heart attack, heat exhaustion, shock and other accidents and illnesses. The instructions are quickly read and easily understood. For free copies write the chapter at 43 E. Ohio St. Chicago 60611.

• **"Dental Prepayment—A Method of Financing the Cost of Dental Services"** answers 14 questions about dental prepayment ranging from its definition to an explanation of types of plans. It is available free by writing the Council on Dental Care Programs, American Dental Assn., 211 E. Chicago Ave., Chicago 60611

• Firesafety Fundamentals — Vol. 1, **"When Fire Strikes,"** gives step-by-step action to take after discovery of a fire. It discusses the four types of fire and the various kinds of extinguishers commonly used and their operation. The automatic sprinkler system is explained and points on prevention are listed. Single copies of the booklet are free from the Publications Dept., Factory Mutual Engineering Corp., Factory Mutual System, 1151 Boston-Providence Turnpike, Norwood, Mass. 02062.

• A new directors and officers liability booklet has been published by the American Home Assurance Co. It was created to help explain to top management the need for this coverage and how it works. Free copies are available from the company, Department A-14, at 102 Maiden Lane, New York 10005.

• **"What? Not Covered!"** is a 50-page booklet which summarizes today's complicated insurance problems and offers a concise discussion of the principal hazards excluded or omitted from the newly revised liability insurance policies. Non-technical language is used to illustrate major gaps in general liability, automobile liability and umbrella excess liability policies and 40 examples of specific losses not covered, with suggested remedies, are given. The booklet is available, for $2, from the Mason Contractors Assn. of America, 208 S. La Salle St., Chicago 60604. Quantity discounts are available and checks must accompany all orders.

• In response to expansion of government activity in the U.S. and Canada, new private coverages, changes in valuation laws and regulations and changes in the annual statement blank, the Society of Actuaries has released a new edition of its textbook, **"Health Insurance Provided through Individual Policies."** The most substantial changes are in chapters on benefits and policy provisions, policy forms and annual statements. The volume may be ordered from the Society of Actuaries, 208 S. La Salle St., Chicago 60604.

• The American College of Life Underwriters has published its 1968-1969 **"Catalogue."** The 104-page book contains complete information on the CLU diploma program and the college's certificate course program and lists procedures to follow in matriculating with the college, preparing for the examinations, and qualifying for the CLU designation or a certificate. It also contains a section on the continuing education program for CLU's. Three chapters are devoted to group insurance, health insurance and pension planning. Single copies are free by writing the American College of Life Underwriters, 270 Bryn Mawr Ave., Bryn Mawr, Pa. 19010.

• The **"AFIA Guide Europe"** features detailed information on insurance requirements and forms for 14 countries. **"AFIA Guide Pacific"** provides similar information for ten Pacific countries. Both booklets are free by writing Advertising Mngr., American Foreign Insurance Assn., 110 Williams St., New York 10038.

• **"New Catalog No. GS-167"** 96-pages) has been published by General Scientific Equipment Co., Limekiln Pike and Williams Ave., Philadelphia, Pa. 19150. In conjunction with the catalog, General Scientific offers a professional guidance service to determine particular safety needs. Both the catalog and the guidance service are free by writing the company on your letterhead.

• **"Flood Emergency Action"** is a five-minute color film which demonstrates what steps to take to survive and recover from a flood. For a loan copy, contact your local American Red Cross office.

• The Insurance Information Institute offers a pamphlet entitled **"How to Save on Fire Insurance Costs when You Build or Remodel."** A list of construction mistakes and an explanation of the fire insurance rating bureau are included. The pamphlet is free by writing the institute, 110 William St., New York 10038.

• **"A Picture Story of Emergency Service for You"** uses 29 close-up photos to capture the urgency of fire and of actual fire causes. Another booklet, **"Are You Ready for a Fire?"**, lists seven fire emergencies with step-by-step actions. These, plus a list of necessary emergency tools, are available free on a sample basis from Dray Publications Inc., Fire & Accident Div., Deerfield, Mass. 01342.

• Cardox Division of Chemetron Corp. offers two special reports free of charge. The first is on **"Fire Protection for Electrical Cable Trays and Associated Facilities."** It discusses what can be done from a fire protection and engineering standpoint to help keep vital systems in operation. The second report, **"Fire Fighting Foam,"** explains foam pump systems, foam quality, application techniques and foam stabilizers. Both are illustrated and may be obtained by writing Cardox Division of Chemetron Corp., Fire Equipment Dept., 840 N. Michigan Ave., Chicago.

• **"Fire Attack 2—Planning, Assigning, Operating"** is written by Warren Y. Kimball, chief fire service specialist for the National Fire Prevention Assn. The 240-page book is especially for company officers, training officers, chiefs and their deputies and discusses the best possible decisions in organizing and operating their forces. The illustrated book is hard bound and is a sequel **to "Fire Attack 1—Command Decisions and Company Operations."** Chapters are devoted to fire flow under various conditions, initial attack operations, effective organization and design and arrangement of equipment. Copies are available from the association at 60 Batterymarch St., Boston 02110 for $6.50.

• A quick, easy way for the health insurance purchaser to evaluate his present plan plus some eye-opening facts are provided in **"The Ten Point Test for Employe Health Plans."** The check list is part of the New York Blue Cross/Blue Shield program and complimentary copies are available from Mr. George L. Goodlett, vp communication, Blue Cross/Blue Shield, 80 Lexington Ave., New York 10016.

• A pamphlet outlining steps that can be taken by businessmen to protect their employes and property in times of civil disorder has been published by the American Insurance Association. **"Riots"** contains suggested loss prevention procedures for both large and small properties, including protection of store fronts and merchandise, provision for fire-fighting equipment, maintenance of vital bookkeeping information and communications procedures. Single copies may be obtained free by writing the association at 85 John St., New York 10038.

• **"A Modern Concept in Employe Relations for the Forward-looking Employer"** is information compiled by Northwestern National Life Insurance Co. It explains why some fringe benefits are appreciated and why some are not and is designed to educate employes both to their benefits and to their employer's costs. The solutions presented are now being used by nearly 50 employers coast to coast. For your free copy write Mr. George Kirscht, Northwestern National Life Insurance Co., Box 20, Minneapolis, Minn. 55440.

'Failure of control' cited on MER/29

WASHINGTON—During the two years from 1960 to 1962 that Richardson-Merrell Co's. MER/29 was on the market, the anti-cholesterol agent injured an estimated 5,000 persons, prompting product liability suits asking total damages in the hundreds of millions of dollars.

Last issue *Business Insurance* traced the development of MER/29 and alleged falsification of testing data by company officials which led to its eventual marketing and then to a criminal indictment. It was suggested that risk managers pay special heed to a lesson learned the hard way by Richardson-Merrell—that somewhere along the chain of command in the management hierarchy, checks must be provided on the individual judgments of the various persons involved.

This article will briefly outline the government's role in the saga, including the criminal indictment brought against Richardson-Merrell and the sentencing in which the judge made the statement perhaps most important to risk managers—"The full onus (of the MER/29 tragedy) rests on the failure of proper executive, managerial and supervisorial control."

PRIOR TO THE 1962 New Drug Amendments—prompted in part by the MER/29 tragedy—the Food and Drug Administration had only to see that a drug was safe before allowing it to be marketed. It made no judgment as to a drug's efficacy.

Another important fact is that one man could make the decision to give a drug marketing clearance—the medical officer on whose desk the new drug application landed. Basically, it was this man's job to decide, on the basis of the testing data submitted to FDA by the company, whether a drug's purported usefulness outweighed any harmful side effects it might produce. In the case of MER/29 this man was Dr. Frank J. Talbot.

Second of a series

Dr. Talbot's decision on MER/29 was not a simple one and Richardson-Merrell did not make it any easier. In an interview with the Washington Star, Dr. Talbot said that the firm called him daily. "It was obvious the company was extremely anxious to get the drug on the market," he said. Some firms brought very little pressure, he added, but this one "liked to keep the pressure on." He explained that the American Medical Association convention was coming up and Richardson-Merrell was anxious to promote MER/29 there.

The reason for the company's impatience can be found in MER/29's performance in the marketplace once it was cleared. After only four months on the market the drug was selling at a higher current rate than any of the firm's other ethical products, and sales were increasing every month.

IN THE FISCAL year ended June 30, 1961, MER/29's first full year on the market, more than 400,000 people used it. MER/29's sales in that year were about $9,-

Continued on page 10

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MER/29...

Continued from page 9

000,000, accounting for just under 6% of Richardson-Merrell's total volume. And, MER/29 accounted for a "somewhat higher percentage of consolidated income," indicating earnings from the drug topped $1,000,000.

Richardson-Merrell however was not the only one communicating with Dr. Talbot. An increasingly large number of reports were coming out of the medical community questioning the safety of MER/29. Here are a few examples:

- The National Heart Institute discovered that MER/29, while halting formation of cholesterol in the blood, produced another sterol called desmosterol. This raised the question of whether desmosterol was as bad as—or maybe even worse than—cholesterol. A co-discoverer of the desmosterol formation, Dr. Daniel Steinberg of the heart institute, made it quite clear that he thought the drug should not be approved until the effect of desmosterol in the blood could be further studied.
- A specialist in metabolism, Dr. Laurance W. Kinsell from Oakland, Cal., when consulted by FDA and the American Medical Association about MER/29, told them "in totally unequivocal terms that the drug should not be released."
- And, one of FDA's own pharmacologists, E. I. Goldenthal, gave Dr. Talbot a report which in no uncertain terms said that the drug should not be cleared. He told Dr. Talbot that MER/29 was producing toxic effects at relatively low dosages and that it was "highly questionable" to use such a potentially dangerous product to reduce cholesterol in the bloodstream when it was not even known whether the presence of the substance was dangerous. He further questioned whether desmosterol might itself be harmful.

DESPITE THESE cautions, Dr. Talbot cleared the drug in April, 1960—nine months after the new drug application was placed on his desk—and Richardson-Merrell launched a $1,000,000 advertising campaign billing MER/29 as the "first safe" drug to lower cholesterol.

Reports questioning the drug's safety continued to pour forth from the medical community, including one from the famed Mayo Clinic and one from another drug company, Merck & Co.

In September, 1961, Dr. Talbot left FDA and the responsibility for MER/29 was turned over to Dr. John O. Nestor who almost immediately recommended that the FDA require Richardson-Merrell to withdraw the drug from the market.

Dr. Nestor was overruled by his superiors, who claimed the agency lacked sufficient evidence required under the 1938 drug law to force the issue of removing the drug from the market. Instead, after a heated two-month debate with the company, FDA required Richardson-Merrell to place stricter labeling on the drug and send a letter to all physicians warning against all reported side effects and contraindications for its use. The letter was dated Dec. 1, 1961.

"This "compromise" was interpreted to mean that the agency felt the potential benefits of the drug outweighed the risks inherent in the side effects it produced.

How long MER/29 would have remained on the market under these conditions is not known since the following February a bizarre event occured which virtually assured its removal.

An FDA supervisory inspec- ɔr, Thomas Rice, who worked in ne Cincinnati station, was told y a member of his car pool, Car- on Jordan, that monkey studies ad been falsified in the re- orts. Mr. Jordan said his wife ad quit her job as a lab tech- ician in the firm's toxicology- athology department because of his and similar treatment of ther MER/29 testing data.

MR. RICE subsequently inter- iewed Mrs. Jordan and sent the esults of his interview to FDA eadquarters in Washington. Six veeks later the agency sent Dr. Nestor and FDA pharmacologist Goldenthal to Cincinnati.

The pair conducted a two-day nvestigation and turned up the irst evidence of the data falsifi- ation which led to a criminal ndictment of the company and hree of its research personnel. On April 16, 1962, within a week fter the investigation, Richard- on-Merrell announced it was ending letters to all physicians n the U.S. and Canada with- lrawing MER/29 from the mar- et.

In December, 1963, a Federal rand jury indicted Richardson- Merrell, its pharmaceutical sub- idiary, the William S. Merrell Co., and three of its scientists.

Either the Merrell division, or Richardson-Merrell, was named n each of the 12 counts in the ndictment.

Basically, the indictment harged that the defendants will- ully falsified, or withheld, per- inent research data from FDA: n seeking FDA clearance for the lrug; in answering questions and endering reports after the drug vas marketed; and in discussing vhether the drug should be re- noved from the market in late 1961.

Specific charges included:

- That a study was concealed vhich showed that MER/29 aused ovarian changes in a fe- nale monkey and another study vith rats in which it was ob- erved that certain doses re- luced the conception rate when given prior to and during cohabi- ation.
- That a report was concealed n which it was observed that here was a reduced conception ate among rats receiving cer- ain doses of MER/29 during pregnancy, the size of a litter vas reduced, and there was an ncrease in rate of the deaths of he young during the 24-hour period after delivery.
- That the company assertedly tated that evaluation of a dog tudy was difficult because of an outbreak of distemper, when in act the study had been con- lucted with dogs that had not had distemper.
- That the company withheld nformation concerning corneal opacities that had been found in he eyes of live rats to which MER/29 was being administered.

Richardson-Merrell and its ubsidiary pleaded nolo con- endere (no contest) to a total of eight of the 12 counts. The three ndividual defendants each pleaded the same to a single count of preparing false reports. The government accepted the pleas and dropped the remaining counts.

The judge, noting that a plea of nolo contendere is "tant- amount to a plea of guilty," fined Richardson-Merrell the maxi- mum possible—$80,000. The hree scientists each received a ix-month suspended sentence.

A future *Business Insurance* article will discuss the civil suits and the formation of the "MER/29 Group."

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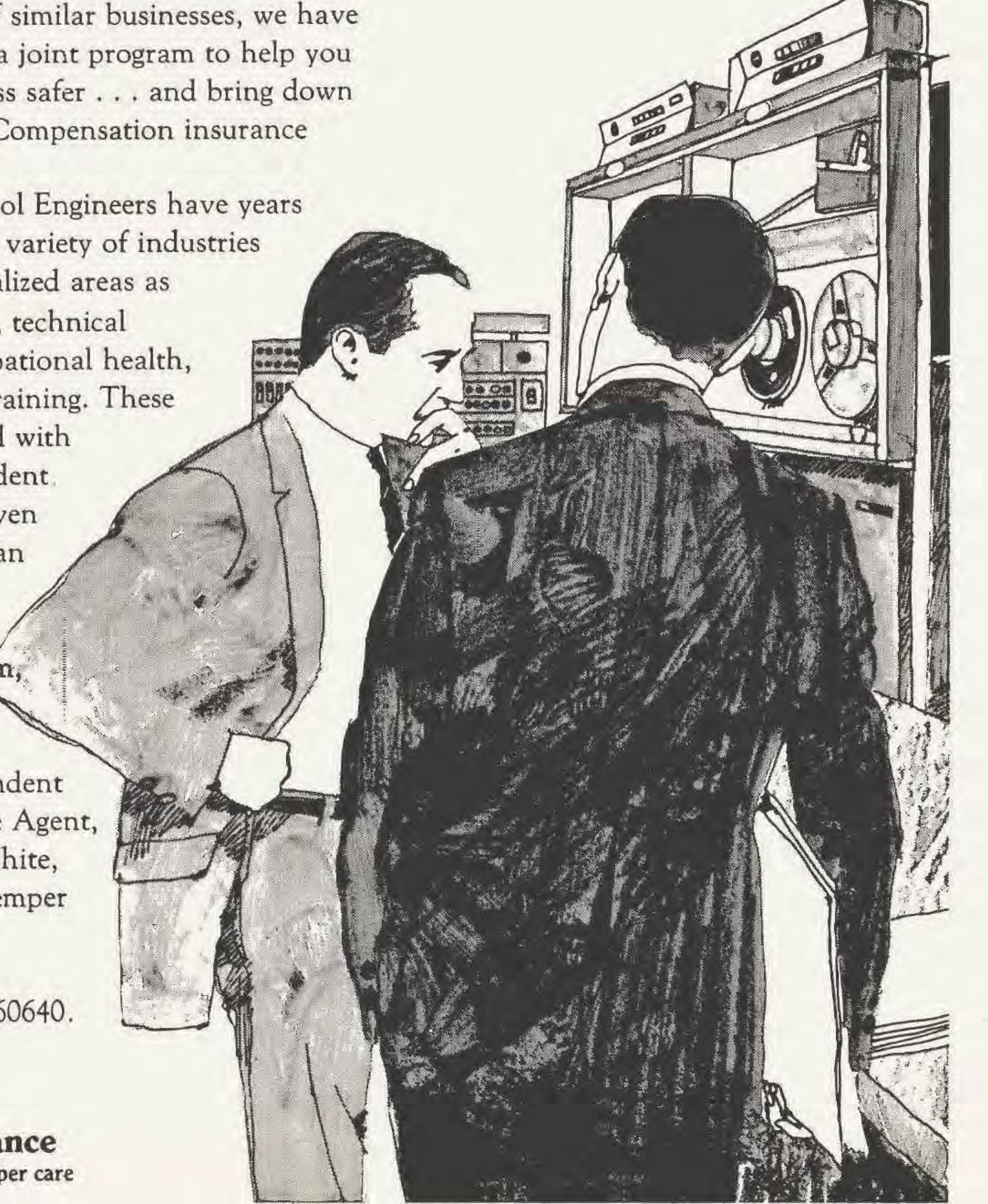

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Company's appetite for buyouts creates cover problems

By WILLIAM GUEST

NEW YORK—When William J. Jones III took over as director of insurance and employe benefits at United Industrial Syndicate Inc. a year ago, he found 300 different policies waiting to be analyzed and pulled together.

These policies covered property and casualty insurance only. In addition there were 16 separate pension, profit sharing, and saving plans to be evaluated, as well as group plans to be coordinated.

There was some justification for this confusion, Mr. Jones explained in an interview with *Business Insurance*, because of United Industrial's growth since the company was organized in 1943, and more especially within the past five to ten years.

FOUNDED FOR THE purpose of acquiring, operating and managing commercial and industrial companies, the syndicate, according to Mr. Jones, "is always looking for new acquisitions." At present, it owns and operates 35 separate companies, ten of which have been taken over during his tenure.

"With so many take overs, I have to follow an orderly and systematic method," Mr. Jones commented. He achieves this by preparing an insurance check list, which is separated into two categories: before contract and after acquisition.

High on the list of priorities, is an up-to-date actuarial evaluation of any pension plan, "because if unfunded, this could have a direct bearing on the acquisition costs."

THE NEXT MAJOR area to be scrutinized is the experience on casualty and liability policies. "I always want to know about any open liability and/or workmen's compensation claims," Mr. Jones said, "because of any possible pending law suits and large claims—this is very important for retrospectively rated plans."

At the same time, Mr. Jones examines any group insurance booklets, and asks the carriers for a three-year statement of premiums and claims experience. He also analyzes the plans benefits.

"Another area that is often overlooked when taking over a company is key-man life insurance policies," Mr. Jones continued. "However, some of these amount to substantial sums, so I have to evaluate them to see whether it's to our advantage to continue them."

In the area of property insurance, the UIS executive checks coverages very carefully. "I want to make sure our investment is properly protected," he said. He then checks on current fire rates and carriers and also makes a general study of any construction problems at new locations.

MR. JONES ATTEMPTS to avoid short-rate penalties when canceling policies and also tries to establish rapport with any local insurance brokers who may have handled the newly acquired company's account previously, "sometimes for generations," he said.

In addition to the work involved in constant acquisitions, Mr. Jones has attacked the existing United Industrial Syndicate's insurance and employe benefit plans.

"Last year we predominantly worked on property and casualty insurance, and this year we're concentrating on employe benefits," Mr. Jones observed.

AMONG HIS FIRST year achievements is an overall "forward looking" blanket fire policy underwritten by Protection Mutual Insurance Co. "The exact limits haven't been decided yet," Mr. Jones explained, "but we expect them to be in excess of $100,000,000 for any one location, with a $5,000 deductible applying to direct damage as well as the business interruption."

This policy has been followed by a new boiler and machinery contract that covers all UIS locations with uniform protection and a $5,000 deductible.

Mr. Jones—"a firm believer in assuming risk where practical and beneficial"—stated that "UIS has grown so rapidly that management has found it necessary to evaluate what can profitably be absorbed in losses—and any resulting saving in premium."

The insurance executive has also inaugurated a blanket plan with American Mutual Liability Co., for workmen's compensation, comprehensive general liability and automobile coverage, which replaces many individual policies. "We've had the insurance company and our local people concentrate very heavily on safety," he said, "and it's paid off in reduced claims experience."

MR. JONES HAS also added with American Mutual a combined manufacturer's crime bond with a $250,000 blanket lim-

Continued on page 38

"It's amazing how getting hit by a truck can turn a plain old cow into a prize bull."

A true story about Al Fiore, Claims Management
American International Underwriters.

Imagine for one moment the world of Al Fiore. On an island somewhere in the Atlantic, a satellite tracking station is being built. A construction worker shouts to the driver of a 2-ton truck, "Okay, Joe, back it up 10 feet." An old cow is grazing placidly behind Joe and his truck. 9 feet behind Joe and his truck. Joe backs up. There's a loud crash. In the distance, you can hear a farmer shouting, "My prize bull! My prize bull! You've hit my prize bull!"

Another case to be settled by Al Fiore and his Claims Department. "It's amazing," says Al, "how getting hit by a truck can turn an old cow into a prize bull."

But Al Fiore's world isn't always made up of cows who turn into bulls. Al's world is sometimes made up of people. People who need help. It's a world where a plane from abroad will land 2 A.M. at the airport. As the plane rolls to a stop, a badly burned engineer, a workmen's compensation case, is taken off in a stretcher. An ambulance is waiting to take the man to a hospital for immediate treatment. As the man is carefully lifted into the ambulance, a man sits next to the stretcher and whispers, "Hello, I'm Al Fiore of AIU. I'll see to it that you're settled in the hospital just as soon as possible."

Now, there's nothing in the employees' manual at AIU that says a claims man must meet a plane at 2 o'clock in the morning and follow up to see that the patient is well taken care of. But there is something in Al Fiore and people like him at AIU that says it must be done. And they're proud to do it.

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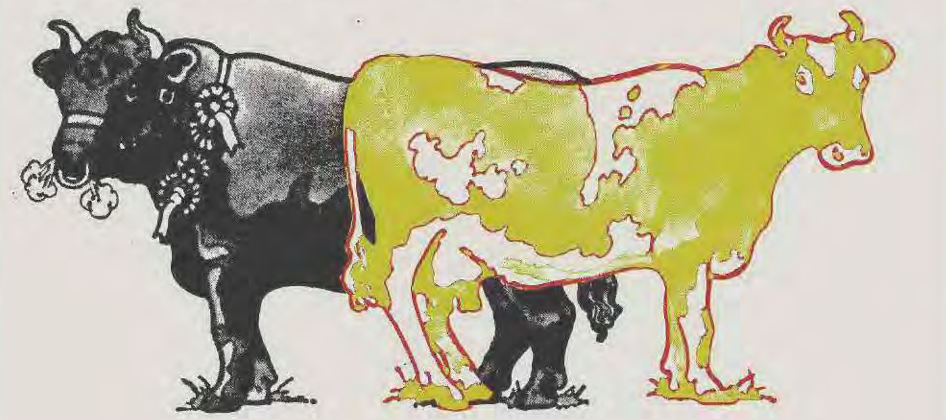
For more information and a brochure on how Al and all the other members of AIU can help you with your overseas insurance, have your broker call the AIU office nearest you, or write AIU, Dept. 34, 102 Maiden Lane, N.Y., N.Y. 10005.



opinions

Hiring the heart patient

At two separate meetings this month lawyers spoke out in favor of some scheme that would protect both employer and employe in cases where the employe suffers a second or third heart attack.

The problem is that companies, while agreeing that it's a desirable goal to rehabilitate and rehire workers who have suffered heart attacks, are faced with the possibility of being hit with relatively stiff workmen's compensation claims if an employe suffers another cardiac attack.

Now speakers at the American Bar Assn. and the American Trial Lawyers Assn. meetings have endorsed schemes which seem to us might take some of the heat off employers. Both plans would limit an employer's liability in regard to heart attack cases, hopefully allowing companies to be more lenient in rehiring cardiacs.

One proposal would apply the "second-injury law"—which covers loss of a second limb in many states—to heart attack situations. Under the plan, an employer would be liable for workmen's compensation for not more than 100 weeks. After that, benefits would be paid out of a special state second-injury fund. New York already has a form of this system of recovery in operation.

Such a scheme would remove cardiacs from state-supported welfare and aid-to-the-handicapped fund, and would open up much wider employment opportunities, other speakers contended.

Another approach, also followed by New York, was suggested at an American Trial Lawyers Assn. meeting in Washington. In cases in which an employe is a heart patient, such a worker who suffers another attack would be compensated only if the employe exerts himself on the job to a greater extent than he normally would off the job. If an employe has not suffered a previous attack, however, any exertion connected with his job and causally related to his collapse would result in workmen's compensation payments.

Thus, employers would be liable for heart attacks brought on by unusual physical exertion—and presumably they could shift an employe with a history of cardiac impairment into a job which wouldn't require such exertion.

If it were up to us, we'd back the second-injury fund idea. The trouble is, an employe who has suffered a previous attack might take it upon himself to exert more effort than is prudent—and suffer another attack, which would be compensable under the "unusual exertion" doctrine.

Unfortunately, medical science hasn't advanced to the stage where a heart attack can be certainly ascribed to any specific action. We think it would be more equitable to limit the benefits of employes hit by a second heart attack rather than give benefits to some and not to others.

Death is no longer a certainty

Speaking of medical science, which we were in the previous editorial, both the scientific and religious communities have lately begun to grapple with a problem unique to the 20th century: when is a person who donates his heart to another really dead?

Last week, at an American Trial Lawyers Assn. conference, a Boston attorney called for the establishment of a national standard by physicians and lawyers to determine when death occurs.

We think it's time the insurance industry also started thinking about this problem. Just as insurers weren't prepared for the rash of riot claims which they absorbed in the past several years, we wonder if malpractice insurers are prepared to defend doctors charged with removing a human heart before the donor was said to be actually dead.

We submit that insurers, in the light of organ transplant developments, might do well to join forces with scientists, lawyers and religious leaders to work out a definition of death which would satisfy not only moral requirements but legal standards as well.

Life insurance in force in various countries

COUNTRY	RATIO TO GROSS NATIONAL INCOME	COUNTRY	RATIO TO GROSS NATIONAL INCOME
Canada	191%	Belgium	47%
United States	160%	West Germany	38%
Sweden	149%	France	36%
Australia	92%	Mexico	20%
Switzerland	67%	Greece	2%

A meaningful measure of the amounts of life insurance in force in various countries is the ratio of life insurance in force to gross national income. Figures above represent this ratio of life insurance in force on the lives of residents of the country with both domestic and foreign companies except for West Germany and Greece where the figure represents insurance in force with domestic companies, including their foreign business. Figures here are for 1965, the most recent year available. Most countries have shown increases in their ratio of life insurance in force to national income for the past several years. Canada has the world's highest ratio, and five countries have life insurance in force at least equal to national income.
Sources: Institute of Life Insurance and Statistical Offices of the United Nations.

Riot damage recovery

Can you sue your city or county for riot damage? We commend to you an article in the July 1968 edition of the Insurance Law Journal by Dick L. Rottman. According to Mr. Rottman, 16 states have statutes imposing some liability on municipalities and/or counties for injuries and property damage resulting from a mob or the actions of a riot.

An additional four states make reference to such liability, without actual provision for recovery. In Connecticut, Kansas, New Jersey, West Virginia and Wisconsin, recovery may be had for both property damage and personal injury. In Kentucky, Maine, Maryland, Massachusetts, Missouri, Montana, New Hampshire, Pennsylvania, Rhode Island and South Carolina, you can recover for only property damage. Ohio permits recovery for bodily injury only.

Some states also impose a limit on the amount that can be recovered. Maine, Massachustes and Rhode Island permit only a 75% recovery with $50 deductible, and South Carolina does not permit any recovery for the destruction of tobacco.

Both Ohio and West Virginia put a $5,000 maximum limitation on the amount of recovery. If you want to recover in Connecticut, Kansas, Kentucky and Maryland, you must show that the proper authorities failed to exercise reasonable care or diligence in the prevention or suppression of mob or riotous acts.

In the other twelve states, absolute liability is imposed upon the city or county, and you do not have to prove negligence.

A good idea

New York City Councilman Edward Koch has proposed an ordinance that would require gun owners to obtain $10,000 of personal liability insurance coverage in order to obtain licenses for their firearms or to register them.

Councilman Koch's proposal would require owners of firearms to be insured against negligent use of the gun, loss and ultimate use of the weapon by another person, and use by the owner when he was mentally incompetent or under the influence of narcotics.

We think that Councilman Koch has an excellent idea, one that should be adopted not only in New York City but by every local or state government. Owners of autos, after all, must show they are financially responsible, which usually means that they must buy insurance. Gun owners should be no less financially responsible to the public.

Last year murders with firearms took 7,500 lives and aggravated assaults with guns inflicted 47,000 injuries. Very many other deaths and injuries resulted from negligent use of firearms that involved no criminal charges. Those who own guns should be held responsible for the consequences of their use and misuse, just as auto owners are already held responsible.

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letters

Buyers' courses

To the Editor: The insurance buyer of one of our insureds has inquired regarding the availability of material in the way of a study course—a primer-type book or booklet—for his use, since he is new in the field.

Does your publication have such a program? If not, we would appreciate any suggestions you may have.

Walter W. Daniels
Hylant-MacLean, Inc., Toledo, Ohio.

Editor's note: Correspondence courses in the principles of insurance and in basic corporate risk management are available from the Insurance Institute of America, 270 Bryn Mawr Ave., Bryn Mawr, Pa. 19010, and from the College of Insurance, 150 William St., New York, N.Y. 10038.

'Keeping abreast'

To the Editor: I earnestly look forward to receiving *Business Insurance* to enhance my perspective of the insurance industry. The logical and concise organization of articles permits one to thoroughly read, in entirety, all articles contained in a minimal amount of time.

In today's business world, regardless of an individual's profession, keeping abreast of developments is a necessity and *Business Insurance* assists me in doing so within the complex field of insurance.

R. G. Miller
Personnel Associate, C-B Foods, Rochester, N.Y.

More interest

To the Editor: Your article in the May issue of *Business Insurance* on my address before the Chicago Assoc. of Commerce & Industry has resulted in additional interest and publicity. (*Business Insurance*, May 6, 'Don't keep safety secret,' seminar told.)

I gave a digest of the talk at the Patten Tractor & Equipment Co., Elmhurst, Ill. American Telephone & Telegraph has asked for additional information as a result of your article.

Theron F. Miller
Executive Consultant, Chicago

'Sense of currency'

To the Editor: After 32 years in this business, I must say you people have infused a new sense of currency into the insurance trade journal which I have always found lacking in the old standard-bearers.

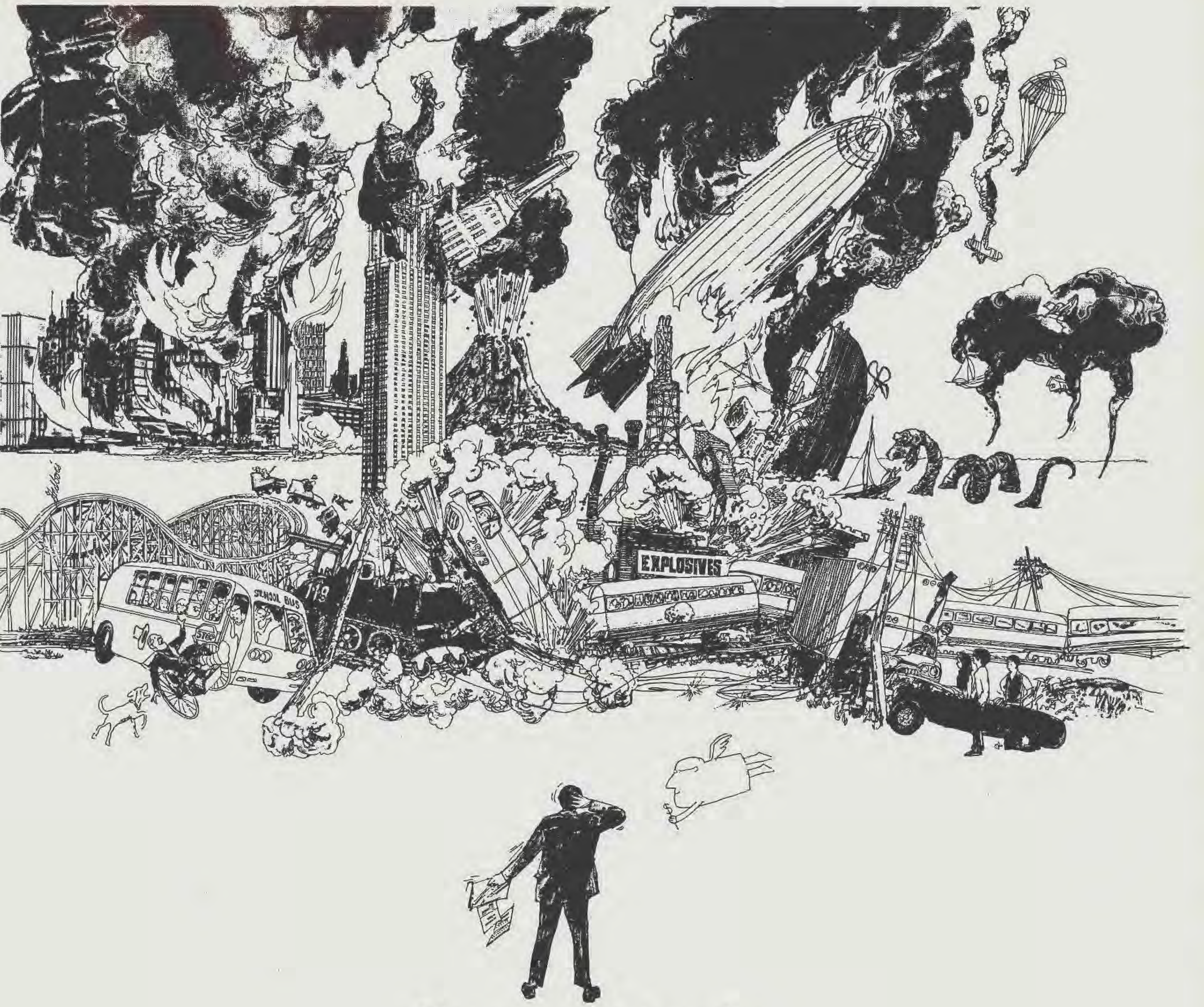
William C. Beanland
President, Beanland Associates Inc., New York, N.Y.

'Newsworthy'

To the Editor: Being something of a neophyte in the insurance field, having inherited the responsibility through assignment, I find *Business Insurance* an interesting publication since it affords me exposure to a consolidation of newsworthy insurance items that I might not notice in regular news releases.

I read it regularly, though of course many items deal with a broader insurance area than I am concerned with.

E. W. Johnson
All Steel Equipment Corp., Aurora, Ill.



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.

Although he's somewhat awed by the spectacle, Merriweather is ready. As a keen and clear-eyed insurance buyer for his firm, he saw to it that his company had The St. Paul's Umbrella Excess Liability Policy to take over where their basic liability insurance ended. They'd been a pioneer with the coverage. Besides, reasoned Merriweather, they had been stable and solvent for 115 years, and the first 100 are the toughest.

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This business insurance team handles and supervises Schlitz' domestic and foreign risks, including base plans, self-insurance and employe benefit programs. The company spends more than $4 million annually in premiums for a broad range of coverages and contributes an additional $2.2 million to pension funds for salaried and hourly-rated employes.

The seven-man insurance and employe benefits department at Schlitz reports directly to company treasurer Charles D. Solomonson and Roy C. Satchell, vice president—finance. In addition to risk management, this team assembles statistics and other data for use in the company's safety engineering, construction and protection activities.

According to Donald L. Stehr, director of insurance and employe benefits, the people in his department at Schlitz find *Business Insurance* most helpful and interesting: "*... we particularly like the combination of employe benefits and general insurance subjects.*"

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The insurance management team at Schlitz (l to r) Charles D. Solomonson, treasurer; Harry J. Feltes, manager of employe benefits; Donald L. Stehr, director of insurance and employe benefits; Roy C. Satchell, vice president—finance; and Sherwood A. Haag, supervisor of insurance and employe benefits.

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business insurance/perspective

Aviation insurance comes of age

by Michael Reiss, director
F. Bolton & Co. (Aviation) Ltd.
London

Michael Reiss

Aviation insurance, by far the youngest and most unsophisticated class of business, is finally maturing with the advent of jet aircraft and the jumbo jets.

In the past rating has been very much a "hit or miss" affair with fairly modest limits of liability both from a hull and legal liability aspect. Today, however, there are many jets flying with insured values of $9,000,000 carrying 180 persons on whom we could assume an average passenger award of $150,000 each, totaling $27,000,000.

Neither of these amounts take into account any third party damage that would be caused should the aircraft crash into the Empire State building, hit several aircraft landing or taking off at Kennedy or O'Hare or any other prominent airport.

It is basically true that the legal liability aspect is taken much more seriously in America and is far more costly than in Europe or other parts of the world. This is due to the fact that the U.S. as a whole is much more insurance conscious and awards tend to be much higher in American courts.

The average award per person has increased from $70,000 a few years ago to somewhere in the region of $150,000 per person, and this escalation must obviously be reflected in the general rating of aviation business today.

The aviation market as a whole is at the moment in a very peculiar situation, in that following several very profitable years during the early 1960s the rates dropped so rapidly over all classes of business that for many companies and Lloyd's underwriters 1965 and 1966 will prove unprofitable. Some underwriters and companies may lose 50% more than the premiums they take in.

MANY AIRLINES DO NOT appreciate this fact and believe underwriters are making too large a profit when they ask for increased renewal terms. One can understand the resentment of a major airline operating for many years with a clean record suddenly finding it is having to pay considerably more for its insurance.

The natural reaction is: "Look at my record, why should I pay more? Surely I should get a reduction in my premium. Why should I pay for the bad operators' loss?" This statement is very fine in theory, but not really practical in that if the principle were adopted certain good airlines which were unfortunate enough to have a loss would find their rates increasing, let's say tenfold overnight, which would be completely unreasonable. Therefore, the same principle as on motor insurance has been applied: If the general experience in the market shows a loss trend, then the rates are increased overall, resulting in all airlines paying a little more.

Most airlines, by this I mean international fleets, pay in the region of 1% to 1.5% for their hull insurance. I am convinced that underwriters cannot make a reasonable profit at these rates, and would argue that the correct rate at which underwriters would be expected to make a 20% profit would be in the region of 2%. Major losses are now averaging over one a month and with the ever-increasing number of aircraft this accident rate could well double in the foreseeable future.

TURNING BACK TO THE question of passenger legal liability, a point that is not appreciated by many people is the fact that although the average passenger award is now $150,000 per person, by the time a claim is settled in court in four to five years' time the average is up by at least 20% to 25% and underwriters must allow for this when rating a risk.

Over several years there has been talk of the formation of a mutual insurance company by the major airlines which for many sound reasons has not been considered very practical. I imagine it would be extremely difficult to obtain agreement on a rating structure that would satisfy all airlines. Equally, it would not be easy to work out what penalty an airline with a loss would pay against the airline with a clean record looking for a rate reduction. Finally, the potential liability involved would mean the formation of a highly capitalized company which would in itself involve the airline in heavy expenditure.

I am sure that airline executives would agree that it would be unreasonable for the insurance industry to subsidize airlines to the extent of losing money, and that underwriters, like all business concerns, should be allowed to make a reasonable profit of around 20%. Equally, I would agree with airlines that if it were found that at the present rates underwriters were making substantially more than a 20% profit they could justifiably argue that underwriters are charging too high a rate and that the rates should come down.

THE POSITION MUST BE looked at over a period of several years because it is impossible to look at a loss trend over a shorter period than four or five years. I feel the antagonism that has occurred recently between the airlines and underwriters over the question of rating has been the belief that underwriters are making considerable profits from their underwriting, which goes back to the beginning of the jet era when nobody had any idea what the correct rates for jets was going to be.

It was considered by many people that 7% would be the correct rate, but this has proved to be too high and subsequently the rates have now become too low over a short period of time. The next 12 to 24 months are going to prove to be the most interesting period and it remains to be seen whether London underwriters are far sighted enough to maintain the worldwide lead they now hold in this class of business.

Many problems remain to be resolved —the problems of rating in general, the problems of capacity, the problems of attracting the good smaller accounts. The goal is to keep a balanced view, primarily in the question of rating. ▪

Michael Reiss is a director of F. Bolton & Co. (Aviation) Ltd., and is also a name at Lloyd's. He entered the aviation insurance market 17 years ago and travels extensively in the U.S. and behind the Iron Curtain. As a broker and an underwriter, he tries to maintain a balanced outlook between the two viewpoints.

You MUST forget what you know

by Bion H. Francis
corporate director of
employe benefits,
Crucible Steel Co.

It is sometimes a shock when we take a system developed in the United States and attempt to transfer it—or the thinking behind it—to a foreign country. Much of what we have come to rely on simply does not apply to foreign situations. In this column, I am presenting some of the background and attitudes we must learn in thinking about employe benefits in foreign lands.

The first national Social Security legislation in the United States dates to the mid-1930s; in Europe, the first legislation of this type was the work of Bismarck, a couple of generations earlier.

One result of this longer period of growth is that European social security systems can be much more complicated and more expensive than what we are accustomed to. I remember working through a list of social security taxes paid by one European plant. The total tax was approximately 50% of payroll. While the upper limit of wages and salaries subject to the tax was less than what we are accustomed to, the total social security taxes were still a substantial item.

THERE ARE ALSO supplementary systems, which may be arranged between employers' federations on one side and unions on the other. Or these supplementary systems may be required by law, or by arrangements having the force of law. This growth of what are essentially systems of public protection has been so extensive in some countries that there is little room for private plans to supplement the public systems. This is one of the first things which you must determine before trying to develop any system of private protection.

These systems may provide kinds of protection which are alien to our thinking. Examples are family allowances, paid widely in European countries to encourage families to grow, and separation allowances, paid to protect job tenure.

Even when the services of production employes are terminated, an employer may be required to pay substantial separation allowances. As a result, it may be impracticable to lay off production employes for short periods, as is frequently done in the United States. This can result in a completely different approach to operating and production problems. In effect, in countries which pay substantial separation allowances, cost of labor to some extent has become a fixed overhead cost rather than a variable expense.

NOR IS THIS PROTECTION limited to production employes. In fact, the amount of indemnities paid to middle and top management employes for termination of services may be on a scale which can surprise you.

An important difference between the United States and foreign practice is that in most of the advanced industrial nations of Europe (and also in Canada) an employe can deduct for tax purposes his contributions to pension plans. This provision of the tax law is advantageous to employes in that it encourages employe participation in the cost of a pension plan. Consequently, employes may accumulate a substantial equity in pension plans.

In the United States, on the other hand, an employe cannot deduct his contributions to a retirement plan. This encourages employers to pay the full cost of a pension plan. The result is that employes frequently have no equity in their retirement plan except what will be provided by vesting after the employe has been covered by the plan for a number of years.

IN THE UNITED STATES, perhaps the major social requirement in our laws dealing with retirement plans is the requirement that a plan cannot discriminate in favor of officers, directors, supervisors or other highly paid employes. This has become so much a part of our thinking on retirement problems that it can be a surprise to discover that no other important country has a similar antidiscrimination requirement.

In fact, there are countries in which the actual practice is exactly the opposite. In these countries "top hat"

Continued on following page

Continued from preceding page

pension plans are developed for the president of the company and perhaps a few top officers.

Private pension plans are strictly regulated in many European countries. One aspect of this which has surprised me, in view of the unfortunate European experience with inflation, is that the investment of pension plans is limited so strictly that these plans have been unable to make substantial investments in common stocks.

As a result, these funds have not had the protection which they might have had against inflation. The most important exception to this is Great Britain, where pension trust funds have been invested heavily in property and in common stocks.

The experience of some European economies with inflation has been frightening. Savings accounts and life insurance in particular have suffered greatly from inflation, and are far less popular than in the United States. This is perhaps a reason why life insurance is not so widely bought in Europe as in the United States.

But if life insurance in large amounts is not bought widely in Europe, where does protection come from for the wife and children of a wage earner? Here we have a secondary effect of inflation.

IN MANY COUNTRIES of Europe, in developing private pension plans, it is the practice to include widows' pensions of substantial amount. These may be as much as 60% of the pension which an employe would have received if he had remained in the company's service until his normal retirement age. The widow's pension is usually supplemented by additional payments for dependent children. These benefits from private pension plans provide at least part of the protection which in the United States comes from life insurance.

Another interesting result of inflation has been the effect on the funding of social security, especially in France. The value of social security reserves held in France was largely destroyed by inflation. Since the same inflation also destroyed much private savings and life insurance, it became necessary to work out a system of protection for old people. This had to be done not only at a time when money was limited but also when the value of money was still dropping sharply.

In this situation, the French gave up any attempt to fund their system of social security. Instead, they improvised a complex system in which old age pensions are linked both with past services and with current cost-of-living indexes. The cost is based entirely on current industry contributions.

This "distribution" system is apparently a successful attempt to build a sound structure of social security on the quicksand of a currency whose purchasing power is rapidly eroding.

In a column such as this, it is impossible to give a picture of the infinite variety of foreign systems of public and private benefits, together with the financial, tax, and legal framework which surrounds these benefits. I hope, however, I have made my main point.

Before you start to learn anything about foreign benefit systems, your first step should be to cleanse your mind of what you know. Much of what you think of as basic knowledge about benefits will only get in your way when you leave the borders of the United States. ▪

Bion Francis graduated from Massachussetts Institute of Technology with a degree in mathematics. He has served as insurance manager for Wellington Sears Co., West Point Pepperell, Olin Corp. and Crucible Steel. Currently, he is president of the Insurance Buyers' Assn. in Pittsburgh and was a director for seven years of the insurance division of the American Institute for Economic Research.

Bankrupt firm must show damages arose after bankruptcy

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

John W. Giles

If you should have the misfortune to become bankrupt after fire insurers refuse to indemnify you for losses resulting from a fire which destroyed your property, do you have any right to assert any claim for either actual loss or consequential damages caused by the insurers' failure to pay you? Does any claim you might have pass under Section 70 of the Bankruptcy Act, to your trustee?

This whole problem has been recently discussed at length by the California supreme court in *Reichert v. General Ins. Co. of America*, July 3, 1968. In the case the plaintiff argued that the claims asserted against the insurance company arose after the filing of his petition in bankruptcy and hence were personal to him and did not vest in the trustee. However, the California court took the position that the claims arose prior to the plaintiff's bankruptcy and hence became vested in the trustee.

The California court discussed two other decisions which concerned claims for damages resulting from bankruptcy. These cases are *Wooten v. Central Mutual Insurance Co.*, 182 So. 2d 146 (La. App. 1966) and *Patton v. Fidelity-Philadelphia Trust Co.*, 246 F. Supp. 1015 (D.E. Pa. 1965). There was a strong dissenting opinion in favor of the plaintiff's claim here on the ground that the creditors of a bankrupt should not be permitted to benefit by allowing the trustee to recover for damages for an injury which could only affect the bankrupt's earning power *after* bankruptcy and does not affect the bankrupt's estate or earning power *prior* to bankruptcy.

The whole point of these cases appears to be that should an insured, as the result of the failure of the insurer to indemnify him for fire losses, become bankrupt, his lawyers must take a clear position that the damages claimed are to the insured's reputation and credit and that his loss was caused entirely by the ensuing bankruptcy. It must be made entirely clear that all the assured's asserted rights and damages arose after the bankruptcy occurred.

* * * *

In a recent case the U.S. court of appeals for the fifth circuit has held that an insurer's liability was limited to the face amount of the policy and not for the damages awarded in excess of the policy limits, even though it wrongfully refused to defend its insured in an action under the policy.

The case showed no offer of settlement and in the absence of such an offer, the insurer was not liable for a bad faith breach of the contract or for conduct tantamount to bad faith, the court said. The jury then returned a verdict of $57,000 against the insured. He filed suit against his insurer in order to recover the amount of the judgment on the ground that the insurer wrongfully breached its contract to defend and it was foreseeable that such a breach would result in a judgment well above the limits of the policy.

The insured here had a $10,000 automobile policy. He was in a collision. A passenger in the insured's car died as the result of the collision. The passenger's wife sued the insured, who notified the insurer. The insurance company did nothing.

Should this insurance company be penalized? We think so, even though the wife of the deceased passenger made no offer of settlement when she sued the insured. How far can an insurance company go in wilfully refusing to defend the insured, regardless of any offer of settlement?

When the company refused to defend, it foresaw the possibility of a large judgment against the insured but did nothing about it. Should it now be permitted to simply pay up to the policy limits and go on its merry way? We just cannot see it.

* * * *

Even though you fence in your dogs, they may be a source of potential liability which bears insurance consideration. In a recent Florida case, dogs were fenced in and never touched the child in question.

But the child had become frightened by these caged-up canines and darted into the street, and was run over and killed. The Florida statute imposed absolute liability on owners for damage "done by" dogs. The court refused to grant summary judgment to the defendant.

The court based its opinion on a Georgia case in which the plaintiff, a minor, was riding her bicycle when she was attacked by a large vicious German police dog owned by the defendant. In her attempt to avoid the dog, she ran over an obstruction and was injured.

The Georgia court opined that the dog was the proximate cause of the injury. In Florida, the dogs never left their confined area.

Those "lovely" dogs may cost you much more than the price of the Gaines, in situations in which children are frightened and consequently panic.

* * * *

You may recall that there are cases which hold that if you leave your keys in your automobile and a thief steals your car and subsequently injures someone, you are liable.

But the last word on this subject from the supreme court of South Carolina would hold you harmless from liability. The court says that this conduct on your part is not the proximate cause of the injury. The South Carolina court says that you could not foresee the independent act of negligence and willfulness on the part of the thief.

Such a situation presents a difficult decision by a court. Some people are more imaginative than others, but we believe that the average person is aware of the possible consequences of leaving a key in the lock of an automobile.

In any event, the possibility of liability here, depending on your state, is a very proper subject of adequate coverage. No one wants to subject the public to possible injury by a driver who may well be nervous, overwrought and preoccupied as he drives a stolen car.

* * * *

Car renters and insurance companies now have a new weapon against those who would rent a car and fail to return it. The supreme court of appeals of Virginia has recently decided that such a taking is embezzlement and so convicted a defendant who failed to return a rented automobile.

The court also held that the corporation court of the city in which the defendant was legally obliged to return the automobile had proper jurisdiction to try the case.

* * * *

We are glad to note that New York has taken a sensible position with respect to a statute requiring operators of motorcycles to wear approved, protective helmets.

The statute was challenged on the ground that it interferes with the liberty of the individual. New York says this statute is a valid exercise of police power but the court of appeals of Michigan, you will recall, reached an opposite conclusion. The Michigan court thought the statute only protected the cyclist from himself and had no relationship to the public health, safety and welfare.

When one of these boys runs into you or you run into him, the possibility of his head injuries are terrifying to you and also the insurance companies. Let's keep these losses as low as possible so the premiums will not continue to soar.

* * * *

Suppose an automobile accident occurs in North Dakota and a minor passenger is injured. What is the effect of the North Dakota guest statute if the injured passenger is a resident of Minnesota? Can this Minnesota resident recover from the negligent driver, himself a resident of North Dakota, for injuries sustained in this accident occurring in North Dakota, in an action instituted in Minnesota?

The Minnesota supreme court has said that, even though the automobile was insured in North Dakota, the fact that the driver of the car was principally employed in Minnesota, held a Minnesota driver's license and that the trip began in Minnesota, gave proper jurisdiction to the Minnesota court.

You cannot afford to assume anything today with respect to the effect or non-effect upon an automobile accident of guest statutes. The subject is technical and requires, at the outset, careful legal analysis. ▪

John W. Giles, attorney at law, is a member of the bar of New York, Chicago and Washington, D.C. He is a former special consultant to the Comptroller General of the U.S., professor of law at Catholic University of America and the University of Kansas, assistant general solicitor for the Chesapeake and Ohio Railroad, and resident attorney for International Minerals and Chemical Corp.

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CGL unit is 'devil's advocate' in policy critique

NEW YORK—The American Society of Insurance Management's booklet on the new comprehensive general liability policy, just off the presses, is aimed at playing the role of devil's advocate in regard to the new form, according to the ASIM committee which authored the booklet.

In an introduction, the CGL committee said that it "has not undertaken a 'judge and jury' objective analysis of the pros and cons advanced by protagonists, but rather has undertaken to anticipate those problems which may arise under this unilateral product authored by underwriters who deliberately limited the scope of insurance protection in a number of areas."

Among the differences between the old and new form, the committee noted, is that insured events are now defined as occurrences (rather than as accidents), which result in bodily injury or property damage neither expected nor intended from the standpoint of the insured.

"THE TRIGGERING OF cover is not the *accident* . . . but the resultant *injury or damage* within the policy period which can be traced back to an event caused by the insured or for which the insured may be held legally accountable," according to the CGL booklet.

"The triggering of the insurance has changed. The intent or expectation of the insured is involved in determining the existence of cover. The insurer may have opportunity to cancel insurance and avoid liability as a consequence of an event involving injurious exposure to conditions which may at some intermediate time result in unforeseeable injury or damage becoming manifest at a later date."

The CGL committee explained that it's "immaterial" whether the causative event itself was during or before the policy period, "or even if it continued over several prior policy periods perhaps involving several different insurers.

"THIS IS NOT consistent with the general interpretation of the language of the prior policy, which was that coverage applied at the time of a negligent act rather than when the injury or property damage became evident."

A new provision, the committee explained, sets forth the insured's duties in the event of an occurrence, claim or suit. "The insured must promptly take all reasonable steps, *at his own expense*, to prevent other bodily injury or property damage arising out of the same or similar conditions." The former policy contained no such requirement.

"Under the new policy, if the insured does not take steps to prevent added bodily injury or property damage, then any such additional injury or damage should not be unexpected by the insured and hence would not be covered by the insurance policy," the committee stated.

THE NEW FORM also contains a definition of property damage as "injury to or destruction of *tangible* property," the committee said. "In the previous form there was no definition of property damage nor specific distinction as to the nature of the property or property rights which may be involved in insured damage," the committee reported.

"Explanatory material furnished by the Insurance Rating Board states that the 1966 policy will cover the insured's legal liability if no specific exclusion applies, even though the tangible property is not physically damaged but is made useless by the act of an insured.

"WHETHER THE BOARD interpretation will be practically applied by all insurers is open to serious question," the committee stated.

Another major revision has been the insertion of two lengthy definitions relating to product liability and completed operations, including their separation into two distinct parts, except as to policy limits, the committee said. "The separate definitions now establish for each hazard a separate premium charge, but a continuing single limit.

"The definitions provide that the injury or damage, not the occurrence (or accident as in the present policy) must happen after the completion of the operations. This will be at variance with some court decisions under the old policy, which held that the accident happened at the time of the insured's negligent act during the course of operations, even though damage occurred later," the committee contended.

ANOTHER NEW exclusion, according to the committee, is sistership liability or products recall. "The purpose of this exclusion is to deny coverage for damages resulting from the withdrawal, inspection, repair, replacement or loss of use of the insured's product or work . . . if the withdrawal from the market or from use is because of any known or suspected defect or deficiency in the product or work," the committee said.

"The cost of withdrawing the product from the market is not covered. Should a manufacturer fail to withdraw a product from the market following the discovery of a known or suspected defect in the product, it is the intention of the insurers to deny cover for any subsequent damages arising from customer use of that product.

"THE BASIS for such denial would be that the damage is clearly foreseeable and therefore not caused by an unexpected happening," the CGL committee stated.

The third party beneficiary exclusion in the former policy is eliminated, the committee noted. "This exclusion was originally intended to prevent insurance being applicable to the assumption of absolute liability by an insured with respect to persons with whom the insured had no contractual relationship and to whom the insured would not otherwise be liable.

"Elimination of this exclusion provides coverage under contracts defined in the policy which result in obligations for which the insured may be held liable in an action on a contract by persons not a party to such contract."

New wording in the policy "makes clear that when the limit of the insurer's liability has been exhausted by payment in settlement or in satisfaction of one or more judgments arising from the same occurrence, the insurer is no longer obligated to (1) pay any further claims or judgments or (2) defend any further suit. Insurers assert this provision is not intended to restrict coverage, but rather to clarify that it was never the intention of insurers to provide a defense after the policy limits had been exhausted, the committee explained.

Many insureds and some courts have taken a contrary view in a number of recorded instances, it said.

THE POLICY TERRITORY definition has been modified in two respects. Coverage has been extended to include bodily injury or property damage occurring in international waters or air space, provided it is not in the course of travel or transportation to or from a foreign jurisdiction, the committee said.

"This would presumably afford cover for injury sustained by an astronaut circling in space provided he is programmed to return to insured policy territory on this earth or, less dramatically, at the site of off-shore drilling operations as well as between such site and the mainland, whereas there would be no coverage for injury sustained in the course of travel or transportation between the insured domestic territory and some other country or continent.

"There are numerous other changes including the condition relating to other insureds; the definition of bodily injury no longer including "death;" the coverage for incidental contracts being broadened to include side-track agreements and easements so long as they do not involve construction or demolition operations on or adjacent to a railroad; the water damage liability exclusion elimination, with the exception of an area described as 'Greater New York' where losses arising from water damage have been substantial.

"THIS IS A BROADENING of cover or no change depending upon where the insured's exposures are. Insurers have sought to avoid requirements to inspect the insured's premises and facilities by inserting a waiver of obligation to inspect. The change does not indicate an attempt to avoid the consequence of a negligent inspection provided there is evidence that such inspection was in fact negligently made," the committee stated.

Chairman of the CGL unit was R. W. Bland, risk manager for Panhandle Eastern Pipeline Co., Kansas City, a frequent critic of the new form.

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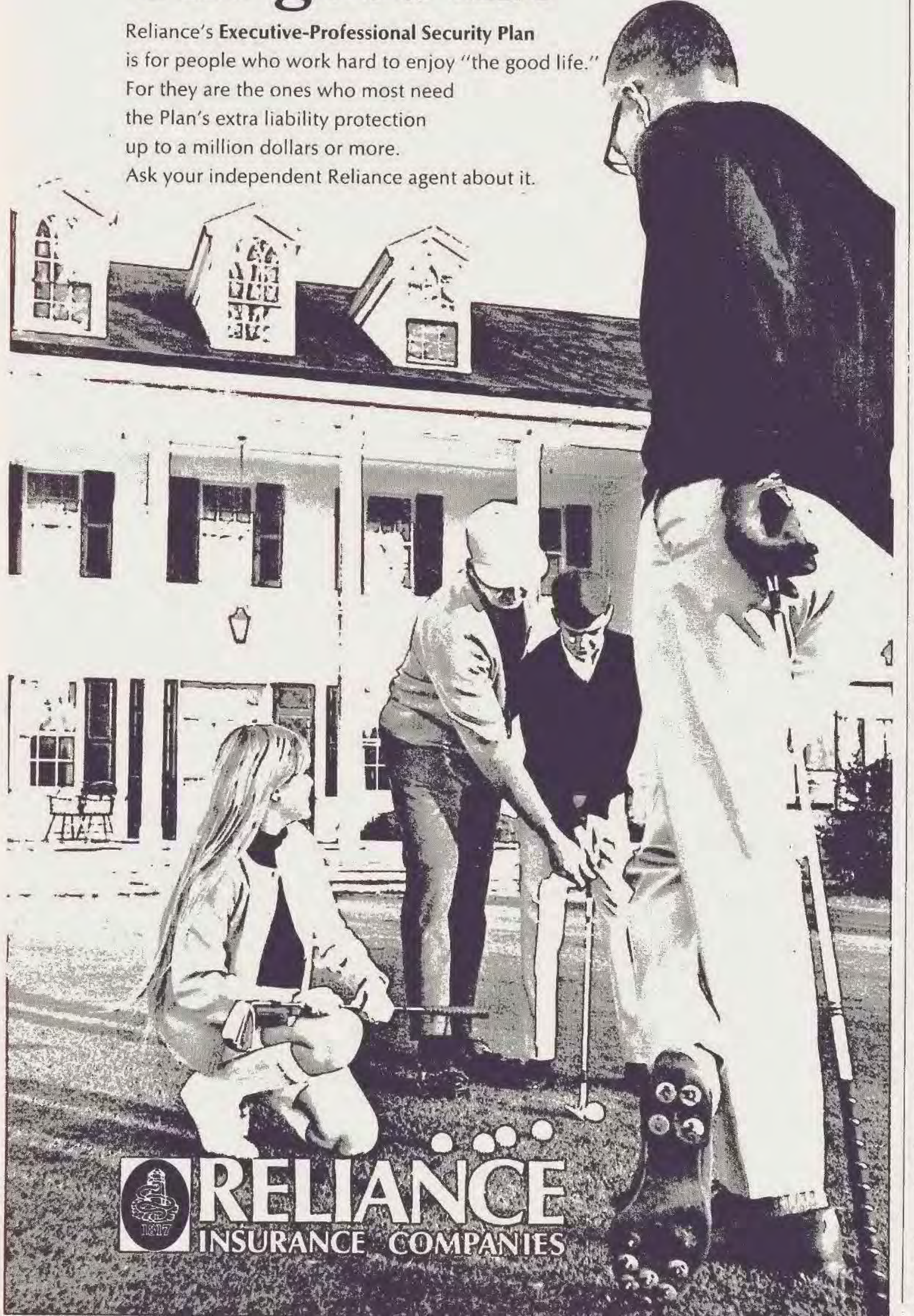

business insurance/international

Dispensary Land Rover passes through a valley "kampong," or village, en route to the morning's clinic. Peace Corps volunteers are expected to adjust to living conditions such as the grass huts shown along the side of the road.
Peace Corps photo

Peace Corps members covered for medical, life, personal effects

WASHINGTON—A fully equipped first-aid kit, an adequate supply of vitamins and a few folders on insurance protection and medical coverage are necessities among the gear Peace Corps volunteers take on assignment.

The first aid kit contains supplies for minor injuries or illness, the vitamins are a daily requirement and the folders give the details of medical coverage, life insurance and personal articles coverage.

Even before the final decision is made on whether a candidate becomes a volunteer, he is put through a rigid medical screening program. And as a volunteer, he is given insurance benefits plus full scale medical coverage.

THE TRAVELERS insurance Co. underwrites a health benefit program for the volunteers which carries a $10,000 death benefit. The group life policy is optional but once a volunteer cancels his coverage, it can't be renewed, said Brian Johnson, director of volunteer finance. He added that most volunteers who waive the group policy have some other form of life coverage.

The Peace Corps recommends that its volunteers carry some form of coverage. However, Mr. Johnson pointed out that of 25,-000 volunteers who have already served, there have only been 43 deaths and most of these have resulted from accidents such as falling or drowning.

Coverage goes into effect the day training starts and if a volunteer terminates his work in a place other than the U.S., coverage ends 60 days after the day of separation. If he terminates in the U.S., coverage lasts only an additional 15 days.

The policy is on a contributory basis and costs a volunteer $1.20 per month, which is withheld from his readjustment allowance.

THE WHOLE MEDICAL process begins with a thorough examination at which time certain disqualifying factors may show up. According to the medical division in Washington, each applicant's general medical condition is reviewed against the health hazards likely to be encountered during service.

"We also like our volunteers to have a complete dental examination before reporting for training," Mr. Johnson said.

During the training phase, volunteers receive further medical examinations, instructions on how to deal with health problems overseas, limited medical and dental care and immunization. The Peace Corps provides eyeglasses, eye refractions and eyeglass measurements.

A psychiatric consultant meets with groups of trainees to discuss ways of coping with stresses that may arise during training and overseas. Upon request he meets with individuals to work out problems.

VITAMINS ARE A daily requirement because of the food and water conditions in most areas and if a volunteer is in a malaria-infested area he takes a special medicine every seventh day which builds up his resistance to the disease.

His first-aid kit contains the basic medicines and materials for minor injuries or sicknesses. Beyond that a volunteer should contact a Peace Corps doctor and he will decide the necessary steps. In most countries there's a Peace Corps doctor and a medical clinic consisting of a small lab, treatment room and examination area. He is familiar with what local facilities are available. If adequate care is not available in the host country, he knows the evacuation procedure to approved facilities, in many cases back to the U.S.

The Peace Corps doctors are also responsible for administering the necessary booster vaccines and performing annual laboratory and physical examinations.

At the end of a volunteer's

Continued on page 32

Italian insurers conservative, but more capacity is available

TRIESTE—An example of how U.S business is quietly moving into the Common Market, by using existing European facilities, is the 1966 marriage between Aetna Life & Casualty and Assicurazioni Generali (the General Insurance Company of Trieste and Venice).

Another case is the affiliation early this year between Travelers Insurance Co. and Riunione Adriatica di Sicurta (Adriatic Insurance Co).

The Generali worldwide group includes more than 60 associated companies and has facilities in 50 countries. The company was founded in Trieste in 1831 and has been able to survive the war and other European upheavals. In 1967, the company wrote premiums totaling $302-000,000.

According to Annibale Piero Micheli, Generali's New York secretary, the Italian market could increase its retention substantially "without relying so much on London."

HOWEVER, MR. MICHELI pointed out, Italian underwriters are very conservative and tend to evaluate commitments "more like a bank." In other words, he explained, U.S. companies will write a risk based on overall exposure, while Italians will take a company's financial condition into consideration.

Products liability is added by specific endorsement to the general liability policy, Mr. Micheli continued, adding that in Italy "the courts aren't as liberal as in the U.S. and the judges think that the plaintiff has some responsibility as well."

Generali is the carrier for Motta Corp., Mr. Micheli said, which is the largest maker of candy in Italy. "Therefore, we have some experience in these types of claims."

IT SEEMS THAT pain and suffering are worth more in the U.S. than in overseas countries, Mr. Micheli commented, pointing out that a $100 a week pizza twirler in New York was recently awarded $335,000 in damages for a neck injury sustained in an auto mishap.

Automobile insurance is the "biggest problem" in the Italian market, the Generali executive continued, "because there are no speed limits, and so far, coverage isn't compulsory." He added that the Italian Parliament is considering making it so.

A new type of international coverage being written by Generali for automobile insurance is called European assistance, Mr. Micheli said.

THE COVERAGE IS available for any Western European national thinking of driving his car outside his native country and guarantees claims, bonding and medical payments. "In one case, we actually chartered a plane to cover an emergency operation."

This protection can be added as an extension endorsement to a basic policy, Mr. Micheli said, but in countries such as Italy, where coverage isn't compulsory, it can be issued as a separate policy.

The use of big life insurance policies as key man protection is still "very unusual" in Italy, Mr. Micheli said. He added, however, that as the Italian economy prospered with a corresponding increase in the standard of living, sales of individual life policies were growing substantially ■

Lloyd's taps Russia as insurance market

LONDON—Insurance brokers in London have no hesitation in placing coverage behind the Iron Curtain if the necessity arises, and an incident which took place three years ago but was only recently disclosed, illustrates this point.

In 1965, the Brazilian government sent a consignment of gold valued at $70,000,000 to Fort Knox on a Brazilian ship.

The marine department of a Lloyd's insurance broker was informed about this on Thursday afternoon, and told to arrange coverage before the ship left Brazil on the following Monday morning.

"Everything that could go wrong happened," explained a spokesman for the brokerage house, who prefered to remain anonymous, "including a longshoreman's strike in New York harbor." In addition, he continued, "the ship was considered to be in a highly unseaworthy condition."

By late Friday afternoon, "in spite of intensive effort," the coverage obtained was still short by $15,000,000, "when somebody suggested the Russians."

A cable was promptly sent to Moscow, and acceptance was received by return wire. "We have to consider world capacity when placing a difficult risk," the source continued, "and this was one occasion when our good relationships with Moscow amply paid off." ■

Germans get products liability as part of legal liability cover

FRANKFURT—A check of insurance conditions in Western Germany shows that products liability is included in the German legal liability policy—or rather, the coverage isn't specifically excluded.

Underwriters are "naturally worried" about this condition, confided Dieter H. Haacke, Frankfurt manager of American International Underwriters, but insurance brokers are "very happy" for their clients' sakes.

The German policy is very broad, Mr. Haacke explained, and the custom is to look at a company's products and then make provision for this in the rate. Since the policies are often written for five or ten years, the potential hazard has to be studied very carefully.

THE GERMAN INSURANCE market has a good capacity, Mr. Haacke said, but reinsurance has become the number one problem. "It's well known that many names are leaving Lloyd's," the insurance executive said, "and they aren't being replaced as quickly."

The trouble is, he explained, that fire losses have been very heavy in Germany in the past few years, "and fire prevention

Continued on page 24

Montreal insureds change chapter name of ASIM group

The Montreal Insurance Buyers Assn. has changed its name to Montreal Risk & Insurance Management Assn. J. J. Picard, president, said the new name will more adequately reflect the membership's function in the modern corporate approach to risk and insurance.

The association is a chapter of the American Society of Insurance Management Inc. whose affiliated members in Canada manage an average annual insurace premium volume of more than $100 million.

German insurance buyer is a rare find

FRANKFURT—In large German industrial firms it is "very rare" to find a trained insurance man in the position of buyer, according to Jurgen F. Brodermann, managing director of Gradmann, Holler & Co.'s foreign department, German correspondent for Marsh & McLennan International.

Mr. Brodermann explained that this function is usually handled by lawyers or controllers and that many big companies like to deal directly with underwriters. However, there is a "growing awareness" that insurance is important, and that dealing directly with one company doesn't always guarantee the best rates and conditions.

The situation is further complicated in Germany, Mr. Brodermann explained, because many industrial concerns set up a captive insurance agency to handle their own affairs.

"THERE IS A LAW in Germany which forbids rebating of commissions," Mr. Brodermann continued, "so to circumvent this, a company will establish a legal firm to buy insurance, and install its insurance buyer as managing director."

The insurance companies go along with the system "simply because the firms are so big, and the business is guaranteed. However," Mr. Brodermann said, "German authorities are watching the situation very closely."

The "biggest weakness" of a captive agency, Mr. Brodermann said, is that because the business is guaranteed there are usually no trained personnel with an understanding of insurance.

"They are also faced with a real conflict of interest," the insurance executive continued, "because although they have to get the best insurance for their parent company, they must at the same time show a profit by getting good commissions. This can result in paying a higher premium in some cases merely in order to obtain higher commissions and make the net cost look lower."

IN AMERICA, Mr. Brodermann continued, an insurance manager devotes a large part of his time to safety techniques and gets "really involved" in this problem. The German captive agency, on the other hand, rarely looks after this important task.

Mr. Brodermann also outlined the role of an insurance broker in his country, "where insurance patterns are changing rapidly" and the captive agency system competes for the business.

The German insurance industry grew up mainly around the two principal seaports of Hamburg and Bremen, he explained. Before the war, it was the custom for interior manufacturers to consign their goods to large merchant houses at these seaports, which arranged exports and took over all insurance responsibilities.

The large insurance brokers, therefore, were principally interested in marine and cargo insurance, Mr. Broderman continued, "and rarely went after fire business or other related lines."

HOWEVER, AFTER the war, with the development of trade fairs in the principal German cities, industries began to form their own overseas connections "and no longer needed the exporting houses." Insurance brokers followed this trend and began to actively seek business at the source, opening up branches in the interior cities of the country.

"I really feel that we brokers have become the salt of the German insurance industry," Mr. Brodermann said, "because as you can see from what I've told you about the captive agencies, the market would stagnate without us motivating big companies to change their buying practices."

In Mr. Brodermann's opinion, an "enormous amount of education" is necessary in Germany to train insurers, as well as their clients and brokers, in safety methods and techniques.

"The best teacher is money," he commented, "and a series of disastrous marine and fire claims is making companies more aware of the necessity of adequate fire prevention methods."

In many industries, he disclosed, fire fighting brigades are being set up and sprinkler systems are being installed, "even though this is only just beginning to be accepted." ▪

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Germans . . .

Continued from page 23

methods have a long way to go."

A committee of German insurance companies went to the U.S. in 1966, Mr. Haacke stated, "and found safety standards to be much higher."

Labor conditions are very favorable in Germany, Mr. Haacke continued, and American investment is encouraged. "The unions don't make exorbitant demands in this country," he said, "which helps in controling insurance costs." The recent strikes in France met with very little sympathy, "because we've had to absorb over 12,500,000 refugees into our economy and they know the value of their jobs."

Workmen's compensation is also easier to handle than in the U.S., it was explained by Erwin Heinrich, AIU claims manager, "because it's all supervised by the federal government and is obligatory from the general manager down."

There are about 75 government-supervised mutual funds, arranged by industry, Mr. Heinrich said, and until this year only salaried employes earning up to $5,400 annually were compelled to contribute.

However, total contribution is now divided equally between employer and employe and amounts to 15% of gross salary. In 1969 this percentage is scheduled to increase to 16%, and further increases are expected, "which will probably be funded by the state."

Mr. Haacke also commented that insurance regulations in the Common Market were restricting rather than freeing industry.

"One policy in the Common Market is frowned upon," he said, "and if you have six subsidiaries in six different countries, you must write a different policy for each of them." Mr. Haacke commented that this procedure was "sheer nonsense" and would be the same as writing 50 different policies in the U.S. ▪

British insurer sets multi-country pension

LONDON—An international pension fund which will allow companies with overseas operations to make proper retirement provision for their third-country nationals has been established in Switzerland by Hogg Robinson & Gardner Mountain (Life & Pensions) Ltd., a member of the Staplegreen Group, which is represented at Lloyd's and in most parts of the world.

A third-country national is a person employed by a corporation in a country other than his own. This situation can present special retirement problems, since pensions and social security benefits can vary greatly among countries, and there is no guarantee that any accumulations are transferable.

"This is a very large problem in Europe," explained Gordon W. Shaw, managing director of the international life and pensions brokerage house, "because in the technical fields, especially engineering, middle management employes are transferred frequently."

THE PURPOSE OF the fund, as outlined by Mr. Shaw, is to enable companies to provide for their employes by sharing in a centrally administered fund, "with all the advantages that flow from the pooling of investment resources and administration expenses."

The fund will be operated by a trust, registered in the principality of Lichtenstein, which has close economic ties with Switzerland, and will enjoy free transfer of currency, an essential facility if it is to succeed.

Investments will be held in Switzerland and managed by a Swiss private bank. The management of the trust will be handled in all other respects by Hogg Robinson & Gardner Mountain (Life & Pensions) Ltd.

Benefits will accumulate in Switzerland in a hard currency, Mr. Shaw said, "and can be paid out in any other country." The third-country national will not only be guaranteed an adequately funded pension, but will also benefit from any capital gains. "He can drop in at Geneva on his way home to retire and pick up his check," Mr. Shaw commented, "and if he needs any further investment advice we'll be glad to provide it."

SWITZERLAND WAS chosen rather than Bermuda, Mr. Shaw explained, "because the Swiss are a nation of international investment bankers with plenty of scope." Mr. Shaw added that the Swiss are very cautious and can be relied upon to give very detailed attention. In Bermuda, on the other hand, any transactions would have to be carried out by a local bank "which would not have the experience."

Political stability was another important consideration, Mr. Shaw continued, "since we have to look 40 years ahead, it seems to us that Switzerland has a far better future than Bermuda or the Bahamas."

The pension fund will have an edge over other schemes operated by individual companies investing their own capital, explained Richard J. Side, London regional director, "since it will be constructed like a mutual fund with mass investment in a pooled account."

Each participating company may contribute to the fund at any rate it chooses, Mr. Side continued. This could be a fixed percentage of an employe's salary or a rate determined by the company's own actuary, based on the benefits which it wishes to provide.

Benefits payable from the fund could be either in a cash sum or periodic pension payments. "A cash sum may be more appropriate in the case of an employe returning to his own country after spending a large part of his service abroad," Mr. Shaw pointed out.

Although a net yield in excess of 5% per annum could be obtained by investment in fixed interest bonds, it is intended that the investments of the fund will

Continued on page 26

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Insurance is merchandising aid for many Japanese business firms

TOKYO—Japanese department stores, small supermarkets and makers of a wide variety of goods from children's knapsack-type schoolbags to pocket flashlights are buying automobile accident insurance—in order to give it to customers as a new merchandising ploy.

The tie-up use of auto accident insurance started as a fringe benefit, or inducement to buy, by sellers of new cars and tires, but has since been used by many other types of companies. The trend has moved away from products or services which are directly related to automobiles and traffic.

For more than a year, a major maker of school children's briefcases and knapsacks—the latter carried on the back and called "landsel," the name used in Germany, from whom Japan got the idea—has offered free policies with every product purchased. The company, Konoike, does the majority of its advertising in the back-to-school season, and reminded parents of the offer through newspaper and subway and train placard advertising.

SINCE ACCIDENT and fatality rates for young school children in Japan are high—motorization, general lack of sidewalks, weak enforcement of traffic laws all contribute to this—and since safety in the streets has been prominently featured in the mass media, safety-minded parents have been glad to take advantage of this offer.

Similarly, a maker of yellow sailor caps, worn by children when going to and from school so that they may be more easily seen by motorists, also offered insurance coverage with each hat purchased.

Later applications of this method of using insurance have been made by such diverse businesses as government-licensed rice stores (which also sell kerosene for use in small home stoves), a Turkish bath, coffeeshops and a women's recreation and reducing center.

Most policies pay $140 or $277.

Ladies City, in Tokyo, offers members cooking and hobby classes, beauty parlor service, "beauty exercises"—and $277 worth of auto accident insurance. A small cloth patch, showing a yellow sailor cap, is distributed to indicate coverage.

PACHINKO pinball parlors, found in just about every neighborhood in Japan, offer the chance for men and women to win cigarets, candy or canned goods by feeding ball-bearing-like steel balls into upright machines, amidst a din of music and the sounds of machines in operation.

Through a public relations booklet, King's Handbook, 1,000 customers of 261 parlors were given the chance to get $277 worth of coverage for one year. The thousand were chosen from among those who successfully completed a simple crossword puzzle in one copy of the magazine, which is said to have a circulation of 120,000.

The 261 parlors which distribute the magazine are backers of Ad Circle, a trade journal which took out a 1,000-person group policy with Dai-Ichi Insurance at a cost of about 12¢ per person. Total cost of the policy was $116.

Names of the big winners were prominently posted in the parlors, and winners were given "insurance cards" by the parlor managements. In the event of death in an automobile accident of the insured person, the beneficiary could obtain the money direct from the insurance company.

This combination service-and-publicity project was so successful that the stores will repeat it this summer.

THE IMPORTANCE of department stores in Japan is far greater than an American would imagine. They offer a vast variety of services, sponsor major art exhibitions, and in many cases have ties to real estate and private railway companies, in addition to smaller retail stores. They account for one-tenth of all retail sales in Japan. So when a department store made use of automobile accident insurance, people took notice.

Tokyo's Keio department store gave the coverage away—with a stiff qualification. To help commemorate the store's first anniversary, Keio had "traffic insurance shopping bags" printed, and gave them away at the store.

THE GIVE-AWAY started Nov. 1 of last year, and in 60 days Keio passed out 150,000 bags, each printed with the Saul Bass design of blue doves which has been the store's trademark. Coverage was $277, but payable only if the shopping bag was being carried at the time of the accident.

To many shoppers, it probably meant not much more than an elated feeling when crossing streets on the way home. Coverage, however, was only through the end of the year.

This type of tie-up coverage is increasing, and is expected to aid in increasing awareness of the need for adequate insurance among the public, while also helping businessmen compete in respect to service, and reap publicity and public relations benefits in so doing.

If Juan Gomez of your Orinoco office breaks his leg stealing home, you may be liable

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British . . .

Continued from page 25

include equity or common stocks with good growth potential. "Investments of this nature tend to produce somewhat lower immediate yields," it was explained, "and an initial dividend yield of 3% per annum is indicated."

THE ASSETS of the fund will be valued quarterly, and each participating company's share will be computed in proportion to the contributions made.

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Other areas where pension funds are managed by Hogg Robinson & Gardner Mountain (Life & Pensions) Ltd. include many parts of Africa and New Zealand, as well as the United Kingdom and Europe.

Lloyd's underwriters bemoan escalating U.S. liability awards

LONDON — Underwriters at Lloyd's are "very unhappy" with the American legal system and hold it largely responsible for pushing up passenger liability rates—especially for the major airlines.

"The airlines scream about their legal liability premiums," commented a leading aviation underwriter at an informal conference arranged with *Business Insurance*, "but American lawyers working on a percentage basis keep on pushing up the awards."

In Britain and the Continent, it was explained, lawyers work on an agreed-fee basis, and in this way, "we feel they try to protect the interests of both parties."

THE FACT IS, emphasized the underwriter, "Americans are very claims and liability conscious, and awards are very high." It can be safely assumed, he continued, that in spite of the $75,000 passenger limit, claims will end up in the region of $150,000. This makes it necessary to base today's rates on possible awards made four years in the future, he asserted.

"People talk about capacity," interjected the underwriter's deputy, "but I don't consider this is the main problem. The real difficulty, to be plain, is money—if insurance became an attractive investment, there would be no problem about getting additional capacity."

Another big problem which concerns underwriters is that some catastrophes are still unsettled after 12 years. "These are nearly all in America, and are the result of endless haggling through the U.S. courts."

"IT'S NO SECRET," commented another aviation specialist, "that all underwriters have excess of loss protection treaties, and these unsettled suits mean that we have to write year after year to our treaty underwriters explaining that original reserves are still tied up after all this time.

"This makes us feel silly, because foreigners—quite rightly—want us to produce some figures after ten years' time, and we have to keep putting them off. No wonder the reinsurance market is drying up!

"What I can never understand," continued the underwriter, "is why a man becomes more vulnerable just by stepping into an aircraft. If he steps in front of a car, it's taken for granted that he protects himself with adequate personal life insurance.

"Surely an airline passenger can be assumed to have taken the same precaution. The fact that he has five children or is the chairman of a company should not be the concern of the airline." ▪

Income up for London broker

LONDON—Although underwriters at Lloyd's are suffering fairly stiff losses, it appears that London insurance brokers are achieving better incomes than ever before.

At the annual meeting of C. E. Heath & Co., generally considered the largest nonmarine broker in the market, stockholders were told by chairman D. H. Erlebach that in 1967 the general level of brokerage income showed a "considerable improvement" over 1966.

The improvement was an increase of 24% in brokerage income, coming to a total of $6,654,400, up from $4,643, in 1966.

Mr. Erlebach also said that figures for the first quarter of 1968 also show a satisfactory increase over the same period in 1967, "although the growth is unlikely to be as great as in that year."

Underwriting agency fees and expenses recovered in 1967—at $832,000—were also higher, Mr. Erlebach continued. Agency fees are the charges made to an underwriting "name" by an agent for managing his affairs.

These fees are basic whether a profit is shown by a syndicate or not. In this case, C. E. Heath is the underwriting agent for the large Lloyd's syndicate which bears its name.

Prospects for 1968 are hard to assess, Mr. Erlebach continued, in view of difficulties facing all brokers in the present unsettled world insurance conditions.

"The shrinkage of capacity due to several causes, but mainly to the desire of insurers to restrict their commitments owing to past unfavorable results, is causing great problems in achieving cover for generally increasing values." ▪

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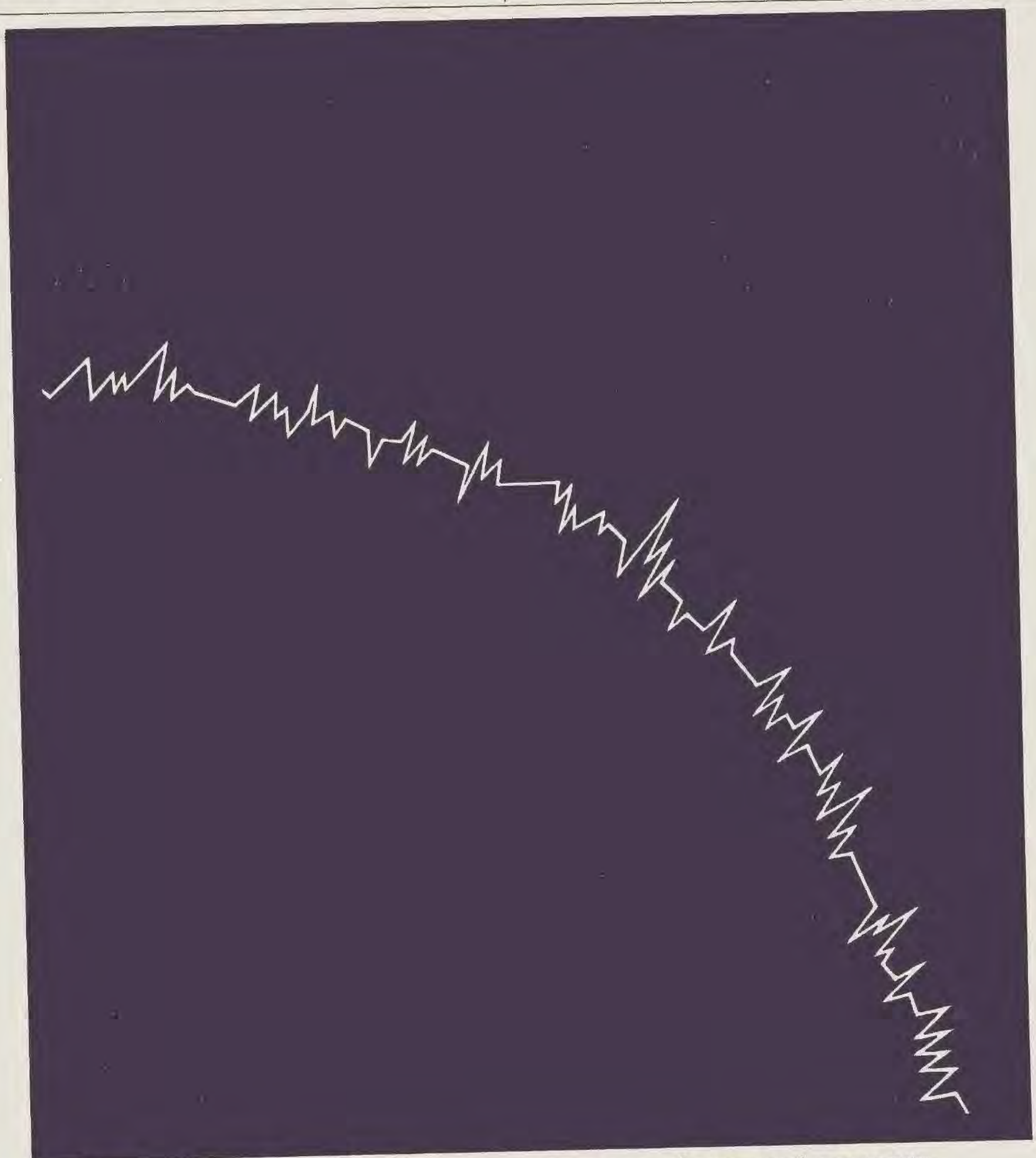

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Canadian buyers feeling property, liability squeeze; rates are higher

CANADA—Corporate insurance buyers in Canada with renewals coming up are in a flurry over a tight market and rising premium rates, according to an article in a recent issue of the Financial Post, a leading Canadian newspaper.

Mergers among the fire and liability insurers were cited as one reason for the worry, because two companies which previously carried 5% of a total insurance amount each may not carry 20% if they merge, the paper said.

Douglas Barlow, corporate risk manager at Massey-Ferguson Ltd., Toronto, confirmed the story with *Business Insurance* by saying that his company had just succeeded in placing its fire insurance but that it had meant using "practically all the available world markets."

Another big buyer, however, said, "We have just gone through a really trying period in arranging the renewal of our fire insurance."

MR. BARLOW said that during the past four or five years Massey-Ferguson's loss experience under its fire contract, for which the company paid between $3,000,000 and $4,000,000 aggregate, has been between 8% and 9%. The reason Massey-Ferguson doesn't self-insure to a great extent, he said, is that its maximum possible loss (the company doesn't operate under a "probable" loss basis) is between $60,000,000 and $90,000,000 for some installations.

"I'm not aware of any lack of capacity in the Canadian insurance market," Mr. Barlow said; "that is, not any more than in those of the U.S. or the United Kingdom."

Mr. Barlow feels that there is a shortage in the all-risk market and said that Massey-Ferguson would be interested in getting this type of coverage if it could be done at rates he believed commensurate with the risk. "We feel, however, that we are in a bearable position without this insurance," he concluded.

OTHER CAUSES for the tight market situation, noted the Financial Post included fierce competition of the past few years, which has forced premium levels to an unrealistic low, and the recent losses absorbed by Lloyd's of London, which have resulted in a cutback in the amount of insurance they will accept. (See *Business Insurance*, June 17.)

Industrial expansion in recent years was a third cause mentioned. The value of plants and equipment to be insured is higher than ever before, and inflation has meant that repair or replacement costs are also higher.

A trend toward increasing third-party liability coverage creates an additional strain on the corporate risk manager, the paper said. Limits sometimes go as high as several million dollars, and one firm reported to have faced a 60% hike in premiums on its renewal, even though it had had no losses in the past three years.

Mr. Barlow said that he expected the Insurance Bureau of Canada to release statistics, similar to those on automobile underwriting, which would prove that fire underwriting was out of the red.

However Donald Martin, president of the Canadian Underwriters' Assn. and head of the Royal Western Group, said he knew of no such study and that he did not expect the figures for automobile underwriting to be as healthy for 1968 as they were for 1967. ▪

Canadian CPA's fear legal action

MONTREAL—Canadian public accountants are fearful that they are in for more suits from "disgruntled litigants"—just as has happened among their U.S. counterparts.

This point was raised during a panel discussion on the responsibilities of auditors at the annual convention of the Institute of Chartered Accountants of Quebec.

"Until such time as we reach perfection in measuring and verifying income—and no one here is likely to see that day—I suggest that the auditor must be careful lest he become easy prey for disgruntled litigants," said W. A. Farlinger, C.A.

If a pattern of increased litigation is developing in Canada, Mr. Farlinger said, the country's accountants should form a committee to deal with problems of auditors' legal responsibilities, patterned after a committee established several years ago by the American Institute of Certified Public Accountants.

Mr. Farlinger said that in some cases the auditor has been criticized by experts who knew or should have known that certain errors in statements were out of the auditor's control.

In other cases he has been rebuked by laymen "who probably had no reason not to think of auditors other than as a surety of financial statement accuracy," Mr. Farlinger stated.

"Perhaps the valid criticism is that we have not explained the problem to the users of the statements," he added.

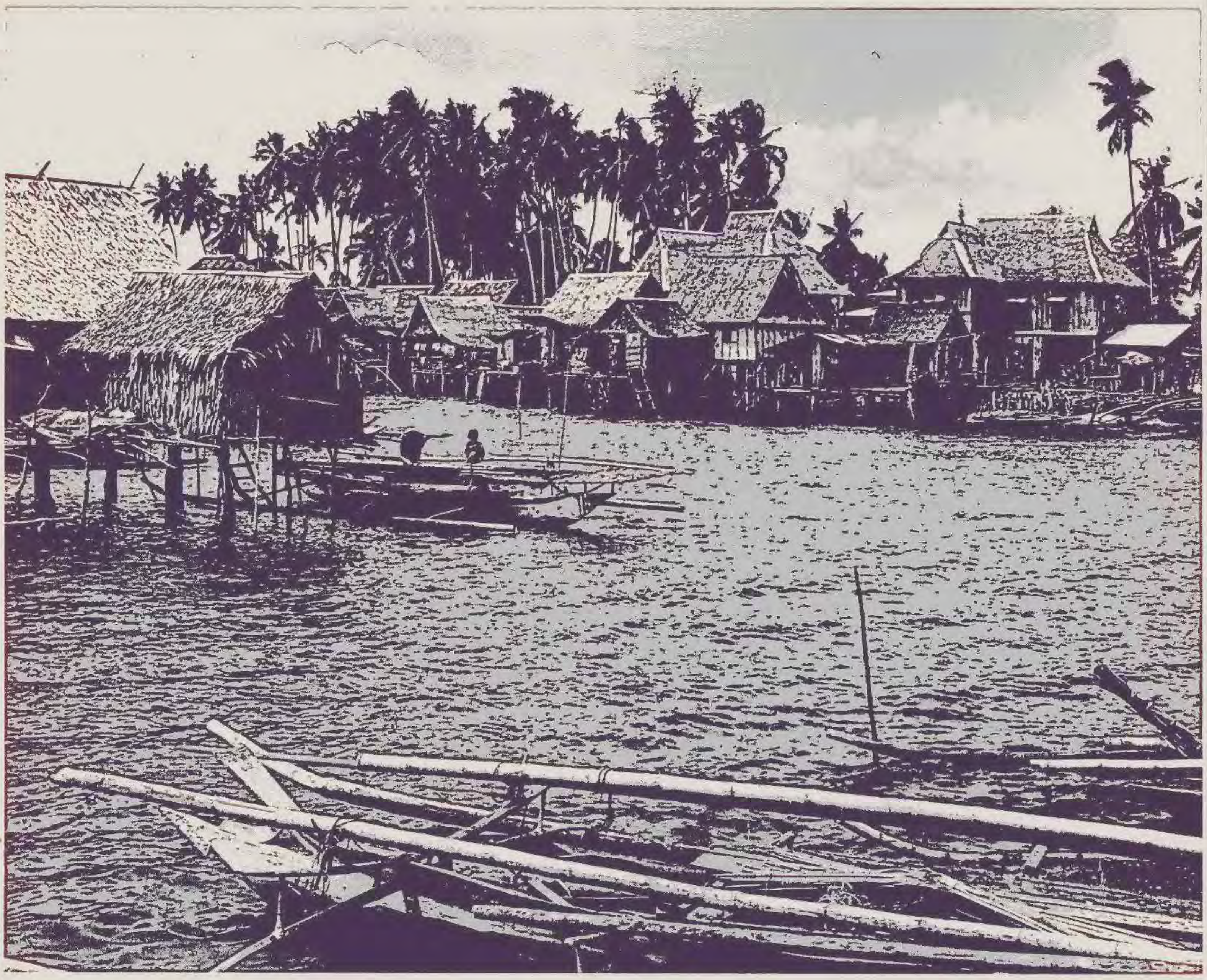
Audits aren't designed to turn up fraud, Mr. Farlinger said. But beyond that the best judgment of all parties could turn out to be wrong because of such factors as: unexpected bankruptcy of major customers; unanticipated lawsuits from customers or competitors; unexpected competition resulting in forced sales of inventories; and the problem of the correct valuation for a slow-moving inventory in a time of technological change.

Mr. Farlinger advised his colleagues that "the legal profession has suddenly realized that auditors represent a possible recovery to aggrieved users of financial statements." ▪

Hall expands operations

Frank B. Hall & Co., New York, has established a joint venture in Australia with Price, Forbes, Leslie (pty.) Ltd. and has opened a wholly-owned subsidiary in Hong Kong.

The Austrailan firm, Frank B. Hall & Co. of Australia (pty.) Ltd., will be managed by Price, Forbes, Leslie. The new operation will be based in Melbourne and will offer a full range of brokerage services



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speaking of safety

ITT has five-point international safety program for 52 countries

By GEORGE YOUNG

NEW YORK—How does one safety manager personally supervise more than 500 individual accident prevention programs covering 195,000 employes in 52 countries and still keep his cool?

According to International Telephone & Telegraph's safety manager, George R. Orth, who does both, it is a matter of having one "self motivating" program that is flexible enough to meet the needs of all ITT companies, with emphasis on local management.

The firm, which formalized its accident prevention program in the 1960's, is the world's tenth largest industrial corporation. It is concentrated in such fields as electronics, telecommunications, consumer finance, logging, insurance, automobile rental and mutual funds. "Our operations vary from laying cable to making air conditioners," said Mr. Orth.

ITT MANAGEMENT maintains that in addition to its regular safety responsibilities, the corporation has a strong moral responsibility for the safety and health of its employes, and many programs far exceed the minimum requirements, said Mr. Orth.

Foreign operations mean a variety of unique problems for insurance and safety managers. Language barriers, lack of safety understanding, local regulations and substandard loss prevention techniques were a few mentioned by ITT's safety head.

He pointed out that in some countries in Europe, for example, physicians are employed by law by the government. Very often, because of limited time and facilities, it's a matter of an injured employe being asked: "How many days off do you want?"

"Local conditions have a large impact on workmen's compensation costs," said Mr. Orth.

Employers Mutual of Wausau, which covers ITT for workmen's compensation, liability and auto insurance in the U. S., visits plants periodically and sends reports to the safety department. "The professional approach of U.S. insurers is a big factor in reducing accidents," Mr. Orth said. "In other countries inspections and accident controls are left up to the individual companies with some assistance from the government or the local insurance agents."

He maintained that the problem of lack of coordination and safety understanding was a major reason for ITT initiating its formal program.

The essential parts of the company's international accident prevention program are listed in order of importance:

- **Safety organization** involving top management and all employes, in which 25% of the safety effort is expended.
- **Exposure control** relating to physical control (20%) and environmental conditions (20%) to which the employe is exposed.
- **Safety education** referring to basic training, either individually or collectively (15%).
- **Promotional safety appeal** utilizing all available media such as safety posters, news articles, films and bulletin boards (10%).
- **Accident analysis and statistics** measuring progress and determining where the safety effort should be directed (10%).

"Failing to allocate the safety effort in approximately these proportions will sometimes result in an unbalanced safety program which will reduce its effectiveness," said Mr. Orth.

A SAFETY GUIDE which outlines the broad concepts of the five-point program details and itemizes each point to suit the needs of the individual operating company. "It is not all inclusive, but each company can use it as a starting point," he said.

The five-point program is supported by an appraisal program designed to evaluate the accident prevention effort in terms of a standard. "The standard," said Mr. Orth, "must be basic, comprehensive and include all phases of modern administration and techniques."

An appraisal guide which is used to evaluate the international safety program at least once annually consists of three parts: A rating criterion, evaluation sheets and a summary.

Specifically, it is based on the five main points and gives each company an opportunity to score 100% based on its individual performance.

For example, point one of the basic program, safety organization and administration (possible score 25%), is subdivided into eight items which are graded according to an evaluation chart.

The percentages for each grade (none-fair-good-excellent) vary in proportion to their importance to the overall program.

THE PHILOSOPHY OF the five-point program, according to Mr. Orth, is to make each plant individually responsible for accident prevention to determine work areas where more attention must be focused.

He emphasized that all managers are very aware of their profit picture when they're convinced that safety can be measured in dollars and cents.

Among the typical statistics arriving at the safety director's office this year was a special report from a European company with several plants. It included an analysis of the department, month, job category, and age and length of service of injured employe.

The report showed that most injured workers are young and newly employed, mostly in the 18- to 20-year bracket.

AFTER STUDYING the report, Mr. Orth urged supervisors throughout the ITT system to stress company indoctrination programs, especially for new and younger employes.

All group and division managers, general managers, employe relations and safety representatives in Europe, Latin America, Asia and North America are

Continued on page 34

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Department store fire sparks higher premiums

BRUSSELS—The devastating fire which swept through a Brussels department store in May, 1967, has had far-reaching consequences on world fire insurance markets.

In its wake, the Belgium government authorized a general increase of 45% in basic fire rates, and the London market has "dried up" both for direct European risks and as a reinsurance market for American business.

More than 300 people lost their lives in the fire that destroyed the Innovation department store, consisting of three six-story buildings, which spread with incredible speed and resulted in property damage losses of more than $20,000,000. From the first sign of smoke until the collapse of the first building, little more than 30 minutes elapsed.

Among the main factors that caused the rapid spread of fire and loss of life, the chief one was that no automatic sprinklers were installed to hold the blaze in check.

AS A RESULT, the fire continued to grow unchecked, and spread rapidly toward the upper stories via the grand staircase. According to witnesses, "the fire quickly gained a hold on display merchandise, and rapidly spread to the combustible materials used in the construction of false ceilings and small storage compartments dotting the sales area."

Another factor was the absence of any fire drill for warning customers and sales staff on how to evacuate the store.

The fire and smoke spread so quickly that almost all the people above the second story were trapped, although in the basement and first level customers escaped without trouble. However, about 200 people were caught in the third story cafeteria.

As the heat of the fire spread up the open stairways, elevator shafts and escalators, many people climbed onto window ledges and jumped into the street. Bystanders tried to help firemen and police by holding sheets, but more than 30 people were hospitalized as a result of this "escape route."

THERE WAS AN iron outside escape staircase, but smoke from the lower floors restricted visibility all the way down. As a result, many customers fell and were killed or injured.

Although the rubble is almost cleared away in Brussels, the repercussions are being felt far outside the Belgium border. In some buildings on the Continent, especially those using plastic materials, the rates have increased by 300%. One petrochemical plant is reported to have had its fire premiums increased by 600%.

London companies have cancelled existing coverages, and in many cases, to keep coverage for their clients, brokers have had to persuade over 100 companies to participate on one risk.

The Belgium government in particular is insisting on mandatory fire precautions, such as sprinklers in new buildings and fire walls in the old ones. However, all over Europe the concept of better safety methods is catching on, and "the fire" is always blamed for the contraction of existing fire markets. ▪

Lloyd's gives protection if bull can't sire cattle

LONDON—A new livestock insurance policy is being written at Lloyd's which will afford protection if a bull is unable to perform his primary function of siring cattle.

Normally, livestock insurance is written on an ordinary mortality basis, an underwriter explained, and covers death caused by accident or disease up to an age of five years for individual animals. At the end of that time, coverage may be extended up to age seven. Occasionally, group policies are written on herds of cattle.

However, "the whole purpose of buying an expensive bull is for him to sire cattle," the underwriter continued. "If he can't do this, the farmer might as well have a dead bull on his hands."

THEREFORE, A NEW loss of use policy is being developed to protect against this contingency, and rates will be added to the basic mortality computation.

The concept was introduced at the World Hereford Conference, which was held this spring in Australia, "and has won wide acceptance in that country." Also being pioneered in the Antipodes is a policy covering the vendor, guaranteeing against infertility of a bull.

Rates in Australia for the complete package are presently 5% mortality and 4% for loss of use, based on the value of the animal. Underwriters anticipate that the rate will be the same in the U.S.

The loss of fertility coverage is not presently available in the U.S., "although there is a strong desire for it among breeders." There is a reluctance on the part of American livestock insurance companies to offer the coverage, it was explained, and since most Lloyd's protection involving livestock is reinsurance of a domestic carrier, this cuts back on availability. ▪

Seek to raise sunken ship

SAN FRANCISCO—More than a million pounds of urethane will be used by Murphy Pacific Marine to try to re-float the 8,944 ton Wahine from Barrett's reef in Wellington Channel, New Zealand.

The Union Steamship Co. vessel sank, with the loss of 51 lives and a deckload of automobiles. Lloyd's of London paid off about $7,000,000 on the loss.

Murphy Pacific pioneered the use of urethane foam as a salvage agent. Warren Thomas will supervise the New Zealand salvage attempt, in conjunction with United Salvage of Melbourne.

The technique involves divers taking air guns under water and shooting the liquid urethane and an activating agent into the holds of the ship. As it contacts the activating agent, the urethane swells and hardens.

Urethane solidifies into a buoyant, cork-like mass.

Refloating the Wahine would clear the channel for safe navigation. ▪

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Hoof and mouth disease outbreak causes trebling of insurance rates

By JOHN HAYTER

(John Hayter is a director of Wm. Brandt's Sons & Co., London, England.)

LONDON—At a small Welsh Hill farm late last year veterinarians diagnosed a case of foot and mouth disease, marking the beginning of the most disastrous outbreak of the illness which England has ever known.

Since then, in 2,364 outbreaks, 429,000 cattle, sheep and pigs have been compulsorily slaughtered and $66,000,000 paid in compensation.

The sorrow and grief cannot be replaced by any form of compensation, but in financial terms any animal slaughtered compulsorily by the Ministry of Agriculture is compensated to the full market value. Thus, theoretically a breeder can restock with the compensation he has received from the government, although this is easier for the commercial man than for the pedigree breeder.

BUT WHAT ABOUT the wages he will still have to pay his staff until he is in production again? What about the milk yield lost and the pedigree sales lost? This is loss of profit or consequential loss not included by the government's payments. Here then is the case for insurance.

Some years ago a Lloyd's insurance broker named W. H. P. Tamplin, while lying in hospital recovering from a serious operation, appreciated the dilemma of farmers affected by the disease and devised an insurance scheme, based on the Ministry's compensation and with its blessing. From this one scheme evolved the countrywide foot and mouth insurance operated now, not only by Lloyd's, but also by the farmers' own National Farmers Union Mutual Insurance Society.

Under the Lloyd's scheme a farmer must nominate the maximum number of cattle, sheep and pigs that will be on his farm at any one time, including natural multiplication. If he is a pedigree farmer he can select to insure for either 25% or 50% of the Ministry of Agricultures market value compensation. The commercial operator is limited to 25% indemnity.

The scheme is simple but nonetheless dangerous to underwriters, who over the past nine months have suffered catastrophic losses. It is estimated that up to 20% of all farmers carry insurance and the claims on insurers have been so heavy that it is no wonder that the rates have now been trebled.

John Hayter

To obtain loss figures for these specialized types of insurance is difficult. However, Lloyd's, whose premium income rose to $600,000 in the height of the epidemic, have lost in excess of 150% of premium income.

The National Farmers Union, probably the largest carrier, has lost more than its excess-of-loss protection, and has, therefore, suffered a heavy net loss.

Although Lloyd's carries only a small proportion of direct writings it is to them that all companies look for reinsurance. During the outbreak most companies suspended acceptances because of the volume of claims, although Lloyd's continued to accept business at increasing rates of up to 40 times the normal rating structure.

As in the past companies looked to Lloyd's for reinsurance, they again look to the expert livestock underwriters for guidance on a new rating structure. It is, also, to these men underwriting anything from the Derby winner to the world's almost extinct giant pandas, that inquiries are now being received from Ireland, New Zealand and Australia, where the disease is unknown. ▪

Arabs back work comp, pension plan

CAIRO—The Arab states have worked out a labor insurance plan, to be financed by contributions from both employers and employes, covering workmen's accidents, old age, disability and death.

The plan, developed by Arab experts in cooperation with the Arab League's social affairs and labor departments, also provides for the transfer of pension rights in the event a worker is transferred from one Arab state to another.

Under consideration is insurance against disease, unemployment and family emergencies.

In addition to corporate employes, the insurance program would apply to nationals of all Arab states employed by the government and international or diplomatic bodies. Seasonal workers, agricultural workers and house servants are excluded by the plan.

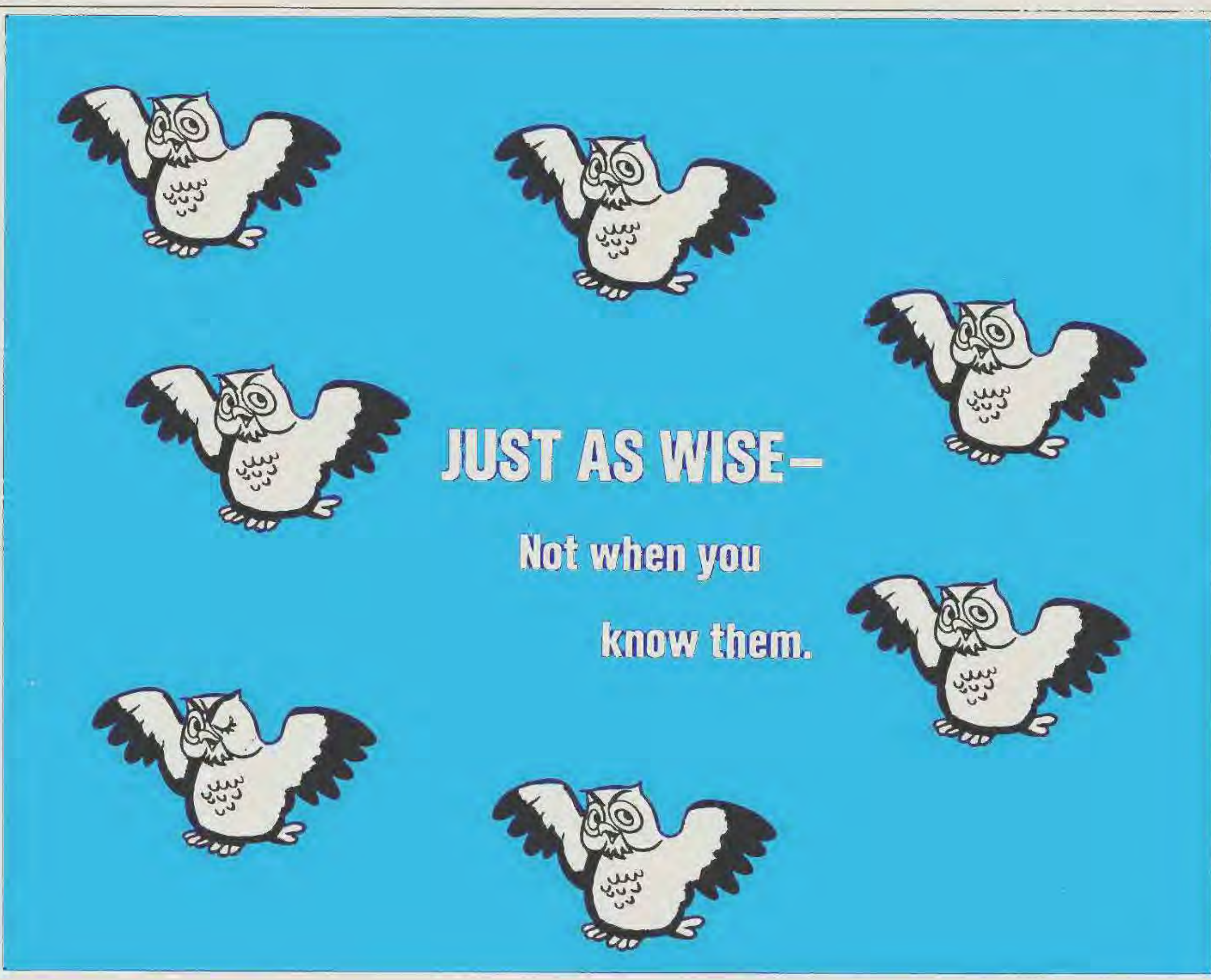
The plan, it is recommended, should be handled by an independent government body or a non-profit unit including representatives of the government, the employers and unions. In addition to employe and employer contributions, the insurance scheme would also be financed by income derived from investment of social insurance funds. ▪

Judgment cut

An $820,332 judgment against an insurance company three years ago has been trimmed to $606,874 by an appeal court.

The appellant was the Travelers Indemnity Co. which had been condemned to pay the damages on a "performance bond" issued in favor of Foley Brothers (Canada) Ltd., and C. A. Pitts General Contractor Ltd.

Abandonment by a subcontractor in 1959 of its contract to clear and "grub" the right-of-way for a 196-mile railway gave rise to the action.



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Middle East employers facing up to social security laws, unions

BEIRUT—Employers in the Middle East "tend to be strictly paternalistic," but as unions and syndicates are becoming better educated in the field of employe benefits, group insurance plans are becoming more popular, according to Shefik Danishmend, regional group manager for American Life Insurance Co.

Social security laws are still in the developmental stage in many countries, he explained, but in Lebanon for example, "often considered the most advanced of the Arab states," the most important aspect for an employer is mandatory-end-of-service pay.

This payment consists of a cash sum "which must be paid in one settlement" Mr. Danishmend said, and is calculated on one month's salary for each year of service, based on the last month's total earnings of an employe.

While this may appear to discourage the sale of group insurance, an important advantage for employers is that they can be the legal beneficiary of any life proceeds, and use this sum to pay the end of service indemnity to eligible dependants.

Otherwise, they may have to set up book reserves to meet this liability, "but these aren't tax deductible, and so group life provides some form of relief."

In Saudi Arabia, Mr. Danishmend continued, employers have to pay all medical expenses for their employes. The country has a social security regulation which provides a pension to orphans and widows, and persons unable to work because of old age or ill health. Benefits, however, are quite small and only amount to $248.40 a year.

The biggest problem facing an employer in the area is the knowledge that most workers are imported, "out to make quick money," and want to leave Saudi Arabia within five to ten years, Mr. Danishmend pointed out.

"Employers are attracted by high salaries, rather than benefit plans, but employers are beginning to realize that using these benefits will help to attract and retain a more stable work force."

Moving from the Arab world into Greece, Mr. Danishmend said that all employed persons are compulsorily insured for illness, maternity, death of family supporter, and incapacity for work—whether due to old age, physical or mental disease, or an accident. These benefits include medicines, hospital treatments and pensions.

Payments are administered through two social insurance funds, he continued, and fixed contributions are paid by employers and workers. ▪

Peace Corps...

Continued from page 3

duty he is given another thorough medical examination before he leaves the host country and any unresolved problems are referred to Washington.

Volunteers are reminded to carry their "exposure" or disease identity card which shows the length of time in a particular place where certain diseases are known to exist.

The doctors are based in the capital cities but they make periodic trips to visit the Peace Corps volunteers. The frequency of these trips depends on the traveling conditions to the various villages.

After a volunteer has terminated his service, he may secure a health and accident protection policy to cover him in the interim period after termination and prior to returning home. The policy covers the worker anywhere in the world and can be written for any period of time.

Underwritten by Fireman's Fund American Insurance Cos., the policy provides $10,000 death accidental and dismemberment benefit, $1,000 medical expense, $1,000 next of kin travel expense and $1,000 repatriation expense. The coverage was arranged by James W. Barrett Co. Inc., Washington.

Claims control under the all risk personal articles insurance is based on the integrity of the volunteers. The workers, according to James W. Barrett, head of his own brokerage firm, are more or less on their honor to fill out the forms accurately and honestly. So far, in the past five years, there have been possibly two or three spurious claims.

Underwritten by Lloyd's of London, the policy limit during the first year is $1,000 with this being increased by $250 at the end of that year and another $250 at the end of the second year. The increase in coverage provides for personal articles acquired during a volunteer's tour of service.

Along with the claim form, volunteers are supposed to send in a police statement when available, but "in a number of cases the police aren't involved," Mr. Barrett said.

He pointed to such claims as contact lenses lost while playing basketball or false teeth falling out of a breast pocket during a game. Another case on record involved two lion cubs who ate most of the belongings of their owner, a volunteer in Ethiopia.

MR. BARRETT ADDED that there is a $25 deductible per loss. During the policy's first year of existence 60% of the claims resulted from thefts, 26% from water damage, breakage and theft in shipment, and 14% from fires, auto accidents and other physical damage losses.

The volunteers going to South America are warned of the thieves in Venezuela and Columbia. Their pet trick, Mr. Barrett described, is reaching through a window with a long pole with a nail on its end. These expert thieves can take almost anything using this method, and "recovery is almost nil," he warned.

According to Mr. Barrett, there are usually 400 claims a year and they run from $150 to $350 per claim.

"And practically once a month we get a check back and a note saying that a particular article was found," he said, and added, "That's a pretty good indication of the integrity of these young people." ▪

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AMAX risk manager urges U.S. insurance standards abroad

NEW YORK—Many frustrations still lie ahead for international insurance buyers, although some progress is being made abroad to meet the modern day industrial insurance needs, according to Raymond Severin, insurance manager for American Metal Climax Inc.

There is no excuse for foreign insurers and brokers providing buyers with a limited scope of coverage, he said, although domestic insurance men should educate other countries on new concepts and loss prevention techniques.

In an interview with *Business Insurance* the innovating insurance executive who supervises AMAX's international and domestic programs said it is important to implant U.S. insurance standards abroad if American corporations are to have balanced insurance programs.

TWO OF THE biggest stumbling blocks preventing adoption of new concepts of insurance, according to Mr. Severin, are statutory restrictions and a lack of willingness by foreign rating authorities or underwriters to accept new techniques.

"Many U.S. insurers, willing to write insurance abroad, must adhere to unsophisticated local customs," he said. "A great deal of flexibility is needed to make changes commensurate with American coverages."

AMAX, a highly diversified mining and smelting company, is on the verge of revising its foreign insurance programs for its operations in North America, Europe and Australia.

Already in Australia, where the firm has several locations, Mr. Severin implemented the concept of umbrella coverage to make up for deficiencies in the local insurance. "We are now assured of adequate protection and have taken the first step for AMAX toward adopting U.S. standards on a local basis," he said.

FOR ITS EUROPEAN operations, Mr. Severin indicated the first move toward revising the insurance program might be to place the coverage through a single broker and in some cases with an insurance company that can write blanket insurance on a direct basis.

In Holland, France and England, he said, it has been virtually impossible to buy blanket coverage for either multiple or single locations. Fire insurance on buildings and contents is itemized in each policy by location without making allowances for fluctuating values.

Germany, he pointed out, uses separate amounts of insurance for buildings and contents which makes it "very cumbersome" when multiple locations are involved. "It is important to obtain blanket insurance coverages, but it is difficult to find a foreign market that can do it," he said.

Noncancellable or long-term policies in foreign countries are another factor that minimizes a buyer's flexibility to shop for insurers willing to grant lower rates or broader coverage.

SOME POLICIES are written for ten years and cancellations, when approved, are expensive, Mr. Severin pointed out. Notices of cancellations in some cases vary from three months to one year, he said.

According to Mr. Severin, U.S. insurance companies and brokers are making progress. Johnson & Higgins, Marsh & McLennan, Insurance Co. of North America, American International Underwriters and AFIA were a few brokers and companies cited as those which are helping U.S. buyers to set up sophisticated programs.

"It is a matter of education for all concerned," said Mr. Severin. "Even the local manager of a corporation can be reluctant to accept changes if he is unaware of the home office philosophy and his role in the program."

In the safety area, which is not stressed in foreign countries, the AMAX executive, who is planning a one month visit to operations in Europe and Australia, said U.S. corporations have to take the initiative. "Unless each insurance manager and safety director takes the initiative, there is little chance of a safety program getting off the ground," he said. ▪

Report asks compulsory auto cover

LONDON—Mrs. Barbara Castle, Minister of Transport, has circulated for comment a report advocating the introduction of compulsory passenger liability insurance to cover all motor vehicles in Britain.

For some years, there has been steadily mounting concern about the absence of compensation for some victims of road accidents—those injured while being given free lifts by drivers who had not voluntarily insured against passenger risks and who were entirely responsible for the accidents. In view of this public concern, the minister asked her "committee on motor insurance as a factor in road safety" to give priority to a study of this question.

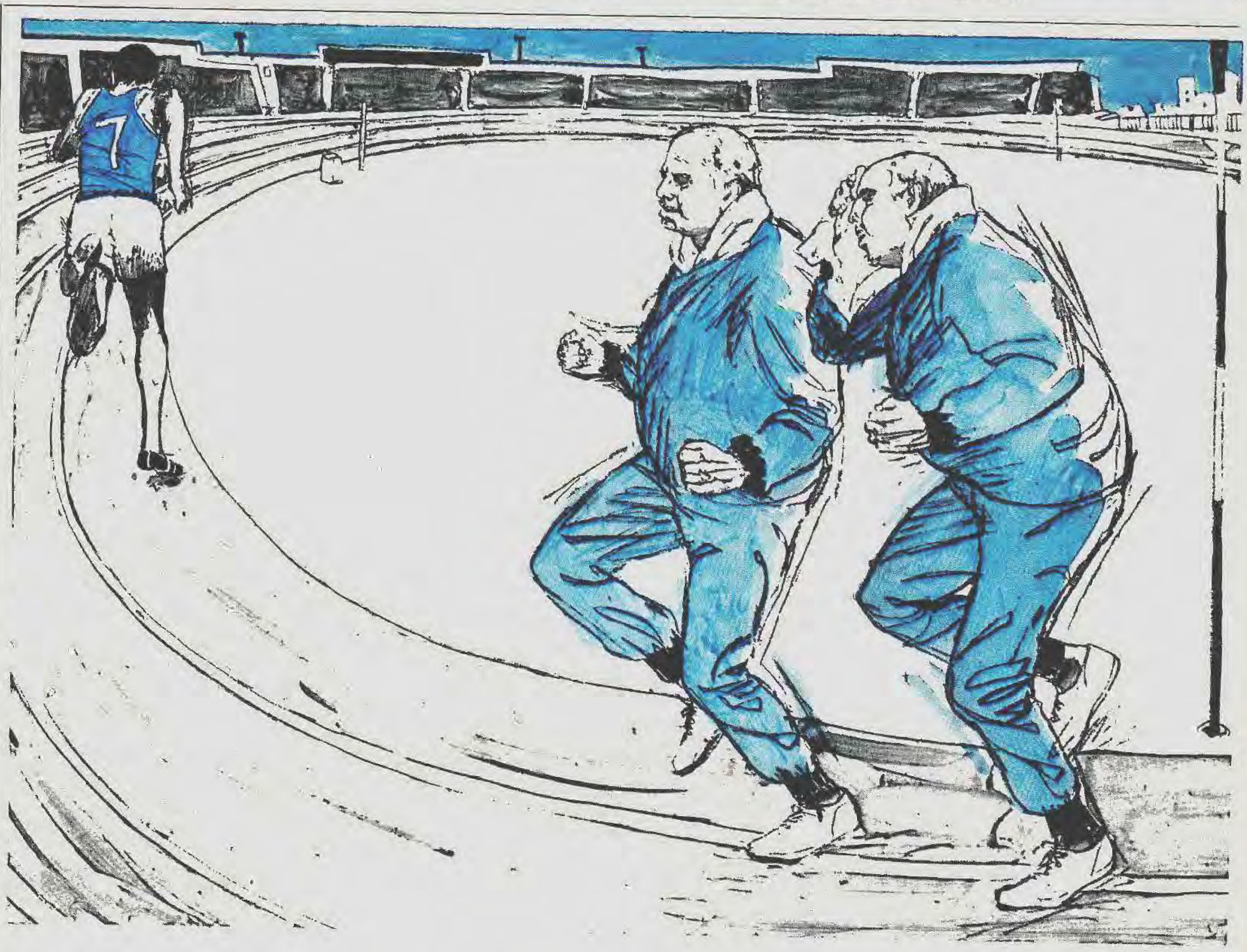
In a report to the minister, this committee has concluded that, since practically all types of vehicles could carry passengers (although some do so in less than ideal conditions and others do so only very rarely), there should be compulsory insurance to cover all passengers in, or on, all vehicles.

In general, the insurance industry should face no great difficulty in providing cover for passenger liability, if it should become compulsory for motorists to be insured. After all, the great majority of motorists already have this cover in their policies. Nevertheless, the cost for some, particularly those driving sports cars, will be high.

At the moment, passenger liability cover is never given to motorcyclists, and the premium to include it would be very high. It was mainly for this reason that the law was not changed when the question was last debated in Parliament in 1961. ▪

Leads group sales

Warren V. Smith has been named secretary and director of group sales in the group department at Hartford Life Insurance Co., Hartford, Conn.



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ITT . . .

Continued from page 29

aware of each other's injury experience through quarterly reports compiled by the safety department.

In the first quarter of 1968, for example, a report to all companies stated that European operations had a frequency of 176 and a severity of 254, while Latin American operations showed a frequency of 20.2 and a severity of 220. "Both of these areas showed a general improvement," said Mr. Orth, "and the competitive nature of making comparisons helps maintain employe interest."

In that report he also advised each company to examine its 1968 safety plans and to compare them with actual accomplishments. "In addition to the expected accomplishment of eliminating work hazards," he said, "remarkable gains can be made by improving safety attitudes of both employes and supervisors."

A SAFETY COURSE for supervisors responsible for training employes is also available from the safety department. Its objective, according to Mr. Orth, is to develop an understanding among foremen of their safety responsibility and to create an understanding among their workers of how accidents are prevented.

Material in the supervisors' course is broken down into charts and handouts. Some titles include:

- Why accident prevention is good business.
- Terms used to measure safety effectiveness.
- Understanding disabling injury frequency and severity charts.
- Injury and accident potential.

The material states that accidents are the result of either unsafe conditions or unsafe practices, and outlines a large number of conditions which are used by supervisors and employes to check hazards.

In addition to the broad programs outlined for managers, supervisors and employes, Mr. Orth assigned himself the following responsibilities:

- Survey all plants with high employe accident and severity ratios.
- Keep abreast of all plant accidents and safety activities.
- Be aware of the insurance department's problems so that vital accident statistics can be reported.
- Demonstrate the need for an atmosphere of safety among employes at every plant.
- Designate the responsibility for safety to each plant, with help and coordination from the home office.

WHAT PLANTS WILL be visited is determined by surveys, audits and program analysis coordinated from New York. Mr. Orth, who spends a substantial part of his time traveling, maintains that plant visits are "a good way to drive home the safety message."

One company in Europe, for example, had a frequency rate of 88 and a severity rate of 1,143. During a personal visit Mr. Orth suggested new safety techniques to the local management and emphasized the cost factors involved for each accident.

"Action was taken to reduce the accident rates once the company realized what was wrong, learned how to eliminate the hazards, and became aware of the high cost of accidents in terms of operating expenses."

"In many cases, a high incidence of accidents can mean the difference between profit and loss," said Mr. Orth.

"The combination of actual and estimated injury losses representing direct costs remained approximately $1,000,000 in 1967," he said, "in spite of additional employes as a result of acquisitions as well as rising compensation costs."

THE HUMAN ELEMENT is not overlooked in ITT's safety program, and each company recognizes the importance of individual health and safety through the efforts of top management.

Harold S. Geneen, chairman and president, said: "Cooperation is necessary between management and employes to achieve and maintain a high degree of safety and health throughout the company."

To recognize achievement in accident prevention, Mr. Geneen initiated the ITT President's Safety Award program last January. Participants are eligible to receive a safety award suitable for public display and an accompanying letter signed by the president.

All ITT companies are eligible provided each shows that:

- A realistic safety program audit or appraisal has been made which indicates the safety performance is a result of programmed effort and not attained by chance.
- They have furnished the necessary work injury experience reports on a timely basis.
- There were no reportable fatal work injuries during the award year.

FACTORS WHICH determine the winners include:

- A degree of improvement in the work frequency and severity rates over the previous year.
- Attainment of work injury frequency and severity rates better than average for their group.

According to Mr. Geneen, the award program is part of ITT's overall safety program "to take all practical steps to eliminate and reduce employe injuries to the maximum degree possible through the maintainance of a continuous and effective accident prevention program." ▪

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Pru payments at record

Prudential Insurance Co., Newark, paid out $1.28 billion in the U.S. and Canada during the first half of 1968, a new record.

Two of the Beatles, Paul McCartney and John Lennon, are protected by $1,200,000 life policies. Messrs. McCartney and Lennon, the song writers of the group, have named their music publishing company as beneficiary.

Key-man life policies cover two of Beatles

LIVERPOOL—Money can't buy the Beatles love, but it can provide adequate life insurance protection to the tune of $1,200,000.

This amount is carried on each of the lives of Paul McCartney and John Lennon, with Northern Songs Ltd. as beneficiary. The firm is the music publishing company established by the two singers with the object of providing a direct outlet for aspiring pop singers, rather than the more haphazard method of the "hit parade" route.

"The life insurance was bought to protect the public shareholders of Northern Songs in case either Beatle dies and the music dries up," it was explained by Geoffrey Ellis, director of Nemperor Holdings Ltd., the original company set up by the late Brian Epstein to handle the singers' affairs.

THE OTHER two Beatles are not involved in music publishing and carry private life insurance. "However, since three out of four are married and two have families they are adequately protected."

When the Maharishi's ex-disciples were under management contract with Nemperor Holdings, a "substantial" amount of accidental death and dismemberment insurance was carried on all their lives while making worldwide tours.

However, since the group has "given up personal appearances," the coverage, which was written by Lloyd's and British insurance companies, is no longer needed and has recently been cancelled. ▪

Hays named vp at Braniff International

Don B. Hays has been promoted to the newly created position of staff vp-labor relations of Braniff International, Dallas. Mr. Hays joined Braniff in 1963 as labor relations representative and was named director of the department the following year.

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Common Market's insurance rules too strict, says Emile Begault

BRUSSELS—"The aim of the 1957 Treaty of Rome was to liberalize and expand economic activity among the six member countries, but in the insurance industry the result has been more controls and impositions," according to Emile Begault, chairman of Boels & Begault, the largest insurance broker in Belgium and exclusive correspondent for Johnson & Higgins.

Mr. Begault, who is also president of the Federation of Belgium Insurance Brokers, and the permanent commission for the Common Market of the International Bureau of Industrial Producers, explained that the basis of economic expansion in the Common Market is founded on the two concepts of freedom of establishment and freedom of services.

Freedom of establishment, Mr. Begault said, "means that an insurance company should be able to open an office in any Common Market country and be treated the same as a domestic carrier." He explained that "freedom of service means that business can be conducted in any member country without necessarily being domiciled there."

THIS SHOULD MEAN that one insurance policy could be issued for all member countries, Mr. Begault continued. "However, in practice, each national controller may prevent this because of possibly circumventing local rules."

The ministers of economics and finance are in charge of insurance regulations in each member country, it was pointed out, and delegate authority to a controller. During the past three years, committees have met regularly with the object of drawing up a charter or guidelines for these controls.

What has begun to emerge, Mr. Begault pointed out, "is a much too strict set of rules which is not the aim of the Treaty of Rome."

"I realize," Mr. Begault said, "that the object of all these rules is to safeguard the public, and of course, I have no quarrel with this. However, I fear that with all these rules, the insurance industry will be jeopardized, and it will become difficult to obtain adequate coverage."

For example, he continued, a "very annoying" regulation for foreign insurance companies is that, if not amended, they must deposit reserves and currencies in the currency of whatever country they do business.

"Lloyd's, for example, with no reserves in Belgium couldn't write business," Mr. Begault pointed out. "This is also true of any London company which normally maintains its reserves in England."

Mr. Begault explained that these proposed new restrictions are very onerous because while most countries have restrictions on life insurance and workmen's compensation, other classes of business such as fire and accident are relatively free.

"In life insurance the rules should be very strict," Mr. Begault observed, adding that in this case reserves should be maintained in local currency. "The war brought this point out," he said, "when during the German occupation people were unable to collect on death benefits."

In his capacity with the International Bureau of Industrial Producers, Mr. Begault disclosed that he has been fighting for new and clearer directives, under which the insurance industry can expand.

"We feel that an insurance company should be able to accept risks in each country," he pointed out, "and we agree that they should give each ministry a guarantee of their ability to meet claims. However, we do not consider it necessary to maintain reserves in each currency."

Mr. Begault feels that in order for some check to be maintained each insurance company should submit an annual report of business written within each member country. "There should be the same premiums and rules established with each ministry, and this, plus the annual report, should establish adequate controls." Overtures have been made in this respect, he disclosed.

At the same time, he continued, insurance brokers must have the freedom to buy coverage for their clients wherever the best conditions apply. "The duty of a broker," Mr. Begault added, "is to see that narrow ideas of protectionism do not creep into a truly international business."

Turning to local matters, Mr. Begault explained that placing fire insurance in Belgium "had become a nightmare." The trouble is "that houses have always been insured by local companies and the industrial risks went to foreign carriers."

In the old days this didn't matter, he continued, because the building materials which were used were solid brick, which was considered fireproof. However, the advent of plastics and other combustible building materials has completely changed the picture, "because few buildings in Belgium have sprinkler systems."

As a result, English fire companies became frightened and begun to cancel or reduce their share of a risk—even on existing coverages. This is allowable in Belgian fire policies, it was pointed out, "by a legal device which allows coverage to be reduced to one franc." ▪

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Shun oversimplified approach, Marsh & Mac exec says

BRUSSELS—A U.S. insurance buyer planning coverages for an overseas subsidiary in the European Common Market should try to avoid an oversimplified approach and remember that the six member nations have great differences in their economic, social and political backgrounds.

It also helps if the buyer makes a proper study of European insurance conditions as they exist today, because this avoids misunderstandings and, in some cases, the issuing of illegal policies and the creation of unnecessary tax problems.

This advice was given by Edgar S. Clark, European manager of Marsh & McLennan International, during an interview with *Business Insurance*. Mr. Clark also traced some of the insurance developments in the Common Market since the Treaty of Rome was signed in March 1957.

THE ORIGINAL TREATY said very little about insurance, Mr. Clark explained, except that the same basic principles for any other industry in the Common Market apply. These guidelines are that competition must be fair and free from distortion or discrimination.

One provision of the treaty, governing freedom of establishment makes clear that "an insurance company should be able to open an office in another Common Market country and be treated in the same way as nationals of that country," Mr. Clark said.

Another provision, dealing with freedom of services, "is generally taken to mean that a firm can conduct business in another Common Market country without having an establishment in that country," Mr. Clark explained. "However, the whole question of freedom of services has become very complicated, and without going into details, seems to be leaning towards unnecessary protectionism."

In spite of these two freedoms, insurance problems remain very complex, Mr. Clark continued, because the vital interests of member countries are frequently different and are sometimes opposed to one another.

"TAKE GOVERNMENT taxes on insurance premiums," he said. "For industrial fire risks they are 30% in France, 5% in Germany and 2% in the Netherlands."

Therefore, he pointed out, if a Dutch insurer in Holland is allowed to write French risks located in France without having an office in that country, the French fire market could "disappear overnight" because everyone would want to avoid the heavy premium tax. "However, this would undoubtedly be considered unfair competition," Mr. Clark said.

Another example of protectionism illustrated by Mr. Clark involves France, where it is forbidden for a nonadmitted insurer to cover any risk situated in France in respect to persons, goods or liability. It is also forbidden to place these risks abroad with a nonadmitted insurer.

"Even if these rules were ignored, there would still be fiscal problems, since premiums for these illegal insurances would not be tax deductible," said Mr. Clark. In the event of large claims, it would also be difficult for the insured to introduce a record of payments made from abroad.

Another limitation now under consideration on the freedom of services provision is a requirement that if an insurance company wants to provide services in another country without having an office it may only write a specified number of policies and a specified annual premium income.

This could lead to unfair methods of business, Mr. Clark explained, because one individual policy could cover either a car in a Paris suburb or the entire European cargo of an international manufacturer. In the same way, premium income limits could be totally unrealistic.

Many Common Market brokers are "extremely concerned" about these inward-looking practices, Mr. Clark observed. They fear that these controls could prevent access to insurance markets and also stifle initiative and freedoms. There is also a fear, he continued, that manufacturers will find outlets by encouraging the creation of a "black market" in insurance.

However, a "bright spot" in the picture is that reinsurance is virtually free, and that more liberty of action is allowed in placing marine and aviation insurance.

"THIS IS JUSTIFIED by the international aspects of these classes of business," Mr. Clark explained.

Turning to buyers, Mr. Clark stressed that if an American company decides to build a factory or complete a merger in a European country, it's "absolutely essential" to make a proper examination of the insurance problems and not leave them to be handled by the "on the spot" manager or broker.

"I don't say this out of chauvinism," the Marsh & Mac executive commented, "but to protect the buyer." In most European countries, he pointed out, professional insurance managers are scarce, and coverage is often bought directly from an insurance company owned by the bank handling the financing.

Another method sometimes followed, Mr. Clark explained, "is for the local national accountant of the U.S. subsidiary, who may not even speak the same language, to get a quote from one company and then go on to three or four more, constantly seeking reductions in the rates."

THIS MAY SOUND fine, Mr. Clark said, but in fact the coverage will probably end up by being inadequate, and the accountant who doesn't understand insurance will settle for cost alone.

An American insurance manager will often find it "frustrating" to deal with European carriers, Mr. Clark continued, "because bookkeeping is often still done by hand or a subscribing line will amount to only 1.8%."

He may also find that some of the policies of his newly-acquired subsidiaries have been written on a long-term, ten-year basis.

Continued on page 37

Foolproof way to manage

British insurers say underwriting profit up

LONDON—While their U.S. counterparts are generally faced with a somewhat bleak underwriting picture, British insurers have reported a rosier outlook.

The worldwide underwriting results of members of the British Insurance Assn. for 1967 show a considerable improvement. Underwriting profits totaled $31,440,000 last year, up from $2,160,000 in 1966 and $22,320,000 in 1965.

Premium income for the British property underwriters was 10% higher, up from $6 billion to $6.7 billion.

P. Cahill, chairman of BIA, said the industry is "still in a pretty marginal state. The profit represented only about 1% of premiums, and the insurance companies ought to do very much better than that."

Moreover, Mr. Cahill said, little was needed to go wrong, particularly in the U.S., to change the picture.

The biggest factor in the improved results was the virtual elimination of motor insurance losses, which amounted to $22,320,000 in 1966 and $30,000,000 in 1965.

Marine insurance showed the biggest increase in premium income, up from $264,000,000 to $300,000,000. The second largest expansion, ordinary life policies, went from $2.1 billion to $2.4 billion.

Fire insurance underwriting profits in 1967 were $14,640,000, up from $8,160,000 in 1966 and a $19,680,000 loss in 1965.

Mr. Cahill said 70% of BIA's non-life business came from overseas, with 33% coming from the U.S.

He said the merger trend was not reducing the industry's capacity. K. M. Bevins, joint deputy chairman of the BIA, said the industry has plenty of capacity—at a price. ▪

Carpenter named chairman

Daniel A. Carpenter Jr. has been elected chairman of the newly merged Paige O'Brion Russell of New York, succeeding Waldo M. Hatch, who died June 28 at the age of 66. Thomas A. Sperry Jr., in addition to continuing as president of the insurance brokerage firm, becomes chief executive officer and chairman of the executive committee.

Japanese city readies pension for employes of business firms

KAWAGUCHI, Japan—This small city separated from Tokyo by a river and prefectural boundary, yet near enough to suffer from traffic spill-over and commuters to that city, is readying its own retirement and all-round welfare plan for employes of its small- and medium-scale businesses.

The city counts 7,000 businesses, including many foundries, which qualify, having less than 300 employes (but 50 for commerce and service businesses). About 20,000 people will be eligible to participate in the plan, which will include low-cost home construction loans as well as pensions.

Kawaguchi, encouraged by the successes of its pioneering mutual traffic and property damage system, inaugurated two years ago, will now also be the first Japanese city to operate its own mutual pension program for its employe-residents.

THE CITY PLANS to get the program in operation this autumn, budgeting $140,000 a year for it and turning over administration of pension and one-time retirement payments aspects to one or perhaps a team of as many as five insurance companies.

After only a year of the program, an employe will be able to borrow up to $278 toward wedding, honeymoon and new household expenses. Four years after that, he becomes eligible for a home construction loan of up to $2,780, repayable in 15 years at 5%.

Pension payments will be higher than both those paid under the present government-backed program for small business sector employes and typical, comparable pension systems offered by private insurance companies.

According to present plans, after 20 years of employment, a participant in the program will be able to choose between a lump payment of $1,678 or $19 a month for 10 years, the latter equal to about $2,279.

On-the-job life and injury coverage will be included, with monthly payments to be made for five years of $33 in event of death and $8 to $33 in event of injury. ▪

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Continental Casualty Co.; American Casualty Co. of Reading Pa.; National Fire Insurance Co. of Hartford; Transcontinental Insurance Co.; Transportation Insurance Co.; Valley Forge Insurance Co.; Valley Forge Life Insurance Co.

Shun . . .

Continued from page 36

Under these policies it is usual for the insurer to be able to cancel after any claim payment but the insured has no complimentary option. Under present market conditions, long term policies should be avoided.

Mr. Clark also stated that capacity in Europe is as much a problem as in America, "because all the big mergers result in contracting lines, in spite of their overall increased capacity."

As a result, Mr. Clark said, deductibles and coinsurance are being used more and more, "but Europeans are not used to them and they have to be explained very carefully."

Brokering patterns are also changing, Mr. Clark continued, "and 100% frontings with one insurance company won't do anymore."

It is important to realize, Mr. Clark concluded, "that investors are guests in these countries, and it's better if the brokering and insurance are arranged from inside the Common Market."

He explained that Marsh & McLennan is associated with European insurance brokers; in Belgium for example, the broker has an agreement with J. Henrijean et Ses Fils. "What we try to give clients is American service and know-how," he said.

It is important to realize, Mr. Clark concluded, that American investors are guests to a host country and it is better if the programming and insurance is arranged from inside the Common Market. He explained that Marsh & McLennan is associated with major brokers in each European country, working locally with Marsh & McLennan personnel. The objective of this combination of know-how is to provide compatible American service with the tools available within the Common Market. ▪

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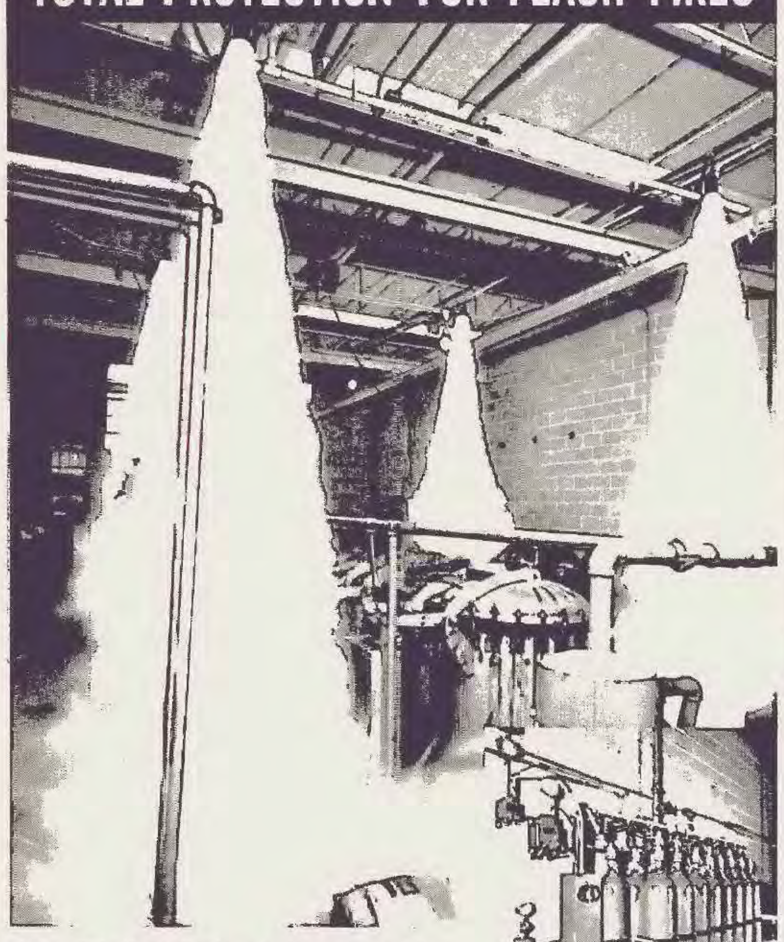

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Buyouts . . .

Continued from page 11

it, including burglary and theft coverage and excess liability. He is currently working on a products recall insurance policy, mainly for the company's Necco facility.

"Their coverages will become automatic whenever we make an acquisition," Mr. Jones explained, "and offer the kind of protection we need as a large corporation, as compared to an individual smaller company."

Since more than 6,000 employes are involved, at widely scattered locations in the U.S. and Canada, Mr. Jones is beginning a review of the whole group insurance program.

HIS USUAL PRACTICE with group insurance is to initially leave existing coverages alone, "with the final objective of bringing them into a corporate plan underwritten by Aetna Life Insurance Co.—which enjoys a favorable retention charge."

After bringing benefits into the Aetna fold, Mr. Jones immediately adds coordination of benefits and Medicare supplements. "In general, we probably give higher surgical benefits," he said, "and look for lower retention charges, based on our current increased premium volume and favorable experience."

A new 24-hour accident policy is also being written through Aetna for all salaried active employes. This will be on a voluntary payroll deduction basis. "Response has been very good," Mr. Jones disclosed, "and coverage will run from $10,000 up to $150,000."

PENSION PLANS ARE "another problem" to Mr. Jones, because there are currently 16 plans in existence, involving seven actuaries. The bulk of these are trusteed, and involve funds running into "substantial amounts."

Any employer is "naturally concerned" with his pension plan costs, Mr. Jones continued, and UIS is carefully evaluating the performance of its investment portfolio.

"We expect to pick one actuary this year," he said, "whose main function will be to assist us in

William Jones III

evaluating the trustee's investment performance, and help us with consolidating plans. We're also considering different modes of investment—mutual funds and insurance companies, as well as the bank-trusteed plans."

MR. JONES EXPLAINED that whenever UIS acquires a new company, the policy is to retain local management, "with the home office overseeing." The home office consists of 19 employes—14 men and five women.

A take over raises few employe problems, Mr. Jones has discovered, "because psychologically, the local manager likes the feeling of coming into a big company with better benefits, and being offered excellent managerial assistance rather than being out there on his own."

In his spare time, Mr. Jones is also analyzing the profitability of initiating a UIS corporate leased fleet—as opposed to current leased, company-owned and personally-owned fleets. He also gets into many legal, financial and accounting areas, "because of the small management staff running UIS."

Mr. Jones was educated at New York University, and NYU Graduate School of Business Administration, and was assistant insurance manager for American Standard before moving into his present position. ▪

Fire Program Set

Newark College of Engineering, Newark, N.J., will conduct a series on fire protection technology beginning in September. The program, which is conducted in three consecutive segments, involves building construction and services (Sept. 19 to Dec. 12); fire protection systems and equipment (Jan. 9 to March 27); and industrial hazards (April 10 to June 26).

Applications and further details of the program may be obtained from Paul A. Burns, director of conferences, Newark College of Engineering, 323 High St., Newark, N.J. 07102.

Profit-sharing pay to widow is $783,109

CHICAGO—The widow of an exec vp of Material Service division of General Dynamics Corp. has received a profit-sharing payout of $783,109.44.

Sidney J. Marks, who died last year, joined Material Service as a $10-a-week employe 44 years earlier. He rose to become sales manager and vp of sales.

The Material Service fund is 100% employer paid but has been frozen since General Dynamics acquired Material Service two years ago. The fund is managed by the First National Bank of Chicago.

General Dynamics has a savings and stock investment program for employes. ▪

Wash Watch . . .

Continued from page 4

On the darker side there is the Federal omnibus pension bill which, in addition to establishing minimum standards for vesting and funding, would set up a Federal reinsurance program for private pension plans. Although this proposal is by no means close to passage, it is certain to get careful consideration on Capitol Hill and to receive strong support from a large segment of Congress.

There are a host of other current developments alien to the continued rapid growth of private pension plans because they could raise the costs of these plans to prohibitively high levels. These include the Treasury department's newly issued integration formula for plans which are integrated with Social Security, and the Equal Employment Opportunity commission's proposed ruling that there can be no difference between the optional or compulsory retirement ages of males and females under private pension plans.

One event which could work for or against assuring a place for private pension plans in our future society is the proposed 1971 White House conference on aging. This may be the last big chance to convince the country a healthy and growing private pension plan system must be preserved, if necessary by special consideration, in all future governmental moves into the area of retirement benefits. ▪

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