

The era of shortages — a cornucopia of business interruption

A of the fuel shortage are the airlines and truckers. Other companies owning fleets are also feeling the pinch, but they may pay less for insurance in the long run as fewer vehicles travel at slower speed.

We are giving a full update of the ways businesses are reacting to the energy crisis. Shortage-related stories appear on pages 3, 4, and 22. A discussion of possible ways risk managers can participate in charting a course through the rough terrain of an economy faced with shortages appears on page 12.

Insurance commissioners are looking into effects of

has covered in the past and will continue to report.

Employers throughout the country are encouraging car pools. Insurance companies have followed through by issuing a flood of statements declaring that the insurance for car pools needn't be a problem; drivers are covered under regular policies as long as they are reimbursed only for expenses and don't make a profit.

We welcome letters and suggestions about managing risks during these problem times. Look for more frequent coverage in these pages of risk management and insurance during the energy shortage.

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45¢ a copy; \$10 a year

Week of December 17, 1973

business insurance®

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



Past earthquakes have California businesses shaken up over insurance coverage.

Large firms on west coast buying more quake covers

By JOANNE GAMLIN

LOS ANGELES.—If Southern California companies could once nonchalantly dismiss the threat posed by earthquakes, they haven't been able to assume such a light-hearted attitude for nearly two years.

The reason: During the early dawn of Feb. 9, 1971, a medium-strength earthquake centered in the Sylmar area of the San Fernando valley shook thousands of buildings as far north as Los Angeles, causing an estimated \$500 million to \$1 billion in property damage, most of it to residences homes. Yet of that amount, only a miniscule \$50 million was protected by insurance.

Memories of the San Fernando quake are still alive, fanned by ceaseless publicity and discussions of whether quakes can be predicted.

DESPITE THAT FACT, brokers calculate that few companies with annual sales under \$20 million carry any form of earthquake insurance. By contrast, larger entities, perhaps reacting to the steady publicity hum, are more frequently turning to quake insurance, with many and varied types of policies.

One major oil company, for instance, self insures its refineries for quake damage, on the theory that if only one or two of its refineries are disabled, crude oil retrieval will continue nearly undiminished.

Union Oil, by comparison, has an all-risk catastrophe policy

Warn fuel-saving by heat cuts is risky

CHICAGO—Alexander & Alexander is warning clients to beware of sprinkler system freeze-ups due to heat curtailment in plants which could result this winter from the fuel shortage here and in Europe.

The broker further warned that sprinkler drainage to prevent freezing could void insurance policies.

THE FACTORY MUTUAL Engineering Corp. division of the Factory Mutual insurance system sent similar cautioning letters to all insureds, and believes the freezeup problems this year are "a real possibility."

Kemper Insurance Co.'s loss control engineering department is issuing the same letters this winter as in the past, giving a run-down on plant fire protection in cold climates.

The Factory Insurance Assn. distributed underwriting and engineering procedure manuals detailing what to look for in factory fire protection systems in light of the fuel cutback, production cutbacks, and lower heating levels.

THE ALEXANDER & ALEX-ander telegram that went out from international division vp William Bray read: "Fuel shortage and consequent heat curtailment may result in impairment of fire protection through freezing of sprinklers and other protection equipment. Also possibility of sprinkler leakage losses. Situation may become acute in Europe and suggest your accounts be alerted. If sprinklers are drained to prevent freezing, carrier should be notified, as violation of sprinkler warranties may void policies."

In a phone interview with *Business Insurance*, Mr. Bray said

that there is definitely a high concentration of sprinklered risks in Europe subject to freezing this winter, even though there are fewer sprinklered plants in Europe than here.

"It does get sufficiently cold in Europe, particularly in the northern tier countries, to freeze systems, especially with plants closed for long weekends," he asserted. He explained that there is a tradition of long weekend closings in some European countries called "making the bridge," and that heat cutbacks on those weekends could cause problems.

He also noted that the problem may be worse there than here because the art of sprinkler engineering is less developed in Europe than here.

The A & A engineer in Paris alerted the New York home office to this potential problem, "so I would have to conclude the sys-

tems there do not have the safeguards to clear up the problem," he added.

BUT THERE HAVE ALSO been classic cases here in the U.S. of frozen sprinkler systems, he said, citing the instance of a huge warehouse in Philadelphia which was gutted by fire only a few years ago because the sprinkler system was frozen.

"If a real solid freeze comes along and we have several days of well-below-zero weather, there is a potential problem anywhere," Mr. Bray believes.

An engineer with FM said that although sprinkler freezing is unusual, for a poorly insulated or leaky building the heat doesn't even have to be turned down for sprinklers to freeze. "If there are remote heads that could freeze, plant engineers should fill with antifreeze," the FM source said.

He said that in some plants and warehouses, a good cold breeze through a plant could freeze sprinklers.

FM issued long letters to all insureds, over the signature of George H. Eisenberg, president of the Factory Mutual Engineering Corp., discussing the possibility of freezeups this winter.

E. W. Arends, manager of the FIA office here, said manuals were sent out to alert insureds what to look for while trying to conserve energy this winter. He said an alternative to water sprinkling systems is a dry system, but noted that it is very costly and he personally doubts that many companies will change to dry systems.

A staff engineer in Kemper's loss control division believes reduced heat down to 42 degrees won't affect the efficiency of sprinkler systems.

NAIC moves to protect VLI buyers; SEC deciding regulation question

By STEPHEN GOOD

LAS VEGAS—A model regulation for variable life insurance (VLI) was adopted by the National Assn. of Insurance Commissioners (NAIC) at its annual meeting here.

But there is some doubt over whether the federal Securities and Exchange Commission (SEC) will accept it.

The SEC is currently undecided whether or not it will be the final authority in approval of the model regulation. If it chooses to have the last word, the VLI model will need to meet high standards of consumer protection

demanding by the Commission.

The argument over who will regulate what has amounted to an identity crisis for VLI. The insurance has a benefit beyond a guaranteed minimum that varies according to the financial fortunes of a separate fund in the market place. The plans are basically contingent on stock market performance for any additional benefits.

Employee benefits managers are looking at VLI as a new and attractive form of life insurance. A small number of plans have already been marketed to employees (*Business Insurance*, Dec. 3, 1973).

In order to assure sufficient consumer protection and perhaps evade the SEC's ire, the NAIC approved numerous safeguards in the model bill. The final set of regulations provides that VLI carriers:

- permit the buyer 45 days to change his mind after purchasing the policy, or 10 days after receiving it, whichever comes later;
- disclose to the buyer the commission of the salesman;
- permit the policyholder to switch over to a permanent fixed benefits coverage anytime during the policy's first 18 months;
- issue detailed financial statements to policyholders annually on the performance of the separate account;
- specifically limit the amount of annual charges for investment management expenses;
- define VLI as an individual policy arrangement and not a benefit that can be sold to whole groups.

EVEN BEFORE the policyholder signs the application, he must be given a summary in non-technical language of the policy's principle features, and a description of how the benefits will reflect the separate fund's stock market performance, the model rule says.

The application form also would contain questions designed to enable the insurer to determine whether the policy would be in the best interest of the ap-

HMOs are mandatory under compromise bill

By TOM WALSH

WASHINGTON—Employers with more than 25 employees will be required to offer enrollment in a health maintenance organization (HMO) in addition to normal health insurance coverage if such a facility is located near an employer's place of business.

The "mandatory dual choice" clause in the House version of HMO legislation survived conference huddles called to iron out the wide assortment of differences between House and Senate versions of HMO regulation

While requiring the option, the provision also states that no employer would be required to spend more for services provided through an HMO than he is now spending for health care services provided through group insurance plans.

THE OPTION requirement "is intended to provide individuals with additional alternatives from which to choose for their care. Thus, the requirement would have employers offer their employees, in addition to existing health insurance benefits, the option of

Continued on page 2



Home warranties

Homebuilders are moving ahead with a national insured warranty program spelling millions of dollars in premium costs. But some of the largest builders are already trying for exemption, saying the program is too expensive. See pages 30 and 31.

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HMOs . . .

Continued from page 1

joining one tightly organized HMO (or prepaid group practice) and one loosely organized HMO (medical foundation or individual practice-based HMO)."

The language in the House bill requiring the HMO option is strikingly similar to language once proposed by the Health, Education and Welfare department for inclusion in the Nixon administration's national health insurance program. HEW recently completed its draft of the Nixon health plan, which is now being reviewed and finalized by the White House. The President is expected to outline final details of that plan in his State of the Union message in January.

The House was able to win most of the concessions during the conferences on the HMO bill; most importantly, perhaps, the funding issue. The Senate bill—recogniz-

ing HMOs as a workable solution to providing complete and inexpensive health care services—called for \$805 million to be spent over three years to help HMOs meet initial operating expenses. The House bill—claiming that the HMO concept is still not proven to be above reproach—asked for \$240 million to be spread over five years for a "limited demonstration program."

The finalized bill calls for \$375 million to be spent over five years.

THERE STILL REMAINS some question whether the bill will be vetoed, sources say. In a recent address to Congress, President Nixon said he would sign the House bill if the Senate approved it. The Senate bill, he said, "would require funding levels far beyond what is needed or what we can afford."

Whether the increase to \$375 million from the House bill's original request for \$240 million will

conform to the President's notion of thrift is not known, and, sources say, cannot be predicted.

Both the Senate and the House need to repass the HMO legislation in its new form before the bill can be sent to the White House. The Congress, sources say, may hold off on a final vote until after the recess, thereby avoiding the possibility of a pocket veto by the President over the holidays.

The senate yielded on many of the provisions it had required under its bill as HMO services. Prescription drugs will not be paid as part of standard HMO benefits, but a pre-paid drug program will be offered subscribers as a supplemental benefit requiring supplemental payment. The Senate's language calling for complete eye care for all subscribers was trimmed in conference to eye care for children only.

Physical therapy services will now be provided on a short-term basis.

Quakes . . .

Continued from page 1

written by Oil Insurance Ltd. (OIL). The policy carries a \$75 million limit per quake and has a \$10 million deductible. Like most oil companies, Union also self-insures its business interruption coverage, according to James A. McCullough, manager of insurance.

Self-insurance for earthquake protection is not unusual outside of the oil industry, either. Bekins Moving & Storage, for one, self-insures its vast nation-wide network of warehouses for quake damage.

Explained a spokesman: "We have no concentration in any single area."

LOCKHEED AIRCRAFT Corp., on the other hand, relies on a \$20 million multi-peril or DIC policy for worldwide quake protection. The current Lockheed policy carries a \$500,000 deductible.

Among the big banks, Security Pacific takes the all-risk package policy approach to protect its new downtown Los Angeles headquarters, currently under construction.

The quake endorsement insures the new structure for one third of its value in case of a quake; it carries a \$2 million deductible.

"Earthquake coverage among big Los Angeles banks is a new trend," contended a spokesman for a competing bank. Claiming that his bank was the first to take earthquake coverage seriously, he explained that his bank boasts two earthquake insurance approaches. The first, he said, is a quake extension written onto an existing fire policy and aimed at protecting major buildings only. All other structures are protected by a single DIC policy. Both policies are subject to a \$1 million deductible.

Banks are apparently not the least bit interested in business interruption insurance. "We are prohibited by law from closing our doors except in cases

of total devastation," a bank spokesman said.

Martin Levinson, senior vp, Kindler, Laucci & Day, a large brokerage firm, thinks smaller companies with only a handful of key structures are rapidly shedding their old coolness to quake insurance. A big name women's apparel firm, for instance, has a new policy with a quake endorsement for its 60,000 square foot distribution center.

Beverly Hills National Bank, with assets of nearly \$1 billion, recently included an earthquake clause in its "inclusive, comprehensive business policy."

One of the companies with annual sales in the \$20 million neighborhood to boast substantial earthquake coverage is Bauman/Weitz, probably the largest furniture manufacturer in southern California.

Headquartered in Sylmar, epicenter of the '71 tumble, Bauman/Weitz was prompted to explore quake coverage after its main plant took a rough beating in that convulsion.

To shield against a second head-on collision with a quake, Bauman/Weitz now has both a \$1 million property/liability policy and a \$1 million business interruption policy, part of DIC protection. Deductible on the first policy is \$500,000, three days on the second. Appalachian Insurance Co. is the carrier.

"Our firm negotiated a helluva price for the covers," recalled Mr. Levinson, broker for Bauman/Weitz.

Lockheed Aircraft Corp., too, realized the need for stronger insurance protection, said Richard Burns, insurance manager.

"AFTER THE QUAKE the market seemed to loosen up," he recalled. "Thus at Lockheed we were able to expand our worldwide quake coverage from a dollar limit of \$10 million to \$12 million in 1971, to our current figure of \$20 million per quake."

The aircraft manufacturer's DIC policy now carries a \$500,000 deductible in contrast to a '71 figure of \$100,000.

Lockheed's current policy is complex; it draws on numerous carriers, foreign and domestic, and includes one primary and two excess layers. Marsh & McLennan Inc. is the broker.

For 60 per cent of the primary layer, up to \$5 million, Lloyd's of London is the carrier. Two domestic carriers, Mission Insurance and Stuyvesant Insurance, divide the remaining 40%.

Five domestic carriers participate in the first excess layer, valued at \$10 million. They are: National Union, International Surplus, Federal Insurance, Aetna Casualty & Surety, and Home.

In the second excess layer, worth \$5 million, Appalachian Insurance and National Union are the underwriters.

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Vol. 7, No. 26—Business Insurance is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Controlled circulation postage paid at Chicago, Ill. Copyright 1973 by Crain Communications Inc.

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And now for some good news

Energy crisis may precipitate drop in auto rates

NEW YORK—"What we do about auto insurance during the energy crisis," said the spokesman for the Hartford Insurance Group, "will depend on what happens out there on the highways."

"If the experience is favorable, we may drop our rates," he continued. "If it is not, we may raise them."

That comment seemed to sum up the feelings of many auto insurers across the nation contacted by *Business Insurance* in an informal survey. The general consensus among them is that premiums will drop if the lack of gasoline and 50 miles per hour speed limit significantly reduce the number of accidents.

But there are many factors to consider, the insurers say, when it comes to what the future and the shortage of energy may bring.

"IF THE federal government decides to ration gas, it will have a very definite effect because people will probably drive fewer miles," said David Phillips of the State Farm Insurance Cos., adding that the potential safety hazard of allowing large trucks to zip along express lanes at a faster speed than automobiles could balance the savings out.

Vernon Phelps of Government Employees Insurance Co. pointed out another factor which could have an effect on rates and the amount of profit the insurers stand to make during the crisis.

"If all these things (rationing, adherence to speed limits) come to be," he noted, "the frequency of accidents should be favorably affected." How much, though, is another question because of inflation, he said.

"Another thing to consider," commented the Hartford man, "is that the increase in the sale and use of smaller cars could adversely affect rates because accidents involving compact cars tend to cost more than accidents involving the larger ones."

A number of the insurers also pointed to the fact that the 50 mile per hour limit may not really help reduce the number of accidents because most accidents occur at speeds less than 50 mph anyway. They also said their statistics show most accidents take place off highways rather than on them.

All these things, they say, could keep rates up during the crisis.

"Mileage is the key," said Mr. Phillips. "If people drive fewer

miles, accidents will probably decrease and rates will go down."

Under most auto insurance contracts, the insurers noted, rates will drop automatically if mileage drops, the insured exposure to accident drops and, thus, his rates.

CAR POOLS were mentioned by insurance company spokesmen as a way to decrease the number of miles driven. Almost all the insurers contacted pointed out they are actively encouraging pooling among their own employees.

At the Allstate Insurance Cos., which have already officially announced they will cut rates on auto policies if the energy crisis results in "significant decreases"

in accidents, car pooling is definitely smiled upon.

"Our policies, and most other companies' for that matter, cover car pools not operated for profit," said Raymond Ewing of Allstate. "But we try to warn our insureds that they should carry sufficient

Insurance and the Energy Shortage

liability limits to cover a whole car full of people."

None of the companies mentioned they were giving actual discounts in rates for car pools but said that when a person's rate went down because he drove

fewer miles as a result of belonging to a pool, it was technically a discount.

The Erie Insurance Exchange, Erie, Pa., however, has been granting actual discounts to car pool members since 1965 (*Business Insurance*, Dec. 3, 1973). These discounts, based on the number of times a week the participant drives and the mileage driven, can go as high as 28%.

Reacting to talk that the crisis could bring about windfall profits for the auto insurance industry, the insurers point to the aforementioned fact that they still have inflation to contend with and do not foresee any great jump in profits.

Charles Cox, executive vp of INA Corp., at a press luncheon late last month, told reporters he does not expect to benefit from the energy shortage.

Citing his own company's annual reports from the World War II years, he said the company made a handsome profit during 1942, when rationing went into effect. Rates were reduced in 1943 and experience was satisfactory.

By 1944, experience had gone sour and the company was losing money on auto insurance in 1945. "The reports of 1946 and '47 were tear stained," he said, because the firm was not able to raise rates. In 1948, "it leveled out." ■

Bekins: No impact yet

LOS ANGELES—Bekins Moving & Storage Co. does not expect to feel any immediate impact of lower truck speeds on its corporate insurance rates unless a genuine recession develops.

Don Jack, director of corporate insurance, said that truck collision and property/liability insurance rates are set purely on the basis of company revenues.

"Consequently, if a true recession evolves, our revenues may fall and then so will our insurance rates," he explained.

Mr. Jack speculated, however, that the 55-mile-an-hour truck speed limit could have the effect of decreasing accidents and in this way conserve funds for the firm.



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For now, concern about keeping vehicles rolling

Lack of fuel may slow fleets and lower premiums

NEW YORK—Commercial fleet operators declare that their basic concern with the unavailability of fuels has so far precluded consideration of the side effects of the energy crisis, including its possible effect on insurance for the fleets.

Risk managers for large commercial and corporate fleets did not deny, however, that the energy crisis may eventually force a lowering of insurance rates and premiums as traffic and speed limits are reduced.

They explained though, that an application for lower rates would have to be accompanied by strong documentation of a resulting reduction in exposures and losses, which will take some time. Many

fleets are either self-insured or experience rated by their insurance carriers.

"I DON'T BELIEVE the energy crisis will have any effect on insurance premiums at first, although it seems logical that catastrophic losses would be reduced by the lowering of speed limits," said the risk manager for a major New Jersey trucking firm.

"We are self-insured with some re-insurance," he explained, "and since speed limits have been lowered, we have noticed a reduction in overly emotional argument."

"Very few drivers are paid by the mile and the Teamsters' con-

tracts all insure a flat hourly wage," he said. "What the drivers dislike is that they are now having to keep on a schedule, instead of being able to speed at 70 or 75 m.p.h. and then take a few hours off."

The NTLs spokesman said he believes fleets whose insurance

limits. "Again, fairly few of our members are insured on the basis of mileage," he said. Most work from gross receipts.

JOHN C. WHITE, executive vp at the Private Truck Council of America, an organization of internal corporate fleet operators, said, "in many cases, it may be desperation that sends companies back to their insurers for rebates in an attempt to win back part of what they have lost through the gas shortages."

"Of course, our trucks are generally not in the glamorous side of trucking, the big rigs on the open road," he said. "Since most of our member fleets are used to traveling within city speed limits,

the 55 m.p.h. maximum will not really affect them a lot," he noted.

A Greyhound Corp. spokesman in Phoenix, Ar., said the major bus operator does not expect big changes from the gasoline and diesel fuel shortages, because bus travel is high on the priority list for fuel allocation. "We'll get everyone where they want to go, even with the usual holiday crowds," he said, but he noted the severity of accidents, along with the unusually mild weather we've had, may be a factor.

"We don't expect big changes in our rates as a result of the fuel shortages," said Peter LeDuke, insurance director at Rider Truck Lines Inc., in Jacksonville, FL. "We would like to be optimistic about lower speeds reducing the number of accidents, but our claims-consciousness holds us back from speculating."

"We self-insure to a large extent, and we don't expect to get a rate reduction on our excess coverage, especially at first," Mr. LeDuke added.

"The change in speed limits will not be really a drastic idea for our drivers because we normally figure our schedules on the realistic, 55 m.p.h. maximum speed," he noted.

THE NATIONAL Assn. of Motor Bus Operators, however, said that in some cases, drivers are losing about 15% of their salary because of the lowered speed limits. "They are paid something like 40-cents a mile and they cannot cover as many miles now in the number of hours they are legally allowed to work," he noted.

"Cutting back on a man's salary packs a harder punch than just telling him to turn down the thermostat, and people do not seem to understand this," the spokesman said. "Right now we are not concerned with insurance, but with working day and night to keep the drivers on the road."



Greyhound foresees less severe highway accidents.

A spokesman at National Truck Leasing System, however called the claim that drivers are losing salaries unfounded. He said reduced highway speeds will necessitate hiring more drivers and changes in scheduling. Passengers may find it harder to arrange connecting schedules, he said.

"Maybe after all of this, there will be a way to show, through experience ratings, that insurance costs are lower, but I don't foresee any major change in coverage right now."

Robert Berke, executive director of National Assn. of Fleet Administrators, said he had just spent "two frantic days in conferences where the chief concern was getting the vehicles on the road."

"Out of all the subjects that came up in two days, insurance is one we did not discuss," he said.

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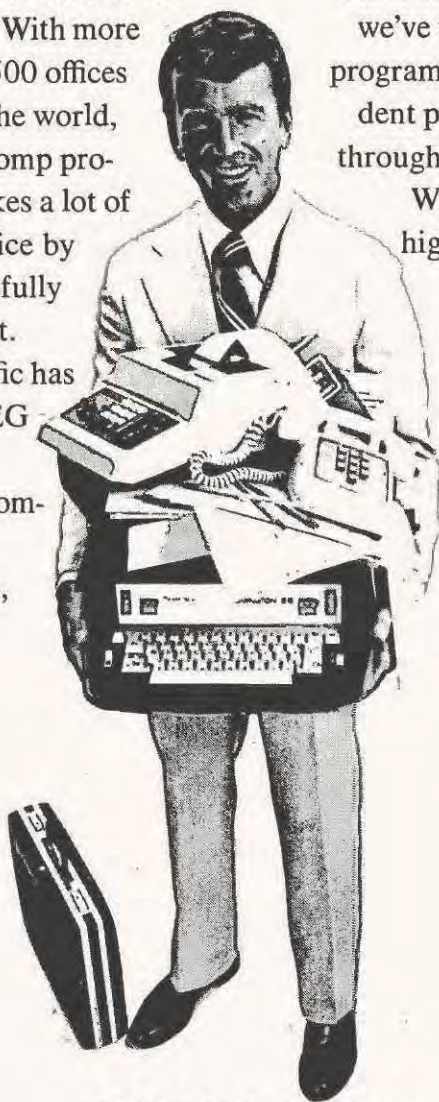
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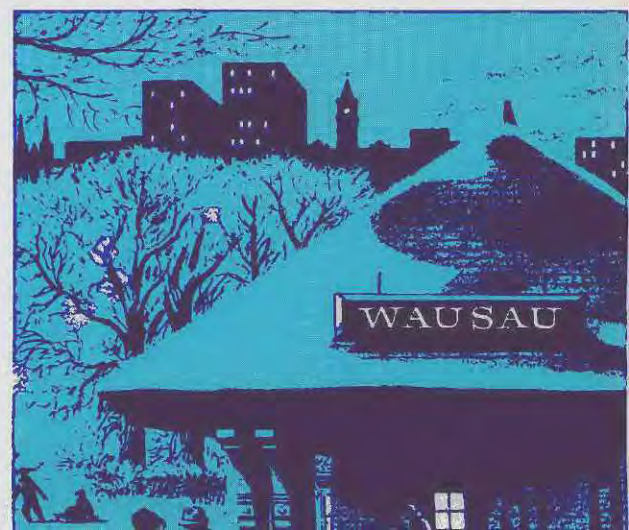
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Penn Central safety work to require massive investment

WASHINGTON—The Penn Central Transportation Co. told federal officials restoration of unsafe track throughout its system would cost \$2.89 billion and require eight years of work.

The Transportation department last Oct. 16, granted the financially ailing railroad a limited in-

terim waiver of federal track safety standards, requiring only that restoration of minimum safety standards be made within 30 days on track carrying if million gross ton-miles or more per year and track used to operate passenger trains.

Penn Central told the federal

agency all such track has been brought up to minimum compliance standards with the exception of a line between Cincinnati and Kankakee, Ill. The railroad claims this work would require three months and \$410,000.

The railroad originally had asked for an extension of the 30-day deadline to repair the Cincinnati-Kankakee trackbed, but the request was later withdrawn when records showed that the line did not fall into the 10 million gross ton category. ■

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• **System 7**, describing an approach to the design, organization, production, distribution and evaluation of total compensation employee statements, is being offered by Towers, Perrin, Forster & Crosby. For your free copy write Joseph A. Banik, Towers, Perrin, Forster & Crosby, Three Penn Center, Philadelphia, Pa. 19102.

• Alexander & Alexander has issued **A Commentary on the Industry Experience Guide for Nuclear Property Insurance**. The brochure is a technical analysis of the experience guide, describing what the guide is designed to achieve and how it performs under various hypothetical premium and loss conditions. The brochure also includes A&A's recommendations for changes to make the guide even more effective. For a free copy write R. Scott Taylor, A&A, 1185 Avenue of the Americas, New York, N.Y. 10036.

• **The TMC-1100 Television Camera** is a booklet describing the operating features and optional design advantages of this general purpose, low-cost television camera produced by Tele-Mation Inc. This booklet is free if you write Alden Johnson, Literature Department, Tele-Mation Inc., P.O. Box 15068, Salt Lake City, Ut. 84115.

• Advanced Devices Laboratory has just released a **Window Shock Sensor Data Sheet**, describing a new device which represents a scientific approach to the problem of protecting glass show windows, store fronts and other glass surfaces. The booklet is available free by writing M.J. Fealy, National Marketing Manager, Advanced Devices Laboratory Inc., 316 Mathew St., Santa Clara, Ca. 95050.

• **True Group Insurance Benefits For Small Employers**, a brochure from Gulf Life Insurance Co., describes a plan for groups of at least five but not more than 20 employees. In addition to general information the brochure includes a schedule of life benefits, optional health plans and special major medical benefits. Copies may be obtained by contacting Gene Vaden, Gulf Life Insurance Co., 1301 Gulf Life Dr., Jacksonville, Fl. 32207.

• Bankers Security Life Insurance Society has released **Life Insurance Planning in Divorce and Separation** for executives concerned with the legal and tax aspects of their life insurance coverage with regard to divorce or separation. For a free copy write Fran Podlesney, Bankers Security, 1701 Pennsylvania Ave., N.W., Washington, D.C. 20006.

• **Maintenance & Safety Catalog**, available from W. H. Brady Co., is a 32-page illustrated catalog covering markers, signs and codings to comply to OSHA requirements. The catalog contains a cross-reference list of OSHA and NEC statutes for marking. For a free copy write Department

A.I.D., W.H. Brady Co., 727 W. Glendale Ave., Milwaukee, Wi. 53201.

• A 16-page color brochure, **Uniformed Guard Services**, has been published by Burns International Security Services Inc. The booklet covers the history of the company and describes the services of its uniformed guards. For a free copy write, Ashley W. Burner, P.O. Box 400, Briarcliff Manor, N.Y. 10510.

• **Extended Medical Expense Plan for Firms with Two to 25 Employees** is a Metropolitan Life Insurance Co. booklet which describes the firm's employee benefit plans for small companies. The plan includes in-full base medical benefits plus a high maximum major medical benefit. For a copy, write Donald Shapiro, Metropolitan Life Insurance Co., 90 Park Ave., New York, N.Y., 10016.

• **Auto Insurance Systems, a Comparison Chart**, has been published by the Insurance Information Institute. The chart summarizes the key features of the tort liability auto insurance system, various proposals for change and "first party" laws which have been adopted by several states. Included also are summaries of the no-fault laws scheduled to become effective in Connecticut and New Jersey and the proposed Hart/Magnuson National No-Fault Motor Vehicle Insurance Act. Single copies of the chart are available without charge. Write Insurance Information Institute, 100 William Street, New York, N.Y. 10038.

• **Employee Information Systems** is a Benefacts Inc. brochure describing the ever-increasing demands upon the corporate personnel department by management and government for "need to know" information about employees, the problems that are being encountered gathering this information from outdated filing systems, and some practical solutions to those problems. For a free copy write EIS Division, Benefacts Inc., Hampton Plaza, 300 E. Joppa Rd., Baltimore, Md. 21204.

• General Adjustment Bureau has released a new 32-page documentary of the 1973 floods entitled **Floodwaters—Everybody's Problem**. The booklet features dramatic pictures and analysis of the devastation caused by record floods in the Mississippi and Missouri River valleys, the Great Lakes and other sections of the country. The new booklet is the third in a series of GAB public service documentaries concerning natural disasters. Copies of the booklet may be obtained by writing GAB, Management Services, 123 William St., New York, N.Y. 10038.

• **A Comparative Analysis of Automobile No-Fault Statutes** has been released by the General Adjustment Bureau in a newly expanded and updated version. The 24-page booklet presents compar-

ative data on no-fault regulations in two formats. Added to the booklet's contents for the first time is a section presenting all the pertinent statutory elements for each state on a single, two-page format. Copies of the booklet may be obtained from GAB, Management Services, 123 William St., New York, N.Y. 10038.

- **Fireman's Fund American Life Insurance Co.** explains its group insurance package for groups of two or more employees. Benefits available include group term life, basic plan major medical and income protection coverage. You can get a copy of **National Employers Group Insurance Trust** by writing Thomas W. Cook Jr., Fireman's Fund American Life Insurance Co., P.O. Box 1280, Nashville, Tn., 37202.

- **Marsh & McLennan** has made available sample copies of **Insurance Survey for Electronic Data Processing**. The survey, in the form of a questionnaire, has been designed to assist the company in identifying and isolating the loss exposures, if any, that may be present in your EDP operations. For your free copy write Guy Migliaccio, Asst. vp, Marsh & McLennan Inc., 1221 Avenue of the Americas, New York, N.Y. 10020.

- **The Reid Report** is a booklet describing the advantages of "a paper and pencil honesty test" designed to eliminate the dishonest job applicant. Polygraph tested and psychologically validated, the Reid report does not discriminate on the basis of race or sex. The booklet is free by writing Daniel J. Reid, vp, John E. Reid & Assoc., 600 South Michigan Ave., Chicago, Ill. 60605.

- **Commercial Inland Marine Kit**, released by Improved Risk Mutuals, contains seven different pamphlets. Information on commercial inland marine lines, a partial list of policy holders, answers to inquiries about IRM facilities and a description of their quick service is included. The kit is free by writing the advertising department, IRM, 15 N. Broadway, White Plains, N.Y. 10601.

- The Gypsum Assn.'s **Fire Resistance** manual has become the first industry document listing fire-rated construction assemblies to be referenced in the three major model codes. This manual can be used across the United States and lend uniformity to building codes. Copies are available, in bulk, at 85 cents each, plus postage. Write the association, 201 N. Wells St., Chicago, Ill. 60606.

- **Risk Manager's Guide**, published by The National Underwriter Co., is the all-purpose reference guide to assist the corporate risk manager. This guide is the only central source available where you can find the product or service necessary to deal with a certain risk problem. Copies sell for \$12.00 each. Write the company, 420 East Fourth St., Cincinnati, Oh. 45202.

- A description of the Ingersoll impregnable padlock is outlined in the Sargent & Greenleaf brochure, **Strength**. All models are included with drawings and measurements, options, accessories and ordering information. For a free copy write Barnett G. Benard, Advertising, Sargent & Greenleaf Inc., 24 Seneca Ave., Rochester, N.Y. 14621.

- The new 1974 Globe-Amerada catalog **Environmental Control Through Glass**, is now available. Specifications on a remarkable

noise controlling glass is featured with recommended architectural applications to assist the architect and planner in determining the acceptable noise levels and temperature controls. To obtain this eight-page brochure write Mark L. Green, Amarko Ltd., 2001 Greenleaf Ave., Elk Grove Village, Ill. 60007.

- **GAB Education Programs for Insurance Companies and Industry**, a new brochure from the General Adjustment Bureau, offers detailed information about the company's new instructional complex located outside Denver. The brochure includes a schedule of courses on the agenda for 1973, plus starting dates, costs and other pertinent information. A topical listing of subjects covered under each course is also included. Copies can be obtained by writing GAB at 123 William St., New York, N.Y. 10038.

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NAIC annual meeting

Commissioners create energy crisis task force

LAS VEGAS—Effects of the energy crisis on insurance will be carefully watched by a new task force set up by the National Assn. of Insurance Commissioners (NAIC) at their annual meeting here.

"We anticipate the service of this committee to make specific recommendations within 20 days after definitive action has been taken by the government in the allocation and possible rationing of gasoline," said Johnnie L. Caldwell, NAIC executive committee chairman.

Other members of the energy crisis group are; Fletcher Bell of Kansas, NAIC president; Kenneth DeShetler, commissioner of Ohio; and Gleeson L. Payne, California's commissioner.

Mr. Caldwell explained that a great portion of the task force's attention would be directed towards the impact of gasoline rationing and mandatory reduced speed limits on automobile insurance

loss claims and carrier rates.

Long-range risks of nuclear power also need to be explored, he said.

Duties of the new energy crisis task force will include:

- assembling data on the magnitude and nature of the crisis;
- following closely all governmental moves to allocate fuel;
- evaluating the effects of fuel shortages and allocations on insurance coverages and losses;
- recommending possible measures to be taken by the insurance industry in response to changes in losses caused by the energy crisis.

"One of the first things this task force will consider will be what the reductions in speed limits may have on insurance rates," said Kansas commissioner Fletcher Bell.

Stanley DuRose, commissioner from Wisconsin, told *Business Insurance*, "It's a mistake to automatically assume the rates will go down. There are going to be some trade-offs."

Mr. DuRose noted that insurance companies may be reluctant to lower their rates, even with fewer loss claims. Some carriers fear that once the rates are dropped, it might be difficult to raise them again later.

The traditional reluctance to build and insure nuclear reactors may change with a re-evaluation of possible risks, Mr. DuRose pointed out. He cited an upcoming report by the Atomic Energy Commission that "would potentially bring a whole different focus to

the risk issue" next year.

The energy crisis may also produce a jump in losses caused by fires from electric heaters and fireplaces, Mr. Caldwell noted.

Recommendations for carrier exam changes

In the wake of the Equity Funding scandal, insurance commissioners are considering major changes in carrier inspections that would help state insurance departments detect financially troubled insurance companies.

Management consultants McKinsey & Co., Inc., commissioned to do a \$500,000 study of the examination system, presented their first report at the meeting.

The recommended system is based on a dual review of company operations—a financial condition examination, and a study of market conduct.

The common triennial examination of insurance company finances came under heavy attack after the Equity Funding scandal. Critics claimed that a more efficient system was needed to monitor the activities of insurance companies, protect policyholders from unfair treatment, and prevent insolvencies.

According to the McKinsey report, examinations are best when flexible in timing and focus. Depending on the present circumstances and past performance of a company, examinations may be scheduled anywhere from

six months to three years apart.

The frequency of examinations need not depend on the size of the insurance company, the report added. Although small carrier insolvencies are more common, large companies occasionally fail, hitting thousands of policyholders with one blow.

McKinsey's preliminary recommendations are scheduled to be followed by two more reports with specific guidelines for a new examinations system.

'All risks' insurance coverage is urged

The private insurance industry must soon begin marketing an "all risks" disaster coverage or else the federal government will step in with its own program, an insurance spokesman warned last week.

Yet despite the recent attention given to disaster insurance consumers are not clamoring for it, said Wayne L. Naugle, chairman of the National Assn. of Mutual Insurance Agents (NAMIA) State Legislation and Regulation Committee.

"Congress is once again breathing down our necks—not only to expand the National Flood Insurance Program, but also to provide disaster insurance coverage nationwide—with or without the help of private insurance industry."

Mr. Naugle noted that Senator Richard Schweiker (R.-Pa.) has

termed federal disaster insurance "absolutely essential," and introduced legislation last year designed to provide it.

But the Senator's bill stipulates that a federal program would be dissolved if the private insurance industry came up with a similar plan by June 30, 1975.

Disaster insurance designed to cover specific perils is not selling well, Mr. Naugle said.

VLI...

Continued from page 1

plicant by asking the objectives of the insured policyholder.

The whole question of what the SEC will do is "in limbo right now," said Mrs. Mary Beach, SEC chief of the Office of Disclosure Policy and Proceedings. In January the SEC stated that VLI is subject to the Securities Act of 1933, requiring full disclosure of all relevant details of the policy form in the prospectus. VLI also falls under the Securities and Exchange Act of 1934, requiring all salesmen to be registered and licensed securities dealers or brokers.

But the SEC cheered up insurers by deciding not to include VLI under the Investment Company Act and the Investment Advisors Act, both of 1940. These would have required complete fund operation disclosures like those now filed by mutual funds.

CONFUSION BEGAN in September when the SEC proposed an amended rule that said it must approve any model bill's provisions for consumer protection. While the NAIC is now prepared to submit its VLI bill for commission approval, the SEC has not yet decided whether to enact its amended rule. So the NAIC must wait until the SEC finally decides what its jurisdiction will be.

While the NAIC is waiting, probably until next year, "Some states may very well go ahead and adopt it," Mrs. Beach added. And companies are still filing disclosure statements to satisfy the SEC's 1933 and 1934 Acts.

Also standing in the wings is a group of investment advisors for mutual funds trying to sue the SEC for exceeding its authority in exempting VLI from the 1940 Investment Company Act. They think it's "not fair" that mutual funds are under the 1940 Act while VLI is free, Mrs. Beach said.

The NAIC and American Life Insurance Assn. (ALIA) joined the legal battle by filing briefs saying the SEC has no jurisdiction in VLI under the Investment Company Act of 1940.

BUT THE SEC has moved for a postponement of all litigation until the amended rule issue is settled.

The ALIA, despite its participation in the SEC case, advised the NAIC in Las Vegas to give the concept more consideration before approving the final model. Paul Mason, ALIA associate general counsel, said the NAIC should "distribute this latest (model) version to receive comments from the industry and the SEC before adoption."

Robert Younger, associate general counsel for The Prudential Insurance Co. of America, backed the ALIA's position. "We think it's a good concept," he said, adding that additional study is needed before marketing VLI.

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Second theft of costly uninsured Harvard coins

CAMBRIDGE, MA.—Nearly 6,000 ancient Greek and Roman coins robbed earlier this month from Harvard University's Fogg Art Museum were not insured according to R. S. Mullen, insurance manager for the university.

Although Federal Bureau of Investigation reports indicated the coins were valued at between \$1 million and \$5 million, a Harvard spokesman waiting for an inventory report called them "virtually priceless."

An undisclosed number of the coins were on longterm loan from private collections, but Mr. Mullen said there does not appear to be any privately-bought insurance either.

According to the police, a small band of men armed with a revolver overpowered the night watchman after one of them gained entry by claiming to have to pick up what was later discovered to be a false package planted inside the museum. The watchman, Charles Pierson was bound and blindfolded, and the men used his keys to open the locked door of the coin room on the third floor. They stole 3,000 coins from display cases and a green safe containing about 2,650 Greek coins, most of them silver, and escaped in two cars, police said.

THE ROBBERY from the Fogg Museum's ancient coin collection was the second this year, Cambridge police said. On April 6, eight coins valued at \$90,000 were stolen, but later recovered in Newport News, Va. after an investigation which resulted in the arrest of three men.

"After that theft, considerably greater attention was given to security precautions," Mr. Mullen said.

"The Fogg Museum is a heavily endowed but virtually uninsured collection featuring tapestries, Renaissance paintings, American colonial silver pieces and Oriental figures.

An expert in the inland marine insurance specialty said a coin collection floater policy or a fine arts floater would have been appropriate coverage for the collection. He said a number of large museums buy the coverage.

However, Mr. Mullen said, "As a rule, we generally do not insure the fine arts collections, although when the property of others is on loan for display we usually insure it ourselves or find out if the owner has adequate coverage."

"With regard to our own collection of fine art, not only would insurance be very expensive, but in the event of a loss, insurance dollars could never replace the work of art," he said. "Of course, insurance might provide the money to buy something else for

the museum."

"However, if the work of art is of unique significance, or if it is useful in an educational way, the most important idea seems to try to preserve it," Mr. Mullen said.

"IT SEEMS that when you cannot duplicate the work of art, it is better to put money into an adequate security system.

"It seems like a good idea to do as much as we can in the future for security."

Police said they had a number of suspects but no one had been arrested in connection with the robbery so far. Mr. Mullen described the police handling the case as "optimistic about recovering the coins."

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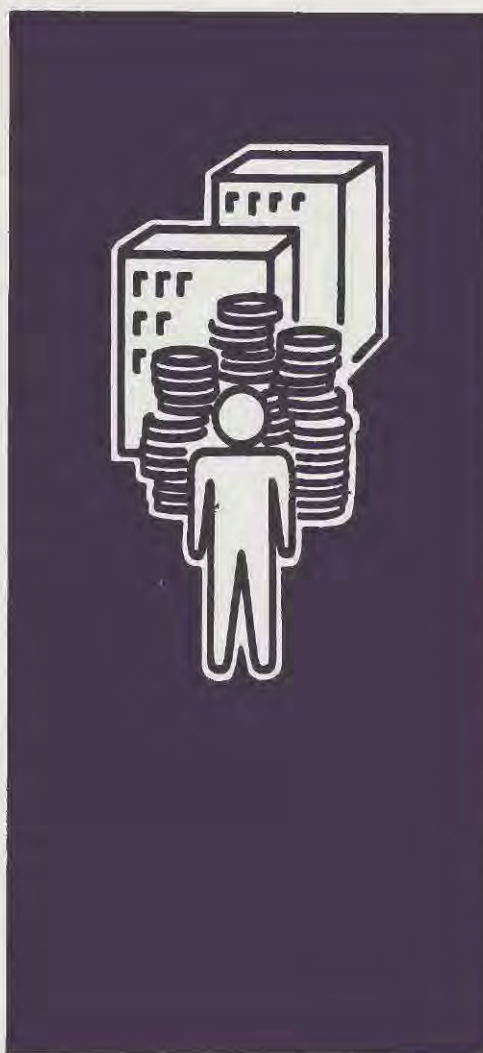
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Carrier buys group plans

JACKSON, MS.—Zenith Insurance Co. will acquire the accident and health insurance business of Fidelity Insurance Co.

Fidelity is a subsidiary of Affiliated Investments Inc. and Zenith is a subsidiary of Inland Insurance Co., based in Chicago.

The agreement calls for Inland to assume all accident and health liabilities by reinsuring those policies between July 1 of this year and June 1 of next, after which time all policies will be transferred.

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editorial opinions

Opportunities in the energy crisis

THE ENERGY CRISIS is creating some unusual opportunities for risk managers.

Their broad backgrounds in engineering, finance and general problem-solving should prove valuable in reducing their employers' vulnerability to various shortages.

What better person to step to the forefront as energy manager for a company? Who else is as familiar with all operations and divisions, as well as financial conditions, within the firm?

Probably no one.

The ideal risk manager is one who's made himself a member of management, doing more than just clerking for the insurance program. Protecting a company's assets is more than an administrative function.

The fuel shortages coupled with critical shortages of other vital raw materials, for the next decade will certainly have a profound effect on every firm's assets and balance sheet. Moreover, costs of production may soar, inflating inventory values.

The risk manager can advise in each of these areas with cost cutting suggestions, long-term asset management suggestions and energy conservation tips.

Risk managers must guard carefully their safety and loss control programs, especially when management looks to the insurance department to cut costs and ease a profit pinch.

Loss control in the face of energy and fuel crises means finding alternative materials and fuels to keep plants operating. Risk managers should be planning for such contingencies as a plastic-less world if and when petroleum derivatives to produce plastics become unavailable; conversion of offices and factories from one type of fuel to another; the

eventuality that factory locations may have to be changed.

A manager concerned with protecting his company's assets should think about building and plant design, about modifications that could be made in present facilities, and about future building projects for best use of energy. A very real possibility, too, is that new hazards will arise with fuel and heat cutbacks, with conversion to alternative fuels or with new building designs.

In the next few years, architects may change their thoughts completely about what a building looks like. Structures may have few or no windows, the size of open spaces may be reduced, and residual processes may be used as heat sources.

In the next few years, risk managers may see the insurance market tremendously taxed by new and larger risks, which could force changes in corporate insurance programs. Is anyone planning for this? Just one example is the capacity that must be developed to insure the coming generation of an estimated 300 liquefied natural gas tanker ships, each with a super-value of about \$128 million. A market will also be needed to underwrite the P & I risks as high as \$400 million per ship.

Clearly what every risk manager faces now is a potential business interruption situation. Each risk manager should be considering the problem areas for his/her particular company, and planning for contingent business interruption possibilities.

True, it's a tall order. We're not so idealistic as to believe the corporate risk manager is going to anticipate and solve all his company's risk-related energy problems, but it's an opportunity for those with savvy to really shine.

Unbecoming sales job

WE READ WITH interest the other day comments by Colorado insurance commissioner Richard Barnes, who, while beating the drums for his own fair state's status as a haven for domestic captive insurance companies, predicted that a forthcoming IRS ruling on the deductibility of premiums paid to offshore captive companies "will not be favorable to foreign captives."

From the platform at an American Society of Insurance Management seminar in Chicago last month, Commissioner Barnes said he thought the ruling will, however, be "real favorable to Colorado captives." Later, in an interview with this magazine, the regulator corrected his comment somewhat, saying, "I feel it will not be unfavorable, at least."

The fact of the matter is that the IRS is about to rule on a matter that we feel will have a major impact on all wholly-owned captive insurance companies—those set up in places like Bermuda as well as those few that have been established in and around Denver—and Mr. Barnes would be well-advised to refrain from softening the consequences of a possible negative IRS ruling in the interest of drumming up business for his own state.

The IRS is known to have disallowed deductions for pre-

miums paid to offshore captives on the 1969 returns of two U.S. corporations. In a manual supplement issued to agents last year, IRS indicated (1) the expense of self-insurance should not be deductible and (2) that if the principal purpose of acquiring a captive is to obtain a deduction not otherwise available, the captive does not exist. Setting up a captive for this latter reason, the IRS feels, is nothing more than cheating the government out of taxes due.

If these feelings prevail in the forthcoming ruling, and those close to the situation pessimistically say they probably will, the loss of this important tax break will make captives less attractive.

Granted, the IRS's interest in the subject was prompted by the captives' rush to Bermuda in the 1960s, even before Colorado passed its much-heralded captive law a year or so ago. And, yes, the 1969 disallowals did involve offshore captives. It's only logical to assume, however, that the forthcoming ruling will apply to Colorado captives as well as offshore captives, and the failure of Commissioner Barnes to make that very clear when he promotes the establishment of captives in the Rocky Mountain state harks of a sales job unbecoming an insurance regulator.

letters

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

D&O survey

To the Editor: I was intrigued by the article-headed "Directors & Officers Covers Gain Popularity: Wyatt Study," appearing in *Business Insurance* Oct. 22.

Working for one of the major brokers handling this class of business in the London market over the past several years, some of the statistics printed would seem to be the result of clairvoyance on the part of people responding to the survey.

Whilst not being privy to the overall figures or loss ratios on this class or, for that matter, even the London market figures, I am aware of certain facts which perhaps are not available to persons responding to the survey.

Obviously, anyone who has had long term experience with directors and officers liability would appreciate the real answer to loss ratios is the accuracy of the reserves in respect of either known or potential suits, which are very numerous. Since the majority of assureds can have little or no idea of the possible legal fees which may be incurred in the defense of suits or circumstances which might give rise to a suit, some of which are still open after many years, it is difficult to comprehend quite how these statistics were arrived at. This, furthermore, does not take into account possible damages which may or may not be awarded by the courts.

Perhaps Mr. Brockmeier and his staff have a crystal ball, in which case I would be delighted were they to share it with me.

P.J. Osborn

Stewart Wrightson Ltd., London

Mr. Brockmeier's reply: In response to the letter by Mr. Osborn, I would certainly make no claims for clairvoyance on either our part or the part of people responding to the survey. As a matter of fact, the last paragraph of the 10 pages of tabulations and commentary on losses in our survey report, "It is felt that while such information (claim data) is still rather sparse, this sampling of business corporations does indicate the relative magnitude of claim activity, and sheds some light on the problems facing business corporations in this area. It is hoped that succeeding annual surveys will yield an accumulation of data which will be even more helpful to corporations analyzing this risk."

I would point out, however, that we asked each participant who had experienced a Directors' and Officers' survey.

Continued on page 14

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Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Pensions & Investments, Advertising & Sales Promotion, Industrial Marketing. M. A. HARTENFELD, executive vice president; D. J. CLEARY JR., senior vice president; KEITH CRAIN, ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, vice presidents; G. R. CRAIN, secretary and treasurer, RICHARD M. DAUGHERTY, controller. Cable address: CRAINCOC

Published biweekly at 740 Rush St., Chicago, Ill. 60611 (312-337-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 45 cents a copy. \$10 a year in U.S., Canada and Pan America. Elsewhere \$4 a year extra. WILLIAM STRONG, circulation director. ROGER DEGRECORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush St., Chicago, Ill. 60611.



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Letters . . .

Continued from page 12

or Officers' Liability claim to tell us the amount of legal fees involved, to date, in each claim. There were 59 reported claims, and in nine instances the participant indicated that they did not know the amount of legal expense. These nine, incidentally, were uninsured claims. In the other 50 instances, the participant gave us either an exact or approximate figure, and we would presume that anyone who has an active D & O claim is going to know the amount of legal expense involved to date, since those legal expenses are subject to the retention and participation by the insured, unlike automobile or general liability claims where the expenditures for legal counsel on the part of the insurance carrier are of no financial concern to the insured.

In making our projections, we used the closed claims as a basis for what might be anticipated in the claims that were still open, forming a distribution pattern of expenses and actual settlements or awards as related to initial claim demand, and then applying this pattern to the outstanding claims by size of demand.

I will readily admit that this might be construed as crystal ball gazing, and that very sophisticated reserve figures (which also involve some crystal ball gazing) would have been preferable—but unobtainable.

To me the most interesting thing about Mr. Osborn's letter is the fact that he presumably is intimately involved in the Directors' and Officers' Liability insurance market, and yet admittedly has no access to overall figures or loss ratios on this class of business. If he is at sea as to loss ratios, it is obvious how much more at sea are corporate risk managers in the United States. When underwriters choose to make public the actual loss ratios on this class of business, we will gladly yield our place as the only source for any credible data, but at this point all we have heard is a disputation of our own data, without anyone else coming forth with anything more reliable.

Medical costs

To the Editor: Generally the articles in *Business Insurance* are factual and without bias, but I have to take exception to the story Sept. 10, entitled "Under TV's Glaring Light, Medicine's Coat Smudged."

As a former hospital administrator, specializing in the reorganization of hospitals up to 3,000 beds, I have been in every facet of hospital operations and relationships with the medical profession.

Accordingly, I think I know most of the problems and their causes creating costs and the necessity for increased charges for services. They involve many conditions and statistics that no TV audience wants to listen to and few people will take the time to read in news articles.

"Instant Experts" with very little knowledge or experience in this complicated field, but with access to news media and legislators, have been feeding a constant stream of highly biased information formulated with very limited basis in facts.

There are some undisputable statistics that were not covered at all in the (NBC Special, Aug. 28, "Hospitals, Doctors and Patients") TV program referred to. The biggest omission of all was the statement of the Secretary of HEW, Mr. (Caspar) Weinberger,

a short time ago that the biggest cause for rising hospital and medical costs had been created by government regulations. Any hospital with adequate accounting records can prove that this statement is true.

Something has got to be done to stop the complete misunderstanding about hospitals and medical costs being foisted on the American public. Fortunately at last the American Hospital Association, many state hospital associations, and a newly enlightened leadership in AMA are starting to forcefully get the facts to legislators and responsible leaders in the country.

The truth is that hospital costs rest largely in wages. Wage increases and the regulations imposed by federal and state governments and third party payers—Medicare, Medicaid, and Blue Cross—are the major factors in increased costs.

George Manly

Union City, Pa.

Insolvency guaranty funds urged by Payne

LOS ANGELES—Gleeson L. Payne, California's insurance commissioner, is urging the property casualty insurance industry to support the establishment of insolvency-guaranty funds in the life insurance business.

"Property-casualty people have met their responsibility far, far better than has the life insurance industry," he told the 28th annual meeting of the National Assn. of Independent Insurers. He estimated that eight states do not have an insolvency-guaranty fund for property-casualty insurance. But only about nine states have such a fund for life insurers.

An insolvency-guaranty fund provides that all the licensed in-

surers in a state contribute funds to cover the failure of one of their fellow companies. Each insurance company pays a certain percentage of the loss, assessed according to the percentage of premiums it had in the state the previous year.

MR. PAYNE pointed out that the Equity Funding scandal had a profound effect on the public image of the whole insurance industry. As a result, insolvency-guaranty funds are needed to reassure the policyholders of their financial security.

Larry Baker, California's chief deputy insurance commissioner, said that the state now has an insolvency-guaranty fund for the

property-casualty insurance industry. But the legislation proposed for a similar fund in the life insurance industry is currently in trouble.

"That bill is stalled in committee right now," Mr. Baker said. Although it passed the House in the wake of the Equity Funding scandal, prospects for its passage in the Senate are "questionable."

The proposed life insurance fund, like the property-casualty fund, would be a post-insolvency assessment, he added. In the event that an insurance company failed, funds would be assessed from the industry to cover losses.

Another kind of fund, the pre-insolvency assessment, is used by some states to pool a sum of money for possible insurance company failures in the unforeseen future. The pre-insolvency assessment fund is reportedly better-built to buffer the shock of a large life insurance company failure. ■



labor beat

Union push for higher major medical limits anticipates national health act

WASHINGTON—With the prospect of some form of national health insurance appearing over the Congressional horizon, many labor unions are rubbing their hands together in joyous expectation of fringe benefit monies now tied up in health plans being freed to pay for new, more exotic benefits.

The autoworkers have just negotiated contract language which requires the automakers to pay any premiums or taxes called for under whatever form of federal

health care survives the Congress. The postal workers are now busy phasing in a payroll deduction plan for group auto insurance. Federal legislation extending tax-exempt status to prepaid group legal, group auto and group homeowners coverages, and, perhaps, other benefits not now mentioned under present tax laws is now being finalized.

The wheels are moving. But, until some concrete details emerge from the wide assortment of health care proposals already

introduced in Congress and until federal and state legislation is enacted to enable negotiation of new benefits, many unions will be busy making sure their members survive what could be a long wait for definitive federal and state action.

Take for example, the case of the truckdrivers in Providence, R.I. While they may be unhappy about the rising cost of diesel fuel or the ceiling on speed limits, they have very little to complain about in the area of

ceilings on their major medical benefits.

Teamsters local 251, representing more than 20,000 drivers in the Providence area, recently increased lifetime major medical benefits to \$250,000 from \$20,000, and union officials say they may be looking for even higher limits in the not-so-distant future.

"IT'S AS simple as a-b-c," Alexander J. Hylek, the local's chief executive officer, said. "This \$20,000 lifetime limit that a guy first got four, five or six years ago was adequate. But now, with all this talk in Washington about catastrophic illness and our own experience here, it's plain to see that \$20,000 isn't enough. In fact, \$250,000 may not be enough two, three or four years from now."

"It's like going to the grocery store," he said. "You can walk in tomorrow and find that a 60¢ or 70¢ item today has gone up by 10¢. Medical costs are the

same way."

The new limits were made retroactive to September 1. The local's coverage is written through Blue Cross-Blue Shield of Rhode Island.

Terming the new coverage limit "a first breakthrough for union plans," Mr. Hylek said he has received letters "from all over the world, even Hawaii" from other union officials interested in hiking their major medical ceilings as well.

"Catastrophic illness coverages have been talked about a lot recently on the federal and state levels," John W. O'Connor, Rhode Island Blues' vp for marketing, told *Business Insurance*. "The insurance industry is responding to public fears, and I'm sure all around the country you'll begin to see unions negotiating higher and higher major medical limits."

The Providence Teamsters, Mr. O'Connor said, became alarmed about the \$20,000 benefit cutoff after a handful of members had either exceeded or approached the lifetime limit.

"THEIR HEALTH and welfare fund trustees are normally a conservative group, but the fund has been collecting enough (through a three-year contract increasing contributions a nickle-a-year for each hour worked by union members) to meet demands for present benefits levels and allocate the excess for improving the major medical plan," he said.

The local union, he said, started its national benefits with a Blue Cross plan, later switched to a Blue Shield plan and then added dental, optical and prepaid prescription benefits.

"Their tradition has been to just keep adding things on, and I'm sure once they look at the whole setup again," Mr. O'Connor said, "they'll be lacking for new coverages. They don't have the best Blue Shield plan, so they may move to upgrade that, but then they'll be looking towards group auto and group legal."

The Rhode Island Bar Assn., he said, is now finalizing the details of a proposed prepaid group legal arrangement, which, Mr. O'Connor claims, the Rhode Island Blues "would certainly consider marketing once the necessary statutes had been passed and rates and contracts filed."

"All unions are looking forward to these kinds of benefits," he said. "Many are simply waiting for the mandation of national health insurance to unfreeze funds that can be used to pay for these kinds of programs."

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Acquisition to double firm's net

INDIANAPOLIS—American Underwriters Inc. moved to acquire Great Lakes Insurance Corp., based in Milwaukee.

American Underwriters offered \$1.15 per share for the 173,325 shares outstanding of Great Lakes. The offer is contingent on receipt of at least 80% of the Great Lakes stock.

Robert Haesloop, president of American Underwriters, said a proposed name change will be submitted to the Wisconsin insurance commissioner.

American Underwriters manages American Interinsurance Exchange, a nonstandard insurer with estimated 1973 premium income of \$17 million. American Underwriters said it will invest enough money in Great Lakes to more than double its net worth.

N.Y. musicians settle with major benefit gains

NEW YORK—Orchestral music was being played again in Avery Fisher (formerly Philharmonic) Hall this month as New York Philharmonic musicians ended their 10-week strike and went back to work with a three-year contract providing them with substantially increased employee benefits.

The 106 musicians of the Philharmonic, members of Local 802 of the American Federation of Musicians, made gains in all major employee benefits areas—including life and health insur-

ance and pensions—but fell short of one of their most important stated goals. They failed in their bid to receive a wage scale at least \$10 above that of the Chicago Symphony.

Under the new contract, the musicians will receive an annual pension of \$285 for each year of service, according to Ralph Mendelson, a musician and member of the negotiating team. At this rate, a musician retiring at age 65 after 30 years of service would get a pension of \$8,550 a year, as opposed to the present pension of

\$7,200 annually, or \$240 for each year of service.

Though the orchestra's retirement age is 65, Mr. Mendelson said, the benefit is unlimited. In other words, those musicians with more than 30 years of service will receive a higher pension.

HE ALSO NOTED musicians have the option of deferring payment on early retirement, which can occur at age 50 or after 20 years of service, until age 65. "This gives the person who wants to retire early a certain amount of

portability," Mr. Mendelson told *Business Insurance*.

The group life insurance death benefit increased from \$6,000, with the option to purchase another \$5,000 on a contributory basis, to a completely non-contributory \$25,000. The carrier on the life and health coverages is New England Life Insurance Co.

The new contract provides major medical coverage which calls for 80%-20% coinsurance on the first \$3,000 and pays 100% above that figure on an unlimited basis. There is a \$100 annual de-

ductible for individuals and \$250 a year for families.

Until the agreement, the coverage had a \$10,000 limit that the musicians could raise to \$20,000 through their own contributions with a \$100 90-day deductible.

"We also got an accident benefit which pays 100% with no deductible up to \$300," Mr. Mendelson pointed out. "This would cover things like one of your children breaking an arm."

New long-term disability coverage gained in the negotiations provides for "disability within our occupation." This was important, he said, because "if a violinist loses a finger, he's through."

"We used to have a Social Security type disability benefit in the pension plan but that was totally inadequate," Mr. Mendelson said.

THE CARRIER and details of the new LTD plan have not as yet been worked out.

A group dental plan was also negotiated for the musicians which carries a \$1,000 annual limit with a \$100 annual deductible. There is an 80%-20% coinsurance arrangement under the dental plan.

The pact also raises the limits on the coverage for the musician's instruments to \$2,500 from the previous \$750.

New York Philharmonic musicians, who now have a base pay of \$330 a week, will receive wage increases of \$20, \$10 and \$20, respectively, over the next three years. This would give them a base salary of \$380, the same salary base the Chicago Symphony will have in three years.

"WE DO THINK we have the best health and welfare plan of any symphony orchestra in the country," Mr. Mendelson said.

Even with the Philharmonic playing again, however, Fun City's famed Lincoln Center is still semi-dark. The New York City Ballet dancers walked out seeking guarantees they would be paid for the full season if the ballet's orchestra, also members of Local 802, happened to strike. Local 802 is seeking improved pensions, reduced service and improved health and welfare benefits for the orchestra members. The negotiations between management, dancers and musicians are interlocked.

Ballet management threatened to cancel the season, which was due to open Nov. 13.

Work comp rates highest in Oregon

SALEM—Oregon's workmen's compensation insurance rates are high because the state appears to have a more liberal interpretation of disability claims, Dennis Fisher, an extension economist at Oregon State University, told legislators and state officials.

Mr. Fisher, who just completed an analysis of the state's workmen's compensation rates, told the group that of 41 states studied, Oregon employers paid the highest accident insurance rates.

Oregon employers paid a higher percentage of their payroll—1.45%—during 1972 than any of the other 40 states studied. The median for the 41 states was about seven-tenths of one per-cent, he noted.

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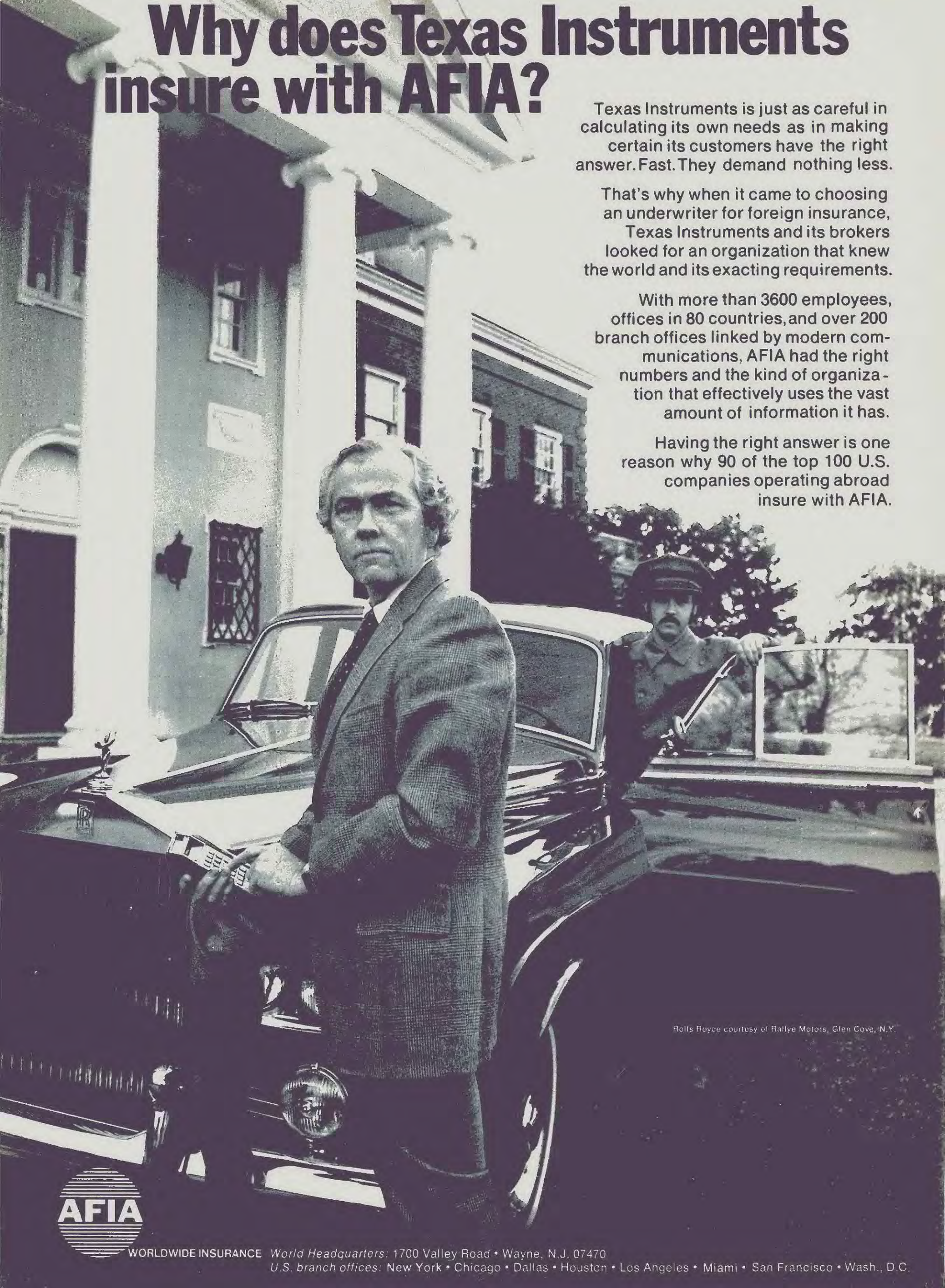
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Scott proposes national 'Health Rights Act'

WASHINGTON—A bill calling for private insurance industry administration of a combined catastrophic illness and health maintenance approach to national health insurance was introduced in the Senate by Hugh Scott (R-Pa.).

A rewrite of a federal health care proposal first introduced by the Senate's Republican leader in 1971, the "Health Rights Act" would replace Medicare and Medicaid programs now in operation. Both inpatient and outpatient services under the plan

would be administered by insurance carriers contracting their services on a regional basis with the newly-created office of health care within the Health, Education and Welfare department.

Unlike the catastrophic illness proposal introduced in early October by Senators Abraham Ribicoff (D-Ct.) and Russell Long (D-La.), the Health Rights Act does not contain static deductible levels for inpatient major illness protection.

The Ribicoff-Long bill requires

families above "low income" levels to pay the first \$2,000 and the costs of the first 60 days of hospitalization. The latest bill would establish a cost ceiling determined by a formula which takes into account both family income and family size.

CO-SPONSORED by Sen. Charles Percy (R-Ill.), the health care plan's inpatient program would be financed, in part, through the present health insurance portion of Social Security payroll taxes, and, in part,

through general revenues. Payments made by patients through the flexible deductible arrangement would supplement government payments.

Outpatient care would be paid for, most likely, by employers, but the federal government would pay in whole or in part health care costs for low income families. Individual deductibles of \$50 per year and lower deductibles for the poor are called for in the bill. An additional individual deductible of \$25 is required for dental services, but that figure, too, decreases for

low income persons.

Services covered under the inpatient program would include hospital inpatient services, secondary care inpatient services and home health services following inpatient status in either a hospital or secondary care facility. Inpatient mental health services are also covered, but with annual limit of 60 days and a lifetime limit of 180 days.

Outpatient plan provisions cover doctors services, diagnostic services, limited checkups, prenatal and "well child" care, dental care for children under age 12 and outpatient mental health care with annual limits of 26 treatments and a lifetime limit of 104 treatments.

THE BILL would also empower the federal government to authorize grants and loans for the planning, development and construction of health maintenance organizations (HMOs). Provisions of the bill would allow grants of up to 50% of HMO development costs in most areas and up to 70% in areas now lacking physician services. The bill further empowers the Health, Education and Welfare department to enter into contracts with HMOs to provide both the inpatient and outpatient services set forth by the proposed legislation.

The act also establishes a two-year, Presidentially-appointed health delivery committee charged with determining the current need for medical personnel and facilities in this country. The committee would also assess the nation's future health care needs and the viability of HMOs in helping to meet future need. The committee would make recommendations for improvements in the program both to Congress and to the President.

A national professional standards review council, also to be appointed by the President, would be established under the dictates of the bill. The council would oversee and coordinate the activities of groups throughout the country designed to insure that health care services are being delivered in the most economical manner possible.

BOTH SPONSORS of the bill are also sponsors of the Ribicoff-Long catastrophic illness bill introduced in October. This new bill, they claim, will "bring before the finance committee (which originated the catastrophic illness plan) and the Congress all possible proposals and plans for health reform."

Hearings on the general state of health care services in the U.S. were held last week. Physicians from throughout the country appeared before a House committee to discuss needs and problems in health care services, costs and financing. The hearings did not discuss specific elements of any of the wide assortment of federal health care bills already introduced in Congress.

The Nixon administration has still not submitted its health care bill. A draft of the administration's proposal, as written by health insurance experts within the Health, Education and Welfare department, was delivered to the White House over a month ago and is now being scrutinized by the White House domestic council's committee on health insurance.

President Nixon is expected to outline the provisions of the finalized program in his State of the Union message in January and offer the bill for Congressional scrutiny in February.

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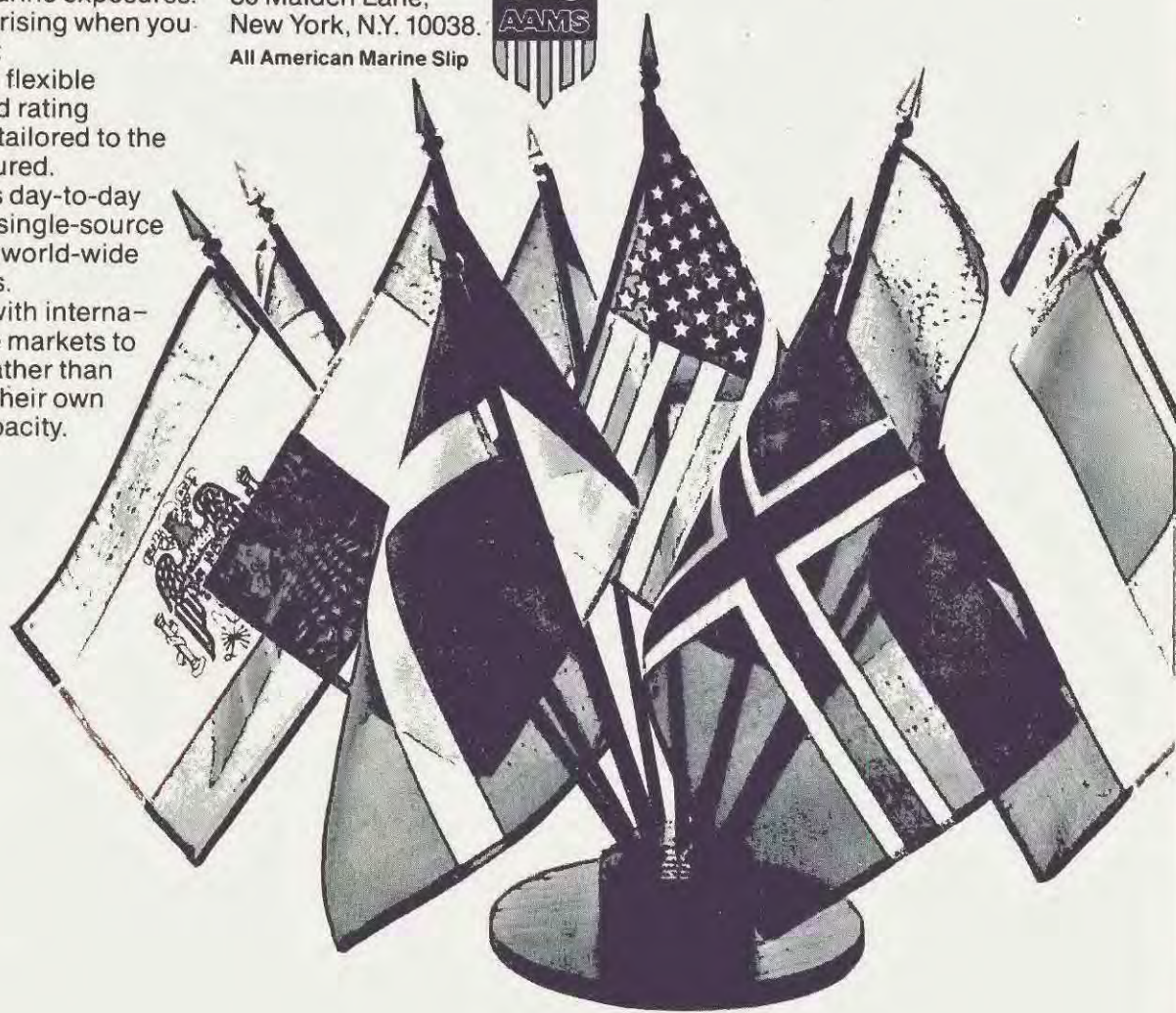
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Arlen consolidates to cut costs and eventually achieve total risk retention

NEW YORK—A two-year sweep of "review and revisions" has trimmed insurance costs at Arlen Realty & Development Corp. to less than 1% of the \$783 million annual revenues from its retail and real estate business, according to Morris Oppman, corporate insurance director.

Arlen operates the Korvette's chain of promotional department stores, as well as commercial and residential properties. According to sources outside the company, profits at both major divisions of Arlen have been disappointing since its merger with the Spartan Industries retail chain over two years ago.

The reorganized program now stands as two master policies, one

for property and the other for liability and statutory workmen's compensation, and costs Arlen about \$7 million a year, or roughly half of what total premiums

corporate profile

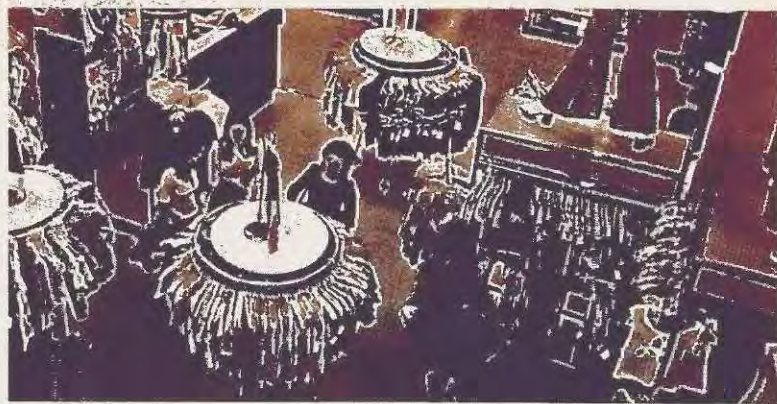
for smaller policies would cost, Mr. Oppman said.

Mr. Oppman said he is considering further changes to high deductibles, excess-of-loss self-insurance and reinsurance, through a captive insurer as a strategy to keep the flow of insurance dollars within the company.

The master property cover is an all-risk form which protects against all known exposures. It is underwritten by Commerce & Industry Insurance Co. with single limits of \$20 million at any one location, he said.

AN EXCESS property policy underwritten by Lumbermens Mutual Casualty Co. covers about eight buildings valued above \$20 million, he added. Arlen's broker is Sterling & Sterling Inc. of Great Neck, N.Y., a partially-owned affiliate.

"Insuring a retail store is basically no different than insuring real estate," Mr. Oppman said. "Including both in the master program spreads the risks and in



Arlen 'master plans' include coverage for Korvette's discount stores.

turn reduces the premium," he said.

"When I joined Arlen about a year-and-a-half ago, there were separate insurance programs for each part of the company and each subsidiary," he said, "and I've been trying since I came to consolidate all of them into one

massive program."

There were previously four carriers layering the cover and some subsidiaries were buying their own coverage, he said. "Handling a loss meant potential problems if one company did not agree with a settlement. There wasn't a lot of haggling, but the potential was always there," he noted, "and there is a lot less paperwork now."

"There were various deductibles before, but now we have a \$25,000 per occurrence, for all intents and purposes," he said. "We've had substantial reductions in our premiums, and I am considering raising the deductible as a preliminary move toward self-insurance," Mr. Oppman said.

"In the retail business, you can never recoup by insurance the loss of a customer while a store is closed down, so loss prevention is very important," he said. "I have a full-time engineer on my staff and we use Schirmer Engineering Corp., an outside company, for other loss prevention engineering," he said.

"Safety and loss prevention have been beefed up since I've been here, with marked improvement in our experience, and it helps us to gear up for a move to higher deductibles and for the possibility of self-insurance," he said.

"IN THE MERCANTILE (retail) division, each store has a separate security division to help reduce shrinkage which is generally caused by employee theft, shoplifting or burglary," he noted.

Arlen's master liability policy covers all third-party situations, including products liability, in addition to the statutory workmen's compensation benefits, he noted.

Hartford Insurance Group is the primary carrier, and "we have an umbrella liability policy written in various layers by several carriers up to a \$50 million limit," the executive said.

"We have a quality control division where all of our products are pre-tested, to make sure they have been accurately represented by suppliers," he noted.

Mr. Oppman feels the best way to handle insurance in the future is to self-insure up to \$25,000 and put losses above that into an aggregate self-insurance fund.

"IF AGGREGATE ANNUAL losses go over, say, \$1 million or \$2 million, I have not eliminated the idea of forming a captive insurance company to cover those exposures," he said, "and in turn the captive could reinsure those risks outside."

"Of course, we would have to analyze our total exposures and take a look at our experience," Mr. Oppman said. "It is difficult to analyze our experience at this point because of the number of changes in organization and carriers in the last few years."

"The vehicle would have to be worked out, of course," he said, "but I think it could be implemented over a three-year period."

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The Knowledge Broker

Safety commission will interpret its jurisdiction broadly: Official

WASHINGTON—The Consumer Product Safety Commission plans to "make very broad interpretations of its jurisdiction" in the area of product safety, carriers and product manufacturers were warned.

The commission, in fact, has already established jurisdiction over aluminum wiring and architectural glass, Stanley R. Parent, special assistant to the chairman of the commission, told a product liability seminar sponsored by the American Insurance Assn. and the Bureau of National Affairs.

Moreover, Mr. Parent said, "it is only logical that at some future point the commission will address the issue of how best to regulate the generic hazards which are inherent in the home or various types of homes themselves."

ANOTHER commission official, acting general counsel Michael Brown, was critical of industry's response to the product safety law thus far.

"We're beginning to find responses from consumers," he said, "but the response from industry can only be characterized as underwhelming."

In recent months, the insurance industry has been urged by various commission members and consumer representatives to lend full support to the commission's work by reporting products to the group on which there is an inordinate number of product liability claims. The industry, however, has been slow to respond to the pleas, often asserting that relationships between insurers and insureds have been confidential in the past and should remain so.

Addressing the question of enforcement, Mr. Parent told the seminar that the commission has and will continue to have access to the courts to prosecute cases where it feels the product safety law has been violated.

"THE ASSISTANT attorney general for antitrust within whose jurisdiction product safety prosecutions would lie has already indicated to the commission that in many cases when a U.S. Attorney cannot or decides not to go forward with a case, the commission itself through its general counsel will be provided the option to carry the case to court for prosecution," Mr. Parent said.

Mr. Parent emphasized that the agency intends to use the full authority of the act to make industry bring its products into compliance.

The Product Safety Act provides for civil penalties up to

\$500,000 and criminal penalties up to \$50,000 and a year in jail where violations are found.

"The chairman has stated on several occasions that he intends to indict chief executives because they are the people most responsible and most able to ensure that corporate policies support the objectives of the Product Safety Act," Mr. Parent said.

"THESE CHARACTERISTICS of the newly emerging agency have been established over the intervening six months since the formal creation of the commission and should serve to show that the commission has organized, learned to operate quickly, and takes its job seriously," said Mr.

Parent.

Mr. Brown, elaborating on the commission's work thus far, noted that a consumer product hazard index is now being utilized. But, he warned industry leaders, "don't relax if you're not in the top 10." He urged industry to come forward when it has evidence of hazard patterns developing in manufactured consumer products.

Arnold B. Elkind, former chairman of the National Commission of Product Safety, who also spoke, urged the group to try and impress upon their industry's managers the wisdom of taking a positive position in connection with the new product safety law.

He said he finds it ironic that

industry will fight increased regulation in some areas, but will invoke and encourage development of regulation when it serves their own interests.

T. Lawrence Jones, president of the American Insurance Assn., noted that the giants of American industry "are discovering to their discomfort that they are no longer the sacred cows of our society. Prosecution has replaced protection," he said, "and the voice of the consumer is heard in the land."

"THE INSURANCE business can sympathize with the hurt and shock to be found in the board rooms of manufacturers. After all," he said, "we lost our sacred cow status sometime before manufacturers lost theirs. Admittedly, it took us some time to realize that society is quite smart in recognizing its needs. Once we accepted this thought, we found the new directions to be basically

good and, I might add, profitable."

The American Insurance Assn. is a trade group representing most of the nation's major stock insurance companies.

Mr. Jones added it is the insurance industry's experience that product liability control "must be a total management function on the part of both insured and insurer."

"For the manufacturer it means a complete coordination and understanding of the legal implications of product liability, starting with the first stirrings of product development and ranging through every step of manufacture through final distribution."

"For the insurer, it means a team effort between our underwriting, claims and loss control departments and the producer or distributor. Both producer and insurer must know what part each other plays in the system," Mr. Jones said.



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Auto plan expanded

SALEM, OR.—A major expansion of the Oregon Auto Insurance Plan becomes effective Jan. 1, to include material damage coverage with limits of up to \$100,000/\$3,000,000 and inclusion of a premium payment plan.

Approval of the expansion required votes of more than 80% of the members or more than 10% of the carriers writing 80% of the coverage. Negative votes were received from only 42 companies writing 14.3% of the business.

The insurance departments of Idaho and Nevada have also announced support for broadening assigned risk plans operating in those states.

Airlines trim flights, personnel; see premium cuts

By STEPHEN GOOD

CHICAGO—Airlines are planning for thousands of employee layoffs and cancelled flights, but a fuel shortage may ultimately produce sizeable savings in the industry's insurance premiums.

Fuel cutbacks of 15% have forced belt-tightening. As a result, more people are being put on fewer flights. Profitless, empty seats and overstaffed operations are being eliminated.

At least one airline is known to already be renegotiating property and liability insurance with its carriers in light of fuel and flight cutbacks.

MANY LARGE AIRLINES purchase property-liability coverage through Lloyd's of London, United States Aircraft Insurance Group, and Associated Aviation Underwriters.

"We don't know what the traffic impact might finally be," said Dan Hencken at the Air Transport Assn. of America in Washington, D. C. "The revenues may be okay, and the load factor will go up."

The industry's five million flights a year may be reduced by about 500,000, he estimated. Fuel was cut back Dec. 1 to 5% beneath the 1972 consumption level and will be reduced another 10% Jan. 7. The airlines are calling this a 25% decrease from what the industry expected to consume before the shortage began.

A source from one domestic airline said that property-liability premiums would decrease if total revenue passenger miles (RPM's) declined.

"At this point in time we haven't had any (premium) cutbacks," he said. "We're flying fewer flights but with more passengers. So there may be no reduction in costs at all."

BUT THE FUTURE could bring anything, he warned. The fuel crisis may worsen and eventually trim down the airline's RPM's.

"If this fuel shortage were to continue for some period of time I think we'd attempt to renegotiate (premiums)," he said.

A spokesman for Trans World Airlines told *Business Insurance* the company's property and liability insurance plans are confidential.

"We are not permitted to comment on any activity at this time," he stated.

It was learned that a strike at TWA by 5,000 flight attendants will not help the airline save fuel for resumption of full service after a settlement. TWA normally uses four million gallons of fuel a day. But the federal government said TWA could not store this supply. It must be made available to other users as long as TWA is grounded.

WALLER SMITH, insurance director at United Air Lines, said TWA's strike has been a factor in this year's increased RPM's, currently ahead of United's original estimates.

"We figured 30 billion RPM's when we bargained this year," he said. "Based on that we came up with an insurance rate and cost projection. By the year's end we should be significantly ahead. But it's conceivable that we might be two or three percentage points under our projections by next July," he stated.

If the fuel crisis becomes steadily more severe, Mr. Smith said, there are two ways property-casualty insurance premiums could be reduced.

"Until now most of us have paid premiums based on RPM's

for liability, and on fleet value for hulls. But there is a provision that if an airplane is laid up you pay a ground rate instead.

"If you mothballed airplanes for the duration, then most carriers would charge a lower rate on

Insurance and the Energy Shortage

the mothballed planes by about 60% to 70%.

"There are no mothballed planes right now, nor do I know of anybody else contemplating it. There could be later, though," Mr. Smith added.

The other way to save on insurance costs is based on a company's RPM's. Fewer passenger miles mean fewer risks. But if the RPM's drop below the mini-

mum negotiated premium level, then the airline is forced to pay for minimum coverage no matter how drastically the number of flights are cut.

United pays a deposit premium to its carriers based on estimated RPM's for the year. This usually costs 60% of the estimated annual premiums, Mr. Smith said. When the deposit premium is low, minimum coverage is often pushed high by the carrier. And if the deposit premium goes up, the minimum drops.

"It looks like the administration is making the air transport industry a whipping boy in this fuel crisis," he commented. "You didn't see the bus companies and truckers asked to take this 25% fuel drop."

Barney Carnes, Delta Airline's supervisor of insurance, said

the fuel cutback will have a negligible effect if each plane's seat is filled.

"All the airlines had about a 50% load factor previously," Mr. Carnes pointed out. "If people continue to fly they'll just fill up the aircraft."

DELTA'S RPM'S and fleet are still growing. The company now has about 190 aircraft of all kinds, including five 747's. If the RPM's drop during the fuel shortage, so will the property and liability insurance premiums, Mr. Carnes said.

Coverage is negotiated on a monthly basis.

The airline disclosed late last month that it was eliminating about 10% of its more than 1,500 daily flights. But the Atlanta-based company does not expect to

feel a serious crunch.

"It's been a long, long time since we laid anybody off," said Jim York, Delta's assistant vp for personnel services. "We play it lean and hungry in good times, and avoid overstuffing. We're better able to ride out the storms that way."

"We've never made any provisions for furloughs because we've never had any furloughs," he added. Delta hopes to avoid any lay-offs.

But the announcements pour in almost daily of cutbacks in flights and employees. A recent class of 100 flight attendants from Eastern Airline's training school received diplomas and then went home without jobs. Eastern closed the school.

Many airlines are trimming. *Continued on page 23*



Many insurers considered the plastics industry too hot to handle.

CNA found that it was simply misunderstood.

Plastics, once considered a cheap substitute of inferior quality, has proven itself to have sophisticated applications in all areas of modern life.

In fact, the plastics industry is growing so fast that plastics will probably be America's number one raw material by the 1980's.

When an industry grows this fast, it's faced with many problems. For instance, the problem of operator safety in molding operations. Also, during the early stages of the industry's rapid growth, fire losses created an image of high insurance risk. So, when The Society of the Plastics Industry, Inc. (SPI) wanted a national insurance program, they hired a safety engineer to study their industry and asked several insurance companies to develop coverage.

Ultimately, only Continental Casualty Company, a member company of CNA/insurance, fully accepted the

CNA/insurance, 310 S. Michigan Ave., Chicago, Illinois 60604, Continental Casualty Co., American Casualty Co., National Fire Insurance Co. of Hartford,



Waiting lines for takeoff may disappear, along with jumbo jets, flying less frequently. —Wide World photo

Airlines . . .

Continued from page 22
ming employe ranks. In most cases furloughed workers are left without their former benefits after a short period of time.

American Airlines announced in New York that 214 of its 3,600 pilots are being furloughed in January. United Air Lines said 350 pilots, and 650 stewardesses and ground crew workers are being laid off. The Governor of Kansas, Robert E. Docking, estimated that as many as 40,000 Kansans working in aircraft-related industries face unemployment in the coming months of "slump" predicted for the general aviation industry.

One industry source said there are about 300,000 workers in the total airline industry. A 15% cut-back in fuel could cause 5-10% of these people to lose their jobs.

"There will be thousands of

employees laid off unless we get some help," the source said. No help is in sight.

And benefits often come and go with the job. As one company spokesman said, "If they're not working, you don't pay."

ANOTHER SOURCE at a large international airline said employee benefits for his company's laid-off workers quickly evaporated.

"They get covered for 30 to 90 days after furlough. And then the programs run out unless they convert their policies, because they're terminated employees."

"I do not believe that we make any changes in our normal furlough procedures," he added. "And I see no indication of anybody planning for this thing to be over in 90 days. We have no handle on how many will be laid off. We just don't know."

The source noted that his company's furlough pay programs help in a small way. Although the provisions vary from job to job, most employees are allowed one week of furlough pay for each full year of service after the 12-month probation period. The maximum amount of furlough pay an employee can earn is eight weeks' worth.

"They have recall rights too," he pointed out. Whenever the airline needs to rehire, laid-off workers have first job priority. "That's the difference between being furloughed and being fired."

THE ALLIED PILOTS' ASSN.

of Fort Worth, Tx., represents the 3,600 pilots of American Airlines. Its executive administrator, Ralph Harkenrider, said the company's seniority system forces newer employees with the least furlough benefits to leave first in a cutback.

"On furlough he's got benefits for 30 days and then he's out in the cold. That has to be. This is a seniority business. If you're on the bottom you're the first to fall off."

American Airlines provides a lump sum of \$100,000 in comprehensive medical insurance for its "active" pilots, Mr. Harkenrider noted. The "active" rating is given to anyone who has worked at American for more than a year.

The Allied Pilots' Assn. adds an extra \$30,000 to the comprehensive medical, carried by the American General Insurance Co. If an active pilot is furloughed and loses his benefits, the association's comprehensive medical plan becomes the basic coverage.

IN ADDITION, the association provides a \$15 per day hospitalization indemnity plan and group life insurance options of \$10,000, \$20,000 or \$30,000 carried by the North American Life Insurance Co.

The Airline Pilots Assn. in Washington, D. C. has similar programs for its members, who are employed with about 30 passenger and cargo airlines. But first year pilots, called "apprentices," are eligible for the benefits programs at half the premium cost.

"We've been quite successful in the last three or four years extending the employee benefits for furloughs," an association spokesman said. But depending on the airline and the employee's job, extended benefits are dropped anytime between the last day of work and two years after the furlough begins. ■

Heads reinsurer

Jared J. Cummins has been elected president, chief executive officer and a member of the board of Dominion Insurance Co. of America, a New York domiciled reinsurance company. Dominion, established a year ago, is operated by Agency Managers Inc.



challenge of this "problem" industry and discovered that it was simply misunderstood. CNA did its homework well. It lived with the plastics industry for a year and a half, acquiring invaluable knowledge from an insider's point of view. This led to the development of an insurance program that made good economic sense for all.

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pensions & investments

PERSPECTIVE



BY MICHAEL F. BIANCARDI

Executive, Product Management Group,
Employers Insurance-of Wausau
Wausau, Wi.

THE NATIONAL Traffic and Motor Vehicle Safety Act was passed in 1966. During 1971 the Occupational Safety and Health Act went into effect. With the enactment of the Consumer Product Safety Act October 27, 1972, the triangle was completed. Now all three aspects of safety—highway, occupational and products—are federally regulated.

Although the recent product safety legislation is limited to consumer products, those of you who manufacture commercial and industrial products know that you cannot breathe a sigh of relief that you have escaped the guidance and constraints of federal legislation. When the Occupational Safety and Health Act was passed, there were many who recognized it as a demanding piece of product safety legislation, even though it was directed at the prevention of occupational injuries to employees. By now most of you in the business of manufacturing capital goods have probably already realized the product safety impacts of this legislation because purchasers are specifying that your products meet OSHA requirements.

Unlike other pieces of safety legislation, the Consumer Product Safety Act had a relatively easy birth—other than the internal governmental organizational aspects of the act. There was very little, if any, outright opposition to federal legislation in this area. True, there were disagreements about degree, methodology and scope, but in essence, there was general concurrence on the need for consumer product safety standards, for an act, and for a regulating agency of some kind. Thus, the promulgation of the act was another evolutionary step in a long series of consumer-related actions which have been occurring at an accelerating pace. The act embraces principles and objectives long espoused by the consumer, the manufacturer and the insurance industry—the elimination of unreasonable risk of injury associated with products and their uses.

THE ACT CAN be construed as another symptom in the widespread and massive change in the general relationship between manufacturers and consumers in this country and even between sellers and buyers generally. As we have seen, the hallowed doctrine of privity of contract has almost everywhere been replaced by a doctrine of strict liability. Res ipsa loquitur—the rule by which a plaintiff need prove only injury by an agency not within his control, without having to pinpoint the negligence or identify the guilty party—is being newly and widely applied in product cases. We have to look at the Consumer Product Safety Act against a

Coping with CPSA: upgrade products, standards, consumers

"The (product safety) act embraces principles and objectives long espoused by the consumer, the manufacturer and the insurance industry—the elimination of unreasonable risk of injury associated with products and their uses."

broad backdrop; in a perspective which includes a multiplying number of Ralph Naders, Senator Proxmire, Herbert Denenbergs, and others.

The Consumer Product Safety Act is only another symptom of an increasingly visible and vocal consumerism. Moreover, the whole consumer movement is sparked, at least in part, by growing unwillingness and even inability on the part of our old friend, the man in the street, to pay his share of the losses which are being piled up by a reckless and wasteful society.

AN ASSOCIATE of mine put it this way: "We are witnessing a change in the basic condition which shapes the sphere the insurance industry occupies in the economy. Under past condition, the losses incidental to progress were within the capacity of society to absorb. While this was true, the public could permit itself the comfortable illusion that these losses were insurable; that they were 'paid for' by insurance. Under the new condition, technology has

reached a point where society can no longer afford to accept avoidable losses, no matter how they are divided up. The illusion is being broken. Losses are beginning to be seen for what in fact they are—losses: damage and destruction and injury and death. Any loss is something lost, gone—something of which we are all deprived, never to be repaid by any process of taking money out of one pocket and putting it in another, which is all that insurance can accomplish."

So far, I've been saying that one of the Act's impacts is to re-enforce a bigger and surrounding impact. More narrowly and immediately, its effect will be to add compulsion to the attainment of safety goals that we have been trying to achieve through persuasion. The fundamental objective which demands our attention is not the matter of product liability, but the safety of a product and its user.

The act can help direct our attention to, this fundamental lifesaving, humanitarian and economically sound objective so we do

not become totally distracted with the immediacy of potential liability and liability losses. Personally, I cannot argue against the concepts involved in this broader perspective.

Of course, the act is going to make problems for manufacturers of consumer goods—and also for the insurance industry. Solving these problems will be costly for some manufacturers and may be impossible for others. But in the long run, the objectives of this legislation and the legislation itself, when pursued with pragmatic effectiveness, should benefit everybody.

THE MANUFACTURER whose product already provides a high degree of safety will probably have little difficulty in meeting requirements set by the Act, and the worries of his shortcutting competitor should be balm to his soul. Improved quality controls contribute to improved loss experience and thus lower insuring costs—a clean gain for the manufacturer. More important, they can contribute to better functioning commodities which should translate into more sales and happier customers—another direct benefit to the producer.

The entire free enterprise system has a stake in this act. Sellers and buyers should not be natural enemies to each other.

Continued on following page

Federal assistance program not responsive to individual needs



By EUGENE F. JOHNSON

Assistant vp

Rollins Burdick Hunter Inc., Chicago

THE MARCH 27, 1964, Alaskan earthquake triggered a wave of congressional action that brought the major weight of disaster assistance upon the federal government. In the recent hurricane Agnes disaster of 1972, combined federal assistance, either expended or committed, to Pennsylvania alone has amounted to one billion. 970 million dol-

"In its existing form, the Disaster Relief Act of 1970 is wasteful in that it does not attempt to take remedial action to correct or minimize the impact of natural hazards."

lars, including both grants and loans.

The above figure represents only a portion of the recurring national expenditure, created out of a crisis-oriented assistance program, under the Disaster Relief Act of 1970. For the nation at large, the present act creates a multitude of problems, now recognized in the aftermath of recent disasters.

IN ITS EXISTING form, the Disaster Relief Act of 1970, is wasteful in that it does not attempt to take remedial action to correct or minimize the impact of natural hazards. Failure to take corrective action perpetuates a repetitive cycle to both human and national resources.

The act further stifles spread of risk through the purchase of insurance. This was graphically shown by the February 1971 San Fernando earthquake where, in an area of high risk, only \$12 million of the total \$511 million in damage was covered by specific earthquake insurance policies. A negative incentive to insurance purchase, in anticipation of loss, is created

by reliance upon expectation of Federal assistance after the disaster occurs.

Before April 20, 1973 a forgiveness provision in the assistance act provided that the borrower was not required to repay the first \$5,000 of any disaster loan received. This provision tended to reward the non-prudent individual and provide a windfall profit to the unscrupulous person. Though the clause has been removed it is anticipated a catastrophe of large magnitude could bring legislative action for reinstatement of the forgiveness provision.

All requests for assistance must first come from the governor of the affected state with the President then declaring that a major disaster exists for public funds to be made available under the act. As a result, the act is not always equitable, in that it is not responsive to individual need but that of the large spectacular loss. A national assistance program should be structured in a manner providing recognition of individual need whether the loss in total affected a small or large

Continued on following page

business insurance

PERSPECTIVE

CPSA . . .

Continued from preceding page

other. A sale is a transaction from which both parties should gain. But consumerism, right now, appears to be a movement openly and explicitly against manufacturers and vendors. Industry support, participation in implementation, and constructive guidance of the act and its provisions may well transform consumerism into a movement not against all commercial producers, but against dishonest or dangerous producers.

It is also a step toward finding a cure for the unacceptable (and, in some cases, verging on uninsurable) loss picture mentioned previously. When losses from a peril exceed the premium-paying resources on the entities exposed to it, an insurance "capacity" gap is produced. Short of a capacity gap there is a capacity strain, such as we have seen in medical malpractice and aircraft liability. Product exposures are rising toward that point. The answer is not to increase the capacity only, but to reduce the exposure. The Consumer Product Safety Act can be a force for doing exactly that.

FROM THE FOREGOING, it is obvious that the safety, loss prevention, accident prevention impacts on the manufacturer and on the insurance carrier's loss control services should be sizeable. Fortunately, the insurance industry has over the past decade expanded and upgraded its product loss control services and is working closely with aggressive and progressive policyholders to voluntarily upgrade their products and reduce injury and loss exposures. The act should strengthen such relationships.

The standards provision of the act provide another specific opportunity for the manufacturer and the insurance industry. The act permits us directly or through our associations to develop standards in areas of need. This need, according to the estimate of Richard Simpson, chairman of the Consumer Product Safety Commission, may well reach 10,000 standards.

Both the American National Standards Institute and the American Society for Testing and Materials are gearing for the work to be done in developing such standards through the voluntary mechanism. The American National Standards Institute has recently created a new Consumer Product Safety Committee. The American Society of Testing and Materials has created its F15 Committee to develop consumer product safety standards and committed sizeable resources in manpower and money to this effort.

BUT STANDARDS is only one area of voluntary activity by manufacturers and their associations. We have identified four injury and loss-producing aspects related to products—product hazards, product malfunctions, misleading advertising, inadequate operating instructions. These are augmented or diminished by the effectiveness of internal loss controls. Voluntary actions with respect to hazard evaluation, advertising and operating instruction review, and product certification will be essential to the reduction of these exposures. Recognizing that some manufacturers will need guidance in evaluating existing product controls and establishing new ones, the American National Standards Institute has published a useful guide entitled, "Guidelines for Organizing a Product Safety Program." It can be purchased from the American National Standards Institute, 1430 Broadway, New York, New York 10018. Single copies are priced at \$1 each.

But, the product itself makes up only one leg of the three-legged product safety stool. Accident potential may arise out of the product, the environment in which it's used, and the user himself. Just

as OSHA has served to highlight compliance with physical standards and may have detracted from educational, motivational, managerial, and other aspects of personal safety, so may the Consumer Product Safety Act result in tunnel vision. We could suffer an overall safety setback if we are distracted by the growing emphasis on product standards to the exclusion of consumer education and control of the environment in which products are used.

SO MUCH FOR loss control aspects of the act. Let's look at other factors. The act has provisions for the accumulation and dissemination of data on product-caused injuries. Availability of this data will undoubtedly stimulate litigation by increasing public claims consciousness and by creating an unprecedented source of information for attorneys contemplating litigation. Some claim that product liability lawsuits will reach the one million mark by 1980-85, about double the current number. The act's provision that the commission shall maintain an injury information clearing house to collect, investigate, analyze, and disseminate injury data and information relating to the causes and prevention of injury associated with consumer products will create a source of information for members of the plaintiff's bar seeking data relative to product-connected injuries associated with products which are similar or identical to those involved in their cases. But

this may be only a short-range disadvantage.

The act provides that compliance with the consumer product safety rule or any other rules or orders of the commission will not relieve a person from liability at common law or under state statutory law to any other person. Failure of the commission to take any action or commence a proceeding with respect to the safety of the consumer product is specifically made inadmissible in evidence in litigation at common law or under state statutory law. Therefore, strict compliance with the consumer product safety rules and other regulations of the commission will not relieve a manufacturer, distributor, or other entity from potential products liability.

Evidence that the commission found it unnecessary to issue any standards or rules concerning their products may not be introduced in a products liability action. However, there is nothing in the act to prevent a defendant-manufacturer from introducing evidence that a standard or rule of the commission does exist and that this product was manufactured in strict compliance with his provisions. While this in and of itself will not relieve the defendant of common law liability, it should be strong evidence of the product's safety and the manufacturer's safety consciousness, particularly in those situations where the plaintiff's proof may be weak on the issue of whether or not the alleged defect existed at the time the product left the manufacturer's control.

That part of the act that grants the commission authority to file an action in a federal district court, which may result in a ruling by the federal court that the product must be recalled if it presents imminent and unreasonable risk of injury, may strengthen the demand for products withdrawal insurance.

Insurance problems may rise with respect to liability for products which are banned after many have been manufactured and sold and already in use.

ANOTHER POSSIBLE short-term effect is that new safety requirements may increase the cost of certain products. Since the cost of insurance relates to the price of the product, this would naturally result in an increase in the cost of insurance on those products since most premiums are developed as a function of sales. Although we would like to think there would be some reduction in insurance costs in the long run because of the contribution of the safety of the products and the resultant fewer injuries and death, it is difficult to believe that the short-term effect will treat insurance premiums kindly.

In summary, there is bound to be a period of turbulence ahead. Witness the problems with OSHA—and the CPSA may be even more disruptive. The turbulence will be minimized and its duration shortened by active constructive participation and guidance in the implementation of the act by manufacturers and the insurance industry. Nonetheless, there could well be an upsurge of claims, losses, and premiums immediately ahead of us. It stands to reason, however, that in the long pull greater inherent product safety, better consumer education will produce fewer injuries and greater customer satisfaction. These in turn should be reflected in a more stable, less costly insurance market.

Mr. Biancardi has organized and directed product safety programs for Employers of Wausau since 1969. He is a mechanical engineer from MIT, and past president of the American Society of Safety Engineers.

Assistance . . .

Continued from preceding page

sector of our society. It is in this area where broadened insurance coverage could help bridge the existing gap between federal-state assistance programs.

Finally, the present act is wasteful of national assets through unplanned fiscal response to recurring natural catastrophes. It is roughly estimated that 1% of the gross national product, or over \$10 billion, is lost to natural hazards. The federal government cannot alone provide all the resources and financing for disaster assistance while on the other hand suffering the loss of revenue that these catastrophes produce. With each disaster a shifting of national priorities must be undertaken limiting American economic growth.

To correct this present act the federal government has undertaken to write legislation that will create a new national policy on disaster assistance. With this goal in mind, in May, 1973, "The Disaster Preparedness and Assistance Act of 1973" was introduced to provide such corrective action.

SOME OF THE faults in the assistance program could be corrected with passage of the proposed act, but as written, it contains sections as lethal to interpretation as the Gulf of Tonkin resolution. Under section 211, dealing with insurance, the act states that an applicant for assistance "shall comply with regulations prescribed by the President to assure that, with respect to any property to be replaced, restored, repaired, or constructed with the assistance, such types and extent of insurance will be obtained and maintained as may be reasonably available, adequate and necessary to protect against future loss to the property." It also states no applicant "shall receive assistance for any property or part thereof for which he has previously received assistance, unless all insurance required has been obtained and maintained with respect to such property."

Within the proposed act a definition as to what yardstick the President will apply in deciding insurance required to be reasonably available, adequate and necessary for compliance has not been set forth.

The ramifications for the risk manager of this total absence of guidelines, until after the fact, include uncertainty about the adequacy of self insurance plans and lack of coverage if the hazard is not recognized to exist.

For the insurance industry it could mean further extension of federal insurance into those areas where it is felt availability is not adequate. It is of interest to note that the Federal Insurance Administration is presently preparing for the President a report on catastrophe insurance availability.

MANY OF THOSE at the state-city level have experienced the inequities and problems of the existing act during recent disasters. These officials will resist any change in federal policy that shifts greater fiscal responsibility upon them. Furthermore, faced with local pressure from disaster victims not satisfied with present assistance, they will look to Washington for new and enlarged programs.

An example of this reaction is the bill introduced in Congress this year by representatives from Pennsylvania. This bill would have the Federal government set up a mandatory program to be called "National Catastrophic Disaster Insurance."

Under this program insurance companies would collect a mandatory fee, as an add-on charge, on the premium payment of all property insurance policies. It is proposed that this charge be up to, but no more than, 5%. Money collected would be turned over to the government, with insurance companies making payment at time of loss to those people who had bought property insurance protection from them. This law would give insurance companies until June 30, 1975 to provide comparable insurance to replace government coverage or forfeit the right.

As proposed, the bill would create its own national disaster insurance and public assistance. The add-on charge not only becomes a part of all fire insurance coverage, homeowners and commercial multiple policies but also all theft, burglary and any other liability or casualty insurance, excluding automobile.

The "National Catastrophic Disaster Insurance" plan would take over the existing federal flood insurance program and is to be administered by the Federal In-

surance Administration. A new position of assistant administrator for disaster insurance would be created.

In those cases under the act where it is thought necessary, the administrator would have the power to totally deny coverage in areas where it is felt the risk of natural disaster is too high. The bill contains a retroactive payment to be made to all Agnes victims who had insurance on private and commercial property and to that extent possible payment to non-insured victims.

This approach to catastrophe insurance must be met with positive action by the insurance industry. A federal insurance program, sensitive to Congressional pressure and action, will tend to ignore sound principles of insurance in the interest of creating social legislation. Like the present Social Security program, the add-on charge would be subject to periodic increases to blot the red ink created by ever-widening commitments to assistance.

THE PRESENT National Flood Act has been placed in jeopardy by an amendment introduced before Congress. This proposed amendment would change the 100 year flood standard, as now used, to 50 years. Passage would make the flood insurance plan actuarially unsound.

It is imperative that the insurance industry not only become acquainted with the issues but also help shape the final legislation into a sound workable plan. This will require on the part of our industry some flexibility in adapting new technology and techniques to the principles of insurable hazards in areas lacking full market availability.

We must accept the challenge of national need and set forth positive programs to bridge the existing gap between people and government assistance programs. Failure will mean further erosion of the American insurance industry to federally administered insurance programs.

Mr. Johnson, assistant vp, Rollins Burdick Hunter Co., Chicago, serves in the company's fire engineering division, research, planning and engineering department. He has had 17 years of insurance-related experience, including 11 years with the Missouri Inspection Bureau.

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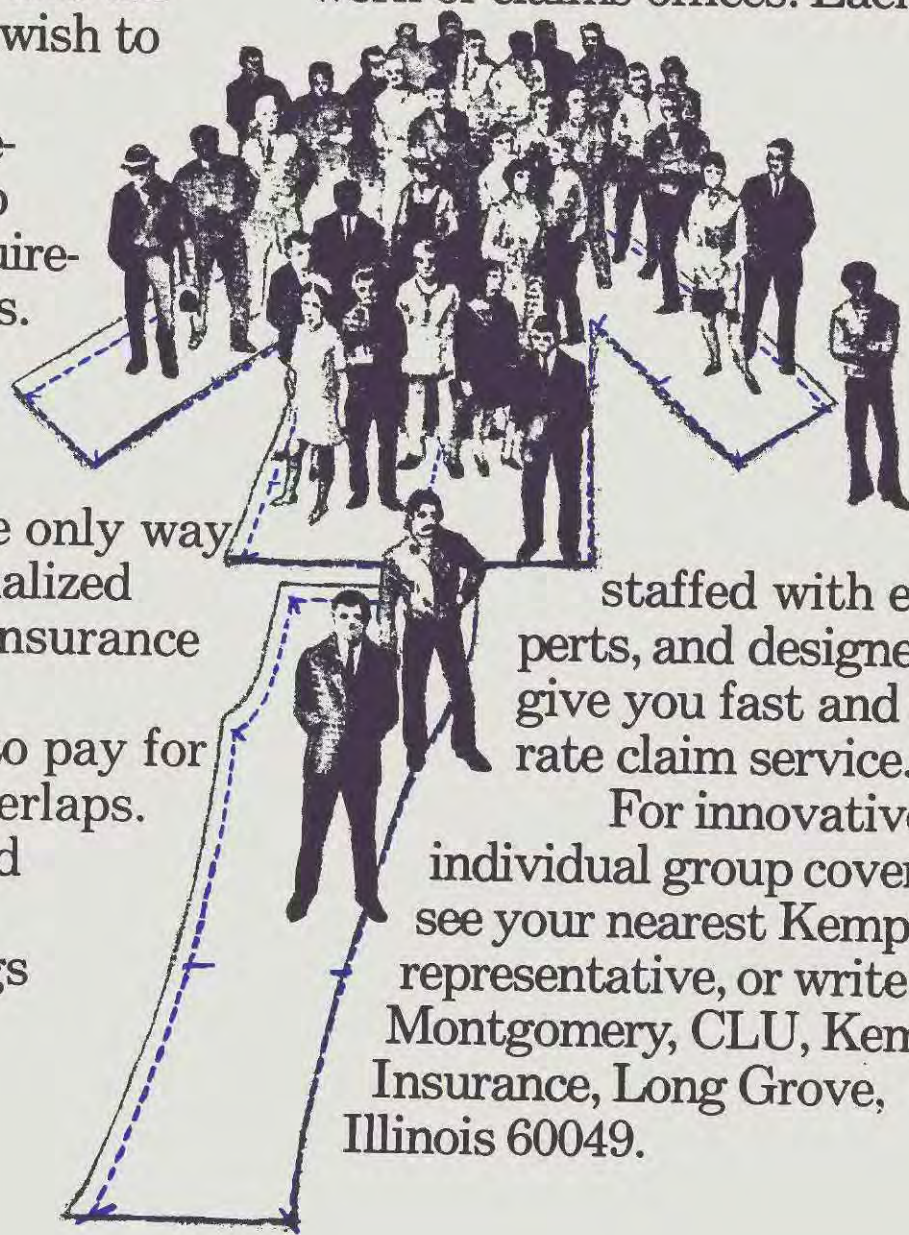
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washington watch

Appears House and Senate to fight over pension reform enforcement

WASHINGTON—At a one-day conference called to give a legislative update on pension reform, it became clear that quick passage of pension reform legislation is no longer inevitable because the Senate will fight any House bill giving the Labor department sole enforcement authority.

At the same session, Sen. Jacob Javits (R-N.Y.) refuted contentions that pension termination insurance covering multi-employer plans is not a necessary part of reform, citing examples of terminations in which participants lost hundreds of thousands of dollars in rights.

With no cease fire in sight to calm the jurisdictional fighting between the House general labor

subcommittee and the ways and means committee, House leadership postponed deliberation of pension reform legislation until next year.

THE HOUSE RULES committee had scheduled a tentative Dec. 4 deadline for the two warring committees to make amendments and produce a pension bill agreeable to both groups, but, as the deadline approached and the feud grew worse instead of better, the issue was put off until Congress reconvenes after its holiday recess.

In an unusually blunt question and answer session with persons attending an International Foundation of Employee Benefit Plans

seminar here, general labor subcommittee chairman John Dent (D-Pa.) said he prefers no pension bill to enactment of the unanimously approved-Senate bill, which spreads jurisdiction between the Labor and Treasury departments.

Mr. Dent said he will not compromise his belief that pension regulating should be the responsibility of the Labor department. The ways and means committee—like the Senate—wants at least some Treasury participation in enforcement of pension reform provisions.

Should Mr. Dent and his subcommittee win the jurisdictional battle and a bill emerge from the House that gives the Labor de-

partment sole jurisdiction, it is likely the Senate would move to kill the bill in conference, sources say.

In a luncheon speech Sen. Jacob Javits (R-N.Y.) both criticized as "deplorable" the delay in the House and challenged claims made earlier by the AFL-CIO's building and construction trades department that pension termination insurance was not necessary for multi-employer pension funds.

"The building and construction trades argue that there has never been a multi-employer plan termination in that industry," Sen. Javits, a co-author of the Senate's pension bill, said. "Therefore, they say, we don't need the insurance. What my staff has unearthed challenges that assertion."

"For example," he said, "I am informed by the Labor department that Plasterer's Local 314, Long Island City, N.Y., had a plan which terminated in 1972. Upon termination, the plan had \$257,000 in benefit liabilities and was only able to cover \$27,000 of that amount. Thus, participants in that plan may have lost over 70% of their benefits."

Partial terminations among multi-employer pension funds, the New York Senator claimed, are even bigger problems than complete terminations.

"THE CLASSIC EXAMPLE is the case involving the New Jersey Brewery Employees' Pension Plan partial termination caused by the closure of P. Ballantine & Sons," Sen. Javits said. "It is estimated that employees lost benefits with a present value of about \$8 million; 450 non-retired workers losing benefits worth about \$4.5 million and 300 employees eligible for immediate retirement losing benefits with a present value of about \$3.5 million."

"This is very typical of what could happen to multi-employer plans generally," he said. "Every industry is likely to experience its ups and downs, resulting in significant employer withdrawals from multi-employer plans and hardship or financial problems for the remaining employers contributing to the plan who must shoulder the burden created by the withdrawing employers."

The building trades have said they could live with insurance on

a voluntary basis, but Sen. Javits said such a system would not work.

"This suggestion implies a recognition that there might be some need for multi-employer insurance protection," he said. "I doubt, however, that adequate reserves to cover partial terminations of multi-employer plans could be supported on a voluntary basis. There needs to be a much wider dispersal of the risk, and that can only be accomplished on a compulsory basis."

SEN. JAVITS' remarks and other happenings on Capitol Hill indicate termination insurance is still a major point of contention. Ways and means, although thought to be ready to bargain away its termination insurance plan if need be, has opted for an insurance system using an assigned-risk pool comprised of private insurance companies. Rep. Dent's bill—H.R. 2—calls for a federal corporation as does the Senate bill.

The energy crisis seems to be saving an impact on pension legislation, too. Both Sen. Javits and Rep. Dent have urged quick passage of pension reform legislation to protect pension plan participants from any recessionary trends caused by the fuel oil shortage.

Mr. Dent has even proposed that the effective date of pension legislation be immediate to protect benefits while allowing fund administrators two years to comply with the pension law.

Ford loses liability case

LOS ANGELES—A Superior Court jury ordered Ford Motor Co. and Beverly Lincoln Mercury to pay more than \$1 million to a former premedical student disabled in a car crash caused by contaminated brake fluid.

James Hasson, 22, suffered partial paralysis and permanent brain damage after brakes on his 1966 Lincoln Continental failed July 19, 1970, causing the car to crash into a fountain on Mt. Olympus Drive, Hollywood.

Robert Charbonneau, Mr. Hasson's attorney, said both Ford and the Beverly Hills service center were charged with negligence because the manufacturer put the contaminated brake fluid in the car, and the garage failed to change it although the car had traveled 43,000 miles.

The jury in the court of Superior Judge Warren D. Allen heard more than three months of testimony before awarding Hasson \$1,058,612.50. It also awarded Jack Hasson, father of the young man, \$63,663.29 for medical bills.

Four students who were passengers in Hasson's car also received damages for minor injuries. Dennis Savage, who suffered kidney injuries, received \$1,447.75.

David Schapansky was awarded \$75.75; Ann McHenry, and Roland Regball, \$25.75, for medical bills for treatment of cuts and bruises.

Ford and Beverly Lincoln Mercury will share equally in paying the total \$1,123,840.04, Mr. Charbonneau said.

Insurance head named

Vincent F. Gallo, formerly with Marsh & McLennan, San Francisco, was named insurance supervisor for California Cannery and Growers, a new position. California Cannery and Growers is one of the world's largest fruit and vegetable processing cooperatives. Mr. Gallo is in the process now of establishing a "full-scale" insurance department program.

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Correspondents In All Other States

Confrontation between insurance reps, consumers

LAS VEGAS—In a recent face-off between consumers and insurance representatives here, claims and counter claims flew over the amount of attention insurers have given to consumers' needs.

"... the insurance industry does little to objectively and systematically determine what the consumer wants from the industry in terms of coverage, service or information," one consumer representative charged.

But an industry spokesman said the industry's consumerism stance "bears evidence of a progressive, imaginative system of insurance protection willing and equipped to fill a social need out of basic concern in the consumer's interest."

THIS CONFRONTATION was staged at the annual National Assn. of Insurance Commissioners (NAIC) meeting, by the Consumer Participation Subcommittee.

Representing corporate risk managers at the face-off were James E. Bailey of the American Society of Insurance Managers (ASIM) in Washington, D. C. and Berry L. Griffin Jr., corporate insurance manager for Hughes Aircraft Co.

Other consumer representatives included: George Bernstein, federal insurance administrator for

the Department of Housing and Urban Development; Elizabeth Schimling, from the AFL-CIO's Washington state labor council; Francis D. Barrett Jr., of Francis D. Barrett Jr. & Assoc. insurance consultants; and Dr. Arnold Wolpert, from the National Education Assn.

On the industry side were 11 representatives, including: Vestal Lemmon, president of the National Assn. of Independent Insurers (NAII); Melvin L. Stark, vp of the American Insurance Assn. (AIA); Arthur Blum, vp of the National Assn. of Insurance Agents (NAIA); J. Carroll Bateman, president of the Insurance Information Institute (III); and William A. Stringfellow, vp of the National Assn. of Mutual Insurance Agents (NAMIA).

"Nothing was accomplished today other than the beginning of a small amount of dialogue," ASIM's Mr. Griffin told *Business Insurance*. "I think a lot brought out today was enlightening, particularly to the industry's side. If it can be done in the spirit of give-and-take a lot of good is going to come out of it."

The eagerness of industry representatives to prove their interest in consumerism shows a changing attitude, Mr. Griffin noted.

"I think the insurance companies have recognized for a period of time their image is not what they've desired."

Harshest criticism of the insurance industry's track record came from Francis D. Barrett Jr. He stated that his firm made more than 100 studies of the insurance industry in the last three years, and found it had "a poor image."

"The insurance industry does not have a poor image because insurance is negative and confusing. Insurance has a poor image because the insurance industry is negative and confusing."

Some insurance representatives later questioned the verity of Mr. Barrett's findings.

Vestal Lemmon, president of the NAII, declared the insurance industry is interested in consumer affairs because it is a consumer as well.

"Every year our companies purchase millions of dollars worth of goods and services necessary for the proper treatment of human injury and the repair of damaged property. In always demanding value received for every dollar spent on those goods and services, we have acted responsibly in behalf of the consumer at large.

"More than that, through our efforts in the area of loss prevention, we have helped to reduce or stabilize important ingredient costs of our product and have

passed the resultant savings on to the consuming public."

Many of the industry representatives told consumers at the opposite table that they had set up hot lines, sponsored educational programs, and even given heroism awards in a continued effort to maintain a dialogue with the public.

BUT SOME OF THE state insurance commissioners thought much more could be done by the industry to improve its public image.

"The insurance companies in general must recognize that we are indeed in an era of consumerism," said Kansas commissioner Fletcher Bell. "I think they've taken steps to respond to the consumer advocates, but I don't think they've gone far enough fast

enough."

Stanley DuRose, commissioner from Wisconsin, held a tempered view of the whole "consumerism movement."

"To some extent you've got more articulate spokesmen on a national basis and they're getting more ink.

"Consumerism people think this is something new, but they're just new on the scene."

The whole issue of consumerism is "responsive marketing," said Fred A. Mauck, commissioner from Illinois.

"It's difficult to characterize the whole industry," he said, noting that there were individual exceptions. "But viewing the whole industry, they're not up with the times. Their statements are all too often the verbiage without the actions underlying them."

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State no-fault 'dead': Payne

SAN FRANCISCO—No-fault auto insurance as a "state issue in California" may never be revived, according to insurance commissioner Gleeson L. Payne.

Addressing a joint meeting of the Insurance Forum of San Francisco and the Northern California Chapter, American Society of Insurance Management, Mr. Payne credited failure of the state legislature to act on no-fault auto reform to trial attorneys who "conducted a vigorous and vicious campaign against auto insurance

reform and used many arguments against no-fault which just were not accurate.

"Probably the best chance for no-fault auto insurance reform," Mr. Payne added, "rests with Senator Magnuson's legislation before Congress. That bill establishes guidelines which the various states must follow. If that bill is enacted, the states must take action."

He noted that of the country's 21 no-fault bills only nine are truly no-fault.



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Home builders buy insured warranty plan

By SUSAN ALT

WASHINGTON—The National Assn. of Home Builders is reportedly in final stages of negotiations with a carrier for a unique new national insured warranty program covering all new homes, which could generate premium business of some \$60 million initially and perhaps three times that much later on.

The NAHB is said to have talked with some 17 different carriers on the program, a first for home builders nationally, subse-

quently narrowing the choice to three carriers.

Andrew H. Anderson, senior vp of Aetna Life & Casualty Co., told *Business Insurance* that Aetna is not one of the firms involved in NAHB final negotiations, despite some reports in the trade that Aetna might get the business.

"We have the NAHB material, but have made no response to it," Mr. Anderson stated, charging that unless the carriers talking with the NAHB have a lot more

information than initially provided by the association, they would be making bids based on non-existent facts.

FURTHER CHECKS SHOWED that neither Travelers nor Hartford are apparently involved in negotiations with the NAHB.

The information originally submitted by the association to carriers (Aetna only got its package on Sept. 11) was "totally lacking" in any claims or loss experience statistics, Mr. Anderson said. "We

were unable to calculate any loss ratio because only a few isolated claims examples under the FHA mortgage insurance program were cited, and the premium information under that program was missing," he asserted.

Materials included information from the successful British insured home warranty program that the NAHB plan will be modeled after, but necessary loss experience data were missing, Mr. Anderson noted.

"IT IS A VIABLE PLAN, but it is impossible for us to make any positive response with the small amount of information we have," he concluded.

The NAHB has some 30,000 home builder members who do 85 to 90% of the total construction in the country. The average premium to be paid by a builder is estimated to be in the area of \$60 per house, since the median price for a new home is near \$30,000.

Costs are initially anticipated to be about two-tenths of one percent of the total cost of the dwelling unit, although the formula for costs may rise or fall depending on the loss ratio and claims frequency under the plan in the first year or two, Milt Smithman, a member of the NAHB's home warranty council, said.

The cost would be paid by the builder, but would be recovered in the higher home price, spokesmen for the NAHB noted.

THE PREMIUM for this insurance would be a one-time fixed cost. The NAHB will set up local warranty councils around the country starting in early 1974 to collect fees, adjust complaints, conciliate disputes and provide inspection services where needed.

Although some adversaries of the homebuilding industry sharply criticize the warranty plan, the NAHB sees it as forestalling



A few builders offer one-year warranties to new home buyers.

stronger legislation proposing to establish federal and state regulation of builders and even longer mandatory warranties than the two year blanket warranty the NAHB's plan will provide.

Starting with an experimental 10 to 20 cities early next year, the association's home warranty council will begin spending an initial half-million dollar appropriation to set up a massive bureaucracy that some doubt will provide home buyers with any effective protection.

THE WARRANTY PROPOSES that in the first year, the builder would cover defects due to faulty workmanship and defective materials, as well as major construction defects. In the second year, the homebuilder would cover major construction defects and defects in the various systems in the home such as plumbing, heating and cooling, exclusive of defects in mechanical systems covered by a manufacturer's warranty.

From the third through the tenth years, the insurance company would cover major construction defects. In addition, the insurance company would underwrite the builder's performance during the first two years and make good on any arbitration awards where the builder failed to honor his commitments to his buyers.

Among the largest builders in the country, and also members of NAHB are Levitt & Sons, which built over 10,000 homes in 1972; Kaufman & Broad; Larwin, a division of CNA Financial Corp.; U.S. Home; Centex; and Leisure Technology Corp.

The NAHB notes that the 17 largest producers of housing in the entire country build less than 1% of the over-two million homes started each year. A very fragmented industry, indeed. And still dominated by the countless numbers of small local builders, and custom contractors.

BUT TO THE BIG BUILDERS, and there are increasing numbers of mass-producers, a national insured warranty program could mean added annual costs in the half-million-dollar range.

Patty McKinney, director of consumer affairs for the NAHB, told *Business Insurance* that in order to satisfy the insurers, the association will "have to hire qualified engineers in some areas where there are not FHA, VA or local building code inspections made to insure adequate onsite construction code compliance. In some areas, the outside inspections might only be necessary until the particular city sets up adequate ones," Ms. McKinney added.

The NAHB is saying that in order to be "registered" with the home warranty council, a builder must offer this insurance protection. Premiums will be paid into the local or state council, and then paid to the carrier.

Continued on page 31

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Builder costs running high for liability on shoddy work

CHICAGO—In the last year, the homebuilding industry was rocked by several monumental scandals. Both were in the Chicago area; both set precedents.

And both indicated just how vocal the public is becoming in fighting for their rights as consumers.

The outcome of one is that Larwin, a division of CNA Financial Corp. and one of the largest homebuilders in the country, has reportedly repurchased over 100 homes in its Greenbrook Country development in a northwestern suburb for the original purchase price (\$20,000-\$30,000) plus what would have been a normal annual appreciation had the homes been built right. Using these figures, Larwin's loss is running upwards of \$2.5 million.

IN ADDITION, Larwin reportedly made a large settlement out of court to disentangle itself from a suit for fraud in the sale of Greenbrook homes.

The other scandal involved Kaufman & Broad (Broad rhymes with road), which was indicted for using Federal Housing Administration construction and mortgage loans but not conforming to federal housing standards governing building procedures and materials.

To date, it is estimated that K & B has spent \$750,000 repairing all the houses that did not fulfill standards involved in a dispute over workmanship and current local standards.

These cases brought to a head the festering problem of shoddily-built homes that was touched off four years ago by a famous court case against Levitt & Sons.

CALIFORNIA MUD SLIDES brought more complaints against builders who, the owners felt, should have foreseen such events and built homes to withstand the slides. This situation led to suits against the mortgage lender because the builders were nowhere to be found, and resulted in a landmark decision against Great Western Financial Corp., held liable for damages because it had financed structurally unsound residences.

A recent landmark case involved Lake Havasu Estates in Arizona in a suit for fraud, among other things, against Lavin, Lavin and Lavin, family members heading the developing corporation.

The first suit (subsequently followed by many others) against developers of Lake Havasu Estates (a barren, undeveloped desert vacation spot, it turned out) was for several hundred thousand dollars filed by Elgin, Ill. attorney Mark Muscarello, representing buyers of the estates.

Mr. Muscarello claims to have also led the fight against Larwin for owners of falling-down Greenbrook Country homes. He is presently working on cases against three other "very large builders," and plans to file suit in all cases in the next three months, he told *Business Insurance*. Some suits will be large class actions, he noted.

He also said he recently got for a client the \$29,700 purchase price, plus \$15,500 in damages and lost appreciation, back from one of the biggest builders in

the country," in settlement of a suit for selling an unsound structure, shoddy construction, etc.

Mr. Muscarello contends the home warranty council's insured warranty program won't go far enough because homeowners will still have to show cause for complaint and prove damages. He also asks why homebuyers should have to pay the cost of such an insurance policy when there should be a free warranty, an implied warranty, on the builders' performance with every home?

Reports from NAHB insiders also indicate that the Council of Housing Producers, a group of the largest mass-production housing suppliers in the country, is trying to get exemption for its members from the NAHB program even though they are also members of the NAHB. The contention is that "the NAHB program is too expensive for them," a source said.

Warranty . . .

Continued from page 30

Ms. McKinney said builders would pay the fee (or premium) prior to building the home, but this magazine was told in the course of subsequent research that the warranty cost would probably only be paid upon the closing of the sale of the home.

THIS INSURED WARRANTY plan is the result of years of planning by NAHB president George Clarke Martin, who originally envisioned the plan going much farther than it now does. It is an obvious attempt to avoid heavy regulation to protect homebuyers from shoddy practices.

In the last year, two major pieces of legislation were introduced in Congress which the members of NAHB want to avoid: a bill introduced by Sen. Charles Percy (R-Ill.) proposes to make

the Federal Housing Administration the policeman of the homebuilding industry, and would establish a mandatory three-year warrant requirement to protect home-buyers rights.

Sen. Philip Hart (D-Mich.) introduced a Truth in Housing Bill which would have required, among other things, that every seller, vendor or lender submit a detailed inspection list to the new homebuyer at least 48 hours prior to closing noting every defect in the house.

The bills reflected consumer dissatisfaction with homebuilders' actions. A recent Lou Harris poll, the NAHB reluctantly acknowledges, shows that some 60% of the population think new homes aren't as good as they were in prior years.

Mr. Anderson of Aetna said the NAHB program is very unusual in a carrier's eyes because it proposes to exclude the carrier from the claims adjusting and concilia-

tion process.

The way the NAHB plan would work is that the local or state home warranty council would handle claims and determine if they are justified. If the claim is determined to be just, with fair representation of costs and damages, the council would approve the request on its own, and merely turn the bill over to the carrier.

IN THIS WAY then, the builders would be doing all the work—administration and claims processing, especially—and thereby lowering their costs substantially.

Even Mr. Anderson acknowledged that the "implication in this arrangement is that by bringing the carrier into the picture, expenses would be greatly increased, so that by clearly delineating the builders' liability in the plan, there is no administration or litigation required by the carrier."

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Fire insurance rates for state schools reduced

TUCSON—Arizona's three universities had their fire insurance premiums reduced by a total of \$43,222, according to a spokesman for University Risk Management (URM).

Charles M. Binford of URM announced recently reductions were made because the three institutions had earned lower rates through their fire prevention efforts. The lower rates are retroactive to October, he stated.

Mr. Binford noted the state's taxpayers have saved more than \$250,000 in the past 15 months by adopting the sometimes-controversial "risk management" plan for insuring state-owned school properties.

The risk management plan, put into effect early last year by the legislature, calls for an extensive study of safety programs to reduce potential hazards, safety engineering to prevent fires and accidents, and fire loss control through an information program.

To supervise the risk manage-

ment program, the state board of regents awarded an \$84,000 contract last year to an organization staffed by members of three large insurance companies, called URM.

URM members include Frank P. Middleton, president of the Standard Insurance Co., Phoenix; John G. Howard, president, Valley National (insurance) Co., Phoenix; and Albert W. Gibson, president, Tucson Realty & Trust Co.

URM WAS paid \$82,000 last year to manage the program for the three universities, which includes placing insurance with companies offering the best bargain, inspecting and identifying potential hazards, and developing guidelines for safety.

Although the risk management concept met with little opposition at the time it was adopted . . . passing the state Senate with only three dissenting votes . . . it later came under

criticism by several legislators after it was disclosed that the management contract was awarded to URM for \$84,000 while other proposals of \$64,000 and \$17,200 were reportedly ignored by the board.

Other criticism focused on the fact that URM's principal officers were members of Gov. Jack Williams' insurance advisory committee and that Mr. Middleton is a fund-raiser for Gov. Williams' political campaigns.

George Amos, executive vp of Tucson Realty & Trust Co., said most criticism came from "those who didn't understand the facts, or who chose not to admit they did," and he thought that their charges were unfounded.

The figures weren't bids at all, he asserted . . . "They were different proposals made to the Board . . . They offered different concepts, different approaches to the insurance proposition and carried different price tags based upon what the schools would get for their money."

The regents selected the URM proposal, Mr. Amos declared, because in his opinion it offered the best possible long-range plans for reducing insurance rates, would make campuses

safer and would eventually save state taxpayers millions of dollars.

He also pointed out that although the original contract called for authorized expenditure of \$84,000 the first year, the program cost slightly more than

\$82,000. The remainder was not billed to the state.

For fiscal 1973-74 the costs are estimated to be no more than \$43,000 to administer the program. In the future, the cost will be reduced even more, he predicted.

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