

'Dynamic' risk management requires cooperation, some magic

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business insurance

for buyers of employee, property and liability protection

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ASIM officers, 1968

The 1968 leaders of the National Association of Insurance Management, elected at the annual conference in Chicago last week, include (seated from left) Geoffrey J. Burns, vp; Kenneth R. Huston, president; Raymond Cox, treasurer; and Waller B. Smith, vp. Standing, from left, are John Murphy, secretary; William S. Mortimer, first vp; and Robert E. Rich, vp. Justin A. Crockwell, another vp, missed the conference due to illness. A story on Mr. Huston and other national officers is on page 2.

Compare business interruption contracts

CHICAGO—Various forms of business interruption coverage and their pros and cons were discussed by a panel of experts at the first session of the annual conference of the American Society of Insurance Management here.

W. E. Toyne, of Tomenson, Saunders Ltd., Toronto, compared the gross earnings form, used in the United States, with the profits contract, common in Canada and some other foreign countries.

Confirm Lloyds will accept non-U.K. money

(For an account of how Lloyds of London works, see "London Line" column on page 14.)

NEW YORK—Lloyds of London said it will accept non-British investors for the first time in its history, confirming a story in the Jan. 1 issue of *Business Insurance*.

Although details have not yet been worked out, the Committee of Lloyds, at its regular weekly meeting, voted to allow foreign nationals to invest in Lloyds' syndicates. A cable to a Lloyds representative here stated that "specimen" figures for eligibility

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He pointed out that the gross earnings policy pays loss of gross profit due to interruption of business and expense to reduce loss. The gross profit contract pays losses, he said, due to reduction of turnover and increase in cost of working.

HE SAID THAT the period of indemnity on the gross earnings contract is limited to time required with exercise of diligence and dispatch to replace damaged property and is often limited by prescribed indemnity period, which is usually 12 months. In the profits contract policy, on the other hand, the period of indemnity is limited to the period to time during which sales are affected by fire or other perils and there is no limit due to action or inaction of others, such as strikes or building code enforcements.

The co-insurance requirements under the gross earnings form are 50% to 80%, and 100% in the profits contract, he said. Also, finished stock is specifically excluded in gross earnings and covered in profits contract coverage.

He added that while the gross earnings contracts cover extensions extended to suppliers and customers, accumulated stocks were included under the profits contract.

Mr. Toyne also said that the

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ASIM ok's legislative aide; honors Parrett

CHICAGO—Members of the American Society of Insurance Management have voted to add a full-time legislative aide to the national ASIM staff.

In another action, the society presented its annual president's award for outstanding service to Joe T. Parrett, insurance manager for Carnation Co., Los Angeles.

Risk manager's role during merger called 'traumatic' experience

CHICAGO—Insurance managers from Southern California, a hotbed of corporate mergers and conglomerates, presented a discussion session on the insurance manager's responsibilities in mergers and acquisitions at the annual conference of the American Society of Insurance Management.

Two insurance managers, Homer E. Rathbun of Union Oil of California, which merged with Pure Oil Co. in 1965, and John M. Degnon of Garrett Corp. which was acquired by Signal Oil Corp. in 1964, recounted what happened to them before, during and subsequent to the mergers.

Both agreed that while there were a number of problems to be solved, the meshing of individual company insurance programs has provided, in general, better, wider coverages at substantial savings. In addition, it was pointed out that risk managers in merger situations could get down to some of the finer points of creative risk management and loss prevention activities.

MR. RATHBUN SAID "mergers and acquisitions can be traumatic experiences for the administrative staffs of merged companies, including the risk manager."

The Union-Pure merger involved two giant oil companies. As a result, the Pure entity was

dissolved, he said, and various policies had to be endorsed immediately to prevent lapses of coverage.

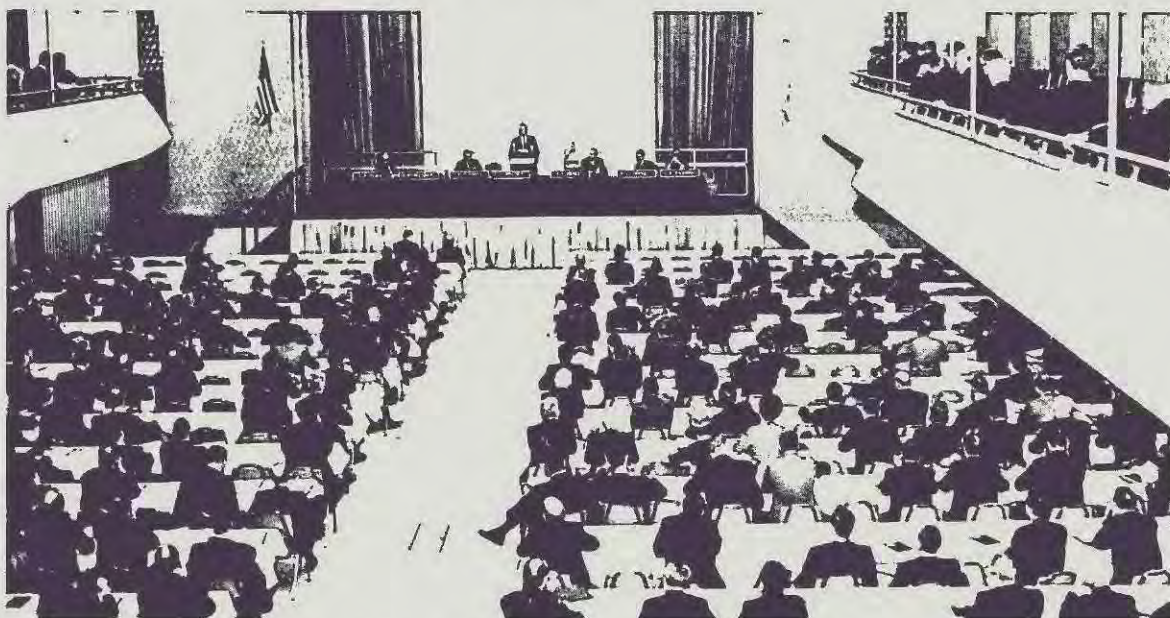
Once the immediate crisis was over, he said, the insurance departments of both companies embarked on an extensive risk evaluation study that included a soul-searching checklist of questions on risk exposures.

After this evaluation, policies and insurance department procedures were reduced to common denominators, Mr. Rathbun said, and a series of recommendations on a course of action to get best coverage were formulated.

HE POINTED OUT that, in effect, a new company was formed, and new coverages had to be obtained. From his merger experience, Mr. Rathbun said, the new company was able to get greater coverage, at less premium cost, and this has provided a satisfactory result for management.

In the Signal Oil-Garrett merger, a large oil company acquired an aerospace manufacturer. And, because of the dissimilarity in operations, the "folding-in" of coverages has been limited, with only a master coverage for property, liability and crime world wide and both a switch to a new company that the merged operation had a fi-

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More than 800 insurance managers and others from the insurance industry last week attended the 6th annual conference of the American Society of Insurance Management in the Pick-Congress Hotel, Chicago. The two-and-a-half day meeting featured presentations by more than 100 speakers, including four general sessions in the main ballroom. For Business Insurance coverage of the conference, see pages 2, 25 and 26.



California's Insurance Commissioner Richard L. S. Roddis tells the Northern California chapter of the American Society of Insurance Management Inc. that its members should study carefully the proposals of President Johnson's Commission on Riot Risk Coverage. The riot peril, he added, "has an almost paralyzing effect on insurance company executives."

Roddis warns of 'short-sighted' opposition to U.S. riot cover

SAN FRANCISCO—Insurance industry opposition to Federal legislation based on the report of President Johnson's Commission on Riot Risk Coverage would be "short-sighted," in the opinion of California's State Insurance Commissioner Richard L. S. Roddis.

"I don't believe we will hear more than scattered opposition or the attitude of 'we don't like it—but...'" Mr. Roddis told the February monthly meeting of the Northern California Chapter, American Society of Insurance Management Inc.

"The problems of civil disorder," Mr. Roddis declared, "are here and now and Congress must act soon."

"IT WOULD BE unwise to oppose enactment of such legislation," Mr. Roddis added. "Without the kind of program the President's Commission is recommending, we may face an economic catastrophe that would result in far more stringent Federal intervention in the insurance business."

Mr. Roddis, who testified at hearings held in Washington by the commission, outlined for ASIM members the major recommendations sent to President Johnson. In his opinion "the commission did a good job of fact gathering."

"There are no easy answers to this problem," Mr. Roddis said, "and there are individual recommendations in the report with which we may disagree. In essence, however, legislation it recommends may well help to avert catastrophe."

THE PROBLEMS of ghetto insurance protection, Mr. Roddis said, are closely intertwined with "profit" in the insurance business

where grave "economic imbalances already exist."

The insurance market in U. S. ghetto or riot-prone areas, Mr. Roddis contended, "has long been undeveloped." In addition, he pointed out, "there has existed a long-standing communication gap between the insurance business and the public."

"The public," he said, "just doesn't understand the relationship between efforts to provide insurance for ghetto areas and the economic health of property and liability carriers."

"The riot peril has had an almost paralyzing effect on insurance company executives, many of whom are convinced they cannot cope with this kind of risk and that it could ruin their companies."

"THE PRIVATE insurance industry of this country," Roddis declared, "just cannot confess an inability to supply the demand for adequate insurance against these risks."

Roddis pointed out that approximately \$130,000,000 was paid out last year in riot-induced losses.

"Compare this," he said, "to the \$700,000,000 loss insurance carriers suffered when Hurricane Betsy struck."

Mr. Roddis confessed to "a degree of pessimism" with respect to potential riots and civil disorders next summer. He urged quick action by Congress to deal with the insurance aspects of such "potentially serious and widespread civil unrest."

"Without some kind of government supported stop-loss relief," he added, "we may find more and more property and casualty carriers simply removing themselves from business in riot-prone areas."

Tax court overrules IRS ruling on 'discriminatory' pension program

WASHINGTON—For the second time this year an Internal Revenue Service ruling against a small firm's pension plan on grounds that it favored higher paid employees was overruled by the tax court.

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The IRS held that the pension plan of a small cleaning firm, Ray Cleaners, discriminated in favor of officers, shareholders, supervisory personnel and highly compensated employees both by its written requirements and in actual operation.

The tax court held that the terms of the plan were not discriminatory since all employees were eligible to participate except those who had less than two years of service, were part-time employees of the company, or

Bar group creates study panel on auto accident reparations

CHICAGO—The American Bar Assn. has created a special committee on automobile accident reparations to study automobile accident suits and to make a report next August.

The compromise resolution was voted by the 290-member ABA house of delegates after the ABA section of judicial administration asked for a study on abolishing damage suits in automobile accidents and the ABA section of insurance, negligence and compensation law issued a report strongly endorsing the adversary-judiciary system of reparation based on fault.

The ABA resolution creates a special nine-man committee appointed by the ABA president, Earl Morris. In addition, the house of delegates created a separate 20-man commission including members of the special committee, physicians, economists, actuaries, insurance specialists, governmental officials, jurists and legal scholars.

MR. MORRIS told the house of delegates the in-depth study "may provide a firm buttress for any future stand the ABA might take." He said he hoped federal and state legislatures would wait to see the results of this study

before taking any action.

Richard W. Galliher, chairman of the section of insurance, negligence and compensation law, scathed auto accident compensation proposals and liability without fault schemes, saying "reformers, politicians, some professors seeking a public rostrum and insurance companies have offered no constructive proposals" to replace the adversary system, "the finest method ever devised for personal injury suits."

Mr. Morris thwarted an effort from the floor to remove the words in the resolution, "believing firmly in the adversary system and the preservation of other enduring values of our legal system." It was suggested that these words might prejudice any findings of the study.

Mr. Morris revealed that these words were included at the insistence of the section of insurance, negligence and compensation law. This section had issued a report warning against "dilution of the religious belief that each of us is responsible to God for his own conduct."

THE REPORT suggested that morality and the free enterprise system could be injured if the present system were modified.

The section of judicial administration had threatened to ask the House of Delegates to approve a statement sympathetic to reform proposals such as the Keeton-O'Connell basic protection system.

A compromise was worked out with the two sections and the ABA board of governors.

The resolution reads in part:

"There is growing interest among the public, state legislatures, the legislative and executive branches of the federal government and in the legal profession in facilitating the disposition of automobile accident liability claims."

"Many private studies and governmental investigations of automobile accident reparations have been and are being undertaken at both state and national levels and some have resulted in unwarranted criticisms of the jury system and the adversary method of adjudications, procedures that have a fundamental place in the concept of due process of law."

The ABA house of delegates also passed a resolution calling for a pilot program to study the feasibility of prepaid legal expense insurance.

Elect Huston national ASIM head

CHICAGO—Kenneth R. Huston, assistant insurance manager of Consolidation Coal Co., Pittsburgh, was elected president of the American Society of Insurance Management at its annual conference here.

Mr. Huston succeeds A. Grant Whitney, vp of insurance for Belk Stores Inc., Charlotte, N.C., who becomes an ex-officio member of the national board of directors.

Other national officers include William S. Mortimer, Hunt Foods & Industries Inc., first vp; Justin A. Crockwell, Pacific Gas & Electric Co., Waller B. Smith, United Air Lines, Robert E. Rich, Cotton Producers Assn., and Geoffrey J. Burns, Continental Illinois National Bank & Trust Co., all vps; Raymond Cox, City Stores Co., treasurer; and John Murphy, S. B. Penick, secretary.

Mr. Huston will in the near future assign areas of responsibility for the four vps. Last year these were conference, education, legislation, and membership.

MR. HUSTON, moved into the Consolidation insurance department in 1955 after working in the treasurer and secretary departments. After attending the University of Pittsburgh, he joined Consolidation.

A native of Pittsburgh, Mr. Huston has been a member of the ASIM board of directors, regional vp, membership vp for two years and first vp last year. In an interview with *Business Insurance*, Mr. Huston said an important role for ASIM in the future would be monitoring legislation. "Although not acting as lobby groups, but rather as educators and information aids, local ASIM chapters must be able to openly discuss legislative matters with state insurance commissioners," he said, "and state commissioners should be

able to seek out ASIM chapters."

Mr. Huston said the biggest problem the risk manager faces today is adequacy of markets. "The biggest demand is for capacity, be it foreign or domestic," he said, "and those buyers who have good loss control programs are more acceptable to insurance markets."

"I AM A reformed accountant," Mr. Huston noted, "where two plus two always equals four—not three or five. In buying insurance, however, contracts are negotiated and reasoned and are more than just a dollars-and-cents arrangement."

That's why, Mr. Huston said, it's important for insurance buyers to achieve a more professional status and to gain recognition from top management.

Mr. Huston is married and has three children. His hobbies include being a "ham" golfer and reading.

When do riots interrupt business?

CHICAGO—Suppose that the mayor of a city in which one of your plants is located declared a curfew because of the threat of a

riot or an actual riot.

Do you as insurance manager know whether your company's business interruption coverage will pay any claim you might have for loss on one or several days operations?

"Attempts to find responsible parties to provide a solution to the question of who will reimburse corporations for losses incurred during riots have met with little or no satisfaction," Earle L. Winkelman, assistant secretary of the Louis Allis Co., Milwaukee, told a session on new concepts in risk management at the annual American Society of Insurance Management conference here.

"At least 16 states have laws on their books permitting some recourse against a governmental unit for riot damage. These states are Connecticut, Illinois, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts,

Missouri, Montana, New Hampshire, New Jersey, Pennsylvania, Rhode Island, South Carolina and Wisconsin. The statutes are not identical," Mr. Winkelman said.

HE SAID SOME states have statutes of limitations, and others have escape clauses if the municipalities exercise all reasonable care to prevent damage or suppress the riot. Twelve make provision for property damage only and four for liability for injury to persons.

He said that 225 claims totaling more than \$600,000 had been filed against the city of Milwaukee and \$25,000 in Milwaukee county, but none has been paid. He said that two states, Louisiana and Illinois have repealed statutes permitting recovery for damages resulting from the riot.

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An unidentified Chicago fireman lies sprawled on the ground as passers-by come to his aid as an explosion and fire at the Mickelberry's Food Products Co. plant rages in the background. The sausage maker is self-insured for workmen's compensation and had no business interruption cover. More than 40 persons were injured and nine were killed.

Wide World photo

Mickelberry's had no interruption coverage

CHICAGO—Mickelberry's Food Products Co., whose plant here was razed by explosion and fire Feb. 8, is self-insured for workmen's compensation and had no business interruption coverage, *Business Insurance* has learned.

More than 40 persons were injured, including 16 Mickelberry's employees, and nine were killed, in the holocaust which happened just after the changing of work shifts and 350 employees were leaving the building.

Among the dead were two officers of the company, Roy R. Laidley, Mickelberry's president, and Thomas J. Mongan, general auditor and secretary of subsidiary operations, and four firemen. The other dead were passers-by, including one who helped firemen rescue persons trapped on the building.

MICKELBERRY'S loss is estimated at \$1,000,000. It is understood that Mickelberry's fire and extended coverage was \$1,000,000 on an actual cash value basis. However, a Mickelberry's broker would not confirm this amount, saying coverage was "adequate."

Insurance carriers on the loss include Underwriters Insurance Co., for Mickelberry's property; Royal Globe Insurance Cos., the liability cover for Mickelberry's and Hartigan Oil Co.; and Employers Liability Assurance Corp., Mickelberry's excess aggregate for workmen's compensation.

Wm. E. Ray Jr. is Mickelberry's broker; John E. Irland & Co., excess and surplus lines broker; and Martin Boyer & Co., independent adjuster and service agency for Mickelberry's work-

men's compensation.

A Hartigan gasoline truck caught fire as it proceeded down an alley adjacent to Mickelberry's plant. A valve on the truck's discharge hose apparently was torn loose when it hit the building or a metal waste container. Gasoline ran through a doorway into the building.

Two minor explosions were followed by a third blast that virtually tore the building apart, witnesses said.

THE CITY FIRE department has refused to speculate on the cause of the fire, and the Cook county coroner has named a panel to determine the cause.

It is understood that the Hartigan truck was covered by a \$100,000/\$300,000 liability policy. It is thought, however, that the oil company also has an excess carrier.

F. G. Duwe, Mickelberry's board chairman, was quoted as saying, "I see no reason why we should lose business. Our plants in St. Louis, Cincinnati and Detroit have completely taken up the slack." Temporary offices have been donated in a near-by building.

The plant accounted for between 5% and 10% of the company's sausage-making business.

It is understood that Mickelberry's had a continuous appraisal service on the building and contents, but the plant had no sprinkler system. The brick building was of general fire resistive construction, including some reinforced, 24-inch concrete walls.

It is also understood that Underwriters took over the property cover on Jan. 1, and the excess aggregate workmen's compensation was a stop-loss protection. ■

'Pure' group auto plan approved by Michigan's attorney general

DETROIT—Group car insurance, in which all employees pay the same premium for identical coverages, has been given a green light by Michigan Atty. Gen. Frank J. Kelley.

The opinion declaring that group rating of car insurance does not conflict with Michigan statutes appeared to clear the way for one of the first "pure" group auto plans. In some so-called group plans operating in other states, premiums are deducted from paychecks, but employees are rated individually on their driving records and other factors.

Mr. Kelley was asked by Insurance Commissioner David J. Dykhouse to consider the legality of a plan that proposed to charge the same premiums to all participants for a given coverage. Regardless of such factors as age, driving records, residence location or automobile.

THE KELLEY OPINION noted that car owners do not present nearly as diverse a risk as participants in group life insurance plans, which are deemed not discriminatory.

Mr. Kelley added that "the proposed plan would not be unfairly discriminatory because a reasonable classification exists which differentiates the individuals under the plan from other individuals."

In the opinion, Mr. Kelley dealt with other questions: under Michigan law, he said, employers may pay all or part of the group car insurance premium. A single company may establish different sets of expense provisions to recognize different costs of individual underwriting and group underwriting.

Mr. Kelley's opinion relates to a filing made more than a year

ago with the insurance bureau by Community Service Insurance Co., an affiliate of Farm Bureau Life Insurance Co., Lansing. Community service proposed to underwrite a group including about 200 employees of the Michigan Credit Union League, based in Detroit, its insurance affiliate, League Life Insurance Co., and other related activities.

UNDER THE PLAN, the Credit Union League would pay \$1 a week toward the premiums of its employees. Premiums, depending on which of some 20 coverage options are selected by employees, would run from roughly \$100 to \$150 a year.

Thus, the employer's contribution would cut the premium cost from one-third to one-half for all employees. The league reasons that a driver now paying the lowest possible rate on a personal car insurance policy in the Detroit area would pay no more and perhaps less out of his pocket for the group coverage.

The plan still needs approval from Mr. Dykhouse. The commissioner said the attorney general's opinion had "technical deficiencies," and indicated that the concept of "group rating" still is under study. The Credit Union League said its plan would be working within two months after formal approval is given.

MEANWHILE, Mr. Dykhouse also is grappling with the less revolutionary form of car insurance in which marketing savings are passed on to individually rated employees.

More than a year ago, the insurance bureau approved a filing by Transportation Insurance Co., affiliated with Continental Casualty Co., Chicago. The action was

disputed by several agents and a state agents' organization, however, and the matter is now set for public hearings. A key issue is whether the agents are "properly aggrieved parties in the group auto insurance matter."

Mr. Dykhouse believes his position in the transportation case has been strengthened by the Kelley opinion.

That position, he said, is that "automobile insurance marketing plans through employers, on an individually rated and insured basis, were valid even though lower than standard rates were achieved through mass merchandising techniques resulting in significant expense savings."

MR. KELLEY'S opinion seems certain to spark new interest in both group insurance and employer payments toward group car coverage. The powerful United Auto Workers, based here in Detroit, raised the issue last fall in bargaining with Ford Motor Co. The matter wasn't a serious contract issue, but some observers believe that by 1970, when the current contract expires, the union will be hungry for some form of group car insurance.

Mr. Dykhouse told *Business Insurance* that he welcomes the benefits of group auto insurance, including lower premiums and the likelihood of fewer problems resulting from cancellations and nonrenewals. But he added that group auto insurance isn't a remedy for many of the widely discussed ills of the auto insurance industry.

He considers the liability system and its methods of distributing claims funds a critical area and is preparing a report detailing his own views for Michigan Gov. George Romney. ■

Canada sets July 1 for medical plan

OTTAWA—The Canadian government has set July 1 as the day when it will implement a new medical care insurance program, although only one or two provinces have agreed so far to participate.

In announcing the decision to the House of Commons, Prime Minister Lester B. Pearson said that because of the limited participation there will be no national plan as originally envisioned.

For a discussion of the Canadian medical program, see page 19 for a column by J. E. Benoit, head of the insurance division of Expo '67. ■

Ten carriers plan 'guaranteed benefits' tests in Illinois, N.Y.

CHICAGO—Major tests of "guaranteed benefits" payments for auto accident victims by some of the nation's largest auto insurance companies have been announced for two Illinois counties and an undetermined area of New York state.

Ten participating insurance companies will offer injured motorists a settlement option providing up to \$12,500 per person in "guaranteed benefits." Those who accept will be paid automatically, without having to prove that the other driver was at fault.

In addition, injured motorists may reject this payment method and use existing means of bargaining for settlement on the basis of proving negligence. The defendant's insurance carrier will pay them up to \$5,000 in medical benefits and credit these payments against any future settlement.

THE EXPERIMENT will start in DuPage and Kane counties near here March 1. The test will be limited to private passenger vehicles and may be expanded later to other states and other types of vehicles, according to a spokesman for the American Mutual Insurance Alliance, a sponsor of the test.

Insurance companies involved include Allstate, Chubb & Son, Continental, Continental National, Country Mutual, Economy

Fire and Casualty, Nationwide, and three Alliance companies, Kemper, Liberty Mutual and Sentry.

The first month will be a check test for claims procedures, to be followed by about six months of operation. The program will not require any change in existing auto policies, but the spokesman pointed out that some changes may ultimately be needed to make guaranteed benefits applicable to all claims.

The only persons excluded would be flagrant law violators such as hit-and-run drivers, fleeing felons and those who cause intentional injury.

Sponsors hope the program will help hold down auto liability costs by cutting red tape. ■

Dental care coverage kept

SAN FRANCISCO—Northern California's 25,000 Carpenters' Union members have won back their employer-financed dental care insurance program.

Last month employer representatives over-rode union protests and exercised their right to refuse to renew the two-year-old program.

But the employer group now has agreed to renew the program which pays 70% of dental bills of union members. ■

Hall acquires two brokers

NEW YORK—Frank B. Hall & Co., which merged with Alexander, Sexton & Carr of California in December, has announced mergers with two other brokerage firms.

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Boat show reflects lessons of McCormick Place

NEW YORK—A raging fire last year which destroyed Chicago's McCormick Place exhibition center alerted fire officials here to tighten restrictions on exhibitors at the New York Coliseum.

Joseph E. Choate, administrative vp, National Assn. of Engine & Boat Manufacturers, noted changes in fire regulations when he was arranging for the 58th National Boat Show which ended Feb. 18. One new ruling he mentioned required that two doors had to be unlocked at all times, even during the show's off hours.

"And next year all wooden walkways will have to be painted with a fire retardant paint," he said.

THIS YEAR THE show included 600 recreational crafts

plus several hundred exhibits of accessory items. Each exhibitor had to comply with safety rules and regulations of the fire and public assembly departments. One standing regulation required that all fabrics be flame-proofed.

In addition, Royal Globe, the national association's insurance carrier, had a representative at the show making daily inspections of display areas and submitting handwritten reports to Mr. Choate. From these reports "we could see exactly what was out of order and make corrections immediately," he said.

Mr. Choate added that all personnel involved in the boat show had standing instructions to sound fire alarms immediately, before attempting to extinguish a fire. Partial blame for the Mc-

Cormick Place fire was placed with workers who tried to put out an apparently small fire before alerting the fire department, according to a committee which investigated the fire.

The fact was, said a committee member, that workers weren't clear as to exact procedures to follow in case of fire.

The National Assn. of Engine and Boat Manufacturers was required by the Coliseum to carry general liability and property damage covering the facility. The association, through the Royal Globe, had a \$3,000,000 per occurrence general liability policy.

THE ASSOCIATION, in turn, presented to each exhibitor a contract which among other things said that any person want-

ing insurance had to place it at his own expense. However, the association recommended exhibitors place all-risk coverage on their property from portal to portal and during the boat show.

One exhibitor, Hattaras Yacht Co., High Point, N.C., had a special endorsement for boat shows under its regular general liability policy. The boat manufacturer, which displayed a \$100,000 yacht, was covered up to \$5,000,000 liability. In addition, according to J. L. Bull, vp, the regular fire policy provided protection up to \$300,000 against theft.

To minimize theft, the show stationed security guards throughout the Coliseum. "These were top men with a lot of experience," Mr. Choate said.

The show also had a nurse on duty at all times to care for inju-

ries to the public. As in the past most injuries were minor and resulted from slips or falls. Here again, to minimize claims hand rails were put up around boat areas.

E. H. Germer to safety post

NEW YORK—Edgar H. Germer has been named to the new position of corporate safety administrator for Sinclair Oil Corp. and will be responsible for the coordination of safety activities throughout the company.



Edgar H. Germer

The new post is designed to make safety an integral part of the oil company's insurance function and is a worldwide effort, according to a spokesman.

Mr. Germer will report to Edward J. Kettel, insurance manager, and will work closely with the safety representatives of the operating subsidiaries.

He joined Sinclair in 1966 as loss control supervisor and was previously associated with the Aetna Casualty Insurance Co. and Gulf Oil Corp.

Bill allowing insurer to sue state vetoed

MADISON, Wis.—Gov. Warren Knowles of Wisconsin has vetoed a bill that would have permitted an insurance company to sue the state for \$225,000.

The figure is the amount paid by the Hanover Insurance Co. under a settlement with a third party for injuries sustained in a 1964 automobile accident.

As is usual, the state claims commission originally ruled on the claim. It unanimously decided that injuries to the third party were not the result of negligence of state employees.

But a bill was introduced by two Republican legislators that would have permitted Hanover to sue the state to recover the amount of the settlement. The bill passed.

Gov. Knowles, in vetoing the measure, said: "I believe it is unwise to establish the policy that claimants denied by the claims commission should seek the passage of personal legislation permitting their suit against the state."

Nolan joins broker

Gerard Joseph Nolan, formerly casualty insurance manager of the National Union companies, has joined Wohlschlag & Anderson, New York excess and surplus lines broker, as head of its newly established special liabilities section. Mr. Nolan will handle such coverages as errors and omissions and malpractice.

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Here's how to control climbing health care costs

CHICAGO—How to stem the tide of rising health costs was a chief topic at the Health Insurance Assn. of America's 12th annual group insurance forum here last week.

Discussions covered some of the new methods insurers are experimenting with to cut medical costs, from preadmission testing to incentive reimbursement schemes to prepaid group practice medical plans.

One insurance man, Morton D. Miller, vp and chief actuary of Equitable Life Assurance Society of America, made the point that health care should be related to the over-all problem of urban renewal, which he said insurance companies also have a stake in through investments.

William C. White Jr., director of health insurance relations of Prudential Life Insurance Co. of America, said that one way insurance companies can solidify relations with hospitals is to try out advance and speeded up payments as a means of providing hospitals with working capital. "We can't continue to work with hospitals on a stand-off basis and continue to just pass money through them to the policyholder," Mr. White said.

Mr. White also said that the rising cost of health care is forcing insurance companies, with "some pressure" from the Social Security Administration, to become more effective in the claims review process for Medicare in

order to eliminate excessive utilization of health care services and their costs.

The Prudential executive declared that health insurers should begin to provide benefits at least equal to those of Medicare. If they don't, the result will be a dissatisfied public and increased pressure for government action, Mr. White warned.

Daniel W. Pettengill, vp of the group division actuarial section of Aetna Life & Casualty, Hartford, maintained that carriers should be experimenting with coverages for extended care facilities, home health agencies and community mental health centers.

Mr. Pettengill also suggested that health insurers participate

more fully in experiments such as preadmission testing "whereby an individual believed to need hospital care has his x-ray and laboratory work done in the outpatient department rather than as an inpatient of the hospital."

If tests indicate the patient requires actual confinement on an inpatient basis, at least he's saved several days of room and board costs, the Aetna executive stated.

Mr. Pettengill said that the Department of Health, Education & Welfare and various unions, including the AFL-CIO, are urging the insurance industry to assist in financing prepaid group practice medical plans, such as ones operated by the

Kaiser Health Foundation on the West Coast, the Group Health Assn. in Washington and the Health Insurance Plan in New York.

UNDER THIS SORT of setup, a number of doctors representing all the medical specialties practice together in a clinic and also run their own hospital and extended care facility. Patients agree to pay the group practice plan a specified fee each year in return for which they receive all the medical services they need.

In addition to the overtures of labor and HEW, the Assn. of American Medical Colleges, the American Assn. of Medical Clinics and the Health Insurance Plan have all made specific requests of the industry in the area of prepaid plans, Mr. Pettengill stated. The medical colleges group, for example, has reported that many of its member medical schools are interested in setting up prepaid group practice plans as a teaching aid for students. He said there were at least ten "outstanding" medical colleges considering such action.

In a discussion period, Mr. Pettengill said Harvard Medical School has been working on a prepaid group plan for the past two years, and it's hoped the plan can be started by early in 1969.

The American Assn. of Medical Clinics has reported, Mr. Pettengill said, that several of its members might be willing to experiment with a prepayment mechanism for at least some of their patients, if insurance companies were willing to assist them. And the Health Insurance Plan has offered to assist "capable" insurers in establishing new prepaid group practice plans and so-called dual choice plans (which give employees a choice between a conventional group medical plan and a prepaid plan).

MR. PETTENGILL predicted that insurers will soon start offering a special, separate agreement between the insurance company and the group practice plan whereby the dual choice arrangement is entirely within the insurance company's own group practice. He said this setup would offer the employer a greater choice without any extra work on his part.

"To me," Mr. Pettengill stated, "the ideal arrangement would be one that has the group practice plan bear any excess claim costs due to inefficient practice of medicine and has the insurance company bear any excess costs due to epidemics and catastrophes. I would intend that the group policyholder bear the cost differentials due to age, sex, family status and employment practices."

"Whatever the form of agreement between the group practice plan and the insurance company, it must provide the participating doctors with sufficient incentives to furnish high-quality medical care on an efficient basis and hence conserve the public's health care dollar."

MR. MILLER of Equitable felt the swing in medical benefits was going in the direction of extended care facilities, home health care and community mental health centers. Interest in these areas, Mr. Miller said, "is so widespread that I firmly believe we should all have them available and should be vigorous."

"By All Means, Don't Say 'If I Can,' Say 'I Will'"

Abraham Lincoln

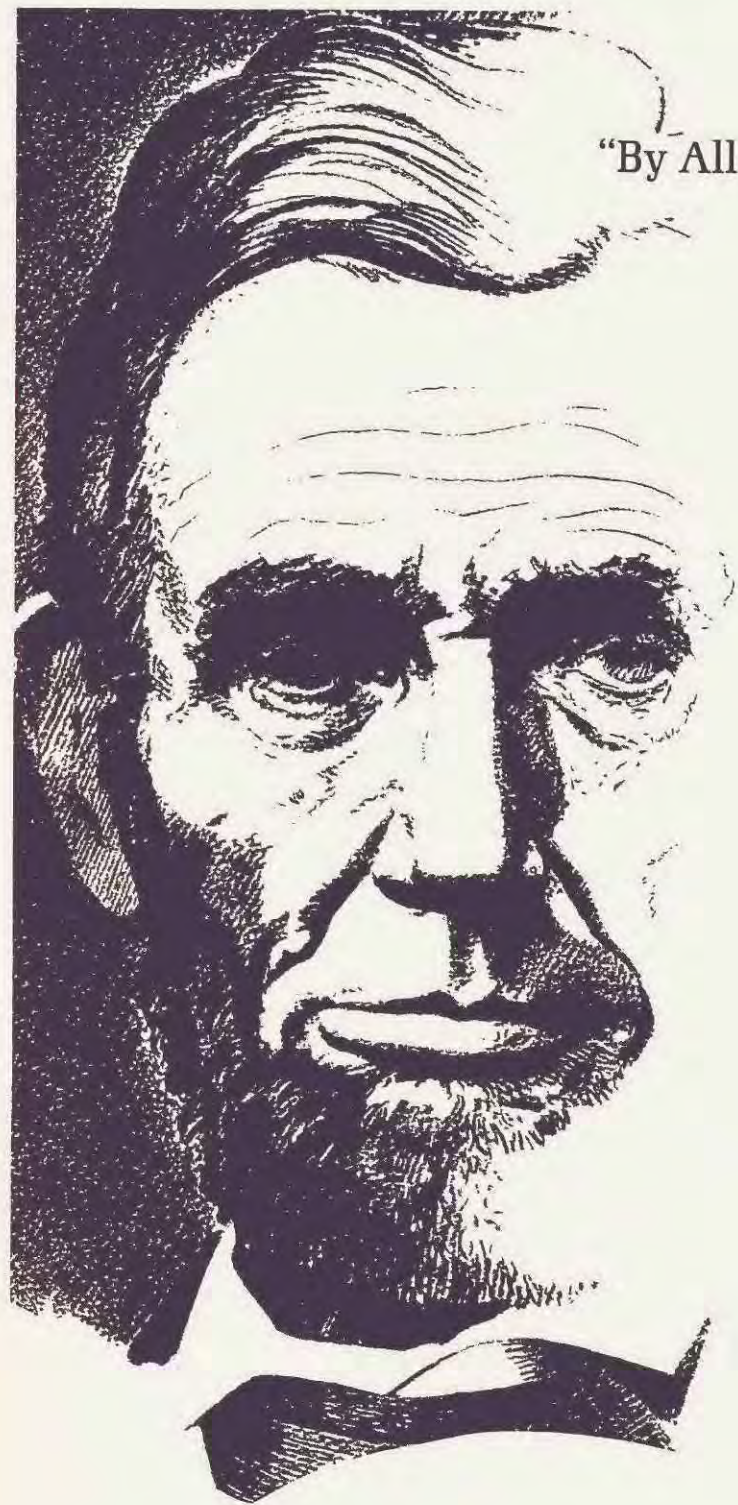
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"America's Outstanding Insurance Market"

Continued on page 30

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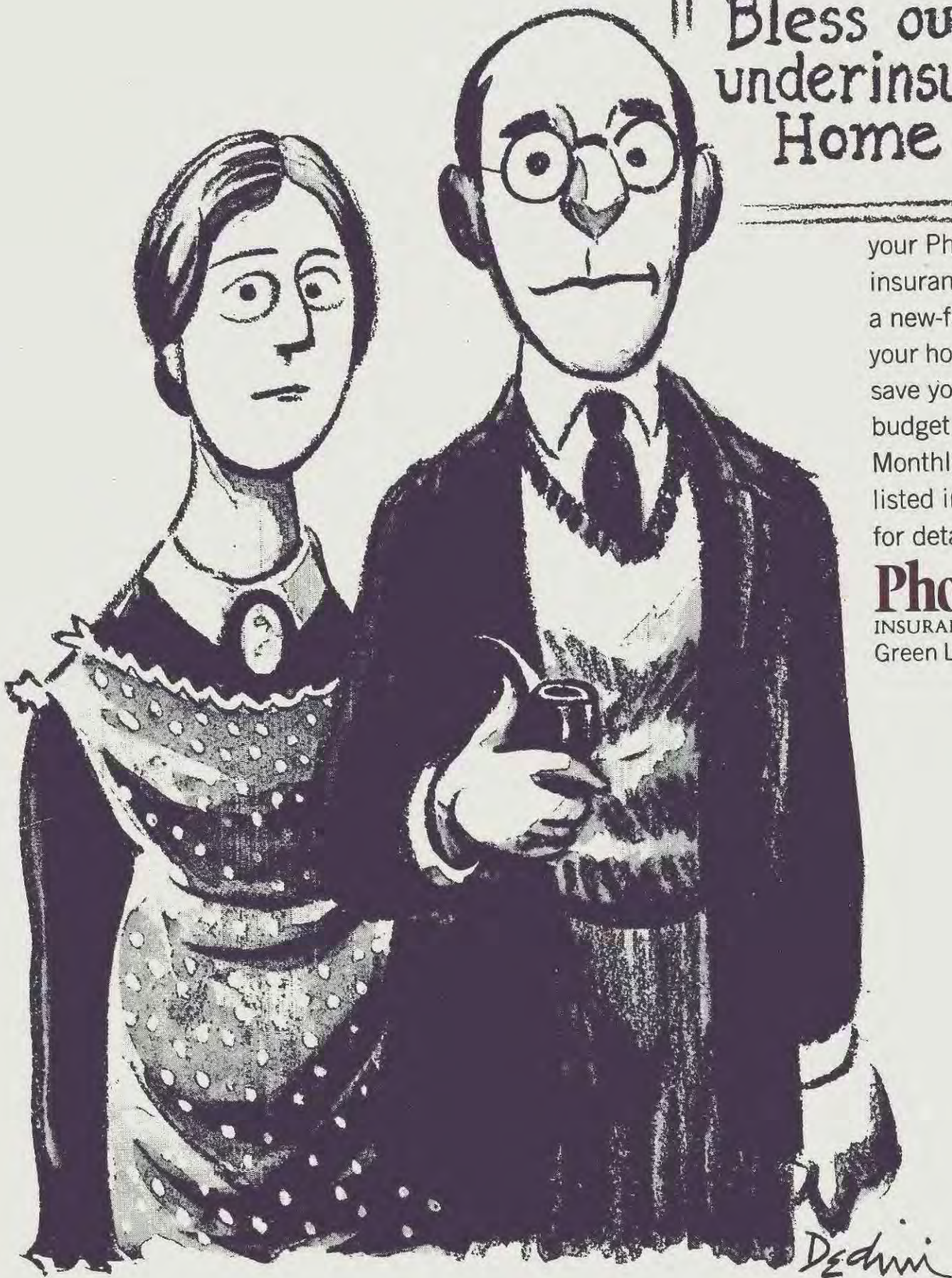
your Phoenix agent about Phoenix Green Light insurance coverage that provides payments on a new-for-old basis. He'll help you make sure your home is adequately insured – and probably save you money, too. Ask him how you can budget your premiums with the Phoenix Monthly Payment Plan. Your Phoenix agent is listed in the Yellow Pages. Or write us direct for details.

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Set higher ocean cargo liability limits at meeting in Brussels

WASHINGTON—Marine insurers, shipping companies and shippers, after weeks of hectic bargaining, finally agreed on a proposed ocean cargo liability increase which was accepted by the U. S. state department and presented to delegates at the Brussels diplomatic conference last week.

The U. S. proposal, which called for new liability limits of \$662 a package and 97¢ a pound, required a majority vote from all countries attending the conference.

When the U. S. delegation left for Brussels it was not certain what limits would be accepted. A state department source said the stand taken by foreign nations would strongly influence the final determination. He pointed out that the U. S. delegation would move for cargo limits as close as possible to those approved by domestic interests.

IF THE OCEAN cargo liability limit on shipping companies is changed it could be a factor affecting insurance rate patterns throughout the industry, especially for shippers who suffer losses while their cargo is in the hands of the shipping companies. The issue stemmed from an agreement, devised in 1924, known as the Hague rules which limits shipowners liability to \$500 a package, regardless of its size or real value.

As it stands now, insurance companies which pay losses to shippers are restricted in subrogation—claims against the ship-

ping companies—to only the \$500 package limit.

The new liability limit proposed by the U. S. government at Brussels would raise the limit to \$662 a package in addition to a limit of 97¢ a pound, whichever is greater.

The U. S. State department had originally proposed a pound limit of \$3.70 but pressure from U. S. shipowners, shippers and the insurance industry forced them to revise the package concept to \$662 and 97¢ a pound. ■

Bradley, ABC executive, dies

BABYLON, N.Y.—Ogden Bradley, for nine years director of insurance at American Broadcasting Co., New York, was killed in an automobile accident Feb. 8 here.

Mr. Bradley, who was 56 years old, had a varied background in the insurance industry and was considered an expert in fire coverages. Prior to joining ABC he was insurance manager for United Distillers.

No successor has yet been named. Mr. Ogden is survived by his widow and one son in California. ■

Promote Prendergast

James H. Prendergast, formerly assistant manager, has been named manager of the Northeastern Compensation Rating Bureau, Portland, Me.

info for buyers

To make it easy for *Business Insurance* readers to get additional information offered in editorial items below and advertising in this issue, Reader's Service cards are bound in at page 9. These cards should be used only for items that are offered *without charge*. Items shown below with a price have the complete address of the supplier and your requests for such items should be sent direct to the supplier with payment, indicating that you saw the notice in *Business Insurance*.

Readers of *Business Insurance* 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 N. Rush St., Chicago 60611.

- Information on fire, explosion and health hazard characteristics of chemicals and materials is available in the second edition of the "Fire Protection Guide on Hazardous Materials." This 800-page book, recently published by National Fire Protection Assn., is sold for \$4.75. Write: Publications Service Dept., National Fire Protection Assn., 60 Battery March St., Boston 02110.

- An area of growing corporate concern, the liability of its officers and directors for errors and omissions, is reviewed in "Directors and Officers Liability Insurance." The booklet, released by EBS Management Consultants Inc., is available free by writing No. 142 on the Reader Service Card.

- "Driver Engineering Service" gives a detailed explanation of the driver training program offered by Allstate Insurance Co. for company personnel. The two-day course includes six hours behind the wheel of a simulator trainer, ten hours of classroom instruction and testing and two hours on the road. For a free copy, write No. 143 on the Reader Service Card.

- "The High Cost of Burning" points up premium savings resulting from the installation of an automatic sprinkler system and lists the cost of installing sprinkler systems in different classifications of buildings. For a free copy of this brochure, published by "Automatic" Sprinkler Corp. of America, write in No. 144 on the Reader Service Card.

- "Guide to Insurance Services and Facilities" is designed to help businessmen understand the function of insurance brokers in general and the specific services of Despard & Co. Copies are available without charge by writing in No. 145 on the Reader Service Card.

- "Riot and Your Business" is a six-page booklet which discusses the riot problem and business, a long-range protection plan and emergency protective measures. Released by Kemper Insurance Cos., a free copy may be obtained by writing No. 146 on the Reader Service Card.

- "Prudential Group Insurance Highlights," a 24-page booklet, describes how the employer and employee benefit from the Pru-

dential group plan. The booklet lists eight vital emergencies and the protection afforded by this group insurance. Published by the Prudential Insurance Co. of America, a free copy is available by writing No. 147 on the Reader Service Card.

- "Record Retention Timetable" is a chart which lists over 125 different types of office records, together with a list of government authorities and the specified time the law demands that records be kept. Along with the chart, released by Electric Wastebasket Corp., is a two-page article describing the steps in a paper disposal program. Write No. 148 on the Reader Service Card.

- A limited supply of two recently published reports on injury statistics are available on work injuries and accident causes in the concrete brick and block industry (Reader Service Card No. 149) and work injuries and work injury rates in heavy construction (Reader Service Card No. 150). Copies of these reports, published by the Bureau of Labor Statistics, may be obtained free by writing the appropriate number or numbers on the Reader Service Card.

- "Employee Benefit Awareness" is designed to help employees better understand the nature, effectiveness and value of their group life and health insurance benefits. Published by Northwestern Life Insurance Co., a copy of the booklet may be obtained by writing No. 137 on the Reader Service Card.

- "The Problems of Total Remuneration," the result of two years of intensive research in Europe, is designed to assist international management in solving some of its informational needs on overseas pay and benefits and aid in coordinating North American and European business methods. This 16-page booklet, prepared by Towers, Perrin, Foster & Crosby, may be obtained free by writing No. 141 on the Reader Service Card.

- The main features of Prudential's group term and paid-up life insurance plan are described in a 16-page brochure. Copies are available free of charge. Write No. 138 on the Reader Service Card.

- "The Liberty Mutual Fleet Evaluation Seminar" outlines the data most vital to the reduction of fleet accidents. Released by Liberty Mutual Insurance Co., this 12-page booklet is available by writing No. 139 on the Reader Service Card.

- "Digest of Boiler and Machinery Insurance" sets forth the general scope of coverage afforded by the boiler and machinery policy. Published by Royal Globe Insurance, a free copy may be obtained by writing No. 140 on the Reader Service Card.

- "Detex Property Protection Manual" is a pocket-sized guide for both employers of protection personnel and the guards themselves. It includes information on dangers to watch for, how to set up a guard's tour and first aid, among other things. Prepared by the Detex Corp., single copies are available free by writing No. 136

on the Reader Service Card.

- A set of simple and usable principles on business communication in relation to employee benefit and safety programs, etc. is offered in "Business Communication/An Art or a Tool for Management?" Published by Marsh & McLennan Inc., the booklet is available free. Write No. 134 on the Reader Service Card.

- "International Insurance and Employee Benefit and Pension Management" offers seven separate articles highlighting various phases of international insurance. Published by American Management Assn., copies are \$4.50 to nonmembers and \$3 to members. Write: American Management Assn., 135 W. 50th St., New York 10020.

- "Reciprocity-Portability" contains highlights of regional seminars held by the National Foundation of Health, Welfare & Pension Plans Inc. on reciprocity and portability between pension funds, including case studies forms, provisions, legal and legislative considerations. Copies are available to members at \$2.75 each; \$3.75 to nonmembers. Write: National Foundation of Health, Welfare & Pension Plans, P. O. Box 898, Elm Grove, Wis. 53122.

- "Corporate International Insurance Programs" discusses possible ways for management to handle insurance and employee benefits in other countries. Single copies of the booklet, released by Johnson & Higgins, are available free by writing No. 126 on the Reader Service Card.

- A comprehensive study of the air carrier's liability for loss or damage to cargo is contained in "Analysis of Air Cargo Liability." The booklet, published by the Atlantic Cos., analyzes the present posture of air law and freight practices as they are concerned with air carrier liability to cargo interests. Write No. 132 on the Reader Service Card for a free copy.

- "Electronic Computer Systems" gives an indication of the major areas of consideration and a basis for an intelligent evaluation of fire protection requirements for electronic computer systems. This 30-page booklet is sold for 60¢ by National Fire Protection Assn., 60 Battery March St. Boston 02110.

- Data concerning the nature, functions and advantages of construction bonds is contained in "Construction." This business safeguard brochure has been released by the Surety Assn. of America. For a free copy, write No. 135 on the Reader Service Card.

- "Loss Prevention in Print" catalogs various publications and visual aids on topics ranging from developing a property conservation program to safeguarding hazardous processes. The catalog is published by Factory Mutual System; single copies are available free by writing No. 133 on the Reader Service Card.

- "Safety as It Applies to Supervisors" is a 16-page booklet designed to assist supervisors in the prevention of industrial accidents. Compiled by the loss prevention department of Marsh & McLennan Inc., a copy of this booklet is available by writing No. 130 on the Reader Service Card.

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Hospital benefits key issue in aerospace talks

LAKEWOOD, Cal. — Higher hospital benefits will be a key issue when the current contract between the United Auto Workers' Local 148 and Douglas Aircraft Co.'s Long Beach plant runs out.

The demand is of more than passing interest because the pact between the aircraft manufacturer and the union is the first one to expire in the aerospace industry. The contract is up July 17, and benefits asked by Local 148 will most likely be mirrored by other unions in the field.

After the contract runs out at the Douglas division of McDonnell-Douglas Corp., where 33,000 workers are employed, agreements with Lockheed, Aerojet-General Corp., Boeing and the McDonnell division of McDonnell-Douglas come up for renewal.

INVOLVED IS not only the UAW but also the International Assn. of Machinists. Together they represent about 200,000 workers in the aerospace industry.

According to Ed Wianecki, president of Local 148, hospital benefits will be high on the agenda when the Douglas pact

expires. "Hospital costs are sky-high in California," he told *Business Insurance*, "and our present coverage of only \$32 a day for a hospital room isn't enough."

THE UNION executive also said that an increase in the basic pension formula would be sought, "tied in, if possible, with a cost of living escalator." The UAW was after a similar cost-of-living clause in talks with the auto companies, but the demand was not met.

A source at UAW headquarters in Detroit emphasized that hospital costs and pension plans are also of "primary interest" to aerospace workers nationwide. "There is also a keen interest in survivor's benefits," he added.

The best indication of possible demands to be made in the aerospace industry, the union source continued, is to examine gains by auto workers. "It's a question of economics," he said, "because the two industries have traditionally moved along together."

ANOTHER ITEM high on the priority list will be the removal of the no-strike clause written into the current contract with the local.

"This is important," Mr. Wianecki explained, "because things get bound up in the grievance committee and sometimes take from four to six months to resolve. This includes no-cost items in which the delay isn't justified. We should be able to strike for items like this."

"THIS TIME WE really know what the rank and file want," Mr. Wianecki observed. He explained that a union magazine has run a questionnaire in the last few issues asking members to write in on an individual basis, telling what interests them the most.

"When they take the trouble to cut out the questionnaire, fill it in and mail it back, you really know they're interested," Mr.

Wianecki said. More than 2,000 replies have been received "and they're pouring in every day."

There is an "overwhelming concern" with hospital costs and improved pensions, Mr. Wianecki said. Members would also like to have their age of retirement lowered.

Presently, the pension plans are based on a formula of \$4.75 per year of service, and the union would like to see this increased to \$5.75. "A pension plan should also be tied in with a cost of living escalator," Mr. Wianecki said, "otherwise your standard of living is eaten away."

The idea is not entirely new, it was explained, because aerospace workers currently receive an automatic increase of 1¢ an hour for each 0.4 increase in the

consumer price index. "We received an extra 3¢ an hour on Feb. 12," explained a union official at Douglas, "and our hourly rate of pay has increased by 56¢ in the past two-and-a-half years."

Mr. Wianecki also said that union leaders would like to see any increases in the basic pension formula applied retroactively to current retirees. "This is an area in which Walter Reuther is personally very concerned," he said. "After all, the oldtimers organized the unions, and we walked in after their hard work."

"However," Mr. Wianecki explained, "we don't want to bargain irresponsibly, and you can be sure that Mr. Reuther is aware of financial conditions in the aerospace industry."

Cal. job connected injuries rate down; covered force up 3%

SACRAMENTO — Job connected injuries disabled 94,968 workers in California during the first six months of 1967, as compared with 94,914 in the first half of 1966, the state Department of Industrial Relations has reported.

The number of employees working in industries covered by the California Workmen's Compensation Act rose 3% during the first half of both 1966 and 1967, and the over-all work injury rate declined slightly.

Manufacturing plants, according to the department, provided employment for 5% more workers and the number of factory workers hurt on the job also rose

by 5% during the six months.

Construction and agriculture, both with fewer workers in the first half of 1967 than in first six months of 1966, each registered substantially greater reduction in job injuries than in the number of persons employed.

On farms, an employment decrease of 4% and a job injury reduction of 15%.

In construction, employment was 16% below the first half of 1966 and job connected injuries 25% lower.

The work force in finance, insurance and real estate expanded by about 1½% during the same time period and work injuries rose nearly 8%.

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washington watch

Politicians, regulators investigate 'too cozy' insurance, business links

WASHINGTON — The old horse and carriage analogy applies directly to the relationship which exists between the business world and the insurance industry; neither could function effectively without the other.

Even the most suspicious politicians and regulatory agencies have no quarrel with this link; however, both are, and have been, actively looking for instances where, in their opinion, the marriage may have become a

bit too cozy for public good.

Last month the Federal Trade Commission accepted an affidavit from American Standard Inc., New York, manufacturer of plumbing, heating and air conditioning products, agreed to discontinue "using the leverage of its purchasing power with its suppliers to enhance the sale of American Standard products." The affidavit, which is a non-binding agreement, said the firm will not "solicit business from a

bank or insurance company engaged in a building project through use of financial (including insurance) personnel of American Standard."

THE FTC said the affidavit was a part of an on-going investigation into "those practices of reciprocity which might constitute an act of unfair competition."

In December, The Senate anti-trust subcommittee touched on another facet during its hearings on credit life insurance. The encounter led subcommittee chairman Sen. Philip Hart (D., Mich.) to direct his staff to begin drawing up legislation which would divorce lenders and sellers from making a profit on credit life insurance.

Ronald Roberts, general manager of the American National Insurance Co., challenged at the hearings the insurance arrangement between Prudential Insurance and General Motors Acceptance Corp. He said the insurer used its credit life insurance as a "loss-leader" line and in doing so endangered many small insurance firms.

"WE FEEL," he said, "that this committee should be vitally interested when the country's second largest insurance company sets up a group program with this country's largest finance company at such a low premium rate that underwriting losses averaging \$1,000,000 are suffered each year by Prudential."

Prudential denied the allegations, saying that its credit insurance operations, including investment income from premiums developed by its credit business, have been consistently in the black.

Although Sen. Hart's proposed legislation will be directed at only one phase of the issue raised at the hearings, it is speculated that the same or similar insurance-industry relationships will be brought up again by Sen. Hart as he continues his campaign to place the regulation of insurance in the hands of the Federal government.

The FTC-American Standard affidavit presents another side of the issue; where a business uses its insurance buying needs not as an incentive for lower rates but for the use of its products in building projects in which the insurer has an interest.

ANTITRUST investigators point out that it can also work the other way. The insurance firm might use its ability to influence the purchase of large amounts of building materials to prod a firm into buying insurance from it. In any case, they continue, it takes two to tango.

The terms of the American Standard affidavit give some indications of the types of arrangements which the FTC is investigating.

According to the affidavit, the FTC investigation centered on whether American Standard "engaged in certain acts and practices having the purpose and effect of inducing customers of

Continued on page 23

UNIVERSITY COMPUTING COMPANY ESTABLISHES EMPLOYEE BENEFIT PROGRAM THROUGH GULF ATLANTIC LIFE!



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opinions

Too harsh a remedy

The government's proposal to send out safety inspectors to plants across the nation—with the authority to close them down if conditions are likely to cause "imminent harm" to workers—seems to us to be depriving corporations of due process of law.

The Federal Trade Commission for some time has tried to get the same kind of injunctive powers against advertising it deems harmful to the public, but the courts have been extremely reluctant to grant FTC such powers. It has always had to take its case all the way through the courts before it could get an ad banned from the airwaves or from print media, cases in which defendants chose to appeal its rulings.

We think the courts will be equally reluctant to allow the government to close down plants without a full judicial hearing. Such authority can be too easily misused—for instance, in areas of collective bargaining.

Indeed, the government has already weakened its case by asserting that it needs this sort of safety legislation to help cut down on the number of workers killed on the job every year. But, as our Washington editor pointed out, at least 22% of those deaths were caused by motor vehicles and another 10% occurred on farms. Another 20% of fatalities can be accounted for by accidents not related to the object of the legislation, he reported.

Finally, we think that business already has a built-in incentive to keep its operations as safe as possible in the form of workmen's compensation. Both businesses and their insurance companies have to compensate each worker who has an accident connected with his job, and state industrial accident boards and commissions are becoming more and more inclined to stretch the limits of what constitutes a work-connected injury.

We're sure that the government is quite seriously concerned about making U.S. industry as safe as possible, but we submit that the provisions of this legislation are far too harsh a remedy.

On calling a spade a spade

The National Advisory Panel on Insurance in Riot-Affected Areas last month released its final report outlining an elaborate program to provide insurance for actuarially uninsurable areas.

The panel had an impossible job to start with since it was, in effect, charged from the beginning with finding an insurance-oriented answer to a problem which is inherently alien to an insurance solution.

Rudimentary insurance texts explain that the purpose of insurance is to spread the expense of a specific risk among a large group, all the members of which pay according to their respective actuarial susceptibility to the risk.

Our nation's insurance industry has developed a remarkably accurate method of determining actuarial susceptibility, and events have generally proved the industry correct when it concludes that a certain property, in order to carry its actuarial load, must pay prohibitively high premiums.

This brings us to a basic fact: The solution proposed by the panel, as well as all other insurance-oriented answers, is really an elaborate method of determining who will subsidize these uninsurable areas.

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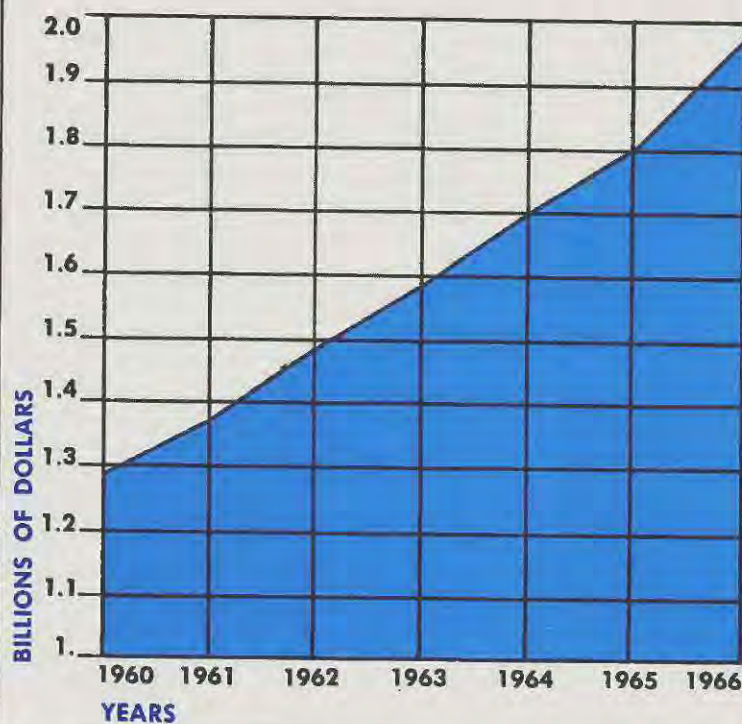
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Workmen's compensation payments



From 1960 through 1966, cash payments and medical benefits under workmen's compensation increased from \$1.29 billion to \$1.97 billion, a growth due largely to upgraded benefit levels in many states. The increase in benefits from 1965 to 1966 was \$190,000,000 or 10.6%, the greatest year-to-year increase in the 55-year history of workmen's compensation. Approximately one-third of the workmen's compensation benefits are used for hospitalization and other medical costs and the rest for wage replacement or survivors' benefits.

Source: Social Security Administration

Under the panel's recommendations, the Federal government will end up footing the bill, either by direct payments out of a reinsurance fund, or via tax exemptions for private industry insurance pools.

Nothing highlights this fact more clearly than the fact that here we have an industry-government joint venture to pay the bill for riot damage, and industry is pleased with the arrangement. In effect, the program is an elaborate method for the government to pay industry to dole out Federal subsidies.

This is not necessarily bad. If it is the best, most efficient method of getting Federal funds to riot stricken areas, and the people of the U.S. decide that a portion of their tax money should go to these areas, then so be it. But, we think that the government should call a spade a spade.

Is it possible that following next summer's riots the President will say, "Thank goodness, we established a plan under which all this destruction was insured"—thereby absolving all parties of any further responsibility for attacking the symptoms of the problem?

What a way to run a railroad

The recent disclosure that \$50 billion of future retirement benefits out of an estimated \$68 billion needed to provide pensions for Federal employees are unfunded will bring wry smiles to many pension and employee benefits experts.

The government has been sending its spokesmen to conferences during 1967 pounding away on the theme that more Federal supervision is needed in the area of private pension plans, "because employees should have the assurance that necessary funds are available to provide expected benefits."

Assistant Secretary of the Treasury Stanley S. Surrey proposed last summer that a private pension plan's assets must eventually equal its vested liabilities. He also proposed the establishment of a common fund as insurance against a plan's inability to meet its unfunded liabilities. The fund would be financed by plans with unvested obligations.

If the government were to put its own suggestions into effect the costs would be staggering, since the unfunded liability of the Federal pension plan is estimated to be growing by more than \$1.5 billion a year. Any Federal pay raises will automatically compound this liability as retirement benefits are based on highest average salary over five consecutive years.

It is always assumed in government circles that the "full faith and credit" of the U.S. stands behind any government pension schemes. Social Security has always worked on this basis, and it's doubtful that any young man starting contributions today will ever live to collect his full investment.

Recently, Senator Everett Dirksen (R., Ill.) referring to "this vast government establishment going blithely on its way while the deficit grows," asked: "Is this any way to run a railroad?" We feel that many of our readers will ask the same question.

letters

Protests safety bill

To the Editor: In reading the Feb. 12 article on the U. S. safety bill, I would like to suggest that Secretary Wirtz be required to furnish further statistics as to what percent of the fatalities and injuries would be prevented if the bill worked to perfection. My expectation would be that considerably less than 5% of these accidents would be prevented by such activity on the part of the Labor Department. Furthermore, most of the "unsafe working conditions" they might be able to locate and correct will involve construction projects where situations are constantly changing and timing of the inspection is crucial.

Workmen's compensation laws require that the insureds and their insurance companies correct these situations where they are obvious. To have a governmental agency expanded to duplicate the efforts of industry is not justified.

Furthermore, speaking strictly as a tax payer, I would like to read of a bill or two which would serve to reduce the number of people on the governmental payrolls.

William W. Dintleman
Insurance Manager
Falstaff Brewing Corp.
St. Louis, Mo.

Are figures correct?

To the Editor: Reference is made to your issue of Jan. 29 and the article with regard to Wheeling Steel seeking damages from agency.

Either your reporting or your facts and figures appear to leave much to be desired.

At the last of your article you indicate that Wheeling's insurance bill has been running from \$500,000 to \$700,000 annually. You further state that their operations employ more than 13,000 persons and the lines of insurance include fire and extended coverage, public liability, workmen's compensation and various forms of employee benefits.

If Wheeling Steel has been carrying any insurance to speak of under programs as stated and have had an annual premium of \$700,000 or less, they should give their agents a healthy bonus of a few million, rather than suing to recover same. Any type of group insurance for 13,000 employees would cost close to \$700,000 a year without considering workmen's compensation, public liability and fire and extended coverage on property.

These figures just don't make sense to me. Are you certain they are correct?

E. O. Burroughs Jr.

Manager, Insurance Dept.
F. S. Royster Guano Co.,
Norfolk, Va.

Editor's note: According to the complaint, the premiums paid by Wheeling on insurance purchased through the Paull agency during Lee C. Paull Jr.'s tenure as a director of Wheeling ranged from \$500,000 to \$700,000 annually. During this period Wheeling purchased its total insurance requirements (with the minor exception of some employee benefit insurance) through the Paull agency. Principal lines of insurance which Wheeling maintains include fire and extended coverage, insurance on physical facilities, public liability protection, workmen's compensation and employee benefits.

Continued on page 16



The little station that could

WAUSAU

Back in 1911 a group of lumbermen gathered over a cigar store in Wausau, Wisconsin, to form this mutual insurance company.

Today, Employers Insurance of Wausau operates in all 50 states, Puerto Rico and Canada, providing full-line business coverage for

every branch of business and industry.

The fact that we've grown so fast shouldn't interest you. But the "why" of our growth should.

We like to feel it's because of our attitude. The Wausau Way of doing things, if you will.

We treat each policyholder as though he were our only client. Updating coverages continually, providing 48 hour claim service coast to coast and helping to prevent accidents in the first place.

It was all uphill in 1911. And it still is today. But we expect to continue to grow because we're the people who know business insurance like nobody else in the business.

If you're interested in help with your company insurance, give us a call.

We think we can. We think we can

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for yourself.**

london line

Lloyds' method of underwriting differs little from coffee house days

By WILLIAM GUEST
 (Mr. Guest, who is a senior editor of Business Insurance, served for over four years at Stewart, Smith & Co., London, a Lloyds broker.)

LONDON—The first question invariably put to a Lloyds insurance broker is whether it's true that Lloyds will cover anything. The answer, of course, is "yes"—

if the price is right.

To the layman, Lloyds is a glamorous place where business is conducted in an old world atmosphere of charm and good

will. Superficially, this impression is true, but underneath is the hard reality of conducting business in a highly competitive and changing field. Insurance is a tough business with little room for sentiment, and the main talk under the veneer is of profits and losses.

In point of fact, Lloyds is a very important asset to the British economy, bringing in a huge volume of precious foreign currency—mainly U.S. and Canadian dollars.

These figures are closely guarded, but so important is Lloyds as a dollar earner that successive governments treat it

with kid gloves. From time to time, there is talk of Lloyds being nationalized but nothing is ever done. Nor, one can safely predict, is there much likelihood of a takeover.

The reason for this hands-off attitude is the peculiar way Lloyds is constituted. Although often thought of as a corporation, it is in fact an association of individuals and could be dissolved at any moment. The way it was founded gives a key to the looseness of its organization.

Originally a coffee house where ship owners gathered, Lloyds was formed to provide protection against disaster. Each pledged himself for a certain percentage of the other's losses. With certain small modifications the idea has changed little during the past two hundred years.

THE WAY THE merchants arranged the coverage was simple: They passed around a slip of paper and scribbled down the amount they were prepared to guarantee. To this day a "slip" is still the way a risk is underwritten at Lloyds, and a simple initial can be a pledge for thousands of dollars.

Although Lloyds has expanded in a way that would probably amaze the original founders, it is still a collection of individuals banding together to provide protection. To become a member, or "name" at Lloyds is a highly personal undertaking backed by a substantial cash deposit of £80,000, or \$192,200, guaranteeing one's ability to meet commitments. Thus, the coverage is underwritten by individuals and not by a company or association.

Members group themselves into syndicates which vary greatly in size, and they elect an underwriter to act on their behalf. These underwriters still sit at small wooden benches called "boxes" as in the early coffee shop days, surrounded by their deputies, and are approached by accredited brokers bringing risks to be covered.

THE DETAILS ARE written very simply on one side of a "slip" and the underwriter pledges his syndicate for a certain percentage on the other side. The broker continues from underwriter to underwriter until his "slip" is covered for 100%.

Underwriters at Lloyds tend to become specialists in certain fields of coverage, such as marine, nonmarine or aviation insurance. Such underwriters group together to form a market for this type of risk. Every market has its acknowledged experts and these men gradually become known as leaders.

Once a leader's name is on a slip the rest of the market will usually follow, and this procedure facilitates the broker's work by allowing him to obtain quick coverage. It must be emphasized, however, that there is no monopoly on rate structures, since leaders, even in the same field, can be fiercely competitive.

SHREWD BARGAINING constantly takes place, since over the years underwriters develop a sixth sense about the insurability of certain risks. The broker, on the other hand, has his client to satisfy, and seeks every concession on the rate and policy conditions.

This method of business has managed to survive mainly because of the concentration of underwriters and the ready availability of a tremendous variety of coverages.

Continued on page 23

what brokers should be listed in an insurance buyer's blue book?

ALABAMA, Birmingham, Independent Insurance Agents, Inc.
 Mobile, Thames & Batre

ALASKA, Anchorage, LaBow Haynes Co. of Alaska, Inc.

ARIZONA, Phoenix, National-Heard Insurance Agency

ARKANSAS, Little Rock, Rector, Means and Rowland, Inc.

CALIFORNIA, Los Angeles, Kindler, Laucchi & Day
 San Francisco, Clifton & Company

CANADA, British Columbia, Vancouver, Durham & Barnes Agencies Ltd.
 Manitoba, Winnipeg, Ryan Agency Limited
 Ontario, Toronto, Tomenson, Saunders Limited
 Quebec, Montreal, E. A. Whitehead Limited
 Saskatchewan, Regina, Ducketts Limited

COLORADO, Denver, Van Schaack & Company

CONNECTICUT, Hartford, Goodwin, Loomis & Britton

DISTRICT OF COLUMBIA, Washington, Howard & Hoffman Incorporated

FLORIDA, Jacksonville, Donald A. Bolton & Company
 Miami, D. R. Mead & Company

GEORGIA, Atlanta, Dunlap and Company
 Savannah, Palmer & Cay, Inc.

HAWAII, Honolulu, The Hawaiian Insurance
 & Guaranty Company, Limited

IDAHO, Boise, Stein-McMurray Insurance Inc.

ILLINOIS, Chicago, Stewart-Keator-Kessberger & Leiere, Inc.

INDIANA, Indianapolis, Robert N. Bowen & Associates, Inc.

IOWA, Des Moines, LaMair-Mullock-Condon Co.

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MARYLAND, Baltimore, Riggs-Warfield-Rolosen, Inc.

MASSACHUSETTS, Boston, Boit, Dalton & Church, Incorporated
 Lowell, Fred C. Church & Co.

MEXICO, Mexico, D.F., Kennedy & Hijo, A. P.

MICHIGAN, Detroit, General Underwriters, Inc.

MINNESOTA, Minneapolis, Wirt Wilson & Company

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MISSOURI, St. Louis, Lawton-Byrne-Bruner Insurance Agency Co.

NEBRASKA, Lincoln, Weaver-Minier Company, Ltd.
 Omaha, Jones-Weaver-Minier-Martland, Inc.

NEW YORK, Buffalo, Laverack & Haines, Inc.
 New York, Despard & Co., Inc.

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OHIO, Cincinnati, A. W. Shell & Company
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OREGON, Portland, Jewett, Barton, Leavy & Kern

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 Pittsburgh, O-W & Criddle Associates, Inc.

SOUTH CAROLINA, Columbia, Boyle-Vaughan Agency

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 Memphis, E. H. Crump & Company

TEXAS, Dallas, Munger-Moore & Associates
 Houston, Houston Stevenson & Cummings

UTAH, Salt Lake City, Ed. D. Smith & Sons

VIRGINIA, Richmond, DeJarnette & Paul
 Roanoke, Chas. Lunsford Sons and Izard, Inc.

WASHINGTON, Seattle, LaBow, Haynes Company Inc.

WEST VIRGINIA, Charleston, McDonough-Caperton-Shepherd-Goldsmith

WISCONSIN, Milwaukee, Carney-Rutter Agency, Inc.

PUERTO RICO, San Juan, American Commonwealth Agency Corporation

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INSURANCE SERVICE ASSOCIATES



Noise and pollution to generate products liability cases, AMA told

NEW YORK—Manufacturers expect more and more products liability cases stemming from noise and pollution, and they foresee officers and directors becoming the target of punitive damages in liability cases.

Making these predictions were speakers at an American Management Assn. products liability seminar attended by insurance managers, corporation counselors, attorneys, engineers, brokers and insurers. The subjects discussed ranged from nightmares from the engineering department to quality control and product liability.

M. L. Milligan, vp and general counsel of TWA, warned that noise and pollution problems will result in an increasing number of products liability cases.

"We in the airlines are facing this problem right now," he said, adding that his company and two other airlines are defending a noise litigation claim in France.

HE TOLD HIS audience that in all areas there will be more and more of these claims arising; anything which is irritating to people or interferes with their daily life will cause more claims, he suggested.

He advised his listeners that self-insurance is one way of handling small claims. But a product with national distribution is usually best handled with the aid of an insurer, since few manufacturers have personnel located around the country to handle claims.

Mr. Milligan said that company records should "avoid editorializing" and that they should contain facts. He further advised that the board of directors be brought into the safety picture and the problems of products liability.

With the expanding concept of punitive damages against the board of directors, it would be wise "if you can show the court that your directors have been vigilant in developing a safe product."

Michel A. Coccia, partner, Baker and McKenzie, Chicago, reaffirmed this point. Now that officers and directors are subjected to punitive damages, individual firms must find insurance and the capacity to give coverage, Mr. Coccia stated.

HE WARNED corporations to "wake up" to the fact the pure form of comparative negligence might become the prevailing rule of the courts. Under this concept, recovery is made in every case. For example, he said if plaintiff is 60% negligent then he recovers 40%; even if he is 99% negligent, he still recovers 1%.

During his talk, Mr. Coccia reviewed four cases which point up the "unbelievable extremes our courts have gone to in order to compensate an injured plaintiff."

In one case, that of Durrham v. Vaughan, Aug. 31, 1967, involving an injury from a hammer, the court adopted the doctrine of foreseeability rather than the intended use of the product as designed by the manufacturer, Mr. Coccia said.

The keynote speaker discussed the chain of changes in jurisdictional questions: Most states have adopted what is called the long-arm statutes, which say that

claims can be brought against nonresidents who have done business in a particular state, he explained.

MR. COCCIA warned that if "we don't awaken our conscience to our obligations then I'm fearful that we will have to accept certain concepts such as the manufacturer having to bear the burden of proof and replacing the jury system with the bureaucratically administered tribunal."

The audience was repeatedly reminded by a number of speakers to maintain adequate and thorough records of all products developed. Egbert Haywood, president of the International Assn. of Insurance Counsel, Durham, N.C., told his listeners

that they should encourage all departments in their companies to "keep your records because the more records the better in a liability question."

One way to keep records of design, testing, manufacturing distribution, etc., is to microfilm and store them in order to preserve records as long as possible, he suggested.

Two of Mr. Haywood's fellow panel members, Thomas F. Bridgman, partner of Baker & McKenzie, and Mr. Coccia, agreed that full and complete records are vital to trial lawyers.

"You don't appreciate or know how important records are to the trial lawyers and the absence of records reeks of irresponsibility," Mr. Bridgman said.



A products liability seminar sponsored by the American Management Assn. is called to order by Michel A. Coccia, partner, Baker & McKenzie, Chicago, and co-chairman of the seminar.

"And don't let us hear that you have to go through a whole warehouse of records because we'll make you go through it," he warned.

Continued on page 28

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Company of New York • Patriot Life Insurance Company • Life and Casualty Insurance Company of Tennessee



letters

Continued from page 11

'Most understandable'

To the Editor: We have read the issues with considerable interest since receiving them over the past few months. As you are aware, there are numerous weekly, semimonthly and monthly periodicals relative to this particular field, which generally have been designed for specific phases of the benefit programs, such as pensions, etc.

The articles in *Business Insurance*, as well as the news information, we have felt cover the larger areas of the benefit field and have been written in language which is most understandable.

Harold F. Leenhouts,
Manager, Employee Benefits,
Kellogg Company,
Battle Creek, Mich.

Uses 'info'

To the Editor: Up until mid-October of last year I was affiliated with the insurance company and agency phase of the industry and had not seen your publication. Since assuming my present position, I've read your publications with a great deal of interest. I've taken advantage of the "Info to Buyers" section on a few occasions and the information I've obtained has proved to be most valuable.

I find it most difficult to make any suggestion as to how you could improve the publication as it appears to be exactly what an "insurance buyer" requires.

E. E. Eckert,
Insurance Administrator,
The American Ship Bldg. Co.,
Lorain, O.

Suggests new section

To the Editor: It has been a real pleasure to receive *Business Insurance* each week and see that it has lived up to the promise that was shown in the original pilot issue that came out several months ago.

It is evident that you are going to continue to attempt to give your readers what they want. In order for you to do this, it might be helpful if you would know what your readers already have.

By this I mean just how qualified in the field of insurance are the majority of your readers. I am sure that you recognize the fact that it is probably only in the largest corporations that you will find an insurance department staffed by personnel trained in insurance. In so many companies, even in large companies, insurance sometimes winds up as an additional duty of the treasurer, comptroller or even, in some areas, in the purchasing department. It must be recognized that insurance and its purchase becomes a more specialized field every day. In the same manner that the insurance industry recognized the need for continuing education for their representatives in the subsequent development of the CPCU and CLU ratings, the business community has recognized the expertise that is now required, in attempting to establish same recognition for a title such as CRM (Certified Risk Manager).

In many companies your insurance manager follows policies set by his own company and de-

pends almost entirely on the knowledge and ability of his insurance broker or agent. Many of these individuals function almost as insurance clerks rather than insurance managers. In some companies a risk manager can operate, not only following policy but being directly involved in the making of that policy for his company.

Your publication can render a great service if it would have one section devoted to the part-time and not formally trained buyer. I am not suggesting that you change your format attempting to duplicate that which is available. It might just be possible that a section devoted to some basic points of insurance techniques could be of great service. This section could, from time to time, publish checklists on the various type of policies that might be of help to your new buyer. By its very nature and make-up your trained buyer can, if he wishes, skip this section en-

tirely; however, on the other hand, the average buyer might find much in this section that could be of interest and help to him.

It probably can be said "when you have a winning format, don't fool with it," possibly things can be best left alone. If, however, you are checking into areas where you might render service and, possibly, if other subscribers feel some means of instruction or study can be beneficial, you might pursue the matter further.

Stanley L. Stern,
Senior Vice President,
Insurance and Real Estate,
Wometco Enterprises Inc.,
Miami, Fla.

Pleasantly delighted

To the Editor: I have been pleasantly delighted by the contents of *Business Insurance*.

While I questioned in my own

mind before publication whether the magazine would be keyed to the purchasers of insurance rather than the insurance industry itself, I believe that your pre-publication representations have been fully supported. Your prompt reporting of the nature of insurance involved in current disasters adds an element of news content which I had not anticipated.

I find your publication quite informative and helpful.

Thomas M. Beckley,
Assistant to the President,
Soo Line Railroad Co.,
Minneapolis, Minn.

Practical info

To the Editor: Please accept my personal vote of confidence in your new publication. Rather than dealing completely with theory, as many insurance periodicals seem to do, your newsmagazine is providing the prac-

tical information so sought after by risk managers.

Please continue this excellent quality in future editions.

Lawrence W. Sullivan,
Atty. and Insurance Manager,
H. P. Hood & Sons Inc.,
Boston, Mass.

No broader view

To the Editor: I have been receiving your complimentary copy of *Business Insurance* and find it quite interesting and enjoyable. It covers many subjects and many applications involving the insurance picture in a broad fashion.

I do not think that a person in a medium-sized company could obtain a broader view of current insurance activities than from your magazine.

W. L. Babecky,
Director-Industrial Relations,
Babcock Electronics Corp.,
Costa Mesa, Calif.



Brazil expands compulsory list for dozen insurance classes

RIO DE JANEIRO—Brazil has greatly expanded compulsory insurance requirements for businesses in the country.

Formerly, corporations were required to buy workmen's compensation, fire insurance and coverage for shipments within Brazil, but they now must indemnify themselves against a dozen or so other risks.

According to information supplied by the American Foreign Insurance Assn. (AFIA), Brazil has made the following insurance categories compulsory:

- Automobile third party liability, bodily injury and property damage.
- Boat owner's legal liability.
- Cargo carriers legal liability.

- General liability for constructors of buildings in urban areas.
- Cargo owner's transit insurance.
- Aircraft operators personal injury coverage for passengers.
- Live stock and crop insurance.
- Surety bonds.
- Insurance on property given in collateral.
- Insurance on cooperative or condominium buildings.
- Credit insurance.

AUTOMOBILE legal liability limits are \$1,860 for death and permanent disability, \$186 for temporary disability and \$1,550 in excess of a deductible of \$31 for property damage, according to AFIA.

Government to check 703,000 bridges

The President's study group on bridge safety has announced it will check about 703,000 highway and railroad bridges across the nation, in hopes of preventing a disaster similar to the Point Pleasant bridge collapse in December.

The Federal Highway Administration said that 511,000 bridges on state highways and 192,000 railroad bridges would be included in the safety check. The government will give first priority to bridges built before 1935 and to bridges passing over deep ravines or water.

No vehicle can be licensed after Jan. 1 without proof of the existence of third party damage liability insurance, which is one of Brazil's new requirements. ■

Bridge collapse, Cal. quake spur check of 2 S.F. spans

SAN FRANCISCO—The Pt. Pleasant, W. Va., bridge collapse, plus an earthquake here, considered the sharpest in ten years, have prompted issuance of an engineering report on the safety of the bay area's two biggest bridges.

The earthquake rocked a 150 mile area of the Northern California coast.

The Pt. Pleasant river bridge, a 756-foot suspension span, plunged into the Ohio River during rush hour traffic.

Here two engineering experts declared that "the Golden Gate and the San Francisco-Oakland Bay bridges are in tip-top, first class condition and there should be no fear on the part of anyone using either bridge."

CRITICAL PARTS of both bridges, main cables, anchorages and expansion joints, are checked monthly. Each year complete checks are made of every part of the bridges.

"We're satisfied the Golden Gate Bridge is in excellent condition," reported its chief engineer, Robert E. Shields.

The same report came also from Thomas J. Dunn, assistant operations engineer for the Oakland Bay Bridge.

Mr. Shields said the Golden Gate is undergoing its most extensive inspection since it was opened in 1937.

A New York engineering firm, Ammann & Whitney, began a \$275,000, nine-month survey of the Golden Gate last October.

THE STUDY is still under way and includes removal of three of the vertical suspension cables for a complete check of the 200 or more wires inside each cable for corrosion.

"If we didn't do any inspecting," Mr. Shields said, "the Golden Gate still would last for many, many years. Any work we do as a result of the current inspection will be preventive. We don't want to wait for an emergency."

The 60 mph winds which occasionally sweep over the Golden Gate cause no damage due to sway. This is due to a complete bottom lateral bracing system, the engineer said.

This system was added after a heavy storm in 1951 with a peak wind velocity of 69 mph. The storm caused some minor damage to the bridge structure.

Mr. Shields contends that the entire Golden Gate structure is "three times stiffer, for example, than the 60-foot-longer Verrazano Narrows Bridge in New York.

"We could stack loaded trucks end to end on our bridge," Mr. Shields continued, "and the design load limit would not be exceeded."

Boquist-Bowen assumes fire and casualty cover

The Boquist-Bowen Insurance Agency, Portland, Ore., has acquired the fire and casualty business of the William M. Stebbins Agency, according to S. N. Boquist, Jr., and A. Thomas Bowen, members of the partnership.

Mr. Stebbins, a past president of the Life Underwriters' Assn. of Portland, said he will devote his full time to his life insurance and pension plan business.



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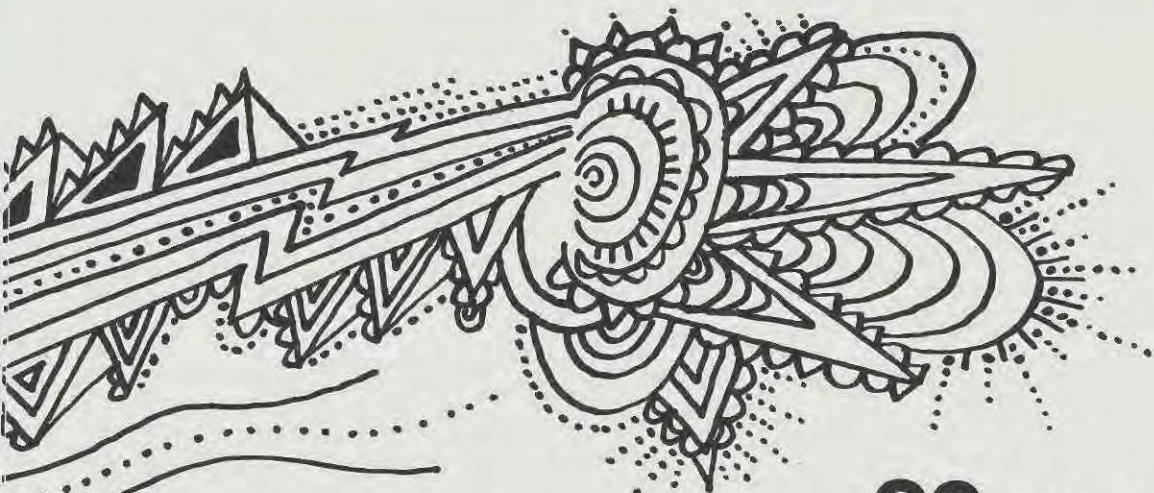
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Medicare impasse in Canada

by J. E. Benoit
Head of the insurance division
Expo '67



J. E. Benoit

The present leadership campaign for the new chief of the Liberal Party to replace Prime Minister Lester B. Pearson has brought Canada's medicare problem to the fore, and this national medicare

program has led to a rift in the cabinet. Medicare was legislated to start in July, 1967, but was postponed for one year because of opposition from the provinces and because of the effect it would have on the economy.

THE CONSERVATIVE PARTY announced a fresh approach to Canada's medical problem under a new party policy announced in the press on Jan. 25, 1968. Under this new evolution, any bonafide provincial medicare plan would qualify for federal assistance under the national plan. The Conservatives favor the abandonment of the rigid set of standards which the Liberal government has fixed and which the provincial plans must meet in full to qualify for inclusion. Under the Conservative option, the provinces would be free to decide for themselves whether they wished to adopt a universal plan immediately or preferred to provide maximum assistance to persons on welfare and in the low income groups.

IT IS ESTIMATED that public medicare would cost 10% more than the present annual cost of \$805,000,000 for all private plans, and the federal government would pay 50% of the cost of the provincial medicare schemes.

Basically, these provincial plans must meet four requirements. They must:

- be portable from province to province;
- be operated on a nonprofit basis by the provincial governments or their designated agencies;
- be universal in coverage, covering at least 90% of the population; and
- provide comprehensive coverage for physician's services.

It does not seem likely that the plan

will go into effect, at least in its present form, on July 1, 1968, because of the refusal of the provinces to accept the federal legislation either because of cost or because they maintain that health insurance lies constitutionally within the jurisdiction of the provinces.

Premier John Robarts of Ontario announced on Jan. 25 that he rejected the federal proposals as being excessively expensive, unfair to those provinces unable to afford to participate, not consistent with the provincial priorities, unfairly inflexible and tampering improperly with matters which are the direct responsibility of the provinces.

Mr. Robarts went on to say that Ontario will continue to make representations to Ottawa to have its program changed to permit some form of gradual introduction or phasing. He also stated that the whole concept of universality in social welfare plans is being questioned not only in Canada and the U.S. but throughout the world.

PREMIER DANIEL JOHNSON of Quebec stated on Jan. 18 that, unless Ottawa gives the province more taxing powers, it can never afford universal medicare. He also reiterated that Quebec will not tolerate being taxed by Ottawa for federal subsidies to medicare plans in other provinces. This raises the constitutional issue in such ultimate terms that the federal government will either have to scrap its medicare program completely or find the lowest common denominator of compromise.

Health insurance is not enumerated in the British North America Act nor has it been confirmed by any court that it is a provincial matter so that it is still a matter of conjecture as to whether it should

be federal or provincial. According to the latest figures of the Canadian Health Insurance Assn., there are some 4,000,000 Canadians who have no coverage whatsoever, while another 5,000,000 have partial or inadequate coverage. To give these persons complete comprehensive coverage would incur a new charge on the economy of about \$150,000,000. This is based on Finance Minister Sharp's total estimate of \$1 billion for the universal scheme.

There are, at time of going to press, only two provinces—British Columbia and Saskatchewan—favorably inclined to national medicare, so that it appears inevitable that the federal government will again postpone the program which is due to come into effect on July 1, 1968, or will amend it substantially to reduce the cost.

A RECENT GALLUP poll revealed that 55% of the voters say the federal government should bring in medicare while 19% say it should be dropped and 19% say it should be postponed. Fewer than one in ten voters had no opinion on the subject.

The general feeling is that it should be phased in rather than on an all-or-nothing basis; also that it should be introduced over a period of years so that its impact on the total economy and upon plans which have been developed and are presently operating in the various provinces could be cushioned.

Finally, the scheme should be flexible, capable of orderly implementation, designed to meet the needs of all of the people of Canada and be within the scope of their ability to pay for it. It will be interesting to see how it is finally resolved.

Retirement housing—more and more offerings

by Elliot Beier
Pension and profit-sharing manager
Nuveen Corp.
New York



Elliot Beier

Each year shows an increase in the quantity and variety of housing projects for retirement living. Both private builders and nonprofit sponsors of retirement housing have been stepping up their offerings to the older population of the nation. A large percentage of the religious organizations, fraternal groups and unions either have projects completed or on the drawing boards. The following rundown of the current retirement housing scene is from "The Retirement Almanac" edited by Henry Schmidt, published and copyrighted by Retirement Publications Inc. (Box 36, Cos Cob, Conn., \$1.95 single copy, quantity discounts).

Retirement housing has some very special requisites. The location should fit one's new economic, social and leisure needs. The house itself should have special qualities, such as easy upkeep, health and safety factors.

THERE ARE THREE directories of retirement housing facilities which can

guide the retirement plan administrator in advising employees:

- National Directory of Housing for Older People
National Council on The Aging
49 West 45th St.
New York, N. Y.
- 1001 Best Places to Live When You Retire
Dartnell Press, Inc.
4660 N. Ravenswood Ave.
Chicago, Ill. 60640
- Retirement Facilities Register
Active Executive Retirement Assn.
6034 Hollywood Blvd.
Los Angeles, Cal.

No one should make a snap decision when it comes to selecting a new community to live in when he retires or in selecting retirement housing, whether he seeks an individual house, apartment or a hotel. Too much is at stake. Mistakes are often hard to rectify. In the years before retirement you should do some thorough research on location.

Vacation days offer a good opportunity

to do some on-location research on places to live in retirement. By getting the feel of the popular retirement destinations, you can more readily decide what's best for you—your present hometown or some new area of the nation—or the world. You could look into all the facts of life in a new locale, the climate, the cost of living, the recreational and sports facilities, the social life, the cultural and religious facilities.

THEN YOU COULD evaluate and compare these findings with the virtues of staying where you are, after retirement. You would consider the strength of your ties to present family and friends, the cost of living in your hometown, and whether it could be less elsewhere, the size of your house and its adaptability for living as an older person. You might consider altering your house to fit the new needs of your shrunken family, maybe dividing it into apartments.

Many older people prefer to lease some
Continued on following page

Continued from preceding page living space in an apartment-hotel which has a common dining room, housekeeping service, some recreational and some medical facilities. Here they have easy upkeep, built-in companionship and services.

THE RENTALS in some apartment-hotels may be \$175 per month for one person and about \$250 per month for two. This would include a kitchenette, and meals in the common dining room. It would also include the usual recreation facilities, entertainment and some maid service.

Some apartment-hotels charge a founder's fee. It's usually the case when

the facility has a nonprofit sponsor, such as a church-affiliated organization. They often have more medical facilities, which are financed out of the entrance fee. This fee is sometimes refundable and sometimes it is not.

These fees are used for various purposes. Some projects use them to cover debt service, to reduce monthly charges, or to provide lifetime care. Most of the projects refund part of the fee to those who leave. In case of death, however, the fee is usually retained by the project. In addition, these apartments have a monthly service fee for as long as you decide to stay. The entrance fees are usually between \$5,000 and \$15,000. The monthly costs range between \$150 and \$200 per

person living in the projects.

WOMEN TOP the list of residents in most of the projects. In a recent study they accounted for three-fourths of the residents. Most of the women (72%) chose projects charging an entrance fee and providing congregate care.

Many of the garden or high-rise apartments are in the downtown sections of cities, and residents can blend right into the fabric of the community. The buildings appear very similar to regular apartments. The features that give them their special suitability to older people are barely visible. While they do have their own recreational, social, medical

facilities, these are also available in the neighborhood, so residents can feel a part of the regular stream of the life of the community.

Some of them are run like clubs, and carefully screen applicants to get the active, physically-fit group who may still be occupied with a business venture or community project, people who travel, go to the shows, play golf and the like.

These senior apartments are available for all scales of living. The most economical ones are those being built by city government agencies all over the nation. A typical public housing apartment is one in Rhode Island for people with incomes under \$3,400 who can rent the units for \$43 per month.

Retirement communities in the U.S.

Scattered throughout the nation, in every state, there are a thousand or more retirement facilities of every type. Some offer private homes, some provide garden apartments. Others offer high-rise apartments with varying degrees of special services for the tenants.

Here is a rundown on some of the more prominent facilities.

ARIZONA

Sun City, P.O. Box 555

Minimum age 50. No children under 18. Apartments \$9,990 or rentals. Houses \$12,190. Three 18-hole golf courses. 100 clubs and organizations. Huge swimming pool. Hobby shops. Two shopping centers. Health-care center. Bank, Post Office, weekly paper. 100-room motel. Seven churches.

Tucson Green Valley

In Santa Cruz Valley. Houses start at \$11,000. Rent apartment first, buy house later. Shopping and medical centers, bank. Recreational areas, golf, hobby and craft shops. Social organizations.

Youngtown, P.O. Box 158

Fifteen miles northwest of Phoenix. Homes \$10,405-\$15,450. Garden-type and high-rise apartment houses; furnished, \$75-\$150. All necessary recreational facilities. Shops, places of worship, restaurant.

CALIFORNIA

California City

At Antelope Valley. 80 acre park and lake with 2½ miles of shoreline. Shuffleboard, horseback riding, tennis, fishing, boating, swimming. 18-hole golf course. Shopping area, nursing home, crafts center.

Friendly Valley, 26001 Sierra Highway, Newhall

North of Los Angeles. Houses \$11,500-\$13,500. At least one family member must be 45; no children under 18. Shopping center, medical care, restaurant. Country club, 9-hole golf course. Creative arts building. Swimming pool, bowling green.

Hueneme Bay, Port Hueneme.

483 homes, 1-2-3 bedrooms, \$15,950-\$21,950. Age limit 39 and over; no young children under 12. Swimming pools, saunas, rooms, bowling, arts and crafts. Library, medical unit, shopping center. Adjoining golf course.

Kern City, P.O. Box 88, Bakersfield.

343 two- and three-bedroom homes \$11,250-\$18,250, includes recreation. 84 one- and two-bedroom apartments \$35.50 includes utilities and recreation. Comprehensive medical care program including doctor visits and drugs. Shopping center. Arts and crafts. 18-hole golf course, swimming pool, lawn bowling. Archery, shuffleboard, croquet, horseshoes. Agricultural project for flower and vegetable growers. Minimum age 50.

Rossmoor Leisure Worlds Seal Beach.

6,750 apartments, 1 and 2 bedrooms, \$15,000-\$18,000. Comprehensive medical plan. Golf, swimming pools. Hobby cen-

ters, shopping locales. Minimum age 52.

Sun City

South of Riverside. Apartments and houses, from \$12,500. Swimming, shuffleboard, bowling. 18 hole golf course. Amphitheatre, arts and crafts center. Medical center. Intra-city bus service. Shopping center of over 30 stores and services.

COLORADO

Windsor Gardens, Denver

Community of two-story apartment houses with 2,500 one- and two-bedroom apartments. \$10,950 to \$30,000, with 20% down payment. Monthly minimum charge of \$34 for taxes, maintenance, some utilities, use of community facilities. Community building with recreational facilities, hobby and craft rooms, restaurant, auditorium, library, chapel. Shopping center, nursing home and clinic in planning. Minimum age 50; no children under 17.

FLORIDA

Deltona (Volusia county)

15,000 acres between Orlando and Daytona Beach. Homes \$10,750-\$15,500. 18-hole golf course. Lakes. Twenty parks and playgrounds. Fishing pier, social center, marina. Shuffleboard. Shopping center. Adult education program. Industrial section for light industry and research plants. Service clubs.

Orange Gardens, P.O. Box 291 Kissimmee

275 single-family dwellings. Purchase price \$9,900-\$25,000; rentals \$65-\$125. No age restrictions. Recreation, social activities, and shopping nearby. Chapel.

Port Charlotte, P.O. Box 2155

6,000 homes \$11,000-\$30,000. No age requirement. 75 miles of man-made waterways. 18-hole golf course; yacht club. Stores, bank, hospital. Olympic swimming pool. Two motels. Bowling alley. Community centers. Adult education unit gives college credits. Nearby beach and ocean sports. Eighty service and fraternal organizations. 450-foot fishing pier. Nineteen churches.

Sun City

17 miles south of Tampa, inland. Several lakes. Private beach nearby. Homes and garden apartments \$9,450-\$18,350. Shopping center, chapel, pool, golf course, community building. Minimum age 50.

GEORGIA

Savannah Gardens, Savannah

Garden-type apartment house with 750 one- and two-bedroom apartments. Monthly rent \$41 to \$44.50. In residential area, near shopping, restaurants, entertainment, places of worship. Recreational facilities on premises. Minimum age 55; minimum yearly income \$2,000.

HAWAII

Pohani Nani, Honolulu

Retirement community with 181 residence-club rooms, studios and suites, and 22 individual cottages. Life contract includes meals, utilities, cleaning, recreation, doctor's consultation, nursing ser-

vice, infirmary. In residential area, within five blocks of shopping, restaurants, places of worship, public transportation. Barber shop, beauty parlor, recreational facilities. Garden, medical clinic, chapel. Self-service elevators. Telephones in rooms, intercom system. Laundry facilities. Minimum age 62.

ILLINOIS

Westminster Place, Evanston

Retirement community with four high-rise apartment houses containing 145 one- and two-bedroom apartments; 60 one- and two-bedroom individual homes. Life lease \$15,600 to \$25,000 (initial payment \$2,200). Monthly charge \$100 to \$200 for meals, utilities, telephone, cleaning, furnishings, recreation, doctor's consultation, nursing service, medical clinic, infirmary. Commissary, barber shop, beauty parlor. Minimum age 64.

NEW JERSEY

Leisure Village, Lakewood

Retirement community of condominium apartment house of 500 one- and two-bedroom apartments; when completed, project will total 5,000 apartments. \$11,000 to \$30,000 (initial payment \$500; down payment \$1,100 to \$3,000). Monthly charge of \$56 to \$119 for maintenance, bus service. On premises are shopping, restaurants, recreational facilities, medical clinic, chapel, public transportation stop, lakes stocked for fishing, golf. Minimum age 55.

Rossmoor Leisure World

Cranbury

Manor apartments, \$144 monthly for one-bedroom unit, \$177 for two bedrooms. New England style architecture. 18-hole golf course, clubhouse. Free bus to shopping center. Heated swimming pool, art studio, hobby shops.

NEW YORK

Springvale-on-the-Hudson

Apartments, Croton-on-Hudson.

Garden-type apartment houses with 500 one- and two-bedroom apartments. Monthly rent \$62.50 to \$139.50 includes some utilities, recreation. Bus service provided by management. Doctor's offices. Chapel. Minimum age 60.

OHIO

Bristol Village, Waverly

300 individual homes. Initial payment \$35; application fee \$460; life lease \$4,500 to \$7,500 (by cash or deferred payment). Monthly charge of \$28.50 for maintenance. Additional payment for utilities, cleaning, recreation. Minimum age 62.

First Community Village, Columbus

Efficiency and garden type apartments, four-story residence; entrance fee \$7,900 up; monthly care and service fee \$115 up includes utilities, some furnishings, recreation, crafts, library, chapel, cultural activities and programs; 88 bed licensed nursing care unit; life residency plan includes comprehensive medical expense; laundry facilities, store, beauty and barber shops on premises. Minimum age 62; minimum yearly income \$300.

OREGON

The Village, Portland

One-story garden type apartment houses with 120 efficiency one- and two-bedroom apartments. Application fee \$200; founders fee \$1,750 to \$3,500; monthly charge \$95 to \$150 for utilities, recreation, doctor's consultation, some nursing and infirmary care. Additional payment for meals, cleaning, furnishings, further nursing and infirmary care. Chapel, recreation hall, health center, library, lounge, central dining room, public transportation stop. Minimum age 62, minimum yearly income \$2,400. Use of tobacco or alcoholic beverages rules out application.

Woodburn Senior Estates, Woodburn

1,000 one-, two-, and three-bedroom homes; 20 one- and two-bedroom apartments. Homes \$9,500 to \$12,000 (initial payment \$200, down payment \$500); includes some furnishings and recreation. Apartments \$115 to \$145 rent per month, includes same services. Near restaurants, places of worship, public transportation. On premises are shops, beauty parlor, barber shop, recreational facilities. Minimum age 50.

PENNSYLVANIA

Morgan Wood, Swarthmore

Small retirement community with 18 garden-type apartments and individual homes. Monthly rent \$45 to \$85. Near shopping, restaurants, recreational facilities, places of worship, center for older people, public transportation.

SOUTH CAROLINA

Crosland Park Subdivision, Aiken

440 three-bedroom homes built in 1952 to house Atomic Energy Commission personnel; vacated homes now being sold to retired persons. \$6800 (down payment \$200). Residential area within 15 blocks of shopping, entertainment, places of worship, medical facilities. No age restrictions.

TEXAS

St. Francis Village, Fort Worth

283 one- and two-bedroom apartments; 48 residence-club studios. Monthly rent (for apartment) \$80 to \$110, includes utilities and recreation. Monthly rent (for studio) \$150 to \$165, includes same services plus meals, cleaning, nursing service. Shopping center, recreational facilities, community center. Restaurant, infirmary, chapel, bus transportation provided by management. No age requirements. Preference given to members of the Third Order of St. Francis.

WASHINGTON

Wesley Gardens and Wesley Terrace, Des Moines

29 individual homes; 466 residence-club rooms, studios and suites. Founders fee for home \$8,000 to \$17,000 (initial payment \$250). Additional payment for meals and utilities. Founders fee for residence-club unit \$7,000 to \$18,000 (initial payment \$250). Monthly charge \$117 for meals, utilities, nursing service. Barber shop, beauty parlor, restaurant, recreational facilities, chapel, garden, public transportation stop. Minimum age 62.

Pay as you go vs. fully funded pension plans: which works better?

By Floyd E. Cripe
Freeman J. Wood & Associates
Chicago



Floyd E. Cripe

The basis of selecting the type of funding which should be employed to provide the benefits under a pension plan is no different from any other decision making process.

It involves the weighing and measuring of the advantages and disadvantages of the choices available as they apply to the specific problem to be solved. The factors which may have an influence are: The number of eligible employees, the type and nature of the business, the annual turnover plus the over-all philosophy of the purchaser employer. The employer's attitude toward society at large and his employees in particular to be a major factor in the making of his final decision.

Among things that have a bearing, of course, are the cost estimate, the benefits to be provided and for whom, the simplicity or complexity of installing and administering the program, the values that the plan will have for the employer, the employees, as well as the industry.

THE PURPOSE OF THIS discussion is to compare the advantages and/or disadvantages of a "pay as you go" method of funding vs. the "fully funded" method. We would like to believe that a pension program is a great advantage to both the employer and employee; however, seldom, if ever, are the benefits of such plans of precisely equal value to both parties. A comparison of the equitability of benefits between employer and employee is somewhat like the wit's comment about the statement that "all men are created free and equal," to which he rejoined by saying the difference is that some men are more equal than others.

We will outline below the salient features of the two funding plans under discussion and the advantages and disadvantages of each to the employer and the employees.

The pay as you go plan or current disbursement approach: This plan in its purest form is very simple, inasmuch as the employer merely promises to provide specified benefits if and as an employee reaches retirement age, which will then be paid out of current income.

The advantages to the employer are:

1. He avoids all the fuss and feathers

and expense of employing an attorney to draft a long and complicated trust, in addition to filing it with the Internal Revenue Department and securing a pre-determination letter of approval.

2. This plan of funding permits him to make his own rules inasmuch as he need not comply with any eligibility requirements, benefits formulas or discrimination tests. Therefore, he is free to provide one benefit to employee A and a different benefit to employee B even though each draws the same salary and has the same number of years of service.

3. He is not required to presently make any deposits into a fund or to accumulate any balance or reserve. He therefore has the use of the money for his business that he would be required to contribute to a trust under a "fully funded" plan.

4. Providing none of his employees remain with the firm to retirement or in the event the employer sells his business, merges with another concern, or simply closes shop, there is a possibility that his "pay as you go" plan will never cost a dime.

WITH ALL THESE ADVANTAGES it seems that the employer has a pension plan that permits him complete freedom of action, and it appears he can have his pie and eat it too. In reality it is not quite that simple and not quite that easy. Let's look at the other side.

The disadvantages to the employer are:

■ Since he has not established a formal trust nor met the requirement under the Internal Revenue code or any eligibility requirements and rules against discrimination and has not contributed to a fund to meet future obligations, he is *not entitled any tax sheltered advantages*. Assuming the employer is in a 48% tax bracket, any sums he would be contributing under a fully insured plan would benefit to the extent of 48% because his contributions would be exempt from tax in that amount. In spite of the fact that he has the use of these monies in his business under a "pay as you go" plan, it is doubtful whether he can earn 48% after tax in his own business.

■ In case his employees do remain to retirement, he must then begin to pay the promised benefits out of current earnings. It is possible that he may then be in a better financial position than he was when the plan was established. Conversely, it is also possible that his position may be less favorable. Even though his financial position is better and if a goodly number have now reached retirement age, he will find himself faced with a rather substantial financial monthly outlay as long as these retired employees live.

The possibility of the continuing payments bunching up in either good or hard times, should cause an employer to take a second look to attempt to ascertain whether or not a type of funding which can be estimated with considerable accuracy and one in which the outgo can be leveled out to a considerable extent.

■ A "pay as you go" plan does not provide the employer himself any income or estate tax advantages during the accumulation period (this point will be further developed under the advantages of a "fully insured" plan).

■ Under a "pay as you go" plan, the employee must rely primarily on a rather vague hope, which does not add much to his feeling of security, and therefore, fails to inspire him to greater loyalty or give him a feeling of being a part of the team. Such a plan will do little if anything in helping retain present valuable

employees or in attracting the better type of future employees.

The last mentioned factors are considered the most important advantages of a pension plan to an employer.

There are few, if any advantages of a "pay as you go" plan to the employee. The plan is only better by a mere promise than no plan at all inasmuch as the possibilities of it ever materializing are rather remote.

Such a plan does not provide the employee with any feeling of security in the event of the following contingencies: Death of the employer; merger; firm going out of business (either before or after an employee has retired).

Inasmuch as a "pay as you go" plan provides little substance on which an employee can plan his future it offers little inducement for him to weigh anchor and fully dedicate his life and talents to the success of his employer's organization or to the highest development of his own talents. This could be as much to his own disadvantage as to that of his employer.

The advantages to the employer of the qualified fully funded plan are:

1. The contributions made into a qualified trust are tax free during the accumulation period, and this can amount to a sizeable sum.

2. The interest earning as well as any increases in the fund equities are likewise tax free during the accumulation period.

3. Through actuarial assumption and calculation the employer may ascertain the approximate cost of his plan on a reasonably level outlay basis.

4. Providing the plan is properly designed, the employer will have considerable flexibility in the making of his annual contribution relative to the financial conditions of his business from year to year.

5. Should the employer elect to take the benefits accumulated for himself in a lump sum at retirement he may avail himself of this privilege and the sums withdrawn will be taxed on a capital gains basis rather than being subject to normal tax.

6. In the event of his death before retirement, his benefits will receive favorable tax treatment.

7. The promises under a "fully funded" plan are definite and can be depended upon therefore, acting as an incentive to employees, giving them a feeling that they are partners in the business and will share in any success resulting from their extra efforts.

8. Probably the greatest advantage of a funded plan to the employer is that it is helpful in stabilizing and retaining his key personnel as well as serving as an inducement to attract new high caliber employees.

THE DISADVANTAGES to the employer of a "fully funded" plan have been previously mentioned in the outline listing the advantages of a "pay as you go" plan. We will renumerate them:

■ A "fully funded" plan requires the drafting of a trust instrument plus obtaining approval from the Internal Revenue Department requiring the services of a competent attorney and the attendant expenses.

■ Qualifying a plan involves the completion and filing of numerous forms and reports not only at the inception of the plan, but in succeeding years.

■ To gain the maximum tax advantages requires compliance with certain

definite rules as to who may or may not be excluded, the amount and form of benefits that may be provided, plus other restrictions that do not apply in the foundation of a "pay as you go" plan.

■ A funded plan requires an immediate and comparatively sizeable outlay of monies which an employer may feel he needs to expand his business operations.

THE ADVANTAGES OF a "fully funded" plan to the employee as compared with a "pay as you go" plan are that:

1. A "fully funded" plan gives the employee a *definite assurance* that he will receive certain benefits providing he meets the conditions outlined in the trust.

2. Usually the trust provides benefits to the employee in event he becomes disabled before retirement, of his death before retirement, he terminates his employment before retirement.

3. Both funds being accumulated and the interest earnings on the funds are free from tax during the accumulation period.

4. Providing he terminates his employment and elects to take his vested interest in a lump sum, the tax levied against the sum will be on the capital gains basis.

In event of his death, the sums will go to his beneficiaries free from Federal estate tax.

It is also possible to provide a disability income up to \$100 per week which will be free from tax.

5. At retirement he will have several choices as to the manner in which he elects to receive his benefits: (a) straight life annuity (no refunds); (b) a life annuity 10, 15, or 20 years certain; (c) a joint and survivor life annuity; and (d) a lump sum settlement.

6. In many "fully funded" plans the employee may make contributions *in addition* to those made by the employer, thus increasing all of his benefits. The sum he contributes will be taxed as earned but the interest and any increases will be free from tax during the accumulation period.

7. The fact that the "fully funded" plan adds to the employee's feeling of security and protection against various contingencies releases his energies and the full use of his talents to the task at hand, and the development of his own latent potentialities.

There are no disadvantages to the employee of a "fully funded" plan as contrasted with a "pay as you go" plan.

NOTHING HAS BEEN SAID in this article about the comparative ultimate cost of the two plans discussed. This was not the result of an oversight; it was deliberate.

A little reflection will make it clear that the total ultimate cost of any pension plan cannot be accurately known until the final check has been issued to the last survivor under the plan. Therefore, it is impossible to estimate the cost of any type of plan at the beginning. We believe the best that could be said concerning any comparison of total cost between the two plans under discussion is that the cost to the *employer* can be rather adequately forecast under a "fully funded" plan, while no accurate estimate can be made under a "pay as you go" plan.

As stated before, it is possible that a "pay as you go" plan may develop no cost whatsoever. On the other hand, if a rather sizeable number of employees should live to retirement and all continue to live and live and live, the total cost could be astronomical. With the present scientific and medical breakthrough against the diseases which are our greatest killers, this just could happen before many more decades.

For 20 years, Floyd E. Cripe has specialized in designing and installing pension and profit-sharing programs for small industrial companies. Mr. Cripe is a lecturer on employee benefits at De Paul University, Chicago. A graduate of Manchester College, he carries a CLU designation and has been in the insurance business since 1926.

Third-country nationals get scrutiny at AMA international benefits meet

NEW YORK—Attention at the international employee benefit and pension management session of the American Management Assn. meeting last week was focused on third-country nationals. Vincent J. Simone, manager, employee benefits for Coca-Cola Export Corp., proposed that the time had come for a new definition of this group's status.

Delegates were also warned by Malcolm Kendal-Ward of Towers, Perrin, Forster & Crosby's Belgium office, that President Johnson's proposals for cutting back on overseas investments were causing "alarm and stress." There is a "strong and urgent" need to clarify what an international company in-

tends to do about these proposals, Mr. Kendal-Ward said: "Otherwise key men and workers will ask: 'Why should I join an American company?'" The result will be a failure to attract top talent, and also greater labor turnover, he predicted.

Information was also given on recent changes in the German social security law and benefit trends world-wide. Areas surveyed included the Middle East and Latin America, and details were given on Mexico's two compulsory pension plans. Burt A. Murdoch, benefit planning manager, Pfizer International Inc., also disclosed some details of a pension plan his company proposes to install at its Turkish

pharmaceutical facility.

MR. SIMONE DEFINED a third-country national as a non-U.S. citizen, employed by a U.S. firm in another country than his own. He pointed out that many companies give these persons a compensation and employee benefits program based on their "point of origin. Are benefits for overseas executives to be based on their passports?" Mr. Simone asked.

Perhaps the time has come to reconsider the status and benefits program of these third-country nationals, he contended. An executive who can fill management levels in all countries should properly be defined as an

"international employee," and international compensation and benefits should be based on U.S. levels—the same as for U.S. executives.

Employers should establish an international employee program, Mr. Simone emphasized, since retirement benefits and social security vary from country to country. The problem with the third-party national is that his international status is not maintained "if his pension is based on social security and other benefits applying at his point of origin."

Similar benefits, Mr. Simone maintained, should be given on the principle of similar base pay for all, as if an executive had worked in a U.S. plant.

IN GERMANY, starting this year, social security insurance will be compulsory for all wage earners, according to Fritz Schwarzbauer, director, employee relations, Siemens AG, Erlangen, West Germany.

Previously, he continued, only salaried employees earning up to \$5,400 annually were compelled to contribute to the scheme. Total contributions will be divided equally between the employer and employee, and will amount to 15% of gross salary. In 1969 this will be raised to 16% and further increases are expected. These will be subsidized by the state.

Mr. Schwarzbauer pointed out how security-minded executives are in Germany. A recent study by the University of California showed that 64% of all German executives considered security to be their most important concern. Only 37% of their U.S. counterparts were of this opinion.

ROUGHLY ESTIMATED, Mr. Schwarzbauer continued, 50% of all German employees are covered by some form of company pension scheme. There are four main methods used: (1) retirement benefit pledges; (2) pension funds; (3) provident funds; and (4) insured arrangements.

It is possible to find a combination of all these schemes used in one company. For example, old age pensions may be paid from retirement benefit pledges, while cases of disability or death from premature causes could be covered by provident funds. Generally, payment of benefits depends on a minimum service of ten years.

Other speakers included G. Ashley Cooper, Wyatt International, Washington, D.C., who stressed that management

should set policy and define company posture. "The local manager must play his part, but the parent company has the responsibility for setting guidelines."

Carlos Michelsen-Terry disclosed details of a survey made by Towers, Perrin, Forster & Crosby among the largest firms in six Latin American countries. He pointed out that although the social security legislation in these countries may promise 80% to 100% of final pay in retirement benefits, very few retirees will collect. In some cases only 10% of the labor force is covered.

In the Middle East, social security laws are still in their infancy, according to Jean S. Chidiac, general manager of Societe National d'Assurances, Beyrouth, Lebanon. Such benefits as there are concentrate mainly on free medical and hospitalization facilities and indemnity for retirement. Old age pensions exist only for government employees, and most social security schemes are supported by employer contributions only.

P F I Z E R INTERNATIONAL employs 390 employees in Turkey and is proposing a pension plan based on the retirement ages of 60 for male and 55 for female workers. Mr. Murdoch, explained that in Turkey the unions have evolved individually and not on an industry basis. A termination clause of 15 days for each year of service after three years is customarily written into contracts—even though this requirement was abolished by the labor law of 1964.

Mr. Murdoch explained that setting up reserves for this severance pay is not a tax deductible item, so a pension plan is better. A major difficulty, though, is convincing Turkish employees to elect a pension plan, because they can retire one day before the official age and take the severance pay.

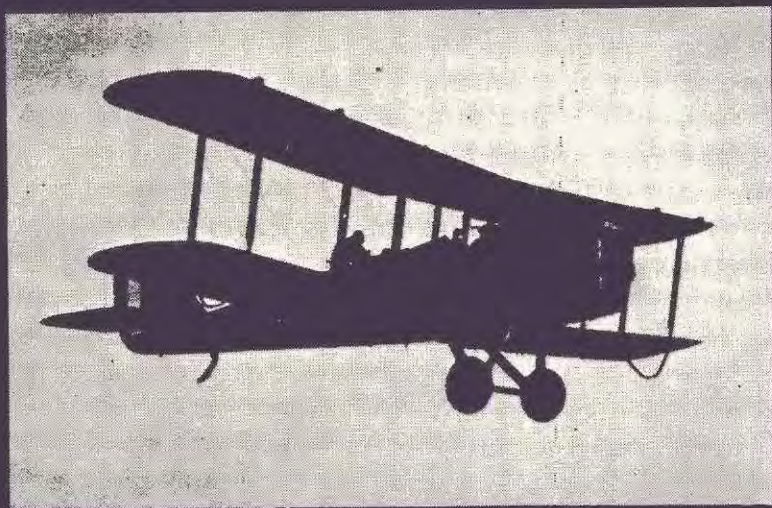
Therefore, Pfizer's proposed pension plan will be written on a ten-year certain and lifetime basis, which it is hoped, will be convincing proof of the company's long range intentions.

A GROUP LIFE plan, written without a medical examination, is already in existence at 1½ times base pay, and this will be continued. This coverage is non-contributory "because social security contributions are so high."

Mr. Murdoch explained that the

Continued on page 24

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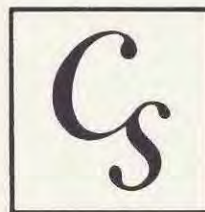


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Aetna gears pensions to cost-of-living index

HARTFORD—Aetna Life and Casualty Co. is improving its pension plan for its own employees by gearing annual adjustments of benefits to the government's consumer price index.

Other improvements made in the pension plan, which will affect Aetna's 22,000 employees, are that eligibility requirements have been liberalized, and vesting rights will begin at age 40 after 15 years' service. Greater benefits will also be paid to personnel electing an early retirement.

The amount of benefits paid to pensioners, it was explained, will be adjusted up or down based on the percentage change in the government's price index for the preceding year—subject to a limit of 3% in the amount of any annual adjustment.

EMPLOYEES CAN now earn pension credits from the day they join the company up to a maximum of 40 years. Formerly, eligibility didn't begin until age 30 and after a year's service. Eligibility for all present employees

will be backdated to their date of employment.

Early retirement may now be taken at age 50, if an employee has completed 15 years' service. Retirement pay will be reduced by 4% for each year of early retirement. "This is necessary because benefits will be paid over a longer period," it was explained.

The cost-of-living feature will also apply to persons retiring early, as well as to those continuing to age 65.

VESTING RIGHTS, which formerly began when an employee reached age 45 will now begin at 40, subject to 15 years of service.

Politicians . . .

Continued from page 10

American Standard to make purchases from it in the expectation of receiving orders for products or services in return."

AMONG OTHER things, American Standard agreed that:

- It would abolish permanently the position of director, sales coordination and would not assign to any other person the responsibilities performed by the director which are the subject of the present case.

- It would discontinue and not resume the practice of compiling statistics which compare purchases from persons who supply goods or services with sales of the company to such suppliers.

- Its marketing department would no longer furnish its pur-

chasing, traffic and financial departments with lists of customers, and the purchasing, traffic and financial (including insurance) departments would not furnish marketing departments with lists of suppliers of goods or services to American Standard.

- It would not "condition either its disposition of funds (whether its own funds or withholding tax remittances) on the placing by the bank depositaries or any business with American Standard."

- That in all purchasing activities, considerations of price, quality and service are and shall be paramount, and all members of the purchases department having purchasing responsibility shall be prepared to justify all purchases in light of these considerations;

- That in all selling efforts, American Standard's own prod-

ucts and the products of others which it sells are to be promoted solely on the basis of quality, price and service;

- And, that no purchases by American Standard from any vendor may be conditioned upon the purchase by such vendor of any products sold by the company nor may any officer or employee of American Standard do or say anything with the purpose and effect of implying that any such purchase is so conditioned.

MacLane joins broker

Donald L. MacLane has joined Parker, Smith & Feek, Seattle insurance broker, as account executive and manager of the property department. Mr. MacLane most recently was superintendent of loss-control for the Continental Insurance Cos., in San Francisco.

Lloyds . . .

Continued from page 14

Also, there is an astonishing trust between brokers and underwriters which cuts down tremendously on time. There is no need for long legal documents or bonding commitments. If a broker gives his word, the underwriter accepts it—that's enough. Consequently, Lloyds brokers take great pains in their presentations and research of a risk.

THIS SPEED OF coverage is one of the great strengths of Lloyds and helps to explain why business still flows to London. Placing a risk domestically can be time consuming, since each company comes to an individual decision. At Lloyds, however, underwriters are grouped in the same location and will give quick and binding decisions.

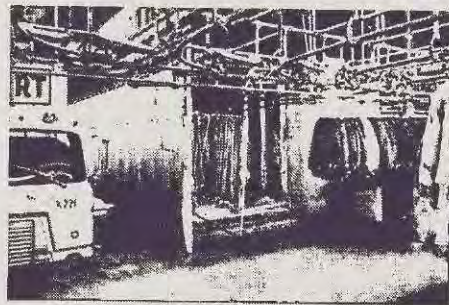
The proof that the system works is the undeniable fact that Lloyds is still recognized the world over as the leading insurance market. Of course, in highly developed countries with the capital resources, such as the U.S., more and more domestic carriers are taking the place of Lloyds.

However, even this business will eventually end up at Lloyds in the form of reinsurance treaties, since few companies keep 100% retention of a risk.

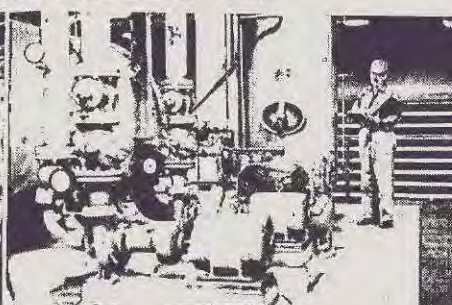
LLOYDS SYNDICATES in their turn will often reinsure a fixed percentage of their business. In this respect the whole insurance industry may be compared to a huge octopus with reinsurance tentacles spreading all over the world.

Although the staid old organization has remained unchanged for so long, as with all major British institutions there are undercurrents of change and innovations. Major catastrophes undreamed of a few years ago have played havoc with underwriting profits, and many British investors no longer see Lloyds in such an attractive light. There is even talk of seeking capital outside the British commonwealth and discreet inquiries are now being made in the U.S.

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Third-country..

Continued from page 22

employer contributes 11.7% and the employee 9%. Hospital and medical expenses are provided by social security.

Mr. Murdoch, who has traveled to Turkey to discuss the proposed plan, also explained that there are only six pension plans in existence in the country, all provided by international

companies. None of these plans provides vesting because of the high termination pay.

Thomas L. Lorant, group life and pension manager of La Interamericana S.A., Mexico City, gave details of Mexico's two "compulsory pension plans"—social security and severance pay—and explained how they contradict each other.

IN MEXICO he said, employers and employees contribute to social security in a 3/4-1/4 proportion. To be eligible for social se-

curity an employee must work 500 consecutive weeks—but to receive it he must resign from his job.

Social security covers employees who make up to \$216 a month. An executive making up to \$400 a month is eligible for a maximum social security of \$205 a month—if he resigns.

But the point is, said Mr. Lorant, the executive won't resign to collect social security when he can continue to work and to earn considerably more.

It is impossible in Mexico

to fire an employee without a "just" reason, Mr. Lorant explained, and there are only 16 allowable reasons for such action. Old age is not one of them; thus, a firm must continue to pay an employee's salary as long as he wishes to work. In such cases, when an employee works well into old age, he receives no social security payments and all contributions are lost, Mr. Lorant stated.

Severance pay in Mexico—the second of the compulsory pension plans—amounts to three months

and 20 days for each year of service. There is an "absolute necessity" to convince employees that a private pension plan is more advantageous to them than severance pay, Mr. Lorant said.

Separation pay is taxable in Mexico but pensions are not, which is why the net pension reserves must be higher. "The employee must understand that a private pension plan is more desirable than separation pay—otherwise he won't resign," Mr. Lorant said.

MR. LORANT SAID that pension contributions are tax deductible in Mexico, as are earnings on pension trust funds. At retirement age the benefits are also received tax free. The problem is, he pointed out, to convince Mexicans that pensions are better, since "they are not insurance-minded and inclined to think it morbid."

The use of a mutual fund as a method of pension funding in the European Common Market was suggested by Michael J. Jurgens, director, R. L. Larcier & Cie., Brussels, who pointed out that although Europe is drawing together economically, requirements were still "very nationalistic" on a political and legal basis.

For example, an Italian company with 10,000 workers might employ ten salesmen in its Paris office. These personnel could not join an Italian pension plan, and a new one would have to be written in France.

SINCE IT WOULD be "virtually impossible" to set up an international insurance pension trust owing to local restrictions, the solution for a company operating in several countries might be a mutual fund, he suggested.

Mr. Jurgens said Belgium is an ideal location for such a fund—"not from chauvinistic reasons" but because Belgium permits the complete freedom of capital management in any currency.

Each local country could set up a national pension unit fund, he said. Once this local pension fund has been established, all cash funds received would then be used to purchase shares in a central mutual fund, which would reinvest profits in the fund. The custodian of the fund would virtually be acting as trustee.

Mr. Jurgens said that this procedure was legal, and his company had already established such a fund. The major advantage of a mutual fund was that it could invest in whatever it liked, and investment policies could be "tailor made" to accomplish the goals of a particular company. The investment policies of a life insurance company, on the other hand, "are severely restricted."

Playboy adds insurance head

CHICAGO—Miss Josephine Gross has been named insurance administrator for Playboy Enterprises, HMM Publishing Co. Inc. and Playboy Clubs International Inc.

Miss Gross was insurance administrator and secretary at Aldens Inc. and insurance administrator and acting secretary-treasurer for Maurice L. Rothchild Inc., before joining Playboy. Miss Gross will supervise all corporate insurance for Playboy in the newly created post.

A graduate of the University of Chicago, Miss Gross set up the first insurance program for McCormick Place prior to its original construction as a "\$1-a-year woman."

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Barlow gives tips on 'dynamic' risk management

CHICAGO—A "dynamic" risk management program should take into consideration administrative costs and the consequences of uninsured accidents, according to Douglas Barlow, corporate risk manager of Massey-Ferguson Ltd., Toronto.

This piece of advice was given in the course of a talk to an opening-day luncheon at the American Society of Insurance Management's sixth annual conference. Mr. Barlow also declared that workable risk management needs the cooperation of both production workers and top management—and that a good plan has almost a "quasimagical" quality about it.

Mr. Barlow said Massey-Ferguson helps shave administrative costs by eliminating duplication of work by the firm's various unit risk managers and its brokers. In the area of credit insurance, for example, the company gives its brokers the responsibility of keeping the unit risk managers posted on losses. The brokers—at their own expense—issue a quarterly report on losses permitting "identification of trouble areas," Mr. Barlow explained.

CONTRARY TO what he estimated is the practice of at least half his fellow risk managers, Mr. Barlow forbids his unit risk managers from having any contact with underwriters. In addition to giving brokers the job of providing loss data, the Massey-Ferguson executive also "won't relieve" them of dealing with insurers.

Tax court...

Continued from page 2

ment is not discriminatory.

Ruling that the plan also did not discriminate in actual operation, the court said that while only three employees were participants, four others were invited to participate and declined to do so. Since the plan's contribution 2% requirement is not burdensome, it said, "we cannot hold it discriminatory in operation because some eligible employees declined to participate."

FURTHERMORE, it continued, the fact that one of the participants was a shareholder-officer and the other two were the highest paid of all the nonshareholder employees, except one, does not mean that the plan is discriminatory in operation. It based this on a decision made earlier this year involving the Pepsi Cola-Niagara Bottling Corp. in which the court held that the term "highly compensated" in the statute does not simply mean more highly compensated than other employees.

BESIDES the shareholder officer participant, the other two made annually between \$7,870 and \$4,766 over the three-year period in dispute. The court said it did not think this qualified the two as "highly compensated." Therefore, only one of the three men enrolled in the plan was in the "prohibited group," it said, and "we do not think this renders the plan discriminatory in operation."

In the Pepsi decision, the court upheld the deductibility of the bottling company's plan which came under IRS fire because it covered only salaried employees.

Mr. Barlow later told *Business Insurance* he is "looking forward" to the day when brokers will be paid by a fee and his company will be buying insurance on a net basis.

In enlisting the aid of production workers to carry out a loss prevention program, Mr. Barlow said he's discovered a "mental block" against talking in terms of losses. "Preventing losses means more expense" to workers and factory managers, he said. Instead, Mr. Barlow explains the program in terms of reducing costs, and the procedure has succeeded in "circumventing this blockage," he said.

Massey-Ferguson's policy statement defines a company risk in terms of cost, Mr. Barlow said.

It's the company's policy to protect itself against losses "which in aggregate, in any financial year, would significantly affect its assets or earnings."

HE SAID RISK management encompasses all fortuitous losses—not just insurable risks. He explained that industrial espionage, which he said is essentially uninsurable, is within the scope of risk management.

In computing the cost of any losses, the company takes into consideration the uninsured consequences of an industrial accident, which Mr. Barlow said has been shown to be four times greater than the identified insured costs. He pointed to the interdependency of Massey-Fer-

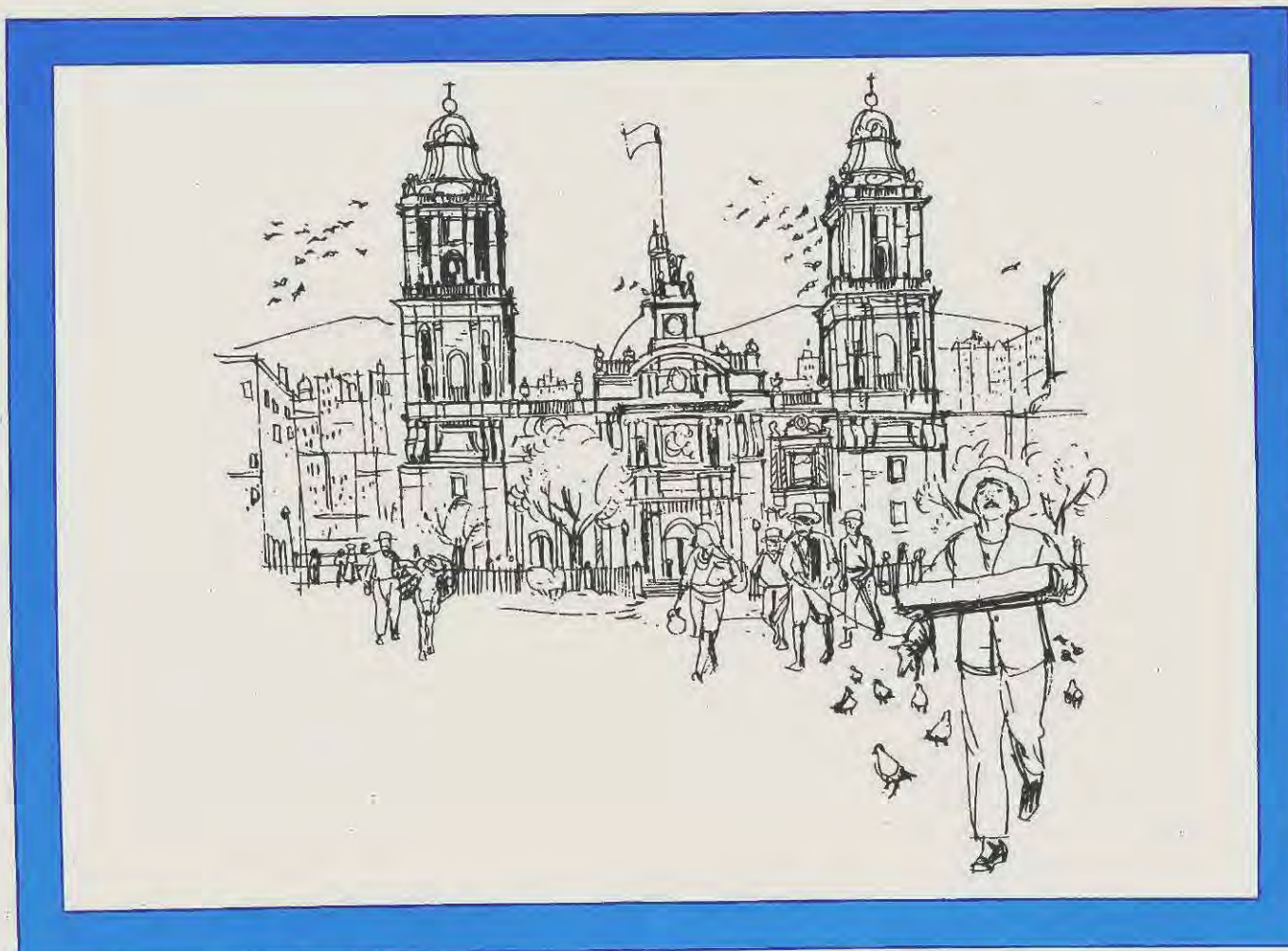
guson's various divisions to illustrate these consequences. If a fire, for instance, hit the firm's diesel engine plant, it would affect the company's tractor operations, which in turn would affect its axle and gear box plant in Detroit.

Mr. Barlow said that Massey-Ferguson is covered against fire on or off its premises anywhere in the world. He later said that the firm has just initiated a policy of sending its brokers' engineers into the premises of its suppliers—with the permission of the supplier—to check out the loss prevention program.

As a result of these programs, Mr. Barlow said that during the past four or five years Massey-Ferguson's loss experience under

its fire contract, for which the company has paid between \$3,000,000 and \$4,000,000 aggregate, its loss ratio has been between 8% and 9%. The reason Massey-Ferguson doesn't self-insure to a greater extent, Mr. Barlow said, is that its maximum possible loss (the company doesn't operate under a "probable" loss basis) is between \$60,000,000 and \$90,000,000 for some installations.

The most important single factor in a sound loss prevention program, Mr. Barlow emphasized, is a "positive interest on the part of top brass. Our statement of company policy in terms of minimizing the cost of risks has been an important factor in eliciting this interest."



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Lloyds . . .

Continued from page 1

require a investor to show net assets of \$240,000 and to put up a deposit of \$108,000.

THESE SUMS compare with the maximum net assets of \$180,000 a Britisher investing in Lloyds must show and the \$36,000 in securities he must put on deposit.

A Britisher backed by one of the brokerage firms connected with Lloyds, however, could put up as little as \$24,000 as deposit.

British investors have always been subject to unlimited liability, and it's expected that foreign backers will be held to the same stipulation. This means that they will be responsible for their quota share portion of all risks

their syndicate underwrites.

There has been speculation that U.S. investors might want to set up their own Lloyds' syndicate, but a source close to the Lloyds operation said that investment funds would probably go into any of the 300 or so existing syndicates.

LIKE BRITISH investors in Lloyds, foreigners would not be able to take out any profits from underwriting for three years. Premium income written in U.S. dollars goes into a U.S. trust fund, which now totals about \$516,000,000, and non-U.S. premiums are held by the syndicates.

The U.S. trust fund was set up during World War II as a means of guaranteeing policyholders that their claims would be paid. In 1941 Lloyds put up pounds and bought dollars for deposit with a New York bank.

Compare . . .

Continued from page 1

profits form "recognizes the fact that production from the period prior to a loss will in most cases continue sales volume partly into the period of physical restoration." And that there is a gradual return to normal sales volume. He said, "The longer this time is, the greater the need for the profits cover."

HE ADDED THAT while some U.S. businesses "may already be familiar with the profits contract, it probably is the most common vehicle for business interruption coverage in foreign operations. Most major U.S. insurers already use this form in their Canadian operations, others in their international operations.

"We have discussed its application to U.S. risks and have found guarded interest on the part of domestic underwriters to provide the coverage, particularly where we have been considering a North American operation covering both Canada and the U.S."

"If I have demonstrated to you today a need that the profits contract can fulfill your needs, may I suggest that you approach your insurer. Most will have experience within their organization. I know they will listen to you with interest."

Donald G. Maxon, vp of Toplis and Harding Inc., San Francisco, suggested that one way to take the misery out of business interruption losses is for the insurer to appoint an experienced and knowledgeable adjuster and the insured to assign a person who is not only thoroughly acquainted with his company but has a general knowledge of the insurance coverage as well.

HE SAID THE most frequent problems in adjustment of business interruption losses fall into three categories: 1) those problems common to time element losses in general, regardless of the insurance form; 2) those problems unique to losses being adjusted on an actual loss sustained form; and 3) those prob-

lems unique to losses being adjusted on an agreed value per diem, use and occupancy form.

He alluded to an insured who purchased a transit use and occupancy coverage for a piece of machinery with a per diem loss value of \$90,000. The insured paid the premium, \$40,000, because he didn't want to be caught short if it were damaged or lost while being shipped or fixed.

The insured then sought to include the premium cost under his regular business interruption cover, and was successful recovering.

Mr. Maxon also emphasized that the majority of business interruption claims are settled without undue delay and to the satisfaction of both parties. He said there must be a "close working relationship between the insured and the adjuster so that information can be exchanged to arrive at a fair settlement."

"UNFORTUNATELY, many insureds do not give the study and careful consideration to the selection of an appropriate form or tailoring a business interruption form to their own needs.

"After a quick review they may choose a form because of its apparent simplicity and ease of determining the dollar loss in the event of a shutdown by an insured peril. Occasionally I find that the valued use and occupancy form has been selected for these reasons and what appeared to be a simple form at the time of placing the coverage turns out to be as complicated as an actual loss sustained form after a loss occurs," Mr. Maxon said.

He also pointed out that most losses are only partial shutdowns, and usually complicated the determining of the claim payment.

Riots . . .

Continued from page 2

"Insurance is at best a limited form of protection for business interruption losses. There seems to be much resistance to the claims presented under statutes and an inclination to eliminate statutes granting these rights," he said.

Mr. Winkelman offered a check list for avoiding property and business interruption losses from mob action and a riot.

"Equal employment opportunity programs should be thought of as the first line of defense," he said.

THE MOST EFFECTIVE defense against damage resulting from a riot will come from physical protection of your premises.

This includes, he said, "keeping duplicate copies of all important documents in an outside location and limiting supplies of firearms, ammunition, explosives, flammable liquids and other easily ignited material. Supplies of these material should be held to a minimum and storage should be in an isolated area. Effective manproof fences for portions of property where buildings have a set back from the property line should be considered. Flood lighting is a necessity and the lights should certainly be protected. Reduce the number of entrances to your facilities during periods of increased danger.

"Doors leading to secluded areas should be reinforced with a cross bar. Sheet metal enhances the protection of the door. Boiler rooms and areas where power equipment is located should be guarded and/or locked," he said.

Elect Hansen president of Chicago ASIM

CHICAGO—Edward D. Hansen, manager of insurance and credit for Union Tank Car Co., has been elected president of the Chicago chapter of the American Society of Insurance Management.

Other officers elected for 1968 include James R. Mascarella, insurance manager of Quaker Oats Co., vp; Geoffrey J. Burns, assistant cashier of Continental Illinois National Bank & Trust Co., treasurer; and Mrs. Ann Aurebach, manager of insurance department of Goldbatt Bros. Inc., secretary.

In addition, Thomas H. Lueck of the Northern Trust Co.; Arthur H. Melzer of General American Transportation; Robert W. Ross of the Square "D" Co., and George West of Libby, McNeill and Co. were elected to the board of directors.

Mergers . . .

Continued from page 1

nancial interest in for some group coverages.

Garrett operates as an autonomous subsidiary, and it did not add on to the Signal insurance program for some time. However, there has been a steady progression of "folding in" joint coverages, he said, usually with higher deductibles and a greater awareness of loss prevention procedures from top to bottom.

In addition to getting better coverage, Mr. Degnon said, claim service was improved and less time was spent administering policies and more time spent on creative risk management. He pointed out that the merged companies were realizing a 25% savings in insurance costs after an initial two-year shakedown. He said that the company is now considering a joint, straight excess of loss contract and perhaps even further down the road a captive-company approach to some risks.

Mr. Degnon pointed out that allocation of insurance cost was initially a ratio of prior premiums of the two operations, but that both were developing their own rate allocations, based on sales, numbers of employees and other factors. He said that fire and use and occupancy cost allocations were separated from the very beginning. The allocation of losses below a new, higher deductible had been allocated on basis of previous premiums, but the company was planning a graduated loss scale to adjust for divisions that had a greater percentage of losses than a ratio of its sales to the company's sales.

Mutuals make bid to merge

PROVIDENCE — Manufacturers Mutual Fire Insurance Co., Firemen's Mutual Insurance Co. and Blackstone Mutual Insurance Co. have recommended to policyholders that they merge into FMB Mutual Insurance Co., effective July 1.

Meetings of policyholders of the three companies will be held during the first two weeks of March to vote on the proposed merger.

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Correspondents Throughout the World

AMA session warned that future riots may be better organized

NEW YORK—Ominous predictions about future race riots and what they could hold in store for U.S. business were made to buyers, insurers and brokers attending a three-day American Management Assn. seminar on fire, business interruption and boiler and machinery insurance.

There were warnings that future riots would be better organized with rioters becoming aware of vulnerable spots where cities and companies could be stripped of electrical power and communications.

One insurance executive said that a devastating fire peril is of great worry to the insurance industry, because fire departments would be hampered by mass transportation tieups resulting from an organized riot.

THE INSURANCE INDUSTRY paid for property damage losses resulting from last summer's riots, according to the executive, but he said insurers are gravely concerned about the scope of future disturbances. While providing insurance coverage is considered the industry's "social responsibility," he said the government should provide some form of reinsurance coverage for riots.

Many businesses were forced to shut down because of last summer's riots, but insurers and buyers at the seminar could not recall any business interruption claims which were paid in which losses were not attributed directly to the riots. The insurance executive pointed out that the industry will continue to be reasonable in paying for property damage losses resulting from riots.

Whether business interruption losses are covered—in the ab-

sence of physical damage to the premises and where authorities have prevented access to the premises—is still up in the air, according to Fred L. Bross Jr., Frank B. Hall & Co., New York. He said claims for those losses probably won't be paid unless a precedent-setting decision is reached in one of the courts.

THE THREE-DAY seminar also included a lively discussion on including earthquake, flood and tidal wave coverage in the extended coverage endorsement. Scott Fennell, director of Cronyn, Pocock & Robinson Ltd., Toronto, Ontario, a brokerage company, told buyers that if they were to apply pressure on the

insurance industry, significant changes can be made to include the coverages as part of the endorsement.

According to Mr. Fennell, the insurance industry is "behind the times" in providing broader coverage for industry and the public. "They (insurers) have been providing fire and extended coverage insurance against the same perils for the last two generations," he said.

The brokerage executive suggested that a supplemental endorsement be added to the extended coverage endorsement to provide flood, earthquake and tidal wave coverage on a mandatory basis maintaining that buyers already accept other "un-

necessary" perils for the coverages they do need.

Ambrose B. Kelly, Factory Mutuals general counsel, pointed out that to make such coverage mandatory would require legislation and that a rate increase of only 1¢ could cost some companies about \$100,000 a year.

CITING A hypothetical rating system Mr. Fennell said rates could be established separately for each state which would be charged about 1¢ to 10¢ depending on the exposure. For example, an area with flood exposure but slight earthquake danger could be rated 1¢ for earthquake and 9¢ for flood. Other areas, he said, could receive any combination of rates according to the exposure, but participation would be nationwide.

Tax abatements for insurers were also proposed by Mr. Fennell, which he said should con-

tinue until a reserve fund of 1% of the insurance companies' coverage against the perils is outstanding. To develop initial capacity Mr. Fennell suggested the development of a secondary market through an international pool.

The insurance industry's reliance on government aid was scored by Mr. Fennell, who said insurers are "quite capable" of handling earthquake or flood losses just as they have been successful in paying off losses for hurricanes.

Association changes name and office

The Insurance Assn. of Los Angeles has changed its name to Independent Insurance Agents and Brokers Assn. of Los Angeles, and moved to new offices at 1541 Wilshire Blvd., Los Angeles 90017. The new phone number is (213) 483-3981.

Hall acquires...

Continued from page 3

The Hall firm has acquired the insurance division of B. F. Dillingham Co., Honolulu, and has merged with Brander & Co., with offices in Los Angeles and London.

Although the brokerage company declined to list any of its clients, it was learned that Hall handles insurance business for such corporations as Borden Co., Eastman Kodak, General Telephone & Electronics, American Export Isbrandtsen and Texaco.

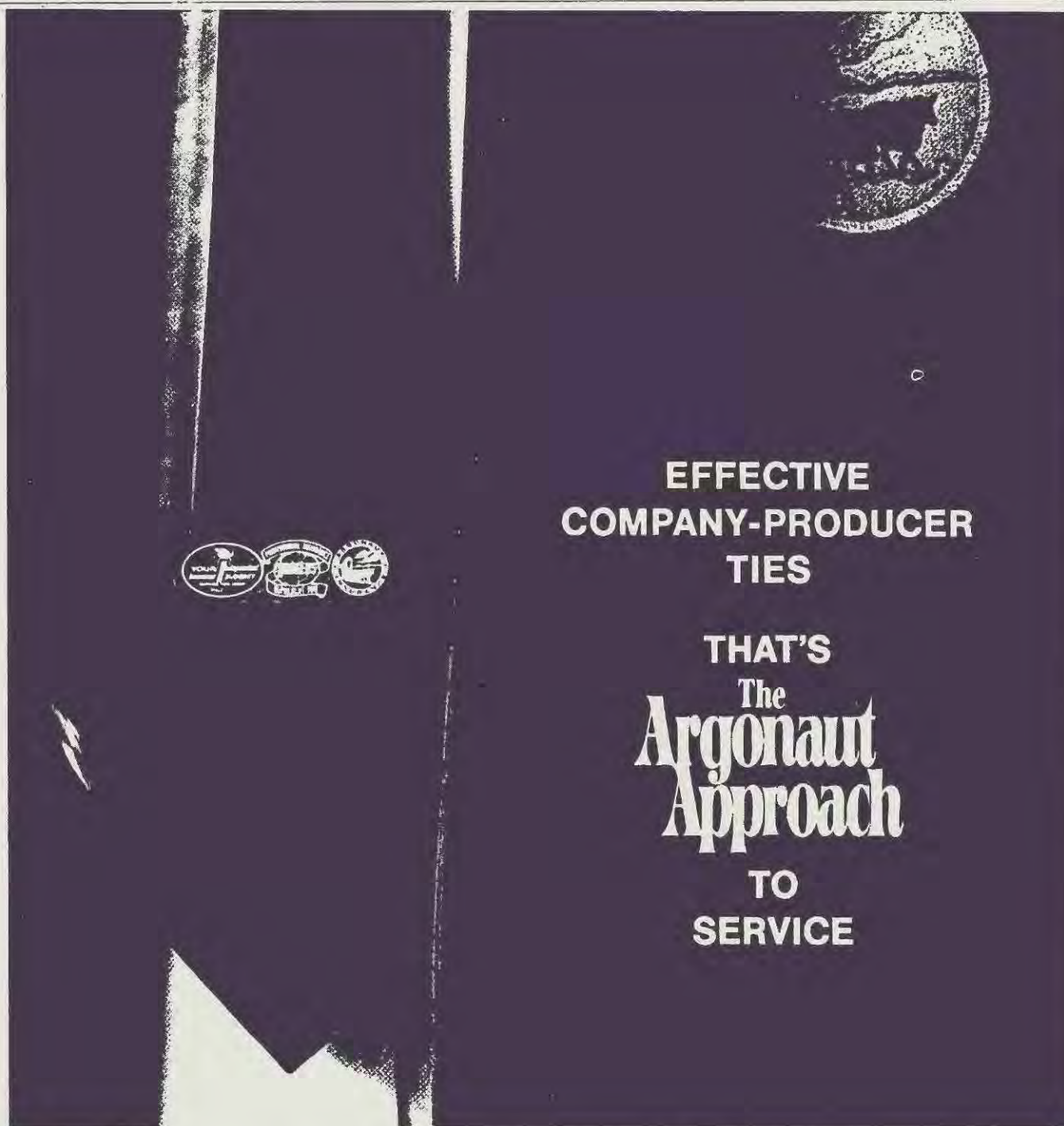
It rates itself as the fourth biggest brokerage firm, behind Marsh & McLennan, Johnson & Higgins and Alexander & Alexander.

UNDER TERMS of the agreement with Dillingham, the executives and staffs of both firms will continue to operate at their present locations. The business in Honolulu will be conducted under the name of Frank B. Hall & Co. of Hawaii.

The Brander firm, formed in 1933, will continue to operate under its own name in both its offices. The broker specializes in clients engaged in heavy industry.

Joining the boards of both the Dillingham and Brander firms from Hall are B. L. Johnston, president, and Charles A. Severs, vp-financial. James Stewart, vp and secretary of Hall, is joining the Dillingham board.

Ira S. Brander, president of Brander & Co., has been elected a member of the Hall board.



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Noise and pollution to generate products liability cases, AMA told

Continued from page 15

By records, Mr. Bridgman said, "we mean tracings, drawings, blueprints, specifications, component part specifications, quality control records and a copy of the invoice when the product left the plant."

Mr. Haywood warned that the trial system must be preserved and that "you must get yourself personally involved in improving the makeup of the personnel serving on the juries throughout the country."

He also suggested that counsel can request the court to separate the issue of liability from that of damage.

"If the issue of liability can be determined separately, the application of the principles of the fault concept can be better presented than if the issue is enmeshed in countless reams of testimony pertaining to damages," Mr. Haywood said.

He outlined the work of the Defense Research Institute, which has been created by the International Assn. of Insurance Counsel as the basic research organization for the defense-oriented corporation.

DOUGLAS McKAY JR., partner, McKay, McKay, Black & Walker, Columbia, S.C., warned that an orally expressed warranty can be valid and illustrated cases where the plaintiff won because of an oral warranty.

He defined for his audience expressed and implied warranties

and warned that no longer does a breach of warranty suit come between the seller and the buyer of a product but, South Carolina law states, can be brought by any person who may reasonably be expected to consume or use the product.

He said that in some states, the right to suit is restricted to any person in the buyer's home.

Both Mr. McKay and Mr. Haywood reviewed the case of *Henningson v. Bloomfield Motors Inc.* which was an early case based on breach of implied warranty. In this case a woman brought suit against the dealer who had sold the car to her husband and against the manufacturer.

According to Mr. Haywood, the supreme court of New Jersey held that there was an implied warranty running from the manufacturer not only to the purchaser but to anyone who might be expected to be a user of the automobile.

MR. McKAY further cautioned that advertising affects product liability exposure and advised that advertising copy be reviewed by legal and engineering departments. The advertising copy is looked upon as part of the expressed warranty, he said.

"And you must also be sure that your sales force is trained so that they will not go against your advertising," he reminded.

Mr. McKay briefly reviewed the recent developments of the Uniform Commercial Code which has been adopted by 49 of

the 50 states, with each state having its own amendments.

In general the code defines the meaning of expressed and implied warranties and what parties can institute a breach of warranty suit.

John T. Even, vp, Alexander & Co., Chicago, said the administration of a corporation's costing policy, of which insurance is an essential part, is an extremely important function of management, but the insurance part is frequently ignored. He maintained that the insurance function may be delegated to a corporate officer but the "final responsibility for its effectiveness rests with the members of the board of directors," Mr. Even said.

HE TOLD HIS listeners that the losses for property damage and claims for tortuous acts needs to be incorporated into the price of the product and paid for by each customer, but these losses are unknown when a new product is introduced.

Corporations must find some facility for averaging and leveling these costs for a certain period of time so that each unit of products and services can carry its full share of these costs, he said.

Mr. Even advised that professional insurers supply a limited facility for this service and they are the only ones that do. Through insurance, the fluctuating and difficult to analyze costs caused by claims are partially reduced to a fixed sum so that a fair average share may be assigned to each unit of the product and services offered to the public.

"Contracts between the insurer and the corporation should be given the same critical legal review as other contracts," he said.

Mr. Even referred to the insurance company as a subcontractor and warned that the same care should be exercised in selecting an insurance company

that is exercised in selecting any other subcontractor.

JOSEPH COSTELLO, partner, Costello, Ward, Tirabasso & Shea, New York, said that effective quality control and thorough records might "not free you in a products liability suit but might help in mitigating damages."

However, he cautioned that if "you lack in quality control and have a public-be-damned attitude then you'll really be punished in a suit."

He advised that quality control be maintained all the way down the line and that sufficient records be kept as well as all copies of memos reminding of potential hazards. But, he said, "don't become memo happy."

Mr. Costello recommended that a program be devised so a firm's salesman can register complaints from customers, and with quality control experts carrying these complaints back to the engineering department if necessary.

"THE DOCTRINE of strict liability has undoubtedly caused the manufacturer and seller a great many headaches and unfortunately has often been misunderstood as to the requirement of proof needed to make out a case on behalf of the plaintiff," said Henry W. Dieringer, judge of the Illinois circuit court. In Illinois courts, as in many other jurisdictions, the plaintiff must prove he was injured while using the product as it was intended to be used, that he was not aware of the defect and he was injured as a result of it.

Judge Dieringer described ten product liability cases involving at least \$25,000 which he has handled. In one case the court decided against an insurance company because of its failure to adequately inspect an elevator hoist.

"THE IMPORTANT point in this case is that both the manufacturer of the wire rope and the designer of the hoist were exonerated by the jury. The insurance company, undertaking the inspection, was held liable," he said.

In another case, *Francis Moore*



Robert G. Ousley, special sales project coordinator, Security Life and Trust Co., Winston-Salem, N.C., addresses insurers attending an insurance company and equity products briefing at the American Management Assn. seminar in New York which included a discussion of products liability problems.

v. Dracket Co., manufacturer of Drano, the jury ruled in favor of the plaintiff, who was blinded when a can of Drano exploded, for a total of \$930,000 including \$10,000 punitive damages.

During the trial Judge Dieringer held conferences regarding possibility of settlement. Apparently, however, Drackett "either underestimated the value of two eyes or was too proud of its product to settle the case and elected to go to jury," he said.

The company could have settled for \$600,000 as compared to the final judgment by the court of \$930,000, the judge pointed out.

Judge Dieringer advised management to listen to their trial lawyer's recommendations.

Robert R. Hume, partner, Hart & Hume, New York, maintained that obtaining the right expert may be the "key to the proper defense of a product liability case. Expert testimony is essential to assist the jury in understanding the particular defense which has been interposed by the manufacturer."

MR. HUME pointed out the value of expert testimony and listed some of the best sources for obtaining the services of such experts. He reminded his audience that product liability cases can become a battle of the experts, leaving to the court the task of determining which expert's testimony is worthy of belief.

He further reminded his listeners that introducing changes in a product subsequent to the date of an accident is "inadmissible as direct proof of negligence." However, he pointed out, some courts have permitted such evidence for the purpose of showing notice or knowledge of danger.

During his remarks, Mr. Hume discussed the liabilities of an assembler, upon which the law imposes the duty to inspect and test all component parts of a finished product. The failure to inspect or test, if such would have disclosed a defect likely to cause injury to a user or other person, renders the assembler liable, as does negligence in actually making inspections or tests.

The courts, Mr. Hume said, have refused to permit an assembler to shift the blame to the original supplier of the defective product. The courts have said that an assembler is required to make his own tests and inspections, despite the fact that the product was obtained from a reputable supplier.

Likewise, he warned, an assembler, when supplying a replacement part, is required to make the same reasonable inspections and tests as required for the original product.

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Drive under way to halt air cargo theft losses

NEW YORK—Efforts by insurance companies to reduce air cargo losses received additional support when Gov. Nelson Rockefeller said he would seek legislation to extend the state's police authority to cover New York City's three major airports.

The legislative move came as air cargo loss statistics from state investigators and insurance companies showed that at John F. Kennedy Airport, which has the largest air cargo center in the world, about \$2,000,000 worth of goods was stolen in 1967.

The Rockefeller proposal would grant the New York Waterfront Commission authority to police Newark, LaGuardia and Kennedy airports, and is one of several moves, including those from segments of the air cargo business, aimed at reducing losses.

WHILE THE air cargo crime problem is considered by many to be confined mainly to New York-New Jersey airports, insurers and shippers are concerned that "organized" crime elements could infiltrate the business nation-wide, similar to what has happened in the ocean marine and trucking industries.

Complicating the air cargo loss problem is a cargo liability limit of \$7.50 per pound on international shipments imposed by the Warsaw convention, and a limit of \$50 a shipment or 50¢ a pound for domestic shipments based on a tariff approved by the Civil Aeronautics Board.

One source told *Business Insurance* that air lines have been "lax" in setting up loss prevention procedures because insurance companies, although they pay full value losses to shippers, are limited in subrogation pro-

cedures against the air lines to per pound limits.

The American Institute of Marine Underwriters has announced it is conducting a survey to study losses of \$1,000 or more in 1968, which a marine underwriter said is intended to keep insurance premiums down through loss reduction.

BECAUSE OF THE rash of losses at Kennedy Airport, especially those by organized crime groups, the Port of New York Authority has formed a new cargo security police unit as advised by the New York State Investigation Commission that studied air cargo crime.

The commission report also spurred the Rockefeller legislation which will include a provi-

sion prohibiting any union that has 20% of its membership in the air cargo business from collecting dues if one of its officers, agents or employees is convicted of a felony.

The Rockefeller legislation will require the licensing of as many companies, associations and individuals who are even remotely connected with air cargo shipments while cargo is enroute, returning or at an airport. New Jersey's newly appointed council against crime is studying the New York measure.

AMERICAN AIRLINES, whose losses included the theft of \$137,000 in money and jewelry at one of its hangars, has urged a coordinated effort among air lines, insurance companies and

police authorities to reduce losses. A spokesman for the air line indicated the company would favor any legislation that can provide loss prevention assistance for the air cargo business.

He noted that Kennedy Airport may not be responsible for as many losses as the statistics indicate because it is often difficult to determine exactly where cargo disappears, especially in international shipments.

According to John Whittemore, claims manager for Emery Air Freight Corp., a freight forwarder for major air lines, the air cargo industry is "just getting its feet wet" in preventing mounting losses.

Mr. Whittemore pointed out that air freight companies hope

to develop more industry-wide loss prevention associations to curb losses. He said Emery has exchanged loss prevention methods with air lines and other air freight companies but maintained that an over-all effort in addition to legislation is needed.

The Air Transportation Assn., Washington, D.C., has initiated a program to include the submission of claims data on the most frequent and largest losses. A spokesman for the association from the airlines indicated that the program is "just getting off the ground" but predicted it could be effective.

A spokesman for Air Cargo Inc., warned that the infiltration of the airports by organized crime groups could spread to other cities.

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These are among the claims of the "Governor's Survey on Efficiency and Cost Control" in a "Summary Report and Recommendations" submitted in mid-February to Gov. Ronald Reagan.

THE SURVEY, headed by Chairman O. Kenneth Pryor, involved 250 volunteers from California business and industry who spent the past ten months working in "teams" to investigate every department of state government.

It was created by Executive Order R2-67, issued by Gov. Reagan last year. The Executive Order also retained Warren King & Associates Inc. as consultants.

Mr. Pryor and his group were "authorized" by Gov. Reagan "to make such studies and investigations as they consider necessary to determine how the services of the state of California may be provided for its citizens in the most efficient, expeditious and economical manner."

THE "REPORT AND Recommendations" became controversial immediately on its release.

The section of the report dealing with the Department of Insurance begins on page 70. It reads as follows:

"Department of Insurance. This department certifies insurance companies and monitors security transactions and mergers of such companies. It regulates operations, including conservatorship and liquidation of insurance companies, for protection of the public. Further, the department regulates and licenses companies and individuals who engage in the sale of insurance and performs certain work relating to assessment and collection of insurance premium taxes. These taxes exceed \$100,000,000 per year.

"The department has, through tradition, undertaken extracurricular activities in the form of assistance and advice to legislators and other executive branches of the government. Examples are work relating to the Baldwin Hills Dam disaster and the Watts riot.

"THE ORIGINAL 1967-1968 budget called for 328 positions. However, the final budget has been adjusted to 315. Total expenditures for fiscal 1967-68 are slightly more than \$3,600,000

"The department is operated under a special insurance fund which was established in 1929 to account for fees, fines, penalties, taxes and other revenues collected by the commissioner. This fund is expended in administration and enforcement of the insurance code and other insurance laws.

"The headquarters of the department in San Francisco has a staff of 191 employees. An autonomous office located in Los Angeles has 123. In addition, branch offices, each with seven people, are maintained in Sacramento and San Diego. Work of the de-

partment requires its examination staff to travel throughout California as well as to many other states.

"RECOMMENDED ACTION: Suggestions of the Governor's Survey offer the opportunity for potential savings of \$250,000 an-

nually in the department. Significant improvements for the department recommended include a proposal to:

"Reorganize the department to achieve more uniform statewide policies and reduce supervisory requirements to provide annual savings of \$35,000."

Health costs...

Continued from page 6

ously selling them, even though they are somewhat experimental."

Mr. Miller also noted a degree of apathy on the part of employee benefit directors in coming to grips with the problem of soaring health costs. He noted that HEW "found it difficult to obtain employer participation in their conferences last year, which was hard for them to understand because of the obvious self-interest of employers from a cost point of view."

A newly-released survey on group health coverages showed in general that health insurance has kept pace with costs, but it also showed that coverage was lacking for surgical expenses, doctor visits and short-term disability, according to David Robbins, assistant director of HIAA's information and research division.

MR. ROBBINS said the survey indicated a "significant market" for upgrading surgical schedules now in force under basic policies not sold with major medical. The same is true of the benefit levels in force for doctor visits, he said.

"To begin with, four-fifths of the in-force benefits provide coverage only for doctor visits in the hospital. Among such plans, more than 90% pay \$5 or less per doctor visit."

Mr. Robbins also singled out short-term disability insurance as having room for improvement. The association's study showed that a third of the in-force benefits is covered by 13-

week plans. Persons with such plans had an average weekly indemnity benefit of \$47, he said.

ON THE POSITIVE side, The HIAA survey revealed that in all 149,000,000 Americans under 65 were covered by private health insurance for some or all of their hospital expenses at the start of 1967. Insurance companies covered about 93,000,000, including about 68,000,000 people under group plans.

Not included in the survey were persons covered under various independent health plans and under Blue Cross-Blue Shield.

According to the survey, 51,000,000 Americans under 65 covered by group insurance policies have major medical protection. And two-thirds of the persons covered under supplementary major medical plans have a maximum benefit of \$10,000 or more, Mr. Robbins said.

Well over 90% of those with comprehensive major medical have maximum benefits of \$10,000 or more, and one-fourth have \$20,000 or more in benefits, he stated.

The survey showed that 99% of basic plan policyholders are covered for 31 days of hospitalization or more per year and about two-thirds have benefits for 70 days or more.

"The adequacy of this coverage is evident when related to actual hospitalization experience," Mr. Robbins said. "Government studies indicate, for example, that only 3% of hospitalization cases last for more than 31 days, that 90% terminate within 14 days and about three-fourths within seven days."

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