

Blue Cross termed 'money conduit'

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business insurance

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



The blast that killed 25 workers in the Thiokol Chemical munitions plant, and injured 49 others, may result in \$500,000 in death benefit payments alone by Aetna Life & Casualty, the workmen's compensation carrier. —UPI telephoto

For the injured: \$50 a week

BRUNSWICK, Ga.—One aftermath of the explosion and fire that raced through Thiokol Chemical Corp.'s plant here is that the company's workmen's compensation carrier, Aetna Life & Casualty Co., may well be faced with \$500,000 in death benefit payments alone.

The blast leveled a munitions building, killing 25 persons and sending 34 more to the hospital. Eight of those were listed in critical condition. Fifteen other persons were injured but released from the hospital after minor treatment.

The explosion, the worst industrial accident in terms of loss of life in recent memory, occurred in a building where magnesium trip flares were being produced for military use in Southeast Asia.

A source at Aetna reported that his company had first-dollar coverage on Thiokol.

HE FELT THAT it was too early to estimate how much the insurer would have to pay in compensation benefits because "many of those in

the hospital are burned and burns are protracted. Payment could go on for quite a while."

Under Georgia's workmen's compensation law, the maximum death benefit is 60% of weekly wages up to a maximum of \$50 a week. Those with temporary total disabilities get \$50 a week in disability benefits. (A report on workmen's compensation begins on page 46.)

"The widow or dependent is entitled to 85% of that \$50 for 400 weeks, or \$17,000," said James C. Pullin of the Georgia state workmen's compensation board. "There is a burial allowance of \$750 and a limit of \$5,000 medical payments unless the injured man dies or his treatment is protracted. Then there is no limit. A permanent total injury will bring the man \$18,000."

All the dead and injured were employees of Thiokol and eligible for workmen's compensation under Georgia law.

Mr. Pullin estimated total compensation costs at "an absolute minimum of \$1 million." ■

Whopping insurance costs hit home

CHICAGO—Crain Communications, Inc., publisher of *Business Insurance* and other magazines, has been hit with a whopping 61% increase in health insurance premiums. The boost, which is being passed along by Connecticut General Life Insurance Co., appears to be symptomatic of problems facing practically all employers as they renew existing health contracts this year.

Crain/Com is insured under a trusted group plan sponsored by the American Book Publishers Council Inc. for its members and members of related associations. Existence for 25 years, the plan administered by Herbert L. Jamison & Co., New York broker.

The last premium increase the group contract faced in 1966 when the Connecticut carrier increased rates 25%. This year, that increase was not so much to poor under-

writing results as it was to the anticipation that results might become unprofitable in the future.

AS IT TURNED out, CG underwriters did not anticipate enough, for they now report that the plan last year ran up a "deficit of significant proportions." Moreover, underwriters are now predicting that the claim loss picture for this policy year indicates there will be another sizeable deficit. According to CG, these are the first years in the 25-year history of the plan that deficits of "significant proportions" have occurred. In fact, in practically every other year dividends were passed among the approximately 200 publishing companies participating in the association-sponsored program.

In a letter to Crain Communications' executive vp, Myron A. Hartenfeld, broker Herbert L. Ja-

mison Jr. noted:

"It may be helpful to you, in putting these premium increases in perspective to know that from April 1, 1970 through Dec. 31, 1970 (the first nine months of this policy year), medical claims paid to your employees and their families totaled \$26,753 while our estimated projection of your premium for the full policy year (April 1, 1970 to April 1, 1971) is \$26,290. When you project these claims paid to April 1, 1971, including a factor for continuing inflation, and add the necessary claim reserves and overhead expenses the magnitude of the problem becomes clear."

Crain/Com's health insurance plan, according to William A. McManus III, the Jamison partner who services the account, is "typical" of most of those subscribed to by members of the
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Vast Los Angeles earthquake losses 'largely uninsured'

By STEPHEN GILKENSON AND PATRICK THOMAS

LOS ANGELES—Persons who estimate such things were talking in gargantuan billion-dollar terms after a major earthquake rumbled through this sprawling city last week. However, it is unlikely that insured property damage will amount to anything like that caused by a well-placed hurricane in the Gulf Coast states.

Nevertheless, southern Californians are likely to pay dearly for that horrible earth-shaking minute that occurred at 6 a.m. Feb. 9. Municipalities, private citizens and commercial interests were all hit—and in that order.

The reasons for this are several. For one, the bulk of property damage was in the San Fernando Valley area, which is made up largely of bedroom communities. Homeowners generally do not buy earthquake coverage because of steep premiums and high deductibles. Municipalities—also likely to be uninsured for earthquake upheaval—will sustain the most catastrophic losses. Highways have been uprooted and a

major reservoir dam in the valley area will cost millions to repair.

COMMERCIAL interests, on the other hand, appeared to be somewhat shaken but not financially devastated by the quake. A *Business Insurance* survey of several companies with facilities in the Los Angeles area revealed that some have earthquake endorsements to their difference in conditions policies, some self-insure such potential losses and others complain of a lack of capacity for the coverage.

One company hit, although the exact extent of the damage had not been determined by midweek, was the National Broadcasting Co. Its studios in Burbank, somewhat southeast of the quake's center in Newhall, sustained cracked walls, glass and plaster damage. Buildings appeared to be structurally sound, however.

NBC does have an earthquake endorsement to its DIC policy, according to a network source. Employers—Commercial Union
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Ask new Wilson writ

ST. LOUIS—Kenneth Heinemann, assistant U.S. attorney here, was to seek a superseding indictment of Philip M. Wilson and three of his associates on mail fraud counts before the U.S. district court on Feb. 12.

Mr. Wilson, Charles Earl Brown, Monte Schuff and William E. Fox were to go on trial Feb. 8 on a previous indictment that contained 16 counts of mail fraud. The four are to appear in federal court here on Feb. 16 on the old indictment and may then face arraignment on the new charges.

Each of the four is free on a \$20,000 bond. Among companies operated by Mr. Wilson and his associates were Farmers and Merchants Mutual Insurance Co., Banker Security Mutual Insurance Co. and Trans-American Excess Underwriters Ltd., all headquartered in St. Louis. *Business Insurance* first disclosed their illegal "minimutual" operation in December, 1968.

spotlight report

In a special report, pages 46 through 54, *Business Insurance* has zeroed in on the problem of lagging workmen's compensation laws and administration. The debate over the possibility of a federal system to replace individual state laws is fierce and the pros and cons are reviewed in several articles. Representatives of the insurance industry speak out in one article in favor of a no-holds-barred effort to salvage the state system by meeting basic objectives for workmen's compensation laws in all states.



Whopping ...

Continued from page 1

book publishers council. It is a semi-private hospitalization program, with the first \$2,000 in hospital cost paid in full by the insurer. Thereafter, 80% of the excess is covered up to a maximum of \$25,000 in any one benefit period. Similarly, 80% of physicians' bills are paid after the insured bears the first \$50. The plan is financed by the employer for the employee, with dependent coverage available on a contributory basis.

UNDER TERMS of the contract that expires April 1, premiums shape up as follows: the company now pays \$74.16 per year for each employe. An employe with dependents costs \$264.48 annually. Of that amount the company pays \$74.40 with the employe share of \$190.08.

Under the new quotes for a policy that would go into effect April 1, those figures have jumped thusly: an employe with no dependents will now cost \$119.92 (an increase of \$45.76 per year); an employe with depend-

ents will cost \$427.64 (an increase of \$163.16).

According to Mr. Hartenfeld, Crain Communications is now investigating several alternatives to the Connecticut General coverage. One such alternative under consideration, he noted, is a move to Blue Cross/Blue Shield.

Mr. McManus, likewise, has also been investigating alternatives for book publishing clients. As yet, however, none appear to compare favorably with the CG quotes for the new policy.

THE NEW YORK broker related one example where he was asked by a publishing house to request quotes from other insurers. Out of seven companies from which he sought figures one refused to quote on the business. The remaining six submitted figures that were significantly above those requested by Connecticut General.

One particular reply from an underwriter was indicative of what has been happening in the health insurance field where the competition for business is somewhat less than hot these days, he said.

Sliding a piece of yellow legal

paper across his desk, Mr. McManus noted that insurance policy quotes sought by brokers usually come neatly drawn up and bound in fancy binders. Not this one. It was scrawled on the yellow paper and a "note from the desk of . . ." was attached to the front of it. Said the note from the underwriter whose company Mr. McManus preferred not to identify:

"I'm embarrassed re: these rates, but you indicated an interest in at least seeing them. If they're at all appealing do let me know and I'll be glad to put them in more presentable and final form."

TO THIS MR. McManus added his personal postscript:

"I've never personally gotten involved in the fire, casualty, auto and workmen's comp part of this business because, well, it just hasn't been my bag. For years I've been sitting in meetings here and listening to my partners complain that they couldn't place business at reasonable rates. I'd just sit back and smoke when these discussions were going on. Now I find that it's happening to me," he said of the capacity crunch in health insurance lines.

Just what Crain Communications will do come April 1 is not completely certain at the moment. However, it will likely take its knocks, the knocks being in the form of significantly increased health insurance premiums no matter who underwrites the policy.

Said Mr. Hartenfeld: "Companies (employers and insurers alike) should be feeling almost desperate about the skyrocketing costs of health care."

Mr. McManus, on the other hand, feels that the situation is more or less out of the control of employers and insurers. "I don't think there is anything an em-

ployer can do that would influence Mount Sinai Hospital, for example, to drop its costs. Personally, I think the only one that can do anything is the federal government." But, he added, just how the fed should go about it is another story.

Health care delivery system a 'monster'

HARRISBURG, Pa.—Blue Cross plans in Pennsylvania have come in for some sharp digs very early in the term of Dr. Herbert S. Denenberg, new insurance commissioner in the state.

Dr. Denenberg has called public hearings in Philadelphia March 17, 18 and 19 on a request for a state increase by Blue Cross of Greater Philadelphia. At the same time he asked all Blue Cross plans in the state (and, presumably, private insurers as well) to undertake a study of proposals to lower costs, improve patient care and increase consumer participation in decision making.

"Rate increase for Blue Cross may be inevitable," he said, "but a comprehensive effort must be exerted to contain costs. Our health care delivery system is a Frankenstein monster built on Rube Goldberg principles, but we cannot surrender to despair. We must work to improve the system today and in the long run as well."

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Aetna sees era of group estate plans

HARTFORD—Aetna Life & Casualty is looking forward to the day when its estate planning analysis (initially slated to be offered to the employer for his key men) will help the employee develop a sophisticated mix of life insurance and equity products to meet his own individual needs.

As are many of the other large life companies, Aetna Life is shopping among a whole range of alternatives, including variable life insurance (of the New York Life vintage), variable annuities and mutual funds to fill out the gamut of the individual's investment and protection objectives.

"We're developing a brand new unit here called the sponsored marketing division," John K. Luther, director of advanced underwriting sales at Aetna told *Business Insurance*. He explained that "sponsored marketing" referred to the process whereby an agent or a team of agents from the insurance company would persuade an employer to sponsor their offering of individual life and other financial services products on an individual basis to the sponsor company's employees.

THIS NEW marketing strategy calls for the agents' presentations to be made on the company premises and on company time. In addition, Mr. Luther explained that the tactics also call for the employees to pay for the individualized products via payroll deduction.

Mr. Luther took note of the fact that there is an increasing sophistication among employees today. Rather than acquiescing to the traditional, run-of-the-mill ordinary group life policy, today's employee seems more concerned about protection of his survivors on a regular, long-term basis after his death, and in value products that he can cash in if need be—such as mutual funds, as opposed to life insurance, he said.

"We must be responsive to his financial needs if we're planning to stay in the market," Mr. Luther said; "we will have to spend more time helping him find the proper use or mix of life insurance and equity products, for example."

He also pointed out that Aetna's new equity product subsidiary, Pollack, is considering straight salary savings alternatives as well as combined life/mutual sales.

"YOU'VE CAUGHT us at a bad time," said Mr. Luther, echoing what seems to be the favorite refrain of the life insurance industry in the last months. "We simply haven't made any of these decisions as yet. We're still considering a very wide selection," he said. Mr. Luther explained that while Aetna had developed the new marketing strategy and its accompanying structure, just what "sponsored marketing" was going to sell in the future hasn't been finalized as yet.

These comments were in keeping with most of the other life companies talked to by *Business Insurance*. Most of them seemed to be in a state of flux with regard to marketing plans for life insurance. No one would admit the possibility that existing life insurance in force might be jeopardized by their policyholders' increasingly changing wants and needs in protection for themselves and their families.

Computer session eyed by BI, Computerworld

CHICAGO—A one-day workshop on the protection and insurance of computers is being considered by the publishers of *Business Insurance* and *Computerworld*, a weekly newspaper serving the computer management profession.

The workshop would cover the important safety, security and insurance considerations that play a part in risk-free computer operations. It would serve the interests of risk managers of corporations that use computers as well as insurance carriers, brokers and agents that employ computers to process insurance policies and claims.

Among topics contemplated for the workshop are fire protection

for computer installations, including information on actual case histories of instances in which computers were saved or destroyed under various systems of protection; off-premises storage programs for computer tapes, and innovative property and liability insurance plans developed to protect installations and operations.

This down-to-earth, shirtsleeve workshop would include lecturers, panelists and moderators carefully selected from the nation's foremost authorities on computer risk management, loss prevention and insurance.

THE ONE-DAY workshop, in Chicago, would inform you of the latest techniques in the protec-

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tion of computer equipment and the storage of computer data. Registration fee for the full day's program (including breakfast, luncheon and two coffee breaks and a workshop note-

book) would be about \$90, with reduced rates for multiple registrants from the same company. If you are interested, please use the coupon on this page and mail it in by March 1.

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washington watch

Nixon suggests insurers pay VA hospital charges

WASHINGTON—President Nixon's "expansionary" budget, while increasing government spending in many areas, contains a number of proposed cutbacks, one of which would require private health insurance policies to pick up the tab for some \$80 million a year worth of medical bills currently being paid by the federal government.

In his message to Congress concerning the budget, President Nixon has again asked the body to approve legislation that would require private insurers to reimburse the Veterans' Administra-

tion for care it provides to their policyholders.

In most cases, insurance policies presently bar reimbursement to a veteran in a VA hospital.

* * *

The President also again asked Congress to approve legislation to increase benefits under the Longshoremen's and Harbor Workers' Compensation Act to a level "more in line with increased wages and living costs."

The Administration proposal, however, is a two-edged sword, in that it also seeks to limit the recovery of damages by employees from their employers—including shipowners—to those specified under the act.

This, he said, would eliminate situations in which longshoremen are permitted to recover damages in suits against shipowners, which usually require the longshore employer to indemnify the shipowner for the damage paid.

* * *

PRESIDENT NIXON has on his desk the task force report on disaster insurance problems, but has given no indications when—or if—he plans to release the recommendations to the public.

The President appointed the task force in early 1970 in response to Democratic threats to push legislation allowing the federal government to provide all-risk coverage for disasters.

Sen. Birch Bayh (D., Ind.) led the campaign following hearings he held on insurance company claims policies after Hurricane Camille.

* * *

Sen. Edward Kennedy (D., Mass.) will lead the fight in the Senate for national health insurance. He lost the job of Senate whip to Harry Byrd (D., Va.) and, reportedly as a sort of consolation prize, fellow liberal Sen. Harrison Williams (D., N.J.), new chairman of the powerful labor and public welfare committee, awarded Sen. Kennedy the post of chairman of the health subcommittee, where national health legislation will begin.

Capital Hill insiders had been certain Sen. Williams would take the health subcommittee chairmanship himself—a coveted spot for obtaining national visibility in this "health year" on "The Hill."

Sen. Kennedy has already made plans to get the most out of the job. He recently introduced a major national health insurance bill and pledged—as chairman of the health subcommittee—to "take the issue to the people in all parts of the country" in a "great national debate."

HIS BILL HAS an awe-inspiring amount of support. It is a compromise between the United Auto Workers' proposal, which Sen. Kennedy introduced last Congress, and the AFL-CIO bill, introduced by Rep. Martha Griffiths (D., Mich.).

Twenty-two senators co-sponsored the compromise bill with Sen. Kennedy, while 64 Congressmen joined Rep. Griffiths in introducing the bill in the House.

Sen. Williams had promised that his labor subcommittee will get to work right away on pension reform. His cohort in this effort is Sen. Jacob Javits (R., N.Y.), who recently introduced

Continued on page 5

Touchy Question #29

Big deductibles ought to produce big premium savings, right?

They do—but only if the premium saving is measured not in dollars, but in added insurance purchasing power.

Deductibles work hardest when they're closest to the ground. The cost of creating and handling claim files is a dead loss to all concerned—the insurance buyer, the claimant, and the carrier. Nobody benefits from it except paper manufacturers.

Under any coverage where there are more small losses than big ones, therefore, the first \$100 of a \$1,000 deductible may produce a larger cash saving than the remaining \$900. If the exposure is preponderantly to very high or total loss, a deductible may produce little or no premium reduction. It doesn't make much sense to incorporate a deductible provision in a loss policy on a dynamite factory or a diamond ring. The deductible would just be underinsurance.

The question the risk manager should really ask himself is not "How much premium savings will this deductible produce?" but "Where will those dollars buy me the most protection? At the bottom of the policy? Or at the top?"

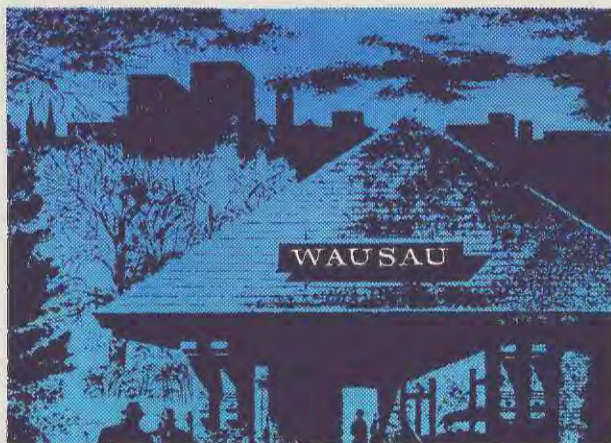
For a handy example, let's take a representative group hospital insurance plan,

providing room-and-board benefits of \$30 a day for a maximum of 31 days, with therapeutic charges limited to \$1,000. With no deductible, a typical rate for such a plan is \$6.17 per month for a single employee; \$17.66 for a family man.

Now see what happens if we apply a \$50 deductible. The rate for the single man drops to \$5.06 (18% reduction); for the employee with dependents, it goes down to \$13.29 (25% reduction). But the really important change is that the money available for therapeutic charges jumps from \$1,000 to no limit at all.

In other words, by contracting to pay the first \$50 at the bottom of the hospital bill, we have taken the roof right off the top. There can be no question which plan affords the greater protection. Nobody in this day and age trembles at the prospect of a \$50 loss. What scares any prudent wage-earner is the thought of hospital bills running into a year's pay.

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Doctor urges:**Use health insurance, not malpractice cover**

PITTSBURGH—A Cleveland doctor-lawyer says medical patients should use insurance coverage and not the courts to gain compensation for "poor results" from a physician's treatment.

Dr. Carl W. Wasmuth, in an interview here, decried the "increased number of malpractice suits and the enormous amount of verdicts against doctors."

He also expressed concern about the escalating costs of malpractice insurance for the doctor.

DR. WASMUTH contended that the patient should be compensated for the "poor results" from prepayment insurance plans like Blue

Shield and Blue Cross.

He noted that the increase in malpractice suits has contributed to the rising costs of medical care.

"Money spent by the physician for protection against malpractice claims is a business expense being passed on to the patient," Dr. Wasmuth said.

He felt his plan would cut the number of malpractice suits to a minimum because a dissatisfied patient could seek redress without waiting four or five years for a court trial.

THE DOCTOR pointed out that the insurance coverage has proven a success at the Ross-Loos prepayment clinic in Los Angeles.

He assured that a prepayment insurance contract could bind the patient to arbitration and preclude malpractice litigation.

According to the plan, a patient of the clinic who has a "poor result" claim submits it to an arbitration panel for a settlement.

"So far," Dr. Wasmuth revealed, "not a single case at the clinic has gone to court."

HE SAID his proposal does not intend to deny any patient "his day in court" but merely to reduce the number of malpractice suits and the time involved in settling claims.

Dr. Wasmuth conceded that there was little likelihood that Blue Shield or Blue Cross would consider such a plan, but insists it has merit.

"Most physicians would prefer to spend their time treating the sick rather than appearing as witnesses and being sued," he said.

Dr. Wasmuth, who is chairman of the American Medical Assn.'s committee on medical-legal problems, was here as a speaker at the national medical malpractice seminar at Duquesne University. ■

Expect mutual fund cover soon

MILWAUKEE, Wis.—Insurance on long-term mutual fund investments is expected to be available in the near future, according to Wiesenberger Financial Services, a New York firm owned by NN Corp. here.

Harleysville Mutual Insurance Co. of Harleysville, Pa., will be the insurer, according to Wiesenberger, a reporting firm on the mutual fund and financial services industries. NN Corp. is an insurance holding company.

Wiesenberger said the Harleysville program required the reinvestment of dividends and capital gains throughout the term of the insured investment account. The program was developed by Louis Nerenberg, president of IMF services Inc., Philadelphia.

The insurance can be written in terms of 10, 12.5 or 15 years at an aggregate cost for the full term of 6% of the total investment, the report said. Inquiries have been received from mutual fund distributors representing about 50 funds and the program will be available in most states.

Investors will be protected for the specific periods against redemption values falling below the per share asset value at the time of purchase, according to Wiesenberger. ■

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for the record

ABA experimenting with group legal assistance

SHREVEPORT, La.—Two cents per work hour is buying a group legal assistance plan for 600 members of Laborers Local 229 here.

The program is offered by the American Bar Assn., which is putting in \$30,000. A \$75,000 grant is expected from the Ford Foundation. The program will be conducted for two years on an experimental basis by the ABA.

The plan operates much the same as hospitalization insurance and pays up to \$325 a year per family in routine legal fees, with a limit of \$25 for a legal consul-

tation. Major legal expenses, including civil suits or court defense, are covered up to \$800 a year.

According to the president of Local 229, union members are free to select any lawyer they wish.

More four-day workers

FAIRMONT, Minn.—Armour & Co., a Greyhound Corp. subsidiary here, and Sparta Spoke Co., Sparta, Tenn., can now be added to the list of four-day work week en-

thus:asts.

At Armour's frozen food plant here 250 workers are putting in 10-hour days under a contract negotiated with the Teamsters Union. The firm is considering similar changes at other plants.

Sparta has 95 workers on the four-day schedule but office workers are putting in the usual five-day week.

Former shareholders win class action suit

LOS ANGELES—More than 3,000 former shareholders of Electronic Specialty Co. here have won a \$1.2 million class action suit.

The plaintiffs charged that they were misled by company officers into holding on to stock that eventually dropped in value.

After legal fees the settlement breaks down to \$2.09 per share and \$53.55 per \$1,000 debenture.

Who is liable?

CHICAGO—Lawyers for Chicago's 30-story Civic Center and its architects are trying to decide who is liable for replacing more than 300 windows that have broken in the building since occupancy.

In one incident late last year a section of a 30th floor window fell on the trunk of a passing auto. William R. Dillon, counselor for the city's public building commission, told *Business Insurance* that damage resulting from falling glass is covered by the commission's liability insurance with United States Fidelity & Guaranty. The policy has a \$5 million limit.

A spokesman for Isham, Lincoln & Beale, lawyers for the building's three architectural firms, said that errors and omissions coverage with a \$5 million limit is in effect. Continental Casualty is the carrier.

Temperature changes, causing corrosion of window caulking, have tentatively been blamed for the glass problem and the commission's executive director said it will be six months before it is known whether recent repair work will prevent further breakage. In the meantime, the commission is paying for the glass replacement; they will be reimbursed by Continental Casualty if it is decided that the architect is at fault.

Checking

U.K. bridges

LONDON—Technical experts are to check the design technique for three major bridge projects in Britain because of the collapse of the Yarra bridge at Melbourne, Australia, in October. (*Business Insurance*, Nov. 9.)

They will study the "steel box girder method" used in their construction, and will report back to government ministers as soon as possible on any safety aspects that might arise.

The projects are at Bristol, Milford Haven, and Erskine, and the inquiry is felt to be important because part of the Milford Haven bridge collapsed last June, though work has now been resumed.

All the design work for these bridges has been done by the London firm of Freeman Fox and Partners, who also blueprinted the Melbourne bridge, which carried a \$4 million risk cover (*Business Insurance*, Oct. 26) when it split in two. A spokesman for the firm said: "We welcome the British government inquiry as we are confident that our design will be found to be a sound concept for bridge building."

Ex-chief to head fraud association

CHICAGO—The 38-year-old former police chief of New Haven, Conn., James F. Ahern, has been named to head the newly formed Casualty Insurance Fraud Assn., which will spearhead a nationwide drive against fraudulent insurance claims.

Mr. Ahern retired from the New Haven force because of a painful neck injury suffered 12 years ago and because of difficulty in working successfully with the Board of Police Commissioners.

The former chief created a stir of sorts in the Connecticut city when he was granted a \$10,500-a-year disability pension after stepping down. The step up to the Chicago-based association will reportedly earn Mr. Ahern \$40,000 a year under a five-year contract.

Bond is an appropriate reward

NEW YORK—Chalk one up for the alert 13-year-old son of a Continental Insurance Co. claimant.

Continental carries the banker's blanket bond cover on Irving Trust Co., which late last month discovered that five \$1 million Treasury bonds were missing. The boy, Vincent M. Blazewicz, with his father, went to a warehouse where Irving Trust stores trash from its security departments. After sorting through piles of refuse for several hours the boy emerged with the five bonds.

His reward: A bond of somewhat smaller size than those he found. And, of course, the points he scored for his dad. ■

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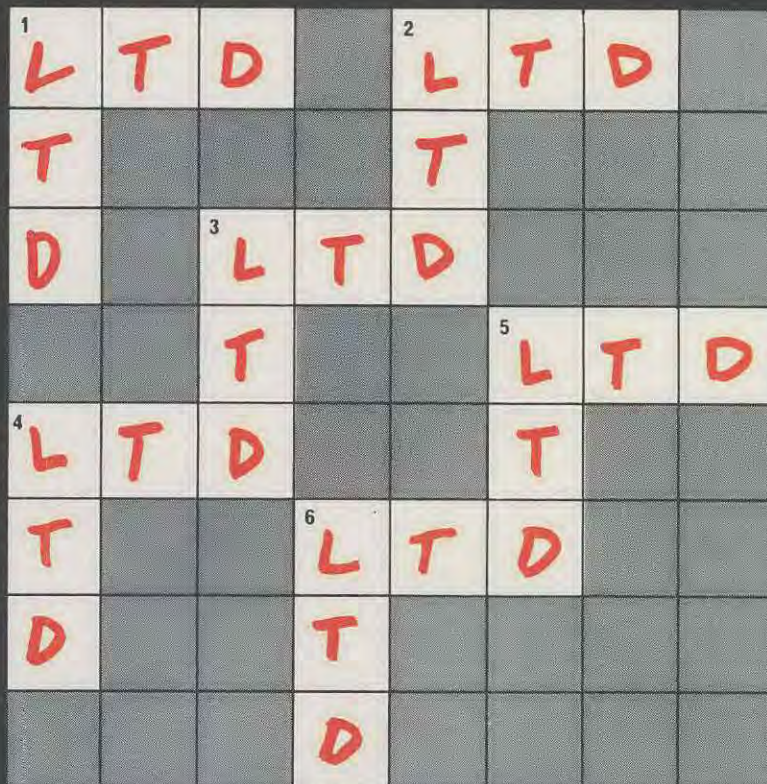
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(for the employee)

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

• The International Division of Chubb & So, 90 John St., New York, N. Y. 10038, has made available new brochures listing its overseas facilities. For copies write the company.

• **How to Establish a Flexible Corporate Retirement Plan** is a booklet by Certified Portfolios describing the pension and profit-sharing plans available from the firm. CPI are originators and administrators of tax-sheltered pension and profit-sharing plans. Direct requests to Charles R. Billman, president, CPI, 500 Newport Center Dr., Newport Beach, Cal. 92660.

• The Mosler Safe Co. has published a **Condensed Insurance Manual** describing construction of and how to identify fire resistive and burglar resistive safes, vaults and lockers. The publication also gives comparison of Underwriter's Laboratories Labels and money and securities broadform and merchantile safe police base premiums. For a free copy write William R. Needham, Dir., Advertising & Public Relations, The Mosler Safe Co., 1561 Grand Blvd. Hamilton, O. 45012.

• Towers, Perrin, Forster & Crosby Inc. have made available a reprint of the article **A Systems Approach to Total Compensation** which appeared in *Business Management* by Gordon Wolf and Mario Leo, consultants with the firm. The article discusses a computer approach to employe benefits covering simulation techniques, efficiency index and common cost basis. For a copy write the firm at Three Penn Center, Philadelphia, Pa. 19102.

• Mardix Security Systems has published **Personnel Entrance Control with Videoguard Entrance Model VG-30** explaining the advantages and cost savings derived from use of their system. The system enables one operator-guard to control several entrances from a single location with a remote-control console. For a copy write Mr. R. C. Hix at the firm, 900 Stierlin Rd., Mt. View, Cal. 94040.

• **Information Systems for Insurance Companies** is a descriptive brochure detailing effective, economical information management programs utilizing Kodak Microfilm Systems. The brochure explains the benefits of microfilm and the systems Kodak has designed for the insurance field ranging from computer compatible microfilm systems to simple systems for policy application files. For a copy write D. I. Patterson, Business Systems Markets Div. Eastman Kodak, 343 State St., Rochester, N.Y. 14650.

• National Compensation Services Inc. has available to prospective self-insurers a brochure describing the firm's services, cash flow charts depicting a comparison between self-insurance and insurance, a loss pay-out chart showing the cash advantage to a self-insurer and a sample feasibility study comparing the new cost of an insured program with that of a self-insured program. For more information write the firm at P. O. Box 2345, Pleasant Hill, Cal. 94523.

• **DBL-Place It And Forget It With Security** is a folder describing its program and rates for disability benefits. For a copy write Marianne Zinkus, Public Relations, Security Mutual Insurance of New York, 500 Grand Concourse, Bronx, N.Y. 10451.

• The National Institute of Mental Health prepared a summary of the substance and implications of Medicare and Medicaid as they relate specifically to benefits for psychiatric care as an aid for those in a position to advise people about mental health benefits available to them. **Mental Health Benefits of Medicare and Medicaid** is 45 cents from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• Towers, Perri, Forster & Crosby has released **System 7**, a booklet describing their approach to design, organization, production, distribution, and evaluation



of total compensation employe statements. For a copy write Joseph A. Banik Towers, Perrin, Forster & Crosby Inc. Three Penn Center, Philadelphia, Pa.

• **Umbrella Liability Insurance—What Is It?** is a booklet offered by the Grain Dealers Mutual Insurance Co. offering a concise description of catastrophe liability insurance, why it is needed and who needs it. Included are specific coverage charts showing how personal or commercial umbrella provides vital supplementary protection for individual or business firms. For a free copy write Larry J. Welch, at the firm, 1752 N. Meridian, Dept. NCL, Indianapolis, Ind. 46202.

• **Group Benefit Selector** is a concise guide to group insurance programs and benefits. The fold-out provides a checklist for group term life, group/ordinary life, group family income, creditors life, accidental death and dismemberment, disability income, basic medical, major medical and dental. For a copy write the Occidental Life Insurance Co. of California, Box 2101 Terminal Annex, Los Angeles, Cal. 90054.

• A guide to the mass or collective marketing of automobile insurance, including the history behind the movement, thorough explanation of plans being offered, a list of the companies offering plans, advantages and disadvantages.

pages to the consumer, affects by and on labor unions, affect on the employer, affect on the agents, legal ramifications and an up-to-date listing of rulings regarding mass or collective marketing. **Mass Merchandising of Automobile Insurance** is available for \$10 from Insurors Press, P.O. Box 1430, Santa Monica, Cal. 90406.

• **General Fire Extinguisher Corp.'s Fire Extinguisher Selection Guide** is a foldout containing color illustrations of the company's line of hand portable and wheeled fire extinguishers including models in dry chemical, CO₂, water type, Freon 1301, soda acid and foam. For a copy write G. N. Shields General Fire Extinguisher Corp., 1685 Shermer Road, Northbrook, Ill. 60062.

• A booklet dealing with **The 10 Commandments of Executive Compensation** has been released by Towers, Perrin, Forster & Crosby Inc. It deals with today's environment, taxation, cost effectiveness, reward equals risk and individualization. For a copy write Joseph A. Banik, Towers, Perrin, Forster & Crosby Inc. Three Penn Center Philadelphia, Pa. 19102.

• **GP-10/33** is a foldout describing group protection for small companies employing 10 to 33 employes by Northwestern National Life Insurance Co. The booklet describes the plan designed with protection against the loss or reduction of employes' earning power, whether caused by death or disability, and against most health care expenses, major and minor. Included is a schedule of benefits available and their descriptions along with special features to the major medical insurance including the package, minimum volume, eligibility, participation and maintenance requirements, employer contribution, effective date of coverage, and termination of insurance. For a free copy write Dorton Korn, Group Sales Promotion Mgr., Northwestern National Life Insurance Co., 20 Washington Ave., So. Minneapolis, Minn. 55440.

• **Workmen's Compensation and Self Insurance—a Dialogue for Decision Makers** is a comprehensive discussion of self-insurance as it pertains to workmen's compensation. This in-depth study is designed to give the corporate decision maker or his broker a clearer understanding of the concept of premium retention plans and the advantages such programs have to offer to the sophisticated insurance buyer and/or broker. For a copy write R. P. Hewitt, President, Hewitt, Coleman & Associates, P. O. Box 3665, Greenville, S. C. 29608.

• **American Home Assurance Co.'s** new 12-page brochure on **Directors and Officers Liability Insurance** speaks to the directors, officers, or trustees of any kind of public, private or family-owned corporation, a bank or savings and loan association, or a non-profit and/or charitable organization. It is free to agents, brokers, and buyers by writing the firm to the attention of Dept. A 14, 102 Maiden Lane, New York, N.Y. 10005.

• **Workmen's Compensation in Crisis** is a booklet by Clarence G. Johnson, senior vp and secretary of Industrial Indemnity Co., which analyzes the present state-operated workmen's compensation system, explores the threat offered by existing and proposed federal legislation, and calls for specific improvements to avert a federal takeover. A schedule of typical maximum benefits in selected states is

also included. For a copy write the Publications Office, Industrial Indemnity Co., Box 3660, San Francisco, Cal. 94120.

• **Group Dental Expense Insurance** is a brochure outlining some reasons why an employer should consider group dental expense insurance. The brochure also briefly describes three types of dental expense plans offered by the company. For a copy write the Group Sales Promotion, Location 24-E, The Equitable Life Assurance Society of the United States, 1235 Avenue of the Americas, New York, N.Y. 10029.

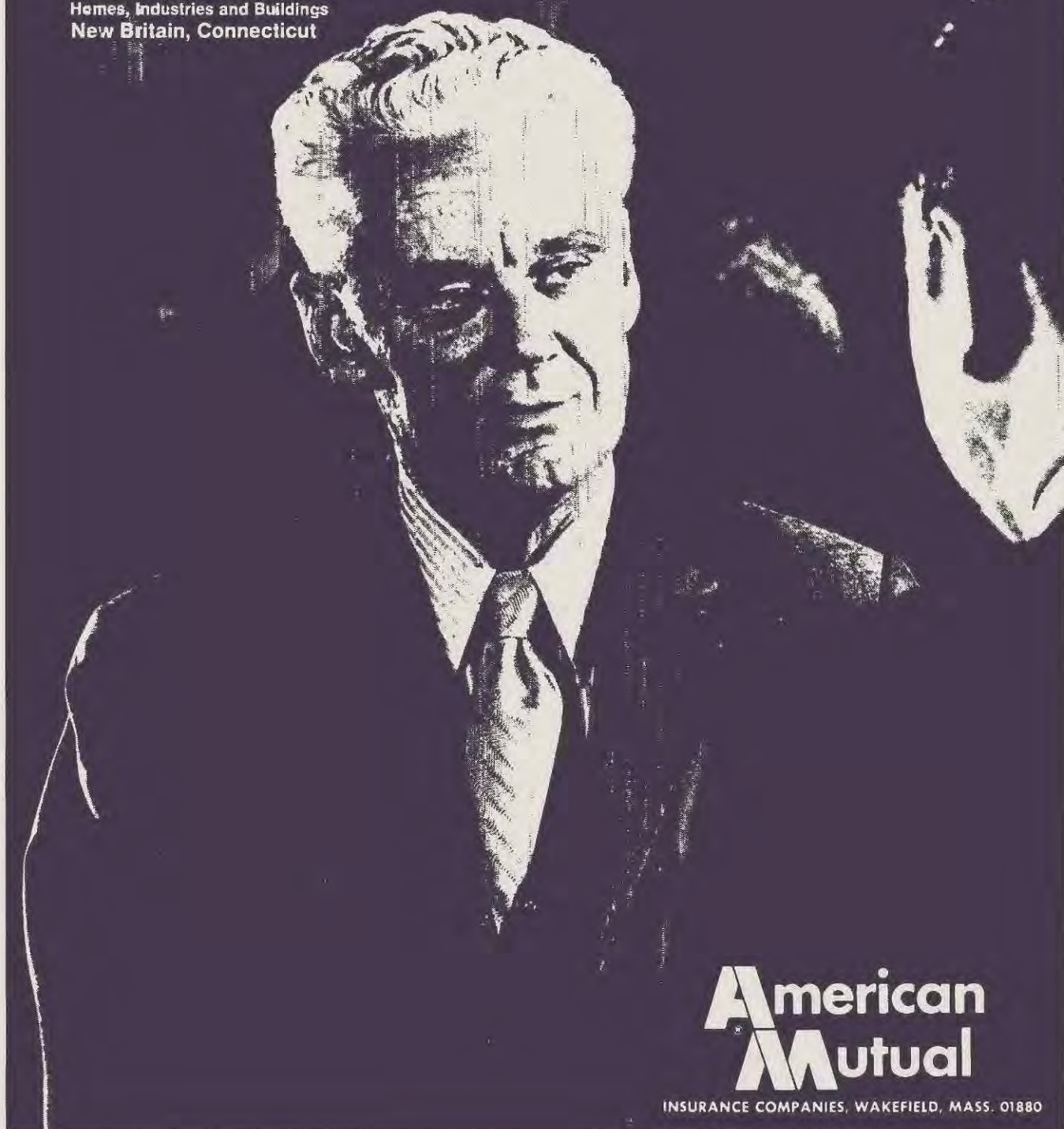
• **The Apex Safety Products** brochure describes the various safety hats and caps and bump caps and winter liners offered by the firm. For a free copy write Robert S. Jasany, Apex Safety Products, Washington & Elm Street, Cleveland, Ohio 44113.

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Chesapeake Bay Bridge-Tunnel has insurance woes, other clouds

NORFOLK, Va.—A question on the minds of a good many people in Norfolk these days is, "Can an inanimate object, like a bridge, have a black cloud over its head, like a hard-luck cartoon character?" The answer appears to be yes.

The Chesapeake Bay Bridge-Tunnel seems to have such a cloud and it started raining just a little while after the bridge opened. Only when it rains on this particular bridge, it's a monsoon. The project has been in financial trouble almost from the time it opened, with toll revenues falling below the original estimates. Compound this with the fact that a number of ship own-

ers, including the military, seem to think that the bridge has the magical ability to get out of the way of their vessels and it adds up to problems galore for J. Clyde Morris, executive director of the Chesapeake Bay Bridge and Tunnel District.

Testifying before a House Judiciary Committee hearing Mr. Morris said, "The Chesapeake Bay Bridge and Tunnel District has not had the best of luck with its maritime neighbors. Although authorized to be constructed in its present location, and shown on every current navigation chart, Trestle A, the southernmost component of the Bridge-Tunnel complex, has been struck

four times."

DAMAGE TO THE bridge from the first three times it was rammed amounted to \$1,636,018.86. All damages resulting from these collisions were eventually paid off. The bridge was closed for over two weeks, total time, because of those collisions.

The latest collision, however, was more serious. The USS Yancey, a U.S. Navy attack transport, dragged her anchor in high winds and gave the bridge a good belt. Five sections of roadway and the support sections beneath gave way and left a 375-foot gap where a highway was supposed to be. Damages to the structure were nearly \$2.5 million and the

bridge was closed for 43 days for repairs (*Business Insurance*, Feb. 2, 1970).

That was the beginning. Since that time, the Navy has invoked the limitation of liability doctrine of Admiralty law, passed in 1851, in an effort to limit payments to the value of the Yancey. The ship is worth \$250,000, one-tenth the amount of damages to the bridge alone. Suits from hotel owners, trucking firms and concessionaires near the bridge add up to another \$500,000. If the Navy is successful in limiting its liability, all litigants would have to split \$250,000.

In April, at insurance policy renewal time for the District, the ship collision insurance coverage was cancelled, along with the use and occupancy coverage resulting from ship collision. The District's broker, the J. S. Frelinghuysen Corp. of New York, tried in vain to find more coverage. Thirty per-

cent of the bridge's insurance is written by Insurance Co. of North America and the rest by a flock of individual companies, according to Frank Lawrance, president of J. S. Frelinghuysen.

THE CASE, which will decide whether the government is entitled to the benefits of the Limitation of Liability Act, is scheduled for trial June 7.

Rep. Thomas N. Downey (D-Va.) attempted to pass a bill which would have lifted the limit of liability in this particular case. His bill, however, died in committee, another indication of the luck surrounding the bridge.

"The same bill, or an updated version, will probably be introduced in this current session," Mr. Lawrance noted. "I don't know if it will pass but it could put on sufficient pressure to affect the Navy before litigation."

Mr. Morris seemed confident about the outcome of the trial in June. "We have always collected in the past and I'm sure we can win in court this time. The problem is that it takes so much time and the costs will be tremendous," he said.

IN SUMMING UP the case, Mr. Morris asserted, "The Navy is definitely at fault and I don't understand the reasons for doing this. You expect a gangster to treat you this way, but not your own government."

If the case was won in court, Mr. Morris felt that the District might have a chance to get ship collision coverage back.

Mr. Lawrance said that recovery would have an affect on insurers "but I don't know if the coverage will be returned. I really think it will take more than recovery. The Navy and the Coast Guard should restrict anchorage in the area northwest of the bridge. That would make more of a difference.

"Everybody knows we no longer have collision insurance," Mr. Morris pointed out. "Our bond holders know, the government knows, everybody knows. All we can do now is pray." ■

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Savannah Machine and Shipyard Company has played an important role in world shipping for forty-three years: building, converting and repairing ships. And the company's 540-foot dry dock generally accommodates modern merchantmen.

Recently, however, a three-masted square rigger put in for repairs. The *Cruz del Sur*, star of the film "A High Wind in Jamaica", required work on its hull and top hamper (15 yardarms, 25 sails, and 9 miles of rigging).

The Savannah Machine and Shipyard Company "snapped to", and, today, the 174-foot craft is a floating exhibit at a Savannah maritime museum.

Keeping things shipshape.

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The heavy equipment, involved rigging, and Federal and Maritime exposures create a high risk classification in workmen's compensation insurance. Their insurance broker, William H. Brown of the John D. Carswell Company, recommended Argonaut Insurance with its background in handling large workmen's comp risks, safety engineering, and experience in Federal and Maritime coverage needs.

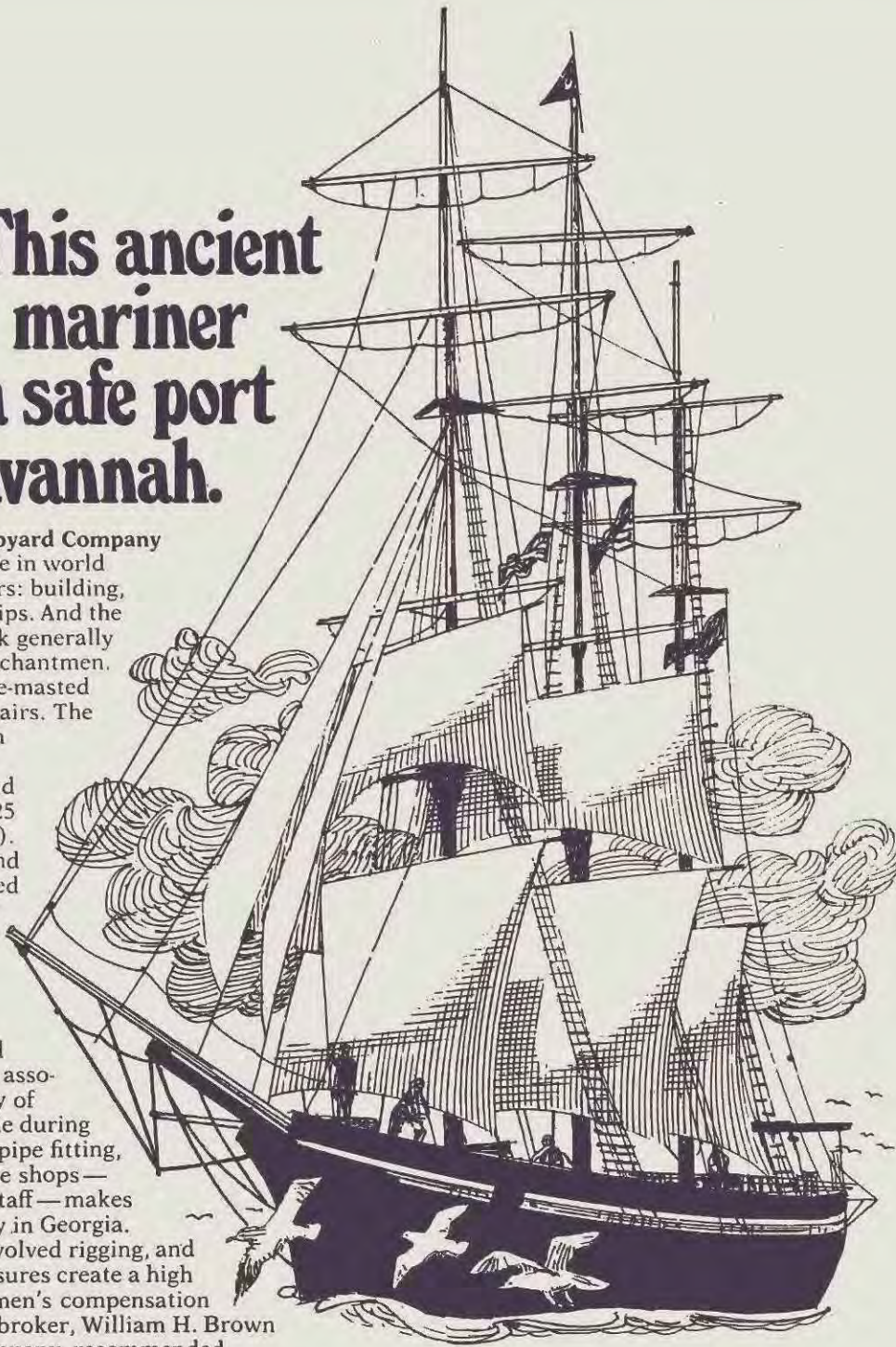
Argonaut comes aboard.

W. Ballard Powell, who heads Insurance and Safety for the Savannah Machine and Shipyard Company reports progress: "Since signing on with Argonaut in March 1969, we've instituted monthly meetings between safety committees and an Argonaut safety engineer. Every quarter, company, agency, and carrier representatives meet to review claims and to spot potential problem areas. It's working out fine. Together we've been able to effect a sizeable drop in time-loss accidents and expedite the handling of involved claims."

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Ex-convict is denied compensation

MADISON, Wis.—The Wisconsin Supreme Court ruled Dec. 4, 1970, that a former inmate of the prison at Waupun is not entitled to industrial compensation benefits for injuries suffered in a prison work area.

Steven Kopacka, 56, now a construction worker in Milwaukee, claimed that he was eligible for the benefits under a state law covering compensation to prisoners injured in the performance of their assigned tasks.

Mr. Kopacka's test case against the Wisconsin Department of Industry, Labor and Human Relations stated that he sustained injuries to his right leg by a falling locker while he was lined up for lunch with other prisoners on Feb. 21, 1962.

The state agency dismissed Mr. Kopacka's claim March 9, 1969, and its action was upheld last Dec. 19 by Circuit Judge William C. Sachtjen, who ruled that although Mr. Kopacka was lined up for lunch on orders from his jailers he was not actually working at the time of the injury.

The state's high court affirmed the circuit court ruling in a unanimous opinion written by Justice Horace W. Wilkie.

Mr. Kopacka was paroled June 12, 1966, after serving parts of two consecutive 10 year sentences for burglary. ■



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START

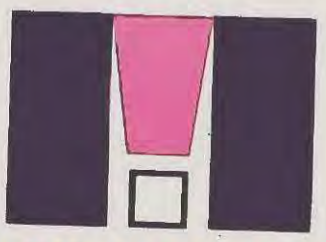
In fact it's our livelihood so we take it seriously; all of us, Risk Manager, Broker and Midland. But, would you believe that there are still some people in our business who think they can 'win' by beating their own partners in a game called, "Buying and Selling Insurance"?

Sure it's Stone Age. And happily, the breed is fast becoming extinct (Dinosaurs is the word that suggests itself to this modest company). But, before the last specimen is fossilized, we thought posterity might be served by a working model; a game we have put together for *amusement only* and to be *played at home* in your copious spare time.

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*A.M. Best, 1969

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Giles on the law

Gambling chips locked in a car covered under casino's theft policy

By JOHN W. GILES
Attorney at law

WASHINGTON—The loss of casino chips in a locked car came within the theft coverage of a policy on a Las Vegas casino. The 50 pounds of chips were contained in two bags left in a securely locked car outside a casino by a security guard.

The guard, an insured casino owner's employe, who had care and custody of the chips, was away from the car for only five minutes. Upon his return, he found the door on the driver's side of the car jimmied open and the chips, worth \$10,664, gone.

The court held that the guard's acts in insuring that all the car doors were locked, came within the "protective custody" definition of "care and custody." "Conveyed" does not require constant motion but includes stops that are necessary for the insured's operations. The court said that "care and custody" does not mean actual custody, but protective custody, which is satisfied by reasonable attempts to protect and secure the insured property.

THE INSURANCE company argued that the chips were not being "conveyed" when they were taken, because the automobile was parked and not in motion or underway, and hence the loss was not covered by the terms of the policy. The court quoted *Atlanta Tallow Co. v. Fireman's Fund Ins. Co.* (167 S.E. 2nd 361). In that case the messenger stopped enroute for lunch, leaving the money he was conveying in a box locked in the glove compartment of his locked automobile. During the ten-minute interval that he was gone from his automobile, the car was burglarized and the money taken. In construing the word "conveyed" the court said, "It cannot be reasonably said that the money was not being transported or carried from the bank to the company premises at the time of the theft and there is no policy provision which required the automobile to be in actual motion at the time of the disappearance or abstractions of the goods. This Nevada court concluded that the word "conveyed" includes those periods or instances of stops or non-motion reasonably necessary to accomplish the insured's operations as contemplated by the parties. Examples of those periods or instances of non-motion would include stops for traffic signals, necessary repairs or fuel, pickups or deliveries, and the like. The judgment was for the insured. (*Home Indemnity Co. v. Desert Palace, Inc.* Nevada Supreme Court NO 5830 4/15/70.)

PUBLISHERS may well take notice that professional athletes can fade out of the public scene and no longer be "public figures," which they can say most anything about.

Recently a professional basketball player brought suit against *Sports Illustrated* for libel. The magazine said the plaintiff had been playing ludicrously, was "psychologically destroyed" and "practically run out of organized basketball." The defense was that the plaintiff was a public figure.

But the court said "No," and therefore under this test, the constitutional safeguards established by *New York Times v.*

Sullivan do not apply. He may have been a public figure in the 1950s but he was not now. The court said "a public figure, as well as a public official, can be so far removed from his former position in the public eye, that the publisher will no longer enjoy the prophylactic treatment accorded him when he deals with those persons who truly are public officials or public figures. Such is the situation here".

THIS DOCTRINE, which has recently arisen, is that of "public interest." According to this doctrine, when the subject matter with which a particular article

deals is of such a nature that there is a substantial and vital and legitimate public concern about it, then the publisher of the article will be afforded the protection afforded by *Curtis Publishing Co. v. Butts*. But when the person allegedly libelled is neither a public official nor a public figure, but the article concerns a matter of public interest, the plaintiff will have the burden of proving either actual malice as defined in *N. Y. Times v. Sullivan* or an extreme departure from the standards of investigation and reporting ordinarily adhered to by responsible publishers.

The parochial nature of the article and the present position of this plaintiff at a small southern university does not meet the standard of public interest. That which is interesting to the public may not always be in the public interest. Neither party here could be granted summary judgment. (*U.S.D.C. MNC Johnson v. Time, Inc.*—11/23/70.)

* * *

PUNITIVE damages of \$10,000 against the supervisor, plus \$60,000 compensatory damages, plus \$640,000 punitive damages against the insurer is a lot of money; \$710,000 unless our adding machine is wrong.

That was the sustained verdict in a disability benefits case, recently. The disability policy provided for payments of \$150 per month to the insured should he become totally disabled because of sickness or injury. In the event of sickness, the pay-

ments were limited to two years, but in the event of injury the maximum period of payment was 30 years.

The insured was sustained injuries to his low back and legs. The medical examination discovered hernia and he was operated on. He continued to have trouble with his back when he returned to work. His physician declared him disabled and his employer fired him. He was examined and treated by a number of doctors when he filed a workman's compensation claim.

ALL THE doctors agreed that the injury to his back was the cause of his disability. Shortly after the accident the insured filed a proof of loss with his insurer. During the time that he was off work as the result of the hernia, he was paid disability benefits under the sickness pro-

Continued on page 18

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AT&T's R. E. Royes sees early retirement as waste

NEW YORK—Robert E. Royes is secretary of the employees' benefit committee at American Telephone and Telegraph Co. He has been with AT&T since 1928 and in his present position since 1953. That may just make him a dean in his profession.

In July of this year Mr. Royes, 64, will turn another corner. Retirement beckons.

In the 18 years or so he has sat in the employe benefit hot seat at AT&T he has seen a lot of new benefit ideas come and some of them go. And, while not exactly a patriarch of the profession, two decades in the business does qualify him to have a thought or two on the subject.

DURING AN interview the other day, Mr. Royes aired a few of these. Some of them, he needn't

have apologized, are his own personal thoughts and therefore are not necessarily the views of the management of AT&T.

One trend in the benefit area that is a cause of concern to Mr. Royes is the move toward early retirement.

"I'm very much disturbed to see money being thrown away too soon," Mr. Royes said across the desk in his office in lower Manhattan the other afternoon. "Of course," he added with a mild chuckle, "I may be a little prejudiced."

Mr. Royes was referring specifically to demands sought of late—and in some cases won—by uniformed city employes in New York. The demands have been for retirement at half pay at 50 years of age.

WHILE HE WAS NOT surprised by the pension agreement worked out between the United Auto Workers and General Motors late last year, Mr. Royes did say that he sees some dangers if similar agreements were to prevail in other industries.

"That kind of demand is absolutely ridiculous in our business," he said. "The idea that money should be spent to allow people not disabled to spend 10 years extra doing nothing is a terrible waste of money and priorities. The only thing that I could say for it in the auto industry is that I'm told those assembly lines are so terribly boring."

On the subject of mass merchandising, such as auto and homeowners coverage on the payroll deduction basis, Mr. Royes

had this to say:

"You've got to put me down as kind of an old-fashioned guy on that one. I don't like to have the employer involved in an employe's life any more than is reasonably necessary. Just having the employer get into something so his employe can buy something wholesale seems a little unfair in my mind.

"OF COURSE," he went on, "looking at it coldly—as an employer, let's say—anything you have on payroll allotment eventually ends up as an employer expense. Here again it's a question of priorities. Give me the money to pay my own auto insurance in my paycheck. And, what if I don't own an auto." Similarly, dental insurance

plans should only be considered in view of other priorities, although Mr. Royes sees more of a social need for dental coverage than he does for mass merchandised auto and homeowners coverages. However, he notes:

"One of the main practical difficulties is that dentists don't have as much of a controlled schedule of fees, or prevailing fees, as do doctors. It's exceedingly dangerous to get into reasonable and customary fees without fixing costs in these plans," the AT&T executive said.

As far as his own company goes, American Telephone with its more than one million employes does not have either (1) retirement at half pay at 50, (2) auto and homeowners insurance on the payroll deduction basis, or (3) dental insurance. Despite that, Mr. Royes still feels the company's benefits program has evolved into a meaningful package that doesn't forget priorities. Those priorities, he said, are those things that "protect the employe against the natural hazards of life." If any improvements are to be made, he added, he feels they should be in the area of increased benefits to widows and improved surgical schedules.

THE MOST RECENT changes in AT&T's benefits program came last summer when the company did away with employe contributions on medical and group life insurance plans.

One innovation in the benefits area AT&T did come up with last year, however, was the use of Benefacts computer print-out forms for all employes. The reports, worked up by Benefacts Inc., a wholly-owned subsidiary of Alexander & Alexander, New York broker, summarized each employe's benefits and the approximate cost of same.

Asked what kind of reaction the company received from employes after the fact sheets were distributed last fall, Mr. Royes said:

"The public relations department thought it was fine and people who talked to us about it said it was fine. But we have no scientific measurements of what good it did." Nevertheless, he did say that AT&T may use Benefacts again after the 1971 round of union negotiations is completed.

LIKE MOST EVERY other company in this country, AT&T has also been faced in recent months with an increase in group medical insurance coverages. The company's basic medical expense plan here is written by Blue Cross and Blue Shield.

Asked what companies and insurers alike could do to help reduce the skyrocketing costs of medical insurance, Mr. Royes commented:

"There isn't an awful lot you can do. I think Blue Cross of New York is doing a fairly good job in trying to see that hospitals operate efficiently." From each individual corporation's standpoint, however, Mr. Royes did note that employers can influence insurance costs by devising plans that don't encourage long hospital stays and by a voiding duplicate benefits. Moreover, he suggested that employers should give serious thought to paying some costs for outpatient services in the future. ■

Life insurance growth

Steady growth in British life insurance business is reported by the British Insurance Assn., which says it rose to \$22,000 million in 1969.

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California's Barger seeking more control over out-of-state carriers

SAN FRANCISCO—An amendment to California's Holding Company Act will be sought in the next legislative session by Insurance Commissioner Richards D. Barger to increase his department's authority to supervise financial transactions of out-of-state insurance companies.

Mr. Barger presented his future legislative program in a speech here to a joint meeting of the Insurance Forum of San Francisco and the northern California chapter, American Society of Insurance Management. "Major problems have been created for California by the state of domicile theory or doctrine," he said at the joint meeting.

"Right now," he explained,

"there are four carriers being very carefully watched by the California insurance department because the insurance departments in the home states of these carriers have not done the job they should have.

"IN ONE instance," Mr. Barger said, "the condition of a carrier was quite impaired because the insurance commission in that carrier's domicile state permitted a stock transfer in spite of warnings from our department and a request that we be notified before such action."

When an insurance carrier is located in one state, Mr. Barger explained, has its executive offices in another state, but does

95% of its business in California, the first two states "are not often likely to impose the supervision that should exist. It is California that would suffer most, should an insolvency occur."

He said he will ask the next session of the California legislature to increase his power to supervise the financial acts of carriers that write more business in California than in their own home state.

"Such an increase in authority is increasingly important," he said, "because of the insolvency law that would require California companies to pick up the tab, should such an out of state carrier go bankrupt.

"We are not afraid of retaliato-

ry legislation from other states," Mr. Barger added, "because of the simple fact that there just are no California companies that write more business elsewhere than they do right here in their own home state."

IN COMMENTING on no-fault auto proposals, he said he is convinced "this will come only if people believe it will provide a dramatic savings for them and not just because it represents a change in auto insurance concepts.

"The reparations system," Mr. Barger continued, "is somewhat like a series of building blocks consisting of features such as comparative negligence and collateral source rules, each with a price tag on them.

"If we must have a no fault system," he said, "I would like to see one with a benefit schedule so that it could be priced out. We might seriously sponsor such leg-

islation with a benefit schedule if it could be shown to produce dramatic savings for the public.

"California's legislative, it seems to me, has too many attorneys in its ranks to make the adoption of no-fault auto insurance legislation very possible."

MR. BARGER also said his department probably will sponsor legislation to correct "a couple of situations now prevailing in the accident and health field. One of these," he explained, "is the problem of carriers providing guaranteed renewable policies increasing the rates substantially after such policies have been in force.

"This works many hardships on older people," Mr. Barger said, "and is the cause of many cancellations. We are convinced the insurance commission should have greater powers to supervise rate adjustments in such instances.

"The second problem in this field," he said, "centers around mail order carriers who advertise extensively in newspapers. I have been shocked by the number of misleading statements some of these ads contain."

He indicated he "very probably" will seek legislative adoption of a bill requiring that his department approve "this type of advertising copy before it appears in newspapers and elsewhere."

Giles . . .

Continued from page 16

vision of his policy. He filed another proof of loss after he had been fired, based on his back injury. Monthly payments were resumed under the injury provision, although the insured was not notified under which provision the payments were being made.

After nine months, a new claims supervisor determined that the payments should be made under the sickness provision of the policy. He sent a letter to the insured to this effect. The supervisor later informed the insured that the ailment resulted from a congenital condition and that benefits already paid must be refunded because of a material misrepresentation in the application for the policy. A few weeks later the insurer acknowledged the insured's denial of any pre-existing condition, and offered a compromise agreement to avoid further litigation in which the insured would be allowed to keep the payments already made in return for cancellation of the policy.

What did the court say? It said that the evidence established that the defendants, without probable cause for believing that the insured had made a material misrepresentation or that his disability was due to anything other than the accidental injury, embarked upon a concerted course of conduct to induce the plaintiff to surrender his policy. The court said a substantial part of the insured's emotional distress resulted, not from the receipt of the letters from the insurer, but from the threatened and actual discontinuance of payments and the resulting economic consequences. Here is the important part. Punitive damages may be recovered upon a proper showing of malice, fraud, or oppression even though the conduct constituting the tort also involves a breach of contract. *Fletcher v. Western National Life Insurance Co.*—Cal. Court of Appeal—Fourth District, Div. Two—8/7/70.)



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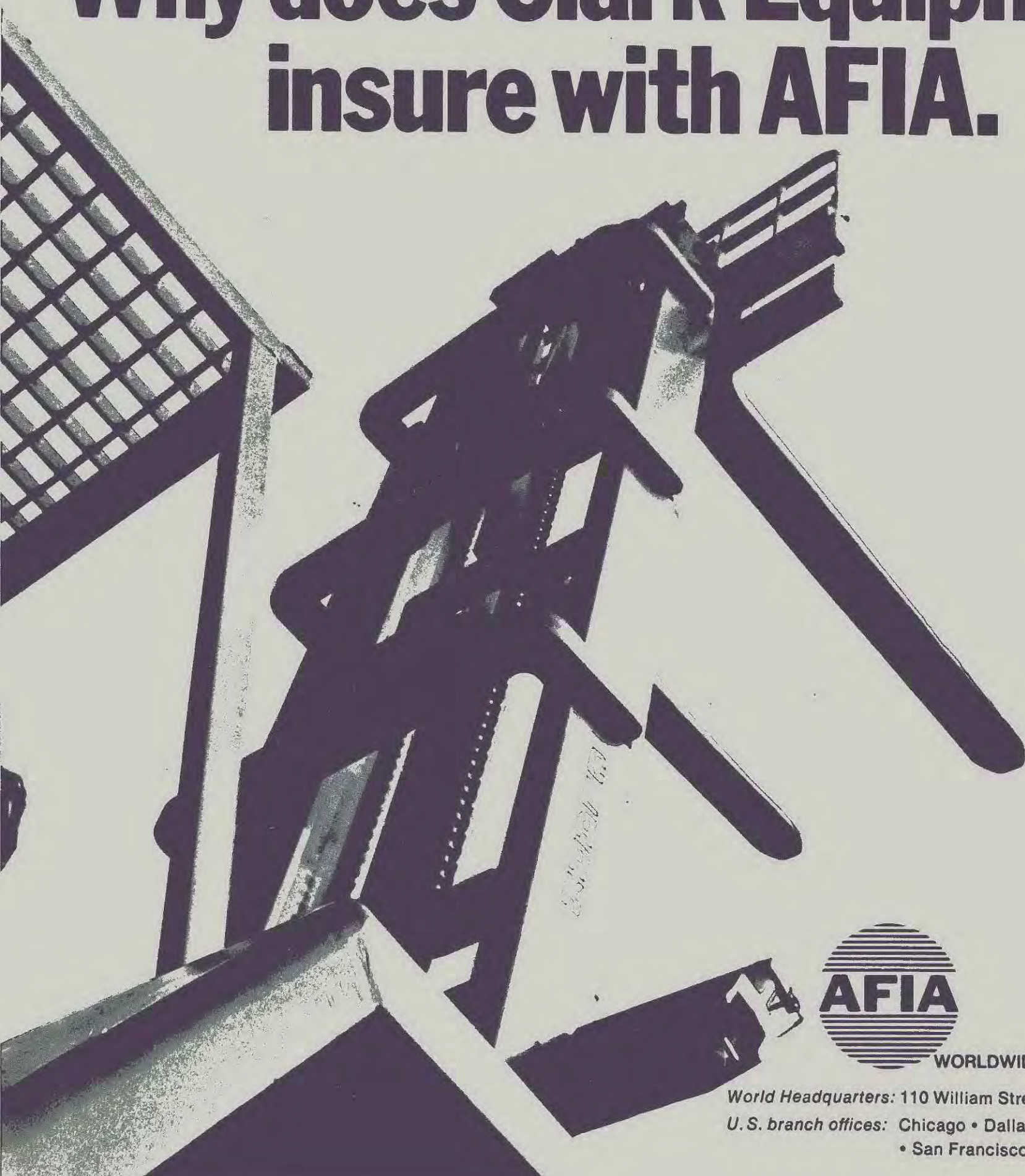
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opinions

Affording tomorrow

Next week in San Francisco the American Society of Insurance Management will meet for its annual risk management conference titled "Costs of Corporate Risks." The program, expertly arranged by an ASIM committee headed by Edward P. Lalley of Kraftco Corp., centers around a "what price" theme for employe benefits as well as corporate risk management.

We thought of the theme of the ASIM conference when we saw a recent issue of Saturday Review which presented a symposium on national needs and resources titled "Can We Afford Tomorrow?" The magazine presented thoughtful essays by such concerned leaders as Mayor John V. Lindsay and Indiana industrialist J. Irwin Miller, who emphasized that in the new order of national priorities we will have to accept a diminished private standard of living to make our public life bearable.

It would profit those who participate in the ASIM conference to reflect during their sessions on the prospects of greatly increased costs of corporate management in years to come. Risk managers and employe benefits administrators will play major roles in meeting, by innovation or expenditure, some of the new thrusts of our society. Consider what some new trends will call for:

- Consumerism, an attitude that is bound to get stronger in years to come, will generate an increasing number of product liability suits, forcing risk managers to become "consumers within their own companies" to guard against shoddy products and incomplete service.

- Wide concern about pollution will require corporate officials to be vigilant about preventing contamination by industrial wastes. In addition to avoiding fines for willful pollution, risk managers must find markets or form pools to provide adequate insurance coverage against accidental pollution.

- Efforts to hire workers from minority groups and to rehabilitate drug addicts and others who may have criminal records impose the need for adequate surety bond coverage. In this area, the risk management profession has already found some help from the federal government.

- Social unrest, likely to continue well after the war ends in Indochina, augurs further attacks on once-secure property that must be covered by increasingly expensive insurance. This problem will be explored by campus risk managers at a special meeting in San Francisco this month.

- Growing concentrations of values, augmented by population increases and the demand for sophisticated products, place a particularly heavy financial responsibility on the risk manager and those associated with him. Only through effective loss prevention programs can tomorrow's risk manager protect the soaring value of goods and buildings.

- Insurance carriers, brokers, agents and consultants are proving that they are responsive to the new order of priorities of the

business insurance

for buyers of employe, property and liability protection,
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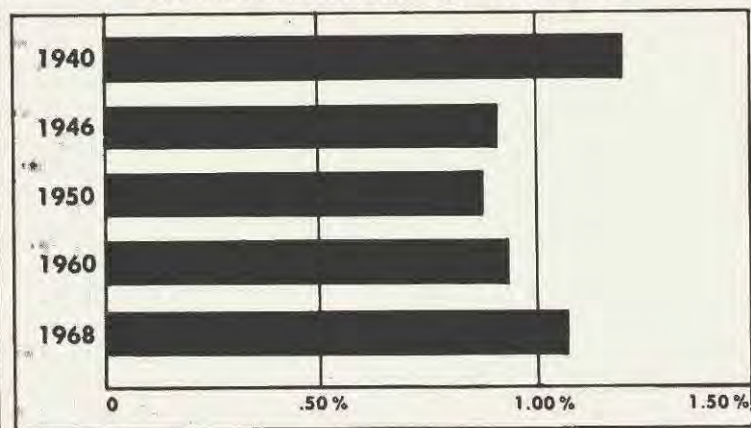
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COSTS OF WORKMEN'S COMPENSATION AS A PERCENTAGE OF PAYROLL



Estimated costs of workmen's compensation to employers reached 1.07% of payroll at the end of the 1960s, a considerable increase over the 89 to 92 cents per \$100 of covered payroll that prevailed a decade earlier. Wide differences in costs exist between industries with differing hazards and between various states. Aggregate costs of workmen's compensation increased from \$726 million in the postwar year of 1946 to \$4 billion in 1968. A Spotlight Report on the current status of workmen's compensation appears elsewhere in this issue.

Source: Social Security Administration

risk management and employe benefits managers by offering innovative programs aimed at serving clients' needs. Those who buy insurance and related services will look increasingly for ways to stem cash flow, and the industry must respond.

- Demands for more rapid and more adequate compensation of auto accident victims will spawn a growing number of proposals for no-fault systems and other modifications of our cumbersome and costly method of determining damages. Buyers of fleet auto insurance will be called upon to untangle and understand these complicated proposals.

- Employe benefits managers will be confronted in coming years with integrating their programs with burgeoning public welfare systems, probably including a national health care system in the near future.

- Another demand on benefits administrators will be to provide broader financial services for employes who in years to come will expect forms of profit sharing, mass marketed personal insurance programs and such things as employer-operated savings plans to assure total family security.

These are among the challenges that ASIM members ought to consider as they examine "Costs of Corporate Risks." The costs, in terms of money and demands on the imagination of corporate management, will scar as the new order of national priorities takes hold. So great is the challenge that we might well ask again, "Can We Afford Tomorrow?"

... paying for yesterday

While we're talking about "new priorities" and such, it struck us that an appropriate punishment for property destruction by war protesters was meted out by Special Judge Earl Stroud in Putnam county (Indiana) circuit court.

Judge Stroud ruled that two former DePauw University students who burned the campus ROTC building must pay \$14,957 to the federal government and the university to make restitution for the damage they caused. Additionally, the two young men were placed on five years' probation and received suspended reformatory sentences.

Thus, it seems to us, the judge got right to the heart of the matter. Students who burn or bomb property to protest the war are frequently young people (in this case, 19 and 22) who have never had to earn their own bread. They have little appreciation for the value of property and they find it easy to view an ROTC building, for example, as an easy target for their antiwar sentiments.

While we don't by any means condone damage to property, it seems to us fitting to make student demonstrators pay for the damage they do rather than send them to jail. By working to make restitution they may learn that life in a free society is founded upon property rights as well as human rights.

We're sure that campus risk managers, who are now scrambling to find ways and monetary means to cover their buildings, welcome court actions that might deter student demonstrators from venting their vengeance on expensive school property. Many other buildings, public and private, have been attacked by war protesters within the past several years, so the problem is not that of campus risk managers alone.

We commend Judge Stroud for ruling that the students make "full financial restitution."

It would be most interesting, several years hence, to talk with the two former DePauw students about how they view—in retrospect—the value of \$14,957 worth of building. We would hope that they will gain some decent respect for property rights and the value of money.

letters

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

CGL report

To the Editor: In your Feb. 2, 1970, issue you presented an article by J. P. Olsen entitled "Columnist disagrees with BI editorial." In it you mentioned that the American Society of Insurance Management published a report on the subject of the revised comprehensive general liability policy and we would like to obtain a copy of this report. Whom should we contact?

Maurice E. Rooney

Kessler-Bodenheimer Inc., New Orleans, La.

Editor's Note: You may obtain a copy of "Customer analysis of the comprehensive general liability policy" by writing: Mr. Ron Judd, Managing Director, American Society of Insurance Management, 500 Fifth Ave., New York, N. Y. 10038.

AMERIPLAN info

To the Editor: Would you please send information as to how to obtain a copy of the proposal of the American Hospital Assn. regarding the AMERIPLAN, which was in your Dec. 7 article entitled "A national crisis?"

Robert C. Lewis

Manager, Employe Benefits, Colorado Interstate Corp. Colorado Springs, Colo.

Editor's Note: You may obtain a copy of AMERIPLAN by writing the American Hospital Assn., 840 N. Lake Shore Dr., Chicago, Ill. 60611.

Tax implications

To the Editor: Would you give us permission to reprint "The tax implications of insurance and self-insurance," from the Dec. 7, 1970, edition? We wish to pass this information on to approximately 1000 agents and 1000 direct accounts.

Mervin G. Holland Jr.

Vice President, Millers Mutual Insurance Co., Harrisburg, Pa.

Editor's Note: Permission granted.

Air cargo coverage

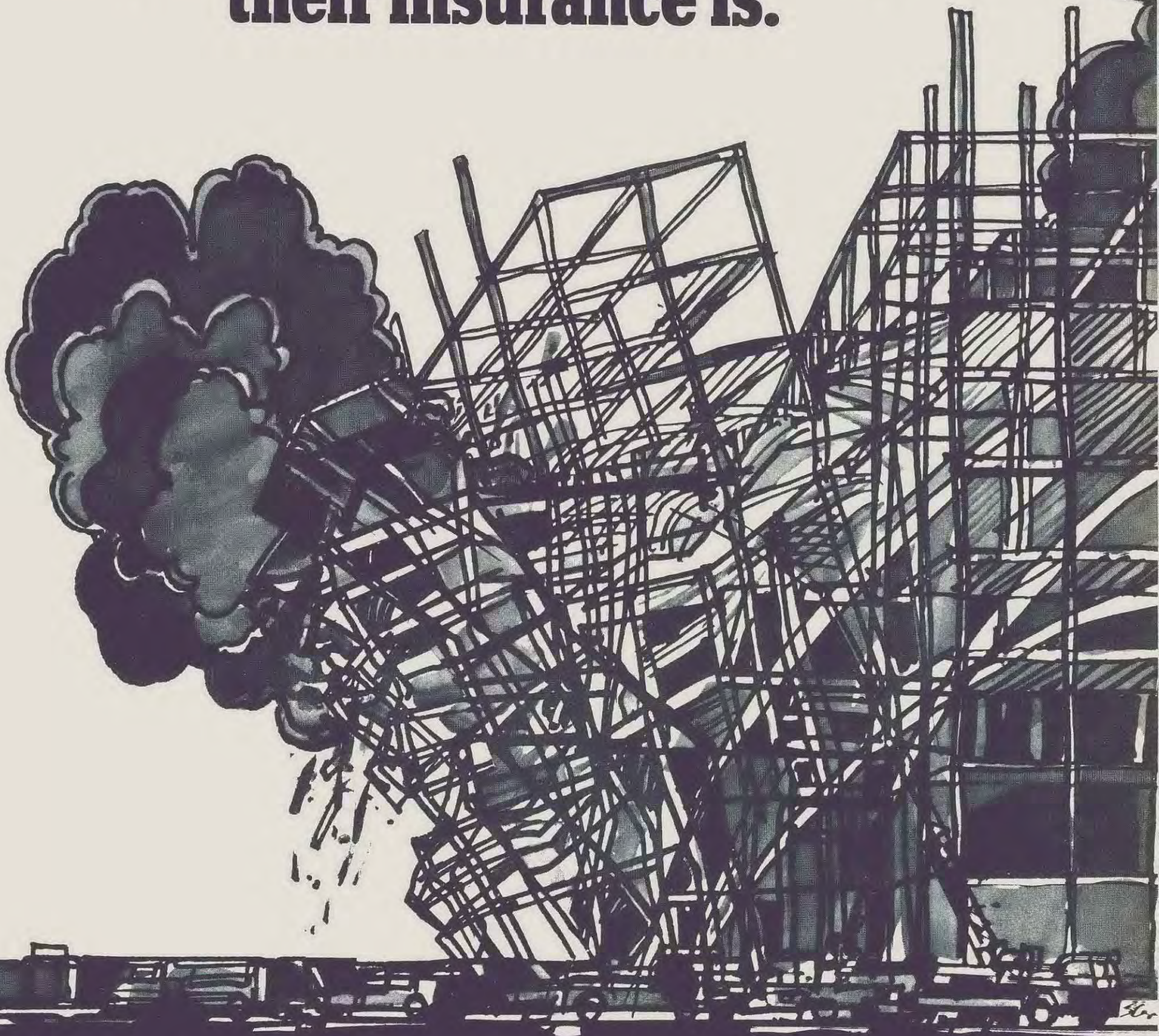
To the Editor: Because of our very vital interest in the subject of air carriage, we were struck by Mr. Heiman's letter in the Dec. 21 Business Insurance, and by Mr. Rodda's reply.

We can second the notion that declarations of value to the airline contribute nothing to the improvement of the handling of goods. It seems to be inherent in the nature of air transportation that this be so, since it is often true that the carrier is in possession of the goods before the documents and does not know he has a valuable cargo. It may often be true that those who are directly concerned with the handling of the cargo are not made aware of value declarations.

We agree with the airlines' position that if the goods are worth less than \$7.48 per pound in actual value there is no point in declaring a value for carriage. We do not require this of our assureds. It is true that the law on the method by which the total amount of the carrier's liability is determined is not settled.

I would like to call Mr. Rodda's
Continued on page 26

Unfortunately, this is when many builders find out how good their insurance is.



You've probably taken out the kind of insurance we're talking about. The kind that's meant to protect you in case an earthquake or a windstorm or a flood or an explosion or a fire or collapse should occur while you're putting up a building.

Even though these are all things that probably won't happen, you're smart to be covered.

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Forum hears pro and con self-insurance debate

SAN FRANCISCO—The growing conflict between the concepts of self-insurance and insurance protection in workmen's compensation and liability was aired here before a meeting of the Insurance Forum of San Francisco.

Darrell E. Nelson, assistant vp, Marsh & McLennan Inc. of California, served as chairman, with Insurance Forum president E. A. Stabb.

Donn P. McVeigh, a partner in Warren-McVeigh & Associates, San Francisco-based risk management consultants, set the stage for the three-hour evening meeting by outlining the role of the risk manager and of "outside" insurance services.

SUPPORTING WHAT he described as "the rapidly growing

trend" was James V. Schramm, of Los Angeles, president of Employers Self-Insurance Service, affiliated with INA and Pacific Employers Insurance Co.

Insured programs, handled by "qualified carriers" was the concept espoused by Bruce A. Woolery, of Menlo Park, recently elected as president of Argonaut Insurance Co., a major carrier of workmen's compensation insurance.

Mr. McVeigh asserted the role of the risk manager "always is to stabilize and minimize the cost of risks, as well as to maximize protection.

"To do this," Mr. McVeigh said, "the risk manager must utilize all available tools and be aware of all methods of risk treatment."



Bruce A. Woolery

IN AREAS OF loss and claim adjusting, Mr. McVeigh pointed out independent adjusting firms

"are now looking to the insured rather than the insurer as a potential client. Specialty loss prevention organizations are growing in numbers as are workmen's compensation service organizations."

Mr. McVeigh cited as examples Mr. Schramm's ESIS; National Compensation Claims Services Inc., a newly formed California firm affiliated with Kemper Group; Brown Brothers; R. L. Kautz & Co., recently acquired by Pinehurst Corp, and Gates, MacDonald & Co., one of the largest, now affiliated with Nationwide Corp.

"Demand for such services," Mr. McVeigh said, "has been stimulated by the emergence of cost reduction as well as cash flow as significant items in the financial management of any

large corporation."

The question of self-insurance of workmen's compensation or third-party liability exposure, Mr. McVeigh explained, "becomes essentially a financial judgment for top management, determined by the maximum risk retention level of the organization.

"THE QUESTION is probably more relevant to the decision-making process in the area of large deductibles in property insurance than with self-insurance of workmen's compensation and third-party liability.

"The reason is," Mr. McVeigh asserted, "that it involves a determination of the risk-bearing capabilities of the organization over and above fixed insurance costs.

"The cost of administering a self-insured program" he added, "always should be less than the cost of transfer to a professional insurance carrier.

"Administration then essentially involves a value trade off," Mr. McVeigh concluded, "and the question then becomes one of whether the cost of administration, whether in-house or by contract, is less than the cost of administration under an insured program."

MR. SCHRAMM, whose firm now provides these services, contended that self-insurance is "one of the best solutions" to the problems of high deductibles, profit squeeze, shrinking markets and increased insurance premium rates.

"I'm convinced of this," Mr. Schramm said, "because self insurance not only can reduce or eliminate these problems but it can provide the additional ingredient not found under policy coverage, cash flow or money management.

"The expertise to handle all the jobs involved in self-insurance," he pointed out, "is available in the self-insurance service companies, whose staff people can set up programs tailored to each individual need. They then can manage the program, serving only the interest of their client and not the interest of an insurance carrier employer."

The standard format of an insurance carrier, Mr. Schramm added, "sometimes shows more interest in rate making, bureau reporting and stockholder reports than their client needs."

MR. WOOLERY, however, disagreed with both Mr. Schramm and Mr. McVeigh, although he freely admitted increasing concern over the fact that "more and more of the larger and better employers across the country are giving serious consideration to self-insuring all or a substantial part of their workmen's compensation exposure."

Mr. Woolery characterized comparisons of self-insurance versus insurance with "trying to compare peas with beans." He added that 80% of Argonaut's business is in workmen's compensation insurance "which is our bread and butter."

"In this area," he declared, "many employers should never go self-insured and insurance people, company men and producers alike, must combat the trend by providing the best possible workmen's compensation coverages and services at competitive costs."

He added that more than 350 of California's largest employers, with \$5 billion in annual payroll, are self-insured.

MR. SCHRAMM, however, contended the total was closer to 500 and that the premium thus lost to

Continued on page 28

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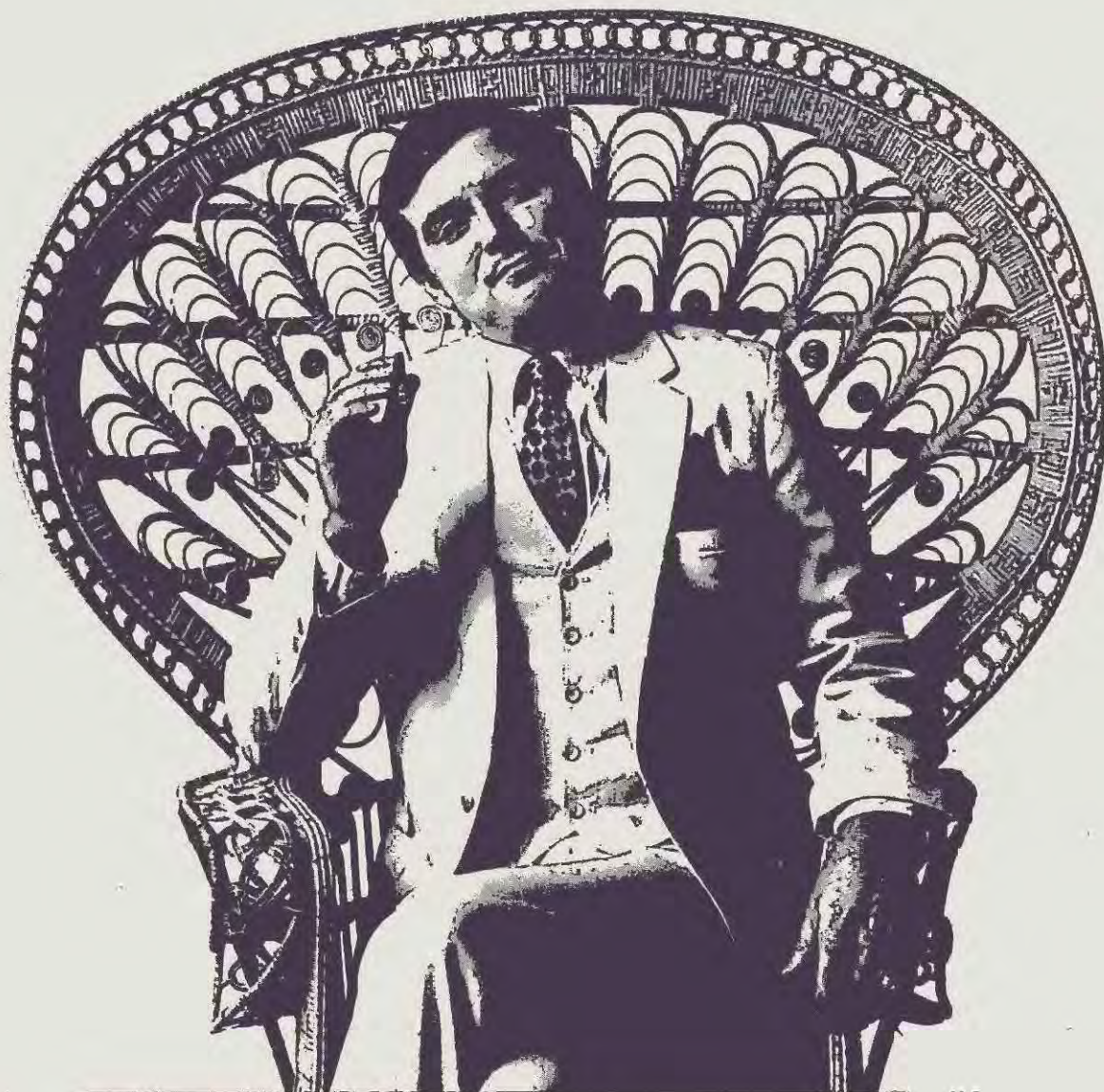
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benefit tax slants

Additional voluntary contributions to qualified pension plans okayed

NEW YORK—Under IRS guidelines, an employe is allowed to make reasonable voluntary contributions to a qualified retirement plan—such contributions are considered reasonable when they are not in excess of 10% of compensation.

Suppose a pension plan requires each employe to contribute 3% of his normal compensation as a condition of employment, the company being responsible for the balance to fund the definitely determinable benefits. The plan also provides that a

participant might, at his election, contribute up to 10% of his pay in addition to his required contribution. Query: Does this provision disqualify the plan?

No, says the Treasury. The fact that each participant was required to contribute 3% of his annual compensation had no bearing on the 10% additional voluntary contributions. (Rev. Rul. 70-658.)

DISABILITY INCOME comes in handy when an employe is put

out of action. It minimizes the shock wave of his illness to his pocketbook. Trouble is, the employe can be tagged with a tax on such awards . . . unnecessarily. Here's why.

Sick pay for the first 30 days of disability is taxable unless the amount is not more than 75% of regular pay. After 30 days, the employe can only exclude up to \$100 a week from tax. Everything above that is taxed. (Code Sec. 106 (d).)

But note this well: If an employe finances his own health in-

surance, the benefits are completely tax free. And if his company shares the cost, the tax rules apply only to the sick pay traced to the company's share of premiums. The rest is exempt.

Here's one way to cope with the tax trap. Simply split the health insurance cost between employer and employe. For example, if you're shooting for a \$200 weekly benefit, the premium can be split in two. Here, the employe pulls down \$200 almost all free of tax, \$100 under the sick pay exclusion and the balance from the portion of the premium paid by the employe. If an employe is disabled for two full years, he can pick up roughly \$20,000 in tax-free dollars under the split-dollar arrangement.

A RETIREMENT plan contract was entered into between an individual employe and his employer. The plan was an employ-

ment contract that provided for a pension. Later the employe was enrolled under a group qualified retirement plan set up by his company.

Held: The employe was entitled to the full benefits from each plan. Reason: They were separate binding contracts whose benefits were not subject to being set off. (Baltimore Paint v Bloom, Maryland Ct. of Appeals No. 128, 12/10/70.)

A CORPORATION set up a deferred profit-sharing plan in which the service requirement for all employes was one year. At the time, there were only five employes who were all officers and met the one-year employment requirement. A year later, the plan was amended to provide that all future employes must have two years of service in order to be taken into the plan. At that time, there were eleven employes, five of whom were the original plan participants. Of the six remaining employes, four had just one year of service.

Held: After the amendment, the plan did not meet the non-discriminatory classification test of Code Section 401—nor did it meet the alternate percentage test. So it lost its qualification for tax advantages. (Rev. Rul. 70-659.)

AN EMPLOYEE benefit survey made by the U. S. Chamber of Commerce reveals a sharp increase in fringes during the past two decades. The 1,115 companies surveyed indicated such benefits come to an average of 27.9% of payroll, 98 cents per hour, or \$2,050 per year per employe.

Two widows sue FAA for \$10.5 million

HOUSTON—The widows of two lawyers killed in a Feb. 6, 1969, plane crash near Brunswick, Ga., filed a \$10.5 million claim here against the Federal Aviation Administration.

The claim alleged the FAA and the U.S. Weather Bureau were negligent in not transmitting full information on a "predictable weather phenomenon" to pilot Robert L. Steely, 39. Mr. Steely and Bob W. Young, 30, died in the crash of their twin-engine Beechcraft.

FBI agents, FAA investigators, Georgia state police and private investigators spent nearly two years probing the mishap after sugar was found in one of the plane's auxiliary tanks.

Attorney Joseph Jamail, representing Mrs. Agatha Young, said that FAA and FBI reports to the wives said the sugar was not a contributing factor in the crash. Mr. Jamail and attorney John Hill, representing Mrs. Yvonne Steely, attached to their claim a report by Dr. Joseph L. Goldman, associate director of the Institute for Storm Research, who spent several months analyzing data on weather pertinent to the crash gathered by the National Weather Records Center and the National Safety Transportation Board. Mr. Steely's last communication via his radio was: "I'm in violent weather."

How the sugar got into the tank has never been determined. "It had no business being there," said Mr. Jamail. "But it had nothing to do with the crash, according to the government's own findings."

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If you have pollution problems, they'll take air samples, make analyses, and assist in the selection and design of appropriate control equipment. NATLSCO also provides boiler and machinery inspection services for government agencies and private industries.

The Kemper/NATLSCO team offers these services separately, or as part of a complete package of protection. For details, write Walter White, Sr. Vice-President, Kemper Insurance, 4750 Sheridan Road, Chicago, Illinois 60640.



A \$3 million suit is filed in big Tucson hotel fire

TUCSON—The Pioneer Hotel here was insured for \$3.5 million by Home Insurance Co. of New York at the time of a tragic fire that killed 28 persons.

The policy, written by the Tucson insurance agency of Snodgrass, Lovitt and Downey, provides coverage up to \$2.5 million for bodily injury and another \$1 million for property damage, according to a legal brief filed in the U.S. district court here in answer to a \$3 million lawsuit.

The answer also listed a \$500,000 limit for bodily injury to each person and \$250 for property damage per person. It was filed by the Tucson law firm of Robert & Fickett for the Pioneer Hotel Co.

RICHARD DARLING, president of the hotel company, has said he feels the coverage is "adequate." In addition to bodily injury and property damage coverage, Mr. Darling said, the hotel carried \$480,000 in business interruption insurance and \$150,000 in insurance covering loss of business rentals.

However, the rental portion of the insurance doesn't apply, he pointed out, since businesses located on the ground floor of the hotel were not seriously interrupted by the fire.

The lawsuit was filed by Maj. Francisco Luken, head of the Sonora, Mexico, judicial police, in the deaths of his wife and their five children in the hotel fire Dec. 20. Three other lawsuits, filed in Pima County superior court, ask for a total of \$4.3 million, and four other state

Blumfelder is assistant treasurer

ST. LOUIS, Mo.—Ralston Purina Co., here, elected Otto P. Blumfelder assistant treasurer of the firm.

Mr. Blumfelder joined the company in 1947. He has been in the insurance department since 1948. In 1960 he was named manager of insurance and has been director of insurance and loss prevention since 1968. He will continue with his same responsibilities.

Mr. Blumfelder and his assistants devised the loss prevention program for Ralston Purina that deals with the company's specific hazards such as grain storage, explosion, and personal injuries to workers in the grain and tuna processing plants.

Mr. Blumfelder's assistants in the insurance department are Richard P. Wilber, assistant insurance manager, and William Drum, insurance assistant, and in the loss prevention department, J. R. McCann, general manager, Frank Kaufmann, manager of loss prevention, and Johnny Sullivan, driver trainer.

Ralston Purina has its workmen's compensation insurance with Hartford Accident and Indemnity Co. and its fire exposure insurance with Factory Insurance Assn. and the Mill Mutuals, Mr. Blumfelder said.

New president

Pierre Lanctot, a member of the Insurance Consultants Society, has been named president of Pierre Lanctot and Associates Ltd. in Montreal.

court suits ask for "reasonable and just" amounts of damage.

The hotel is claiming the fire was caused by arson. The prime suspect is 16-year-old Louis C. Taylor, who was accused of juvenile delinquency in the fire in a petition filed early in January. The petition alleges the youth intentionally set the fire.

Pioneer Hotel Properties Inc., which leases the hotel to Mr. Darling's firm under a limited partnership, is headed by John G. Schohner of Palo Alto, Cal., who is listed in California as having filed for relief under a section of the Federal Bankruptcy Act. Most of the partners are medical doctors and dentists living in the San Francisco area. ■

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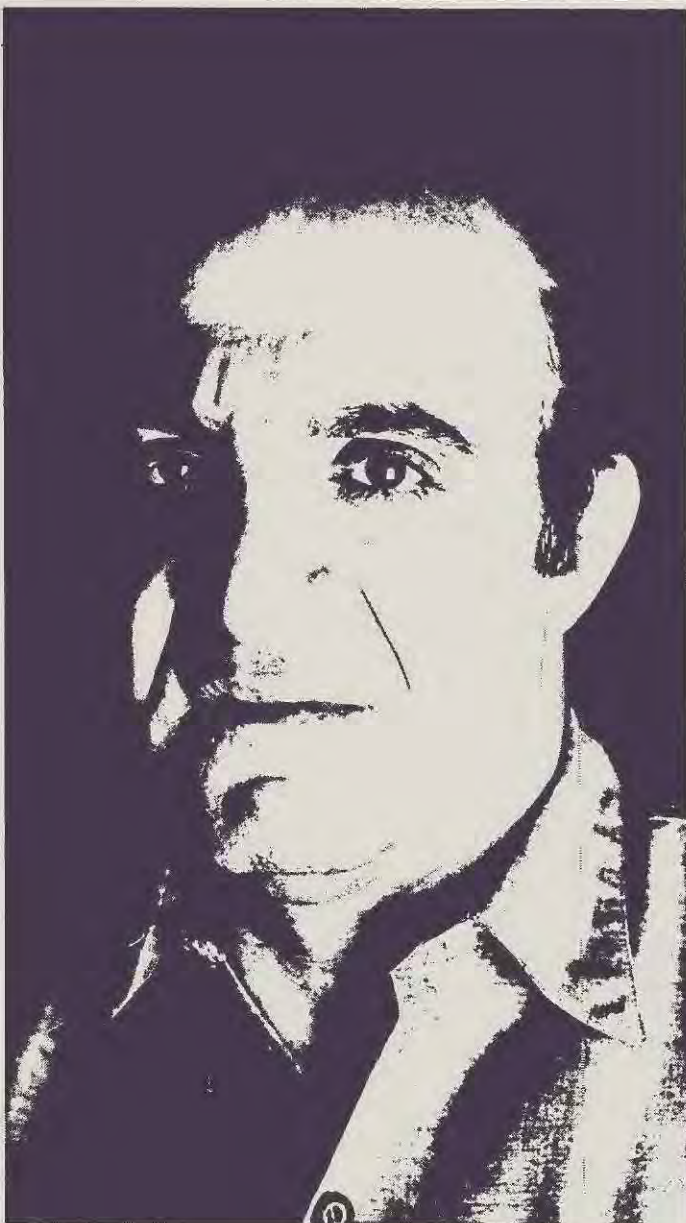
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Survivors' benefits replacing group term life

PHILADELPHIA—Life Insurance Co. of North America sees its biggest product becoming a function of a much broader financial services plan, according to Tom Joyce, secretary of the company.

"I see the basic group term life insurance vehicle being replaced by a survivors' benefit," Mr. Joyce told *Business Insurance*. He pointed out that he felt people, especially in the typical employe population, were becoming much more concerned with the need for a continuing income for their survivors in the event of their death.

"Under this form of coverage, the actual 'get-them-in-the-ground' benefit would be reduced to between \$1,000 and \$2,000. The

remainder of the coverage would go toward a survivors' benefit. That is, the surviving spouse and dependents would receive a monthly percentage of the deceased's income for the rest of their lives or until they cease being dependents, according to some definition," he said.

HE EXPLAINED, however, that he didn't feel that insurance currently in force would fall by the wayside in favor of such new concepts. "What we have here is a new group marketing concept for the oncoming, young employes," he said.

"With this youngster and a survivors' benefit we're suddenly talking about an awful lot of money," Mr. Joyce pointed out.

He cited the example of a young man in his 20s who is earning between \$10,000 and \$12,000.

"If he dies under a survivors' benefit coverage his wife might typically receive as much as 50% of his salary on a monthly basis for the rest of her life. Now, there's quite a good chance that she'll live more than another 40 years. And now we're getting into the neighborhood of \$250,000," he explained, taking note of the fact that there are several problems yet to be "ironed out."

"We're very interested in this kind of concept," Mr. Joyce said. So far there seems to be only a trickle of actual business in this area, he noted. However, he said, within five to 10 years it will have taken its own place in the

forefront of group insurance coverage.

ANOTHER thrust of the marketplace that Mr. Joyce took note of was the "great interest in coverages that have actual values in them."

"It's a simple fact that ordinary group term life insurance doesn't offer anything like this," he said, adding that it's hard to pin down the actual reasons for this. The much younger work force in the country, the new work force's greater mobility and greater needs for more portability in benefits—all these factors probably contribute to the change currently taking place in expectations of life insurance, Mr. Joyce said.

"What is needed is a permanent kind of contract with constant elections built into it. Such a financial arrangement must be flexible enough to change its built-in priorities after a few years when the individual's protection and financial needs have changed," he said.

Mr. Joyce noted that Life Insurance Co. of North America is trying to develop a way to do this that doesn't involve extensive individual counseling. He explained that it was necessary to improve the group presentation so that it would be more effective in getting across an adequate understanding of the new diversified elective approach to the employe.

"WE FEEL THAT the employe is quite sophisticated enough to make up his own mind on these various electives. After all, nobody understands his financial needs and how they are changing better than he does. Our problem is that in the past we seem to have made this thing terribly complicated. In the future we'll have to be much more simple, pointing out his choices to him and what their implications for him might be, then letting him make up his own mind," he said. ■



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letters

Continued from page 20

attention to what seems to be a misconception in the second paragraph of his letter. He says, "Mr. Heiman mentions that the insurance company requires that shipments be insured (or declared) with the airline for 25% of the value." I take it that Mr. Rodda is equating bill of lading insurance with a value declaration. This is an idea frequently held by shippers. A value declaration is simply the amount of the airline's liability, to the extent that they are liable under the law, for whatever damage exists. This is the so-called "value for carriage." The fact that the airline may choose to insure that liability for their own account does not mean that that insurance is available to the shipper or consignee.

Insurance provided by the airline under an insured airway bill is quite a different thing and, subject to the terms of the insurance, the shipper or consignee has full right of recovery without reference to any question of negligence on the part of the airline. The value insured under this insurance may be quite different from the value declared for carriage and the duration of the insurance may be different from the airline's responsibility as a carrier. The insurance may apply, for instance, on a warehouse-to-warehouse basis or only while the goods are in possession of the carrier. This will depend on the precise terms of the insurance.

Thomas M. Dincecco
Cargo Manager, The Atlantic Cos., New York, N. Y.

Reports response

To the Editor: It may interest you, that after you mentioned our brochure on employe benefit plans for international companies in *Business Insurance*, 14 companies responded and asked for a copy.

Gerhard Roper
Vice President, Victoria Life Insurance Co., Dusseldorf, Germany

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Self-insurance

Continued from page 22

private carriers is in the neighborhood of \$100 million.

"The larger employers, with few exceptions," Mr. Woolery admitted "give every evidence of satisfaction with their self-insurance programs.

"However," he added, "they had better be satisfied, because if they ever try to give it up, they will find it most difficult and expensive."

Mr. Woolery said 62.15% of the premium dollar spent in California on workmen's compensation insurance is for indemnity and medical payments, which are seldom affected by the type of insurance.

"THROUGH ACQUISITION of skilled and knowledgeable people to handle his claims and engineering, or through contracting with a reputable service organization," Mr. Woolery claimed, "the self-insured employer may expect a loss ratio similar to that which he would have were he still insured.

"On the other hand, an employer's losses under a self-insurance program could be affected in several ways, to both his advantage and disadvantage.

"In the initial stages of self-insurance," Mr. Woolery pointed out, "the employer almost always shows an improved loss record. This is because his first concern is with benefits that must be and are paid during an annual period.

"However, claims payments increase substantially for a number of years as workmen's compensation benefits are paid in installments over a relatively long period of time. In subsequent years, benefits on claims from prior years must be paid in addition to current claims.

"For an employer with stable employment," Mr. Woolery declared, "it should take at least four years to reach the point where claims payments will be fairly constant and a much longer time, if ever, for an employer with fluctuating employment, such as those with seasonal operations."

MR. WOOLERY warned the Insurance Forum audience that union problems in self-insurance "should never be underestimated—unions will continue to take a very heavy interest in workmen's compensation claims."

A good insurance company medical director, he added, can save untold dollars on permanent disability ratings, temporary disability costs and medical payments.

Many insurance managers for self-insured risks, Mr. Woolery said, make their results look "extremely good" by continually comparing their losses and expenses to premiums that would have been developed by multiplying the company's payroll by manual rate.

"An employer who was insured," Mr. Woolery explained, "and who developed a 50% experience modification, would have an average loss ratio of close to 60%.

"THIS SAME EMPLOYER, if self-insured, with the same losses would have a 30% loss ratio when compared to manual premium. The expenses would be affected similarly."

Workmen's compensation expense ratio in California, he added, is 35.5% of a dollar, plus premium taxes of 2.35%, the allowable ratio for California carriers to service all sizes and types of risk.

In 1969 there were 446,380 California workmen's compensation

policies filed with the California Inspection Rating Bureau. They earned a total direct written premium of \$648,377,739. The average size was \$1,455.90.

California does not permit expense gradation by size of risk, as do most states, and every California employer pays his workmen's compensation premiums based on a total expense ratio of 37.85%.

"THE AVERAGE expense ratio in most other states," Mr. Woolery said, "is 40%, allocated as 17.5% for acquisition; 6.9% administration and audit; 2% engineering and bureau fees; 8.4% loss adjustment; 2.5% profit and contingency and 2.7% for taxes."

Mr. Woolery quoted from a self-insurance study by the claims agents subcommittee, general management section, American Gas Assn., which asserts self-insurance can provide savings of 30% of gross premium.

Part of this derives from elimination of the 17.5% cost of acquisition, with other reductions in claim adjustment and inspection and rating expenses.

"This," he said, "is an attempt to compare peas with beans because the expense ratio in practically all states decreases as premium size increases.

"AVERAGE STOCK company expense provision used in premium discount plans in most states," Mr. Woolery said, "is 40.3% for the first \$1,000 of premiums, becoming 30.9% for the next \$4,000 of premium; 25.6% for the next \$95,000, and a drop to 24% for premiums above \$100,000.

"Thus a risk with \$200,000 of annual premium has an allowable expense ratio of 24.9%. The National Council's table of expenses for stock companies for Retro Plan D provides for an expense

ratio of 21.7% plus taxes on a risk developing \$200,000 in premium.

"A self-insured risk with losses limited to \$25,000 per accident would have an expense factor of 24.2% of standard premium. The same employer insured under a National Council state with the same loss limit, would have an expense factor of 26.2%.

"Also," Mr. Woolery continued, "the acquisition cost in an expense formula on a \$200,000 risk would be 6.9% and not 17.5%. Administrative and audit expenses also would drop from 6.9% down to 2.33%."

TO BE FAIR, he contended, proponents of self-insurance should relate the insurance company's expenses to the average expenses for whatever size risk is used as a comparison.

With respect to taxes, Mr. Woolery said that in California

the self-insured "gets a free ride . . . and secures a license for which he pays no fee. He also has services of the Industrial Accident Commission free of charge.

"Self-insurance," he added, "is a little like marriage: it costs very little to enter but a lot more to terminate."

Mr. Woolery also cited the self-insured's need for specific excess insurance and pointed out that in California self-insured employers must retain an amount equal to the death benefit, or a current minimum of \$23,000.

"A single California workmen's compensation claim," Mr. Woolery said, "can and has run in excess of \$500,000. Multiply this by something like the Texas City catastrophe and many self-insureds would be wiped out financially because of low limits—as would a number of insurance companies were it not for reinsurance." ■



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Stanford U., other schools turn to insurance pool

PALO ALTO, Cal.—This state's largest universities, by July 1, will have moved from private insurance company coverage to their property into a \$4 million or larger "insurance pool."

Stanford University here as well as the nine campuses of the University of California will join more than 20 others in the insurance pool being established because of what they consider "disastrous increases in premiums and deductible provisions."

California's legislature, now in session at Sacramento, is considering recommendations that it establish a somewhat similar central insurance fund for the state's various school districts.

SUCH A STATE insurance fund for public schools would

provide all-risk coverage, including earthquake and flood protection. Many school districts of California, in recent months, have faced loss of insurance because budgeted funds did not cover premium boosts.

Opposition to a "university insurance pool" from private insurance companies will be minimized, according to Robert M. Beth, insurance manager for Stanford and currently president of the University Insurance Managers Assn.

"The university pool," Mr. Beth explains, "will function within the presently existing insurance system. The funds raised on a pool basis will be allocated to property liability insurers."

Although details of the "pool" arrangement are still being worked

out, it would provide \$100,000 deductible coverage for the participating universities, with a \$1 million maximum coverage from the pool for each university.

PAYMENTS INTO the pool would be made according to the value of the physical property to be covered on the individual university campuses.

Participation by the huge University of California must be approved by the Board of Regents. The declared value of property on the nine U. of C. campuses exceeds \$1 billion.

U. of C. in past years has paid a premium of \$200,000 to a variety of carriers for three year policies, with a \$250,000 deductible. The rate has gone up to \$1 million for three years, with the first

\$1 million deductible.

Stanford University recently cut back substantially on its insurance coverage when it faced a premium of \$650,000, with a \$250,000 deductible. Currently Stanford has a \$500,000 deductible policy in force.

MR. BETH WAS ACTIVE in helping to prepare a report recommending the "university property pool."

The report indicated that universities, in the past two years have found it "difficult, if not impossible" to find underwriters willing to provide adequate insurance coverage.

"The causes," according to the report, "are obvious and lie in student unrest and the occasional violence that has resulted in substantial university property dam-

age and loss. There have been radical increases in the cost of both property and liability insurance.

"Insurance companies," the report asserts, "in the opinion of many, have responded to the tremendous growth of universities and to student dissent with panic.

"THE ABSURDLY low rates generated by earlier stiff competition for educational insurance business have given way to reduced capacity, increased premiums and large deductibles often without relation to actual loss experience."

"Universities," the report continued, "often have failed to use their own financial resources and strength wisely, in insurance. Their loss prevention efforts often have not been adequate and only a few have established sound and effective risk management programs."

At least 20 of 26 universities involved have indicated they will participate in the pool and Mr. Beth indicated participation will be open to others.

Coverage, he said, would include damage by fire, wind, smoke, explosion, riot, civil disturbance, vandalism, malicious mischief and even aircraft accidents.

Earthquake coverage would be excluded as a "local problem" and Stanford probably would seek such coverage elsewhere inasmuch as campus technicians have estimated the university would suffer "at least" \$25 million damage from a quake of major intensity.

As part of its risk management program, Stanford in recent months has installed automatic fire sprinkler systems, security lighting, intrusion alarms, stronger burglar protection systems and has also strengthened its fire and police departments on campus. ■

Blast victim sues insurers

MIAMI—Three insurance companies, Lloyd's of London, Maryland Casualty Co. and Home Insurance Co., have been named defendants in a \$1 million damage suit filed by an injured workman in an explosion that took place in Miami Beach on Jan. 4.

Carl L. Paxton Jr., 44, an employe of a blueprint company, one of three stores that were demolished by a gas leak explosion, claimed through his attorney that his earnings ability had been impaired for life by the burns he received.

Miami Beach fire inspectors claimed there was unauthorized tampering with gas meters. In the explosion, one woman was killed, 33 persons were injured. ■

Alert to problems

Shipping disasters in the English Channel have alerted the British government to the dangers of collisions between vessels passing through to European ports along its narrow waters. Insurers are suffering from the loss within two successive days of the tanker Texaco Caribbean, 20,000 tons, owned by Texaco Panama Ltd., and the German freighter Brandenburg, 2,695 tons, which hit the submerged wreckage of the tanker as it passed. The tanker was insured for \$5.2 million, with 60% covered at Lloyd's, and the Brandenburg for \$800,000, with \$240,000 placed at Lloyd's, and the rest in the German market.



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Union leaders review national health care

SAN FRANCISCO—High quality medical care is a right, not a privilege, and Congress "must enact a program of national health insurance" according to Sen. Edmund S. Muskie (D.-Me.).

Sen. Muskie spoke to 500 union leaders attending a San Mateo meeting of the labor sponsored California Council on Health Plan Alternatives.

At a separate session of the conference, Thomas G. Moore Jr., executive director of the council, told delegates that insurance industry "lobbies" will join with the American Medical Assn. to fight any new national health insurance legislation.

SEN. MUSKIE urged President Nixon to "create a Health Service Corps, that might function in a manner similar to that of Vista.

"One of our highest national priorities," Sen. Muskie said, "should be the assurance that no American ever be forced to choose between physical health and economic privation.

"Far too often," he added, "insurance company policies fail to pay for visits to doctors' offices and by emphasizing payment for hospital care, they actually contribute to overcrowding of hospitals.

"Medicare and Medicaid," he said, "have failed to stimulate ef-

ficient use of medical time, equipment and money. This has increased federal and state health cost budgets.

"A NATIONAL health insurance program must be coupled with a joint government-professional effort to reform existing health services."

Sen. Muskie accused the Nixon administration of "negative attitudes toward health care, with drastic cuts in spending for medical research and for support of health programs."

Mr. Moore, "however told the delegates that the AMA and the health insurance industry both want to preserve their utter freedom from public responsibility."

The delegates were here to review the bill introduced in Congress by Sen. Edward Kennedy (D.-Mass.). The bill would eliminate "insurance company middle-

men" and would pay doctors in a manner to encourage group practice.

THE COUNCIL voted to form a committee of labor and health care officials to "coordinate community information programs and the lobbying campaign in Congress."

A two day conference also was scheduled for March 11-12 at Fresno to hear Sen. Kennedy personally explain his legislation.

The Kennedy measure differs from other so called national health insurance bills in that it would be administered by a five member health security board appointed by the President.

Sen. Kennedy also proposes equal health care for all and payment incentives to improve the quality of health care. Other proposals retain welfare like features with means or eligibility tests. ■

Injured man awarded \$18,000 settlement

BOSTON — Heavy-footed elephants and a shaky ceiling at Boston's North Railroad Station contributed to an accident for which a New Hampshire man has received an \$18,000 damage suit settlement.

An elephant circus act at Boston Garden in August, 1966, loosened plaster in the ceiling of the station, which is directly below the Garden.

Pieces struck Kenneth J. Brannock, 58, of Concord, N.H., a railroad worker. He required hospital treatment.

A U.S. district court jury found that the Boston Garden-Arena Corp., Turner Construction Co., the trustees of the 120 Trust and the Boston & Maine Corp. were liable for Mr. Brannock's injuries.

Insurers in U.K. exclude sonic booms

LONDON—The British Insurance Assn. has said that its member companies may consider offering coverage for damage or destruction caused by sonic booms from aircraft such as the Concorde when sufficient statistical data about the risks involved is available.

At the present time, British companies do not insure for such perils and, to avoid confusion, said a BIA spokesman, "Companies are issuing at renewal of policies an endorsement excluding liability for destruction and damage caused by sonic booms."

The endorsement will apply to fire policies, consequential loss policies, homeowners' and most forms of accident policies, livestock and any of the liability risks. However, it will not apply to sickness and life policies.

"It must be remembered," said the association spokesman, "that Concorde has presented insurers with a new risk. Insurance is based on statistics and in this case the risk is a completely unknown quantity."

In the absence of commercial insurance for sonic boom losses, the British government has said that it would assume such risks. ■

U.S. market unprofitable

LONDON—Major British insurance companies report that the U.S. was their most unprofitable market in 1969, when they lost nearly \$40 million on operations there. But they hope that 1970 American results will be more favorable, even though they face claims on Hurricane Celia totalling \$20 million.

Advising *Business Insurance* of this effect of the American market, the British Insurance Assn. explained: "World inflation had an effect on the underwriting profitability of our member companies both in the U.K. and abroad. Despite higher premium income, underwriting losses have resulted from 1970 in overall operations. But higher investment income is likely to have produced a better world trading result than in the previous twelve months."

It points out that aviation insurers face a difficult time through hijackings. ■



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Volunteer workers file \$12.5 million suit against Standard Oil

SAN FRANCISCO—Standard Oil Co. has been slapped with a \$12.5 million class-action damage suit in superior court here, filed by attorney Gary J. Near on behalf of thousands of volunteer workers cleaning up a nine-day-old, 840,000-gallon oil spill outside the Golden Gate.

The company previously was hit by a \$3.5 billion class action suit on behalf of all property owners and boat owners who suffered damage when two Standard oil tankers collided in fog on Jan. 18 (*Business Insurance*, Feb. 1, 1971).

The Near suit asks for \$2.5 million compensation for the volunteer workers and \$10 million for "exemplary damages due to the reckless and wanton conduct of the defendant."

STANDARD CALLED in about 700 of its own workers, Chevron service station and office personnel, for the cleanup effort. Company spokesmen estimate that 525,000 gallons of the oil has been recovered, leaving about a third of the spill still in the ocean and on oil-soaked beaches.

Mr. Near estimated that between 3,000 and 5,000 volunteers all together are participating in the cleaning up. He is attorney for Friends of the Earth, an environmental organization which is not involved in the superior court lawsuit.

"To think that these people worked for Standard Oil for free," Mr. Near said, "runs against the grain of usual concepts in this country. Standard Oil acknowledged its responsibility and duty to clean up."

The three plaintiffs in his suit are Suzanne Schettler, Palo Alto, secretary; Dr. Tom Mehlhoff, San Rafael veterinarian and Dr. Marilyn Ting, San Francisco physician. All three plan to contribute any financial recovery to conservationist causes.

STANDARD SPOKESMEN refused to comment on this or the earlier lawsuit. The company, however, still is accepting claims for property damage rising from the huge oil spill, now acknowledged as "the biggest in history."

Since the spill approximately 3,000 oil-soaked birds have been rescued by the volunteers and given emergency treatment. Fewer than 1,900 survived and bird experts assert the death rate among the birds will be high, with less than 5% surviving.

Maine's Senator Edmund S. Muskie, here to advocate adoption of a national health insurance plan, visited the bird-cleaning operation and called the Standard oil spill "part of a pattern of continual disastrous accidents in connection with oil."

THE STANDARD OIL spill has led to creation of a joint state and federal task force to deal with oil spill damage assessment and restoration.

Participating agencies are: the Environmental Protection Administration, whose San Francisco office will be task force headquarters; the Coast Guard; State Department of Fish and Game; Regional Water Quality Control Board; National Marine Fisheries Service; and the Bureau of Sport Fisheries and Wildlife.

San Francisco Mayor Joseph L. Alioto applauded Standard's efforts to clean up the oil mess and criticized "failure of the state

and federal authorities to enact tougher laws on ship movements."

Increase benefits

The Oregon workmen's compensation board has increased industrial accident benefits for workmen injured prior to July 1, 1969. Benefits previously have been the 1965 level plus 5%. The new level will be the July 1, 1969, schedule. A married injured workman who received \$48.33 previously henceforth will receive \$55.24.

"Pension & Investment" Special Issue—March 29

Banks, insurance companies, financial advisers, investment bankers, mutual funds, consultants and actuaries have an excellent opportunity to register their messages with the men responsible for pension and investment decisions for more than 30 million employes in business and industry, including union funds . . . the readers of

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speaking of safety

Profit-sharing plan encourages professional drivers to be safe

HOUSTON—Safety "really" pays at Robertson Tank Lines, Inc.

The specialized commodity carrier has a profit sharing plan for its professional drivers.

The purpose of the plan is to give each driver, as an individual, an opportunity to earn additional money according to his individual skill and ability in operating a piece of equipment.

The plan is such that the individual driver has an incentive to operate his equipment and make

a profit—and he shares 50% of that profit.

SOME OF THE variables among drivers, and how much money they will make, is how they operate and service the engine, how much mileage they get from a set of tires, their miles per gallon and how safe they are.

"It is basically true with each operating component of a power piece of equipment from bumper to bumper that taking care makes money," newcomers to the prof-

it-sharing plan are told.

"A driver can maneuver his equipment on the streets and highways in a safe manner, watching for and avoiding accident-making situations," the company says.

"However, if he does not have the right attitude in regard to safe professional driving, he can get himself trapped in accident-making situation after accident-making situation, resulting in accidents. This costs money."

ROBERTSON is self-insured;



Drivers at Robertson Tank Lines, Inc. share 50% of the profits resulting from the safe operation and service of their trucks.

therefore, it tells its drivers, "accident costs are company costs—and, as a profit-sharer, they are your costs."

Each driver receives a monthly report concerning the profits of "his truck," says E. O. Gaylord,

Robertson Distribution Systems, Inc. president.

The report lists the tractor number, miles driven and revenue.

Mr. Gaylord explains 35% of the revenue is deducted—20% as tank rental and 15% as administrative.

Then, expenses for driver salary, payroll taxes, depreciation, license, shop bills, over-the-road purchases, legal and fines, and insurance are subtracted from the net revenues.

THE BALANCE, or total profit, is then shared on a 50-50 basis between the driver and company.

Mr. Gaylord points out that workmen's compensation, insurance, fire, theft and collision insurance, and a deductible on insurance claims up to \$250, are part of the expenses.

The workmen's compensation coverage is based on gross salary for the month.

Insurance for PL & PD is based on gross revenue for the month with Robertson paying the cost of the first \$1,500.

CARGO INSURANCE is .5 of 1% based on the gross revenue for the month.

Fire, theft and collision is based on the cost of the truck.

Mr. Gaylord says the driver is charged the market value for the various types of coverage, although Robertson is self-insured in most categories. Its liability coverage is a \$25,000 deductible with the excess covered through Lloyd's.

The driver pays 65% of fines charged to them.

Mr. Gaylord said the driver initially receives one-half of his 50% of the month's profit until he works up to a \$1,000 reserve. He then gets back one-third of the reserves each year for three years.

Robertson Distribution, a holding company for Robertson Tank Lines, Inc., Robertson Leasing Corp., TEC Terminals and Management Action Systems, Inc., has vehicles traveling 30 million miles per year "with an average of two severe accidents," president Gaylord said. Robertson has 550 drivers, 464 tractors and 595 trailers on the road.

BESIDES ITS insurance department, Robertson has a safety department and part of the safety program is the "Robertson Annual Safety Awards."

As an incentive, Robertson presents safe drivers with a belt with gold-plated buckle and five rubies the first year.

A Longines date watch is presented the second year.

For the third year he is given an engraved gold ring, and for the next three years, is given a one-third, two-thirds and full carat diamond, respectively.

THE SEVENTH year he is given an engraved gold-plated badge plus a check and each year thereafter the company replates

Continued on page 33



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Oil firms establish new TOVALOP supplement

NEW YORK—More than 40 oil companies in the world, which are responsible for about 70% of the crude and fuel oils transported on the high seas, have signed a new self-insurance agreement that will expand liability coverage for oil spills to as much as \$30 million per incident. The pact will supplement TOVALOP (Tanker Owners Voluntary Agreement Concerning Liability for Oil Pollution), which was signed in 1969.

The self-insurance agreement will be administered by the Oil Companies Institute for Marine Pollution Compensation Ltd. That newly formed organization will be domiciled in the Bahamas and is due to become operational by April 1.

Major companies in this country that have joined in the pact are Esso, Texaco, Shell, Cities Service, Mobile, Gulf, Chevron, Getty, Sun and Amoco. In addition, many foreign firms are participating.

FOR THE MOST part, oil companies subscribing to the agreement are also signatories to TOVALOP. That agreement imposes a \$10 million per incident limit for oil spills. The compensation is paid to governments as reimbursement for oil spill clean-up costs.

The new agreement, to be known as C R I S T A L (Contract Regarding an I n t e r i m Supplement to Tanker Liability for Oil Pollution), will extend the total dollar amount of coverage per spill to \$30 million. It also specifies that compensation can be paid to private individuals and companies as well as to governments. It will, therefore, provide important liability protection for oil firms that last year faced a sweeping withdrawal from that market by insurers.

A spokesman for the Institute that will administer the pool said that the new agreement is not to be considered a permanent answer to the oil spill liability problem. It is, rather, a supplemental measure that is to be used until international conventions

dealing with tanker owner liability for oil spills are worked out. Thereafter a more permanent fund would be established and supported by cargo owners.

The pool is to be set up and run on a day to day basis through cash contributions from the 40-odd oil companies signing the agreement, in addition to those that are expected to join the pact now that the formalities have been dealt with. Cash contributions will be based on a company's size or volume of oil transported across the oceans. Oil firms will be allowed to complete their full contributions by furnishing such things as letters of credit and other forms of security. ■

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Capital investment, Sprinkler System	\$58,972
Annual fire insurance premium, before sprinklers	\$29,507
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Cost of money per year	\$ 5,995
*Net savings on insurance per year	\$18,804
Annual pre-tax rate of return on investment (excluding effect of depreciation)	32%
Net pay-back period	3.14 years

*Part of savings was used to increase the company's fire insurance coverage.

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Drivers . . .

Continued from page 23

the gold badge and changes the number of years that the driver has operated without an accident. The check is increased by \$25 a year.

"We spend \$60,000 a year for awards," says Mr. Gaylord. This includes the uniform awards, diamonds and banquets, held at each terminal.

In addition, employees with one year's service have the opportunity to participate in the Robertson Provident Fund, created in 1953.

This fund, supported by employee deductions and company contributions from profits, is invested in many areas. It is now valued at more than \$2.25 million.

Concerning profit-sharing, Mr. Gaylord said many of his competitors say they don't know how Robertson can afford to do it.

"I tell them we don't know how they can afford not to," the president said.

Mr. Gaylord, 38, has been president of Robertson Distribution since 1967. The firm anticipates sales of \$19.15 million in 1970 and \$22 million in 1971. Of these totals, the tank lines portion is anticipated to be \$16.3 million this year and \$18.25 next year. ■

British report gives tips on industrial hazards

LONDON—Plant safety problems are reviewed in the latest report of Britain's chief factory inspector on the 300,000 industrial accidents which his officials investigated in the past year.

The survey is a valuable aid for risk managers who are trying to cut insurance premiums and reduce management losses through laid-off workers.

The survey gives tips prepared by teams of top government researchers on how to minimize the casualty rate in industrial plants.

CASE HISTORIES of unusual factory hazards have been examined by 600 local inspectors who report back to the government's chief factory inspector, W. John Plumble.

Comments of value in this re-

port to risk managers include:

Aluminum: Smelting from bauxite takes place in electrolytic cells which are connected in series so as to make economical use of the electric supply, and operate at voltages up to 900 volts in some countries. As the direct-current conductors are exposed, one of the primary precautions to be taken is effective insulation of the working floor, and all objects within reach from it, from the ground. This involves careful construction, particularly with regard to structural and reinforcing steelwork.

Oxygen hazards: It is not always realized that only a small increase in the normal 21% of this odorless life-giving gas is needed to increase greatly the rate at which clothing will burn.

If a leak occurs in a confined space, even an apparently extinguished cigaret can provide ignition with fatal results.

AS AN EXAMPLE, a particularly tragic error occurred at a shipyard where an airline for operating drills was coupled by error to an oxygen outlet. Some hours after the wrong connection had been made, a workman lit a cigaret. It burrrred down to his lips in seconds, and the scraps of the burned cigaret ignited the clothing of several other men, five of whom died.

The report says "It is essential that compressed air and compressed oxygen lines should be clearly identified where they are both present in a confined space."

Timber plants: Investment in

the wood chipboard industry has grown considerably in the last decade, and drying plant of an unprecedented size has been introduced, dependent on pneumatic techniques. To mitigate the effects of a dust explosion and reduce fire hazard, the plant should be run with as low oxygen content as possible. This requires a careful balance in the plant, with the duct for recycling various gases kept as short as practicable. Long horizontal sections should be avoided.

Radial drilling machines: The use of sensitive trip-bar at radial drilling machines, where it is impracticable to use a fixed guard, has proved of great value. The device consists of a slender telescopic bar hung vertically a short distance away. Deflection of the

trip bar activates an electrical limit switch, which applies a brake to the driving motor, and brings the drill promptly to rest. This device may help to protect operators of other machine tools where fixed or interlocked guards cannot be used.

CONTAINER movements; Special vehicles known as "straddle carriers" are used for loading and unloading freight containers. Serious accidents have occurred because of poor visibility on these vehicles from the driver's cab position. Correct lay-out of the operating area is important—radio control should be established between cab and a control point and trucks and drivers entering the area should be kept under operational control.

Shipyards: It has become common to test ships' tanks by compressed air to check that welds are not porous. The test pressures are very low but the large volume of the tanks means that a great deal of energy is contained in the compressed air. Failure of a tank under test could have catastrophic consequences, and it is essential to ensure test pressures are kept to a safe level.

Chrome plating: Exposure to chrome, as to other metals such as nickel and cobalt, is a well-recognized cause of allergic skin rashes. But an allergic reaction in the lungs, causing chrome asthma, is lesser-known. In Britain there have been several cases where an asthmatic attack has been produced by exposure to fumes in a chrome plating shop, and the condition has been resolved by removal of the affected employe from this work.

The report is issued by the government Department of Employment and Productivity. ■

Indiana's pensions reviewed

INDIANAPOLIS, Ind.—The Indiana state legislature is studying the possibility of combining the administrative and investment functions of the states' five pension funds.

Sen. W. W. Hill Jr., (R.-Indianapolis), chairman of the senate finance budget subcommittee, is in favor of passing the proposal, but said that the funds should otherwise continue as separate entities.

Sen. Hill told *Business Insurance* that he didn't have any statistics available on how much money could be saved by combining the funds' administrative and investment functions but that he felt economy was one of the reasons in favor of the idea. He also pointed out that the combination of the administrative and investment functions would expedite the handling of claims and equalize the payouts.

Sen. Hill said that the proposal has failed in the past but that there was greater interest now.

The five pensions funds cover the state teachers, Indiana public employes, state judges, state police and the state board of accounts. ■

Barger re-appointed

Gov. Ronald Reagan has re-appointed Richards D. Barger as California insurance commissioner for a four year term. Mr. Barger, was first named to the post in 1968. He is now chairman of the executive committee of the National Assn. of Insurance Commissioners.



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Lufthansa workers get liberal moving benefit

NEW YORK—Lufthansa-German Airlines, in a display of Teutonic generosity, granted a lengthy list of relocation benefits to some 450 office and clerical personnel members when the company moved from its midtown Manhattan headquarters to a new building in East Meadow, Long Island.

Although the relocation agreement was negotiated with the company by 10 teletype operators, who are members of the International Assn. of Machinists, an airline spokesman pointed out that the preponderance of the company's office and clerical staff was non-union.

The liberal relocation benefits included an interest-free, three-year loan to cover the rent deposit-security payment on a new apartment. The company also absorbed three months' penalty for breaking a lease and assumed the security payment.

IF THE EMPLOYEE'S old home needed painting before being sold, the company also assumed that charge. Along the same lines, if the new premises needed renovation the company would grant a three-year loan, interest free the first year and 5% thereafter, on the unpaid balance.

Other provisions provided for by the airline included:

- Rent subsidies for two years of 80% of any increase in rent for new homes.

- If any employe had to buy an automobile, the company granted a 5% auto loan up to \$2,500 over three years. Car re-registration fees were also covered.

- If school fees were lost in shifting children from one school to another, the employe was reimbursed.

- A curtain fund was set up to repay employes \$100 per room for curtains, rugs and other furnishings they had to leave behind.

- The full cost of moving, including tips to the movers, was assumed by Lufthansa.

- A lump sum inconvenience payment of up to \$500 was made to those employes with children at home if they could not move, provided they stay with the company for one year.

- The company paid for up to two weeks of classified advertis-

ing involving the sale of an old home.

- The charge for hooking up appliances, such as washing machines and dishwashers, was paid as part of the moving benefits.

The company decided to move to the Long Island location to escape the high cost of Manhattan. A survey was taken among the staff at Lufthansa headquarters and it was learned that more than half of the employes already lived on Long Island, though many of them lived in Queens, a borough of New York City located on Long Island.

The Lufthansa ticket offices will remain in New York City, as will a small public relations liaison office. ■

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Cite U.K. penalties for guns on planes

LONDON—Gun-toting in British-owned aircraft is to be made a criminal offence. This decision has been taken by the Government in a legal bid to stop hijacking, following the Montreal convention on the problem last June.

It is already an offence to maim or kill anyone with a gun, of course, with severe penalties likely to follow. But in a new move to tighten up controls on weapon-carrying, the law has been amended so that it becomes unlawful to take any gun on board a U.K.-registered aircraft unless it is stowed in a cargo-hold or similar place and kept out of the way of passengers while in flight. The gun must also be kept unloaded. Penalties range from a \$500 fine to six months in a penitentiary.

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business insurance/perspective

The coming revolution in group insurance

by Lawrence Schwartz
Assistant Vice President,
Hanover Life Insurance Co.
Worcester, Mass.



Lawrence Schwartz

It now appears evident that a federal health care program will be adopted within the near future. Some political observers predict some type of program has a good chance of passing during the 1971 Congressional session. It is still too early to tell whether the final plan will evolve along the lines of a privately insured scheme, with minimum federal standards of coverage as advocated by the insurance industry through its trade association, the Health Insurance Assn. of America, or whether the new plan will go to the other extreme—a federal health service patterned after the English program as put forth by certain segments of organized labor. No matter what plan is adopted, it will create a serious crisis for the private insurance sector, one that appears to be totally overlooked by both private planners and the industry itself.

Specifically, unless some definite planning is started now, the insurance industry (including Blue Cross and Blue Shield) faces the possibility of severe "technological unemployment" due to the dismantlement of the private insurance industry health insurance delivery system that has evolved during the past 65 years. The magnitude of the problem faced by the insurance industry is staggering. Annual insurance company and Blue Cross-Blue Shield premiums for hospital-medical coverage are in excess of \$12 billion. Of this amount, about \$8 billion is derived from group plans. Through the loss of this premium, or a substantial portion of it, the insurance industry, including the service plans, could lose operating income from group plans alone of up to \$1 billion. This amount goes each year to pay salaries, commissions, taxes and company overhead. A look at the companies' annual statements and group department rosters will give some indication of the effect this loss of income will have when translated into terms of people and other company services that are either directly or indirectly supported by group accident and health operations.

Undoubtedly, some of the shock loss can be absorbed by the companies redirecting efforts to other existing group insurance lines such as group life and pension benefits. In addition, some type of supplemental medical coverage will probably evolve around any governmental medical care

plan. In the case of some of the giant carriers, consultation and/or administrative programs in conjunction with the governmental agency handling the federal plan might be able to utilize some existing talent and services. Absorption of some insurance industry personnel by the governmental agency handling the federal plan might also be a possibility. However, without any advance planning, the likelihood is that many of those currently employed by the private insurance industry in the delivery of group health benefits

life affiliations. In addition, after resisting the trend for many years, many companies are now actively marketing mutual funds.

Where once insurance was primarily marketed through the agency system, we now find more and more benefits and services being provided through such diverse marketing outlets as credit cards, banks, newspapers, direct mail, professional and fraternal organizations, public utilities and, of course, the employer-employee payroll deduction situation, which was instrumental in the phenomenal

'(They) could shift from group hospital-medical care into such areas as group auto homeowners insurance for employees . . .'

will find themselves either technologically unemployed or shunted off into less rewarding positions within their respective companies.

FORTUNATELY, there are some alternatives open to the insurance industry. Like many other industries, the insurance industry is undergoing a change in marketing and products. At one time, the insurance industry was rather specialized. Life companies offered only life insurance, health companies only health insurance and casualty companies only casualty insurance. We are currently in a period of diversification. Some time ago, many life companies began offering health insurance and health companies established life departments. More recently, life companies have begun to acquire casualty affiliates and casualty companies, either through acquisition or otherwise, have established

growth and success of group insurance.

Since most group hospital-medical income is now derived from employer-employee payroll deduction situations, it would appear logical to look to it for replacement of income lost as a result of a federal health program. The history of group insurance has been that in the beginning most, if not all, of the premiums under a plan were paid by the employee through payroll deductions. Over a period of time, through collective bargaining and other pressures, the employer began to share more in the cost of these plans until at present about one half of the plans in existence are paid for in their entirety by employers. As anyone in the group field for any length of time can attest to, "group" is more of a concept than a product. The field is constantly undergoing changes in products and procedures to meet changing situations. It is probably

the most consumer oriented facet of the insurance industry, hence, with a minimum of dislocation in either marketing or administrative procedures, the group insurance part of the industry could shift from group hospital-medical care into such foreign, but really not so different, areas as group auto and homeowners insurance for employees, equity savings programs through the sale of mutual fund programs on a payroll deduction basis, as well as programs of individual life and health insurance paid through payroll deductions.

There will, of course, be serious problems to overcome. Strong objections may come from various agent associations that have traditionally felt that any type of group mass marketing scheme was an infringement upon their livelihood. Regulatory agencies, which are subject to outside pressures and are slow to change, can be expected to create some problems. One of the greatest obstacles to be overcome undoubtedly will be the "traditional" minded. However, if the industry can avoid a serious crisis, and at the same time provide more benefits and services to more people at lower costs than exist today, the time to start some serious transitional planning is now.

The impetus for this planning as well as the planning itself should come from the group industry itself. We are living in an era of rapid change and these new programs will come. They are desperately needed. They can come sooner at a lower price by utilizing the know-how and resources of the group industry rather than developing a new marketing and administrative structure through trial and error. ■

Lawrence Schwartz is assistant vice president of Hanover Life Insurance Co. in charge of group operations. He is also administrative officer, group operations, with State Mutual Life Assurance Co. of America, Hanover's parent company. Mr. Schwartz is a Chartered Life Underwriter and a registered National Assn. of Securities Dealers representative. Prior to joining Hanover Life he was director of group operations of Pension Life Insurance Co. of America and had been with Mutual of New York and the Prudential group in insurance management positions. Mr. Schwartz is a graduate of New York University.

Custom-made claims service

by Paul K. Clayton,
Director of Planning, Research &
Statistical Management,
CNA Insurance,
Chicago, Ill.

The following is taken from an address presented at the annual meeting of the Society of Chartered Property & Casualty Underwriters in Los Angeles, Cal.

It is a stimulating time to be working in insurance claims. Not only are new products being developed, which, of course, must be serviced, but new concepts of service are crowding each other in their race to be tested and proved. Also, the amateur is steadily leaving the ranks of the insurance industry, giving way to those people who are willing to continue learning and adjusting to change.

We believe that the servicing of claims arising from new manufacturing processes—claims arising from new chemicals, new

and untried drugs, the increased complexities of the manufacturing process, the new awareness of consumerism, and the effects of all these new products on our environmental conditions—is creating a growing awareness, among an increasing number of large corporations, that the claims-consciousness of the general public will continue to rise during the foreseeable future. Hence, if claim service is going to be improved in this environment, custom-made, pre-accident programs must be designed to involve the national account and the claimsmen in loss planning and control to a much greater degree than has been done in the past.

From a claim service standpoint, regardless of the type of business the national account is engaged in or the type of claim service program the national account is requesting, I do not believe there is a substitute for the loss adjustment facilities of a first-class carrier in solving problems, particularly in workmen's compensation and third-party liability includ-

ing products problems. Hence, the claimsmen stands in a most unique position now.

AND THE MORE WIDELY dispersed the national account's operations are over multiple states, the more important becomes the quality of the claim facilities offered by the carrier to the account. This is true for several reasons. First and foremost, the national account, under either a self-insurance program or any other plan, is purchasing prompt service from the claim department, and in addition it is purchasing the services of a network of top defense counsel throughout the country, all of whom specialize in tort defense.

Then, there is the national account's concern for public relations. Business firms realize that coming face to face with irate claimants, who often have exaggerated ideas about the value of their claims, does not normally make for good public relations.

In addition, business firms are faced

Continued on the following page

Claims . . .

Continued from preceding page

with the difficulty and expense of developing and retaining adequate claim personnel. Handling claims often requires a well-trained staff of claimsmen and attorneys available at a moment's notice, and in sufficient number to handle peak claim volume, when and if loss occurs. It is commonly not possible for one firm to utilize the necessary standby staff at all times, and this becomes an important expense consideration. Also, trained attorneys and claimsmen must be available to handle the firm's claims whenever they occur and over prolonged periods of litigation. Hence, the more widely dispersed the national account's operations are over multiple states, the more important becomes the quality of the claim facility offered by the carrier.

In the new methods of selling claim services for those national accounts desiring development of positive programs, the initial approach by the underwriter to a potential customer is almost identical to that used in a conventional insurance program. Information on operations and financial stability, as well as detail on the kind of and number of losses and size of losses, are all needed. The program involves both administration of claims and provision of some form of insurance, generally specific excess coverage. The customer must be self-insured, in fact, for the particular line or lines on which the service is to be provided. This means he must qualify as a self-insured, in compliance with whatever regulations are in effect in the states in which services are to be provided.

IT IS NECESSARY then that a special claim-recording system be developed under which claims will be processed in exactly the same manner as insured losses might have been, but without ever appearing in the insurance operating statements of the company.

Loss facts, initial reserve recommendations, subsequent reserve change recommendations, and closing payments must all be accounted for and exhibited to the self-insured customer. Yet, not one of those thousands of transactions must be allowed to go through the company records, because losses under these programs never become balance-sheet liabilities of the insurance company. Fortunately, this is one of the benefits of modern electronic data processing, with the result that the claim department is able to control cases and produce monthly claim analyses and exhibits to the self-insured customers in exactly the same manner as to those under full insurance. This customer service then enables the customer to evaluate his position regarding loss at any time. It also enables the company to monitor its position on the excess coverage at any time.

In addition to the flexibility maintained in the processing of claims and the supplying of loss-information data, many self-insured customers will desire to absorb loss costs by direct use of their own funds. These programs normally will apply such funds either through special arrangements for preparation of checks or drafts or by using special banking arrangements. However, if the self-insurer desires to smooth peaks and valleys of money flow, there should be no reason why suitable arrangements cannot be made for advance payment of losses, so that budgeting of self-insurance loss costs by special financial schedules would be available. We believe this broadening of claim service is a desirable symptom of progress; certainly, these types of programs provide new dimensions to claim management.

Because of the service aspect within the claim department, full utilization of this concept is achieved for the self-insurer only by developing with that account a custom-made, pre-accident program that involves the self-insurer and the claim management in defensive planning and control of losses to a much greater degree than under the traditional insurance

mechanism. By defensive planning we mean the self-insured establishing and coordinating, with the aid of the claim department, responsibility centers within his operations, so that strong control measures can be brought to bear quickly and effectively on any of the many claim situations that will occur. The self-insured will generally specify the location of the centers, the personnel who will serve them, and the scope of their duties.

EACH PROGRAM, worked out in cooperation with the claim department, must be tailor-made to fit the specific needs. Of course, the matter of responsibility centers will depend upon the account's normal organization, people available, and kind of operation. However, the key to the program is in the development of the plan, the assigning of responsibility, and the periodic review of procedures.

In addition to the claims man's traditional role, in many instances he will be serving as the claims coordinator working with the account on a daily basis, conducting the claim-handling function or coordinating his work with the self-insurer's legal or loss departments. He may also serve as a technical advisor to the account's loss review committee.

'The key to the program is in the development of the plan, the assigning of responsibility, the periodic review of procedures.'

These programs stress the need for a coordinated claim investigation. For this reason, we have found it desirable to develop a staff of national account home office claim administrators who have the responsibility of coordinating the work of the technical field and home office claim departments with the work being performed by the self-insured. In this manner, communication is maintained with each individual account, while at the same time the technical claim-handling function is released to concentrate on the technical aspects of the claim. We agree with a growing number of large accounts that it is possible to do a better job of planning for liability claim investigations, lawsuits, explosions and other unscheduled, unplanned, unwanted, costly, abnormal occurrences in several critical areas of their operations. Such factors as inflation, rising jury verdicts, increased medical and drug costs (not to mention the expanded concepts of torts where our basis of recovery has broadened) are all in concert creating a new awareness on the part of the large account that the key to better control is through more intensive, defensive planning for the event long before it arises.

This growing awareness suggests that if accountability for these occurrences is not more thoroughly planned and properly handled, it could adversely affect a company's position in the highly competitive

marketplace and actually challenge its economic survival.

ONE OF THE LARGEST manufacturers of farm machinery is currently actively involved in defensive planning with its insurance claim department, and they report that they are achieving remarkable results with their service contract in the area of products liability. Here, working with the account's quality control managers and engineering people, pre-accident procedures are developed at the plant level and coordinated jointly through their corporate legal department and insurance claim department. Detailed instructions, in manual form, are developed long before the losses occur and describe the types of accidents the account can expect, based on past information.

The necessity of quality control managers and engineers to maintain accurate and complete records is stressed, as is the need to establish sound procedures with respect to manufacturing and other processes. Their training seminars emphasize that defense planning begins when business begins, with product development and in basic research. Even in the process of design and research, records of the work are kept and catalogued.

Standard training manuals are developed for their quality control and engineering people that not only evidence the thought and care given to the production of a marketable product, but also demonstrate interest and concern for the people who will use their products. All of these procedural records are important, because these business entry records are admissible in evidence in most jurisdictions when a claim arises. They have a marvelous effect on a jury because they graphically demonstrate to the jury the care that has been taken, and they tell the company story. In some cases this kind of evidence, this demonstration of a standard, careful procedure, may be the only evidence to refute the plaintiff's case.

Educational seminars are also held in the plant to identify and train line people who can best verbalize their manufacturing process, and who can be available to testify in court when called on by their employer.

THE DEFENSE RESEARCH Institute has recently published a manual on the subject of pre-accident investigation stressing the need for responsible planning activity prior to the loss. It emphasizes how extremely important it is in pre-accident procedures that employees be aware of their role in the trial of law suits, that they be advised of the process so that, if and when they are called to

testify or to give information concerning their work, they have a basic understanding of what is happening and will be able to explain their activities clearly and concisely.

Another large corporation actively involved in purchasing claim services for its products exposures has found it beneficial to arrange for all claim representatives to visit key manufacturing plants and all principal engineering facilities. Claims people also participate in one-week orientation programs concerned with the self-insured's manufacturing, engineering and research facilities. The purpose of the orientation is to familiarize the claim representative with the complexities of the large account's products and to identify the facilities that are available for use in the defense of their liability cases. Detailed instructions are outlined as to reporting of accidents, both by the individual employe and by managerial staff. The program stresses how, after the accident has occurred, complex investigations are to be conducted and coordinated.

Another large manufacturer admonishes its managerial employes that the most important step in reducing the cost of liability claims is the immediate investigation of every serious accident in which it becomes involved. It maintains that its own personnel, under its claim service program, can make their greatest contribution by concentrating their investigation on an analysis of their own product's defects and (since the manufacturing process is considered complex) believes that their own engineers and chemists are best able to determine proximate cause in the manufacturing process. In addition it is felt strongly that their own people are best prepared to determine the exact cause of all accidental losses occurring on any of their numerous premises. Consideration of this important phase of claim investigation is monitored through their corporate legal department.

Insurance claim representatives, they believe, make their greatest contribution while the internal investigation is taking place by concentrating their investigation in such areas as procuring police reports, analyzing medical information, obtaining statements from witnesses, contacting claimants and other members of the general public, and coordinating and managing those claims referred to defense counsel for disposition.

So it is a stimulating time to be working in insurance claims. The sale of a claim service, with its emphasis upon the use of the customer's own funds for settling their own claims, with the various options available to the account as to types of drafts, use of funds and the supply of timely loss information, and with the "customerized" approach to claim investigation and all the other facts in this area of activity, will call on the claim department to intensify its capabilities of responding to changing conditions as new situations occur. ■

Risk management notes

by Warren, McVeigh & Assoc.,
risk management consultants,
San Francisco, Cal.

Liability

The standard liability policy requires that "if claim is made or suit is brought against the insured, the insured shall immediately forward to the company every demand, notice, summons or other process received by him or his representative." Note the word "immediately," which is much stronger than the requirement that written notice of occurrences be given "as soon as practicable." This puts a special burden on the insurance manager to be

certain first, that other executives who may receive a legal summons are aware of this requirement; and second, that procedures are established so that immediate notice will be given to the insurer without any delay which could be caused by any individual's absence from the office; standard mail routing practices, among other things.

Brokers' Commissions

Some corporate insureds negotiate brokerage fees with the broker, whereas other buyers concern themselves only with total premium. Whether the broker is being compensated on a percentage commission basis, or on a per diem fee basis, the broker's re-

muneration should have some relationship to services rendered. However, it is difficult to rationalize any direct relationship between premium size and producer services. If, as many brokers say, they are buying insurance on behalf of you, their client, any case made for percentage commissions becomes more vulnerable. For years we have heard predictions that big brokers would go on a fee basis but it has not yet developed on a large scale simply because buyers have not pushed for it. We believe it would do much to improve the professional caliber of services performed to relate them directly to compensation. However, this change will not spring from within producers' groups—it must be initiated by the insurance consumer. ■

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Union considers starting auto insurance firm to combat high rates

AUSTIN, Tex.—The Texas AFL-CIO is considering the possibility of starting its own auto insurance company to combat rising auto insurance rates, union president H. S. (Hank) Brown said.

Mr. Brown again complained about the proposed 23.4% average increase in Texas auto insurance rates, which the State Board of Insurance is considering. It appears, however, the rate increase may be substantially less as the board will not consider investment income in rate changes. The insurance companies have fought the inclusion of investment income in determining rates, but

now that this income has been a loss, they are in favor of it.

Mr. Brown said the union has looked into the possibility of creating its own insurance company.

"WE ARE ADVISED that the rules and laws and regulations as presently prescribed are very difficult and in fact do not encourage it," Mr. Brown said. He cites the Jan. 1 opening of its own insurance company by the Ohio AFL-CIO.

"It take a lot of money to get into the insurance business," Mr. Brown said. "But I hope we can persuade our next convention to get into this business—We would

like to prove that you don't have to have these kinds of exorbitant rates."

Mr. Brown also recommended a new state law to prevent State Board of Insurance employees from taking jobs with the insurance industry within five years after they leave state service.

"It's amazing how many of these fellows who serve here learn the loopholes of the law and the bureaucratic system of insurance (and) wind up when they get through with a short apprenticeship going to work at fat-cat jobs, paying \$25,000 to \$50,000 a year and with open expense accounts," he added. ■



Washington State's largest single fire insurance payment of \$3.5 million is paid to Mrs. Elaine Ward and her attorney Fred N. Hoover (center) by Edwin C. McRory of Fred. S. James & Co., Seattle insurance brokers. The payment covers property damage and business interruption losses resulting from a January, 1970, fire that engulfed the Tye Motor Inn in Tumwater destroying 149 motel units and dining facilities. Continental Insurance Cos., New York, underwrote the policies on the inn, owned by a firm in which Mrs. Ward's late husband was general partner.

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Workers get benefits for one month

PORT ANGELES, Wash.—Fibreboard Corp. will be closing its mill here and those employees affected by the termination of operations, most of them members of the Assn. of Western Pulp and Paper Workers, will receive a liberal benefits package from the company.

Both salaried and hourly personnel who do not continue with the company will have their group life insurance, accidental death and dismemberment and hospital, medical and surgical plans paid for by Fibreboard for one month after the mill closes.

Those employees who lose their jobs because of the closing will receive severance pay. The severance pay schedule, provided for under a special agreement between company and union, will be based on 40 hours per week at the regular straight time of the employee's regular job title at the time of termination for completed years of continuous service. For example, an employee with ten years continuous service will receive six weeks severance pay.

The agreement with the union also gives Port Angeles employees preferential hiring rights at other Fibreboard plants for one year. Any employee who does hire on at another plant during this period will be considered an employee with continuous service for pensions and benefits unless this is contrary to a local bargaining settlement.

All Port Angeles employees, both salaried and hourly, have been given vested pension rights under the company's retirement plans. In other words, they will be able to receive their pensions, at age 65, attributable to their time of service at the Port Angeles mill.

Usually, only employees with 20 years or more service are eligible for vested pension rights. ■

Singapore office

Ingram, Armistead, Wallace Inc., New Orleans, will open an insurance brokerage/consulting office in Singapore. "We feel that there's a great future for U.S. industry and us in Singapore," said Daniel J. Gieseler, Jr., executive vp of Ingram, Armistead, Wallace who'll head up the new office. He explained that the company is currently pursuing a program of "accentuated internal growth and actively seeking mergers with anybody who'll help us improve our services to our clients."

Shippers threaten to boycott Florida ports over underwriting requirement

TALLAHASSEE, Fla.—Shippers are threatening to boycott Florida seaports because of a tough anti-pollution law requiring them to underwrite damages caused by oil spills.

Shipping firms and their insurance underwriters object to state legislation governing spills, according to Natural Resources Director Randolph Hodges. "They take the position that the federal government has pre-empted the field and that there should be no state legislation" on the subject, he said in Tallahassee.

Chris Jensen, executive director of the Florida Petroleum Council, said foreign-owned tankers may be unable to satisfy the state's regulations for proof of financial responsibility and so would be barred from Florida ports under the state's own law. He expressed a belief that such ship owners probably would attempt "in good faith" to comply with the rules, but he felt they would be unsuccessful.

SHIPPING FIRMS dislike a new Florida law that makes the shippers liable for damages resulting from the pollution of a state waterway by their vessels. Ship owners must file proof of minimum financial responsibility of \$100 per ton, Mr. Hodges said. The federal regulations establish a limit of \$14 million liability on an offending shipper's clean-up responsibility.

Florida legislation also permits the state to sue for damages to the ecology, while the federal act limits a shipper's liability to the cost of cleaning up spilled oil.

Mr. Hodges said Florida is one

of the nation's largest customers of tanker oil, with about 5 billion barrels delivered to the ports of Miami, Jacksonville, Tampa, Port Everglades and Pensacola. Should the shippers stage a boycott, it would soon create a shortage that could jeopardize operations at the state's power plants. He cited estimates that the power plants could operate for only 12 days should a boycott be conducted.

But he expressed doubts that shippers would go so far. "I wouldn't be surprised," he said,

however, "but that they would challenge the act."

Because much of the Florida-delivered oil is destined for military installations or for interstate commerce, Mr. Hodges hopes to enlist the aid of the U.S. Justice Department in working out a compromise.

One Jacksonville company said it has received word that a shipper might delay delivery of 500,000 gallons of turpentine because of apprehension over the new legislation. ■

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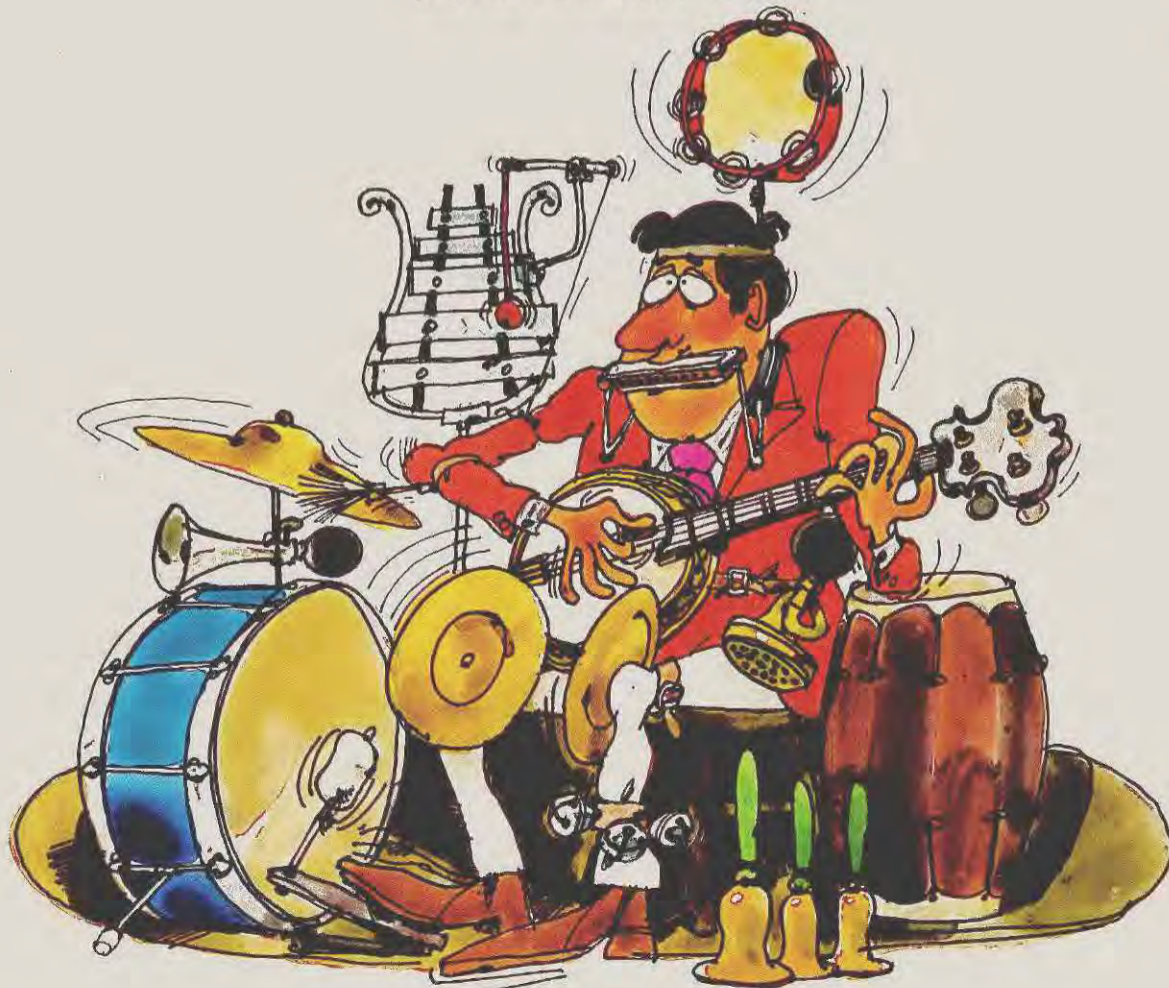
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elect attractive options, including permanent cash value coverage at less than individual rates. Something new in retirement programs, too: *The Answer Plan*. This concept of Continental Assurance, of CNA/insurance, allows small employers to start a plan preapproved by the Internal Revenue Service, almost as easily as buying fire insurance. And through the same man—a local independent agent!

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(But No. 1 with insurance pros)



Burglars and thieves foiled by computers

IRVINE, Cal.—Computer technology developed here is saving insurance companies claims payments and catching up with thieves and burglars in and around New York.

A total of 12 Varian Data Machines, general purpose digital minicomputers with 750 nanosecond time cycles, are now protecting more than 1,000 branch banks and monitoring at least 14,000 more home, jeweler, furrier and retail store burglar alarm systems providing 24-hour security.

The exceptionally fast minicomputers are used by Holmes Protection Inc., New York, and they cost \$1.1 million. They are part of an extensive computerization program by the protection company.

THE MINIS ARE being installed at six central stations where they will continuously monitor burglar alarm systems at homes, stores or offices.

During normal business hours, when an alarm comes in, the minicomputer identifies and records it and compares it with a reference code and then awaits a cancelling signal from the customer within a predetermined interval, usually about 30 seconds.

If the alarm is not cancelled by a signaled special code number, using an electronic button, then the minicomputer activates both audio and visual alarms at the central station where an observer then intervenes and alerts a special dispatcher. ■

following the funds

UMW pension fund drama unfolds in a federal district court this month

WASHINGTON—One of the most fascinating—and complex—courtroom dramas involving a pension fund began unwinding in a federal district courthouse here the other day when lawyers for nearly 100 coal miners and their widows began arguing a \$75 million conspiracy damage suit.

The defendants in the suit are the United Mine Workers of America and several of its top officers; the UMW Welfare and Retirement Fund Inc., and its three trustees; the union-owned National Bank of Washington

and the Bituminous Coal Operators Assn. The latter group is the largest association of coal mine owners in this country.

To be sure, it is a motley group that has been called before United States District Judge Gerhard A. Gesell and, according to advanced reports, the drama that is likely to unfold may be no less astounding.

THE DEFENDANTS have been accused of conspiring to betray the fiduciary trust owed to the beneficiaries of the welfare fund

through mismanagement and manipulation for private gain. The plaintiffs claim they represent more than 70,000 retired and disabled miners and their families.

According to briefs filed preliminary to the opening of the trial, which is expected to drag on for more than a month, the heart of the case centers around one allegation: that the defendants reaped profits for the union-owned bank and the UMW and its "friends"—including coal mine owners—at the expense of the retirement fund beneficiaries.

This is said to have been done by maintaining or simply allowing the deposit of "grossly excessive" sums of up to \$81 million of welfare fund assets in checking accounts of the union-owned bank that did not bear interest.

Lawyers for the defense, in a reply brief, contend that the trustees kept as much as \$81 million in unproductive accounts because they feared that a "cash cushion" might suddenly be required to pay federal taxes or to cover benefit payments in excess of royalty income.

The case now being heard here is the first of several civil actions being brought against many of the same defendants.

OUTSIDE THE courtroom, the union and its leaders have been variously accused of corrupt and selfishly or politically motivated abuse of the union's 110,000 members. Moreover, the dispute has thus far included a bit-

ter election fight, the murder of a defeated reform candidate for union president (Joseph A. Yablonski) and a Labor Department abortive attempt to unseat the victor in that election (William A. Boyle) on the grounds of election fraud. Mr. Boyle is one of the named defendants in this action.

The case was filed 16 months ago by Harry Hoge, a young Washington lawyer. He contends that "at least \$30 million" in coal company royalty payments to the welfare retirement fund were not collected from mine operators who held "sweetheart contracts" with the union. The fund is financed by the collection of 40-cent-a-ton royalties on coal mined by companies under union contract. That royalty agreement was worked out in 1946—and has not changed since—by members of the Bituminous Coal Operators Assn. and the late John L. Lewis, UMW president at the time.

The "sweetheart contracts," it has been alleged by the complainants, are agreements with small mine operators who do not pay the full royalty scale. The union, however, has persistently denied that such agreements exist, or have existed since the days of John L. Lewis.

Nevertheless, the plaintiffs are strong in charges that the manipulation of the UMW fund has caused lost investment income of about \$20 million through the placement of its reserves for the advantage of the defendants, and that \$25 million more has been "wasted because of mismanagement."

WHETHER THE charges hold up or not is another matter, and that should provide some interesting viewing in Washington this month and into next. Moreover, the ghost of Mr. Lewis may play a role in the outcome.

One defense being offered by attorneys for Mr. Boyle and other UMW officials is that Mr. Lewis' death (at the age of 89 in June, 1969) "deprives the defendants of the testimony of the central figure involved in the events in this lawsuit," since Mr. Lewis, who was UMW prexy for 40 years, initiated many of the policies now in dispute.

* * *

IN ANOTHER development that is not completely unrelated the UMW announced late last month that it has tightened eligibility requirements for its financially troubled pension fund.

The changes will eventually eliminate the current provisions under which miners may receive full \$150-a-month pensions if at least their last year of a 20-year mining career was worked for employers holding UMW contracts. The system meant that some miners could receive pensions even if they worked their first 19 years for nonunion companies that don't contribute royalties to the fund.

A union spokesman has denied that the fund's financial problems are the "prime reason" for the changes, which will be carried out in a series of steps between now and 1977. In October, however, an analysis prepared by the Government's General Accounting Office showed the retirement fund would become insolvent by mid-1975 unless employer contributions were raised (*Business Insurance*, Oct. 26). ■

Lloyd's on 'Big John'

Lloyd's is carrying 50% of the risk of the drilling barge "Big John" that caught fire and exploded off Bintulu, Sarawak. Insured value of the hull and equipment for Atwood Oceanics Ltd., drilling contractors for the Shell group, is put at \$7.4 million.

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Proposed bill would force employers to give minimal health benefits

WASHINGTON—A new entry into the national health care coverage campaign introduced into Congress late last month would require employers to provide a minimum standard of health benefits to employees as a primary means of universalizing health care in the U.S.

The bill, introduced by Sen. Claiborne Pell (D.-R.I.), stipulates that employers would be expected to provide all their employees with health care benefits within a period of two years after the adoption of the legislation.

In addition, Sen. Pell's new health care bill calls for the establishment of regional health care bill calls for the establishment of regional health planning councils designed to plan for health services delivery, medical and paramedical education as well as the construction of health care facilities.

Sen. Pell explained that his bill followed the example of the "minimum wage concept and draws upon administration recommendations and national study groups on methods of improving health care delivery services."

Said Sen. Pell: "We still have been reluctant to make a national commitment necessary to the

restructure of our system of delivering and financing health care," despite the fact that "we realized that private health insurance policies by their reimbursement policies were encouraging the needless use of the most expensive forms of health care, such as hospital bed care.

"I am suggesting," he said, "that every wage earner should not only be entitled to a minimum level of wages adequate to support his family as consideration for his labor, but he should also be entitled to a minimum level of health care benefits for himself and his family." ■

Lloyd's plans non-marine policy book

LONDON—Lloyd's non-marine underwriters are planning to publish a new U.S. and Canada "policy book" as the present one has been in existence for more than 15 years.

This prediction was given by Harold Eastwood, chairman of Lloyd's Non-Marine Assn., who told his fellow-underwriters at their annual meeting:

"In the U.S., quite apart from legislation and regulation at state level, underwriters are all aware of the growing incursion of the federal government into matters which impinge directly, as well as indirectly, on the insurance business.

"NOT THE LEAST of the worries, from an underwriting point of view, is the growth of state legislation imposing limitations on the rights of insurers concerning the cancellation or non-renewal of business."

Policy revisions at Lloyds' have lately kept pace with such developments as sonic bangs, seepage, pollution, and computer records, he said.

Mr. Eastwood urged his colleagues to get together with each other in creating more leads so as to meet present demands.

He pointed out: "Brokers say that in many cases the large syndicates do not write such a large line where they follow other underwriters, but if liaison can be achieved I am sure the problem of too few leads will be solved, or at least the situation will be improved to the benefit of everyone, including the assured."

He spoke of the possibility of working more directly in Australia through a proposed organization which will be controlled by underwriters, and operate under binding authorities subscribed to by those underwriters who want to take part. ■

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D&O coverage put on the hot seat in Canada

By ROBERT CATHERWOOD
TORONTO—Directors and officers liability insurance has become a hot topic in Canada in recent weeks. The reason for the increased interest is the new Business Corporations Act which went into effect in the province of Ontario January 1.

The act sets out a specific code of conduct for directors and officers and gives shareholders the green light to sue them if they breach the code (or any other statute or rule of law).

Although the new standards will affect only directors and officers of Ontario-incorporated companies, both the federal government and the other provinces may soon follow Ontario's lead.

MANY CANADIAN directors

see the Ontario act opening the door to a rash of shareholder suits, of the type that have plagued U.S. corporations in recent years. In Canada, this type of suit is called a representative action.

Before Ontario's new act not only was there no statutory code of conduct for directors, but the law made it very difficult to be able to bring a representative action in behalf of the company. In Canada, representative actions are brought by shareholders to enforce the right of the company when, in the opinion of shareholders, the company has suffered damage because the directors goofed.

Section 99 of the Ontario act says a shareholder—it only takes one—may bring an action on be-

half of the company. To discourage frivolous suits, a shareholder must first get the sanction of the Supreme Court of Ontario and he must have made an effort to get the corporation to prosecute the action on its own behalf.

The previous law in Ontario, and the law as it still generally applies to federally-incorporated companies, is based on the English case of *Foss vs Harbottle*, decided in 1843. The rule enunciated in this case in effect denies representative actions by a shareholder unless he can prove that:

- The company has done something illegal or beyond the scope of its powers.

- There has been a fraud against the minority shareholders, and the wrongdoers (who would be the directors and offic-

ers) are in control of the company.

- A resolution which requires a qualified or special majority vote has been passed by only a simple majority.

BEYOND THESE exceptions, an action for the benefit of the company can only be brought with the approval of the directors (not so now in Ontario). Obviously, if the directors are going to be on the hook for some action that has damaged the company, it's not likely that they will sanction such a suit.

Not only does the Ontario act specifically permit representative actions, but it also says that the corporation may be required to finance such suits (section 99 (4) & (5)).

This provision is being blamed for bringing some directors close to a state of apoplexy.

"It's bad enough that I may be sued, but why should the company have to foot the bill for the shareholder's lawyer, and court costs?" asks one company director.

THE OTHER VIEW—and the one that prevailed in drafting the act—is that there is not much use in giving a shareholder the right to sue if he can't afford to do it.

With directors now so clearly exposed to shareholder suits, there is an urgent concern about the availability and cost of d&o insurance.

This concern is not limited to directors; the Ontario Department of Insurance has held discussions with some members of the insurance industry to find out whether corporate officials will be able to protect themselves against this new lawsuit threat.

If has been for some time an accepted principle that a corporation may indemnify a director against losses incurred by him in the discharge of his duties, unless he has been wilfully neglectful or fraudulent. Indemnity provisions usually are written into company by-laws and authority for these by-laws is in the various corporation acts. (For example, section 147 of the Ontario act; section 91 of the federal act.)

THE NEW ONTARIO act, however, while saying that a corporation may indemnify its directors, gives this permission only if the director achieves "complete or substantial success" in an action brought against him (section 147 (2)).

This qualification about having to win a lawsuit was not in the old Ontario act, nor is it in the present federal act.

It is the indemnification provision that has fathered one of the parts of the standard two-part d&o policy contract. This is the part which covers the corporation for any amount it is obligated to pay its directors as a result of an action brought against them.

In including the qualification that the director must successfully defend a shareholder suit to be indemnified by the corporation, Ontario followed U.S. practice. Although the law varies somewhat from state to state, it is generally not possible for a director to be indemnified by the corporation if he loses a shareholder suit.

NOW, WHAT are the chances of a director achieving at least substantial success in a shareholder action?

Under the new Ontario act, it would appear that he must measure up to the standard of conduct set out in section 144 in order to escape being nailed.

This section says that every director and officer shall exercise the powers and discharge the duties of his office honestly, in good faith, and in the best interests of the corporation, and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Directors are hoping in interpreting section 144 the courts will continue to take into account the knowledge and experience of the particular director. There is a precedent for this. The leading case is the 1924 English decision involving *City Equitable Fire In-*

Continued on page 52

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Senate unit hears Blue Cross called 'a collection agency for hospitals'

WASHINGTON—The head of a New York health insurance carrier told a Senate subcommittee that Blue Cross plans "can no longer act as collection agencies for hospitals" if hospital care costs are to be controlled.

Dr. George W. Melcher Jr., president of Group Health Insurance Inc., testifying before the subcommittee on antitrust and monopoly of the Senate judiciary committee, said, "While administrative costs of (Blue Cross) plans can, in some instances, be lowered, the real saving must be within the hospital cost end of the premium dollar."

"The rush of some plans to get into other areas of health care coverage rather than concentrate on resolution of their basic dilemma is deplorable. Unless the Blue Cross plans accept the responsibility of involvement with the hospital in meeting the question of practice by the physician within the hospital, there is little need for their very existence at this point in time."

IN DISCUSSING the nature of

Blue Cross plans in his testimony before Senate investigators, Dr. Melcher charged, "The very structure of the individual Blue Cross plan in many instances provides for a very serious conflict of interest. Hospital bodies fill the governing boards of the prepayment agency, with the result that policy is set by the providers."

"There is little function for the plan other than to serve as a conduit of money from the potential patient to the hospital. Furthermore, as the same plans are, in many instances, asked to administer governmental funds, one must suppose a less-than-effective effort in stewardship of funds can be made without serious jeopardy to the relationship between the plan and the hospital as it relates to the plan's own line of business."

He said that exclusive operating territories for Blue Cross plans assure there is no competition.

"The so-called 'discount' provided by the Blue Cross plan is not available to other insurers so that the non-Blue Cross patient usually

pays a higher charge and may well, in fact, be subsidizing the Blue Cross patient."

DR. MELCHER concluded, "The cost reimbursement method of financing has no reason to produce cost containment. It existed without challenge until recent times when the rapid increase in labor and other costs forced the rate of increase up sharply with the resultant protest from the purchasers. Until now this practice did not even come into serious question."

Dr. Melcher's testimony was part of three days of hearings conducted by the subcommittee on the relationship between Blue Cross operations and the high costs of hospital care. Several other witnesses urged that hospital administrators be taken off Blue Cross plan boards.

Walter J. McNerney, president of the national Blue Cross Assn., told the subcommittee that "all elements in the health care system" must cooperate to hold costs down. ■

Earthquake ...

Continued from page 1
Insurance Co. writes the cover and the policy, as is typical of similar covers written in California, has a 5% deductible provision. That is, the deductible is 5% of the total property value.

Another company that sustained considerable damage, according to early reports, was Dart

Industries Inc. The firm manufactures glass products and also owns Rexall Drug Cos. One plant in the Los Angeles area was heavily damaged. It is insured for earthquake losses by the Factory Mutual System.

LOCKHEED Aircraft Corp. was forced to shut down a huge plant in Burbank. It was not immediately known if Lockheed has earthquake coverage, however.

Trans Union Corp.'s risk manager, Edward D. Hansen, said that a small El Segundo property of theirs was damaged in the quake but that the extent was not known. "We have the standard California earthquake deductible on our DIC policy, 5% of the replacement value of the building," he said. Appalachian Insurance Co. underwrites their DIC.

Union Carbide Corp. has a large petrochemical plant as well as a couple of other smaller operations in Los Angeles. A spokesman in New York said: "We haven't heard from them so we assume there is no major damage." He added that the chemical plant was designed to withstand earthquake shock so the risk has been self-assumed by the company. Explosions and fires that could result from a quake, of course, are covered under standard policy forms.

Similarly, Standard Brands Inc., which has several manufacturing divisions in the area, also self-insures earthquake losses. A company spokesman told Business Insurance none of those facilities was damaged. However, he pointed out that earthquake coverage has been a problem to companies with West Coast operations. The coverage, he noted somewhat ruefully, "is in the same category as flood insurance, but the government will help you get flood insurance."

A source at Atlantic Richfield Co. said that property his company has in the area was also unharmed by the severe quake, has it insured for quake damage.

EDWARD P. LALLEY, insurance manager at Kraftco Corp., which also has operating units in the Los Angeles area, brought up another concern corporations in the quake area are facing. While his firm did not sustain any property damage to speak of, he said they "are concerned about the personal property losses and per-

sonal problems some of their employees may have to face."

According to the General Adjustment Bureau, 200 GAB men were on the job in southern California less than 24 hours after the quake hit. They immediately began surveying and settling claims to which earthquake coverage applied, as well as claims that arose out of fire and water damage resulting from the earth tremor. A GAB source said California Edison and Bendix Corp., as well as Dart Industries, were among the larger commercial insureds for whom they were surveying damage.

A spokesman for the Factory Insurance Assn. (FIA) told Business Insurance that a preliminary survey of their insureds showed no appreciable earthquake losses. At least, he noted, little that will property deductible and 2.5% to 5% deductible on contents.

FIA insures about 200 plants in the area, he said. About one-third of these have the earthquake endorsements on their policies. Other FIA losses may result from sprinkler leakage as a result of the quake, he said, and that would be covered regardless of whether a plant is insured for quake damage. Those claims might total \$1 million, he added. ■

No blackout claims yet

NEW YORK—Hardest hit by a localized blackout here on Feb. 7 was the broadcast industry, in which loss of advertising revenues among the city's radio and television stations could reach several hundred thousand dollars. Sources familiar with blackout business interruption endorsements said most broadcasting companies have all-risk policies. Television and radio stations that lost advertising revenue will likely await the determination of what caused the power loss before introducing claims. Consolidated Edison Co. initially described it as an explosion in a substation transformer. One broadcast insurance source questioned said the typical blackout endorsement excludes coverage if it results from "wear and tear or normal depreciation of equipment." Should that be determined, broadcast interests might seek relief directly from Con Ed. ■

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Insurers opt for better workmen's comp benefits

By RICHARD BJORKLUND

CHICAGO—Workmen's compensation insurers are taking the initiative in demanding that deficiencies in the state system of workmen's compensation be corrected before the federal government takes over the function of compensating workers for on-job injuries.

For example, the American Mutual Insurance Alliance, which represents more than 120 mutual property-liability insurance companies writing workmen's compensation coverage, now says that it is "deeply concerned about the detrimental effect of such a shift."

Paul S. Wise, president of the group, told *Business Insurance* that

the trade association favors adoption of workmen's compensation laws that meet five basic objectives:

- That all states provide adequate wage-replacement benefits for employees disabled by job-related injuries and illnesses.
- That full medical coverage for job-related disabilities be provided.
- That full coverage be provided for occupational diseases as well as injuries.
- That coverage be extended to all employees by eliminating numerical exemptions for small employers.
- That all workmen's compensation laws be compulsory.

"Workmen's compensation is worth saving," Mr. Wise said in a statement to *Business Insurance*. "If the system is allowed to be destroyed by the deficiencies of a few states, its federal replacement is almost certain to cost more and accomplish less."

A COMPLEMENT to the AMIA program is that of Industrial Indemnity Co., a San Francisco-based workmen's compensation



insurer that has interested itself in upgrading workmen's compensation laws and administration by enlisting the cooperation of the National Assn. of Insurance Agents.

Industrial Indemnity, whose president, Fred Drexler, has proposed a number of progressive solutions to the present system of workmen's compensation, has enlisted agents' "action chairmen" in 38 states. "The idea," an Industrial Indemnity spokesman says, "is not to force any pre-drafted legislation down employers' throats, but to show them that federal take-over would be detrimental both to them and to workers."

In its program with insurance agents, Industrial Indemnity emphasizes basic workmen's compensation requirements rather than point up deficiencies in certain state programs.

Corporate risk managers surveyed by *Business Insurance* generally agree that the state workmen's compensation system is inadequate as regards both benefits and administration.

ASKED ABOUT his opinion of the workmen's compensation system, the veteran risk manager of a Kansas-based company said, "We forget about that and keep our employes on the payroll if they're injured on the job."

An Eastern utility, according to a state industrial commissioner, "hardly ever incurs a workmen's compensation claim because they have full wage replacement and full medical coverage as employee benefits. About the only time that they have a claim is if a temporary employe is injured before he is eligible for the company benefit program."

Some risk managers interviewed by *Business Insurance* expressed concern about confusion in the administration of workmen's compensation because their companies are considering self-insurance, programs that would bring their department in closer contact with workmen's compensation administrators. ■

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Hand rehab experts say bureaucratic work comp systems hold them back

By STEPHEN GILKENSON



Dr. Howard A. Rusk

NEW YORK—More than 30% of the industrial accidents in this country involving workmen's compensation payouts are attributed to a hand injury of one sort or another.

It is practically axiomatic that the person who injures his hand on the job depends upon that appendage more for his livelihood than any other part of his body. If he loses the use of it, therefore, he becomes a rather useless creature since he is most likely unqualified or untrained to perform in a think tank.

There is no way of knowing just how many workmen's comp dollars go to hand injuries annually in this country. Whatever the sum, it is enormous. A worker who loses the complete use of two hands, for example, can claim a 100% disability. His employer or insurance company—or both, depending on how the workmen's compensation cover is written, might then be locked into a \$500,000 disability bill over the course of a man's lifetime.

IN MANY cases, however, the

over the years at the Medical Center's Institute of Reconstructive Plastic Surgery.

The hand rehabilitation program at New York University Medical Center is run on a day-to-day basis, and has been for the past seven years, by two dedicated physicians. Dr. Robert W. Beasley, a plastic surgeon, is on the surgery or reconstructive end of the program. Dr. Nancy C. Kester handles the medical rehabilitative aspects. The key to the success of their programs appears to have resulted from the fact that the doctors have coordinated the reconstructive and rehabilitative aspects of medicine.

In interviews here the other morning both Dr. Kester and Dr. Beasley criticized some insurance companies for not recognizing the true potential of rehabilitative medicine. Said Dr. Beasley:

"IN THE FINAL analysis the success is what happens to the man who is injured. You can do the best piece of surgery, take it to meetings and have it applauded and all that. But if that man doesn't return to his normal or a near normal life then you haven't done much, have you?"

In criticizing some insurers and some of the corporations that self-insure workmen's compensation, both doctors emphasized that their criticisms were not unilateral, that they applied mostly to companies whose workmen's comp systems have become bureaucratic melting pots where each and every medical move must be authorized in triplicate. Moreover, both complain, it is often difficult to get authorization for all but the most mundane of treatments.

"One thing we constantly run into when we are working with workmen's compensation hand injury cases," Dr. Kester told *Business Insurance*, "is that you will call up an insurance company for authorization of treatment. Fine, when they finally get back to you with the authorization, which may be three weeks later and only after you've filed several forms with them, they'll authorize three whirlpool treatments a week. That's not enough. You can't treat a hand two or three times a week and get anywhere. This must be a daily thing. Some patients should come in at 9 a.m. and stay until 4 p.m. Others may be able to come in at 1 p.m. and stay until 4 p.m."

"Ultimately," Dr. Kester says of such extensive treatment, and Dr. Beasley agreed, "it will cost an insurance company or self-insurer less than it would for ineffective treatment over a long period of time."

DRS. BEASLEY and Kester are presently working up a program of intense group hand rehabilitation. If all goes well a sizeable area will be set aside at the Medical Center in the near future where groups of persons with hand ailments could work together on a daily basis. Such a program, they contend, has an extremely important psychological influence on more rapid rehabilitation. In addition, they note, they may eventually be able to offer insurance companies "package deals" where rehab costs could be greatly reduced by group therapy.

While both doctors do seem frustrated by the bureaucracy of insurance company authorizations, they do have kind words—indeed, praise—for several insurers they have worked with in the

Continued on page 54

spotlight report

Workmen's compensation



Big push on in West to better work comp laws

SAN FRANCISCO—Western labor leaders this year will "push hard" for legislative action in each of the states to improve workmen's compensation laws and to increase benefits.

Anticipating only "spotty results," they also will begin to fight hard at the bargaining table as contracts come up for renegotiation in mid-1971.

They will be asking more and more employers to pay the premiums for "in-the-contract" programs to supplement workmen's compensation benefits from the states.

"THE ALTERNATIVE to these efforts," *Business Insurance* was told by Julius Stern, welfare and safety director for the powerful International Longshoremen's and Warehousemen's Union Local 10, "is an all-out drive to have the federal government take over the entire field of workmen's compensation."

Union leaders, of course, are not alone in their concern over problems and inequities of existing state operated workmen's

compensation insurance programs.

Insurance industry leaders also are meeting throughout the West to discuss improvements that "might head off the threat of U.S. intervention."

To date, the program has been led by Industrial Indemnity and Crum & Forster, with support and assistance from National Assn. of Insurance Agents. Meetings have been held in Iowa and Nebraska with Industrial Indemnity senior vice president Clarence G. Johnson and program coordinator Robert B. Collyer involving local executives.

Industrial Indemnity's Johnson pointed out that "since 1937 the maximum annual tax cost of Social Security has risen from \$60 to more than \$700, an increase of more than 1,000%."

"DURING THIS same period," Mr. Johnson continued, "the cost of workmen's compensation has risen from six-tenths of 1% to less than 2% of total salaries."

"Employers," Mr. Johnson declared, "now pay more for coffee

Continued on page 48

Says comp 'in a rut'

HARRISBURG, Pa.—Paul J. Smith, Pennsylvania's new labor and industry secretary, said the state workmen's compensation program is "in a rut"—and likely will need legislative reform to get out of it.

He called for an acceleration in processing under the program, noting that Pennsylvania recently was ranked 47th among the 50 states in this category.

"Workmen's compensation has been so badly administered over the years that legislation is going to be required to get it out of the rut," Mr. Smith said.

"There are more than 9,000 cases now before just 31 claims referees," he added. "That's 300 cases per referee. And the average delay in payments is a year or more."

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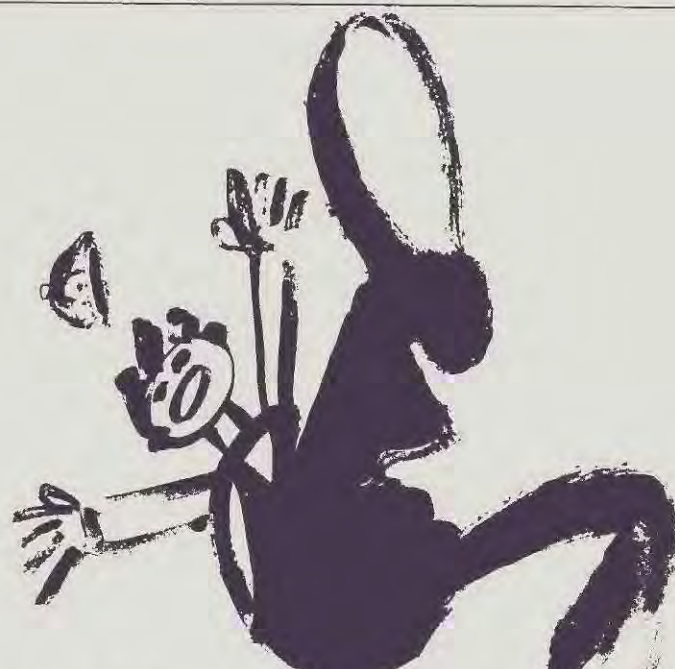
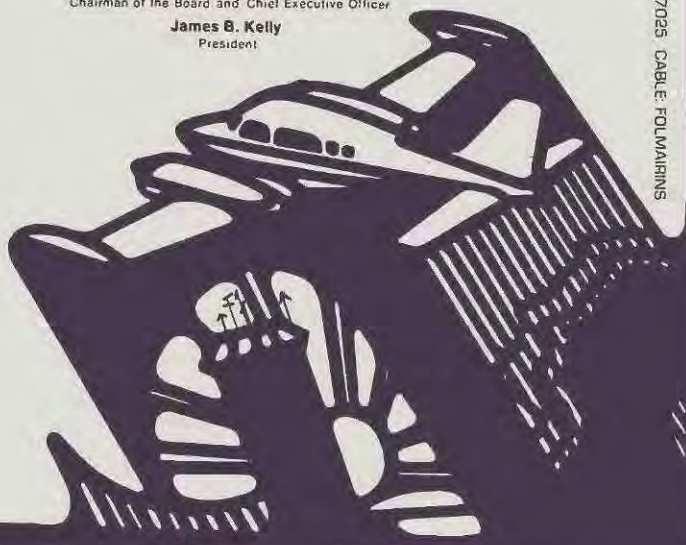
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Unionist warns: 'Some other way' may replace workmen's comp

PORTLAND, Ore.—“If the insurance industry was really on its toes it would use its great influence to help correct the injustices in our workmen's compensation programs,” says Fred Huntsinger, president of the Portland local of the International Longshoremen's and Warehousemen's Union.

“The benefits for injured workmen are far too low and everyone knows it. Unless some drastic changes are made soon, the entire program will be scrapped and another solution will be found to meet the needs of injured workmen honestly and realistically.

“The original intent of these laws hasn't been carried out. With the exception of providing reasonably good medical care, the programs are a flop both on the state and federal levels,” according to Mr. Huntsinger.

The 1,500-MAN Portland local works ports on both the Oregon and Washington sides of the Columbia River as well as the greater Portland area. Its members are covered under the workmen's compensation laws of both states and the Longshoremen's and Harbor Worker's Act.

The ILWU is strongly opposed to the requirement of the Longshoremen's and Harbor Worker's Act that injured workmen be

treated by a physician from an approved panel of the federal regulatory authority and paid by the employers.

“These doctors,” the local president stated “identify themselves with the interests of the employer not the employe as intended under the act. A man's personal physician has a real interest in him and you and I know there are some doctors you like and some you don't.

“It's a lot of baloney to say doctors approved by the panel are better qualified to deal with the injured man's specific medical problems because of their special expertise. We know the doctors in

Portland pretty well through our personal past experiences with them. I don't think anyone believes the cause of good medical practice is served when the relationship between the treating physician and the patient is cold and impersonal,” he continued.

“HOW CAN THIS kind of relationship help relieve the anxiety created by injury and loss of income which is always a factor in these cases?”

Both governmental bodies and private insurance companies view the injured worker as some form of human parasite, according to
Continued on page 53

Big push . . .

Continued from page 47

breaks for their employes than they do for workmen's compensation.”

This, in effect, is exactly what the union members and their officers have been saying for months: “We just can't live on disability payments at the rate being paid today.”

The union leaders, including the ILWU's Mr. Stern, also agree with Mr. Weldon's advice: “Don't look to your employers to take the initiative and don't look to

the state legislatures to do anything about it . . . they've had ample time and opportunity to make changes.”

“Actually,” Mr. Stern declared on behalf of the longshoremen's union, long run by Harry Bridges, “federal control of workmen's compensation probably is really the only logical answer.

“To expect private industry to come up with the answer is wishful thinking,” he added. “The employers are dealing with insurance carriers who are concerned almost solely with profits and with obtaining the lowest risks possible when they provide coverages.”



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spotlight report

Legislation has been prepared for introduction in Nebraska to increase weekly benefits, to provide a compulsory act, to cover farm and ranch labor, to reduce the waiting period, to provide for a broad second injury fund, and to provide death benefits to widows for life or until remarriage.

The longshoremen's union, with more than 60,000 members working for 50 to 60 Pacific maritime employers, will begin its July contract negotiations with a demand that employers supplement workmen's compensation.

“First, of course,” Mr. Stern pointed out, “we are asking the legislature to amend the workmen's compensation act so that it will pay at least two-thirds of a worker's regular weekly wage.

MR. STERN INDICATED the ILWU has a carrier that is willing to provide accident policies at \$1 per month per worker for those under the age 50 and at \$2 a month for workers past age 50.

“We hope,” he said, “that our next contracts will include the provision that employers pay the premiums for this kind of supplementary coverage.”

In Montana, Gov. Forrest H. Anderson has declared that “progress and improvement in our workmen's compensation program are not merely desirable . . . they are imperative.”

He has asked the legislature to increase workmen's compensation weekly payments to cover at least two-thirds of the average weekly wage in Montana and to add full and unlimited medical and hospital benefits.

Gov. Anderson also seeks full coverage for occupational disease exposures, coverage for workers not included under Montana's existing act and a second injury fund to relieve employers of full liability and permit the employment of handicapped workers. ■

Claims work comp is ignored in benefits communication plans

By HOWARD L. PECK
Partner, Hewitt Associates

LIBERTYVILLE, Ill.—Often employers in their efforts to inform employes about their benefits—particularly disability income and medical expense plans—will say: "These benefits are payable for non-occupational illnesses and injuries." But they don't bother to explain what is payable if the cause is occupational.

Thus, they appear to ignore a set of employee benefits on which American business spends many millions of dollars a year.

I'm talking, of course, about workmen's compensation benefits. They are generally skipped in employe communication or are given only a passing reference. According to one source, these benefits now exceed 2.3 billions of dollars a year, more than 1.5 billions of which represent in-



come benefits. The remainder, of course, are lump-sum benefits for scheduled injuries, medical care, and death benefits.

EMPLOYEE IGNORANCE of statutory benefits is massive. (I've had employes complain to me about their payroll deductions for unemployment compensation.) Some slight progress has been made in improving understanding of Social Security, but workmen's compensation remains largely a mystery.

Why have employers been so reluctant to tell this story? Per-

haps there are two main reasons, one attitudinal and one practical. As to the first, the employer is likely to say "Why should I spend money promoting workmen's compensation? The employe knows that by law we have to carry this insurance, so we aren't going to get any credit for it."

If the employer's only purpose in communicating with employes on the subject of benefits is to "get credit" for his outlays on their behalf, then perhaps there isn't much reason to communicate on workmen's compensation and

Continued on page 52

Compensation confusion

This time the system hurt an insurer

NEW YORK—There are those who say the workmen's compensation system in this country has outlived its usefulness. There are others who defend the exclusiveness of the system but criticize other aspects of it. No matter which side you happen to take, it is difficult to deny that something, somewhere along the line, is quite wrong. For example:

Through constant use of his hands, a press operator in an industrial company developed a ganglion on one of his wrists. A ganglion can be defined as a cystic tumor on a tendon. He was operated on in December of the year of the claim.

At that time, the insurer (who prefers to remain nameless) en-

tered into an agreement state with the man with the understanding that the agreement could not be voided unless the insurer could prove fraud. The claimant received total disability payments until April the following year.

IN AUGUST THE claimant alleged total disability and the payments were resumed. In the state where the claim was made, payments cannot be stopped unless by approval of the workmen's compensation board if the stoppage is contested by the claimant. In this case, physicians for both the claimant and the insurance company testified that the man was no longer disabled and the insurer stopped payments.

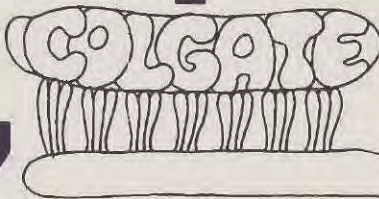
Hearings on the case were held a year and a half after the claim was initially filed. Medical testimony revealed that the claimant was not permanently and totally disabled although he did suffer some permanent disability.

SIX MONTHS after the hearings, the board ruled that the claimant was permanently and totally disabled. The insurer was ordered to pay benefits retroactive one year and was fined for illegally stopping payments. It was a single-board-member decision.

The insurer has not tried rehabilitation yet but can be expected to do so.

The insurer, needless to say, is appealing the case.

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Workmen's compensation

Attorneys—The least of the system's problems

By PATRICK THOMAS

NEW YORK—Workmen's compensation is not a field of law in which you would expect to find Perry Mason diligently making fools of employers and insurance companies, though Hamilton Burger undoubtedly would have been delighted by such an arrangement. None the less, the legal profession is involved in workmen's comp. However, based on a survey by *Business Insurance* that profession appears to be presenting the least of the problems facing the system.

The opinions and attitudes toward the attorney in this field vary greatly. For example, some persons would argue that a law-

yer for the claimant is not even necessary while others would demand an attorney. Legal work for the claimant has been variously described as both "a gold mine for an ambulance chaser" and "not a lucrative field of law." The attorney in a comp case cannot be described as a pauper but most persons felt that there were other areas of law in which to practice if you wanted to get rich.

The main reason for this feeling is that lawyers' fees are set in most states and in most states the ceiling is not very high. It is true that ways are being developed to get the claimant much higher awards and, in the process, guaranteeing his legal representative

a much higher fee. One of those ways is for the claimant to bring about a third-party action, notably a products liability suit.



spotlight report

A SOURCE at a large insurance company which specializes in workmen's comp asserted that lawyers' fees were really not a problem. "In the state where we are headquartered, for example, the most a claimant's lawyer can collect is 10% of the award," he said. "The fee might be set by the

hearing officer or it could be a contract between the claimant and the lawyer. It doesn't matter because the most he will get out of it is 10%."

He felt that the necessity of an attorney was dictated by the "nature of the controversy. If the administration of the law is not so good, an attorney is definitely necessary for the claimant."

Most of those persons interviewed felt that the fee was not a problem, though a great divergence of the amount a lawyer could collect was reported. Edward Fonpier of Insurance Co. of North America pointed out that "this is most certainly not like the situation in auto accident cases, where the attorney's fee can drive up the cost of insurance."

In New Jersey, the most a lawyer can collect is 20% of the award. However, according to G. Robert Winfield, director of the New Jersey State Workmen's Compensation Board, "That 20% is still better than sitting on your rear end all day in court for a case in another area of law and coming out with maybe a \$150 award." Two-thirds of the cases to come before the board in New Jersey involve claimants with lawyers.

JAMES GAFFNEY, Massachusetts State Industrial Commissioner, reported that roughly 90% of the cases in his state involved attorneys. "The way our law is set up," he said, "it is worth it for the claimant to get an attorney. The unions in Massachusetts usually give an injured workman the name of an attorney they trust."

Regarding the payment of fees, Mr. Gaffney noted, "If there is a lump sum settlement, the fee for the claimant's lawyer has a ceiling of 20% of the award. If the case is tried, however, and the trial drags on for awhile no fee is set but the maximum the lawyer can collect is not to exceed 33 1/3%."

In New York, where about 17% of the cases involve lawyers or licensed representatives, though

that figure must be put in perspective because only those cases which are won have records kept on them, the lawyer's fee is also assigned by the hearing officer. Robert Smith of the New York State Workmen's Compensation Board, reported, "The fee is assigned and it's not very high. You can't compare this to, say, an accident case where the lawyer might get 1/3 of the award." He also pointed out that the fee had been assigned since 1914 and was instituted then because lawyers had been charging exorbitant fees.

Mr. Smith, however, did not feel that the claimant really needed the services of an attorney. "That's what the referee is for. He's there to see that the claimant does not get walked on by his employer's insurance company."

ROBERT ST. JOHN of INA felt that a lawyer could be useful to a claimant in some cases. "In the past," he asserted, "lawyers have been known to convince industrial commissions that a man's injury was more extensive than was first thought. If there is a dispute on the medical facts in the case, a lawyer can come in handy. They might be able to change the award from 25% to 30% or 35%."

Mr. St. John pointed out that INA provided financial assistance to many injured workmen. "If we are liable and we know it, we will advance money to the claimant to keep him away from lawyers. He gets this money and is assured of making his car payments and so on. We send nurses to visit injured workmen and they report back on his financial and family problems as well as his medical difficulties."

At the other end of the spectrum, the American Trial Lawyers Assn. is among those groups that feel a lawyer is always necessary.

John Hayward of the association answered a question about

Continued on page 52

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Continued from page 44

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IN THIS CASE the judge said: "A director need not exhibit in the performance of his duties a greater degree of skill than may reasonably be expected from a person of his knowledge and experience. A director of a life insurance company, for instance, does not guarantee that he has the skill of an actuary or of a physician."

Of course this rule presumably imposes special responsibility on a director to be on his toes when decisions involving his field of competence are being made.

There is some disagreement among lawyers about what standard the use of the term "diligence" in 144 will impose on

directors. Some say that the term will rule out a director defending himself by saying that he wasn't present at meetings and therefore was not involved in decisions resulting in shareholder suits.

OTHERS DISAGREE, pointing to the City Equitable Fire Insurance Co. decision, where the judge also said:

"A director is not bound to give continuous attention to the affairs of his company. His duties are of an intermittent nature to be performed at periodical board meetings, and at meetings of any committee of the board upon which he happens to be placed. He is not, however, bound to attend all such meetings, though he ought to attend whenever, in the circumstances, he is reasonably able to do so."

The second part of the d&o policy covers the directors and officers directly against claims

made for "wrongful acts" while acting in their official capacity. Among the exclusions are libel, slander and dishonesty.

Although the new code of conduct in the Ontario act has made directors more aware than ever of the potential need for insurance, section 147 (3) of the act has caused some confusion among both lawyers and insurance men on the question of just how the coverage will apply.

THIS SECTION rules out the corporation buying insurance on behalf of a director that will protect him for a breach of 144, which is the code of conduct.

Some corporate insurance buyers are therefore asking, what's the use of buying insurance if it can't provide coverage against a director failing to do what the act says he must? The question was asked frequently at a recent seminar on d&o insurance sponsored by Johnson & Higgins Willis Faber Ltd.

However, section 147 (3) does not rule out the provision of effective insurance for directors; all it does is rule out the corporation paying the premium for such insurance. There is no reason why the directors cannot band together and pay the premiums for the insurance, and this is how coverage is likely to be arranged.

Robert Clements, a vp of Marsh & McLennan Ltd., says that two concurrent policies can be written, one for the corporation and one for the directors.

SOME LAWYERS say that corporations will try to get around the prohibition against paying for the insurance by raising directors' fees by enough to cover the amount of premium the directors will have to pay.

There are three insurers providing d&o policies in Canada—American Home Assurance Co., Lloyd's of London and St. Paul Fire and Marine Insurance Co.

The St. Paul Fire & Marine provides a separate policy for individual directors but has so far not written one in Canada. ■

Attorneys . . .

Continued from page 50

the necessity of a lawyer because the worker is entitled to compensation as a matter of right by saying, "Sure, he's entitled to comp but the question is how much is he entitled to. The employer has many defenses available to him and can lessen the award. For instance, if he was injured on his coffee break, did the fact that he was employed magically disappear in that 10 minutes. There are many hair-splitting situations where there might be a question, such as if the injury occurred when the worker was traveling to or from work."



spotlight report

"**LET'S FACE** it," he went on, "workmen's compensation has outlived its usefulness. The employee is barely making ends meet on his salary as it is and workmen's comp will only give him less. Say the guy is making \$200 a week. If he's injured he might not be able to collect more than \$100 a week for ten weeks. Workmen's comp pays only immediate medical expenses. If there are any connected injuries, he has to prove contribution."

Many of those surveyed pointed out that an injured workman could bring a third-party action in most states even if he had received compensation, though he would be bound to repay what he had received from comp if he won the case.

Another insurance industry

source said that waiving the right to workmen's comp was possible in some states but that "it isn't a helluva good idea. If you receive compensation then bring a third-party action, or wait for your employer or his carrier to bring it, you still get something even if you lose the suit. Sure it will take longer but you still have something to live on in the meantime. If you waive comp and lose the suit you are left with nothing but a lot of bills."

WALTER MURPHY, an attorney and representative of the Defense Research Institute in Massachusetts, felt the same way. "There is a provision in the law here that gives the employee the right to waive comp, but he had better have an awfully good case if he wants to do it. This is a possibility but not really a problem. If there is a swelling development in this area it is a well kept secret from me."

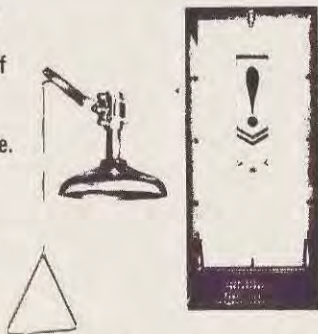
Jack Kircher, associate research director of the Defense Research Institute, noted, "Waiving your right to comp in this fashion would really be a gamble. You don't have to prove fault in a comp case. You would have to prove fault in a products liability case and you would have to prove that you were not negligent. That's really a risk."

Mr. Gaffney questioned whether waiving compensation would be logical, replied: "Yes, an employee can waive his right to comp in Massachusetts. But, if he does take comp, the insurer can bring action against a third party. If that suit is won, the insurer has the right to reimburse himself for what he has paid out in compensation but he must give 4/5% of the excess back to the injured worker. It is much more logical to let the insurer bring the action." ■



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Continued from page 49

the other legally-required benefits. If, on the other hand, there is a desire to provide a useful service to employees, if there is a concern with meeting the human need to know about those programs that can have an impact on our lives, then it would seem logical to make some effort to improve understanding.

The important practical reason for the paucity of useful communication on workmen's compensation probably is the complexity of the story and its many variations from state to state. The latter circumstance makes communication especially difficult for the companies that operate across state lines; in some cases, many such lines. But complexity should not prevent our trying to promote understanding.

Just how the employer goes about communicating on workmen's compensation is a question we can't deal with here in any detail. It is helpful to recognize that these benefits can vary widely in importance among various groups of employees. In general, the media and techniques that are used in communicating on other benefits can be applied to workmen's compensation.

With the current trend toward creating a holistic concept of compensation—including benefits—it would seem short-sighted to omit a benefit that pays billions each year to workers and their families. ■

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Maryland cuts backlog by administrative savvy

BALTIMORE—While some other states are building up backlogs of workmen's compensation claims, Maryland over the last decade has successfully reduced its hearing delays from about 13 months to three weeks.

The currency of Maryland's hearing docket owes to "a good law and good administration," according to Workmen's Compensation Commission Chairman Daniel T. Doherty. Mr. Doherty, one of the senior workmen's compensation administrators in the country, credits especially innovations in administration instituted by the commission's director of administration, Virginia R. Barnes.

Among these innovations is a "soundex" system of filing claims that permits clerks to instantly locate a claimant's name simply by hearing the name pronounced. Another innovation is an electrified system of multiple file drawers that contains insurance statements for every company in Maryland subject to workmen's compensation

liability. "WE SAVED A GREAT deal of clerical time," Mr. Doherty related, by instituting multiple-sheet, coded claims forms that are distributed to our file, attorneys,



spotlight report

employers and claimants. We got that idea from New York. Another help is an insurance record card that is completed by the insurance carrier itself."

Mr. Doherty told *Business Insurance* that an advantage in administering Maryland's workmen's compensation system has been his role as sole administrator. "Some states set themselves up so that all members of the commission have an equal vote, and often this means a veto of the chairman's decision," he said.

Another advantage in Maryland has been the commission's success

"Rehabilitation," he continued, "is a very important field, or it should be, but our experience has been that it's used largely to justify the existence of some governmental agency based on deceptive statistical reports. If the state of Oregon showed a guy how to sell one-cent pencils for five cents in front of some bank, the report would show him to be a successful businessman."

"I'm speaking in generalities about rehabilitation because here again there are some exceptions to this window-dressing approach but by and large this is the way it works out," he said.

One of the major goals of the ILWU in 1971 will be a strong effort through collective bargaining to raise the maximum weekly benefit for offshore work injuries from \$70 to \$150. The employer will have to make up the difference between the maximum weekly benefit provided under the act and the \$150 figure.

LONGSHOREMEN working on the docks are covered by state workmen's compensation laws while those aboard ship are under the federal act. The majority of serious accidents are on ship.

"We feel Congress has stalled us far too long already so we plan to achieve our objective at the bargaining table. Our men earn between \$200 and \$240 a week on the average. The act was originally designed to provide injured workmen with two-thirds of their normal earnings. The \$150 figure is in line with the thinking as intended when passed but which has never been followed.

"For years the payments under the act, although hardly more than a pittance in most instances, were fair and reasonable as far as the employers were concerned. Now, we want a chance to be fair and reasonable. I guess it's a question of what is fair and reasonable. However, I don't think anyone could honestly criticize our position in this matter," Mr. Huntsinger continued.

He thinks the future for workmen's compensation programs is bleak as they affect the employe and that they will be replaced by another method of indemnification unless employers and insurance carriers change their views radically.

"Personally, I don't think the employer groups and the insurance industry have the mental flexibility for the kind of changes that are needed. They have had it their way too long. The conservatives in those groups will win out over progressive thinkers."

in convincing lawyers that they should not insist on direct testimony from doctors. "We accept written medical testimony because it's so hard to get direct testimony."

Mr. Doherty, a past president of the International Assn. of Accident Boards and Commissions, says IAIABC is an excellent place to exchange ideas. But he favors a strong central office for the organization, something akin to the Milwaukee office of the National Assn. of Insurance Commissioners, to serve as a clearinghouse for ideas and as an advisory unit for

state workmen's compensation administrators.

Harry Dahl, Iowa's industrial commissioner and vp of IAIABC, discounted this. "I have been in most of the board hearing shops around the country and I don't feel that's the way it is at all. The majority are reasonably current on their dockets. In fact, on the whole, they're much faster than the regular state or federal courts are in handling their dockets. There are problems in certain areas with underfinancing of the boards' operations, however," he

said. Mr. Dahl added that his own board's hearings docket was currently up to date as well.

While Mr. Dahl had many good things to say about the way workmen's compensation laws are working in the country he was quick to admit that there were many improvements necessary.

"Employers must be talked to—they must recognize that they must upgrade the schedules of benefits in workmen's compensation themselves before Congress steps in and does something."

Unionist ...

Continued from page 48
Mr. Huntsinger.

"I'm not saying there're not some people who deal with the industrially injured that are pretty decent and humane but this is the exception rather than the rule. There is something about a relationship where there is a giver and a receiver that leads to eventual hostility between them. Public welfare is an extreme example of this.

"Most guys live from payday to payday. When a man has to wait a month for his first compensation check, and this is normally the case, he's in a real bind. Part of this is due to bureaucracy and administrative red tape but it is a real hardship for the worker. Experiences like this tend to accelerate the dislike and distrust of the injured worker toward the insurance carrier whether it is a public or private one. He feels the insurance carrier is playing a game of cat and mouse with him.

"THE PITIFULLY inadequate payments are bad enough but when you combine this with stalls and delays it's even worse," he emphasized.

Rehabilitation under most state programs and the Longshoremen's and Harbor Worker's Act is largely window dressing in the union president's opinion.

"Back in 1961 in Seattle I had my first view from the inside of the so-called rehabilitation effort under the longshoremen's act," Mr. Huntsinger said. "It was a big seminar with all sorts of experts and so forth. But the only thing those federal people were interested in was in showing an excellent financial return on the investment in rehabilitation. You can do this easily by screening out anyone who isn't a prime candidate for it. You can get a real high batting average this way but of course it doesn't do anything for the fellow who needs this type of help the most.

"AS FAR AS THE state of Oregon is concerned they want to hide rehabilitation under the rug. When they do provide vocational rehabilitation, it's usually for some job nobody could find. I think we have more watch repairmen in Oregon than we have watches. Another favorite occupation of their's is wood turning. It's fairly easy to learn but I don't think they have hired one around here in 40 years.

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Hand rehab

Continued from page 47

past. Among them are American Mutual Liability, Liberty Mutual, New Jersey Manufacturers Insurance Co., Employers of Wausau, Insurance Co. of North America and Utica Mutual.

"We practically have carte blanche with these companies," Dr. Kester told this magazine, explaining that these insurers appear to be more tuned in to the value of rehabilitation.

"The key to the whole thing," Dr. Beasley said of an industrial accident, "is not to let a situation deteriorate beyond what the machine has done. Timing is very important. There must be a very careful assessment of the damage done by an accident. This evaluation is very important." From there, he added, a decision must be reached as to the treatment necessary. In some cases, of course, there is no alternative "but to delete" the painfully crushed hand or finger. "If so, it should be deleted early and the rehabilitation should begin immediately."

ANOTHER problem faced by programs such as those run by Drs. Kester and Beasley is that they don't get in on a case soon enough. When an injury occurs the victim usually goes to the nearest hospital where surgical and medical treatment may be available but where rehab techniques are primitive or nonexistent. In addition, insurance companies are often not notified of an injury and its extent until after a critical point in the reconstruction and rehabilitation has passed.

Still another frustration, noted Dr. Beasley, is the very nature of the victim they are most often called upon to help.

"We are," he said of the industrial accident victims with injured hands, "often dealing with a class that is not highly motivated. They tend to become pawns in a system, between lawyers and what not," he said of many workmen's comp cases.

Drs. Kester and Beasley have no pat answers for the problems rehabilitation faces. They admit but do not particularly care to delve too deeply into the medical and legal ethical aspects of the problem. Just how many physicians, for example, are guilty of not referring a patient with a hand injury to more competent medical and rehabilitative help? Just how much of a part do attorneys play in this malfeasance?

Wash Watch

Continued from page 4

his perennial omnibus pension reform act into the 92d Congress.

As usual, the bill calls for the establishment of an SEC-type agency to regulate private pension, for minimum federal standards for vesting, funding and reinsurance, and for stricter fiduciary standards for pension fund management.

This year, however, Sen. Javits added that he has "begun to explore additional problems, such as the need to: extend survivors' benefits in the private pension system; provide employees with a greater voice in the administration of their plans; find effective means for channeling investment of pension funds into socially useful areas without destroying the flexibility of private pension investment policy or causing ultimate detriment to the retirement expectations of beneficiaries; provide even more effective mechanisms to protect the highly mobile employe and extend coverage of private pensions.

Are workmen's comp claimants, or many of them, merely pawns in the system?

DR. KESTER and Dr. Beasley are not prepared to answer those questions.

Take the case of Mr. X, a punch press operator who lost parts of each hand when he caught them in a press.

The man, completely helpless, spent four months in a hospital at a cost of about \$10,000. In addition, he needed round-the-clock nursing care, at \$150 per day. The workmen's compensation insurer



spotlight report

paid the bills, the doctors attended him and the lawyers counseled him. But at the end of four months he was still without the use of his two hands. He was a 100% permanent disability and probably would have cost the in-

surer \$500,000 between then and the end of his life.

A referral to New York University's Medical Center was finally made. "On the day we first saw him," Dr. Beasley recalled, "we admitted him as an emergency case because he was so highly depressed with his condition. By that evening Dr. Kester had rigged up a fork and spoon to specially fit his deformed hand so he could feed himself."

Since that time, Dr. Beasley has performed reconstructive plastic surgery on the man. Dr. Kester and her associates did the rehabilitative work. The man now is back to work and the workmen's compensation payments have stopped. He's not on a punch press anymore, but working in the mail room of a major New York company—and earning more money. "That really threw the workmen's compensation board into a dither," Dr. Beasley said with a happy and satisfied chuckle.

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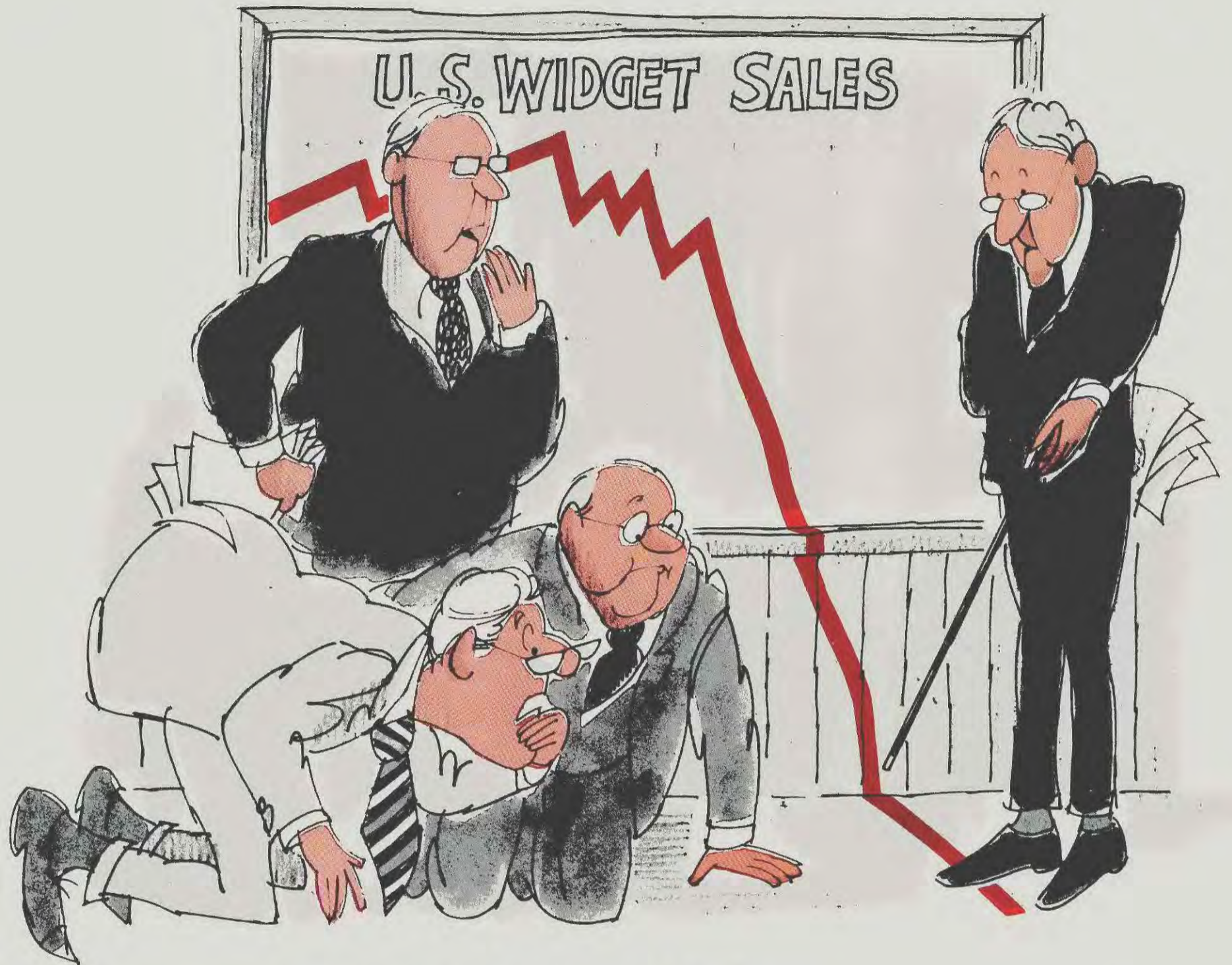
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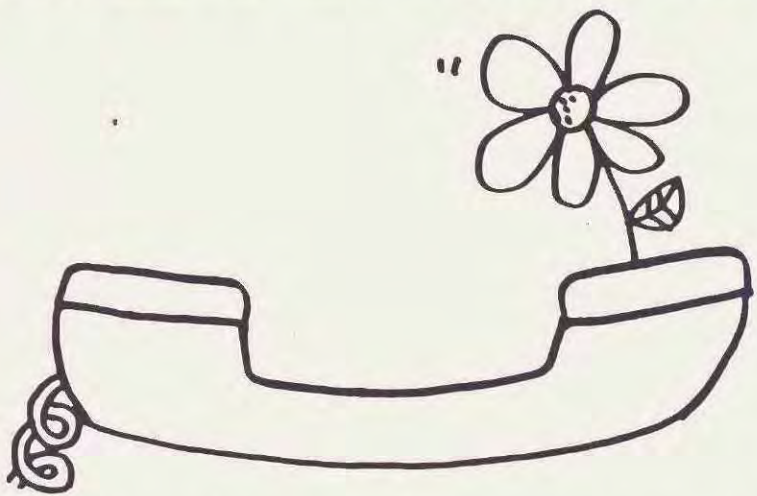
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