Blue Shield adds group dental coverage to plans

By STEPHEN GOOD

CHICAGO—All 71 Blue Shield plans will be offering group dental coverage by the beginning of 1975, the National Assn. of Blue Shield plans disclosed.

"In fringe benefits, this is a logical extension of good medical care," said William E. Ryan, the association's senior vp of marketing. More than half of the nation's Blue Shield plans are already offering the dental plan, covering about two million persons.

Blue Shield hopes to increase the number of members covered under its dental plan by ten-fold in the first year, noted dental services director Stuart I. Weinstein. Blue-Cross-Blue Shield currently provides about 40% of the nation's medical and surgical coverage, he said. "If one were to translate those figures from medical-surgical to dental care, it means we will be covering up to 80 million people if our full potential is reached."

Compared to the Blues, Mr. Weinstein added, the commercial insurance industry currently has about ten million persons covered by dental insurance. Delta Dental Plans, set up by the American Dental Assn., have more than five million persons covered.

In the Blue Shield program, five different areas of dental coverage will be offered, and four different premium plans will be available. Rates will be based on group experience and the "usual, customary and reasonable" fees charged by local dentists.

The minimum amount of coverage available in the Blue Shield dental plan includes "basic services" like regular checkups, cleanings, fluoride treatment, x-rays and fillings. This entails about 70% of all dental work, Mr. Weinstein estimated.

Additional basic services are optional, he added. These involve crown and inlay work, space maintainers, and more complicated forms of tooth repair amounting to about 10% of all dental work.

Periodontics, or the treatment of gum problems, are

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Week of June 24, 1974

business insurance®

the national newsmagazine for buyers of employe, property and liability protection and financial services

in this issue

Kidnap/ransom

Lowndes Lambert USA released a brochure publicizing known worldwide kidnaps and ransoms. Some underwriters are extending kidnap/ransom policies to cover reward costs. **Pages 6 and 7.**

Bond guarantees

Underwriters are capitalizing on a new insurance market: policies guaranteeing payment of principal and interest on municipal and corporate bonds and commercial paper. **Page 16.**

New benefit

Personal counseling on tax, sex, and other problems is being provided for employes at employers' expense in the belief job performance will improve. **Page 24.**

ASO contract

An administrative services contract worth nearly $100,000 was awarded by Dallas to ESIS division of INA Corp. to administer workmen's compensation for the city's 12,000 employes. **Page 39.**

Threat of bank liability triggers market

By SUSAN ALT

CHICAGO—Aetna Life & Casualty Co. is energetically marketing a newly-introduced individual safe deposit box insurance policy, spurred by the possibility that United California Bank will be held liable for millions of dollars in losses suffered by boxholders following a major heist at UCB's Laguna-Niguel branch.

As reported (*Business Insurance*, Feb. 18), UCB is presently involved in litigation of suits by boxholders who lost fortunes in the over-$5 million theft. The bank is disclaiming liability for lost contents of safe deposit boxes, but box renters charged the bank with misrepresenting the safety of boxes in ads.

THE PRIVATE talk among bank risk managers on the West Coast, as well as some insurance company and broker sources, is that UCB's boxholders may well win the case against UCB when it comes to trial in September. The reason: Previously, bank liability for loss of box contents could only be established on the basis of bank negligence, which is difficult to prove. Banks can usually routinely show that they exercised reasonable care in preventing access to boxes.

The UCB case involves an entirely different set of charges, however, and could set a precedent for bank advertising and insurance of safe deposit boxes.

Aetna, along with brokers Marsh & McLennan and the Louis H. Lyle Agency, to name a few, are using the UCB case as a selling tool for the new insurance policies, designed to be offered through banks to each customer on an optional basis, or to be purchased by the bank in a lump to cover each boxholder.

The Aetna policy differs from those previously available to banks on separate forms through such companies as INA, Hartford, Fireman's Fund, and Aetna. This safe depository liability insurance for banks is covered under clauses A, B, and C, bought separately, of the Combination Safe Depository Policy.

"Most banks do not purchase non-liability type of coverage, presumably because it is significantly more expensive than the legal liability contract," said Charles Q. Swarts, an executive of Aetna, speaking recently at a Cincinnati meeting of the American Safe Deposit Assn.

AETNA'S NEW policy is a simple, one-page combination of the three coverages, which shifts the burden of "an impossible negligence situation where the bank is a defendant, to a claim situation where the customer deals directly with the insurer," as Mr. Swarts described it.

The Aetna policy includes coverage A, all risk securities coverage where the bank itself has custody of a customer's securities; coverage B, all risk securities coverage for lessees of safe deposit boxes; and coverage C, burglary and robbery coverage on other property in safe deposit boxes.

It does not include coverage for money, but does respond for the numismatic value of coin collections, a unique extension.

Costs for the policy range from 25 cents per $1,000 in coverage (minimum premium $2.50) to 50 cent per $1,000 in coverage (minimum premium $5). The lower charge applies to banks offering the policy to boxholders, while the higher charge covers individual sales by bank sponsors, Mr. Swarts said.

Byrne Davis, in Marsh & McLennan's San Francisco office, told *Business Insurance* that "none of the major banks in California

Continued on page 12

Pension termination provisions to include two-tier insurance structure

WASHINGTON—The nation's banks may become suppliers of "insurance" to protect employers against contingent liabilities included in the termination insurance provisions of pension reform.

Companies which terminate their participation in single or multi-employer plans face being slapped with a federal lien on up to 30% of their net assets, according to tentative agreements reached by pension reform conferees this month.

The 30% lien, included in the Senate pension bill, is still lower than the 50% lien written into the House version of the bill.

THE LIEN provisions in the pension reform bill are designed to encourage employers to properly fund their plans and prevent poorly funded plans from being "dumped" on a government-run pension benefit guarantee corporation, also agreed to by the conferees in closed door sessions at the Capitol building.

The contingent liability insurance is the second "tier" of the insurance structure designed into the bill.

The first tier, run by the government's pension benefit guarantee corporation, would guarantee pension benefits to participants of terminated plans.

The conferees tentatively set as the maximum benefit the actuarial equivalent of the lesser of 100%-of-average-wages during the individual's five highest paid years of participation in the plan, or $750 monthly, accordingly to tentative agreements.

The second tier insurance would cover the lien liability and here some of the pension conferees hope that private insurers, and possibly even banks, will move in to offer the coverage.

At this point, only the First National Bank of Chicago has been mentioned as interested in entering the contingent liability area. Officials there declined comment on the reports.

But one legal official at a leading national bank told *Business Insurance* that what his bank would probably offer, if it enters the area, is a "letter of credit" arrangement similar to that provided

Continued on page 38

Lloyd's policy to cover big malpractice award

By JUDI TALIT

NEW YORK—Malpractice insurance underwritten by Lloyd's of London will fully cover a near-record malpractice judgment against Mt. Sinai Hospital here, *Business Insurance* learned.

A Lloyd's spokesman disclosed that professional liability coverage for the hospital is "more than sufficient to meet the $2 million judgment."

This award comes on the heels of the largest medical profession liability payout in history only last year, also insured by Lloyd's. In that case, a policy held by Mt. Zion Hospital, San Francisco, paid $3.9 million to a paralyzed youngster. The total settlement was just over $4 million. (*Business Insurance*, Feb. 12, 1973.)

The latest malpractice settlement was the result of a jury verdict reached late last month in state supreme court in Brooklyn, handed down after only a day and a half of deliberation.

The hospital's negligence award was based on evidence that Mt. Sinai did not administer necessary oxygen to Tracy Gamell, a newborn. Hospital records showed that after her birth in 1961 there was a definite oxygen deficiency which went untreated, resulting in severe retardation.

THE HOSPITAL'S attorney, John J. Bower, said an appeal will be filed "within a few days." He expressed optimism that the decision will be overturned.

Tracy Gamell had been awarded $500,000 when the case was first tried in 1968. That award was overturned by the appellate division which ordered the new trial. ■



Property damage from an explosion at a Chevron Oil Co. rig at the mouth of the Mississippi River was estimated at less than $1 million. Four Chevron employes and three subcontractor employes died. Chevron, a division of Standard Oil of California, is insured through OIL Insurance Ltd., with a $5 million deductible on property damage. Cause of the blast has not been determined. —Wide World

Pension reform bill...

Continued from page 1
covered in another area of optional services. About 2-3% of all dental work involves periodontics, Mr. Weinstein noted.

A third optional service, prosthetics, is also available from the Blues. This area covers the replacement of natural teeth with false teeth and amounts to about 5% of professional dental care.

THE REMAINING optional coverage deals with orthodontics, Mr. Weinstein commented, which take up another 5% of all dental work. This service is only available on a family coverage contract, and typically excludes adult orthodontia.

If a fully-insured family dental plan includes all five coverages, he estimated, about 40% of the dental charges covered are for basic services, followed by 20% for orthodontic work, 15% each for periodontics and prosthetics, and 5% for the additional basic services.

An employer may choose one of four different premium plans, the Blue Shield director noted. The group may be covered for 100% of usual, customary and reasonable costs, or for a percentage of these costs. An indemnification plan with specified limits per service is also available.

The fourth premium plan involves an "incentive co-payment." This way an employe is covered for a certain percentage of his claims the first year and then has his portion of the co-payment progressively lowered each year thereafter. As a hygiene incentive, the plan requires the employe to have a checkup each year in order to qualify for a lower co-payment the next year.

Basic services under all of the dental plans are provided without deductibles or copayments, and all other deductibles are kept as low as possible by Blue Shield. "Deductibles are a deterrent to utilization," Mr. Weinstein said. "Dentistry's biggest concern is utilization. The higher the utilization, the quicker you can reach maintenance or stabilization levels and begin to reduce the average dental care costs."

ACCORDING TO an "old theory," the typical carrier instituting a new dental plan loses money in the first year, comes out even the second ,and then makes money the third year, Mr. Weinstein noted. "We expect to break even after 24 months" on the new dental plans, he added. "If you stay in the hole too long you've got a big problem on your hands.

"These contracts are suggested to last for a minimum of two years. High utilization and high cost is expected the first year. Then the stabilization effect and decrease of utilization should come, if everything goes right."

Some of the 71 Blue Shield plans vary in their requirements for group dental coverage, Mr. Weinstein explained. Several plans offer the dental program to groups of five or more persons. But Kansas' Blue Shield allows

Continued on page 12

State maternity cover is not required: Court

WASHINGTON—The Supreme Court ruled last week that state disability insurance plans are not required to cover maternity-related claims.

But the ruling is not expected to affect sex discrimination cases where private employers have been required to provide maternity benefits as part of their regular disability coverage. Several of these rulings are now being appealed.

In a 6-3 decision, the Supreme Court overturned a federal district court ruling in the case of Geduldig vs. Aiello. The lower court had ordered California to extend its insurance plan to cover disabilities caused by pregnancy. But the Supreme Court said that withholding pregancy-related benefits was not unconstitutional sex discrimination.

Writing in the majority opinion, Justice Potter Stewart said the U.S. Constitution does not require a state "to subordinate or compromise its legitimate interests solely to create a more comprehensive social insurance program than it already has."

CALIFORNIA HAS a "legitimate interest" in trying to keep the cost of its insurance program within reasonable limits, Justice Stewart added, acknowledging that maternity coverage adds substantially to insurance premiums.

Chief Justice Warren Burger, and Justice Byron White, Lewis F. Powell, Harry Blackmun, and William Rehnquist joined in the majority opinion. Justice Thurgood Marshall, William Brennan and William O. Douglas dissented.

The dissenting opinion held that California's disability insurance program is "singling out for less favorable treatment a gender-linked disability peculiar to women." This violates the Fourteenth Amendment's equal protection clause, the minority maintained.

"The Supreme Court always held that the Fourteenth Amendment did not prohibit sex discrimination," noted Ruth Weyand, head attorney for the group of female employes who recently won a maternity benefits case against General Electric Co. (*Business Insurance*, April 29).

"I'M VERY disappointed," she added, "there's no question about it. But I know there's no impact from this on Title 7 of the Civil Rights Act." Consequently the case does not affect the issue of discrimination in employer-paid benefit plans.

The California case "was an issue about a state fund," Ms. Weyand explained. "Title 7 only applies to employes of private employers." So there was "no way" the four women plaintiffs in California could have taken their case to court under Title 7, she explained.

Only five states require disability insurance for state employes, Ms. Weyand pointed out.

Three of the four women who brought the California case to court suffered disabilities attributed to pregnancy complications, Ms. Weyand said. All three had received at least some disability benefits because their pregnancies were not normal. ■

Benefits correction

The Kimberly-Clark Corp. liberalized education benefits story appeared in our June 10 issue on pages 26 and 27. We inadvertantly referred readers to the wrong page with our index.

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Financial institution D&O market heating up

By JUDI TALIT

NEW YORK—Wohlreich & Anderson Ltd. lowered premium rates on directors' and officers' liability for savings and loan associations, as part of a drive for increased business in the field.

Although the firm has marketed this coverage since 1969, it wasn't until last January that positive rate reductions were initiated.

Sources at the brokerage firm told *Business Insurance* that lower premiums have made it possible for a director to buy $1 million of D&O coverage for as little as $462 a year.

An officer would be able to obtain this same coverage for a lower premium of about $200, according to the firm.

The premium differential appears to be attributable to differences in corporate responsibility.

Since April, Wohlreich & Anderson has received about ten positive replies from savings and loan associations, a company spokesman noted.

Federal Savings and Loan of San Francisco, West Baltimore Building Assn. in Maryland have already purchased the cover from Wohlreich & Anderson.

A SPOKESMAN for West Baltimore Building Assn. told *Business Insurance* that the financial institution was able to buy $1 million coverage for a premium of $1700.

Although the board of directors at West Baltimore Building Assn. had talked about carrying D&O for more than two years, no action had been taken to obtain it until now.

"A couple of years ago, the cost of D&O seemed to be disproportionate to the coverage," a spokesman for the association said.

But, due to the "simple awareness that directors and officers of corporations are more exposed to claims of shareholders or constituent owners of business" the association couldn't afford to wait any longer to buy D&O coverage, the spokesman said.

Patricia Harte, underwriter for Wohlreich & Anderson, said the firm is merely a marketer of the coverage, which is underwritten by Chubb & Son, except in the states of New York, New Jersey and Kansas. Because of regulations in those states, the cover is written by a British company, Guildhall Insurance Co. Ltd.

The basic limit on D&O cover for savings and loan associations is $1 million if purchased through Wohlreich & Anderson. Higher limits are available.

"FIVE MILLION dollars would be the highest amount available in our direct market. We could write $10 million, but it would have to go through an excess market," Ms. Harte said.

The standard deductible on a policy with limits of $1 million is $5,000, "where each director is responsible for $1 million to $14-15 million," the firm added.

The deductible depends not only on director responsibility, but on the number of directors as well, according to the brokers.

A lower deductible of $1,000 is available through Wohlreich & Anderson at a 12% higher premium.

The coverage includes defense costs and settlements of suits brought against officers and directors of the associations.

There is no aggregate annual limit on losses or claims for directors and officers included in the policy, Wohlreich & Anderson said.

"There are some banks that are very reluctant to buy it. They argue that they've never had a loss. But there are lots of them buying it," she added.

Another feature of Wohlreich & Anderson's coverage is a discovery clause, available at a slightly higher premium, extending the discovery period to one year.

THE BROKERS noted that "for a 12-month discovery period, there would be a 30% increase of the 12-month premium. Originally, prior to January, the contract had a discovery period of only 90 days, with an additional 10% premium on a three-year contract."

Some of the exclusions of the D&O coverage include:

- libel and slander;
- personal profit or advantage by anyone who is not legally entitled;
- dishonesty of the insured;
- any suit based on failure of insured to purchase and maintain insurance;
- actual return by an insured of pay such as a large bonus or salary that did not have prior approval of the association's governing body;
- purchase or sale of securities by the insured where improper profits have been made.

Other companies appear to be gearing up their operations in this area as well. MGIC Indemnity, American Home Assurance Co., L. W. Biegler and Crum & Forster are also pushing for more business in this market, *Business Insurance* learned.

MGIC has offered D&O policies for financial institutions since soon after Wohlreich & Anderson introduced its coverage. MGIC now writes D&O policies for about 950 savings and loan associations, out of the approximately 2,700 such institutions thought to buy D&O coverage. There are about 5,400 savings and loan associations in the U.S.

There are only ten to 12 companies writing D&O for savings and loan associations. "I don't think anyone has written more" than MGIC, a spokesman for MGIC said.

"NINETY PERCENT of our policyholders carry a $1 million cover for each occurrence," the company noted, adding that such a policy can pay as much as $1 million per officer, per year.

Premiums on savings and loan association D&O covers vary.

For a three-year contract, the cost for a $1 million policy could vary from $1800 to $25,000 depending on the deductible.

Like Wohlreich & Anderson, MGIC uses a standard deductible of $5,000. However, this may vary, depending on how much of the risk or loss the savings and loan association wants to absorb.

"Larger savings and loans wish to go with something like a $20,000 deductible," they said. This way, they are entitled to a premium savings.

American Home Assurance Co. said it has experienced a 20% increase in business with savings and loan associations over the past year. Sources at American Home said that D&O limits start at $250,000 with "an in-house capability of $15 million." ■



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OPIC moves closer to setting pool for worldwide expropriation reinsurance

WASHINGTON—The Overseas Private Investment Corp. took an initial important step this month towards possible establishment of an international expropriation reinsurance pool.

The possibility of an international pool was brought forth as OPIC joined the Berne Union, a 40-year old international association formerly concerned only with export credits. Its members include operating agencies, both public and private.

In order to join the union, OPIC first won approval of a reorganization in the union's structure to create a committee for investment insurance as a second branch for the organization.

THE INVESTMENT insurance committee, in which OPIC will participate, will develop its own program.

Proposals for reorganization of the union were initiated by OPIC two years ago in line with its directive from Congress to seek ways for lessening its exposure through risk sharing. OPIC writes expropriation, war risk, and inconvertibility coverages to encourage private U.S. investment in developing countries.

Marshall T. Mays, OPIC president, said the restructuring of the Berne Union creating an international association of investment insurers "opens up many possibilities for the exchange of technical information on investment insurance practices and policies.

"We have long needed an international vehicle for commissioning research and publications designed to strengthen international standards of fair treatment for foreign investors," he said, "and we believe this is a significant step forward."

Mr. Mays said that establishment of expert panels of independent consultants on investment appraisals or other technical services would help settle investment disputes in the future.

"ULTIMATELY," he said, "we hope the committee will facilitate formation of an expropriation risk reinsurance pool among interested member agencies."

The chairman of the new investment insurance committee is to be G. Cohen-Tervaert, head of NCM, a Dutch insurance company which acts as agent for the Government of the Netherlands. The president of the union for the coming year is to be Robert Fell, of Great Britain, who is secretary of that nation's Export Credits Guaranty Department.

OPIC will also have membership on the overall management committee of the union itself.

The decision to restructure the Berne Union took place at meetings in Florence, Italy, this month.

OPIC's new international effort at risk sharing is in addition to its efforts to transfer some of its underwriting to domestic carriers.

OPIC is already working with a special insurance industry group consisting of Lewis W. Niggeman, chairman of Fireman's Fund American Insurance Cos., chairman, and Charles G. Cox, president of the Insurance Co. of North America; F. Arthur Mayes, president of AFIA-Worldwide Insurance; and Donald E. Johnson, vp, Nationwide Insurance Co.

OPIC and the American underwriters are investigating a shift of 25% of OPIC's underwritings to a pool of private carriers with OPIC becoming a reinsurer and retaining the day-to-day administrative responsibility.

* * *

THE CONSUMER Product Safety Commission (CPSC) has decided it may develop its own mandatory safety standards if the only groups offering to make such rules are the manufacturer, distributor, or retailer of the product about to be regulated.

The CPSC left itself that role in finalizing the rules governing the development of safety standards mandated by the Consumer Product Safety Act.

The first targets for such standard making include architectural glass, swimming pool slides, power lawn mowers, extension cords and matches, according to the CPSC.

The final rules allow the CPSC to choose outside parties to develop the standards and include "meaningful" full requirements for consumer participation in the standard development process.

The CPSC is required to publish notice in the Federal Register when it determines that a safety standard is needed to protect the public from an "unreasonable risk of injury" associated with a consumer product.

The notice is to invite any person, consumer organization, government agency, association, institution, or industry to submit, within 30 days, either an existing standard or an offer to develop a new standard.

The CPSC is required by law to accept an offer from at least one individual or group unless it decides to use an existing standard as the basis for its regulation.

The only exception is when the only offerors are the manufacturer, distributor or retailer of the product in question where the CPSC is allowed to refuse such offers in favor of developing its own standard.

Congress specified that standards be developed within 150 days after the publication of the notice in the Federal Register.

The commission is in some situations prepared to share the cost of developing standards.

* * *

PUBLIC HEARINGS begin June 25 in Washington on proposed permanent rules to protect workers against exposure to vinyl chloride. A temporary emergency standard to protect chemical industry workers was published in April following the reports of death from liver cancer of employes exposed to vinyl chloride. ■



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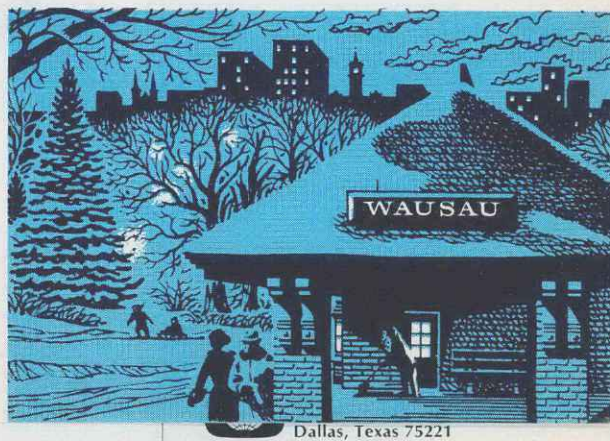
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Deductibles found needed in national health plan

SANTA MONICA, CA.—Deductibles probably will be needed, at least initially, in any national health insurance system, The Rand Corp. said in a report published this month in the New England Journal of Medicine.

A three-member research team from the California-based "think tank" said deductibles in the area of $150 to $200 probably will be needed to place some damper on demand until the nation's health care system can cope with it.

The Nixon Administration's proposed Comprehensive Health Insurance Plan (CHIP) includes provisions for deductibles and coinsurance. The Kennedy-Mills national health insurance proposal does not.

The real crunch for medical services under a national health care system would not fall on hospitals, said the Rand researchers, but on physicians and out-patient services.

Ninety percent of hospital bills are already covered by health insurance and only four out of five hospital beds are usually occupied, according to the report.

But only 40% of ambulatory, or out-patient, health care is presently covered by insurance and if most or all of ambulatory care were covered by a national health plan "the increased demand would far exceed the current capacity of the delivery system."

REGARDLESS of deductibles, the report predicted that the costs of physicians' services would go up "in short order."

The report looked at plans for full coverage, under which everyone would receive free medical care for 25% coinsurance, in which the insured pays only the first 25% of the bill and for small and large deductibles.

Both the full coverage and coinsurance plans would sharply increase demand for ambulatory services, according to the report. In the case of full coverage, they estimate demand would increase 75%; in the case of the coinsurance plan, a 30% increase.

Those estimates, according to the authors, are conservative.

If the extra demand was met and prices not raised, the cost to the nation—including the employers who pay for much of the coverage—would be an added $8 billion to $16 billion annually for full coverage, with hospital and ambulatory care included.

The coinsurance plan would raise costs an extra $3 billion to $7 billion, based on 1972 prices, according to the report.

The researchers said the country now pays about $62 billion a year on health services that would be affected by national health insurance.

IN LOOKING at insurance involving small deductibles in the range of $100 to $150, the researchers said such coverage "could exert an important influence on reducing demand for ambulatory services" while having little effect on hospital services.

The Rand group also looked at a third type of plan, the large deductible or catastrophic plan, similar to that included in the Long-Ribicoff bill.

Catastrophic coverage would have a deductible in the neighborhood of $2,000, after which the national health insurance would pay the rest.

"Although such a plan would remove the usual upper limit on coverage, it would in all likelihood add little to total demand" for either hospital or ambulatory services, according to the report.

Demand under such coverage, however, could shift markedly upwards—by billions of dollars—if new technological breakthroughs occur, such as the development of an artificial heart or similar high cost therapy, the researchers said.

The Rand team had some reservations about the role Health Maintenence Organizations (HMO's) might play in holding down demand and costs of any national health system.

While HMOs tend to reduce the demand for hospital beds, there is no evidence they have increased productivity in the delivery of ambulatory care, where the new capacity demands are expected to hit hardest, the team found.

More promising, according to the report, is the use of paramedical personnel. "Unfortunately, however, most physicians appear reluctant to employ additional personnel," the researchers said, so no estimate can be made of what their impact might be.

WHEN THE debate over details is completed, the Rand team said there would probably be this hard fact to deal with—they believe there is no reason to believe a national health system will appreciably extend life expectancy.

It may improve the "quality" of life through relief of severe pain and alleviation of anxiety but the major social and biological factors that determine mortality remain the same, the research team pointed out.

The major policy debate on national health insurance, said Rand, is between those who consider health care a right and those who believe society should be concerned only with whether the individual has adequate income—and then spending as he sees it. ■



Kidnap . . .

Continued from page 7

question the effectiveness of bodyguards. The presence of bodyguards can lead to violence, the officials claim.

The number of kidnapping investigations by the FBI has risen from 1,181 in fiscal 1969 to 1,556 in fiscal 1973, according to the study.

A recent study of 298 kidnap-extortion cases involving banks revealed 95% of the perpetrators were male, 50% were between 21 and 30, two-thirds lived in the same area where the abductions took place and more than 70% were either unemployed or working part-time, the Board said.

Kidnapping however, is one of the most unsuccessful criminal activities in the U.S., the Conference Board study claims. More than 95% of all kidnappers are apprehended, according to the study.

Most kidnappings are motivated by the desire for illicit monetary gain, according to California Union Insurance Co.'s statistics. The company states kidnappers seem to be largely indiscriminate in choosing their victims, many times despite financial or social status.

Reward insurance will assist in lengthening the odds against kidnap and extortion crimes, according to California Union. ■

The busted thumb boat-rocking machine



(1) Charlie busts his thumb. (2) Willie and Stan rush over to Charlie; their job goes to pot. (3) Shipment to customer is late. (4) Customer's cancellation leaves manager grief stricken (already weakened by sight of Charlie's replacement). (5) Now the front office is grief stricken. (6) Big Boss descending to axe everybody who is rocking the boat.

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• **OSHA Report,** a Man & Manager publication, is a monthly newsletter covering executive's responsibilities under the Occupational Safety & Health Act. Questions are answered about inspections, appeals, citation, violations, NIOSH, prevention safety, penalties, equipment, supervision, recordkeeping and standards. For a free sample issue and subscription information write Man & Manager Inc., 799 Broadway, New York, N.Y. 10003.

• The General Adjustment Bureau's expanded program of safety and loss control services is described in **Professional Approach.** A full staff of professional safety engineers is available to appraise existing safety programs, train supervisory personnel, survey company premises, operations and/or special conditions or even initiate new safety programs. A free folder may be obtained by writing Management Services, GAB, 123 William St., New York, N.Y. 10038.

• **National Directory of Safety Consultants,** released by the American Society of Safety Engineers, can help you locate qualified experts in all areas of safety. The cost is $5.00 and they are available from the American Society of Safety Engineers, 850 Busse Hwy., Park Ridge, Il. 60068.

• **Money,** a corporate brochure produced by the Oakland Financial Group Inc., describes the company's synergistic approach to executive financial planning and counseling as a corporate benefit. For your copy write the company at 17368 W. Twelve Mile Rd., Southfield, Mi. 48076.

• A fold-out sheet featuring the Kidde MA-2400 fire alarm system modular control panel is being offered by Walter Kidde & Co. Five different models are described and pictured. For a free copy of **Kidde MA-2400 Fire Alarm Systems** write Advertising Manager, Walter Kidde & Co. Inc., 675 Main St., Belleville, N.J. 07109.

• **Fire Protection Developments in CNG-Fueled Vehicle Operations,** a reprint from the Fire Protection Journal is available from Rollins Burdick Hunter Co. The article describes and explains the installation of compressed natural gas on motor vehicles. These installations have not only proven to be economically sound, but have the added benefit of air pollution reduction. For a free copy write E. F. Johnson, Rollins Burdick Hunter Co., 10 S. Riverside Plaza, Chicago, Il. 60606.

• An information packet on a concealed automatic sprinkler called **The Unspoiler** is being offered by the Star Sprinkler Corp. The sprinkler is designed in 16 color styles to match ceiling tiles. The packet includes engineering specifications and installation instructions. For a free copy write Bob Worthington, vp of sales, Star Sprinkler Corp., 4545 Tacony St., Philadelphia, Pa. 19004.

• The **Crump London Coverage Notes** are published monthly by Crump London Underwriters Inc. and are available free to readers of *Business Insurance*. The notes include brief descriptions of special coverages, including up-to-date information about changes in rates or markets for coverage. If you would like to receive these monthly mailings write Earl R. Lanning, Crump London Underwriters Inc., 2600 100 N. Main Bldg., Memphis, Tn. 38103.

• **What You Always Wanted to Know About Your E&O Exposure,** a booklet available from Employers Reinsurance Corp., deals with insurance agents and brokers vulnerability to errors, omissions and negligent acts. This publication is of particular interest to insurance brokers and insurance agents. A free copy may be obtained by writing the company, P. O. Box 2088, Kansas City, Mo. 64142.

• **Truck Driver** and **Warehousing** are the titles of two new employe pocket manuals of safety work codes. They are designed to provide a prepackaged company safety policy and a documented company record of basic rules.



All rules comply with OSHA federal standards and each rule is pictured for quick, clear understanding. Samples and quantity prices are available from Dray Publications Inc., Deerfield, Ma. 01342.

• The Eastman Kodak Co. offers a booklet entitled **The Management of Information** which describes various microfilm systems, their uses and benefits. The book includes details of how such things as accident reports, claim files, deeds, and insurance files can be put on microfilm for fast information retrieval and compact filing. For a free copy write Arlene Kwasney, Eastman Kodak Co., 343 State St., Rochester, N.Y. 14650.

• **The Broker,** a publication of the Western Assn. of Insurance Brokers and the Insurance Brokers Assn. of California, lists the guidelines for high-rise fire training and evacuation plans. This booklet includes procedures of training all persons who could be affected in a fire emergency. For a free single copy of the magazine write The Broker, 235 Montgomery St., Room 962, San Francisco, Ca. 94104.

• Bankers Life Nebraska publishes a pamphlet entitled **Group Dental Insurance** which outlines the benefits available under Bankers Life Nebraska's program, with special emphasis on services covered and the types of plans and options which can be installed. For a copy write Ken Tiekotter, Bankers Life Nebraska, P. O. Box 81889, Lincoln, Nb. 68501.

• Information on builders risk insurance for apartments, rehabilitation projects, engineering projects, coverage plans, application form, and a question and answer sheet are all included in **Builders Risk Insurance.** For a free copy write Department 12, American International Group, 102 Maiden Lane, New York, N.Y. 10005.

• The Institute of Life Insurance and the Health Insurance Institute have released a **List of Worthwhile Life and Health Insurance Books.** The list contains a selection of materials currently in print which are available from commercial publishers and special publishing agencies. Copies may be obtained by writing the Institutes, 277 Park Ave., New York, N.Y. 10017.

• Delta Dental Plans Assn. has published **Considering Dental Care Benefits for your Employes?** The pamphlet provides basic information on the subject of group dental insurance programs, methods of evaluating programs, definitions of dental services, information on utilization and cost and quality control in prepaid dental programs, and a brief description of the Delta Dental Plan System. For a copy write James Bonk, Delta Dental Plans Assn., 211 E. Chicago Ave., Chicago, Il. 60611.

• **Aim for the Best in Trade Association Insurance** describes the services of American Insurance Marketing Corp. The company is organized and owned by the independent insurance agencies in major trade areas. Their purpose is to research, develop, place, market, and maintain individual insurance programs for members of trade associations and franchise groups. For a free copy write AIM, 500 Northwest Plaza, Suite 317, St. Ann, Mo. 63074.

• **Group Insurance is Great . . . But Our Way is Better** is a pamphlet prepared by the Self-Insurers Service Inc. for employers who are considering self-insuring employe health and disability benefits. It explores areas of savings to be realized through the claims payments and other related services. For a copy write Self-Insurers Service Inc., 111 West Jackson Blvd., Chicago, Il. 60604.

• **How to Insure Your Insurance,** published by Marshall & Stevens Inc., points out some of the traps in the corporate insurance policy and suggests how to avoid them. The coverage trap . . . determining correct values for covered items, and the proof of loss trap . . . being ready with what's really required for a fast fair settlement are discussed. For a free copy write John Heath Jr., Marshall & Stevens Inc., 1645 Beverly Blvd., Los Angeles, Ca. 90026.

• Mass Insurance Consultants and Administrators Inc. is offering copies of a speech on **Cost Factors and Other Considerations in Welfare Fund Administration,** by Charles S. Mack, chief operating officer. It includes an evaluation of administrative fees. For a copy write Mass Insurance Consultants and Administrators Inc., c/o Charles S. Mack, 209 S. LaSalle, Chicago, Il. 60604.

• A full color, sound film entitled **Crisis Management** is available from Charles S. MacCrone Productions. The film deals with the process of evaluating business risk exposure, realigning preventive priorities and capabilities, and utilizing business and police resources to deal effectively with the risk of criminal confrontations. The film may be either purchased or rented. For complete information write Charles S. MacCrone Productions, 8048 Soquel Dr., Aptos Village, Aptos, Ca. 95003.

• **Group Dental Plans, AcciDental Protection Plan** and **Association Dental Plans** are brochures available to *Business Insurance* readers from the California Dental Health Plan. For free copies write the firm, 1752 Langley Ave., Irvine, Ca. 92664.

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Bank box liability . . .

Continued from page 1
has purchased this coverage yet, but all have it under consideration."

Louis Lyle, Wellesley, Ma.-based broker specializing in insurance for financial institutions, said "We're fairly certain several large Northeastern banks will buy this coverage in the near future."

BOTH MARSH & McLennan and the Lyle Agency are marketing this coverage for purchase by banks in a lump amount, for coverage of all boxholders, rather than for sale to individual box renters.

Aetna's Mr. Swarts declined to forecast the underwriter's target sales figure for this insurance. "We have no prediction of how many banks will buy this coverage. If this product is the right product for its time, and if one bank in an area buys it, we figure then others will follow. This is because the first banks that have it will probably promote it," he said.

The number of safe deposit boxes in banks ranges anywhere from 300 for, say, a small suburban bank, up to 15,000 or 20,000 in only one branch of a large metropolitan bank.

Mr. Swarts said Aetna has ten of 15 solid orders lined up for the coverage, all of them for bank purchase of the coverage.

In his speech before the American Safe Deposit Assn., Mr. Swarts noted that immediately after the United California Bank robbery in Laguna-Niguel, a bank official stated that "Contents of safe deposit boxes are not covered by federal deposit insurance and while the bank carries its own liability insurance, it is not applicable because the bank incurred no liability."

Mr. Swarts continued: "In today's climate of consumerism, I believe it is unrealistic for a depository to on the one hand solicit the public to use the deposit facilities, with implied and often specific assurances of safety and convenience, and later deny these same customers protection unless brought into court. What makes this concept so unfair is that almost no customer has any idea that there is no direct insurance on their valuable in the safe deposit box."

THE SECOND optional insuring clause (clause B) presently available to banks, covering loss of customers' property by burglary or robbery, whether or not the insured bank is legally liable, is not an adequate solution to the problem, Mr. Swarts declared.

"In the first place, this coverage gives customers no direct right of protection.. It is purchased by and written in the name of the bank. In addition, there is the absolutely unique situation whereby the bank has no idea what values are contained in the deposit boxes."

"We believe that no real or potential loss of marketing ground justifies endorsing a policy of non-information to the consumer," he said, suggesting that the coverage could be announced by a bank with a positive marketing effect. He proposed that banks tell customers that by law they are not liable for contents of boxes unless proven negligent. Further, he said, banks might tell customers that it is highly unlikely a charge of negligence can be sustained against the bank because of sophisticated vault and security systems, but that, to afford the opportunity to fully protect valuables against loss, this insurance is being provided.

Alluding to the prospect of the UCB trial this fall, Mr. Swarts declared that "it represents an immeasurable catastrophic loss potential if the bank is held liable" for loss or theft of box contents. "We believe the days of legal liability are numbered. Certainly if the courts begin to increasingly hold banks liable (and there are indications this is coming), then the present legal liability contracts cannot be continued, at least at the present pricing structure," Mr. Swarts warned.

IN A RELATED event, *Business Insurance* learned that the American Bankers Assn. carried in its March issue of the Bank Protection Bulletin the suggestion that banks take steps to minimize safe deposit box losses. "Before deciding on the need or form of insurance or indemnity, bankers should make certain they have adopted the toughest measures to minimize losses. They should also use a suitable lease agreement."

The bulletin went on to note that it is desirable for banks to set up a safe deposit box contract which establishes a landlord-tenant relationship with the box renter, rather than a bailor-bailee relationship, which has been the traditional contract relationship. This would assure that the bank is not held liable for exercise of "anything beyond reasonable care," the bulletin said.

The policy form for the new Aetna cover states that in addition to the three coverages combined in the policy, exclusions include loss due to war or insurrection, loss due to any fraudulent or dishonest or criminal acts of the insured or its employes, loss due to fire, loss due to securities transactions, loss by moths or vermin including normal wear and tear, or loss due to nuclear reaction or radiation. ■

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Dental . . .

Continued from page 2
groups of two or more employes to sign up for dental coverage. And in New York, groups are required to have 25 or more employes.

The New York plan, Mr. Weinstein pointed out, is the oldest Blue Shield dental program, begun in 1964. It is also the biggest one, with 600,000 persons covered.

The 71 local plans also vary in the number of dentists they have belonging to their dental programs. Dentist recruitment runs as high as 78% and as low as 0%, the Blue Shield director said.

WHERE A COVERED employe has dental work done by an unrecruited dentist, he is reimbursed for the usual, customary and reasonable fees charged for the kind of work he had done. The employer, Mr. Weinstein added, is only responsible for paying the premium and Blue Shield takes care of all administration and claims payments.

Blue Shield administrative costs for dental coverage are about 11-15% of total premiums, he explained. In comparison, medical-surgical coverage administrative costs run about 9-10% of premiums.

"The very nature of the dental program means it takes more time," he said. "You need more records, and the cost is going to go higher."

Senior vp Ryan said that individual Blue Shield dental coverage is currently unavailable, but will be available in the future; "no doubt about it." ■

Urges improved safety standards as good insurance, business practice

BOCA RATON, FL.—The insurance industry was urged to take a leadership role in working out reasonable, practical standards for occupational health and consumer product safety by Robert D. Gidel, consultant with Occupational Safety and Health Consulting Associates Inc.

"The insurance industry has a tie to virtually every employer," Mr. Gidel said. Since safety and health professionals are in short supply, the industry should advise employers of safe and healthful work techniques and expand its support of paraprofessional development programs, he urged in a speech before the American Insurance Assn. here.

"We are not promoting safety and health per se," he noted. "We are talking about good management, which now must recognize certain legal safety and health requirements," said the Silver Springs, Md. consultant.

TECHNICAL STANDARDS for on-the-job protection of workers must mesh with those for off-the-job protection of consumers and safety standards for consumer products must mesh with those for industrial products, he pointed out.

"I see three basic common denominators running through the Occupational Safety and Health Administration, (OSHA), Consumer Product Safety Administration, (CPSA), Environmental Protection Agency, (EPA) and the energy crises," he said, "waste control, quality control and accountability."

OSHA standards problems are basically three, Mr. Gidel explained: the language is subject to various and diverse technical and legal interpretations; inspectors are trying to apply standard provisions in work situations for which the standards were not developed and to which they do not apply; and the format of the standards is only vaguely comprehensible to most small employers.

"We advise our clients that the least of their worries should be a visit from a government inspector," Mr. Gidel said.

What employers should be concerned about, he continued, are:

- legal actions above and beyond workmen's compensation;
- new job standards which can outlaw or force complete redesign or retrofitting of machines and equipment;
- health standards which may outlaw the use of certain materials or require costly control measures.

THE NATIONAL Institute for Occupational Safety and Health (NIOSH) and OSHA are embarking on a 30-month project to bring 400 or so air contaminants in compliance with the prescriptions of the OSHA Act," Mr. Gidel said.

Employers and insurance consultants alike will have to marshall their talents in an organized, professional manner in the future, Mr. Gidel said, outlining some of the steps to be taken:

- Put things in writing, including operating programs and policies for every work process and product, from the top down, he advised.
- Have a system for everything, from in-house operations to standards for dealing with suppliers, contractors, maintenance and repair agents.
- Keep records all along the line.
- Reevaluate and redesign toxic material inspection, testing specifications, procedures and manuals, instructions and training programs.
- Tighten up direction and supervision.
- Monitor closely complaint handling, advertising, promotion and market claims.
- Review all contractual agreements and documents for direct and hidden responsibilities.

"Our experience indicates that employers . . . who ignore these (OSHA, CPSA and EPA) laws have new areas of liability coming up in common law tort, negligence, breach of implied warranty, fraud, misrepresentation, as well as violation of statutes to think about," Mr. Gidel advised.

PRODUCT liability will be a big issue in the future, he predicted. The 500,000 product liability cases now pending may increase to one million in the next five years, he said.

"We look for injured employes and others to increasingly attempt to use an employer's or a manufacturer's own lack of management controls and even employe discipline as a basis for legal action," he said.

"Insurance industry leadership must act before-the-fact to help cut losses after-the-fact," he concluded. ■

Insurers call for denticare in Canada

OTTAWA—The dental profession in Canada is taking a careful look at a program proposed by health and accident insurance companies calling for a combined public and private denticare plan that would embrace dentists, government and the insurance firms.

The program received attention at the recent annual meeting of the Canadian Assn. of Accident and Sickness Insurers.

A spokesman for the Canadian Dental Assn., while asserting that the proposals appeared acceptable in principle to the profession, nevertheless, displayed an attitude of caution.

Dr. Ronald Dickson, chairman of the dental association's council on health care, cautioned, however, that the government might not elect to participate in a program that would also include insurance firms.

UNDER THE plan advanced by insurance companies, details of benefits would be worked out through discussion and negotiation among government, the insurance firms and the dental profession.

A spokesman for the insurance firms explained that benefits should be available to all residents of a province without any eligibility limits, patients should be free to choose their dentists, and the program should encourage diagnostic, preventive and restorative benefits.

Insurers also propose that a review board be established to monitor all activities under the plan and resolve any disputes that might come up. ■

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Bond guarantees attracting cities; opening new insurance markets

NEW YORK—Municipal and corporate financing are proving to be new insurance markets, as policies guaranteeing payment of principal and interest on municipal bonds and commercial paper have recently been issued by major national insurance companies.

The city of Carbondale, Il. insured $8.5 million in water and sewer bonds with a new consortium of national insurance companies, the Municipal Bond Insurance Assn. (MBIA). Members of MBIA are: Aetna Casualty & Surety Co., St. Paul Fire and Marine Insurance Co., Aetna Insurance Co., and U.S. Fire Insurance Co.

Aetna Life and Casualty Co. is also guaranteeing the commercial paper of AgCo Corp., a recently formed subsidiary of Omaha National Corp.

Previously, the only source of municipal bond insurance was MGIC Indemnity Corp., Milwaukee, Wi., which has issued policies guaranteeing municipal bond issues since July 1971, according to a company spokesman.

MBIA'S PREMIUM costs are based on the debt service requirement, principal plus interest, of each municipal bond issued, according to Lauren Miralia, vp of Municipal Issuers Service Corp., general manager for the consortium.

MBIA will consider writing policies on issues ranging up to $20 million par value for bonds having a minimum investment grade rating of triple-B, the minimum rate granted by Standard and Poor's Corp., corporate credit rating agency.

MGIC's premium costs range from one-half to three-fourths of 1% on A-rated bonds to 1% and 1.5% for triple-B-rated bonds, a company spokesman said.

Insuring payment of their municipal bonds is saving the city of Carbondale an estimated $730,000 in interest. Previous issues of these bonds were rated Baa. The consortium's guarantee upped the rating for Carbondale's municipal bonds to triple-A.

MBIA plans to eventually issue approximately $1 billion of municipal bond guarantees a year, according to John R. Butler, president of Municipal Issuers Service Corp.

MR. BUTLER said MBIA is currently reviewing applications from numerous municipalities across the country.

The greatest interest in insuring municipal bonds seems to be from medium and small municipalities in suburban and rural areas, Mr. Miralia said in an interview.

"We've received several applications from Pennsylvania, California, the South and the Midwest," he said.

MGIC's spokesman agreed. "Now with interest rates so high, the difference between a triple-A and Baa rating is much more attractive financially to municipalities," he said.

"Approximately 17 cities and municipal agencies to date," have insured bonds with MGIC, the spokesman added.

AGCO IS paying a premium of $5 per thousand per annum for the first $35 million with a $200,000 deductible, an Aetna spokesman confirmed.

This is the rate for this particular instance only," he added. The amount is not intended to imply the premium cost for any corporation guaranteeing its commercial paper the spokesman said.

AgCo's commercial paper has been rated A-1 by Standard and Poor's Corp.

Commercial paper has traditionally been sold on the basis of the issuing corporation's credit worth alone; however AgCo is the only company rated by Standard and Poor's which issues commercial paper guaranteed by a non-related guarantor. ■

Medical care program for poor initiated

PORTLAND, OR.—Multnomah County and the area's medical community have launched "Project Health I," the first of a three-phase medical care program for treating poor persons in private hospitals.

Commissioners approved last month contracts signed with eight Portland-area hospitals, and named a nine-member commission to oversee the health care system.

First phase of Project Health lasts through June 30 and will provide money for hospital and physician care for about 160 persons meeting "working poor" guidelines.

First-phase costs, budgeted under the county's department of human services, will be $383,049.

EVENTUALLY, the health care program is intended to gather approximately $66,000,000 from a variety of federal, state and local sources for medical service.

Individual physicians treating patients will sign contracts with the county as they begin admitting patients.

During the first two months, project organizers have budgeted $100,000 to pay for physician contracts.

The program will cover 1,708 patient days at $140 per day, except physician fees, and 120 hospital newborn days at $45 per day. ■

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One operator monitors intrusion alarms; fire and smoke detectors; sprinklers; patrol stations and card reader access control points. The firm's adjacent older structure is tied in, as are 9 Milwaukee area branches, according to Mr. Evans, Security Director.

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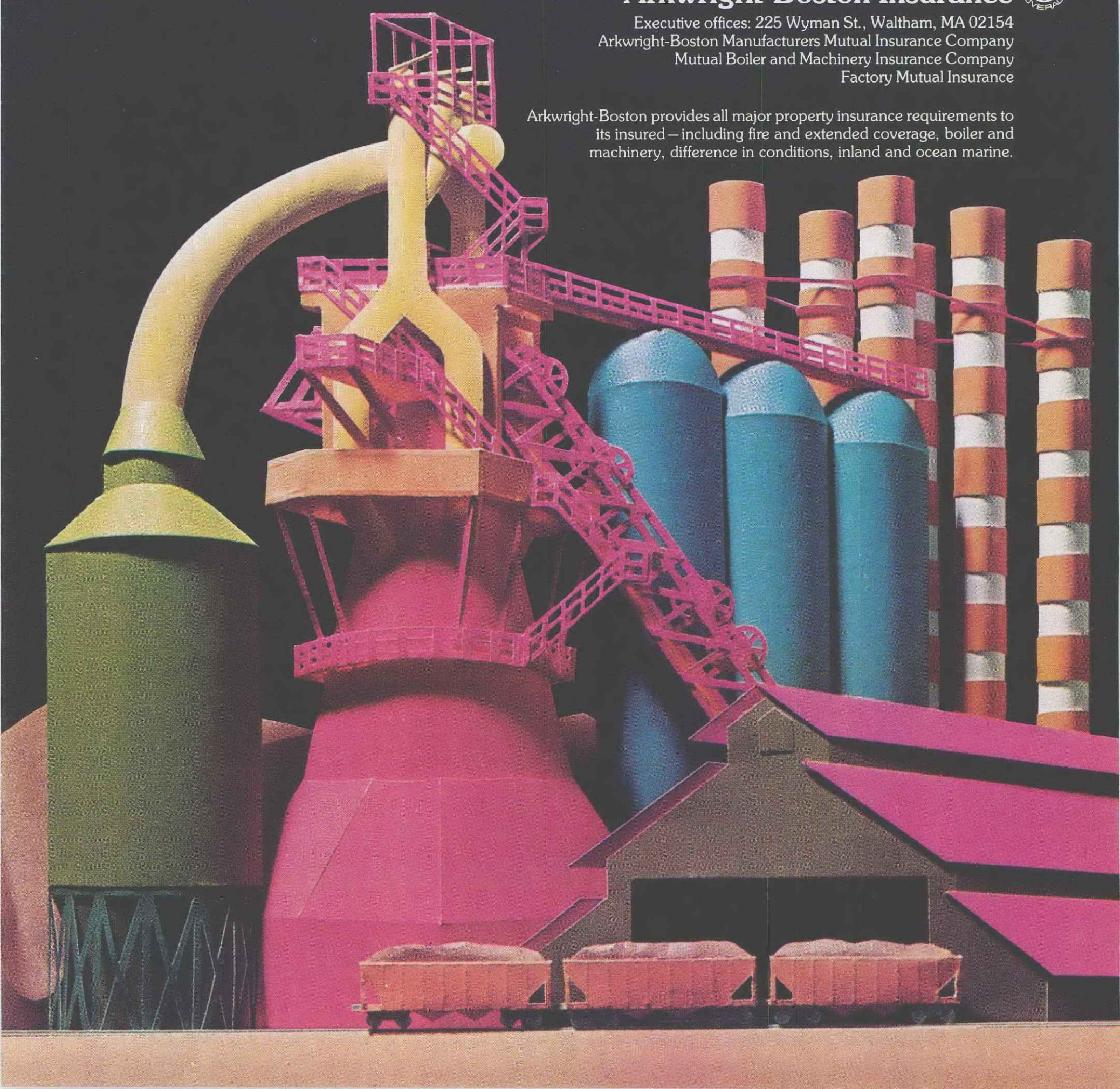
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Urge NAIC to keep banks out of insurance business

SAN FRANCISCO—Two insurance agent associations strongly urged state insurance commissioners meeting here to prohibit the licensing of banks and lending institutions as insurance agencies.

The National Assn. of Insurance Agents (NAIA) and the National Assn. of Mutual Insurance Agents (NAMIA) together submitted a proposed model bill to the insurance holding companies subcommittee of the National Assn. of Insurance Commissioners (NAIC) at the commissioners' bi-annual conference early this month.

The NAIC subcommittee said it "concurred with the principles contained in the proposal" and agreed to meet before December for a redrafting of the proposal.

"Our associations are committed to resist the inroads of banks and other lending institutions into insurance agency business," said NAIA's general counsel John F. Neville, "because we believe that coupling the lending of money with . . . insurance is unfair, non-competitive and, when practiced by a large lending institution, may result in a concentration of resources which will ultimately freeze out the local businessman."

BANKS AND lending institutions are "vocal, articulate and well-financed" in their push for entry into insurance marketing, Mr. Neville added.

In the last six months, Mississippi, Georgia and Florida have passed state laws prohibiting lending institutions from marketing insurance, he noted. Other states with similar laws include Connecticut, Kentucky, Massachusetts, Nevada, New Hampshire, New York, Tennessee and Vermont.

With banks and lending institutions kept out of insurance, then the state commissioners will be assured their regulatory control over the insurance industry, and will help consumers as well, Mr. Neville reasoned. "There is no public need for permitting lending institutions to emasculate the present system," he said.

Wayne L. Naugle, chairman of NAMIA's state legislation and regulation committee declared "we believe the joint proposal before you will go a long way toward regulating the commingling of banking and business, and eliminate the inherent coercion that is involved." ■

NAIC adopts resolution to reform state exams

NEW YORK—Significant changes in state examinations of insurance companies could result from a resolution adopted by the National Assn. Insurance Commissioners (NAIC) at its annual convention here recently.

The resolution called for administering separate examinations, one for financial soundness and another for marketing practices and claims handling. State examiners currently administer only one exam to each insurance company.

The NAIC also authorized appointment of task forces to explore alternative means of state financing insurance company examinations.

Other task forces were appointed to study establishment of minimum qualifications for examiners, a training program for examiners and new methods of market conduct and financial condition surveillance.

THE TASK forces have a deadline of December 1974 to report their findings to NAIC.

NAIC had commissioned a review of the insurance company examination system by McKinsey and Co., a management consulting firm in June 1973.

The McKinsey report was approved "in principle" by members of the NAIC. However, McKinsey's recommendation that insurance examinations be paid for from insurance companies' pooled resources was not adopted. ■

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Each report is preceded by a **Current Comment** section with notes on ideas and subjects of current interest. The format is 8½" X 11", looseleaf, three hole punched, for ease of filing in an attractive looseleaf binder which will be mailed to subscribers with their first report. A cumulative index is prepared annually and the length of each report is 30 to 40 pages, permitting thorough analysis of each particular subject. Emphasis is placed on developing practical working tools for the risk manager, drawn largely from the continuing contacts of the writers and their staff—who are risk management consultants—with both large and small companies and institutions in the U.S. and Europe.

The editor of **Risk Management Reports** is H. Felix Kloman, president of his own consulting firm *Risk Planning Group,* assisted by his staff, and an editorial advisory board including the following experts:

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Additional experts will be named from insurance companies, brokers, safety consultants, etc.

Among the many different subjects to be treated individually by Risk Management Reports are the following:

- **Product Safety:** Identifying product liability control areas with emphasis on the Consumer Product Safety Act. Report will also detail how one major U.S. corporation has dealt with the problem.
- **How to deal with those who provide Risk Management Services, Agents/Brokers, Claims Organizations and Engineering Facilities:** The care and feeding of those you depend on for services and how to get the most out of them.
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- **Managing Risks of Data Processing Facilities:** How to apply risk management techniques to the ever-important and costly data processing facility.
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- **Risk Management Cost Allocation:** An effective risk management program should be understood and implemented at the operating unit level. How do you create cost incentives at that level to make your risk management program more effective.
- **The Risk Management Function in Management:** Given the evolution of the risk management function—from clerk to buyer to manager—where should today's risk man belong in the organization of his company.
- **Natural Hazards—Earthquakes, Floods and Windstorms:** How are you fixed geographically and, if there's an exposure, how should you cover it. Report will also delve into the various government disaster insurance programs available or on the drawing boards.
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City vehicle policy saves $100,000

BUFFALO, N.Y.—Mayor Stanley Makowski asserted that the City of Buffalo will save about $100,000 annually under the terms of a new city vehicle insurance policy that has been recently negotiated.

The proposed policy has been presented to the newly-created insurance advisory committee for its approval.

The potential saving was negotiated by Robert F. Rung, city purchase director, and involves a policy with Merchants Mutual Insurance Co. of Buffalo.

The proposed policy, which would cost the city $211,000 annually, would replace the present policy with Merchants Mutual that costs the city $330,000 annually.

MERCHANTS MUTUAL insures about 1,250 city-owned vehicles, and the policy for the vehicles represents about 80% of the present insurance premiums paid by the city.

Mayor Makowski credited Mr. Rung with working over a period of months before the insurance advisory committee was formed. The result, the mayor added, was negotiations which led to the proposed saving of more than $100,000.

The savings results primarily from three factors, the mayor explained.

First, he said, was the deletion of certain liability coverage carried in previous years. Second, he added, was the application of a new experience and schedule rating plan recently introduced in New York by the city's insurer. The last factor he cited was from the start of the automobile "no-fault" law that became effective Feb. 1.

The recently created panel of eight is charged with reviewing all insurance held by the city to determine if it was all needed, if more is needed and if any can be consolidated. ■

Bassett elected

Preston C. Bassett, vp of Towers, Perrin, Forster & Crosby, was elected to a four-year term as chairman of the International Assn. of Consulting Actuaries. Evan Innes, also a vp of Towers, Perrin, Forster & Crosby was elected IACA secretary-treasurer.

WE'LL TAKE THE TURTLE

It's become quite fashionable for many companies, including some of our competitors, to characterize themselves as the "tigers" of the business world. When you stop to think about it however, the turtle is really a more remarkable animal.

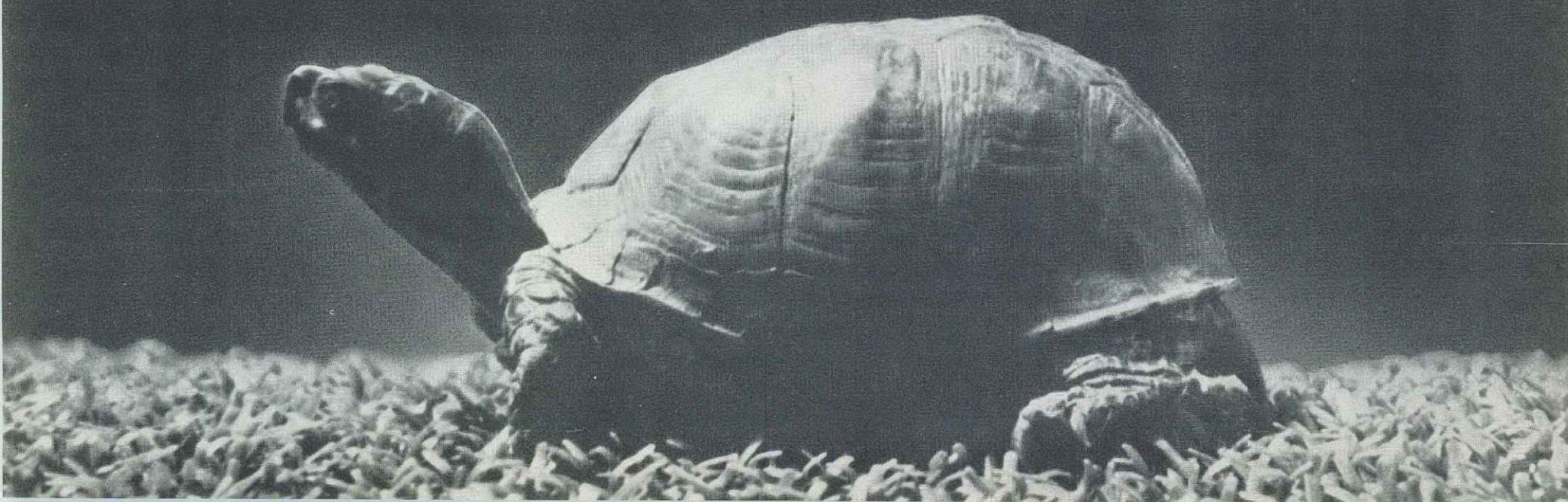
As a species, he's nearly 20 million years old. The tiger is a baby by comparison. Individual turtles often live for 120 years or more. Tigers are lucky to reach age twenty. Unlike the tiger, the turtle can live almost anywhere, and his basic design is so sound, it hasn't changed since the day he arrived. Legend has it that his steadfast character even earned him a victory over a rival with far greater speed.

Corroon & Black isn't about to adopt the turtle as our corporate trademark, but we are proud to say we share a number of his finer attributes.

We're nearly 70 years old and still going strong. Stronger than ever according to our clients. Our cohesive network of offices and facilities enables us to handle the insurance needs of any size or type of account . . . anywhere in the world. And when it comes to service, no one is more dependable, including our friend the turtle.

CORROON & BLACK

We make it our business to understand your business.



london line

Claims from U.K. chemical plant blast may exceed $100 million

LONDON—Experts are probing the blast at the Nypro U.K. chemical plant at Flixborough, Lincoln County, which killed 29 people and has created insurance claims in the British market which may exceed $100 million.

They have been told by the British Government to find the cause of the disaster and ensure the safety of other vast petrochemical installations where perilous materials are stored.

Insurance companies believe that ratings in Britain for the chemical industry may have to be reviewed, with potential repercussions on the U.S. and other overseas markets.

There is already sufficient competition in this field, especially from U.S. insurers, but information on the origin of the blast, which occurred June 1, will be carefully studied by risk prevention experts as soon as it becomes available.

So far the most likely theory is that there was a pipeline leakage of highly flammable vapor which could have been ignited by static electricity.

But the plant, which was opened in 1969 by the Netherlands State Mining Co., was regarded as a normal risk in the chemical industry. There is a comparable plant in Atlanta, Ga., which uses a similar Dutch-originated process for making nylon fiber, called Nylon 6, for use in the textile industry.

Cyclohexane, a highly volatile liquid, was the base chemical in the British plant. But it is reported here that the Georgia plant may use an older process and has not yet fully adopted the U.K. system.

The disaster, which was Britain's largest peacetime explosion, in addition to destroying the plant, destroyed 100 houses in the area and caused a township of 3,000 people to be evacuated.

THE PLANT'S operators, Nypro U.K. Ltd., stated: "There are several dozen of these cyclohexane plants throughout the world. The process devised by Dutch State Mines incorporated a fully-approved, automatic, fail-safe interlocking system. The plant was fully approved and insured by leading British insurance firms. They inspected the processes for cover after considering the design, control systems and other safety factors."

The plant produced caprolactam, the raw material base for Nylon 6, at the rate of 70,000 tons a year. This is reported in London to involve different patents and processes from those originally used by Du Pont and the U.K.-group, Imperial Chemical Industries, for making their material, known as Nylon 66, which is a separate product.

One of the U.K. insurers sharing the Nypro plant risk, Royal Insurance Co. is expected to contact its U.S. counterparts as soon as the causes of the explosion are known. The risk was led by Sun Alliance, but was spread among nearly 30 companies, either by sharing the cover or by reinsurance, so that the impact on the market will not be as severe as it was first feared.

Many firms will now check their business interruption covers as a result of the blast, and the government's industrial safety experts will also step up risk prevention in the chemical industry, while waiting for the outcome of the public inquiry into the catastrophe.

* * *

CURBS ON THE use of the pain-killing drug phenacetin, which has already caused problems in the U.S., are being introduced in Britain because of health dangers. The British government believes it can lead to fatal kidney damage, and beginning next January will confine its use to doctors' prescriptions only.

Millions of people have been buying pills in which it is mixed with codeine or aspirin on "open sale" from chemists' stores to relieve headaches or similar ailments.

But the Government's Committee on Safety of Medicines is now restricting sales of such tablets, and so will fall into line with the practice in the U.S. and Belgium where phenacetin has been under scrutiny for many years.

* * *

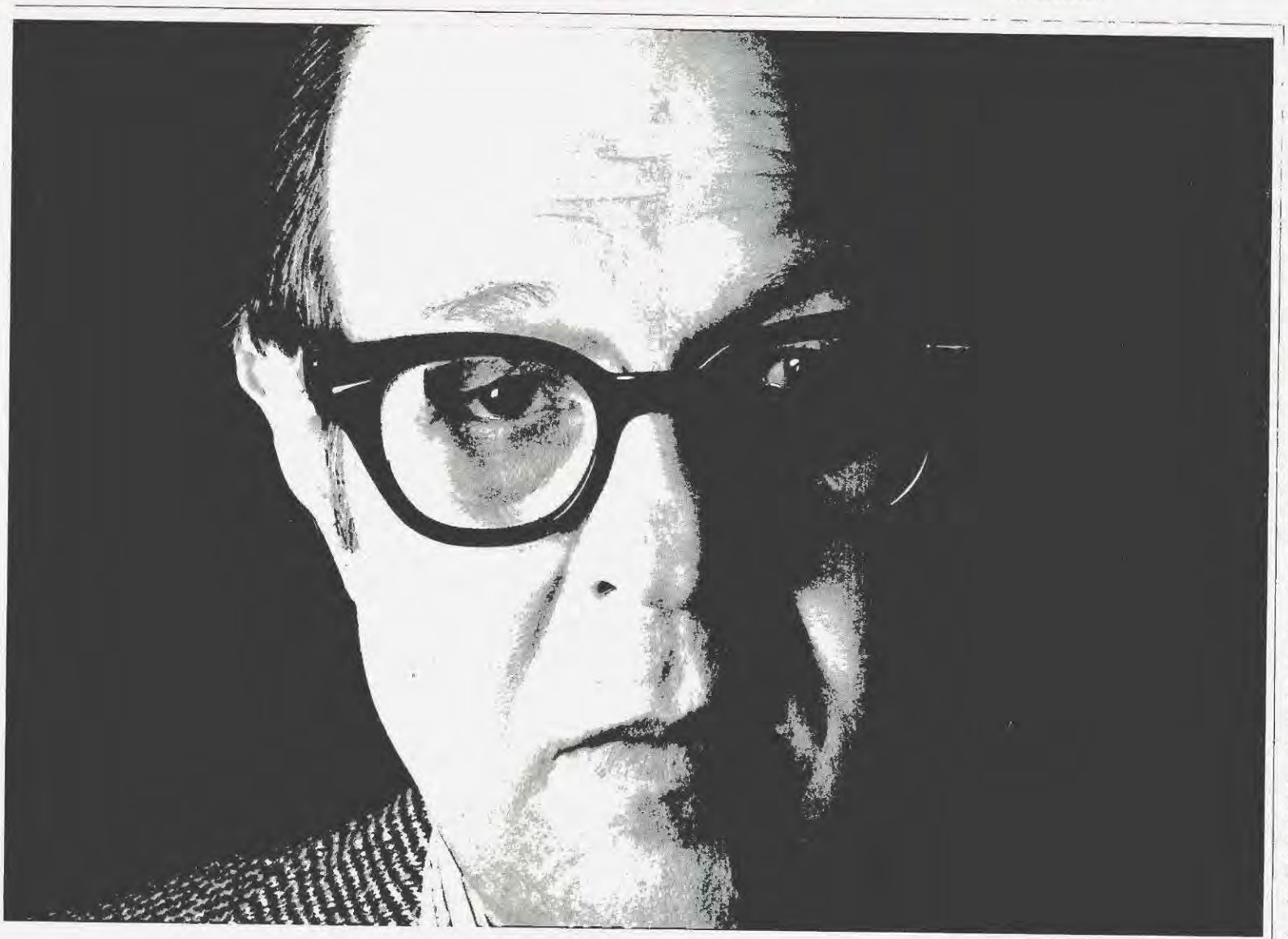
HEALTH HAZARDS from VCM (vinyl chloride monomer) which have led to cancer fears in the U.S. and other industrial centers (*Business Insurance* May 27) are to be probed by the British government.

It is establishing a "code of practice" which employers and trade union leaders will be urged to adopt. The code will include methods of limiting exposure to vinyl chloride risk, and will provide medical checks and warnings in industrial plants.

Britain's chief factory inspector, Bryan Harvey, states, "While the medical information is not yet sufficient to enable a safe limit to be determined, medical experts believe that it would be sensible at this stage to adopt as an interim standard a ceiling value of 50 parts per million, and a time-weighted average of 25 parts per million. But wherever practicable exposure should be brought as near as possible to zero concentrations."

The British government began urgent checks last January after learning from the U.S. that exposure to vinyl chloride vapor might cause angio sarcoma. It has asked industry to cut exposure to 50 parts per million from the previous accepted level of 200 parts per million.

The British plastics industry, which uses VCM for producing PVC (polyvinyl chloride) materials, is spending $10 million on safety protective measures, but it feels it cannot bring exposure levels much below 25 parts per million at present, despite reports that U.S. occupational health officials believe they ought to be brought down to zero or one part per million. ■



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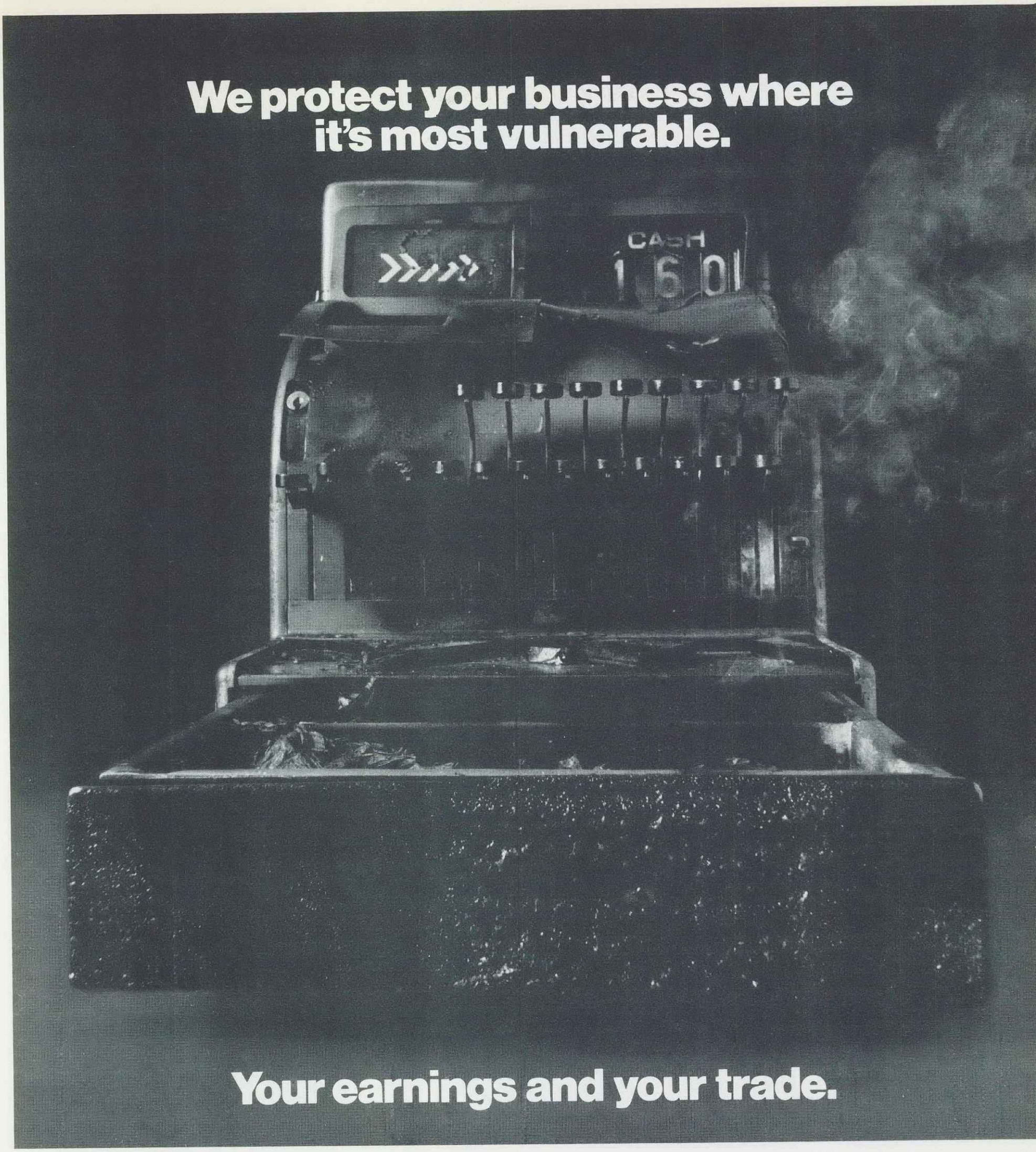
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editorial opinions

More on directors' and officers' liability

THE $3.3 MILLION director's and officers' liability payout by the London market, to settle shareholder suits involving bankrupt R. Hoe & Co., should throw another log on the fire for D&O underwriters who have been faced with the persistent question, "If D&O is really worth the money why don't we hear about some losses for which the coverage has responded?"

Several times in the past few months we have called on D&O underwriters to level with buyers and come up with credible loss statistics vs. premiums paid. The various markets have yet to make any formal moves in this direction, although it has become apparent that these markets are concerned about a rekindling of interest in the subject of D&O's worth on the part of many insureds who have recently been faced with renewals and, in some cases, rate increases. It is also known that the more traditional D&O markets are concerned with a new competitiveness in the marketplace which has arisen with the entry of new D&O underwriters.

The $3.3 million payout in the case of R. Hoe & Co. is a certain addition to the marketing portfolios of D&O underwriters and producers. Headlines appearing in this magazine, even, may become lively little numbers for D&O producers to drop on the desks of those who may be contemplating the coverage or discussing renewals. (*e.g.* "London's $3.3m D&O payout may be record"—*Business Insurance*, June 10.)

While a $3.3 million loss is nothing to sniff at, we hardly think it's reason to take the pressure off underwriters to disclose more facts about the coverage's past, present and future (probable) losses.

While the same questions about D&O premiums vs. losses incurred persist, we do find it encouraging that the subject is not being allowed to cool. Those with vested interests appear to be trying to respond to some of the questions we've raised.

One broker, for example, has addressed a question we raised March 16 on this page when we pointed to some rather wide discrepancies in D&O rating quotes that one of our corporate risk management readers had called our attention to.

In a letter to producers, J. V. Hamilton, vp of Stewart, Smith, Haidinger Inc., Los Angeles, had this to say:

"In recent years, we all have observed a number of carriers newly entering the D&O field. For the most part, they started out utilizing London as the source for their underwriting/pricing via reinsurance treaties. More recently they have left London in preference to domestic treaties, as it appears that they cannot live with London's philosophy of providing a firm and stable facility in the face of their own attempt to break into the class through the only means available—rate cutting—although still utilizing the same basic wording which, as with many other forms of insurance, was pioneered by the London market.

"What makes London's rating scale so 'sacred?'," Mr. Hamilton asks.

His response: "Let us just say that if mildly adverse verdicts were to result from claims now in litigation, the whole of net premiums written for the entire history of D&O insurance would be engulfed. And claims are mounting in numbers and in dollars sought, while with inflation lawyers' fees are hardly standing still. Clearly, this is not the time for rate cutting of the type we occasionally see.

"Fortunately," Mr. Hamilton goes on, "producers and buyers alike fully appreciate what is going on. The new quoter who offers a $20,000 premium when others are quoting in the $180,000 (sic) range makes himself look ridiculous. Likewise, the quoter at $3,000 versus $20,000 appears irresponsible.

"The fact is," he continues, "that in 1973 we wrote more new D&O business than any previous single year. And renewals of eligible accounts also held firmly. Yes, Lloyd's underwriters continue to be a stable market able to refine their thinking as conditions evolve.

"Despite increases in the elements which constitute the rating bases, most of our risks are being renewed at premium reductions based upon clean loss records, and continued financial strength. In addition," Mr. Hamilton writes, "accounts which we have quoted previously but which did not order the insurance are being re-quoted at improved terms, resulting in orders."

It's good to hear that things are going so well for producers. But we'd still like underwriters to put some lyrics (statistics) to the music.

Enlightened view of kidnap cover

ON THE SUBJECT of another form of insurance that is an equally as or even more sensitive than D&O—kidnap and ransom insurance—we're happy to see that another executive of the Stewart, Smith organization has taken a rather enlightened view on the matter of disclosure of facts.

George J. Stewart, president of Stewart, Smith Inc., New York, was interviewed on WCBS radio in that city recently and he had this to say about kidnap and ransom coverage:

"Insurance companies have in the past been very timid in regard to this insurance. They feel there is a possibility, if it were generally known that many people and many corporations had kidnap and ransom insurance, this would tend to inspire more people to get into the business of kidnapping and demanding ransom.

"I personally disagree with that point of view," said Mr. Stewart. "I feel that the introduction of burglary insurance did not generate more burglaries. It can be proved in other cases, too, I am sure, that insuring against loss from a crime does not of itself inspire crime."

Unfortunately, Mr. Stewart's views are still not shared by most underwriters. An oft-cited reason for failure to disclose material facts or background on this subject is that it might lead to a rash of claims. Similar reasons—rash of stockholder derivative suits for instance—are often cited by underwriters who refuse to disclose material facts about directors' and officers' liability.

letters

This column is a reader's forum. Letters are welcome. Address Letters to the Editors, Business Insurance, *708 Third Ave., New York, N.Y. 10017.*

Regulation issue

To the Editor: I wanted to express my appreciation for the May 27 issue of *Business Insurance* which dealt with insurance regulation. As a service organization involved in helping companies comply within the specific area of advertising regulation, we found the issue most enlightening and extremely well done.

The selection of articles was quite representative of the varying extents to which different insurance departments view and apply regulatory control. This disparity, which is reflected in the regulations themselves, causes much confusion within the industry. I think a thorough exploration of this scope of opinion—as your magazine provided—can help to dispel some of the confusion and bring the regulations down to a more workable level.

So, once again, our congratulations to you and your staff.

Arthur W. LeFebvre
President, Creative Compliance Associates, Chicago, Ill.

More than cement

To the Editor: Your recent announcement with respect to my change of position is gratefully acknowledged. However, there were two inaccuracies. The first, as to my title, is of little consequence. However, the second, with respect to my former employer, should be corrected.

At no little expense, a corporate name change to Lone Star Industries Inc. was effected three years ago, with the objective of reflecting the rather dramatic change in both size and scope of an organization which previously had been not much more than a manufacturer of cement.

Since I am sure you have no intention of offending my former employer by referring to them as a "Cement" company, an appropriate correction would seem in order.

R. W. Zeitler
Director of insurance,
Johns-Manville Corp.,
Denver, Co.

Correction

To the Editor: I would just like to point out that your article "Factory Mutual plans big drive in Europe (*Business Insurance* March 4, 1974) refers to a company identified as Royal Dutch-Shell. This is incorrect. The correct name is Royal Dutch Steel.

Jerry Karter
Manager, marketing, Factory Mutual International, London.

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Jobsite help for off-job problems

Personal counseling services as a new, useful employe benefit

By STEPHEN GOOD

CHICAGO—Personal counseling, once considered an expensive luxury for corporate executives, is now gaining recognition as a valuable employe benefit.

More and more companies are offering professional help to employes who harbor worries about marriage, alcohol, drugs, sex, children and finances. The reason: A belief that many job-related troubles are rooted in off-the-job problems.

In Boston alone, 11 employers refer workers regularly to the Charles River Counseling Center for help with their personal problems. Another six companies use the center occasionally. And according to Fred Thatcher, director of program development for the counseling center, company-referred cases are "steadily increasing."

"BETWEEN 25% and 30% of all our business comes from employers," Mr. Thatcher said. In addition to top executives seeking professional aid, lower echelon employes and even blue collar workers use the counseling service for their personal problems.

"Those who are most likely to come in are middle management and engineering people," explained Mr. Thatcher. "They are people who generally have a pretty solid value structure. They thought they knew how to get what they wanted, but they're not sure anymore.

"Most of thse cases are not job-related," he added. "Many are caused by the family, marriage, or some other pathology. One of the very first things we check out is the family.

The counseling center's professional staff boasts physicians, psychiatrists, psychologists, psychiatric social workers, education specialists and a sociologist. The range of specialities, is necessary because the variety of counseling services offered by the center "runs the whole gamut."

"WE JUST see ourselves as clinicians," Mr. Thatcher noted. Employers are not privy to the problems workers bring to the center, and "we don't do any psychological testing for a company."

If employes have problems brought on by job stresses, "they have to make their own decisions" about whether they should quit or ask for another job assignment," Mr. Thatcher explained.

"I suppose we have on occasion recommended that an employe leave his job," he added. "But that's really not our role."

Sometimes a company's internal pressures cause psychological troubles that lead numerous employes to the counseling center. One manufacturer of mini-computers near Boston "is growing by leaps and bounds," Mr. Thatcher said. "They work all their people 14 to 16 hours a day, six days a week. This has brought on a lot of family problems." As a result, he pointed out, "a lot of them" are referred to the counseling center.

About 10 to 15 employes from local companies come to the center every week for counseling. A flat fee of $30 an hour is charged for any counseling, whether a worker comes in alone or brings his whole family. The flat fee system "seems to appeal very much to industry," Mr. Thatcher said.

THE CENTER is not free to identify all its corporate clients, but Mr. Thatcher noted that Honeywell Inc., openly acknowledges that it uses the counseling services.

Many company clients see the counseling service as a form of preventive medicine, and an inexpensive alternative to hospitalizing physically or mentally ill employes.

"We're an outpatient service," Mr. Thatcher emphasized. "We make it our every purpose to keep everyone an outpatient. With an average of seven visits here, it costs less than two days in a hospital bed."

Whether the employes come in on their own, or on referral, most of the companies pay for the full cost of the counseling. They often have outpatient psychiatric coverage with carriers like John Hancock Mutual Life Insurance Co. and Connecticut General Life Insurance Co., Mr. Thatcher said,



"and these are usually very good programs."

Personal counseling responds to a real need felt by companies and their employes, he noted. "These clients are all highly motivated. If they have any family problems, they want to get the damn things solved. It

Continued on page 25

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Continued from page 24

makes treating these people a real pleasure. This goes for the whole range of people. They don't want to be in a treatment program for a long period of time."

Mr. Thatcher said he preferred employers sending their workers to counseling centers outside of the work environment. In-plant counseling services, even if they use counselors from an independent agency, have disadvantages. The employes fear that records might make their way back to personnel. And counselors often acquire a pro-company bias that condones management policy.



LEO MILLER, head of personal counseling services at Polaroid Corp., believes there are some advantages in a plan using company counselors with job-site offices.

"There are two schools of thought," he said. "The external program seems to offer counseling that's independent of the company. The internal program can also maintain an independence, without being co-opted."

Polaroid has five qualified counselors scattered among its plants in Massachusetts where most of the company's employes are located. Mr. Miller added that Polaroid had its first full-time personal counselor back in 1960. "We're not the first, but we're now one of the oldest."

Today, the counselors are "very busy," he noted. "We see about 5-6% of the population each year, and we know there are more people we probably could be seeing." Job-related problems, marital and family troubles receive the most attention, and all cases are "absolutely confidential."

Since the counselors are company employes, Polaroid gains some valuable feedback when personal problems show up in large numbers. "We do some consulting with management as well," Mr. Miller eplained, when problems appear to be caused by work situations.

Xerox Corp. has a personal counseling service, located at its largest plant in Webster, N.Y., where 12,000 work. A company spokesman said "confidentiality is total" in the four year-old plan.

There is no cost to employes for counseling, the spokesman noted. Xerox pays $75,000 a year to an independent agency for two counselors, one man and one woman.

"WE'RE DEALING here with people with marital problems," he pointed out. "This isn't for personal problems where people go to a shrink. It's not that kind of thing. It isn't psychiatry."

Most of the counseling is done by telephone. Last year more than 1,000 phone calls were logged by the counselors. About 125 other employes came in person, often with their families.

If a worker is referred to another counseling service for specialized attention, Xerox does not pay for the full cost of the outside care. But under its Blue Cross medical program, the employes are covered for 50% of outpatient psychiatric care.

Xerox's counselors are hired from the Family Service agency of Rochester, N.Y., one of 318 agencies in the U.S. and Canada belonging to the Family Service Assn. of America.

A few of these agencies have "industrial counseling contracts" with companies like Xerox, a Family Service spokeswoman explained.

"A company calls up an agency and writes up a contract," sometimes agreeing to pay on an indefinite basis." The employer often volunteers to pay for a worker's first three visits, and then a fraction of further counselling costs. Fees are variable.

FAMILY SERVICE agencies offer job-site services as well as counseling at the agency. Middle management people prefer the counseling not to be on-site," the spokeswoman noted. Other workers have no preference.

All counselors employed by Family Service agencies have bachelor's or master's degrees in social work, she pointed out. Every agency must meet strict standards of accreditation in order to belong to the national association.

A recent survey by one agency found that employers and "personnel people are obviously interested" in personal counseling services, the spokeswoman commented. So far, all the companies who've come to us have reacted very favorably, because it works. And they're often expanding their programs.

Some labor unions are also becoming interested in this," she added. But none of them have yet demanded Family Service counseling in their labor contracts. ■

Reliance to shield agents against E&O

PHILADELPHIA—Agents and brokers of the Reliance Insurance Cos. are shielded from certain forms of liability under a new "hold harmless" amendment added to the agency agreement.

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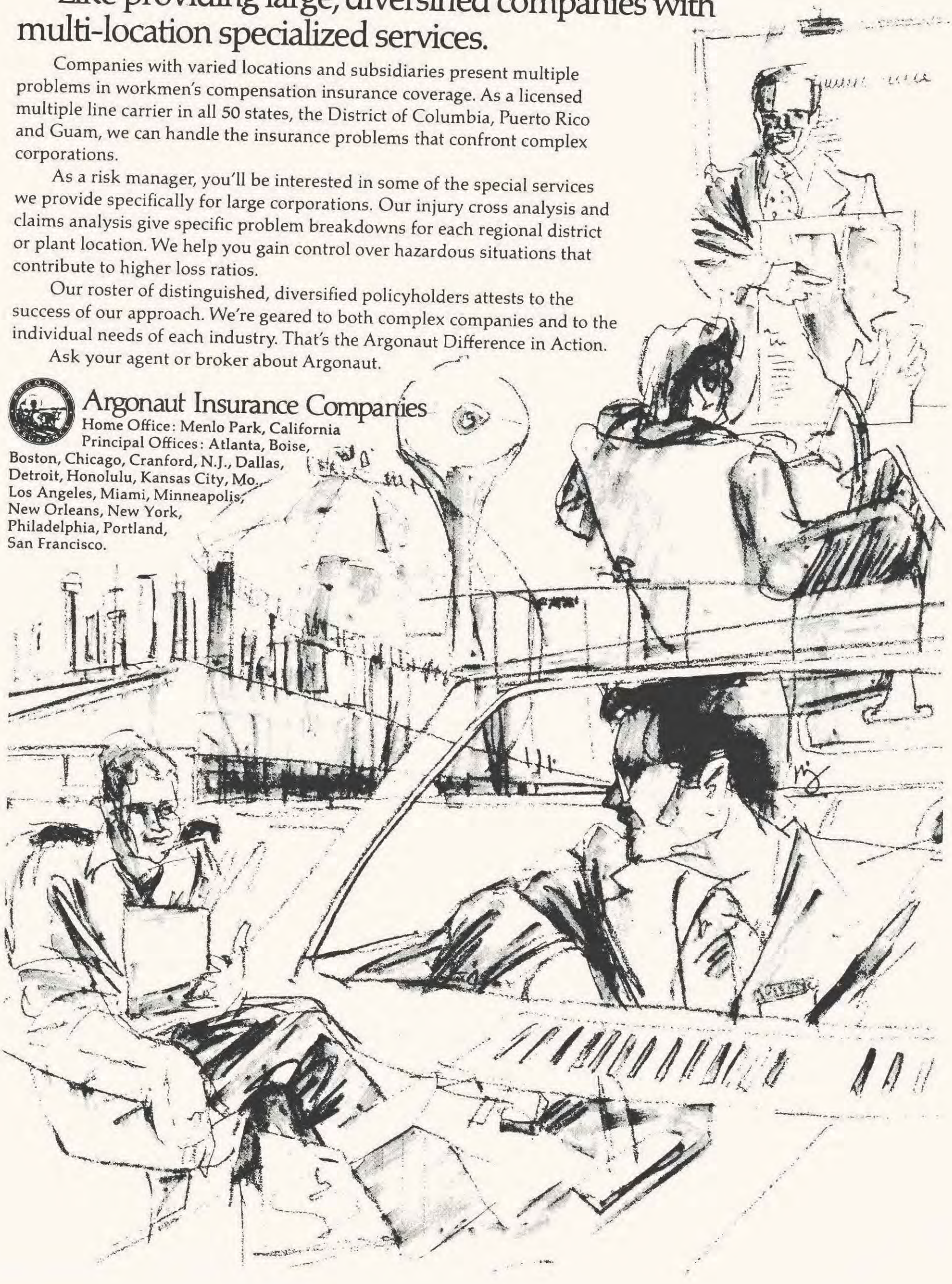
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business insurance PERSPECTIVE



Avoid 'agency' problems in D&O cover: Have individuals sign form

"The important message to applicants for D&O insurance is simple; become a contracting party as an individual . . . While it is time consuming to secure the signatures of all directors and officers, the certainty of financial security to them justifies the effort."

BY THOMAS F. SHEEHAN
President
GATX Insurance Co.

JUDGE JOSEPH S. LORD, III, in his opinion denying the directors of Penn Central motion for a summary judgment against Lloyd's Underwriters in their rescission action on Penn Central's D&O policy, has provided insurance buyers with an insight into potential problems inherent in how they apply for D&O insurance.

Lloyd's underwriters contended that the chairman of the finance committee of Penn Central executed the application for D&O insurance and made false responses to several questions in the application and that he did so in bad faith, that they were material to the risk and that underwriters justifiably relied on these answers and were therefore entitled to rescind the policy because of fraud.

Certain innocent directors of Penn Central asked for the motion of summary judgment because they argued that they had no knowledge at the time of the issuance of the policy of any matter that might indicate the probability of a future claim against them. Further, they contended as individuals their answers would have been "none known" as was set forth in the application, but they were never requested to respond to the information asked for in the application.

THEY ASSERTED they did not authorize the chairman of the finance committee or anyone else to make any representations on their behalf on the application. In fact, certain directors stated they knew nothing at all about an application for D&O insurance and only learned of the purchase of the policy after its effective date when a written memorandum was circulated informing them of its purchase.

The innocent directors advanced the proposition that each "insured" is a contracting party rather than a third party beneficiary. Judge Lord discussed this concept, stating that each insured would have to be considered a separate principal for the purposes of agency law. However, the directors stated that the signer of the application had no actual authority to answer questions on the application on their behalf as individuals. The directors were thereby attempting to affirm the D&O policy rather than avoid it.

Judge Lord stated:

"The directors cannot have it both ways. They may not in the same breath deny that (the signer) had any authority to act, and thus attempt to dissociate themselves from any statements he made in obtaining the policy, while at the same time claim to have a binding policy and seek coverage under it. It is a matter of hornbook law that a contract must be affirmed in its entirety in order to effect its ratification; and,

"A PRINCIPAL MAY NOT claim the benefits of a contract without accepting the consequences of statements made by his agent, or apparent agent which induced the contract in the first place."

The important message this opinion offers to applicants for D&O insurance is simple: become a contracting party as an individual. Some D&O underwriters are prepared to accept the D&O application signed by the chairman of the board (or president) on behalf of the corporation (and himself only) and separately accept signatures from each director and officer stating that to the best of his knowledge and belief the statements set forth herein are true, and are his own statements. The signing directors and officers are thereby given the status of contracting parties to the insurance policy with the insurance company. The directors and officers do therefore dissociate themselves with others and avoid the inherent agency relationship with the authorized corporate signer and remove themselves from the problem of being third party beneficiaries.

While it is time consuming to secure the signatures of all directors and officers, the certainty of financial security to them justifies the effort. ■

Mr. Sheehan is president of GATX Insurance Co., Chicago, Il. He has held executive positions with Excess Underwriters Inc., Crum & Forster and American States Insurance Co. Mr. Sheehan is a graduate of Drake University and the Indianapolis Law School. He received his CPCU in 1956 and is a member of the Indiana Bar.

National health issue defies easy solutions



"Two of the (health care) proposals exclude the private sector, the Kennedy-Griffiths bill would immediately. The Mills-Kennedy bill would have the same effect because it would assign only a token role to private insurers. . . ."

BY WILLIAM S. THOMAS
Executive Vice President
Metropolitan Life Insurance Co.

THE CURRENT DEBATE IN Congress on national health insurance is reaching a crescendo. The outcome will affect every existing employe health benefit plan.

Some 18 national health insurance proposals address themselves to correcting inequities and gaps in our present system of providing and financing health care.

These are complex proposals. Aptly so. The problems defy easy solutions. By and large none of them calls for government to deviate from what it does best—govern—and take over the actual delivery of health care services (though this would be the inevitable result of a few bills).

There is a similar consensus, though not as unanimous, that the financing of health care should not be taken over completely by the public sector.

HOWEVER, SEVERAL of the bills do *not* join the public and private sectors effectively in financing health care costs. And two of the proposals exclude the private sector, the Kennedy-Griffiths bill would immediately. The Mills-Kennedy bill would have the same destructive effect because it would assign only a token role to private health insurers which could gradually be assumed by government.

Financing and administration of national health insurance has thus become the central issue. It is the focus of the health insurance hearings now underway before the House ways and means committee and the Senate finance committee.

Let us examine briefly four of the major legislative proposals for reform of existing health care arrangements, with particular focus on what they would hold for employers and employes.

The four are: the Mills-Kennedy bill, the Mills-Schneebeli-Packwood bill (administration's plan), the Burleson-McIntyre bill, and the Long-Ribicoff bill.

The newest of these bills is The Comprehensive National Health Insurance Act of 1974 introduced into the 93rd Congress in April by Representative Wilbur Mills (D-Ar.) and Senator Edward Kennedy (D-Ma.)

This proposal would provide comprehensive benefits financed and administered by the government. All services, except preventive care, would be subject to an annual deductible of $150 per person (maximum of two deductibles per family). It would also require 25% co-insurance for all services except drugs, which would be subject to $1.00 co-payment per prescription. Cost sharing would be limited to $1,000 per family.

The Mills-Kennedy bill would require an estimated $44 billion in added tax revenues in fiscal 1976.

The Mills-Kennedy bill would be financed through the addition of a 4% payroll tax on annual earnings up to $20,000. The employer would be required to pay at least 3%, and employes no more than 1%. The self-employed would pay 2.5% of earnings up to $20,000.

AT THE PRESENT Social Security payroll tax level, the additional 4% would bring the total tax to 15.7%. However, taxes for existing OASDI and health insurance benefits are scheduled to rise to 14.9%. Therefore, the ultimate tax level, if the Mills-Kennedy bill were enacted, would be 18.9%.

This amounts to almost a fifth of the nation's taxable payrolls. And this is only the beginning. Insurance industry actuaries estimate that such a program in its first year will actually cost 30% more for persons under 65 than its proponents project. Thus realistically the additional payroll tax should be set at 2.5%.

Even this higher figure will be adequate only for the first year. Health care costs

Continued on following page

business insurance

PERSPECTIVE

Health . . .

Continued from preceding page
have been rising faster than the general wage level. This trend is likely to continue as the public's access to health care is made easier. As costs go up, taxes will increase. Before too many years have passed, as much as a fourth of the nation's payrolls would be devoted to Social Security pensions and health care if this bill were enacted.

Moreover, the financing of health care through Social Security payroll taxes would be regressive, loading the heaviest burden on low income workers. The uniform tax would also be discriminatory, because employers and employes in areas with lower health care costs would receive lesser benefits and would be subsidizing the health care bills of those in high cost areas.

THE MILLS/KENNEDY BILL calls for private health insurers to serve as fiscal intermediaries for the government program and to provide supplementary coverage. Its provisions, however, are so restrictive that only four insurance companies and no Blue Shield plans could qualify as intermediaries.

Also, under the bill, anyone other than a large employer (at least 1,000 employes) desiring full coverage—that is, the standard government benefits plus private supplementary coverage—would have to deal with two insurance systems. The cost of doing this would very likely be regarded as prohibitive by many smaller and marginal firms, with the result that their employes would be left with inadequate coverage.

The Mills-Kennedy bill would create a massive new federal bureaucracy, unresponsive by its very nature to the need for innovation and flexibility. And at the same time that it created many thousands of new government bureaucrats, the Mills-Kennedy bill would eliminate a sizable competitive enterprise and bring unemployment to many of the half million workers now engaged in providing private health insurance. Also ended would be the $300 million in state premium taxes, plus the federal income taxes, paid each year by the health insurance business.

The Administration has proposed the Comprehensive Health Insurance Plan (CHIP). It is a three-part mandated program: (1) Employe Health Insurance Plan which the employer must offer, but which is voluntary for employes; (2) Assisted Health Insurance Plan (a government insurance plan) for persons with low incomes and those with high medical risks; and (3) Federal Health Care Benefits Program for persons age 65 and over.

CHIP was introduced in the House by Representative Wilbur Mills (D-Ar.) and Herman Schneebeli (R-Pa.) and in the Senate by Bob Packwood (R-Or.). The bill would require an estimated $6.2 billion in added tax revenues in 1976.

The comprehensive benefits would be similar to those under the Mills-Kennedy bill, but the maximum family deductible would be $450 instead of $300 and the maximum annual cost sharing would be $1500 instead of $1000.

UNDER CHIP THE employer would be required to pay 65% of the cost for the first three years and 75% thereafter. The employe would pay the balance, unless the employer agreed to pay all or part of the employe's share. A federal subsidy would be provided to help employers who incur unusually high increases in premium costs in bringing their plans up to federal standards. General revenues would finance protection for low income groups.

Although private insurers would continue to play a major role in financing coverage because of their participation under the Employe Health Insurance Plan, they would encounter some serious problems. The major difficulty: the Assisted Health Insurance Plan (a government plan) would compete unfairly with insurers. This would come about because employers of any size would be allowed to buy coverage from the Assisted Plan at a rate determined by the government to be 150% of the average group rate in the state. Thus, the subsidies of the Assisted Plan, which are meant to help those who cannot afford health insurance, could become available to some who do not need them—a condition which would lead to abuse of the taxpayers and a competitive advantage for those employers so favored.

Moreover, low income employes would be allowed to "opt out" of an Employe Health Insurance Plan where they might have to contribute part of the premium and obtain coverage free of charge under the Assisted Plan. This would swell the size of the latter plan, and impose added administrative expense on both the state and the employer.

In addition, the bill is so drafted that individuals under the Employe Plan may be charged more for medical services than those under the Assisted Plan. This too would tend to force employers to join the Assisted Plan with its seemingly more attractive benefits.

A THIRD MAJOR proposal, the Catastrophic Health Insurance and Medical Assistance Reform Act, was introduced in the Senate by Russell Long (D-La.) and Abraham Ribicoff (D-Ct.), and into the House by Joe D. Waggoner (D-La.). Its estimated cost in 1976 would be $8 billion in added tax revenues.

The Long-Ribicoff bill essentially is a catastrophic-type proposal, providing inpatient benefits after an individual has been hospitalized 60 days and outpatient benefits after a family has incurred medical expenses of $2,000 in a year. It also contains a plan to replace Medicaid with a uniform federal program of medical assistance for low income persons and a voluntary certification program for private health insurance.

The catastrophic plan would be financed, like the Mills-Kennedy proposal, through payroll taxes—initially 0.3%, rising to 0.4% ultimately. The assistance plan would be financed through general revenues.

FROM BOTH A budgeting and administratives standpoint, it makes more sense to keep catastrophe benefits within the private sector. Otherwise there would be two sets of overhead and claim settlement costs—government for catastrophe benefits and private insurers for basic benefits.

The Long-Ribicoff proposal would eliminate the existing network of major medical expense plans already covering some 110 million persons, over half the population. This would be enormously disruptive and economically wasteful. It would also necessitate rewriting existing basic benefit plans to avoid duplication.

"Before too many years have passed as much as a fourth of the nation's payroll would be devoted to Social Security and health care if (Mills-Kennedy) were enacted."

Avoiding the shortcomings of these other bills would be the National Healthcare Act of 1973, introduced into the House by Omar Burleson (D-Tx.) and in the Senate by Thomas J. McIntyre (D-N.H.). The additional revenues resuired to pay for the Healthcare program in 1976 would be $81 billion.

The Burleson-McIntyre bill establishes a voluntary program which provides federal tax incentives to encourage employers, employes, and self-supporting individuals to secure comprehensive health insurance meeting federal standards. State pools administered by private insurers and subsidized by general revenues would provide the same benefits for the poor, near-poor, and those previously considered uninsurable because of health status.

The tax deduction allowed an employer for health insurance expenses would be reduced progressively over several years from 100% to zero unless the group plan contained at least the standard benefits. These benefits would cover a broad range of ambulatory and institutional care and provide for catastrophe coverage up to $250,000, after a deductible of $5,000 which could be satisfied by insured basic benefits.

Management and labor would have flexibility and freedom to negotiate benefit plans and financing arrangements, without rigid pre-determination of how employers and employes will share costs.

Standards for benefits would be increased gradually over a specified period, to take into account the time and costs involved in creating adquate health manpower and facilities to meet increased health demands, and to permit renegotiation of management-labor contracts. Opening the floodgates of demand with little lead time, as many other bills would do, would be inflationary and create expectations that could not be met.

As these benefits are being phased in, specific programs under the Burleson-McIntyre bill would be undertaken to indecrease the supply of health manpower, develop more facilities for convenient ambulatory care, and exercise effective cost and quality control.

The managerial skills of private health insurers would be fully utilized, from underwriting to claim control. Insurer efficiency is well documented. For example, the cost of administering Medicare under the Social Security Administration is about 6% of total claim volume. In contrast, the administrative costs of the Federal Employes Indemnity Benefit Plan, which is operated entirely by private insurers, are 3%.

There would be no "windfall" profits. Over the last five years, health insurance profits, while varying from company to company, averaged less than 1% of premium. It always will be a low-profit system.

EXPERIENCE RATING would be continued. Without it, many employers would have to pay not only their own costs but part of other employers' costs. It has been argued that experience rating might lead to discriminatory hiring practices. But this isn't true now. Employers find that older persons and many handicapped people, with their greater skills, more reliability, and lower turnover cost less overall despite slightly higher health insurance costs.

There is little doubt that national health insurance in some form will be a reality within the next year or two. The personal security of every American will be well served if the program ultimately enacted is one like the National Healthcare Act that builds soundly and creatively upon the strengths of the present system of health care and health insurance. ■

Mr. Thomas is a member of the corporate executive office of Metropolitan Life. He was put in charge, in 1958, of actuarial aspects of Met's group life and health coverages. He was made a vp in 1964 and senior vp of group insurance and pensions in 1965. He is chairman of the Met's property and liability insurance subsidiary.

RISK MANAGEMENT NOTES

May tax D&O indemnification

By WARREN, McVEIGH, GRIFFIN & HUNTINGTON
risk management consultants
San Francisco—Newport Beach

AN ARTICLE IN THE August 1973 issue of "Taxes" is titled "The Indemnification Dilemma—Tax Problems in Protecting the Corporate Officer and Director from Liability." The point it makes which is of most interest to a director or officer is the fact that a payment made to him by the corporation to indemnify him for a loss may be treated by the Internal Revenue Service as income, thus subject to personal income tax. In many cases, this tax would approximate half the total amount—a substantial sum.

It has been generally agreed by the IRS that payments of D&O liability insurance premiums by the corporation are not only deductible to the corporation, but do not constitute income to the individual. The tax court has allowed exclusion of corporate reimbursements from taxable income where the act is committed pursuant to his corporate duties but it has narrowly construed what can be included as corporate duties.

The article concludes that the most favorable tax consequences to both parties (corporation and individual) result from the purchase of insurance. The second best is for the individual to pay his expenses personally, followed by reimbursement from the corporation. Direct payment of such claims by the corporation is the least desirable from a tax standpoint.

Company Cars

Company employes are not always fully informed of insurance provided by the company for the employe's use of a company car. This is unfortunate, because employes may be unaware of their individual exposures to potential loss and an uninsured loss could create some bitterness.

There are two situations to consider:

- Where the company allows the employe to use the car for personal use, and
- Where the company allows only business use.

Since the employer's basic automobile liability policy covers permissive users, the employe is usually protected. However, if personal use is not authorized by the company, any unauthorized use of the company car by the employe would be uninsured by both the company's policy and the employe's own automobile policy.

Though such situations are not supposed to occur, special situations often arise where employes make unauthorized personal use of a company car. A prudent employe could anticipate such exposure by extending his personal automobile policy with extended non-ownership automobile coverage. Another reason for this coverage is for possible injury to a fellow employe who might be riding in the car, because such coverage is not afforded by the employer. ■



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Marine insurers view law suit with interest

VANCOUVER, B.C.—The marine insurance industry is showing keen interest in a federal court action due to open here in October. It involves damage suits against Marlene Shipping Co. Inc. of Hong Kong, owner of the freighter Vanlene, and the Yamashita-Shinnihon Steamship Co. Ltd. of Tokyo, charterer of the vessel at the time it sank in 1972.

The suits are being brought against the two companies jointly on behalf of the insurer of the ship's cargo, 300 new cars destined for Canada.

George Carruthers, a Justice department lawyer here who has been handling the case for the Ministry of Transport, says the government has no case against the charterer because the ship at all times was under the control of a crew supplied by the owner.

He says it would be pointless to sue members of the crew because they don't have the financial resources to satisfy a judgment. So the government, if it were to bring anyone to court, would have to go after the owner, Marlene Shipping.

And, he says, the government has no prospect of recovering the $200,000 spent for oil cleanup from the owner because, so far as he has determined, the owner's sole asset was the Vanlene.

David McEwen, a marine specialist and lawyer for the cargo insurer, won't comment directly on the government's decision. But he notes that Marlene Shipping has been paid a substantial insurance settlement by its underwriters for loss of the Vanlene. (He adds, however, that he has been unable to discover the exact amount of the settlement. But he does know that the ship was worth no less than $500,000 and he believes the ship actually was worth $1 million or more.)

MR. McEWEN says that Hong Kong has bankruptcy laws similar to those in Canada. They provide that creditors of companies in liquidation are entitled to share the assets on a pro rata basis, "and I suspect that (Marlene Shipping) doesn't have many creditors."

Mr. Carruthers, in an initial interview, said the Vanlene file is being kept open—as a formality—in the event any new information comes to light. "But I don't anticipate any (court) action with the information at hand."

When questioned in a subsequent interview about the insurance settlement he said he was not aware of it. "I'll have to look into that," he said.

Mr. McEwen's client is seeking unspecified damages for 171 cars that were wrecked by sea water and diesel fuel following the grounding of the Vanlene and $170,000 to cover the cost of salvaging 129 other cars that received only minor damage. ■



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Am. Motors liable for damages

OLYMPIA—The Washington state supreme court has ruled that an automobile manufacturer can be liable for damages due to faulty equipment which caused increased injuries in a traffic mishap.

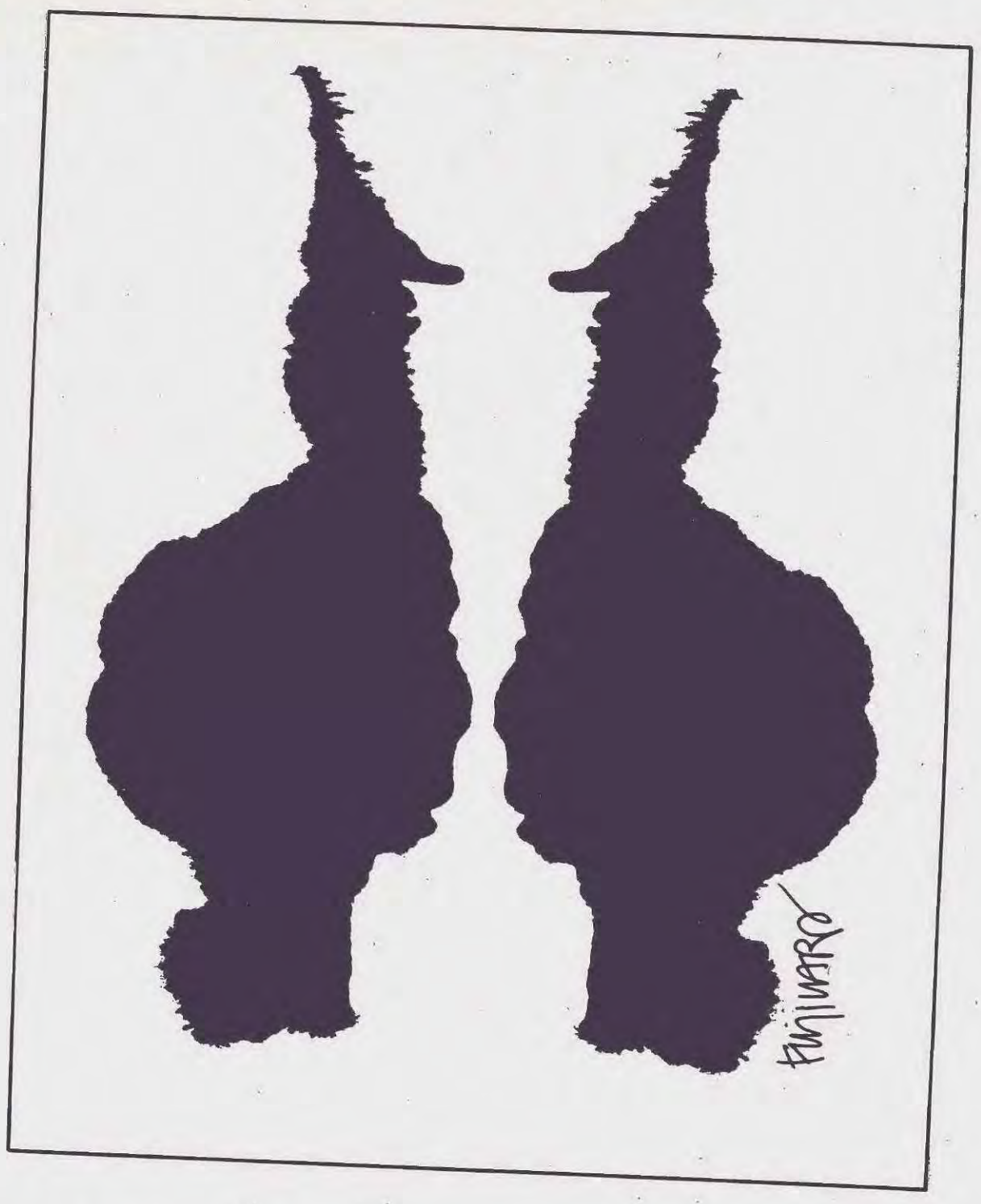
The unanimous ruling, written by Justice Robert Brachtenbach, reversed a Pierce County superior court ruling that American Motors should not be held liable for injuries caused by a faulty seatbelt and defective front seat in an American Motors vehicle involved in an accident.

The ruling was the first by the court dealing with liability not directly involved in the cause of an accident.

The suit was brought by the husband of a woman killed in the accident. The supreme court sent the case back to the lower court.

The justice said the usual burden of proof in civil cases applies as to the amount or extent of liability. ■

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Court rules premium tax unconstitutional

MADISON, WI.—The Wisconsin supreme court's recent decision declaring a gross premium tax on out-of-state mail order insurance business unconstitutional may have nationwide ramifications, according to Stanley C. Du Rose Jr., state insurance commissioner.

Mr. Du Rose has written to all regulatory authorities in the country, saying Wisconsin's premium tax laws are not much different from those in other states.

"Should this decision be permitted to stand," he wrote, "it is my opinion that this could well bring further litigation challenging the foundation of premium tax laws in all jurisdictions applicable to both authorized and unauthorized insurance."

He added that the court's ruling "appears to strike down all gross premium tax laws of Wisconsin."

John Armstrong, assistant state attorney general, has filed a motion for a rehearing of the case. He said he has received an inquiry from the National Assn. of Life Underwriters in Washington, D. C. regarding the possibility of joining the state's suit as a friend of the court. Mr. Du Rose suggested in his letter that other insurance commissioners might want to file friend-of-the-court briefs.

IN STRIKING down the law, the state high court said there had to be an apportionment of taxes if the law were to be applied.

Mr. Du Rose's letter said he knew of no way in which an apportionment formula, such as one for income taxes against companies that do business in several states, could be applied to insurance premium taxes. He added that he knew of no way to avoid the effects of the decision through remedial legislation.

The case involved National Liberty Life Insurance Co. of Valley Forge, Pa. The state assessed the firm $60,523 in taxes and penalties for the six years from 1963 to 1969. The court said that companies without branch offices or sales agents in the state were not liable for the 3% tax on gross premiums collected from Wisconsin residents. ■

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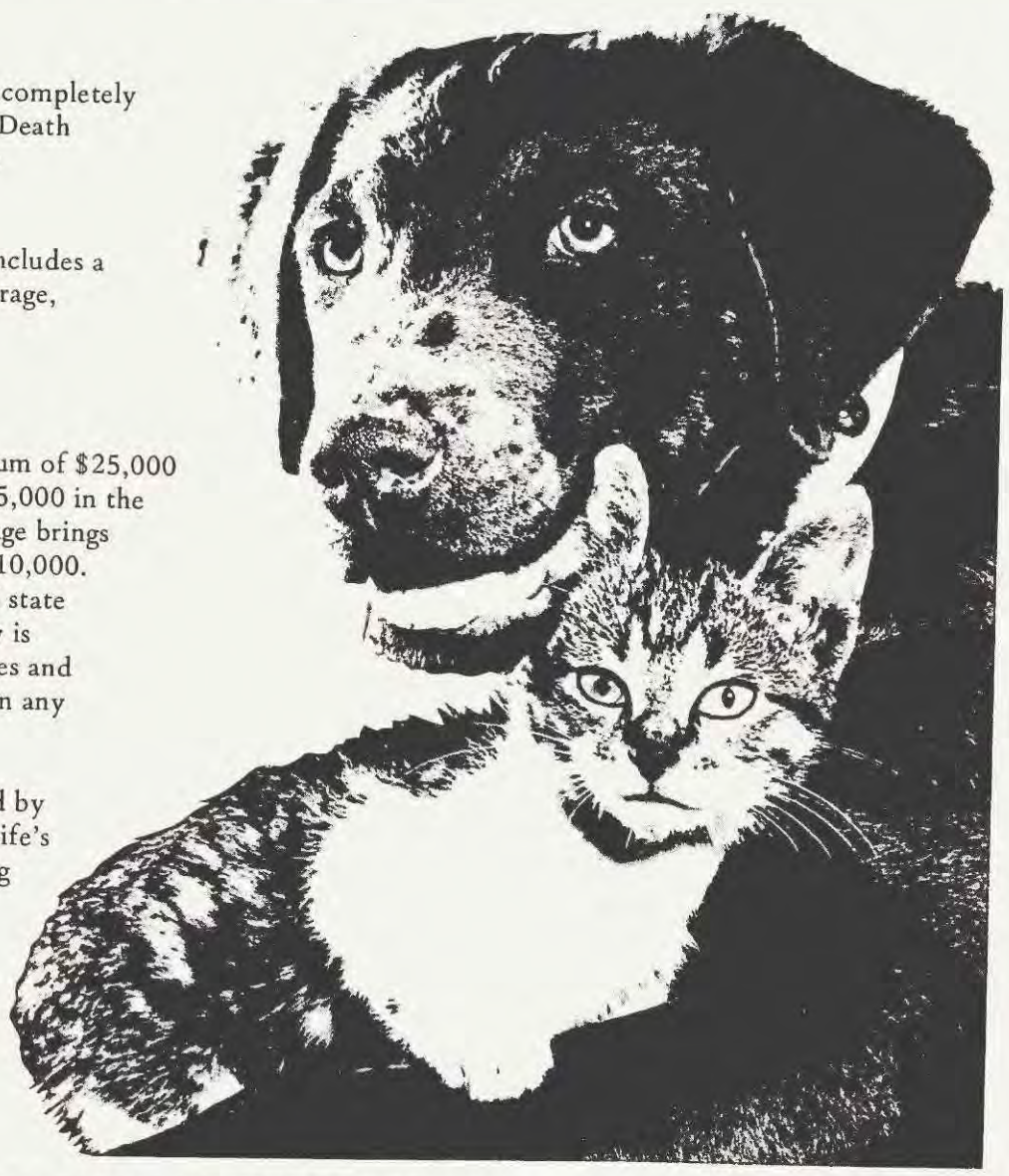
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Insurance firm adopts new 'flex time' plan

SPRINGFIELD, MA.—After experimenting for a year, Massachusetts Mutual Life Insurance Co. adopted flexible working hours.

Employes in the home office are allowed to come to work any time between 7:30 and 8:30 am. They may leave the office after completing seven and a half working-hours. Employes also are given a choice of taking a 30 or 45 minute lunch.

PRODUCTIVITY and service remained high during the test period and tardiness has been all but eliminated, explained the chairman and chief executive of Massachusetts Mutual Life.

"Flex time" began in June 1973 as a three-month experiment. It was later extended to May of this year to see how the winter weather would effect working hours.

A sampling of employes showed that 94% favored the flex time. One employe stated he enjoys working for a company "that respects me as a responsible adult." ■

San Francisco merger

Two San Francisco brokerages joined when Kelly, Kinkead & Hoag merged into Kindler, Laucci & Day. In exchange for the merger Carl L. Hoag Jr., president and sole owner of his firm, received cash and a substantial number of shares of California Insurance Management & Investment Corp. and several other western brokers. CIMIC is Kindler, Laucci & Day's holding company.

Workers demand pension escalator, dental cover

NEW YORK—Labor contract demands by the International Brotherhood of Electrical Workers (IBEW) for its 80,000 members employed at Western Electric Corp. include a pension cost-of-living escalator and dental coverage.

Western Electric's three-year contract with the IBEW expires July 17. National bargaining sessions are currently underway, and one union spokesman said "to date they have gone smoothly. But we really haven't reached the meat of it yet."

In the area of pensions, a Western Electric source said his company boosted payments twice during the last three years, once in July, 1972 and again in July, 1973. But the union now wants an automatic cost-of-living escalator, with a catch-up provision that would increase payments as soon as the contract begins.

"WE'VE GOT an escalator for our wages without a cap," the union spokesman noted. "Now we want it for our retirees with no cap."

Pension vesting is another issue in the contract negotiations. The current vesting plan requires 15 years of work and a minimum age of 40. The IBEW is asking for no age limitation and only five years of vesting.

Retirement age with a full pension is set at 55 under the current contract, although Western Electric already has a 30-and-out provision. For workers who retire before age 55, their pensions are reduced .5% for each year remaining until 55 is reached.

"We want that wiped out," the union spokesman declared.

Hospitalization coverage for IBEW members is now 100% covered by Western Electric's Blue Cross-Blue Shield insurance package. But doctor's services are 80% insured. The union is demanding an end to the 80-20 coinsurance.

Extraordinary medical expense also has 80% coverage in the current contract. The IBEW wants this changed to 90-10 coinsurance with a limit of $1,000 on employe out-of-pocket expenses, and a deductible set at $150 or 1% of income.

LIKE THE conventional medical insurance, maternity care is already 100% covered except for 80-20 coinsurance for doctor's services. If the union's demands are met, doctor's services will be 100% insured by Western Electric.

In the area of new benefits, the IBEW is asking for a dental plan, but the specific coverage limits are open to negotiation. A prescription drug insurance plan has also been demanded by the union.

Work safety is an important issue in the contract talks, the union spokesman commented. Joint labor-management safety committees are sought for each plant. And the union wants to explore the question of whether work exposure to polyvinyl chloride constitutes a health hazard.

"Sixty percent of our people at Western Electric work with PVC, and we're afraid there may be some undetected hazards," he explained. "We want to safeguard our people, naturally."

ONE ISSUE the union calls a "very bad problem" concerns Western Electric's "absence control" plan. According to the company source, Western Electric penalizes its absent employes by reducing certain benefits. But the plan is a "varying thing" at the company's 70 plant locations.

The IBEW considers absence control "serious" because it diminishes needed benefits, the union spokesman said. "It's got to be resolved at the bargaining table, he added.

In addition to the new and expanded benefits sought by the IBEW, a "very substantial wage increase" is high on the union's list of demands, the spokesman noted.

Western Electric has never suffered a nation-wide strike by the IBEW over contract negotiations, the company source told *Business Insurance*. But in 1971 the New York local's members went on strike for six months over local grievances. ■

Personalized statement for Ct. employes

HARTFORD—A personalized statement of fringe benefits derived from state service will go out to Connecticut's approximately 36,000 employes under a law passed by the state legislature and signed by Gov. Thomas J. Meskill.

The legislature appropriated $48,000 for the state personnel department to set up a computer program to produce the individualized information for distribution to state workers.

"There is a great lack of really knowing what they are entitled to," said personnel commissioner Edward J. Simpson, who proposed the idea.

The personnel department will hire an outside firm to set up the program, to be repeated on an annual basis at lower cost once the program is implemented.

"It's not a gimmick," the commissioner commented. "I don't think a lot of them (state employes) realize that their fringe benefit 'package' represents about 30% of the salary of each employe." ■

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HEW takes survey of dental care plans

WASHINGTON—A nationwide survey of prepaid dental care plans is being conducted by the Health, Education and Welfare department (HEW) with corporate employe benefit managers expected to play a key role.

The survey, the first of its type since 1967, is being run by the care development branch of the health resource administration's division of dental health. The agency is a part of the U.S. Public Health Service.

Results of the study are expected to be ready for publication sometime in 1975.

"We are trying to determine the trends in coverage," Mrs. Louise Brusseau, program officer for the study, told *Business Insurance*.

"THAT INCLUDES the size of groups, how they are initiated (by employers or employes), how they are utilized, who pays for it, and whether this coverage includes dependents or just the principle beneficiaries," she said.

Staff workers on the project have already combed through dental plan records kept in the Labor department's office of labor-management and welfare pension reports in an attempt to learn the present scope of dental care coverage.

Two questionnaires are planned as the major tools for gathering the data for the survey, Mrs. Brusseau said.

"The first phase questionnaire is to insurance underwriters to learn who they have (dental care) contracts with," she said, although there has reportedly been some reluctance on the part of the carriers to release that information.

THE SECOND phase questionnaire would be sent to the actual administrator of the dental plans, whether it is a corporate employe benefits manager or official of a union welfare fund.

"We're hoping that they will cooperate," she said.

She said the division of dental health estimates there may now be as many as 9,000 prepaid dental care plans in the country, a remarkable expansion from the approximately 800 such plans surveyed in 1967.

The survey will be based on the status of dental care plans as of yearend 1973, and she estimated that the number of plans in effect by the time of the survey is completed in 1975 will be greater than the 9,000 figure.

THE QUESTIONNAIRE will not have a heavy emphasis on cost, however, according to Mrs. Brusseau.

"It's a sensitive area and we are asking only for the average cost of claims," she said.

A question about the administrative costs of the dental programs, the major variable cost, was considered originally but dropped from the final form of the questionnaire.

"Dental service costs across the country on the whole are about the same," Mrs. Brusseau said.

Benefits managers seeking more information about the survey or desiring to be included can contact Mrs. Brusseau in care of the Care Development Branch, Health Resources Administration, Division of Dental Health, 9000 Rockville Pike, Bethesda, Md., 20014. ■



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Pension termination . . .

Continued from page 1

in many import and export transactions.

Under such an arrangement, the bank, for a fee, would agree to pay off a liability in the event its client was unable to.

"But it's a brand new concept and banks would have to develop new standards," the official said.

"We've always thought this was a terribly atrocious liability," he said, "but if you're going to have this kind of liability you ought to have some kind of protection.

"AND WE thought we might get into the business ourselves."

National banks are supervised by the U.S. Comptroller of the Currency. Officials there said banks "definitely" may not write "insurance."

Robert Bloom, chief counsel to the comptroller, said however, "It's conceivable that they can do it (through letters of credit), but it will be pretty complicated."

Many issues surrounding the area of termination insurance are still only very tentatively decided, however, and the whole issue is pockmarked with sensitive issues.

There remains the question of whether companies should be required to purchase contingency insurance at all. There are even those who say they should not be allowed to purchase the coverage.

At least one staff member close to the conference contends that protection against contingent liability only makes it possible for some companies to run poorly funded plans without fear of taking the loss.

Some companies, particularly small companies with uncertain business prospects, have no business running a fixed-benefit pension plan with set contributions if they aren't reasonably certain of being able to meet the funding commitments, the staff member said.

Those companies should shift to a variable benefit type of plan, he said.

TERMINATION insurance would come into play, when for example, a financially pressed company decided that it must solve its cash problems by eliminating the drain created by the pension plan.

The government pension benefit guarantee corporation would step in, take over the assets of the fund, appoint a trustee, and pay from its own resources whatever benefits the assets of the fund were unable to provide.

The company would then negotiate an agreement with the government insurance corporation to repay the liabilities of the fund up to 30% of the company's net assets over a period of time mutually agreed upon.

Contingent liability insurers would only be required to pay off if, for some reason such as bankruptcy, the company were not able to meet those payments.

In the event there was no contingency coverage, the question of just how the government's lien would be applied would become crucial. That area is still undecided, and is subject to possible revision before the final compromise pension bill is completed.

There is some consensus among the conferees to give the lien a priority just behind that of federal taxes but there is conflict over just when such a lien would attach.

There are arguments in some quarters that it should attach as soon as the plan is terminated, thus putting future creditors of the company clearly on notice as to the prerogatives of the pension insurance corporation to the assets of the company.

Language which would have made the employer's liability to the pension insurance corporation subordinate to all liens perfected 120 days prior to the termination of the plan was dropped in a tentative agreement of the conferees.

THE NEW language, which is subject to change, would now make liens perfected before the actual date of plan termination senior to the lien of the pension insurance corporation.

The conferees have tentatively given employers, private insurers, and the banks three years to work out some means for a private underwriting of the contingent risk.

It's hoped, according to one source close to the conference, that a private undewriting would be successful.

Private insurers might be willing to underwrite $200 billion of the coverage, for example. In that event, the government would write what ever excess coverage is needed.

"If the private sector can't work anything out, then it's up to the government corporation itself," said one Capitol Hill aide.

Another source, however, said, "I tend to doubt that the private sector will be all that enthusiastic about providing the coverage."

There is, perhaps, one compelling reason they should do so, said a staff member to the conference.

AT SOME point in time, in computing premium rates for contingency coverage, a judgement will have to be made about the credit worthiness of the applicants. If the private sector stays on the sidelines, the government pension insurance corporation will suddenly find itself in the business of passing on the good credit of corporations.

"That is not a role I think the government should become involved in," said the staff member. "When you insure only basic benefits, you're not passing on credit worthiness."

While premiums for the contingency coverage are uncertain, the conferees did agree that benefits insurance premiums would be one dollar per plan participant in single employer plans and fifty cents per participant in multi-employer plans for the first year of the program.

As an option in the second year, a plan may elect to base its premiums on the formula written in the House bill which is 0.1% of the vested unfunded liability for single employer plans and 0.025% for multi-employer plans. That formula would apply only if the premium computed were not less than half that computed under the first year formula. ■

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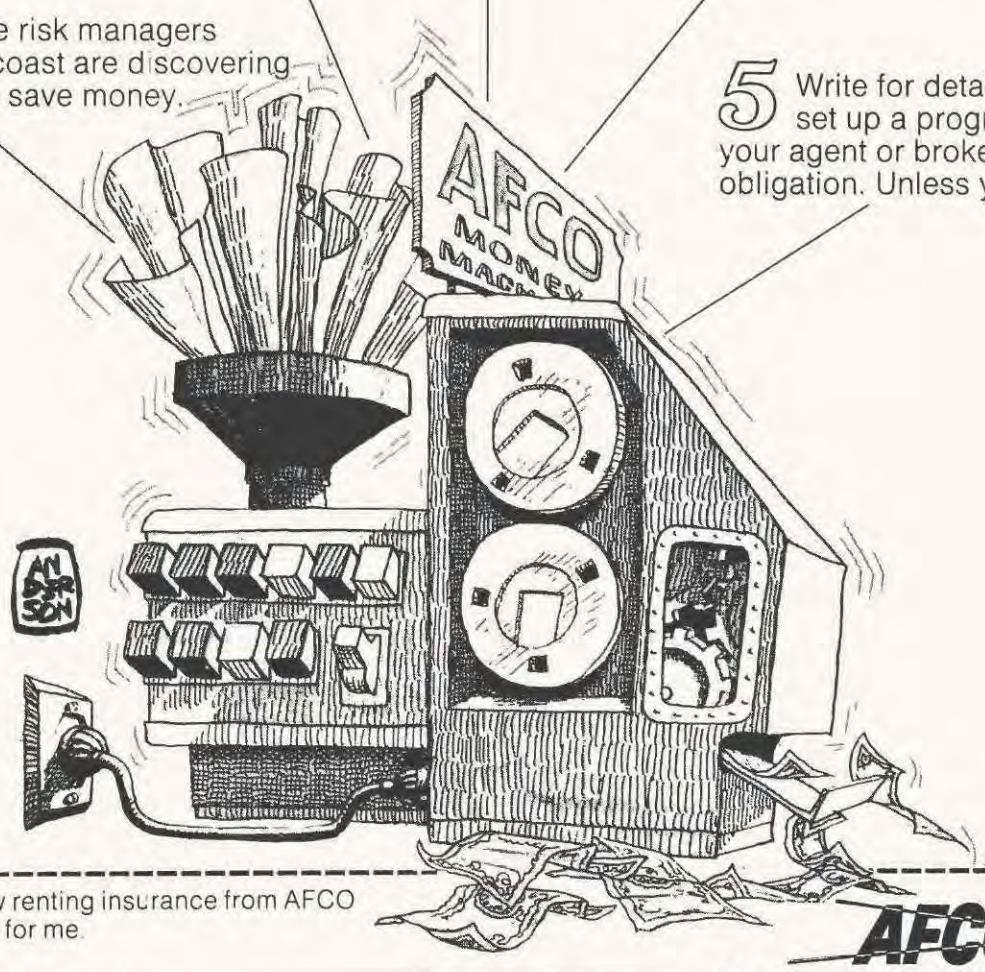
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Portability is pigeonholed

WASHINGTON—Portability of pension credits, strongly backed in some quarters, but always controversial, has been shelved for the time being in action taken this month by the pension reform conferees.

The conferees tentatively agreed that portability should be further "studied" by the four congressional committees involved in pension reform. They are the Senate committees on finance and on labor and the House committees on ways and means and on education and and labor. ■

ESIS wins $100,000 contract to administer work comp for Dallas

DALLAS, TX.—Employers' Insurance Service (ESIS), a division of INA Corp., recently signed a $96,785 contract with the city of Dallas for workmen's compensation administrative services for the city's 12,000 employes.

The transaction marks the first business done in the state of Texas for the California-based administrative services firm, according to Eugene Denton, assistant city manager for the city of Dallas.

Previously workmen's compensation insurance for Dallas employes, who received benefits comparable to workmen's compensation through an employe fringe benefits package, was an exception to the rule in Texas. Not until July 1 will workmen's compensation for public employes come under state mandate.

"Some cities such as Dallas or agencies already have voluntary workmen's compensation program," Mr. Denton said in an interview.

DALLAS' program was administered internally, Mr. Denton said, and included such features as 100% salary continuance and coverage of all medical expenses for disability cases. In addition, the surviving spouse of a Dallas employe fatality has been entitled to receive double the annual salary of the employe as a benefit, he added.

However, the new state workmen's compensation contains no such survivor's benefit and provides for disability pay of a maximum $70 a week, Mr. Denton said.

In order to protect the benefits of its employes, the city of Dallas is negotiating with the city council to supplement the state workmen's compensation program, so as to continue Dallas' superior benefits, he said.

"This will mean an increase of $300,000 to $400,000 needed to keep Dallas employe benefits at the present level," Mr. Denton pointed out.

"THE COST OF employe benefits was $800,000 this year," Mr. Denton said, "and we calculate next year's cost at $1.1 million."

Dallas signed the contract with ESIS, according to Mr. Denton, because "after all considerations, the company offered the best proposal."

Handling the administration of workmen's compensation benefits under the new state regulations would have meant increases in staff and overhead costs, Mr. Denton explained, "so we opted to go outside."

Commercial insurance didn't allow the city enough control over the program, he continued. Another alternative considered and rejected by the city of Dallas was an insurance pool with other Texas cities.

The ESIS offer has the advantage of an outside party to do claims and safety inspection, Mr. Denton said. The decision to go with the firm was ultimately determined to be the most efficient option, he concluded. ■

Insurers file suit; seek tax refund

SAN FRANCISCO—A $2 million lawsuit was filed in superior court here on behalf of 28 insurance companies seeking a tax refund for assessments paid under a retaliatory action by California insurance commissioner Gleeson L. Payne and the state board of equalization.

The lawsuit results from a demand made last year by Mr. Payne and the board for payment of taxes on principal offices maintained within California by insurance companies which have out-of-state headquarters.

The demand, made retroactive to 1968, could cost the insurance companies involved as much as $16 million a year.

Traditionally, in California, out-of-state carriers have been permitted to deduct from their premium taxes those taxes paid on principal office buildings in California, primarily here and in Los Angeles.

The retaliatory action was imposed unless the home state of the carrier provides similar treatment for California-based companies operating in those states.

Most of the insurance companies paid the tax when it became due late last year, under protest, and then filed claims with the state board of equalization for refunds.

Caught by surprise by last year's retaliatory action were such giants of the international field as Zurich and Royal Globe, a number of others and carriers based in eastern states such as Connecticut, New Jersey and New York as well as in Illinois and Massachusetts.

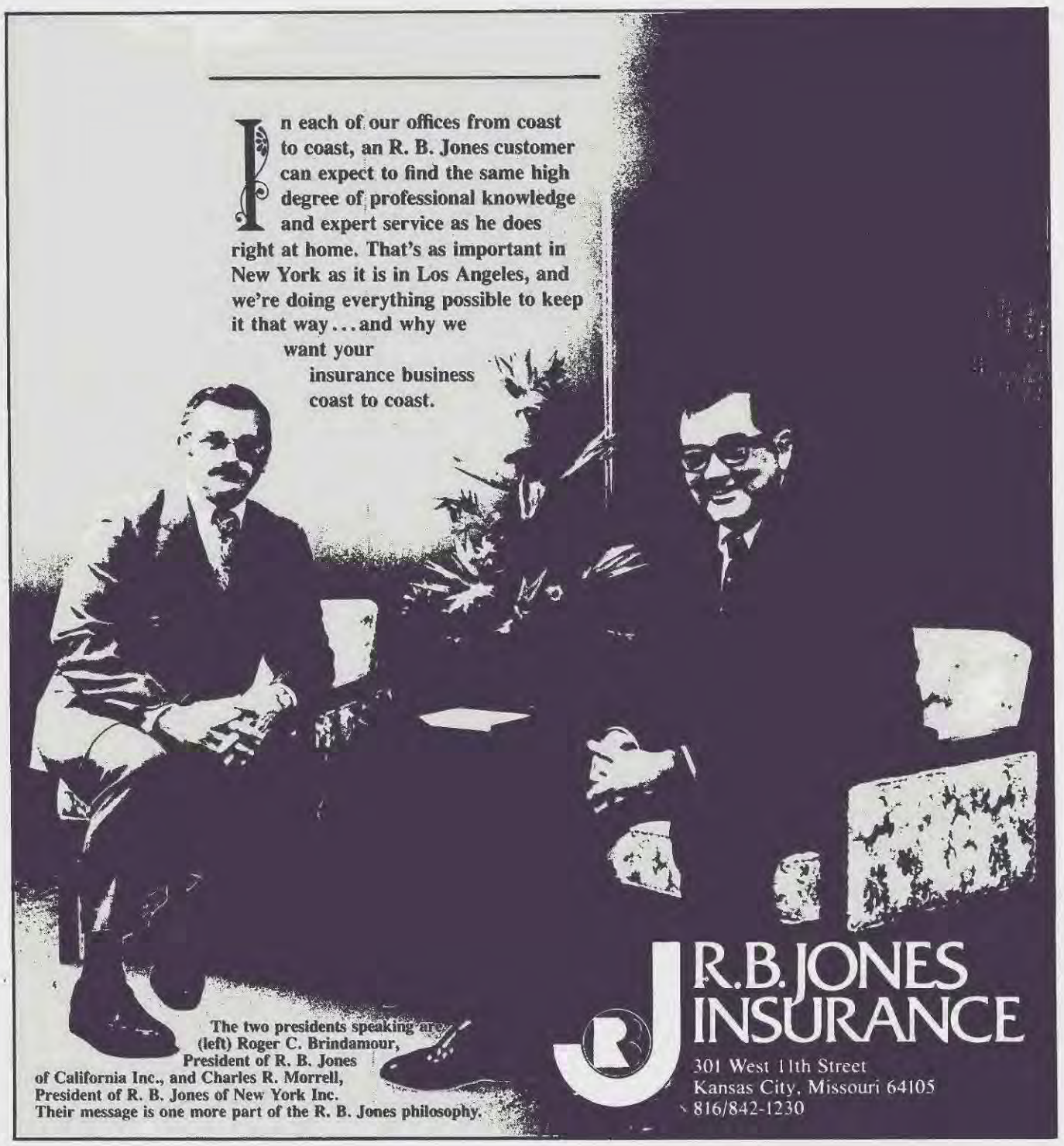
The insurers' attorney said the $2 million lawsuit will be withdrawn only if the board of equalization should decide in favor of insurance companies. ■

A & A invades N.C.

Alexander & Alexander Inc. opened an office in Greensboro, N.C. this month, making it the only national brokerage operating in the state. Joseph R. White Jr. is manager of the new office. He is a native of North Carolina, and was previously vp of the Philadelphia Manufacturers Mutual Insurance Co. Alexander & Alexander now has offices in 52 U.S. cities.

ANOTHER MESSAGE FROM THE PRESIDENTS

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The two presidents speaking are (left) Roger C. Brindamour, President of R. B. Jones of California Inc., and Charles R. Morrell, President of R. B. Jones of New York Inc. Their message is one more part of the R. B. Jones philosophy.

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Benefits tax slants

Combination stock option plans can be granted with IRS approval

By JOSEPH S. ROBINSON
Attorney-At-Law

UNTIL ABOUT a year ago, many companies had "tandem" option plans. The executive was given both a qualified and nonqualified option for the same number of shares. If he exercised one of the options for, say, 100 shares, his other option was reduced by 100 shares. Last year, the Treasury made it clear that tandem options won't wash—the nonqualified option disqualified the otherwise qualified option (*Rev. Rul.* 73-26). Recently, however, IRS showed us how a company can grant qualified and nonqualified options to the same executive simultaneously without disqualifying the qualified option. Let's look at the facts on which IRS ruled to see just how this type of setup can be worked out.

A corporation granted one of its employes a stock option (Option 1) that met all the requirements of I.R.C. Sec. 422(b). dealing with qualified options. This option entitled the employe to buy stock equal to 5% of the total combined voting power or value of all classes of company stock. This limitation conformed to the rule which states that immediately after an option is granted, the employe may not own more than 5% of the voting power of all classes of company stock (including its parent or subsidiaries). Prior to the granting of the option, the employe did not own any other options.

Simultaneously with the granting of Option 1, the corporation also granted the employe a nonqualified stock option (Option 2) which entitled him to buy an additional 4% of the company's outstanding stock. Option 2 was not exercisable until Option 1 had either been fully exercised or had expired. Since the executive now had options to buy a total of 9% of the company stock, IRS was asked whether the granting of nonqualified Option 2 caused Option 1 to be disqualified. IRS said that Option 1 was still qualified because while the rules limit a qualified option to 5% of the company stock, if an otherwise qualified stock option permits the employe to buy more than 5%, the option retains its qualification as to that portion of the stock that does not exceed the 5% limitation. The rest is considered a nonqualified option. The shares purchased under the option which will be treated as having been transferred pursuant to a qualified option are the first shares acquired under the option. Under the facts on which IRS ruled, the employe was granted two simultaneous options allowing the purchase of 5% and 4% of company stock, respectively. Since Option 1, which must be exercised first, otherwise meets the rules of a qualified option, the result, assuming the employe exercised Option 1 in full and then exercised Option 2, will be the same as if the corporation granted the employe a single qualified option to buy 9% of the stock (*Rev. Rul.* 74-428).

SOMETIMES A corporation has a qualified profit-sharing plan but may not always have sufficient funds to make the maximum contribution into the plan each year. What are the rules governing carryovers?

Let's make this example: Assume that a corporation with a profit-sharing plan contributes $15,000 in 1970, $90,000 in 1971, and nothing in 1972. The usual limitation (called the "primary limitation") for deductibility of contributions is 15% of the compensation of participants. For 1970 this limitation came to $50,000; for 1971, $30,000; and for 1972, $20,000. There were no carryovers prior to 1970. How much can the corporation deduct for the years 1970, 1971, and 1972?

(1) Contributions are deductible in the year paid, in an amount not in excess of 15% of the compensation during the tax year to all employes under the profit-sharing plan.

(2) If in any tax year there is paid less than 15%, the excess can be carried forward and deducted when paid in the succeeding tax years in order of time. But under the limitation the deduction in any tax year can't exceed 15% of the compensation paid or accrued during such year. This is a credit carryover.

(3) Amounts paid in any tax year in excess of the amount allowable for such year are deductible in the succeeding tax years in order of time. But the amount deductible in any one succeeding year together with the amount allowable under (1) cannot exceed 15% of the compensation during such year.

In addition to the above rules, there are two limitations on the deduction. The primary limitation is 15% of compensation paid or accrued during the tax year. Deductions in years where the contributions are more or less than the primary limitation are subject to a secondary limitation. This is the lesser of (1) twice the primary limitation for the year or (2) any excess of (a) the aggregate of the primary limitations for the year and for all prior years over (b) the aggregate of the deductions allowed or allowable under the limitations for all prior years.

In applying these rules to our example, the following results are obtained. Since the $15,000 paid in 1970 is less than the primary limitation of 15% of compensation, the deduction is limited to the amount paid. However, there's a credit carryover of $35,000. Of the $90,000 contribution made in 1971, only $60,000 is deductible. This contribution exceeded the primary limitation. Thus, the deductible portion is determined by the secondary limitation (the lesser of 30% of compensation which equals $60,000, or 15% of compensation ($30,000) plus the "credit carryover" of $35,000 from 1970, which equals $65,000). Therefore, $30,000 of the credit carryover from 1970 is absorbed and there's a contribution carryover of $30,000.

Although there was no contribution made under the plan in 1972, $20,000 of the contribution carryover from 1971 is deductible in that year leaving a $10,000 contribution carryover to later years. The deduction is limited to 15% of compensation. Thus, the credit carryover from 1971 in the amount of $5,000 is not deductible in 1972. (*Rev. Rul.* 73-608). ■

PROVIDENT Group Leaders

Pictured at Annual Provident Group Sales Meeting



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Winner	Winner	Winner	Winner
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Group ordinary life only available insurance for many

CHICAGO—Group ordinary life insurance, a combination of term and permanent life coverages, is the only available type of life insurance for many blue collar workers after retirement, an insurance company executive said here recently.

Charles R. Griffith Jr., assistant vp at Provident Life and Accident Insurance Co., told the Insurance Accounting and Statistical Assn.'s annual conference that "this type of product has a very important part in the structure of a company's employe benefit program. It is of particular importance to the blue collar worker whose access to permanent life insurance is limited.

"This type of plan," he added, "makes available to such employes an opportunity to purchase reasonably-priced permanent insurance with the convenience of payroll deduction. It is the only way many of these employes will end up with any type of significant life insurance protection following their retirement."

AS A HYBRID of group term and ordinary (or permanent) life insurance, group ordinary life began attracting the attention of insurers and employers about eight years ago. The plan combines group term with paid-up permanent life insurance so that the amount of term coverage an employer pays for an employe decreases each year. At the same time, the paid-up value of the permanent life coverage paid by the employe gradually increases.

In 1971, the IRS closed a small tax loophole when it ruled that employers could not help pay the employe's permanent life insurance premium. Group ordinary instantly lost popularity, but then slowly regained favor (*Business Insurance*, Feb. 4).

"From the standpoint of the employer, group ordinary offers a solution to the high cost of continuing group term life insurance on retired employes," Mr. Griffith explained. "As a by-product, it also produces reductions in the cost of the group life insurance program covering employes while they are active."

The employer faced with continuing term life insurance for his retired workers may make "long range cost savings" with group permanent life coverage, Mr. Griffith pointed out. But he added that "we visualize it to be first and foremost a means of giving an employe the opportunity to pre-fund his own retired life insurance protection."

REPRESENTATIVES from both Provident Life & Accident and Southwestern Life Insurance Co. told the annual conference that their group ordinary coverages offer a disability provision. Mr. Griffith said that under the Provident plan, the employer "may provide for waiver of permanent contributions in the event of an extended period of total disability commencing while the employe is insured under the group contract. The employe who submits satisfactory proof of disability for purposes of the term premium waiver also has contributions for permanent insurance waived while the cash and paid-up values continue to grow.

"The growth of the permanent values continue during the period of total disability," he added, "until the employe reaches age 65. At that point, the employe will have exactly the same values which would have accumulated if he had been continuously active and making contributions.

"The net result is to bring the disabled employe and the active employe to normal retirement in exactly the same position."

JAMES F. NASH Jr., assistant director of employe benefit services for Southwestern Life, noted that his company's group ordinary coverage offers disability benefits in an extended benefits plan as well as through the premium waiver option.

"Under extended benefits, the premium payments for the permanent coverage will cease," he explained. "The difference between the paid-up amount then provided by the permanent coverage and the scheduled amount of term insurance will be extended as term insurance without the payment of premiums."

Provident's Mr. Griffith noted that "we visualized the market for group ordinary as one of essentially small groups. We found very quickly, however, that some of our larger policyholders were keenly interested in this type of coverage as a means of solving the problem of post-retirement continuation of group term life insurance." ■

OSHA gives approval on Dow variance

MIDLAND, MI.—Dow Chemical Corp. got approval from the Occupational Safety and Health Administration (OSHA) to follow substitute procedures to protect employes from exposure to carcinogens while the agency studies an application for a temporary variance from federal job health regulations.

OSHA head John H. Stender said he was satisfied the substitute procedures would provide workers with adequate protection from the chemicals, methyl chloromethyl ether and bis-chloromethyl ether.

Procedures to be followed in four buildings at Dow's Midland plant include an independent exhaust system with hoods that comply with OSHA requirements. Hood operations will be prohibited while maintenance on the hood exhaust system is being performed.

OSHA standards require laboratory bench hoods to be equipped with exhaust air decontamination devices to protect employes from exposure to the carcinogens. Dow said installation of the equipment could not be completed until Feb. 25, 1975. ■

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Correspondents In All Other States

CPSC's chief engineer assails television safety

CHICAGO—The television manufacturing industry was bluntly warned this month that the Consumer Product Safety Commission (CPSC) is concerned over TV safety and that the commission plans to produce mandatory TV safety standards.

Speaking before the Institute of Electronic and Electrical Engineers (IEEE), the CPSC's R. W. Armstrong took note of the fact that while the engineers had scheduled 20 papers about TV technology for their meeting here, there was "not one specifically aimed at improving the safety of the set."

"This must be done if the TV industry is to fulfill its obligation to the tens of millions of viewers," said Mr. Armstrong, director of the bureau of engineering sciences for the commission.

HE TOLD the engineers that TV manufacturers had as recently as April been invited to attend hearings by the commission to discuss TV receiver safety with emphasis on shock and fire hazards.

"Since the hearings, several, but not all, TV manufacturers have submitted information relative to their individual corporations," he said.

"A number of individuals whose experience with their TV has not been rewarding reported ther experiences of fire and death which they attributed to existing TV sets.

"We heard one viewer tell his harrowing near fatal experience which resulted in the death of his family, attributed to a faulty TV by local fire officials.

"Others related their narrow escapes and overwhelming property losses blamed on TV's, TV sets whose internal circuits acted as ignition sources and initiate a fire in the easily ignited thermoplastic enclosures often used in today's receivers.

THE HIGH energy content of the enclosure intensifies the fire. Death frequently comes from toxic gases associated with their burning."

Mr. Armstrong added that the commission "has evidence to clearly show that fire is not the only source of catastrophic injury and death related to TV's. Shock has indeed been a source of fatal injury and has been attributed to inadequate circuitry related to the antenna and the use of the hot chassis system."

He said that nine corporations, all but one of which were invited to attend the April hearings, have reported fire and shock hazards to the commission under section 15 of the Consumer Product Safety Act.

Section 15, said Mr. Armstrong, is the "tattle tale" provision of the law that requires manufacturers, distributors, retailers, and importers to immediately notify the commission of any product defects of which they are aware or should be aware could become a substantial product hazard.

REPORTS UNDER that section have made more than 140,000 TV sets suspect of having potential substantial hazards.

Mr. Armstrong said the best estimate of the dimensions of the problem is a ball park guess. Information at the hearings revealed that about 10,000 home fires related to TV's are reported each year. The actual figure is unknown.

Despite the industry's own product safety standards and its use of the services of Underwriter's Laboratory, Mr. Armstrong said, "we have a record of accidents which I feel is unacceptable."

He made a point of reminding the engineers that they could "devote more time and effort on the safety aspects of design and performance of TV sets, as well as all those wonderful improvements that your technical presentations point to." ■

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Allstate may be forced out of Florida

TALLAHASSEE, FL.—State insurance commissioner Thomas O'Malley charged recently the Allstate Insurance Co. may be found so "incompetent or untrustworthy" that it could be forced to quit operating in Florida.

Allstate has been ordered to show why its license should not be suspended or revoked due to nine violation charges made against the company in March. Among the alleged violations, the state insurance department claimed Allstate overcharged employers in group employe auto coverages, used an unapproved rating schedule, and issued package policies to small businesses without itemizing individual rates or explaining total premiums in writing.

ALLSTATE WAS given time to make its own investigation and prepare a defense. Commissioner O'Malley said possible incompetence or untrustworthiness could be a statutory ground for revoking or suspending Allstate's license.

A spokesman for Allstate said Mr. O'Malley's statement "is highly inflammatory. Needless to say, this quotation was gobbled up out of context by the media.

"The hearing room and the courts—not the press—are the places to make the proper determinations about the charges. Hearings will be scheduled on the charges and court appeals will follow, if necessary," he added. ■

labor beat

Clothing workers aiming for national HMO plan; win health, pension gains

NEW YORK—Aiming towards the eventual establishment of HMO's on a nationwide basis, the Amalgamated Clothing Workers of America, (ACWA), gained "substantial improvements in hospitalization coverage and pension benefits," according to an ACWA spokesman. These improvements and a $1 an hour wage increase spread over the three-year span of the new contract were negotiated as a result of the union's first strike in 53 years.

Details of the HMO program are still being worked out, Burt Beck, ACWA spokesman told *Business Insurance*, and are not available for publication at this time.

The ACWA represents 110,000 machine operators, cutters, markers, button and pocket makers. Members received an immediate 30 cents an hour increase upon approval of the new contract June 10, an increase from the previous average $3.50 an hour wage, with an additional 15 cents an hour increase Sept. 30 and 27.5 cents an hour June 2, 1975 and May 31, 1976.

ACWA members received "an excellent package" of hospitalization coverage, according to a spokesman for Amalgamated Life Insurance Co., New York, underwriter of the union's policy.

Chicago area ACWA members, numbering approximately 5,000, are covered by the Amalgamated Life and Health Insurance Co. of Chicago and their coverage is identical to the New York policy, a company spokesman said.

The new labor contract provides for 240 days full room and board, (semi-private room), coverage with incidental charges up to $1,250. Previously coverage was 120 days with a $1,000 limit on incidental charges.

Full hospital benefits in obstetrics cases will be included as part of the hospitalization package for the first time, as of July 1.

An added anesthesia benefit, providing for payments up to $75, beyond the $1,250 incidental fee limit, is another new feature of the hospitalization coverage for ACWA members.

Payment for physician's visits in the hospital for non-surgical cases will be increased from the previous $3 a day, up to 35 days, to $7 a day for the same time period.

SURGICAL COVERAGE will be increased 20% in the new contract; from a maximum of $500, to $600 as of July 1, the ACWA spokesman said.

Although details of the union's new pension and disability program have not been completed as yet, the new contract aims for a pension increase from the current minimum $85 per month to $100 per month in three stages.

The first increase, to $90 a month is scheduled to go into effect Oct. 1, Amalgamated Insurance Co. spokesman said.

Another feature included in the new contract will be coverage for union members who retire before age 65.

"If a person retires at age 60 or 62, before Medicare coverage goes into effect," a union spokesman said, "he is covered under our hospitalization program until he's eligible for Medicare."

Maximum disability pay under the new contract will be increased from $60 per week to $76 per week as of July 1, a union spokesman said.

Other employe benefits included in the new contract are an additional paid holiday (the Friday after Thanksgiving), effective November 1975, and up to three days' bereavement pay.

Two cost of living increases, the first a maximum of 10 cents an hour effective June 26, 1975, the second, a maximum 15 cents an hour, effective May 31, 1976, are also part of the wage increase package. ■

Blues chief calls for NHI aid for needy

SAN FRANCISCO—Ned F. Parish, president of the National Assn. of Blue Shield Plans, said recently that national health insurance should give financial assistance to the poor but not pay for every citizen's coverage.

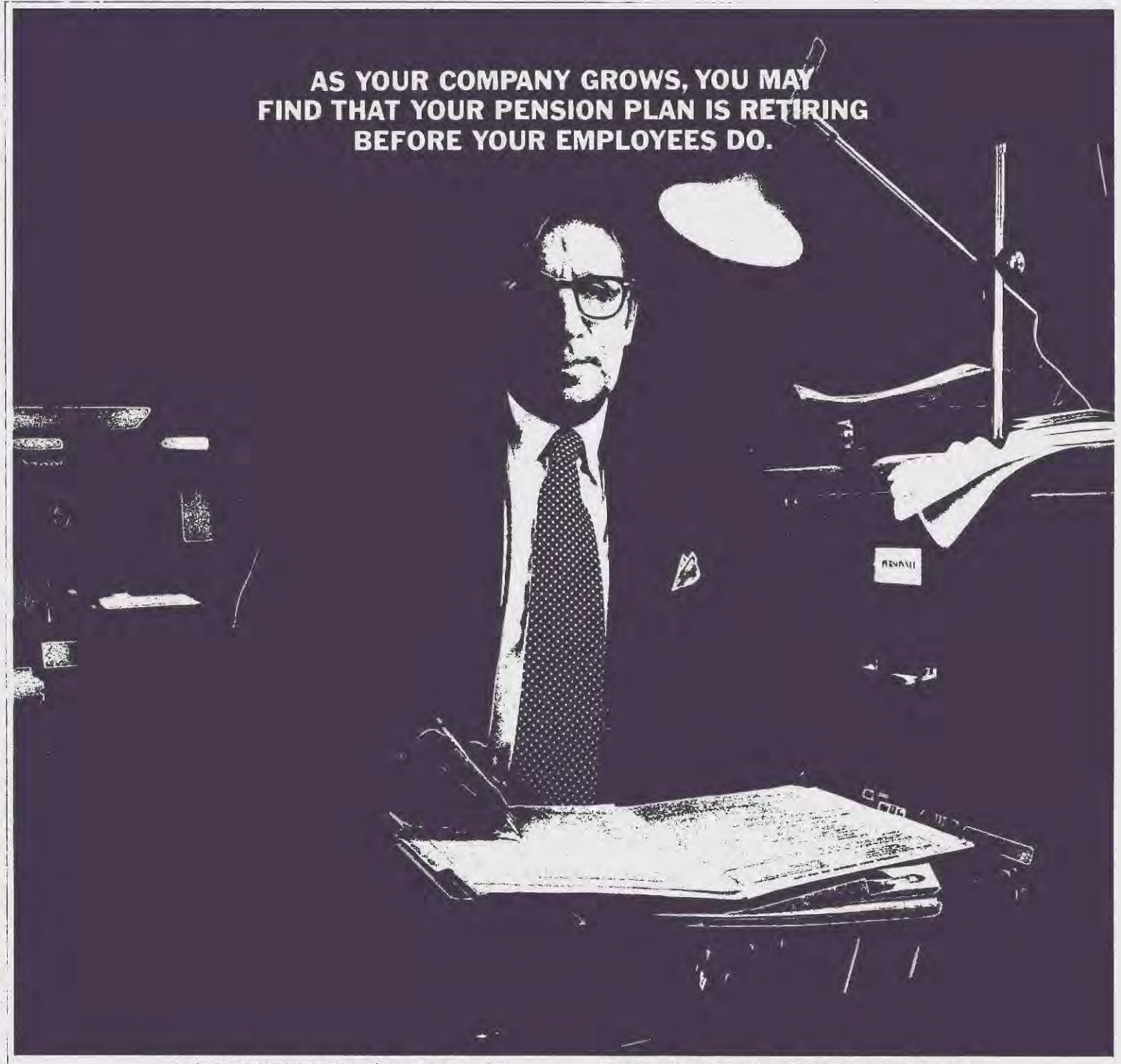
"We know there are many people who do not have the means to secure adequate health insurance coverage," he told the association's annual business meeting here. "Any national health insurance program should make the poor and near-poor eligible for financial assistance."

Making a veiled reference to the labor-supported Kennedy-Griffiths bill which would eliminate private health insurance and base costs on a percentage of family income, Mr. Parish said "we emphatically disagree with those who would extend government financing to the entire population irrespective of need."

In a ten-point message to Congress, Mr. Parish pointed out that one of Blue Shield's recommendations states "there should be maximum participation by the private sector" in national health insurance.

SOME OF THE other points in Blue Shield's message to Congress recommend:

- There should be a free choice of doctors for patients, and a competitive market among health insurance carriers.
- The government should establish minimum standards for basic insurance, and provide opportunities for the purchase of supplemental coverage.
- Provisions should be made for claims review and physicians peer review.
- First-dollar coverage without coinsurance or deductibles should be available, with catastrophic coverage included in a basic insurance plan.
- The public should have a free choice of different health care delivery systems. ■



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Alexander & Alexander

Merrill Lynch bullish on insurance market

NEW YORK—Merrill Lynch & Co. announced plans to acquire Family Life Insurance Co., a Seattle-based firm, for $37.7 million in stock.

The brokerage firm is the first to enter the insurance market through acquisition since the New York Stock Exchange (NYSE) allowed its members to sell all forms of insurance in March of this year. (*Business Insuance*, May 27).

Family Life specializes in term life insurance, "insuring borrowers from savings and loan institutions against the loss of their homes through death or disability," according to Jerry Fehr, financial vp of the insurance company. Only a negligible amount of the firm's business is in commercial or group lines.

Acquisition by Merrill Lynch will have no effect on the focus of Family Life's policy sales, Mr. Fehr said. "We were pursued by Merrill Lynch because we are a pure term insurance company," he noted.

TERM INSURANCE, bought for a specific number of years, doesn't build any cash value that could be used for policyholder loans.

Family Life is licensed to sell in 49 states and the District of Columbia; New York is the sole exception. A Merrill Lynch representative said application would be made to sell in that state, also.

John Kelly, manager of press relations for Merrill Lynch said there are no plans to have brokers sell insurance, though "there will be representatives of Family Life in Merrill Lynch offices if the merger goes through," he said.

Robert Davis, vp of direct marketing for Family Life said that though the insurance company's primary focus would continue to be individually underwritten policies, "Where Merrill Lynch has corporate accounts, we would be able to add insurance to the package."

Family Life had $2.2 billion in term life in force and $59.5 million in assets at the end of 1973, according to a Merrill Lynch spokesman.

The 1974 first quarter earnings for the company were $654,564, or 32 cents a share, up 71% from 1973's first quarter earnings.

Details of the merger are being ironed out, Mr. Kelly said. "We're hoping things will be completed by the end of the year." ■

'Rip off' policy insures against cost increases

MONTREAL—Stewart, Smith Inc. came up with a new insurance gimmick that helped gain more business in the aviation field when one of its Canadian brokers, R. B. Dorsey, devised a "rip off policy" that insures against increases in aviators' insurance premiums.

Mr. Dorsey, aviation manager for Stewart, Smith in Canada, drew up this novel marketing program as a tool to sell more insurance policies in aircraft hull and liability.

"The aircraft insurance market was depressed with rates a third of what they should be," Mr. Dorsey said. So the industry was very receptive to such a guarantee.

Underwritten by Lloyd's of London, the rip off policy, offered only to Stewart, Smith customers, costs 15% of the limited purchased. For example: A fleet's hull and liability insurance costs $100,000. An insured might see the possibility of his premiums increasing 100% to $200,000. To avoid paying the increased premiums he can buy rip off insurance with a limit of $100,000. The rip off policy costs 15% of his limit which would be $15,000.

If the insured experiences a 100% premium increase in the next year, the increase in cost will be covered under the rip off policy.

The rip off policy also comes with a deductible of $500 or 5%, whichever is greater. Once the premium increase exceeds the deductible the deductible no longer applies.

"We used this rip off policy as a means of getting our foot in the door," Mr. Dorsey explained. Stewart, Smith covered the market and now business is slowing down, he said.

"But" he said, "it was very hot and heavy for a while.

THE PROGRAM got its start about a year ago and is only offered through Stewart, Smith in Montreal. The firm has marketed 75 policies. Primarily, the policies cover major fleets, helicopters and commercial aircraft. Stewart, Smith does not offer rip off policies to small risks, Mr. Dorsey said.

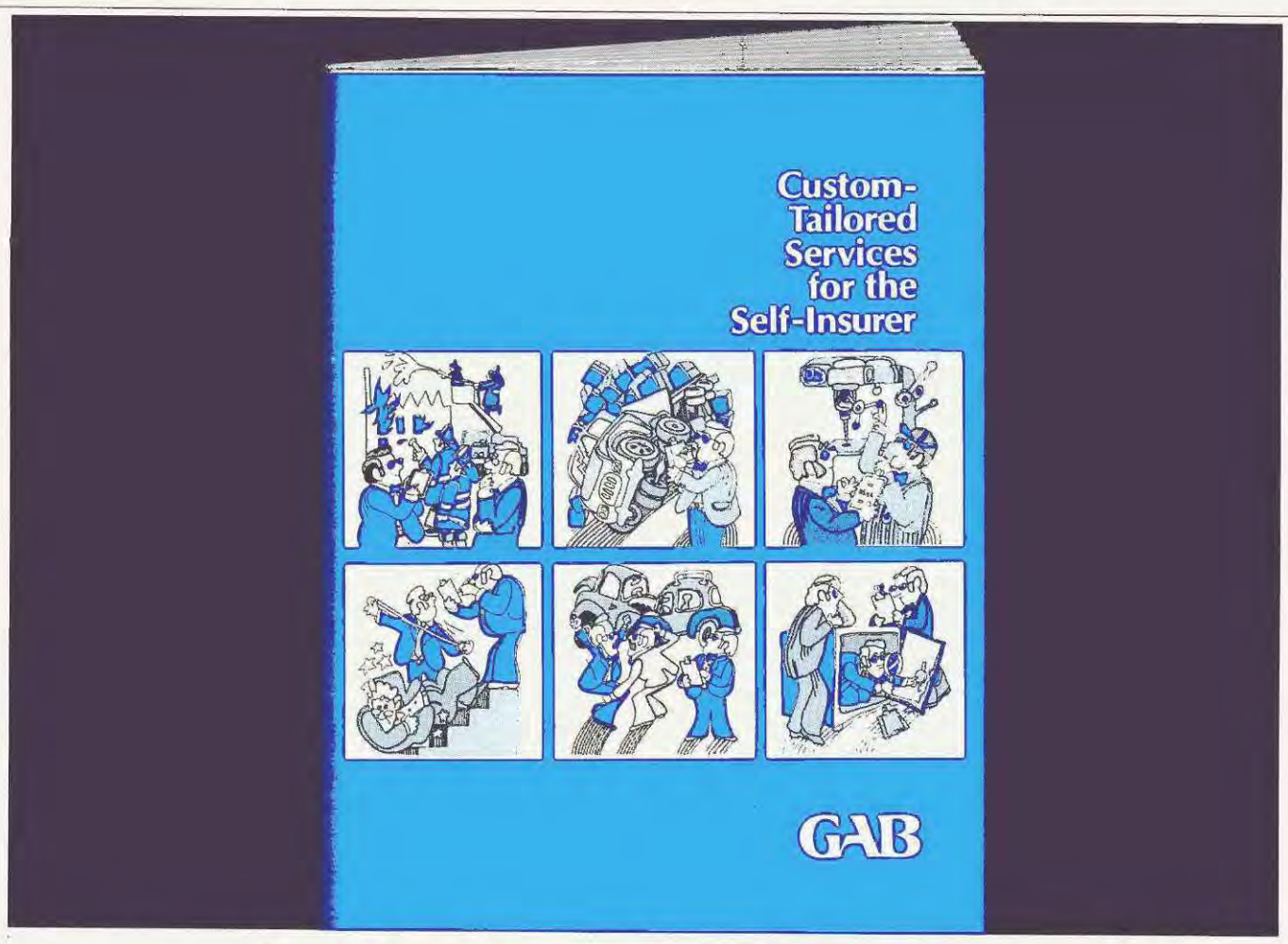
"When the underwriter agreed to write the policy it appeared the market would remain low. And it did. Now it appears the market is hardening and rates are going up," Mr. Dorsey explained. A rip off policy is good for one year "but I doubt if the underwriter will renew any policies," he said.

Stewart, Smith is not pushing the policy anymore because the rates are increasing, but policies are still available.

"The underwriter is bound to lose eventually because the rates are bound to increase," Mr. Dorsey pointed out. "But I'm not sure when we are going to stop offering the policy."

The rip off policy is not supposed to make money; It is only supposed to attract more business, Mr. Dorsey added.

"It worked," he concluded. ■



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Increases in work comp

PORTLAND—The Oregon workmen's compensation board has announced an increase in workmen's compensation assessments on both employers and workers.

The increase makes total daily assessment for Oregon employers 6-cents for each worker employed, or $1.32 a month for salaried employes. Each worker's assessment went to 8-cents for each day worked, or $1.76 a month.

The additional funds will be used to implement an action on the 1974 special session of the legislature which gave benefit increases retroactively to previously injured wzorkers or their beneficiaries.

The board cited as an example widows whose husbands died as the result of injury prior to July 1, 1973. The benefit payments will increase from $110 to $340.39 a month, it was reported. ■

Prevention stressed in light of rising fire loss

NEW YORK—With the onslaught of growing fire losses, good fire protection programs must be initiated, the Federation of Jewish Philanthropies of New York was told at an all-day seminar on property conservation held here earlier this month.

Speaking to the group of representatives from many of the Federation's 130 affiliated agencies, were experts on fire protection systems.

Good loss control programs can be initiated through the use of fire extinguishers, automatic sprinklers and fire detection systems, the speakers said.

Joseph Smith from Factory Mutual Engineering Assn. explained that a good property conservation program requires extensive detail in preplanning. "A program is needed which is designed to mold men and equipment into a team," the speaker noted.

"THOUSANDS OF dollars have gone into setting up fire detection systems in your organizations. Yet, the loss experience continues to grow," he added.

He blamed this on the human element. "It's difficult to have your workers interested in property conservation if you and your management are not."

Sprinklers must be kept open, Mr. Smith insisted.

Reacting to this comment, the Federation's safety director, Donald Whytock, said that if a valve is found closed on any Federation property, "the vp of Factory Mutual sends me a telegram. He wants to know why the valve was closed and in 48 hours, he wants to know what is being done to correct this."

Charles Mount from Allendale Insurance Co., property insurers for the Federation, talked about the different types of sprinklers available.

ANY PROPERTY under construction or occupied must have sprinklers. If there is any combustible material, sprinklers are a necessity, he noted.

It isn't necessary to have many of them, he said. "Over 75% of the reported fires are put out by one or two heads operating."

"It doesn't take much for a destructive fire in unsprinklered areas," Mr. Mount said. "Many of you are concerned with water damage, but water damage is small in relation to fire damage you might otherwise have."

William Dillon, Fire Controls Inc., spoke on the need for fire detection systems and devices that warn employes of a fire. Fire Controls Inc. has "been heavily involved with detection alarms for different kinds of buildings," the speaker noted.

The firm recently installed such devices on two Federation properties, Mt. Sinai Hospital and Memorial Hospital, New York.

The devices "signal to tell people there is a fire condition," Mr. Mount said. The device may be coded or uncoded and cannot be initiated by a false alarm.

In addition, properties "must have a recalling device to bring the elevators down to the main floor," Mr. Dillon urged. He noted that it is natural that employes exit the building the same way they entered. The danger of that is many are trapped in heat-activated elevators and left there to die.

Ronald Williams, Argonaut Insurance Co., stressed a dire need for well-planned evacuation programs. "The problem is that the plan is on paper" and not practiced, he said. There is a need for a written evacuation plan, exit signs and marked directions for means of escape, Mr. Williams added.

A new trend in evacuation plans "horizontal evacuations," the speaker said. This type of plan is good for hospitals and institutions where patients are often unable to evacuate from their rooms. Under this plan, the room is used as a refuge. The rooms must have "a minimum of two hour fire resistence rating," the speaker said.

The new life safety code "now recognizes the need to contain smoke and heat," Mr. Williams added.

WILLIAM BELT from Protectoseal Co., designers of equipment to handle flammable liquids, spoke on the need for such equipment in hospitals, community centers, and other Federation properties.

"More than 50,000 buildings burn each year due to flammable liquids, costing $50 million a year," Mr. Belt said. Safety equipment must have a flame arrester, a vacuum remover and a sealed cover, in order to work properly, he added.

Al Krulee of Norris Industries stressed a need for employe awareness of fire extinguishers. Fire inspections are a must, Mr. Krulee noted. There should be one pointing out potential fire hazards and one after a fire to check out any other possible dangers. ■

Buys out agency

Thomas Reusse, founder of Insurance Marketing Center, St. Paul, Mn., bought out 100% of the stock. IMC is a managing general agency and surplus line brokerage firm with some 2,600 agents.

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Mortimer to go to ARM

William S. Mortimer is leaving at the end of this month Insurance Co. of North America where he is director of planning for the risk management services department. He will join American Risk Management Inc., the Englewood, N.J.-based company specializing in management services for captive insurance companies, as vp. Mr. Mortimer, formerly director of risk management and insurance for Norton Simon Inc. before joining INA, will be vp of ARM, and after Sept. 1 will set up an office in Southern California.

* * *

Les Miller, also in INA's department of risk management services, is joining the American Society of Insurance Management, New York, as director of education and research, effective in July.

* * *

James J. Kincaid was named director of benefits for Kennecott Copper Corp.'s metal mining division, New York. He succeeds William R. Ryan, deceased, Mr. Kincaid was formerly director of insurance for REA Express Inc., New York. REA Express does not plan to name a replacement for Mr. Kincaid, who was manager of three people handling the REA insurance functions. They have taken over Mr. Kincaid's responsibilities.

* * *

Martell L. Miller, 23, was named to the newly-created post of group insurance manager for the state of Idaho. He will manage employe benefit plans for 12,000 state employes. Mr. Miller most recently worked as special assistant to the state director of administrative services, and has a Bachelor of Business Arts degree from Boise State University. The post of risk manager for the state, created this spring along with the group insurance position, is unfilled.

* * *

Arthur P. Rogers was named director of the newly-created employe relations department of Combustion Engineering Inc., Windsor, Ct. He will be responsible for labor and industrial relations as well as health and safety programs and loss control. He was formerly industrial relations manager for the company.

* * *

David Swankin was named to the newly-created post of legislative liaison for the American Society of Safety Engineers, Park Ridge, Il. He will also help to develop and present official statements representing ASSE's views.

* * *

Gary L. Richardson was named administrative assistant to Oklahoma insurance commissioner Joe B. Hunt. Mr. Richardson has ten years experience in the insurance field, holds a BS degree from Bethany Nazarene College and a Juris doctorate from South Texas College of Law. ■

New fleet plan offered

Interstate National Corp., a Chicago-based special risk insurance organization is introducing a new commercial vehicle physical damage coverage. The insurance plan offers fire, theft, collision and combined additional coverages for small truck fleet operators as well as owner-operators.

Malpractice suits in Connecticut have quadrupled in past 13 years

HARTFORD — Malpractice/suits and claims are mushrooming in Connecticut. Long-time observers predict the trend will continue.

Significantly, the money paid out in the average Connecticut malpractice court action has quadrupled in the past 13 years. A group insurance policy for the Connecticut State Medical Society has been the only force that has served to check soaring premiums since 1970.

At the same time, observers insist the problem is still not as serious as in adjoining New York state, however.

Aetna Life & Casualty claims ad inist:ator D. John Pecorino said the Aetna has been able to "hold the line" on malpractice premiums since the group policy —covering 70% of the State Medical Society's 4,000 members —became operational in 1971.

AT PRESENT, 400 malpractice claims are awaiting settlement; the figure was half that a decade ago.

The value of the average malpractice claim paid out by Aetna Life & Casualty has jumped from $2,500 in 1960 to $10,000 in 1973, according to underwriter Robert E. Grimes.

Before the CSMS group policy became effective in 1971, malpractice premiums for individual physicians doubled in 1969, and doubled again in the following year.

The prime reason for the escalating claims pattern is the continuing advance in medical technology.

Under the present Aetna Life & Casualty plan, a general practitioner pays an annual premium of $448; a surgeon or anethesiologist, however, has average premiums of $2,436.

Mr. Pecorino remembers that prior to 1963, the concept of a $1-million malpractice judgment was non-existent in the U.S. In subsequent years, at least 50 court cases have been in that costly category, nationwide.

Connecticut has yet to encounter the $1-million judgment atmosphere, he said.

AETNA HAS pending a $400,000 payment, awarded by Fairfield County superior court to the estate of a woman who died in childbirth. The same court awarded $228,000 to the family of a premature infant blinded in an incubator.

In the first action of its kind in Hartford, the superior court recently awarded $18,000 in a malpractice case involving an anesthesiologist.

The Hartford County Medical Assn. completed a survey in 1971, indicating that in the last 25 years half of the malpractice suits regionally had been settled for less than $500.

The tab is going upward, with a figure of $10,000 said to be more realistic, and even higher figures envisioned. ■

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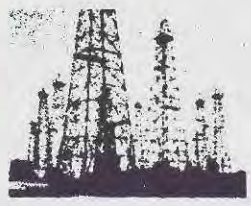
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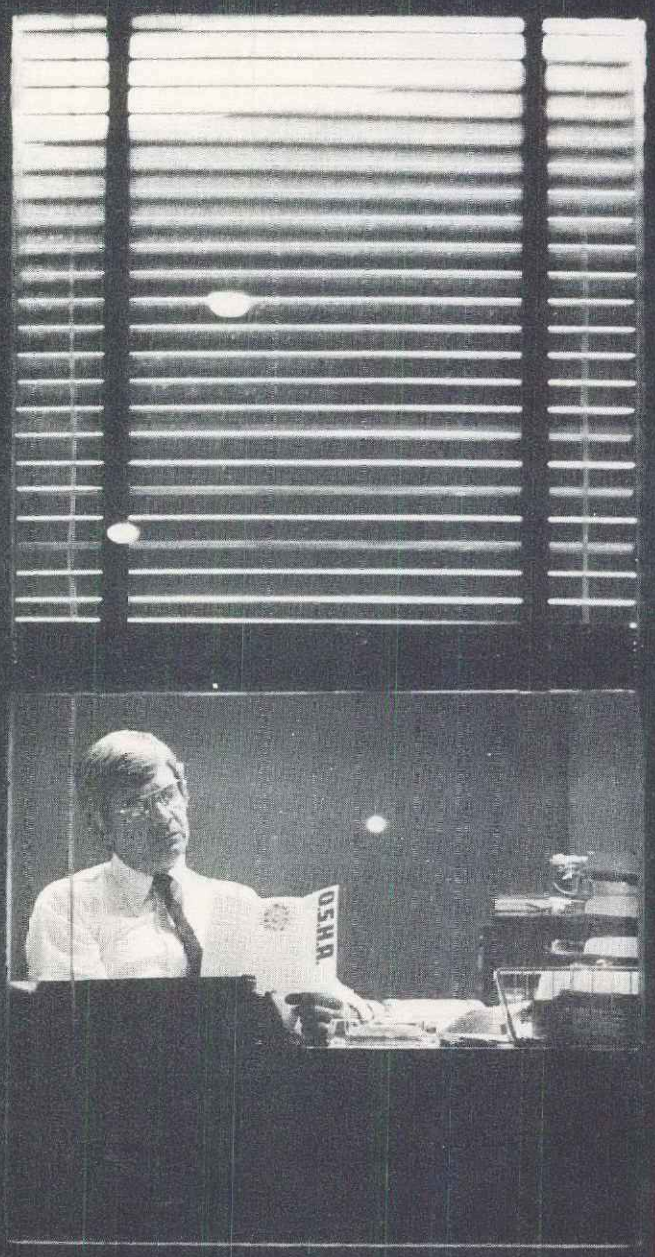
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