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# business insurance

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



The U.S. Olympic hockey team's blood-and-guts action could result in a severe headache for American International Underwriters.

## 24-hour-a-day coverage for U.S. Olympic teams

By PATRICK A. THOMAS

NEW YORK—John Phair, assistant vp and manager of personal lines in the marketing division at American International Underwriters, has more on his mind than Mom and apple pie as he watches the U.S. Olympic team compete on television beginning this week.

"If I'm watching the tube," Mr. Phair observed, "and, say, an American bobsled cracks up, I say to myself, 'He's one of mine. I've got a vested interest in him to the tune of \$50,000.'"

Mr. Phair's financial concern is prompted by the fact that AIU underwrites the personal accident coverage on all participants on United States Olympic teams, Pan-American Games teams and training squads. The actual policy is issued by United States Fidelity & Guaranty Co., an AIU member company.

"The insurance is primarily of an accident nature," Mr. Phair noted. "It covers them 24 hours a day as long as they are under the jurisdiction of the United States Olympic Committee. They do not have to be participating in an event to be covered."

**HE EXPLAINED** that participants would be covered for \$50,000 for loss of life, \$50,000 on dismemberment and loss of sight and \$10,000 on medical reimbursement.

The Olympic committee utilizes a deductible, the amount of which has varied since AIU began the coverage just prior to the Winter Olympics in France in 1968.

According to the policy, those covered by the insurance are: "Persons designated by the U.S. Olympic Committee as certified participants on a United States Olympic or Pan-American team or training squad, and certified participants in U.S. Olympic development programs, when under the jurisdiction of the U.S. Olympic Committee. Persons to be insured will include athletes, coaches, trainers, officials, managers and administrative personnel, except where such individuals are already covered under another program of accident insurance issued to the U.S. Olympic Committee."

Richard Reid of Reid & Carr, Inc., the Olympic Committee's broker, explained that committee members, fund raisers, committee employes and others not directly involved in the sporting events were covered separately under policies written by the Bankers Multiple Line Insurance Co.

**HE ALSO POINTED** out that team members were not always competing while under Olympic committee jurisdiction. "There are many situations," he said,

*Continued on page 25*

## U.S. indicts Wilson and 21 in 'biggest mail fraud conspiracy'

By RICHARD BJORKLUND

MIAMI—An offshore insurance company was used as the mechanism for an alleged conspiracy that government officials termed "the biggest mail fraud in history" involving losses of \$150 million.

Twenty-two persons were indicted by a federal grand jury here last week on 78 separate counts involving conspiracy, mail fraud, fraud by wire and securities violations dating from September, 1968.

Among the defendants is Philip M. Wilson, 34, who was also indicted in St. Louis on July 23, 1970, on 16 counts of mail fraud involving an alleged plot to defraud insurance brokers agents through operations of a mutual company in Missouri. *Business Insurance* detailed Mr. Wilson's mutual activities in a series of articles that began on Dec. 2, 1968. Mr. Wilson is also under indictment for perjury in Los Angeles where he was convicted of contempt of court in a case arising out of the operations of the Bank of Sark on the Guernsey Islands.

**MR. WILSON**, according to the new indictment, operated Trans-Continental Casualty Insurance Co. Ltd., Nassau, Bahamas, which government prosecutors described as a "shell" company used to induce businessmen to pay advance fees and to sell worthless reinsurance on a global scale. Sources close to the Justice department said that the alleged advance-fee swindle involved about \$75 million in losses and that the reinsurance operations cost policyholders an additional \$75 million in uncompensated losses.

Reinsurance sold by TCI included coverages in Israel, Italy and Belgium where, the government says, a shipper lost several million dollars in an unpaid ocean marine claim. Certain Lloyd's of London brokers were involved in placing TCI coverages, the government sources said, but there is no indication that they were involved in the conspiracy. The indictment returned by the grand jury is confined to the domestic operations of TCI, but foreign reinsurance dealings are under investigation.

Postal inspectors spent 21 months developing the mail fraud case in cities ranging from Ft. Lauderdale to Los Angeles to New York.

Richard Kirschner, a U.S. attorney in Los Angeles who came

here to assist in the prosecution, described the alleged advance-fee swindle "scam operation":

**REPRESENTATIVES** (or brokers) associated with TCI would approach businessmen who were contemplating construction projects with the suggestion that Trans-Continental Casualty In-

urance Co. provide permanent financing for their projects. This offer typically included payment of a 1% finder's fee to the broker.

Later the businessmen would be told that the financing deal was ready to be consummated and that 4% to 10% of the loan amount would have to be placed in escrow by the potential borrower. These funds, the indictment charges, would be appropriated by the defendants and no loans would be made, usually on the ground that the potential borrower had overlooked some tech-

*Continued on page 2*

## Congress chafes over lack of benefits ruling

By JOHN REVETT

WASHINGTON—The Pay Board's lack of a new policy on employe benefits following their exemption by Congress from strict controls is beginning to reverberate through Congress, the Internal Revenue Service and the insurance industry.

Sen. Lloyd Bentsen (D.-Tex.) has his staff checking on what became of his amendment putting pension, health and other benefits in a special class. "Over 30 days is certainly enough time to put it into effect," a top Bentsen aide said.

The board was reportedly considering proposals for standards by which employe benefits could be increased, expanded or initiated without being "unreasonably inconsistent" with economic stabilization. But no action was said to be imminent because an executive order from the White House interpreting "unreasonably inconsistent" had not been received.

In the meantime, the Internal Revenue Service, which is carrying out Pay Board commands in the field, has "no answer" for companies with queries and requests about new or expanded benefits that come out of employers' pockets. The only yardstick IRS has to go by is the Pay

Board's 5.5% general standard for wages and benefits combined.

While President Nixon signed the Phase II legislation in its entirety shortly after Congress passed it, an "executive order still hasn't arrived here," reports the Pay Board. It is said to feel that "a lot of red tape is involved," including a study of wording by the Justice department.

**A STANDARD** in the area of 5% to 8% for employe benefits increases alone (*Business Insurance*, Jan. 17) continues to be reported as the primary focus of Pay Board deliberations while it waits for the order. IRS says there would have to be a separate standard for new plans as "seven or eight percent in that case just wouldn't be enough." Other government sources are interested to see if the ruling Cost of Living Council sets levels of its own.

In a recent action the council exempted prices of four types of insurance: reinsurance, ocean marine insurance, inland marine insurance contracted on a bid basis and applicable to means of transportation and communication, and excess insurance that involves individually negotiated and rated insurance contracts "written in excess of a self-insured retention of at least \$100,000."



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Page 8, 14, 24, 28, 29, 30, 31, 32



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## Indictments...

Continued from page 1

nality in the loan agreement.

Victims of the conspiracy, the prosecutors said, hoped to get permanent loan commitments which could then be used to obtain interim financing for their projects from conventional lending institutions. "The 'point money,'" Mr. Kirschner charged, "was distributed among the conspirators before it even had a chance to cool off in the escrow accounts."

One instance cited in the indictment involved a building company that paid \$160,000 (or eight points) as a prepayment on a prospective loan of \$2 million.

A JUSTICE department official said that there was no money available in TCI to make the promised loans. He said the indicted defendants had far-flung financial interests including international reinsurance operations and a mutual fund operation in St. Louis that is under federal investigation.

Indicted with Mr. Wilson were Clifford Dixon Noe (also known as Dr. Noe), Jack Arlington Agnew Jr., William Charles Smith, Edwin Lamar Fox, Jay Kenton Long, Edward J. Killackey, Kenneth Bernard, Michael E. Somers, Jack Martin Axelrod, Carl Brown.

Also George Blocker, Charles A. Miele, Wendell Leo Thompson, Michael Arthur Strauss, Ronald Lee Gisno, John Edwin Schwindler, L. Nicholas Profaci, Ralph Thomas, Robert L. Hutcheson, William E. Brownlee and Bernard J. Greenberg.

U. S. District Court Judge C. Clyde Atkins set bonds of \$500,000 each for Mr. Wilson, Mr. Noe, Mr. Agnew, Mr. Miele, Mr. Blocker and Mr. Axelrod. Bonds for the other defendants were set at \$300,000 each.

### Shut Bahamas 'shell'

NASSAU — Trans-Continental Casualty Insurance Co. Ltd., the company described by U.S. government prosecutors as a "shell" for an alleged \$150 million mail fraud operation, has been "struck from the corporate records" in the Bahamas.

The action was taken by Charles Donaldson, Bahamian registrar of insurance companies, who cooperated with U.S. authorities in the investigation that led to mail fraud indictments of 22 persons in Miami last week.

Trans-Continental, government officials say, operates out of a postal box in Nassau. Its existence in this city was heralded by a shingle bearing the Trans-Continental name that hung from a garage attached to a Nassau residence.

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## Prudential, Kemper are ending marriage

NEWARK—The Prudential Insurance Co. and the Kemper Insurance Group will end a brief marriage of convenience June 28.

Under terms of the arrangement, which went into effect last June, Kemper provides administrative services on personnel auto and homeowner insurance policies underwritten by the Newark-based insurer.

According to officials at both companies the parting is by mutual consent. It was said that Prudential has developed sufficient expertise of its own and is now "gearing up to do its own underwriting, claims handling and systems management."

David J. Sherwood, president of the Prudential Property and Casualty Co., a shell company purchased from Kemper and licensed to do business in more than 30 states, said the company has written almost 15,000 policies in its first five months of operations. All of the policies are in Illinois, although the company plans to expand operations to three other Midwestern states by the end of the year.

"Commercial business is still a little way down the pike," Mr. Sherwood told *Business Insurance*. "However," he added, "we have developed a facultative and treaty reinsurance department for commercial lines and already have a pretty good book of busi-

ness." Assets at year end were about \$100 million, he said.

The original agreement announced by Prudential and Kemper in May, 1970, was said to be for an 11-year period, with either company having the option to terminate after a year. Prudential agents began selling policies in Illinois last June. Claims and paperwork, however, were handled by Kemper service offices on a fee basis. Kemper will get about \$1 million for its efforts in the year the agreement is in force.

JAMES W. HARDING, exec vp of Kemperco Inc., said that the development of Prudential in handling property-liability insurance sales and administration "has been a lot more rapid than we had anticipated. It is true that in a sense we added another competitor for property-liability business, but when we entered into this agreement we knew that Prudential would enter the field with or without the help of Kemper."

Mr. Harding termed "far out" the rumors that the agreement last year signaled a possible takeover of Kemper Insurance by Prudential. "There was never any possibility of that because Kemperco stock is 51% owned by Lumberman's Mutual Casualty Co., a mutual that cannot be bought in the way some people suggested," he said.

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# Benefits planning in Canada more than an extension of our experience

NEW YORK—Carson Beadle, vp and director of William M. Mercer Ltd., Montreal, has warned benefits managers of the dangers involved in regarding Canada as the 51st state in a speech to an American Management Assn. conference here on international employe benefit and pension management.

Such a narrow view, said Mr. Beadle, "can produce unnecessary employe unrest; failure to meet government requirements; invitations to unionization, and unnecessary expense."

Mr. Beadle discussed some common misconceptions resulting from differences in U.S. and Canadian insurance legislation. While Medicare in the U.S. refers to the elderly, he said, "in Canada it refers to everyone." It also refers "to total comprehensive medical care paid in full by the government in some provinces, and almost in full by the remainder."

**THIS EXTENSIVE** coverage makes the \$100 or \$50 deductible in most American major medical plans seem foolish since there are rarely any charges left. "Popular local plans have at most a \$25 deductible per person, or more commonly, \$25 per family," he said.

Many groups use a "no-no-no" plan, noted Mr. Beadle. "No deductible—no coinsurance—no maximum."

Canadian disability benefits can become quite complicated for the corporate benefits manager. There is no minimum benefits legislation in Canada. Any employe, however, can collect unemployment insurance for disability if he has been in the work force an adequate period of time, and if his employer's benefits are not equal to the unemployment insurance level.

If a company provides a disability plan which equals the unemployment insurance program, then it can register with the unemployment insurance commission to receive a reduction in its unemployment insurance premiums for the following year.

**THE 31% SAVING** the company will receive, however, can be substantially reduced. "Unless you have a prior agreement with your employes, you must return five-twelfths of this saving to your employes," he explained.

Even if the plan meets the standard, a company does not receive the reduction unless the plan is registered.

If a company disability plan does not meet the standard, then unemployment insurance will compensate the employe up to the standard level.

In addition, employes who draw unemployment insurance disability benefits reduce their lay-off benefits by as much as 15 weeks; and an employe may have to wait as much as five weeks to receive his first disability payment.

**MR. BEADLE** added, "Decisions in this area must be preceded by very careful study if you are to avoid some fundamental changes in your corporate policy toward disabled employes and in your pattern of costs."

Compared to life insurance in the United States, Canada's group rates are generally lower while their interest earnings are higher, he noted. The average total premium rates range from 30¢ to 40¢ monthly per \$1,000. "Any company which charges its em-

ployes 50% of its U.S. rate, or especially the old 60¢ New York maximum employe contribution is asking for challenge," said Mr. Beadle.

Companies are also beginning to consider life insurance plans in terms of need rather than offering one earnings-related plan to all employes.

The government has recently increased benefits to survivors. "Endless and unintended 'stacking' of private on top of government benefits is minimized," said Mr. Beadle, if a company integrates the two plans.

**CANADIAN TAX** legislation which became effective Jan. 1 can jeopardize the tax-free status

of weekly indemnity or long-term disability insurance benefits, he continued. Under the new law all disability benefits are scheduled to become taxable on Jan. 1, 1974.

If, however, a company revises its benefits plan in any way before that date, the company automatically loses its tax-free status for the interim. An employer not familiar with the new law may accidentally reduce his employes' benefits by improving the benefit program.

Pension plans in Canada are affected by several requirements. Vesting is compulsory in most provinces for employes age 45 or over who have worked for a company for ten years. Adequate funding is also required.

In Canada, pension benefits can differ between employe groups or individual employes because anti-discrimination laws do not affect this area.

"New developments are occurring so rapidly," Mr. Beadle noted, "that now is the time for an intensive study of benefits de-

velopments in Canada." The current trend seems to point to a philosophy of a minimum income for everyone. "The hidden factor is that increased benefits and additional benefits (such as unemployment insurance sickness benefits) are being provided by various government agencies." ■

## International services

**AS IN THE PAST**, the 1972 international issue of *Business Insurance*, to be published Feb. 28, will include a listing of international services. The listing will contain descriptions and locations of services available to risk managers and employe benefits administrators of companies that are expanding overseas or have installations in foreign countries.

Companies are welcome to submit descriptions of their international facilities including company, name, address, phone, cable or telex address and a brief paragraph detailing the international services offered. Submissions are due Feb. 11 and should be addressed to Andi Sucherman, editorial assistant, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611. Items received after deadline will not be included.

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# washington watch

## Congressional calendar is anything but sluggish after the holiday recess

By JOHN REVETT  
Washington editor

WASHINGTON—Legislation has returned to the forefront of the Washington scene now that Congress is back from its pre-Christmas-through-Super Bowl holiday, which apparently wasn't all spent in hand shaking and fund raising.

Sen. Harrison A. Williams (D.-N.J.), for instance, came back with the draft of an omnibus pen-

sion reform bill that he's expected to introduce within the next two months. Details of the Williams bill are being kept under wraps, but it's understood that fairly tough vesting, funding, portability, re-insurance and disclosure requirements are in it.

There had been some thought that Sen. Williams, chairman of the Senate labor committee, might not step in with his own legislation since there was no sign that he disagreed with pension

reforms proposed by Sen. Jacob Javits (R.-N.Y.), which have been a focal point of the committee's pension deliberations. But labor committee sources say the move was very nearly inevitable for the legislator after he chaired months of hearings that stressed pension inadequacies.

**WHETHER** the Williams bill will be stronger than the Javits measure could not be immediately determined. If it is, the bet-

ting is that the main difference will lie in portability. The Javits bill has a portability provision, but some pension reform advocates have called it "too voluntary" where employers are concerned.

One thing is clear in light of the impending Williams move: The "study" period is just about over and the time for action is not far off. A few days of additional hearings on the problem of pension plans that terminate may be held in April or May. After that the Williams committee will start hammering out a final bill.

Another legislator whose wheels kept turning during the holidays was Sen. Russell B. Long (D.-La.). Sen. Long has instructed his staff to start preparing a bill designed to take the place of broad national health insurance legislation ranging from the Kennedy-Griffiths full coverage, revenue-backed proposal to the Nixon Administration's employer-employee cost split program.

Sen. Long, opposed to them all, wants a law covering what he feels are three main health problem areas. It would switch Social Security disability recipients to Medicare, provide federal catastrophic health coverage for people with high medical and hospital expenses, and put the federal government in charge of state-operated Medicaid programs.

**MEANWHILE**, the first sign that national health insurance of a broad scope will indeed play a part in the politics of 1972 came by way of reports that liberal Democrats are pressing to have the Kennedy-Griffiths program in the party's campaign platform. This and the fact that organized labor generally backs the Kennedy-Griffiths measure should provide an interesting setting for executive sessions on a dozen or more national health insurance bills starting in a few weeks in the House Ways and means committee, Rep. Wilbur Mills (D.-Ark.) presiding.

Sen. Long will have a chance to make his views known in more detail as the Senate finance committee gets into hearings on health insurance bills. He's committee chairman.

Another legislative subject that has reached the executive session stage is product safety. Here one bill is in the spotlight. Sponsored by Sen. Warren Magnuson (D.-Wash.), Senate commerce committee chairman, and other leading Democrats, the measure under consideration by the commerce committee would replace most product safety laws with an omnibus consumer-oriented law to be carried out by a new, independent consumer safety agency that would include the Food & Drug Administration.

"Some people don't think we're serious," said a commerce committee staff official. "I want to assure you that the backers of it are." He said the measure, which could mean a big expansion in product liability coverage requirements, will be the subject of executive sessions before the end of February.

**CHANCES** that the bill will go into law this year are considered better than 50-50 despite opposition from within government to the far-reaching changes regarding FDA. Objections to the actual product safety function of the new agency are not viewed as significant at present, but industry lobbyists are still very much on the scene and their contentions that business-bogging mischief is involved could have an effect.

The commerce committee will also hold executive sessions within the next month or two on a national no-fault auto insurance program. Backers of the national no-fault law proposed by Senators Magnuson and Philip A. Hart (D.-Mich.) say that continued foot-dragging by states makes the possibility of federal enactment this year quite real.

Nixon Administration efforts to keep federal legislation in the background while states take up their own laws have been relatively successful, however, and there is no sign yet of an Administration alternative to this approach. The possibility that the White House will push for national no-fault standards does exist. Administration officials are saying so in their campaign to get state action.

Washington, D.C. isn't a state, but it could soon have a no-fault law of its own, maybe before summer. The D.C. no-fault bill, introduced last year by Sen. Adlai E. Stevenson III (D.-Ill.), is said to be in a position that's "quite positive on passage." ■

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## Urges that pension systems be voluntary

NEW YORK—In a highly theoretical speech embroidered with Agnewesque vocabulary Norman B. Ture, a Washington-based economic consultant, told the 23rd National Conference of the Tax Foundation Inc. that he would "play devil's advocate, urging that the Social Security retirement system grossly violates efficiency criterion, that substantial violence is done it by many private industrial retirement plans, but that in this imperfect world, private plans more nearly suboptimize than does Social Security."

Mr. Ture, former director of tax studies for the National Bureau of Economic Research, said on the subject of balancing public

and private retirement plans that the criterion of efficiency "has not been investigated in serious, quantitative research . . . in the context of welfare economics." He said the central question involved is "whether public and private retirement programs enhance or diminish total utility."

Mr. Ture noted that if there were no compulsory retirement system "the poverty or destitution of those who had made inadequate provision for retirement would certainly be distressing to those who observed it," but argued that efficiency loss under a compulsory retirement system was too large to justify such a system. However, Mr. Ture noted that "there is a contrary conviction in all 'developed' nations where retirement systems have been socialized to some degree and in some ways.

"In the United States," he continued, "compulsory plans, both public and private, have assumed a continuously increasing role in providing for retirement." Mr. Ture said that both public and private retirement plans suffer in efficiency insofar as they are compulsory.

"THE SOCIAL Security retirement system must be presumed to impose efficiency losses by virtue of the facts that it is compulsory, that the participant, given the fact that he is forced to save, has no choice as to amount of saving, the type of capital claim in which he embodies his saving, and the time and conditions under which he may exercise his capital claims."

The speaker said the same observations apply to many private industrial retirement plans because "a great many of them are involuntary; participation by the employe is a condition of employment."

However, he added, "these observations are subject to notable and expanding exceptions. A large and increasing number of employes allow at least some of their employes considerable latitude in the choice between current wage and salary or pension plan participation, with regard to the amount of contribution to the plan, with respect to types of instruments in which the contributions are to be invested, and concerning the benefit package itself."

In his speech Mr. Ture also said that "the thrust of my discussion is to rephrase the question from the appropriate balance between public and private retirement plans to the proper balance between voluntary and involuntary programs for retirement income.

"Examined against the criterion of efficiency, involuntary pension programs are undesirable, whether these programs are organized under private or public auspices. Indeed, in the context in which my discussion is cast, it is difficult to understand the continuing concern with integrating private retirement plans with Social Security; to me, it seems a clear case of cart before the horse.

"The principal concern of public policy in this area, it seems to me, should be to move both public and private systems closer to voluntarism than at present." ■

### Favor no-fault

Respondents to a poll taken by Sen. Charles H. Percy (R.-Ill.) indicated that they strongly favor adoption of no-fault auto insurance. Seventy-five percent of the senator's constituents who answered the poll favored no-fault auto insurance.

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1 Some of the really big boys who write group LTD have been taking a second look lately and "consolidating their positions."

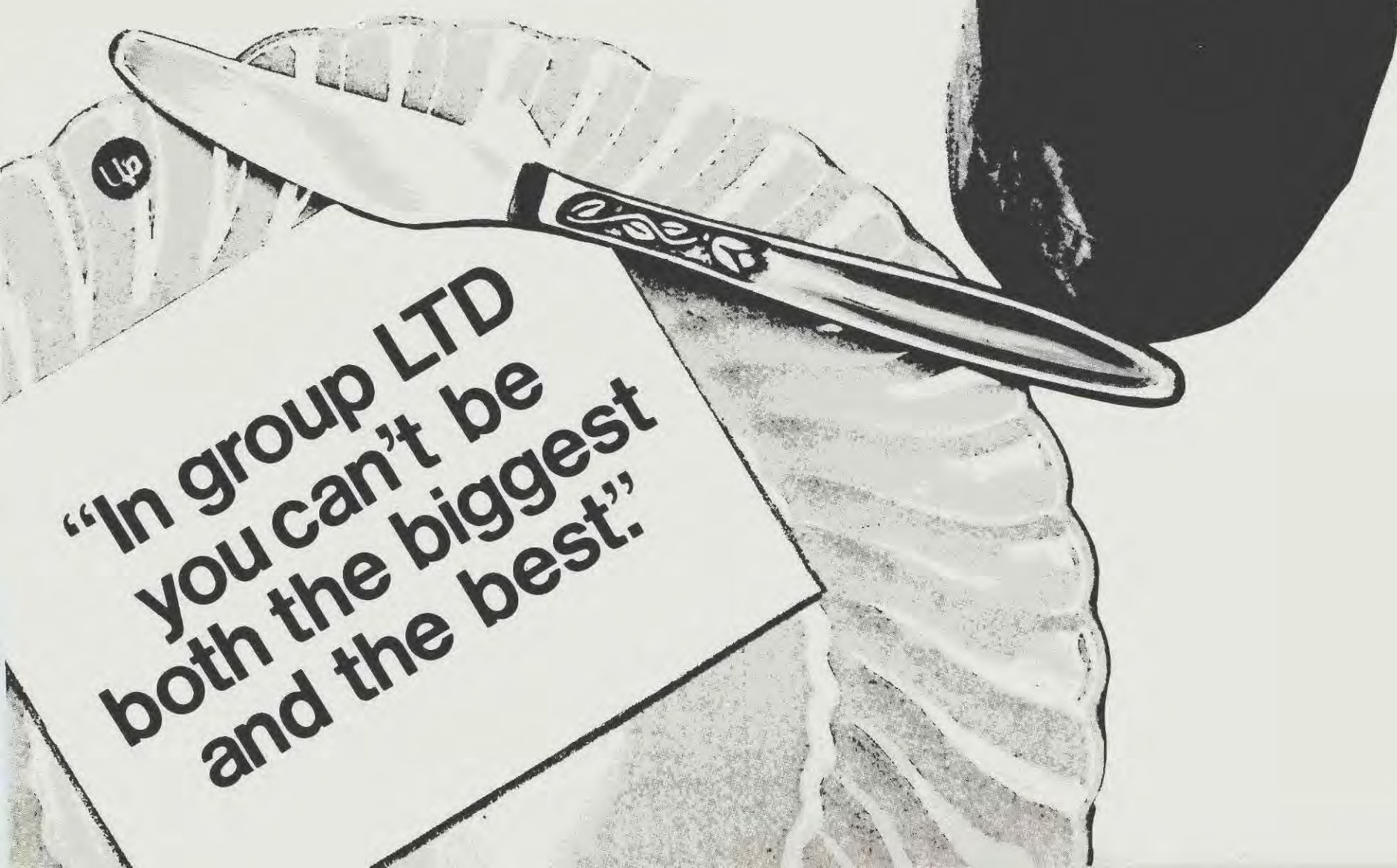
2 Our growth has been more than steady. It has been spectacular! We now have close to twice as many cases on the books as our closest competitor, which doesn't make them very close, does it?

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**"In group LTD  
you can't be  
both the biggest  
and the best."**



Robert B. Johnson (right), vp, Continental Casualty Co., discussed his ideas on product liability with David Vaaler (left). Mr. Vaaler is president of Blackburn, Nickels & Smith, Minneapolis.

## Johnson suggests attention in design stage to halt product liability claims

CHICAGO—Insurers ask themselves if the problem of product liability is here for the long term or if it will fade away, Robert Johnson told a *Business Insurance* product liability workshop here, "but it involves everyone, in wide areas, and this mitigates against its fading away."

Mr. Johnson, vp of Continental Casualty Co., sees the problem as a result of the trend toward what he described as cradle-to-grave security in human living and government control today. "Product liability must, inevitably, seek a proper proportion in business life," he said. "We just don't know what that proper level is or who will get hurt before it settles. So business and insurers may as

well devise a strategy to meet that problem."

Although government agencies and commissions will help in setting guidelines, the insurance executive emphasized that, gradual-

### product liability workshop

ly, the problem is being hemmed in as "a concentrated one that will be absolutely necessary for insurers and industry to solve." To this end, he agreed with another workshop speaker, Reuben Robertson of Ralph Nader's staff, that industry should face liability

before the fact at the product design and development stage.

**INSURERS** are concerned not only with how well a product and its components are made, he said, but also how labeling is handled because, too often, the fine print is so complex, legally and technically, that the consumer won't read it, let alone understand it.

Mr. Johnson suggested a record-keeping change that might cost companies a little more money but that he believes to be worth more than pennies. Many companies, he noted, purchase similar components on a competitive basis from many manufacturers whose quality is similar. "Don't worry so much about saving money," he said; instead, try buying from fewer manufacturers in order to make record keeping clearer and easier.

Self-insurance and higher deductibles are not effective strategies in attacking the broad problem of product liability in his eyes because they are "temporary and local" remedies. "These are being thrown at industry," he told the risk managers, "but they are not the answers."

In response to a risk manager's question, Mr. Johnson said he "wouldn't rule out" the fact that, just as it is illegal to insure against oil pollution today, it might someday be illegal to insure against product liability—particularly if the situation becomes so bad that government must establish state product review commissions. ■



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## Fire hotel sues to protect itself

TUCSON, Ariz.—A second lawsuit has been filed by the Pioneer International Hotel here to protect itself if the hotel is found liable in suits arising from a 1970 fire fatal to 28 persons.

Filed in Pima County superior court, the new lawsuit asks \$600,000 in damages from Home Insurance Co. and Jensen and More Inc., which conducted fire inspections of the hotel for the agency. It alleges that the hotel management was "lulled into a false sense of security" by inspection reports that indicated "there were no unreasonable fire and/or liability risks connected with the operation and/or construction of the hotel."

The suit says the hotel may be liable to plaintiffs in various civil actions as a result of the fire. It asks damages for uninsured fire losses and for any amounts recovered from the hotel which are in excess of the hotel's liability insurance, if the hotel is found liable.

Home Insurance also is involved in a \$200,000 suit the hotel management filed Oct. 29 in the same court, claiming independent agent David Lovitt negligently caused the hotel to be underinsured against losses of business income. The suit says Mr. Lovitt arranged the hotel's business income loss insurance with the Home Insurance Co. It further says the hotel had requested 100% coverage, but Mr. Lovitt is alleged to have caused it to be covered for less than 50% of business income losses from the fire. ■

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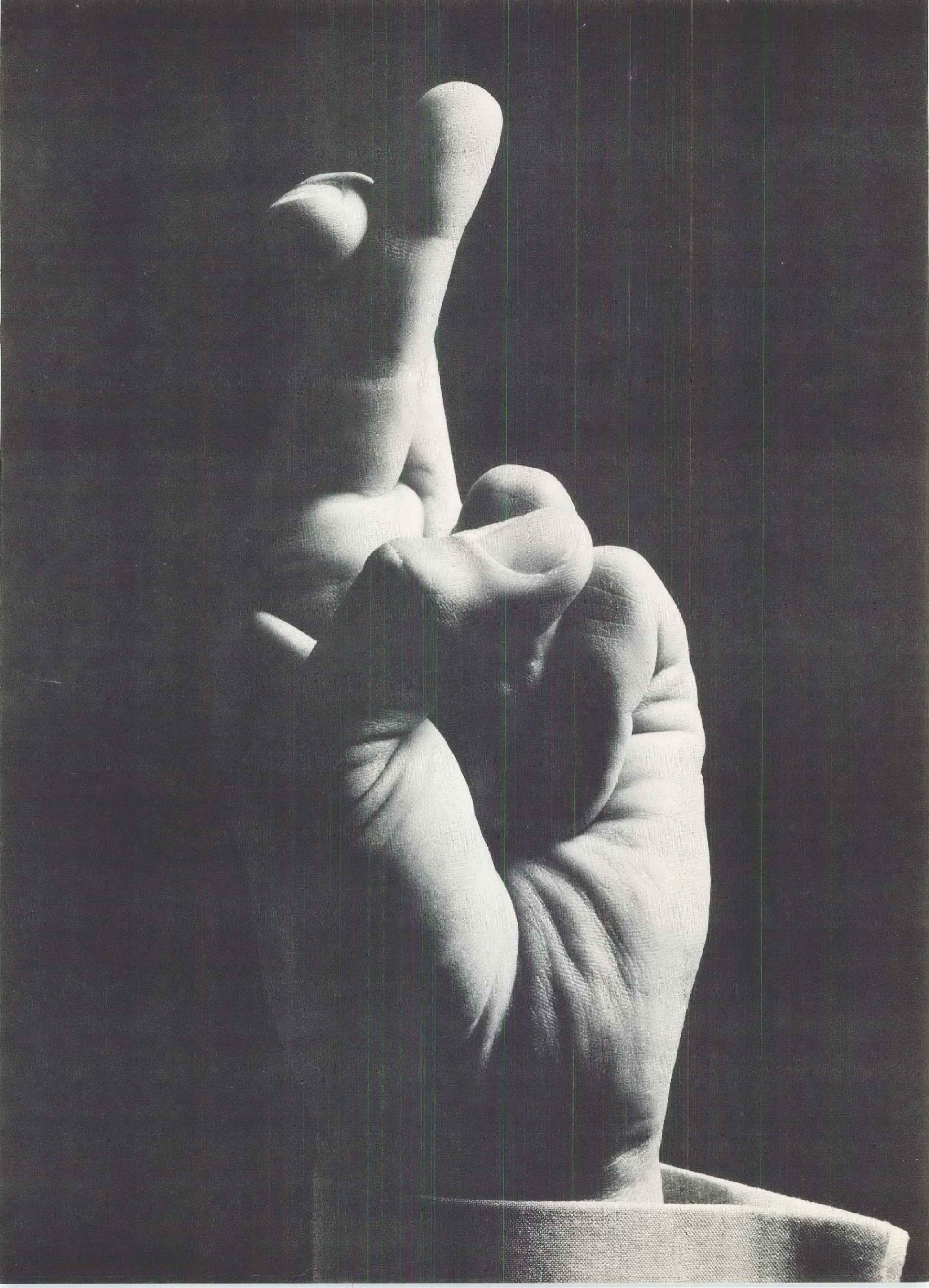
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## info for buyers

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

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

• **Product Liability—Loss Prevention and Control** is a full color audio-visual filmstrip made available by the Kaiser Aluminum & Chemical Corp. The 30-minute program, designed to stimulate employee awareness of product liability problems in all areas of design, development, production, sales and marketing, explains in layman's terms the current law of product liability and its evolution. It highlights the importance of loss prevention and suggests a possible corporate structure and policy to deal with the product liability problem. For more information write the company, 755 Kaiser Bldg., 300 Lakeside Dr., Oakland, Cal. 94604.

• **Security for Business and Industry** is a comprehensive 300-page book detailing how to prevent losses due to burglary, employee theft, embezzlement, vandalism and fire. Written by Charles F. Hemphill Jr., the book is applicable to firms of all sizes. For price information write the publisher, Dow Jones-Irwin Inc., 1818 Ridge Rd., Homewood, Ill. 60430.

• The American Society of Safety Engineers has published a **Dictionary of Terms Used in the Safety Profession**. The dictionary lists terms and definitions applicable to the technology and practice of occupational safety and health. For quantity and price information write the society, 850 Busse Highway, Park Ridge, Ill. 60068.

• **Sprinkler System Guide**, a complete introduction to sprinkler system design, fire protection costs, insurance requirements, building codes, water supplies, hydraulic calculations and hazard evaluation has been made available by the Viking Corp., Hastings, Mich. 49058. For your free copy write the company.

• **Mechanics for the Safety Man**, bulletin 239 in the Labor department's Safety in Industry series, gives background information on basic mechanical laws and relates this information to accident prevention and solving safety problems. Copies are available for 25 cents from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• **Vanguard One** is a brochure offered by Bankers Security Life to explain the company's individual term life plan of special interest to inflation-conscious business executives. The plan was developed to provide benefits which increase automatically, according to the Consumer Price Index, during each four-year renewal period. A copy of the free brochure may be obtained by writing A.C. Fluke, Bankers Security Life Insurance Society, 1701 Pennsylvania Ave., N.W., Washington, D.C. 20006

• A pamphlet describing their board of education indemnity program has been produced by Stewart, Smith. The program has been devised expressly for the protection of school board members and school district employees. Copies of the brochure may be obtained by writing Stewart, Smith Mid-America Inc., 141 W. Jackson Blvd., Chicago, Ill. 60604.

• The National Foundation of Health, Welfare and Pension Plans, Inc. has made available its **Communications Guidebook** dealing with all phases of employee benefits communications. The book, originally the official guide to the employe benefits communications exhibit at a recent Foundation conference, provides a comprehensive guide to the benefits communication field. A special feature is the extensive use of footnotes and bibliography which heightens the book's possibilities for future reference. Copies are available for 75¢ from the Foundation, 18700 W. Bluemound Rd., P.O. Box 69, Brookfield, Wis. 53005.

• A micro-history of employe benefits in the U.S. has been compiled by Hewitt Associates consulting firm. The pamphlet, in convenient chart form, summarizes important employe benefit developments during the past 200 years and includes a list of general trends in retirement, death, disability and medical care benefits. Copies are available without charge through Kenneth E. Feltman, Hewitt Associates, 102 Wilmot Rd., Deerfield, Ill. 60015.

### Special Info section coming

The 1972 international issue of *Business Insurance*, to be published Feb. 28 will include a special Info for Buyers section. Companies are welcome to submit items for the special section, specifying the literature's title, name of the individual to whom requests should be addressed, company address and any necessary price information. Please enclose a sample of the literature, addressing all items to Leslie Murray, associate editor, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611. We will not include any items submitted after Feb. 11.

• **Equal Employment Opportunities in the Insurance Industry**, a monograph by Arthur H. Barnes, vp of the Consolidated Insurance Cos. manpower resources division, offers a reasoned, step-by-step program for the hiring and training of minority group members. The booklet is available, in quantities, from the company at 345 Adams St., Brooklyn, N.Y. 11201.

• **How to Create a System for Accident Cost Control out of OSHA Recordkeeping** is a bulletin put out by Computer Claims Control. It features sections on OSHA recordkeeping requirements, samples of forms to be used, available recordkeeping alternatives, and the Computer Claims Control System '70 recordkeeping system designed to manage all reports and records in the OSHA regulations. Copies of the booklet are available free of charge from Computer Claims Control, Amarillo Building, P.O. Box 2827, Amarillo, Tex. 79105.

• A revised third edition of **Insurance for Contractors** is available from Fred. S. James & Co., 1 N. La Salle St., Chicago, Ill. 60602 at \$3 per copy. The 109-page booklet is of wide interest to general, prime and sub-contractors, owners, architects, engineers and those charged with properly insuring contract specification. A wide variety of topics is discussed, including hold-harmless clauses, directors'/officers' liability, protective liability and employee benefit liability. Quantity prices are available from the company upon request.

• A 35-page monograph on the problem of professional liability for insurance agents and brokers has been published by the Defense Research Institute of Milwaukee. Written by attorney Joseph R. O'Connor, associate counsel for the State Farm Insurance Co., the publication analyzes the nature of liability and the responsibilities of practitioners in the field and examines the defenses and the insurance protection available to an agent or broker. Copies of **Liability of Insurance Agents and Brokers** may be obtained by non-members of DRI for a handling fee of \$2.00 each, prepaid, from the institute, 1212 W. Wisconsin Ave., Milwaukee, Wis. 53233.

• **Guide to Property Conservation**, a booklet produced by the engineering staff of the combined property department of Kemper Insurance is available free to *Business Insurance* readers. The pamphlet is applicable to almost any plant situation and covers such topics as plant security, cutting and welding regulations, problems of expansion, what happens when a loss occurs and what to do in case of disaster. Copies are available by writing the advertising and public relations department, Kemper Insurance, Long Grove, Ill. 60049.

• Alexander & Alexander has released a revised edition of its brochure, **Notes on Old Age Benefits Under Social Security**, based on 1971 amendments. The pamphlet contains notes and tables for calculating maximum primary Old Age Social Security benefits at retirement for ages 55 to 70. Single copies are available to *Business Insurance* readers by writing the Consulting Actuarial Division, Alexander & Alexander, 2 N. Riverside Plaza, Chicago, Ill. 60606.

• **The Investment of the 70's**, a booklet composed of various reports on the projected growth of the insurance industry as well as the potential of insurance stocks and the stocks of insurance oriented holding companies, has been published by Span Publications. The life and fire and casualty industries are reviewed in reports by: Merrill Lynch, Pierce, Fenner and Smith Inc.; Standard & Poor's Corp.; Moody's Investment Service; First Boston Corp.; A.M. Best Company and insurance stock specialist Arthur Milton. For information write Span Publications, P.O. Box 3857 G. W. Springfield, Mo. 65804.

• The Mission Equities Insurance Group has made available **Mission for the Seventies**, a brochure describing the company's corporate set-up, coverages, offices and officers with an introduction by Mission's president. Copies of the book are available from David L. Arrillaga, Advertising Manager, P.O. Box 60004, Los Angeles, Cal. 90060.

• **Paying for Your Pension** is a pamphlet designed to explain, in clear and concise language, what

goes into a pension fund, how pension money is provided and what happens to the money. Samples and price information are available on request from Mrs. Retta Renich, Hewitt Information Service Inc. (a subsidiary of Hewitt Associates), 102 Wilmot Rd., Deerfield, Ill. 60015.

• Audio-cassettes, complete journals of the *Business Insurance*-Computerworld computer protection/insurance workshop, are available to *Business Insurance* readers. Edutronics Systems International Inc., 3345 Wilshire Blvd., Los Angeles, Cal. 90010 offers four audio-cassettes containing the entire workshop proceedings for \$50. Included on the tapes are speeches and panel discussions of computer fire protection, computer security, computer employe safety and morale, property and liability insurance and risk management for computer facilities.

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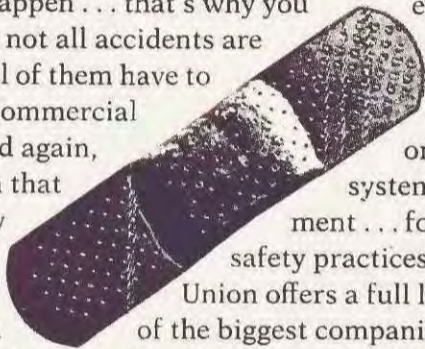
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## Karasik tells the 'ifs' of product liability law

CHICAGO—Product liability law, from the plaintiff's point of view, revolves around the answers to four questions:

- What is the defective product?
- Who is responsible?
- What does the plaintiff have to prove for his case?

### product liability workshop

to prove for his case?

- With what defense will he be met?

Sidney Z. Karasik, from the law firm of Angerstein & Angerstein here, posed the questions to

risk managers at the *Business Insurance* product liability workshop. Mr. Karasik, who is a past president of the Appellate Lawyers Assn., then said that most liability law, which states: "One who sells any product in a defective condition unreasonably dangerous to the consumer or to his property is subject to liability for physical injury thereby caused to the ultimate consumer or user or his property."

**HOWEVER**, there are two big "ifs" attached to that doctrine to make it applicable, he said. The seller must be engaged in the business of selling that product regularly and the product must be expected to reach the user or consumer in the condition in which it is sold.

A recent Illinois case, said Mr. Karasik, arrived at a fairly standard definition of defective products as "dangerous or unreasonably dangerous because they failed to perform in a manner reasonably to be expected of them in light of their nature and intended function." He stressed that liability for such defects applies even though the seller has exercised all possible care in preparation of the



Sidney Z. Karasik

product and even though the user has not entered into any direct contractual relationship with the seller.

To clarify the phrase "unreasonably dangerous" Mr. Karasik explained that a gun, for instance, is dangerous by its very nature; but if it works properly it is not unreasonably dangerous. If, however, that gun has a hair trigger, he said, the element of unreasonable danger is introduced.

Mr. Karasik told the workshop that it is easier for a plaintiff to win a product liability suit based on a particular flaw than on a design defect. Proof in a design defect case must be based on showing what the overall design standards are and that the product or component in question did not live up to them. "Manufacturers will fight you a lot harder on design defect" than on an individual flaw, he said, recalling that General Motors fought recent design suits against its rear-engine Corvair vigorously, and won many of them, but that it settled quickly on some cases that were based on a particular flaw.

**THE RULE** of strict liability, he added, excuses the plaintiff from proving certain things he would have to prove if he were to base his case on negligence. The plaintiff does not have to prove that the manufacturer or seller was negligent in his contact with the defective product; he does not

Continued on page 18

# 5 ways to help your employees with more than just money—at little or no cost to you.

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## 2. Long Term Disability Insurance

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## 3. Supplemental Hospital Indemnity Insurance

This program is designed to augment basic medical plans. The employee is paid a specific sum *directly* for each day that he or a family member is

hospitalized. When he signs up, the employee selects the amount of the daily benefit, which is usually from \$10 to \$40. Benefits are payable for a full year.

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an INA Corporation company

# opinions

## Speak up for no-fault

SEN. WARREN G. MAGNUSON (D. Wash.), chairman of the Senate commerce committee, has predicted that there is a "good chance" for passage by the end of spring of the federal no-fault auto insurance law co-authored by Sen. Magnuson and Sen. Philip A. Hart (D.-Mich.).

Committee hearings have already been held on the revised no-fault bill that includes provisions for promptly compensating auto accident victims regardless of fault up to "catastrophic level" of \$36,000 to provide surer, swifter payment to motorists, passengers and pedestrians injured in auto accidents.

The revised version of the bill also eliminates any distinction between private and commercial vehicles, a characteristic that was demanded of the sponsors by officials of the American Society of Insurance Management as spokesmen for motor fleet insureds.

Officers of ASIM and readers of *Business Insurance* have strongly endorsed both the principle of federal no-fault standards and the elimination of distinctions between private and commercial vehicles. Our readers indicated in a survey taken last year that they want national uniformity to avert the administrative headache of dealing with the possibility of 51 incompatible no-fault auto insurance laws in the states and the District of Columbia.

Sen. Adlai E. Stevenson III (D.-Ill.) has introduced a companion bill to the Magnuson-Hart proposal that would institute no-fault auto insurance in the District of Columbia. Provisions of the Stevenson bill closely follow the Magnuson-Hart plan, and Sen. Stevenson has predicted favorable action on his bill during this session of Congress.

Editorials in *Business Insurance* have strongly endorsed the concept of federal no-fault standards. We favor a bill that offers a real possibility of eliminating costly litigation so that auto victims will get, without red tape, some of the \$1.3 billion that annually goes into the pockets of trial lawyers in auto accident cases. Auto victims should also get a share of the massive insurance overhead cost inherent in our present wasteful system.

We have expressed reservations, however, about provisions of the Magnuson-Hart bill and other no-fault laws that fail to make a distinction between private and commercial vehicles. Such provisions are patently inequitable because they force private motorists to assume the costs of injuries they sustain in accidents involving heavy vehicles that roll up vast road mileage.

Though we are concerned about the impact of failure of the Magnuson-Hart proposal to make a distinction between commercial and private vehicles, we believe that their bill (S. 945) deserves the support of all private and commercial consumers of automobile insurance. Adjustments in commercial-private loss bearing can be made after we have some experience with the plan.

It's time for the American Society of Insurance Management to get back on the track its officers set for its members last spring when they endorsed the Magnuson-Hart bill and testified for their position

## PROTECTION FROM INCOME LOSS FROM SHORT-TERM SICKNESS

	Income lost	Percent of loss protected	Amount of group coverage
1950	\$ 4.8 billion	19.6%	\$ 471 million
1955	6.5 billion	24.7%	820 million
1960	8.5 billion	28.3%	1.2 billion
1965	11.3 billion	29.5%	1.6 billion
1970	15.4 billion	35.9%	2.8 billion

The amount of group coverage in force on short-term sickness in 1970 was six times greater than in 1950 and the percent of loss protected grew from 19.6% to 35.9%. Short-term sickness refers to nonwork-connected disabilities lasting not more than six months. The proportion of lost income replaced by benefits increased 1.8% over 1969, continuing a five-year trend toward annual improvements in the benefit-wage ratio.

Source: Social Security Administration

before the Senate commerce committee. That was ASIM's proudest legislative moment, a time when its officers stood forthrightly for the interests of ASIM members and the companies they serve in risk management positions.

Since that time ASIM has not been quite so resolute. It has permitted its legislative spokesman to publicly question the no-fault principle. The spokesman has also denounced the National Conference of Commissioners on Uniform State Laws for its efforts to put forward national standards for no-fault laws which their states could follow.

Douglas Barlow, president of ASIM, affirmed in a letter to *Business Insurance* that the group supports federal no-fault, despite the inconsistent pronouncements of ASIM's legislative counsel.

ASIM, at its annual conference in Montreal in April, ought to give a ringing endorsement to the Magnuson-Hart plan (S. 945) and follow it up by urging its 2,000-plus members to write their legislators in support of federal no-fault standards. Commercial vehicle operators who pay about 25% of the nation's auto insurance bill should have a strong voice in the shaping of legislation that vitally affects their financial interests and the well-being of their employees. Their interest certainly does not lie in a hodge-podge of state "experimentation" with dozens of contradictory state auto victim compensation laws.

## Images from 'Longstreet'

JAMES FRANCISCUS, an able actor, has created a character with believability and an aura of pathos as he has played a blind insurance investigator in the "Longstreet" tv series. Who among his viewers has not wanted to jump through the screen to save a poor, sightless man from a bad guy aiming a gun?

Yet, for all of its dramatic impact, "Longstreet," as it fulfills its primary role as tv entertainment, conveys some wildly distorted images of the insurance industry.

One of the "Longstreet" dramas had a single insurance company suffering \$300,000 in burglary losses in a number of break-ins in one apartment building. It is somewhat difficult to imagine that underwriters for any company would accept that amount of inland marine floater coverage within any dwelling.

A number of the Thursday night thrillers starring Mr. Franciscus portray the insurance investigator making hefty pay-offs to thieves and swindlers who have made off with insured goods. Perhaps insurers do make such pay-offs, and perhaps they make them more frequently and in greater amounts than laymen can imagine. But if insurers do this, it seems to us that policyholders and insurance regulators are entitled to an explanation of why insurance companies subsidize crime and make it worthwhile to hold insured goods for ransom.

Another apparent distortion of insurance operations comes when Longstreet discusses compensation with a company claims executive. One wonders why an industry that abandoned its own arson investigation bureaus would pay Longstreet \$25,000 to investigate a single claim.

Doing violence to the practices of the insurance industry on tv is something we might expect from script writers who must do their thing. But "Longstreet" carries the imprimatur of the Insurance Information Institute. At the end of each program there flashes on the screen a legend that says, "Consultant services provided by the Insurance Information Institute."

We have high regard for III, which we rely upon for authoritative information about all lines of property-liability insurance. But on Thursday nights when "Longstreet" comes on, we wonder if III isn't lending its name to some seriously distorted images of an industry the institute is supposed to protect from public misunderstanding.

There is some evidence in III files that its representative succeeded in changing one "Longstreet" script to eliminate the suggestion that a life insurer would inflict injustice on the widow of a suicide victim and that in another instance a script was changed to remove the impression that a fire insurance company had deliberately cheated an arsonist.

Nevertheless, we believe that there is enough public misunderstanding of the operations of insurers to be mighty careful that people don't get the idea that the sidewalks are crowded with insurance investigators, sighted and unsighted, carrying bags of money to pay off for insured property.

# letters

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

## Policy problems

To the Editor: After reading *Business Insurance* I thought you might give me an answer to this policy I got in 1962. This is what happened.

I worked 42 years for this company. I had group insurance for me and my wife. The company was sold and I had to retire because they moved out of the city. No pension or pay. I lost the policy but the agent said I could get a paid-up policy for myself only. So I said I would take it for \$1,000. This year was to be paid up.

Because I paid over \$900 into it already, this is what they tell me now: I have to pay the rest of my life on this policy even if I have got \$1,000 paid in. The agent gave me the works and I took his word for it. Please give me your advice about this policy.

Stanley F. Suchan Sr.

Chicago, Ill.

Editor's note: We suggest you contact the Illinois department of insurance, 160 N. LaSalle St., Chicago, room 1600. Businesses and individuals with complaints about insurance policies and practices should contact the insurance departments in their states.

## Payroll deductions

To the Editor: With reference to your Dec. 20 article entitled "Payroll-deducted mutual funds may be here," we wish to provide you with correct information concerning a reference to Planned Equity of Denver.

Planned Equity Corp. is a general agency corporation that, in addition to offering a retirement type insurance plan, owns a broker-dealer, Industry Savings Plans Inc. This is the dealer which offers investment opportunities in a no-load mutual fund thus our representatives are trained and licensed and authorized to offer either insurance or funds or both for the payroll-deduction plan to which you referred.

If at any time in the future you plan to write in this regard, we should be happy to provide you with information concerning our method of sale, results and anything else you might find of interest to your readers.

Renita Henderson

Vice President-Secretary, Planned Equity Corp., Industry Savings Plans Inc., Denver.

## Class subscriptions

To the Editor: As the instructor of our five regularly taught risk management and insurance courses and as a member of our university personnel welfare committee which makes the final recommendations to our president about employe benefit plans, I would like to ask whether it would be possible for me to receive a complimentary instructional subscription to *Business Insurance*. I feel that it is the single most important source of topical information for the student of insurance and I understand that my predecessor, Mark R. Greene, participated in such a program with *Business Insurance*. I would continue the same service to the students of seeing that the publica-

Continued on page 19

# business insurance

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# WE'RE GOING TO TELL YOU HOW TO SOLVE A PROBLEM YOU DON'T EVEN KNOW YOU'VE GOT YET. BUT, BELIEVE US, YOU'VE GOT IT.

You may well be in for a shock next time you try to renew your commercial liability insurance.

Because the friendly, cooperative, warm-hearted insurance companies you dealt with last year may very well give you the cold shoulder this year.

It's very possible your primary company will tell you they're sorry but they have to lower their limits. That they have all their capacity can handle—and then some.

And it's also very possible your umbrella company will tell you they're sorry but they have to raise their primary limits. That they just can't take the kind of chances they took last year. And that they no longer want to write coverage on exposures like products, completed operations and XCU.

And there you are, right in the middle, not knowing which way to turn.

Welcome to the 1972 Insurance Gap. It's becoming more and more widespread, and you should be prepared for it.

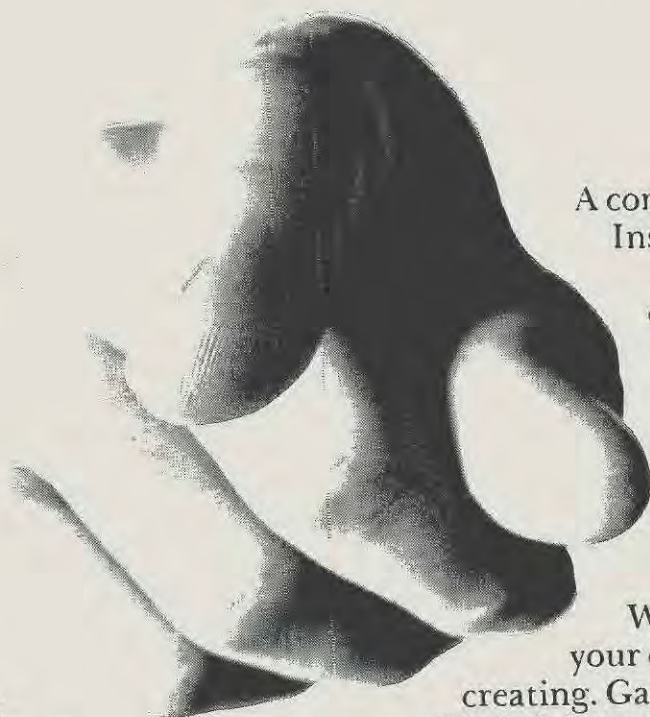
The reasons are complex.

As complex as the rapid increase in technology—something most insurance companies don't know how to deal with. Or the trend to consumerism, that's resulted in more lawsuits and bigger judgments—something most insurance companies don't want to deal with.

On the other hand, the reasons for the gap are simple. As simple as adverse losses.

But whatever the reasons, the problem is how to cover this gap.

To do it, you may have to do business with a kind of insurance company you've never had to do business with before. A kind of insurance company you know very little about.



A company like ours—the Lexington Insurance Company.

As an excess and surplus lines company, we used to exist to fill tiny crevices in the insurance market. Now we're filling huge gaps. We used to exist to sell insurance to the smaller, more exotic companies. Now we're selling insurance to some pretty traditional companies, too.

We're stepping in to fill the gaps your other insurance companies are creating. Gaps in limits and gaps in coverage. We do it by writing excess layers. Upper excess layers, lower excess layers, or better yet, whole excess layers.

True to our name, we're a revolutionary company, set up to do business like it's never been done before.

Every day we look at risks other companies have turned down and see them as writable. Because we look at an individual risk as just that—an individual risk.

We don't have fixed rates, we use judgment rates. We don't use standardized forms, we hand-tailor forms to an individual company's needs.

And if, at this point, you're thinking that all this holds true for any excess and surplus lines company, call any other one. And then call us. You may be surprised at just how much further we're willing to go.

Our attitude is one of greater and more flexible risk-taking, and an attitude like that has to be backed up with stability and resources. We have a brochure that details our resources and shows you exactly how stable we are. You can get a copy by writing to: Lexington Insurance Co., Dept. A-14, 25 New Chardon St., Boston, Mass. 02114. We deal only through agents and brokers.

Get to know us now before you really need us, so that if your insurance company drops the bomb, it won't wipe you out.

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## HOW LONG HAS IT BEEN

SINCE you had an objective, independent audit of your Corporate Insurance Program?



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## Studies dollar values

LONDON—The effect of dollar value changes is being studied by Lloyd's underwriters who feel that they will benefit in the long run through a more stable currency situation throughout the world.

But they are considering whether or not new measures are needed to meet the final monetary position in the U.S.

Sources in the Lloyd's market pointed out to *Business Insurance* that the hull market introduced a surcharge of 5% on all dollar hull policies when American emergency measures were taken last fall. Now that devaluation of the dollar in terms of sterling is about 8%, and even more in some other major currencies, there could be further changes in order to maintain reasonable profit levels.

It was pointed out that the market earns some 50% of its income, in U.S. dollar currency, and profit margins can be quickly eroded by any sizeable currency change.

Non-marine insurers feel that if U.S. economy is stimulated, they will benefit thru increased business. Aviation insurers speculate they may lose premium income proportionately from U.S. dollar sources, but will gain from other currencies which have improved.

# FACT OF LIFE

**your company can be sued for millions**

It's not a pleasant fact, but it's a fact nevertheless. That's why Crum & Forster Insurance Companies developed the C&F Defender... a catastrophe liability policy that adapts to a five-man plant as well as to an industrial giant.

The Defender can give you a million dollars—or up to ten million dollars and more—of protection above any other insurance you have. And it takes in liability exposures where no other insurance applies. Even if you win the lawsuit, you know your legal costs can be a disaster by themselves. The Defender pays those costs.

One of the best things about the Defender is that you can buy it through a local, independent insurance agent or broker. Somebody you know, somebody who knows you and your business close enough to help you fit the Defender to your needs. He can also tell you about the C&F Medalist, a personal/professional catastrophe liability policy to safeguard your present assets and future earnings.

And those are facts, too.



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THE NORTH RIVER INSURANCE COMPANY  
WESTCHESTER FIRE INSURANCE COMPANY  
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CRUM & FORSTER INSURANCE COMPANIES

## Travelers writes big mass plan

HARTFORD—The Travelers Insurance Cos. have wrapped up what is believed to be the largest mass marketing package ever written. Beginning Feb. 1, the 210,000 members of the New York State Civil Service Employees Assn. will be able to buy auto, homeowner and tenants insurance on payroll deduction.

The agent on the business is Ter Bush & Powell Inc. of Schenectady, N.Y.

According to Christian T. Paul, a Travelers vp, the plan could generate as much as \$10 million in annual premiums. But, he added, the potential is even greater than that. He noted that New York State employees actually number between 500,000 and 600,000 and the only requirement for participation in the new plan is that an employee be an association member. "This," he said, "will probably give many more state employees the impetus to join the association."

Asked what potential savings to employees who choose to buy their auto insurance from Travelers under the program, Mr. Paul said, "I think 15% is a very good figure in New York." He also said that this figure would likely be constant throughout the state, but noted, however, that all policies sold under the program would continue to be individually underwritten. ■

## Karasik . . .

*Continued from page 14*

have to show how the defect occurred; and he is relieved upon proving that he was in due care for himself.

Mr. Karasik pointed out that contributory negligence is not a defense under the doctrine of strict liability but that assumption of risk could be a defense if it could be shown that plaintiff was aware not only of the defect but of why it was occurring and had continued "in a foolhardy manner," to use the product anyway.

When asked the position of the law on designing a product for safety within its foreseeable and unforeseeable life expectancy, the attorney said that common law imposes no statute of limitations on bringing suit. No matter how long ago the manufacturer or seller had had contact with the product, he said, the only defense is in proving the product was not defective when it left his hands. ■

## Penn. work comp ruling challenged

HARRISBURG, Pa.—A section of the Pennsylvania workmen's compensation law has been challenged in federal court by a class action suit filed on behalf of a permanently injured laborer.

The suit, filed on behalf of James Silas of Philadelphia, contends that the law allows employers or their insurers to reduce or suspend benefits without notice or hearing. Mr. Silas was permanently injured while employed as a general laborer for the building firm of Haverstick-Borthwick, Philadelphia, in 1969.

The suit said Mr. Silas' disability benefits of \$60 a week were cut to \$45 under terms of a 50% disability agreement that he refused to sign.

It alleges that one week later Mr. Silas was told that his benefits would be terminated unless he agreed to reduce benefits over "a substantially shorter period of time."

Named as defendants in the suit were Paul J. Smith, state labor and industry secretary; Richard Wagner, executive director of the state workmen's compensation bureau; three members of the state workmen's compensation board; the Pennsylvania Manufacturers Assn. Insurance Co., and the building firm.

The suit contends that after such cancellations the state provides hearings, but this does not occur for as long as two years after the benefits are terminated, and another year elapses before hearing officers render a decision. ■

"When I was a kid,  
my dog had measles?"



### No-fault preferred

SAN MATEO, Cal.—A majority of U.S. independent business executives favor a change from the present method of insuring automobiles to the so-called "no-fault" system according to the National Federation of Independent Business. The federation reported that 88% of businessmen contacted in a recent poll favor enactment of no-fault programs similar to laws now in effect in Arkansas, Louisiana, Massachusetts, New York, Tennessee and Texas.

## letters

Continued from page 16

tion received introductory recirculation to other faculty members and students.

#### Paul Swadener

Associate Professor of Business Administration, University of Oregon, Eugene, Ore.

*Editor's note: Professor Swadener and other instructors of college and university risk management classes can obtain for themselves and their students special class-size, bulk-rate subscriptions to Business Insurance. This service has been introduced by our circulation department to meet the growing demand for this magazine as a classroom tool. Those interested in obtaining information about bulk-rate classroom subscriptions to Business Insurance may write to Mr. William Strong, circulation director, 740 Rush St., Chicago, Ill. 60611.*

"This year, we'll handle the insurance for 12 major pharmaceutical companies." Says Bob Hatcher, "I forget what weird concoction I gave that pup to get him well. But to make people well today, doctors and druggists need a whole industry. To plan the insurance, we have to know that industry?"

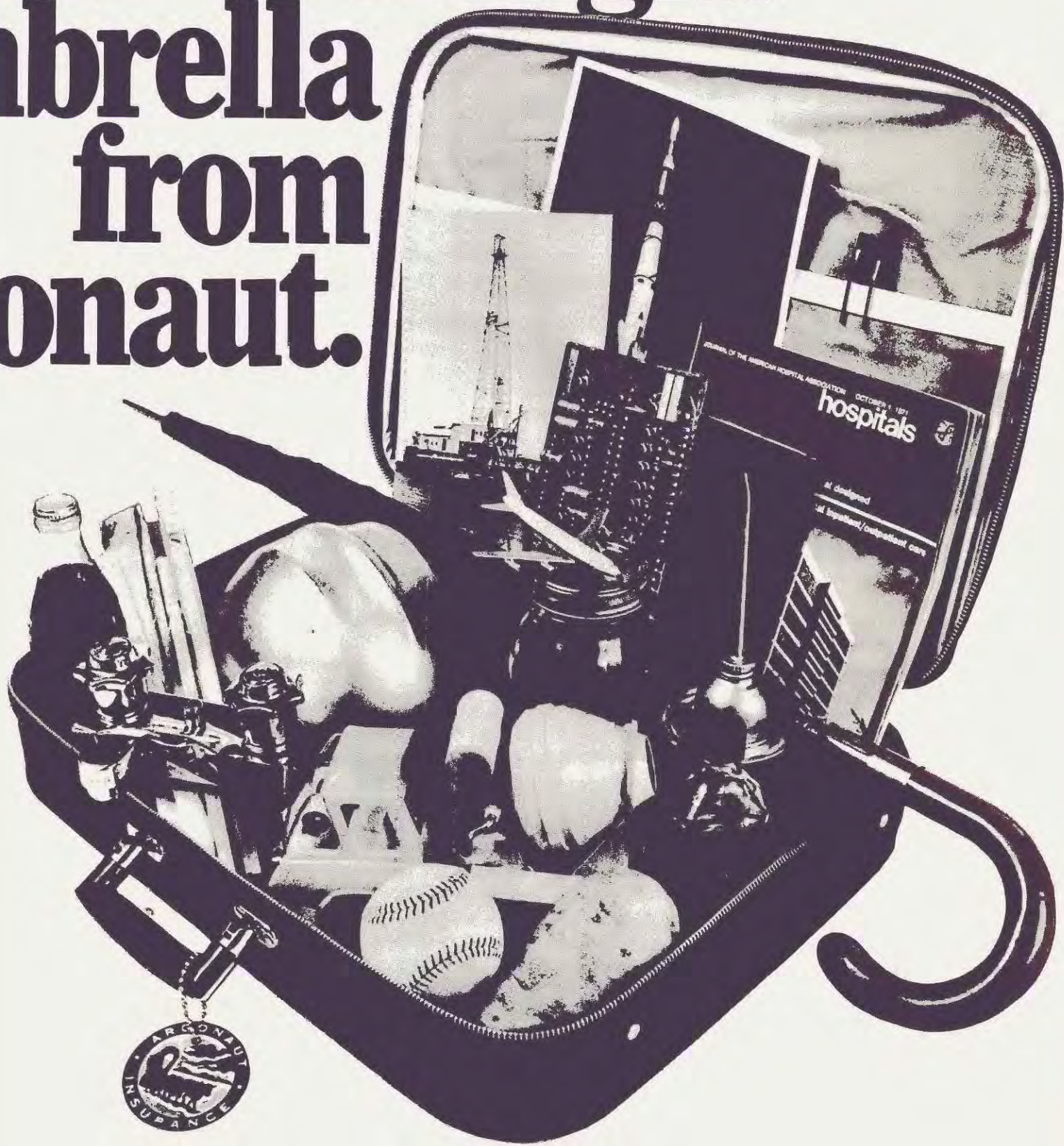
Bob Hatcher is in charge of Johnson & Higgins' Richmond office. He's also one of the J & H specialists in insurance for pharmaceutical manufacturers. They need coverage on medicines as they're produced, stored and shipped. On special equipment. On the labs for research and quality control. "Prescribing for this industry," Bob says, "had better not be guesswork."

What's true in pharmaceuticals today is true in every other industry. Your own included. Johnson & Higgins has offices in major cities here and abroad. Call us. We'll make your insurance work for you.

**Johnson & Higgins**

the pharmaceutical industry's insurance broker

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Now our liability policyholders may broaden their coverage and raise their protection to limits that make sense in today's wide-exposure, big-settlement climate without lifting their premiums out of sight.

It's our new Umbrella Liability Program . . . streamlined and stripped of all red tape possible. It's flexible for exact tailoring to fit your firm's unique excess liability needs.

Your Argonaut independent agent or broker can get a premium quote from us within 24 hours, and policy issuance will be prompt.

Our Umbrella Liability Program is another development in our continuing program for progress designed to make our service even more responsive to the needs of our policyholders.



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# business insurance/perspective

## Potential claim settlement abuses need more publicity

by Jerry A. Luttrell,  
graduate teaching assistant,  
University of Iowa,  
Iowa City, Iowa

**T**HE CLAIM SETTLEMENT practices of the casualty insurance industry have been and will likely continue to be criticized. Much of the recent criticism has stemmed from discussions of the need for no-fault automobile insurance. A more direct attack on current claim settlement practices came from the Justice department when an antitrust suit was filed against General Adjustment Bureau.

Potential abuses inherent in current claim settlement practices are relatively unpublicized; thus, it is appropriate to focus specific attention upon the nationwide Inter-Company Arbitration Agreement. Though not represented as such, it appears that the agreement is an attempt by a group of insurance companies to place themselves in a more favorable competitive position. The potential abuse inherent in this agreement could be more serious than the alleged restraint of trade charge brought against General Adjustment Bureau.

This agreement has received relatively little publicity within the insurance industry and virtually none outside the industry. The lack of publicity is unexplainable and unfortunate because once the provisions of the agreement are understood, the

**'It is appropriate to focus specific attention upon the nationwide Inter-Company Arbitration Agreement.'**

potential for abuse is relatively easy to recognize.

**THE AGREEMENT** appears to be the major accomplishment of the Committee of Insurance Arbitration, which is composed principally of representatives of the American Insurance Assn., American Mutual Insurance Alliance and the National Assn. of Independent Insurers. The agreement establishes a system of compulsory arbitration for the settlement of certain types of claims between the 480 signatory insurance companies. It states that claims eligible for arbitration under the agreement must meet the following criteria:

- The claim must be an automobile physical damage or plate glass subrogation claim not in excess of \$2,500. However, there is a provision in the agreement permitting voluntary submission of larger claims to arbitration.
- The insurance company or companies must have already settled the claim with the insured party.
- The claim must not be the subject of a lawsuit.

- All parties in the arbitration must be insurance companies and at least one of the parties must be a signatory of the agreement.

- Claims arising out of policies written under retrospective rating plans may be excluded from the otherwise compulsory arbitration.

- All signatories of the agreement are bound to submit to arbitration when requested by another signatory company.

Despite provisions in the agreement requiring mandatory arbitration, most state laws make prior agreements to submit future disputes to arbitration unenforceable. But, for all practical purposes, signatory companies are bound to comply with the "compulsory" terms of the agreement or face the possibility of being severely sanctioned in other dealings with signatory companies. If the signatories can sanction other companies does anything limit their ability to sanction to signatory companies only? Could signatory companies sanction non-signatory companies?

Proponents of the agreement emphasize the advantages of arbitration for both in-

surer and insured. Basically, the argument is that the Agreement provides faster settlement of claims at a lower cost and serves the public interest by reducing court congestion.

The operation of this agreement is most easily illustrated by using an example. Assume a two-vehicle collision has occurred without bodily injury to passengers, both vehicles suffered damages of less than \$2,500, and each vehicle is insured for collision damage (\$100 deductible) by a signatory company. Without attempting to determine which driver was at fault each vehicle may be repaired immediately under the collision coverage of the respective insurance policies, thus giving each of the insurance companies a subrogation claim. If the insurance companies cannot negotiate a mutually acceptable settlement, they may use the arbitration procedure. Each company is bound to comply with a request for arbitration by the other signatory company. The insurer of the driver found to be at fault (as determined by arbitration) will indemnify the other insurer, which is "encouraged" to further indemnify its policy holder for the \$100 deductible.

**AS A RESULT**, the driver who was not at fault is fully compensated for his property damage loss without court cost and attorney's fees; the quick settlement without litigation or controversy will be good publicity for the otherwise trashed public image of insurance company claim settlement practices. These insurance companies have a decision that is final and binding on both parties without the right of appeal and without public controversy. Usually, policyholders will not be aware of the arbitration proceeding, and one policyholder may assume "it was just an accident" while the other will probably be elated when he receives reimbursement.

*Continued on following page*

## Let your employes know how much their benefits cost

by Ned A. Miller,  
vice president,  
Compensation Planning Corp.,  
New York, N. Y.



Ned A. Miller

**'Average corporate expenditure for fringe benefits is 27.9% of payroll . . . rising every year.'**

upward yank of his arm and a snorting sound like "Ya can go home now!" The employe got the message.

Today, fringe benefits are vastly more complicated and overwhelmingly more expensive. They also make up a very sizeable part of a corporation's expense. For example, the U.S. Chamber of Commerce in its latest analysis of the subject indicates that the average corporate expenditure for fringe benefits is 27.9% of payroll. In other words, if the average employe is earning \$10,000 annually the average company is spending an additional \$2,790 in providing him with his fringe benefits. And—it's a figure that's rising every year.

"How come?" you say. "I don't see them spending that kind of money for me!" Well, let's take an item-by-item look. Let's see how you compare to that average. Let's take the case of John Carlson, age 35, who is assistant department head of

Old Briarcliff Manufacturing. He earns \$10,000 a year.

**THE FIRST FOUR** fringe benefits are statutory. The law says that you must have them.

- Social Security. John must pay 5.2% of the first \$9,000 of his earnings. This comes to \$468. But Old Briarcliff must match John's contribution. So they are laying out \$468 also.

- Workmen's compensation. This provides medical reimbursement, disability income and death benefit in the event of sickness or accident occurring from a job-connected source. The company pays the full cost of this. John's job classification is fairly non-hazardous, so the premium for him is not too high. Let's say \$40.00 per year. Other jobs could be much more expensive to cover.

- Disability benefits law. This does not exist everywhere, but it is required pro-

tection in four states, New York, New Jersey, Rhode Island and California. It provides a reduced income for a short period of time, usually 26 weeks, if a worker is disabled through sickness or accident that did not occur as a result of the job. In New York, John has to pay 30¢ weekly for this protection, but Old Briarcliff pays 60¢ per week for him.

- Unemployment insurance. This is weekly income payable to any member of the regular work force during the first weeks of unemployment. The insurance cost is borne by the employer and is based on how many of his former employes collected during the preceding year. A normal annual premium expenditure for John would be \$102.

**THE NEXT GROUP** of fringe benefits are all costly to the company but are customarily overlooked by people who try to total up the whole cost of "the package."

- Vacations. Usually two weeks (or 10 working days) is minimal vacation these days. This is 3.8% of the normal 260-day working year for John and represents a cost to the firm of \$380.

- Paid holidays. Eight paid holidays a year is a normal figure. The cost to the company is \$300.

- Personal time off. This is a catch-all definition to cover days off because of sickness, family problems and emergencies. Estimating five days a year for this cause does not seem unreasonable for an average figure. The cost to the company is \$190.

How about the whole group of fringe benefits known as life and health plans?

- Group life insurance. One year's salary is not overly generous by today's standards. So let's figure on \$10,000 of group

*Continued on following page*

# Potential...

Continued from preceding page

for his payment of the deductible. Adjudication cost of an arbitrated settlement is really only a filing fee, which varies from approximately \$3.50 in Maine to \$7 in New York. This low settlement is possible because signatory companies provide qualified personnel to serve as arbitrators. The total cost of settlement for the companies is further minimized by procedures requiring all but the unusually complicated cases to be decided on the basis of the files alone without the representatives of the disputing parties being present.

The agreement means that 480 insurance companies have banded together to settle certain claims amongst themselves in a favorable manner, thus giving the signatories a competitive advantage. Other insurance companies may arbitrarily be denied the privilege of becoming a signatory or using the arbitration facilities. All non-insurance companies (self-insured corporations, independent adjusters, and private individuals) are excluded from using or becoming a member of the agreement.

**IT APPEARS** the agreement was created to cope with the insurer versus insurer problem inherent in the frequently recurring example previously used. However, changing the example only slightly will bring the potential abuse of the agreement into better focus. Using the same set of facts, now assume one of the cars (A) involved was owned by a self-insured corporation or a private individual who did not buy collision coverage. Without some fairly conclusive evidence showing that the other driver (B) was at fault, B's insurance company may be reluctant to pay A for the incurred loss. This means A must accept whatever, if anything, B's insurance company is willing to pay him or assume the entire loss with the possibility of recovery through the long and expensive litigation process.

For the corporate self-insurer, physical damage losses may be viewed as an operating expense, part of which may be recovered when the drivers of company vehicles are not at fault. Self-insurers and the independent adjusters they often employ may not use arbitration to settle claims with signatory insurance companies. The self-insurer must either accept whatever the other party's insurance company is willing to pay or to assume the loss with some possibility of obtaining recovery through the courts.

Insurance companies know that corporate self-insurers cannot afford to litigate small physical damage claims. Thus, if the insurance company ignores the self-insurer's (or his adjuster's) request to settle, it can safely be assumed the self-insurer will eventually absorb the loss. When the self-insurer files a suit, the insurance company may still negotiate an out-of-court settlement rather than risk litigation.

The ability to avoid paying some losses and the fact that 480 insurance companies have agreed to assure themselves of an efficient and fair method of settling claims are indications that the existing claim settlement practices are biased in favor of insurance companies, particularly signatories of the agreement.

**THE AGREEMENT PERMITS** other insurance companies to become signatories or to use the arbitration settlement mechanism that has been established. Why does the agreement include a provision to permit non-signatory companies to use the arbitration facilities? One reason for this inclusion is that it may reduce settlement costs for signatory companies when dealing with non-signatory companies. Arbitration costs are lower than litigation costs; however, other savings or benefits may be an indirect result of this inclusion. Non-signatory companies know they may be denied the privilege to use the agreement settlement mechanism. Similarly, non-signatory companies know they may be denied the opportunity to become a signatory company. The potential loss of such a privilege could cause a non-signatory company to attempt to appease signa-

tory companies by being more cooperative than would otherwise be necessary; thus, the non-signatory companies would be placed at a competitive disadvantage.

The agreement places independent adjusters at a more severe competitive disadvantage because it limits usage of the established form of arbitration to insurance companies only.

The passage of so-called no-fault automobile insurance legislation similar to the Illinois modified no-fault plan could greatly increase the importance of the agreement. Under the Illinois plan, the injured parties are to be paid by their insurance companies without regard to fault, but the insurance companies retain the right of subrogation and will settle the claim by determining which driver was at fault. (Often, as in Illinois, the modified no-fault plans may also include a provision requiring mandatory arbitration of claims below \$2,000 or \$3,000.)

From the insurers' viewpoint, it would seem to be reasonable and logical to modify the agreement to require (or permit) signatories to settle all claims paid under the no-fault plan by arbitration. If the agreement was modified in this manner and not otherwise changed, it would seem fair to speculate that:

- Signatory companies would have a significant competitive advantage because their settlement costs would be lower than the settlement costs of non-signatory companies.

- As a group, the signatory companies could impose severe sanctions against non-signatory insurance companies and self-insurers. Such sanctions could be severe enough to force non-signatory companies to become signatories or otherwise restrain trade.

- Signatory companies might attempt to exercise their control of the claim settlement practices to unfairly reduce the amount injured parties would receive.

**ALTHOUGH NO ACTION** has been taken against the agreement, there appears to be ample justification for investigation and possibly antitrust action.

In the antitrust suit brought by the Justice department against General Adjustment Bureau it was alleged that 170 insurance companies acting as shareholders had combined to illegally restrain

trade in the business of settlement and adjustment of insurance claims. It was also alleged that the insurance companies acting as a group were able to coerce other insurers to utilize GAB's adjustment services, to boycott independent adjusters, and to have agents channel claims to GAB. Unfortunately, this suit against GAB did not receive much publicity because GAB negotiated with the Justice department for a consent decree. Alternatively, this lack of publicity may be due to the fact that those involved in the current claims settlement practices either have a vested interest or fear the possibility of being sanctioned by signatory companies.

Allegations made by the Justice department against the 170 insurance company shareholders of GAB could be extended to apply to the 480 signatory companies of the agreement. The Justice department could also find this agreement to be an illegal combination of insurance companies acting together to illegally restrain or control the business of settlement and adjustment of insurance claims. Alternatively, the Justice department might find these 480 insurance companies were actually conspiring to coerce different classes of insurance buyers to purchase specific types of insurance, or that the agreement was being used to put non-signatory insurance companies, independent adjusters and self-insurers at an unfair competitive disadvantage.

Some antitrust case law would also imply the refusal of signatory companies to deal with non-signatory companies or the refusal to permit non-insurance companies to become signatories may be an illegal restraint of trade. The courts have said that if there is a connection between an alleged conspiracy and a refusal to deal, there may be an illegal restraint of trade if the refusal to deal is a device to gain market dominance, to drive out competition or as part of a boycott (*L. S. Good and Co. v. Darff and Sons Inc.*, 263 F Supp 635, 1967.)

It is also important to note the court has said to prove a violation of the antitrust laws does not necessarily require proof that discrimination has harmed competition but that showing a reasonable possibility that discrimination may have been harmful to competition is sufficient to prove a violation. (*Corn Products Co. v.*

*Federal Trade Comm.*, 324 U.S. 726, 742, 1944.)

The agreement provides that subrogation claims arising out of policies written under retrospective rating plans may not be arbitrated without the prior written consent of the home office of the companies involved. This means the insurance companies can (and are bound to) use arbitration according to the agreement to settle normal subrogation claims but can refuse to arbitrate claims under retrospectively rated policies. Thus, when the same type of claim arises, the insurance company may settle a claim for a regular policyholder for less cost through arbitration and force retrospectively rated policyholders to pay more for their claim costs when the retrospective claim must be settled through litigation.

It is not known whether the Justice department has considered the nationwide inter-company arbitration agreement. Even though it has not found the agreement to be in violation of the antitrust laws, how can the insurance companies continue to say the agreement operates for the public benefit?

Concededly, signatory companies may not want to open this arbitration system to the public. Why not at least let the independent adjusters and corporate self-insurers use these arbitration facilities? If the insurance companies believe using arbitration to settle claims would better serve the public interest, then they should abandon their concerted attempt to limit the availability of arbitration as a method of claims settlement.

The adoption of mandatory small claims arbitration statutes as a part of no-fault insurance plans may reduce the competitive disadvantages of the agreement. Modifications of the agreement necessitated by the adoption of no-fault insurance should be designed to make the arbitration facilities available in a manner that does not place insurance companies or insurance consumers at a competitive disadvantage. ■

*Jerry A. Luttrell teaches introductory general insurance at the University of Iowa. In 1971 he prepared a risk analysis and loss exposure report for the Butler School District, Oak Brook, Ill. He is a graduate of the University of Iowa business school.*

# Benefits...

Continued from preceding page

life and accidental death protection for John. A moderate group rate for this coverage would be 65¢ per month per thousand dollars of protection.

Annual cost the corporation incurs, \$78.00.

- Group health insurance. Here is a fairly expensive benefit but one that is at the cornerstone of any employee package. Many firms will pay the full protection for their employees. The employee, on an optional basis, will pay the costs of protecting his dependents. Sounds like a familiar formula, doesn't it? Hospital, surgical and major medical protection might cost the company \$10 a month for John. It would cost him \$20 additional each month to extend the same coverage to his wife and children. Annual cost to the company is \$120.

**THE TOTAL** so far? It's \$1,648.20 for this group of benefits or 16.5% of John's salary. And there are two whole areas of benefits that we haven't even touched yet. How about profit sharing?

The government permits a profit-sharing contribution of as high as 15% of payroll. If John's firm is making a 5% annual contribution, that will bring his total package up to 21.5%. And a basic pension plan would be putting another \$500 away for John each year. Now we're up to 26.5%, just a few dollars away from the national average we discussed earlier.

What else comes under the heading of fringe benefits? The company lunchroom costs Old Briarcliff Manufacturing many thousands of dollars a year to staff and

operate. How about the space in the parking lot that John uses each day to park his car? That land costs money and taxes are paid on it each year, yet only John uses it. The company offers educational reimbursements to John if he takes some evening courses related to his job. The company has a salary savings program. It puts in 50¢ for every \$1 that John invests in mutual funds, or savings bonds or life insurance. How about the first aid office and the nurse on duty there who passes out hundreds of dollars worth of pills and bandages and advice? Also include the

company newspaper, the bowling league, the softball team, the blood bank, the annual picnic and the Christmas party. How about all of those little things that involve company expenditure and whose purpose is solely for the benefit of the employees. How about 27.9% of payroll. See where it comes from?

Most employees and corporation executives do not realize the extensive cost of fringe benefits. One executive said recently, "the high cost of fringe benefits has been the best kept secret since the atomic bomb." ■

## OLD BRIARCLIFF MANUFACTURING CO.

Based on \$10,000 annual salary BENEFIT	Summary of Benefits		
	Cost per year	Company's share	Employee's share
Social Security	\$ 811.20	\$ 405.60	\$ 405.60
workmen's compensation	40.00	40.00	—
disability benefits	46.00	30.10	15.90
unemployment insurance	102.00	102.00	—
vacations	380.00	380.00	—
paid holidays	300.00	300.00	—
personal time off	190.00	190.00	—
group life insurance	78.00	78.00	—
group health insurance	360.00	120.00	240.00
profit-sharing	500.00	500.00	—
pension	200.00	200.00	—
miscellaneous (including educational reimbursement)	144.30	144.30	—
	<b>\$3,451.50</b>	<b>\$2,790.00</b>	<b>\$ 661.50</b>

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Reuben Robertson, (left), captain of Nader's Raiders, spoke to James H. Arderl (right), finance coordinator for Terra Chemicals International, Sioux City, Iowa, about the consumer movement's future operations.

# Nader captain warns of increase in creative product liability litigation

CHICAGO—In terms of actual numbers the consumer movement is small, according to Reuben Robertson, a captain of Nader's Raiders and consultant at the Center for the Study of Responsive Law. But Mr. Robertson is convinced that the effect of the movement has been great because corporate officials themselves have magnified consumer actions.

The corporate official, because he is an insider, knows how many things are being inadequately handled, where the skeletons are hidden and how low product standards are, Mr. Robertson told risk managers at the *Business Insurance* product liability workshop here. But more than those things, he said, the executive

knows how stultifying corporate bureaucracy can be.

Businessmen and consumer activists should be natural allies, he believes, because both are basically pragmatists rather than ideologists.

## product liability workshop

**THE CONSUMER** movement has brought greater risk exposures in the areas of product recall and withdrawal, pollution, publicity and direct actions (such as picketing), price mechanism litigation and product defect and

hazard litigation, all of which are either expensive or impossible to insure, he said. This should force companies to broaden the functions of their risk management departments, he concluded, and to broaden their definition of product liability. "The mechanical waste of your factory is just as much your 'product' as the item that goes on the shelf," he warned the workshop.

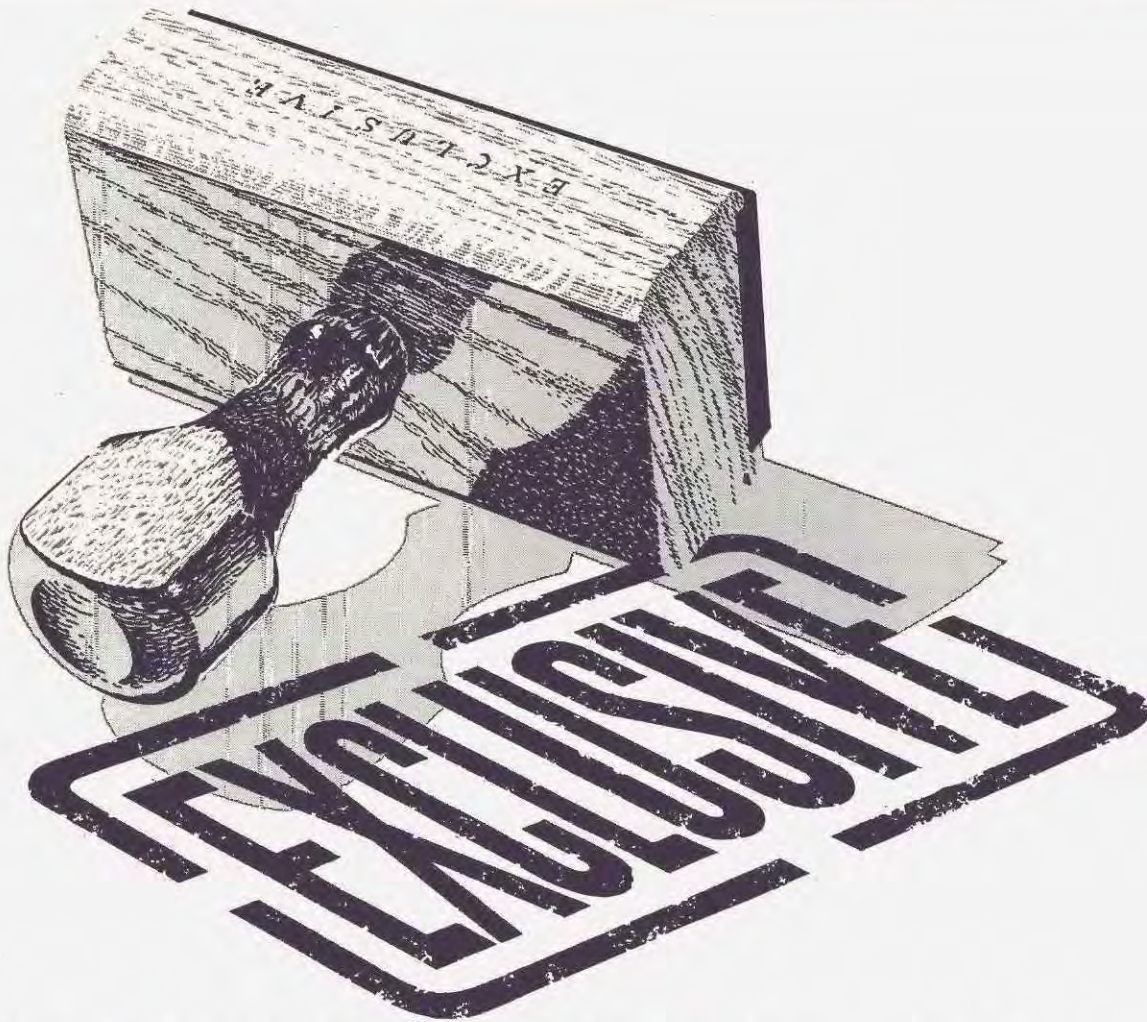
Mr. Robertson told risk managers that litigation will be used increasingly as a means of attack on corporations because its potential impact has substantial effect in forcing corporations to remedy problems. It is going to become more and more risky "for a corporation to operate in a bad way," he said.

Naturally, it is in the interest of corporations to avoid product liability litigation, he added, but the place to avoid it is at its source. "We need to structurally re-engineer management to eliminate the risk maker from the start," he said; the risk manager "should be doing the Nader bit within his company."

The risk manager's function needs to be re-thought when it comes to product liability, the raider captain said, so that he is brought into the picture at the design stage when the question "Should this product go out at all?" is asked.

In the future, Mr. Robertson believes risk men can look for the consumer movement to organize in these areas:

- Investigation and analysis of the environment.
- Political analysis and action for legal reforms.
- Exploration of legal mechanisms for greater consumer protection.
- Creation of innovative mechanisms for complaint reporting and resolution.
- More creative use of class action litigation as redress against consumer frauds and product defects.
- Further organization of national and local groups based on specific products and industries (such as the Center for Auto Safety and a recent union of commercial and sport fishermen for anti-water pollution litigation purposes).



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## Player gets \$15,000 out of court

MIAMI—A former professional football player who testified that an automobile accident ended his career prematurely has been awarded \$15,000 in an out-of-court settlement.

Mack E. Lamb, an ex-defensive back for the Miami Dolphins, won the award for neck, hip and back injuries sustained in a three-vehicle accident on a Miami expressway Jan. 16, 1970.

A tractor-trailer truck driven by Vincent Fanner and owned by Commercial Carrier Corp. of Auburndale, Fla., struck a rented 1970 car driven by Jack Greenburg of Philadelphia, jamming it into the rear of Mr. Lamb's Volkswagen.

Damages are to be paid by Commercial Carrier's insurance firm, Truck Insurance Exchange of Los Angeles. Mr. Lamb had brought suit against Commercial Carrier, Fanner and Greenburg. ■

# U.S. Olympians covered for death, accidents

Continued from page 1

"where a team member may be competing in an event sponsored by the NCAA, AAU or any number of other groups. He is then out of the committee's jurisdiction and not covered by their policy."

The premium is based on man-days of exposure and the charge is the same for all sports, excluding four, in both winter and summer games. Ice hockey, luge, skiing and bobsledding are considered more hazardous than the others and an additional premium is charged on participants in those sports. The fact that all four sports are winter ones is not surprising since both Mr. Phair and Mr. Reid agreed that, from a risk standpoint, winter games made them "a bit more nervous."

Regarding claims, Mr. Phair said, "Experience has been acceptable. We've been very fortunate there have been no deaths though there have been a number of injuries. The incidence of claims has been fairly high but the severity has not been too bad. Most of the claims have been along lines you would probably expect—ankles, knees, shoulders."

**MR. REID** said that the Olympic Committee used a number of different measures to control both costs and claims.

"The deductible takes care of many claims," he pointed out. "Another factor is the availability of medical aid if it is needed. The committee has its own medical experts at the games who give free medical treatment on the spot. I think that really helps keep the number of claims down."

"Also," he continued, "if the participant has any other bona fide insurance, that pays first."

Premium costs were held down, according to Mr. Reid, because the premium is a per diem charge and if any participant competes for more than 65 days in the calendar year, his premium charge is based only on the first 65 days.

**BOTH MEN FELT** that transporting the team was a large risk because of the concentration of exposure. "Special limits are arranged in the case of chartered flights so nothing is lost," stated Mr. Reid.

"Yes, transportation is a huge risk," Mr. Phair noted. "There may be as many as 200 people on a chartered flight so there is a very high limit (\$7 million per flight in the movement of the Pan-American team to Columbia, for example). They are as careful as possible. The teams are moved on scheduled airlines, not on any kamikaze operation."

The U.S. will be represented by 123 athletes at the Winter Olympics in Sapporo, Japan, though the number of insureds will swell to 188 with the addition of coaches, managers, administrative and other personnel. The exposure for the Summer Games in Munich, Germany, will be 567 persons, 462 of them athletes.

Insuring the committee's equipment is the province of the Home Insurance Co.

**NEIL REID**, also of Reid & Carr (a member of the Assurex International Group), explained, "There is really very little property going with them to Japan. Most of the equipment used in the winter games is personally owned by the participants. But there is a floater policy covering the committee's property while it is in the U.S. Additional coverage

is purchased when it is out of the country. The policy is on a named perils basis."

He said that the property coverage was difficult to administer because "you're never quite sure where it is and how much it's worth."

"AFIA writes hired and non-owned automobile coverage out of the country, as well as general liability," he said. "The coverage continues year round but there is an additional premium when the games are actually taking place."

"Chubb writes a real and personal property package, which includes liability, on the committee headquarters on Park Avenue. There is also excess catastrophe liability."

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## New Jersey to clear courts with 6% in-court accident settlement charge

TRENTON, N.J.—New Jersey's courts, in an effort to cut down on the clogged conditions facing them every day, have come up with a program they think will cause a far greater number of out-of-court settlements than occur at this time. Effective the end of January, the courts will tack 6% interest on all judgments won in court by accident victims.

The rationale behind the rule, that insurance companies—who are the defendants in most cases—will now have a greater financial stake in making a rapid settlement, has been questioned by insurers and defense counsel.

"This is the most ridiculous thing I've ever heard," said a spokesman for a large insurance

company. "It penalizes one party, the defendant, and offers no incentive whatsoever to the other party to settle."

**THE INTEREST**, payable to the defendant from the date the suit was filed applicable in all tort actions, is viewed by the courts as a means of making delay less profitable to insurers. The courts contend that if the insurers' profit from investment of reserves is threatened, they will take more prompt action toward settlement.

"I think this is an honest effort by the courts to clear up the incredible congestion," said Stanley Tarr, risk manager of Rutgers University. "If they are right, I really don't think the cost will be

passed down by the insurers, though they may use it as a justification for raising rates. If they are wrong, it's just another effort that failed."

Mr. Tarr reported that the rule would have "no discernable effect on our insurance program and I don't think it should particularly bother anybody. The insurance companies will probably protest it but this isn't really monumental."

Looking at the subject from a different angle was Robert Clifford, New Jersey's insurance commissioner. "This is a calculated risk on the parts of the courts," he said. "If they're right, you will see more and earlier settlements. However, if they are wrong, you will probably see

more and earlier lawsuits. There will probably be a few avaricious lawyers who will see the meter running on 6% more in their fees."

**MR. CLIFFORD** said that he did not know how the rule would effect insurance operations in New Jersey. "This could increase loss costs for insurance carriers but I really don't know how they'll react to this. They are realistic people and they certainly know how to count. If that 6% involves a lot of money, they will undoubtedly take a good, hard look at the case."

The insurance commissioner in neighboring Pennsylvania, Herbert S. Denenberg, saw the rule as another tool for the consumer. "I think this is a fair rule and it will provide justice, thought I doubt it will clear the courts," he told *Business Insurance*. "I think it's both fair and reasonable because if you win the suit, that money is

yours, your payment has been delayed and you are entitled to interest.

"Insurance companies have not done a great job of settling out-of-court and this may speed them up a bit," he continued, "but if you want to clear the courts, you need a good, strong no-fault law (a no-fault proposal is now before New Jersey's legislature). Aside from automobile accidents this rule should have an even greater impact in the product liability and malpractice areas where the system is even more inefficient than in auto."

**MR. DENENBERG**, who said that he would like to see such a rule in Pennsylvania, felt that insurers would counter by raising their rates.

The arguments in favor of the rule are that most cases are settled anyway, but only after a long delay; that the delays cost the state court system a great deal of money; and that it was to the insurer's advantage to delay under the old system because of the profit from invested reserves set up to pay the claim.

The insurance people say that income from invested reserves does not constitute a great profit. They also say that plaintiffs cause many of the delays by rejecting offers of settlement and they say that litigation costs them money and they would just as soon settle. ■

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## Hughes book libel question

NEW YORK—The ever-deepening mystery surrounding a book allegedly written with the consent and cooperation of eccentric billionaire Howard Hughes and to be published by McGraw Hill Book Co. has raised some interesting liability insurance questions.

McGraw Hill has disclosed, for example, that the contract allegedly made between the book company and Mr. Hughes contains a hold harmless clause specifying that Mr. Hughes would indemnify the publishers for any possible libel judgments arising from publication. The book, according to advance billings, contains many statements by Mr. Hughes that might libel former friends and associates.

Mr. Hughes, however, has denied that he cooperated with the book's author, novelist Charles Irving. If this were the case, legal sources point out, McGraw Hill could find itself in an altogether different position on the question of libel if publication takes place.

A McGraw Hill spokesman told *Business Insurance* that the company has a libel policy for its book division. Other sources said that the policy was "in excess of \$5 million." Employers Reinsurance Corp., Kansas City, writes the cover. Employers Re is the major market for libel insurance in the U. S.

An underwriting source who has been in contact with attorneys working on the case said, "Generally speaking, there is a very definite exposure here and as far as our particular involvement, yes, we are concerned; not only because of this particular case but also because it could affect the endeavors in this whole area (of libel insurance)."

Another question: If McGraw Hill is the victim of an elaborate hoax, can it recover the \$650,000 from insurance sources? It was a question the book company was trying not to contemplate last week. ■



Coffee breaks at the Business Insurance product liability workshop turned out to be extensions of the meeting. Lee Gaskins (left), manager of product liability and loss prevention at AMF Corp., New York, discussed some of his problems with Harry Giesey (center), assistant manager for Maryland Casualty Co., and Roger Zucker (right), partner, Frenkel Brothers, Cleveland.

## Named to N.Y. panel

NEW YORK—William S. Mortimer, risk manager of Norton Simon Inc., New York, has been named one of seven members of a consumers' advisory council by Benjamin R. Schenck, state superintendent of insurance. The panel will advise the insurance regulator on the effectiveness of sweeping insurance legislation passed by the 1969 state legislature and due for an official reappraisal by the New York insurance department next year.

According to an aide to Mr. Schenck, the advisory council will meet with the superintendent soon to determine the course of action it might take in reporting to his office. The council was specifically provided for in the legislation enacted three years ago.

The backbone of that legislation was a competitive rating structure designed to "encourage price competition and greater availability to property and liability insurance" in the state. Other sections of the measure bar the cancellation of personal insurance, expand security funds to protect policyholders of insolvent companies and extend the insurance available through an assigned risk automobile plan. Mr. Schenck must report the effectiveness of these measures to the state legislature March 1, 1973.



William S. Mortimer

In addition to Mr. Mortimer, members of the council are Mrs. Agnes Cashal, executive assistant to the president, N.Y. State AFL-CIO; Donald Elberson, executive director of the Consumer Assembly of Greater N.Y.; David McDonald, executive director of the Urban League of Onondaga County; Lewis B. Scott, secretary of the Automobile Club of N.Y.; Harvey C. Sigelbaum, president of the Urban Community Insurance Co., a subsidiary of the United Housing Foundation; and Prof. Stanley Zicnts.

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# UL vp backs complete use of product standards

CHICAGO—Speaking before the *Business Insurance* product liability workshop here, Donal Breting warned risk managers and quality control experts, "Meet the standard, don't beat the standard."

The Underwriters' Laboratories' vp also cautioned his audience not to assume that the product standard, rather than the product, is at fault. "Too often," he said, "the quality control tester blames the product standard for the product's failure to meet specified requirements."

Mr. Breting cautioned manufacturers to be wary when setting their own safety requirements, noting that testing standards developed by an individual company tend to omit important quality control and safety factors. As an alternative, he recommended



Donal Breting

manufacturers look to nationally accepted standards such as

those developed by the American Society of Testing and Materials (ASTM), the American National Standards Institute (ANSI) and Underwriters' Laboratories.

"All interested parties—manufacturers, consumer groups, private safety groups, insurers and government—are represented by these standards organizations," he noted, "and their standards represent a fair consensus of the best interests in the country."

**THE NATIONAL** Bureau of Standards guide alone offers 19,000 separate standards, he said, and "you just might find the standard you need there."

Mr. Breting commented that standards are always mentioned in terms of consumer safety, and that the Washington state supreme court has ruled that the

meeting of ANSI standards by a manufacturer was sufficient proof of innocence in a recent product liability case.

"Get everyone involved in an awareness of standards and the need to meet those standards," he

## product liability workshop

advised, "from the idea men in your think tank to those on the production line." Mr. Breting noted that standards should be applied throughout the manufacturing process, beginning with an attempt to engineer hazards out before they reach the production line.

"Once your product is in the

early test sample stages," he said, "check against the standard. A hazard may not be in the design, but it may emerge in the actual product." He suggested that, after the prototype model passes its hazards test, a sample production run be tested to avoid the possibility of scrapping a whole production complex. "Once you are into full production," Mr. Breting stated, "test early and at least as often as dollars will permit—and don't, under any circumstances, ignore part of the standard just because it's inconvenient for you."

"**BEHIND EVERY** requirement there is an intent," he advised, "and the manufacturer must show he understands the safety factors underlying that intent. We don't devise standards for the fun of it."

Mr. Breting, acknowledging that no product is perfect, did say that some hazards would remain, even in a well tested product and that these had to be accompanied by adequate warning, followed by an affirmative statement of the hazard. He pointed out that warning markings should not be used when a danger is obvious since too many warnings become confusing, and subsequently ineffective, to the user.

He forecast a greater role for the federal government in the product liability area, although he would like that role limited to providing good accident data with regard to cause, an independent safety evaluation agency and consumer education.

Much of the product liability problem, he commented, comes from the proverbial "bad apples." One solution Mr. Breting advised is "get after your competition to make them ethical—you're catching the consumer splash from shoddy competitors, and you have to make those who are unconcerned be concerned."

## State begins its no-fault experiment

SALEM, Ore.—Oregon has launched its first experiment with no-fault insurance.

The new law states that all policies issued in the state on or after Jan. 1, including renewals, have to include minimum coverage for medical expenses and wage losses.

Specifically, the policy must provide up to \$3,000 for medical expenses and up to \$6,000 annually for lost earnings resulting from an accident.

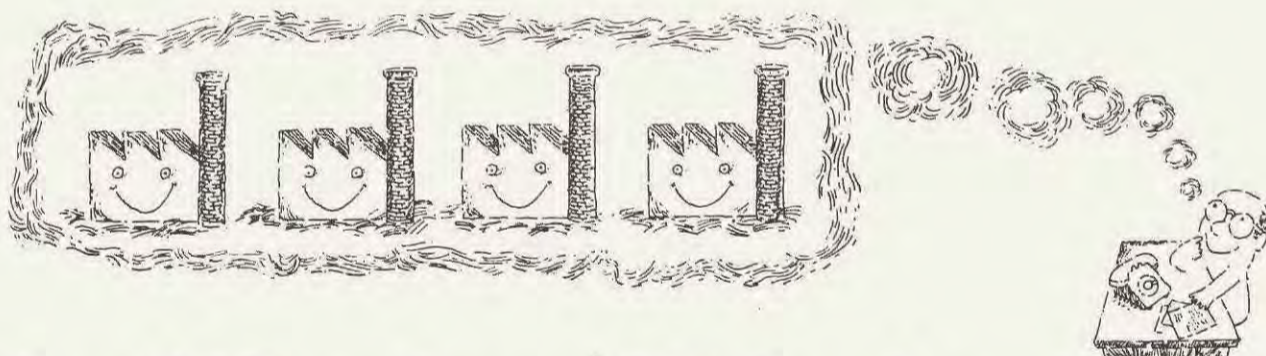
For this, the average driver is expected to face an additional \$8 to \$12 a year in the cost of his policy, said Cornelius Bateson, state insurance commissioner.

**UNDER THE** new law, an insured driver, members of his family living at home, his guest passengers and any pedestrians he might injure will be guaranteed accident coverage.

Mr. Bateson said insurers estimate that 75% of all motorists have \$3,000 or more in medical coverage, but few have coverage for lost wages.

The insurer will have to provide coverage for 70% of the victim's lost wages, up to a maximum of \$500 a month.

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# Commerce committee attorney says omnibus product safety bill will pass

CHICAGO—S. Lynn Sutcliffe, counsel to the Senate commerce committee, has predicted that an omnibus product safety bill will soon pass Congress, perhaps as early as July, and that product liability claims may decrease as a result of such legislation. (See related story on page 4.)

Speaking before the *Business Insurance* product liability workshop, Mr. Sutcliffe stressed that prospects for the Magnuson-Moss bill (S. 983) "look good for this year. A greater federal presence in the product safety area is

and product safety would be required to submit a budget to the agency administrator without first submitting the budget to the Office of Management and Budget for review. The proposed budget is made public at that time and likewise when submitted to the President and OMB. For Mr. Sutcliffe, "This provision does not alter the budget powers of the President, but it certainly makes them more visible."

Other "innovative provisions designed to minimize bureaucratic lassitude" he mentioned include the stipulation that neither the agency administrator nor the commissioners could be employed by any person who had been regulated by them for a two-year

period after leaving the Consumer Safety Agency. Mr. Sutcliffe also said that a citizen, under Title I of the proposal, may sue an employe of the agency for failing to perform his statutory duty.

He explained that "the citizen suit would resemble a mandamus

## product liability workshop

action, but the court, in addition to ordering the person to perform his duty, could fine or temporarily suspend the individual employe if he acted unreasonably."■

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S. Lynn Sutcliffe

practically assured—it's now merely a question of form."

He pointed out that the proposal, like other product safety measures, does not exempt anyone from liability under common law since federal standards are considered minimum standards. However, he added that "any governmental determination that a product meeting an existing federal safety standard did not present an unreasonable risk of injury would, in most cases, insulate the manufacturer from liability."

**THE MAGNUSON-MOSS** bill authorizes a product safety commissioner to differentiate between reasonable and unreasonable risks by consumer products or categories of consumer products.

In a more general vein, Mr. Sutcliffe noted that "to the extent that the federal government sets product safety standards for consumer products and to the extent under its mandate it encourages proper design techniques for all products whether they are under product safety standards or not, then insurers who indemnify manufacturers against product liability claims should be subject to fewer claims."

Mr. Sutcliffe warned, however, that under S. 983 any manufacturer knowingly producing or marketing a product not in compliance with minimal government standards would be liable for double the recovery amount should he be sued for injuries resulting from that product, adding that "to the extent that an insurer indemnifies a corporation against such liability exposure could be significant."

**ANOTHER STRINGENT** measure Mr. Sutcliffe mentioned is the broad and flexible recall authority given the administrator, who may deem any unreasonable risk as subject to recall.

Describing some of the more radical provisions in the Magnuson-Moss measure, Mr. Sutcliffe noted that each of the three Consumer Safety Agency commissioners in charge of foods, drugs

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# Risk men warn: Communicate product liability

By LESLIE MURRAY

CHICAGO—Two messages flashed loud and clear from a panel of four risk managers assembled at the *Business Insurance* product liability workshop here: Alert all lines of corporate communications to the product liability loss danger, and keep detailed, comprehensive records of key aspects of your business transactions.

You might not like it, they said, but you'd better try it.

EDWARD D. HANSEN, risk manager and attorney for Trans Union Corp., outlined a model product liability loss prevention program for a hypothetical company with a centralized corporate staff and profit-center subsidiaries or divisions.

After urging that top management actively and personally endorse such a control program, he nominated the risk manager to run it, stating, "I personally think the risk manager is the logical person at the corporate level to manage such a program—he is the one to whom everyone turns when

## product liability workshop

product liability claims arise. He is the one who generally must assess the cost of product liability, usually in the form of insurance premiums, deductible or self-insured retention levels."

With central management involved, said Mr. Hansen, the next

logical step is to ascertain "a clearly accepted assumption of responsibility for product liability at the division or subsidiary level." He dubbed this the "product safety committee" and suggested it be headed by a division manager "who will take the time to conduct meetings on the subject, who is critical of the costs of the product liability risk, and who will demand participation in this effort of all his people."

The divisional product safety committee, under Mr. Hansen's theoretical model, would be responsible for formal design review, accenting employee involvement in error-free production, and extensive, thoroughly documented testing and inspection. Likewise, the divisional team would supervise the development of warning signs, instructions and



Risk managers left to right are: Donald Stehr, William J. Gibbons Jr., Edward D. Hansen, Norman Hoffman.

labels, emphasizing quality, adequately prepared instruction manuals.

Also, Mr. Hansen noted, the committee must involve itself in claims review, with a careful "failure analysis" made after each claim, as well as advertising reviews to defend against litigation based on warranty (whether implicit or expressed) liability.

Stressing the group's final function, that of record maintenance, Mr. Hansen said, "Such records may well be the only evidence a manufacturer has with which to defend a product liability claim."

WILLIAM J. GIBBONS JR., director of insurance and administrator of employee benefit plans for Standard Kollsman Industries Inc., asserted that "no matter how good your loss control program, you're going to have claims," and that good record keeping is the best way to meet those claims.

"Records in the insurance department," Mr. Gibbons said, "should be maintained ad infinitum." He cited a number of cases in which liability contracts and policies, as well as other seemingly minor document scraps were called upon as many as 50 years later to settle a liability claims dispute. Among the deceptively inconsequential papers he mentioned were purchase orders and contracts containing hold harmless agreements from suppliers.

Mr. Gibbons warned risk men and others concerned with the product liability problem to be "particularly concerned" with corporate mergers and acquisitions, stressing that record of ac-

quisitions, corporate sales and sales of trade names be carefully stored. On the question of transfer of trade name, he said, "It's vital you have clear records of your product versus the product now made by someone else under the same (bought) name."

He listed the other corporate documents to be maintained as



Richard C. Bjorklund, editor of *Business Insurance*, moderated the risk managers' panel at the product liability workshop.

follows: designs and specifications; quality control procedures and tests; copies of product use manual; product samples, or, where that's impractical, photos; modification records; performance tests; internal control; field service reports on product use; customer complaints; record of warranty repairs.

Mr. Gibbons, echoing Edward Hansen, asserted that "the major practical use of records is prepa-

Continued on page 34

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# Coccia urges care in warnings, labeling

CHICAGO—While some Business Insurance product liability workshop speakers prophesied imminent gloom and doom for risk men and product manufacturers, Michel Coccia asserted, with comparative bravado, "Product liability suits are defensible. It's not that bad."

Mr. Coccia, a member of the Chicago law firm of Baker &

have too much quality control. In fact, you need an unreasonable amount of it."

He pointed out that the product should be inspected at as many points as possible during manufacture, that samples should be taken frequently and as often as possible and that the manufacturer should "not stop at what is economically feasible."

Mr. Coccia added, "You design for the moron today, the adequacy of your control program cannot be measured by the statistician or cost accountant. You must prove the defect was not in your product when it left your control."

Once a case comes to court, all records are important, according to Mr. Coccia, who advised manufacturers to make sure all key departments kept thorough and



Michel Coccia

adequate records. "In cases where good corporate records have been exhibited," he said, "the courts have not been reluctant to decide for the defendant."

In a similar vein, Mr. Coccia warned that "critical letters particularly those not followed-up, will find their way into court as adverse proof. Don't dismiss them as cranks—you must act in a responsible way to all adverse data."

Mr. Coccia told manufacturers to maintain record of the product of their competitors. He mentioned that "safe as the state of the art" is still a viable defense, and that such data is especially helpful in cases brought to court 25 or more years after the product is marketed. Likewise, he cautioned manufacturers to maintain documents detailing why design options were chosen.

Mr. Coccia also warned of the product liability dangers of service contracts, noting that a service man's mistake often renders a product defective.

**product liability workshop**

McKenzie and chairman of the Defense Research Institute's product liability committee, reminded his audience that "if you build a defective product, you'll have to pay for it. The change to strict liability allows for a plaintiff's recovery, which is only right."

Speaking on the means a manufacturer can take to reduce product liability claims, Mr. Coccia stressed the importance of warnings and instructions, stating that a pattern is emerging in this regard as to the liability of manufacturers.

**THE WARNING** must reach every conceivable consumer, no matter how remote," he said. "In the case of drugs, you're usually safe if you advise the physician." However, the defense lawyer noted, warnings must be effectively communicated. Using pharmaceuticals as another example, Mr. Coccia explained that even "Dear Doctor" letters from manufacturers are not necessarily adequate in the eyes of the federal courts. Detail men, or some personal communication, was one alternative he offered.

"Warnings, Mr. Coccia said, must be specific—very specific." The commonly used "flammable, do not use near fire or flame" may not be enough, he cautioned. The product's explosive capabilities and even the distance required for safety may be needed to establish a credible degree of reasonable warning and risk, Mr. Coccia asserted.

Cautioning against cluttered labels and the need to weed out unnecessary cautions, Mr. Coccia advised that any warning take into consideration the possibilities of product misuse. "The risk of foreseeable misuse," he noted, holds true for even a perfectly made product."

**MANUFACTURERS** may not rely on directions and instructions to relay adequate warning," he further advised, "and directions do not qualify as adequate warning."

Of warning labels, Mr. Coccia said that all labels should be clear, legible and as permanent as possible. On large equipment, photographs should be taken of all warning labels and kept as proof, he said, and all labels should be proofread for clarity and accuracy.

"Supplement printed labels and warnings with verbal ones," he continued, "and these, too, must be clear. A manufacturer is liable for bad advice given by his agents, particularly verbal advice which alters a written warning."

Speaking on the importance of quality control, Mr. Coccia commented that there has been a growing tendency in the courts to lower the requirements for a plaintiff bringing a case before a jury, and that "quality control can swing the evidence in the defendant's favor in almost every case." To this he added, "From a defense point of view, you can't



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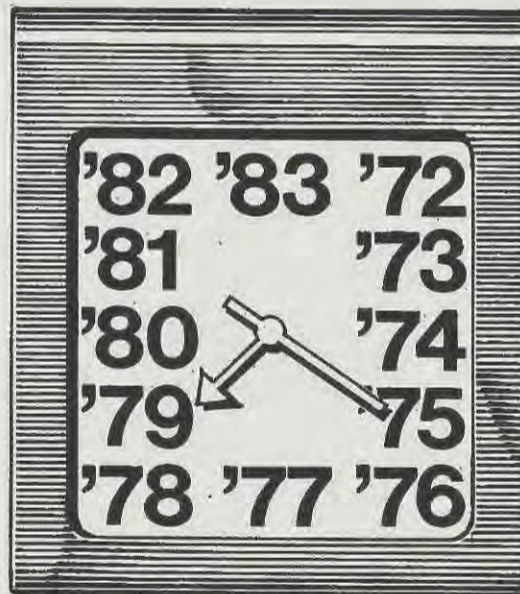
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# Redmond: Withdrawal cover isn't off the ground

By TERESA NORTON

CHICAGO—After plowing five years of time and money into the development of product withdrawal coverage, Fireman's Fund American Insurance Cos. is not yet sure the line has come into its own. The company has only 100 policies on the books today, according to Garrett Redmond, vp, who describes their situation as "not a resounding success."

Mr. Redmond spoke to risk managers here at a product liability workshop sponsored by *Business Insurance*. He told them that product withdrawal coverage was born when exclusion H was added to the 1966 product liability form, excluding coverage for withdrawal costs. Condition 4-A, he said, "added another twist" that led to product withdrawal

cover's development when it added that once a dangerous product liability condition was known remedial steps had to be taken.

Fireman's Fund began researching the new line by studying the number of product withdrawals

## product liability workshop

made in the country, the reasons behind them and the costs involved. It was found that very few companies had withdrawal or disaster plans, said Mr. Redmond, and the carrier decided that it would be important to them in furnishing coverage whether or not a company had a workable plan.

**THE COMPANY** then defined the specific purpose of the insurance as meeting communication costs (staff, postage, supplies, telephone and telegrams) and meeting product disposal costs. The next step, the vp said, was to determine the types of products that could be covered. Basic manufacturing risks such as design errors were excluded, he explained, with only errors and omissions in labeling and packaging covered. Mr. Redmond added that the Food and Drug Administration was concerned, at the time, that withdrawal coverage for packaging and labeling errors might breed faults.

Fireman's Fund opted for product withdrawal coverage rather than product recall cover, he told the workshop, because, in most instances, the product withdrawn



Garrett Redmond told his audience that response to product withdrawal coverage has been less than overwhelming.

cannot be reworked to correct the defect and it is "pointless to recall it to its place of origin." The

company also excluded coverage for the cost of the withdrawn item because it did not want to be in the position of buying a manufacturer's bad products.

Recompense for the loss of customer faith was another coverage excluded, said the vp, "because the insurance industry shouldn't take all the risks out of business."

No company can be sure it will never need a withdrawal plan and Mr. Redmond said that once a plan is established a Certified Public Accountant should be brought in to cost it out. "Allow a margin for cost error and make your decision on purchasing coverage on this 'loaded' figure," he said, rather than on the bare statistics.

Underwriting considerations led Fireman's Fund to aim toward covering bodily injury rather than property damage hazards, he continued, but policies have been modified in a few cases. Food processors and distributors comprise the majority of the insurer's withdrawal policyholders, he said, although they have written policies on a container coating manufacturer and a toothpaste tube manufacturer. He indicated, however, that most problems arise from the actual food process.

**THREE POINTS** of importance to the insurer when providing the coverage, he said, are:

- Testing and checking of the product during processing and before it leaves the manufacturer.
- Whether the product is sent to a distributor or is sold directly to the public. "It is easier to withdraw from a distributor than it is to trace products to individual purchasers, Mr. Redmond pointed out.)

- Whether the item is sold as is or as a component. (Under exclusion H, he said, the only withdrawal cost that would be paid for an insured component maker is that of notification of the ultimate manufacturer, who might be able to bring a product liability action against the component maker.)

Now that all has been said and done, however, the best Mr. Redmond could say of buyers' interest in withdrawal coverage was that "it has been depressingly slight." But, he added with a resigned shrug, at least Fireman's has shown a profit on the line, since none of their 100 policyholders has made a claim.

The typical buyer response to product withdrawal coverage, he said, runs along these lines:

- "There's no way it can happen to us." (He believes that people rely on computerized processes to end all their errors and aren't aware that they can lead to new ones.)

- "We don't think it would cost much and we think we could absorb it." (Find out the facts, first he warned. The cost of postage alone could be shocking.)

Continued on page 34

## What is it worth?

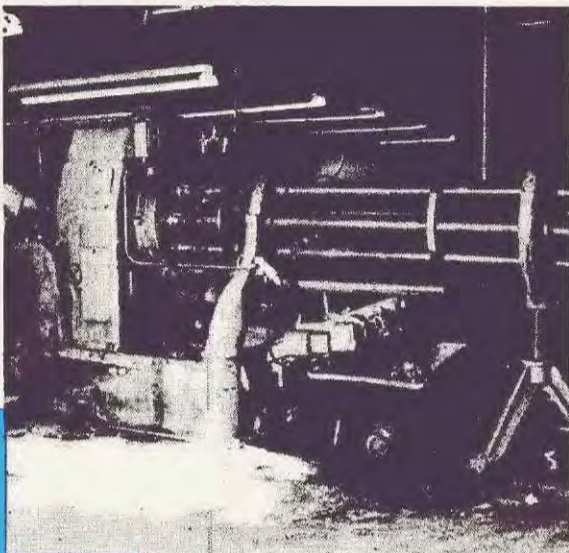
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# london line

## Britain imposes new mandatory \$5 million workmen's comp cover

LONDON—Britain has ruled that every employer must carry legally enforceable risk cover up to \$5 million for its employees.

This will protect employees against firms that cannot pay for negligence which may lead to accidents or illness at their jobs.

The new law was brought in this year because of a factory disaster in Glasgow, Scotland, four years ago when 19 plant hands lost their lives in a major fire.

But their dependent families were unable to get any compensation payments from the factory owners because of lack of funds.

**THE CEILING** limit of \$5 million for injuries sustained "in any one occurrence" in the future was fixed by negotiation between insurance companies and government safety representatives.

It is not actively expected that it will ever have to be paid, short of a fearsome explosion or other catastrophe in which there are many victims.

But workers' representatives in Parliament pressed for the removal of any loophole which might cause them to suffer for employer's lack of funds.

Negotiations revealed that most employers, including all major corporations, already carry full liability insurance for their employees.

**IN EVERY** case, except for rare instances, the cover has been for unlimited liability. Underwriters regard this as a normal part of such policies, as Britain has an excellent record of accident prevention and there have been no

## Corroon moves to buy Wis. broker

NEW YORK—Corroon & Black Corp., the international insurance broker headquartered here, has reached an agreement in principle to acquire Carney-Rutter Inc., a Milwaukee broker. Carney-Rutter's largest commercial account is understood to be Allis-Chalmers Manufacturing Co., Milwaukee.

Carney-Rutter's annual revenues are about \$1.15 million and it is said to be one of the largest independent broker-agents in Wisconsin. The firm, established in 1946, has a branch office in Whitewater, Wis. It employs about 40 persons.

According to a Corroon & Black press release, "Present officers and staff of the company will continue to conduct its business. . . ." However, *Business Insurance* has learned from other sources that Carney-Rutter has hired a top financial man from Allis-Chalmers who in recent weeks has been soliciting new brokerage business from financial contacts he has in Wisconsin industrial and business firms in anticipation of the merger.

Richard Corroon, chairman of the New York broker, told *Business Insurance*: "I can't confirm that at all." Asked, then, if it was not true, he replied: "I didn't say it was not true."

major claims.

But when government officials decided to demand cover for the remaining 5% of the work force, usually in small plants, that are uninsured at their jobs, the reinsurance market was interested.

They felt it reasonable to set some form of upper limit, and \$2.5 million was suggested in the first place. Government representatives sought a higher limit, and finally \$5 million was fixed.

Under the new laws, all em-

ployers must insure against accident or disease sustained by their employees at work. Every kind of corporation, small or large, must take out a government-approved policy with an authorized insurance company. So must professional firms such as groups of lawyers, accountants or architects who employ internal staff, or department stores or shops where staff is employed.

Country clubs, golf clubs and social clubs are also involved,

and the only exemptions are either one-man firms, public utility industries or county authorities which are financed by government funds, such as police, and are unlikely to run out of cash.

For most employers there will be no change in their present policies, because they have been wise enough already to cover all negligence risks. But newcomers will have to negotiate suitable cover to comply with the new laws.

**INSURANCE** sources report that French insurance companies paid out more than \$4 million in major claims in 1971. Biggest marine claim was for the loss of the nickel carrier Maori, which was carrying a \$7.5 million hull and cargo cover when it sank in November. Much of the risk was carried in the London market, which also bore substantial reinsurance lines from French cargo underwriters. British insurers also car-

ried reinsurance cover on the tremendous \$37 million damage loss claimed by a communications equipment corporate whose factory was destroyed by fire in northern France.

**FIDELITY** Corp., of Richmond, Va., plans to extend its \$500 million group interests to Britain so as to offer equity-linked life insurance through a subsidiary corporation. It has wide insurance interests in the U.S., including a multi-line general and reinsurance brokerage firm.

**BURNS** International Security Services Inc. has moved into Britain through acquiring an interest in Uni-Met Security Services Ltd., one of the four major independent security-guard services in the country. It plans to expand into Europe from this London base, and will be available for insurance and fraud investigations.

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## Risk men . . .

Continued from page 30

ration for defense attorneys in product liability suits."

**DONALD L. STEHR**, director of insurance and employe benefits for the Jos. Schlitz Brewing Co., stated that "the most effective way to reduce complaints is through quality control and an adequate product complaint procedure," noting that a risk manager's job should involve passing product complaints to the company's quality control staff, assuming responsibility for risks and assisting in product liability defense cases.

"The key to elimination of claims," said Mr. Stehr, "is product quality. Make sure the quality control staff is competent—quality control is the first line of defense against claims."

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He further suggested that the quality control staff continually review products, as well as its own practices and procedures, at each individual plant if at all possible.

The product complaint procedure, in Mr. Stehr's opinion, should be a formal, structured program for both handling and analyzing complaints. Responsibility should be clearly delegated for the distribution of complaint facts to production, advertising, design, sales, risk and legal departments, he said.

Mr. Stehr emphasized the responsibility of immediately contacting the complaining party: "Nothing is more aggravating than to be ignored, and this is where complaints become claims.

"The risk manager," Mr. Stehr added, "must give the defense counsel all needed information on quality control to counteract assumptions of negligence or strict liability."

**NORMAN HOFFMAN**, corporate insurance director of National Industries Inc., said that his company (a diversified conglomerate) attempts to keep all subsidiaries informed on the product

## Withdrawal

Continued from page 32

• "The deductible or contribution is too large." (The usual Fireman's Fund deductible, he said, is \$5,000 but they have gone as low as \$1,000 on some policies. The usual contribution, he continued, is 20% but larger deductibles have been arranged for those who wanted lower contributions.)

• "It's too expensive." (Mr. Redmond said he is amazed at the number of companies that give that response when they have never gotten a quote on the coverage or haven't even determined the amount they might need. He added that the premium cost is only a "small fraction of that for product liability premiums.")

• "It doesn't cover the cost of taking the product back to our plant." (The cost of bringing a product back to a plant and re-making it is a manufacturing cost, he emphasized; withdrawal coverage only intends to make sure the product is removed from the hands of the public.)

liability question. "Throughout the company, he said, employees are aware that top management is vitally concerned."

Citing one example of complete corporate product safety documentation, Mr. Hoffman related how one small member company of National Industries, a stove manufacturer, was spot-checked by its liability insurer for an accounting of its product liability

## product liability workshop

procedures.

The stove company, according to Mr. Hoffman, replied by compiling a product liability manual—a solid record of its procedures, and advance research in case of claims.

Highlights of the manual, as outlined by Mr. Hoffman, include:

• A flow chart of where raw materials come into the manufacturer and their use.

• A discussion of cost problems, including an explanation of

## Polaroid shop hikes pension plan

CAMBRIDGE, Mass.—In a series of moves aimed at advancing its black employees, Polaroid Corp.'s South African distributor, Frank and Hirsch (Pty.) Ltd., has expanded its pension plan to include equal benefits for all white and non-white workers.

Questioned about the details of the new program, Thomas H. Wyman, Polaroid's vp of international operations, told *Business Insurance* that Polaroid was not concerned with the specifics of the plan but was only interested in "insuring that the plan operating for whites applied to all employees." Asked if black employees had been previously covered by a pension program, Mr. Wyman replied, "There may have been some benefits before, but certainly there were some very great differences."

Polaroid has been involved with the question of apartheid in South Africa since October, 1970, when a group of black workers in its Cambridge plant demanded that Polaroid discontinue all business with South Africa and support South African liberation movements in this country. After sending a bi-racial fact-finding committee to South Africa, Polaroid decided to quit selling directly to the government and to distribute goods only through local dealerships. Polaroid also agreed to devote a percentage of its profits from South African sales to black educational and cultural programs there (*Business Insurance*, Aug. 30).

## Mayors study coverage

The Connecticut conference of mayors has formed a committee, chaired by Hartford Mayor George Athanson, to determine why it has been difficult to obtain insurance on city buildings. A spokesman told *Business Insurance* that negotiations would begin with private insurance companies which have made it "difficult or impossible" to obtain adequate coverage on municipal buildings at "reasonable rates," and that if negotiations are not successful, the committee would then go to the state insurance department, and, finally, to the state legislature.

why specific alternatives were implemented and a comparison with the product's competition.

- Detailed component analysis.
- Design diagrams.
- Letters to customers regarding servicing.
- Field bulletins for jobbers, builders and distributors.
- Safety certifications from qualified associations.
- Inspection records.
- Claims history.
- All labels affixed to the product.

IN A RAPID-FIRE discussion session, the panelists were divided on the amount of help a risk

manager could receive from his insurers on product liability problems. While Mr. Hansen asserted, "You can get all the help you want," Mr. Stehr pointed out that the most aid you could expect would be in the way of criticism, with the insurer indicating vulnerability in certain areas.

Mr. Gibbons commented that insurers, when testing products, have the advantage of reviewing a group of similar products at the same time. And, he said, insurance companies act as an impetus in pointing to the need for better product liability control.

Countered Mr. Hoffman, "They do have the impetus—they can charge us all more money." ■

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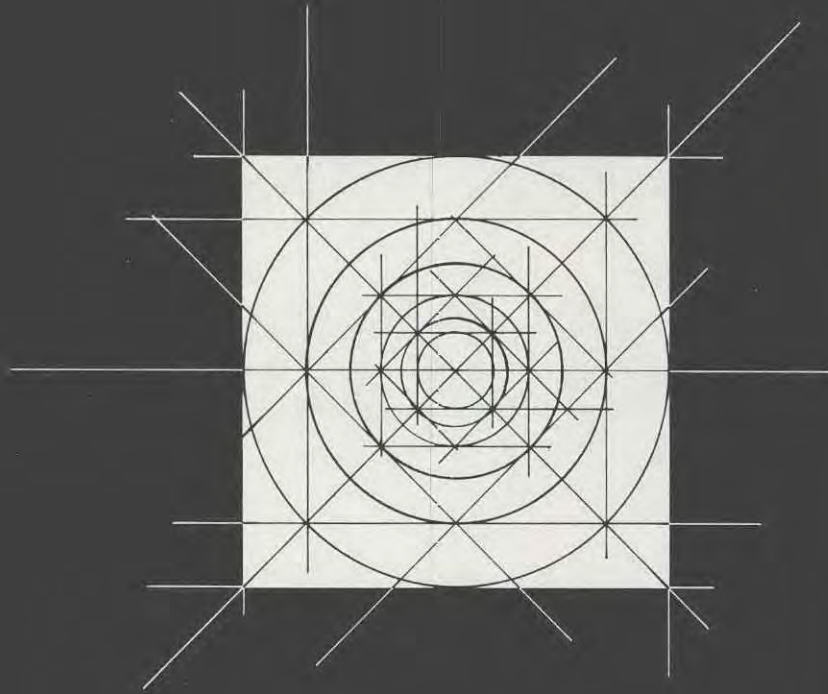
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