

Our columnists make bold predictions about 1968

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business insurance

for buyers of employe, property and liability protection

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Wheeling Steel seeks damages from agency

WHEELING, W. Va.—A pre-trial hearing for Wheeling Steel Corp.'s \$5,400,000 suit against its insurance agency Lee C. Paull Inc. and the agency's chairman, Lee C. Paull Jr., could be held in 60 or 90 days, *Business Insurance* has been told.

The case, which will be heard in Ohio County circuit court, "is still in the discovery stage," a legal source said.

The legal maneuvering between Wheeling and the Paull firm has created considerable interest among insurance buyers because Wheeling's lawyers contended in their briefs that the company could have spotted excess charges by the insurance agency if it had employed a professional insurance manager to oversee its activities in this area.

A complaint filed by Wheeling alleged that Mr. Paull and his father, Lee C. Paull Sr., purchased for Wheeling certain types of insurance, including liability, "far in excess of its needs and at costs grossly disproportionate to losses reasonably to be anticipated based upon Wheeling's own experience."

Business Insurance was told by a Wheeling source that fire and explosion losses are under \$500,000.

Both the Paulls served on the board of directors of the Wheeling Steel Corp.; Mr. Paull Sr. from 1934 until 1958 and Mr. Paull Jr. from 1959 until 1965. In May, 1965, Wheeling Steel hired its first insurance manager, James Howard, according to a source for the company.

Smith labels INA-ITT merge report 'absurd'

PHILADELPHIA—A report that International Telephone and Telegraph is talking merger with the Insurance Co. of North America was branded as "obviously absurd" by Bradford Smith Jr., INA chairman.

"We are fully aware of the rumors, but INA is not for sale," he told *Business Insurance*.

Further, the fact that INA is planning to form a holding company wasn't the result of any company trying to purchase
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DURING THE PERIOD complained of, attorneys for Wheeling said in the complaint, Wheeling didn't employ anyone possessing expert knowledge and experience in insurance but relied for advice as to its insurance program exclusively upon both Paulls.

WHEELING entered its first suit in the amount of \$2,400,000 against Mr. Paull and his company in March, 1967. This action took place nearly two weeks after the Paull firm filed a suit in Delaware against Wheeling alleging that it refused to furnish the agency with a list of stockholders.

The Paull agency dropped the case against Wheeling Steel in
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A Shell refinery in Houston was the scene of a fire and explosion Jan. 16. Damages are estimated at \$1,000,000. The fire is not expected to help Shell in its negotiations with the Oil Insurance Assn.

Wide World photo

Dutch Shell refinery blast shakes world onshore insurance market

ROTTERDAM—An explosion and fire at a Shell Nederland refinery near here on Jan. 20 caused damages estimated at more than \$24,000,000 and, according to insurance sources in the U. S. and London, will have serious reverberations in the tightening onshore oil insurance market. The refinery is Shell's biggest in Europe.

One insurance source estimated that at least \$20,000,000 of the property loss was insured in London, in addition to business interruption coverage which was reported written in Lloyds for \$60,000,000.

Estimates on the extent of business interruption coverage could not be evaluated but a spokesman for Shell indicated the company will be operating with 70% of its normal oil refining capacity available again by the end of this week. Some chemical operations at the refinery were not expected to be back in full operation until March.

THE SHELL spokesman indicated that the fire completely destroyed 18 tanks and damaged 62 others in addition to damaging two transformers for the distillation units.

Reached in London, the insurance manager for Shell-Mex & British Petroleum, indicated that insurance coverages were "common knowledge" there but he declined to elaborate.

According to the insurance source, Shell Nederland is in-

sured for primary coverage by one of its captive companies, which insures excess coverage through Lloyds. He said it is doubtful that much of the loss will find its way to U. S. insurers, but the severity of the loss is bound to have an effect on all insurance markets.

The captive company of Dutch Nederland writes insurance on most of 450 subsidiary companies throughout the world, except in the U. S. where its subsidiary operates independently. The international company is considered to be one of the largest cor-

porations in the world.

THE TIGHT squeeze for onshore oil insurance was demonstrated last December when the Oil Insurance Assn., the only remaining domestic oil pool, indicated its unwillingness to write insurance in excess of \$9,000,000 without first clearing reinsurance with London.

Other recent oil losses have added to the burdens of the oil business. In a U. S. loss on Jan. 16, a Shell refinery in Houston, Tex., was hit by a fire loss esti-

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Rails, union agree to uniform benefit plan

CHICAGO—Virtually all of the nation's railroad union employes and railroads have agreed to a combined health and welfare insurance plan—the largest private plan in the U.S.—with annual premiums of \$220,000,000 to go into effect March 1.

A total of 615,000 employes (more than 95% of all railroad union employes) from 30 unions will be covered in a general liberalization of benefits that includes increased life insurance, a 50% increase in doctors' call payment benefits and additional coverage for dependents.

The only larger health and welfare plan is for federal employes.

The new agreement will consolidate five separate plans. Travelers Corp. will be the primary carrier and reinsurance carriers still have to be determined, it was learned. Travelers had approximately 93% of the business under the old plans.

The plan will be in effect for two years and is noncontributory, up to the limits of the policy. The unions and railroads have not had any employe contributions since health and welfare became a bargaining issue with the nonoperating unions 13 years ago.

The unions have strongly op-

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'Most detailed' story on Soviet insurance in BI's Feb. 12 issue

NEW YORK—The Feb. 12 issue of *Business Insurance* will carry an article on how insurance works in Russia by a correspondent of the Novosti Press Agency, Moscow.

The article details the activities of the USSR's state central insurance department, known as Gosstrakh, which handles personal and property insurance within the country, and of the foreign insurance department, known as Ingosstrakh.

It explains that "insurance is not very popular in the USSR" because the state social security system includes obligatory old-age and disability pension and also provides financial aid for damaged property.

Nevertheless, Gosstrakh is said to pay out yearly in indemnities about 300,000,000 rubles (one ruble equals about \$1.10).

According to the USSR embassy in Washington, the article gives the most detailed picture of Russian insurance ever released to the western press.

Japan's 125-mph 'bullet trains' are not insured

TOKYO—With several countries, including the U.S. and France, conducting research and development work on high-speed train systems, many international transportation experts are studying what is currently the world's fastest train system, Japan's 125-mph New Tokaido Line "bullet trains," with a view toward adapting that expertise to their own situations.

This would obviously hold true for insurance coverage of the train line. It would set a precedent for coverage of new high-speed systems being developed—if the Japanese line was covered. But it isn't.

In Japan, facilities which are government-owned are typically uninsured. This extends from the new \$36,000,000 palace being constructed for Emperor Hirohito to Tokyo Tower, the world's tallest tower (higher even than the Eiffel) and to the Tokaido line trains which Japanese National Railways has been operating since 1964.

SPOKESMEN FOR JNR emphasize that the major reason for the total absence of insurance is that the line is government-owned, and that the government will pay for any property or physical damage in case of accidents. An additional reason, they assert, is that safety features incorporated into the system minimize any disaster potential.

The roadbed of the New Tokaido Line is mostly an embankment or bridge-type elevated structure, to keep the line separate from roads, waterways



High-speed Japanese "bullet trains" may set a precedent for insurance coverage of new systems being developed in the U.S. and France. The New Tokaido Line trains are not covered.

and other railway lines. This absence of railroad crossings eliminates contact with any other forms of transportation. Also, the line is as straight as possible, minimizing burdens on the rails from the high-speed trains.

Also, the system incorporates sophisticated electronics and electrical equipment to warn of dangers, regulate train speeds and, in general, control the line's functioning. Maximum advance warning of danger is especially important because the high speeds at which the trains travel mean they require a very long braking distance. An ATC (automatic train control) apparatus helps regulate activities of the

train engineers, particularly warning them well in advance to slow down if they are approaching a train ahead.

SUPERIMPOSED OVER these control elements is an electronic guideboard at the Central Control Center in Tokyo, which shows the entire system, location of all trains and pertinent data relating to their situations.

As a regular checking system, JNR runs a high-speed track inspection car and high-speed electric testing train over the tracks. In addition, anemometers are installed at 30 key points along the line to warn of high winds exceeding 45 mph.

Meanwhile, JNR researchers are continually studying new safety schemes. They are currently testing an infra-red device which would be installed along tracks to melt snow before it cakes on tracks, causing hazards. JNR has also just developed a wheel axle fatigue testing machine to detect fatigue cracks before they become serious.

HOWEVER, ALL THESE systems relate to natural disaster possibilities, which are thus minimized. In fact, a subsidiary reason for lack of insurance is that JNR has played up the train's

safety so much. Many Japanese feel that insuring a supposedly safe system indicates the system is not as secure as touted. So, an element of public relations entered into the decision to by-pass insuring the "bullet trains."

But what about non natural disasters or accidents? What about destruction which might be caused by, say, a "mad bomber?" JNR spokesmen fall back on the basic reason for no insurance: This is a government operation and the government will take care of any physical or property damage which may occur.

Machinists' teeth are bargaining point; 2 locals get dental cover

CHICAGO—An estimated 33,000 members of the International Assn. of Machinists and Aerospace Workers and their dependents in eight states of the Pacific Northwest may get dental care coverage for a three-year period under a program provided by the National Assn. of Dental Service Plans (NADSP).

Union members in Alaska, Colorado, Idaho, Montana, Oregon, Utah, Washington and Wyoming are involved.

The program has no deductibles and will cover virtually all basic dental services, up to an annual maximum of \$750 per individual, a spokesman for the NADSP, located here, said. Already in effect in two machinists' locals, the program will become a bargaining point for other locals as contracts are negotiated. The union has 120,000 members.

IN THE FIRST year a union member will pay 30% of covered dental charges; the remainder will come from funds administered by a joint management-labor trust, the spokesman pointed out. Employers contribute according to the wages of employes, but the spokesman for NADSP refused to comment on the total cost of the plan.

Union members' costs will be reduced by 10% each year up to the fourth year when 100% is paid, provided they have visited the dentist during each year. It is expected that regular dental checkups and care will be less expensive in the long run than extensive dental work due to neglect, the spokesman told *Business Insurance*.

The 70/30 shared payment formula applies to dental services including the provision of

bridges, but prosthodontic services will be shared equally by union member and the plan.

THE PLAN SETS up a table of allowances for dental services. For example, an examination is \$5, cavities on one tooth surface \$5, a porcelain crown \$70 and a complete maxillary denture \$138.

Coverage in Alaska, Idaho, Montana and Wyoming will be provided by Health Service Inc., a Chicago-based insurance company owned by the Blue Cross Plans. Administration and claims in these four states will be handled by the Colorado and Washington Dental Service Plans.

Underwriting, coverage and claims in the remaining states will be processed by the Colorado Dental Service Plan, the Oregon Dental Service Plan, the Delta Plan (Utah) and the Washington Dental Service Plan.

ACCORDING TO NADSP, there are 1,400,000 persons covered under dental services plan programs. There are 267 private group contracts with 1,140,000 members and 125 publicly-funded programs which include 214,000 members, the spokesman said.

The NASDP, associated with the American Dental Assn., sets up state and national group dental coverages. Dentists volunteer to participate in the plan.

O'Connell to speak at law seminar Feb. 5

HARTFORD—New ways of insuring and paying automobile accident victims will be studied Feb. 5 during a Connecticut Bar Assn. seminar at the Hartford Hilton.

The purpose, according to CBA president Arthur M. Lewis, is to determine improved methods of handling accident cases—both protection and compensation.

Seminar co-sponsors are the state legislature and interim judiciary committee of the University of Connecticut's school of law.

Principal speaker will be Jeffrey O'Connell, professor of law at the University of Illinois, who specializes in the law of automotive accidents.

Session guests will include representatives of insurance companies.

The state of the unions

Maritime union charges retirees service fee for pension handling

NEW YORK—A service fee of \$100 a year for pension administration has been approved by the National Maritime Union for its more than 7,500 retired members.

"The move is necessary," according to Bernard Raskin, public relations director for the union, "because our number of pensioners is growing very rapidly, and we now have one member on pension for every five active members."

The union provides very liberal benefits, according to Mr. Raskin, "which explains why so many members take early retirement."

A MEMBER may retire after 20 years, Mr. Raskin continued, "regardless of age" and receive a pension of \$250 a month. This amount went into effect about three years ago "and accounted for a large exodus."

The fact that in 1967 some 2,000 members elected to take early retirement gives some idea of the extent of the problem, Mr. Raskin said.

The proposed service fee was approved by a vote of active members in December, Mr. Raskin continued. "Otherwise we wouldn't be putting it into effect."

The Progressive Mine Work-

ers Union in Illinois has a similar arrangement, Mr. Raskin said. The agreement was approved by the National Labor Relations Board last June.

"**WE HAVE** been told that this action is legal," Mr. Raskin said, "but in any case we haven't started collecting the fee."

Mr. Raskin also said that he expected some cases would be tested in the courts, "and, of course, we will abide by any decision."

Not all retired members are happy about the proposed levy. In fact, a committee for NMU democracy has already been formed, which issued a statement calling the service charge

"unconscionable and fraudulent."

The union has a large proportion of seamen who have completed over 20 years service, Mr. Raskin pointed out. If the war in Viet Nam should "ease off and reduce the pressure on shipping," the ratio of retired to active members could become as high as one to one.

"**THERE'S MORE** to keeping a large organization like this union effective than pensions alone," Mr. Raskin said. "We have to bargain for wages, enforce contracts and look after our members' interests as well. This should concern the retired workers as well as our active membership."

Lloyds underwriters mull limiting liability of non-British investors

LONDON—Many of Lloyds' underwriters are seriously considering whether the Committee of Lloyds should be pressed to alter the rule by which only United Kingdom and British Commonwealth citizens can become underwriters, and they are also debating whether to limit the liability of any new investors.

This move for bringing in outsiders into Lloyds, particularly U.S. citizens, is because much potentially profitable business is being turned away. Most syndicates are underwriting business right up to the limits allowed by the rules of the Committee.

Lloyds has always underwritten a large amount of business in the U. S. and this business has already increased by about 15% because of the devaluation of the pound. Insurance premiums are now being collected at the rate of £3,000,000 to £4,000,000 per working day, compared with £1,500,000 two years ago.

AS THE RULES stand at present, new people wanting to become members of Lloyds syndicates must accept unlimited personal liability. They must also pay a nonreturnable entrance fee of £1,900 and deposit securities to the value of £15,000. In

addition, they must prove that they possess assets that can be quickly realized to the value of £75,000.

Up to 1964 there was a waiting list of new applicants for membership of Lloyds, because of the attractive profits results shown by both the marine and nonmarine syndicates. But in the years from and including 1964 these profits turned into losses and there was a sharp fall in the numbers on the waiting list.

Even so, membership of Lloyds now stands at over 6,000, the highest ever. New members elected over the last three years

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President joins call for auto insurance overhaul

WASHINGTON—President Johnson's call for a major study of the automobile insurance industry was the latest voice heard in the rising chorus for a major overhaul of the industry.

As part of a recommended \$186 billion budget for the coming fiscal year, the auto insurance study would probe rate increases and arbitrary cancellations.

The Department of Transportation would conduct the investigation which would take 18

months to two years and will cost nearly \$2,000,000.

Nation-wide efforts are being made to improve the auto insurance situation through improved safety standards and better methods of compensating auto accident victims. In the spotlight for more than a year has been the Keeton-O'Connell plan, a compensation procedure based on a no-fault system, similar to workmen's compensation, that substitutes the possibility of a large recovery settlement for the certainty of a smaller

amount.

INVESTIGATIONS of the auto insurance industry have been backed by Sens. Warren G. Magnuson (D., Wash.) and Philip A. Hart (D., Mich.) and Reps. Emanuel Celler (D., N.Y.) and John E. Moss (D., Cal.).

Consumer complaints about the auto insurance industry regarding thievery, poor management, high rates, discrimination based on age and occupation and restrictive underwriting practices aroused Washington to the need for an investigation.

The Department of Transportation's Federal Highway Administration has proposed 47 auto-safety regulations for passenger cars and fleets of trucks, trailers and buses; 18 are scheduled to go into effect by Jan. 1, 1969.

In October the administration announced that it was sticking by its ruling that all 1968 model cars built after Jan. 1, 1968 must have cross-chest belts. The decision followed a seven-week study of whether the belts cause neck and head injuries.

In Detroit, the Ford Motor Co. and Eaton, Yale and Towne Inc. are testing a balloon-like air bag which would cushion a rider as he plunged forward in a crash. This bag, which fills with gas when the crash occurs, could be stored in a steering wheel hub or instrument panel or on the rear of the front seat.

ALTHOUGH A spokesman for Eaton, Yale indicated he hoped such a system would be ready in three or four years, a

Ford official believed ten years was more likely.

Increased safety regulations protect driver and passenger before and during an accident but after the crash victims look toward their insurers for compensation. A no-fault system would compensate auto accident victims no matter who was at fault.

Such a system of automobile compensation could mean a savings of 15% to 20% for corporate buyers, by reducing the number

of separate auto coverages, Robert Keeton of the Harvard Law School told *Business Insurance*.

"And such a plan would definitely reduce work load for buyers since there would be less need to fight over who's at fault," he said.

Mr. Keeton and Jeffrey O'Connell of the University of Illinois Law School have proposed a basic protection plan based on a no-fault system of payment. The

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Reprinted from the Shamokin (Pa.) News Dispatch



An experimental self-inflating restraint system for cars, developed by engineers at Ford Motor Company and Eaton, Yale & Towne Inc., is shown here in fully inflated condition. The plastic bag is designed so that it would balloon to its full size within 40/100ths of a second on a signal from an impact sensor. By the time a car occupant, represented here by a crash test dummy, could fall forward, the bag would have popped from its permanent stowage area to restrain him.

Decision on returning veterans could apply to pension benefits

WASHINGTON—A year-end decision by the Supreme Court has been hailed by Secretary of Labor Willard Wirtz for its far-reaching effects on the entire range of employe benefits under the veterans' re-employment rights statute.

The Labor Department has contended that a man's time in military service should be looked upon as uninterrupted service, if he returns to the same employer.

The ninth circuit court of appeals had held that veterans who have fulfilled their military obligations should be treated as if they had been on a leave of absence.

In the case of Eager v. Magam Copper Co., Magma Copper's

contract with its union required employes to be with the firm on a certain date in order to receive a vacation with pay. It also provided that an employe had to be on the payroll for three months preceding a holiday to qualify for vacation pay.

THE EMPLOYE who filed suit fulfilled all the other requirements for a paid vacation, but left for his military service before the contractual eligibility date. He did not return from military service until less than three months before the holidays in question.

The Supreme Court ruled that although employes on leave of absence for other reasons would

not receive the benefits involved, the reinstated veteran did not have to meet the labor contract requirements since he was prevented by his military service and had fulfilled the other conditions of eligibility.

The Supreme Court cited its earlier decision in a case involving *Accardi v. Pennsylvania Railroad* as the basis for the reversal.

IN THAT CASE the court stated that the purpose of the veterans' re-employment rights act is "to provide as nearly as possible that persons called to serve their country in the armed forces should upon returning to civilian life, resume their old employment without any loss because of their service to their country."

Informed sources in Washington indicate that discussions are currently taking place in the Department of Labor about granting full pension credits to returning veterans for the period of time they spend in the service. The Supreme Court decision is expected to add weight to this approach.

British fire premiums hit £800,000,000

More than £800,000,000 was earned in premium income by British insurers on their overseas fire and accident business during 1967.

Earnings on this business and on the companies' head office portfolios of overseas investments are running at a rate of about £70,000,000 per annum.

Ward will modify charge cover to muffle state, federal critics

CHICAGO—Montgomery Ward & Co. will provide full details on its credit life insurance plan for charge customers to all critics and will give customers a yes or no option for coverage on monthly statements, a Ward spokesman told *Business Insurance*.

Ward has come under criticism from at least five state insurance departments and the Senate antitrust subcommittee. However, most of the criticism seems to be directed at Ward's method of introducing the plan to its customers, rather than the plan itself.

Ward announced the plan in a letter to charge customers, saying that they would be automatically covered, unless specifically cancelled. The insurance will automatically pay off charge account debts, up to \$3,000, in the case of death.

IF A CUSTOMER has a bill of less than \$30 or pays the bill within 30 days, there is no coverage. The cost is 10¢ a month for each \$100 or fraction thereof over \$30.

Unpaid balances are paid if the customer is disabled, blinded or loses a limb.

State insurance departments expressing interest in the plan include Colorado, Illinois, Maryland, Minnesota and Ohio. The Senate group has said it will investigate the rates, profits and propriety of the method of introduction.

"WARD IS confident that once the plan is reviewed by all concerned, it will be widely accepted," the Ward spokesman said. Ward contends that this

Sears eyed cover

CHICAGO—A spokesman for Sears Roebuck & Co. told *Business Insurance* that the company had considered credit life coverage similar to that being offered by Montgomery Ward & Co.

"We rejected the plan, however, almost precisely for the same reasons that are being brought to light in Ward's controversy," he said. "We have no plans to introduce such a plan at the present."

Another Sears spokesman would not comment on whether Sears had contemplated a credit life plan. "We study a lot of things," he said.

method of introduction saved the company a great deal of money and resulted in lower premiums for customers.

"The customers also had the benefit of immediate coverage, and several thousand dollars in claims have already been paid out," the spokesman said. Ward has said that it will not do any billing under the plan until a "reasonable amount of time" has elapsed for a customer to refuse the coverage.

THE COVERAGE is optional for Ward charge customers and will not lead to cancellation of the account if refused, the spokesman said. It will not be required for new accounts.

Ward subsidiary Montgomery Ward Life Insurance Co. and Old Republic Life Insurance Co. are handling the plan in the 32 states in which it is being offered.

Carr named insurance head at Sun Oil

PHILADELPHIA—William C. Carr has been named manager of the insurance department of Sun Oil Co. and will supervise both the property and employe benefits functions.

Mr. Carr joined the oil company in 1930 in the insurance department where he became assistant manager in 1953. That vacated post has been filled by Henry R. Rossell, a senior staff associate in the insurance department.

The new insurance head replaces H. Walter Johnson who managed the insurance department since 1950 and is retiring



William C. Carr

from the company.

As the buyer for property insurance, which is written with the Oil Insurance Assn., Mr. Carr pointed out that the company should be looked at favorably when its policies come up for renewal this June because of a good loss record.

His role as employe benefits manager includes responsibility for the group life and hospitalization areas.

Credit card firms band together to support anti-fraud legislation

By GEORGE YOUNG

NEW YORK—A significant increase in credit card fraud losses, coupled with a reluctant attitude on the part of insurers to write coverage, has brought credit card companies together for the first time to back legislation aimed at curbing a predicted \$50,000,000 in losses this year.

According to Milton Lipson, security director of American Express here, most major credit card companies have voiced approval of a model credit card crime act which he said will be presented to at least 18 state legislatures this year.

Mr. Lipson pointed out that credit card crime laws now

exist in about 35 states, but the new legislation, already passed in three states, was thought by American Express to be a "more objective and comprehensive" approach toward loss reduction.

THE MODEL BILL, which is a result of a study sponsored by American Express, is adaptable to the penal code of each state and will cover every known criminal misuse of credit cards.

The study includes definitions of credit card abuses with suggested penalties, a summary of federal and state criminal cases on credit cards and an analysis of U.S. criminal law statutes specifically covering credit

cards.

Most credit card companies are self-insured for fraud losses, according to one buyer who indicated insurance companies have shied away because of an incomplete loss record and also frequent and large losses.

IN A CASE disclosed last week, First National City Bank, New York, estimated it lost about \$50,000 from the criminal misuse of its credit cards—called the "Everything Card."

First National had issued about 1,000,000 cards, unsolicited, to some of its customers last summer. According to a spokesman for the bank, some of the cards fell into the hands

of unauthorized holders who charged retail items purchased at local stores.

The loss, which was detected by the bank's computers, was uninsured and will be listed as an operating expense—part of the cost of using credit cards.

Diners Club, an international credit card company, is still at odds with its supplier over which firm is liable for a \$350,000 fraud stemming from the theft of at least 2,000 cards.

DINERS CLUB, which indicated it was self-insured, expects to be fully indemnified from Dashew Printing Machine Co., Los Angeles, the supplier of the cards. An employe of Dashew allegedly stole 2,000 Diners Club cards and was reported to have sold them to organized crime groups.

At least four oil companies were cheated in a major fraud by 21 service station owners

who purchased stolen credit cards from operators of a racket and charged fraudulent invoices to the credit card companies. The oil companies, which included Gulf, Texaco, Mobil and Shell, were obliged to pay the service station operators for the invoices even though the cards had been stolen.

According to one insurance underwriter, insurance companies do not issue standard policies to cover losses from credit card abuse. He pointed out that policies, when approved, are written on an individual basis.

ANOTHER BUYER explained that most credit card companies do not have fraud coverage because it would be a matter of swapping dollars with the insurance companies. He said the problem is one of frequency, not severity.

The model credit card crime bill, whose supporters include Carte Blanche, Diners Club, oil companies and banks, is part of an over-all industry effort to curb losses. One insurance source pointed out that insurance companies would probably take a fresh look at the credit card business if losses could be reduced.

NEXT MONTH retail outlets such as airlines, hotels, restaurants, car renters and other service companies participating in an American Express credit card plan will be able to dial a credit card number into a machine located at its central office which electronically will relay—in seconds—the status of any credit card and its holder.

American Express has invited other credit card companies to participate in the electronic program on a fee basis, maintaining that it should have a "very positive" effect on credit card loss reduction.

Another credit card company security head said he was approached by several manufacturers with inventions to reduce credit card losses. The security man pointed out that most devices could be deciphered by the professional thief and turned to his advantage—resulting in more frequent and larger losses. ■

This Lockheed test pilot is insured by Pacific Mutual Life.

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Lockheed is a company that's always going places. Probing into space. Exploring thousands of feet beneath the seas. Developing new surface transportation systems. Airlifting men and material around the world. Lockheed is a leader in land, sea, air and space.

Lockheed has provided additional group life insurance protection through Pacific Mutual Life for its long-service employees since 1957.

Pacific Mutual Life writes group life,

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We use electronic data processing equipment to speed claim service and cut the cost of insurance. The same equipment makes possible our quarterly management information report to policy holders, identifying medical claim trends.

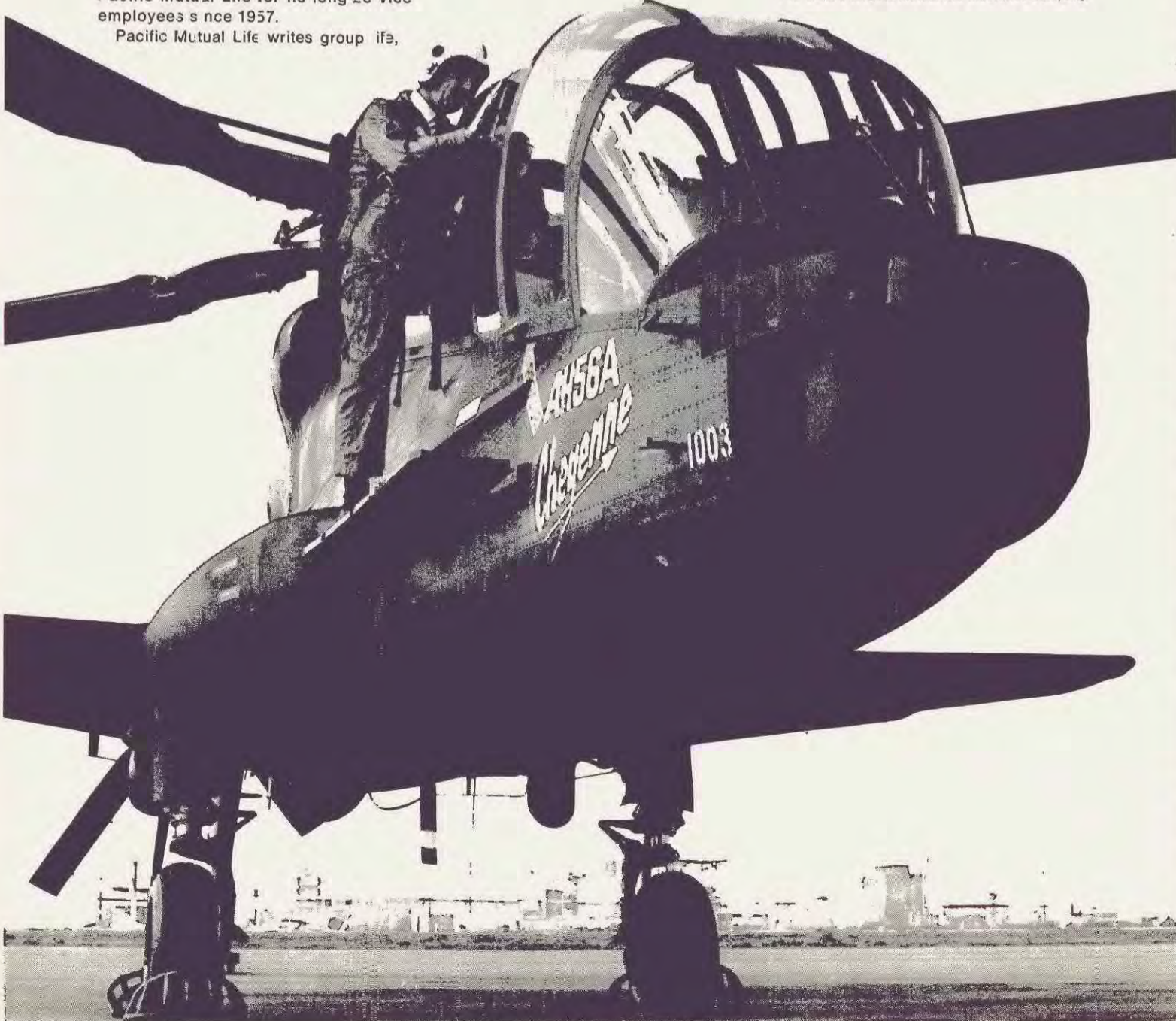
Our group specialists are "on-call" to service any PML group program. A

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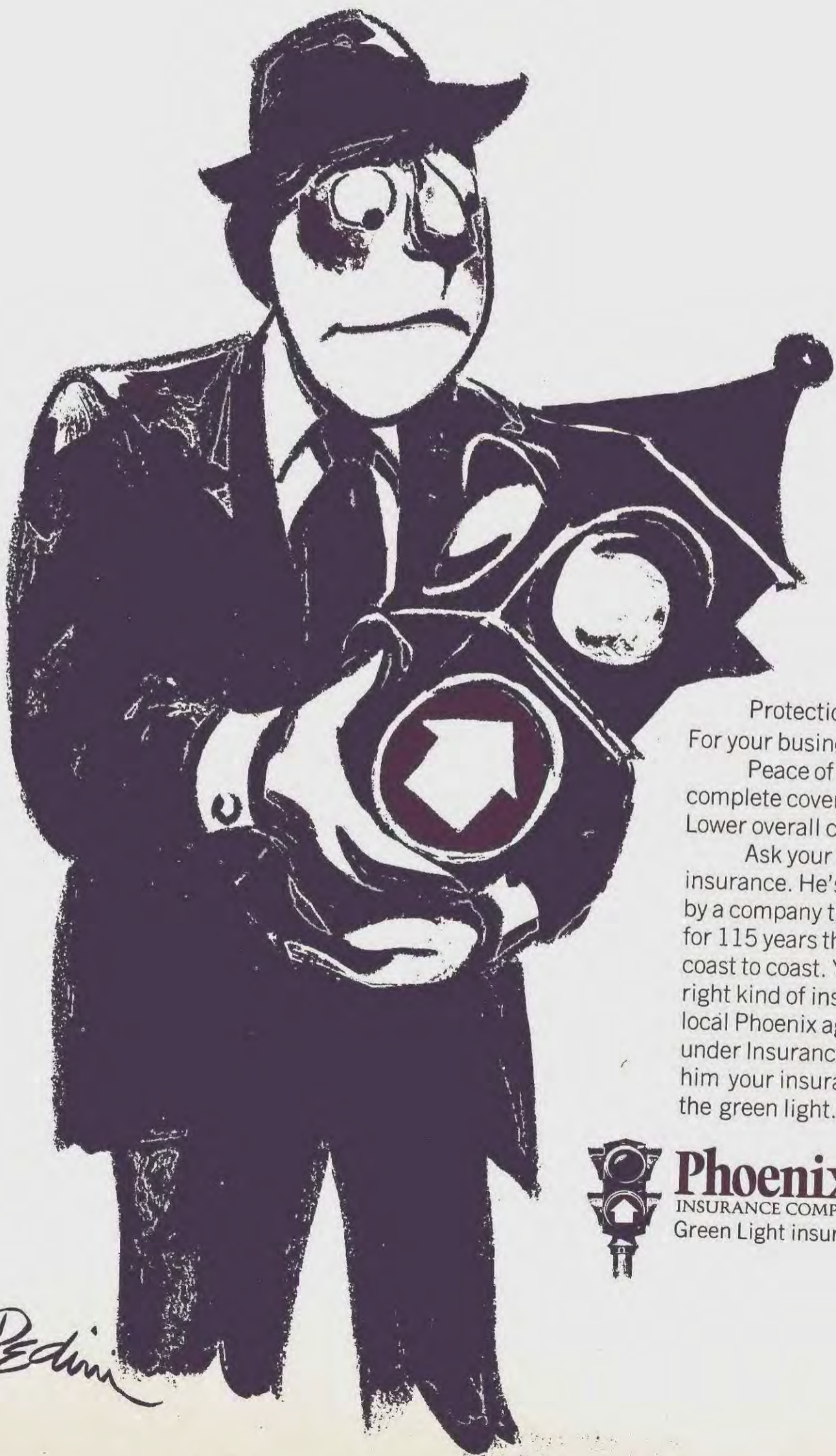
New ship line may eliminate marine policies

LONDON—Oceanic Container Ltd. and Associated Container Transport, which begins services between Britain and Australia in 1969, think that they will be able to dispense with the need for shippers to take out marine insurance for the goods which they handle.

This view of these groups, expressed at a container conference in Birmingham, is that they should accept responsibility for the goods "wherever they are, and by whatever type of transportation they have been moved in." The groups would accept the same liability if they decide to put particular containers on deck.

Nothing has been settled so far. The commercial managers of the group said they thought they should accept full responsibility for the value of goods, adding "if our legal departments will let us, that is just what we shall do." Nevertheless, the managers have promised to talk to more shippers to find out what is needed and wanted. ■

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complete coverage. Prompt claims service.
Lower overall costs.

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by a company that's been providing protection
for 115 years through service and claims offices
coast to coast. You can be sure he'll provide the
right kind of insurance at the right price. Your
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under Insurance. Call him today and tell
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the green light.



Phoenix of Hartford
INSURANCE COMPANIES / HARTFORD, CONN. 06115
Green Light insurance: it helps keep you going

President joins call for auto insurance overhaul

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law professors suggested a \$10,000 limit for medical and out-of-pocket expenses such as lost wages.

MR. KEETON said that the plan would automatically include medical payments and uninsured motorist coverages.

The insurance manager of the Port of New York Authority, Charles F. Levinson, however, predicted an increase in "premium cost that would be needed to add accident insurance to the present auto coverage. Claimants would lose none of their old rights, yet would get guaranteed payments for injuries they would not have a legitimate claim for under the basic policy. Someone has to pay for this additional cost to the insurer."

ANOTHER BUYER pointed out that at a recent seminar in Illinois three actuaries made three different predictions concerning the effect on premium costs. One said that premiums would be reduced 31%. Another said cost would remain constant; and the last said there would be a 31% increase.

As with all other cases in insurance, the buyer said, the

premium cost usually depends upon the loss experience. However, he pointed out that the number of claims against carriers might decrease under the no-fault system.

Mr. William McMorrow, assistant to the treasurer for the Gillette Co., believes that a no-fault system might reduce the number of inflated claims; however, should a person sue to collect more than the \$10,000 limit, it would cancel out much of the advantage, he stated.

At Sterilon, one of Gillette's subsidiaries, the employe, if at fault in an auto accident, now has to pay the deductible. But under a no-fault system "how could he be expected to pay," he asked.

Mr. McMorrow pointed out that Gillette's auto experience is more of frequency than severity.

SEVERAL BUYERS interviewed by *Business Insurance* were not eager to take an affirmative or negative stand on the proposed no-fault system. As one insurance manager of a Southern-based firm said, "I want to see what benefits would be awarded and how such a plan would be administered before forming any conclusions."

He acknowledged that he "was

interested in the program," but has adopted a wait-and-see attitude.

But, as a corporate insurance manager for a major dairy company said, "The search for a way to improve the present system of automobile accident compensation has become a political issue of great sex appeal," and like other buyers, he supports some change in the system.

Mr. Keeton referred to a study by a New York actuary who reported for New York there would be a 15% to 25% savings but "Mr. O'Connell and I expect more of a substantial savings."

HE EXPLAINED that some adjustment would be needed in the rating plan so truckers would assume their share of the risk.

Trucks, he said, present a greater risk to other vehicles or pedestrians. Thus, a rating plan should be adopted to equalize the share of the cost of compensation, Mr. Keeton maintained.

Under the existing system, liability for auto accident damage falls upon the party or parties at fault. Determining who is at fault places a considerable burden on the courts, resulting in crowded judicial calendars in some communities, proponents of

the scheme say.

According to several insurance buyers, most accidents involving a company vehicle are settled out of court. "But we still get our share of suits," one insurance manager said. "Frequently a case can take from two to four years, and the parties in the accident don't have the money when they need it most—to pay hospital bills and other expenses."

Some insurance companies now give accident victims advance payments to ease the financial burden.

The plan also eliminates the possibility of duplicate coverage, such as workmen's compensation, sick leave or other accident insurance plans. Under the present system, an employe injured on the job can collect from workmen's compensation while not relinquishing his right to recover the same costs from a third party.

In certain states, notably New York, workmen's compensation carriers have the right to place a lien against any proceeds derived from a third party.

UNDER THE Keeton-O'Connell plan, payment collected from other sources would be deducted from the basic protection payment.

Opponents of the proposal have said that the insured would be sacrificing quality coverage for cheaper insurance. However, there is no evidence that premiums would be lower, Mr. Keeton said.

Mr. Keeton said some lawyers who oppose the proposal are committed to the philosophy of the present system, and also they feel they would suffer economically because they would handle fewer cases.

Speaking as a lawyer, J. P. Olsen, insurance manager of Ingersoll-Rand, said he sees nothing wrong with the present system except possibly "the insurance companies' inability to make a profit."

HE PREDICTED that various bar associations will provide an effective lobby against passage of no-fault systems and defeat the bills.

Mr. Olsen added that the no-fault system is "criminal because it precludes recoveries from considerable amounts and excludes the common right of action against the party at fault."

New Jersey, Rhode Island, Massachusetts, Pennsylvania, Vermont, California, Illinois, Michigan, Minnesota and New York have considered or are considering no-fault proposals.

A bill to enact the Keeton-O'Connell plan was defeated earlier this year in the Massachusetts state legislature. A new bill which would replace the compulsory law with a motor vehicle liability insurance system predicated upon "financial responsibility" passed the Senate. The Massachusetts House committee in charge of automobile insurance proposals has reported a new version of what should be done. Turning down the governor's plan for repeal of compulsory coverage and the basic protection proposal.

In New York, Gov. Nelson Rockefeller appointed a committee to study the present liability system and to make recommendations.

He stated that "our present tort liability system for compensating the victims of automobile accidents has been authoritative-

ly criticized as slow, expensive and unfair," pointing out that today victims of auto accidents are faced with delay and expense even where insurance covers the accident.

"THE CASES IN our courts increase daily and threaten to paralyze the court system. When an auto accident case goes to the jury trial, delays of up to five years are experienced in some areas of the state before a claim can be heard," he said.

A study made of Michigan bodily injury liability and medical payment insurance costs reported that motorists could save from 19% to 25% under the Keeton-O'Connell plan.

However, Michigan Insurance Commissioner David J. Dykhouse said that cost savings as related to revamping car insurance are "illusory" and that the plan is being oversold.

LIKE NEW YORK, Pennsylvania has the plan under study. David O. Maxwell, insurance commissioner, said at a meeting of the Delaware Valley Chapter of American Society of Insurance Management that a constitutional amendment might be required if his state were to adopt a plan based on the Keeton-O'Connell proposal.

He said that the present state constitution prohibits any limitations on recoveries for personal injury or damage except in workmen's compensation cases.

Charles W. Gambrell, South Carolina insurance commissioner, terms the no-fault plan "significant" and said "it indicates a real shift in the attitudes of the industry and the industry will split wide open on this issue."

Mr. Gambrell preferred to withhold judgment on the proposal but said it is a strong indication of the industry becoming aroused to the possibility of government action.

THERE'S ALSO divided opinion among the insurers. The Insurance Co. of North America became the first major insurer to publicly back a plan of compensation regardless of liability.

Bradford Smith Jr., chairman and chief executive officer of the company, recommended in full-page ads that the insurance industry consider compensating victims for medical and out-of-pocket expenses such as lost wages in amounts up to \$10,000.

The Glens Falls Group supported Mr. Smith and INA's endorsement.

On the other side of the fence the Kemper Insurance Group rejected the proposal after an examination of the principal purposes of the basic protection plan. "The present automobile insurance system can be made to work, with modifications suitable to the rightful demand of our society for the fairest and most efficient system of compensating accident victims," said James S. Kemper Jr., president of the group.

IN HIS STATEMENT, Mr. Kemper said, "I hope there will be no further attempts to enact the Keeton-O'Connell plan anywhere until all of us—government officials, academicians, lawyers, insurance men and the authorities on this bold and innovative plan—have had a chance to study the issues and create a solution in the public interest together."

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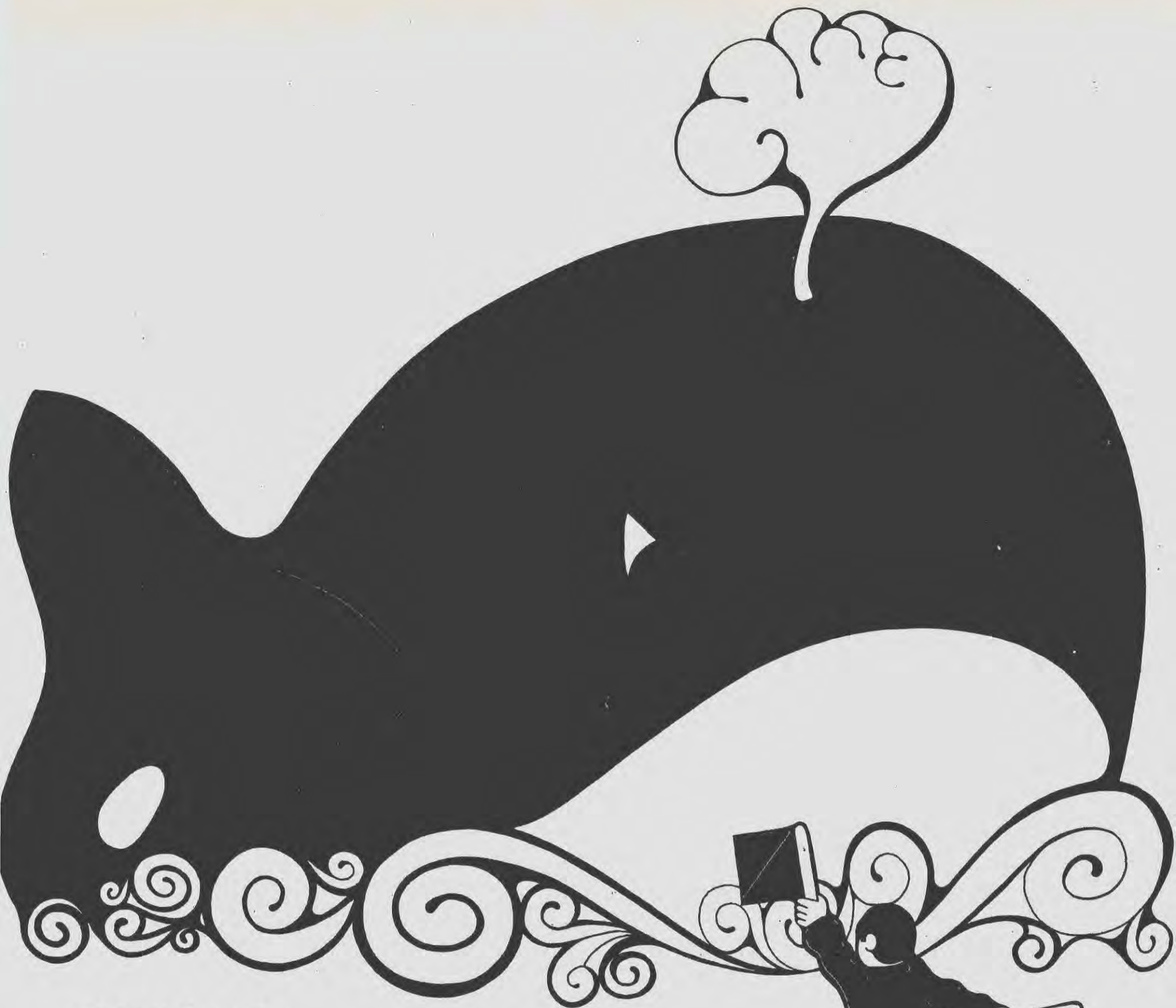
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INA, Royal Globe take opposite tack in writing aviation business

By WILLIAM GUEST

NEW YORK—The two major independent air line insurers are taking opposite tacks in their approach to writing additional business.

The Insurance Co. of North America, for its part, has joined the Associated Aviation Underwriters pool on a limited basis, thereby expanding into writing major air line business.

The Royal-Globe Insurance Cos., *Business Insurance* has learned, has been approached by the United States Aviation Insurance Group about becoming a member.

Both of these moves emphasize the extreme importance played by reinsurance treaties in the aviation insurance industry, and show that "independence" relies largely on prevailing conditions in overseas insurance markets.

A SPOKESMAN for Royal Globe confirmed that the company has been approached by the USAIG but denied that Royal has any intention of joining. "We value our independence far too much," he said.

An aviation underwriter explained that Royal Globe does not write any air line business because this is prohibited by its reinsurance treaties. Its underwriting is confined to the general aviation business such as industrial aid, commercial operators, private business and pleasure aircraft.

The INA, however, by joining AAU, will be participating in air line business, manufacturer's ownership, operation and design, and manufacturers liability. All these classes are written by Associated.

"THE INA NEVER felt big enough to write the major air line business for themselves," explained Percy Chubb II of Chubb & Son, a member of the Associated pool. "They will now be able to do so, while maintaining their independence in the general coverages."

There was a time, though, when the situation was very different at the INA, *Business Insurance* was told by an informed source.

About eight years ago, it was related, Braniff, Capital and United were all written under the same combined policies. At that time the INA took 5% of the line. However, the experience was unfavorable, "and even af-

ter three years the claims were still rolling in."

THE COMPANY NEVER had a reinsurance treaty to back them up in this class of business, the source continued, and had to withdraw. The situation was different with the feeder or regional air lines such as Mohawk or Lake Central airlines, for which INA did have reinsurance.

The aviation department of INA was formed in the middle of 1945, and in the past ten years it has not had a favorable experience in either major air lines or regional carriers, it is understood.

At one time the Philadelphia-based company was insuring nine out of 13 feeder air lines, the source said. "They had a treaty arranged in the foreign market which permitted them to underwrite up to \$20,000,000 in both hulls and liabilities."

OF THIS AMOUNT the company retained \$500,000, which was divided between the two categories, and the other \$19,500,000 was reinsured in the foreign market.

INA retained about 70% of the premiums and reinsuring underwriters got the other 30%, the source said.

"You might say they had the whole regional air line market tied up," he continued, "but there came a time when reinsurers told them they could no longer stay within the terms of the treaty because of unfavorable experience."

THIS MEANT negotiating a separate treaty, and the final terms were "vastly different." An over-all limit of \$3,000,000 was arranged, with INA keeping a 10% retention.

The business had to be written on a dollar for dollar basis, so reinsuring underwriters got 90% of the premium. INA was allowed an additional percentage for ceding the business, but overall the feeder lines "just weren't lucrative."

Treaty underwriters were still unhappy with the experience record, the source explained, "but because of the premium volume and the size of the account, they kept it going longer than they might have."

FROM COVERING nine regional lines, INA quickly withdrew until only three accounts

were left. "We were told to replace all of these by Feb. 1, 1967," said an aviation insurance broker.

The company is most likely joining Associated because of its difficulties with the foreign markets and its reinsurance treaties, speculated another aviation broker. "If an air line goes sour, nothing is reflected quicker in these treaties," he explained.

"Don't forget the largest volume of premium is in writing the major or trunk air lines," said another aviation authority. "The INA by entering the pool is going to get some of this." ■

Lloyds . . .

Continued from page 2

are mainly closely connected with the insurance industry, many of whom desired the prestige attached to membership, such as directors of insurance companies and large insurance brokerage houses.

OPINIONS CURRENT in insurance circles here are that wealthy U. S. citizens, who might be very willing to become members of Lloyds syndicates, are nevertheless hesitating to come forward, because they dislike intensely the idea of unlimited personal liability. This appears to be alien to all American business traditions.

On this account, one suggestion that is being currently ventilated among Lloyds underwriters is that membership should be open to American individuals who own assets of more than \$500,000, but their personal liability should be limited to \$250,000.

Such an alteration of the rules may be one of the few methods open to obtain the influx of new members and so enable Lloyds to accept all the profitable new business that is now being refused.

An alternative to this move would be another alteration in the rules. This would mean allowing a larger amount of new business to be underwritten by each member of a syndicate. But this latter alternative is extremely unlikely, in view of Lloyds' traditional policy of complete safety, and therefore no one seriously expects the committee to authorize any substantial increase of the existing premium limits per name of each syndicate. ■

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British market eyes some premium hikes

By JOHN GASELEE

LONDON—Underwriting experience for the London market in 1967 was decidedly better than in 1966, due to a great extent to the massive reassessing of risks—with consequent upward adjustments of rates—which has taken place during the past two years since the knockout year of 1965.

Although 1967 showed an improvement over 1966, it does not look as though there will be any relaxation of underwriters' tougher attitude during 1968. In fact, the chances are that rates may continue to move upwards.

In the marine market, the new "joint hull" formula for renewals, which came into effect during 1967, resulted in higher premiums, besides which stiff penalties were introduced for war-built tonnage—which has been one of the major causes of claims in recent years.

IN THE PAST, new tonnage has been rated with comparative lenience, but even this did not escape the general reassessment. Rates for new tonnage may rise still further in the future with the prospect of more giant bulk carriers and tankers, since underwriting accounts will be spread over much smaller units of risk, with a consequent lack of spread of underwriters' commitments.

Another reason given by underwriters for high rates for mammoth-size vessels is that in most countries there are inadequate towage and repair facilities for these ships, apart from insufficient salvage and cargo handling equipment.

Many owners are now faced with a shortage of fully-trained crews to man their vessels. Already this has been reflected in a substantial increase in machinery claims on hull policies—with consequent increases in premium.

ALTHOUGH THE downward trend of premium rates for bulk cargo insured in the London market has more or less been stopped by underwriters (many of whom have been discussing common problems in unofficial working parties), the outlook is that many rates will have to rise still further. The view taken by many cargo underwriters is that rates are too low and make no allowance for the inevitable major catastrophe which can be expected from time to time.

Naturally, containerization is a subject which has been receiving considerable attention from underwriters in the London market during the past year or so.

As yet, they are not prepared to support the theory put forward by the operators that the use of containers will stop many claims for theft or damage. This simply has not been borne out by experience.

During the year, shipbuilding insurances became subject to a new basis of rating which takes into account the considerable reduction in building times which has been achieved as a result of prefabrication and modern building methods. At the same time, underwriters took the terms of these insurances to elim-

inate the increasing number of small claims which had been presented by various shipbuilding yards during the past few years.

The general outlook is that the marine market will continue to press for higher premiums—both for hull and cargo business. Repair costs are increasing steadily, and some underwriters feel that the increases in premium so far have done little more than keep pace with these rises and have had little effect on improving basic underwriting experience.

THE MAIN excitement in the London aviation market is probably the introduction of the 350-seat Boeing 747 which, it is expected, will be coming into service in two years. Quite clearly, this will tax the capacity of the world aviation insurance market—especially in the early days when there are comparatively

few of these aircraft at risk.

The position of owners has been easier during the year, especially among the airlines. Over the years, there has been a downward trend in premiums in hulls. Admittedly, there have been fairly sharp increases in premium in connection with passenger liabilities, but these have been mainly in respect of the higher limits of liability which have either been imposed on the airlines by statute or which have been adopted by them on a voluntary basis.

The general view at the moment is that the risks involved are so high that it is unlikely that any one airline could by itself survive the liabilities involved in one major catastrophe—even if it could build, by itself, sufficiently large reserves.

WHAT IS much more likely is that airlines may run a proportion of the risk themselves—as a number do at present. Besides this, there is the distinct possibility that certain governments may step in to subsidize the insurances of their flag airlines. Whether this would be justified

in view of the highly developed insurance markets in the U. K., the U. S. and Western Europe is largely a matter of opinion.

In the nonmarine market, further increases in premium can be expected, besides which British underwriters are likely to insist on higher excesses or retentions so as to take into account higher values at risk due to inflation and expansion.

Basically, therefore, the British market is likely to be administering much the same medicine as before during the next two years or so—to make sure that underwriting can be put back on a profitable basis.

After all, one of the reasons why 1967 was a better year than 1966 was simply the fact that there were no real major catastrophes to be borne by the British market. This happy state of affairs cannot be expected to continue throughout 1968. ■

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opinions

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When a claim is made that an insurance company questions under the terms of the policy, the company is usually ready and willing to litigate the question. That costs you time and money, as well as mental stress.

It is our suggestion that thousands of dollars' worth of time can be saved by examining all your policies and segregating the portions of the policies which are not entirely clear. Your insurance company should be called upon to explain to you just exactly the coverage you have in cases where the policy is not clear and the language ambiguous. Why wait until a claim arises and you're forced into court to maintain your position?

We believe insurance companies would welcome your inquiry since they, too, are not eager for litigation.

Promoters of family security

In our last issue we editorialized on the growing role of risk managers in the modern corporate management team, pointing out that they provide vital advice and services that affect expansion, mergers, product development and day-to-day corporate activities.

Another key man in the modern management team is the employee benefits manager who devises and implements a variety of family security programs that attract and hold valuable employees. In many companies, of course, the risk manager wears two hats, administering both employee benefits and corporate property and liability risks.

It is difficult to overestimate the significance to corporate growth of a well-conceived and well-administered employee benefits program. Frequently an employee's decision of whether to join or remain with a company hinges upon a benefits package including life and health insurance, pension and profit-sharing plans and, recently, such innovations as inexpensive group auto coverage, prepaid dental care plans and even the opportunity to invest in profitable mutual funds or stock options.

A measure of the growth in importance of employee benefits is found in the rapid climb in the number of persons covered by pension and profit-sharing plans. In 1950, only 9,800,000 persons had such coverage. By 1965, this figure had grown to 25,400,000, an increase of more than 150%.

For millions of American families the provision of benefits by employers means full family security supplementing government-provided Medicare, Social Security, public assistance and unemployment compensation benefits.

In fact, for millions of families the burgeoning of employee benefits has been a more important step toward security than highly-publicized programs of federal, state and local governments.

It is a high obligation of employee benefits managers to meet their calling by designing the best possible employee benefits programs and administering them fairly in the interests of all employees.

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HEALTH INSURANCE COMPANY PAYMENTS TO POLICYHOLDERS, 1966 and 1967

	Dollars in millions		% of Total		% Change
	1967	1966	1967	1966	from '66
Hospital	\$2,450	\$2,299	40%	41%	+7%
Surgical	700	673	12	12	+4
Medical	250	225	4	4	+11
Major medical	1,450	1,225	24	22	+18
Loss of income	1,200	1,137	20	20	+6
Total	\$6,050	\$5,559	100%	100%	+9%

Source: Health Insurance Institute

Albuquerque (N.M.) Journal

Study Self-Insurance

Self-insurance for public buildings in New Mexico, which annually spends hundreds of thousands of dollars in public funds to private companies, certainly merits serious consideration by the legislature.

This subject was thoroughly explored in an article by Charles Noland, University of New Mexico journalism student, published in last Sunday's Journal.

Sen. R. C. (Ike) Morgan, (D-Roosevelt) who is in the insurance business, plans to introduce a new self-insurance proposal at the next session. Previous Morgan efforts along this line have failed, but he believes some changes now will make his plan more acceptable.

One of these is a "deductible" feature through which the state would purchase insurance to cover losses over a certain amount, for example, \$250,000. Since most state losses are \$5,000 or less, the premiums on such insurance should be extremely low.

Ralph Apodaca, state superintendent of insurance, has raised a number of objections to self-insurance, but these are practically the same objections expressed by insurance companies. Morgan has adequately answered all of them.

Self-insurance certainly promises substantial savings to state taxpayers. In the 1961-65 period the state paid about \$5,400,000 in premiums for fire and extended coverage insurance on public buildings. Loss payments the state received during the same period amounted to less than \$1,500,000—a return of about 28.5%. And about \$1,300,000 of the amount paid out, went to insurance agents as commissions.

A corollary benefit, which should have substantial weight, is that the plan would take insurance out of politics.

Chester (Pa.) Delaware County Daily Times

Auto Insurance: New System?

The Insurance Information Institute had been running a series of advertisements in Pennsylvania daily newspapers.

The insurance industry dropped the other shoe in Harrisburg earlier this month—a request to increase automobile insurance rates.

This would mean another \$20 a year per car for the average Delaware County policyholder.

The institute's advertisements pointed out that auto accidents are increasing and so are the costs of accidents: automobile repair, doctors' fees, hospital room rates.

The ads said that much of the blame for higher insurance rates could be placed on reckless drivers.

There may be much truth in that, but it also might be time to put some of the blame on the system.

The Federal Trade Commission, for example, recently completed a three-month study of the automobile insurance system and reported it "does not work well."

"By any objective standard," it said, "performance of the automobile insurance business in the United States is unsatisfactory."

"The system is slow, incomplete and expensive. The companies and organizations involved in furnishing this service to the public in many respects do a poor job."

Two automobile insurance firms have gone so far as to purchase their own newspaper ads to concede that the problem is too big to be solved by the present system.

"What is needed is an entirely new approach to the problem," said the Insurance Company of North America.

"... the so-called Keeton-O'Connell plan," suggested the Glen Falls Group, "under which each accident victim would be promptly compensated up to a reasonable amount regardless of liability, would be a great improvement over the present situation."

This is a system we endorsed Sept. 1.

Auto accident victims would be reimbursed for their out-of-pocket loss, regardless of who was negligent.

Only in accidents where total expenses exceeded \$10,000 would court action be taken.

This would avoid lengthy, costly law suits and negotiations.

Fair settlement would be made out of court in a matter of days.

Auto insurance rates would go down, instead of up.

"We believe the state legislatures will enact a plan of this kind if their citizens show that they want it," said the Glen Falls Group.

Now, while insurance firms are petitioning the state for higher rates, would be the ideal time to let your legislators know how you feel.

New London (Conn.) Day

Questioning Insurance Rates

William R. Cotter, Connecticut state insurance commissioner, deserves encouragement for his attitude on rates and on the system of handling claims in the courts. A month ago he suggested seeking an alternative to handling claims, contending that it prevents prompt settlements and runs up ultimate costs. He conceded he had no cure-all but his comments resulted in a review of the situation and this could lead to reforms.

letters

Boiler info

To the Editor: We here at Cummins certainly appreciate the complimentary copies of your new magazine, *Business Insurance*. As others have mentioned, it is the only publication which is geared directly for the business insurance buyer. We find especially interesting the articles on recent major claims, the types of coverages and "packages" carried by comparable industrial firms as well as the highlights of major court-legislative insurance changes or awards.

Your list of contributing editors is certainly impressive and I am sure provides you with a wide range of talented business insurance experts.

You may be interested to know that, in connection with Boiler, Insurance Regulation-Licensing in the State of Indiana, I believe a group I am associated with has a very unique and rewarding project. I would think that many of your readers, especially those in the State of Indiana and other States which do not have strict Boiler Operator Requirements, would find some of this information informative and useful.

Keep up the good work, we are certainly looking forward to your future issues of *Business Insurance*.

Harry Loudenslager,
Insurance Administrator,
Cummins Engine Co.,
Columbus, Indiana

Editor's note: Mr. Loudenslager has been invited to submit his material for a future issue of Business Insurance.

Computer query

To the Editor: In one of your recent publications there was a listing of recent publications in the insurance field. One of the publications listed as being available was a pamphlet described as a "ten-point planning guide on preventing fires involving computer installations," from the British Fire Protection Association.

Our efforts to track down a copy of this publication have been unsuccessful and we would appreciate any information you can give us as to how we can secure a copy of this pamphlet.

Howard T. Weber, Manager,
General Insurance Department,
3M Co., St. Paul, Minnesota

Editor's note: For Mr. Weber and other Business Insurance readers who have inquired, the address of the publisher is: Fire Protection Association, Aldermar House, Queen Street, London E. C. 4, England.

'Most impressed'

To the Editor: All in all I was most impressed with *Business Insurance*, except I did experience some problem with organization which is a situation that might not be entirely unique with your readers.

Many companies today split the responsibility for corporate insurance and employee benefits. It is my personal feeling that this movement will continue to accelerate and eventually be a requirement for effective staff development because of the increasingly complicated and technical nature of these respective areas. This situation will certainly be true of your larger companies. What I am saying is that in Columbia I am not concerned

Continued on page 16

Controlling all risks is goal for Seagram's insurance department

NEW YORK—The most economical control of risk is the objective of the insurance and risk management department of Joseph E. Seagram & Sons Inc.

In conducting the distiller's annual year-end review of the activities of the department, Robert J. Ruppel, Seagram's assistant secretary, said that control, if not properly maintained, could result in losses which would deplete or destroy the company's assets or adversely affect its profit and loss statement and its relative earnings per share.

"The economical control of risk is achieved in many ways," said Mr. Ruppel, "and the economics are not restricted to in-

surance savings per se but, on the contrary, often involve savings in other areas that far exceed total annual insurance expenditures."

FOR EXAMPLE, realistic fire protection engineering standards for whisky warehouses developed jointly with the insurance industry allowed distillers to reduce warehouse construction costs by more than 50%.

"A saving of untold millions of dollars over a period of years was accomplished," Ruppel continued, "and happily, these savings are accompanied by a better protection program, so both the insurers and Seagram profited immediately and in the foresee-

able future."

Seagram's insurance and risk management department theoretically could, if it achieved its objective in controlling risk most economically, find itself out of a job. Practically speaking, since risk is a dynamic rather than a static condition in which companies operate, there was a continuing and expanding need for risk control.

Seagram has these six goals.

1. Philosophy of pragmatic preplanned protection.
2. Research and evaluation of all risk.
3. Outside funding for risks and losses the company cannot eliminate, reduce, and does not

choose to retain, or assume.

4. Funding itself through self-insurance.
5. Ignoring, retaining or assuming some risks.
6. Transferring some risks to a commercial insurance carrier.

"As long as we can produce, as the reminder above indicates, a profit for the company," said Mr. Ruppel, "we will continue to be welcomed as a profit center rather than tolerated as an expense department."

Mr. Ruppel told *Business Insurance* that Seagram is working towards increasing its profit contribution in some of the following areas.

1. Continuing study of means to reduce probable maximum loss so the company's primary carrier's need for increasingly expensive reinsurance will be reduced or eliminated. Capacity problems also are prominently involved in this premium, loss

and reserve squeeze.

2. Restudying of levels of retention in the form of high deductibles. This involves the construction of frequency and severity charts and the development of probability factors at varying loss levels.

3. Continued use of valued engineering techniques in the construction of barreled and cased goods storage facilities.

4. Consolidation of coverage with least number of carriers, world-wide.

5. Financial review of all funding media involved in the employe benefit field, especially in the current yield and over-all investment performance areas.

6. Renew efforts to change bond requirements imposed arbitrarily by various federal and state agencies on distillers.

7. Review impact of recent devaluation of sterling on premium and loss cash flow, world-wide. ■

Publishing unit checking group libel coverage

WASHINGTON—The Society of National Assn. Publications has mailed a questionnaire to its 60 members on whether they are interested in a group libel policy.

According to Steve Reynes of SNAP, members have been asked whether they have libel, plagiarism, piracy and copyright coverages, circulation and frequency information, and whether they would be interested in buying group coverage.

Mr. Reynes told *Business Insurance* that information from the questionnaire would be turned over to R. C. Rathbone & Son, New York broker, to find an underwriter and obtain rates.

Mr. Reynes estimated that about 30% of SNAP's members presently have some type of libel coverage. They may also be interested if a group rate proves to be a money saver, he said.

Mr. Rathbone has advised SNAP that it does have a possible underwriter for the coverage and will use the information from the questionnaire to draw up a rate schedule and policy terms. It would appear that a standard policy would be used, a spokesman said. ■

Sears, Wabash share fire loss

TERRA HAUTE, Ind.—Sears Roebuck & Co. and Wabash Distributors loss from a fire in a warehouse the two firms shared here will total between \$500,000 and \$600,000 for contents and building, *Business Insurance* has learned.

It is understood that the Sears portion of the loss is less than the deductible the company carries. The fire is said to have started in the Wabash portion of the warehouse and Sears may collect from Wabash if negligence can be proved. ■

Eichhoff succeeds Neal

Darrell D. Eichhoff, vp in Metropolitan Life Insurance Co.'s field management division, New York, has been named to direct the carrier's Pacific Coast operation in San Francisco. Mr. Eichhoff succeeds John E. Neal, who is stepping down because of ill health.



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American Air Filter revises pension, group life

LOUISVILLE—American Air Filter Co. here has revised its pension and group life insurance programs for its 1,300 salaried personnel. AAF is a leading firm in the field of air cleaning, heating and air conditioning with 16 plants in 12 cities in the U.S. and overseas.

The new retirement program does away with a disability pension because disability income is provided for through the company's group insurance policy, according to Dale R. Detlefs, manager of central personnel at American Air Filter. Disabled employees are given 60% (including "other income benefits") of their compensation until they reach age 65; after that, their pension takes over. The maximum income payment under the group insurance is \$1,500 per month.

In addition, American Air Filter has improved the benefit formula of its pension plan. It now gives 1% times "high-5 pay" (the average annual compensation during the five consecutive calendar years within an employee's last ten years of service which produce the highest average) up to 35 years, plus—for employees in higher income brackets—1% times their high-5 pay over \$7,800 per year times service up to 20 years (\$7,800 is the new Social Security basis for

withholding). The maximum annual benefit is 50% of average annual compensation.

FORMERLY, the company's pension benefits were calculated on a "high-10 pay" basis with ½% paid for each year of service on the first \$5,400 of average annual compensation and 1% paid for each year of service on average annual compensation in excess of \$5,400. The 35-year and 20-year restrictions were not present in the old plan.

American Air Filter's group life insurance policy gives employees (after six weeks of employment) coverage of one and one-half their base annual salary for employees earning less than \$8,000 and two times their base annual salary for employees earning \$8,000 or more, plus an accidental death and dismemberment policy of the same value. Employees earning \$8,000 or more

annually can buy additional accidental death and dismemberment coverage for 5¢ per \$1,000 covering any accidental death whether occupational or nonoccupational (the only exception is suicide).

Employees are required to pay \$1.30 a month per \$1,000 of insurance for the purchase of "paid-up" life insurance. As the amount of paid-up life increases, the term portion decreases by an equal amount, Mr. Detlefs said, however, that the total insurance in force, both term and paid-up always is equal to two times the base annual pay for employees earning \$8,000 or more.

HE ALSO EXPLAINED that the cash value of the paid-up life is never less than an employee's contributions. The advantage of this plan is that an employee accumulates a significant amount of insurance of his own to retain

when he terminates or retires, Mr. Detlefs explained. From the company's standpoint it reduces the cost of expensive term insurance carried on older employees.

In addition to being able to receive cash for his paid-up insurance, the employee has the option of receiving a paid-up certificate or to a lifetime annuity, Mr. Detlefs told *Business Insurance*. An employee, when he leaves American Air Filter, can also convert the group term portion of his life insurance to an individual life insurance policy on any regular whole life or endowment plan. "This individual policy will be issued without medical examination at the insurance company's regular rates," stated the employee booklet put out by Aetna Life & Casualty Co., the carrier for American Air Filter.

American Air Filter's comprehensive medical benefits—which have not been changed—give a

maximum payment of \$10,000 and includes provisions for certain dental work, oral surgery and cosmetic surgery as a result of an accident.

The medical plan covers 100% of the first \$500 of hospital expenses incurred in any calendar year and 80% of the excess. It also pays 80% of other medical expenses in excess of a \$50 deductible (family limit on deductibles of \$100).

Except for the contribution for the paid-up life insurance and the optional accidental death and dismemberment insurance, no contribution is required of employees. No employee contribution is required for the pension plan.

"AAF is continually studying the subject of benefits for its hourly and salaried employees both in the U.S. and at foreign operations to be certain we are current in every respect," according to Mr. Detlefs. ■

Buyers hazy on officers' cover: J&H

NEW YORK—The senior casualty partner of Johnson & Higgins—a brokerage firm which has bought officers' and directors' liability insurance for more than 100 of its clients—contends that insurance managers often don't understand what the coverage is all about, and he wants to set the record straight.

David H. Winton, who is also a vp of J&H, said he's noted that insurance managers quoted in *Business Insurance* generally voice two major reservations about officers' coverage—either it costs too much or their corporations don't need this form of coverage because their companies have a very broad by-law indemnity.

Mr. Winton said that J&H "has been hoping that a very substantial premium volume could be placed in underwriters' hands before they get slugged with a couple of really big cases (over 100 claim files have been opened in the past two years) so that we may anticipate a stable market

for this vital coverage far into the future."

His own personal feeling, he said, is that these premiums "may seem substantial to those who never have need for the insurance, but will seem extremely modest to any director or group of directors ever cast in judgment."

"At any rate, anyone claiming that these premiums are, on the whole, either too high or too low is using a crystal ball to which the rest of us do not have access. Only after a number of years can such a decision be made and my opinion is that, like other forms of tort liability insurance, there will be no dearth of claimants and the rates are more apt to increase than to decrease," Mr. Winton predicted.

The suggestion that corporations don't need officers' coverage because of a broad by-law

indemnity was labeled by Mr. Winton as "simply a case of misplaced emphasis or of ignorance about what this insurance really does."

He conceded that there are many corporations which don't need this coverage "from a corporation standpoint—although many are deciding to self-assume a by-law indemnity which could cost them several millions of dollars when they may have decided that a much lesser sum is the amount which they could comfortably assume in other areas of possible loss."

"Be that as it may, it is quite true that a corporation with lots of surplus can get along without the coverage; it is the individual directors and officers who cannot," Mr. Winton stated.

He said lawyers seem to agree that no matter how the law is worded, how well the indemnity

is drafted or where the corporation is located, "no corporation can indemnify a director or officer who has become an unsuccessful defendant in a derivative action brought against him by one or more stockholders in the name and for the benefit of the corporation. Informed counsel will also tell you that it is perfectly possible to become such an unsuccessful defendant without having had an intent to plunder the corporation," Mr. Winton explained.

The J&H executive, who is also a lawyer, contended that it will become "increasingly difficult" for public corporations to obtain for their boards "the type of talent they require if they leave these men exposed to catastrophic personal loss in circumstances which cannot—repeat cannot—be reimbursed by the corporate entity." ■

MSU insurance problems similar to those confronting private firms

EAST LANSING, Mich.—As education has become big business across the nation, insurance coverage of college and university facilities, along with school liability in connection with those facilities and equipment, has attracted increasing attention.

State- and city-owned universities or colleges apparently do not go to the extent that privately operated schools do in obtaining coverage since it is assumed, according to one official, that they would be subject to the usual governmental immunity.

Nevertheless, developing insurance packages for schools of any size, and especially the larger state universities, includes many of the same problems faced by corporate risk managers.

"**WE USED TO** shop for our insurance," said Merrill Pierson, assistant treasurer of Michigan State University here, "but this last time around, we put it out for bids. We found out from that experience that we really did no better or worse than we did when we shopped for it, and it saved us a considerable amount of time."

The university provides basic property damage coverage for its

\$300,000,000 in assets. However, with millions of dollars worth of new construction going on, the new installations are not covered by the university until they are released by the contractors. The contractors are required to provide their own insurance during the period of construction.

Despite the possibility of liability, which on private property might best be insured with owner-tenant type policies, MSU carries no such liability coverage.

"**FOR AN EDUCATIONAL** institution of this size," Mr. Pier-

son said, "the costs would be impossible to meet. We simply have to assume that we would have the immunity other governmental units have."

However, the university does provide coverage for liability resulting from automobile accidents as part of a fleet policy for all university-owned cars and for personal cars when operated on university business.

"We were advised by the state that we must provide this type of liability protection," Mr. Pierson explained.

Liability protection limits are set at \$100,000 to \$1,000,000. ■

Musicians hit sour note; state stops benefits pending appeal

SAN FRANCISCO—A lengthy stalemate between the Musicians' Union and the San Francisco Symphony Assn., which resulted in cancellation of a large part of the early portion of the symphony season, has become an unemployment insurance issue.

Most of the 97 musicians involved have been drawing benefits of up to \$65 a week.

George Bahrs, chief negotiator for the association, appealed a

state ruling that the musicians were not on strike and thus were eligible for the benefits.

STATE Employment Service has stopped the payments, pending hearings on the appeal.

The Musicians' Union charged the association was attempting to "starve us into agreeing to their terms" in the contract negotiations. Mr. Bahrs claimed the

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business insurance/perspective

Our columnists gaze into 'crystal ball' for some predictions about 1968

The editors of Business Insurance held a thank-you luncheon at the end of 1967 for the publication's columnists. Afterward, we asked them what they felt was in store for insurance managers and employe benefits directors during the year 1968. Attending the session were Charles Levinson, insurance manager, Port of New York Authority; Elliot Beier, manager of pension and profit sharing services, Maxwell Ohlman & Co.; Bion H. Francis, insurance manager, Crucible Steel Co.; P. J. Olsen, insurance manager, Ingersoll-Rand Co.; and Ned Miller, partner, Romm, Miller & Lazarus. Following is a summary of their tape-recorded comments:

QUESTION: Ned Miller, you've been writing about how corporations go about the job of communicating their employe benefits. What's likely to happen in this area in 1968?

MR. MILLER: I think that corporations are beginning to realize the tremendous cost of their employe benefits. Not only are they trying to communicate these benefits more but I think they're also trying to get better benefits for the same dollar. Recently, we were called in to present a study of a 400-man nonprofit organization.

What we proposed was a study using data processing equipment, with the employes actually designing their own major-medical program obviously within the company budget. We presented 12 different items, such as maternity, nursing home care, psychiatric care, hospital room allowances, etc. The questionnaire had three boxes where employes could check whether benefits were of major importance, minor importance or no importance.

From these 12 items we asked the employes to pick four major, four minor and four of no importance. After we established a profile of who these employes were, i.e., how old they were, how many were married, how much they earned, etc., we then came back to management and said the following:

ABOUT 94% OF YOUR people don't want maternity benefits, and these 94% are employes who have been here over a year, are over age 30 and earn good incomes. As a result, you as management should eliminate maternity insurance coverage. As you know, maternity benefits are very expensive—about \$1 per \$100 of coverage—and if the company has a \$200 plan, with over-all premiums of roughly \$25, we're talking about 9% reduction of the premium by eliminating maternity benefits. So hopefully we can reduce the company's premiums by 9%. If there is a pregnancy some place along the line we can self-insure.

I think companies not on a retention basis are going to self-insure in many areas because they want to have enough premium money left to put where their employes really want it. We think this employe study of ours will not only greatly help in designing a better and less costly plan, but we also think that this method will facilitate communication. I think everybody has the feeling that they will appreciate something to a greater degree if they have a proprietary in it.

QUESTION: John Olsen, as a lawyer and an insurance manager, what trends do you see on the horizon in 1968?

MR. OLSEN: I don't think there's any question that a liberal interpretation of workmen's compensation laws will be the intent of the legislatures. This trend has been developing for 15 years.

When the managers of New Jersey companies begin to realize what is happening to them I rather suspect they then will object. But in the meantime we are just faced with what some very competent lawyers would call a bad law.

I also think there is a very good case to be made that would justify every court decision that has been made involving products liability. I think essentially the courts have taken the position that the burden of proof relative to defense has to shift as a practical matter to the manufacturer because he is the only one who is able to prove whether or not he has, as a matter of fact, created a safe product. And this is the greatest thing that has happened to the plaintiff's bar.

AND YET THERE ARE people who will insist that this is the way the courts should move. The burden of proof essentially has to be put upon the manufacturer. He needs to establish the fact that he didn't breach any warranty which his product carried with it. Everybody will argue against Ralph Nader and I think for good cause for obviously he has stirred a controversy that all manufacturers must resist. Unfortunately, it is just a matter of time until the plaintiff will simply have to establish that he was injured and he was injured by a manufacturer's particular product. Then it becomes incumbent upon the manufacturer to come forward. It doesn't mean that everything is lost. It means simply that we are put to a greater burden. And if we can come forward and prove to the public and to the court that we produced a good product, as good as the art at the time we produced it, we then should be exonerated. I think this will ultimately be, but whether it happens in '68 or some other time I really don't know and nobody knows for sure.

Regarding officers' and directors' liability insurance, the Delaware legislature has already passed an amendment permitting the corporation to purchase for its officers and directors that coverage which is now available.

I know of one major corporation which has rejected the Delaware legislature's express permission to purchase this coverage. The corporation has insisted that 55% of the cost be purchased by the officer and director on the assumption that the major exposure is to the officer and director and not to the corporation through the various indemnification agreements. The marketing efforts that are being made by the insurance industry within the last five years have been very profound and in many areas very effective. To say that there are no liabilities to officers and directors is obviously in error. To say that the policies being offered at this time cover those particular liabilities I think is still open to question. I think it will take well into 1968 and possibly beyond before these particular issues are going to be resolved.

QUESTION: Chuck Levinson, what do you think will be of greatest concern to insurance managers in the coming year?

MR. LEVINSON: I think that the principal problem is one of capacity, and it's up to the insurance buyers to work on the problem. The Lloyds market is dormant or dying from the viewpoint of increasing capacity. Over there an investor can get 8% interest from savings banks alone and 15% from commercial investment. Why should he invest his money in the insurance business where for the past three or four years they have had very poor profits, where they have had to put up money rather than get a return on investment. The capacity of the American market is tremendous and there's no reason this should not be increased as it is in certain other fields.

In the nuclear field they developed \$74,000,000 of capacity just for the American business. The Factory Insurance Assn. and some of the other pools have developed tremendous capacity. Now if they could apply this pool principle to all the areas where you have a capacity problem—it certainly would solve the situation. And I think insurance buyers are going to have to work toward this direction.

The other problem I see is the increasing restrictions placed on the insurance business nationwide by state legislation in particular areas. Here you have legislatures which are controlled by local insurance agents. They are making rules and regulations for their own self-interest. I can think of one particular field, the wrap-up field.

IN NEW YORK STATE they have outlawed almost all wrap-ups, particularly of a public nature, and every year private construction is brought up and probably this year they'll be successful in outlawing it. In California they have outlawed all wrap-ups, and in many other states they are doing this. This is against the economic writing of insurance, the saving of money and the centralizing of control and all the advantages that go with writing over-all contracts of insurance.

These are the two areas where I see a direct effort needed to correct the situation.

But the problem isn't just a question of limits, it's a question of whether a company participates in a line to any extent at all. We recently rebid on our crime insurance. We had 16 companies bid on it three years ago and this time there were only three companies that were interested in it. And when we checked in to the situation we found out they were cutting down, that they were not too interested in new business on the books. This is the whole thing.

They're not making money; they're not making money over-all on automobile or homeowners, they're not making money

Continued on following page



Charles F. Levinson



Elliot Beier



Bion H. Francis



J. P. Olsen



Ned A. Miller

perspective

Continued from preceding page

on their over-all book of business. And for this reason they are not interested in increasing their over-all total premium.

MR. OLSEN: But while this is true that they are not making money on automobile, while it is true that they are not making money in the area of personal lines, it is not correct to say that casualty insurance companies are not making money on corporations and the insurance risks for corporations. Their whole underwriting results are geared to personal lines and therefore they may in effect be showing a loss. Except for the catastrophe, the casualties,—especially in comp and in certain other lines—they are making money on corporations in the U.S.

MR. LEVINSON: Last month at the AMA meeting in Chicago I shocked a lot of people by saying that insurance buyers were ready to pay more money. We are paying more for pencils, etc., so we expect to pay more money for insurance and our management realizes that everything is going up. But the insurance companies seem to be afraid to increase insurance costs. I don't know whether this is the buyers' fault for trying to bargain to get cheaper costs. We all know that on the larger risks you're on a cost plus basis, so you're going to pay certain charges with the exception of catastrophe which is a regular set premium in addition to your regular premium for catastrophe losses. The insurance companies seem very backward about it and in the other areas—for instance homeowners—they haven't gotten homeowners increases. They really haven't justified increases in automobile rates.

Where we have to put all of our efforts is legislation, such as legislation affecting surplus lines, which can cut done on our markets. We need to have advance notice about what's happening so that we can get our forces marshalled and maybe be in on hearings so that they can get our side of the situation.

MR. OLSEN: We're almost faced with a proposition that's impossible to cope with. As long as claimants are able to recover under the common law substantial recoveries arising out of auto accidents, and as long as these costs are becoming a known factor, the only way an insurer can begin to make money is if they are charging adequate rates.

They are simply caught between an understandable state regulatory restraint coupled with an increase in cost and increase in production. I don't mean to suggest by this that the situation is hopeless and I don't mean to suggest that certain casualty companies aren't making money. I do mean to suggest that it is a rare company under the present regulations that is even able to make a profit—no matter how small—in underwriting auto insurance today.

QUESTION: I know that your company, Bion Francis, was faced with a capacity problem. Could you comment briefly on that, and then take up employe benefits' developments in '68?

MR. FRANCIS: There is a problem on capacity. I had a problem with renewal and we were able to work out a satisfactory rate, but we weren't able to get quite all that we wanted and we had to take a percentage of the risk ourselves. The percentage which we took was satisfactory. We had no argument about it. We ended up with what we think is a good program, satisfactory cost and satisfactory protection.

In employe benefits I think the dominant factors in 1968 are going to be the outside influences on the field.

In my opinion the most interesting is the fact that for the first time all of the annual reports that appear during the next six months, for the year 1967, are going to be written under the influence of opinion Number Eight of the accounting principles board of the American Institute of CPA.

For the first time all major corporations in the U.S. are going to have to put in their earnings record a figure for real costs of their pension and retirement



Business Insurance Perspective columnists gather at a thank-you luncheon to discuss what they felt was in store for insurance managers and employe benefits directors during 1968.

plan.

The CPA's require that corporations include in their earnings records a figure for full cost of retirement plans. The CPA's have had to define the full cost of retirement to be included. It must be remembered that this cost is in part a contingent expense and in part may be an expense which is not deductible for tax purpose.

This may end up by making retirement and pension plans as we know them today something which may be unsatisfactory for corporate and social purposes.

The Congress, part of these outside factors that I mentioned, could be a formidable factor if it wants to be. In this connection, the Studebaker case has been given maximum publicity. Here were men who relied on their pension plans and invested benefits over the years, but when the plant was closed the money wasn't there to pay the benefits. Congress may well cease to force changes in our private retirement plan system. They are working on some method of insuring pension plans. Also, Congress is working on the problem of requiring a certain amount of vesting in pensions.

It is rather interesting to note that the U.S., despite our opinion of ourselves that we are the most advanced industrial nation in the world, we sometimes tend to follow rather than lead other nations. If for example we pass a law requiring vesting in pensions we are going to be behind Canada by several years when we do it. So I think the laws passed by Congress on pension and retirement plans are going to be an important factor. Then there is also the factor that pension and retirement plans have a competitor, the federal government in the form of its Social Security laws.

AND THIS IS GOING to be tough competition. Years ago the Social Security Act was regarded as putting a sort of floor under the income we are going to get at retirement. Nowadays the criterion has changed; it's supposed to provide something that is satisfactory in itself. This is coming. And what will it do to pension and retirement plans? It's going to have a very important influence.

Suppose you say that your pension and retirement plans are in competition with the federal government and you, meaning the corporate buyer of pension plans, are in competition with Congress in providing an income at retirement. In a sense the benefits manager is competing with his congressman, who can be tough competition. O.K. What employes would vote for the congressman; what employes would vote for the employe benefits manager. All employes who have retired in the past and who have seen Congress raise benefits from time to time to meet inflation. Compare this to the pension they get which usually is not increased year after year. They say, "I would rather have the Social Security benefits."

The retirement people like to say they cover 30,000,000 employes. But suppose that 20,000,000 of the employes that are covered have less than the 20 years or whatever other period you require for vesting.

They know they are paying Social Security taxes, and they're pretty sure they will get Social Security benefits because

all their service counts on that. If they leave before they're employed 20 years, they will get nothing. Who will they vote for?

There is a question in my mind as to whether pension and retirement plans in their present form will last.

QUESTION: What do you think about portability? Is this in our immediate future?

MR. FRANCIS: The distinction between portability and vesting gets quite ticklish at times. Quebec and Ontario have passed laws requiring portability. As a matter of fact, they require you have vesting if you have been an employe for, say, ten years. I think we are going to come to something of that sort. My own opinion is that it is going to be inadequate.

One of my tests is what comes naturally. Suppose we're not talking about corporate plans at all. Suppose you're a professional or an independent worker or something. What do you normally do to provide for retirement? You save what you can. Usually at the beginning of life it's a little and after your children are grown it can be more until you have enough to retire. And if you have had bad times along the way, like in 1932 and 1933, you haven't saved anything and during boom years, like '66 and '67—and these were boom years—you saved a lot. Now opinion Number Eight of the CPAs prevents you from doing this.

And yet I feel it's what comes naturally. In good times you save and in bad times you can't. And yet the CPAs say you mustn't do this. If you have a pension retirement plan, you have to work out a long term cost and this is the cost in good times and poor times. We do have thrift and savings programs that can do this. The amount of savings can be varied between good years and bad. The practice in these plans is to have vesting much earlier than you have in pension and retirement plans.

IF YOUR PENSION PLAN requires 20 years of service before vesting and if you have an employe who has worked for you five years, we list him as covered by your pension plan. But is he really? Would he regard himself as covered knowing he could be fired at any time and he wouldn't get a cent except for getting his own contributions.

What weight does the pension and retirement plan have? A young man working in terms of a career who has been in a company five years feels trapped.

MR. LEVINSON: You're forgetting why a company has a pension plan. It's not doing it as a charitable act toward the employes but so it can keep the employe and compete in the market.

MR. FRANCIS: I feel that with all of the developments coming—the increased value of Social Security benefits, the increasing mobility of labor, the requirements of the CPAs, etc.—that pension and retirement plans in their traditional form may be becoming unsatisfactory in American business. We might consider replacing them by thrift and savings plans with vesting. This is a subject I intend to develop in more detail in

future columns in *Business Insurance*.

MR. LEVINSON: Then you are going to increase the cost of your pension. If you make it portable you are going to have to transfer those funds or keep them in reserve and not put them back in your pocket again.

QUESTION: Elliot Beier, you're involved in pension programs at Maxwell Ohlman. Do you think savings plans are a coming thing?

MR. BEIER: I think the thrift plans or the employe savings plans are going to be the fastest growing fringe benefit or retirement benefit or whatever you want to call it. There are certain developments lately that I think will stimulate this. John Hancock is going into the mutual fund field, life companies are going into the variable annuity field, mutual funds will be developing variable annuities. The Wall Street Journal also had an article on payroll deduction plans mainly for casualty insurance for employes.

With the merger of the life and mutual fund companies with dual selling areas and life companies writing variable annuities, these payroll deduction plans can be tax sheltered as thrift plans.

In addition the companies that have neglected the whole area of additional voluntary contributions to pension and profit sharing plans because of administrative headaches or because they don't want the responsibility of investing employe's money will go into it through the additional voluntary contributions provisions with variable annuity companies, with mutual funds and life insurance companies, or through the thrift plan route as supplementary to their pension plans or as basic plans in many small companies.

ANOTHER AREA THAT I think is going to be a big one: Employes, mainly executives, have substantial corporate estates from their employe benefits, pension, profit sharing or stock options. And I have seen a lot of companies where an examination of beneficiary designation and so on is completely fouled up. Group life or pension benefits are left to a former divorced wife. All sort of things happen. The pension plan benefit may be left to the estate rather than to a named beneficiary.

I think a growing area will be estate planning of benefits and I think this will be stimulated by the Supreme Court's decision: Unions can offer group legal service to their members. The corporations have been doing this for years for their executives. I know a company where the attorney does all the personal legal planning, whether it's strictly right or not, for the executives of the corporation, including estate planning services. I think this will be extended to most people in the company now. Employes in general could be given simple basic estate planning, coordination of Social Security, veterans benefits, group life pensions and so on. And the executive can be given more intensive examination of their estates.

QUESTION: In the area of investing pension and profit sharing plans, are there any predictions you could make for '68?

MR. BEIER: Just in general. I think more plans will go into equities. The mutual funds will make a stronger effort to go into the thrift plan area. A number of thrift plans allow mutual funds as one of the choices. And I think a lot of plans will allow an investment as a payout choice for the variable annuity. I think those are the major areas.

MR. LEVINSON: I think one of the areas that insurance managers have to get into is how involved you get in union negotiations, either directly or indirectly. For instance, one of the things I do personally is to keep abreast of what the principal unions in the country are insisting on in employe benefits and what they're getting in their contracts. And I keep constantly advising our personnel manager of what is available, in some cases even pricing it out. ■

GHI mounts campaign against smoking

by Elliot Beier
pension and profit-sharing manager
Ohlman & Co., New York

"Are you dying for a cigarette? Stop smoking and live." This message is being beamed to the public by Group Health Insurance Inc., in dramatic three-color posters, automobile bumper stickers and mailing pieces, in furtherance of the public information campaign on the hazards of cigarette smoking.

Announcing its participation in the campaign, GHI President Dr. George W. Melcher Jr., declared: "In the light of mounting evidence of the correlation between cigarette smoking and the incidence of lung cancer, cardiovascular diseases, and other disorders, it seems particularly appropriate that a community-sponsored health insurance organization such as ours should lend its energies to ringing this message of alarm.

"This campaign, we hope, will help to save lives. As one by-product, we are certain that it will be a factor in reducing the incidence of illness, and by the consequent reduction of medical claims, produce savings in premiums which our subscriber groups can utilize for meeting other health needs."

DR. MELCHER EXPRESSED the belief that the GHI materials on the hazards of cigarette smoking represent the first such effort by any health insurance



A Public Service message from **GHI** Group Health Insurance Inc. 221 Park Ave. So. New York, N.Y. 10003

This urgent health message to cigarette smokers will be carried to GHI subscribers and the public at large, through more than 100,000 mailing pieces, automobile bumper stickers and attractive posters designed by Artist Stanley Glaubach and now in produc-

tion. Supplies of bumper stickers and three-color posters suitable for employe bulletin boards and union meeting halls, are available upon request, without charge. Write or call GHI Community Relations Dept., 221 Park Ave. So., New York, N.Y. 10003.

organization. He said he is confident that others will join in the general campaign against smoking. Irving Baldinger, GHI's director of community relations and designer of the anti-smoking campaign, feels that there is a real need for a cooperative effort between buyers of insurance and the

health insurers to develop more awareness among employes and the public about health hazards. Mr. Baldinger is the former administrator of the Security 65 Pension & Welfare Plan, covering about 30,000 department store employes and their families.

In that position, he saw ample evidence

of cancer, heart disease and lung conditions caused by smoking. "Despite ample medical evidence about the danger of cigaret smoking to health, consumption of cigarets is still rising. Health insurers and plan administrators must combat the skills of the cigaret advertisers with skillful campaigns of their own," says Mr. Baldinger.

MR. BALDINGER said that "all told there will be well over 100,000 pieces of mail, bumper stickers and posters carrying the anti-smoking message. A smaller version of the poster has been prepared to be inserted in every piece of mail which GHI is sending out during a period of time. Internally, Mr. Baldinger circulated a memo to all GHI officers and department heads to inform employes of the campaign, and to make available bumper stickers and posters for their departments.

New York State Sen. Norman F. Lent, chairman of the joint legislative committee on health calls GHI's anti-smoking campaign "a most constructive way to bring forth to the general public the hazards of cigaret smoking."

The campaign was developed by Mr. Baldinger and John Power, senior vp of GHI.

Clearing up the 'pension promise'

by Howard L. Peck
partner
Hewitt Associates



Howard L. Peck

Back in Nov. 1966, Nelson D. McClung of the staff of the Joint Economic Committee of Congress submitted a report entitled, "Old Age Income Assurance: An Outline of Issues and Alternatives." In his report he said, "The little booklets supplied to a company's employes are not much help in any but routine cases. And we can expect that plans will become more rather than less complicated. However clear and honest the pension promise may appear to actuaries, it is a mystery to those to whom made." Later in the report, Mr. McClung said, "... the fault is in the quality of the pension promise made."

To those of us who spend a good part of our working hours planning and preparing "little booklets" and such like, Mr. McClung's statement can have a deflating

effect. If we look at the picture objectively and allow reasonable discount for hyperbole, perhaps we must concede that Mr. McClung has a point.

His report conveys the idea that the writer is disturbed because employes are not told about the conditional nature of the pension promise. (As we know all too well, there have been numerous proposals for legislation to remove some of the contingency from pension plans—through portability, universal vesting and reinsurance. For purposes of our discussion let us ignore these proposals and concentrate on the communication aspects.)

IT MUST BE admitted that normally in booklets, articles, letters, and other communication devices, it has been the practice to omit or minimize reference to certain facts:

1. A pension is paid for over a period of time and if the employer company is unable to keep up the payments some people may lose out.
2. The liability of the employer company is limited to making payments in conformance with the Internal Revenue code and regulations, in order to maintain the qualifications of the plan.
3. The plan can be terminated. (The employer's right to do so may be modified by a collective bargaining agreement.)

Why have we not generally covered these points in our explanations? Why don't we spell out the procedure for paying for a pension? Why not say what happens if we have to drop the pension plan? In fairness it should be said that some employers have done a pretty good job of pointing out that the plan can be terminated and that, if this happens, assets will be used in a prescribed way for the benefit of participants. But, by and large, when the communicator comes to

the passage dealing with the contingent nature of the pension promise, he makes generous use of the soft pedal.

CONSIDER FOR a moment the position of the employer. He has established a pension plan, in many cases voluntarily and in other cases under some duress. But, in either event it is going to cost him money, a lot of money. It represents an important value to the participants. Isn't it perfectly natural that he should want to put his best foot forward, to present the plan in a favorable light? Probably, he has adopted the plan because he wants to do right by the employes, because he sees its value as a management tool, and as an important part of compensation. He would like to have the plan favorably known among the people it covers. Further, he fully expects the plan to continue indefinitely and to perform as advertised. It is hard for the employer in this situation to understand why he should not "accentuate the positive" and "eliminate the negative."

Somehow it goes against the grain to install a costly benefit, then spend more money communicating it to the employes, and in the communication, take up half the space telling how the plan will work and what it will mean to the employe and his family in piece of mind and future security—then to take up the other half with hedge clauses, disclaimers, and a detailed description of what happens if the company falls on its face. After all, the employer can say, this is not a balanced picture. How many Studebaker-type foldups do we have in a decade?

THE PROBLEM comes into focus. How do we communicate the pension facts of life in a way that satisfies the McClungs, is fair to the employes, and gives a clear account of what the plan promises and the conditions attached—

without seeming to run the plan into the ground?

While this is apparently what we must do, it won't be easy and it won't be instant. Most people have trouble understanding what a pension plan will provide if all goes well. When you add all the "ifs" and "buts" you compound the problem. So how do we deal with it?

HERE ARE A FEW thoughts for consideration:

1. Try to help employes understand the process by which a pension is paid for, the so-called funding operation. When the employe sees the magnitude of the past-service liability or accrued liability in relation to the assets and income of the employer, we can hope he may understand why the continued successful operation of a pension plan requires the continued successful operation of the sponsoring company.
2. Report periodically to the employes on where the company stands in the process of paying for the pension, what part of the accrued benefits have been funded, what part of the vested benefits have been funded. Such reporting could best be done on both collective and individual bases, so that the employe would see the progress being made in the big job and know where he stands individually.
3. Report also on the consequences of a plan termination for any reason and its impact on the various groups of employes affected.

LET ME ADMIT that I do not expect a rush to adopt this kind of reporting. Managers tend to be optimists by nature and resist the idea of including negative elements in employe communication.

But consider the alternatives. Again, leaving aside for the moment the possibility of legislation that may modify the contingent character of the pension promise, it would appear likely that we may have some legislative requirements for more complete disclosure and reporting to pension plan participants. It may even be that more voluntary effort to improve employe understanding of this complex subject could forestall some ill-advised regulation.

Art school makes no promises, but profit sharing popular anyway

NEW YORK—At Famous Artists Schools employees participate in a profit sharing plan that promises no guaranteed return if the fund's investments turn sour—yet few of the company's employees object to the stipulation. "We never hide the fact that an employee is not guaranteed a return," said Larry Cohen, insurance manager for the school, which has about 150,000 students and over 900 employees. He noted that most employees are eager to invest their money—73% of the employees contributed in 1966.

"The fund is based on sound investment advice," said Mr. Cohen, "and it has shown substantial growth since its inception in 1964."

He pointed out that in fiscal 1967 the fund's income and appreciation amounted to about 17% on its investments. "However," he added, "we know that there are good and bad years in business and this is reflected in the fund."

"What would happen if there is a depression?" is a typical question employees ask Mr. Cohen.

"We tell them the truth," he said, "and that is they could lose everything. At the same time we let them know their money is invested wisely in securities, such as government securities, mutual funds and corporate stocks."

Mr. Cohen noted that many employees of Famous Artists Schools are creative people—artists, photographers, writers—who appreciate honest communication without hard sell. "This creates an atmosphere of confidence and trust," he said.

Communications play a vital role in making any employee benefit worth the price, said the company's insurance executive. "If you don't communicate the value of a benefit, it will be taken for granted."

"That includes our company," he continued, "which also em-

ploy administrative, clerical and maintenance workers in addition to instructors."

He cautioned buyers of employee benefits not to use a formula an employee cannot understand. "Give them something they can identify with—like an easy-to-understand profit and loss statement—and they will be motivated in the right direction."

When an employee of Famous Artists School becomes eligible for the profit sharing fund—after his second year with the company—he receives a booklet outlining details of the fund.

"SENDING THE BOOKLET is not enough," said Mr. Cohen. "We also believe in the personal approach and send quarterly statements with individual letters and a comprehensive annual statement, which show an employee's equity in the fund."

The profit sharing fund began in 1964, when special meetings were called at each of the company's two locations—New York City and Westport, Conn.

The fund restricts an employee's contribution up to 5% of his annual salary. The company contributes a tentative amount of 7% of its first \$1,000,000 of net income each year and after that any contributions are up to the discretion of the board of directors.

According to Mr. Cohen, if the employee contributes \$50 and the company puts in \$100 for him, which is invested with a profit of 5% or \$7.50, \$2.50 would go directly to the employee and the remaining \$5 would be credited as an increase in the company's contribution.

The money in the fund is allocated on a unit basis, said Mr. Cohen. For every \$100 earned by an employee one unit is added to his account. For each of the first five years of service an employee receives two points, then three units for each of the next five years and four units for each year thereafter. Each unit is worth a specific amount which is calculated at the end of the year.

Minnesota files credit cover premium cuts

ST. PAUL—Thomas C. Hunt, Minnesota insurance commissioner, has filed credit life regulations with the secretary of state which will reportedly cut premiums up to \$2,500,000 a year. The rates would not go into effect until Dec. 31, 1968.

Mr. Hunt said his proposal would cut the premium from \$1 to 75¢ per \$100. Credit life, he noted, is customarily sold by a financial institution to cover a loan.

Mr. Hunt said the new rates will assure a higher percentage return of premiums paid out at a lower cost for the same coverage.

The regulations also call for a reduction in the cost of level term credit insurance from \$2 current charge used by most companies to \$1.40 per \$100. Mr. Hunt said the regulations also provide for an average reduction of 25% in credit accident and health insurance. ■



Many employees of Famous Artists Schools are writers, artists and photographers. An instructor, shown correcting a student's work, is a participant in the company's profit sharing plan that offers no guaranteed return.

The money in the fund is distributed to employees in three ways, subject to approval by the board of trustees:

1. Lump sum payment;
2. Annual payments for ten years with interest on the balance;
3. Conversion into a lifetime annuity.

The fund's board of trustees comprises five employees who are

responsible for administration and investment of the plan. Scudder, Stevens & Clark, a financial investment firm, acts as a professional adviser to the board.

There are also provisions in the fund for emergency loans, for distribution in the event of death or total disability and for continuance during military leaves. ■

Letters

Continued from page 10 with developments in the area of corporate insurance, nor is our director of insurance particularly concerned about what happens in employee benefits.

It is my understanding that in organizing your new newsmagazine the two fields were intentionally interwoven so as to continue the marriage between corporate insurance and benefits. I would suggest that these areas be kept separate in your newsmagazine (or even separate newsmagazines) so as to facilitate review by the busy executive who is only interested in the one area.

R. Taylor Cloud
Director
Employee Benefits
Columbia Gas System
Service Corp.
New York, N.Y.

Asks more on benefits

To the Editor: We would like to thank you for your complimentary copies of your paper which I can honestly say we found to be most informative.

The sole criticism which we might offer is that the paper appears to be slightly overbalanced in the areas of property and liability insurance as opposed to employee benefits which, of course, is our main concern.

Once again, thank you for the copies which you have sent us and we will look forward to seeing a greater emphasis in the area of employee benefits if this, of course, is within the scope of your paper.

Gerard A. Kraemer
Assistant Manager
Employee Benefits
American Machine & Foundry Co.
New York, N.Y.

'Of Considerable interest'

To the Editor: Your new publication, *Business Insurance*, gives every indication of quickly becoming a leading, if not the leading, professional insurance journal in the country. Since my own responsibilities encompass the full area covered by this newsmagazine, I am finding practically all articles to be of considerable interest to me.

J. R. Skinner
Manager
Insurance Department
The Sherwin-Williams Co.
Cleveland

'Worlds of information'

To the Editor: To say the least, your newsmagazine was most welcomed when it came across my desk and I have found worlds of information in it which were not available to me before. The only criticism which I might have would be the size of the magazine. I find I have the most time to read magazines of this type while traveling and, of course, this particular magazine doesn't fit too well into a brief, case. Now, if this is the only criticism you get, I believe you can be well assured your magazine is a huge success.

W. L. Frigon, Director,
Insurance and Safety
Hennis Freight Lines, Inc.
Winston-Salem, N.C.

'Common marketplace'

To the Editor: If your first two issues are any indication, you've hit the jackpot.

Too often in the past, insurance buyers had to tread softly in attempting to exchange or obtain information within their community. Now we seem to have a common marketplace through which to funnel our ideas and the results must be of benefit to all concerned.

Norman Chanzis
Corporate Risk Manager
Rheingold Corp.
Brooklyn, N.Y.

TOTAL FIRE PROTECTION FOR AUTOMATED PRODUCTION

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Fire and extinguishment damage could cost us millions in lost capital equipment and production delays. Our Cardox CO₂ system safeguards us from both most effectively.

Mr. John Schoen, Plant Engineer, Grede Foundries, Inc., Milwaukee, Wis.

The oven-door opens . . . tons of white hot castings are withdrawn and quenched in 12,000 gallons of oil. Again and again this operation is repeated each day at Grede Foundries without incident. But what if a "hung load" occurs with only partial immersion . . . or the turbulating pumps kick out? How do you prevent 2 million dollars worth of automated equipment from going up in a cloud of smoke?

Cardox engineers found the answer by developing a dual-control CO₂ Fire Protection System. Now, with the first lick of flame, the crane operator presses the "spurt" button . . . instantly blanketing the quench tank with a controlled burst of CO₂. Again and again the operator can hit the spurt button to

check reflashing and allow time for others to clear the hazard. Automatic control is also provided to deliver unattended discharge and to check undetected ignition deep within the tank pit area.

Yes, Cardox performance-engineered Fire Protection Systems get the job done as no other could by pin-pointing special hazards and delivering the knockout punch to a fire without causing any extinguishment damage or costly clean-up operations. Are you prepared in your plant? Call your Cardox specialist today for a "hot-spot" survey . . . no obligation, of course. CARDOX . . . Division of Chemetron Corporation, 840 N. Michigan Avenue, Chicago, Illinois 60611.

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TRADE MARK



washington watch

Product liability future portends 'pain and suffering' for buyers

WASHINGTON—The stepped-up pace in the trend toward federal regulation of insurance is being cited by many observers as the most significant insurance development in 1967.

Perhaps more significant from a buyer's standpoint were three seemingly unrelated events which, when taken together and closely analysed in perspective with the political mood in Washington, portend the emergence of an entirely new area of product liability—that is, liability for "pain and suffering" type damages connected with product dissatisfaction.

The Florida supreme court ruled that a manufacturer can be sued on an implied warranty that its product will work properly, just as it can be sued on an implied warranty against injuries.

Secondly, Sen. Warren Magnuson (D., Wash.) introduced a bill which would require full disclosure of guarantee and warranty conditions and create an advisory committee to provide Congress with additional suggestions for dealing with consumer-dealer problems.

And thirdly, Charles A. Sweeny, chief of the Federal Trade Commission's (FTC) bureau of deceptive practices, suggested that the day may be coming when an advertised claim for a product will be regarded as a warrant that it will perform.

The Florida case involved the owner of a 1964 Lincoln Continental who sued Ford Motor Co., charging that the car failed to operate properly, continuously broke down and gave no useful service as a motor vehicle. Ford argued that it could not be sued because it had no contract, written or implied, with the owner.

THE DEALER who sold the car had no authority to create any obligation on behalf of Ford with anyone, Ford said. The only contract the company had, it argued, was one with the dealer concerning replacement of defective parts.

The court pointed out that it had already established in an earlier case that a manufacturer can be sued by the ultimate buyer of its product despite lack of a direct contractual relationship between the two. It then ruled that there is no basis for a legal distinction between liability for implied warranty against personal injury and for lack of fitness or suitability of a product such as an automobile.

Now one state supreme court ruling does not become the law of the land, but it can be a good indication of the general judicial feelings on certain issues and can often signal the beginning of a trend in law.

PRODUCT LIABILITY experts point out that it is inevitable that one successful liability suit will be followed by the filing of similar ones. One difficulty certain to be encountered by plaintiffs in these suits is establishing just how much the manufacturer's "implied warranty" actually implied. Here is where the importance of Sen. Magnu-

son's bill enters.

The bill only applies to statements made which fall within the generally accepted definition of warranty or guarantee—a promise to correct, without cost, defective products, or, in the case of services, any deficiency in the quality or effectiveness of the service. But, it establishes an advisory council to consider fur-

ther problems related to warranties and it is highly likely that the subject of implied-type warranties in advertising will be considered carefully.

Once the subject of warranties is taken up in the form of legislation, it becomes a good vehicle upon which to explore other related areas. The "consumer trend" in legislation which

started in 1965 promises no let-up, particularly in an election year when inexpensive voter-pleasing issues are at a premium.

CORPORATE executives point out that legislation and regulation defining what constitutes an implied warranty can be viewed in two ways. The lack of a clear cut definition has made it almost impossible for a plaintiff to make a 'pain and suffering' type product liability suit stick because he has had to prove that a manufacturer actually went beyond normal promotion and promised unequivocally that his product had some special quality specifically defined.

On the other hand, without a set of guidelines the courts may begin writing their own rather loose definitions of what constitutes pure promotion and what is actually a warranty.

Thus, the manufacturer today

finds himself between two forces. A trend toward legislation which would restrict his promotional freedom, and a slow, but nonetheless evident, movement toward the day when he will be defending his promotional statements in increasingly liberal courts with only common law upon which to build a case.

The Magnuson bill authorizes the FTC to develop shorthand descriptions of the various types of guarantees which would be used in advertising.

THIS MOVE specifically authorizing the FTC to develop warranty standards can not help but hasten the advent of the day Mr. Sweeny suggested may be in the offing—the day when ads would get warranty status.

Mr. Sweeny told the Practising Law Institute in New York that "increasing numbers of or-

Continued on page 18

We know a company that's covered for frayed nerves in Naples.

Magnifico!

Their visiting salesman in Naples ran into a truck and they got slapped with a 10-million-lira lawsuit. What a relief when they called their insurance man! They were covered by their Great American Policy.

Before you send a man abroad, check your liability coverage. Most policies aren't good outside the U.S. and Canada. But not the Protector, Great American's catastrophe liability policy. It's good anywhere. In Naples. In Timbuctoo. Even in Outer Space.

Our new Protector policy offers many other advantages. For the facts about it, call any Great American agent. They're listed in the Yellow Pages.



Great American Insurance Companies

99 John Street, N. Y., N. Y. 10038





This Caterpillar Tractor Co. model D9 tractor is about to be loaded aboard a ship in Chicago for transshipment overseas. Caterpillar's marine coverage is all-risk from warehouse to warehouse. Inventory of Cat's product line abroad, while a dealer finds a buyer, can range in value from \$20,000 to \$1,000,000.

People, parts and products make Caterpillar giant foreign insured

By LOUIS HAUGH

PEORIA, Ill. — Caterpillar Tractor Co., the second largest exporter in the U.S. and with more than 11,000 employees overseas, divides its foreign insurance responsibilities in the corporate headquarters here along functional lines.

In the preceding issue of *Business Insurance*, Ralph White, insurance manager for property and liability, outlined his part in Caterpillar's foreign coverages and how the company uses an insurance digest to recommend practices for the managing directors of foreign operations.

Insured fringe benefits for overseas personnel and inland

and ocean marine coverages represent another aspect of the company's foreign insurance program. In the home office, two men, one in the personnel department and the other in the traffic general office, bear the brunt of responsibility in these areas.

ON THE "PEOPLE insurance side," Richard Mayer, staff assistant on overseas compensation in the personnel department, said Cat seeks to conform to local levels where possible on both direct pay and fringe benefits.

"Outside the U.S., fringe benefits are not usually a bargaining issue for unions but are unilaterally extended by the employer,"

he said.

The company's insured benefits tend to mirror U.S. standards.

The company surveys local wages and benefit plans and then decides the mix between direct and fringe benefits, Mr. Mayer said. For Cat, the mix ranges variously from 95% direct, 5% fringe to 60% direct, 40% fringe in its foreign operations.

HOSPITAL COVERAGE is generally on a daily-rate basis up to a maximum on a contributory

Second of two parts

basis bought locally in each country. In some countries with socialized medicine, Cat provides group insurance, particularly for its key people, to help cut down absenteeism and permit employees to use private facilities.

Pension and death benefits in Cat's foreign operations are frequently a single package with widow's benefits paid, if the employe dies prior to retirement, on a percentage of projected earnings at age 65.

Mr. Mayer said that overseas there appears to be a trend towards noncontributory pension plans. He said that some foreign insurance companies are losing business because of their conservative and out-dated methods on managing pension funds. Cat has changed from insured to trustee plans handled by banks in some countries at a substantial saving with greater flexibility, he pointed out.

Insured fringe benefits are bought locally, usually through brokers, after the home office has decided on the total package.

MR. MAYER told *Business Insurance* that a new problem Cat faces is proper compensation of third-country nationals, employes not working in their home countries. Each subsidiary has its own pension plan, but Cat has transferred some

Continued on page 26

Daenzer contends devaluation won't really affect reinsurance

NEW YORK—If the recent devaluation of the pound is similar to 1949, it will have "no really important effect" on the reinsurance market, according to Bernard J. Daenzer, president of Wohlreich and Anderson.

The lion's share of reinsurance is placed in Lloyds, Mr. Daenzer pointed out, and all dollar transactions are conducted through a trust fund maintained by underwriters with the First National City Bank of New York.

All premiums go into this fund, he continued, and "since these are in dollars, the devaluation of the pound won't have any effect." Under the terms of the trust, no funds may be released or converted into other currencies.

DURING A TALK to the New York Society of Chartered Property and Casualty Underwriters, Mr. Daenzer also said that it would be a "tragedy" if insurance placements overseas were curtailed. He advised business insurance managers to "always establish a firm rate on convertibility in your contracts—regardless of what happens in local governments."

As of Dec. 31, the Lloyds trust fund stood at \$500,575,000, Mr. Daenzer said, and is a "remarkably liquid fund." Cash assets are 5.09% and certificates of deposits 6.43%. Securities of the U.S. government and its agencies amount to 87.23%. Other investments come to 1.36%.

"I wonder if any other trust fund has so many government securities," Mr. Daenzer asked. It proves that underwriters are very conservative in their investment policies and are aware of "living up to their obligations," he said. Since 1939 when the Lloyds trust was established, there has never been an occasion to sue the trust over non-payment of claims.

THESE TRUST funds held in the U.S. by nonadmitted foreign carriers are actually a "plus factor" in the balance of payments, Mr. Daenzer maintained. For an example, it is an advantage to American business that a dollar policy can be written anywhere in the world. Actually, 10% of the Lloyds trust fund is allocated for these types of coverage, so the "inflow easily makes up for any eventual profits."

Furthermore, if a loss such as Hurricane Betsy occurs, the entire loss over the 100% loss ratio is a plus factor to U.S. balance of payments—"because it at once brings in an inflow of pounds to be converted into U.S. currency."

Since the first of the year, Mr. Daenzer observed, "I see things opening up at Lloyds." Underwriters feel that 1967 was a good year, although the full audit has not yet been completed.

As a result of devaluation, a profit on non-U.K. business has become much more valuable to British underwriters. Therefore, they are eager to get more profit

Aetna loans \$1,000,000

Aetna Life & Casualty, Hartford, has loaned \$1,000,000 to Colt Industries Credit Corp., a wholly-owned financing subsidiary of Colt Industries Inc. The money will be used to finance sales of various Colt Industries products. This transaction brings Aetna's total loan commitment to Colt Industries to \$12,000,000.

because of the exchange rate, and they'll pick up one-sixth more in profits."

Although some insurance people think that devaluation will affect the reinsurance market, "actually it's the effect of catastrophes that reduces it."

IT WOULD be a "tragedy" to restrict insurance placements, he said. An "inherent" aspect of insurance is its international character; so it would be very "unfair" if any restrictions were placed on opening up new markets.

Huge coverages such as oil tankers and jumbo jets require a free reinsurance market, Mr. Daenzer stated. One problem of devaluation will be an excess-of-loss wording expressed in sterling, Mr. Daenzer said.

He pointed out that before devaluation £10,000 was worth \$28,000 but is now reduced to \$24,000.

"You must always have a clause tying down your convertibility for deductibles, self-insurance and retention for top limits," Mr. Daenzer advised. Therefore, a buyer should "always establish a firm rate of convertibility," regardless of what happens in local governments. ■

Product...

Continued from page 17

dinary people are expressing a swelling wave of resentment against what they feel are unfair and deceptive business practices—and unfair methods of competition, too. They are being heard as never before. In many instances they seem to make a sound case, and remedies are being fashioned.

"What happened to caveat emptor?" Mr. Sweeny asked. "We as lawyers, blandly pronounce it dead and buried. But is it?"

"The consumer may never have heard of the legal doctrine, but he does think he is being hurt and he is saying so."

His argument runs something like this: "I bought a product because the advertising said it would relieve my illness. It didn't. I complained to the FTC, which investigated, issued a complaint, had a long trial, and finally ordered the advertising stopped."

"**I UNDERSTAND** the advertiser's legal rights have to be protected, and he is entitled to all these proceedings. But how about me, and millions of others like me, who paid out our money because we believed the claims. Should we get our money back—don't we have rights, too?"

"I ask you: is caveat emptor really dead or only wearing a new face?" Mr. Sweeny asked.

Mr. Sweeny did not mention the question of corporate liability beyond a money refund. But, lawyers were quick to hypothesize that the elevation of ads to warranty status and other FTC moves to protect the consumer could hasten the day when a law suit might develop along the following lines: "I had a headache. I took your product, which your ad said would cure it. It did not. By believing your ad and taking your product I was deprived of taking a product which would have cured my headache and therefore am entitled to damage for my suffering." ■

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Prescription drug plan called 'old hat' at GE

By WILLIAM GUEST

NEW YORK—The national prescription drug plan recently agreed upon by Ford Motor Co. and the United Auto Workers is "nothing new to us at General Electric," according to E. S. Willis, manager of employe benefits and practices. "We pioneered this benefit as far back as 1948," he told *Business Insurance*.

Mr. Willis and his assistant, James F. Duncan, also disclosed that pension benefits are vested at General Electric after ten

First of two parts

years of credited service, and they predicted that this period will eventually be reduced to five years.

Below five years would not be practical, Mr. Willis said, "because of the high turnover in this period."

A LONG TERM disability plan is provided for salaried employes with annual earnings of at least \$7,000. Also available for all employes, except for certain designated officers of the company, is

Brandt named insurance head of S. Carolina

COLUMBIA, S.C. — South Carolina Insurance Commissioner Charles W. Gambrell has resigned, effective June 30.

Mr. Gambrell will be succeeded by Leroy M. Brandt, deputy commissioner.

Mr. Gambrell, in making his announcement, warned of increasing governmental regulations for the insurance industry, especially at the federal level.

"With at least three committees of Congress taking a look at insurance, it's pretty definite that in the offing there's some legislation affecting insurance," Mr. Gambrell said.

"I'm certainly not anti-free enterprise, as I've been accused," he said. "I do think, however, that free enterprise will not work where you have a captive buyer, such as in the case of auto liability insurance in South Carolina."

Mr. Gambrell said federal activity in the insurance field "is not because some politician sees a political issue. It's motivated by the people back home who want something done."

Mr. Gambrell said he sees a trend of "an endless succession of mergers and consolidations. This is an unhappy circumstance, but mathematics and economics seem to compel bigness."

He added there is "a very real possibility of the government going into the insurance business. In fact, it's already there. After all, what's Medicare? What's Social Security?"

"And some states sell workmen's compensation insurance, and in Wisconsin you can even buy life insurance from the state," he said. "This is not an immediate threat, but there are tendencies in that direction." ■

Frito-Lay tabs Caley

Richard J. Caley has been named vp for employe relations for Frito-Lay Inc., New York. Among other things, Mr. Caley will be responsible for employe benefits and compensation.

a savings and security program which may be used to supplement the normal pension benefits.

In June of 1967, General Electric switched to a minimum premium basis for comprehensive medical benefits. This has resulted in "substantial savings" in state premium taxes, Mr. Willis said.

Under a minimum premium plan a corporation agrees to pay a predetermined level of annual claims directly from its own funds. This reduces the premium paid to the insurance carrier, and accordingly, the state premium taxes. Metropolitan Life Insurance is the carrier for this portion of General Electric's coverage.

MR. WILLIS WOULD like to see Blue Cross pay its share of the state premium tax, because "although they write as much as the private carriers" they are exempt from this levy.

"They should bear their part of the burden," Mr. Willis asserted, "and so should self-insured plans."

Insurance companies are being "shortsighted" in resisting the trend toward minimum premium plans, Mr. Willis said. Instead, they should be initiating legislation to ensure a more even distribution of the state premium taxes.

Since General Electric could easily become self-insured in this area, he commented, "I'm trying to be objective about the matter."

COVERED MEDICAL expenses at General Electric fall into two broad categories: Type A, which pays hospital, surgical, diagnostic x-ray and anesthesia bills, and Type B, which covers other medical bills for physicians, nurses, drugs etc., while under the doctor's care.

This setup is different from the basic hospital, major medical type of plan, Mr. Duncan explained, pointing out that drugs are covered under both sections after an initial deductible is paid by an employe.

The deductible is \$25 under Type A, which then pays 100% of the next \$225, and 85% of further expenses up to the maximum.

Under Type B, the employe pays the first \$50 and the plan pays 75% up to the maximum. The maximum benefit payable, combining both coverages, is \$100,000 for a lifetime.

THIS MAXIMUM can be reinstated, subject to evidence of recovery and insurability, and provided that benefits paid out have exceeded \$1,000.

Both coverages specifically include drugs and medicines requiring a physician's prescription and dispensed by a licensed pharmacist. Surgical coverage is also extended to include surgery performed at home or elsewhere.

"We think community relations with doctors and pharmacists are very important," Mr. Duncan said. "We try to arrange meetings with county pharmaceutical societies and with hospital administrators to explain our benefits and to achieve cost control."

SOMETIMES doctors are invited to tour General Electric plants "to learn about a factory environment." Druggists in local communities are supplied with company prescription pads, "which helps to speed things up." General Electric has more than

300,000 employes, Mr. Willis said, and over \$5 billion of life insurance in force.

Group life insurance coverage amounts to twice normal annual earnings, and accidental death and dismemberment insurance of one year's annual earnings is provided.

The age qualification for coverages is waived in cases where a dependent is a child who is incapable of self-sustaining employment because of mental illness, retardation or physical hardship.

Supplemental personal accident insurance may be purchased by all employes up to an amount of \$100,000. In some cases this may be increased to \$250,000.

THIS BENEFIT has been "quite well received," Mr. Dun-

can said, as the rate is only 50¢ per \$10,000 of coverage for full 24-hour protection. Travelers Insurance Co. is the carrier.

GENERAL ELECTRIC has carried health coverage for its pensioners "as far back as 1948." The present plan is designed around the Medicare program.

A payment of \$8 a day is made for each day of hospital confinement for which benefits are paid by Medicare. Thirty dollars is then payable for each day of confinement beyond this period, unless confined in a tuberculosis or psychiatric hospital owned or operated by any government agency.

In a case of this nature, the payment would be \$10 for each day of confinement.

If a confinement is the result

of dental work not covered by Medicare, the payments increase to \$30 a day. "This protection is provided on an indemnity basis rather than for medical charges," Mr. Duncan pointed out. "They get the money which essentially helps them to meet their Medicare deductibles."

The aggregate maximum benefit provided for pensioners amounts to \$8,000, and after this is exhausted another \$1,000 is paid from the General Electric insurance plan. As benefits are paid from this \$1,000 a corresponding reduction is made in the amount of retirement life insurance. ■

In its next issue, *Business Insurance* will discuss G.E.'s workmen's compensation carrier and contributory pension plan.



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guage most comfortable for him...they can counsel in U.S.-style procedures most effective for your situation.

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Manufacturers paid 61% of benefits in '65

WASHINGTON—Preliminary figures released by the Internal Revenue Service on 1965 corporation income tax returns reveal total payouts for employee benefits by industry group in relation to total earnings and receipts.

About 61% of the aggregate deductions for employee benefits claimed by U. S. corporations in 1965 were claimed by the manufacturing group. These firms, however, accounted for 43% of the total receipts for all corporations and 48% of total after-tax profits.

The auto industry made up 3.6% of total sales and 6.8% of profits while accounting for 10.7% of total employee benefit deductions. In 1965 the auto makers accounted for 3.3% of total sales, 5.9% of profits and 8.5% of employee benefits.

Corporations engaged in transportation, communications, and electric, gas and sanitary services accounted for about 14% of the total employee benefit deductions in 1965. These firms made up 7% of total corporation receipts and 13% of earnings.

Financial, insurance and real estate corporations, on the other hand, claimed only 8% of the deductions while accounting for 9% of receipts and 19% of profits. And wholesalers and retailers together accounted for 9% of aggregate employee benefits claimed by U. S. corporations in 1965 while accounting for 31% of total receipts and 12% of profits.

All U. S. corporations claimed \$11.4 billion in deductions for pension, profit sharing, stock bonus, annuity and other employee benefit plans in 1965. This amounted to .9% of the corporations' total receipts and 22% of total earnings.

Pension, profit-sharing, stock bonus, annuity plans and other deferred compensation programs accounted for just under two-thirds of the total deductions for employee benefits, or \$7.3 billion. The remaining one-third, \$4.1 billion, comprised deductions for employee death plans, health or accident and sickness plans, and other welfare plans. ■

Ames named marine manager

Chester K. Ames has been named manager of the marine department in the Seattle office of Johnson & Higgins of Washington. He previously was with Johnson & Higgins of San Francisco, Cal. for 14 years.

COMPILATION AND ANALYSIS OF REVENUES, PROFITS AND EMPLOYE BENEFIT PAYMENTS OF ALL CORPORATIONS FROM 1965 INCOME TAX RETURNS

INDUSTRIAL CATEGORIES	DOLLARS IN MILLIONS (Rounded off)			PERCENT OF OVERALL TOTAL		
	Receipts	Profits	Employee Benefits	Receipts	Profits	Employee Benefits
AGRICULTURAL, FORESTRY & FISHERIES	\$ 7,592	\$ 326	\$ 21	0.63%	0.64%	0.19%
MINING	9,874	1,122	164	1.06	2.20	1.44
Metal mining	2,573	274	24	0.21	0.54	0.21
Coal mining	2,554	99	88	0.21	0.19	0.77
Crude petroleum & natural gas	2,090	587	29	0.42	1.15	0.26
Nonmetallic minerals (except fuels)	2,657	162	23	0.22	0.32	0.20
CONTRACT CONSTRUCTION	57,073	1,306	356	4.74	2.55	3.11
MANUFACTURING	517,217	24,442	6,969	42.87	47.83	60.99
Food & kindred products	76,128	1,897	499	6.32	3.71	4.37
Tobacco	5,596	342	59	0.46	0.67	0.52
Textile mill products	17,919	667	127	1.49	1.31	1.12
Apparel & other fabricated textiles	17,690	421	128	1.47	0.82	1.12
Lumber & wood products, except furniture	10,973	465	54	0.91	0.91	0.47
Furniture & fixtures	7,176	261	65	0.60	0.51	0.57
Paper & allied products	15,518	766	167	1.29	1.50	1.46
Printing, publishing & allied industries	19,344	1,015	236	1.61	1.99	2.07
Chemicals & allied products	41,212	2,869	579	3.42	5.62	5.06
Petroleum refining & related industries	51,986	1,978	461	4.32	3.87	4.03
Rubber & miscellaneous plastics products	10,690	411	159	0.89	0.80	1.39
Leather & leather products	4,873	144	44	0.40	0.28	0.38
Stone, clay, and glass products	13,431	735	176	1.12	1.44	1.54
Primary metal industries	38,756	1,933	735	3.22	3.78	6.43
Fabricated metal products, except machinery & transportation equipment	28,957	1,281	355	2.40	2.51	3.11
Machinery, except electrical	39,989	2,425	691	3.32	4.75	6.05
Electrical machinery, equipment & supplies	34,425	1,600	512	2.86	3.13	4.48
Motor vehicles & motor vehicle equipment	43,606	3,475	1,225	3.62	6.80	10.72
Transportation equipment, except mv's	22,470	762	446	1.87	1.49	3.90
Scientific instruments, photographic equipment watches and clocks	8,394	660	168	0.70	1.29	1.47
Miscellaneous manufacturing industries, including ordnance & accessories	7,896	328	82	0.66	0.64	0.72
Manufacturing not allocable	188	7	1	0.02	0.01	0.01
TOTAL TRANSPORTATION, COMMUNICATION, ELECTRIC, GAS & SANITARY SERVICES	89,284	6,558	1,635	7.41	12.85	14.30
Transportation	41,523	1,709	466	3.45	3.35	4.08
Communication services	21,472	2,323	749	1.78	4.55	6.55
Electric, gas & sanitary services	26,289	2,526	420	2.18	4.95	3.67
TOTAL WHOLESALE TRADE	177,873	2,723	438	14.77	5.34	3.82
Groceries & related products	33,126	264	59	2.75	0.52	0.52
Machinery, equipment & supplies	16,996	424	61	1.41	0.83	0.53
Misc. wholesale trade	127,086	2,021	314	10.55	3.96	2.74
Wholesale trade not allocable	665	14	4	0.06	0.03	0.03
TOTAL RETAIL TRADE	192,207	3,449	589	15.97	6.76	5.18
Building materials, hardware, & farm equipment stores	11,999	263	30	1.00	0.52	0.26
General merchandise stores	39,073	960	174	3.25	1.88	1.52
Food stores	42,355	465	187	3.52	0.91	1.64
Automotive dealers & gas service stations	48,105	485	54	4.00	0.95	0.48
Apparel & accessory stores	10,537	281	26	0.88	0.55	0.23
Furniture, home furnishings, & equip. stores	9,424	234	23	0.78	0.46	0.21
Eating & drinking places	9,444	232	33	0.78	0.45	0.29
Miscellaneous retail stores	18,207	475	50	1.51	0.93	0.44
Retail trade not allocable	153	3	1	0.01	0.01	0.01
Whlse. & retail trade not allocable	2,910	51	11	0.24	0.10	0.10
TOTAL FINANCE, INSURANCE & REAL ESTATE	111,263	9,471	947	9.24	18.54	8.27
Banks & trust companies	20,841	1,431	386	1.73	2.80	3.38
Credit agencies other than banks	12,743	820	81	1.06	1.61	0.70
Security & commodity brokers, dealers, exchanges & services	1,744	161	38	0.14	0.31	0.33
Holding & other investment companies	5,303	3,927	7	0.44	7.69	0.06
Insurance carriers	54,970	1,458	363	4.57	2.86	3.16
Insurance agents, brokers, & services	2,477	171	35	0.21	0.33	0.31
Real estate	13,185	1,503	37	1.10	2.94	0.33
TOTAL SERVICES	38,605	1,674	310	3.21	3.28	2.70
Hotels, rooming houses, camps & other lodging places	4,256	164	21	0.35	0.32	0.18
Personal services	4,355	181	23	0.36	0.35	0.20
Business services	13,677	578	143	1.14	1.13	1.25
Automobile & other repair services	4,281	168	17	0.36	0.33	0.15
Motion pictures	3,102	166	14	0.26	0.33	0.12
Amusement & recreation services, except motion pictures	3,282	159	16	0.27	0.31	0.14
Miscellaneous services	5,652	258	76	0.47	0.51	0.66
NATURE OF BUSINESS NOT ALLOCABLE	94	9	...	0.01	0.02	...
ALL INDUSTRY GROUPS	\$1,200,988	\$51,071	\$11,429	100.00%	100.00%	100.00%

Monsanto Co. reduces fire, machinery losses

ST. LOUIS—Monsanto Co. has reduced its property insurance premiums to about \$3,500,000 a year as a result of a comprehensive, one-year "exposure analysis" which pinpointed boiler and machinery and fire and allied peril losses.

At the same time, the company has concluded a review of its personal and property liability coverage, a study which Monsanto undertakes every nine years. Because there weren't "enough differences" offered by the three carriers invited to make presentations "to warrant a change," Monsanto decided to stay with its present liability insurer, Liberty Mutual.

Included in the review were workmen's compensation, auto,

product, completed operations, and contractual liability, according to Robert Chapman, insurance manager at Monsanto. This phase of Monsanto's insurance is handled on a direct writing basis.

MR. CHAPMAN SAID the \$3,500,000 premium on Monsanto's property insurance would have been even lower had it not been for Hurricane Betsy. Nevertheless, it still represents a saving, he added.

Monsanto's exposure analysis first started in 1964, when H. K. Eckert, general manager of a Monsanto project in Texas, undertook the job of analyzing the company's type of losses and their relationship to insurance costs. Mr. Eckert was assigned to

Monsanto's treasury department, and he worked with the company's engineers at its various plants around the country.

In evaluating Monsanto's physical damages and the business interruption that they caused, Mr. Eckert considered the extent of potential losses and how they could be contained within certain areas, and Mr. Eckert determined the availability of such safety devices as fire doors, fire breaks, sprinkler systems, hydrants and hoses.

THE MONSANTO STUDY also set out to determine how long it would take for machinery to become operational after a breakdown. Mr. Eckert met with engineers to determine the loca-

tion of key suppliers and how long it would take to get spare parts from them. In one case, for instance, Monsanto chartered a plane to fly in a needed part from upstate New York to Texas; under the terms of its business interruption insurance the carrier footed the bill, since the airlift allowed Monsanto to start up operations more quickly.

After the analysis was completed, Monsanto's management decided they wanted an insurance program which (1) recognized the company's size and ability to absorb losses; (2) made use of higher deductibles, or as Mr. Chapman put it, "stopped swapping dollars with insurance companies on small losses;" (3) provided an incen-

tive for loss preventive efforts and rewarded good loss performance with lower premiums; and (4) gave "adequate credit" for the deductibles Monsanto was willing to absorb.

ONCE THESE CRITERIA were agreed upon, Mr. Chapman explained, Monsanto's insurance department selected a broker who had experience working on the same sort of program with other companies and who also had international background. To verify the data, the broker and Monsanto reviewed loss exposures of its eight largest plants. All data was compiled in a massive "data book," and from this an outline of Monsanto's
Continued on page 26

dates for buyers

JANUARY

AMA, international employe and pension management, Jan. 29-31, New York Hilton Hotel.

AMA, product liability seminar, Jan. 29-31, New York Hilton Hotel.

FEBRUARY

New York chapter of the Society of Fire Protection Engineers, seminar on automatic sprinkler protection developments, Feb. 5, Hotel Manhattan, New York.

AMA, methods of insuring fire business interruption, boiler and machinery exposures, Feb. 5-7, Barbizon-Plaza Hotel, New York.

AMA workshop seminar, modernizing the group insurance plan, Feb. 7-9, Barbizon-Plaza Hotel, New York; March 20-22, La Salle Hotel, Chicago; April 10-12, San Francisco Hotel.

AMA workshop seminar, modernizing the pension plan, Feb. 5-7, Barbizon-Plaza Hotel, New York; March 18-20, La Salle Hotel, Chicago; April 8-10, San Francisco Hilton.

AMA, employe benefit cost controls, Feb. 7-9, Barbizon-Plaza Hotel, New York; March 18-20, Chicago; April 17-18, New York.

Health Insurance Assn. of America, group insurance forum, Feb. 18-21, Drake Hotel, Chicago.

American Society of Insurance Management, annual convention, Feb. 21-23, Pick Congress Hotel, Chicago.

MARCH

University of Arizona, college of business and public administration, and the League of Arizona Cities and Towns, governmental risk management, March 7-8, University of Arizona, Phoenix.

AMA workshop seminar, modern corporate insurance management, March 11-13, Barbizon-Plaza Hotel, New York.

AMA, medical coverages, claims and cost control, March 13-15, Barbizon-Plaza Hotel, New York.

AMA, modern planning, development and administration of employe benefits programs, March 11-13, Barbizon Plaza Hotel, New York.

AMA workshop seminar, self-insurance, risk retention and use of excess and deductible coverages, March 13-15, Barbizon-Plaza Hotel, New York; May 13-15, Los Angeles.

AMA, risk management clinic, March 20-22, Chicago.

Greater New York Safety Council, eastern regional safety convention, March 25-29, Statler Hilton Hotel, New York.

APRIL

National Assn. of Surety Bond Producers, annual meeting, April 7-10, Belleview-Biltmore, Clearwater, Fla.

AMA, insurance management for the smaller company and for the part-time buyer, April 15-17, New York.

CPCU, southeast region, insuring the small- to medium-sized manufacturing risks, April 18-20, Myrtle Beach, S.C.

MAY

AMA, special conference on government and insurance and employe benefits, May 13-15, Americana Hotel, New York.

National Fire Protection Assn., annual meeting, May 20-24, Marriott Motor Hotel, Atlanta.

CPCU, south-central region, the constructing risk, May 23-25, San Antonio, Tex.

Aetna cuts group rates

HARTFORD—A reduced premium rate schedule for employe groups has been announced by Aetna Life and Casualty.

The improved rates will boost, by an average of 11%, the amount of group paid-up insurance an employe's contributions purchase in a typical case in employe groups.

The new schedule provides the highest ratio of paid-up insurance to employe contributions since Aetna initiated the group paid-up concept in 1941. Aetna, the country's largest writer of this phase of insurance, currently has more than \$4.5 billion of group paid-up protection in force in over 75,000 persons. ■

KC insurance managers send 'BI,' ASIM magazine to states

KANSAS CITY, Mo.—The Greater Kansas City Society of Insurance Management, a chapter of the American Society of Insurance Management, has ordered subscriptions of *Business Insurance* and *The National Insurance Buyer*, ASIM's official publication, for key insurance legislators in Kansas and Missouri.

In a letter to this publication, R. W. Bland, risk manager of Panhandle Eastern Pipe Line Co. here and a director of ASIM, stated that the Kansas City chapter believes "the consumer's interest and viewpoint have been inadequately conveyed to our state legislators who enact the laws implemented by the re-

spective state commissioners of insurance.

"In addition to a legislative program of direct representation on specific bills presented to the legislatures of Kansas and Missouri, our chapter proposes to initiate an orientation program on the industrial insurance consumer viewpoint by sending to the chairmen of the insurance committees of both the House and Senate, in both Kansas and Missouri, these two magazines."

Mr. Bland said it's the hope of the Kansas City chapter that "this act on our part will establish a precedent for action by other chapters of ASIM."

The Kansas City chapter, Mr. Bland said, "recognizes *Business*

Insurance as a medium prepared for and directed to the buyers of insurance, as is our own magazine, *The National Insurance Buyer*. We believe these two magazines complement each other in presenting the whole scope of information in regard to the insurance industry which is of major concern to industrial consumers of this product."

Mr. Bland is vp for insurance of the American Management Assn. and chairman of its insurance planning council. He is also a member of committees of both the Kansas and Missouri state chambers of commerce dealing with insurance matters. He is currently serving on ASIM's legislative committee. ■

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Foreign captive insurer faces choice in payments restriction

WASHINGTON—A U.S. firm with a captive insurance company in a foreign country has a choice between two plans under which it may handle this company, in accordance with President Johnson's new balance of payments restrictions.

A company may choose to consider the captive insurance firm in the same manner as its other foreign investments and operate it under the Commerce Department's newly initiated mandatory foreign direct investment regulations.

Or, it may choose to handle it separately from its other foreign investments and bring it under the Federal Reserve Board's "voluntary" foreign credit restraint program for financial institutions, such as insurance companies, banks and finance companies. Opting for the Fed program exempts the operation from Commerce Department regulations.

OFFICIALS from both agencies told *Business Insurance* they assume that most captive insurance companies will be handled under Commerce Department regulations. They said they had not been asked specifically about captive insurance firms yet, but that companies with captive finance operations have to this point chosen to pool them with their other foreign operations under Commerce Department jurisdiction.

The newly drafted Commerce Department regulations find their jurisdiction under the 1917 Trading with the Enemy Act, also called the 1917 Banking Act.

THE REGULATIONS are easiest on investments in underdeveloped countries. Investments in the United Kingdom, Canada, Australia and other oil producing countries are in another, more stringent program. Those in South Africa and continental Europe (except Greece and Finland) come under a third, much more restrictive program.

DOMESTIC FIRMS operating in the underdeveloped countries must limit their future annual investments to 110% of their 1965-66 average investment in these countries. There are no restrictions on the source of investment funds. The firm must repatriate all of its earnings in these countries in excess of the 110% mark. The percent is lowered to 65% for the middle group of countries and to 35% for the Western European and South African group.

In the last group, none of the 35% allowed can come directly from the U.S. Funds must be generated from earnings, foreign borrowings or from depreciation.

In addition, firms must reduce their foreign bank balances in all countries to their 1965-66 average.

PENALTY FOR violation of these regulations runs to a maximum \$10,000 fine and a ten year jail sentence.

The new Commerce Department office of foreign-direct investment is charged with enforcing and interpreting the regulations.

Last week the Department announced that U.S. companies would be allowed to guarantee loans by foreign banks to their foreign affiliates and make good on the guarantees if it were re-

quired. One of the program's primary purposes is to promote the use of foreign funds for foreign investments. These funds are easier to come by if the parent U.S. corporation guarantees the loan.

But, under the original interpretation of the regulations, these guarantees would be useless because the U.S. firm would not necessarily be able to make good on the guarantee.

ANOTHER PROBLEM, not yet solved, exists when domestic firms own less than a controlling interest in a foreign firm, U.S. businessmen are faced with criminal prosecution if a certain

portion of their share in the earnings of the foreign company is not returned to the U.S. But, without the controlling votes, they can do nothing if the board of the foreign company votes to reinvest all earnings back in the business.

The probable answer to this problem will be to ask firms in this situation to make the repatriation requirement from other investments in the same group of countries. If this proves impossible, they will undoubtedly be given an exemption from the regulations.

A third problem lies in the restriction against transferring capital from the underdeveloped

countries to the other two groups and from the middle group to the South African and Western European countries.

FACED WITH having to borrow increasing amounts of funds overseas, U.S. companies will be hitting the British banks, insurance companies and other financial institutions. Under the regulations, however, these funds will only be available for spending in the lesser developed countries and those in the class with the United Kingdom. This, then will drive U.S. investors who want to place capital in Europe to French bankers, a move that the U.S. would like to avoid.

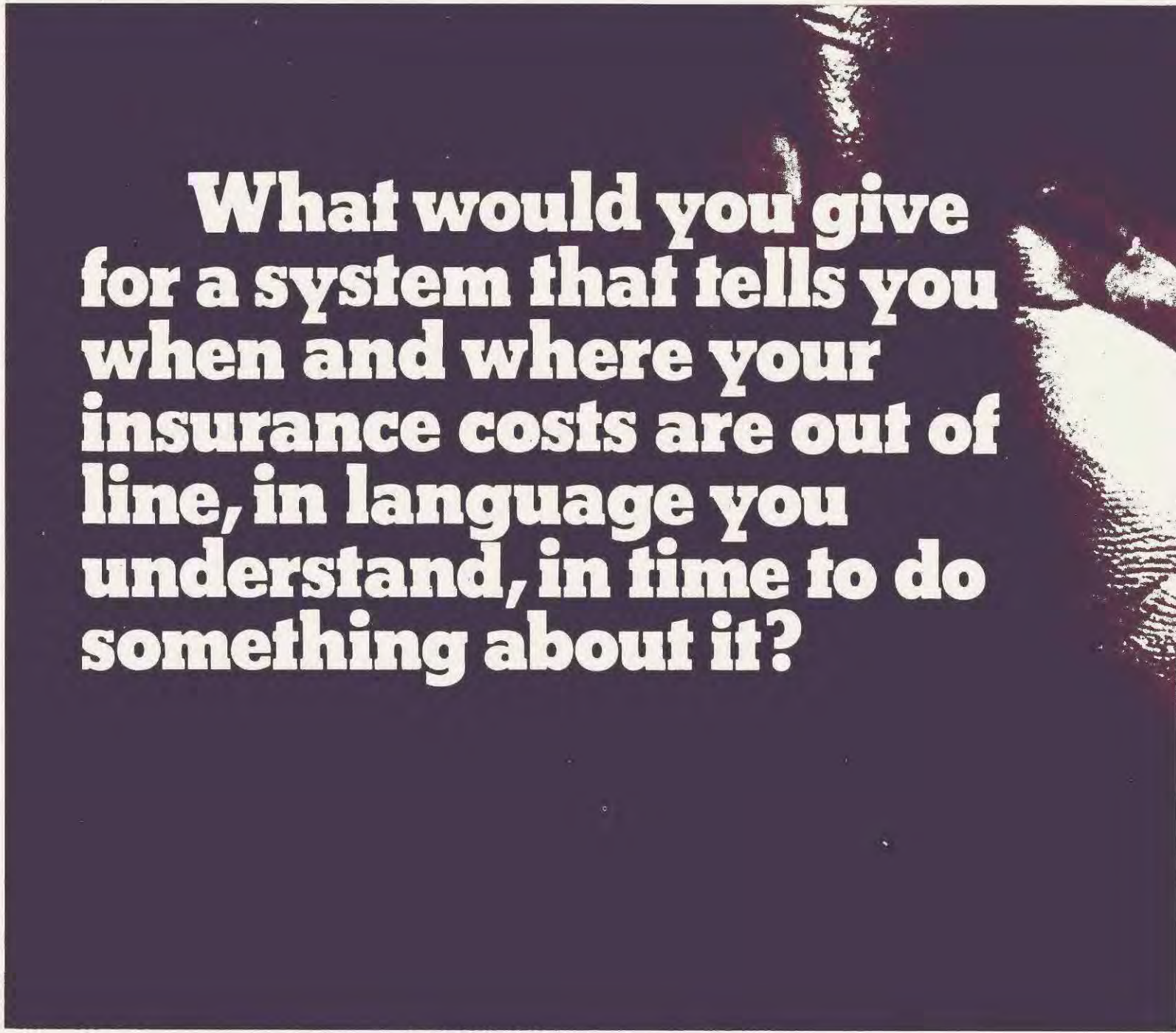
The Commerce Department has stated that this problem will be solved to the satisfaction of almost all concerned.

Another major problem are the regulations calling for an annual reconciliation with the U.S.

Government. So, what happens if a firm's investment in foreign countries exceeds during the year the percentage allowed but is diminished annually at accounting time to the proposed level? This has yet to be solved.

THE FED program does not concern itself with the earnings of nonbank foreign financial institution affiliates. It is primarily concerned with lending funds abroad. Under the newly revised program, nonbank financial institutions will be "requested" to reduce their holdings of foreign assets (notes, securities, bonds) by 5% or more during 1968 with the base being their holdings on Dec. 31, 1967.

An official at the Fed said he does not think this will result in any large-scale sale of foreign assets but will be accomplished through the nonrenewal of loans which mature during 1968. ■



What would you give for a system that tells you when and where your insurance costs are out of line, in language you understand, in time to do something about it?

Kaiser pays some hospital costs in 'long range' pay plan revision

FONTANA, Cal.—Workers at Kaiser Steel Corp.'s mill here have voted to retain the company's "long range compensation sharing" plan—with certain important changes—and to modify the existing method of providing hospital coverages for retired pensioners.

The Kaiser plan, which began in 1963, attempts to increase output by paying workers for cost savings achieved in the mill because of higher productivity.

The plan has been hotly debated among employes because Kaiser's productivity has lagged somewhat behind the over-all wages and benefits.

When it began, the plan paid

workers an average cash bonus of 50¢ an hour in the first year. However, the bonus fell to 24¢ in the second year and hit a low of 18¢ in the third year. By 1967 the average had climbed back to 33¢. Many workers have felt that they are paid less than under more traditional incentives, it was reported.

The situation was further complicated, according to a union spokesman, because incumbent workers employed before March 1, 1963, were able to remain on an incentive basis if they chose, rather than joining the long-range plan.

The result was that if two men were working side by side,

and one had started after March 1963, there could be a pay differential of \$50 a week, it was explained. "This caused obvious difficulties," the union man said.

A NINE-MEMBER committee representing Kaiser Steel, the United Steelworkers of America and the public, drew up changes in the old agreement and submitted them to the workers for ratification on Jan. 17.

The most important change achieved, according to the union official, is a modification in the formula for calculating the sharing of gains, including the elimination of a wage and benefits reserve.

This reserve had been set aside for the cost of pensions and insurance benefits. Retroactive to Oct. 1, 1967, Kaiser will now pay ⅓ of these costs, which were previously borne by the union. "To boil it down to layman's language—the long range fund will gain by 6.28%," the union man explained.

Also, many workers may now elect to return to the incentive method of payment, and in addition, certain categories will automatically be transferred back to this basis.

BASICALLY, these modifications will apply to either workers who joined the plan after March 1963, or those who decided initially to come into the long-range sharing plan but would now prefer to return to incentives.

"The idea was to eliminate incentives," observed the union

official, "but we now realize that you must have both methods."

"For example," he continued, "you can't put service people onto an incentive since this really applies to production people. We shall all have to contribute our maximum efforts," he said.

RETIRED EMPLOYEES have been paying half the cost of their medical coverages, which amounted to about \$18 a month for a husband and wife. "Out of an average pension of about \$100 a month this was a big slice," the union representative said. These benefits will now be provided free.

Asks voluntary work comp for farm workers

CHICAGO—The American Farm Bureau Federation at its 49th annual meeting here last month renewed four standing resolutions concerning the insurance industry.

They included recommending that federal crop insurance be revised to include administrative costs in determining premiums or abolishing the program; retention of experience rating policies and state responsibility to determine eligibility and benefits of unemployment insurance; coverage of farm workers by occupational insurance either under voluntary state workmen's compensation programs or employers' liability insurance; and encouraging establishment of private voluntary health insurance programs.

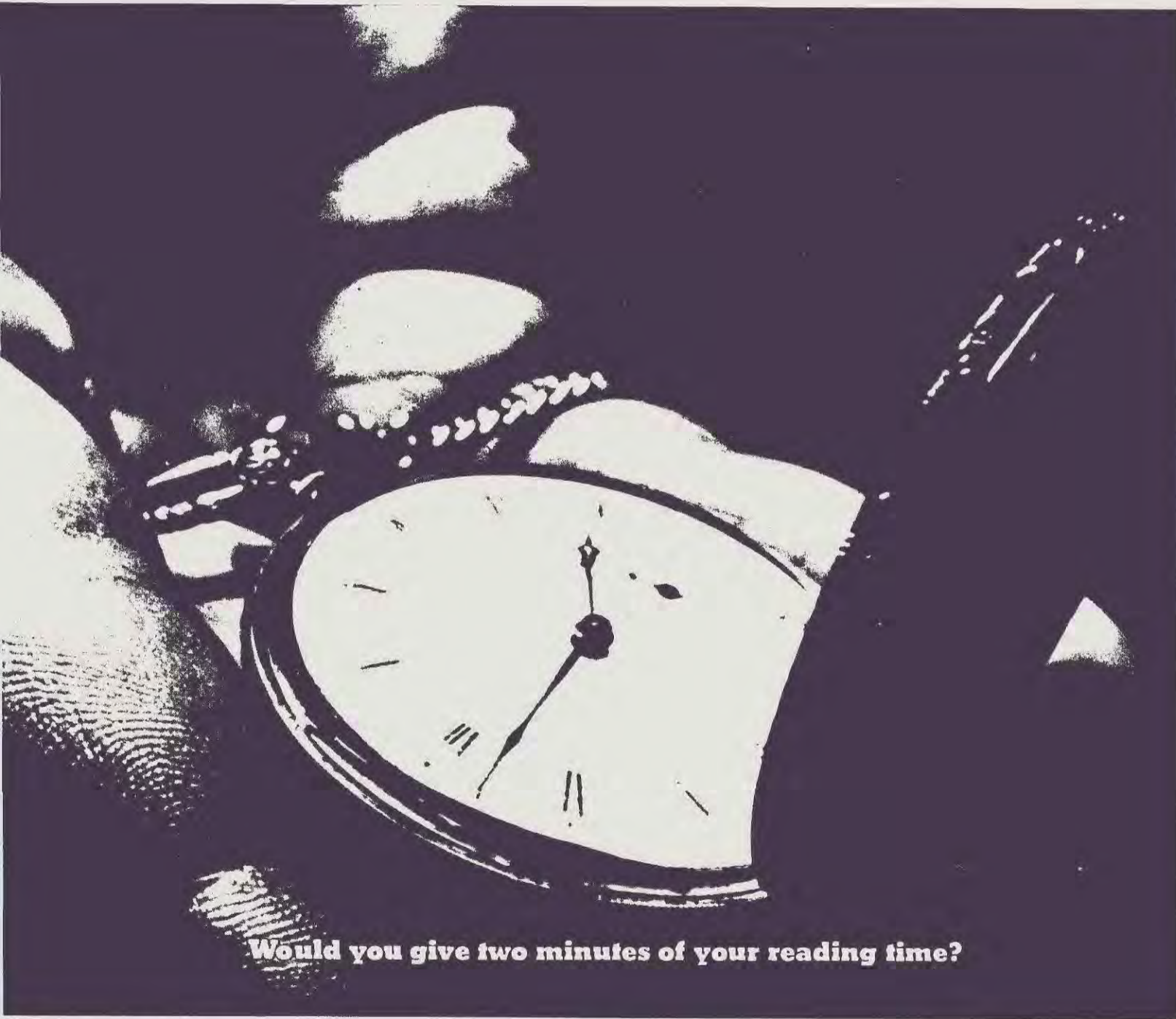
State Farm Bureaus operate 12 life insurance companies and more than 40 other carriers that write auto, liability, fire, crop and other risks. In addition the national Farm Bureau writes reinsurance for members.

It is estimated that the total assets of all Farm Bureau insurance companies is more than \$1.2 billion.

Shipping estimates for 1970 made

According to the Chamber of Shipping of the United Kingdom, by 1970 there will be at least 160 ships of 200,000 tons and over in service. More than 100 of these will have been ordered since the closure of the Suez Canal.

Together, if used between the Persian Gulf and Europe, they would have an annual carrying capacity of 200,000,000 tons of oil—roughly the same amount as used to come through the canal.



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Loss prevention, deductibles pay at Reynolds

By ROBIN MENZ

(In our Jan. 1 issue, Business Insurance detailed R. J. Reynolds Tobacco Co.'s new employe benefits program. The following article deals with the company's property and liability coverages.)

WINSTON-SALEM, N.C.—By concentrating its efforts on safety and loss prevention, the R. J. Reynolds Tobacco Co. estimates its broad property and liability insurance program is one of the least expensive in the U.S. for each dollar insured.

For example, Reynolds insures its owned locations for almost \$1 billion annually for fire and extended coverage and estimates it has not had a loss in excess of its \$10,000 deductible in ten years, according to Zachary Smith, assistant treasurer.

Superior building construction and a fire protection program that includes extensive sprinkler systems are some of the reasons cited by Mr. Smith for the low rates.

"WE HOPED TO get even lower rates by increasing our deductible for fire and extended coverage," said Mr. Smith, "but the premium savings didn't warrant our going beyond \$10,000."

Reynolds also carries a \$100,000 deductible on fire and extended coverage business interruption, \$500,000 deductible on boiler and machinery business interruption and \$20,000 deductible on boiler and machinery property damage.

The sprinkler system alone reduces Reynolds' premiums substantially on each building. "Compare the \$11,000 annual premium for an unsprinklered building of one of our subsidiaries with the \$1,480 premium for the same building if it were sprinklered and you see an annual premium saving of over \$10,000," said Mr. Smith. "Assuming the average cost of installing a sprinkler for this particular building of \$20,000, it can pay for itself in two years through premium saving."

Further protection against fire is taken by instructing Reynolds' employes about what to do in case fire occurs, according to James Thrift, safety engineer.

Mr. Smith cited windstorms as the "single biggest hazard" on its fire policy. For example, at one location there are as many as 60 tobacco storage sheds and the value of the tobacco is several hundred million dollars. If a



Zachary Smith, assistant treasurer for R. J. Reynolds Tobacco Co., Winston-Salem, N.C., handles the property and casualty protection for the tobacco firm.

hurricane or tornado hit these sheds and the roofs were removed, severe rain damage to the tobacco could result, he pointed out.

TO PREVENT THIS, he said, the storage sheds are built to withstand high velocity winds. In addition, the sheds are spaced 80 feet apart and built in groups of 16 which are 500 feet apart.

Reynolds' concentrated loss prevention program is not confined to fire insurance. Its efforts have reduced insurance costs in other areas, including workmen's compensation and ocean marine cargo.

"A retrospective rating plan for Reynolds' workmen's compensation, underwritten by the Maryland Casualty Co., means a considerable saving because of



Concern for employes is evident here. Woodrow Moser, a Reynolds' quality control operator, needed a special platform built to compensate for his lack of height.

our favorable loss experience," Mr. Smith said.

Mr. Thrift pointed to Reynolds' low frequency rate (the number of compensable accidents per 1,000,000 man hours worked) of 2.0 compared to the tobacco industry's rate of 9.15 as evidence that Reynolds is concerned with preventing accidents, rather than paying high premiums.

"How do we do it? Well, we constantly keep safety before our employes," the safety engineer said.

FOR ONE THING, his department schedules monthly safety meetings in each plant, attended by approximately 30 employes per meeting. The company conducts more than 300 such meetings each year. During the half hour, the discussion leader shows safety movies, reviews certain hazards and describes recent accidents.

"We try to get around to everyone as soon as possible," he explained.

To further prevent accidents, the employes have a long list of safety regulations which they must follow. For example, female employes must prevent their hair from hanging loose and refrain from wearing loose clothing, such as flaring skirts, long sleeves, ties or bows, together with ornamental jewelry, such as dangling earrings, bracelets and necklaces.

"All of these are hazards around machinery," Mr. Thrift emphasized.

He and the other members of the safety department, headed by Wilford Jones, constantly check to be sure all safety regulations are followed.

THE DEPARTMENT also determines where machine guards are needed, inspects plants for hazardous areas and makes necessary corrections. In addition, the department keeps top management aware of accidents occurring in each plant.

"Top management constantly has a clear picture of company-wide performance," Mr. Thrift said.

The close working relationship between departments was identified by Mr. Smith as the basic reason for a smooth running insurance program and a well-disciplined employe force.

"Actually it's the employes who in the long run help keep insurance premium expenditures down and maintain the low loss ratio," he said.

For the protection of its finished product, Reynolds has found export shipping in container vans most feasible. Protection of products, reduction of theft losses and a decrease in ocean marine cargo policy costs were three reasons given by Mr. Smith for using containers.

REYNOLDS' OCEAN marine cargo policy covers raw materials and finished products to and from foreign countries.

The remainder of Reynolds' broad insurance program includes a manufacturers output policy, comprehensive general liability, aircraft hull and liability and automobile liability.

The manufacturers output all-risk policy covers Reynolds' interests at outside locations such as nonowned warehouses or until the products reach the distributor. The policy carries a \$5,000 deductible per occurrence.

Reynolds comprehensive general liability policy for the U.S.



Long, loose hair, flaring skirts and dangling jewelry pose hazards around machines such as the one shown here. Reynolds' employes have a long list of safety regulations they must follow in order to prevent serious accidents.



Constant checks are made to be sure safety regulations are followed and that work areas and machines are in top shape. Here Wilford Jones, Reynolds' safety director, and James F. Thrift, safety engineer, inspect a guard on a cigaret case sealing machine.

and Canada, underwritten by Maryland Casualty Co., provides about the "broadest coverage a company can obtain," Mr. Smith contended. Bodily injury limits are \$150,000 per person and \$1,000,000 per occurrence. Other liability limits such as property damage are \$1,000,000.

A second CGL policy, underwritten by the American International Underwriters Corp., covers all countries exclusive of the U.S., Canada, the Iron Curtain and the Bamboo Curtain countries. Separating foreign and domestic coverage facilitates better claims services, Mr. Smith said.

THE TOBACCO FIRM also has a \$15,000,000 umbrella excess third-party liability policy underwritten by Continental Casualty, Home Insurance Co. and U.S. Fire Insurance Co. This policy, he stressed, is in excess of the Reynolds' underlying liability policies.

Its aircraft hull and liability policy covers its three planes and carries a maximum \$20,000,000 liability limit per plane for each occurrence plus another \$30,000,000 under excess policies.

For its auto and truck fleet of almost 2,000 vehicles, Reynolds has liability coverage with limits of \$100,000 per person and \$300,000 per accident for bodily injury

and \$50,000 for property damage. The company, however, self-insures collision and comprehensive risk.

TWO NEW TRENDS in the insurance industry—product recall and officers' and directors' liability—have been studied by Reynolds, but Mr. Smith sees no need for either coverage.

Other than the fire and extended coverage policy, which is on a direct writing basis with Factory Insurance Assn. and Factory Mutual Group, Reynolds works with Marsh & McLennan and Johnson & Higgins brokerage houses.

Mr. Smith himself divides his time between insurance and other financial matters. He relies on certain Reynolds' departments to supply him with necessary statistics and facts pertinent to the company's insurance program.

Kemper names two

George H. Kasbohm, formerly assistant manager of commercial fire and package underwriting at Kemper Insurance Group, Chicago, has been named manager of the department, and Harry C. Fall, previously a sales specialist in the special account department, has been appointed boiler underwriting manager.

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Hospitals which qualify can get weekly advance Medicare pay

NEW YORK—In a new program initiated by the Social Security Administration, any hospital in the U.S. that can meet certain accounting and bookkeeping requirements is eligible to receive advance payments for the care of patients covered by Medicare.

According to a spokesman for Associated Hospital Service, the Blue Cross fiscal intermediary between the hospital and the Social Security unit, a sophisticated accounting and bookkeeping arrangement is a prerequisite before thousands of dollars can be allocated on a weekly basis.

One employe benefits manager pointed out that the advance payment program could improve the morale of retired employes when they know the hospital will have money available to meet current operating expenses.

The advance payment plan was designed to improve the amount of working cash available to hospitals burdened with an increasing number of unpaid bills.

Presbyterian Hospital, New York, received a check for \$182,200 covering one week's expenses from the AHS which initiated the advance pay program here on a 52-week basis. Adjustments can be made at anytime.

The buyer noted that the advance pay plan could indirectly reduce premiums if the hospitals use the money to defray expenses such as interest charges on money borrowed to meet operating needs. ■

Fire-resistant bill signed by President

President Johnson has brought all fabrics used in the home under federal fire-resistance standards by signing the 1967 amendments to the 1953 Flammable Fabrics Act.

The bill, part of the President's consumer safety program, imposes the same fire-hazard test to such items as blankets, bedding, upholstery, rugs, drapes, hats, gloves and shoes as currently applies only to wearing apparel.

British auto insurance carriers assume more cheerful demeanor

LONDON—A much more cheerful look can now be seen on the faces of motor insurers here than has appeared for years.

The reason for this development is that last year the market outside Lloyds is expected to show a profit of around 5%. This follows a loss of £5,000,000 in 1966.

The profit expected is in the neighborhood of £7,000,000 on United Kingdom premium business of £250,000,000. One of the largest motor insurers, the non-tariff Vehicle & General group, which claims to insure about 10% of the private cars in the U.K., was one of several companies which did even better.

A. T. Hunt, managing director of Vehicle & General, said, "As far as can be seen at the moment,

we are very satisfied with 1967."

There was a sharp drop in the number of claims during the year 1967, even though the average cost per claim has been rising. Underwriters are trying to reduce the cost per claim by various methods, including talks with the Motor Agents' Assn.

The motor insurance market as a whole has a target of 5% profit; this now seems possible. Many companies which were

planning premium increases later this year, may now defer them. Other companies may probably bring in "selective adjustments" to their premium schedules and these may even mean slight reductions in some cases. These "selective adjustments" will be based on more sophisticated statistics now being used through the increasing and more knowledgeable use of computers. ■

Caterpillar . . .

Continued from page 18

foreign employes from one subsidiary to another.

"For example, an employe in our Swiss operation is transferred to Hong Kong. Now we handle it pretty much on an individual basis," he said, "but we would like to have a single world-wide pension plan with appropriate tax advantages.

"Salary continuance and long term disability plans, particularly for top management personnel, are a comparatively new in most foreign countries." In the U.S. Cat management employes get full pay for 6 months, then half pay for life.

In most foreign operations, employes get six months full pay, then benefits range from nothing to half pay for a year, he said. Workmen's compensation follows local laws—and aims toward self-insurance as the company's general practice in the U.S.

Mr. Mayer works with personnel managers in the subsidiaries and visits foreign operations two to three times a year.

CAT'S MARINE coverage is all-risk from warehouse to warehouse. Coverage extends to the destination, whether it be port of entry or an interior point including war risk, George Schmitt, the marine insurance supervisor in the traffic general office, told *Business Insurance*. Some subsidiaries' shipments are insured under policies arranged through the home office, others are negotiated locally, Mr. Schmitt said. Some foreign policies are arranged to meet legal requirements and to avoid premium taxes, he explained.

Because in most cases it has the risks of loss when ship-

Musicians . . .

Continued from page 12

"The musicians," Mr. Bahrs said, "are on strike, and people on strike are not entitled to unemployment benefits. Payment of the benefits is taking money from the Symphony Assn."

THE ASSOCIATION pays so much per employe to a state fund for unemployment benefits. These payments can be increased or decreased on the basis of benefit payments from the fund.

The Musicians' Union contends average annual earnings of the symphony players are about \$7,000 each, and some have been drawing unemployment benefits since the last symphony season ended because they have not found other work.

If Mr. Bahrs loses the appeal, the musicians will get the benefits held up, as well as any future benefits they might apply for. ■

Monsanto . . .

Continued from page 20

to place the business in the U.S. The Factory Insurance Assn., an underwriting group of over 100 U.S. property insurers, refused to write deductibles on fire, Mr. Chapman said, and Factory Mutual was willing to give higher deductibles but didn't feel they had the capacity "to give the limits we wanted."

SO MONSANTO'S broker approached Lloyds of London, which agreed to write the policy. The policy encompassed catastrophic coverage based on deductibles of up to \$2,000,000 with high limits on top of that. Mr. Chapman said they arrived at the figure for deductibles by analyzing the premium savings and average losses over the previous ten years to assess the impact of losses at various levels on the company's earnings per share.

In view of our reserves and premium savings, losses equivalent to 5¢ a share are acceptable, Mr. Chapman said, especially since premium savings made possible by the high deductibles would offset much of the loss.

IN CONJUNCTION WITH the new approach to buying property coverage, Monsanto set up a safety and property protection section within the central engineering department, whose sole responsibility was to analyze and control both physical and personal losses.

The section conducted training sessions aimed at getting across an awareness of the cost of losses to the company, and, because of the deductible, the incentive to reduce and control the losses. Finally, the section wants to register the "feeling that the control of losses is just flat good business," Mr. Chapman said, and that Monsanto can keep most of its premium savings if it can reduce its losses. ■

Astoria council studies retirement alternatives

The Astoria, Ore. city council is studying a report by a Portland consulting actuary on a retirement program for city employes. The report has several alternatives for the council and a committee representing the city employes to decide on.

The proposed retirement plans could cost the city from \$18,000 to \$32,000 a year, and would include employe contributions of 3% of salary.

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N.Y. premium tax hike bid may boost rates

ALBANY, N. Y.—Insurance buyers nationally may feel the effects of Gov. Nelson Rockefeller's proposed ¼% tax increase on insurance premiums—through increased rates.

The Insurance Federation of New York said that probably most other states will increase premium taxes on risks in their states underwritten by New York-based firms.

The proposed increase is across-the-board for state, out-of-state and foreign insurance companies. Most out-of-state and alien insurers pay taxes under New York's insurance premium tax; state-based insurers are classified under corporation and utilities tax category.

IF APPROVED, the new tax rate on premiums written in the state would range from 1% to 2.25%. For ocean marine underwriters, who now pay 5% tax on underwriting profits, the rate would increase to 6.5%.

The proposed tax increase of ¼% is expected to yield \$6,000,000; over-all taxes on premiums are expected to yield \$19,300,000 for 1968-69.

A large buyer of business insurance noted that in the end, "It's always the buyer who ab-

sorbs the cost of an increase."

Premium rate increases on most lines of insurance are filed with the New York Department of Insurance, and when insurers file they include any tax increases in the rate increase, it was explained to *Business Insurance*.

RATE FILINGS on various lines of insurance come up at different times, depending on the nature of the line, an insurer said.

The New York Federation said that the other states will wait to see what the New York legislature does before taking any action. More than likely such action would increase premium taxes for New York-based companies writing risks in other states.

Such action, the federation said, might be taken through an administrative act by state insurance departments. The New York insurance department has such authority.

Gov. Rockefeller also proposed, in his budget address, eliminating life insurance deductions on personal income tax as a "further step toward conformity with federal administrative rules and regulations."

Dutch Shell...

Continued from page 1

mated at \$750,000, dimming the hopes of some buyers who were trying to strengthen their bargaining power with OIA.

The Houston refinery fire, caused by a broken fuel line in a solvent manufacturing area of the plant, came at a time when Shell is negotiating a new insurance contract with the OIA.

According to one oil insurance buyer, the refinery loss could weaken Shell's bargaining position with the oil group, and the firm could be forced to take a higher deductible in addition to a premium increase.

THE HOUSTON FIRE came in the wake of a \$250,000 Shell loss at its refinery in Martinez, Calif., the week before and an estimated \$2,000,000 fire loss last month at a Standard Oil Co. of California refinery at El Segundo, Calif.

Standard, not a member of OIA, was self-insured up to \$5,000,000 for the oil fire that burned nearly 800,000 barrels of residual fuel oil. According to an insurance industry source, the Standard and Shell losses point up the catastrophic potential that exists in the oil business if the fires had spread to the main section of the refineries or to other refineries.

Discussion between oil insurance buyers about creating a reciprocal are still going on, according to one buyer. But he indicated a large loss like the \$36,000,000 Cities Service refinery fire in Louisiana last August could wipe out a reciprocal.

The Cities Service fire caused the Simmonds oil insurance pool to go out of business and, according to the oil insurance buyer, it would be difficult for a reciprocal to match the capacity that existed in the now defunct pool.

IN AN unrelated marine fire that occurred in the Houston ship channel, only a few miles from the Shell fire and at almost the same time, a freighter plowed into three gasoline barges causing one barge to explode and disintegrate.

While damage estimates on the freighter were not complete, an insurance source said repair costs at the shipyard will total at least \$200,000, not including losses to cargo.

U. S. marine insurers were reported not involved in the ship collision in the Houston channel because the vessel was foreign owned. One insurance source indicated the accident could have led to a major disaster because of the narrow channel bordered on both sides by oil refineries.

Travelers sues Blue Cross over 'restraint'

PITTSBURGH—The Travelers Insurance Co. has filed suit against Blue Cross of Western Pennsylvania charging restraint of competition and monopolistic practices.

The suit alleges that the Blue Cross unit received discounts from hospitals in providing hospital coverage, the basis for the suit.

The suit also says that Blue Cross has violated federal antitrust laws, state insurance unfair practices, and state nonprofit hospital plan laws.

Ford's Bermuda captive opens door to freer investment policy

DETROIT—Ford Motor Co.'s new captive property insurance company, Trans-Global Insurance Limited, began operations in Bermuda Jan. 1.

The subsidiary will assume from foreign carriers, which insure Ford's overseas plants and facilities directly, "a substantial portion of individual risks," according to Roy Jacobis, Ford insurance manager. He indicated that the Bermuda company was formed to provide a closer check on insurance expenses of its foreign operations.

R. A. Cover, former supervisor of foreign insurance activities at Ford headquarters in Dearborn, Mich., is president and managing director of Trans-Global. Mr. Cover, previously associated with Johnson & Higgins, was assistant insurance manager of Philco-Ford Corp., a Ford subsidiary based in Philadelphia, before moving to Dearborn.

Rails plan...

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posed any suggestion that members be asked to contribute.

However, J. P. Hiltz Jr., chairman of the National Railway Labor Conference, bargaining agent for the railroads, issued a note of warning to unions on the cost of the new plan.

HE POINTED out that costs have increased almost six-fold since the program was initiated. "If this rate continues, carriers feel that the employees will have to begin to share the cost by agreeing to reasonable deductibles and a small percentage of coinsurance," he said.

Mr. Hiltz said the master plan will benefit both employes and management through streamlined administration.

3 Providence fire mutuals talk merger

PROVIDENCE, R.I.—Three member companies of the Factory Mutual System are considering a merger, *Business Insurance* has learned. Negotiations are still in the discussion stage but are expected to be completed about the middle of February.

The three companies involved, all headquartered here, are Blackstone Mutual, Firemen's Mutual and Manufacturers Mutual Fire Insurance Co.

Ford indicated that funds to capitalize Trans-Global were transferred during 1967. As in the past, however, premiums will be paid by Ford's overseas subsidiaries to the local insurers and such premiums will not be subject to balance-of-payments considerations.

Income of foreign captive insurance companies, such as the one formed by Ford, is currently exempt from the taxable income of the U.S. parent until it is brought back to this country. Since Bermuda requires that little capital be kept on deposit there, capital, reserves and profits may be invested elsewhere.

Presumably, such operations can invest in plants or other properties that, in turn, can be leased to affiliated corporations.

SPECULATION that Bermuda's drive for independence from England may affect operations based in Bermuda apparently isn't worrying Ford. The big automotive company is understood to expect no change that would affect it if Bermuda should separate from Britain.

If there should be any change in the future in Bermuda's laws and regulations affecting insurance, Ford officials said, the company would naturally re-examine its position. The Bahamas and Panama, among other locations, are considered by Ford to be alternative locations for the operation of a foreign insurance company.

INA...

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INA, Mr. Smith explained. The idea for a holding company has been "on the fire for over a year," he said.

THE FORMATION of the holding company, Mr. Smith engaged in other related businesses.

At the end of 1966, INA's books showed \$670,000,000 for personal and commercial business excluding group insurance and rehabilitation was \$263,000,000. The company expects a 6 or 7% increase for 1967.

ITT already has an interest in the insurance business. The firm has just merged its Alexander Hamilton Life, Denver, and ITT Hamilton Life, Clayton, Mo., to form a company with nearly \$480,000,000 of insurance in force.

ITT ALSO owns half interest in the Abbey International Corp., Georgia, formerly known as the Great International Life.

Wheeling Steel seeks...

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May, 1967. The agency declined comment on why it wanted a list of Wheeling's stockholders.

In November, 1967, Wheeling filed an amended complaint suing the insurance agency for \$5,400,000, double the original suit.

WHEELING alleged that by reason of the absence of any personnel in its organization versed in insurance practices, both Paulls acted as the principal and exclusive insurance advisor to Wheeling and in practice assumed virtually complete control of Wheeling's insurance program.

"His (Mr. Paull Jr.) actions and those of the Paull agency were such that other sellers of insurance were precluded from participating or sharing in the sale of insurance to Wheeling in the same fashion as during the terms of his father, Lee C. Paull Sr., as a member of the board of directors of Wheeling," attorneys for the corporation said in the complaint.

"As a result of the foregoing acts and omissions of Mr. Paull Sr. and Mr. Paull Jr., Wheeling paid in each of the years 1959 through 1966 in excess of \$200,000 more in insurance premiums than it would have paid for the same or superior insurance coverage," the complaint states.

Prior to 1959, Wheeling was not able to determine the precise amount of its loss but the company said in the complaint that "by reason of the wrongful conduct of Lee C. Paull Sr., Wheeling paid an aggregate of at least \$4,000,000 in additional insurance premiums which it otherwise would not have paid for the same or superior coverage during the years 1934 to 1959."

ACCORDING TO Wheeling attorneys, "the availability of such substantial savings was not disclosed to the management of

Wheeling until after Paull Jr. ceased to serve as a director of Wheeling and Wheeling retained the services of experienced insurance personnel to advise it with reference to its insurance program."

In the complaint, Wheeling stated that the Paulls secured for their agency the responsibility to obtain appraisals of the values of Wheeling's physical assets for insurance purposes, and by means of calculated and purposeful over-valuations of certain of Wheeling's properties, the Paulls and the Paull agency caused Wheeling to purchase amounts of insurance protection with regard to these properties far in excess of their value at premiums which were correspondingly exorbitant.

The attorneys charged in the complaint that competition of other sellers of insurance was stifled by the Paulls, actively preventing insurance companies and agencies who wanted to bid for Wheeling's insurance from submitting bids, the Paulls distorting bids of agencies and companies who sought to compete for Wheeling's insurance business and attempted to submit bids and by preventing Wheeling from seeking competitive bids.

"THE RESULT was that Wheeling became a captive account of the Paull agency," the company stated in the complaint.

Wheeling stated that it has been paying from \$500,000 to \$700,000 annually for insurance premiums and commissions received by the Paull agency ranged from \$100,000 to \$150,000 annually.

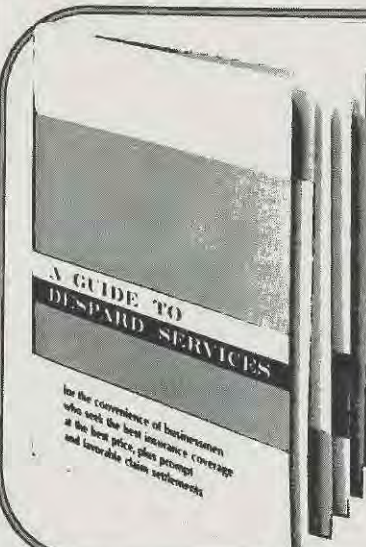
Wheeling's manufacturing and sales operations employ more than 13,000 persons. Principal lines of insurance which it carries include fire and extended coverage on physical facilities, public liability, workmen's compensation and various forms of employe benefits.

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