

Insurance consultants may certify their clients' programs

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New Haven has turbo train liability cover

HARTFORD—The New York, New Haven & Hartford Railroad has succeeded in getting \$20,000,000 liability coverage for two new high-speed turbo-trains. *Business Insurance* has learned.

The insurance, which also includes an all-risk policy covering damage to the two trains and a policy covering any damage to New Haven property along the right of way, is separate from the railroad's normal \$20,000,000 liability and other coverages.

This is so because New Haven officials didn't want to expose the railroad's regular insurance program to losses that could affect its overall rates.

THE DEPARTMENT OF Transportation, which is sponsoring the two-year test run of the high-speed trains, will assume the first \$300,000 of losses and will also pick up the cost of the premiums, it was disclosed.

The New Haven, which is in bankruptcy under a trusteeship, had originally tried to get \$40,000,000 liability coverage for the turbo-trains to protect the interests of its bond holders.

The railroad had said it was encountering problems in trying to estimate how high the limits should be for the turbo-trains' liability coverage—a dilemma complicated by the fact that few U.S. carriers write railroad catastrophe coverage.

The railroads, of course, aren't after the \$150,000,000 liability. *Continued on page 26*



Deadly concentrations of methane and carbon monoxide were found in the Consolidation Coal Co. mine near Mannington, W. Va., where 78 miners were trapped by explosions and fires. Consolidation's president said, "We know the hopes are slim. Let's face it." These two miners were among 21 who escaped after the first blasts on Nov. 20.

—Wide World photo

Mine disaster brings cry for greater safety

MANNINGTON, W. Va.—Premium rates for workmen's compensation won't be hiked in the wake of a coal mining disaster here, *Business Insurance* was told, although millions of dollars could be awarded to survivors.

The disaster, involving 78 miners of the Consolidation Coal Co., will bring renewed approaches to Congress for tighter safety laws, according to a United Mine Workers official.

"There are laws on the books now but we want to get them tightened up," he said. However, the union official added even with adequate laws there must be proper enforcement to make them effective.

Along with stronger laws, the union will press Congress for appropriations to hire sufficient inspectors.

He acknowledged that Consolidation Coal has had a good safety record. The exact cause of the accident, he anticipated, will be difficult to pin down.

ALTHOUGH RESCUE operations have not been abandoned for the 78 miners trapped since

Nov. 20, Consolidation officials have already contacted the workmen's comp commission in regard to processing of claims.

According to the board, premiums won't be affected because of a catastrophe fund of \$3,000,000 used for incidents where three or more people are killed.

West Virginia is a monopoly state which pays benefits of \$90 a month to the widow for life time or until she remarries; \$25 a month for each child; \$35.50 a month for each invalid child; \$30 per month for an orphaned child; and \$70 a month for dependents such as a mother or father.

The United Mine Workers welfare fund pays a widow a \$5,000 death benefit over 60 months and a \$385 funeral expense benefit. Dependent children are eligible for hospital and medical care until they turn 18.

THE WELFARE and retirement fund for the mine workers is built from contributions by each coal mine operator. Contributions equal 40 cents per ton of bituminous coal.

Continued on page 26

Phony insurance firms face crackdown by U.S. Post Office authorities

CHICAGO—A sweeping investigation by postal authorities is under way to expose the nationwide problem of mail-order type insurance companies that are selling phony insurance protection to corporate buyers under the guise of plugging the capacity gap.

Complaints to postal authorities and state insurance regulators indicate that the marginal insurance operations frequently use the names of respected companies as fronts or "reinsurers" to sell corporate insurance protection. Some of the companies involved are nonadmitted carriers that operate through licensed agents and brokers who unwittingly sell their worthless policies.

"They're going hog wild," a postal investigator told *Business Insurance*. "In fact, this is quite a keg of worms because the sharp operators move from company to company and sometimes operate four or more at a time."

HE DESCRIBED the typical operation as one that writes policies in a nonexistent or nonadmitted company and advertises in solicitations and on the policy forms that the company is "100% reinsured" by some recognized company.

"Unfortunately, it turns out

that the 'reinsuring' company knows nothing about the supposed primary insurer," the postal inspector said.

One scheme under scrutiny involves a nonadmitted insurer in Missouri taking advantage of a legal loophole that allows farm mutual companies to operate in the state without the jurisdiction of the Missouri insurance department.

The risk manager of a major firm that bought questionable coverage from the company brought its operations to the attention of *Business Insurance*. He suggested that other risk managers be wary of where their coverage comes from and warned that Bermuda-based insurance companies may be used to cover up the nonadmitted carrier's operations.

Officials of the Missouri insurance department said they are powerless to act against the nonadmitted insurer, but they said they had received complaints from as far away as Ethiopia about the company's practice of denying liability. One such claim involved a \$2,000,000 oil rig loss that resulted in a \$137,000 loss to the insured because the Missouri-based nonadmitted carrier refused to pay its 2% share of the loss while other companies settled their claims.

Marsh Mac setting up two new subsidiaries

NEW YORK—Marsh & McLennan is in the midst of setting up two new companies—one to sell individual variable annuities and mutual funds, the other to offer insurance coverages on a mass merchandising basis.

Although the insurance broker is prepared to sell mutual funds to the public after it becomes licensed by the Securities & Exchange Commission as a broker-dealer, its main thrust will be to offer such funds and variable annuities as part of an insurance package on a payroll deduction basis.

The move, ironically enough, is being made as the Midwest Stock Exchange announced a study to determine whether member stockbrokers should be allowed to sell insurance.

THE OTHER NEW subsidiary will concentrate on offering pension plans and other benefits to

company dealers and distributors and franchise operations. Marsh & Mac has set up such a plan for Gulf Oil dealers, and the broker is putting the finishing touches on similar plans for Standard Oil of Ohio and Massey Ferguson.

Impetus for these moves, according to Henry W. Otis, vice chairman of Marsh & Mac, is the belief that "a good deal more" insurance will be sold on a payroll deduction basis in years to come.

Mr. Otis told *Business Insurance* that there are "already many signs" the business is headed in this direction, such as current union bargaining demands for group auto and other payroll deduction coverages.

The broker set up one of the first group-type auto plans some 20 years ago with Consolidated. *Continued on page 26*

High court to hear riot damage case

WASHINGTON—The Supreme Court has agreed to review a case that could have a bearing on whether state and municipal governments can be held liable for riot damage to private property.

The case involves a damage suit arising from destruction done to a YMCA building and a Masonic lodge in the U.S. Canal Zone during the Panamanian riots of 1964.

Although it doesn't specifically concern the kind of racial disturbances in U.S. cities that have caused \$130,000,000 in damages, legal experts think the decision may help to pin down the government's responsibility to protect private property in riots.

Insurers have been pressing for a civil disorder exclusion written for governmental bodies. It would let insurers off the hook for damage suits.

(Mailing label here)

Stresses need for backup of EDP equipment

CHICAGO—The necessity of having backup facilities available for EDP equipment was stressed here at the American Management Assn. fall insurance conference.

"I can't emphasize enough the duplicate tape method," since money can't reconstruct original data destroyed, said Paul H. Ozan, assistant to the secretary, American Greetings Corp., Cleveland.

Mr. Ozan reviewed the types of EDP insurance coverage available, the risks covered and how much insurance is needed. He emphasized that "backup equipment must be available for equipment being installed.

"THIS MIGHT NOT be a problem if you were installing a standard system, but there are se-

many different type systems which can be used that there may not be other installations available if something happens to your computer," he said.

In determining how much insurance to buy, Mr. Ozan recommended that risk managers consider "damage to equipment, damage to media or records and resultant interference with records."

He said that the broadest coverage for media and records is the special EDP policy which places value at reproduction cost, including the possible need for reproduction under emergency conditions.

A general rule for risk managers to follow with business interruption, he said, is "that if your present business interruption coverage is substantial and the

definition is on a blanket basis, you need not increase the amount because of a computer installation."

HOWEVER, HE SAID that many companies have specific business interruption limits on certain locations. "If this is the case you might obtain higher limits or blanket your present limits, the amount to depend on what your computer is going to do in relation to your operation."

He explained that business interruption may be limited to "loss of production" while computers usually affect the "interruption of business operations."

Mr. Ozan suggested to the members that the business interruption policy might be broadened to include this definition, but that a "better form of insurance is ex-

tra expense coverage.

"This can be the most important coverage you buy; it will provide you the extra dollars to get things done quickly," he added.

Mr. Ozan suggested to insurance managers that they investigate difference in conditions policies. He pointed out that boiler and machinery policies have a specific exclusion for EDP equipment; fire and extended coverage policies cover EDP equipment but only as to the named perils on the policy.

He told his audience that several companies write special data processing policies which provide broad all-risk coverage with several usual exclusions deleted—earthquake, flood and backing up of sewers and drains.

Returning to the DIC coverage, he said the biggest area not covered is "change in temperature." One way to get around

this is backup equipment, Mr. Ozan added.

He suggested splitting air conditioning requirements among several units so if one goes the others can keep cooling the computer room. Or, he said, a separate air conditioning system may be installed in the computer room.

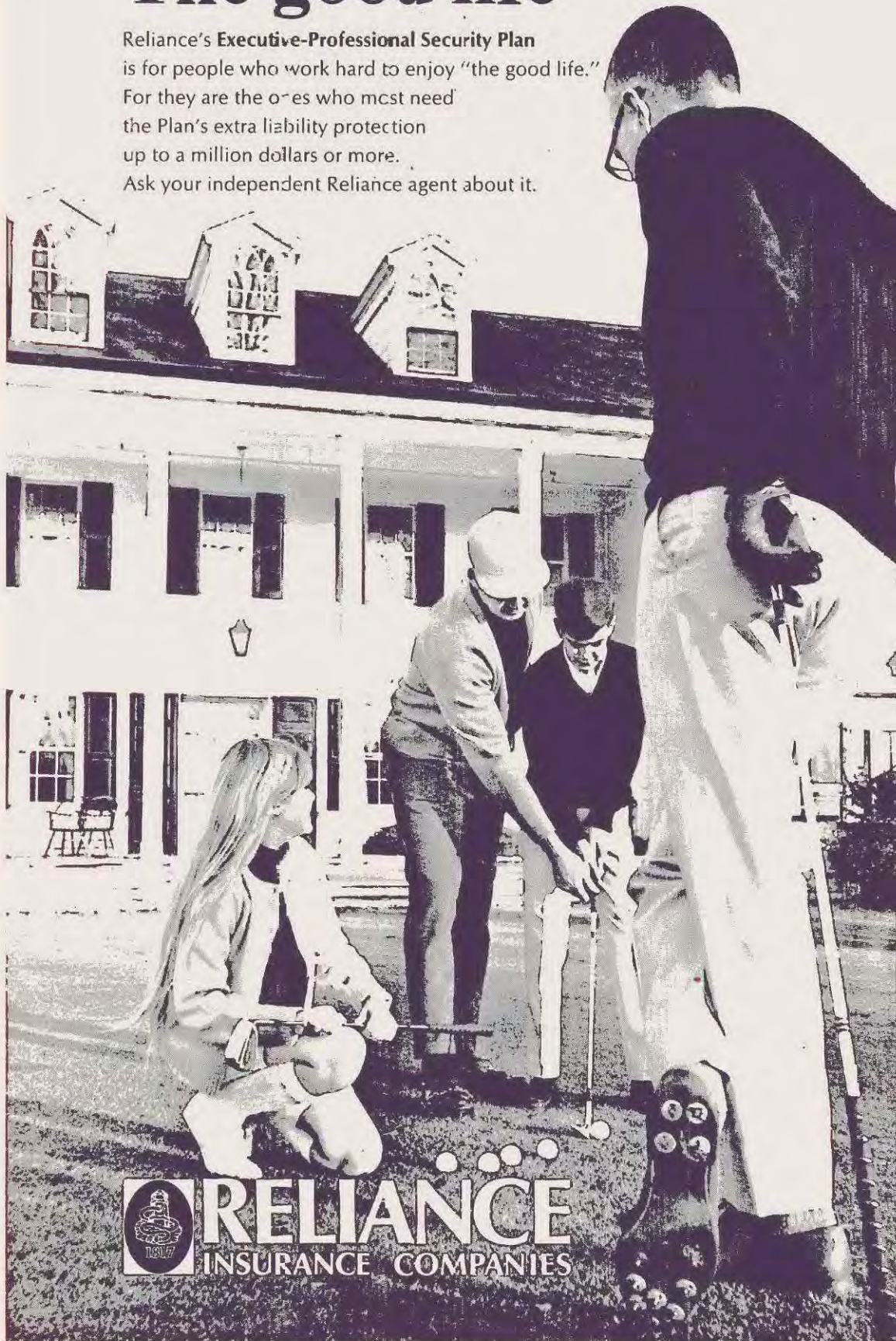
"**YOU MAY WANT** to hook your old system on as a back-up," he added.

Mr. Ozan urged risk managers to know what the computers in their companies are being used for in order to evaluate potential losses and make recommendations for loss prevention.

"If the use of the computer is not critical, management may not want to spend the extra dollars involved in sophisticated loss prevention equipment such as smoke alarms and CO² systems," he said.

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RELIANCE
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Jones gives insurance checklist for buyouts

CHICAGO—Review of insurance contracts and employee benefits before company mergers and acquisitions may bring to light some loopholes that can be closed before the final papers are signed.

During the American Management Assn. fall insurance conference here, William Jones, formerly director of insurance and employee benefits for United Industrial Syndicate Inc. and now assistant treasurer, W. R. Grace's overseas chemical division, presented an "insurance checklist" he used at United Industrial for all company acquisitions.

Mr. Jones said the checklist presented the important points that needed attention before contract and after acquisitions.

"**IMMEDIATELY AFTER** you have completed an acquisition, you make any moves that you feel should be made to reap full benefit," he said. "People expect

change when change is taking place. The longer one waits, the more difficult it gets to change."

He told his audience that where the stock or assets of a company are purchased for cash the net worth of that company would not normally include the potential unfunded prior service liability of a pension plan.

"By examining a current actuarial report, and the company's financial statements, I can determine whether this future liability should become a factor in price negotiations," he added.

An area that is sometimes missed is key-man life insurance, he said. Mr. Jones suggested that it may be "beneficial because of age of policies, or insured, or the amount of insurance valued to continue many of these policies. Or, such policies can also be a source of unexpected financial assistance because of their sometimes tremendous loan value."

Another area of increase—
Continued on page 25

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Cincinnati uses EDP for employee benefits

CINCINNATI—This city's electronic data processing program, which provides the EDP needs for the entire Hamilton County government and 38 law enforcement agencies of that county, also plays a big part in record keeping for pensions and employee benefits programs.

It provides accounting and record keeping for 8,400 members of the city retirement system, which includes 3,500 from University of Cincinnati and General Hospital, as well as 1,800 members of police, fire and state pension systems.

EDP recommendations are to:

- Create member records and update contribution and service credit as a by-product of a centralized payroll/personnel system.

- Make loan histories a part of member history file.

- Interrogate member files as inquiries occur to report on loan and benefit status.

- Program annual actuarial study from member master file.

- Prepare monthly reports to the three state pension systems.

- Report loan, retirement, separation and enrollment statistics periodically.

- Obtain data from the University of Cincinnati and General Hospital in machine-readable form.

FUTURE POSSIBILITIES include computer analysis of the pension plan's investment portfolio.

Late in 1965, the Cincinnati city council passed an ordinance establishing the division of data processing within the department of finance for the purpose of developing an electronic data

processing center serving all city agencies, including pension and welfare benefits programs. This action was based upon the recommendation of Ernst & Ernst, consultants, retained originally by the city for a feasibility study and presently assisting the division in a hardware specification and implementation study.

On June 1, 1966, the division was established with the selection of Andrew O. Atkinson as superintendent of data processing. The operation evolved as a projected two-year implementation study requiring in excess of 35 man-years of evaluation, development, design, and conversion—with the ultimate goal of equipment installation by mid-1968.

THIS NEW DIVISION was organized into four basic work programs to effectively allocate activities and discharge responsibilities. The administration section assumed responsibility for directing and coordinating the planning and production activities of the division.

The systems and procedures section was assigned primary responsibility for total systems design and implementation, hardware selection and feasibility studies, including standardized systems technique.

The programming section was made responsible for converting proposed systems into an efficient computer and data processing operation.

The operations section was given the final step of executing processing operations necessary to produce the desired data product.

The first six months of develop-

Glass installation stalls over insurance

BUFFALO, N.Y.—Installation of glass panels to keep visitors from falling off the top of City Hall has been held up because the contractor hasn't the proper insurance in case his own men take a tumble.

This was learned when Building Director Charles A. Stutzman wrote to Pittsburgh Plate Glass Co. urging prompt action on the insurance issue.

The city decided nearly a year ago, after lengthy debate, to enclose the 28-story high tower, which has been off limits for years.

Pittsburgh received the contract last summer, but since then has been held up because its insurance is unacceptable to the city corporation counsel.

ment involved contact with, and detailed studies of, almost all the 25 city agencies, including those involved in pension and benefits programs. At the same time, a staff of analysts, programmers, and operators was screened, selected, and trained. The EDP operation has grown to a complement of 28 persons.

EVEN WITH THE rapid development of capability, the scope and responsibilities of the division expanded even more dramatically. During the initial system studies, great emphasis was placed upon the obvious need of a major systems effort to satisfy immediate deficiencies for information, storage, retrieval and dissemination to police officials.

The response of the division of data processing was to assign two men fulltime to the department of safety's system study—one man with 30 years' police experience in the division of police itself.

Couple denied damages for pill failure

SAN JOSE, Cal.—A jury in the federal court of Judge Robert F. Peckham here has denied a young couple's plea for damages in the alleged failure of a birth control pill.

Mr. and Mrs. Norman Tarowsky, Sunnyvale, had asked for \$110,000 from Eli Lilly & Co.

Mrs. Tarowsky gave birth to a daughter in 1966. She testified in court she had been using the pill for six months.

Testimony on behalf of the manufacturer hinted that Mrs. Tarowsky had failed to take the pill during a period when the family was moving to a new home.

The Tarowskys, married September, 1965, charged that Lilly had failed to "live up to its warranty" because Mrs. Tarowsky, a medical technician, became pregnant in March, 1966, after having used the birth control pill regularly for about six months. She gave birth to a daughter on Nov. 30, 1966.

The unexpected birth, according to the complaint, "caused mental and physical strain, upset the family planning, and resulted in a loss of income."

In court, two doctors from the Palo Alto Clinic testified that the pill is 99.1% effective in preventing pregnancy for the first 30 days but that after one year the effectiveness drops off.



While driving racing cars in Universal Pictures' new film, "Winning," Paul Newman (left) and Robert Wagner (right) were insured by CNA's special risks division. The policy, which named the actors' estates as beneficiaries, extended only to driving the Elkhart Lake, Wis., track at speeds of less than 100 mph. Coverage included \$25,000 for death or dismemberment and up to \$5,000 medical reimbursement if other injuries were sustained. Premiums on each policy were \$725 for coverage during the three-week filming of the movie.

Council against city's plan to self insure

ORANGE, N.J.—This city has dropped its two-year-old workmen's compensation insurance in favor of a self-insurance program.

The Orange City Council decided on the move because members felt that the \$80,000 annual premium was too high. Under the new program the city plans to set aside \$50,000 a year for three years until a \$150,000 workmen's compensation fund is formed.

The town's excess coverage, for which it pays \$6,000 a year, covers awards from \$150,000 to \$1,000,000.

The former city attorney and the president of the city council, however, opposed the decision for Orange to become self insured. City Council President Vincent De Rosa stated: "I do not believe, in this day and age, in self insurance. One fatal accident, one fatal tragedy, and the city is in trouble," he said.

FORMER CITY Attorney Felix Verlangieri questioned the accuracy of the \$80,000 premium figure. He said the premium for

1968-69 was about \$78,000 but the city received a credit dividend of \$11,000, leaving a net premium of \$66,000.

According to Joseph R. Stelato, a former councilman, if a city worker earned \$150 a week in salary and went out on \$60 a week compensation under an insurer, the balance of his salary would be returned to the city.

Under self insurance, Mr. Stelato said, a worker would receive the \$150 salary plus the \$60 compensation, with nothing being returned to the city.

He contended that with insurance coverage the injured employee returns to work faster because of rigid supervision by carrier.

The city council took on workmen's compensation in the spring of 1966. Prior to that the city was self insured. Before taking out insurance, Oregon was hit with three compensation claims stemming from the deaths of two policemen and a fireman.

Since then, the city has paid the widows of the men \$200 a month each, but after April 1966 all other compensation claims have gone to the insurer.

Hotel charges Teamsters reneged on loan promise

ST. LOUIS—A local hotel has charged the Teamsters union central states pension fund administrators with breach of contract and failure to honor a loan commitment in a suit filed here. The suit asked for \$1,491,500.

The Park Plaza Motor Hotel Inc. filed the suit in the Clayton circuit court. The suit charged that the managers of the pension fund issued a letter of commitment to lend the hotel \$900,000 in 1960.

When the pension fund trustees refused to make the loan, the suit charged, the hotel lost the property it was planning to build on in a foreclosure.

The hotel management said that it had made a temporary loan of \$900,000 from the Mer-

cantile Trust Co. with the idea that a Teamster loan would be forthcoming. The loan was secured by the property.

MERCANTILE SOLD the property in 1963 after default on the loan. The hotel contended in the suit that it intended to repay the Mercantile loan within one year, using the Teamster pension fund loan.

To complicate the case even further, the hotel obtained a \$600,000 loan from the First National Bank of Waco, Tex. The hotel still owes \$580,000 plus interest on this loan.

The suit asks for this amount, the face amount of the original loan commitment plus legal expenses.



Arthur A. Widtmann, right, insurance manager for A. O. Smith Corp., was one of 461 persons to be designated Chartered Property Casualty Underwriters in Bryn Mawr, Pa. Edwin S. Overman, Ph.D., president of the American Institute for Property and Liability Underwriters, awarded the certificate.

CPCU key to Widtmann

BRYN MAWR, Penn.—Arthur A. Widtmann, insurance manager for A. O. Smith Corp., Milwaukee, Wis., has been awarded the designation of Chartered Property Casualty Underwriter by the American Institute of Property and Liability Underwriters here.

Mr. Widtmann was among 461 persons to receive the CPCU designation. During the past year, more than 5,000 persons sat for the CPCU examinations. He has been with A. O. Smith since 1941

and is an instructor in risk management at the University of Wisconsin and author of insurance articles.

Mr. Widtmann is past president of the Wisconsin chapter of American Society of Insurance Management and a past national director and regional vp of ASIM. He belongs to the insurance division of the American Management Assn. and has been a member of the Insurance Council of the Machinery and Allied Products Institute.



washington watch

Nixon and Congress may mean little change for insurance scene

WASHINGTON—Insurance executives who breathed a sigh of relief when Richard Nixon won the election may be in for a surprise if they expect now to see an easing of the pressure from Washington on the insurance industry.

Certainly, Mr. Nixon is friendly toward business. And he is not likely to be sending any bills to Congress asking for a revamp of the workmen's compensation system, or a thorough study of the auto insurance industry. Nor

can he be expected to ask for the establishment of federal occupational health and safety standards for all industries, or for minimum federal standards for vesting, funding and reinsurance of private pension plans.

But the Democratic majority on Capitol Hill will surely not be silent on issues such as these. On the contrary, they can be expected to pursue them with an even greater amount of zest than they have shown in the past in hopes of forcing President-elect

Nixon to reveal anti-labor or anti-consumer sentiments.

THE DEMOCRATIC heads of a number of key committees are already laying the groundwork for hearings into a wide range of insurance issues, including a few highly sensitive areas that have been touched on only briefly—if at all—by congressional committees in the past.

Senator Philip Hart (D., Mich.), chairman of the anti-trust subcommittee and a lead-

ing critic of the insurance industry, has promised to carry on his investigation of the auto insurance industry. He plans to hold hearings early next year and will concentrate on the two areas of particular importance to the American public, rates and cancellations.

Also, if it looks as if the Department of Transportation under Mr. Nixon is dragging its feet in its \$2,000,000 investigation of the auto insurance business authorized by the 90th congress, the House antitrust subcommittee can be expected to take the issue up again. It was this subcommittee that, in late 1967, helped get the ball rolling for the investigation when it released an extremely critical report on the industry and called for a \$1,500,000 study by the Federal Trade Commission.

In addition to taking up the auto insurance question again, Sen. Hart has promised to introduce a bill next year that would prohibit lenders or sellers from

making a profit either directly or indirectly on the sale of credit life insurance in connection with a business transaction. Sen. Hart held a round of rather explosive hearings on credit life in late 1967 and may either take them up again or try to sell Commerce Committee Chairman—and a leading consumer advocate—Warren Magnuson (D., Wash.) on the idea of full committee hearings.

THE HART SUBCOMMITTEE is understood to be carefully studying a number of other insurance issues including regular life insurance rating procedures and the antitrust implications involved in the use by some large insurance firms of their credit life coverage as a "loss leader" to gain business in other lines.

The subcommittee has also been asking questions that indicate it may be studying agent-carrier relationships for possible antitrust twists.

In many areas involving direct antitrust issues, Sen. Hart may find he has an ally in the White House. Many Washington observers are expecting Mr. Nixon's Administration to pursue a particularly vigorous anti-trust program, especially in restraint-of-trade and collusion-type areas. They point out this would be in keeping with his expressed desire to promote a free marketplace and would also be one area where he could appear to show his independence of the business community.

If this is so he will find plenty of help on Capitol Hill. Besides Sen. Hart's antitrust probes, Rep. Wright Patman's (D., Tex.) powerful House banking and currency committee will be probing into the various interlocks that exist between banks and corporations and will pay particular attention to bank trust departments, and the corporate pension funds they administer.

ON LABOR ISSUES, Mr. Nixon will have bi-partisan pressure to deal with and this can't help but lead to active consideration of most of the key labor bills that were pending at the close of the 90th Congress.

Sen. Jacob Javits (R., N.Y.) was the initial sponsor of a bill asking for a thorough study of the workmen's compensation system and has pushed for years for action on his omnibus pension plan reform proposal, which includes minimum federal standards for vesting, funding, and reinsurance.

Of course, how much influence Sen. Javits will have on Mr. Nixon is a highly debatable question. Their relationship now is thought to be quite cold—but as many Washingtonians have been pointing out, a lot of things can happen between now and January.

Regardless of Sen. Javits' influence—or lack of it—Sen. Ralph Yarborough is almost certain now to be the new head of the all-important labor committee. He was a co-sponsor of the Javits' workmen's compensation bill and has promised to place industrial safety on the top of his 91st Congress priority list. ■

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'BI' News Analysis

Restricted stock plans bombed by Treasury?

NEW YORK—For years, "restricted" stock plans have been one of the best ways to attract and hold executives.

The purpose is to encourage certain key employees who are directly responsible for the future growth and development of the company to remain with it, to stimulate their efforts on the company's behalf and to encourage stock ownership by executives in the company.

Quite often, stock of other companies is given in lieu of "company" stock. In either case, no cash consideration is payable by the employee for the stock.

But there are other strings attached to the deal. For instance, the employee is usually forbidden to sell the stock for a number of years—e.g., three years. And if he leaves the company the employee must return the stock to the company. In the meantime, he collects the dividends.

UNTIL OCT. 25, 1968, the Treasury went along with such restricted stock plans—conceding that this bonus was not taxable to the employee upon receipt of the stock.

Only when the restriction was removed would there be a tax

imposed. Even then, capital gains treatment would be accorded the employee on any increase in value of the stock during the period of restriction. What's more, there was tax deferment on the capital gain until the time when the stock actually sold.

Now all this may be torpedoed. The Treasury has recently proposed regulation changes that will end the tax breaks on all transfers of restricted stock. After Oct. 26, 1968, the employee will be taxed at ordinary rates on the date when the restriction ends—and on the full value of the stock as of that time.

Take this case in point: suppose the M. and M. Department Stores is about to go public and gives Mr. Smith, its general merchandise manager, \$25,000 worth of its stock which he must retain for three years.

THE STOCK LATER becomes

publicly traded and at the end of three years has risen in value to \$75,000. Under the old rules, Mr. Smith would report at that time \$25,000 as compensation.

The \$50,000 balance would be capital gain, on which Mr. Smith would pay no tax until he actually sold the stock. Under the proposed new rules, Mr. Smith would have to report the entire \$75,000 as ordinary income from compensation when the three-year restriction terminated.

Hearings on the proposed regulation changes are scheduled to be held in the Internal Revenue Service building, Washington, Dec. 3, 1968. Taxpayers are invited to express their views. In the meantime, until the rules are put in final form by the Treasury, employee benefits managers will play the waiting game before offering any restricted stock plan. (Technical reference: TIR 998, 10/26/68).

Reserve board tells new stock loan rules

WASHINGTON—The Federal Reserve Board announced new regulations concerning the financing of loans to buy stocks.

The new regulation is of interest to employee benefits managers whose companies have stock option plans as part of an employee benefit program.

Last July Congress amended the Securities and Exchange Act of 1934 to permit the board to limit the amount of money that may be borrowed to purchase an over-the-counter security. The board already has set the maximum loan level for securities listed on a national exchange, such as the New York Stock Exchange, at 20% of market value.

The board will set the same limit for nonregistered or over-the-counter securities. Currently, some banks are willing to lend up to 60% of the market value on these stocks, it was pointed out.

The board set the limit on those over-the-counter securities with a set annual trading volume.

The amendments are to the present regulation "U." It was pointed out that loans made to purchase stock prior to the board's issuing the amendments would not be affected, and these loans would stand as negotiated.

A spokesman for the board said that companies which have stock purchase plans may wish to advise employees that changes in loan procedure have been announced.

AFL-CIO eyes national health insurance plan

ST. LOUIS—The AFL-CIO has spelled out how it thinks a national health insurance system should work.

Such a system, according to Bert Seidman, director of the union's department of Social Security, should have universal coverage of not only workers and their families but also the unemployed.

Since this coverage would require federal participation, a national insurance plan should be financed on a tripartite basis with the government, employer and employee each paying one-third of the cost.

BENEFITS, MR. SEIDMAN told students graduating from a class in hospital administration here, should cover: hospitalization; physician services in the office, home and hospital; nursing care; home health services; psychiatric services; eye examinations and prescriptions.

Preventive health services, such as physical examinations, would also be included, Mr. Seidman said.

The AFL-CIO doesn't endorse the sort of health scheme operating in Great Britain, the union executive stated.

"Rather, it would be a financial mechanism to pay for the costs of medical care for all people much like the present Medicare program for the elderly. It would not interfere with the clinical practice of medicine," Mr. Seidman told the graduating class.



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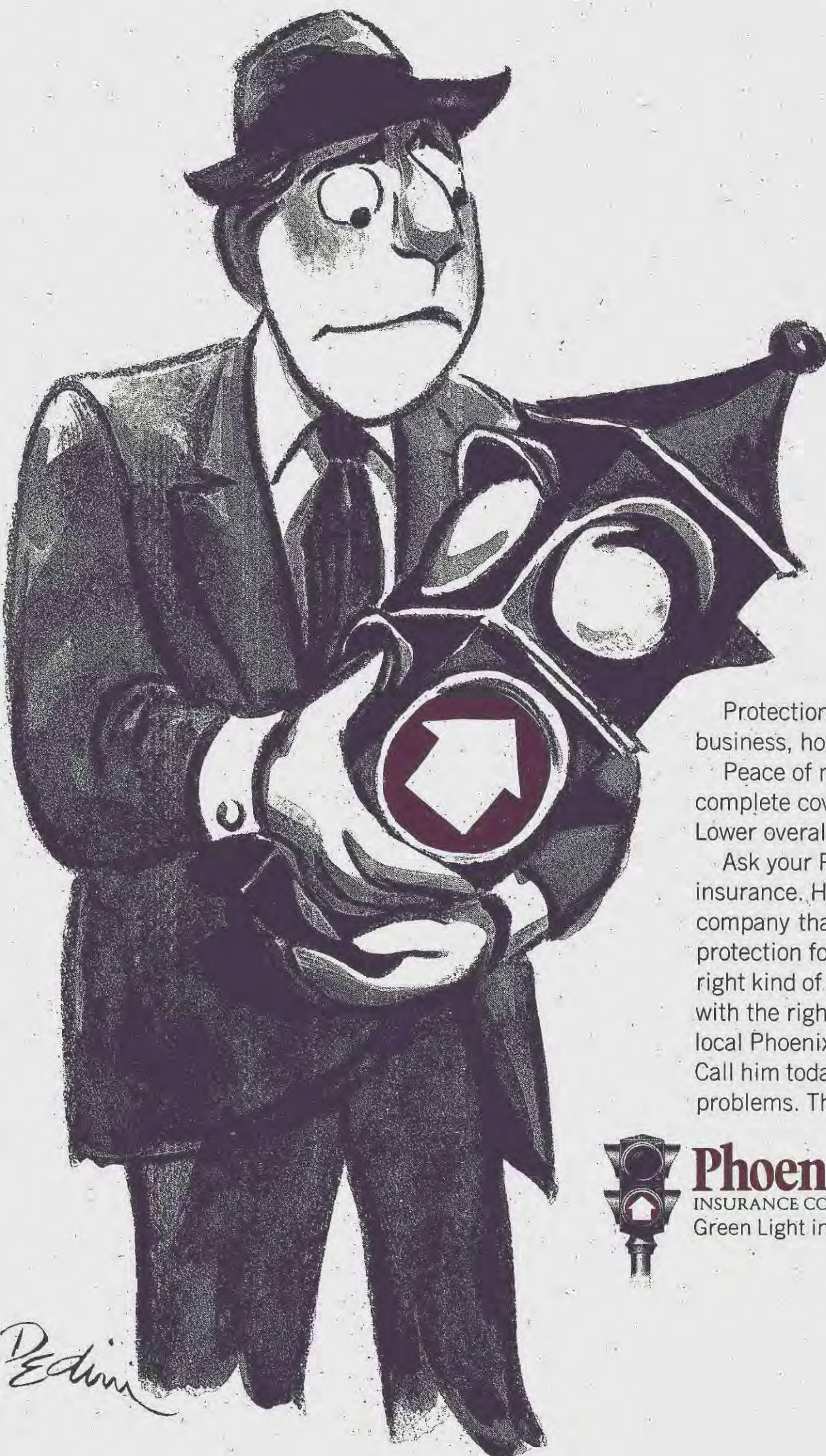
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Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they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

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

• **Riots—Potential and Preparedness** is an illustrated paper released by the Kemper Insurance combined property department. It defines an emergency program as one which will "establish procedures to insure an orderly transition from a state of normality to one of readiness, with a minimum of confusion, when confronting emergency situations." Topics covered include starting points, riot potentials, local emergency plans and drills. For a free copy write Mr. Walter White, commercial lines sales manager at the company, at 4750 N. Sheridan Rd., Chicago, Ill.

• A revised edition of the **Industrial Fire Brigades Training Manual**, 150 pages, is available for \$5.00 a copy from the National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110. It covers organizing and training a property fire brigade, fire fighting practice with automatic sprinklers, fire causes and hazards, fire extinguishers, and many other subjects important for plant protection. The book is illustrated with photos and drawings. For information on quantity order discounts, contact the association.

• The American Home Group has prepared a brochure, **Sorry, You're Not Covered.**, which explains in detail the need for umbrella protection as well as its market potential. It is available free from the group, Department A-14, 102 Maiden Lane, New York, N.Y. 10005.

• The electric wastebasket **Executive Furniture Model** is a teakwood basket that performs ordinary duties and can also shred important papers immediately after use. For an illustrated brochure write Mr. Morris Golde, Electric Wastebasket Corp., 145 W. 45th St., New York, N.Y. 10036.

• A two-page pamphlet introducing Starr Technical Risks Agency Inc. as a new insurance market for oil and petrochemical risks is free from the agency at 102 Maiden Lane, New York, N.Y. 10005. It explains why the agency was formed and gives examples of installations and typical perils covered.

• **Your Insurance Program: An Impartial View** is an explanatory brochure put out by Corporate Policyholders Counsel, Inc. Reasons for using an insurance consultant are detailed and objectives of the CPC team approach to developing a property and casualty program are listed. Employee benefit programs are also discussed. For a free copy write Mr. R. Maynard Toelle at the counsel, 20 N. Wacker Dr., Chicago, Ill. 60606.

• **Health Insurance for People 65 or Older** is a brief explanation of Medicare and includes 1967 amendments. As well as discussing what is covered under Medicare, a list of those things not covered is given. Procedure for dropping out and re-enrolling is detailed. The booklet is for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 for 10¢ a copy.

• Information on a new EDP record vault is available from Wright Line, a division of Barry Wright Corp., 160 Gold Star Blvd., Worcester, Mass. 01606. The vault, manufactured by Schwab Safe Co., carries the Underwriters' 150°, two-hour label for storage of EDP media. Interior temperature and humidity can be held well below the 150°F 85% R.H. limit at which read out errors and losses can occur even when the vault is exposed to a raging fire for up to two hours. For material on the **Data-bank Safe** contact Wright Line.

• The National Foundation of Health, Welfare & Pension Plans, Inc. has published a collection of statements and opinions on **Trustees' New Responsibility in the Medicare Age**. The comments in the 113-page book are gleaned from seminars held by the foundation and do not necessarily represent the views of the foundation. Copies of the book are \$2.75 for members and \$3.75 for non-members. Write Mr. Lee R. Polacheck, president, P.O. Box 898, Elm Grove, Wis. 53122.

• **The Myth of the Hidden Alcoholic** reveals, through an industry example, the part others play in concealing the difficulties of an alcoholic. The pamphlet, useful as an employee handout or for benefits and safety managers, may be obtained from the Chicago Council on Alcoholism, 6 N. Michigan Ave., Chicago, Ill. 60602.

• The many uses for a two-way radio, as a security measure for company guards or to cut down on driver mileage and therefore on costs, are explained in a General Electric Co. booklet, **What You Should Know about Two-way Radio**. The item, which describes operation and legal aspects, is offered by Section P of the company, Mobile Radio Business, P.O. Box 4197, Lynchburg, Va. 24502.

• A free bulletin, **Burglars or Vandals Can Break into Your Building Tonight!**, has been published by "Automatic" Vandalarm. The four pages explain a new approach to alarm systems using sound detection at points of entry. This method can detect mechanical failures and disasters as well as vandals. To receive a copy, write Mr. I. M. Sims, Mkt. Dir., P.O. Box 24207, Houston, Tex. 77029.

• The board of directors of the National Foundation of Health, Welfare & Pension Plans has made available copies of its seminar summary on **Reciprocity Portability**. The book discusses in detail two basic types of reciprocity, the "money-follows-the-man" type and "pro rata." A cost analysis of pension reciprocity and variations from the basic plans are also included. Cost of the book is \$2.75 for foundation members and \$3.75 for nonmembers. Write the foundation at P.O. Box 898, Elm Grove, Wis. 53122.

• A series of informative booklets and brochures explaining benefits and features of mutual funds from the investor's point of view is available to insurance companies who have entered or are planning to enter the mutual fund field. A catalog and price list may be obtained from the Investment Co. Institute, 61 Broadway, New York 10006. The materials included are: Mutual Fund Fact Book; The Money Managers; Investing Made Easy; A Woman's Guide to Mutual Funds; Professional Money Management for the Professional Man through Mutual Funds; Planning Your Retirement through Mutual Funds; Mutual Fund Shares—An Aid to Profit Sharing and Pension Plans; Retirement Plans for the Self-employed through Mutual Funds.

• **If You Smoke** is a new pamphlet, prepared by the National Clearinghouse for Smoking and Health. Used as an employee handout it would point out five positive steps to help slow down the harmful effects of smoking, while reminding smokers that these are merely a compromise and do not make smoking safe. Single copies are available free from the clearinghouse at 4040 N. Fairfax Dr., Arlington, Va. 22203. Quantity orders are 5¢ a copy or \$2.50 per 100 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• A free collection of pamphlets is offered by the Phoenix Mutual Life Insurance Co. **Facts You Should Know to Help Your Growing Business** contains seven pamphlets dealing with partnership, key executives, pensions, HR-10, the sole proprietor, and profit sharing. They are free by writing the company's public relations department at One American Row, Hartford, Conn. 06115.

• The National Foundation of Health, Welfare & Pension Plans has released its research report **Measuring and Reporting Investment Performance of Pension Funds**. The 34-page book attempts to formulate professionally acceptable guidelines which boards of trustees could use to measure accurately the investment performance of their pension trust funds. Single copies are \$1.25; five or more copies are 75¢ each. Write Mr. Lee R. Polacheck, President, P.O. Box 898, Elm Grove, Wis. 53122.

• **Does Your Company Need "A Changing of the Guard"?** is a booklet published by the William J. Burns International Detective Agency Inc., 235 E. 42nd St., New York 10017. It explains four basic techniques for guard replacement developed through working with hundreds of clients. The item is free.

• **You REALLY Don't Have an Employee Drinking Problem** . . . presents seven pertinent facts on alcoholism and answers eight revealing questions about the disease. It is free by writing Mr. Duane D. Daggett, Mng'r., Labor Relations Dept., Illinois State Chamber of Commerce, 20 N. Wacker Dr., Chicago 60606.

• **The FIAC Taxicon** is a check list to show an individual's tax liabilities in various pension and profit sharing plans offered by most employers. Prepared by the First Investment Annuity Co. of America, the brochure also describes investment annuities as an addition to pension plans. The chart may be obtained from FIAC, 1500 Chestnut St., Philadelphia, Pa. 19012.

Salad oil victims can move against insurance firms, says high court

WASHINGTON—The Supreme Court has cleared the way for corporations to proceed against their insurance companies for losses sustained in the notorious salad oil scandal of the early 1960s.

The high court declined to review an appeals court ruling which held that Bunge Corp. didn't forfeit its rights to seek retribution from its insurer, London & Overseas Insurance Co., by entering into a settlement with American Express Co.

Bunge made a "good faith" settlement with American Express for \$8,000,000 of an estimated \$20,000,000 in losses sustained when huge vegetable oil shortages were discovered in a

warehouse of an American Express subsidiary.

By refusing to review the lower court decision, the Supreme Court also blocked London & Overseas from subrogating against American Express for the salad oil losses. The U.S. court of appeals ruled that since Bunge executed a release, "its rights against American Express are extinguished; thus even if London & Overseas were now to pay Bunge in full, it would succeed to no rights against American Express."

BUNGE FILED SUIT against London & Overseas in 1964 to recover the estimated \$20,000,000 it lost in the swindle. Now that the

courts have okayed its \$8,000,000 settlement with American Express, Bunge is free to carry forward its suit against the insurer for the remaining \$12,000,000. The action is pending in federal district court here.

It's also expected that other companies which have settled with American Express will now proceed against their insurance companies to collect the balance of their losses. At least 16 other insurers, including Insurance Co. of North America and Continental Insurance Co., are involved.

For instance, Ira Haupt & Co., a defunct brokerage company, settled several months ago with American Express and two other firms for \$2,500,000.

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Dr. Sheppard insurer wants coverage voided

CLEVELAND—A Chicago insurer has instituted a suit against its client, Dr. Sam Sheppard, asking that malpractice policy it issued be declared "null and void."

Fidelity General Insurance Co. is asking to be relieved of responsibility in two malpractice suits totaling \$1,200,000 against Dr. Sheppard.

In the complaint, the plaintiff said that it agreed to indemnify Dr. Sheppard for any sums which he might incur for damages arising out of death or bodily injury to any patient due to error, omission or negligence in professional services rendered or which should have been rendered.

Fidelity contended, "Dr. Shep-

ard said that 99% of his time as a physician was devoted to general practice and 1% was devoted to the treatment of mental illness. Dr. Sheppard further said that he performed no major surgery and did not require coverage for major surgery."

FIDELITY ISSUED a general malpractice policy with a major surgery exclusion. Dr. Sheppard is being sued by the families of two patients who died after surgery he performed at Youngstown Osteopathic Hospital.

In the complaint, the insurer said that Dr. Sheppard never notified Fidelity that he was going to perform either of the operations or any other surgery,

New trust offers hospital indemnity

CHICAGO—Joseph K. Dennis Co., group insurance administrator, has set up a medical-dental insurance trust to offer hospital indemnity coverage to active members of the medical profession.

Northwestern National Insurance Co., Milwaukee, has been named insurance carrier for the trust.

Benefits provided by the plan range from \$10 to \$50 for each day of hospital confinement, on top of any other hospital insurance benefits. Coverage runs up to 500 days, or a maximum of \$25,000.

which would materially increase the risk of the insurance coverage.

Insurance consultants mull certifying cover

NEW YORK—A group of 20 insurance consultants is looking into the possibility of its members certifying the adequacy of clients' insurance programs.

The Insurance Consultants Society, meeting for their annual conference in San Juan, voted to set up a committee to investigate the qualifications needed by insurance consultants before they would be permitted to make such a certification.

Also, the committee will determine the standards which must be met by the client's protection program to warrant certification.

The study is "completely in the exploratory stage," according to Leonard Silver, of First Insur-

ance Management Cos., Wyncote, Pa., chairman of the committee. Other members are Herbert Cox, partner of Aldrich & Cox, Buffalo, and Richard C. Sleeper, Insurance Buyers' Council, Baltimore.

THE COMMITTEE, which hopes to make its recommendations at the society's next annual meeting in October, will consult with attorneys and CPAs about making such a certification in conjunction with the standard annual financial statement.

Mr. Silver said CPA firms have approached insurance consultants about certification of corporate insurance programs for mutual clients because the CPAs are reluctant to "expose themselves in passing judgment in a highly technical field in which many are neither trained nor professionally experienced."

Also, Mr. Silver said, stockholders at annual meetings have been asking management about steps being taken to avoid the sort of insurance fraud recently uncovered at Crane Co., in which an assistant treasurer diverted some \$870,000 of Crane's excess insurance coverage into a "paper" carrier which he set up in Antigua.

Another factor which has triggered the study of insurance certification, according to Mr. Silver, is the growing complexity of risks—such as those brought about by the use of radioactive material, by the concentration of values and by the growth of EDP services.

Mr. Silver said banking institutions are increasingly asking insurance consultants to certify the risk control and insurance programs of their borrowers.

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Ghetto area businessmen set up fund

HARTFORD—Businessmen in the ghetto areas of Hartford, refused property insurance coverage by locally-based companies, have come up with their own program to replace storefront windows broken by vandals.

Theodore Pryor, chairman of the Ebony Businessmen's League, said that the group will set up a fund at a local savings bank, to be used by store owners in the Albany Ave.-Main St. section.

Area vandalism, he said, has prompted businessmen to board up their storefronts.

"But plywood-boarded fronts just don't sit well with us," he added. "This program just might bring back the good old days of the glassfront window."

The Negro leader said that the Ebony Businessmen's League—its membership now numbers 130—has already secured donations of \$35 each from 12 store owners.

A savings account will be set up in a local bank to help finance the refurbishing of damaged property.

Curtis joins board

James Curtis, vp and consulting actuary in the Seattle firm of Milliman & Robertson, has been elected to the advisory board of the National Foundation of Health, Welfare & Pension Plans.

Transportation industry deprived of needed liability cover: Ross

HARTFORD—The insurance industry is depriving the transportation business of needed liability coverage, Stanford G. Ross, general counsel for the U.S. Department of Transportation, told a gathering of underwriters at a CPCU meeting here.

At the same time, Mr. Ross brought up the question of the effect of holding company operations on the insurance industry.

His office is interested in knowing if the acquisition of insurers by non-insurance companies is interfering with the industry's particular capability to meet the nation's growing insurance needs.

MR. ROSS REMARKED that there are disturbing signs that the ability and willingness of the industry to meet the expanded insurance needs of the country's transportation network are being strangled.

For example, on the Boston-to-New York leg of the high-speed rail passenger demonstration project, the New York, New Haven and Hartford Railroad has been unable to get the liability insurance it believes is necessary to begin passenger operations.

"The problem is not a matter of cost. Rather, it involves a basic inability to obtain needed coverage for an admittedly new project with major uncertainties."

Commercial airlines, too, have become increasingly concerned about their ability to obtain, at what they consider reasonable rates, needed hull and liability insurance on the new jumbo jets, air buses and the proposed su-

personic transport.

Airlines on a global basis have already committed some \$15 billion to buy these new planes and intend to acquire more.

"But the airlines need insurance if they are to operate their planes with unbearable economic risks—a plane crash could result with property and liability losses of as much as \$200,000,000."

To resolve this problem, the air transport industry is proposing to form an insurance company to be owned by participating carriers which will insure through it, Mr. Ross said.

"This industry-owned insurer, however, is not designed to provide the airlines' total insurance requirements. Instead, the indus-

try is planning to use the new company in conjunction with the regular insurance markets, to provide the increased insurance capacity believed to be necessary for the coming years."

IN ADDITION, shipowners are expressing difficulties in obtaining full insurance coverage that is vital.

"The advent of the new super tankers will place new strains on the present limited markets for maritime coverage. Moreover, insurers are beginning to charge more for coverage on older ships, which tends to place the owners of these vessels at a competitive disadvantage in world shipping.

Continued on page 22

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Court to rule on rights of stockholders

WASHINGTON—The Supreme Court has agreed to decide whether small stockholders can group federal court suits against corporate officials even if their actions don't necessarily affect all other stockholders.

The courts have held that small stockholders must share a "true class action" for them to group their claims to meet a \$10,000 minimum required for filing in a federal court. Although a 1966 court rule omitted reference to any mutual interest for all stockholders, the interpretation of the ruling has remained unclear.

If the high court decides that stockholders can sue corporate officers in federal court regardless of their suits' common interests, it would pave the way for many more stockholder suits against officers and directors, one insurance manager said.

THE TEST CASE to determine the meaning of the new rule was brought by a Missouri Fidelity Union Trust Life Insurance Co. stockholder, who charged that eight former directors of the insurer had sold their shares in the firm for \$1,200,000 more than they were worth.

The suit asked that the \$1,200,000 be distributed to Missouri Fidelity's 4,000 minority stockholders. But since the plaintiff's 2,000 shares would have given her only \$8,740, her suit didn't meet the \$10,000 qualification and she filed the action under the new court ruling.



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opinions

The transportation insurance dilemma

The transportation crisis which is now upon us in full force has brought with it some knotty insurance problems—most of which have yet to be solved.

The fact that highways, seaports and airports are snarled in one big traffic jam, while railroad tracks and equipment stand largely idle, is creating Excedrin headaches for the nation's insurance community.

What's needed, everyone agrees, is an integrated mass transportation system, but such a project will take billions of dollars—not just the few million dollars that Congress is presently allocating for the purpose.

Business Insurance, in its Jan. 6 issue, will devote a special section to the insurance aspects of transportation—from the viewpoint of today's choked and overused facilities and tomorrow's smooth-flowing mass transportation system (if such a day ever dawns).

What have been the insurance repercussions of the current nationwide traffic snarl? The tieup at our big airports has given hijackers much more time to grab their haul and beat a hasty retreat, and also greatly increased chances for pilferage and breakage of cargo. Further, crowded highways have resulted in costly delays for truckers carrying perishable items, and "prudent people" are increasingly taking out spoilage insurance coverage, one broker told *Business Insurance*.

In addition, of course, there is the problem of whether the insurance market will be able to accommodate the new era of transportation vehicles, including high speed trains and aircraft and huge supertankers for transporting oil.

Indeed, in a story elsewhere in this issue, the general counsel of the Department of Transportation said the department is worried about the ability of the insurance industry "to respond to the future challenges of transportation."

Stanford G. Ross, the DOT official, said there are "disturbing signs that the ability and willingness of the industry to meet the expanded insurance needs of our transportation network are being strained."

He pointed to the fact that the New Haven Railroad is having a difficult time obtaining liability insurance for its high speed turbo-trains, that the airlines are moving toward setting up a captive insurance operation to provide expanded capacity for the new jumbo jets and that the maritime industry is wondering how it can get enough insurance for the big new supertankers.

The problem—while admittedly serious—is not beyond solution, as has been demonstrated by Boeing Co. Whereas six months ago everyone was taking bets that the insurers wouldn't be able to accommodate Boeing's new 747s (which seat between 350 and 400 passengers), the company announced that it not only was able to place hull coverage for five test 747s (at an average of \$21,000,000 each) but that it obtained the insurance at a cost per dollar of value actually less than for the 727 test program.

Of course, Boeing hasn't yet placed its liability coverage for the

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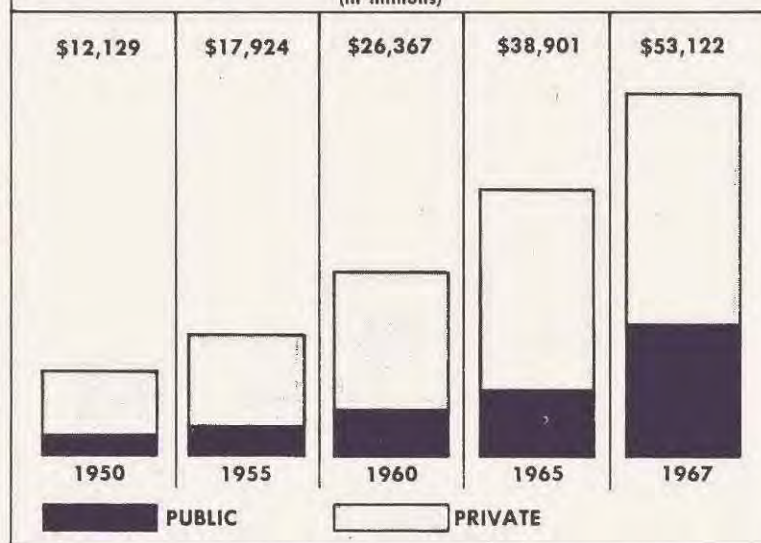


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Public and private expenditures for health care

(in millions)



National expenditures for health care have grown more than four-fold since 1950, from \$12.1 billion to \$53.1 billion in 1968. It is noteworthy that the advent of Medicare and rising hospital and medical care costs combined to increase health outlays by more than \$14 billion in the years from 1965 to 1968. Medicare has also increased the percentage of expenditures from public sources from 24.5% in 1965 to 36.6% in 1968.

Source: Social Security Administration

747s (and with 350 passengers in each plane the potential liability could run more than \$150,000,000). But the fact that Boeing stuck with its traditional markets—the U.S. Aviation Insurance Group and London—for hull coverage is a good sign the same insurers will bend over backwards to accommodate such a good, steady customer.

In addition the fact that both USAIG and Associated Aviation Underwriters have opened up their membership lists to new carriers, as agreed in a consent judgment with the government, means that new capacity will hopefully be pumped into the two aviation insurance pools. Already Royal-Globe and Kemper have availed themselves of the opportunity to participate in the commercial aviation insurance market.

There are other problems which our issue on transportation insurance will explore. The trend to intermodal transportation systems, in which cargo is shipped by a combination of rail, ship, barge, etc., has raised questions on determining which party is liable for any damages.

Also, containerized pallets for storage on ships, trucks, freight cars and airplanes were expected to markedly reduce the amount of breakage and pilferage, but critics say the system has often resulted in bigger losses than ever. Is containerization a bane or boon?

Our transportation issue will also discuss some of the problems connected with transporting cargo with high risks, such as nuclear reactors and toxic and explosive gases. What are the exposures to the public and what precautions are taken to minimize the hazard?

The incoming Administration is expected to give high priority to solving the mass transportation crisis, and we think a special report on the problem—from an insurance standpoint—will prove timely and readable.

Two welcome developments

We welcome two developments that will give risk managers, employee benefits managers and their employers stronger voices in shaping legislation that vitally affects major insurance consumers.

The first is the opening of a Washington office of the Assn. of Private Pension & Welfare Plans, Inc., headed by Milwaukee attorney Richard A. Van Deuren. Mr. Van Deuren wisely observed that Congress has heard on pension matters largely from "a disproportionate number of dissatisfied fund participants" and not enough from corporations with operating employee benefit plans, labor unions and plan beneficiaries.

Next is the good news that the American Society of Insurance Management has named James E. Bailey, an old Washington hand, as its legislative counsel to represent ASIM in federal and state legislative matters. ASIM, Mr. Bailey observed, "is a voice that hasn't been heard from until now. We will take a constructive and, if necessary, critical view of pending insurance legislation."

Mr. Bailey estimated that his group spends in excess of \$8 billion each year on corporate insurance, a figure that represents a significant share of the nation's insurance bill. In aggregate, corporate risk programs and group insurance purchased as employee benefits amount to more than \$20 billion annually, or nearly half of what the entire nation spends for insurance of all kinds.

It is, therefore, welcome news that corporate insurance buyers, the sleeping giants of the consumer world, have two promising lobbying offices going to work for their interests. We would expect that they will work with the insurance industry when they think it is right and against it when they believe it to be wrong. From such interplay of honest lobbying activities can come legislation and regulation that will meet the needs of those who sell and buy insurance and those who provide and benefit from employee benefit programs.

letters

Write both D & O forms

To the Editor: In the Oct. 21 issue of *Business Insurance* you carried an article on directors and officers liability coverage. The sixth paragraph of the story on page 31 mentions markets available for D and O coverage.

Your reporter was doing fine up to this point. However, he made an error in wrapping up this paragraph and it is an error that rubs us briskly the wrong way.

The St. Paul Insurance Cos. write the individual form *plus* the company form. In fact, we pride ourselves on being the first domestic company to write this coverage on a company basis and the first on an individual basis.

We're proud of our reputation as innovators in insurance but your story doesn't make us happy.

David G. McDonell

Assistant Director of Public Relations, St. Paul Cos. Inc., St. Paul, Minn.

Editor's note: We are glad to set the record straight: The St. Paul Cos. write both the individual and company forms for directors and officers liability.

'The finest'

To the Editor: We feel that *Business Insurance* is the finest insurance publication I have ever seen. Many insurance magazines are geared toward agents and/or brokers and insurance companies but now you have come up with a publication that is truly designed to help the corporate insurance manager.

We do read your publication regularly and we do feel that it provides us with informative ideas in regard to what other corporations are doing in the area of insurance management.

Lynn M. Gold

Insurance Manager, Hygrade Food Products Corp., Detroit, Mich.

Asks for Q & A

To the Editor: I always look forward to receiving *Business Insurance*. The format and layout are very good, and I enjoy its broad coverage and entertaining news items. The Perspective and editorial sections are of particular interest. Perhaps a column for questions and answers might be of interest and value to your readers.

L. G. Mahler

Manager, Financial Analysis, Kaiser Aerospace & Electronics, Oakland, Cal.

Geared to buyers

To the Editor: I do read *Business Insurance* regularly. It is most informative and I think it is quite valuable, too. It is passed to the proper personnel in our company.

As for a general comment, may I say that it is one of the few magazines which seem to be geared toward the corporate "buyer" and I believe this is of great value as almost all publications have more value for underwriters, agents and brokers than for the corporate risk manager. In addition, I might add that through my association with the American Society of Insurance Management, I have heard many favorable comments. I think your contributing editors should be highly complimented as well as your editor for the profes-

Continued on page 28



*Any EDP insurance will cover a destroyed computer.
But how about that stuff you have to feed it every day?*

Old fashioned fire insurance used to pay only for the cost of the destroyed tape, which was a little like paying for the canvas a Picasso was on.

Then, other types of insurance came along that covered the cost of tapes or cards *and* what you shelled out to put the info on them in the first place. That was a

better deal, of course, but the cost of replacing those files on an emergency basis sometimes ran to 3 times the original cost!

So the St. Paul's EDP Property Package (as you might have guessed by now) covers the computer and the cost of replacing your files on a crash basis. In most cases, the package can also include

accounts receivable, EDP business interruption and valuable papers coverage on a valued basis.

Naturally, we'll also do a safety survey and try to cut the risks of losing your files in the first place—which is better for everybody. The cost of replacing them can really eat you up.

OUR CREDENTIALS

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Serving you around the world... around the clock

256 property insurers cover Delaware bridge

By ROBIN MENZ

WILMINGTON, Del.—The effect of a shrinking marine market was felt by the Delaware River and Bay Authority as it searched the world for \$98,000,000 worth of coverage for its twin Delaware Memorial bridges. U.S. carriers increased their share of the risk, although total coverage was reduced.

According to Harry D. Zutz, co-broker for the authority, 44 domestic companies, about 165 Lloyd's of London syndicates and 47 foreign carriers, have agreed to underwrite the coverage.

The search for adequate protection which began two years ago, came at a time when the worldwide market was rapidly shrinking. The tightening of ca-

capacity, Mr. Zutz explained, has resulted in part from mergers in the American industry and the effect of the devaluation of the British pound on the London market.

HE MENTIONED THAT in scouring the world for coverage, insurers in Australia, New Zealand, Japan and every company licensed to do marine business in Delaware and New Jersey were brought into the picture.

Property damage insurance has been written on a 65% coinsurance basis with a \$250,000 deductible per occurrence per structure. At the onset the authority was looking for an 80% coinsurance clause.

Three years ago the authority had no trouble placing 100% coverage, when the bridge was one

span. Mr. Zutz pointed out that even one-span bridges today are having trouble getting full coverage. He referred to the Golden Gate and Veranzano Bridges.

Use and occupancy coverage has been written for 100% of annual revenue after a seven-day waiting period. A bridge builders' "all risks" policy, covering the authority, its contractors and subcontractors, has also been written on a 100% basis with a \$15,000 deductible per contract.

The lead domestic underwriter is the Insurance Co. of North America—accepting 7.5% of the coverage. Mr. Zutz said that the last time insurance was secured "we set a minimum of 1% participation by any one underwriter; this time we had underwriters accepting as little as one-tenth of 1%."

He further said that coverage has always been written on a ratio of 60% domestic companies and 40% Lloyd's of London. But the general deterioration of Lloyd's "brought us a decline in Lloyd's coverage of about 10%."

In fact, he said, all foreign sources together are underwriting about 32% of the coverage, leaving domestic insurers with 68%.

Mr. Zutz estimated that the total annual premium will run around \$115,000.

As reported in *Business Insurance*, the Golden Gate Bridge was able to secure a three-year multiperil policy for \$46,000,000 or about one-third of its total value for an annual premium of \$236,666. The coverage is written

through Lloyd's of London.

THE BRIDGE'S PROXIMITY to the San Andreas earthquake fault added to the problems of finding adequate insurance protection.

On the East Coast, the George Washington bridge is covered for its maximum amount while the Veranzano Narrows bridge at the entrance to the New York harbor has coverage written on a 50% basis.

The Port of New York Authority, which runs the George Washington bridge, has all-risk coverage for \$100,000,000 on property damage and another \$50,000,000 on revenue losses.

The bridge also carries a separate nuclear policy for protection against vehicles that carry such material across regularly.

The Delaware memorial is the only twin-span bridge in the world. The builders policy remains in effect on the second bridge now open to traffic and just about finished; it will be carried during reconstruction work on the first span, now closed to traffic.

The authority itself retains one full-time safety engineer and "our office provides the balance of the service," Mr. Zutz said. "We also provide safety service for the ferry system."

A co-broker in Bridgeton, N.J., Robert Weber, lent his services in securing coverage. Mr. Zutz pointed out that coverage was written on a subscribers form so that each company participating "wound up with one bound book" rather than numerous individual policies.

Mr. Zutz is hopeful that by the time the three-year contract has to be renewed "the insurance industry will be in a bit better situation."

College paper hits fire risk at dorm units

PRINCETON, N.J.—A front-page editorial in Princeton University's student newspaper has accused the university of being lackadaisical about fire hazards in student dormitories.

The Daily Princetonian said that 84% of the university's 31 dorms have no fire escapes and 54% of the fire doors have been propped open for convenience.

The report also charged widespread abuses of New Jersey laws against faulty wiring and overloaded circuits.

Although the Princetonian editorial had high praise for the university's new computerized alarm system, the newspaper said its poll showed that 35% of students queried said they wouldn't even check to see if a midnight alarm were real.

It was explained that student pranksters often set off the alarms and that cheerleaders sometimes use them to summon students to football rallies.

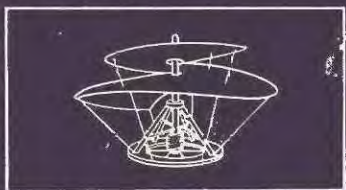
Elsewhere in New Jersey, the state board of education has decided to withhold state school aid funds from any district which has not filed plans for installing automatic fire detection equipment.

There are 70 school buildings in the state for which no plans have been filed. The board said it would withhold \$10 per pupil per year in state aid for schools which didn't have the heat-sensitive equipment by Nov. 15.

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United States Aircraft Insurance Group

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benefit tax slants

How to take sting out of employee contributions for pension program

By JOSEPH S. ROBINSON
Attorney at law

NEW YORK—Does your company have a qualified contributory pension plan—one that gives life insurance protection? If it does, then you can do something to take some of the sting from the employees' contributions. Here's how:

Normally, insurance premiums come out of the company's share of pension contributions. And when this occurs, the employee is taxed on the cost of the protection. But if the employee's contribution is used for this purpose, there is no current tax liability to the employee. A statement in the plan to that effect will suffice.

However, when there is no written word on the subject, it will be presumed that premiums are paid from the employer's contributions in which case, the employee will be hit with the tax on the pure insurance cost (Technical Reference: Rev. Rul. 68-390).

YOUR COMPANY can give disabled employees a sick-pay tax break by providing for disability pay within the framework of its pension or profit-sharing plan.

The tax rules state that an employee, sidelined for disability, can exclude his sick pay up to \$100 a week from his gross income. But an employee receiving pension payments for reasons other than disability (e.g., early retirement) is not entitled to the sick-pay exclusion even though he is sick or injured.

So the question arises (assuming a company has a sick-pay plan in conjunction with its pension): When does sick pay end and pension commence? Internal Revenue says it is when the employee reaches retirement age.

THIS BRINGS UP another question: What is meant by "retirement age" for tax purposes? Internal Revenue was recently asked to rule on a number of specific situations in connection with this question. Here are several examples:

Case #1: M Company has an insured annuity plan which calls for normal retirement benefits at age 62. However, if an employee has 15 years of service, he may retire at age 55 with reduced benefits. There's also a payout if an employee becomes permanently and totally disabled.

Internal Revenue says the sick-pay exclusion lasts until age 62 when regular retirement benefits take over.

Case #2: N Company has a retirement fund in which it deposits 8% of each employee's salary for his separate account. The employees' accounts are also credited with fund earnings. Upon reaching age 65, an employee's accumulations are used to purchase a single premium annuity from an insurance company or, at the employee's option, to pay him an annuity from the trust. The employee also has the right to continue to work beyond age 65—but (other than investment earnings) there are no more credits to the account. The annuity is then bought when the employee finally retires.

ANOTHER PROVISION gives the employee is account money

at the rate of \$50 a month in the event of permanent disability before retirement. These payments continue until the account money runs out or age 65, whichever comes first. Then, the balance is applied to pay an annuity to him from his accumulations in the trust.

Still another provision gives the employee the right to retire at or after age 55 and have an annuity based on his age at actual retirement.

Retirement age under this set-up is age 65, says Internal Revenue.

nue. Reason: The employee receives a *scaled-down* annuity if he retires before age 65, based on his age when he actually retires.

Case #3: A pension plan provides for full retirement pay when an employee complies with one of the following conditions: (a) Age 55 with 30 years of service; (b) age 60 with 20 years of service; and (c) age 62 with five years of service.

RETIREMENT IS mandatory at age 70 if the employee has 15
Continued on page 16

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No-fault compensation could end trial system

CHICAGO—No-fault insurance plans could lead to no-fault payment systems for many forms of damages and the eventual end of the trial adversary system as it is now known.

That was the warning of Kendal A. Crooks, a Chicago Lawyer, in prepared remarks delivered here to the National Safety Council.

"It may surprise you to learn," Mr. Crooks said, "that the jury trial adversary system, which has contributed so much toward growth, development and economic affluence of this country, is struggling for survival."

"There is currently a movement, which is gaining considerable strength, that would do away with an injured person's right, or the right of the person

sued, to have his dispute handled on a fault basis and to be heard by a jury.

"Under this theory," Mr. Crooks continued, "anyone injured, regardless of his own fault, would be compensated for any loss that he may sustain. That program necessarily requires that all of us pay the bill."

AT PRESENT, such a plan has been limited to automobile insurance. But Mr. Crooks theorized that "if it takes root there, we may rest assured that it will take root in all fields of the law where we are now entitled to have an issue of fact as to fault decided by 12 unbiased individuals."

The current trend, Mr. Crooks maintained, is "fraught with the

philosophy of the social planner, the so-called 'forward thinker,' and the liberal.

"Should the bureaus of government take over the administration of justice, the legal opinions of today will be considered ultraconservative in contrast to the legal opinions of tomorrow," Mr. Crooks warned.

Yet, the lawyer noted, "industry cannot claim surprise at these trends..." Citing a 20-year old California case, Mr. Crooks quoted: "It is in the public interest to place the responsibility for whatever injury products may cause upon the manufacturer who, even if he is not negligent in the manufacture of the product, is responsible for its reaching the market."

More sophisticated products,

exposing the uneducated to unknown hazards, have brought about the recent and rapid development in products law, he said. And injuries are bound to occur when such highly developed products are used, he added.

As a consequence of this recent development in products law, Mr. Crooks said, product designers are becoming increasingly important to industry.

At the same time, designers were also warned by the lawyer about their liability. Noted Mr. Crooks, "If a defective product is put on the market by reason of its design or specification, not only is the corporate entity or the manufacturer liable to the injured user, [but] that person who designed or engineered or specified the metal to be used,

the safety guards to be employed, or whatever, might also be personally liable as well."

The lawyer also advised that those who design, manufacture, and use products "should consider the side ramification of what will happen to industry if industry does not police and protect itself..." and what it sells. ■

Insurance man Davis elected Vt. governor

MONTPELIER, Vt.—Deane C. Davis has severed his relationship with the National Life Insurance Co. of Montpelier, 25th largest life insurance company in the U.S., following his election to the governorship of Vermont.

Mr. Davis, who resigned as chairman of the company, had worked 27 years with National Life, ten as general counsel and 17 as president and board chairman.

He attributed his 17,000 vote victory over his Democratic opponent, Lt. Gov. John J. Daley, to the belief that Vermont voters wanted a change.

His incoming administration is labeled the "Republican Team of the Times." ■

Tax slants...

Continued from page 15

years of service. If an employee becomes disabled after five years of service and before meeting the age and service requirements, he may be retired on a disability annuity.

Here's how Internal Revenue ruled in this case: Retirement age commences when a disabled employee has 30 years of service (assuming he was not disabled) and is at least 55 years of age. Similarly, an employee will lose his sick-pay exclusion when he builds up 20 years of service if he is at least age 60—or five years' service and is age 62 or older.

Rule of Thumb: In determining when the sick-pay exclusion ends, and retirement pay begins, "retirement age" is usually the lowest age at which the employee could have retired at "normal" pay had he not become disabled (Technical Reference: Rev. Rul. 68-385).

WHILE A PENSION PLAN has as its prime target, payments to employees upon retirement, many plans provide "incidental" death benefits through insurance. The tax rules provide for the use of insurance policies as a funding device provided the face value does not exceed 100 times the expected monthly retirement benefits.

Suppose a pension plan is partially funded with ordinary life policies and the remainder deposited in a side fund. Internal Revenue says that's all right if the death benefit does not equal the face amount of the policy plus the employee's accumulations in the side fund.

IRS does say, however, that the death benefit of a split-funded pension plan, may be the larger of: (a) The face value of the policy, or (b) the date of death cash value of the policy plus the employee's account in the auxiliary fund at that time (Technical Reference: Rev. Rul. 68-453). ■



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Architect warns big earthquakes are 'inevitable' in S. F. area

SAN FRANCISCO—Property insurance carriers in this area have been presented with a "long-range" problem to worry over: building codes inadequate to prevent "great damage" from earthquakes.

Karl V. Steinbrugge, structural engineer and government consultant, has published "Earthquake Hazard in the San Francisco Bay Area" sponsored by the University of California Institute of Governmental Studies.

The author is a UC faculty member and earthquake advisor to such agencies as the Atomic Energy Commission, the U.S. Geological Survey and the State of California.

Mr. Steinbrugge urges authorities to "start drafting really tough construction rules now" if they are to hope to reduce considerable property damage, personal injuries and death "when the inevitable next big earthquake hits this area."

"RIGHT NOW," Mr. Steinbrugge said, "the lack of public policy is permitting dangerous new high-density construction on many sections of the San Andreas and the Hayward earthquake faults."

"Every geophysicist," Mr. Steinbrugge contends, "knows that an earthquake at least as devastating as the legendary 1906 disaster is bound to hit this region sooner or later. No one can predict the exact time, but most scientists expect it within the next 30 years."

Mr. Steinbrugge's 80-page volume asserts that local communities have failed to "force builders to pay attention to the life-threatening earthquake hazards."

He predicts some of San Francisco's most modern buildings will collapse and thousands of older structures with non-reinforced brick bearing walls will suffer partial or total collapse.

The greatest loss of life, he continued, will be caused by falling parapets from buildings.

Hotel sues city, county for riot damage

CHICAGO—As a result of the April 5 West Side ghetto rioting, the City of Chicago and Cook County have been sued by the Madison Arms hotel, which was destroyed by fire bombs.

John G. Phillips, attorney for the hotel, told *Business Insurance* that the case, based on failure to provide protection, is the first of its type in the United States.

Asking for damages of \$1,000,000, the hotel alleges that it made three phone calls to the police in the afternoon prior to its destruction but received no protection.

Attorney Phillips maintained that on two occasions prior to the hotel's destruction police entered the hotel but did nothing.

On the night of the rioting, vandals and arsonists roamed the hotel and eventually burned it down, the attorney charged.

Because the Illinois mob riot statute has been appealed, Phillips said, the suit is based on the simple premise that the city and the county provide police forces that are supposed to protect people and property.

A motion by the city to dismiss the suit is pending.

whose "obsolete, protruding brick-work should have been removed long ago."

Freeway overpasses on the Peninsula and in the East Bay, near major earthquake faults, will collapse also, according to Mr. Steinbrugge, and the Bay Area Rapid Transit Tunnel now being built across the Hayward fault in the Berkeley hills "will suffer substantial displacement."

Freemont, a comparatively new city in the East Bay, has required fault location studies by builders before issuing new building permits. The city also discourages new construction along known or suspected fault traces.

The communities of Woodside

and Portola Valley have a geologic hazards committee, which is developing land-use plans to avoid high density construction near the San Andreas fault.

At least two-thirds of Bay Area School districts, Mr. Steinbrugge declares, "have buildings that are legally unsafe and housing projects have covered large sections of the fault zones in recent years."

Mr. Steinbrugge suggests that in districts close to known faults all apartment houses and public buildings should be banned; parapets and un-anchored building ornaments should be removed and zoning should prohibit new construction on ground prone to slide.

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Three prongs of risk recognition

by George L. Head,
director of educational publications
Insurance Institute of America

The following is the second of a series of articles on the fundamentals of risk management adapted from the program of study conducted under the auspices of the Insurance Institute of America, Bryn Mawr, Pa. IIA conducts a three-year national educational program leading to the Institute's Diploma in Risk Management, one of the most widely recognized marks of professional competence for corporate insurance buyers.

Before he can map the best strategy for protecting his firm against risks which imperil its profits, a risk manager must strive to recognize and evaluate all risks which pose serious dangers to those profits. The most careful planning against the more obvious perils of fire, wind, or products liability may turn out to be wasted effort if the firm is driven to bankruptcy by a less apparent danger, such as the closing down of the firm's principal customer or a stockholder's suit which forces key corporate directors to resign.

Recognizing each risk is not enough—each also must be evaluated. Not measuring the potential impact of a peril may lead a risk manager to devote too much attention to frequent minor losses, such as employees' theft of work tools, while brushing aside catastrophic threats like a

flood or a labor union strike.

Perhaps no one man can see and accurately measure all the risks confronting a business firm. It seems certain that every risk manager will overlook some significant perils unless he relies on a system—analytical prongs on which to spear and scrutinize risks—for making himself and his superiors aware of the firm's important loss exposures.

MANY PRACTICING RISK MANAGERS have devised their own favorite techniques for surveying exposures—lists, charts, and "fact-finders"—based on their experience with the firms whose risks they have managed. In the hope that each risk manager who reads *Business Insurance* will be prodded into developing a survey technique appropriate for his firm, this article describes and appraises the three major classes of risk recognition techniques which thus far have been formulated.

By combining elements of these three approaches—here labeled (1) the value-peril approach, (2) the financial statement approach, and (3) the flowchart approach—every risk manager may formulate a clearer picture of the terrible things which can befall his firm and just how terrible they can be. This clearer picture may not be inviting, but it is essential to sound risk management.

Risk managers who use some variant of the value-peril approach to their risk recognition surveys begin with the premise that all the values of a firm can be

grouped as either asset values (tangible, intangible or human) or time values for the profitable use of those assets. A peril can reduce asset values, time values or both. For example, damage to a piece of iron-mining equipment is a loss to a tangible asset, while the production delay needed to repair the equipment represents a loss of time for the presumably profitable extraction of iron ore, even though the ore itself has not been damaged or depleted.

A FIRM'S LOSSES OF ASSET values can be further classified as either damage to an asset or loss of possession of a physically unharmed asset. Actual damage to a tangible asset is exemplified by riot damage to buildings or breakage of glass, while the value of an intangible asset, such as a deed, can be reduced by a law suit challenging the deedholder's title.

A firm's human assets can be damaged by illness or destroyed by death. Loss of possession without physical damage is typified by theft of a tangible asset or the resignation or retirement of personnel vital to the firm's continued profits.

Losses of possession of an asset can be subdivided on the basis of whether the taking of the asset is legal or illegal. Robbery, burglary, and embezzlement are the major types of illegal taking; an adverse liability judgment against the firm is the most prominent form of legal taking.

Risk recognition techniques which cen-

ter around the value-peril approach usually stress logical distinctions, and an imaginative risk manager generally can fit all the risks which he discovers into one of these logical categories.

But the value-peril approach is more useful as a way of classifying recognized perils and losses than as a tool for ferreting out undiscovered dangers. Also, because the value-peril approach is highly generalized and abstract, it offers little guidance in measuring the amounts of potential losses from particular perils for a specific firm. The chief merit of the value-peril approach is as a foundation for logical, exhaustive analysis.

The financial statement approach—the second family of techniques for recognizing and evaluating loss exposures—has a high degree of logical completeness and specific relevance to a given firm. The crucial notion behind the financial statement approach is that all possible losses a firm can incur will be reflected in its balance sheet of assets and liabilities, its income statement of revenues and expenses, or in both the balance sheet and the income statement.

For example, a fire loss will reduce the recorded asset value of the burned property, and a court verdict holding the firm liable for manufacturing or marketing a defective product will increase the firm's liabilities. For the income statement, business interruption losses resulting from the shutting down of a burned out factory will appear as reduced revenue.

IN CONTRAST IF, AS IS the case for such businessmen as newspaper publishers and dairy processors, plant shutdowns

Continued on following page

PR firm practices what it preaches

by Ned A. Miller,
partner,
Romm, Miller & Lazarus,
New York



Ned Miller

We've heard about the doctor who lets his own health deteriorate. We know the life insurance salesman who forgets to buy a policy to protect his own family. But Ruder & Finn, one of the largest public relations firms in America, headquartered in New York City, was determined to do as good a job for itself as it does for its clients.

Their welcoming message to new employees says: "Our principal assignment for our clients is to help them to do a

superior job of communicating with their 'publics'—those individuals and groups, inside and outside the organization, who are important to the achievement of the organization's goals." And then they set about to do the same thing within their own firm.

We visited with Alfred Paulson, Ruder & Finn's senior vp-finance. He said, "We are constantly urging our clients such as Bristol-Myers, Phillip Morris and Transamerica to get their employees to know them as a good company to work for. Well, we want our employees to have the same feeling about us. Everyone should know how we function; what we do for each employee and, frankly, what it costs us to do these things for our people. Let them see why we're a good company to work for."

AN INTELLIGENT PROGRAM such as this, done always in good taste, need not be an expensive thing to carry out. A new employee is given the Ruder & Finn employee manual. It starts with a welcoming message from David Finn, chairman, and William Ruder, president. It tells how 20 years ago these two gentlemen were the only employees of the firm. Today, they have almost 300 people with eight offices in this country and five international offices.

Then, under operation and services,

the booklet gives a highly concentrated outline of job titles, administrative classifications, account structuring and staff procedures. It also lists each of the service departments and gives a capsule account of the functioning of each of these specialized departments.

Administrative policies are then discussed under the headings of: hours, holidays, vacations, payroll including salary review, time reports, expense reports, illness and termination. Finally, under general policies, Ruder & Finn declares itself as an Equal Opportunity Employer and further encourages the flow of suggestions from employees.

Under office administration, the booklet discusses switchboard procedures, mailroom supplies, research facilities, printing and mailing.

ALL OF THIS AFOREGOING takes only ten pages in a booklet which measures less than six inches square. Yet it is written so clearly and so succinctly that the new employee must feel thoroughly at home after less than 15 minutes of reading.

Then the booklet goes on to detail the employee benefit schedule covering Blue Cross/Blue Shield, major medical, group life, group dental, long-term disability and group accident, ending with a policy statement regarding year-end bonus and

the details of the company's profit-sharing plan.

Total page count in this booklet is only 16. Total employee awareness is unlimited.

Obviously, the new employee will also receive his individual certificates of insurance as they become available, but that seems almost secondary after the very thorough briefing in the booklet.

FINALLY, ANOTHER COMMUNICATION goes to each employee once a year. This is headed "profit-sharing distribution" but is, in reality, a good deal more. Issued approximately once a year, it is personalized for each employee and tells of the contribution to the profit-sharing plan, the current standing of the individual's account and a brief summary of the financial operations of the firm, and a projection of the future. It then goes on to give a personalized listing of each individual's benefits and the cost to the company of providing that protection for the individual, a perfectly valid item to communicate. Why shouldn't the employee be told how much his employer is spending for him each year—over and above what he sees in his pay check?

An elaborate presentation? Not at all. A four-page memo, double spaced, multilithed on plain white bond. But you can bet your bottom dollar that every word gets read by every employee—and that this communication is referred to over and over again during the year. Because here's the whole story, clean and clear and simple.

Obviously, Mr. Ruder and Mr. Finn feel that they are on show to their own employees just as much as to their clients. And they can't afford to treat one with any less respect and professionalism than the other. After all, it's only good public relations. ■

perspective

cannot be tolerated, the added costs of renting substitute facilities will emerge on the income statement as increased expenses rather than decreased revenues. Since the financial statement approach postulates that all losses will appear on the firm's financial statements, it follows from this postulate that study of these statements will reveal the nature and magnitude of each firm's loss exposures.

One of the primary advantages of the financial statement approach is the direct and specific applicability of the technique to a great variety of enterprises. The assets, liabilities, revenues and expenses of each firm are somewhat peculiar to that organization, and the financial statement approach, if skillfully applied, should bring to light the risks which are most significant for each firm.

Another strong point of this approach is the monetary valuation given each loss potential by the values shown in the financial statements. These accounting values, however, must be treated cautiously. Although recorded sales may be an accurate record of past revenues, future revenues may differ markedly from previous volume. Asset values, usually shown on a conservative accounting basis, probably are significantly lower than the assets' replacement cost, which is a more accurate measure of loss potential

for the going concern. Liabilities and expenses shown on past statements can skyrocket to any figure until they bankrupt the firm.

NOT ONLY MAY THE SIZE of the loss potentials revealed in the financial statements be inaccurate, but also these statements may fail to even hint at significant hazards. Thus, although a firm's income statement may show production at five plants, the statement may hide the fact that a shutdown of the one plant where a key process is performed would close all plants, resulting in a 100% rather than a 20% loss of revenue during the stoppage at the single plant. In much the same vein, the financial statements of few firms recognize in any way the value of the firm's human resources, resources which can be lost by disability, death, retirement or resignation.

The third basic approach to risk recognition, the flow-chart method, can be adapted to reflect human resource values. The flow-chart method, an extension of physical engineering concepts, attacks the problem of risk recognition by asking: As the service or product a firm sells moves from its earliest stages to its final delivery to the firm's customers, what forces can slow or stop this movement? Any factor which can disrupt the smooth

flow of the firm's operations is a risk. Because human energies play a predominant part in most firms' sequence of operations, the flow-chart approach can recognize a firm's human assets in terms of the employees' contributions to the company's flow of revenue.

One advantage of the flow-chart analysis is that it highlights key points where bottlenecks can develop, perhaps causing a lengthy stoppage of business with only minimal physical damage. Furthermore, if this analysis is extended beyond the walls of the particular firm in question—extended to include the operations of major customers and suppliers—a well-constructed flow-chart can identify and evaluate how losses to these other firms can endanger the profits of the company in question. Neither the value-peril nor the financial statement technique can be directly expanded in this way.

A SIGNIFICANT DRAWBACK of the flow-chart technique is that it does not deal explicitly with the replacement values of many of the assets through which the flow of production is charted. For instance, the fact, revealed by the flow-chart, that 10,000 parts are stamped out by a drop forge press every day may be an index of the value of the press to the firm, but the flow-chart does not give a

clear indication of the outlay needed to repair or replace the press.

Also, this technique may hide exposures not directly connected with any specific product flow—exposures such as directors' and officers' liability to stockholders for mishandling of corporate business.

No one of these three basic approaches to recognizing risks is foolproof. The value-peril approach tends to be unduly abstract; the financial statement method easily can yield erroneous values for asset, liability, revenue and expense exposures; and the flowchart approach used alone often does not generate relevant measures of potential loss severity.

The practicing risk manager probably will develop his own best technique for recognizing all important loss exposures of his firm by synthesizing elements of all three approaches. The risk manager's goal here should be to pin down each of his firm's exposures under at least one of the three prongs that these techniques provide for scrutinizing risks of loss. ■

This article is drawn from material treated in greater depth in the Program in Risk Management conducted throughout the U. S. by the Insurance Institute of America, 270 Bryn Mawr Avenue, Bryn Mawr, Pa. 19010.

How GE's benefits department prepares for union negotiations

by E. S. Willis,
manager of employee benefits,
General Electric Co.



E. S. Willis

He is responsible for having benefits that meet current needs and trends but which are sound and which are not excessive in cost. He needs to be sure there is full utilization and appreciation of benefits and yet that they are controlled properly. He must be in a position to offer union negotiators a good program since the sex-appeal of a contract usually rests in the benefit area, but he must be sure that the negotiators don't take over and give away his shirt to obtain settlement.

Second of three parts

One industry with which I am acquainted is among those with the most expensive benefits in the country but also the most poorly designed. The acknowledged practice in this industry is pretty generally to devise the benefits across the bargaining table. I tried to estimate the cost of this unfortunate practice in comparison with our company, where long advance planning is used, and came up with a figure ranging from 90% to 136% above our cost, the amount of the excess varying with the particular company in the industry.

The benefit manager should naturally be part of the direct negotiating team if possible or direct local benefit negotiations by appropriate advice and counsel both in advance and during bargaining. For example, one other industry has a number of good benefit managers who do thorough planning, but during the negotiations apparently do not participate. The negotiators apparently operate with relatively free abandon because the resulting benefits are expensive, complicated and frequently unsound. Since their benefit managers are well-informed, it is obvious they have been bypassed.

YOU WILL NOTICE I have not included specific administration of benefit plans. This is a matter of strong opinion

on both sides. Many in the benefit field feel that operation of the plans is a key responsibility of the benefit manager. It perhaps varies with the size of the company, but I doubt it.

In my opinion, the day-to-day administration of *paper work* should generally be the responsibility of the paper work experts—usually the accounting organization. Thus, the computation and the payment of routine insurance claims, the payment of monthly pensions, notice to state authorities of wages on unemployment compensation claims and such can be handled through the accounting or financial organization.

The benefits manager, assuming he is relations oriented, enters into the picture when employee relations problems arise, when there are problems of interpretation, of eligibility or of face-to-face employee counseling. The accounting clerk who processes insurance claims, for example, should never have to deal with the employee in trying to explain why the plan doesn't pay dentists, nor should she deal with doctors on questionable cases, for example.

THE SIGNING OF PENSION applications and other work attendant to retirement, since it involves a certain amount of counseling is a relations job, but operating the pension trust is a financial job. Determination of whether an employee is laid off, discharged or resigned is a relations job and the finance person who completes the unemployment compensation claim form showing wage data should not be expected to provide this other non-routine information. Enrollment campaigns are a relations job, but accounting would keep the sign-up or waiver of participation forms as part of its record-keeping function.

On the other side of the coin, if the benefit manager is involved in the paper work or pension trust operation, etc., he is all too likely to get bogged down in the myriad of daily demands to have an op-

portunity to do the job that produces the greatest value to the company in both cost saving and in improved employee relations. He needs to be able to see the trees but not get lost in the forest. He needs foresight and thoughtfulness, but must be a practical and pragmatic type. Of course, he should be well acquainted with and work in close cooperation with the financial aspects of the benefits and should receive summary or control reports, but he doesn't need to operate this portion to have such knowledge.

Let me now move on to more specific items in the benefit manager's job, taking it piece by piece:

First is the planning function I have mentioned several times. In this area he needs first to develop a set of basic principles which will be a guide for short- and long-range planning. These are both general and specific. For example, here are a few of the basics we have:

- "Benefits should be related, to the extent possible, to the employee's position, performance, and contribution on the job."
- "Employees should take an active interested part in their own security through contributory plans and through participation in the security provided."
- "Effectively designed plans based on research and careful planning should be supported by effective communication and administration."
- "Pioneer in sound programs and encourage sound practices in other companies."
- "Take an active role in working for sound government programs that aid rather than hinder the private enterprise system."

THEN, WE HAVE A NUMBER of more specific principles by area, such as:

- Maintain a conservative balance between the increasing interest in more leisure time and more paid time-off, and the need for minimizing production disruption and high costs of excessive absenteeism.
- Upgrading of pension accruals will be carried out under procedures permitting the company to maintain control of changes and so as to obtain for the company full recognition of its action.
- Provide pay replacement at a reasonable level—generally around 50%—to minimize malingerers and yet provide adequate basic income.
- Encourage exercise of individual responsibility through savings.

In the final article in this series I will discuss the communication of benefits and some special problems. ■

I consider a benefit manager's scope, as part of the company's management team, is to develop, plan and assure that benefit dollars are spent with maximum effectiveness and soundness. Whether benefits are locally negotiated in a company with various decentralized operations, or whether benefits are company-wide in application, the same responsibilities exist, though operations of the manager may be slightly different in the two instances.

The benefit manager is responsible for sound planning, for either developing plans or counseling local components in developing plans that are useful, and effective. He is responsible for protecting management rights in this field, just as union negotiators should be protecting management rights elsewhere.



Rule husband who plotted death of wife can't collect on her cover

ST. PAUL, Minn.—The Minnesota supreme court has ruled that a lawyer convicted of hiring his wife's killers cannot collect \$1,055,000 in life insurance on her.

The lawyer unsuccessfully contended that his criminal conviction was not conclusive in a civil case. The court ruled that the criminal conviction is conclusive, and a Minnesota crime-does-not-pay law is enforceable.

The lawyer, R. Eugene Thompson, currently serving a life sentence for masterminding his wife's slaying, sued six insurance companies for payment of the policy taken out on his wife's life.

The State accused Mr. Thompson

of hiring Dick W. Anderson and Norman Mastrian to kill his wife. The three are currently in jail, although Mr. Thompson is seeking a last review of his murder conviction. The conviction has already been reviewed by the state supreme court, and the U.S. Supreme Court has refused to hear the case.

The ruling by the supreme court on the civil matter does not dispose of a claim by Mrs. Thompson's estate, which is seeking payment on the policies. If this claim is allowed, the four Thompson children would collect.

The companies, which sold a total of nine policies, involved in

the claim are Travelers, Continental Casualty, Time Insurance, Zurich, General Accident Fire & Life Assurance and Lloyd's of London.

The insurers claimed that the policies were fraudulently obtained by Mr. Thompson in a 13-month period prior to his wife's murder.

DURING HIS murder trial, Mr. Thompson claimed that he acquired the insurance, all with an accidental death benefit clause, with himself as a beneficiary so that in the event of his wife's death he could offset what she was due to receive from her father, a wealthy plumbing contractor.

The court ruled that since the facts and issues of criminal guilt are conclusive and since Mr. Thompson was a lawyer, "the principles of public policy and the interests of the litigants require that parties who had a full opportunity to litigate the issues should not be permitted to reopen and review such facts and issues in subsequent civil litigation."

Mr. Thompson had contended that a defendant in a criminal trial might jeopardize his constitutional rights if he were forced to plan and conduct his criminal case keeping in mind that civil actions may use the same evidence.

The court ruled, "We are constrained to view that to permit a retrial of the facts and issue already determined in the criminal proceeding would be an imposition on the courts and only tend to embarrass or bring into disrepute the judicial process."

Herrman gets state position

SPOKANE—Washington State Sen. Karl V. Herrman has been elected state insurance commissioner, succeeding Lee I. Kueckelhan, who did not seek reelection to the four-year post which pays \$16,500 annually.

Sen. Herrman, 52, Spokane attorney, has been in the state senate 12 years and during that time served as chairman of the standing committee on banks, financial institutions and insurance. He currently is chairman of the legislative interim committee on insurance, a post he also held last biennium.

This was the committee responsible in large measure for the greatest insurance reform program in state history making it through the last legislature.

He defeated Gerald J. Sullivan, now the commissioner's chief deputy.

Ross...

Continued from page 11

This is a matter of increasing concern to our own maritime industry which operates with a number of older ships."

The speaker commented that the industry's ability and willingness to meet the growing need for auto insurance has also been questioned before Senator Philip A. Hart's antitrust subcommittee, which is investigating the auto insurance field.

This is an area, Mr. Ross said, that must be carefully evaluated by the transportation department's own two-year, \$2,000,000 study of the motor vehicle accident compensation system.

"INSURANCE CAPACITY problems, of course, are not limited to transportation. Property insurance, especially in the blighted sections of our cities, has not been sufficiently available to meet public needs."

The recently-enacted national insurance development program to provide reinsurance protection against the riot hazard is one significant attempt to cope with this problem.

"Indeed, one of the factors leading to the development of the program was concern over the ability of private reinsurance to provide the protection needed by primary writers in our cities."

Attention is also being directed at determining the effect of the growing acquisition and holding company phenomenon affecting the insurance industry.

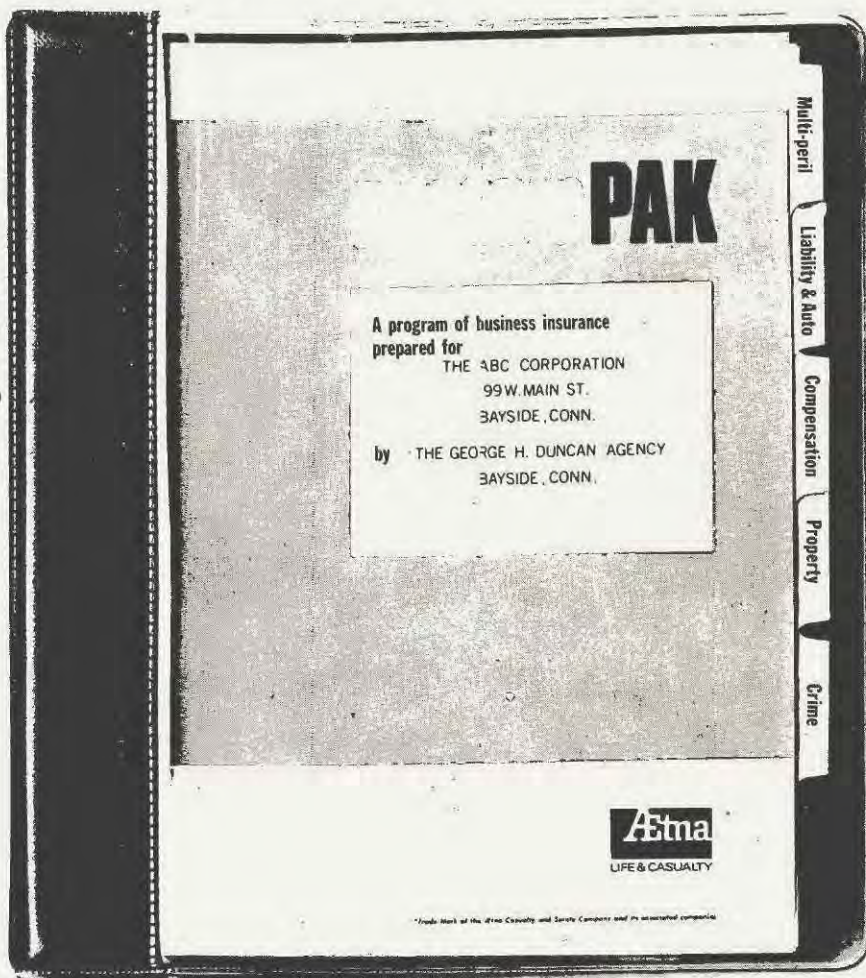
"THIS RECENT TREND holds the possibility of disinvestment of capital in the industry at a time when more capital seems to be needed to meet the nation's growing insurance needs."

To date, no intensive study has reported on the actual impact on the insurance markets of the acquisition of insurers by noninsurance companies or the formation of insurance holding companies to make investments outside the industry.

"Such information, however, will be essential to fully evaluate the effects of these changes on the industry and on its overall capacity to provide insurance."

"We are awaiting the publication of a study of conglomerates now being conducted by the Federal Trade Commission before determining whether further study will be required by the Department of Transportation's accident compensation study," Mr. Ross said.

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Nervous Rochester businessmen await pool for ghetto properties

ROCHESTER, N.Y.—Uninsured merchants in Rochester's inner-city, who thought their insurance problems would be over Sept. 1, will have to sweat it out still longer.

A state law that was supposed to take effect Sept. 1, creating an "assigned risk" pool of companies for slum businesses, has run into trouble.

The law will take effect but the pool won't.

AND THE INNER-city merchants, particularly those who have been without fire and vandalism coverage for some time, just found out about the delay of the pool.

Many inner-city merchants pay premiums far above those of their counterparts outside the slums.

"They keep promising us, but nothing effective has been done so far," said Ben Berman, chairman of the insurance committee of the North Clinton Avenue Businessmen's Assoc.

"All we get is lip service. We don't have anything tangible."

The assigned risk law, passed in the last session of the legislature, allows participating companies 90 days to submit their proposal to the state insurance department.

Most of the merchants involved thought the pool itself

would be in operation by Sept. 1.

"I'm a little disappointed they haven't set up the tools to get this new law into operation," said Max Grossman, vp of the Joseph Avenue Merchants Assoc.

State Sen. James E. Powers said he wired the state insurance department and asked it to pressure the insurance companies into getting the pool into effect by Sept. 15.

COMPANY EXECUTIVES will meet to elect a board to write the assigned risk proposal.

Mr. Powers charged that some insurance firms are canceling policies in the inner-city before they draft the proposal.

"This is a real sad commen-

tary," he said. "It's a far cry from the original bill. If this is the way insurance companies are going to behave, we're going to have to pass legislation making sure they don't have this much latitude."

MR. BERMAN SAID he knows of about a dozen merchants on Clinton Avenue North who can't get coverage. Mr. Grossman said he will learn how many on Joseph Avenue don't have insurance when the Joseph Merchants group meets Sept. 18.

The concept of the law was to give inner-city businessmen insurance at rates about 25% above normal. Some of them now pay up to five times the average premium.

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Cobe named GATX/Boothe risk manager

SAN FRANCISCO—Frank S. Cobe has been appointed corporate risk manager for GATX/Boothe Corp., a subsidiary of General American Transportation Corp., Chicago.

In his new post, Mr. Cobe will be responsible for aviation insurance on commercial aircraft, which makes up all or part of



Frank S. Cobe

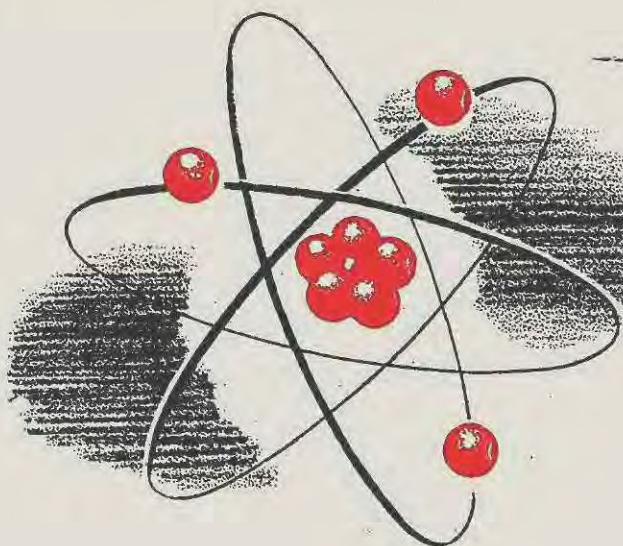
airline fleets; hull insurance on leased vessels in ocean marine service; and all-risk insurance on leased computers valued in excess of \$140,000,000.

A professional engineer, Mr. Cobe entered the insurance business in 1934 as a boiler and machinery inspector. A year later he established a boiler and machinery department for Cosgrove & Company in San Francisco.

From 1954 to 1968, he was associated with Underwriters' Service, Inc., San Francisco, first as executive engineer and later as supervisor for the account of Bechtel Corporation.

Mr. Cobe is a former president of the Northern California-Nevada chapter of the Society of Fire Protection Engineers and a former member of the World Trade Club. He is a specialist in hospital safety.

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Insuring gambling casino-circus biggest challenge for L. A. broker

By THOMAS E. WILSON

LAS VEGAS—Obtaining sound insurance coverage for the new Circus Circus Casino here was like trying to staple a pumpkin pie to the wall.

That's how Peyton L. Travers, vp of Trans World Insurance Brokers in Los Angeles, described the task.

The \$15,000,000 combination of a big top circus and wide open Nevada gambling casino opened last month with the biggest hoopla in the history of the Las Vegas strip.

FOR MR. TRAVERS, it was the biggest challenge and most-difficult-to-insure operation he had seen in a career that includes

ten years representing Lloyd's.

Underwriters developed sudden appointments when Travers began describing how trapeze acts would take place directly above the gambling pit. The discussions were so short in some cases that Mr. Travers did not have time to delve into meatier problems—such as the two-ton elephant (diapered, thank goodness) performing 50 feet above the heads of the high rollers.

Traditionally, the insurance industry frowns on high risk industries such as circuses. Even today, casinos are not the most favored clients of conservative segments of the industry. Circus Circus combined both risks and added some unique ones.

Like, for instance, Joe Gerlach, who dives 60 feet into a sponge located in the gambling pit. Or combining the unique money control problems involved in open gambling with scores of circus type "games of skill."

The final program involved a \$10,000,000 property protection policy along with a \$300,000 program to protect the bankroll against destruction, dishonesty and robbery. American Home and the Hartford Insurance Co. share coverage.

Property protection presented staggering problems. Imagine business interruption coverage for a firm with a daily "take" or income in excess of \$50,000.

Unlike a shoe store or even a supermarket, Circus Circus



Jay Sarno, creator of Circus Circus casino, presented his flying elephant to photographers on opening day. The flying beast—securely strapped into a rig and well-diapered—performs 60 feet above the audience like a pink Dumbo.

could not move a few doors down the street and reopen in the event of a fire.

Instead, the operating corporation would require compensation for the loss of \$50,000 a day for the full six months rebuilding would take. This figure could disrupt a small insurance company.

Insuring the casino's bankroll offered another unique problem. Major resorts on the Las Vegas strip keep a \$500,000 bankroll on hand. Long holiday weekends can vastly increase this figure.

MR. TRAVERS' JOB was to convince underwriters that casinos are safer than banks from robbery. A typical casino will have more uniformed guards visible than the home branch of the Bank of America.

No Nevada casino has been successfully robbed.

At least \$200,000 of the \$500,000 bankroll is in coins. Weighing tons, it would prove impossible to cart off. Large sums are also parceled out to gaming tables and slot machines.

A major obstacle to Mr. Travers was liability coverage.

CIRCUS CIRCUS boasts a fireman's pole used to travel from the second floor to the first floor by adventurous patrons, dealers and change girls.

For less athletic patrons, Cir-

cus Circus offers choices of a stairway, a ramp and the ultimate in underwriters nightmares, spiral slides.

Crowds increase risks. More than 11,000 persons a day visit Circus Circus.

RESTAURANTS AND BARS traditionally offer above average liability risks. Circus Circus has 14.

Circus Circus is built on the concept that most of the 14,000,000 persons who visit Las Vegas yearly will visit the green felt big top.

But, this creates added insurance costs. It's more expensive to investigate claimants and make settlements with out-of-town customers.

Thus, Sayre & Toso, which opted for the \$10,000,000 liability coverage, cannot hope for an inactive account in Circus Circus.

ONE BRIGHT SPOT is the all-encompassing Nevada Industrial Commission coverage of employee accidents—whether they involve trampoline artists, tight-rope walkers or any of the hundreds of well-endowed cocktail waitresses, bar and change girls.

Thus, if high diver Joe Gerlach misses his sponge and impales himself on a coupier's stick, the state and not Mr. Travers will have to handle the claim.



Employee dishonesty and embezzlement costs American business firms well over a billion dollars in losses each year.

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It's a gas at N.Y. ASIM meeting

NEW YORK—What the well-prepared police department should have in its arsenal to protect citizens and property against riots was put on display at the luncheon meeting of the American Society of Insurance Management's New York chapter.

Members were given a brief history of various gases. Recommended most strongly was a gas called CS (after two scientists named B. B. Carson and R. W. Stoughton) which does "twice as good a job in half the time with the minimum of cost," according to Frederick Cannon, vp-marketing, Lake Erie Chemical Co., producer of the gas.

"CS HAS BEEN TESTED on persons 50 years of age with medical histories of allergies, hypertension and jaundice or hepatitis, without lasting effects or death. Therefore, it is without fear of contradiction that I can state quite emphatically that CS has an extremely high safety factor and can be used with safety in any riot or civil unrest situation," stated Mr. Cannon.

Because "trained subversives" often go into battle wearing gloves, Mr. Cannon's company (which is a member of the Smith & Wesson law enforcement group) makes jumping and repeating gas grenades designed to "confuse anyone who tries to throw them back."

The firm also markets gre-

nade launchers, which Mr. Cannon said fit onto the end of any shotgun and have a range of 75 to 150 yards. Mr. Cannon, in explaining that "you have to go along with the times," also displayed a rocket-propelled projectile filled with tear gas, with a parachute flare.

Policewomen especially like Lake Erie's mini-grenade, which they can stash in their purses, Mr. Cannon said. "It's a mighty midget," Mr. Cannon said. "You should see this thing in action. It's a real David and Goliath story."

Another gas-dispensing item is shaped like a wand. "You walk in like a musician in a band. You should see them run," Mr. Cannon told his audience.

POLICE DEPARTMENTS should keep a large stock of gas

on hand at all times, Mr. Cannon advised. One third of the stock should be used for training purposes every year and another third should be replaced. The gases have a shelf life of three years, he added.

At the same meeting Joseph E. Luecke, second vp, Kemper Insurance Cos., explained the new FAIR plans, which he said were, in effect, property assigned risk setups. Mr. Luecke explained that the model FAIR plan visualized up to five carriers taking on the riot coverage with the remainder going into a pool.

However, he said, "it didn't work out that way," and some states have set up FAIR plans with a pooling arrangement for all riot risks and others have established syndicates which will write coverage in their own names.



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EDP...

Continued from page 2

ing importance, he said, is protection against product recall. Because United Industrial purchases consumer products companies, "we found it important to purchase this type of protection on a blanket basis covering all existing companies as well as new acquisitions."

In considering property insurance, he said, the first requirement is adequate protection of investment. "Like liability and other coverages, what was considered adequate by a \$10,000,000 individual company proves inadequate for a large conglomerate like United Industrial."

Also in the property insurance area, he advised that it's important to request future rate adjustments as well as current costs.

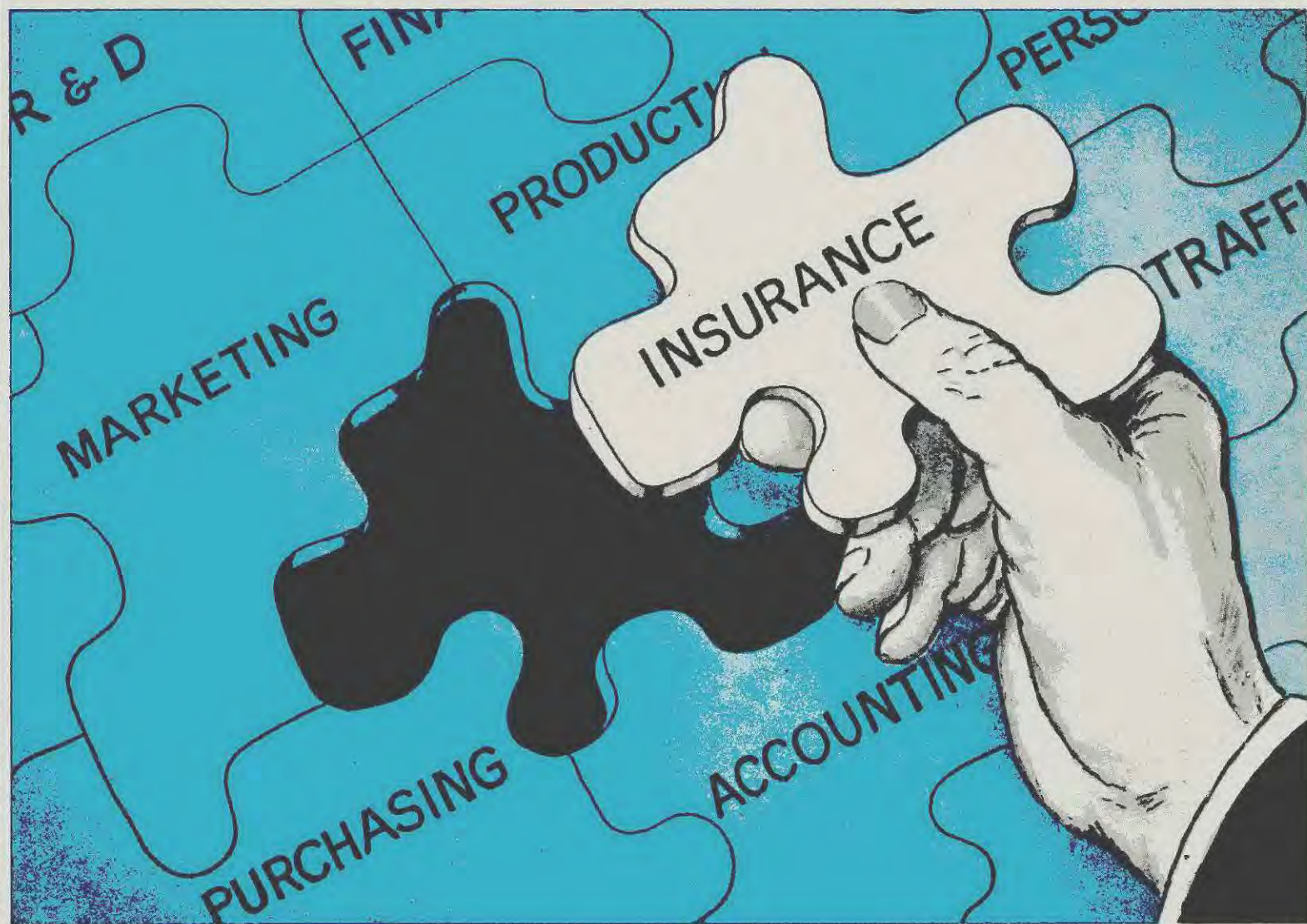
Mr. Jones said he made it "incumbent upon management to include a clause in the acquisition contract specifying that any retrospectively rated workmen's compensation, comprehensive general liability or auto claims arising after acquisition but dating back to occurrence before final closing, should belong to the seller."

Mr. Jones pointed out that United Industrial also has a safety program set up in conjunction with American Mutual that's "immediately put into operation at the new location."

Other coverages that become effective whenever the company makes an acquisition are a comprehensive manufacturers crime bond with a \$250,000 blanket limit including burglary and theft, as well as an excess liability policy of \$2,000,000.

Rejects auto hike

PROVIDENCE—Rhode Island State Business Regulation Director Robert M. Schacht has rejected proposals by the Insurance Rating Board to increase premium rates on liability and physical damage insurance on commercial cars.



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Two airline captives will handle primary, excess cover: UAL's Smith

SAN FRANCISCO—Since the idea of a captive insurance operation for the airlines was first presented last January, the industry has "narrowed its sights" to the point where the proposal now calls for creating two captive companies, according to Waller B. Smith, manager of corporate insurance and claims, United Air Lines.

One captive would handle primary coverage and the other would absorb excess risks, Mr. Smith told a capacity audience of the Northern California chapter of the American Society of Insurance Management. Both would take 40% of the coverage, with the remaining 60% shared

by "the normal, existing aviation insurance market."

Ownership of the two captives, Mr. Smith explained, would be held by any certified carrier authorized to fly an airplane for hire. Aircraft manufacturers, operators of privately owned aircraft or industrial owners of fleets, would not be eligible for participation.

ELIGIBLE CARRIERS would be invited to subscribe to the capital of one or the other or both companies, with the capital investment related to their insurance premium.

The two captive insurance companies would take 40% of

the primary coverage, as, for example, of not less than \$2,000,000 for each occurrence or more than \$20,000,000.

The excess carrier company would take care of loss liabilities in excess of these limits—for example, up to a limit of \$125,000,000.

"Talking in figures like these," Mr. Smith pointed out, "is a bit like a conversation about book-making rather than insurance. Nevertheless, the potential for such big money losses will exist."

To get the two companies into actual operation, Mr. Smith estimated, might have a maximum range of some \$100,000,000 of capital funds and at least \$200,000,000 of premium if there was 100% participation.

Both companies, he said, would be headquartered in Switzerland. Membership would be available on a worldwide basis.

"At first," Mr. Smith predicted, "the program will have little or no effect on reducing premium costs. The basic purpose is to provide capacity. But the economy is sure to follow."

A question from the floor indicated that the current world aviation market capacity is approximately \$90,000,000 and that the captive operation's 40% primary coverage would thus expand the market to \$125,000,000.

Mr. Smith also disclosed that the U.S. airlines are "now discussing the possibility of legislation at the federal level that would place absolute liability on the operators of aircraft, with no exception or defense, up to a maximum limit."

Mining. . .

Continued from page 1

Premium rates for the workmen's comp coverage are based on the risk, with the mining industry paying about the highest rate, according to the board. It was pointed out that coal mining companies can pay as high as \$14.50 per \$100 of payroll or a minimum of \$3.63 per 100.

Marsh & Mac...

Continued from page 1

Edison here, but Mr. Otis maintained that the "problem is to get the right climate for selling. It's a lot harder than just getting the employer's approval."

MR. OTIS SAID he didn't think Marsh & McLennan could give "the same deal as the local agent," but he added that the firm is able to stress the "convenience" of payroll deduction.

Once the brokerage firm is able to get "meaningful rates," it will most likely move into homeowners coverages and other personal lines, Mr. Otis added, however, that "it's not the easiest thing to work out."

The move into mutual funds and variable annuities is a "logical extension" of its life insurance and retirement programs, Mr. Otis believes. He explained that the trend in pension plans is to invest a greater amount of the funds in common stocks (40% to 50% of commingled pension funds at banks are invested in stocks), and he said that mutual funds and variable annuities are a further application of the trend.

A COMBINATION OF A pension plan, variable annuity and mutual fund will be able to provide employees with a "one stop vehicle" for their retirement needs, Mr. Otis explained, with the pension providing a fixed dollar payment and the annuity and mutual fund giving a vari-

able payment based on common stocks.

Mr. Otis said Marsh & McLennan is "prepared" to sell mutual funds not operated by life insurance companies if the fund is part of an insurance package, but he said the broker's "main interest" is in offering both funds and pensions through an insurance company.

New Haven...

Continued from page 1

coverage that the airlines feel they need for the new era of jumbo jets, but one insurance expert pointed out that with the high-priced executive talent on board trains in high-density commuter areas, liability could be considerable.

The \$20,000,000 turbo-train liability policy was arranged in four excess layers; the first \$3,000,000 of primary coverage is being absorbed by the railroad insurance underwriters pool. The four excess layers go from \$3,000,000 to \$5,000,000; \$5,000,000 to \$10,000,000; \$10,000,000 to \$17,500,000; and \$17,500,000 to \$20,000,000.

Major underwriters on the risk include Fireman's Fund; Home Insurance; American Home; Employers Group of Boston; American Reinsurance; and General Reinsurance. Lloyd's of London is participating at all levels except the primary one.

The liability policy includes, in part, third-party bodily injury and property damage.

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Correspondents Throughout the World

Cowles offers dependent life cover and unified health plan

NEW YORK—Cowles Communications, publisher of Look and other magazines, along with operations in newspapers, broadcasting and educational book publishing, has added a dependent life insurance plan to its employee benefits package.

The new life option, which went into effect this summer, follows on the heels of a new comprehensive health care plan, which combines a basic and major medical into one program. The medical plan was introduced in 1967.

Formerly, Cowles had a basic hospital and surgery plan, and a major medical plan for most of its employees. The new "all cause" plan provides hospital expense benefits of 100% of the first \$1,000, 80% thereafter. Surgical charges are paid at 80%. All other covered medical expenses are paid at 80% after a \$100 per individual, calendar year deductible. There is a lifetime maximum benefit of \$15,000.

THE EMPLOYEE PLAN is non-contributory, and dependents can be covered for a monthly charge of \$9 for one and \$11 for two or more dependents. Donald Davignon, manager of insurance and credit, said he "felt a comprehensive health care plan was one way we could give employees benefits which would automatically adjust to increased costs of medical care."

Under a fixed-dollar plan, he said, which would pay \$20 a day for hospital room and board, a 20% increase in rates charged by the hospital would have to be paid out of the employee's own pocket and would in effect be providing him reduced benefits in relation to the total cost of his medical care needs. "This is a negative approach to medical care coverage," Mr. Davignon told *Business Insurance*. Since the Cowles plan pays employees at least 80% of their medical bills, it provides an "automatic" increase in coverage as their medical expenses go up, Mr. Davignon explained.

To spread the word of the unified medical plan, Mr. Davignon visited all of Cowles' major offices, where he gave a 45-slide, visual presentation followed by distribution of the benefit booklet. He made the presentation to the

2,000 employees at the firm's Des Moines location in groups of about 50; after his first session, Mr. Davignon ran a tape-recorded version of the benefits explanation.

IN ADDITION, Cowles' employee publication has discussed different segments of the new medical plan in each issue. Mr. Davignon is also assisting the Cowles personnel department on a new employee orientation which will describe "in broad brush strokes" how the company's benefits package works.

Turning to the Cowles' new dependent life benefit, Mr. Davignon said this need has remained "unprovided for" by

most family men. He said life insurance agents aren't much interested selling a \$3,000 or \$5,000 life insurance policy on a wife, especially when they can sell a much larger dollar policy to the husband with the same amount of effort. He said insurers have begun recognizing this need and have started offering "family life insurance policies" as a package.

Under the dependent life policy, workers who earn over \$5,000 and who have elected the maximum coverage for themselves of two times base pay can buy \$5,000 coverage for their spouse and \$1,000 for each of their children for a monthly deduction of \$2.50. The group term life gives employees coverage of up to two

times base annual pay, rounded to the lower \$100.

THE FIRST \$2,000 is provided at no cost to employees, and the additional coverage is obtainable at a cost of 5¢ per month for each \$100 of protection. The group plan coverage includes accidental death and dismemberment equal to the life insurance the employee elected.

Retired employees who have completed five years of service are entitled to continue the contributory coverage, which reduces by 20% annually until the amount reaches the \$2,000 company-paid portion. The company-paid policy continues for life.

Cowles also provides a 24-hour travel accident policy for employees on company business. Coverage is twice base pay with a \$50,000 maximum and a \$20,000 minimum. An extension of the policy provides a straight \$50,000 payment for employees killed as a result of war.



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Union seeks new fringes

DENVER—The Oil, Chemical & Atomic Workers union is seeking full company payment of improved group life insurance, hospitalization and pension plans for 60,000 oil workers.

In proposals made simultaneously to more than 350 firms, the union has asked for 23-month contracts to replace those due to expire Dec. 31.

In addition to the mandatory proposals the union's bargaining policy committee for the oil industry recommended that locals seek management consent for joint union-management safety committees, with power to enforce health and safety rules in each company installation.

The oil union also said it wanted increased pensions for those already retired, to be financed by the company at the rate of 1% for each hour worked by current employees.



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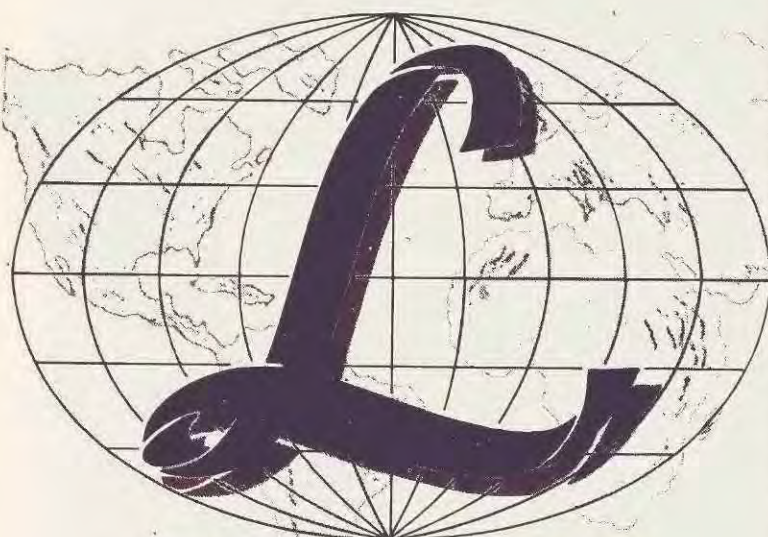
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Dental care, optometry plans nothing new to bartenders' union

By ROBIN MENZ

NEW YORK—New trends in benefit packages—dental care and optometry—are old hat to members of the local bartenders' union, which has had these benefits since 1948.

The first welfare program for the Bartenders Union of New York City was started in February, 1948, with life insurance, optometry, dentistry and surgery. Today the fund includes death benefits, accidental death and dismemberment, hospitalization and podiatry, and covers more than 4,500 bartenders in Manhattan, the Bronx and Staten Island.

Podiatry is more than a luxury; it's a necessity for bartenders who spend most of their time on their feet. Members can receive complete foot care as often as they need at the podiatry center located at the union headquarters. In a one-month period there may be 350 visits.

A UNION MEMBER also has at his finger tips out-of-hospital medical care service plus optical and dental care centers. The dental center located at union headquarters is available to the members and their spouses, while optical is available to members and all eligible dependents.

Services covered under the dental plan include examinations, X-rays, extractions, treatment of all cavities, dental and oral hygiene, adjustment and fitting of prosthetic appliances, and similar treatment customarily performed by a dentist.

The dental center can average as many as 800 visits per month, said Louis Bernstein, administrator of welfare and pension plans for the union. He added that although false teeth are not included as a free benefit, members can obtain a full set at laboratory cost.

The optical center provides members and their dependents with an eye examination and pair of glasses if needed once every two years.

OUT-OF-HOSPITAL benefits are provided by a team of doctors at the medical center. The center offers complete physical, medical and neurological examinations; cardiograph and blood pressure examinations; diagnosis and treatment of all internal and external conditions, plus a number of other services.

Mr. Bernstein said that if the doctors at the center feel a specialist is needed, the medical program will pay part of the specialist's fee.

The surgery schedule pays up to \$250 for an operation performed by a qualified physician. The hospital benefits pay for the first 21 days in semiprivate rooms and half of the hospital's regular charges for the next 180 days.

The medical plan pays up to \$50 for anesthesia, X-ray and laboratory examinations. Maternity benefits pay \$100 for a normal delivery and an additional \$100 for necessary surgical services.

THE UNION BENEFIT program carries a \$2,000 death benefit, including accidental death and a \$2,000 maximum dismemberment benefit. Two-thirds of average weekly salary up to \$50 will be paid for a maximum of 26 weeks for an off-the-job accident or illness.

For a member to be eligible for full benefits he must have worked 11 or more days for a

contributing employer during the month immediately preceding the month in which the claim is incurred. If he works less, his benefits are scaled down accordingly.

A member out on weekly accident and sickness benefits is covered by the same program of benefits which applied when he became disabled, Mr. Bernstein said.

When a retirement program was established in 1956 it gave the New York bartenders' union

the status of being the first bartenders union in the U.S. to pay pensions.

MR. BERNSTEIN, in describing the bartenders' benefits, added that contrary to popular opinion bartending is no more hazardous a job than any other normal occupation. Insurance companies at one time tended to give bartenders high rates but after a year or so the insurers adjusted rates to a lower level. ■

letters

Continued from page 12

sional approach in the area of insurance.

Frank Chinn

Insurance Manager, Lone Star Gas Co., Dallas, Tex.

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Kevin M. Sheridan

Staff Assistant to the Director of Employee Benefits, Walter Kidde & Co., Belleville, N.J.

John Street speaks

Editor's note: The following letter was written to Prof. Bob A. Hedges of Temple University by John Street, a pseudonym for a Business Insurance contributor to our Perspective section.

Dear Prof. Hedges:

Your inquiry as to my whereabouts might well prompt the facetious reply that I can be found just east of Broadway, between Fulton Street and Maiden

Lane. However, since my review was successful in stimulating you to buy "The New Industrial State," I should avoid such a frivolous response. Also, I am pleased that someone actually reads book reviews.

The reason for anonymity is that this allows me to be somewhat more critical of various aspects of the insurance business, including specifically the brokerage and underwriting areas. As you are well aware, we face a significant capacity problem, and controversial criticism of underwriters, whether justified or not, only serves to shrink even further our markets, if such criticism can be traced to a particular person and particular firm.

As you may have surmised from my two previous reviews, I believe that the insurance industry is going through a major and necessary upheaval. The creation of holding companies, mergers with noninsurance companies, the interest in captive companies and the growth of "risk management" as an important function of financial management are all indicative of this upheaval. It's high time we had some new ideas and imagination.

A maverick is not always appreciated, but his heckling can be effective in stirring stagnant minds. This I hope I can do, and I would certainly appreciate any guidance or comments you could give me.

John Street

New York, N. Y.

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Not looking back, but with this in mind, *Business Insurance* casts an editor's eye on current trends in the multi-billion-dollar transportation field. On January 6, BI will offer an in-depth report on "now" problems, tomorrow's solutions, in a special start-of-the-year issue!

BI will explore timely topics like these: ■ Intermodal transportation, where cargo is shipped by a combination of carriers (truck, rail, ship, barge), raises questions on how to determine who is liable for damages that may arise. ■ Containerized pallets for storage/shipment were expected to reduce break-

age/pilferage. Critics say the system often results in bigger losses than ever. Containerization, a bane or boon? ■ Major airports have been hit by a series of cargo thefts. The airlines formed a security bureau in N. Y. to stop losses. What steps are the bureau and other authorities taking to reduce thefts? ■ What are transportation trade associations (trucking, air, railroad, shipping, bridge, tunnel & turnpike) and others doing in the area of safety and loss prevention? ■ What are the dangers to the public in high risk cargos (nuclear reactors and toxic/explosive gases), and what precautions are taken to minimize the hazard? ■ An interview with Alan S. Boyd, head of the new Transportation Department in Washington, D. C., about the coming mass transportation system and the insurance problems it will bring. ■ How will the insurance market handle the "jumbo" risks of tomorrow, including the 747 (350 passengers) and SST aircraft, giant oil tankers and the 150 mph "bullet" trains? ■ What auto fleet users are doing to reduce accidents and promote safety on the part of their

drivers. ■ Waterfront crime, and what can be done to break the cycle of shippers passing on losses to insurers, who in turn increase premiums? ■ Interviews with corporate risk managers on their major transportation problems!

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Retiree groups offer life and health plans

NEW YORK—A way has been found to offer group life insurance to older people on a non-medical basis, along with a group medical program that "goes above and beyond Medicare."

The National Retired Teachers Assn. and the American Assn. of Retired Persons offer to members group life coverage and what's called "Coordinated care and "Medi-gap." The program so far has been very successful," said Walton Kurz, vp of National Assn. Plans Inc., consultant to the two groups.

He added that benefits from the three programs are payable in addition to what the retiree gets in the way of employee benefits from his former employer.

Through the coordinated life plan, underwritten by Colonial Penn Life Insurance Co., Philadelphia, Mr. Kurz said, coverage is given despite physical conditions. Eligibility begins at 55.

If the policyholder dies within three years of issuance, as a result of an accident, his beneficiary gets the face amount plus a premium at 5% interest. If he dies as a result of sickness during the "benefit builder" period of two or three years, the policy pays back the premium at 5% interest.

After two or three years, depending on the insured's age, a beneficiary collects full face value of the policy.

If a policy is taken out at 65 or

older, the policyholder has a two-year waiting period before a beneficiary can collect full face value.

The benefit, Mr. Kurz said, is based on age at time of issuance.

For health insurance coverage, a member of either association must wait until 65 if a male or 62 if a female. However, according to Mr. Kurz, the age may be lowered to 55 next spring.

THE TWO PROGRAMS offered are what's called "Coordinated Care" and "Medi-gap." Coordinated Care, Mr. Kurz pointed out, "goes above and beyond filling in for Medicare"; it's divided into several plans so individuals can arrange coverage to best suit their needs.

The in-hospital benefits will pay either \$6,587 for 365 days or \$100 a week up to 52 weeks. The choice depends on how much premium an individual wants to pay. The 52-week plan costs \$6

while the other plan costs \$8.50. However, the 365 day plan pays up to \$200 surgical expenses for each accident or sickness.

The major medical plan under Coordinated Care pays up to \$2,500 per calendar year with a \$10,000 lifetime limit. It pays 80% of doctor visit expenses after a five-visit deductible.

After a \$50 deductible, major medical pays 80% of prescription drugs; \$10 per shift for in-home nursing care by a licensed graduate registered nurse or for a licensed qualified nursing home; medical supplies and equipment; diagnostic laboratory and x-ray up to \$100 per procedure, and consultations up to \$25.

MR. KURZ ADDED that if prescription drugs are purchased through AARP's drug service in Washington, then 100% of costs are picked up. He said that 5,000 to 6,000 prescriptions are filled per day by the service.

This program, he said, is also excellent coverage for retirees who may not yet be covered by Medicare. Pre-existing conditions are covered after a policy has been in effect six or nine months, depending on the plan selected.

A lower-cost program, Medi-gap "is expressly tailored to provide benefits for long-term spells of eligible hospitalized illness and to supplement Medicare for surgery and physicians' services in connection with surgery," he said.

For instance, Medicare requires a patient to pay \$10 a day

Fund American Cos., American Express merger completed

SAN FRANCISCO—Stockholders of both Fund American Co. here and American Express, New York, have approved merger of the two firms.

Merger is to be achieved through creation of a new American Express subsidiary which will acquire substantially all of the assets and business of Fund American in exchange for new convertible preferred shares of American Express.

Receipt of a favorable tax ruling from Internal Revenue Service is expected shortly.

The business of Fund American after closing will be operated by the subsidiary.

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