The cost of employe drug abuse

See page 4

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for buyers of employe, property and liability protection/pension investments/financial services

There are enough risks involved shooting movies on foreign soil without having to contend with monsters. But when this mechanical Loch Ness monster, constructed for United Artists and Mirisch Corp., sank during filming in Scotland Fireman's Fund was forced to cough up $135,000. A special international section begins on page 45.

Nixon's price freeze puzzles corporate buyers and insurers

By RICHARD BJORKLUND

WASHINGTON—Insurers and their corporate customers were asking "What if . . ." questions about the meaning of the wage/price freeze nearly two weeks after President Nixon's dramatic economic message. The Administration's cost of living council attempted to provide some answers, but most of its pronouncements applied only to personal lines of insurance and did nothing to clear up corporate property-liability and employe benefits insurance questions. See editorial on page 16.

Some things that appeared to be clarified included:

• A freeze on fringe benefit increases. No profit-sharing plan can be instituted during the freeze. No increases in pension plan contributions are permitted. However, previously established corporate contributions to existing retirement and deferred profit-sharing funds will be permitted because they do not affect levels of wages or prices.

• Premium levels for customrated property-liability corporate insurance programs that are instituted or renewed during the freeze could be set according to loss experience of the insured, but the rating principles applied would have to be those in effect in July and August of this year. The Insurance Services Office suspended the effective date of rate increases for commercial auto insurance in eight states in compliance with the President's freeze order. Premiums for commercial policies governed by manual rates cannot be increased during the freeze, just as rate increases for personal lines coverage are suspended. No 10% surcharge will be applied to insurance coverage purchased from Lloyd's or other foreign carriers because insurance was not "dutyable" before the freeze and cannot be made subject to the tariff surcharge.

• Life insurance premiums are not generally affected by the freeze because premiums are typically set at the inception of the policy. Health insurers, however, were confused about the effect on their business of the President's freeze announcement. One spokesman said, "We know only that if an increase has been in effect for a substantial period of time it may be applied during the freeze to annual renewals for individual or group health insurance coverage." Administration officials told one large health insurance group that it is hoped the health insurers "will take advantage of the 90-day freeze period to help curb inflation." Some health insurers complain that they have been hardest hit by inflation because of runaway rises in hospital charges, medical care costs and the price of drugs. "Often our meager rate increases are based on two-year deficits in underwriting," a health insurance spokesman complained. Life insurers had an additional complaint about the President's freeze order. "It puts us in a state of suspended animation," said one underwriter, "because we can't sell any life insurance employe benefits. About the only thing we can push is salary reduction pension plans." ■

Insurer pays high tab for Brando and 'Burn'

SAN FRANCISCO—It cost northern California movie-buff claims-adjuster Leonard Lommen only $2.50 of his own money to see his favorite star, Marlon Brando, in "Burn" at Hollywood's Vogue Theater.

That film, however, cost his company, Fireman's Fund American Insurance Co., the whopping sum of $463,120 for insured losses incurred during the filming in Colombia.

Illnesses suffered by Mr. Brando in the hot, humid South American shooting locale cost the San Francisco-based insurance company $249,920. The rest of the near half a million loss went for faulty film processing, miscellaneous equipment, damaged props and other insurance-reimbursable movie-making problems.

THE LOSS on "Burn" was heavy, of course, but Fireman's Fund took it in stride. After all, the company has been insuring movies and movie making since the days preceding Mack Sennett and the Keystone Cops. Records here dating back to April, 1921, carry Fireman's Fund warnings on the hazards of insuring movie sets, movie stars and all that went with Hollywood production activities.

Today Fireman's Fund is the largest insurer of entertainment projects, writing policies for all productions of United Artists, Paramount, American Broadcasting Co., CBS and dozens of the

Continued on page 2

Soup recall 'covered'

CAMDEN, N.J.—In a virtual replay of the Bon Vivant soup recall incident of a few weeks ago, the Campbell Soup Co. has ordered the recall of chicken vegetable soup packed by one of its plants in Texas. And, in a replay of the insurance situation, Campbell appears to be self-insured for the costs of the recall, though they refuse to confirm or deny it.

Botulism toxin was found in cans of the soup packed on July 15 by the company's Paris, Texas, plant. Those cans were distributed over a 16-state area and the firm began an immediate recall when the toxin was discovered.

A spokesman for Campbell's said the company was "covered in one way or another" for the recall but refused to elaborate. He also pointed out that between 100,000 and 200,000 cans would eventually be returned.

Sources at the major insurance companies which write product recall coverage said that their companies were not involved with Campbell Soup.

"Campbell is obviously self-insured for this," one of them noted. "They're big and they can absorb the loss. Bon Vivant wasn't blessed with size and they are now bankrupt. The big boys can stand a recall like this, it's the smaller operations that need coverage."

Unlike the Bon Vivant recall, fortunately, there have been no illnesses reported, Campbell said. The firm discovered the toxin.

A company bulletin said that grocers and consumers would be repaid for cans returned or destroyed. ■

Manhattan's suit alleges unfair group sales tactics by Prudential

By STEPHEN GILKENSON

NEW YORK—A $139.1 million chunk of group life insurance business that a year ago was transferred from the Manhattan Life Insurance Co., New York, to the Prudential Insurance Co. of America has become the subject of an antitrust suit, it was disclosed here last week.

Filed in U.S. district court in Boston late in June, the suit charges Prudential, as well as trustees and administrators of six multiple-employer group life insurance plans, with practices that have led to the "unreasonable restraint of interstate trade and commerce in sales of group life insurance in violation of Section 1 of the Sherman Act."

Prudential, in addition, has been charged with coercion inasmuch as it refused to write the more risky health insurance business of the six plans unless it could also win the profitable life contract, the complaint alleges. Prudential's attorneys have said that there is "no substance" to the suit and that the company will fight it "vigorously."

NAMED AS defendants along with Prudential are Boston Safe Deposit and Trust Co., trustee of the plans; the Richard J. Conboy Insurance Agency Inc., which originally placed the business with Manhattan Life and later took it to Prudential; the Northeast Plan Administrators, the unit of Conboy Agency that administers the plans; Richard J. Conboy, president of the Conboy Agency and treasurer of Northeast; and Martin J. Kelley, of the Conboy

Continued on page 2

business insurance international

The 1971 *Business Insurance* special international section (pages 45 through 82) answers some of the many questions facing U.S. businessmen who manage overseas locations. On page 66 you can find out how American companies with plants in apartheid South Africa are responding to charges of racist employe benefit programs. Some tips on how to bring a product liability suit against a foreign manufacturer, and how to find out if he's at fault, are presented on page 76. In the light of recent Chilean copper expropriations *Business Insurance* has also taken a fresh look at the status of the International Investment Insurance Agency on page 45. Establishing and maintaining a coordinated loss prevention for a company with 85 world wide locations has led to appointment of a separate risk manager for their European and African locations; on page 45 the new man discusses his job. The mounting pressures on private pension plans of American subsidiaries abroad are revealed on page 50. A story on offshore captives and their hothouse growth is on page 54.

Foreign investments up, Commerce study shows

WASHINGTON—According to the Department of Commerce, American companies increased their direct investment in foreign countries last year by more than 50%, and did it in the face of U.S. balance of payments controls.

The foreign investment climbed to almost $3.8 billion last year from 1969's figure of $2.4 billion. At the same time, American corporations borrowed more from foreign sources than they did in 1969, about $3 billion as opposed to $2.6 billion two years ago. Most of the borrowing was done in Western Europe while the largest percentage of investing was done in developing nations.

Direct investment (that which occurs when an American company or individual owns or gets hold of 10% or more of a foreign business) in Canada, which is exempt from balance of payments controls, totalled another $1.5 billion. That figure is an increase of about $100 million from 1969.

The foreign direct investment figures show reinvested earnings and net capital transfers between American parent companies, their foreign affiliates and investors and lenders in foreign countries.

As a result of all the borrowing, U.S. firms were stuck with a combined long-term foreign debt of $11.3 billion at the end of last year. Borrowing by U.S. corporations began getting heavy in 1968, after the government announced mandatory curbs on foreign investment. ($5.2 billion of the 1970 debt was in public offerings and private ventures. The rest was in bank term loans and renewable short-term loans.)

The Commerce department also reported that $5.6 billion was transferred last year from U.S. firms to their foreign affiliates, more than $1 billion of that going to Canada.

This huge amount of capital transfers was offset, according to Commerce, by the large amount of borrowing. ■

Insurer . . .

Continued from page 1

leading independent producers.

"Insurance is a vital requirement for film makers," explained Edward E. Hamby, who manages Fireman's Fund's worldwide entertainment industry department located in Los Angeles. Cast insurance is the basic coverage in the motion picture phase of the business. Such coverage protects the producer against losses resulting from death, injury or illness to a director or leading actor or actress.

"Producers," Mr. Hamby points out, "try to select the right artist for each role because they know that proper casting can make a movie while mistakes in casting can break it at the box office. However, the more careful the producers are in packaging talent, the more vulnerable they become to financial loss if one of the stars cannot finish the role. With millions of dollars on the line, insurance is essential to protect the investment."

AN EXAMPLE is the cool million dollars Fireman's Fund paid United Artists when Tyrone Power suffered a fatal heart attack on the set of "Solomon and Sheba" in 1958. That film was shot in Spain.

Since then more and more motion pictures are being made abroad rather than in Hollywood and this year about 60% of the productions Fireman's Fund has insured are being shot outside the U.S.

Even the movie stand-ins get coverage, only occasionally causing an insurance claim pay out.

Perhaps the best known of these was the mechanical version of the Loch Ness monster made for director Billy Wilder for location shooting, at Loch Ness, Scotland, of "The Private Life of Sherlock Holmes," produced by United Artists and the Mirisch Corp. Mr. Wilder had decided the "real" Loch Ness monster couldn't be trusted to appear on cue. His synthetic serpent proved no more reliable. It sank in mid-scene and cost Fireman's Fund $135,000.

"THAT WAS WHAT it cost," Mr. Hamby explained, "to reshoot the monster scenes, using a more trustworthy miniature beast in an indoor swimming pool."

In this same film, the illness of actor Robert Stephens in the role of the famous detective resulted in 12 days of production delays. Fireman's Fund paid $206,000 for the expenses due to the sickness.

"Our major consideration in underwriting productions in foreign countries," Mr. Hamby told *Business Insurance*, "is accessibility to the film location for claims adjusters and medical personnel. And this, of course, involves restrictions on entering the country and problems related to the remoteness of the film location.

"We're also very careful," he continued, "to be certain of the availability of medical facilities. If an insured movie star becomes ill or is injured, of course, we want treatment to begin promptly. We also look carefully at the competency and quality of the production people.

In addition to cast insurance, of course, Fireman's Fund policies protect producers and film companies against plagiarism and copyright infringement claims as well as damage to props, sound and stage equipment and film negatives.

Fireman's Fund regularly insures motion pictures being filmed in Australia, Europe, Mexico, South America, the Middle East, and behind the Iron Curtain in Russia and Czechoslovakia. One of the latest such films was "Fiddler on the Roof," much of it shot in London and in Yugoslavia.

"Many of the 'Fiddler' scenes," Mr. Hamby pointed out, "were filmed in small, remote villages, where adequate fire fighting equipment was just not available. This raised the possibility of high costs in the potential destruction of valuable sets and wardrobes. Distances from film processing labs also increased the risk of negative loss."

"Fiddler" came through, however, and U.S. moviegoers soon will be seeing it. ■

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Manhattan . . .

Continued from page 1

firm and president of Northeast.

Manhattan Life is seeking treble damages from the defendants, although it does not specify an amount. The life insurer, which ranks as the 82d largest in insurance in force, has asked for a jury trial.

The six group insurance plans involved in the legal battle, although not named in the suit are: the Graphic Arts Industry Life Insurance Trust Fund, the Medical Services Industry Life Insurance Trust Fund, the Construction Industry Group Life Insurance Trust, the Licensed Insurance Agents and Brokers Life Insurance Trust Fund and the Shoe and Leather Industry Life Insurance Trust Fund.

Together about 5,000 lives were covered for a total of $139.1 million until the contract was terminated May 31, 1970.

MULTIPLE-EMPLOYER group life insurance contracts came into vogue about two decades ago and Manhattan Life was one of the pioneers in the field. According to the complaint filed in Boston, Richard Conboy began to solicit such business under Manhattan's plan in 1962. He later formed the Conboy Agency and became Manhattan Life's principal agent in the Boston area. The six plans mentioned in the suit constituted about 10% of Manhattan's total group insurance business.

When the business left Manhattan and went to Prudential, however, so did Mr. Conboy, his agency and the plan's administrators. Thus, Manhattan Life was left without any agency representation and with little business of significance in the Boston area.

The complaint, which must be answered by the defendants by early September, notes that prior to May 4, 1970, Manhattan Life had no information from either its agent or its policyholder, Boston Safe Deposit and Trust Co., that the plans were considering a move for the policy period beginning less than a month later.

"On or about May 4, 1970, Manhattan received seven letters dated April 30, 1970," the complaint says. "Six of the letters, from the defendant Boston Safe, notified Manhattan of the cancellation of the entire $139.1 million of multiple-employer group life insurance underwritten by Manhattan. The other letter was the defendant Conboy Agency's resignation as Manhattan's general agent in Boston, which resignation became effective May 31, 1970.

"SOME TIME thereafter," the complaint goes on, "Manhattan learned that its policies had been replaced by similar policies underwritten by the defendant Prudential, that the defendant Conboy Agency had become a special agent of Prudential and broker of record on the new policies, was receiving commissions from Prudential and was charged with administering the new plans and soliciting new business on Prudential's behalf, that, in order to obtain the business, Prudential had agreed to offer group health insurance through the Conboy Agency to those persons insured under the said group life policies, and that the six trust instruments had been amended to accomplish these objectives. . .

"As a result of these events," the complaint further notes, "Manhattan was left without a single dollar of multiple-employer group life insurance in effect under policies solicited by the Conboy Agency, without a general agency to conduct its sales and service operations in Massachusetts and without the ability to compete in Massachusetts in a field in which it had been one of the pioneers."

The suit by Manhattan Life is the most overt action taken to date against a practice that has become a subject of some grumbling among buyers of employe benefits and their brokers. Industry sources point to increased pressures by the "muscle" life and health insurers to subvert competition and force insurance buyers to buy from one source. For example, they note, large property and liability underwriters that also write life and health business are exerting pressures on buyers for the more profitable group life line to offset some of the risk in the other lines. Manhattan Life does not write property, liability or health business and is thus charging that such practices constitute a restraint of trade for firms such as itself. ■

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GUIDE TO FEATURES

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Pension payment plan tops list of steelworkers' improvements

WASHINGTON—A three-year wage and benefit agreement finalized Aug. 1 between the United Steelworkers of America and nine major steel companies will bring improvements in both areas, for 350,000 workers, that exceed the terms of contracts recently won by the aluminum and canning workers.

The most dramatic improvement is in the area of pensions where the 1968 basic monthly payment of $6.50 for each year of service up to 35 years was amended to a no-maximum formula that pays workers $8 for each of the first 15 years of service, $9 for years 16 through 30 and $10 for each additional year.

The 1% formula—which employes received under the 1968 agreement if it exceeded the minimum pension—is increased with the new contract to 1.1% for each of the first 30 years of service and 1.2% for each additional year. Cost-of-living allowances are not included in computing the percentage formula.

MINIMUM payments to disability pensioners not eligible for unreduced Social Security disability pensions are also increased from $100 to $150 per month. Minimum benefits for surviving spouses until they reach age 62 were increased from $75 per month to $100 per month or, if higher, 50% of the participant's regular pension. The minimum benefit after age 62 is increased from $25 per month to $50 per month or, if higher, 50% of the participant's regular pension less 50% of the amount of the widow's (or widower's) Social Security benefit.

The aluminum workers had won a pension scheme that upped their base figure from $6.50 to $9, an arrangement the unions lauded as "the highest industrial pension benefit now in existence," being better than 50 cents higher than the base won by the can workers.

Life insurance coverage for active workers increased Aug. 1 by $2,500 in each class, setting the minimum coverage at $8,000 and the maximum at $10,500. The retired life insurance after age 65 was increased by $300 in each class, establishing a $2,100 minimum and a $2,350 maximum.

Medical care insurance is improved in these respects:

- Major medical is improved by increasing the maximum annual benefit from $10,000 to $15,000 and the maximum lifetime benefit from $20,000 to $25,000. The annual limit on psychiatric care also jumped from $1,000 to $1,500.
- In-hospital medical benefits are increased from 120 days to 365 days for employes with less than 10 years of service and 730 days for those with 10 or more years on the job. Maximum duration of in-hospital benefits for psychiatric and tuberculosis cases jumps from 30 to 60 days.
- Costs for donors of kidneys and other organs, abortions, sterilization proceedings (including vasectomies) and oral surgery will also be covered.

Annual limits on diagnostic X-rays and examinations will be increased from $75 to $150.

SICKNESS and accident benefits were increased by an average of $10 a week with the signing of the new contract and will jump another $10 on the average effective Aug. 1, 1973. Effective immediately, reduced Social Security benefits will no longer be subtracted from the sickness and accident benefits and coverage will extend to donors of kidneys and other organs.

Supplemental unemployment benefits have been increased by $30 per week. Thus, for weeks where an employe receives a state unemployment compensation, the maximum benefit with no dependents wil be $82.50 and $88.50 with four or more dependants. If no state benefits are being received, the scale is amended to $110 and $116, respectively.

Aside from receiving an extra paid holiday, the new agreement also increases the vacation bonus from a static $30 per week to as high as $50 per week if the vacation is taken in the "less desirable months" of the winter.

The total wage package provides a basic pay increase of 50 cents an hour in the first year and 12.5 cents an hour in each of the next two years. Also included is a cost-of-living allowance package that guarantees a minimum 12.5 cents per hour in the second year and a minimum 25 cents per hour in the final year of the contract. A formula allowing employes a 1-cent-per-hour increase for each rise of .4% in the Consumer Price Index is also included begining Aug. 1, 1972 in an arrangement that insures that no ceiling can be placed on the cost-of-living allowances. ■

Self-cover fund saved $5 million

SAN FRANCISCO—The self-insurance fund of the San Francisco International Airport has been saved $5.25 million but the city's taxpayers will have to dig up that sum to end airport noise.

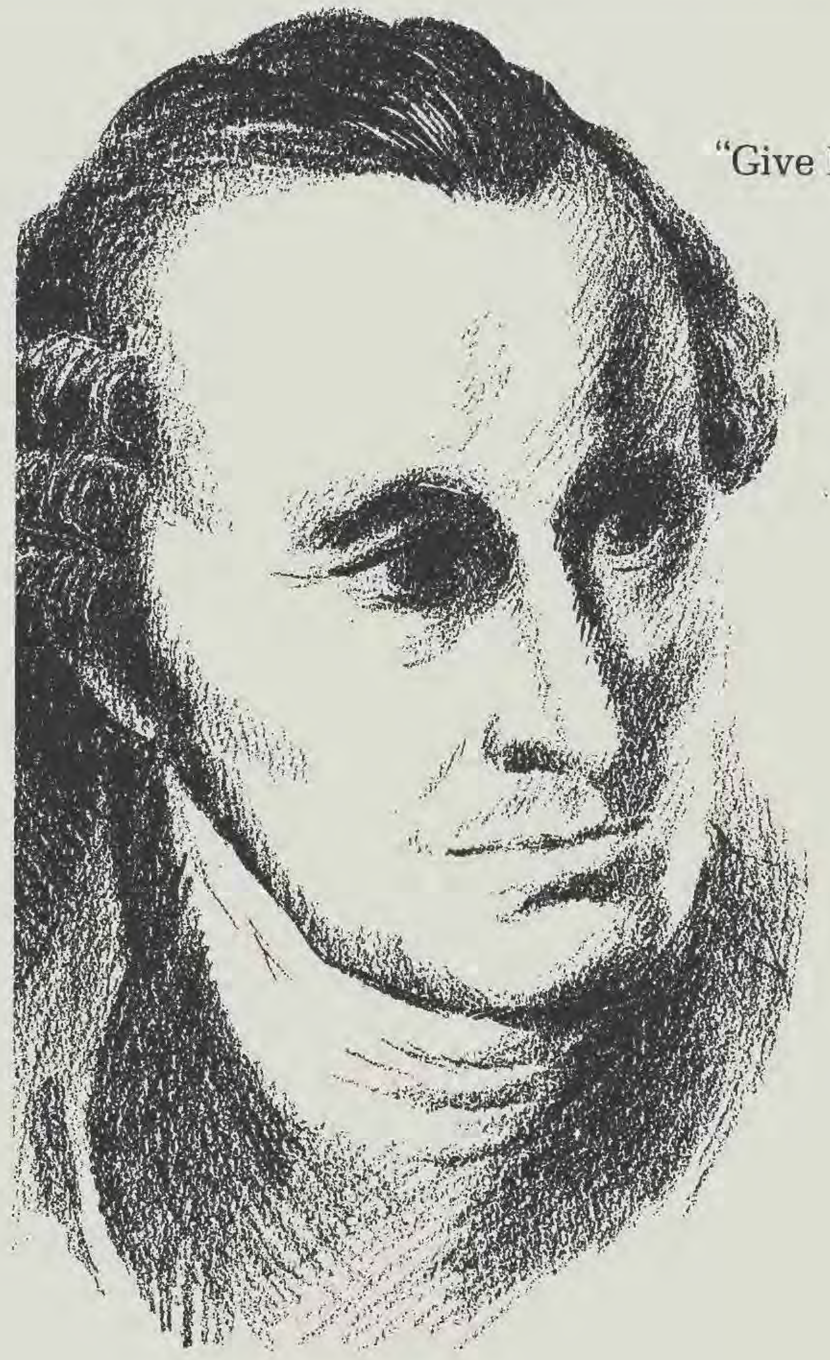
The Airports Commission this week approved an out-of-court settlement with 44 peninsula property owners who had sued the city over noise created by air traffic at the airport. No money was involved in the settlement, but the commission agreed to a five-point improvement program that will cost $5.25 million to reduce noise created by landings and take-offs.

Jerome Cohen, deputy city attorney, described it as a "landmark settlement in noise litigation in the U.S. Noise lawsuits have been won and lost, but this is the first case ever settled without damages being awarded to the property owners.

"DECISION of the property owners in this case to accept reduction of noise levels," Mr. Cohen added, "proves they were not interested in money but in getting a quieter environment for their homes."

Under the settlement, the commission agree to lengthen one major runway, approve different take off patterns, install an electronic noise and flight monitoring system, work on more flight patterns over water and fewer over land and to hold sound abatement meetings.

The agreement ended two lawsuits brought in San Mateo superior court by a total of 44 persons each asking $10,000 damages. ■



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Patrick Henry

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washington watch

Employe drug abuse costs American business 'at least $10 billion a year'

WASHINGTON—One of the most alarming facts about drug abuse is that a fully hooked heroin addict requires upwards of $60 a day to support his habit.

Equally alarming from the standpoint of a businessman—especially a corporate risk manager—is the thought that a drug abusing employe, even a so-called occasional user, can cost a corporation almost that much per day in absenteeism, turnover, decreased productivity, accidents, theft and interpersonnel and moral problems.

Only recently has some light been shed on the extent of drug abuse among U.S. employes—and preliminary findings are shocking.

A survey of 222 major U.S. corporations found that nearly two-thirds saw drug abuse as a major industrial problem, either now or in the immediate future. And, 53% had already discovered some form of drug abuse in their organizations.

LEWIS PRESNALL, a recognized expert in the field, estimates that the total cost to American business from behavioral problems such as alcoholism, drug dependencies, emotional disturbances, and severe family problems is at least $10 billion a year, and probably considerably more.

More than $4 billion results directly from alcoholism, he says, with drug dependencies making up a large share of the remaining $6 billion.

Mr. Presnall is the director of rehabilitation Services for the Kemper Insurance Group. He is also manager of the corporate alcoholism and other behavioral problems department of the National Loss Control Service Corp. (NATLSCO).

NATLSCO, as is Kemper Insurance, is a subsidiary of the Kemperco holding company. The almost-three-year-old operation offers corporations loss control engineering and behaviorial science help.

The irony of the huge losses suffered each year by the business community as a result of alcohol, drugs and other behavioral problems is that for a decade the knowledge has been readily available, and demonstrated in practice, that would enable business to extend the useful lives of employes and reduce these losses by a net of about 30%, Mr. Presnall contends. Stated another way, he says that a business can achieve an annual net saving of from $5 to $10 for each control dollar spent.

YET, he points out, not more than 250 to 300 corporations in the nation have done anything toward installing control programs. And, most of these are inadequate and concentrate almost entirely on alcoholism. Organized, progressive corporate programs for dealing with drug abuse are virtually nonexistent.

In May, 1971, the Kemper Insurance Group became the first major corporation in the nation to publicly announce a policy of non-discrimination in the hiring of rehabilitated drug addicts. (*Business Insurance*, May 24.) The action was taken after reviewing the rehabilitation success of the Illinois Drug Abuse Programs and was backed up by the hiring of a number of former addicts referred to the firm by the IDAP.

Kemper's basic attitude toward drug abuse is that, like alcoholism, it is a behavioral illness that can be successfully treated. The firm does not view it as a stigma, a sign of moral turpitude or weakness that can never be eradicated.

It is too soon to weigh results, Kemper says, but notes that its long-time progressive program toward alcoholism within the company has been "extraordinarily rewarding"—both financially in solving problems without terminating the employe and morally in knowing it has helped many employes free themselves from the alcoholism nightmare.

MR. PRESNALL points out that in dealing with corporate drug abuse there are two distinct areas of concern—first, the problem that arises when a current employe becomes drug dependent and, second, the question of whether to hire former drug addicts who desire employment.

In the first instance, Mr. Presnall notes that Kemper does not expect supervisors to ferret out alcoholic or drug dependent employes. "Such behavioral problems become readily apparent through decline in job performance and work patterns," he says, adding, "We do not feel that our supervisors are competent to diagnose and counsel employes having complicated behavioral problems."

He says Kemper treats substandard performances caused by drug abuse by locating and securing admission to appropriate community treatment centers. Full-time employes are covered by health insurance for such services, he notes.

If the employe is unwilling to seek treatment and his performance remains substandard, drug dependency is not an exception to the firm's "normal procedure regarding work performance." Kemper's policy provides that an employe convicted of illegal drug traffic is dismissed immediately. Employes trafficking in drugs on company premises or during working hours are terminated and reported to civil authorities.

DRUG intoxication during working hours subjects an employe to termination for cause; however, this penalty is not necessarily invoked on first occurrence depending on the seriousness of the offense, its standing under existing criminal law, the safety risk involved, prior actions related to work performance and medical considerations.

A common misconception con-

Continued on page 10

Mission Equities? One of those fancy insurance outfits? Baloney.

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Ask him. Also ask members of our other groups. They run the gamut from farmers to food dealers, and then some.

As you know, rates for group workmen's compensation insurance are set by law. But the greatest savings for you can come from extra services offered by us, the insurer.

Our individual Group policy preserves your group's Experience Modification (which rewards extra care on your part) but Group Specialized Services can make additional savings possible.

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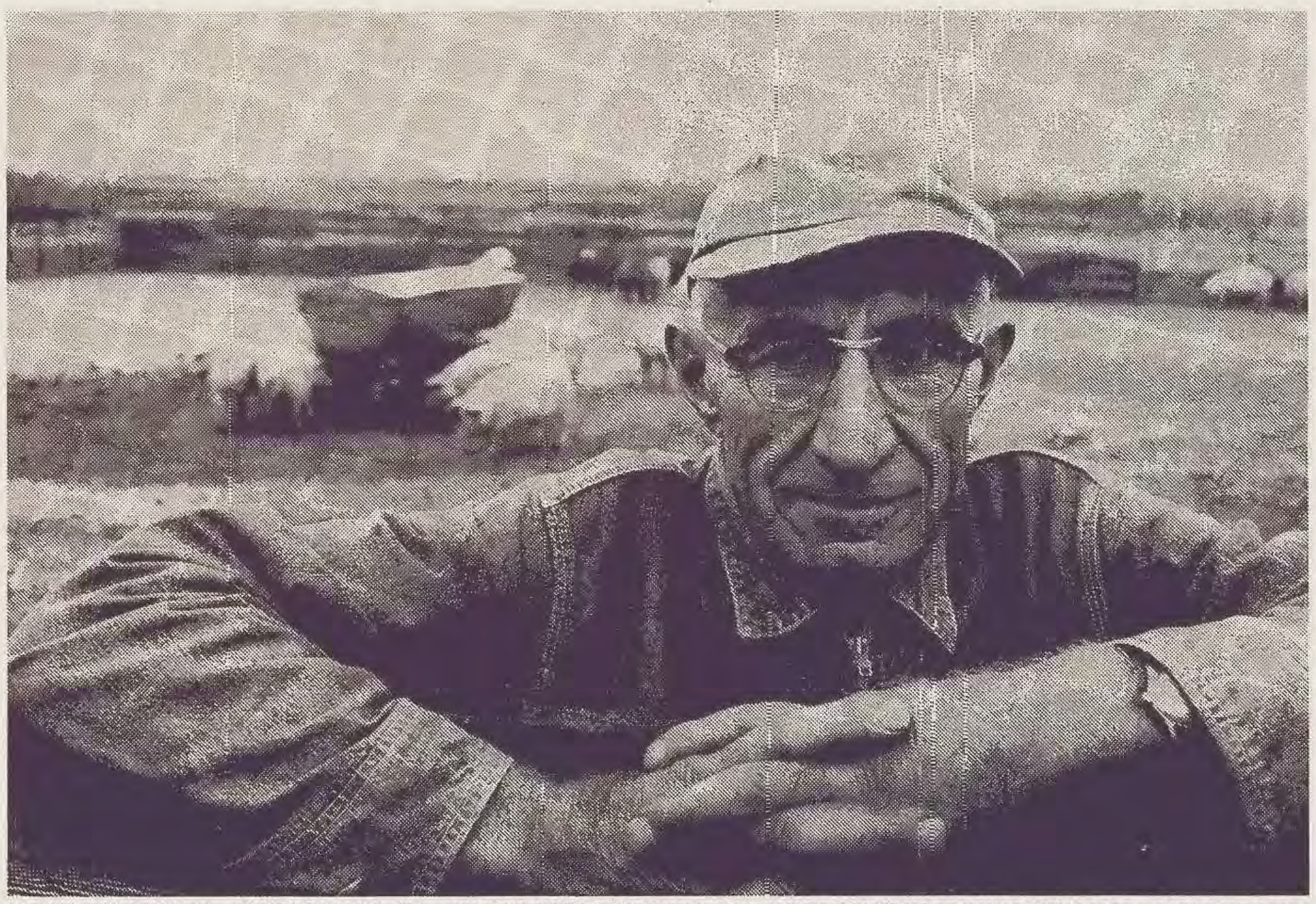

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Touchy Question #38

Rising health costs are a bitter pill. Do you just have to take the medicine?

In the past 20 years, health costs have been running away. Hospital costs have risen nearly 500%, physician's charges 90%.

In addition to inflation reasons, more and better services are being provided. But other factors have contributed to the spiraling cost.

For example, a university research study of 11,000 patients in 47 hospitals pinpointed wastage of health insurance benefits at over 6 million dollars. The principal waste areas included unnecessary admissions and hospital overstays.

We don't mean that a time-study man should lurk over bed patients.

Never.

What we do have in mind, however, is a group health cost control program which challenges the present trend.

It begins with our computer program.

The computer keeps track of every dollar you spend and how you spend it. You get written reports on this data, pinpointing your problems, finding dangers before they snowball, flagging the areas where your costs are out of line.

For example, this program helps to spot heavy bills; at which point we send them to people who know how to analyze them. (And how to negotiate them when they're too high.)

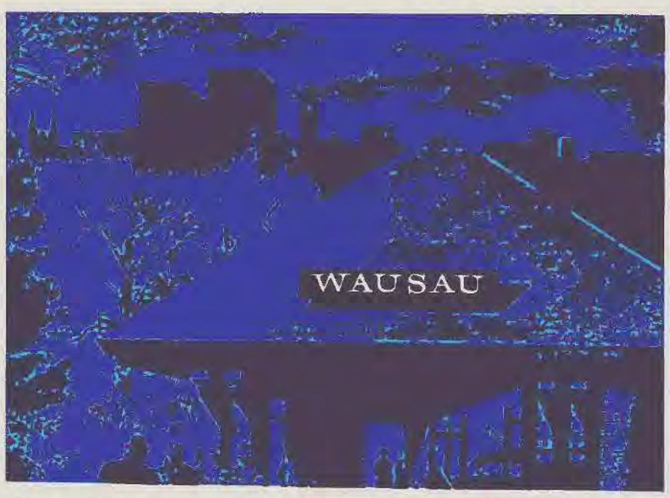
We've also discovered that it helps to make better use of out-of-hospital services, such as X-rays and lab tests. This eliminates unnecessary hospital confinements.

And it helps to make use of a deductible feature that concentrates dollar use toward the more serious health problems.

Admittedly, our group health loss control program is specifically geared to the upper premium brackets. This isn't intended to be snobbish. It is simply not possible to identify and control smaller groups effectively. The pattern is there, but it takes too long to emerge. And by the time it does appear, the control point has passed.

It takes a lot of sifting facts and figures for information that will mean something to you in this area, but if we do our job right, that leaves our client free to do his job right.

That's the Wausau Story.



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25 million Americans not covered by private pension plans, study says

WASHINGTON—A Labor department study has reported that 25 million Americans work for private employers who provide no retirement plans to supplement Social Security. Most of them, the study notes, work for small, non-union firms that pay low wages.

Reported just as the U.S. Senate labor committee opened hearings on company pension plans, the study notes that private pension plans now cover 30 million workers. Most of them are in companies that are organized by labor.

Noting that the survey, which was of 1968 employer expenditures, "shows how effective unions have been in pressing for the adoption of retirement plans since they became an issue of mandatory collective bargaining in the late 1940s," the study goes on to say:

"WITHIN THE private, non-farm economy, only 18% of the employes in unionized groups are without retirement expenditures (in their behalf), compared with 56% of those in non-union situations."

That is, more than 80% of the nation's unionized workers have some pension protection, while 44% of the employes in non-union shops are covered.

Noting that the size of the company has a bearing on the situation, the study also said that nearly 75% of the employes in firms with less than 100 employes are without company pension protection. On the other hand, it adds, in plants with 500 or more workers only 7% of the employes have no retirement plans.

The study also points out that pension plans are much less prevelant in lower paid industries.

FOR EXAMPLE, among unorganized groups with average compensation that falls below $2.50 an hour, less than 10% of the workers in those firms with 100 or fewer workers had pension protection.

The situation was summed up by the Labor department: "Workers who are employed in non-union establishments at relatively low levels of pay are the least likely to be participating in a retirement plan.

"Rapid improvement is effectively blocked by the poor economic position of many small firms. This situation is a matter of serious concern because these workers are among those least able to provide for themselves in later years."

Results of the study were published in the Labor department's magazine, Monthly Labor Digest.

* * *

EMPLOYES of the Minnesota Mining and Manufacturing Co. in St. Paul will receive a $30 million windfall to their pension program.

3M made some major changes in its pension plan in 1968, including a change from a previously contributory plan to a non-contributory system.

The $30 million windfall represents the amount contributed by workers employed by the company prior to 1968, the company said. ■

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Denenberg cuts group life minimun

HARRISBURG—In his continuing campaign to cut the costs of insurance for consumers, Dr. Herbert S. Denenberg, Pennsylvania's insurance commissioner, has announced a new regulation that permits insurance companies in the state to slash premiums on group life insurance.

In the past, insurers were required to follow arbitrary and, sometimes, excessive minimum premiums. Under the new law, the companies can use any minimum they desire, considering the interest factors, expense and probable mortality of the group.

The old regulation required that insurance companies charge arbitrary minimums during the first year of coverage on any specific group.

"Minimum rates, as previously required, were clearly arbitrary, excessive and anti-competitive," Dr. Denenberg said. "We are interested in bringing about competition to produce the lowest possible price for the consumer. We are interested in interpreting the insurance law to protect insurance consumers rather than to stifle competition and inflate premiums."

He also indicated that Pennsylvania-based insurance companies would benefit from the new regulation. "The new law will also favor Pennsylvania companies, because several states (New York, Ohio and Maine) force their insurance companies to charge arbitrary specified rates. This will mean Pennsylvania companies should be able to win in competition for new group cases," he said.

To illustrate his point, the Pennsylvania insurance department said that the yearly premium for a $5,000 group life policy, at age 25, had been $14.85 before the new law. That same coverage will now cost somewhere near $8.90. For an employe aged 55, life insurance that had a minimum tag of $97.75 will now cost closer to $58.65. ■

Hall acquires Boit, Dalton, Church

NEW YORK—In one of the largest insurance brokerage acquisitions of the year, Frank B. Hall & Co. Inc. has agreed in principle to acquire Boit, Dalton & Church Inc. of Boston.

The deal also includes Boit, Dalton & Church's operations in Providence, Pittsburgh and Los Angeles and is expected to be finalized by mid-month. The Boston-headquartered brokerage was founded in 1865. It is a multiple lines firm and employs 275 persons.

In another brokerage acquisition, Corroon & Black Corp. has bought Meneley & Ames Inc. with offices in Reno, and Tahoe City, Cal. ■

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Miami businesses need theft cover but rest of state is too good for it

MIAMI—Some metropolitan Miami businessmen and homeowners are complaining that a rising crime rate has made it impossible for them to secure theft insurance.

Yet state insurance officials won't support their request for federally subsidized insurance because the Dade County (Miami) problem is an isolated instance in the state.

They acknowledge that certain insurance companies have refused to underwrite regular crime policies in certain high-risk areas of Dade, as they have in other vulnerable regions of the nation. But they cite a study indicating that insurance availability is not a serious problem statewide—and they reason that any request for federal intervention should be handled at the state level.

MIAMI officials have asked for Florida insurance commissioner Tom O'Malley's support to make the county eligible under the new federal program, which permits rates ranging 30% to 40% below those of private firms. Nine states and Washington, D.C., already have qualified for the coverage since the program, administered by the Housing and Urban Development department, was enacted by Congress in December.

But Mr. O'Malley's office has refused to support the county request, saying that on a statewide basis the problem of insurance unavailability isn't severe enough to warrant such an appeal for federal help.

Ray Goode, Dade County manager, also has taken his request directly to George Bernstein, the federal insurance commissioner, asking to have Dade alone included in the federal program. But Mr. Bernstein replied that the program is available only on a statewide basis and he suggested that Mr. Goode keep Mr. O'Malley informed on developments.

Earlier, Mr. Goode had contacted the state insurance commissioner's office to see if it was applying for statewide eligibility. The reply was: "We recently made a statewide survey as to the availability of this insurance and found that, while there is some problem as to the availability in certain areas, the unavailability is not of sufficient magnitude to warrant either state or federal intervention." If the problem does worsen, Mr. Goode was advised, the request should properly be channeled through the state.

WHEN THAT TIME comes, Mr. O'Malley's office stated, legislation probably would be suggested requiring companies to participate in a statewide pool for crime insurance.

Questioned about the survey's findings regarding Dade, his office acknowledged that some insurance is difficult to secure. But it normally is available even in high-risk areas, insurance officials said, when the owner or occupant of a business or dwelling has adequate protective devices to inhibit burglars and robbers.

Mr. Goode was advised that crime insurance is particularly difficult to secure on jewelry in the Miami Beach area. "Also included is burglary, robbery and mercantile open stock insurance in run-down areas," said Mr. O'Malley's office.

"Businesses with merchandise that is not easily traceable and which can be disposed of readily also have difficulties in purchasing this coverage."

But unhappy Dade merchants and homeowners find that they will have to wait for the crime rate of the rest of the state to catch up with them before they can seek eligibility for federal coverage. ■

Wash Watch

Continued from page 4

cerning employe drug abuse, Mr. Presnall says, is that drug problems are confined to the young. This is just not true, he says, noting that company evaluation programs have demonstrated for nearly 20 years that drug abuse has long been a matter of serious concern among all ages and job levels.

"The employe is very often a supevisor caught in a Dexadrine-Benzedrine-Seconal cycle," Mr. Presnall points out.

As far as hiring former addicts, Kemper policy is not to discriminate against an individual because of prior record of drug abuse. On the other hand, Mr. Presnall stressed that the firm does not create special jobs or positions for the applicant or discriminate in favor of the former drug abuser.

THE COMPANY notes that it is under no illusion that it can absorb the large number of recovered addicts ready and able to work. However, it says it hopes to demonstrate the practicality of this approach, spurring other firms on to follow suit.

An immediate factor is that a rehabilitated addict has substantially above average intelligence, Mr. Presnall claims. The less intelligent simply do not survive the drug-crime jungle, nor are they motivated to join any drug program, he explains.

Mr. Presnall notes that all corporate managements have a program for handling alcohol and drug problems. Too often, however, he says the program goes something like this:

"The company will pay an economic premium to employes (and supervisors) for the successful concealment of alcoholism and drug dependence from the attention of management. This economic premium will be paid in job security, promotion opportunities and fringe benefits. When the employe's alcoholism reaches the stage when it can no longer be concealed from the attention of management, his services will be terminated." ■

Elects new leaders

San Francisco Insurance Women's Assn., has elected these officers for 1971 - 1972; president, Barbara Drolet, Karl Bach & Associates; vp, Josephine Segar, Towers, Perrin, Forster & Crosby; vp, Sandy Dameron, IMCO; recording secretary, Nancy Wetz, Pacific Coast Holdings Insurance; corresponding secretary, Mary Ann Altendorf, Richard N. Goldman & Co., treasurer, Mary Conduit, American Home Assurance Co.

FAIR plan controller

Samuel R. Nelson, formerly an internal auditor with Mission Equities Corp., Los Angeles, has been named to the newly established position of controller of the California FAIR Plan Assn.

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CHICAGO BROKER MAULED IN MARATHON

Chicago: It is reported that Broker, George E. Mildchap, will need several days of complete bed-rest to "unwind" from his fierce "FUTILITY" session. The six hour confrontation left the game little broker completely in knots. Except for several minor kinks, doctors expect him to fully recover in time for the next tournament. The spunky Mildchap was overheard to say on the way to the operating room, "Next time I'll even get past the rules! Today FUTILITY' tomorrow the World."

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If you're the only guy on your block who doesn't already have "FUTILITY, the Game of Buying and Selling Insurance - the Game Nobody Should Play" - complete and mail the coupon. We'll rush you a copy of our *only* amusement device.

FUTILITY BREAKS RISK MGR.

New York: RISK MANAGER, Charles M. Goodfellow, breaks down after landing 27 times on space "You accept your association's invitation to speak on 'the changing role of the risk manager during a capacity crisis and his alternatives in self-insurance and captive carriers to meet the challenge of the 70's and the ever larger demands of inner and outer space that we must face if we are to support the concept that there can be a twenty-first century only if we attract new capital to our industry'. Lose three turns while you try to be original".

FUTILITY CHAMP IS TOAST OF SECAUCUS JET SET !!!

Secaucus, N.J.: Ben Mongoose, All-Time "FUTILITY" champion player, is shown arriving for a 2-week sojourn in this picturesque village. He was awarded the all expense paid trip following his defeat of Tom the Turk in the "FUTILITY" Las Vegas Tournament. Many of the "smart money" boys consider Ben to be an outstanding contender for the "FUTILITY" Super-Bowl World Championship scheduled for February '72 at the ASIM Meeting in Montreal.

GAME INVENTOR APPLIES GENIUS TO CHALLENGING NEW CAREER

Hoboken, N.J.: Recent photo of Smedley Maelstrom, inventor of "FUTILITY" (the game nobody should play) hard at work at his newest endeavor.

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info for buyers

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

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

• **Equal Employment Opportunities in the Insurance Industry,** a monograph by Arthur H. Barnes, vp of the Consolidated Insurance Cos. manpower resources division, offers a reasoned, step-by-step program for the hiring and training of minority group members. The booklet is available, in quantities, from the company at 345 Adams St., Brooklyn, N.Y. 11201.

• Symposium Enterprises has recently published **Legal Considerations: Drug Abuse in Industry and Business,** by Sidney H. Willig. The book, $7.75 in soft cover, is intended as a companion to **Drug Abuse in Industry** by W. Wayne Stewart, and features sections on employer-employe relations as affected by drug abuse, the employe's rights, the employer's rights, plant security, and workmen's compensation and drug abuse. Copies are available from Symposium Enterprises, P.O. Box 356, 1460 N.E. 129th St., North Miami, Fla. 33161.

• **Preventing Office Accidents,** a pamphlet from the U.S. Department of Labor safety training programs, outlines the causes of most office accidents and enumerates ways to prevent them. Included are office safety checklists. Copies of the booklet are available for 15 cents each from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• Rentention Communication Systems, Inc. has made available a brochure describing its RCS module systems, cartridge sound and picture devices suitable for employe training and recruitment programs as well as employe benefit communications. The booklet is available from RCS, Two Penn Plaza, New York, N.Y. 10001.

• A wide variety of printed and filmed material for use during Fire Prevention Week (October 3-9) has been made available by the American Insurance Association. Two color, prize-winning films are offered—**The Visiting Firemen** and **The Science of Fire.** Numerous pamphlets, many suitable for use by children, outline tips on fire prevention for stores, industrial plants and homes and give explanations of the causes of fires. Order blanks can be obtained from the Publications Department, American Insurance Association, 85 John St., New York, N.Y. 10038. Three to four weeks should be allowed for delivery.

• The 1971 edition of **Analysis of Workmen's Compensation** Laws has been released by the government. The booklet offers a ready reference to the statutory provisions of the laws of the 50 states, the District of Columbia, Guam and Puerto Rico and Canadian provinces. Fourteen charts are provided to aid in locating specific provision of workmen's compensation laws. One to nine copies are $1.50 each, rate reductions are available in larger orders. The booklet is available from the Chamber of Commerce of the United States, 1615 H Street, N. W., Washington, D.C. 20006.

• Marshall and Stevens Incorporated Appraisals has made available **What is Value?** a booklet and film presentation. The question of value is increasingly complex. Actual cash value, fair market value, reproduction cost, original cost, book value and tax basis have distinct connotations. The folder defines each concept of value and its proper use for business purposes. The 25-minute slide presentation defines and illustrates the proper applications of the various kinds of value for business transactions. A representative of your nearest Marshall and Stevens office will make the presentation to your professional or management group upon request. For more information and a copy of the booklet write John Heath, Vice President, Marshall and Stevens Inc./Appraisals, 1645 Beverly Blvd., Los Angeles, Cal. 90026.

• Optronix Inc. has published the **Applications Manual for LITE-LINK All-weather Infrared Intrusion Detector.** The manual describes a new false alarm-free outdoor perimeter intrusion detector which operates in rain, snow, or heavy fog. For a copy write R. E. Gray, Manager, Security Products, Optronix Inc., 3001 Copper Rd., Santa Clara, Cal. 95051.

• American District Telegraph Co. has released **Protecting Life, Property and Profits.** The 38-page illustrated book describes its protection services against fire, burglary, holdup and other hazards and the ADT central station which is the nerve center of its protection services, the sprinkler supervisory and waterflow alarm service, the automatic fire alarm system, smoke detection and alarm service, burglar alarm services for premises, ultrasonic and intrusion detection alarm services, camera surveillance system, and industrial process supervisory service. The book also contains a list of the ADT sales offices in the United States. For a free copy write H. L. Reed, American District Telegraph Co., 155 Sixth Ave., New York, N.Y. 10013.

• **Group Accident Insurance Plan** is a brochure by Bankers Life and Casualty explaining their complete accidental death and dismemberment plan for salaried employes and their families. For a copy of the booklet write Don E. Packard, Bankers Life & Casualty Co., 4444 W. Lawrence Ave., Chicago, Ill. 60630.

• A checklist to prevent the major problems of fuel shortage—the interruption of processes, frozen tanks and pipes, costly water damage, and impaired fire protection are provided by Improved Risk Mutuals in **Fuel Shortage Predicted.** For a copy write S. G. Johnson, Improved Risk Mutuals, 15 N. Broadway, White Plains, N.Y. 10601.

• Haws Drinking Faucet Co. has released a 60-page safety equipment catalog containing their latest designs in decontamination equipment, including eye-wash and eye/face-wash fountains, drench showers and complete decontamination stations. It also features new stainless steel and plastic decontamination stations for use in highly corrosive atmospheres. **Catalog of Emergency Drench Shower & Eye/Face-wash Equipment** is available free of charge by writing R. D. Jonathan, Haws Drinking Faucet Co., 1443 Fourth St., Berkeley, Cal. 94710.

• The Employers-Commercial Union Cos. has published **Spectrum Uni-plan** which is a kit describing their mass marketing plans for medium and large companies. The kit includes leaflets on auto, home, life and health insurance and financial planning and sample personnel poll and membership charge card. For a copy write Augustine Eovine, Advertising Manager, Employers-Commercial Union Cos., 110 Milk St., Boston, Mass. 02107.

• **Perim-alert Perimeter Protection System** is a booklet containing specific product information on perimeter protection systems. Applications and descriptions of equipment versatility are portrayed with complete specifications on all product components of the Air Space Devices company. For a copy write Bob Yerxa, Air Space Devices Inc., P. O. Box 338, Paramount, Cal. 90723.

• Combined Insurance Co. of America has released the revised edition of **Insurance and the Association.** The booklet describes the firm's approach to tailoring its programs to meet special trade and professional association needs in providing long-term disability, hospital indemnity and life insurance. For a copy write Hal Laurence, Advertising and Sales Promotion Dept., Combined Insurance Co. of America, 5050 N. Broadway, Chicago, Ill. 60640.

• The Equitable Life Assurance Society of the United States has released a booklet describing dependent group life insurance available under a group insurance policy. **Touching Home Base with Dependent Group Life Insurance** is available, free of charge, by writing Group Sales Promotion, Location, 24-E, The Equitable Assurance Society of the United States, 1285 Avenue of the Americas, New York, N.Y. 10019.

• **How Well Will They Live** is a booklet by Provident Life and Accident Insurance Co. explaining monthly benefits payable to surviving spouse and children under the Provident group insurance plan known as Group survivor income insurance. The brochure also includes graphs and easy to read table . For a copy write Group Special Services Dept., Provident Life and Accident Insurance Co., Provident Building, Fountain Square, Chattanooga, Tenn. 37402.

• Air Control Systems Inc. has made available specification sheets of their automatic telephone dialers describing uses of the equipment as part of alarm systems. The Automatic Telephone reporting device can communicate emergency information by voice recorded tape to the proper authorities, or a different style device that can be remotely activated by a pocket sized radio transmitter. For the information write Leonard Umanoff, Vice President, Sales, ATA Control Systems Inc., 340 W. 78th Rd., Hialeah, Fla. 33014.

Bar Assn. learns how to halt equity estoppel

NEW YORK—Referring to what he called "the classic equity estoppel," an attorney speaking to a meeting of the American Bar Assn. advised insurers on how to avoid denying a claim for a specific reason and losing the right to later cite other reasons for rejecting the claim.

"The denial of a claim for a specific reason may preclude the later assertion of different (albeit valid) reasons not to pay," said Henry G. Eager to the fidelity and surety committee of the section of insurance, negligence and compensation law.

Mr. Eager put forth a variety of ideas for use in discussion with company claims departments:

• "Keep your rejection letter as close as possible to the pertinent policy language.

• "Although less than 99.9% safe, your letter should contain some general language such as, 'This letter is written without waiver of or prejudice to all of the other rights, defenses or contentions which are also available to us.' This language should be communicated in written form.

• "If a new defense is discovered before suit, seriously consider writing another letter to the insured or, at least, advise him orally. Verbal notification of refusal is theoretically acceptable but ill advised because of difficulty of proof at trial and because of the insured's arguable right to receive a written statement of refusal.

• "If you decide to defend a doubtful coverage matter, don't be afraid to insist that the insured first sign a non-waiver letter agreement. This is almost foolproof and what can he lose if the legal status quo is preserved for both of you.

• "If you seriously deny coverage, offer to refund all of the insured's premiums plus interest.

• "In litigation, always keep abreast of these essential issues: your knowledge of the true reason for non-payment, the insured's capability otherwise to have corrected or supplied the omission, his reasonable reliance on your specific rejection, and the corollary that a valid contract must legally exist independently and apart from any estoppel."

He said that a verbal disclosure to the insured's attorney before suit could replace an earlier denial and thus halt any application of the estoppel. This is just one of the many well-defined limitations that the estoppel doctrine is subject to.

Another point that he touched on was the fact that the doctrine does not apply unless the insurer has knowledge of all the relevant facts or has the means to learn them at the time of denial.

"However, when later acquired, any new facts should be timely passed on to the insured in order to steer clear of an estoppel," he warned. ■

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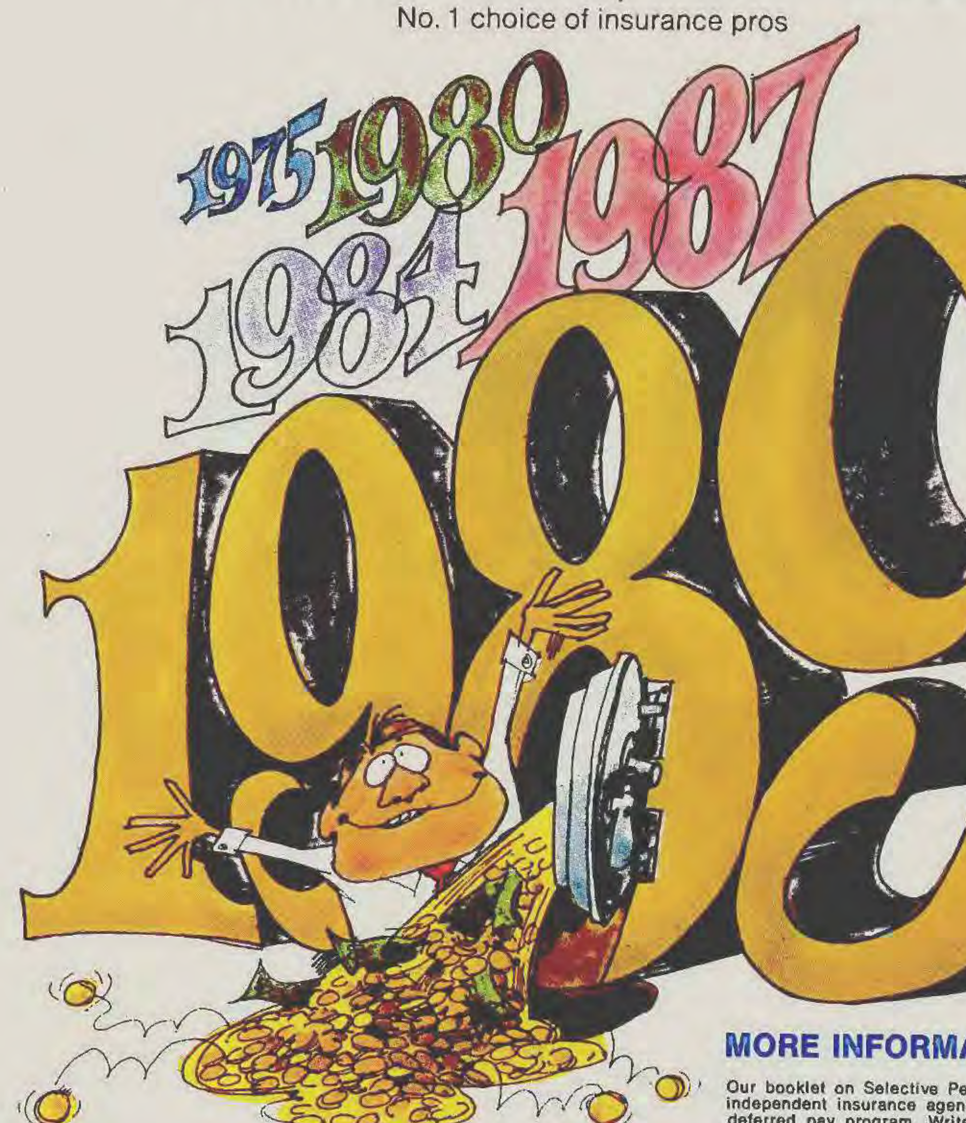

MORE INFORMATION?

Our booklet on Selective Pension Plans shows how your local independent insurance agent could install a tax-favored deferred pay program. Write: Mr. B. MacKay, Continental Assurance Co., 310 S. Michigan Ave., Chicago, Ill. 60604.

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O'Malley sues First American for $5 million

MIAMI—Florida's insurance department has filed a $5 million-plus damage suit against officers of the defunct First American Insurance Co. of Miami and others accused of conspiring to extract illegal profits from the firm.

The suit, filed by Tom O'Malley, insurance commissioner, in Miami circuit court, asks $5 million to cover claims he said have been made against the insolvent company. Mr. O'Malley also is demanding punitive damages, claiming that officers converted company funds to their own benefit, falsified books and records and concealed others. The suit contends the officers also reported assets the company did not own.

Mr. O'Malley alleges that practically worthless stock—for insurance company purposes, at any rate—was pumped into the firm to give a false impression of solvency.

A LONG SERIES of defendants, both individuals and corporations are named in the commissioner's action. Several promptly denied the charges and any allegations of improper conduct.

Defendants include Michael Brumer, Edward A. Moss and Richard Fuller and their Miami law firm of Fuller, Brumer, Moss and Cohen. Mr. Brumer was identified as a former director of First American, Mr. Moss as its general counsel and Mr. Fuller as a director of Atlantic Holding Co., which the commissioner said purchased control of the insurance firm.

Other former officers or directors named were Berthold Danziger; his son, Stanley, and daughter-in-law, Joy Danziger; Aubrey Ross; James Currid; Frederick Gilmore and Ted Finkel.

The suit also named as defendants Atlantic Holding Co., charged with acquiring First America control although it failed to qualify as an insurance company purchaser; the stock brokerage firm of H. Hentz and Co. and its agent, Sanford Rywell; the Bank of Kendall (Fla.); American Premium Finance Co.; GRC Corp, an insurance premium company operated in Gulf Breeze, Fla., by Currid and Gilmore; and All-Florida Rent-A-Car Inc., which the suit claims was utilized to divert First American funds to Stanley Danziger, Mr. Moss and Philip Kitzer.

MR. KITZER, who was closely connected with the failure of American Allied Insurance Co. of Minnesota in 1965, was not cited although insurance department officials identified him earlier as a principal in the First American collapse.

"He was not an officer or director of any of the corporations except the car company," said department counsel Tom Waddell, "and he is out of the state." Mr. Kitzer was reported to be in Texas.

L. A. (Skip) Bafalis, former First American president and unsuccessful gubernatorial candidate, also was missing from the list of defendants. Although his campaign suffered from bad publicity resulting from the insurance company's demise, "he was not involved," in the financial maneuvering, according to Mr. Waddell.

The suit sketches a complex tale of intrigue.

Berthold Danzier is accused of entering into an agreement with Atlantic Holding Co. to sell them his controlling interest in First American and American Premium Finance. Then, without insurance department approval, $25,000 worth of premium payments due First American were turned over to the Fuller, Brumer, Moss and Cohen firm.

ACCORDING TO the suit, Mr. Brumer then opened a stock account with H. Hentz and Co. whose agent, Sanford Rywell, later liquidated First American's stock on instructions from Mr. Brumer.

Executing that sale cost First American $120,000, the suit said.

Next, the suit alleges, the $128,000 received from the stock sale was transferred from First American to American Premium Finance. In exchange, American Premium turned over to First American 60,000 shares of Comutrix Corp. stock. Although a report to the insurance department valued that stock at $144,628, department attorneys said the stock was "restricted as to transfer" and therefore unacceptable as an insurance company asset.

The suit describes the entire transaction as "part of the scheme and plan to justify the diversion of funds . . . due First American and deposited to the account of Premium."

Mr. O'Malley outlined a second charge, involving an agreement he said was "devised, executed and planned to defraud the policyholders, claimants, creditors and stockholders of First American." The suit claims that Messrs. Brumer and Ross, acting for First American, designated Interstate Agency Inc. of Louisiana as the insurance firm's agents for sales everywhere outside Florida. In exchange for an $800,000 promissory note from Interstate, First American issued $1.4 million in surplus certificates to the Louisiana company.

NOW THE STATE department charges that the mortgage used to secure Interstate's promissory note "was considerably less" than reported to the department.

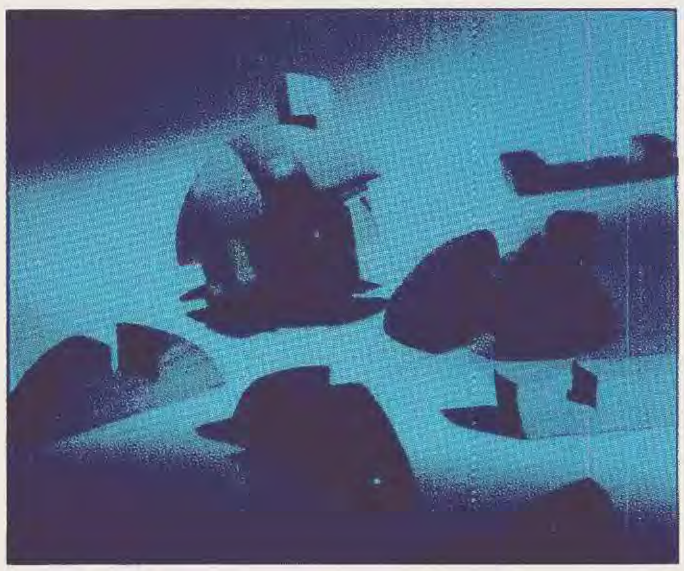
The department also charges that First American issued $262,000 in worthless bonds without its approval, and that as early as February, 1969, the Danzigers "in conspiracy with others falsely and fraudulently executed a scheme to further convert assets due to First American."

On that date, the suit says, American Premium began collecting premiums due First American, although it had no authority from state insurance officials to do so.

Mr. O'Malley's department contends that approximately $227,000 was diverted through American Premium. It specifies that $151,000 was diverted to Berthold and Stanley Danziger, $2,300 to Mr. Ross, and another $81,000 to other unauthorized persons.

HOWARD DALE, president of the Bank of Kendall, said his bank would reply to the state allegations within 20 days. "They can file anything they want to," he said, "but that doesn't make it so."

The bank was named as a defendant for "contributing to the scheme and conspiracy" by honoring the endorsement of Mr. Ross on checks totaling $128,000 transferring First American's funds to American Premium. ■



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Pollution liability woes may well be worsening

NEW YORK—The continuing research into the environment and its state of affairs may well cause pollution coverage problems for insurance companies, according to Thomas J. McGeough, an attorney and manager with the Royal-Globe Insurance Cos.

The future may provide cases "where the offender is totally unaware of his offense," Mr. McGeough told a meeting of the section of insurance, negligence and compensation law of the American Bar Assn. He said that, in such cases, he did not know what would happen with liability protection but that the industry is keeping a close watch.

In his speech, Mr. McGeough pointed out, "Liability coverage for actions involving environmental damage is now available only where pollution is a result of a sudden and unforeseen event."

MAKING A distinction between insurance and pollution, he explained that the reason for this is that "pollution is usually thought of as non-accidental or intentional and insurance is thought of as related to the sudden, hazardous events in life."

He felt that it then followed that "the entire issue of liability coverage for pollution can be reduced to the simple question: is it an accident or is it an injurious exposure to conditions which resulted in bodily injury or property damage neither expected nor intended by the insured? With so simple a question, there are bound to be problems," he said.

"Most cases involving actions for environmental damage are not covered by the standard form liability policy," he noted.

While he did point out that the polluters would not be covered if they knew they were polluting, he added that that fact is sometimes difficult to ascertain.

"DETERGENT manufacturers were unaware that the drainage of household wash water into rivers, streams and lakes would have a disturbing effect on our ecology. With the expansion of the concept of foreseeability as witnessed in product liability litigation, it is not difficult to visualize the possibility of the imposition of liability upon the detergent manufacturers for such damage."

He could recall no decisions on this point, but he believed that "the court, by finding liability because of foreseeability, has also established that the damage was reasonably expected by the insured, and coverage would be denied."

Mr. McGeough also felt that the parties involved in pollution litigation were a matter of concern. He noted that pollution cases usually involved a class action on one hand and numerous defendants on the other.

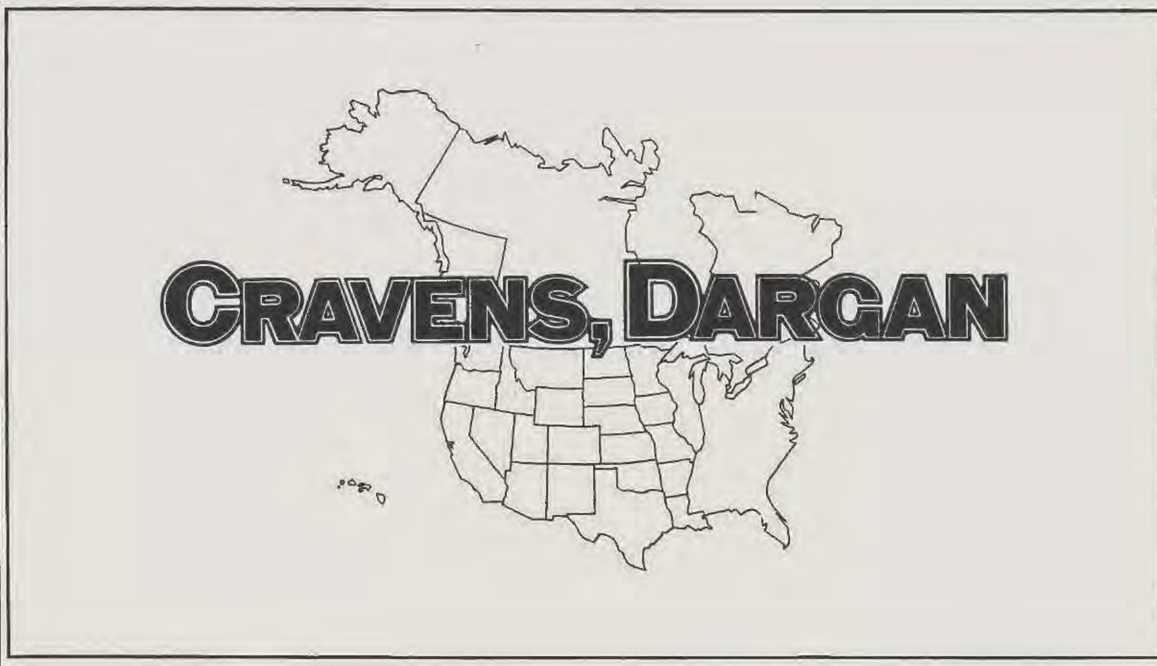
"If several plants are discharging contaminating effluents into the air or water, does the insured who joins in reasonably expect or intend that his effluents are causing damage?" he asked. "If the Hudson River has been polluted for several years, is the company which is knowingly dumping contaminants into the river since last month responsible for the pollution?

"The question is somewhat like the one of the motorist who happens upon an accident scene and runs over the body of a pedestrian who was killed earlier by another motorist. Is motorist number two responsible anyway?"

Regarding oil pollution specifically, Mr. McGeough noted the insurance industry's adoption of the Insurance Rating Board endorsement, which excludes coverage for oil spills regardless of whether they were done accidentally or not. ■

No candles on stage

Dancers in the Joffrey Ballet of New York were upset when they were told they could not use genuine lighted candles or flaming torches in their performances in the Coliseum Theatre in London. Fire prevention officers from London's city hall said they must be satisfied with battery-lit substitutes.



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BI 8-30

opinions

Nixonomics clarified

IN THE WAKE of President Nixon's momentous economic message a number of *Business Insurance* readers called to get clarifications of what impact his rulings had on purchases and renewals of insurance. Among the sticky questions were these:

- Can an insurer increase the premium on a commercial insurance policy that comes up for renewal during the 90-day wage/price freeze?
- Will a 10% tariff surcharge be placed on insurance purchased or renewed with Lloyd's or other foreign insurers during the freeze period?
- If a group medical insurance program was renewed on Aug. 1 but not yet billed, can the insurer charge a premium rate higher than that which applied to the lapsed policy?

To get the answers to these and other questions we went first to the public affairs office of Treasury Sec. John Connally, President Nixon's "chief economic adviser." That department referred our questions to the Office of Emergency Preparedness where encountered a scene out of George Orwell's "1984."

The first call to an OEP number brought an ominous "tick, tick, tick" sound that suggested that perhaps a disappointed wage earner was attempting to sabotage the whole Nixon program. Our next call brought this response: "I'm sorry but the number you have called is not in service. This is a recorded message." For a moment at least we thought that perhaps the Nixon Administration thought better of changing the "game plan" and had shut down OEP.

The day was saved by a knowledgeable spokesman for the President's Council of Economic Advisers who answered our questions by citing the philosophy and principles behind the Presidest's wage/price freeze order. Explaining that the President's program calls for "good citizenship and honest interpretation," the economist made these points:

- While the freeze order imposes an obligation on insurers to maintain rating levels at the July-August average, it does not preclude an insurer from modifying the premium level on any custom-rated commercial risk. All that is resuired is that the rating standards applied be those in effect in the 30-day period prior to Aug. 15.
- No tariff surcharge would be applied to coverage purchased from Lloyd's or other foreign insurers because such coverage was not a "dutyable" import prior to the President's message.
- It makes no difference that an insured employe benefits program had not been billed prior to the President's message. The insurer would be permitted to increase the premium rate on the group risk provided that the modification is consistent with July-August rating levels.

The economist granted that "risk facts" must be taken into account when premium levels are determined for insurance policies. But this, he said, "is when administration of this program becomes hairy."

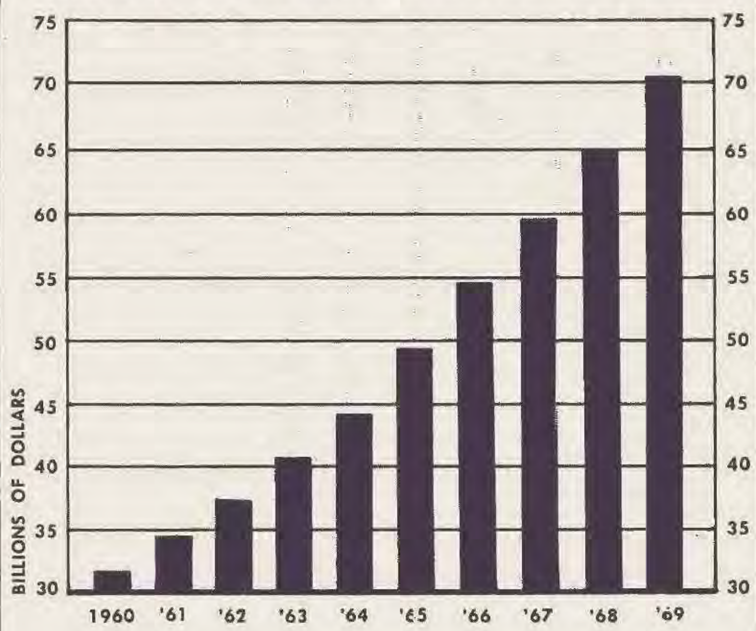
We are encouraged that the Council of Economic Advisers and the President recognize the unique nature of insurance service, particularly the insurance of jumbo risks. An insurance policy is a pledge to pay for the consequences of events that may or may not occur during the period the policy is in effect. Therefore an insurance company in making a pledge to pay for circumstances that may arise a year or even three years or more from the date a policy is issued.

In this sense an insurer is quite different from, say, an appliance dealer who sells items at the going market price and bears no further liability except for the possibility of a defect in workmanship or a product liability claim arising out of the use of the product (and is such an event the claim is often covered by insurance).

Prior experience of a commercial risk must be taken into consideration in the pricing of any insurance policy, new or renewed. Only in this way can a commercial risk be assured of paying a fair price for insurance by getting credit for sound management of a penalty for being a poor risk.

While the Administration earns some credit for understanding the uniqueness of the insurance mechanism, it deserves little credit for the confusion that attended the President's message. Surely the Nixon team didn't dream up the new "game plan" over the weekend at Camp David. Somebody somewhere in the Administration should have been ready with coherent answers to questions that were bound to arise about the extent and application of the wage/price freeze. Instead the entire nation was subjected to the "tick, tick, tick" and disconnected telephone numbers reminiscent of "1984," which may be nearer than 13 years aways.

GROWTH IN U.S. BUSINESS INVESTMENTS ABROAD



Equity values of U.S. foreign investments reached $70.8 billion in 1969, more than doubling in a decade. The figures in the chart are based on information from 1 200 U.S. sample companies that represent approximately 80% of the total investment and capital flow abroad. With the annual increase in foreign investment averaging about $5 billion in the past few years, additional responsibility has been placed on risk managers to provide adequate property and liability protection for foreign operations, and on employe benefits administrators to tailor programs to fit employes assigned to foreign installations and those aired in foreign countries.

Source: Office of Business Economics, U.S. Department of Commerce.

Needed rule

A PROPOSAL has been made by the Department of Transportation's bureau of motor carrier safety that owners of commercial vehicles used in interstate commerce be prohibited from removing factory-installed safety equipment required by law.

The rule would apply only to commercial vehicles operated across state lines and not to privately owned vehicles. We think the rule is sensible and that perhaps it ought to be applied to privately operated vehicles by state governments.

Seat belts, adequate lighting and other safety systems and parts have been designed and made mandatory to protect man from his own carelessness. The greatest carelessness of all is to remove safety equipment or to modify it to defeat its effectiveness.

When the new rule was proposed we were reminded of a worker for the City of Chicago who told us that foremen in many city departments remove the third (or ground) wire on electrical equipment because "it gets in the way." Because the city keeps no worthwhile record of its work accidents there is no way of telling how many city workers have been maimed or killed by equipment that lacked a ground wire.

Safety systems on vehicles and other equipment that are required by law are typically only the most basic items needed to protect operators and the public. There is good reason to require that once such equipment is installed it be kept in good condition by those who operate the vehicle or appliance.

Fleet safety supervisors and their superiors in the corporate structure ought to wholeheartedly support the proposed rule of the bureau of motor carrier safety. Such a rule can only serve to save the lives and limbs of truck drivers and members of the public they encounter in the billions of miles they drive each year. Furthermore, regular use of factory-installed safety equipment can have a significant impact on the insurance experience of commercial motor fleets.

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letters

(This column is a readers' forum. Letters are welcome. Address: Letters to the Editor, Business Insurance, *740 Rush St., Chicago, Ill. 60611.)*

Unsound underwriting

To the Editor: I have read with interest in the June 21 issue of *Business Insurance* the article, "Boston church didn't turn the other cheek when insurance was dropped," by Susan Trausch.

I think that this article certainly pointed out some of the problems facing those of us in the insurance business in light of today's troubling property market.

On the one hand is the Insurance Co. of North America with a half million dollar multiperil policy, in all likelihood enjoying substantial discounts off manual with a premium of slightly over $2,000. On the other hand we find an institution in the community which was attempting to meet certain social needs of the community as it, the institution, sees an obligation to perform.

However, I think that at some point in time the realization of the basic underwriting principle has to be taken into consideration. That consideration being the premium adequate for the exposure involved. In our system of economy today, government has not completely taken over insurance and for the present, the majority of indemnity is done to a large degree on the principle of premium to exposure on the "spread of the risk" basis.

To defend INA, or the basic principles of our industry would be at best an exercise in futility. What is more distressing to me is the tone of the article which would indicate that INA had an obligation to the insured over and above that of any normal risk-taking facility. The condemnation which comes out in the article is not fair to the industry or to INA. They are still a free enterprise corporation and have the same duties to their stockholders as any other corporation with a service to perform.

For too many years the insurance industry has attempted to provide its product inadequately priced due to the pressure of both the buyer and the competitive nature of our business. As a result of this unwise pricing, the marketplace today is in chaos. I would imagine that this chaos will continue until the basic philosophy of insurance, that made our industry great many years ago, returns as a philosophical approach in the underwriting departments of the various risk taking organizations. I am not a fan of mass cancellations, punch-and-judy underwriting, or dealing with second-rate mathematicians who call themselves underwriters. I do believe that there is a basic philosophy of insurance which has proven through the years that there is an adequate rate for any exposure and when we return to that philosophy perhaps some of the multitude of problems we are faced with will be solved.

I know after subscribing to your magazine for several years that the pressures on the insurance buyers are increasing day by day. I further know that you too are supporters of sound insurance underwriting and it is only through cooperative efforts on the part of the buyers and the industry that we shall solve our mutual problems.

Picking out isolated instances

Continued on page 18

The top 100 companies in the United States didn't get to be the top 100 companies by dealing with anything less than the best.

And of the top 100 companies, a majority feel that American International Life is the best when it comes to international employee benefits. They call on us for their group life insurance, group medical insurance, third country national programs, pension plans, voluntary payroll deduction, group accident and travel.

The truth of the matter is that the American International Life Assurance Company of New York and its affiliated overseas companies, without fanfare, with a minimum of noise, have become the largest insurance organization in the world for international employee benefits.

How did we do it? We did it by providing the top companies in the world with the most complete international employee benefits program they can find any time, anywhere. We did it by covering 130 countries and doing a lot more than speaking the language of these countries. We did it by dealing in local currency, local service, and by training local people to understand employee benefits plans. In fact, we are the largest single source for international life insurance information, service and claims.

In England, for example, A. I. Life provides group life on the United States' third largest bank. In Argentina, one of the top 5 insurance companies in America calls on us for their group life programs. In the Far East, we provide group life and medical for one of the world's largest international oil companies.

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letters

Continued from page 16

such as the one on the Boston church, however valid the particular customer's complaint may be, only reflects the communication gap between the segments of the industry and does little to solve the problem. We both know INA is too fine a company to have been as guilty of the sins as indicated in the article.

Don Tullis
Don Tullis & Associates Inc., Jacksonville, Fla.

'Puzzling'

To the Editor: Your editorial, "Readers' mandate" in the July 19 issue is a puzzling and misleading collection of comments regarding the automobile reparations problem.

We have no trouble understanding the desire of corporate insurance buyers for a single, countrywide plan which would eliminate the discomfort and complications of dealing with the variables of a number of state plans. Among the companies which will have to implement disparate state systems, there is some of the same longing for the simplicity of one national plan. However, most companies, at least the majority of those who are members of the National Assn. of Independent Insurers and the American Mutual Insurance Alliance have set aside the advantages of uniformity and have assigned much more importance to the need to find out, by means of experimentation with various plans, what the public reaction really is and what these plans cost in real life.

The puzzling part of your editorial is that you assume a sure knowledge by someone, somewhere, of what a uniform plan should provide. Such infallibility was not claimed by Sec. Volpe after two years of intensive study by the DOT staff. Instead, Mr. Volpe proposed that the states move promptly to experiment with reform plans which expand the use of first-party, no-fault coverages but which avoid radical, irreversible changes. He noted that "there remains much legitimate uncertainty about how far and how fast the public wants or is willing to go" in changing the present system. He also said there exists "genuine and warranted' concern as to the "unknown and essentially unknowable price and cost implications of any major change in the system."

The information which is needed for a reliable blueprint of national change effected at the state level should come from Massachusetts, Florida, Delaware, Illinois and other states where reparation reform is tried.

The misleading part of your editorial is its reference to the Illinois Plan as "nothing more than a system of advance payments" which "will result in higher costs for consumers." "Advance payments," as we understand the term, are payments made to third parties for whose injury the policyholder is thought to be liable. In contrast, the Illinois plan requires that private passenger automobile policies provide *first party* benefits at a level which will pay all of the economic loss resulting from more than 95% of automobile injuries, including those sustained by pedestrians.

The additional cost of these required benefits may be more than offset by the reduction in payments for noneconomic loss (i.e., "pain and suffering") on minor cases. This reduction is badly needed because without it small cases tend to be grossly overpaid under the present system. To determine whether the noneconomic loss limitation effectively removes lawyers from many claim settlements, it might be worth your while to investigate, on behalf of your readers the result so far in Massachusetts where a slightly different limitation has been in force since Jan. 1 of this year. You will find, I am sure, that plaintiffs' attorneys are far from doing business as usual.

You say that 57% of your survey respondents favored "a modified no-fault system with direct first-party payments to injured parties up to a certain amount, but victims would retain the right to sue." This we think is an accurate description of the Illinois plan.

We, too, are encouraged by the fact that 33% of the respondents favored reform measures which "embody an equalizing liability factor that would take into consideration the greater potential for damage of large commercial vehicles." Contrary to your following statement this objective is achieved in Delaware, Massachusetts and Illinois by the transfer of first-party losses from the carrier which insures the liable driver. Thus, in the many cases for which the commercial car operator is responsible, both the first-party benefits victim will be paid by him or his liability carrier. This loss transfer will be accomplished by intercompany arbitration, using roughly the same mechanism which has functioned so effectively and inexpensively for collision losses over the years.

We realize that there are other ways of applying what you call an "equalizing liability factor." One such way is the incredibly complicated system proposed by Professor Keeton. We are at a loss to understand why he and others suggest a different, untried system in place of one which had demonstrated its effectiveness for collision losses.

You report that 38% of your respondents favored adoption of a system similar to the Magnuson-Hart Plan. We assume that this was one of the earlier versions of this plan, not the second revision which was unveiled late last month. This latest effort should be rejected out of hand by you and others who favor "an equalizing liability factor" because it drops altogether the special treatment of commercial vehicles and lets nearly all first-party losses lie where they fall. The commercial car quandary is one from which no all-out no-fault planner has been able to extricate himself. Deep in this quandary are the AIA, ex-Superintendent Stewart and the Hart draftsmen. To hold commercial car operators strictly liable, as some have suggested, is to incur righteous wrath from that side. To exempt the commercial car operator altogether, as the Magnuson-Hart bill now does, is sure to incur the equally righteous but much more voluminous anger of passenger car operators. The quandary is one which does not exist in the Illinois plan and need not exist anywhere except for a fanatical determination to emasculate the tort liability system.

H. A. Lansman
Executive Vice President,
Lumbermens Mutual Casualty Co., Chicago, Ill.

Liability exemption

The Massachusetts state legislature has passed a measure exempting charitable, religious and educational organizations from liability for negligence. The bill, originally sponsored by the Massachusetts Hospital Assn., also limits liability of hospitals to $25,000. Massachusetts courts, in 1876, were first in the country to establish charitable immunity.

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compensation trends

Risk-free stock purchase plan gives Cooper employes time to decide

HOUSTON—Cooper Industries Inc. is offering employes a risk-free stock purchase plan. It is open to all workers—salaried and hourly, union and non-union, blue collar and white collar, men and women, young and old.

Whether a $5,000-a-year junior clerk or the $113,922-a-year board chairman, the plan is open to all full-time employes with at least 10 months service. This eligible work force, about 8,000 of the 9,000 employes, has the option to buy at a discount through payroll deduction a portion of 200,000 common shares.

The company is offering the opportunity for employes to buy an amount of stock equal to 10% of their annual wage or salary at $30.26 a share, which represents a 10% discount from the midpoint between the high and low price of the stock on the New York Stock Exchange July 1. Payroll deductions begin Sept. 1, 1971, and end Aug. 31, 1973.

AT THE END of the payroll deduction period, employes then have the option to buy the stock, or ask for a refund of their deductions.

This option eliminates any risk that employes might be obligated to buy stock that would be of lesser value at the conclusion of the two years than the July 1 price. Whether employes decide to buy the stock or have their accumulated savings refunded, they will receive 5% interest per annum on their deductions.

The company will establish an account for the payroll deductions. Amounts credited to the account will be under the control of Cooper and may be used for any corporate purposes.

In announcing the program, E. L. Miller, chairman and president, said, "We are proud of this plan and feel it will be an important addition to our current benefits program."

ALAN RIEDEL, vp of industrial relations and corporate counsel, said many companies are trying different forms of stock purchase plans. "I have been searching for a stock option plan for six to eight years that I could sell management, and that makes sense," he said.

"This is an experiment," Mr. Riedel added. "We hope it works. We hope it's something worthwhile."

The purchase plan prospectus states that upon the sale of shares after a six-month holding period, after Sep. 1, 1973, any amount in excess of the fair market value of the shares on July 1, 1971, will be treated as long-term capital gain. An amount equal to the difference between the purchase price and the lesser of the fair market value of the shares on the date the option was granted, or the date of sale, will be treated as compensation taxable as ordinary income.

Cooper is a diversified manufacturer of heavy machinery, hardware tools and a supplier of air transportation services, through its 10 operating units. ■

Bald sheep or bald men?

LONDON—Tests are planned on a new sheep-shearing chemical, which has been widely used in America, to determine whether it turns people bald. The chemical, known as cytoscan cyclophosphamide, may be adopted by farmers in the United Kingdom.

But Peter Mills, a member of Parliament, claims there is danger that if its residues are left in mutton they could have an effect on the human hair.

The chemical makes shearing easy by weakening the wool hairs so they can be quickly removed but has apparently no injurious effect on sheep.

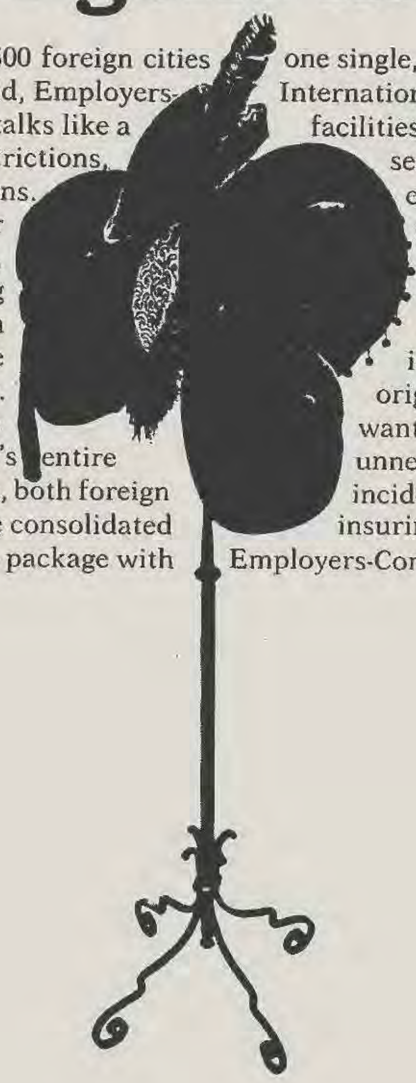
Here's what UAW ag workers won

DETROIT—When the United Auto Workers agricultural implement department ratified a national agreement with Massey-Ferguson it won a three-year agreement including the following benefits for 2,100 members:

- The cap on the cost-of-living allowance was removed and quarterly adjustments of one cent for every .4 increase in the Consumer Price Index will start in December, 1971.
- Pension benefits were increased to $6.75 per month times years of service, effective Sept. 1, 1972, for those who retire after that date or had retired after Nov. 1, 1970.
- An additional $1 per month times years of service for past retirees, effective Sept. 1, 1972.
- Pension benefits will be increased from $6.75 to $7.50 per month times years of service, effective April 1, 1973, for all who retire after that date or who had retired after Nov. 1, 1970.
- The prescription drug plan was extended to retirees and eligible surviving spouses and sponsored dependents.
- Life insurance, weekly sickness and accident benefits and transition and bridge benefits were increased.
- Company contribution to the supplemental unemployment benefit fund has been increased to 10 cents per hour when the fund is at less than 37.5% of maximum funding.
- A Christmas-New Year's shut-down will be included among holidays, making a total of 12 paid holidays.
- Employes working on a job that is moved from one location to another under the master contract may elect to move with the job and receive a relocation allowance.

Supplemental local union agreements were also ratified, terminating a strike that began March 22. ■

We've gone native!



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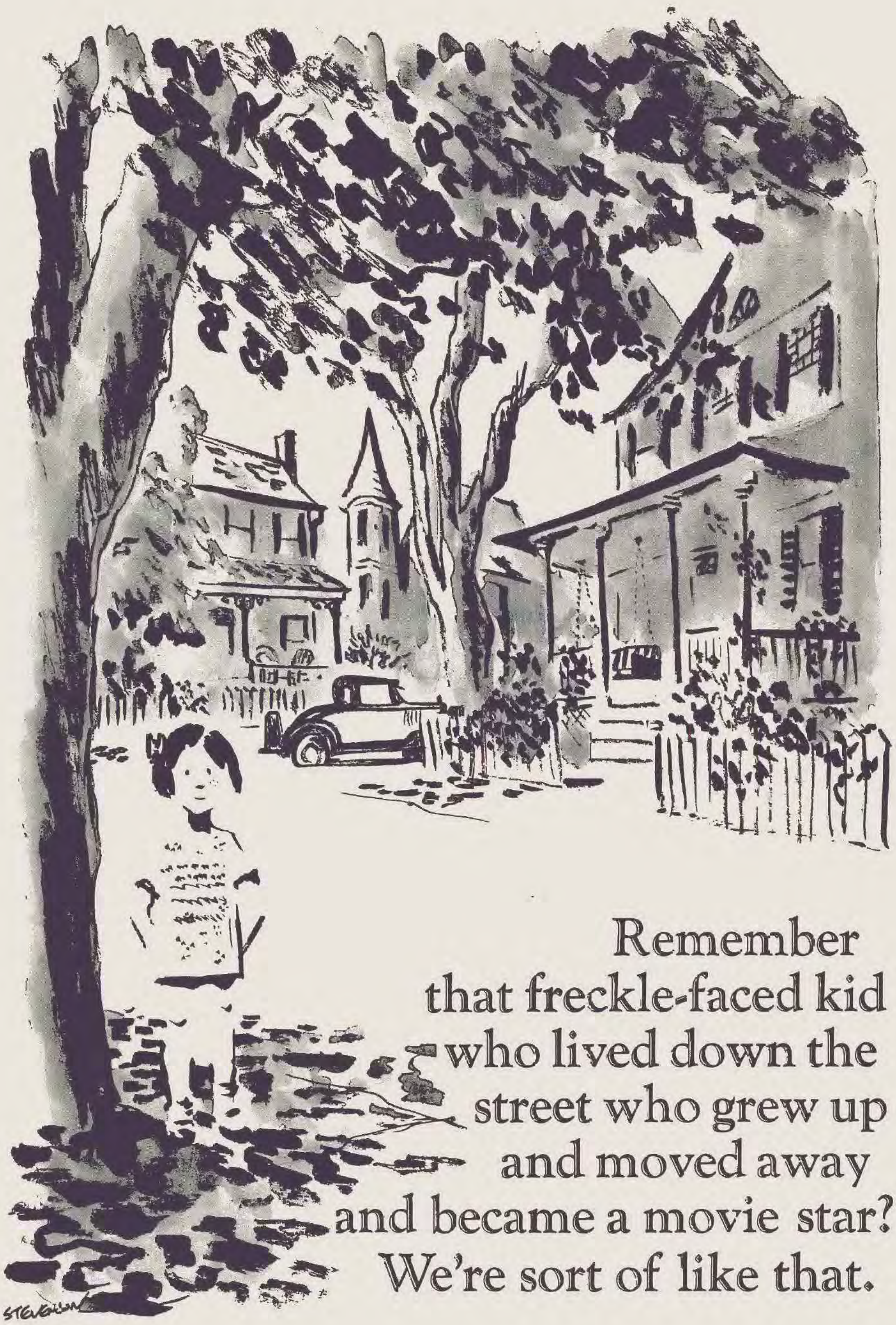

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Advance international plan to take 'political punch' from expropriation

By JOHN REVETT

WASHINGTON—Can the issue of expropriation be "de-fused" by insurance?

Government officials pushing for an International Investment Insurance Agency feel that it can —if enough underdeveloped countries can be persuaded to join the proposed Triple IA and make at least token financial contributions.

Their long range thinking is that if compensation can be assured by an international group, eliminating the need for a company to fight an expropriating government every inch of the way, "emotionalism" will be gone, leaving expropriation with no political punch.

There may indeed be no other way to discourage governments who lean toward the dramatic implementation of economic nationalism—at least not short of top-level retaliatory steps that some officials fear would severely damage relations.

IN THE CASE OF Chile's expropriation of U.S. copper holdings, which has resulted in sharply increased efforts to bring Triple IA into being, proponents of direct measures have begun to move. Asserting that no "meaningful assurances" of compensation for the Anaconda, Kennecott and Cerro mines have been received, the State Department has refused to approve guarantees and loans of about $21 million to Chile for the purchase of three Boeing airliners.

The U.S. Export-Import Bank says this doesn't amount to a "definitive" rejection, just a halt in processing until the question of compensation is resolved.

However described, the move brings out conflict in the Nixon Administration, Congress and the State Department over how far to go in nationalization cases.

It was opposed to the views of Charles Meyer, assistant secretary of state for Latin American affairs, who had urged the House foreign affairs subcommittee to 'avoid the temptation to resort to punitive, retaliatory action" when "transitory differences surface between the U.S. and our Latin American partner countries."

Mr. Meyer had stated that the Administration was "convinced that attempts to force our will through sanctions rather than patient negotiations do not work."

THE LOAN move was in line, however, with the position of congressmen such as Rep. John Monagan (D.-Conn.), who have questioned whether a "low profile" effectively protects U.S. interests. It also appeared to correspond with doubts about an Administration bill that would remove import duties on many goods from developing countries. The foreign affairs subcommittee chairman, Rep. Dante Fascell (D.-Fla.), has declared the bill "stalled," questioning whether it would have any effect at all on Latin American attitudes toward U.S. business.

Backers of the Triple IA concept see U.S. moves to assist developing countries as important to paving the way for their membership efforts. "Anything that gives these countries a better chance to compete gives them more reason to think about Triple IA," said a World Bank executive. The bank would be Triple IA's parent organization.

With their task, which started in the early 1960s after Cuba's expropriations, made at once

Continued on page 58

Newspapers in Tokyo carried this picture of William H. Rodda (right), president of Marine Insurance Handbook Inc. and contributing editor for *Business Insurance*, following his lecture on inland marine coverage to the Non-life Insurance Assn. of Japan. Handling of that coverage within Japanese insurance companies, he said, is much more departmentalized than here; "they make two separate areas of inland marine and are interested in our American marine departments because they handle both transportation and floater coverages." The Japanese issue "movables insurance," which is similar to American floaters, Mr. Rodda explained, but this often means a risk manager must work with two separate departments within his carrier. Coverage under "movables insurance," he added is not as broad as that offered by a floater. Mr. Rodda is a special consultant to the O'tani agency in Japan.

business insurance international

Common Market — problems for U.K. insurers

LONDON—Champagne corks popped when Britain settled the terms on which it will have the right to enter the six-nation Europe Economic Community (EEC) if it wishes.

But insurers are now starting to ask their own questions on the role they will play. This time it is too early to break into the champagne bottles.

For as far as they are individually concerned, they are still waiting for details of how Europe will react to the vigorous approach that both the traditionally historic Lloyd's, and the enterprising British insurance companies, adopt to worldwide risks.

THE TOTAL premium income of Britain's insurance industry is now running around $10 billion a year, with $4 billion of this in group and personal life assurance and the other $6 billion in non-life cover.

Experts reckon that this is as much as the whole of the combined strength of the six countries already in the EEC, Germany, Italy, France, Netherlands, Belgium and Luxembourg.

So Britain will have a dominant role to play in shaping the future of insurance in Europe if it enters the EEC—though the position of Switzerland, which is not in membership, could then become intriguingly unique.

Politicians will settle the overall fate of Britain this fall when Parliament debates the international terms on which it can join its fellow European nations in a vast corporate community of 250 million people.

ENTRY DAY for Britain will be Jan. 1, 1973, if Edward Heath's Conservative government gets the expected go-ahead for entry that it provisionally accepted over champagne at Luxembourg in June.

It will be then that the insurance communities of the various nations will have to get together and discuss agreements to harmonize their insurance system though these will be formally negotiated, as with all Common Market economic matters, by their governrepresentatives.

The big clash will be between the open-hended, competitive approach that U.K. companies and Lloyd's adopt, and the tight, restricted attitude that some European members of the Common Market take.

Theorists on the British side argue that unless there is business freedom, there will be a lack of incentive to provide that capacity for major worldwide risks in the next decade which America and every other large community wants.

A survey by *Business Insurance* shows how strong the views of British insurance leaders are on this point.

Sir Henry Mance, chairman of Lloyd's, declared: "I am optimistic that British entry into the Common Market will be to the mutual benefit of both Lloyd's and of Europe itself.

"But it is in my opinion essential that, if Britain joins the Common Market, there is a proviso that Lloyd's does not lose its capability to provide insurance services throughout the world.

"I think the authorities in Europe are aware of this, and that our position is both sufficiently well understood, and sufficiently

Continued on page 64

Japanese prof writes new treatise on risk management

NEW YORK—The headquarters of the American Society of Insurance Management has received what is thought to be "a dissertation on risk management" by a Japanese professor. It is thought to be that because it is written in Japanese and no one knows for sure what it says.

One member of the ASIM staff said, "I think it's a history of risk management in the U.S. Maybe risk management can develop the same way in Japan."

The booklet, written by Yasushi Morimiya, a professor of insurance at Meiji University in Tokyo, contains numerous English-language footnotes.

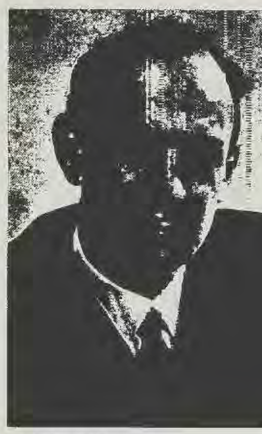
Two pages of the booklet, dealing with the formation of ASIM, have been translated by ASIM.

Borg-Warner has a risk man on the spot for European and African sites

By TERESA NORTON

CHICAGO—Establishing and maintaining loss prevention and insurance programs for Borg-Warner Corp.'s 85 worldwide locations is a big job—so big that one man can't do it all.

When Arnold F. Berg was named director of risk management we interviewed him (*Business Insurance*, March 15) and he told us that a new insurance manager had just been hired to coordinate the corporation's coverage in Europe and Africa. The new man is Robin Adams, an associate of the Chartered Insurance Institute and formerly with H.J. Heinz Co. Ltd. and the Commercial Union Group.



Robin Adams

Mr. Adams' home base will be England but he will visit each of Borg-Warner's European locations twice a year and each African site once a year on a scheduled basis, and more often if necessary. Mr. Berg explained that there is a safety man at each plant who is responsible to the plant manager and that Mr. Adams' job is to act as liaison between the plant and the home office in Chicago. He will not be involved in the implementation of safety procedures. Safety at Borg-Warner said Mr. Berg, is a line function. Mr. Adams' position was created because the corporation felt it needed more contact with its European locations in the areas of loss and safety consciousness.

FORMATION of corporate policy on insurance, he continued, is a staff function and for this reason Mr. Adams will make periodic visits to Chicago for instructions on premium negotiation and development of new master policies. The new overseas risk manager is directly responsible to Mr. Berg on policy matters.

During his first visit to Chicago Mr. Adams sat down with his boss and the two discussed Borg-Warner's risk management and insurance programs as they have developed over the years.

In 1967 Factory Mutual began surveys of all Borg-Warner overseas locations to determine their qualification as highly protected risks. At that time, only two plants qualified. In 1968 work was begun on an overall inspection program and in 1969 it was adopted and the corporation communicated its philosophy on loss prevention to the plants.

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ASIM committee looks overseas for ties and the exchange of ideas

NEW YORK—Though organizations of corporate risk managers are not exactly springing up like ecology groups, the groups that do exist are dedicated and ever-watchful for signs that risk managers in other countries desire to get together and exchange ideas.

According to John Cockshott, head of the American Society of Insurance Management's international cooperative committee, there are four working risk management organizations in the world today, including ASIM. France, however, has indicated that it may organize the fifth.

"ASIM's president, Douglas Barlow, was in France recently," Mr. Cockshott said, "and he talked with eight risk managers about creating their own association. I think they'll go. They have an informal nucleus in existence now. It looks very good."

HE SAID THAT his committee was designed to meet and "cooperate with the similar organizations in Germany and the United Kingdom. We also keep in contact with individuals in the more sophisticated nations where there is no organization."

The group of risk managers in West Germany, known as Deutschen Versicherungs Schutzverbandes E.V. ("we call it DVS because we can't pronounce it."), is an old, established organization that wields a good deal of influence. Mr. Cockshott reported that DVS goes beyond the scope of ASIM in that it provides its members with loss control and engineering surveys, usually done by its own engineering staff.

business insurance international

"The services we in ASIM look to the insurance companies for are provided by DVS for its members," he said.

Another difference between the Bonn-headquartered DVS and ASIM is the manner in which dues are paid. While ASIM members pay a flat fee for membership, DVS dues are based on the insurable assets of the corporation.

THE BRITISH equivalent of ASIM is AMIC, Assn. of Insurance Managers in Industry and Commerce.

"AMIC is quite a bit different in make-up from the other societies," Mr. Cockshott pointed out, "in that its 385 members join as individuals rather than as corporations."

The two organizations carry on somewhat of a people exchange. Roy G. White, chairman of AMIC, was a speaker at ASIM's annual conference last February and Mr. Cockshott spoke at AMIC's educational conference last year. "The ASIM president attends their annual dinner every December as well," said Mr. Cockshott.

He noted that Canada has a society, the Canadian Assn. of Risk Managers, and harbors a chapter of ASIM as well. "And with Doug Barlow being a Canadian, there is plenty of coordination."

Australia, which Mr. Cockshott described as being very sophisticated when it came to insurance matters, once had its own society but it collapsed.

MR. COCKSHOTT'S committee exchanges ideas with these other groups. "We send them our magazine and they send us theirs. We also exchange technical articles and things that would be of interest to the memberships.

"We can't translate everything we get from DVS," he continued, "so we try to pick items pertaining to loss control or safety, things that can be adapted by our members for their own use."

He said that the committee tries to keep in contact with individuals in nations where no formal organization exists. "These individuals may get in touch with us for one reason or another or they may be risk managers for plants whose parent companies are represented on the committee. We like to stay in contact but it is sometimes difficult.

"The main problem in keeping contact is that people move," he said. "If the contact is an American sent to the country by his company, chances are that he will be transferred. For that reason, we try to contact one of the country's nationals.

"But we do try to maintain a tenuous contact, no matter how difficult it is," he explained, "in hopes that something good, like the French forming a society, will happen."

Would the next logical step, then, be the formation of an international society of risk managers?

"THAT HAS BEEN mentioned," Mr. Cockshott answered, "but it is by no means imminent. An organization like that would provide a forum for items of common interest and could be in a position to influence legislation pertaining to the Common Market. It's something for the future."

ASIM's international cooperative committee is composed of Mr. Cockshott, who is head of the risk finance section at the Standard Oil Co. (New Jersey); R. R. Balotti of E. I. du Pont de Nemours & Co. Inc.; J. M. Collins of the Coca Cola Export Corp.; Keith McElwaine of I.T.T.; R. R. Stillman of IBM World Trade Corp.; Richard Van Wagoner of Singer Co. Inc., and William Kramer of Ford Motor Co.

All of the committee members' companies have extensive international operations that provide contacts. "Where a committee member has introduced his insurance in another country to ASIM, he is responsible for that liaison."

He said that he, and most of the committee members, did quite a bit of traveling, which gave them personal contact with their counterparts overseas.

And what has been learned?

"That the problems we face and the problems they face are really pretty much the same," Mr. Cockshott concluded. ■

Factory fires

Fire hazards in factories last year were worst in the paper making industry, reports the Fire Protection Assn. in London.

Something else is sprouting in Brussels.

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"From the technical angle," continues The Economist, "there are certain other advantages. If you are insuring five electronics factories, you will need proportionately less reinsurance than if you are insuring only one.

"There are minor administrative problems. Your manager in France may dislike being saddled with the group's electronics factory in France at a premium which he, in French conditions, may regard as uneconomic. You, sitting in Zurich (or Albany, Aurora, or Azusa), will know that the premiums your German and Dutch managers will be getting from the electronics factories there will more than make up for this. So you will have to tell your French manager that the underwriting results he turns in will be adjusted to allow for this.

"When the will is there," concludes The Economist, "and when the international branch network is there, these problems can be surmounted."

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Borg-Warner

Continued from page 45

In most cases, said Mr. Berg, Factory Mutual had recommended a complete sprinkler and water supply system. Local management figured the cost of all recommendations and Borg-Warner then weighed it against premium cost. In one or two cases, the risk management director said, the payout didn't seem justified and it became a business decision, based on the thought that if a plant wasn't protected Borg-Warner could possibly be knocked out of a market it needed to be in.

ALL DECISIONS, he continued, were for meeting the highly protected risk qualification requirements. Mr. Berg said he really had to sell the idea in cases in which a complete new sprinkler system was needed but, he added, the corporation's basic policy is "to be protected."

Arnold Berg

To date, he said, nine major facilities meet the qualifications and by the end of 1971 all European and African sites may be at that level. One major plant now under construction in Germany will automatically meet the requirements but he explained that bringing an already existing plant up to par takes 24 to 36 months for a foreign country.

At one time Borg-Warner had 15 brokers on its foreign insurance and 500 policies. Now there are 11 or 12 master policies, he said, and Marsh & McLennan Inc. (and its correspondent brokers) is the only broker they use outside of the U.S. and Canada. Mr. Berg's philosophy on using one broker is that enough premium will be generated to assure getting a job done well.

Borg-Warner selected Marsh & Mac from four international brokers that made surveys, developed programs and indicated master program costs. Mr. Berg also checked the worldwide market capacity of all four.

The company relies not only on its broker but also on its own legal advisers in Chicago in meeting the insurance-buying requirements of foreign governments. Originally Borg-Warner was in countries with what he described as "fairly easy" insurance requirements but he referred to Germany as a country in which legal advice was needed.

THE GERMAN government, for example, requires pollution coverage with $20,000 to $25,000 limits and conducts spot checks for which they bill the company inspected. The government has the power to fine offenders, he noted, but the insurance policy, which is on a first-party basis, covers this.

In looking at the future of his company's insurance program, Mr. Berg said that one goal is to coordinate Borg-Warner's inland and ocean marine coverages. It is fragmented at present, he said, and the company is working on a

Continued on page 62

Insurance is expanding in France

PARIS—Michel Gaudet, president of the French Federation of Insurance Co., has been smiling with one side of his face and frowning with the other.

The smiling half points out that the French insurance industry turned over $5 billion in 1970, an increase of 12.5% over 1969. The sad half bemoans the fact that the British and Germans completely dominate the French in the European market.

Largely responsible for the boomlet in French insurance sales has been an even larger boom in the transport and export sectors. Transport insurance grew by 28% in 1970 while aviation premiums leaped 50%.

A 25% GROWTH rate was realized in maritime freight transport insurance premiums. The French commercial fleet has grown and with it, insurance on ships. On the other hand, turnover of the British insurance industry was roughly two and one-half times that of the French while the German turnover was one and one-half times superior.

While French insurance companies can be found in more than 60 countries, that presence accounts for only 8% of premiums. At the same time, the British collect about 60% of their premiums abroad.

HOWEVER, the federation has indicated that the overseas presence is undergoing a good deal of "structural and geographical mutation."

The French penetration, long confined to former colonies and other countries with close political ties, is now turning to the more industrialized nations, particularly those in the Common Market. Insurance in closely linked countries now accounts for only 43% of the foreign business. ■

Seeking expense allowance

New York—The Internal Revenue Service has been asked for a ruling to allow overseas Americans who are transferred home just before retirement to deduct moving expenses from their taxes.

The ruling, asked by the National Foreign Trade Council Inc., hinges on the definition of the term "involuntary separation." Any employe who takes a new job at a new location or who is involuntarily separated from his employment is allowed, under present U.S. tax laws, a moving expense deduction of up to $2,500. The foreign trade council wants the definition of "involuntary separation" clarified to include an employe who is separated from his job because he has reached his company's mandatory retirement age.

In a letter to the commissioner of the IRS, Malcolm Anderson, National Foreign Trade Council tax-legal division director, wrote, "Failure to adopt such a definition could discourage executives who are approaching retirement age to accept new assignments abroad because moving expenses incurred in their return to the U.S. prior to retirement might not be considered as deductible. ■

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The pressures on private pension plans are mounting overseas, too

NEW YORK—U.S. companies with operations abroad are facing the same employe benefit pressures as their domestic counterparts, although to a somewhat lesser degree. And the pressures, not surprisingly, are mostly on private pension plans.

This is the assessment of Charles E. Tosch, vp international employe benefits division of Johnson & Higgins, New York. Mr. Tosch, in an interview with *Business Insurance*, pointed to some of the more significant influences on American firms with operating subsidiaries overseas and noted that while there have been few major changes in the past year the indications that more changes are coming have grown even stronger.

"I used to think that we imported most of the benefit changes into this country from other countries," the vp said, pointing to such things as Social Security and survivor benefits. "But in the last little while it's become more apparent than ever that we are now exporting something—an awareness of the private pension system. The same pressures being exerted on private pension plans by legislators in Washington are now being exerted on the American corporation abroad by governments of other countries," he added.

MR. TOSCH, a lean grey haired man who has spoken on the subject of international employe benefits from many conference platforms, said that he sees "more and more government regulation of private pension programs" overseas. Moreoever, the effect on the U.S. company with operations out of this country is obvious: "Of course, it will add to the cost of doing business abroad. But," he added, "I suspect the American corporation abroad will, as in this country, just have to accept it. I don't think the changes are going to be so costly that companies will just pack up and close the shop.

"In the Netherlands, for example," the vp explained, "there is a present requirement for vesting after five years of plan membership. I suspect that very soon this will be changed to one year of participation for full vesting. This has just got to cost companies money. There's no question about it," he noted.

Another country where changes are in the wind is Germany, the J&H man said. "There have been very, very few provisions for vesting in German pension plans up until now, but it is now being seriously talked about although there are no indications of just what form vesting requirements might take." He added that the reason for the interest in Germany appears to be that there is now more mobility than ever in the labor force in that country.

"Switzerland is another country where some mandatory vesting provisions are likely to be written in the next couple of years. And we also see it talked about in Australia where the state of Victoria has already introduced some legislation along these lines. This will probably spread," he continued.

MR. TOSCH ALSO noted that in Switzerland in recent months there has been considerable agitation to increase the heretofore nominal social security benefit appreciably. However, he added, there has since been a compromise worked out whereby the social security benefit remains at a nominal level but it is now mandatory that private pension plans, together with the social security benefit, give a retired worker 60% of salary up to a maximum of 40,000 Swiss francs, roughly the equivalent of $7,500. "This," the vp said, "is going to require quite a new approach to pension plans in Switzerland."

Another indicated change in the Netherlands benefit system is a requirement that the widow's benefit, formerly set at 60% of the deceased husband's pension, be upped to 70%.

In the meantime, Mr. Tosch noted, there is a trend developing in Belgium toward more realistic funding methods. "In most countries—other than the United Kingdom—the principal funding mechanism has been through insurance. Recently, however, there have been some contracts negotiated with insurance companies to set up separate pension accounts for separate companies. This is another benefit export from the U.S.," he added.

Turning to South America, Mr. Tosch noted that one of the more pressing problems in the pension area is occuring in Argentina.

"MEN MAY RETIRE at age 60 there and women at age 55, with the pension benefit amounting to 70% of the highest annual salary out of the last 10 years. In addition, a retiree also gets another 1% for each year served over 30," he said, adding that there is a cost-of-living adjustment built in.

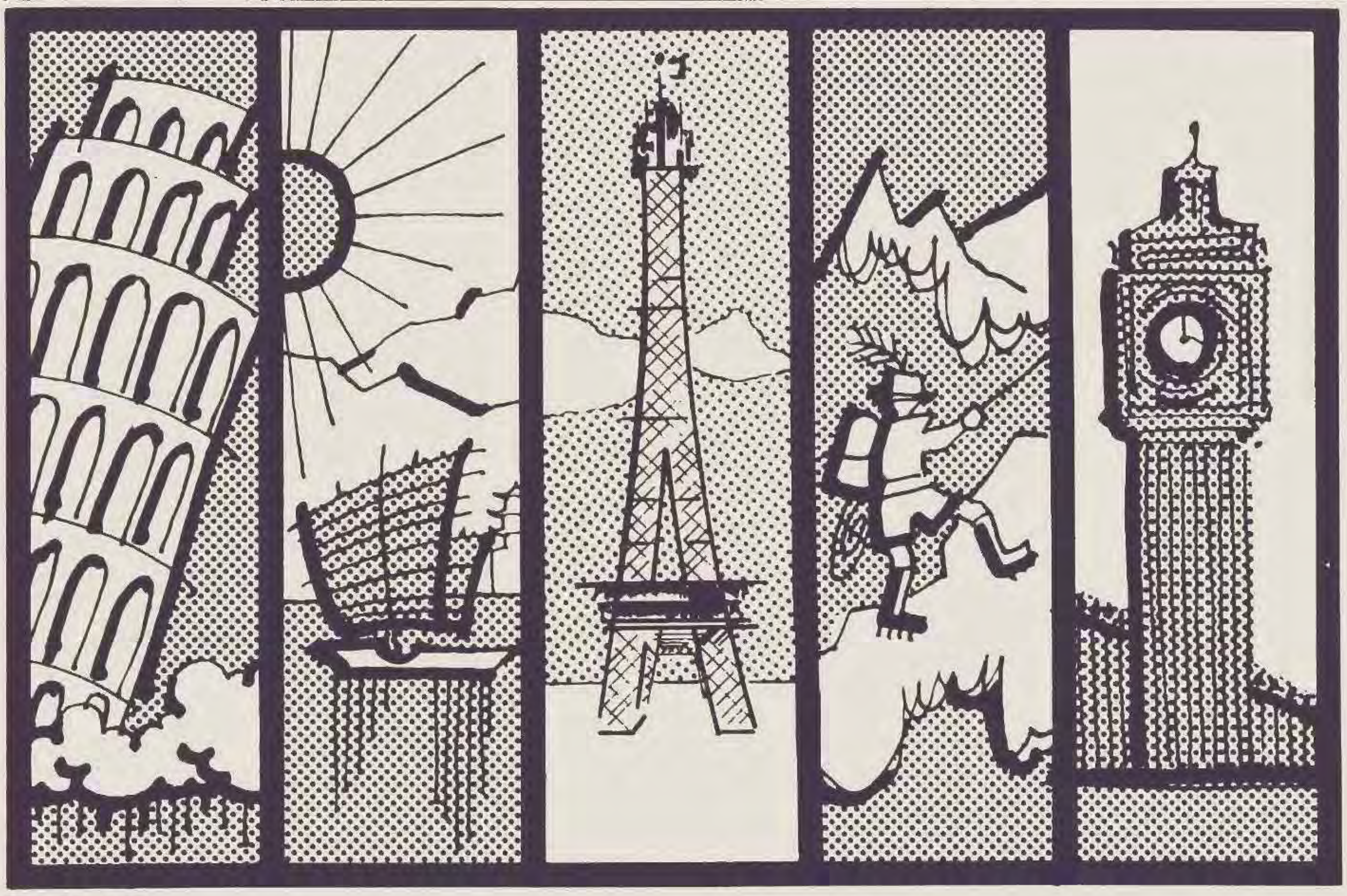
"On the face of it this seems like an excellent pension benefit, but," he added, emphasizing the word, "because of the inefficiency of the government's social security administration system there are some serious hitches."

"For example," he noted, "even the average retiree has to hire what they call an expediter to help cut through the bureacracy. And even with an expediter it's not unusual for a person to have to wait two or three years to get his first pension payment. That's bad enough, but when you take a country with an inflation rate of 30%-40% a year, by the time a person gets his first pension check it is all but eaten away by inflation even taking readjustment factors into consideration." The J&H vp pointed out that between the years 1945 and 1971 inflation in Argentina has amounted to 28,710%. ■

business insurance international

Not safe from champ

Even a 440-pound safe isn't safe in Akita, Japan. On August 9 former Japanese weightlifting champion Junichi Kumada was arrested for carrying the safe, which contained papers and uncashed checks, from the office of a lumber dealer.



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London reinsurance market still termed 'most viable' in the world

LONDON—Reinsurance is believed to be reaching the point where it represents more than $1.2 billion a year in business capacity to the British market. This makes London one of the world's leading centers for this type of cover, with both Lloyd's and the big insurance companies playing a major role.

Enthusiastic leaders in the market founded the Reinsurance Offices Assn. two years ago to facilitate cooperation on technical matters, and now have a progressive membership that keeps close watch on developments.

Julius A. S. Neave, general manager of the Mercantile and General Reinsurance Co. Ltd., and founder-chairman of the association, gave *Business Insurance* his own appraisal of this role in a special interview.

HE EXPLAINED: "The reinsurance market in London falls into several distinct parts. The biggest is certainly Lloyd's, together with the so-called fringe market. The second biggest is probably the composite companies that also do reinsurance business. Third are the professional reinsurance companies that do nothing else but reinsurance, including the growing number of overseas reinsurers that have established themselves to write business in London.

"Until recently the reinsurance market in Britain had little attention from the press or official bodies, and was a somewhat neglected side of the insurance industry, although it has always been an important part of the invisible exports that insurance represents to the British economy.

"In terms of individual size and capacity, the biggest reinsurance carriers are still elsewhere in Europe, such as the Swiss Reinsurance Co. and the Munich Reinsurance Co.

"But London now offers the best reinsurance possibilities of any market because of the wide variety of facilities available, the spread of cover through Lloyd's and other sources, and the know-how of its experts."

But he realizes the steps the U.S. is taking to make headway in reinsurance, and commented: "U.S. reinsurance companies are extremely successful and are to be admired for their performance in their own territory. I feel, however, that they have entered the international field rather later than some other reinsurers. So they may not yet have made the same degree of headway internationally that we might have expected from their expertise in their own domestic operations."

business insurance international

Asked if the British reinsurance market could be regarded as the most viable in the world, Mr. Neave replied:

"IF BY VIABLE, you mean offering the widest degree of variety and opportunity of cover by different means, the answer is 'Yes.' At one time British insurers placed their reinsurance mainly in Europe, principally in Germany and Switzerland, and this was the situation up to more than 60 years ago, before the First World War. So the purely professional reinsurance companies in London are still not many.

"But nowadays virtually all insurers in London also accept reinsurance business. I estimate that more than 50% of Lloyd's business is reinsurance, much of it from North America. The big composite companies such as Commercial Union, Guardian-Royal Exchange, Sun-Alliance and Royal, are also very active in reinsurance, though they do not specialize in it.

"Then there are companies like my own, the Mercantile and General Reinsurance Co., which are specialists in all branches of reinsurance, including life business.

"I am proud of the fact that my company has nearly 50 expert reinsurers traveling round the globe, visiting clients at their head offices in almost every country in the world. We operate at Mercantile and General in about 130 different currencies, and aim to visit every client at least once a year.

"There is no market like London for offering in one place so many different possibilities of getting the necessary reinsurance cover or such a wide variety of different underwriting views."

PROSPECTS FOR future reinsurance services were reviewed by Mr. Neave recently at the London meeting of the Reinsurance Offices Assn., when he declared:

"I believe that recently reinsurers have been open to criticism for selling their services below cost, and the narrow margin of profits has placed an unreasonable strain on the maintenance of free reserves in circumstances of escalating costs.

"Judged by the resistance that reinsurers sometimes meet to suggestions that rates for loss excess protection must be increased, one would believe that the price of reinsurance was a prime consideration in the costing of direct insurance cover, which clearly it is not.

"It is a simple mathematical fact, but seldom fully appreciated, that in a non-proportional treaty rated at 3% of premium income on the class of business covered, if the reinsurer wants a 50% increase in premium in face of a deteriorating loss situation, it is only necessary for the ceding company to charge its insured client an extra 1.5% to recover this extra outgoing. The increase in price demanded by reinsurers is therefore only a marginal factor."

He is a great believer in the use of "data banks" for collecting and spreading information about risk factors that can affect reinsurance as widely as possible. ■

The line forms . . .

More than 500 people have applied to join Lloyd's of London because of a reported upturn in its profitability. Full reports of its global figures for the 1968 account, which runs to 1971 under the Lloyd's accounting system, are expected to reveal this trend when issued in early September.

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Open wide: Loophole bites Britain

LONDON—Government social security experts are worried about the claim of a Canadian businessman that he can arrange cheap dental treatment at the expense of the British taxpayer at a fraction of the cost in his own country.

They fear the scheme may spread to U.S. citizens, some of whom are already coming to London to have babies in private maternity clinics because it is still cheaper to do this than have them in their own country.

The Toronto businessman, Terry Howes, is reported to have told clients of the Overseas Dental Appointment Service that they can get complete dentures in London, on the public-health service, for as low as $35. This is because of British rules that visiting tourists are entitled to its national health services "in emergency" because its dues are partly met by the taxes, such as excise duties, which everyone bears.

But the idea of avoiding steep dental charges by tourists going on pre-booked charter flights to London from Canada, even though they may cost $200 a trip and are still cheap at the price, is regarded as a loophole in the scheme.

It is suggested that it could be adopted by U.S. patients if they find their own public or private health insurance schemes fall short of their requirements.

The question which British dentists will be asked to answer is: What is an emergency? Until this answer is settled there could still be ways for U.S. citizens to get cheap dentistry in Britain. ■

Reinsurer opens office in Australia

SYDNEY, Australia—In an effort to facilitate the doing of business with a growing list of customers in the Far East, American Re-Insurance Co. has opened a branch office here.

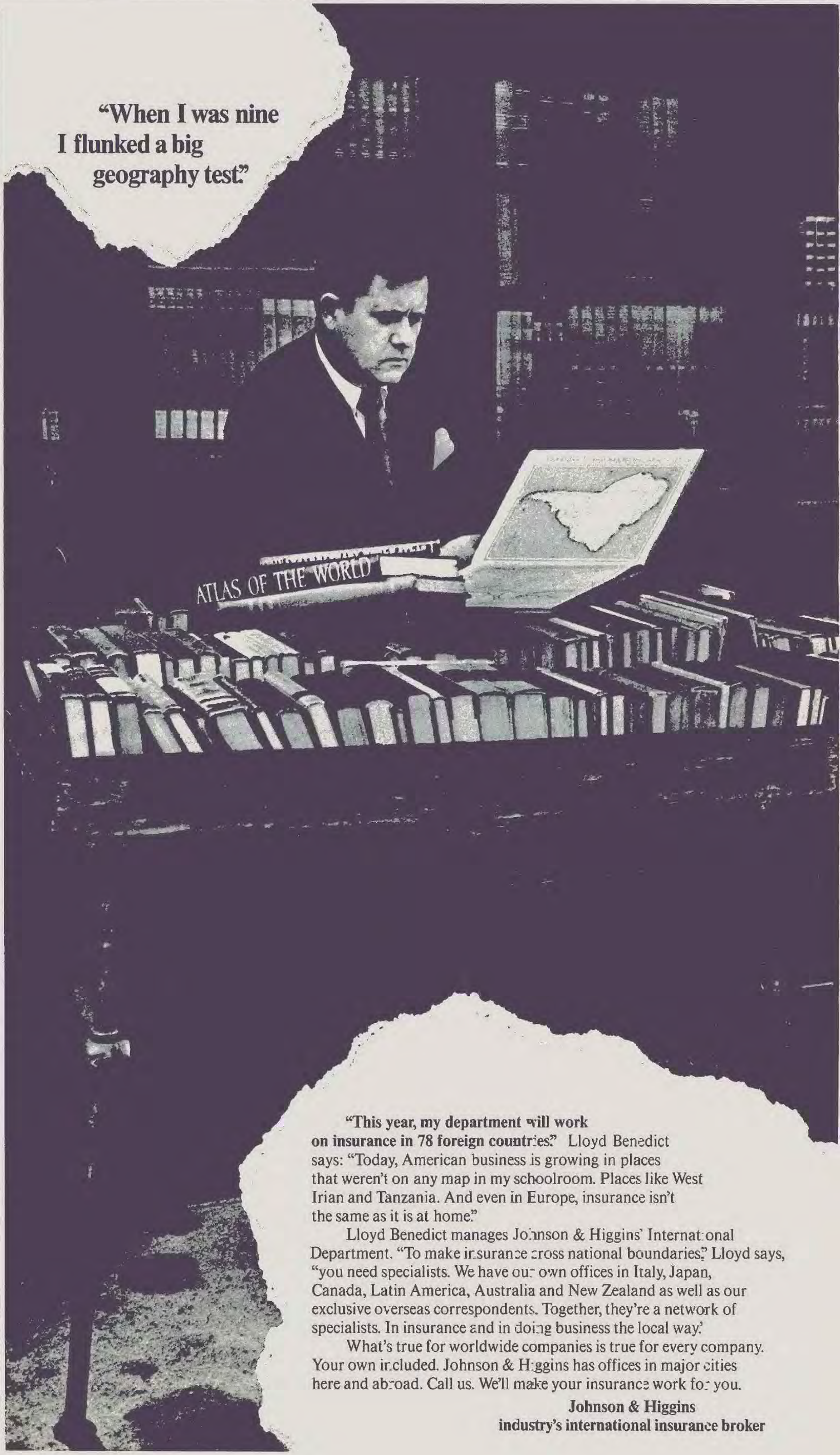
A spokesman for the company told *Business Insurance* that Australia had been chosen over a number of other locales because a business survey indicated that the island continent would be "a good base for oriental business."

The spokesman also said that American Re's "tremendous capacity will be of great benefit to American corporate insureds with operations in Australia. It's comforting to know that you're well-backed.

"Another aspect that could prove helpful to those insureds is the ease of operations," he went on. "If they want to talk directly to their re-insurer, which is rare, but if they do, we will be right here and can talk their language."

Running the Australian office, American Re's first overseas though there is a branch in Canada, is Gordon M. Hughes, a native Australian with 35 years' experience in insurance. He has worked with both insurance companies and brokers and has served in high positions in numerous Australian insurance associations.

The new office will offer customers treaty and facultative services in the property, casualty, fire, surety, allied lines and marine fields. ■



The offshore captive: Bermuda is booming

By ANNETTE E. DUFFY

NEW YORK—There is a plethora of reasons for the current mushrooming of offshore captives formed by U.S. corporations with international assets—r e a s o n s stemming from incapacities in the conventional insurance market, encouraged by numerous financial and commercial advantages for the parent corporation and flowering with the attraction of certain complex tax advantages.

That there is a rather hothouse growth in this field is attested to by insurance consultants, brokers who are moving into captive management, and the corporate risk managers and financial officers whose companies have recently formed captives or are doing serious feasibility studies on the concept.

"A few years ago the offshore captive was a backdoor johnny with brokers fighting it tooth and nail," William Hare of Ebasco Services Inc. told *Business Insurance* recently. "Now the brokers themselves are working with Bermuda because standard markets are too limited. The only danger I can see is if it becomes faddish. A few years ago your company was nothing if it wasn't installing computers; now captive feasibility studies are taking over as the status business move."

ACCORDING TO Felix Kloman of the Connecticut-based Risk Planning Group, 100 is a reasonable estimate of the number of U.S. corporations currently looking into setting up captives in Bermuda. Mr. Kloman also estimated that 30 or 40 new captives have been put into operation since January and that 40 more should be formed by year's end.

"I think there is a fairly simple reason for this interest," Mr. Kloman said. "Corporations have been looking more closely at self-insurance in the last four years because the price of conventional insurance has been going up and up, and because higher deductibles are being demanded. Captives are an intelligent form of self-insurance."

The majority of industry sources emphasize the shortcomings of the standard insurance market as the reason for the move toward captives, with tax enticements and other benefits as back-up encouragement for the parent corporation. One company vp sounded an angry note on this theme when he discussed the Bermuda-based captive his corporation formed last year to cover domestic risks. "This is an area we were forced into," he said. "The insurance industry is literally forcing other people into their business because they are unable or unwilling to write certain types of coverage, or because they won't come up with reasonable rates."

The new breed of captive is usually incorporated in an offshore jurisdiction whose financial requirements and other regulations are less stringent than those of the U.S. A complete list of such locations might include exotic spots like Bermuda, Switzerland, the Antilles, Malta, the Netherlands, Lichtenstein, Curacao, the New Hebrides Islands and the Gran Caymon Islands, but Bermuda is far and away the most popular domicile for American captives. Contributing to that popularity are the islands' economic, social and political stability, their convenient location, the absence of a language barrier, the availability of banking facilities and management and reinsurance skills, and the relative ease and low cost of forming a company there.

A PURE CAPTIVE insurance company is formed by a corporation to insure and/or reinsure its own risks and those of its branches and affiliates. There are also several cases now in which two or more unaffiliated corporations in the same industry have joined in associations to insure the risks of the particular industry. Examples include the Bermuda-based tanker owners' pollution mutual, International Tanker I n d e m n i t y Assn. Ltd., the Mutual Insurance Co. Ltd., formed in Bermuda by U.S. newspapers to provide strike insurance, and the reportedly dormant companies established by a group of U.S. airlines to write hull insurance out of Bermuda after Swiss authorities made demands the airlines did not care to meet—Air Transport Insurance and Air Transport Guarantee.

business insurance international

There are also Bermuda-based captives that have developed from the pure captive stage to become companies serving the public, and profit c a p t i v e s established by single non-insurance corporations as profit-makers among the parents' o t h e r ventures. Complications abound, as with the reinsurance company owned by a New York-based shipper, managed by the Bermuda office of Alexander and Alexander and actually based in Panama.

But this article is concerned with the pure offshore captive formed by a U.S. parent with overseas assets. Ever since 1962, the tax advantages of a captive accrue principally to the insuring of foreign risks. If 95% or more of the captive's coverage applies to overseas risks, no U.S. income tax need be paid until the profits are brought back into the parent company. Thus income tax may be deferred.

In addition to this attractive possibility, there is the basic advantage of formalizing self-insurance by forming a captive; self-insurance reserves are not tax deductible in the U.S., or in most other countries for that matter, but insurance premiums, even when paid to an affiliate, are deductible.

THE FUNDS freed in this way can be invested to make more profit, and the captive can even purchase facilities, such as plants and tankers, and lease them back to the parent.

These tax and investment possibilities are perfectly legitimate. With the laws revised as recently as 1962, however, and the eyes of the Internal Revenue Service for-

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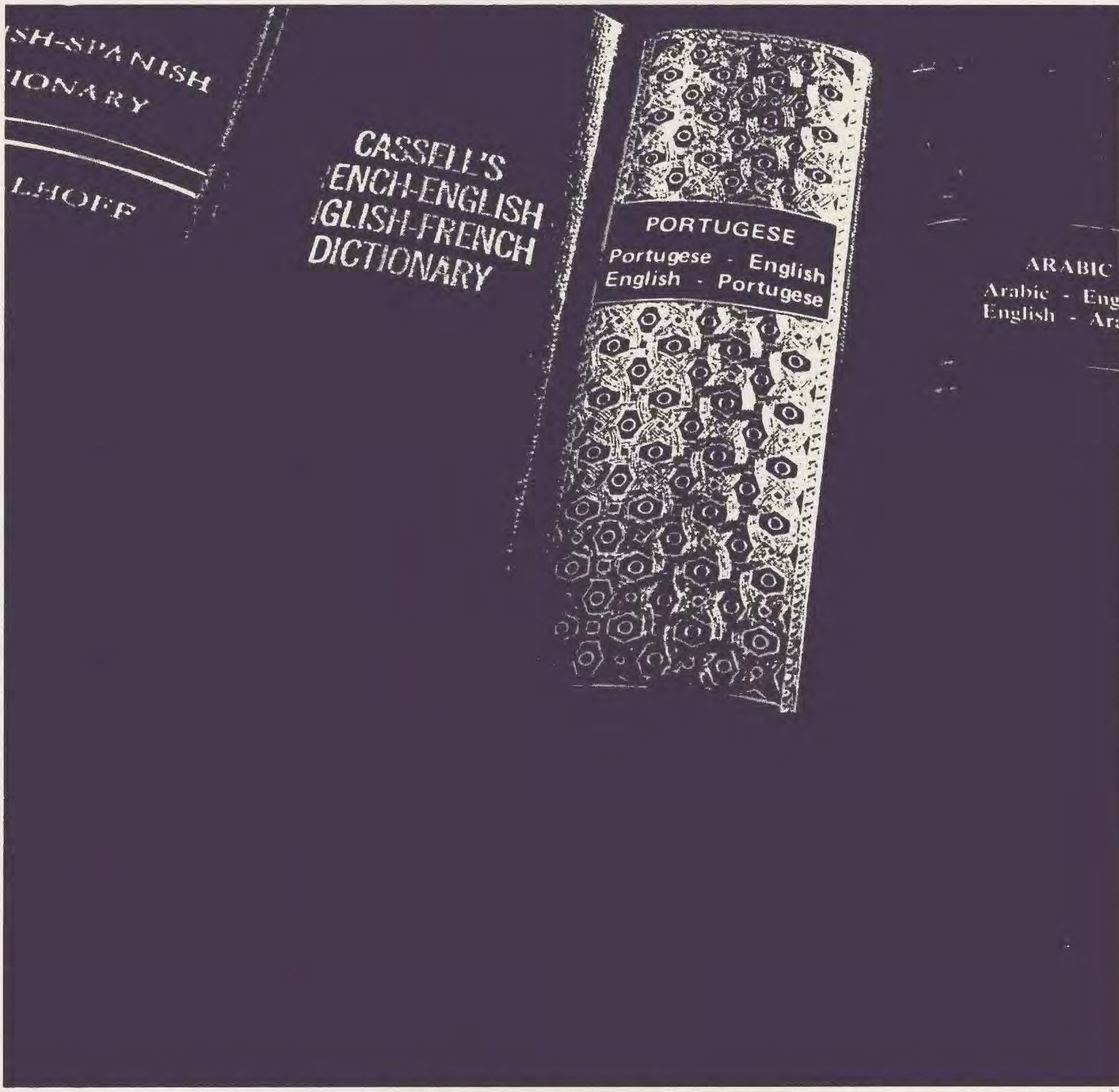

And there are plenty of them. Not the least of which is the babble of tongues you're apt to hear on the other end of a long-distance phone line.

Red tape seems more complex in Greek. Unintelligible regulations more so in German. Bad news that much worse in Swedish. Yet even with a shelf of dictionaries, a lot can get lost in translation.

The big gamble. The language barrier is bad enough. But it's only one of the many things you may never know. Until it's too late.

Is your shipment insured from warehouse to warehouse? If not, where does your insurance attach and terminate? What guarantee do you have that the proper marine and war risk insurance will be placed on your shipment? What do you know about your overseas customer's insurance company? And will you be paying a higher final price for your shipment because of *their* poor risk experience?

Disappearing money. There are other ways you can end up on the short end of the financial stick.

Captives formed for a variety of reasons

NEW YORK—The following list should give some idea of what U.S. companies are turning to captives and for what specific reasons.

Castle & Cook Inc.: Based in Honolulu, Hawaii, Castle & Cook is a food grower, processor, and marketer with land development interests. The corporation owns, among other subsidiaries, the Dole Co. and Bumble Bee. According to one of Castle & Cook's vps, the company formed Ashwood Reinsurance Ltd. in Bermuda in January, 1971, primarily to get coverage for international risks. "Our number-one priority," he said, "is steamship cargoes—bananas and canned pineapple—which are all overseas risks. Next are plant facilities overseas. Eventually we plan to work more and more risks into Ashwood. There are real economies to be made by doing it this way," he told *Business Insurance*. "We've never had any trouble getting coverage, but we are having trouble getting the prices we like."

Continental Oil Co.: "Just another tool to get the job done," said the laconic insurance man at Conoco of his company's two Bermuda captives, Danube Insurance Co. Ltd. and Wabash Insurance Co. Ltd. One covers international risks and the other domestic, as might be expected. "The overall problems facing the insurance manager today make captives very helpful." concluded the Conco spokesman.

CPC International Corp.: Formerly Corn Products Co., this 44,000-employe corporation has four captives in Bermuda, three insuring internationally and one domestically. Southall Ltd. is one of the international insurers. "Basically you're putting that much more money into your own company when you pay premiums to a captive," said a source at CPC. "We use our captives to insure the difference between local overseas cover and what we have domestically. It's a good device to equalize cover."

Ingram Corp.: The Ingram Corp. uses its Universal Marine Insurance Co. Ltd. in Bermuda to cover both domestic and international risks. A source at Ingram, Armistead, Wallace in New Orleans said "I estimate there are 2,000 offshore companies in Bermuda, of which anywhere between 100 and 300 could be insurance companies."

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ITT: Not active at the moment, ITT's two-year-old "shelf" company, Redwood Ltd. was incorporated with the thought of creating a captive, but the plans came to a standstill while negotiations with The Hartford were under way. "We wanted to wait until the dust cleared," said a source at ITT's New York office. "If we activate Redwood, it will cover international risks. Since we incorporated it, the capacity problem has become more real, so Redwood would help with that and also bring together coverages under one roof. My personal opinion," said the source, "is that there are some advantages that would make our wanting an active captive probable."

Johnson & Johnson: Middlesex Assurance Co. Ltd., formed this year, covers possible product liability suits arising from Johnson & Johnson's oral contraceptive pill and all other pharmaceutical products. Tarpin Ins. Co. Ltd., formed in 1967, covers property and business interruption. "They helped in coordination of overseas insurance programs—that's been their prime use," said a source at the parent company. "They are not a money-making venture, although they have cut expenses. They form a good method of keeping tabs on losses too, and definitely make people more interested in loss prevention."

Mobil Oil Corp.: Mobil's Westchester Insurance Co. in South Africa is used solely to cover risks in that country. Bluefield Insurance Ltd. in Bermuda was "set up to care for insurance that is not available today," according to a source at the company. "A large company can absorb fairly large losses, but the subsidiaries are not able to do so. With a captive, a local subsidiary can pay premiums and fund a reserve for itself. The thrust is to extend the concept of self-insurance to subsidiaries." he concluded.

Standard Oil Of New Jersey: A source at Standard Oil told *Business Insurance* that the company's Bermuda captive, Ancon Ltd., is actually a management company in charge of their other Bermuda captive, Ancon Insurance Co. S.A. "We've had an affiliate in this field for years," he added. Apparently Whitestone of the Bahamas, a one-time insurance captive of Standard Oil, was merged several years ago.

Teledyne Inc.: Teledyne is a diversified manufacturing company based in Los Angeles with interests in metals, offshore drilling, electronics and insurance subsidiaries. (It owns Argonaut Insurance Co., Trinity Universal Insurance Co., Great Central Insurance Co. and Financial Indemnity Co., among others.) In 1970 Teledyne formed The Shamrock Co. Ltd. in Bermuda, primarily to cover overseas risks. "We bought Shamrock off the shelf," said the company's insurance director. "It provides an alternative to the domestic insurance market when we can't get them to do what we need. We haven't used Shamrock a great deal ourselves, but our foreign subsidiaries have."

Tenneco Chemicals Inc.: Tennessee Oil, Walker Manufacturing, Newport News Shipbuilding, and Sun Giant number among Tenneco Chemicals' subsidiaries. Early this year, Tenneco formed two Bermuda captives—Tenneco International Ltd., to cover foreign risks, and Eastern Insurance Co. Ltd. for domestic risks. "They're still in the formative stages," noted the company's risk manager. "We formed them because we have been running into capacity problems for placing both domestic and international risks. Captives are devices to increase net line retention plus provide additional capacity. Each of our subsidiaries is a profit center, so each must care for its own risk capacity. Tenneco International is a great help to them."

Tidewater Marine Services U.S.A.: In March, 1970, Tidewater incorporated Pental Co. Ltd. in Bermuda. According to a compa-

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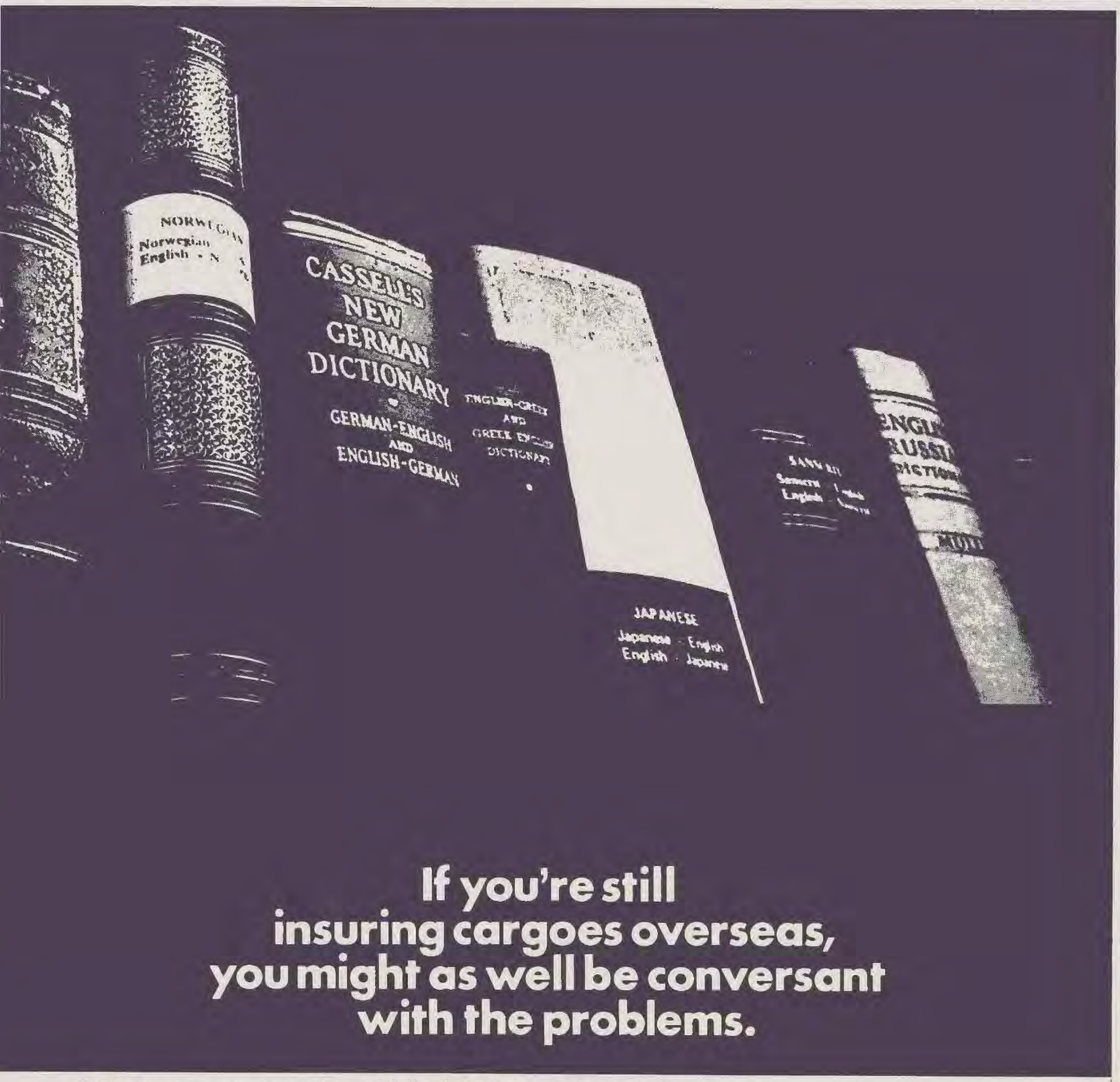

For instance, in many countries, an "all-risks" policy doesn't mean the same as it does here. Should exchange rates fluctuate, the value of a loss payment could be severely depreciated. What's more, your buyer may be uncertain about his loss liability and not authorize payment of drafts on goods that are damaged or fail to arrive.

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Advance . . .

Continued from page 45
more understandable and more difficult by growing nationalism and reactions to it, World Bank negotiators are said to have lowered their sights somewhat to an initial Triple IA group of about 15 underdeveloped and half a dozen industrialized countries.

Of the major countries involved with the U.S. in planning, France reportedly views formation favorably and England and Japan are described as "interested now, though they weren't at first." West Germany is said to have "voiced some skepticism" about Triple IA while indicating a desire to participate in talks. One reason given for West German hesitation is that a German bilateral investment insurance agency already exists.

U.S. promoters of Triple IA feel they can convince the Germans to join by stressing that while the U.S. bilateral agency, Overseas Private Investment Corp., provides coverage for many foreign ventures it is not heavily backed and may require Congressional funding, with attendant questioning of business, to cover the U.S. copper mine losses.

(OPIC covers Anaconda, Kennecott and Cerro for $120 million but currently has reserves of only $82 million, which it hopes to increase before Chile announces compensation in October. The companies' book value estimates range from $500 million to $700 million; Chile says they're far less and may pay nothing on grounds of "excess profit.")

Viewed as potential members among Latin American countries are Brazil and Argentina, with Venezuela still a question mark. Mexico, which caused an international furor in 1936 by expropriating all foreign oil interests, is described as "not so interested." African countries considered likely members include Kenya, Nigeria, Ghana, Malawi and Mauritania.

Negotiations for Triple IA membership "haven't stopped" at the borders of the Andean bloc countries despite their expropriation activities. World Bank officials say they have hopes of bringing Peru into the fold and note that there are private talks going on between the Peruvian government and U.S. companies on—unlikely as it seems—copper mining with U.S. help. This is in spite of Peru's nationalization of Standard Oil's International Petroleum Co. with no compensation three years ago (an estimated $100 million less) and its expropriation of W. R. Grace & Co. agricultural holdings worth $24 million more recently ($10 million offered).

TALKS ARE ALSO continuing with Bolivia, which has taken Gulf Oil holdings, offering $78 million for what Gulf valued at $150 million, and tin mining property valued at $4 million by International Metal Processing, which got no compensation .

While the surface problem in attempts to interest these countries is the Triple IA requirement for financial contribution, more deep-seated objections are voiced by Latins. Many Latin countries feel they would be compromising their status as nations by permitting an outside organization to arbitrate expropriation disputes. The U.S. wants Triple IA arbitration rights either through a settlement system of its own or the World Bank's center for the settlement of disputes.

Reportedly, some African countries have expressed fears that companies feeling secure in Triple IA coverage might turn them into "playgrounds" but World Bank planners deny that this is a widespread concern. "They (the African countries) don't seem to have strong ideological objections," said one, "but they are questioning the financial contribution."

Another difficulty faced by Triple IA planners is a simple lack of enthusiasm on the part of developing countries—and some investing companies. As the unidentified U.S. companies negotiating with Peru indicate, there are private agreements being worked out regularly to the satisfaction of both parties. ■

business insurance international

Recompense for space ship damage

GENEVA, Switzerland—A team of legal experts from 28 nations has completed the draft of an international treaty that would provide for the compensation for damage caused by objects launched into space.

Belief in Chicken Little notwithstanding, a nation will be held "absolutely liable" to pay for damage caused on the earth's surface or to an aircraft in flight by an object it launches into space. Under the treaty, personal injury will also be covered.

Completion of the treaty is important for a number of reasons, aside from the fact that it took seven years to draft. The U.S. and the Soviet Union, the major space powers, agreed to a compromise, which is always an event and, for the first time, the Soviet Union stepped out of its usual line and agreed to the principle of an arbitration commission. The commission would be called to arbitrate damage claims if the countries involved could not come to a direct settlement in one year.

THE CONVENTION stated that either country could ask for the establishment of a claims commission. This commission would consist of three men, one named by each of the disputing countries and one agreed to by both. Their ruling on the amount of damages would only be considered final and binding if the countries had agreed to it before the decision.

However, a country would be obligated to consider the decision in "good faith" even if it had not committed itself to the ruling.

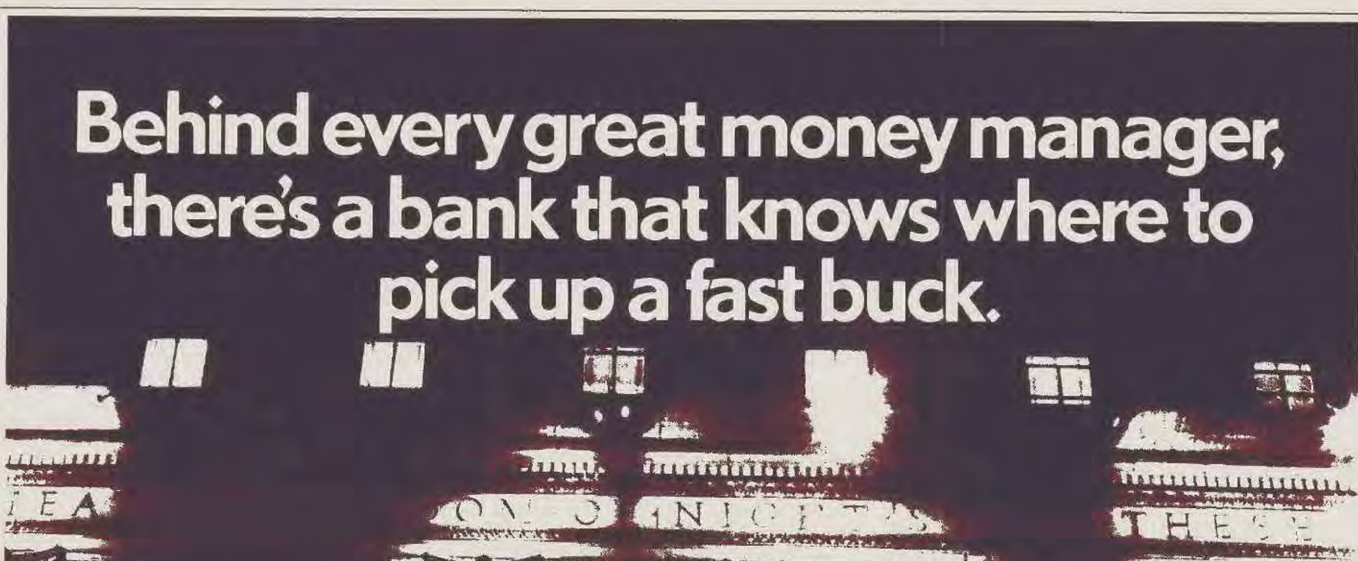
The amount of compensation which a nation would be liable to pay would be determined by international law and "the principles of justice and equity."

It was pointed out that it would be difficult for a nation to conceal its guilt if one of its space objects fell to earth and caused damage.

Also noted was the fact that there has never been a claim for damages caused by such objects though some have fallen and not been burned when reentering. ■

New hazard guide

Works officials in industrial plants in Britain have been given a new government guide on detecting iron oxide fumes in hazardous quantities.



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U.K. government responds to espionage alarm

LONDON—Britain has suddenly got alarmed at the extent of industrial espionage. Locks are being changed on 50,000 government safes and security desks after secret warnings from the U.S. that potential spies can read their combinations with the aid of ingenious X-ray equipment.

The switch will cost the taxpayers more than $1 million but it is felt to be vital because old-type metal locks have been found to be vulnerable to having their codes "cracked." Experts found that the intricate pattern of tumbler "wheels" on these safes could be detected by the X-ray device if thieves or other intruders got into government buildings.

Although British state secrets are still involate, security experts have taken the precaution of installing clocks with plastic or lead-covered tumblers, which are impervious to the X-ray eyes.

REPORTS in London say that the switch over was ordered after U.S. security bodies had warned Britain of the X-ray peril.

But on top of this scare, Scotland Yard has been instructed by no less than Prime Minister Edward Heath himself to check reports that leaks of secret government information are occurring through widely different methods. Credit rating agencies are supposed to have gotten access to tax records by using retired civil servants to extract information.

It is suggested that foreign embassies and business firms may have gotten trading secrets by using private detectives who pose as official representatives.

Banks and other commercial organizations are said to be wide open to "snoopers" who build up a sophisticated telephone-call technique that deceives new or unwary employes into disclosing information.

REPORTERS from the Manchester-based daily newspaper The Guardian, which published these disclosures, got details of their city editor's revenue dossier within 48 hours from two government departments to prove to him how quickly they could infiltrate confidential files.

Businessmen have now been warned to protect corporate information from "bugging" spies who are feared to be on the increase in many cities. Scotland

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Yard has set up a special department to deal with industrial espionage, and several prosecutions are in the pipeline through criminal courts.

The case of an attractive girl who dated an employe of an industrial firm in a bid to get details of its $2.5 million research project for German competitors is among those set for trial.

Security consultant John Ellen recently warned corporate executives in London: "Watch out for bogus salesman, journalists and other visitors who will try to trick your staff into disclosing private research material, as it will certainly reach your competitors."

But the most unusual warning came from William Hamilton, a leading member of Parliament, who told executives at a corporate security conference: "Watch out for your girl secretaries who might have mini-bugging devices built into their bras." ■

Lloyd's, Russians in agreement

LONDON—A three-man delegation from Lloyd's of London has met with Russian aircraft manufacturers and the result of the get-together appears to have been an easing up of the British attitude toward insuring of Russian-built planes.

Many major British insurers had viewed the Soviet airplanes with caution and some had declined to write coverage because, they said, of the tremendous difficulty faced when trying to repair a Russian-built craft. On many occasions in the past, crashed aircraft were written off because of the difficulty in repairs and the general shortage of spare parts when they could have been fixed and flown again.

The Lloyd's delegation reported that the Russians had appeared surprised by the situation and had agreed to cooperate by supplying technical information, repair facilities and damage estimates. The head of the delegation said that such an agreement would ease the tension felt by British insurers when they were asked by operators to insure the Russian planes.

Aside from the USSR itself, the operators of Soviet airplanes include India, Cuba, Afghanistan and some East European, African and Arabian countries. The British, despite their reticence, have been quite involved with the planes, mainly as reinsurers.

The Russians have indicated a strong desire to market their airplanes to the airlines of Western countries. If they succeed, the British insurers could not escape writing coverage for them. ■

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AIU's holiday travel cover protects visitors

NEW YORK—At the request of the Department of Commerce, American International Underwriters has developed a new international holiday travel insurance policy for overseas visitors to the U.S. The policy, which was featured at the Discover America Pow-Wow and Travel Mart held in Chicago earlier this month, is designed to provide all-risk accident and illness coverage for foreign travelers visiting the U.S.

According to John Phair of AIU, who put the health package together, the Department of Commerce was interested in the problem of foreign visitors whose nationalized or socialized health benefits do not follow them out of their countries.

business insurance international

"The United Kingdom was the major area of concern," Mr. Phair told *Business Insurance*, "but the new coverage can be purchased through AIU representatives in over 130 countries altogether.

"IT IS HOPED," he added, "that the policy will be an extra encouragement to travel. I suppose there could be a peripheral benefit of some help to U.S. balance of payments as well."

AIU's international holiday travel coverage includes \$50-a-day hospitalization benefits for policyholders confined to a hospital by illness; accidental death and dismemberment; medical reimbursement and hotel expense indemnity. As Mr. Phair explained it, a prospective policy buyer can choose a term of coverage ranging from seven to 180 days, and from \$5,000 to \$50,000 for accidental death and dismemberment—the basic \$50-a-day hospitalization benefit remaining the same regardless. Premiums range from \$4.75 for the minimum seven-day, \$5,000 policy to \$144 for the 180-day, \$50,000 policy. These are individual rates, however, and group rates are also available.

"We are trying to promote groups," Mr. Phair said. "Rates would be beneficial for a company tour group, for example."

Mr. Phair had no estimates on the number of policies AIU has sold so far. "It is too early yet," he said, "but there was a very good response at the Chicago Pow-Wow, and our offices overseas have been approached." ■

Auto claims off 55.4%

BOSTON—The average bodily injury claim paid under the statutory advance payment law in effect in Massachusetts since Jan. 1 has been reduced by more than 50%, according to a six-month report released by the state's insurance commissioner, E. Eugene Farnam, early this month.

The new Massachusetts motor vehicle insurance law, in which auto accident victims are paid economic losses up to \$2,000 by their own insurer regardless of fault, was ruled constitutional here last month.

According to Mr. Farnam's figures, the average paid claim cost in the first six months of 1971, as compared with the same period a year ago, decreased 55.4%.

In addition, the report notes, the number of incurred claims including personal injury protection and liability for the first six months of 1971 show a decrease of 53.2% over the same period last year.

The most dramatic reduction in claims came during the three-month span of April through June. During the period of January through March claims were off 36%. The further reduction in the second quarter boosted that figure by more than 15%. ■

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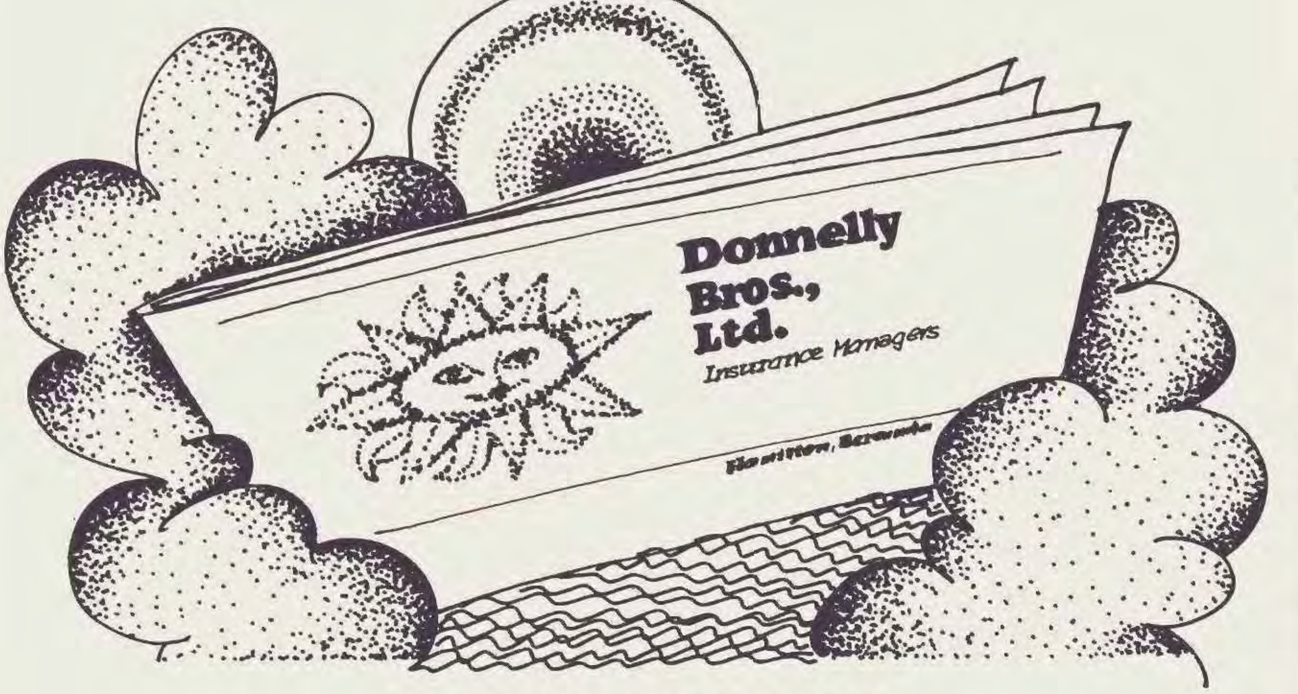

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Peace will bring greater insurance needs in Southeast Asia: Insurer

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MENLO PARK, Cal.—Winding down the war in Vietnam will bring the start of efforts to rebuild that country and this, in turn, will produce "great opportunities" for American insurance companies.

This, in essence, was the report to his home office here by Bel Teecher, senior vp, Argonaut Insurance Co., which operates a claims office in Saigon and in Bangkok as part of its widespread workmen's compensation business.

"After 30 years of warfare," Mr. Teecher reports, "Vietnam can stand a long stretch of rebuilding. There are plans afoot for the Mekong River delta that could occupy our best construction talents for the next generation. We also anticipate that the U.S. Agency for International Development is going to move briskly into the reconstruction picture as peace becomes a reality."

THE SOUTHEAST Asia operations of Argonaut were a result of the company's writing insurance for a number of large American contractors who construct everything from bridges to buildings across the Pacific basin.

Argonaut was asked by one major account with 25,000 employes in South Vietnam to establish a workmen's compensation program for that war torn country. As a result, Argonaut now serves a number of large U.S. firms working for the military and USAID in all parts of Southeast Asia.

Supplementing its workmen's compensation coverage, Argonaut usually provides major medical, accidental death, general liability, automobile and even crime protection policies to its business clients.

"About 200 American companies now have contracts with the military," Mr. Teecher explains, "for construction and maintenance of bases, distribution of equipment and supplies, service and maintenance of military hardware and equipment and construction of major port facilities, roads, airports and ammunition dumps in Vietnam.

MR. TEECHER, just returned from a trip to Southeast Asia, engaged in a series of meetings with Harold Thompson, vp for claims, and Russell Barnard, Argonaut's branch manager in Saigon. Mr. Barnard heads a staff of 10 in the Saigon office, running a major insurance program for all of the company's clients in Vietnam.

"The country is truly looking forward to peace," he told *Business Insurance*. "Some operations have been phased out or transferred to the government of South Vietnam. However, none of the American firms that maintain the bases and installations have any plans for pulling out of the country. In fact, we're looking forward to an expansion of a most profitable and satisfactory operation in Vietnam."

Mr. Thompson, who also has spent considerable time in Southeast Asia, supported Mr. Teecher's hopes for the future possibilities in that area of the world. "Thailand," Mr. Thompson said, "has a very favorable business climate for American industry and, of course, we are already in business in Bangkok.

"THERE ARE considerable American installations in that country," Mr. Thompson added, "that need countinuous maintenance and a large number of support facilities whose personnel are dependent upon our insurance services."

MR. TEECHER is particularly impressed with possibilities for expansion into Indonesia, which is beginning to experience an economic boom, he said.

"We look forward to Jakarta, the capital, becoming the hub of one of our major operations in that region," he said. "That country has a fantastic potential for growth. All types of major construction are urgently needed there and now that the government is looking favorably on U.S. assistance, both financial and capital construction, it appears that it may prove feasible for Argonaut to move into Indonesia.

"Maybe not today, or even tomorrow," Mr. Teecher said, "but certainly the prospects for the near future are most promising. So far, the major effort has been in offshore oil field development by American companies and Argonaut, of course, is a major insurer for the American oil business.

"There's a lot of work to be done in rebuilding Vietnam, in Indonesian developments, in the Philippines where Argonaut does not yet have a claims office, in Thailand and just about anyplace in the Far East where USAID has interests."

Bruce Woolery, Argonaut president and the person instrumental in opening the company's Saigon office in 1969, attended some of the meetings, adding "We're convinced as the pendulum swings toward peace in the Far East so will the need grow for the kind of business insurance Argonaut provides. And as the need grows, so will Argonaut." ■

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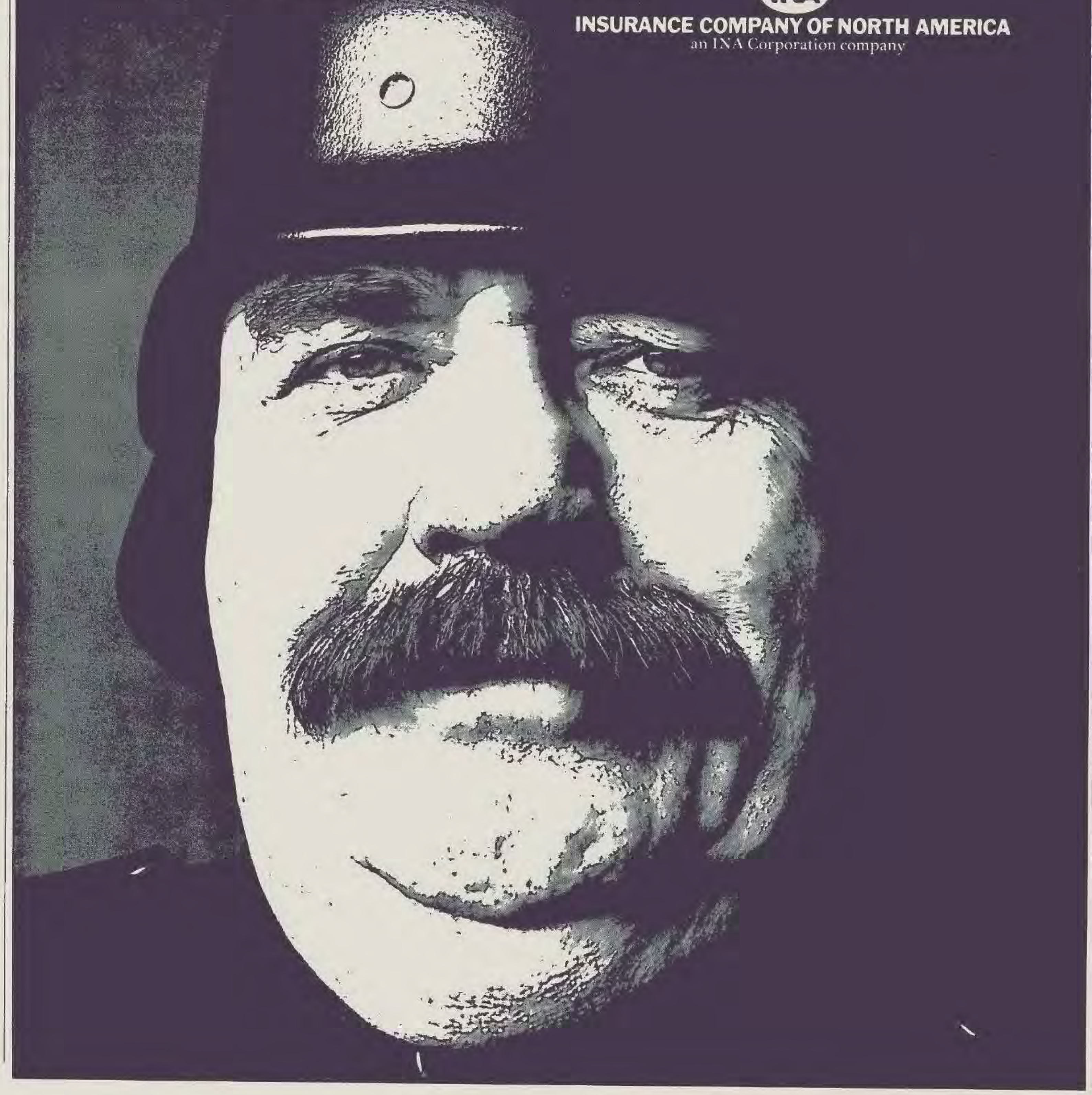

Risk manager's role in acquisition vital, says Borg-Warner's Gavin

James J. Gavin Jr.

CHICAGO—To find out where the risk management function fits into the total financial operation of an insurance concern *Business Insurance* interviewed James J. Gavin Jr., vp of finance and controller at Borg-Warner Corp. here.

Although the company has no formal notification procedures, Mr. Gavin said that the risk department is kept abreast of what's going on in the company. All major departments are called on to assist in negotiations for acquisitions, he said.

"When we come to the point in an acquisition at which there is a meeting of the minds," he continued, "we get more formal. We have a check list of things we look into. Outside auditors do the financial reviews of companies to be acquired and Arnold Berg, director of risk management, reviews the companies' risk management programs."

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MR. BERG'S evaluation of the insurance program is needed before a contract for acquisition is signed; he added. A letter of intent to acquire may go out before the evaluation but negotiations would go no further.

Mr. Gavin agrees with other corporate executives who feel that the attitude toward the corporate risk manager is changing for the better. "His function 10 or 15 years ago," he said, "was to manage the placement of insurance with carriers. The experts then were the agents and brokers."

Organizations such as the American Society of Insurance Management have helped to elevate the risk manager but Mr. Gavin emphasized that the recognition given a risk man in any company corresponds with his individual responsiveness to the position and the concepts he comes up with.

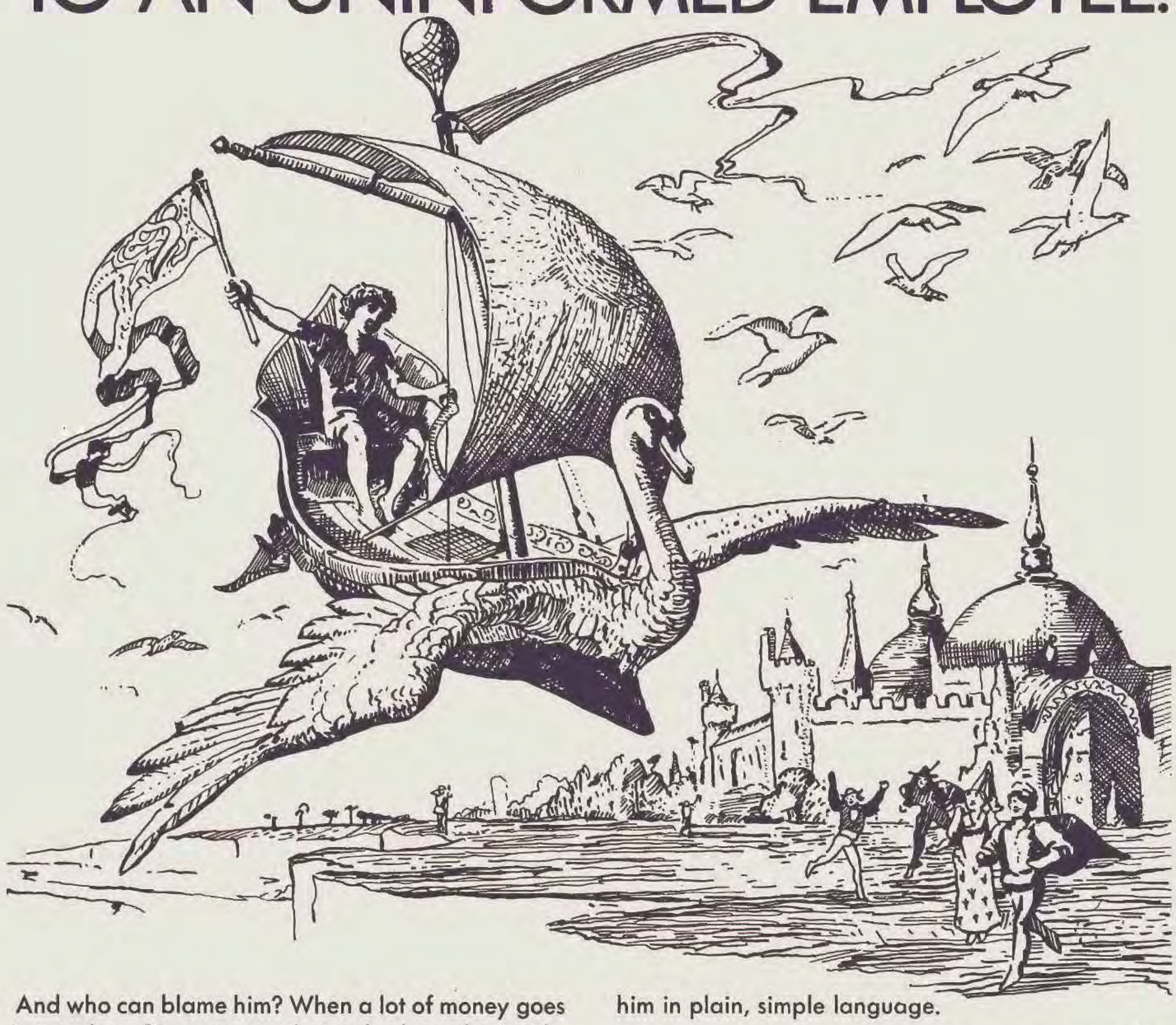
With the expansion of the role of insurance buyer into that of risk manager, even on the domestic scene, the risk man's loss prevention role requires that he have a significant impact on his company's managers, Mr. Gavin said, and that makes it essential that he understand the responsibilities of his job. "He has to have the ability to sell his function and educate management," he said.

GOING OVERSEAS just adds another dimension to the complexity of risk management, he continued, because solving foreign insurance problems requires the ability to comprehend different concepts in safety and insurance buying. "Distance alone is a problem," he commented, "that makes anything more difficult."

Mr. Gavin said that he's never had to worry about motivating Mr. Berg but he advised other corporate executives to attempt to have risk managers view their functions and responsibilities in the broadest sense. "Too often people wear blinders as far as their ability to grow and contribute goes," he said.

Mr. Berg is an important part of the management team at Borg-Warner, he told *Business Insurance*, adding, "I don't presume to give detailed direction to him. He's more expert in his field than I am." ■

HERE'S WHAT AN EMPLOYEE BENEFITS PROGRAM CAN LOOK LIKE TO AN UNINFORMED EMPLOYEE.



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Borg-Warner

Continued from page 48

master program and will then seek a market.

On the dollars-and-cents scoreboard Mr. Berg's risk management direction seems to be working quite well—he is projecting a saving of 30% to 40% in the insurance budget for 1972. The cost of fire protection generally pays itself off in six years, he said, and he predicts a 33% drop in the fire insurance budget alone next year.

Advice Mr. Berg has given Mr. Adams—and any risk manager handling foreign insurance—includes these three suggestions:

- Be thorough in your corporate insurance program.
- Work within the program established for the particular country but be alert to new insurance needs as they arise.
- Channel problems through the correct people.

Mr. Berg commented that finding a tactful man is imperative. "Tact is absolutely necessary," he emphasized, "because an overseas insurance manager deals with a large number of diverse people from diverse backgrounds." ■

Crime cover in California

SAN FRANCISCO—A crime insurance pool has been established under control of the California department of insurance as a result of legislative enactment of the California Crime Insurance Act.

Commercial policies offering open stock burglary, safe burglary and robbery coverage will be available to small businessmen and residents of 24 designated California counties. The crime insurance for residential coverage will be on a statewide basis.

For small business, limits will be $2,500 except for open stock and safe burglary with safe burglary limited to $1,000 for Class B or Class C safe and $5,000 for Class E safes. Open stock burglarly policies may be written up to a limit of $15,000 and there will be a $200 deductible or 5% of the amount of loss, whichever is greater. ■

U.S. loss control men in Poland for seminars on safety engineering

HARTFORD—Corporate safety and risk management in Poland appears to function, or not function, like a tired and worn piece of machinery badly in need of lubrication.

This is the concensus of an insurance company loss control engineer and the corporate manager of safety and industrial hygiene of Honeywell Inc., who have returned from a 30-day trip to that country where they gave seminars to officials anxious to learn how safety and risk management function in this country.

Making the trip under the sponsorship of the U.S. Information Agency and the U.S. Department of Labor were Ted Buczkowski of the Hartford Group's loss control department, and Richard L. Sweitzer of Honeywell in Minneapolis.

WHILE THE PAIR were gracious enough not to characterize

Ted Buczkowski

their findings in terms of one of those bad ethnic jokes, Mr. Buczkowski and Mr. Sweitzer, in interviews after their return, made no bones about the fact that risk controls in the Communist bloc nation lag dreadfully and seem hopelessly bogged down in the proverbial red tape.

Said Mr. Buczkowski: "Their record still leaves much to be desired. They now have the problem we went through 40 years ago: There's an industrial revolution and they are still working with old and obsolete equipment and no real improvement in that safety record can be seen until a major conversion is made in industrial equipment."

Mr. Sweitzer was perhaps a bit more candid. Asked to characterize the typical corporate safety program there, he answered: "There is no such thing. Yes, they have recognized the problem to some extent, but the fact remains that the top safety official in Poland is a political appointee. He has very little expertise in safety. The number-two man is quite intelligent in this area but he can only go as far as the number-one man will let him. I think they must put the job into the hands of a professional and then give him the authority necessary to good safety management. They must also develop incentives for workers. That is one of the big problems. There are no motivating factors whatsoever for the workers."

Mr. Buczkowski and Mr. Sweitzer spent about five weeks in Poland giving safety seminars at the International Trade Fair at Poznan and in the cities of Warsaw, Krakow, Katowice and Wroclaw. The Labor department program is part of the special international exhibitions program, which is funded by the USIA. It was Mr. Buczkowski's second visit to the country. He made a similar trip about seven years ago. For Mr. Sweitzer, a former Hartford Group loss control engineer who joined Honeywell nine years ago, it was the first such excursion. He was selected by the Labor department after the Hartford was asked to recommend someone on the corporate safety management level at a company with multiplant locations.

WHILE BOTH MEN admit that a month in Poland does not make them experts on the situation there, they did come away with some very distinct impressions. Both also said it was unfortunate they were not allowed to visit any industrial plants while they were there, for they felt on-the-spot observations may have made their safety seminar presentations much more graphic.

According to Mr. Buczkowski, safety—as indeed practically everything—is a state function in Poland. There is one safety office

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centrally located and there are provincial directors scattered around the country, but all direction comes from Warsaw.

"From a national standpoint," he said by way of comparing safety functions in the U.S. and Poland, "we in this country have been going off in all directions—or at least we were until last April 8 when the Occupational Safety and Health Act (OSHA) went into effect. From a pure organizational standpoint they (the Poles) appear to have the better piece of machinery from which to build a good national safety program." Mr. Buczkowski now feels that OSHA gives us the same potential, however.

One major problem the Hartford man observed while on the tour was the fact that the industrial revolution in Poland is bringing thousands of people off farms and into factories. Safety awareness is practically nonexistent on Polish farms and as a result farmers are just not prepared for working with heavy industrial machinery.

"I THINK, basically," Mr. Buczkowski told *Business Insurance*, "it's an education problem. For example, take posters. We utilize them rather extensively and we use a lot of words to make workers more aware of the importance of safety. They also use posters to some extent but in theirs the picture is the entire message."

Surprising to both safety men was the way in which the injured Polish worker is compensated. The workmen's compensation system is national, of course, but it is still based on a degree of fault.

"The most outstanding impression I came away with," Mr. Sweitzer said, "was that they couldn't get it through their heads that we don't have the fault system in this country. They just couldn't perceive this."

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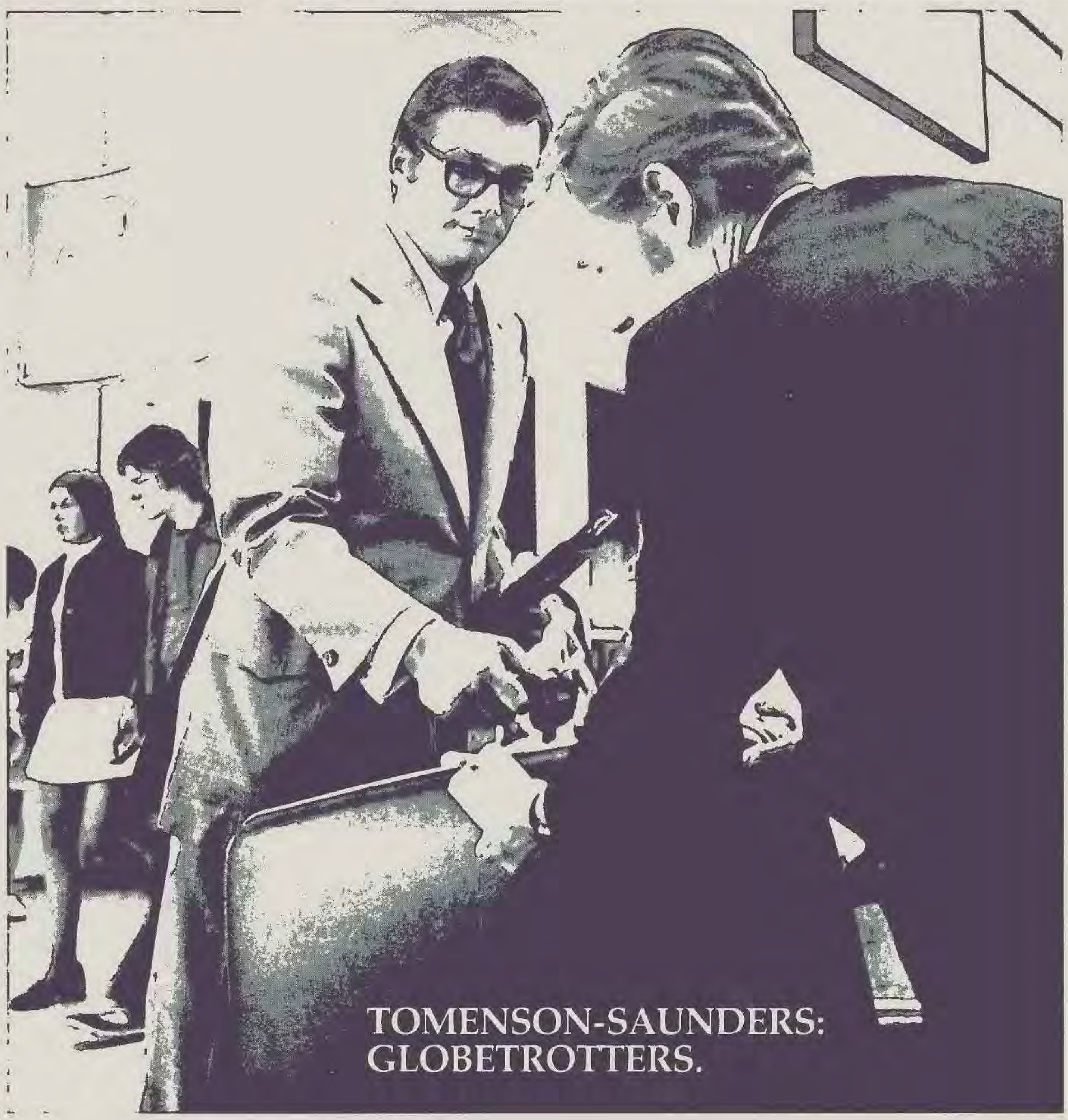

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Continued from page 45

strong, to enable the Lloyd's system of insurance to be dovetailed into Continental thinking," Sir Henry continued.

"As international insurers, Lloyd's is always ready to face competition from any quarter, and is in favor of greater freedom to trade in Europe. "Protection of insurers against distortions in competition can thwart opportunity. Distortions caused by different rates of taxation or legal systems should be removed. But freedom to compete in rates and conditions and service should stay, as long as there is financial security.

"ANY NEED to localize reserves would be the most serious outcome of this type of protection. It could seriously inhibit the efficient operation of the insurer with a worldwide portfolio that needs freedom to move assets and reserves to maximize yield, and meet claims from liquid reserves.

"One solution would be to control solvency at the center, but to decentralize commercial control, so that local regulations can be complied with in the conduct of business.

"I should warn European insurers that too restrictive an attitude might imperil the overseas business which Britain can take into the Common Market," he concluded.

Basil Robarts, chief general manager of the big Norwich Union group, and lately chairman of the British Insurance Assn., commented: "Entry into the Common Market will provide opportunity for expansion in which the British insurance industry is well equipped to take part.

"LEGISLATION covering insurance business in the Common Market is generally more restrictive than in Britain, and so can present a problem for the world wide activities of U.K. companies. "But it is hoped that Britain will be able in due course to play a full part in any discussions on harmonizing insurance legislation within the European Economic Community, and so find a middle ground for the issues involved."

Francis Sandilands, chief general manager of Commercial Union, took the view that European insurance should help to relieve local markets of risks beyond their resources, and should participate on equal terms in overseas markets in friendly competition.

Technical details show that the only directive so far issued by the EEC is on reinsurance and frees such transactions, in effect, from insurance supervision within the Common Market. But local rules usually require the reinsurer on the Continent to deposit reserves with the direct writing office as a safeguard.

Directives on other forms of insurance, to which member nations will have to comply in turn, are due to be issued over the next few years by the council of the EEC.

Minimum levels of solvency for both non-life and life assurance concerns are expected to emerge in these forthcoming directives, but they are a long way off. Naturally there will be much discussion, since they are binding on all Common Market members once they are finally formulated and accepted in the end.

So with Britain poised on the point of entry, there is a lot of talk behind the scenes, but nothing effective yet in the way of an outcome.

ONE OF THE most effective summaries of the position so far made is by T. H. N. Oppé, secretary of the Life Offices Assn. of British insurers, who stated: "The effect on British insurance of membership in the Common Market will depend on the extent to which British rules and practice have to be altered to fit the Common Market rules. In the ultimate, the reaching of mutually acceptable terms will involve compromise solutions.

"In so far as the present pattern of insurance control in most Common Market countries is more restrictive than in the U.K., any compromise would seem likely to involve British insurers in more stringent rules.

"But the gap between Britain's international outlook, and philosophy that freedom of maneuver for the insurer is good, and the nationalist pattern of the Continent may be bridged more easily than might at first be thought. For liberalizing insurance legislation so as to encourage the development of capital markets would help economic expansion."

business insurance international

Western European attitudes on insurance were reviewed by H. E. Gumbel, a member of Lloyd's Common Market working party, who gave this summary:

- France—Lloyd's underwriters are authorized to transact direct non-marine insurance, but they must appoint a general representative who assumes responsibility toward the French government and must accept service of lawsuits on behalf of Lloyd's, and they must set up technical reserves in France on business emanating from that country.
- Holland—Has a special Lloyd's law under royal decree of March, 1967, under which Lloyd's underwriters have to comply with the twin requirements of a general representative and a deposit for an initial amount as well as technical reserves. But marine and aviation risks are excluded, and can be placed direct in the British market, without the need for any domestic establishment.
- Germany—Marine and aviation risks can also be freely placed in the British market. But under present German law it is unlikely that an association of individuals, such as Lloyd's, would be admitted to operate in that country. So the law would have to be reconsidered if Britain joins the Common Market.
- Belgium—Belgium is very liberal, and controls only compulsory auto third-party liability business.

FOREIGN EXPERTS who re-

Continued on page 76

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Lloyd's man predicts 20% jump in hull rates

OSLO, Norway—The chairman of Lloyd's Underwriters' Assn., Henry Chester, told a meeting here last month that ship hull insurance premiums will have to rise by 20% in the next 12 months in order "to put the hull account back into profitability."

Mr. Chester's comments, made at an international shipping exhibition here, followed a similar warning issued in the U.S. by Allen E. Schumacher, chairman and manager of the American Hull Insurance Syndicate.

At the syndicate's annual meeting Mr. Schumacher said premium increases were essential. (*Business Insurance*, March 29.)

According to estimates, insurance premiums now account for between 30% and 60% of a 200,000-ton tankers' operating costs. In March the marine insurance market increased hull premiums by between 10% and 15%, with the latter increase applying to super-tankers of 150,000 tons and above.

AT THE TIME, it was suggested that the insurance premium on a 200,000 to 250,000-ton tanker would be between $400,000 and $500,000 a year. Another 2% increase would add $72,000 to $96,000 a year to insurance bills.

"The hull market," Mr. Chester told the meeting here, "has lost money in six of the past seven years and an annual increase in the premium of the order of 10% has done no more than prevent a further deterioration in our results."

(A Lloyd's spokesman later said, however, that the 1968 three-year account, which closed at the end of last year, would be the exception in the seven-year loss-making trend on hull insurance. Actually, he said, the books show a "freak" profit.)

The huge supertanker and container ships now plying the high seas, Mr. Chester said, are rapidly changing the appearance of international seaborne commerce. Moreover, he added, this is causing some concern to underwriters because, while the shipping tonnage and money at risk continue to grow, the number of ships afloat tend to diminish. ■

business insurance international

Offshore . . .

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coverage under one policy and to reinsure the rest through our captive. A new trend," he added, "is to set up a captive for products liability coverage because there's a great lack of reasonable cover there in the conventional insurance market."

It is not unusual for a large company to set up two or more offshore captives—at least one to cover international risks and one for domestic cover. There are also examples of corporations that belong to one of the mutual offshore insurance companies and have their own captives to boot. The Union Oil Co., for example, is a member of the consortium of oil companies that set up Oil Insurance Ltd., but a source there reports that Union is also having Johnson & Higgins do a feasibility study on a pure captive for the company alone. "We are very interested in obtaining an offshore captive," said the spokesman, "because the convetional insurance market simply does not have what we need—pollution liability, well-control, and worldwide property coverage."

On the whole, the captive story seems to run parallel to the fable of the Little Red Hen who, when told her usual barnyard friends would not help her bake her bread, declared, "Well, then, I shall simply have to do it myself." ■

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Q. How can we best conduct the surveys of foreign risks, insurance programs and loss control activities, which are necessary for purposes of evaluation and planning?

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Q. Are centralized fire protection and other loss control programs desirable and practical?

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South African laws hinder benefit improvements

By THOMAS WALSH

NEW YORK—Throughout the last year, American businesses with subsidiaries and affiliates in apartheid-organized South Africa have come under fire from various channels—including their own stockholders—for participating in, and consequently strengthening, an economy based on racist labor practices.

The critics suggest the companies pull out entirely, while the companies, whose South African investments are now estimated to be worth $912 million, argue that things can only get better for South African blacks if they stay. The theory is that expanded American business will strengthen the economy and ultimately destroy the apartheid system as the available white manpower couldn't fill the expanded need for semi-skilled and skilled worker —positions that are now labeled "white only" under South African law. These jobs, the logic promises, would then be filled by blacks, and their resulting higher wages and increased employe benefit programs would raise the standard of living.

The most widely-publicized confrontation began early in October of last year when a group of black employes at Polaroid Corp.'s Cambridge, Mass., headquarters formed what they termed the "Polaroid Revolutionary W o r k e r s Movement" and demanded the company terminate business in South Africa, announce publicly its stand on the apartheir system and contribute South African profits to recognized but understandably underground liberation movements in the country.

POLAROID, after some corporate soul searching, announced via full-page ads in the Nov. 25 Boston newspapers that it "abhorred" apartheid and said it was sending a four-member, biracial committee to South Africa to take a first-hand look. During the second week of January, $52,000 was spent to announce the committee's findings and the company's plan of action in full-page ads in seven large, daily newspapers and in 20 black weeklies.

"We decided the answer that is best for the black people of South Africa would be best for us," the $600 million corporation said and mapped out what it termed an "experiment" that, while continuing business relations there, improved wages and benefits—including life insurance—for 203 non-white employes. Some $95,000 of the profits earned in South Africa—$1.5 million, or less than .5% of the corporation's business —would not be channeled to revolutionary movements, the company said, but would be used to educate and train employes and their children as well as establish a black-run education and cultural-advancement association.

business insurance international

These few words sum up the problem in splitting benefits in South Africa. —Timothy H. Smith photo

The revolutionary w o r k e r s called the experiment "jive" and the w h i t e establishment press lauded Polaroid for being "bold and brave" and asked why other American firms with larger South African investments weren't following its good example. The official response from the spokesman for the South African consulate general was laughter.

"I don't see how one company can destroy a policy," Jurie Gryffenberg of the consulate's information service told *Business Insurance*. "We have no quarrel with any firm who wants to improve salaries and benefits of workers, but they must stay within the framework of the law. What all this comes to is this: If companies all of a sudden find out that there are ways within the law to improve salaries and conditions, it is actually a finger pointing to themselves in that they have never done it before. Besides, the Polaroid experiment as they call it is not much of an experiment at all. Other companies have been doing similar things for many, many years."

WHO HAS BEEN doing what for how long apparently is well-guarded information. Many companies surveyed in a *Business Insurance* poll either flatly refused to provide any information about their wage and benefit programs or were extremely hesitant.

Even Polaroid, after spending thousands of advertising dollars to announce its corporate humanism, has refused requests for interviews and will not issue information beyond reprints of vague company newsletters. Questions about the specifics of its alleged. wage and benefit improvements are referred to its South African distributor with the comment "It's our experiment, but their problem." The word from the South African distributor, transmitted through Thomas H. Wyman, Polaroid's president of international operations, is "He doesn't see the need to share the details."

P e r h a p s the most indicative statement on Polaroid's program is the corporation's promise that all reforms "will adhere to South African law. We may bend it," a spokesman said, "but we won't break it." Under those circumstances, Polaroid critics argue that very little can actually be done for South African blacks. For example, when Polaroid said in its Feb. 26 newsletter that "seven African employes of Frank & Hirsch (the Polaroid distributor in South Africa) have been promoted to supervisory po-

Continued on page 77

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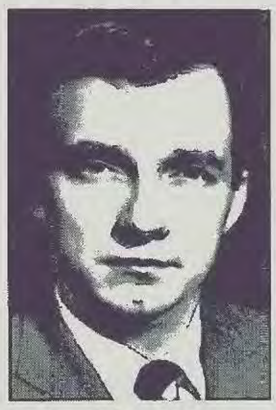
Exporting perils are lessened by FCIA cover

By PATRICK THOMAS

NEW YORK—When you pass through the doors of the headquarters of the Foreign Credit Insurance Assn., you are immediately made aware of how busy everyone is: people weaving pointedly from desk to desk and the conversation at each stop pertains to business; other people fairly loaded down with folders



Reginald J. Denton

and other office acccutrements; the harried combination switchboard operator-receptionist has barely enough time to squeak out a "good morning" between the insistent buzzes from the board.

It is in this atmosphere, tremendously businesslike yet not really stilted, that Reginald J. Denton, the association's 31-year-old president, heads the quasi-public group that has been slowly making its presence felt in the world of exports. And, if the association's own projections are to be believed, that presence could become a force in the next few years.

"What we do is guarantee an export receivable portfolio," said the amiable Mr. Denton. They do it with the help of the Export-Import Bank of the United States and 50 stock and mutual insurance companies, the association's members.

THE REASONS for providing this type of guarantee, he said, were simple. "Look at the asset side of a company's annual report and I'll give you odds that the only item not covered by insurance is export receivables. Similarly, I'll give you odds that exports show up as the riskiest item on the balance sheet."

The advantages of FCIA insurance, according to Mr. Denton, are numerous.

business insurance international

"The first major advantage is the elimination of risk. We cover both political ad commercial situations, and there are few exclusions, so the exporter's chance of recovery is very good.

"Second is the ease of financing. The exporter gets a lower interest rate and greater lines of credit if he has insurance. Last year, 485 banks accepted FCIA insurance as collateral.

"Third is the penetration of new markets. If the exporter is covered by the insurance, he can ship his goods with no trouble. You have no problems shipping to Canada without the insurance but that is not the case if you happen to be shipping to Argentina.

"Fourth is the credit work itself. The manufacturer/exporter can buy us as a credit department."

Another advantage he listed is service. Under this category, Mr. Denton mentioned the fact that the association had worked out a new deductible policy that will eliminate much red tape. He also noted that there had been a number of internal improvements as well as the opening of branch offices.

"WE HAVE NOT grown faster because we have been taking a banking approach. We have been conservative and there has been a lot of red tape. We are changing all that. FCIA is now insurance oriented," Mr. Denton emphasized.

FCIA has been providing the coverage since early in 1962 but has just lately embarked on the aggressive new program designed to multiply the volume of insured

Continued on page 80

FCIA claims reflect high predictability

NEW YORK—The Foreign Credit Insurance Assn.'s claims experience over the years has adopted the characteristics of a somewhat jaded marriage: there is always the possibility of something new but most of the activity is fairly predictable.

"You can pretty much tell when and where the trouble is going to develop," said Reginald Denton, the association's president. "In the last while, it has been countries with consumer oriented societies that have had the problems. For example, Australia and Mexico have very close ties with the U.S. and they have suffered recessions to correspond with our own."

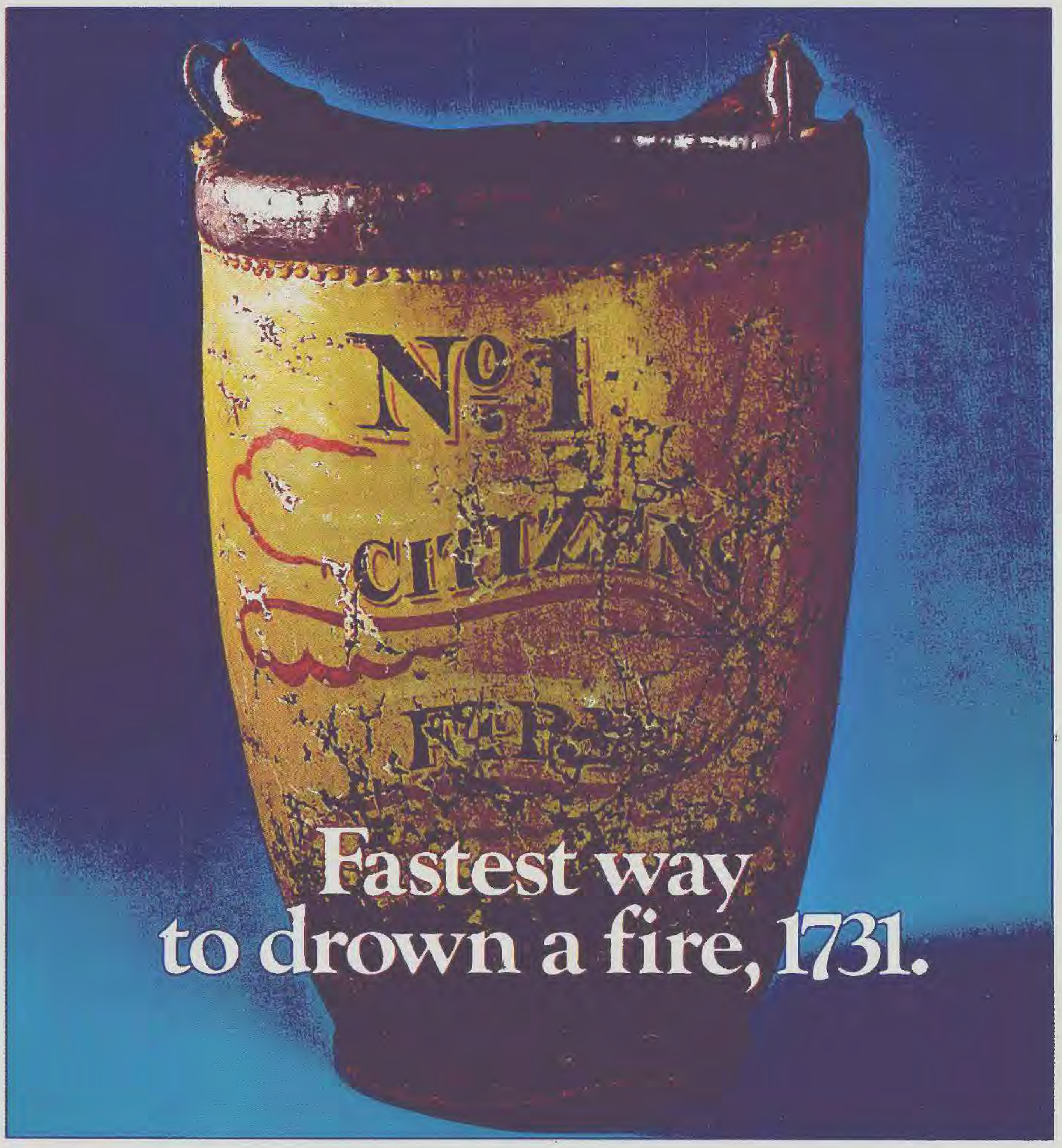
Did the monetary revaluation games that European nations seem to have a propensity for playing have any effect on FCIA?

"No, the revaluations had no effect on us. Our policies are written and payable in U.S. dollars," Mr. Denton explained.

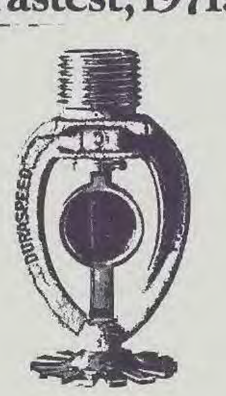
However, Mr. Denton did indicate that devaluations were more worrisome than revaluations. "We don't cover devaluaticn as such but we do cover failure of the buyer to pay, so we do get involved. But we don't usually know how deeply we are in until sometime later.

"Here's an example," he continued. "Say an exporter has everything out in local currency and a devaluation occurs. He has to pay us in U.S. dollars and that's where we could run into trouble. He could have problems converting and we might not know about it for six months."

He also pointed out, and this will probably surprise nobody, that the association acted in a conservative manner when issuing insurance and worrying about devaluations at the same time. They are more liberal with short-term transactions in financially shaky nations. ■



Fastest, 1971.



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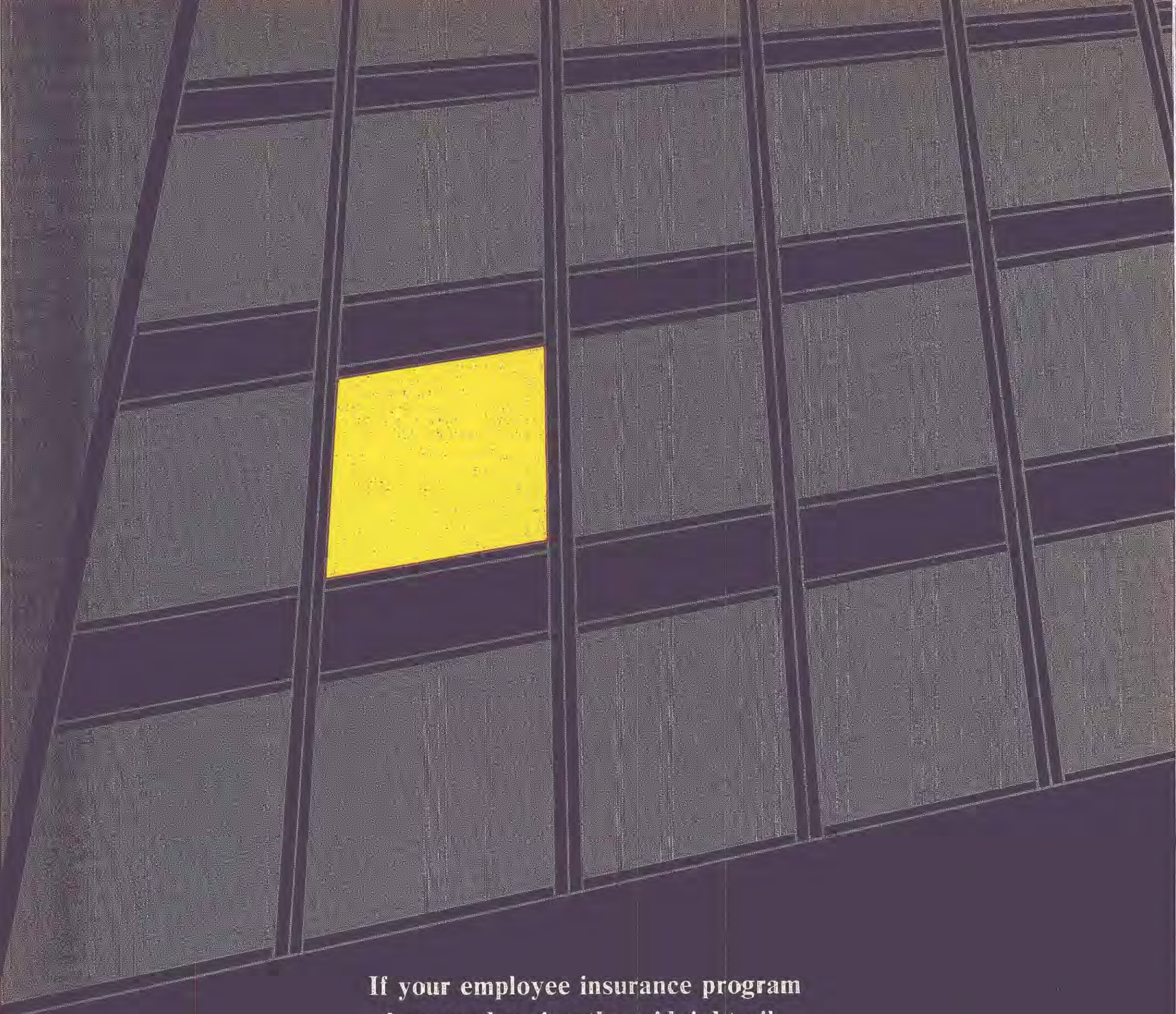

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business insurance/perspective

Consolidating foreign cover: Improvements, challenges

by Fred J. Parmentier,
Vice President, International Div.,
Rollins Burdick Hunter Co.,
Chicago, Ill.

FOR THE RISK MANAGER of a multinational, U.S.-controlled corporation, the possibility of consolidating insurance outside the U.S. can present an opportunity for substantial cost reduction, broader coverage and improved service. Such a challenge also can pose a real predicament.

As a result of history, or perhaps of management philosophy, foreign operations of his company may have been largely autonomous. If so, insurance programs may have been developed independently in each country without coordination or overall standards. In this situation, there tends to be wide variation in the adequacy and cost of coverage from one country to another.

A typical corporation, having experienced substantial growth and increased profitability abroad, may now be changing its management philosophy with respect to foreign operations in the direction of centralization. This may lead to evaluation of the desirability of centralizing purchase and administration of insurance applicable both to foreign and domestic operations.

SUCH AN EVALUATION begins with a study of insurable hazards, present insurance programs and insurance markets in each country. A principal objective of the study is to determine whether it may be necessary to modify the corporate philosophy of insurance as it applies to foreign operations so as to reflect the unavailability or excessive cost of certain coverages abroad or to acknowledge the realities of marginal profitability or undue political risks in certain countries.

Similarly, consideration is given to the pros and cons of centralizing the loss control function. The desirability of so doing depends particularly upon types and degrees of hazard and the countries involved. With respect to both fire protection and employe and public safety, attitudes, standards and available loss control services vary materially in different parts of the world.

In the fire protection area, application of U. S. standards may be difficult, if not infeasible, though in certain instances it may be deemed essential in the interest of sound fire protection. Otherwise, the problem is to determine a level of fire protection, in light of available equipment and underwriting standards, that the corporation can live with and that produces both adequate protection and a desirable result from the standpoint of insurance cost. In the safety area, the degree to which government in a given country or countries sets standards, inspects premises and demands compliance can be a determining factor.

If centralization of risk management is shown to be desirable, the end product of the study is development of a program providing worldwide master policies and perhaps complete consolidation of foreign insurances.

'The consolidated program offers opportunity to reach a clear understanding on intent of coverage. . . .'

In designing a centralized program, either of two courses can be followed or both in combination. The first contemplates continuation of existing insurance placed locally, such as fire, lightning and explosion property damage, primary general and automobile liability and primary crime insurances, but provides worldwide master policies covering the difference between the locally placed policies and coverages meeting U.S. standards as to scope and limit. This offers the risk manager the advantage of master policies written in English on terms with which he is fully conversant.

The second course contemplates the underwriting of virtually all coverages for the parent corporation and subsidiaries insurers so that appropriate recognition abroad by a single insurer or group of can be given to premium volume and spread of risk. Master policies are written as in the first plan, but the insurer through its foreign branches, subsidiaries or affiliates issues underlying local policies as required to provide legality, tax deductibility, local service and the ability to pay premiums and losses in currencies as necessary. Generally, it is found desirable to pay in local currencies, with provision in some instances, for paying portions of losses sustained in soft-currency countries in hard currencies. The latter is feasible when premiums are paid on the overall risk both in hard and soft currencies.

A consolidated program of this type offers opportunity to apply to property damage and business interruption coverages appropriate deductibles that may not be available locally and, to preferred risks, some form of cost-plus rating applying to property as well as casualty insurance. In some circumstances, it may be desirable to negotiate the entire program on an account-underwriting basis whereby premiums, coverages and related services for all lines are determined in relation to the bottom-line result of the total account.

The consolidated program offers opportunity to reach a clear understanding on intent of coverage and to enter into a long-term relationship with an insurer on the basis of "give and take" as circumstances may require or permit.

WE HAVE TOUCHED on some of the opportunities available to the multi-national corporation through centralization of the risk management function. In the event the risk manager is instructed to explore these opportunities, what difficulties may he anticipate?

To begin with, the risk manager may experience long delays in obtaining sufficient information to make even a preliminary evaluation of the insurance programs arranged abroad. He may find, despite repeated follow-ups, that not all policies are provided. Premiums, losses and underwriting data arrive promptly from one subsidiary but have to be extracted from another. Information, when received, is often incomplete. These difficulties that may be encountered are generally a re-

Continued on following page

How are insurers meeting your foreign growth needs?

by Henry G. Parker III,
Senior Vice President,
Chubb & Son Inc.,
New York, N.Y.

CREATION OF RISK is one of the prices we pay for progress.

The advent and growth of the multinational corporation most assuredly represents progress—encouraging, as it has, a greater degree of world economic integration, the formation of new capital markets and an exchange of technology within and between the developed and less developed countries of the world. But along with this development have come new forms of risk peculiar to the multinational company. If we accept that the private insurance industry (in this context the property and casualty insurance segment) is the appropriate vehicle to reduce or eliminate the cost of such risk, how is the industry responding?

It is important to consider three characteristics of multinational corporations:

- They are, or can be, truly global in scope. This pertains not just to locations of domestic or overseas manufacturing, sales or marketing facilities, but to geographic distribution of their products on which at least third, party (products) liability protection is required. To this extent, true global protection is necessary.
- They tend, by occupational classification, to be concentrated in certain industries. Prominent among these are the extractive industries, heavy chemicals, pharmaceuticals, fibers, and heavy machinery equipment. These industries, from an insurable hazard standpoint, rank higher than average in the risk susceptibility spectrum.
- The organizational and planning trend within such firms tends increasingly to be centralized as each adds multiple affiliates operating in overlapping markets and producing for a worldwide system. There are firms today that may combine a U.K.-manufactured engine, a French-made transmission, a Mexican-made axle with U.S.-made sheet metal parts to produce in Detroit a vehicle for sale in Canada. Centralization of multinational cash management may be even more advanced. For example, advantage may be taken of low interest rates in one country to supply expansion or working capital needs of operations in high interest areas.

AS MULTINATIONAL operation brings with it increasing centralization of product, market and fiscal planning, it follows that the corporate insurance program for such firms must, itself, become both multinational and centralized. Irreconcilable difficulties would attend the separate local purchase of business interruption coverage on each of those integrated multinational manufacturing facilities that combine to produce the vehicle for sale in Canada. Decentralized insurance purchase likewise creates inevitable gaps (or possibly expensive overlaps) in coverage in areas of interplant dependencies, differing measurements of loss as between the British business interruption (loss of profits) and U.S. business interruption (gross earnings) forms for example, or peril or deductible differences. Significant insurance buying power leverage is created when the global assets are combined in a centralized insurance program. Such leverage is wasted when they are not.

Happily, the era of intelligent multinational or global account insurance underwriting has begun. Certain forward-looking U.S. insurance groups have anticipated both the domestic and international insurance requirements of the U.S. corporation as it expands overseas and are prepared to offer today—in one unified market and on relatively standardized policy formats—global insurance programs that fall within the capacity abilities of the named market.

There are several specific packaging approaches. For convenience I shall group these by major lines of insurance.

The commercial and industrial property are: The dominant reason for the package approach here is the corporation's convic-

Continued on following page

Foreign . . .

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flection of distance, language problems, variations in coverage, underwriting methods and exposures or desire on the part of a subsidiary to protect valued business relationships of long standing.

Upon further inquiry, road blocks may appear. Instances may be found in which coverages must be placed locally with certain insurance companies or through certain agents because of the requirements of local financing, reciprocity or political benefit. Difficulties can arise, as well, in countries requiring local coverage subject to severe penalties or restricting exportation of reinsurance.

Some of these problems may not have a solution, but the risk manager can obtain valuable assistance in coping with the broad range of foreign insurance problems from qualified insurance brokerage firms that have international experience, captive company service capability, overseas branch offices and correspondent relationships of long standing with leading firms throughout the world.

THE FOLLOWING are some of the ways in which the qualified insurance broker should be able to assist:

- Assist in conducting a multiple line survey of all facilities abroad. This would involve evaluating risks and loss control activities, gathering underwriting data on a uniform basis and determining local service requirements. It would be expected that visits be made by representatives from the broker's local office or correspondent; that qualified engineers would participate in the risk evaluation; and that, when major plants or operations are involved, a foreign insurance specialist from the broker's U.S. organization would participate.
- In collaboration with the risk manager, design and prepare detailed specifications for the master policies or, alternatively, the entire consolidated insurance program. These, together with complete data and surveys, would be set forth in a comprehensive underwriting presentation to be submitted to the market as a basis for obtaining competitive proposals.
- In the course of negotiation, arrange for a structuring of coverage so as to utilize insurers and reinsurers on the most advantageous basis. Depending upon the nature of the risk and the capacity requirement, Lloyd's of London and other foreign or domestic reinsurers might become involved or, alternatively, negotiations entered into with a consortium of insurance companies with sufficient capacity to underwrite the entire risk.
- In designing the underwriting vehicle, it is important to build into it an economic community of interest among insurers and reinsurers in order to produce a stable coverage. Also, the arrangement must include viable administrative procedures, so that the plan will not produce reams of correspondence and continuing irritation.
- The vehicle must provide for local service as well as overall coordination. The broker's local offices or correspondent offices can be particularly useful in communication, assistance with claims and local engineering services.
- If it should prove to be desirable, the broker should make available from its U. S. staff, fire protection and safety engineers to survey hazards, internal loss control activities and fire protection and safety engineering service requirements so as to be in a position to coordinate centralized loss control service programs. Such programs might well be designed in a manner to combine the inspection and consulting services of local and U.S.-based engineers.
- It may be important, depending upon corporate objectives, to design a vehicle contemplating, either initially or at a later date when loss patterns have clearly emerged, participation in the program by a captive insurance company on an advantageous basis.
- The broker should collaborate with the risk manager in assuring the adequacy of the communications necessary to establish and operate the program. These communications through each of three channels, the insured's, the insurer's and the broker's, must be consistent and written clearly and as non-technically as possible. When the program is complex, visits should be made to all significant locations where service is required by representatives of the broker's U.S. organization. The broker should assist as well in the preparation of manuals for use by local managements outlining coverages and administrative and claim handling procedures.

Realistically, establishment of a consolidated foreign insurance program is not a matter to be completed this year or possibly even next. Foreign surveys are time consuming, as are, characteristically, decisions by management concerning foreign insurance. Also, while master policies can be effected with reasonable dispatch, local insurance is often written on a long-term basis and expirations may be spread out over a period of years. Thus, the risk manager is well advised to proceed on an orderly, programmed basis anticipating some of the problems we have discussed and handling them as they arise. ■

Insurers . . .

Continued from preceding page

tion that it can achieve a lower overall premium cost because of its overall favorable claim experience. By lumping its premiums, both geographically and by class of business, and thus creating a broader statistical base, it hopes to achieve a rating system that is sensitive to its own experience. The insurance underwriter must be aware of this desire and be willing to offer a sensitive or self-rating premium basis. The underwriter can do this, provided:

- There is an absence of catastrophe loss potential. By this I mean an absence of insured losses of such size that when compared to earned premium there is no realistic premium recovery potential.
- If a catastrophe loss potential does exist, that this potential be recognized as such by insured, broker and underwriter and the premium established to cover the exposure be kept separate—in escrow so to speak—and not subject to modification purely as a result of the account's loss experience.
- The subject matters of insurance and locations involve a minimum of "admitted" insurance requirement problems. A free-flow of premium into, and losses out of, a central private insurance market or pool is essential, especially for full operation of the loss rating formula. In our experience, we find it advisable first to group together those property coverages that would be akin to those included under a manufacturers output form, and to loss- or experience-rate these.

LOSS RATING techniques may range in method from simple return of premium if the earned-incurred loss ratio during the policy period falls below an agreed level, to approximations of casualty "retros." It is difficult to suggest any typical or sample formula. In our underwriting experience, each account differs so much from each other account that to do so could be most misleading. Smaller deductibles are implicit in this approach—say in a $1,000 to $2,500 area. For ease of administration and to allow a flexible premium program, the overseas exposure should permit a predominently non-admitted program; and the stateside exposures should involve classes of business relatively free of rate regulation and countersignature requirements. This again leads us to the conclusion that the inland marine exposures are most ideally suited to the loss-rated global account approach since, both domestically and overseas, inland marine insurance is not as tightly controlled by state or national regulatory bodies.

Now, as respects real property and business interruption, or other property coverages that introduce potential catastrophe exposures, the global packaging approach is similar except that it avoids formula loss rating. Probably the simplest method is this: For risks that qualify, stateside coverage on U.S. properties is arranged under the commercial property policy program of one or more domestic markets having both the required capacity and worldwide facilities under common underwriting management and accountability. Assuming the U.S. exposures predominate, the foreign real property and business interruption exposures are added by endorsement to the domestic contract. If foreign admitted coverage on such exposures is required because of local regulations or because of important tax, currency or other circumstances, then that same market should provide the required admitted underlyers, the master commercial property policy acting as the difference in conditions vehicle. That same market should provide both domestic and overseas engineering and claims facilities in accordance with its established company network. Assuming that it creates no insurmountable capacity problems for the market or markets selected, maximum buying leverage will be achieved by concentrating in a single market or market group both the global loss rated output or inland marine coverages, and in a separate commercial property contract, the real property and business interruption coverages.

The casualty area: Much of the reasoning behind global property packaging and, indeed, many of the techniques, apply equally to the casualty area. Many, in fact, originated with the casualty underwriters. Casualty "retros," "wrap ups" (i.e. general liability and/or workmen's compensation cover insuring prime contractors, subcontractors and, optionally, suppliers on course of construction risks) and difference in conditions or excess programs over local admitted insurance are all examples of casualty packaging in regular use today. One aim of all these programs is to provide broad coverage at a price reasonable to both insured and underwriter. Another is simply to make available to the multinational corporation coverage that is unobtainable at any price in many local markets.

Consider, for example, the standard third-party liability contract, offered in many overseas jurisdictions, that does not cover claims arising outside of that named jurisdiction; or the increasing leniency of courts, including those in the U.S. to accept jurisdiction of claims arising in another country. The liability contract issued in the country in which the claim arose may well not follow and protect the insured in a foreign court action.

EXCEPT FOR GENERAL liability, retrospective or experience rating has only limited application on the overseas portion of global casualty contracts. The reasons are twofold:

- Vehicles comprising auto fleets must, in virtually every jurisdiction, be insured on a local admitted basis. The rating base, including fleet credits, if any, is therefore subject to local tariff or bureau requirements interfering with underwriters' ability to work a flexible rating program. Non-admitted difference in conditions portion of the global auto premium allocable to the DIC can be included in the retro agreement.
- Basic workmen's compensation insurance is, today, a function of the state in more than 80% of world jurisdictions, again diluting underwriters' ability to apply on a global basis one of standard U.S. retro plans on an unmodified basis to global compensation covers. Depending on the overseas jurisdiction and the composition of his overseas work force, the insured may still have the option to provide voluntary U.S. compensation on a named state or state of hire basis for his U.S. or even third-country nationals. If these voluntary compensation employe groups are sufficiently large, it may make sense to incorporate them into the U.S. retro program. To this extent at least the aims of global loss rating will have been served.

The insured's U.S. comprehensive general liability policy, endorsed to cover worldwide, is the normal and in fact ideal insuring vehicle for global general liability exposures, either on a full drop down (first dollar of loss) basis, or as the DIC or excess contract over local admitted general liability coverage purchased on an admitted basis from the market that writes domestic comprehensive general liability.

UNDERLYING ADMITTED liability policies will not, in most cases, provide local defense if the insured is sued in a foreign court; a nonadmitted liability policy may or may not, depending on the issuing market. If it does not, the non-admitted liability contract becomes one of indemnity, giving the carrier the right but not the duty to defend. The standard U.S. umbrella liability contracts are usually worldwide and do not require further territorial endorsement.

The crime area: The broad form comprehensive fidelity bond can be a convenient vehicle for combining various crime coverages for overseas operations with those for domestic. This is accomplished normally by endorsing the domestic bond to include overseas exposures. Admitted underlyers written in the same market may or may not be required, but if so, the master comprehensive bond acts as DIC over such underlyers. It must be remembered, in the often difficult area of foreign crime coverage, that the size of the average claim tends to be larger, and that adjustment of fidelity losses may be sensitive, especially if the criminal is a local national and the multinational employer is bending over backwards to be a "good neighbor" and maintain an impressive local image. Audit and security safeguards considered normal in the U.S. may be more difficult to install, maintain and monitor at remote overseas locations. For these reasons, that portion of the fidelity premium applicable to overseas may be proportionately larger and other underwriting safeguards may be required, such as a lower policy limit and a higher per occurrence deductible.

The age of the multinational corporation is upon us, demanding this sort of packaging. Certainly there are problems, not the least being a host of nationalistic restrictions imposed by sovereign jurisdictions limiting to some extent our ability to buy or sell such packaging. But the progressive corporate insurance buyer and his broker will not be denied access to those global facilities and techniques described here. Those U.S. markets that have anticipated these needs are ready to fill them. ■

'It must be remembered, in the area of foreign crime cover, that the size of the average claim tends to be larger.'

Henry G. Parker III is a graduate of Princeton University and attended the University of Pennsylvania Law School. He has been associated with Chubb & Son since 1949. He participated in the formation of the company's international division in 1957 and has, for the past several years, served as division manager. In addition, he is vp of Federal Insurance Co. and of Vigilant Insurance Co. He is also chairman of the board of directors of La Fedeacion, Compania de Seguros, Caracas, Venezuela, and a director of La Federation Europeenne d'Assurances, Brussels.

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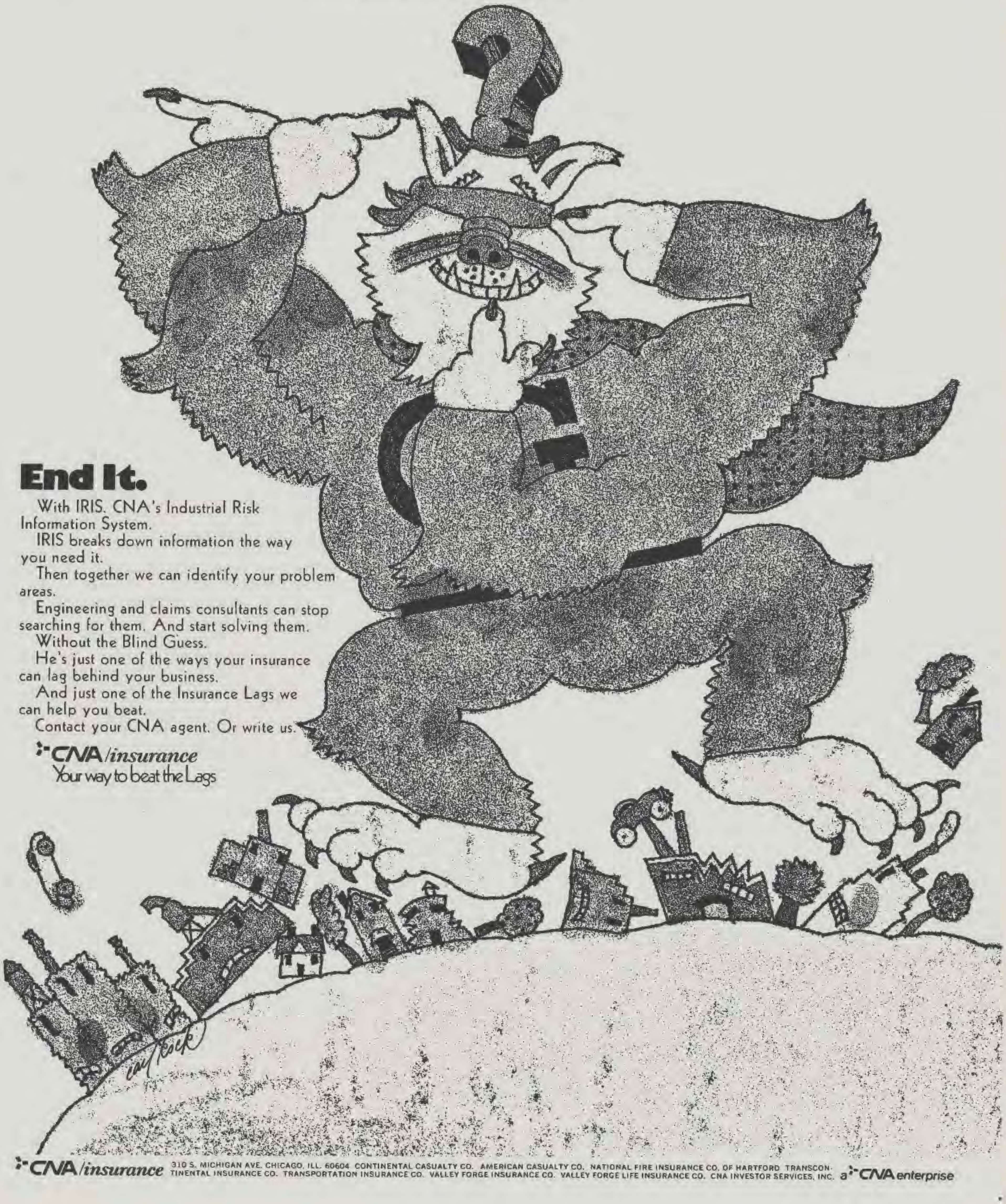

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Here's your 1971 international services listing

CHICAGO—This is the 1971 *Business Insurance* listing of international services containing descriptions and locations of services that are available to risk managers and employe benefits administrators of companies that expand overseas or have installations in foreign countries.

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Together with six of Europe's leading insurance brokerage and employe benefit consulting firms, Johnson & Higgins has established Employee Benefit Consultants A.G., also referred to as EUROBEN. The new corporation, based in Zurich, will help international companies plan employe benefit programs throughout Europe, the Middle East and North Africa.

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Continued on page 74

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September 22-24, American Management Association workshops, "Modern Corporate Insurance Management" and "Risk Management Clinic," AMA Management Center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

September 27-29, American Management Association orientation, "Special Risk Underwriting and Markets," AMA headquarters, New York, N. Y. For more information write the AMA, 135 W. 50th St., New York, N. Y. 10020.

October 4-8, Trainers of Commercial Drivers Course designed for those responsible for the development of driver training programs and the training of drivers in motor fleets, University Park Campus, Penn State University, University Park, Pa. For more information write The Continuing Education Conference Center, The Pennsylvania State University, University Park, Pa. 16802.

Listing . . .

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Who's who

"Who's Who in Risk Management," a compilation of 600 biographies of risk managers, has been published by the Weekly Underwriter. Copies at $15 each may be obtained from the publication at 116 John St., New York, N. Y. 10038.

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AIG training program is plugging personnel gaps in 133 countries

business insurance international

NEW YORK—The order may originate in Upper Volta, Afghanistan, Iceland or any one of the 130 other countries in which the American International Group Inc. affiliate, American International Underwriters is represented: Send help.

Given even the climbing rate of unemployment, the chances are slim of finding a young, experienced insurance executive with command of the native tongue, knowledge of the cultural and historical background and enough familiarity with international economics to represent an organization worth $2.7 billion worldwide. So, you make one.

Norman Crafts, AIG's assistant vp and director of manpower planning, finds the person. William Monk, director of the group's education and training department, molds the person. The whole process takes almost two years and can cost AIG as much as $20,000.

THE HUNT usually begins at the Thunderbird School of International Management in Phoenix, an Air-Force-base-turned-executive-factory staffed by retired successful businessmen. Its 750 students are earning either a post-graduate, one-year bachelor's degree or a two-year master's certificate, and, typically, are between 24 and 30 years old, have survived the military and have either worked or traveled extensively overseas.

"Two-thirds of their graduates usually want to talk to us," Mr. Crafts explained during a guided tour of the AIG training facilities. "We'll get 300 resumes and three of our people will end up interviewing 140 to 160 graduates in three days. Of those, we'll usually bring back seven or eight. One year we brought back 20."

Candidates from the graduate business schools of large Eastern colleges are also frequently screened and, occasionally, unusually industrious young nationalist employes of foreign offices are imported for training if they are highly recommended by their American bosses.

"Because our policies are issued in the local language and paid for in the local currency, language fluency is a primary qualification," Mr. Crafts said. "Most of the people we eventually take on are fluent in English and two other languages. Some can speak as many as 12. Maturity—both emotional and social—is also important and is judged primarily through multiple, in-depth interviews. If a candidate is married, we also interview the wife. We want to be sure she is compatible to foreign assignment. We don't want a man to fail because his wife is unable to buy thread in the marketplace."

THE FINAL decision to hire a candidate is made after consultation with as many as six senior executives. Even Maurice R. Greenberg, president of the parent senior company of AIG, C. V. Starr Co., frequently interviews prospective trainees.

This year, 31 socially and emotionally stable, at least bi-lingual and cross-culturally oriented corporate newcomers survived the screening process. Now, under the direction of Mr. Monk, they are learning the insurance business.

"Originally, the training procedure in most insurance companies was a matter of giving the trainee a book to read and then booting him out," Mr. Monk said. "Well, we don't send people out and then keep our fingers crossed. We originally had a six-month program, but we've been off that for two years now. We found too many problems with a program where you took a young man who knew nothing about insurance in January and shipped him out in June or July. Now these men go to their assignments with expertise in at least one line so that they can make a real contribution once they arrive."

Much of the schooling is individually programmed, and a very definite psychological orientation to the company is built in from the start.

"WE'RE NOT mass-producing here," Mr. Monk stressed. "We send out inquiries to department heads and ask for their projections of personnel needs. Our pro-

Continued on page 81

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Product liability against a foreign manufacturer

PHILADELPHIA — Assume your company has purchased some equipment made overseas. It proves defective—breaking down, blowing up, falling apart. You want to bring a product liability action.

But who do you go after? The distributor? The distributor and the manufacturer? Or the manufacturer alone? And if it's necessary to file suit against the manufacturer, is there any chance of actually doing so?

Product liability experts agree that boiling down all the answers to a few rules of thumb is difficult. But, in essence, here is what they suggest:

• Use the same approach on product liability actions involving imports as you would use on domestic products.

• Go after the party or parties who have the money to pay damages.

• Determine if the amount of the damages merits pursuit. Would you, for instance, chase a $2,000 claim to Italy?

ONE OF THE biggest problems in cases involving imports is the accessibility of the manufacturer. But there is usually a distributor involved who is accessible. And under a strict interpretation of liability, he is clearly assailable.

If the foreign manufacturer maintains a sales and/or marketing subsidiary in the U.S., you're in luck. But, warn the experts, not all such firms are actually subsidiaries of their presumed overseas parent. If no corporate tie exists, you've got to take your suit to the country where the goods were made.

Here, the going gets stickier.

You could make a rough comparison with legal actions in the U.S.—a product liability claim in one state that must be processed in another state where the company is incorporated. When the action involves two countries, however, you've got to face a plethora of new questions. Here are three of them:

• Does the U.S. have trade or commercial treaties with the country involved?

• Was the defective product (or part or raw material) actually from the foreign manufacturer's country—or was it, in turn, imported from a third country?

• Where did you actually take title to the product?

DR. JOSEPH A. RICH, an attorney and professor of management engineering at Newark College of Engineering, specializes in product liability. He sums it up this way:

"Businessmen try to pass their risk on to the next guy in line. And as soon as you cross any boundaries (state or national), your difficulties in product liability actions mount."

So far, the percentage of product liability cases against foreign manufacturers has been small. And likely to remain so.

One reason is that few imports reach American consumers (individuals or companies) in the state in which they were imported. They often undergo processing, or are combined into subassemblies, or are modified and adapted.

In some cases, the experts note, only the trademarked name on the case or housing of the product is native to the U.S. ■

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Measure might change comp system

HARRISBURG, Pa.—Legislation introduced in both branches of the general assembly here calls for some major changes for the state's workmen's compensation system. The changes have the support of Gov. Milton J. Shapp.

Under the bills, the existing situation under which "administration of the workmen's compensation act rests principally in the hands of insurers rather than the state" would end. Introduced by Sen. W. Louis Coppersmith, the legislation would:

• Require insurers to commence payment of benefits within 15 days after notice of an injury and enable successful claimants to recover reasonable counsel fees.

• Extend from 16 months to two years the time in which claims could be filed.

• Require referee or board approval for fees charged in all cases by claimant's counsel. At present, fees are fixed by the comp board on request. The standard maximum fee would be 20% of the award, but higher fees could be authorized at the discretion of the hearing officer.

• Remove statutory limits on salaries of board members and referees and place the referees under the state civil service system. Referees, now appointed by the governor, would be named by the state secretary of labor and industry. ■

Common . . .

Continued from page 64

cently visited Britain gave these comments at a special insurance seminar at Sussex University on European attitudes:

Dr. Reimer Schmidt, director general of the Aachen and Munich Insurance Group: "The need in Europe is to strike a compromise between the necessity to keep or create the right conditions of security, and the similar need to provide the right degree of commercial opportunity. Insurance contract law must be harmonized by compromising between both strict and mild legal systems which are at present in force. But supervisory bodies are needed to ensure that contracts can always be fulfilled."

Dr. M. Luzzatto, general manager of the Italian Reinsurance Union: "Directives which are being reached after years of study in Europe may have to be revised, and though the peculiar nature of the London market, including Lloyd's, will have to be taken into account, I hope these will not be substantially upset."

So when will the champagne be drunk to celebrate unity among European insurers? Well, it might have to stay on ice for years with such a host of technical problems, to say nothing of international legal and tax system dilemmas, to be solved by so many countries. ■

S. Africa . . .

Continued from page 66

sitions," it means very little as, under the laws made exclusively by whites (who constitute only 17.7% of the country's 21.3 million inhabitants), blacks can never supervise whites.

In evaluating South African labor laws and practices it should be noted that 90% of the workers in the mining industry are non-white, all but a few being Africans (as opposed to "coloreds" and "Indians"—the other non-white classifications under South African law). In construction and manufacturing, Africans comprise almost 70% and 50% of the respective labor forces. Briefly, here are some examples of the legal barriers that block efforts to improve wages and benefits for employes:

- Under the industrial conciliation act of 1958, Africans are barred from membership in trade unions and are denied the right to participate in collective bargaining. In many industries, white workers make wage and condition agreements with the employers for themselves and for the Africans. Under law, the Africans, although not represented, are bound to these agreements and face stiff jail sentences if they refuse to comply with them.
- All Africans earning less than $764 a year (an estimated 90%) are excluded from the South African government's contributory unemployment insurance scheme.
- Under the Bantu labor regulation act, no one is allowed to employ an African in an urban area without the permission of the local labor bureau. The bureau may also refuse to sanction the employment of any African or order an employer to dismiss any African employe.
- A 1956 addition to the industrial conciliation act empowers the minister of labor to prohibit anyone from doing any job because of his race. Defined as a "safeguard against inter-racial competition," the section allows the minister to prohibit the replacement of workers of one race by those of another race, force employers to maintain a fixed racial percentage among their labor forces and/or reserve any class of work for members of a specified race. The minister may also grant and withdraw exemptions, and, consequently, has the power to direct labor at will and intimidate employers.
- The factories, machinery and building works act regulates the hours of work and conditions of employment, the supervision and use of machinery, precautions against accidents and other related matters. For workers who are not protected by other wage-regulating measures, the act defines maximum hours of work, sick leave, holidays and wages. The act also requires employers to provide separate dining, locker and rest room facilities for whites and non-whites. The employer may also be ordered to separate white and non-white workers "to safeguard the physical, moral or social welfare of the employes."
- All African men over 18 years old are required to pay a fixed annual tax of $3.50 plus a local tax of $1.40 for every dwelling hut. They are also liable to tribal levies. Whites do not pay these taxes or levies. All Africans are subject to annual income tax if they earn more than $504. Whites do not pay income tax on earnings less than $1,050 if single, or $1,400 if married. Africans get no tax relief for dependants. The taxes are deducted from salaries under a pay-as-you-earn system, and, if the deductions are higher than the tax, refunds are given to whites but only to blacks if the government "is satisfied that the circumstances of any particular case would warrant a refund."
- African high school students, unlike white students, pay for their educations. White pupils receive textbooks and supplies free, while African students must pay. The costs for supplies for the three-year program are estimated at almost $50.

Given these conditions, here is what four American investors offer their South African employes in terms of wages and benefits:

General Motors—GM has a stake in South Africa worth an estimated $125 million and employes some 6,000 persons, including 3,500 blacks, to produce commercial and passenger vehicles and refrigeration units. The company's official stand is that it is "trying to bring about improvements in South Africa which will make a better life for everybody." Its work force is 66% non-white, it says, pointing out that local legal restrictions impose a maximum of 45% non-white manpower.

GM workers draw salaries based on three different wage scales, but a spokesman said, "The wages we pay are well above the poverty level." The starting rate for non-whites at the engine plant is 52¢ per hour, or $83 a month. The semi-skilled worker, usually a colored, receives between 70¢ and $1 per hour. Machine setters and changers, mostly whites, earn between $1.40 and $2 per hour, and skilled artisians—always white—receive more than $2.10 per hour.

In terms of employe benefits, the company offers all employes a pension program, life insurance, a sickness and accident program (both for employes and their dependents and retires and their dependants), a pre-hiring medical exam, annual chest X-rays, a tuition-refund plan for workers who complete a course of study and a free lunch. GM also awards more than 100 high school scholarships to employes and dependants annually.

business insurance international

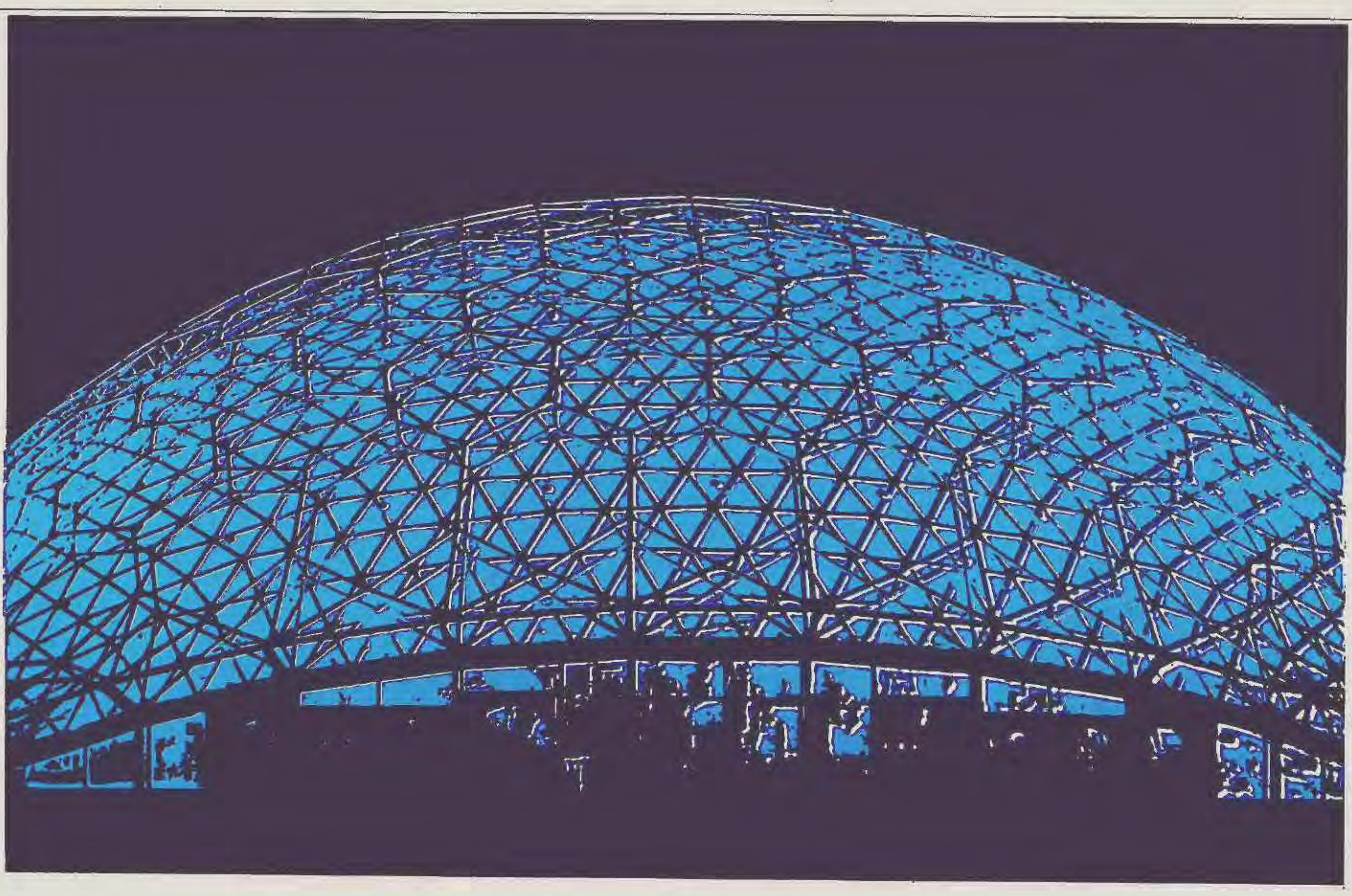
The contributory pension program is open to all employes at age 30, with at least one year of service, who contribute 5% of their pay, including cost-of-living allowances. The benefits of the program are set at 1.5% of the average pay for each year of participation. Under the non-contributory scheme, all employes with 10 years of service at retirement receive .6% of the average pay over the last 10 years multiplied by the number of years of service.

GM's group life insurance package is written by the African Life Assurance Society Ltd.

Ford Motor Co.—Ford has an estimated $63 million invested in South Africa in four major sites and employs 4,420 workers. Of that total, only 220 are Africans and they work with some 200 whites in the company's $11 million engine plant. Its assembly plant employs 1,000 whites and 3,000 non-whites, both plants adhering to a two-race employe scheme encouraged by the South African government to minimize mixing of the races.

Wages at the Ford plants are divided into 12 categories. The

Continued on page 81



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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 checklist for building a foreign insurance program is one of the topics covered in a brochure, **Meeting the Challenge**, prepared by the international division of Chubb & Son Inc. Copies are available by writing to Chubb & Son Inc., International Division, 90 John St., New York, N.Y. 10038. Chubb's international division also offers **International Employees Personal Insurance Plan,** designed to provide U.S. employes transferred overseas with needed coverage, and a brochure listing the company's overseas offices and affiliates of its management companies.

• Johnson & Higgins has made available four international bulletins issued within the past six months, all relating to international employe benefits. The bulletins are available by writing Johnson & Higgins, 95 Wall St., New York N.Y. 10005.

• **Problems of a Foreign Reinsurer in the United States and Canada,** a speech made by Dr. Gottfried Berger, president of the Cologne Life Reinsurance Co., before an ALC Medical Section Meeting and reprinted from the International Insurance Monitor, is available from the Cologne Life Reinsurance Co., P.O. Box 300, Stamford, Conn. 06904.

business insurance international

• The third English edition of **Tables of Practical Equivalents,** published by the International Union of Marine Insurance and available from the International Insurance Monitor, contains the principal terms, clauses and conditions of cover used in forty-eight countries for the insurance of cargo against the risks of international transport. Copies are $4.95 each and may be ordered through the International Insurance Monitor, 150 W. 28th St., New York, N.Y. 10001.

• **Developing Policies and Procedures for Overseas Employee Benefit Programs,** a newsletter released by George S. Buck Consulting Actuaries, Inc., Two Pennsylvania Plaza, New York, N.Y. 10001 is available free to *Business Insurance* readers from the company. The bulletin stresses pension planning in Japan.

• Marsh & McLennan has made available a **Survey of Group Life, Medical and Retirement Plans In the Republic of China (Taiwan).** The report provides a description of social insurance practices, current benefit practices and makes recommendations for a benefit program in Taiwan. The booklet can be ordered from Marsh & McLennan International, 70 Pine St., New York, N.Y. 10005.

• The International Benefits Information Service offers the IBIS Briefing Service, a monthly newsletter hilighting current developments in the international employe benefits field and IBIS Reference Manuals, continuously updated, loose-leaf manuals for countries which are important industrially and have well-developed employe benefit structures. Both services are available on a subscription basis. For more information write IBIS, 60 Broad St., New York, N.Y. 10004 or Charles D. Spencer & Associates Inc., 222 W. Adams St., Chicago, Ill. 60606.

• Corroon & Black Co. has released **Ocean Cargo Insurance.** The booklet provides notes and comments on claims procedure in connection with ocean cargo insurance and claims on ocean carriers. Send requests to Wm. J. Sheppard, Vice President, Corroon & Black Co., 150 William St., New York, N.Y. 10038.

• **The Problems of Total Remuneration in the European Economic Community and United Kingdom** is a brochure on wages, salaries, benefits and other forms of employe remuneration in the six Common Market countries and the U.K. Also available from Towers, Perrin, Forster & Crosby,

Inc. are a brochure describing the firm's **Survey of Private Pension Practices in Germany, Patterns of Multi-national Organization Design** and an introductory brochure describing the company published in five languages. Write Towers, Perrin, Forster & Crosby, Inc., Three Penn Center, Philadelphia, Pa. 19102.

• The new **Valued Form Business Interruption** 12-page explanatory brochure by the American International Group describes what valued form is as compared with regular business interruption coverage, the advantages of this form, the market for it, and the various features included in the policy form. Domestically, valued form is written by American Home Assurance Co., overseas the coverage is written by American International Underwriters. So in effect the company can now underwrite valued form business insurance interruption anywhere in the world on any kind of commercial industrial risk. It is free to agents, brokers and buyers by writing the firm to the attention of Dept. A 14, 102 Maiden Lane, New York, N. Y. 10005.

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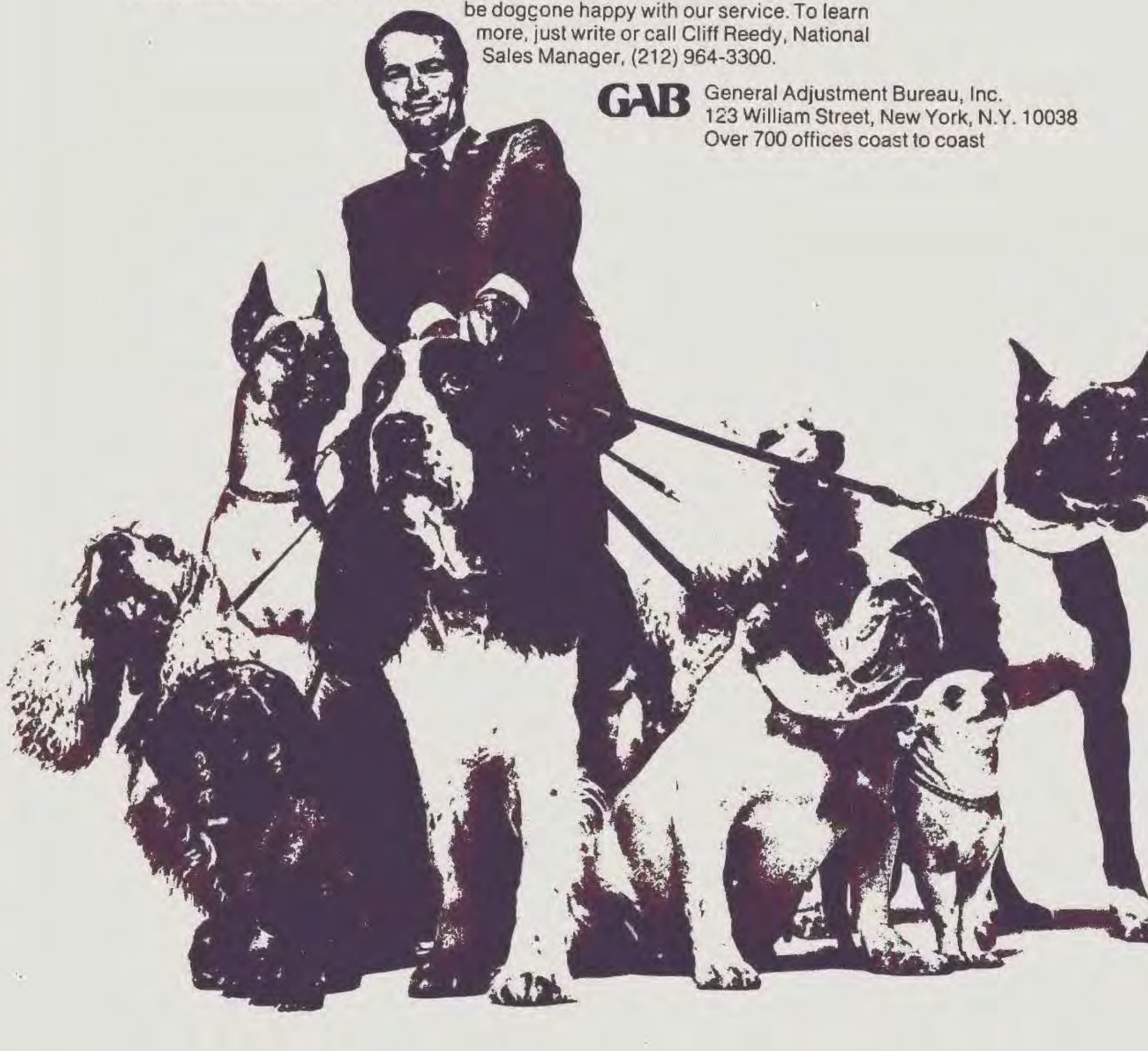

• American International's **Guide to International Employe Benefits** is a descriptive brochure which explains American International Life's approach to the area of international employe benefits. It describes the experience of the company in this area, the products currently being written, the territories and countries where licensed, and the general way the company does business overseas. It is free to agents, brokers and buyers by writing American International Group, Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

• American International Underwriter's **International Hotel and Motel Insurance Program** is a manual for agents, brokers and buyers interested in a complete insurance program for hotels and motels located abroad. It explains the company's new package plan concept, a coordinated program of basic insurance with optional plans. Agents, brokers and buyers may receive a free copy by writing American International Underwriters, Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

• Tomenson, Saunders Ltd. offers information on the current position of **Directors and Officers Liability** for those corporations chartered in the province of Ontario, Canada. For more information write James K. Cramb, Tomenson, Saunders Ltd., 401 Bay St., Toronto, Ontario, Canada.

• The Swiss Life Insurance and Pension Co. has made available, **Life Network in European Countries**, a speech given by Rene Virchaux, vp of Swiss Life, at the European employe benefit conference describing the Swiss Life facilities available to international benefit plans in Europe. For a copy write the firm's International Department, 40 General Guisan Quai, 8022 Zurich, Switzerland.

• American International Underwriters **International Holiday Package Policy** provides coverage for the following hazards faced by the overseas traveler: legal liability protection, medical payments, automobile physical damage, automobile marine, personal effects, personal accident and sickness. Included in the brochure are rate tables and a list of special features. Copies are free to agents, brokers and buyers by writing American International Underwriters, Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

• The American International Underwriter's **Guide to Personal Insurance Overseas** is a brief technical guide to the products currently being underwritten for home-foreign and foreign risks and would be useful as a hand-out to employes stationed overseas. Available to agents, brokers and buyers, it describes the types of accident and sickness, automobile, inland marine, and property coverages available. For a copy write American International Underwriters, Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

• American International Underwriter's **Specialized Casualty Facilities** is a brief technical guide to the products currently being underwritten for the home-foreign and foreign casualty risks. The booklet describes the coverage each product provides, its market, and the insurance requirements. It is free of charge to agents and brokers by writing American International Underwriters, Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

Soviet worker fringes cost 14% of budget

MOSCOW—As promised by Communist party leader Leonid I. Brezhnev, social security benefits in the Soviet Union have been increased to the point where worker benefits now consume 14% of all government expenditures.

Effective July 1, the minimum old-age benefits for Russia's 90 million wage-earners in the government-controlled sectors increased from 30 rubles to 45 rubles a month. The 25 million collective farmers—whose activities are not directly controlled by the state—may now receive 20 rubles a month, up 75% from the old 12-ruble standard. A ruble is worth $1.11 currently.

Collective farmers receive lower benefits on the grounds that they are able to raise a portion of their food whereas urban workers must buy the products.

Unlike participants in the social security system in the U.S., Russian workers do not have a portion of their wages withheld to cover the costs of the benefits. Retirement payments—usually computed by averaging earnings for the 12 months prior to retirement—are absorbed completely by the government and range from full pay for lower class workers to half pay in upper income brackets.

Russian men may retire at age 60 and women at 55 under the system. Earlier retirements are allowed if workers have tolerated hazardous occupations or have been subjected to harsh natural environments. The January, 1970, Russian census indicated that 40 million of the Soviet Union's total 242 million people were receiving old-age and other government benefits. Seven million aged are supplementing their government benefits with earned income, as Soviet law allows retired persons with full-time jobs to receive half of their old-age benefits in addition to their wages.

Minimum monthly wages are also scheduled to rise to 70 rubles from 60, as are the wages of the middle-income and collective farm workers. The median personal income of government sector workers is expected to rise to 146 rubles by 1975. ■

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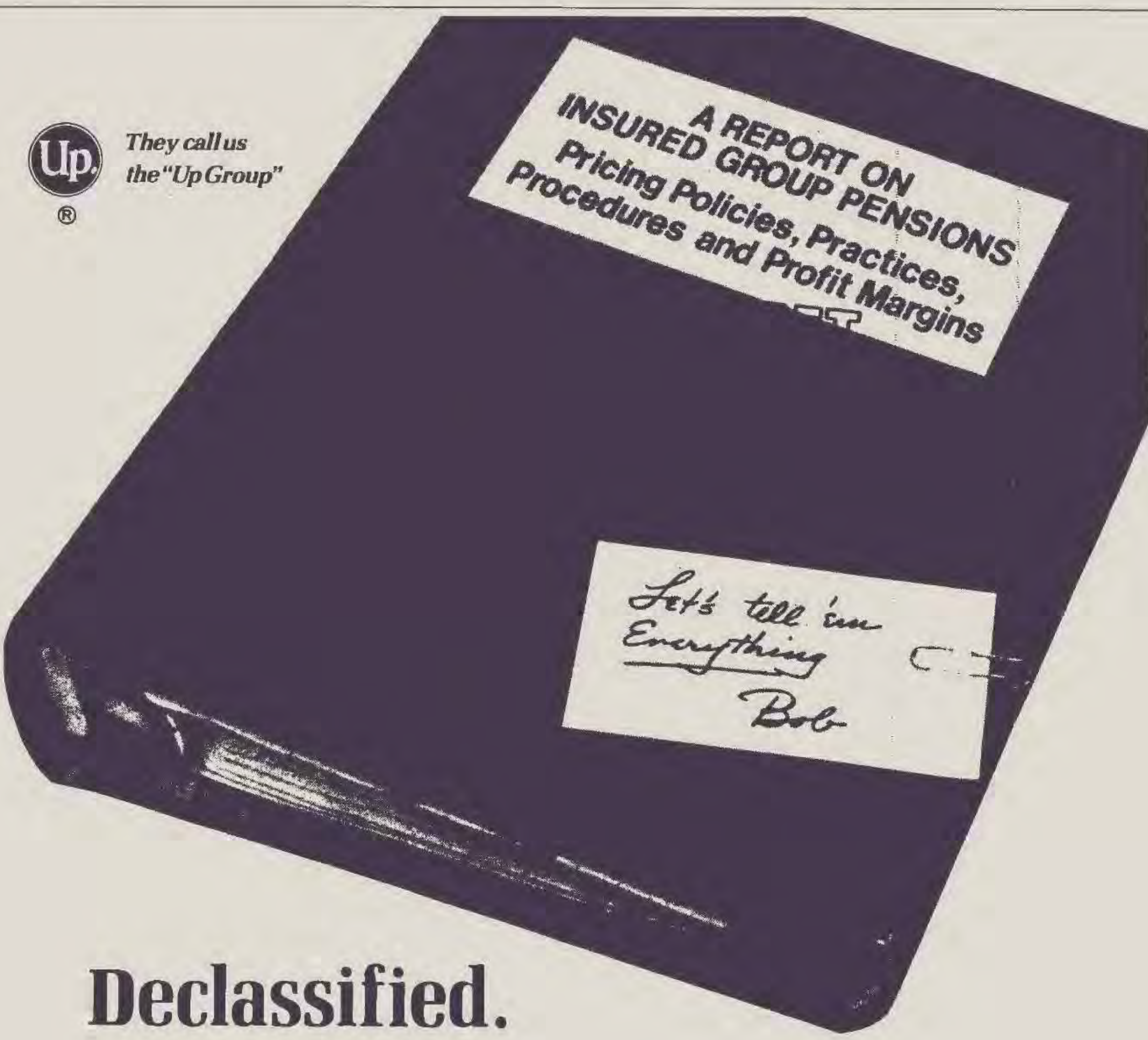

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For the whole story, contact one of our field offices or write Bob Stevenson, V.P. (Group Marketing), Union Mutual Life Insurance Company, 2211 Congress Street, Portland, Maine 04112.

Unionmutual

Exporting . . .

Continued from page 67

American exports by nearly 10 times. And it plans to accomplish this seemingly Herculean feat in the next five years.

(Last year, "around $1 billion," in exports were insured out of a total export volume of $42.6 billion, about 2.5%. As FCIA and Eximbank officials have outlined the new program, the association should cover 6% of exports this year and should be insuring $10 billion in exports at the end of five years. Other nations engaged in exporting have an average of 11% of their exports insured. Mr. Denton is looking to the day when FCIA is covering 20% of American exports.)

Mr. Denton feels that the new master deductible policy will help the association toward its rather lofty goal.

The use of a deductible is hardly a new development in insurance circles but, by saving FCIA from paying first-dollar losses, it will keep premiums down.

"The importance of this policy is that it makes processing much easier," he asserted. "And everything about it is flexible. An exporter using the comprehensive deductible policy will be able to make credit decisions by himself. Within limitations, he won't have to come to us for approval when he extends credit.

"The deductible will reduce costs in other ways, aside from premiums. Administrative costs can be cut in regard to credit limit applications. In other words, the larger the deductible, the higher the credit limits."

He pointed out that the flexibility included the premium rate (though the average annual premium paid by exporters is about .5%), the size of the deductible, the extent of discretionary credit and the amount of export volume to be covered.

THE POLICY INSURES short-term and medium-term transactions up to five years and covers 90% of exposure on both political and commercial risks.

business insurance international

He also noted that commercial banks were covered no matter what happened ("that's why the policy is bankable") and that exporters faced only one major exclusion. "Beyond the deductible, the exclusions pertain to actions of the exporters or their agents. The exports must be U.S. products shipped from the U.S. Aside from that, he'll be excluded if he tells us he's shipping tractors and it turns out he's shipping a load of rocks."

There is also a country-by-country limitation schedule. "The insurance is cheaper if you're shipping to the United Kingdom than if you're shipping to Indonesia."

(It should be noted that on all FCIA coverage Eximbank is the direct insurer on all political risks and supplies catastrophe reinsurance. Situations such as monetary devaluations and wars are considered political risks. At the same time, the numerous insurance companies underwrite the commercial risks—default or bankruptcy by the foreign buyer. The insurers boast combined resources of $22 billion, while Eximbank guarantees somewhere in the neighborhood of $10 billion.)

FCIA HAS developed another new policy designed for small businesses, particularly those new to the exporting world or those with modest export sales. The policy provides insurance for one year, with the option to renew for another year, and covers both political and commercial risks. The coverage is comprehensive for short-term and medium-term sales and usually 90% of exposure. A deductible may be a requirement and the premiums will vary according to the extent of the sales volume covered. The insurance is limited to companies whose export sales do not exceed $200,000 per year.

The final new offering from the association is a master political risk policy. It coves 70% of losses from political risks only on all sales up to five years. Each individual exporter receives a premium rate based on his specific spread of risk. The spread is determined by the markets sold to by the exporter.

Mr. Denton felt that internal improvements at the association would further contribute to the better servicing of the export community. "We now have better relations with Eximbank. We are linked to them with new communications devices and liaison teams are at work. The headquarters staff here in New York has been beefed up. Right now we have about 150 employes," he told *Business Insurance*. "That number should go up to around 200 and level off."

The relations with Eximbank are important to FCIA for many reasons, not the least of which is history. The association was formed as a joint venture between the private insurance industry and the government, represented by Eximbank.

"THE GROUNDWORK for FCIA was done during the Eisenhower years and actually formed under President Kennedy. Other industrial countries had had similar plans since the end of World War II," he recalled. "We were formed at the height of the balance-of-payments problems. Eximbank approached casualty and marine insurance companies and the talks were successful."

He also considered the opening of branch offices important to the aggressive new program. "We have had four branches, soon we will have 12. All of them, so far, have been complete successes from service standpoints. They have virtually eliminated complaints.

"The branch offices," he continued, "are and will be staffed with people who have been trained here in the home office. The number-one and number-two men in each office will be underwriting and marketing oriented. It doesn't matter which order, but one of them will look at things as an underwriter and the other as a marketer."

He said that each branch office would be viewed as a profit center and that each office would be required to spend a certain amount of time working with small businesses. "It's the unique nature of what we do," he added; "everyone uses us. Company size is no consideration nor is the size of the export. We insure everything from safety pins to aircraft."

ANOTHER HIGH POINT of the new program is education. "There is a lack of knowledge in the exporting community as to who we are and what we are all

Continued on page 82

NN Business Custom Policy

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NN-1-71

S. Africa . . .

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lowest grade worker is paid from 56¢ to 86¢ per hour and a non-white worker could conceivably reach a "grade 7" position, which pays between 98¢ and $1.12 per hour. White workers at "grade 12" are paid up to $3.50 per hour.

Ford won't talk about its pension plan, saying only that it is a proprietary program and "because of the competitive nature of the labor market, we do not wish to discuss its specifics." Others sources say it offers medical and dental aid and employe training programs as well as its retirement plan.

International Business Machines Corp.—IBM employs 950 persons in its South African facilities. Salary information was not provided. IBM offers all employes who are 21 years old and who have one year of service a non-contributory pension plan that yields 1.3% of average earnings of the last five years for each year of service. The retirement age is 65 for men and 60 for women. Mutual of New York writes a separate life insurance package that is available to all workers on a non-contributory basis. Minor benefits include a sickness and accident program and a scholarship plan.

International Harvester Co.—Of the 513 persons employed by International Harvester, 325 are black. Employe benefit programs now are extended only to non-Africans, although a new plan that will cover all employes is now being considered at the request of the South African subsidiary. The present plan is a career-average program that pays 2% of average earnings and draws from a 6% employe contribution. Two contributory life insurance programs are offered, one which yields one times annual pay and another which doubles annual earnings. Both policies are written by the General Assurance South Africa Co. ■

U.S. loss . . .

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When a worker is injured in Poland, Mr. Buczkowski explained, an investigation is made by a government official who is usually quite far removed from the particular plant location where the accident occurred and often not at all familiar with the specific loss history at a plant or on a particular machine.

"WHEN THEY investigate the accident," the Hartford Group engineer said, "they are only concerned with the degree of negligence. They do not view an accident to determine the responsibility. They treat production as one problem and safety as another." He added that, as a result, safety often goes untreated.

"This is the overriding message we tried to get across in our seminars. You must treat safety as an operating problem and not separate it from production. It's hopeful our message to them will help," he said, noting that the seminars he and Mr. Sweitzer did lead were "most gratifying" from an audience interest standpoint. "There was a keen interest on the part of the participants, much more so than many of the safety seminars I've attended and spoken at in this country," the loss control man noted.

Mr. Buczkowski, whose parents were both born in Poland, did not have a language problem. Mr. Sweitzer, however, did find himself limited at times. Although they worked through translators most of the time, the Hartford man found himself responding to questions during give-and-take sessions in the native tongue.

Mr. Buczkowski said that one thing that impressed him during the sessions was the "considerable interest" on the part of safety participants in noise and vibration-related problems. This, he added, seems to indicate that noise and vibration are particularly pressing problems in that country and are probably due to old equipment.

Another problem he observed, and simply by walking through city streets, was in the construction area. "They have a long way to go as far as equipment, staging and the usual protective devices go," he said. He did note, however, that Polish construction workers wear hard hats, although he pointed out that, as often as not, you're likely to see a hard hat on a construction man on top of a building while a colleague below goes without any. ■

business insurance international

AIG . . .

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gram then attempts to fill those specific needs."

"We also try to make our trainees feel we have a partnership," Mr. Crafts interrupted. "It's not all us. We expect something from them. They know from the start that we're not going to hold their hands, that we're not building them ivory towers. From the start we try to make the training an open, honest relationship."

The first six months of the program are split 40-60 between classroom work and individual, on-the-job domestic training.

"For the first three weeks we are attempting to teach the fundamental principles of insurance and provide some additional orientation to the organization and the executives who run it," Mr. Monk said. "The instructors are our operating department heads, and these programs seem to be a success because the information is coming from the top of the organization. These people have a real commitment to this educational training."

THE TRAINEES then view AIG filmstrips, take a telephone technique class, complete speed reading and comprehension training and begin the Foreign Policy Assn.'s "Great Decisions Program" in which nine or 10 international dilemmas of the day are outlined and discussed. The trainees are also put through a six-session letter-writing course and begin a class in basic sales techniques. A weekly quiz is administered, and, at the end of the three weeks, a comprehensive final examination is given.

"There's no grading involved," Mr. Monk said. "At least not on an a-b-c basis. It's a pass-fail system and, if a trainee fails, he's on the fence. That will happen about once a year."

For the next six weeks, the trainees are assigned to the respective departments within the New York offices of whatever company filed the original request for additional help. There they begin to master the specific skills that will be required of them overseas.

"They then come back to us for three weeks of classrom work in

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AIG . . .

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more specific areas," Mr. Monk said. "We get into all types of insurance—aviation, ocean marine, fire. We cover a wide range of topics and have guest speakers come in for a lecture series. We also concentrate more specifically on AIG and what our problems and objectives are."

THE STUDENT executives then return to their respective departments for five weeks of on-the-job polishing of their new-found knowledge.

"The final three-week period is used for classroom work in the areas of personal liability and life insurance," Mr. Monk said. "Every major facet is covered from data processing on. We also then conduct discussions on the actuarial, reinsurance and brokerage aspects of the business, and we invite different firms to come in and discuss their specific problems."

Field trips have also been used to aid training. Excursions to John F. Kennedy International Airport have shown the trainees first-hand the containerization and cargo-handling facilities they may one day be writing risks against.

"After this first six months, they are ready to go into the department line of insurance they have been hired for" Mr. Monk said. "Now they have at least an introduction to the basic tools they need and are able to progress rapidly in the field."

International trainers in roundtable session of American International Underwriters' headquarters in New York.

FOR THE FOLLOWING year, the trainees remain in New York and are largely on their own, except, of course, for over-the-shoulder evaluations by superiors who are asked to convert their observations into writing and file them every three months with Mr. Monk. The trainees are also asked to file periodical reports on their respective working environments.

Once cleared domestically, the trainee is shipped to wherever it is he is needed and, for the first year of his overseas duty, similar Big Brother reports will chart his progress.

Naturally, the people at AIG feel their training program is the finest thing since the Grapefruit League. They not only handle their own employes, but take on trainees from what Mr. Monk terms "friendly companies" for a six-month program. ■

Exporting...

Continued from page 80

about. We are attacking that lack of knowledge on four fronts," Mr. Denton explained.

"First of all, we have to educate the exporters themselves. To do this, we are using seminars and business meetings. They have to know about us if they are going to use us.

"The banking community is the second target. We have an ongoing program in which we try to orient banks to FCIA. This program includes issuing policies to banks.

"We also have to keep in constant communication with agents and brokers. We do write policies on a direct basis but we prefer to go through agents and brokers because one broker can service 50 exporters and call us once a day. That is far preferable to the same 50 exporters each calling us once a day."

He stated that all the large brokerage houses have at least one FCIA specialist on their staffs and that many of the smaller ones have international specialists.

"The fourth area for our educational efforts is in the legal field. We have found that many times it is the counsel who is holding us up at companies. We have a program to educate them to us and we try to get them to help us with policy language and things of that nature."

The reason FCIA is an association rather than a corporation, according to Mr. Denton, is that "we wanted complete acceptability with banks and exporters. Also, this way, we've got the total resources of those insurance companies behind us."

FCIA, because of its specialized yet vast nature, is in a position in which it can be different from other insurers while being no different at all.

"FOR EXAMPLE, look at claims handling," Mr. Denton grinned. "We do require documentation on claims because of our government affiliation but other than that there is nothing special. We handle claims like any other insurer."

On the other hand, the association is widespread and has accumulated an enviable amount of knowledge concerning overseas markets. "Say someone in Des Moines wants to ship his product to Paraguay. There might only be 10 distributors in the country. The advantage we at FCIA have is that we will know all 10 of them and we can tell the guy in Des Moines all about the different distributors and how much we're willing to pay."

Mr. Denton, who joined FCIA in 1967 after serving with Eximbank for two years and worked his way up to the presidency, feels that there is really nowhere for FCIA to go but up

"Today we are serious about exporting," he said. "The people in government have realized that the only way to take care of the balance of payments problem is to increase exports.

"We are of the opinion that manufacturers should ship about 50% of their goods overseas," he went on. "That way they are not only spreading the risk to 130 countries but they are balancing out against domestic recession."

The reason FCIA is confident about rapid growth? "There's excess plant capacity today and spreading the markets is a logical step. We're here to take the risk out of it. And this is a helluva large country and every manufacturer is an exporter as far as we're concerned." ■

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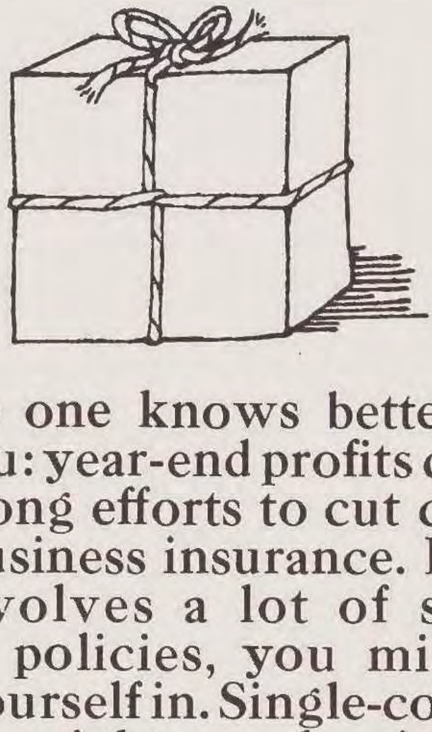

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