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Concern for consumers is new theme of regulators

By RICHARD BJORKLUND

CHICAGO—Concern for the consumer is increasingly evident among state insurance commissioners, a wide-ranging survey by *Business Insurance* magazine has revealed.

Respondents to the survey, representing 32 of 51 insurance regulatory jurisdictions, evidenced their activity and concern in these ways:

- Nearly two-thirds of the respondents have formal or informal liaison with insurance consumers through advisory committees, consumer divisions established by law or an ombudsman or consumer complaint officer within the department.

- All states in the survey have taken some action to control insurance advertising, particularly in the mail-order life and health lines.

- A number of insurance commissioners are actively intervening in the problem of spiraling costs of hospitalization and medical care by suggesting a variety of money-saving innovations to Blue plans, hospital associations and medical societies.

- Mass marketing of property-liability insurance is effectively regulated in most states, and several insurance departments actively encourage such marketing innovations, provided they are not set up for "fictitious" groups.

- Insurance commissioners are concerned that no-fault auto insurance programs be adopted in the states, but they are also concerned that the plethora of proposals will make it difficult to sort out good proposals from bad.

- A number of commissioners believe that unless state insurance departments serve changing consumer demands

better, the federal government will usurp the insurance regulatory function.

These are the major conclusions of the survey, taken through a questionnaire sent to insurance commissioners in 50 states and the District of Columbia, to which 32 commissioners—or more than 60%—responded. An official of the National Assn. of Insurance Commissioners said the percentage of return to the *Business Insurance* survey was "better than par," even though the survey covered in 13 questions a wide range of insurance regulatory issues.

Here are specific conclusions of the survey with selected commissioners' comments:

LIAISON WITH consumers is becoming an increasingly important part of the insurance departments' functions with 20 states reporting that such liaison exists on a formal or informal basis. Ten states said that no such liaison now exists, while one other commissioner reported

that plans for a consumer council are "still on the drawing board." Another commissioner said his department allows the consumer liaison function to be handled "to some extent" by insurance agents' associations within his state.

The most advanced of the consumer liaison efforts are in New York, where a widely representative consumers' advisory council has been appointed under legislation sponsored by the insurance department, and in Pennsylvania, which has two departmental ombudsmen, a consumers' advisory council representing 6 million Pennsylvania citizens and a risk managers' advisory group, the only such group in the country.

Among groups represented on the New York advisory council are minority insurers, corporate risk managers, labor unions, organized consumers, minority action groups and academicians.

California's Insurance Commissioner Richards D. Barger, retiring president of the National Assn. of Insurance Commissioners, reports that his department

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United States Aviation Insurance Group writes the primary layer of coverage on 11 people killed in the crash of a Petroleum Helicopter Corp. craft in a marshy area near Dulac, La. The pilot and 10 Penrod Drilling Co. employees were destined for an offshore oil rig when the crash occurred soon after take-off. —Wide World photo

USAIG provides cover on downed helicopter

DULAC, LA.—Primary insurance coverage on the 11 persons killed when a helicopter, owned by Petroleum Helicopter Inc., crashed in a desolate, marshy area near here is written by United States Aviation Insurance Group, as is the coverage on the helicopter's hull.

A spokesman for Petroleum Helicopter, a firm that "makes 90% of its living" taking men and equipment to and from offshore oil rigs, told *Business Insurance* that the coverage on the passengers was written by USAIG, through Johnson & Higgins, up to a limit of \$500,000. The excess coverage is in the London market, he said. The policy contains no deductible.

He pointed out that the kind of helicopter that went down, killing all aboard, would "be worth about \$400,000 brand new." The insurance coverage on the hull, he noted, was near full replacement value.

Those killed were the pilot and 10 employees of the Penrod Drilling Co., who were on their way to work on an offshore rig when the crash occurred. The helicopter company spokesman said that no witnesses had been located but that it was presumed the craft went down soon after take-off.

It was not immediately determined what caused the crash though the spokesman said pilot error was nearly ruled out.

STATE INSURANCE REGULATION



THIS ISSUE OF *Business Insurance* carries an in-depth report on the condition of state insurance regulation with features of special interest to corporate executives and those who will attend the annual meeting of the National Assn. of Insurance Commissioners in Denver, June 12-16. On this page there is a report of an extensive survey of insurance commissioners on their attitudes and actions in vital areas of insurance regulation, including consumer liaison, mass marketing, no-fault auto insurance, control of health care costs and the continuing state versus federal argument. Other articles are:

Page 6: Report on a special seminar for new insurance commissioners at New York's College of Insurance.

Page 13: Interview with Michigan Insurance Commissioner Russell Van Hooser, incoming president of NAIC.

Page 16: Editorial "New era for state insurance regulation."

Page 33: Article on NAIC's active central office.

This report was prepared by the *Business Insurance* staff to reflect the emerging consumer-oriented trend in state insurance regulation, often accused of being captive and somnolent.

Nader pension reforms go to Congress this year

By STEPHEN GILKENSON

NEW YORK—Legislation embodying pension reform proposals made almost a year ago by Ralph Nader will be introduced in the Congress before business is wrapped up for the legislative year, the consumer advocate told a press conference here.

At the same time, Mr. Nader said that there is "no hope" that any form of pension legislation will be passed by Congress this

session. But, he added, the measure he will back, which will be introduced by a group of Congressmen he would not identify, will at least "start the discussion."

Mr. Nader also asserted that the latest compromise measure that has the backing of Senators Jacob K. Javits (D-N.Y.) and Harrison B. Williams (D-N.J.) is not acceptable to him. "It's just warmed over soup," he declared.

Mr. Nader's proposed pension reform, first announced last July (*Business Insurance*, Aug. 2), would create a limited number of private, competitive, cooperative, insured institutions to be licensed and regulated by the Securities and Exchange Commission. The institutions, which would be most akin to mutual funds, although more highly regulated, would receive contributions made by employers for their employees and by employees and self-employed persons for themselves and their dependent spouses. All contributions would be tax deductible and the funds' earnings would be exempt from taxation.

First, he said, contributions allocable to those now covered by an existing pension plan should be made to the fund established by that plan. Second, all contributions allocable to new employees 35 years old or older be made to their accounts in one of the new pension institutions. Third, all contributions allocable to new employees who are under 35 be made to the pension fund established under the old plan.

On the cost of living issue, the Washington-based attorney said that as near as practicable retirement funds should make cost of living adjustments. "It might be possible," he said, "for this money to come from earnings on retirees' accounts and forfeitures. At the point when an employee files a declaration of retirement, his funds would be set aside with the funds of all other retirees. That money would continue to earn interest and the interest would be apportioned among the retirees."

Mr. Nader also said that there could be forfeitures coming from employees who died before filing a declaration of retirement without survivors and from some survivors' accounts.

"The proposed system would encourage separate accounts for husbands and wives," he elaborated. "Contributions would, of course, be made for working

women, but in addition, husbands might be encouraged by a tax deferral to contribute to accounts for wives during periods when they stay home to raise families."

Addressing an audience divided about evenly among buyers, sellers, administrators and consultants to pension plans, Mr. Nader said that he expects opposition to his proposal "may come far more from its impact on the immense economic power you have amassed over the past 20 years than from any technical objections."

He said: "\$151.8 billion increasing at a rate of more than \$13.6 billion a year is a lot of money, and there is very little regulation at all over how it is invested and to what ends."

"If this," he said, "is your only objection to the proposal, I submit that it is untenable at this time in our history."

Later Mr. Nader said that one of the "basic issues" of any potential pension reform legislation should address the faults in the system created by the powerful financial institutions controlling this huge pool of funds belonging to U. S. workers. He again introduced into the argument the fact that four large New York banks control about 48% of all the bank-trusted pension monies being held in this country.

Avco, Bendix lose suit

SANTA CLARA, CA.—A damage award near \$13 million, the largest ever given in the U.S., has gone to Ray Rosendin, general manager of a San Jose electrical firm and the sole survivor of a 1967 Lake Tahoe airplane crash that killed four other persons.

A jury before Richard Rhodes, superior court judge, ended 56 days of trial and deliberation by awarding Mr. Rosendin \$10 million punitive damages, \$1,069,374 for loss of both legs and a disabling arm injury and \$1,213,129 for loss of his wife, Jeanette. The Rosendin Electric Co. was awarded \$42,000 for loss of its company aircraft.

Mr. Rosendin's attorney, Albert R. Abramson, San Francisco, argued that the Lycoming division of Avco Corp. violated Title XIV of the Code of Federal Regulations, which states rebuilt engines and parts must meet new part specifications. Avco-Lycoming, the plaintiff asserted, had misrepresented its compliance.

The Bendix Corp. supplied a faulty magnet that failed because of a fatigued part.

THE PUNITIVE damage figure applies only to Avco-Lycoming, while Bendix and Avco-Lycoming will share payment on the compensatory amounts.

According to a source connected with the case, Lloyd's of London provides product coverage for both Avco-Lycoming and Bendix and will dispute its responsibility to pay any claims arising from the case on the grounds that the federal code was violated.

The decision on a motion for a new trial will be made June 9.

Gayle Dorn, widow of the plane's pilot, Leonard Dorn, was awarded \$761,710 by the same jury and the three children of San Jose paving contractor Patrick Reagan and his wife, Emily, also victims of the crash, were awarded \$800,861 for the deaths of their parents.

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WHILE MR. NADER admitted that the response to his proposal has not been overwhelming, he did say that it has captured the "special interest of staff aides of several Congressmen on Capitol Hill. A bill is almost drafted," he said, "and I do expect that it will be introduced before the 92nd Congress adjourns."

Earlier, in a lengthy prepared speech he delivered to an employee benefits conference sponsored by Pension and Welfare News and Trusts and Estates Magazines, Mr. Nader answered three major questions raised by those who sell, service and administer private pension plans. The questions were: would there be enough money available to a fund participant when he retired; how could the proposed system be started without hurting those who expect to benefit from the present system; and what about increases in the cost of living?

Emphasizing that his responses were "tentative thoughts (to) serve as discussion starters," Mr. Nader answered the first question with a very definite "yes."

"An oversimplified and extremely conservative example will illustrate," he said. "The average American worker earns roughly \$9,000 a year. Assume that his earnings remain constant over his lifetime and that he works from age 25 to age 65. Assume also that his employer puts an amount equal to 4% of the employee's pay into the employee's pension account and that this money earns 3% a year.

"**GIVEN** A life expectancy of 15 years at retirement," he said, "that employee could count on a pension benefit of roughly \$2,200 a year, considerably more than the current average private pension benefit which is estimated to be less than \$1,000 a year."

Turning to the second question, that of the problem of transition, Mr. Nader suggested that for the purposes of transition employers first calculate their pension contributions in terms of a percentage of each employee's pay and then pay these contributions in either of three ways.

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Last call for profiles

ALL QUESTIONNAIRES for the *Business Insurance* Agent/Broker Profiles issue must be received by Friday, June 16, to be considered for inclusion in the special issue to be published July 31. Questionnaires were sent to agents and brokers on the *Business Insurance* circulation list. Other producers with an annual premium volume of more than \$1 million may receive copies of the questionnaire by writing to Agent/Broker Profiles, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611. Corporate buyers of insurance will use the issue for reference to locate agents and brokers that have the personnel, locations and special capacities to meet the buyers' needs.

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INA, in trend-accentuating move, to sell safety services to industry

NEW ORLEANS—Insurance Co. of North America has begun selling a safety consultations service, thus joining a growing list of insurers that are gearing up for demands created by the Occupational Safety and Health Act and other consumer safety legislation that is expected to pass the Congress within the next year.

The program, which was conceived a little more than a year ago and has been implemented at a "conservatively" estimated cost of more than \$3 million, is being pushed by a new INA unit, the technical services division. Marketing head of the new division is Thomas W. Snyder, who has been described by one INA executive as "a kid in his mid-20s who's really hot to trot in the company; he's been given a slippery ball and now we'll see if he can run with it."

Company politics aside, Mr. Snyder is an energetic young man. Last month he spent a week here quarterbacking a series of seminars on safety legislation and how INA intends to capitalize on it. INA held the seminars for agents from around the country.

In an interview with *Business Insurance*, Mr. Snyder admitted that INA is not the first company to see potential in selling safety services to U.S. business and industry. But, he said confidently, "I feel INA is the only company that has taken a uniquely management approach to safety services."

"KEMPER, for example, has been in the business of selling safety services for three to five years. And—maybe I shouldn't say this—they offer some top-notch engineering services to their clients. But," he added, "that's where the difference is. We are selling consultation services. We feel firmly that we have to be a consultant to our client; not a policeman, not a doer. There may be times, of course, when we might have to have someone from INA live on the premises (of a client) for a year. But for the most part we'll be concentrating on telling a company where it has to improve and giving it a system to spot unsafe conditions that might come up three years from now."

Mr. Snyder pointed out, however, that INA has not ruled engineering services out of the program. Such things as product liability engineering are likely to be offered in the future as adjuncts to the safety consultation service.

The company's technical services division has actually de-

veloped two new products for its agents to sell to business and industry clients.

The more fundamental of the two is a program called Safety Scope, which is designed for use in companies employing 10 to 200 people. A broader program is called Total Loss Control Consulting Service, which "provides clients with a systematic evaluation of overall loss control activities against well defined performance standards."

ACCORDING to Mr. Snyder, the Safety Scope program will be directed primarily at those smaller companies engaged in manufacturing and is designed specifically "for the guy who is not getting

service from his insurance company."

It is economical (\$325 to \$550 annually depending on company size and complexity), the INA man noted, and proper use of the services should place an employer "in a good position under the Occupational Safety and Health Act." The first year's package includes two consultative visits to educate employers in the area of regulations, inspections, investigation and employee communications. The visits also include a documentation of environmental noise and vapor problems the company may have. INA technical representatives will also train employers in the "simple logical steps of safety management," Mr.

Snyder asserted.

The second program, which is called "the Cadillac" of safety services by Mr. Snyder, is not new to INA although company agents are now selling it on a broader base.

The program, which utilizes concepts developed by INA's resident evangelist on safety, Frank E. Bird Jr. (*Business Insurance*, 1971), is essentially the same as that sold by another INA unit, Employers Self-Insurance Service (ESIS). The company sold almost 100 of these programs last year to, among others, Ford Motor Co., Dresser Industries and Disney World. The latter used the program in the construction phase of the huge Florida entertainment complex.

MR. SNYDER points to four philosophical axioms the total loss control program considers, and notes that the entire loss control approach must revolve

around these:

- That effective loss control necessitates direct management commitment and involvement.

- That the same management deficiencies that result in bodily injury accidents also cause damage to property, equipment and products.

- That by emphasizing identification of deficiencies before the loss occurs, total loss control takes an active stance rather than the traditional reaction posture.

- That emphasis must be placed on measurement of both performance improvement and cost reduction in any meaningful program.

Companies with moderate to large employee forces or with multi-plant locations and those with problem loss areas are ideal prospects for the total loss control program, said Mr. Snyder. Prices for the service are being quoted on a proposal basis. ■

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Chrysler has export policy

WASHINGTON—Chrysler Corp. has purchased a broad export credit insurance policy that will cover up to \$250 million annually of foreign sales of Chrysler products.

The policy was issued under a program jointly administered by the Export-Import Bank of the United States and the Foreign Credit Insurance Assn.

The policy of expanded credit insurance will cover both commercial risks and possible losses from political upheavals that could financially jeopardize U.S. companies selling abroad. ■



washington watch

Indications are that no-fault is not dead in the House of Representatives

WASHINGTON—Sources close to Congressional sponsors of the federal no-fault auto insurance concept deny published reports that the House of Representatives will kill the no-fault proposal recently approved by a wide margin in the Senate commerce committee.

"No-fault is not dead in the House of Representatives," said one observer. "Its fate depends

partly on the legislative calendar, but there is sentiment building for federal action because so few states have adopted effective revisions of their auto victim compensation laws."

Federal no-fault standards were approved by the Senate commerce committee by a vote of 13-4, sending the bill to the Senate floor where it is expected to be passed this month.

"There will be forces working against it in the Senate," said a commerce committee staffer, "but Sen. Warren G. Magnuson (D.-Wa.) and Sen. Philip A. Hart (D.-Mi.) the bill's co-sponsors) will resist. Those who've said that it can't get through the House have been thinking about time, and there is still enough, and they have underestimated the pressure build-

ing in favor of this legislation."

"IT WILL BE close," was the opinion of a no-fault specialist working with the House group. "It is really difficult to predict at this time but the moment of truth appears to be just about at hand. Anybody who has said that the bill absolutely would not pass the House probably thinks that scared trial lawyers and insurance groups have more influence over here than they do in the Senate. I don't know. It'll be tight."

The Hart-Magnuson bill establishes minimum standard for state no-fault laws (the states to administer the laws) and deadlines for the states to put the provisions into effect. If a state failed to do so, a federal no-fault law would automatically go into operation. The deadline for 47 of the 50 states is July 1, 1974.

The desirability of federal no-

fault legislation was again endorsed by the American Society of Insurance Management during the society's conference in Montreal a few weeks ago. ASIM officials then restated their position, calling for federal no-fault standards—operated by the states—that would provide first-party payments to accident victims and would cut insurance overhead and the burden of high attorneys' fees.

ASIM felt that any no-fault laws should conform to the following standards:

- Should not discriminate against commercial vehicles by establishing percentage liability, absolute liability or discrimination based on the size, weight or commercial character of the vehicle.
- Should meet victim's economic losses by "intelligent integration of benefits" from all sources.
- Should include property damage in the same way as bodily injuries are covered.

REGARDING the ASIM position and the bill, Sen. Magnuson told Business Insurance, "Risk managers should back the bill because not only does it conform to the ASIM position it gives them the national uniformity that they have wanted."

The bill, as passed by the committee, calls for minimum medical expenses coverage of \$25,000 and at least \$75,000 coverage for rehabilitation, lost wages and other specified economic losses. Lawsuits revolving around tangible losses would be banned unless those losses went above the \$100,000 set by the no-fault law.

PAIN AND SUFFERING suits would also be prohibited except in cases involving permanent, serious disfigurement; permanent gravely incapacitating loss of body function or six months of disability.

Insurance companies would be required to offer no-fault property damage coverage on an optional basis with the other coverages being compulsory. The insurance would be available to anyone with a valid driver's license who could make a "reasonable" down payment on the premium.

Insurers would be prohibited from canceling the coverage unless the premium were not paid, the policyholder lacked a driver's license or the insurer volunteered to place the policyholder in an assigned risk pool that provided the same coverage.

None of the four states that have no-fault laws on the books is up to the standards established by the Magnuson-Hart bill in the limits in pain and suffering suits, the actual dollar amount of the no-fault coverage and other aspects. If the bill is passed, states would have to meet the standards or accept the federal law.

That federal law would cover all medical costs, rehabilitation expenses and lost wages up to \$1,000 a month with no all encompassing ceilings.

Benefits in lieu of pay

A voluntary group life insurance program for 135,000 state employees has been proposed by California's Gov. Ronald Reagan to "help make up for the withholding of a state employee pay increase" that he denied last year. Under the Reagan plan the state and the worker would share the cost of the program on a 50-50 basis with the employee making contributions through payroll deductions. Gov. Reagan said the program would cost the state \$3.5 million a year, or about \$26 per state employee per year.

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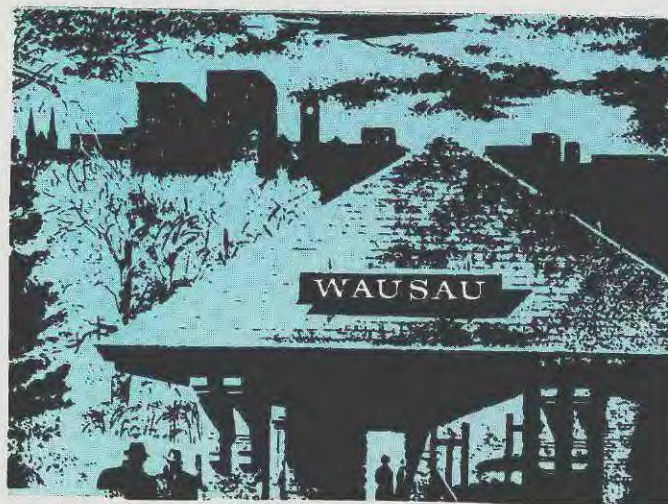
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Seminar will acclimate new state commissioners to insurance field

OSSINING, N.Y.—A seminar for new insurance commissioners and their top aides will be held July 16 through 22 at General Electric's Management Development Institute here. The program, now in its sixth year, is co-sponsored by the College of Insurance and the National Assn. of Insurance Commissioners.

Dr. Robert W. Strain, dean of the college and a former Texas insurance commissioner, told *Business Insurance* that this year's seminar would be held for the benefit of 22 commissioners and aides from 14 insurance departments. He declined to name the specific participants.

He said that the program had been designed to teach the com-

missioners new techniques and procedures being used by the insurance business, to help them understand as much as possible about the business they will be regulating and give them a chance to share ideas and experiences with other regulators.

"WHEN I WAS commissioner in Texas," Dr. Strain explained, "I learned what a commissioner needed to help him do his job. When he's appointed he might know five or six areas of the business reasonably well but he will be regulating the entire business, not just those five or six areas of it. He has a lot to learn and the seminar was designed to help him learn it."

He pointed out that the seminar was mainly hard work and that the commissioners would have little time to do anything but participate in the various sessions. "They have four 75-minute presentations each day and then, that night, the day's four speakers take part in a pan-

STATE INSURANCE REGULATION



el discussion. The commissioners are given two books to work with, the Life and Health Insurance Handbook and the Property

and Liability Insurance Handbook, and all the instruction is strictly objective," Dr. Strain observed.

DR. STRAIN will be on the faculty for the week-long seminar, as will a number of other educators and insurance company experts. This year's faculty will also include Benjamin R. Schenck, New York's superintendent of insurance, and the man he replaced, Richard E. Stewart, now senior vp and general counsel for First National City Bank.

"We think this program helps the public, it helps the insurance business and it helps the states," Dr. Strain noted.

"It has been successfully received," he continued. "It is strictly voluntary and each man has to pay his own way. We run the seminar but we don't make any money on it."

Unions want more money for OSHA

WASHINGTON—The International Assn. of Machinists and Aerospace Workers will join other trade unions in testifying in favor of more money for the Occupational Safety and Health Administration at appropriations hearings here.

Angelo Cefalo, IAM special assistant on occupational safety and health, will press a House subcommittee to increase the administration's \$97,000,000 budget request for OSHA. The unions would like to see the appropriation increased to at least \$165,000,000, a figure they feel will give the law the right amount of muscle.

THE HIGHER amount would also provide for the hiring of 2,000 more inspectors. The administration's budget would hire only 300 more, bringing the total to 800. Mr. Cefalo said that the unions would also like to see 115 industrial hygienists on the OSHA staff by June 30, 1973, and their budgetary proposal would also provide for that end.

Referring to what he called a "hollow victory" for workers, Mr. Cefalo pointed out the OSHA records showed violations in eight of every 10 workplaces inspected and that, after eight months of operation, less than one-half of 1% of the eligible workplaces had been inspected.

"This is proof enough that we need more inspectors to more thoroughly cover the nation," Mr. Cefalo said. "At this rate, a strong law and a clean and healthy workplace will remain an American worker's dream for many years to come. We want to make that dream a reality now."

Philadelphia will appeal fund order

PHILADELPHIA—The city of Philadelphia intends to appeal an order by Judge Edmund B. Spaeth to pay an additional \$47.8 million into its pension fund to make the latter financially sound.

Mayor Frank L. Rizzo has reportedly instructed city solicitor Martin Weinberg and finance director Lennox Mak to review the lengthy court decision and file an appeal (*Business Insurance*, April 24).

Contending that the decision "certainly does a tremendous amount of harm" to his proposed budget, Mr. Rizzo has remarked that he does not agree with the judge's findings and indicates, moreover, that the city will attack the formula on which Judge Spaeth ruled.

"WE'RE NOT going to accept this decision," said the mayor. "This amount is too great. This administration cannot be faulted for what has occurred in the past."

"We are trying to bring the city out of its financial crisis. So far, we've reduced the deficit from \$27 million to \$17 million. We have eliminated unnecessary programs, and since I took office we have lost, through attrition, 230 employees."

If necessary, he will cut back on the number of employees to maintain a balanced budget, he said. In addition, he is expecting both state and federal funding to make up the deficit.

"It was like living through Hell..."

These were the words a professional man used to describe a harrowing experience—the recent kidnapping and ransoming of his son. But "Hell" might be putting it mildly. Ever thought it could happen to you, your neighbors, your friends? Imagine, for example, your daughter abducted while at a summer camp, your grandson whisked away from his friendly school bus stop, or your wife vanishing into thin air while on a shopping tour. It could happen.

And the ransom? Maybe the asking price in "small denominations" is \$100,000 — \$250,000 — \$500,000. How would you raise it? Whatever

the means, it could represent a lifetime of hard work and sacrifice down the drain. GONE!

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Kimball says no-fault opposition in Wisconsin 'likely to be futile'

MILWAUKEE, WI.—The Independent Insurance Agents of Wisconsin, at its annual convention here, opposed proposals for federal regulation of automobile insurance.

Instead, the 650 or so agents adopted a resolution calling for amendments to state laws that would improve and expedite the payment of claims.

The resolution, also aimed at reducing the cost of auto insurance, declared that the state should be responsible for correcting the reparation system and "federal intervention must be discouraged under any circumstances." The resolution also said the present Wisconsin contributory negligence law, coupled with "a superior judicial system," has "provided the citizens of this state an excellent automobile reparations system."

IT MADE no reference to no-fault insurance but Dean Spencer L. Kimball of the University of Wisconsin Law School, a nationally recognized authority on insurance, told the agents that no-fault insurance laws eventually would be adopted in Wisconsin.

He guessed that no-fault insurance would be in effect in Wisconsin by 1975. Opposition to no-fault insurance "is likely to be futile," he said. He advised the agents to help develop plans that would be workable and fair under the no-fault concept.

Insurance body is abolished

WEST HARTFORD, CT.—The town council here has abolished the advisory commission on town insurance because of its inactivity.

The council's move to drop the commission was held up because the status of the town's coverage system fell under heavy criticism by some councilmen.

Charles R. Matties, chairman of the council's general government and finance committee, has asked the town's corporation counsel, Edwin Hebb, for an ordinance to authorize the director of finance to draw up specifications, receive bids from insurance agencies and select one to represent the town.

The bidding and the selection of the town's insurance agent was criticized and Mr. Matties said that the proposed ordinance would clarify the matter.

It will take the job away from the West Hartford Insurance Agency Assn., which has been selecting the agent-of-record for many years. The association represents West Hartford-based insurance agencies.

Many top executives of Hartford-headquartered insurance corporations maintain residence in West Hartford.

Nipping subway crime

The London subway transit board is planning to increase the size of its security staff to guard against muggings among 6 million overseas tourists, including many Americans, who will visit Britain this summer. Officials want to control the trend before it reaches the extent of that facing New York transit authorities; so far it is small by criminal standards.

Dean Kimball, who is working on a comprehensive revision of state insurance laws for the Wisconsin legislative council, said uniform, no-fault plans "are highly desirable in an area that involves so much interstate traffic." If states don't seek uniformity, the federal government may do it for them, he said.

The agents' association also adopted a resolution asking Gov. Patrick Lucey to push legislation next year dealing with habitual traffic offenders.

THE RESOLUTION pointed out

that 12 states have adopted laws under which the driver loses his operator's license for five years if convicted of three major traffic offenses or 12 minor violations.

Stanley C. Du Rose, state insurance commissioner, told the agents that employers and unions should exercise greater caution in the administration of pension and welfare funds to avoid violations of state and federal laws. Mr. Du Rose's office runs checks on such funds. He said his examiners have found numerous problems and shortcomings in the operations of the plans.

He also said that his office has received many complaints regarding the failure of employers and unions to provide accurate information to employees. Mr. Du Rose listed these common criticisms:

- Trust accounting practices do not provide adequate records.
- Federal bonding regulations are not being met.
- Assets from two or more trusts sometimes are mixed without authority.
- Trusts fail to file required income tax returns and neglect to apply for tax exemption determinations.

MR. DU ROSE said that the violations were mostly unintentional and resulted "not because of any wrongful act but rather because of trustee failure to take

the proper action."

He reminded the agents that a special committee on private retirement plans, operating under the Wisconsin legislative council, was created by the 1971 legislative session to study the fairness and functions of private pension plans. Federal legislation has been proposed to guarantee the actuarial soundness of private pension plans, he noted.

He said that Wisconsin was a pioneer in the regulation of employee welfare and pension programs and was actively opposed to federal bills that would invalidate state laws regulating such plans.

Wisconsin's law on such funds is broader and more effective than those of any other state or the federal government's, he declared.

GREAT AMERICAN FIRES NO. 1

Print Courtesy Chicago Historical Society



The Great Chicago Fire

Could Ansul Have Prevented the Disaster?

Preliminary reports indicated that the fire was cow-induced, although subsequent investigations never clearly established this fact.

Regardless, had Ansul been asked to conduct a professional hazard analysis of the O'Leary premises we would have made several recommendations. The edifice, being of wood construction and containing large quantities of Class A materials (hay), we would have proposed a water sprinkler system (a most professional move since we don't even make them).

Panic at the Water Works.

In addition we would have sug-

gested a stationary dry chemical hand hoseline system (which we do make). This would have provided first-strike capability, as well as back-up should the water system become inoperable (which it did when the local cisterns dried up).

Hand portable first aid extinguishers (dry chemical) would have been strategically located in the cow-shed to guard against the introduction to the hazard area of flammable liquids such as kerosene lighting appliances.

Can a Simple Irish Lass Find Happiness in Marinette, Wisconsin?

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Fire School to make certain she could react properly in event of emergency. Finally, we would have made sure that the Ansul equipment was properly maintained and periodically inspected by local representatives of our nationwide service network.

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THE ANSUL SYSTEM





National Industries Inc., Louisville, Ky., received a \$100,000 retrospective premium for good experience for the second successive year from Home Insurance Co. Taking part in the presentation were (left to right): Norman Hoffman, corporate insurance director, National Industries; Joseph Gammon, executive vp, National Industries; Cliff Jones, R. B. Jones board chairman and George Halinar, R.B. Jones vp.

Wisconsin opting for state OSHA authority

MADISON, WI.—Wisconsin, not the federal government, should be in charge of industrial safety inspections and administration of the program in Wisconsin, a legislative study committee has decided.

The legislative council's committee on occupational safety and health authorized the state industry, labor and human relations department to continue drawing up a plan whereby the state would carry on its industrial health and safety operations.

The federal government will take over the program next Jan. 1 if state and U.S. authorities fail to reach an agreement. Wisconsin has administered its own job

health and safety programs since long before the federal Occupational Safety and Health Act of 1970 put the U.S. Labor department into the same business.

THE AUTHORIZATION granted by the study committee permits the state industry, labor and human relations department to:

- Continue preparation of a plan by which the state would administer a program similar to the federal government's.

- Seek an opinion from Robert W. Warren, Wisconsin attorney general, on the legality of legislation that would grow out of the state's job safety plan.

Charles Hagberg, head of the department's industrial safety

and buildings division, said the plan would have to be completed by early July to allow time for review before the Jan. 1 deadline.

Mr. Hagberg's division has 38 full-time employees in safety areas covered by the federal law. The state health division has four inspectors in programs which would be duplicated under the federal program.

The federal occupational safety and health administration has 10 Wisconsin employees. If the government were to take over the job health and safety responsibilities of the two state agencies, it would be two or three years before a comparable staff could be developed in Wisconsin, according to Daniel Fernbach, an attorney for the legislative council.

Fernbach reported that Wisconsin spends about \$850,000 a year on programs covered by the federal act. If the state continues the programs, it would be required to hold the spending at the same level but it would receive federal matching funds dollar for dollar so that it would have about \$1.7 million a year to spend on job health and safety, Fernbach noted.

Dr. George Handy, head of the state health division, said his and Mr. Hagberg's agencies were working on a state plan that would be more stringent than the federal government's.

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Billion-plus fraud alleged

MIAMI—A federal grand jury here has reindicted Trans-Continental Casualty Insurance Co., formerly of Nassau, Bahamas, and 11 individuals in an alleged mail fraud scheme that prosecutors described as the "granddaddy of all frauds" involving more than \$1 billion.

The new indictment is an outgrowth of a \$150 million mail fraud case alleged in an indictment returned by a federal grand jury here in January. That indictment was dismissed at the government's request in April after 11 defendants pleaded guilty.

INCLUDED among those who pleaded guilty to the first indictment were Philip M. Wilson and Charles E. (Carl) Brown, who were also indicted in an insurance mail fraud case in St. Louis in 1970. Mr. Wilson, who is free within the jurisdiction of the court on \$100,000 bond, faces a maximum of 40 years in jail and fines of as much as \$17,000 on seven counts of mail fraud and conspiracy.

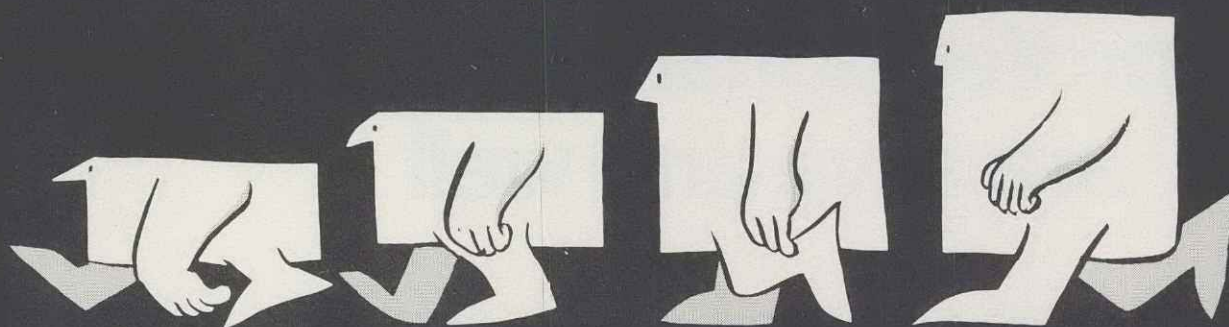
Reindictment of the 11, including fugitives Dr. Clifford Dixon Noe and Bernard Greenberg, was based on the discovery of more than 15,000 documents relating to what the government alleges was a loosely-federated cartel of conspirators.

Officials of the Department of Justice in Washington are considering formation of a special task force to deal with massive financial crimes on an international scale, according to Arthur Tifford, assistant U.S. attorney handling the Trans-Continental prosecution.

New safety exec

John Rheinheimer, has been named vp of safety services for R. L. Kautz & Co., Los Angeles, in the Pinehurst Corp. division, which specializes in management of workmen's compensation self-insurance programs.

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Concern for consumers new theme of regulators

Continued from page 1

has developed liaison with consumers through a number of committees and commissions organized to attack specific insurance problems.

"These groups," the California department reported, "include no-fault advisory commissions, medical malpractice study groups, health insurance study groups, catastrophe insurance, problems of minorities securing insurance, and various groups set up to study property-liability insurance availability."

Insurance Director Millard Humphrey of Arizona says, on the other hand, that, "we have never had a request from consumers of any group for a meeting."

Except for New York, where

William S. Mortimer, director of insurance for Norton Simon Inc. and past president of the American Society of Insurance Management, is a member of the advisory group, none of the 32 respondents mentioned formal or informal liaison with ASIM, the consumer voice for corporate risk managers and employee benefits administrators.

Stiffer regulation of advertising in the accident and health lines is an objective of all commissioners surveyed. Tightened regulation includes adoption of new regulatory laws in 16 states and the consideration of laws to prohibit false and misleading advertising in four other states. Three commissioners have held formal hearings; at least two others have issued formal orders to companies to cease and desist

from false advertising, and four commissioners now require prior approval of mail-order accident and health advertising.

FLORIDA'S INSURANCE Commissioner Thomas O'Malley said, "We have come up with a booklet for the consumer on hospitalization insurance which discusses the misleading advertisements and warns potential buyers of the pitfalls these policies

STATE INSURANCE REGULATION



may contain. The booklet will be distributed in June." Among phrases ruled out by a bulletin issued by Mr. O'Malley's office were "no medical examination

required," "you need not see a doctor," "no salesman will call," "by eliminating the agent we can offer you this low-cost plan" and attention getters such as "this policy will pay up to \$50,000," a phrase Mr. O'Malley regards as "a limitation rather than a promise."

Kentucky's Insurance Commissioner Harold B. McGuffey has conferred with publishers of the Louisville Courier-Journal, his state's largest paper, to set advertising guidelines. South Dakota's Insurance Commissioner Ralph Nauman has sent advertising guidelines to 495 companies writing business in his state. And Pennsylvania's Insurance Commissioner Herbert S. Denenberg has flatly ruled out "dread disease" policies and plans to issue two comprehensive regulations

based upon public hearings he held on advertising practices.

TO ACCOMPLISH their goal of more effective regulation, insurance commissioners are placing increasing emphasis on upgrading their department personnel. About two-thirds of the respondents said that they have gained salary increases for their personnel within the past year in the form of merit raises or cost-of-living increases.

Moreover, they seek to upgrade personnel by conducting in-house seminars and short courses, encouraging attendance at Chartered Property and Casualty Underwriter and Chartered Life Underwriter courses, and the College of Insurance in New York.

Improved personnel selection techniques are also part of the departments' programs, as exemplified by Illinois where 226 of 242 department positions have been filled on the basis of competitive examinations. New York Insurance Superintendent Benjamin R. Schenck employs the technique of campus recruiting followed by civil service examinations.

But this year at least recruiting doesn't seem to be necessary to Kansas Insurance Commissioner Fletcher Bell, who commented, "The overall national economic situation has resulted in a wider selection of applicants."

WEST VIRGINIA'S Insurance Commissioner Dr. Samuel H. Weese relates personnel upgrading directly to consumer orientation:

"As commissioner I have worked hard to upgrade key-men salaries, emphasized hiring young men with exceptional potential but not necessarily strong insurance backgrounds. Then we work closely with them in the early months, and the result has been development of a bright young staff who are consumer oriented and productive with no alliance to the insurance industry."

Efforts to upgrade department personnel are hampered in a number of states by legislative red tape and the reluctance of legislators to adequately fund insurance department operations. Operating budgets range from lows of 1.6% of taxes and fees collected in Alabama and 2% in California and Georgia to highs of 8% in Washington, 7.4% in Illinois and 7% in New York.

Oregon's Acting Insurance Commissioner F. Frank Howatt, whose department budget is about \$640,000, said, "We do not consider meaningful the percentage relationship between the budget amount and the revenue collections."

RATE HEARINGS, except for such lines as workmen's compensation, assigned risk plans and Blue Cross and Blue Shield health insurance plans, have been phased out in most states by open competition rating laws, though many commissioners in file-and-use states maintain inspection authority over rate filings.

The effectiveness of the profitability study now being prepared by the NAIC central office is put in question by the responses of many commissioners. Only four of the respondents said that they definitely plan to use the data on profitability in the property-liability insurance industry. Others said they must see the results of the study before they decide to apply it in their states.

Continued on page 29

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Van Hooser charts new paths for state regulation

By RICHARD BJORKLUND

DETROIT—Russell E. Van Hooser, Michigan's young commissioner of insurance, is scheduled to be elected this month to be the 1972-1973 president of the National Assn. of Insurance Commissioners at the NAIC annual meeting in Denver.

As NAIC president, Mr. Van Hooser will have an important impact on the course of state insurance regulation and the way insurance regulation is felt by insurers and consumers alike.

To give *Business Insurance* readers the trend of Mr. Van Hooser's thinking, we interviewed the commissioner at length in the Detroit Metropolitan Airport between his appearance at an American Insurance Assn. panel discussion in New York and a dinner appointment in Ann Arbor with West Virginia Insurance Commissioner Dr. Samuel Weese.

Here are his responses:

QWhat should be done about marginal advertising of accident and health insurance policies through direct mail and newspaper solicitations?

AThis is a problem that requires insurance commissioners to take a continuous look at what we're doing. We establish better regulation by watching complaints to detect areas that people are not understanding. What is to be permitted has to be reviewed in this light. NAIC's advertising guidelines can't be standards for every state. If I could be philosophical for a moment, I suggest that NAIC is like feudal England where all the barons occupied their own castles. It's up to the individual states to administer advertising regulations appropriately.

QWhat relationship will insurance commissioners have to the Price Commission in its operations under Phase II of the President's economic program?

ANAIC already has played a significant role. Under Phase I it was simple. Say "no" and you were right. Phase II means ongoing regulation of prices. California Insurance Commissioner Richards Barger (current NAIC president) and I were concerned about the creation of a mechanism in Washington to review prices and rates in insurance. Such a mechanism could become a permanent part of the Washington scene. Therefore, NAIC leaders met with the Price Commission to try to convince them that NAIC and the individual insurance commissioners would be a viable vehicle to implement insurance pricing policies. We worked hard on pulling together guidelines on how the price regulations were going to be administered. Thirty-eight insurance departments were represented at a January meeting in Chicago where we finalized guidelines with representatives of the Price Commission. Pricing since then has been handled in the state insurance departments.

QDoes this administrative activity pose problems for the individual commissioners?

AIt represents some more work, but we're used to that. In Michigan in the property-liability field, we had by May 15 received 93 premium increase filings, and about 40 of these were in the workmen's compensation area in which increases are based upon revisions in state laws. Therefore, we processed about 50

filings in property-liability and about four in the life and health lines. While it has been extra work, it hasn't been an overwhelming burden. There are several states, I suspect, that haven't yet had to pass upon filings under the Price Commission guidelines.

QWhat is NAIC doing to combat criminality in the insurance business?

ANAIC has authorized an investigative position on our national headquarters staff in Milwaukee. This is an area we realize we have to get into, but it's a question of priorities. This is something we've got on the back burner right now. There are some situations in many areas, insurance and others, where state law is not capable of taking care

of the problem. Mail fraud is one of the federal laws that is necessary. We want to develop the kind of cooperation and working arrangement on the state and federal levels to see that people engaged in wrongdoing are punished. A recent example of this cooperation was the crackdown on pyramid selling schemes.

STATE INSURANCE REGULATION



QWhat can be done to punish those who deliberately bankrupt insurance companies?

ANAIC might make penal provisions part of our model insolvency code which is now

undergoing revision. We can also bring civil suits against those who bleed insurance companies into bankruptcy to make more whole the unsatisfied claimants. We had a case in Michigan in which we got a substantial award from insurance company operators to meet unsatisfied judgments.

QWhat is your attitude toward the practice of having insurance companies man the press room of NAIC annual and mid-year meetings?

ANAIC's executive committee recently appropriated funds to hire people independent of the insurance industry to run the press room at our upcoming Denver meeting. This question was raised in Miami where the only really hard news and hard infor-

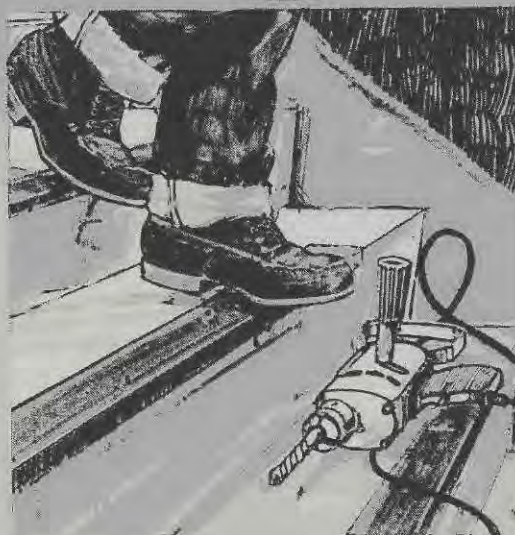
mation came from the company people. We feel this is a bad situation and one that ought to be corrected. And we're taking steps to correct it by having NAIC people in the press room.

QHow do you feel about gaining greater liaison between consumers and insurance commissioners?

AIn Michigan we feel that we achieve rapport through our State Consumer Council, a body provided for by law and appointed by the governor. The council has its own staff and the insurance department works with it on matters of insurance legislation as well as on complaints they may receive about insurance matters. For example, the council endorsed a no-fault

Continued on page 28

Will you be the fall guy?



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O'Connell proposes no-fault household product insurance

NEW YORK—The college professor who was instrumental in initially promoting the concept of no-fault automobile insurance has called for no-fault household product safety insurance that would pay victims of product injuries promptly through their health insurance plans and give the health insurer the right to subrogate against manufacturers.

Prof. Jeffrey O'Connell, who teaches law at the University of Illinois, made the suggestion at a conference for consumer journalists held late last month at the Columbia University School of Journalism here. He said that it would likely elicit angry opposition from trial lawyers and manufacturers, but he contended that the present system of forcing victims of home accidents to sue for compensation in long, expensive court cases is indefensible. "It makes the system for compensating victims of auto accidents look good," said the legal professor.

PROF. O'CONNELL suggested that a list of "actuarially predictable" household accidents and their causes could form the basis for special payments to be made to

victims through their health insurance plans. The list, he said, could possibly be drawn from the 1970 report of the National Commission on Product Safety.

CITING several examples, Prof. O'Connell said that a person who caught a sleeve on a lighted stove, was severely cut after running into a nonsafety glass door, was blinded by a mishap with a toy or suffered any other common accident on the list, would be quickly and automatically compensated by the health insurer.

The health insurer, in turn, could then sue the manufacturer of the product in question for compensation, he said, adding:

"The argument about who would pay would be between the big boys, who can afford to negotiate for years."

A spokesman for the National Assn. of Manufacturers, who was also appearing at the conference, immediately took issue with Prof. O'Connell's plan.

Stanley Groner said that one major problem with such a system would be that most home accidents are caused by human error or carelessness, not defective products. ■

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london line

Bomb scare on Queen Elizabeth 2 may bring tight security for liners

LONDON—Security measures are being stepped up on the Queen Elizabeth 2 after its mid-Atlantic bomb scare. The \$80 million liner is insured in Britain for approximately that amount with Lloyd's and insurance companies. But this is for hull cover only, and a total loss, involving lives, could naturally bring high insurance claims.

Armed security guards may be recommended on this and other major liners if bomb threats are repeated. One suggestion is that it would be helpful to have guard dogs and trained bomb disposal experts on the spot on board on vulnerable liners so as to save specialists being flown thousands of miles by military aircraft and parachuted into the sea as happened with the QE 2 through cooperation with the British Royal Air Force.

When Victor Matthews, Cunard chairman, was asked if the \$350,000 ransom money would be covered by insurance if paid over, he replied: "I will have to look at the insurance policy, but I don't think so." It was felt the amount demanded was small compared with the amount involved in loss of the liner and human lives if the threat was genuine so appropriate steps had to be taken as a matter of urgency.

* * *

TEN EXPERIMENTAL safety autos are being built by the Swedish Volvo group to comply with growing international demands. They will cost at least \$25,000 each in the prototype stage, and will be used to test safety equipment that might be used on future production autos for the U. S. and other markets.

The Financial Times comments: "Safety is clearly going to become a major issue in Europe, just as it has been in the U. S., but it is unlikely that European governments will ever tolerate standards as severe as those proposed in the U. S."

It takes the view that with small-sized autos still popular in many European countries, it would be difficult to switch production lines to larger and stronger vehicles for safety requirements, without limiting the number of people who can afford to buy them.

* * *

LLOYD'S FACES claims for the disaster in the River Plate off Montevideo in which two ships collided.

The Royston Grange, 9,035 tons, which was towed ashore after 74 crew members and passengers were killed, had an insured hull value of \$2.6 million, of which 25% is with Lloyd's. The Liberian tanker Tien Chee, which lost eight crew members in the blaze, has a hull value of \$2.5 million, of which Lloyd's has 25% thru reinsurance.

Marine experts are now trying to find whether severe heat, or gas escaping from a refrigeration unit, killed the people on the British tanker. A Lloyd's Register spokesman said the refrigerant was a freon gas that is normally harmless, but might turn into a lethal phosgene-type gas if overheated.

Also on the shipping front Justice Henry Brandon has completed a probe lasting 47 days in Britain's marine court into the loss of the tanker Mactra, 205,000 tons, in the Mozambique Channel in December, 1969. It is the biggest disaster probe on record in Britain, and took 11 days longer than the official inquiry 60 years ago into the loss of the Titanic. Justice Brandon will report to the government on safety prob-

lems in giant tankers like the Mactra, which blew up in an explosion that has perplexed marine insurers despite intensive efforts to solve it.

* * *

COMMERCIAL Union Insurance Group has decided to stop accepting certain classes of risks through its subsidiary corporate, Employers' Surplus Lines Insurance Co., Boston, Ma.

A London-based spokesman told

Business Insurance: "Investigations into its claims experience in these classes of business show that there is likely to be a deterioration to a greater extent than had been recognized at the end of last year. I am unable to say exactly what risks are involved, but it would be fair to say that generally speaking we are tidying up its portfolio."

The warning that Employers' Surplus Lines might have to reduce exposure to certain risks was given earlier this year by Ronald C. Brooks, Commercial Union chairman, about ten months after taking over control of Employers' Group Associates in the U. S. last year. Employers' Surplus is a subsidiary.

Mr. Brooks explained: "This specialist company made a statutory underwriting loss of \$6.1 million last year. The nature of its business is such that there can be considerable delay between

the occurrence of some claims and their being reported and quantified, particularly those arising under excess of loss liability covers.

"The cost of these late claims increased very considerably in 1971 due to inflation. Arrangements are now being made to cease accepting risks in certain classes of business.

"The exact amount which will be required to cover terminal claims arising from the run-off of this business cannot be determined for some time, but an amount of \$2 million has been set aside from reserves for this purpose."

Employers' Surplus Lines, however, will stay in existence as a specialist insurer and reinsurer. It is believed its main problem, which clearly came to light after Commercial Union acquired it, has centered around late claims in liability and other risks. ■

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The Performance Plus People

editorial opinions

New era for state insurance regulation

THIS ISSUE of *Business Insurance* carries special reports on the condition of state insurance regulation, including an interview with the incoming president of the National Assn. of Insurance Commissioners, a survey of what individual commissioners are doing in vital areas of regulation, and a report on the activities of the national office of NAIC.

Russell Van Hooser, incoming NAIC president, set the tone of the new era in insurance regulation in an extensive interview with this magazine. Mr. Van Hooser, who wears no man's collar, asks some searching questions about how the consumer relates to the practices of insurance companies. For example, he questions whether insurers can retain their traditional prerogatives in underwriting if the consumer is required by law or economic necessity to buy insurance coverage.

To many insurers Mr. Van Hooser's questioning of underwriting practices is tantamount to heresy. "Don't mess with our underwriting," they say, adding that insurers also don't want regulators to take any of their premium dollars for such frivolous uses as fire marshals' taxes, guaranty funds and the like. Moreover, the insurers say, they are tired of having to put up with assigned risk plans in the auto insurance area and the FAIR plan in fire insurance underwriting. This, they contend, is interfering with a free enterprise industry that is not a public utility.

On the other hand, Mr. Van Hooser and many of his fellow commissioners strongly believe in the concept that insurance in our society should be available to every individual and business because contemporary society imposes insurance requirements by law or economic custom.

This fundamental difference of opinion about adjusting the balance between the traditional rights of the insurance companies and the present-day requirements of policyholders underlies what we see as a new era in state regulation

of insurance.

In this new era the conscientious regulator of insurance does not simply counsel with those who plead that conditions in the insurance industry forbid this or that action. Rather, the conscientious regulator concerns himself with balancing the requirements of the consumers with the historical practices of the insurance companies and their agents. If a dispute arises, as it does quite frequently these days, the thoughtful regulator adjusts the differences even handedly, with full consideration for the rights and requirements of both parties.

This even-handed approach has brought some unpleasant crackdowns

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on the mass marketing of health and accident insurance policies through mail-order solicitations and newspaper advertisements. Even Joe B. "Nobody Loves Him But the People"

Hunt, the eternal commissioner in Oklahoma, has issued an order to National Home Life Assurance Co. to stop soliciting insurance sales with pitches from Art Linkletter, who, Joe B. points out, is not licensed to solicit insurance in the great state of Oklahoma. Yet Illinois—as demonstrated by the Chicago Daily News ad of last month reproduced in this column—continues to allow non-agents to make compelling sales statements about the worth of such policy offerings.

That Oklahoma prohibits such practices and Illinois permits them is a mark of the changing face of state insurance regulation. It will take some time—perhaps a decade or more—to turn every state regulator into an even-handed administrator. After all, the insurance industry has uncritical supporters at every level of the state regulatory machinery because so many appointive and elective insurance regulatory officials come from the insurance industry

and confidently expect to return to it—at higher salaries—when their terms of public service are over.

Perhaps there is no way to avoid appointing officials with experience in the insurance industry to regulate the industry. But it has always struck us that insurance, more than most businesses, imagines itself as something as complex as nuclear physics, a business that only insiders can understand and wholly appreciate.

Hundreds of highly competent corporate risk managers have proved this proposition to be untrue. Most risk managers, and employee benefits administrators for that matter, had little or no background in the insurance business when they assumed their present positions. Yet they have effectively founded the new science of risk management, which demands more service and more competence from both insurers and producers. They have shown those insurers who are narrow-minded that it is possible to turn to self-insurance, to turn to captive companies, to turn to high retentions, to turn to special service organizations and consultants and come out of these innovations with a better and more economical risk management program than was possible under some programs in which commercial insurance covered all corporate risks.

That's why a new era in state insurance regulation is welcome. It should be an era in which traditional approaches are questioned in favor of more incisive thinking on insurance regulatory matters.

The National Assn. of Insurance Commissioners has been singularly fortunate in having three consecutive leaders of the stature of Richard Stewart of New York, Richards D. Barger of California and now Russell Van Hooser of Michigan.

Such leadership muffles cries for federal regulation, and may soon force Art Linkletter to leave the insurance field for his accustomed place as an overly sincere television performer.

letters

(This column is a readers' forum. Letters are welcome. Address: Letters to the Editor, Business Insurance, 740 Rush St., Chicago, Ill. 60610.)

Dental pains

To the Editor: The April 10 issue of *Business Insurance* carried an article (page 4) entitled "Dental cover has its growing pains; some see limited government role."

It was reported that "there is a lack of experience with premiums (usually \$25 to \$35 a month with an employee paying about 25% of charges for fillings, extractions, etc. and more for special work)." Can you supply us with reference material in evidence of this statement?

The article also indicated that dental groups and insurers "feel that once the initial waves pass and those covered are in better dental shape the plans can operate in the black at reasonable rates." Do you know the basis for this contention?

For your information, we do not currently offer a dental insurance benefit. One of the difficulties that has confronted us is the lack of usable statistical information regarding frequencies of utilization of various dental procedures. We would be grateful for any data that you could provide which pertains to these matters, and for the complete details concerning the Kennedy-Griffiths bill.

R. L. Worrall

Group Product Analyst, Group Insurance Actuarial Department, Sun Life Assurance Co. of Canada, Montreal

Editor's note: The statistical reference information you are seeking, as well as information on the Kennedy-Griffiths bill, is available from the Council on Dental Care Programs, American Dental Assn., 211 E. Chicago Ave., Chicago, Ill. 60611.

Joining the group

To the Editor: It would be appreciated if you would advise me how to obtain an application for membership in the American Society of Insurance Management Inc. Thank you for your prompt response to this inquiry.

B. N. Cohen

Assistant to Secretary-Treasurer, Sun Electric Corp., Chicago

Editor's note: Application for membership in ASIM may be obtained by writing ASIM, 500 Fifth Ave., New York, N.Y. 10038.

Francis reprints

To the Editor: I was wondering if you have a reprint of the entire series of Bion Francis perspective articles available. If you have not reprinted the series I would like to order a copy of each issue containing the series.

Thank you for your assistance in sending this series along to me.

E. Joseph Acciavatti

Associate Manager, Special Accounts Insurance Department, Hartford Insurance Co., Hartford, Ct.

Editor's note: We are sending you copies of each of the Bion Francis articles which have run as a series in our Perspective section. Although we are not making series reprints available in a group at this time, we will do so should enough readers request them.

Continued on page 36

business insurance

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Correspondents: San Francisco: KENNETH R. MACDONALD (415-474-8532). Minneapolis: ROBIN SUHRBIER (612-786-5483). Hartford: ALLEN M. WIDEM (203-232-3101). And in all principal cities.

Contributing Editors: ROBERT ABRAHAMSON, insurance manager, Control Data Corp., Minneapolis. J. E. BENOIT, J. E. Benoit & Assoc., St. Leonard, Quebec. DONALD BERRY, vice president, C. B. Lilly Inc., East Orange, N. J. WARREN G. BROCKMEIER, director-western region, risk management dept., Ebasco Services Inc., Chicago. HAROLD A. CLARK, senior consultant, Peat, Marwick, Mitchell & Co., Newark, N. J. BION H. FRANCIS, insurance consultant, Milford, Conn. JOHN W. GILES, attorney at law, Washington, D. C. JOSEPH GULLO, vice president of insurance, D. H. Overmyer Co., New York. NORMAN HOFFMAN, corporate insurance director, National Industries Inc., Louisville, Ky. PAUL C. JOHNSON, insurance division, U. S. Maritime Administration Washington, D. C. ROBERT J. KAMIN, partner, Gofen & Gossberg Investment Counselors, Chicago. CHARLES LEVINSON, director of insurance, United Brands Co., New York. NED MILLER, vice president, Compensation Planning Corp., New York. J. P. OLSEN, assistant counsel, Ingersoll-Rand Co., Woodcliff Lake, N. J. HOWARD L. PECK, partner, Hewitt Assoc., Deerfield, Ill. WILLIAM H. RODDA, president, Marine Insurance Handbook Inc., Chicago.

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following the funds

N.Y. bank pension account had an average return of 22% in 1971

NEW YORK—A major New York bank has disclosed that the common stock return of 40 selected pension funds it manages had an investment return averaging 22% last year.

In an unrelated development, a second New York bank has been sued for \$5 million by trustees of a Teamsters union pension fund who charge that the bank mismanaged its fund, resulting in a \$5 million asset loss.

Manufacturers Hanover Trust Co., which had the good news to report, becomes the second N. Y.

financial institution to disclose fund performance information. The gain, including income and price appreciation, compared with a 14% increase for Standard & Poor's index of 500 stocks and 9.8% for the Dow Jones industrial average.

According to Hanover Trust, the common stock gain of the same 40 funds averaged 10% over the past five years compounded annually. The 40 funds represent \$2 billion of the \$25 billion in assets the bank's personal trust division holds.

"Our performance," said C. Roderick O'Neil, Hanover's executive vp in charge of the trust division, "compares favorably with the market and, from what we can tell, with the performance of mutual funds and other institutional managers."

The disclosure by the bank of its investment performance follows a growing trend by money managers to publicize what was formerly closely held information, and is a direct result of the increased demand for pension fund performance, which has led

to keen competition among money managers for chunks of the \$135 billion private pension fund asset pool.

First National City Bank, New York, initiated the trend last year when it reported the investment performance results of its Stock Common Trust Fund, a pooling of some 250 employee benefit accounts. Investment return touched 23% in 1970 for that fund.

First National City, reporting the performance results for the same fund for last year, announced a few weeks ago that the fund returned 22.79%.

MANUFACTURERS Hanover also disclosed the extent of its 20 largest stock holdings for which it has investment management responsibility. As of March 9, the bank held 1.7 million shares of International Business Machines Corp., its largest single holding. Other major holdings include

Eastman Kodak Co., General Motors Corp., Standard Oil Co. (New Jersey), Xerox Corp., Avon Products Inc., General Electric Co., Johnson & Johnson, Schering-Plough Corp. and Sears, Roebuck & Co.

IBM is also First National City's largest stock holding. On Dec. 31, it held 2.453 million shares. Others leaders in its advisory and trust account portfolios were Xerox, Kodak, Avon, Coca-Cola Co. and GM.

In the legal development involving Bankers Trust Co., seven trustees of the pension fund of Local 701, Mid-Jersey Trucking Industry have brought suit in federal district court here.

THE TRUSTEES, represented by the law firm of Julien, Glaser, Blitz & Schlesinger, charge that the pension fund, which the bank managed from 1958 until August, 1969, had an annual rate of return of .7% and "capital accretion far below similar funds or investment trusts."

In legal papers filed, the trustees assert that the fund was damaged by \$5 million and allege that the bank invested the funds in highly speculative situations unfit for trust accounts. The trustees also charge that the bank directed part of its brokerage business to securities firms that maintained accounts with the bank and thus engaged in conflict of interest.

Switches to federal health check

HARRISBURG, PA.—After June 30 there will be only one state inspector checking industrial plants in Pennsylvania for health hazards. Presently there are 38 such inspectors, but Gov. Milton J. Shapp, in an economy move, has decided to turn the occupational health program over to the federal government. However, the federal government has only four inspectors for Pennsylvania, four other states and the District of Columbia.

The result of this situation was assessed by Dr. Maurice K. Goddard, state secretary of environmental resources, who said, "Workers are not going to have adequate protection after July 1."

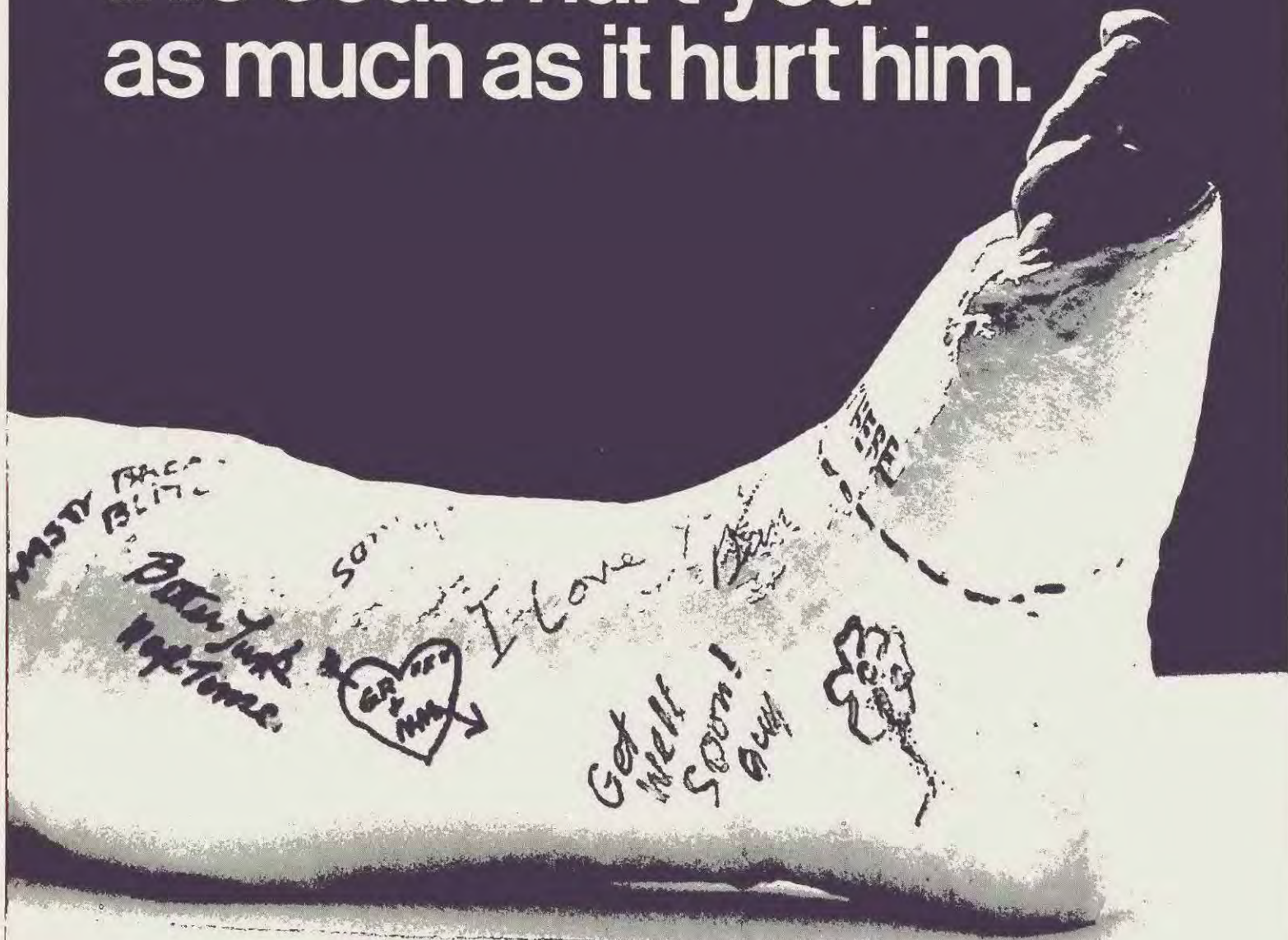
Wesley Gilbertson, deputy secretary of environmental protection, said the program would "drop disastrously" in the coming fiscal year, and estimated it would take several years for the federal government to build up its program to the strength of the present state program.

MR. GILBERTSON said the state agreed last year to run the \$1.1 million program and received 50% federal funding. Under federal legislation, a state can choose to turn over an entire occupational health program to the U. S. Department of Labor.

In the midst of planning for this program, Mr. Gilbertson said it was knocked out by the governor's office and that the Labor department was "astonished" to learn it was to assume the program on July 1.

He commented that "even with the staff we've got, we don't feel we're doing everything that needs to be done." The state department reported carrying out some 9000 inspections involving 450,000 state workers during 1971, and violations were found in about 10% of the cases. They involved exposure to fumes, dust, noise and lasers.

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UNDERWRITERS
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HMO project underway in Twin Cities area

NEW YORK—Within the next 10 years, the Health Insurance Assn. of America estimates that 50 million to 100 million Americans will be covered for health care under health maintenance organizations (HMOs) offering medical services for a fixed yearly fee.

Currently, HMOs serve only a small percentage of the population, but stepped-up development programs throughout the country are being sponsored by both governmental and private groups seeking improved methods of health care delivery and reduced medical costs.

The most comprehensive plan underway by the private sector is a proposed HMO in Minneapolis and St. Paul having the potential of serving the major portion of the total population in the Twin Cities' metropolitan areas.

More than 17 sponsors have agreed to contribute manpower and financial support of up to \$40,000 a year to the two-year development project designed to establish the feasibility of the HMO and to provide subsequent planning coordination.

ALTHOUGH The Equitable Life Assurance Society of the U.S. is listed as just one of the 17 sponsors, the project is a realization of plans begun more than three years ago by the insurance company when it started serious exploration into its role in health care systems.

Equitable prefers to regard its part in the project as that of catalyst. "When we let it be known that we were interested in health care ideas, we were flooded with over 100 inquiries," noted Howard Ennes, vp. "Eventually we became involved in discussions in Minneapolis because we felt there was a real potential in the area."

"We decided early on that we would have a non-proprietary role," explained Dr. Leon Warshaw, vp and chief medical director, involved with the project since inception. "HMOs haven't reached the point where they can be delivered on a fried chicken method of marketing. They have to be tailored to fit the community."

Supported entirely by the private sector, the project is being administered by the Upper Midwest Council, a private non-profit research and development corporation.

"The operation of the health care plan which is the successor to the project is also envisioned at the moment as a not-for-profit community operation," added Dr. Warshaw.

ACCORDING to Equitable, all insurance carriers in the area will be able to market the program. "In this type of operation, insurance companies serve an important function by operating as clearinghouses for information," Mr. Ennes noted.

Various provider groups such as medical clinics and hospitals are being approached to participate. "Under the plan, we hope to have an intermediate number of provider groups, each being autonomous and independent, offering a different range of services. Their HMO rate will depend upon the services, and participants may subscribe to different groups. However, each provider group must offer a certain basic level of performance," said Dr. Warshaw.

Based on estimates from similar operations, Dr. Warshaw feels that \$200,000 to \$400,000 will be needed to fund the project for

two years.

"We have a living budget, though. As the number of sponsors grows, the individual contributions diminish," he noted. "Any organization has the ability to sponsor the project. Some contribute freely on a non-returnable basis. Others, because of their charters, are investing with the understanding that when the succeeding corporation is established to assume part of the development costs, some of the surplus will be used to pay them back."

THE TWO-YEAR limit is arbitrary—but final. If a workable plan has not been devised after the time limit, the project will be scrapped. "We call it a built-in self-destruct mechanism," Dr.

Warshaw commented.

"It is intended to produce a workable program. However, the response has been so great by the groups that the self-imposed limit may be considerably shortened," he added. "Of course, every sponsor has been made to understand there is a possibility that the study may show that the idea is unfeasible. The risk is there, but it has been accepted."

The strong emphasis on community participation is evident in the planning phase. Warren Eustis, special counsel to the Upper Midwest Council and director of the project, reports directly to the sponsors' representatives and has been given the power to create ad hoc committees from the community.

To ensure broad input into the

system, Mr. Eustis announced creation of a policy advisory committee comprised of individuals nominated by such concerned groups as consumers, management and labor to make recommendations on all broad policy decisions.

"THIS BRINGS in the opinions, attitudes and needs of the community before the plan is promulgated. Future subscribers have a voice in the matter beforehand," said Dr. Warshaw.

The ultimate advantage of an HMO compared to the normal fee-for-service arrangement is that it focuses on health rather than illness, he noted. "Since costs are prepaid, an individual is encouraged to seek treatment at the first sign of sickness. You

don't have the barrier of locating a doctor, and once you have entered the system there is a planned referral program," Dr. Warshaw explained. "This type of program aids the community by reducing absenteeism and increasing productivity."

An educational program is an integral part of the plan, he added. The individual must be informed as to how to enter the program and how to use it. In addition, a preventive health maintenance program will be offered to all subscribers.

"Everything is in the process of creation though. The range, the cost projections—these have to be figured out," noted Dr. Warshaw.

Alternatives open to the de-

Continued on page 22



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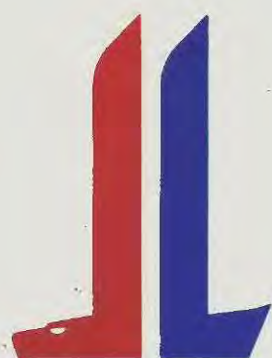
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New York legislature has killed auto insurance reform for 1972

ALBANY, N. Y.—No-fault automobile coverage, in any form, is a dead issue in New York this legislative year.

A modified auto insurance reform measure that had the backing of Gov. Nelson A. Rockefeller and his insurance department was defeated 33-22 in the state senate early this month.

The defeated measure, which had been introduced in March by Bernard G. Gordon, Republican

state senator from Peekskill, chairman of the senate insurance committee, left Gov. Rockefeller without any "acceptable" auto insurance reform legislation to endorse. He had announced some time ago that enactment of auto insurance reform would be one of his top priorities this legislative session.

THE ASSEMBLY also defeated another piece of no-fault legislation sponsored by Thomas Laverne, Republican state senator from Rochester. The measure had passed the senate 42-13. That bill retained the fault approach in motor vehicle accidents, while offering the option of some immediate benefits. The key difference

between the two, however, was that the Gordon bill permitted suits for "pain and suffering" if a person was disabled for 30 days, while the Laverne measure permitted such actions after disability for "a period of time."

Mr. Gordon's measure had the general approval of many risk men who insure fleets of trucks and buses (*Business Insurance*, Feb. 14).

Unlike the so-called "Stewart Plan" which initially addressed the no-fault issue in the Empire State, the Gordon measure did not discriminate against commercial fleets. The plan drafted by former superintendent of insurance Richard E. Stewart would have held trucks and buses abso-

lutely liable in motor vehicle accidents.

The Gordon proposal, however, did contain a clause that would have allowed for subrogation by insurers in accidents involving trucks or buses and private passenger vehicles. The latter, that is, would have been able to recover on a fault basis from the truck's insurer or, in the case of self-insured fleets, from the truck and bus operators themselves.

INTERESTINGLY, the dialogue that was exchanged on the senate floor prior to the Gordon bill's defeat did not center around the issue of no-fault so much as it did around the vested interests of those opposed to the measure.

Legislator after legislator rose to his feet during the senate debate to attack the measure and deny contentions that because so many law makers were lawyers the killing of the bill was really

a matter of self-interest.

"Everyone has a right to fight for his livelihood," Brooklyn Democrat Edward S. Lentol declared angrily. He was referring to auto negligence attorneys who lobbied heavily against the Gordon bill. Many of these lawyers filled the gallery during the four-hour debate prior to the vote.

Of 57 N. Y. state senators 40 are attorneys and two are in the insurance business, a fact that Mr. Gordon repeatedly emphasized as being a major hurdle to his legislation.

According to some members of the senate, the lobbying by state trial lawyers included steak and lobster dinners and, noted some, out and out threats of re-election opposition. This is not unusual in state politics, of course, but it is particularly effective when such threats are issued by such a politically powerful faction as bar groups.

College fund gained 18%

NEW YORK—The College Retirement Equities Fund with assets of \$2.1 billion reported a gain of nearly 18% for 1971 which was considerably higher than those reported by the largest mutual funds with similar objectives or the Dow Jones Industrial Average.

Established to provide a variable retirement benefit to educators, the fund now serves over 2,400 U.S. and Canadian schools. The operating head of the organization, the Teachers Insurance and Annuities Assn., provides members with a fixed pension.

Compared to a 6.2% decline in 1970, the fund's improved performance in 1971 was attributed to increased investments in growth stocks and in companies with strong cyclical components.

If dividends were figured into the 18% return, the fund would have realized 20.25%. In the same time period, Dow Jones reported a 6.1% return, while the 10 largest mutual fund counterparts gained 13.8%.

HMO ...

Continued from page 19

development project include placing a minimal financial responsibility on the subscriber for each visit, such as \$1, requiring some form of co-insurance and offering an optional premium to cover catastrophic illnesses.

THE HMO will probably operate at a deficit for some period of time. "The project is expected to identify these needs and find the resources until the time it reaches a break-even point," he commented.

Since the plan is intended to be self-sustaining from the premiums, every subscriber is expected to pay his freight. Individuals covered by Medicare or Medicaid can have their subscriber fee paid by the appropriate government agency but will not receive a discount rate.

"There are many potential roles for insurance companies to play in the area of health care delivery. This is just one of them," said Dr. Warshaw. "It is a challenge to delineate our responsibility. Usually insurance companies have done the marketing and the actuarial function, some of the risk taking and some of the reinsurance.

"The health insurance industry in the past has been serving as a conduit for funds, and legal problems prevented us from doing anything about unwarranted costs.

"Now we are exploring a variety of methods as a means of controlling these costs instead of being called in after the fact." ■

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Reinsurer looks to technical risk bureau for aid

TEL AVIV—Insurers ought to start thinking of setting up a new type of technical bureau to assess risks in industrial complexes and keep control of the premium ratings involved.

This opinion was expressed by Julius A. S. Neave, chairman of the Reinsurance Offices Assn., at a special seminar of the Israeli Insurance Institute on the international aspects of risk prevention.

Mr. Neave told delegates: "There is no doubt that industrial fire business and the whole area of liability cover are contributing a major part to reinsurers' current problems. Such a technical bureau might lay down standards for new construction and materials, and bring reinsurers close enough to property and

loss-of-profits business in the fire sector to keep suitable control.

"**IT COULD BE** built up as a scientific agency, perhaps on similar lines to those adopted by Lloyd's Register of Shipping, so as to grant suitable ratings like 100A1 for industrial complexes the world over."

But quite a different approach is needed in the field of liability cover, declared Mr. Neave, who put forth this view:

"The only certainty is that the price of liability cover is vastly under-costed by direct insurers. It is often said that all risks are insurable at a price. I sincerely doubt whether in the climate of today this is healthy. It encourages unsound and untried enter-

prise, and is therefore an abuse of the public interest."

Dealing with thalidomide claims, and similar liability problems of importance to risk managers, Mr. Neave declared: "At one end of the scale insurance is being used as a substitute for the kind of research program that would establish beyond all doubt the safety of drugs freely on sale to the public.

"**AT THE OTHER** end it is used as a protection against the trading risk inherent in all enterprise. In between these two extremes, cover is more freely available than it should be in the present circumstances of technological change.

"Too often protection is sought just because the assured, through

his professional knowledge of the subject matter involved, knows in a way denied to underwriters that a risk, however remote, does exist.

"For the underwriter with no such intimate scientific understanding the situation may seem deceptively simple."

He challenged the high-degree hazards involved in pollution liability, and asked: "Who is outgeneralling whom? Are the mogul oil giants winning, and the titanic chemical corporates gaining supremacy over insurers who, unable to assess the risk, must nonetheless give cover to hold the more attractive lines of business and do their best with reinsurance?"

"For the reinsurer the dilemma stands out in stark reality, but I

believe a technical bureau could be put to good use in this field as well. It could determine loss potential, and insist on adequate research testing and trial before issuing protection on the vast scale currently in such demand."

Staff of any technical bureau would need careful selection and might have to concentrate on selected areas of risk, but in the end they could assist top management to get sounder cover at proper terms, Mr. Neave asserted. ■

Trade spies posing as OSHA men

WASHINGTON—As if those people who have to comply with the Occupational Safety and Health Act, as well as those who must administer it, didn't have enough problems, along comes word that your friendly OSHA compliance officer might be an industrial espionage agent in disguise.

George C. Guenther, assistant secretary of labor for occupational safety and health, has issued a warning to businessmen that some imposters posing as safety inspectors have shown up at various plants. Representing themselves as being from the Labor department, the imposters have taken advantage of the provision in the law that allows for OSHA inspectors to arrive unannounced at industrial sites.

"**EMPLOYERS** should carefully check the credentials of inspectors before letting them into their plants because there have been instances where some of these inspectors have been fraudulent," Mr. Guenther stated. He added that legal action was pending in several cases involving the imposters.

He believes that industrial espionage and trying to get trade secrets were behind some of the impersonations. ■

Insurance is a "nuts-and-bolts" matter for every business. For Mohawk Data Sciences Corporation, an international manufacturer and distributor of electronic data processing equipment, The Home's Industrial Policy program is fitted perfectly to their operations.

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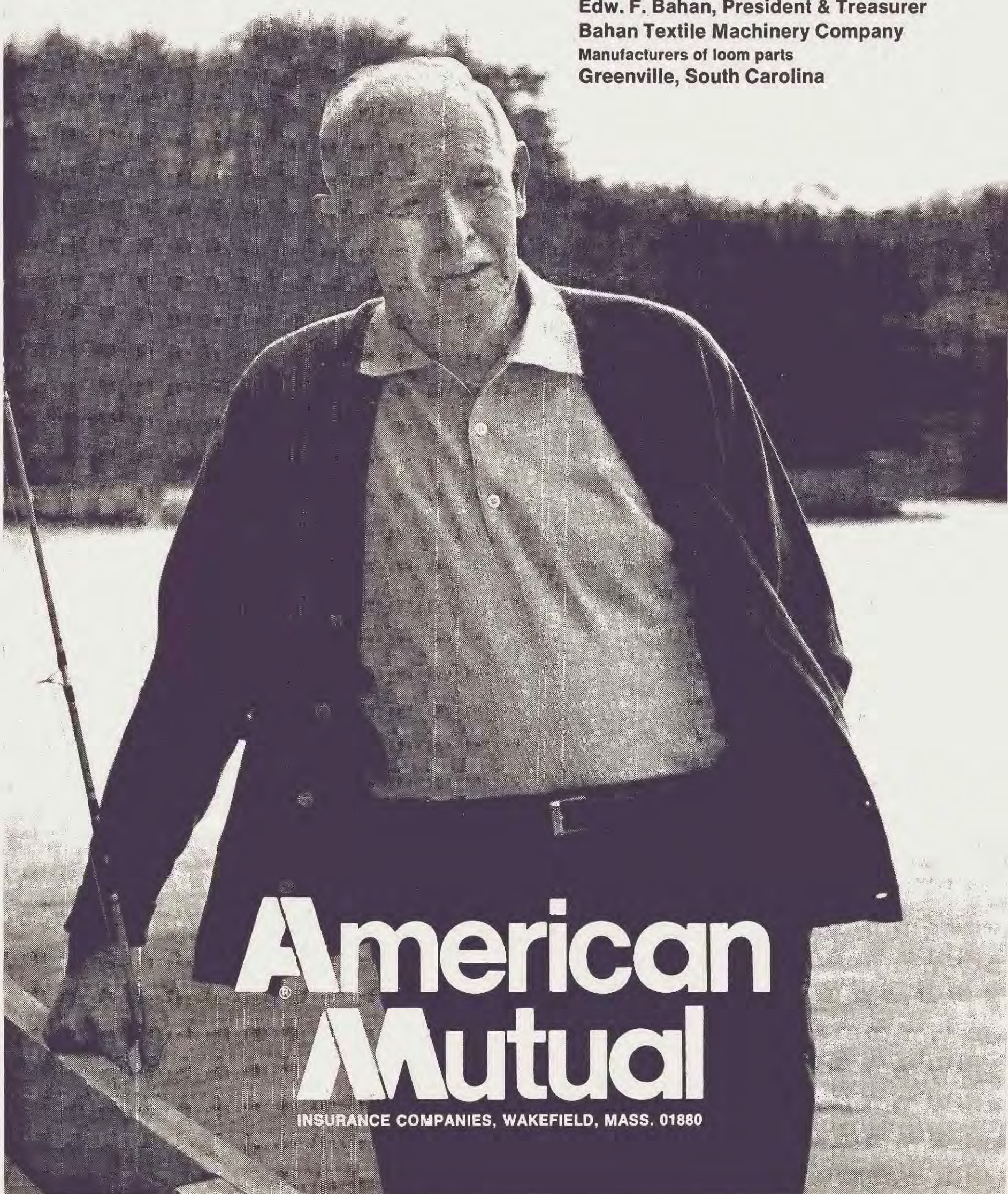
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business insurance

PERSPECTIVE

Insurer's role in rehabilitation involves timeliness, persuasion



BY MARVIN HEIFNER
executive officer,
liability-property-surety claim department,
Continental Casualty Co.,
Chicago

IMAGINE FOR A MOMENT that you are an unskilled laborer who recently suffered a severe spinal cord injury. Now a paraplegic, you face the prospect of remaining bedridden for the rest of your life.

But since coming home from the hospital and getting used to being waited on,

"No one knows how many paraplegics or quadraplegics have surrendered to their handicaps simply because no one told them that rehabilitation was possible or persuaded them that it was necessary."

you've begun to delude yourself that things may not be so bad after all. You like watching television. Your family is sympathetic. The insurance company picks up all of your medical bills and you get workmen's compensation payments besides.

What you don't know, of course, and what your doctor may not have told you, is that the longer you sit there, idle, the more your body atrophies. Statistics show that paraplegics who remain inactive simply don't live very long.

NO ONE KNOWS how many paraplegics or quadraplegics have surrendered to their handicaps simply because no one told them that rehabilitation was possible or persuaded them that it was necessary. Today, we regard that as one of our medical management functions. No longer do we feel that by paying the claim and walking away have we fulfilled our obligation. Nor will we ignore the claimant while negotiations are in progress unless we are forced to do so by him or by his attorney.

When a severely injured person has a claim against our company, we do all we can to convince him to accept rehabilitation—now. If he consents, we pay all of

his expenses, at whatever stage his claim may be within the provisions of the applicable state regulations.

We make this effort because we know, first, that a rehabilitated person is more useful to himself and to society; second, that he almost certainly will live longer than the man who remains bedridden and inactive; and third, that in the long run it's the least expensive way for us and our clients.

With medical costs spiraling, medical management has become a vital aspect of claim work for insurance companies. Our company has paid as much as \$500,000 in benefits to individuals who, lacking rehabilitation, have lived for years in general hospitals with private nurses. At today's prices, this amount would be doubled or tripled. Clients who share these costs—either through high deductibles or increased rates—are enormously concerned.

What can the insurance company do to lower medical costs? Quite a bit, actually. Medical management means that the patient gets the right treatment in the right amount at the right time. It's amazing how effective an insurance company can be in seeing to it that this happens.

Without actually treating anyone, we

can influence the doctors who treat the patients, the lawyers who represent them, the families that are concerned for them, and the patients themselves. We do it with claim representatives, with a company physician, and more and more often with a corps of trained rehabilitation nurses located at branch offices. And we do it for people with injuries ranging from a broken ankle all the way up to serious burn and spinal cord cases.

The medical management program begins the moment a claim representative learns of an accident to one of our insureds. If the accident is serious—a severe burn, spinal cord or head injury—it should rate a "hot line" call. Workmen's compensation claim executives with an extensive knowledge of medical facilities and specialists will direct the claim representative to the right facility of our company so the injured person may receive the best treatment as quickly as possible.

Prompt action enables us to help the client avoid delays that may occur simply because the local physician or hospital does not know how to deal with this particular injury. Occasionally, when the claim representative has trouble obtaining information from doctors, our company physician, Dr. Ted LeBoy, may visit the patient and his physician personally. Recently, when doctors repeatedly postponed a spinal operation, Dr. LeBoy flew to Boston. Though convinced that the reasons for the delays were good ones, he persuaded the physicians to work up a timetable leading to the operation.

WE HAVE SEEN too often what can happen to patients without access to help of this kind. Don Shader, a young paraplegic in Texas, spent two years at home in bed before our medical management program got underway. His doctors had said nothing could be done, that perhaps at some future date he could use a wheelchair.

One visit by a claim representative
Continued on following page

Here are some guidelines for selecting your coverage bidders

"No insurance company should be approached by more than one broker. If this rule is not observed, it can lead to chaos in the bidding."

BY BION H. FRANCIS
insurance consultant,
Milford, Ct.

This is the seventh of a series of articles by Bion Francis on buying corporate insurance. Mr. Francis discusses the problems to be expected, how to recognize them and how to surmount them.

In the previous article, I discussed the mechanics of competitive bidding for insurance—how to prepare an underwriting exhibit, what should go into the invitations to bid, and similar details. But I said nothing about what is perhaps the heart of the matter. Whom do you ask to bid?

For the larger, direct writing mutual companies, there is no problem. You sim-

ply select the companies you want to bid and send them invitations to bid.

For the stock insurance companies, the situation is more difficult. In general, you cannot send an invitation to bid directly to one of these companies. The invitations must go to a broker, who will then take it up with an insurance company.

There can be a great variation among insurance companies and brokers. Over the years, some brokers have developed strong relationships with some insurance companies. And some brokers and insurance companies have developed greater expertise in some fields. Suppose that, whatever the reason, the first broker that approaches a given insurance company for you makes a presentation that is not as effective as if another broker with more expertise in the field had made the presentation.

If a second broker now approaches this same insurance company with a more effective presentation, the insurance company may feel bound by the quotations it gave the first broker. In this instance, the competitive bidding carried out without proper controls has not worked to the best interests of your corporation.

How should this be done? I am presenting some suggestions below.

- The invitation to bid that is sent to each broker should give him specific authority to approach one or two named insurance companies for the purpose. The invitation should state that he does not have authority to approach other companies for you. If he does wish to approach other additional insurance companies, he should first request permission from you. If the company he wants to deal with has

not been assigned to another broker, authority to deal with it can be given to the broker who requested it.

- No insurance company should be approached by more than one broker. If this rule is not observed, it can lead to chaos in the bidding.

- The broker who has previously had the insurance for which you are now requesting bids should have priority in dealing with the insurance company that now insures you. This broker and insurance company are your present team. Because of their experience with this insurance, they should be able to continue doing the best job for you. Obviously, this team should not be broken up.

Normally, this should not offer difficulties. However, this is an era of conglomerates, mergers and stock purchase offers. It could easily happen that the same insurance company is represented by two or more brokers each dealing with a company or operating division that is now a part of your merged corporation.

Which broker should be allowed to work with this insurance company? The best solution might be to persuade the two brokers to pool their resources and knowledge to submit a joint bid. You could point out to them that this may increase their chances of getting the business. If the brokers do not want to do this, you will simply have to make a choice and award the right to deal with this

Continued on following page

business insurance

PERSPECTIVE

Insurer's . . .

Continued from preceding page

changed Don's life. Alert and ambitious, Don was easily persuaded to enter a rehabilitation institute in Dallas. Within two days he could operate a wheelchair and eat in the dining room. He learned to drive a car and care for himself in his own apartment, and he began taking accounting courses at the University of Texas. Now he is employed as a bookkeeper. Occasionally, he helps by visiting other paraplegics and telling his story.

The policy had been paying Don's mother \$15 a day for nursing care—more than \$5,000 a year. These expenses were almost certain to increase, since paraplegics who remain inactive for long periods often develop bedsores that require surgery. The cost of putting Don through a rehabilitation program and outfitting his home with special ramps, doorways and bathroom equipment amounted to about \$7,500.00.

But today, Don costs our company almost nothing. "We fix his wheelchair once in a while," says his claim rep, "and buy sterile water for his catheter. But that's about all."

SOMETIMES quick action by an insurance company can save a man's life. Last year an electrician was badly burned at Trona Ca., and taken to the local hospital. Although a report on the injury was sent to George Jeffrey, our workmen's compensation supervisor in Los Angeles, it failed to reveal how serious the case was. Nevertheless, a couple of days later George called the company to find out how the man was doing. "His wife thinks maybe he should see somebody else," said the personnel manager. George called the doctor at the local hospital and began to get an inkling that the case was more serious than anyone—the doctor included—supposed.

Next, George called Dr. Richard Grossman at the Sherman Oaks Hospital burn clinic. Dr. Grossman, who has an extraordinary reputation for handling burn cases, checked with the Trona Hospital at once. Shortly afterward he called George back and said, "Get this man to us as soon as

possible."

George dispatched an air ambulance with a private nurse. "By the time the electrician got to Sherman Oaks," says George, "he was almost dead. Dr. Grossman's staff first worked to restore his vital signs, then began the slow process of physiotherapy and grafting. The man was in the hospital for 10 or 12 weeks, but he walked out of there. He's attending junior college now." This case has cost us upwards of \$40,000 so far. But it's been money well spent.

Not all of the necessary prodding, persuading and checking can be done by our claim reps. Last year we hired four rehabilitation nurses and will employ 12 more this year. Nurse Irene Gorski of Southfield, Mi., explains her job:

"If an attorney can get the patient to trial without rehabilitation, he can show the jury enormous medical bills and may win as much as \$1 million or more in the case of quadraplegics . . . (and) a \$200,000 fee."

"My first contact after an accident is often with the patient's family. Generally, the doctor or a company employee calls the wife and says, 'Your husband has fractured his leg,' and hangs up, leaving the wife terrified. After talking with the doctor, I go to her home, explain precisely what has happened, and tell her what the future possibilities are. Next, I call the company's personnel department and tell them when he is likely to return and what his physical condition will be. I suggest that the company and its employees send the patient get-well cards to cheer him up.

"I CHECK the patient's progress while he's in the hospital, and if there seems to be a delay or if the treatment is questionable, I'll call the doctor about it. I'll also arrange for home care if he needs it. Some patients have been allowed to stay in hospitals for weeks—at \$100 a day or more—simply because they have no one to take care of them at home. If the wife can't care for him, I'll try to arrange for someone to come in. Occasionally, the patient can't get the care he needs at home

and I send him to a convalescent center, where the fee is less than half that charged by the hospital."

While the patient convalesces, Nurse Gorski visits his employer to arrange for his return—often to a less strenuous type of job. She may walk through the plant herself and, relying on years of experience in industrial nursing, choose a job she thinks the man might be able to handle. She also may photograph the machinery to be used by the claimant, enabling the doctor to determine whether the worker can return to that particular job. When the patient needs it, she arranges for his retraining through the state department of vocational rehabilitation.

"Sometimes when people go back to work I sit with them," she says. "I watch

them work and they tell me what problems they're having. For instance, an amputee with an artificial leg might have trouble remaining in the same position for a period of time. Often, a small suggestion about where to put his feet can be of help."

SHE HAS found that returning to the job can be a difficult moment for a seriously injured patient, especially to the job where the injury occurred. "Sometimes I go along just to reassure them. It's especially traumatic for burn patients. Often they burst into tears. Recently a claimant of mine returned to his machine after being severely burned. He didn't say a word, just started working. I was terribly proud of him."

Though we try to help every injured claimant, we don't always succeed. Sometimes the claimant's attorneys simply won't allow us to use a rehabilitation nurse. In most such cases they really don't understand what we're trying to do. In severe cases—paraplegics and burns—they may be thinking about a fee. They may say, "Well, you pay us \$300,000, then

we'll pay to have the man go through rehabilitation." This occurs particularly in liability and negligence cases, where the attorney's fee (often 30% to 50%) depends almost entirely on the amount of money he can get for his client.

If an attorney can get the patient to trial without rehabilitation, he can show the jury enormous medical bills and may win as much as \$500,000 in the case of paraplegics or \$1 million or more in the case of quadraplegics. So it's no wonder that some lawyers will not let us put their client in rehabilitation. They could lose a \$200,000 fee.

Even so, we do go in and make our pitch. When it's possible, the claim man and the rehabilitation nurse visit the lawyer together. Occasionally they can persuade the attorney—even in negligence cases—to give his client a chance.

With a minimum of additional expense and a maximum of awareness, we have found that we can help the injured people obtain better care more quickly and at the same time save money for us and for our clients. Granted, the economic factor gave this program its impetus, but the people who are helped don't question our motives.

Mel Malach, our Dallas claim representative, recalls meeting a fellow at a gas station one day. He approached Mel and said, "Remember me?" Mel confesses he did not. Then the man held up his artificial hand to jog Mel's memory. He had been a claimant who lost four fingers on one hand. He couldn't go back to his \$3-an-hour laboring job, so Mel persuaded the state to give him vocational training.

"You settled the claim for me!" said the man. "See that truck. It's mine. I'm in the produce business now." To Mel he looked like a pretty happy guy. ■

Marvin J. Heifner joined the Continental Casualty Co. in Chicago in 1957 as supervisor of claims; he was promoted to assistant vp, director of field administration, and is now assistant vp, executive officer. His previous affiliations were with Royal Globe Insurance Group and the General Insurance Co. of America. Mr. Heifner is a member of the Federation of Insurance Counsel and the Defense Research Institute. He attended St. Louis University and Wisconsin University.

Some guidelines . . .

Continued from preceding page

insurance company to one or the other of the present brokers.

- Subject to all of this, you should try to match insurance companies and the brokers with whom they have a strong relationship. How do you find this out? This is the kind of knowledge that makes you a "pro" in the field. You must cultivate your own relationships with brokers, insurance companies and other insurance managers.

Perhaps one of the best methods to find out is simply to ask brokers the direct question: "Which insurance company would you like to work with?" Obviously a broker knows best which insurance companies he can work with well, or which insurance companies can do the best job in your field. He will certainly request the insurance company with which he can be most effective. You should try to assign him the insurance company that he requests if it is possible.

You might also ask an insurance company which broker they would like to work with, but don't expect an answer—

not for quotation at any rate.

In the last analysis, this is your responsibility. A part of your job as risk manager is to match up the insurance companies and the brokers with whom

"A part of your job as risk manager is to match up the insurance companies and the brokers."

they can be most effective. To serve the best interests of your corporation, you want strong brokers and strong insurance companies that work well together. This aspect of competitive bidding is one in which you may be subject to criticism, no matter what you do. However, it is something that you must do if you are to carry out your job properly.

AFTER YOU HAVE sent out your invitations to bid, you may receive requests

for permission to deal with additional companies. This is relatively easy to take care of. If these companies have been assigned in the first round of invitations, you can simply say that they are not available. Those that have not been assigned can be assigned on a first-come, first-served basis.

In doing this, it might be well to assign not more than two companies to a broker at any one time. It is not unknown for a broker to request an insurance company, not because he believes he can work out a good bid with that company, but rather to make that insurance company not available for a competing broker.

Obviously you do not want either a broker or an insurance company in a weak financial position, or that provides poor service, or that has unsatisfactory claim practices. To weed these out, you should use financial services, ask insurance companies and brokers for information concerning services and claim practices, and check these out in any way you can.

YOU SHOULD NOT ask an insurance company to do the work of preparing a bid if you would not give the business to that insurance company anyway. For this reason any elimination of insurance companies because of financial condition, poor

service, or unsatisfactory claim procedure, should be done as early in the bidding as possible.

I once had to work with a strong-minded vp for engineering of a large manufacturing company. He was very much im-

"Obviously you do not want either a broker or an insurance company in a weak financial position."

pressed by the quality of the inspection service by an insurance company that had insured our plants for many years. He once told me he would not approve a change from that insurance company to any other—and he was a man who had the power to make that decision stick. If you have to deal with such a situation and feel that it would not be possible to buy insurance from another company, you should not call for competitive bids. You should call for them only when there is an honest intention to award the business in accordance with the competitive bidding. ■



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that a willful polluter is a bad risk. Should a persisting polluter already be our client, we'll cancel coverage as we recently did

in several cases.

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So help us make it perfectly clear. To insure a better future for all of us, let's work together. Call your CNA agent. Or write us. You'll find we care about any company that cares about tomorrow.

Fire, extended cover policy likely to insure steam explosion claims

NEW YORK—Claims resulting from the explosion of a steam pipe that killed seven persons in the General Public Utilities Corp. offices in a skyscraper here earlier this month will probably be covered by the simple explosion provision in the fire and extended coverage policy taken out by the building's management, *Business Insurance* has learned.

The insurance manager for Rudin Management Co. Inc.,

owners and managers of the 12-year-old building in Manhattan's financial district, merely said that his company was "fully covered for this." General Public Utilities personnel were unavailable for comment.

HOWEVER, sources at other real estate management firms seemed to agree that the loss would finally be covered under the fire and extended coverage policy.

"There are two things you have to worry about when you are insuring a builder like this," one of them pointed out. "You have to worry about the structure and the boiler. The boiler has its own coverage and everything else in the structure is covered by the fire and extended coverage policy."

"This was a steam explosion," he continued, "but it did not emanate from within the boiler so it would be called a simple explosion. That's the same category as, say, an explosion caused by a build-up of gas and is covered under the fire policy."

It was also brought out that there were "probably close to 200 different companies writing the coverage in New York" and that few difficulties were faced when trying to purchase it. "We're running into a few more problems today than we did in the past," said an insurance man at a large real estate management firm, "but fire and extended coverage is normally not difficult to get." He also felt that the coverage was virtually standard throughout the real estate management industry.

He noted that the deductible on the loss would probably be quite small since "most deductibles on this type of coverage seem to be \$50 to \$100 in the

New York area. However, that would have been up to them and could be a lot more."

A BOARD of inquiry is now studying the explosion, and liability has not yet been ascertained. Consolidated Edison Co., which supplies the steam to the building, has denied responsibility, saying, "Con Ed maintains and services lines that bring the steam into the building lines. From that point on, the equipment of this building belongs to the owner of the building."

Regarding liability for the blast, which enveloped its victims in a thick mist of scalding steam, a spokesman for the New York City department of buildings said, "Anybody affixing liability at this point is talking through his hat."

One of the insurance men, however, speculated. "The loss will probably be paid by General Public Utilities' insurer, who will take action against the owner of the building. This is just a guess, though. There could also be a possible product liability action against the manufacturer of the steam pipe or even the manufacturer of the joints within the pipe. There are many possibilities."

It was also thought that the blast produced a comparatively

small amount of property damage though there "will be a huge claim on the loss of life."

THE EXPLOSION, on the 36th floor of the building, killed five General Public Utilities employees and two visiting auditors. Those seven were killed instantly, according to officials, while the 30 other persons on the floor escaped injury.

It was indicated by the department of buildings that the blast occurred when an expansion joint, a device used on pipes to permit movement caused by contraction and expansion of the metal, ruptured and released the steam.

New York City law does not provide for the inspection of steam pipes which are deep in the walls and part of the basic structure of the building. This particular edifice was built before the 1968 Building Code, which exempted it from "certain inspections," according to the chairman of the city council's buildings committee.

Dry dock insurance

Lloyd's of London is holding 80% of the insurance on new dry dock installations at Curacao, in the Caribbean. The Salvage Assn. of London will be responsible for carrying out surveys on damage.

The whole question of marketing, for example, needs more attention. We have to be concerned with how insurance is marketed and that the consumer knows what he's getting and that the product is what he was told it was to be.

Another crucial question is the availability of insurance, a service that has become a requirement through law and economic necessity. The question I ask is: Can you require insurance and tell people that it is something they have to buy and then let insurance companies retain all of their traditional underwriting prerogatives? This is an area that is fraught with problems, but it must be looked at. We have non-cancellation laws for auto insurance, but that doesn't get at the nonrenewal problem. The insurance companies may plead that there are technical difficulties, but the average citizen knows only that he hasn't got insurance. To him, it has the same result. Restricting cancellations and non-renewals is not the complete answer. We must face the question of whether everyone can get into the system in the first place. We must ask: How can the individual obtain and retain the insurance he requires?

Another challenge that is upon state insurance regulation arises from the probability that Congress will soon adopt a national health care program that will involve private health insurers. This brings up the question of how health insurance prices are to be regulated. I feel that there is every possibility that we're going to be able to convince Congress that the regulation of national health insurance should be handled by the states, conditioned on certain things like the adoption of a guaranty fund for companies participating in the program. Surely there would be no federal funds advanced without the existence of a guaranty fund. The federal government would be very concerned about rates under a national health care program. We're going to have to develop a model rating bill on health insurance. And, again, we would have to assure availability of health care coverage. If guidelines are spelled out, state regulatory officials could handle the administration of such a national program.



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B. J. Daenzer
President



A MEMBER OF THE HOWDEN SWANN GROUP

Van Hooser

Continued from page 13

auto insurance law here. And the council is independent; its current chairman is a college professor.

Q Are there developments in state insurance regulation that especially affect corporate buyers of insurance?

A We view the Colorado captive insurance company law as an interesting development. If captive insurers there turn out to be a smashing success, I wouldn't be surprised if other states adopted such laws for the revenue possibilities that are there and because corporate risk managers look to captives as possible alternatives to commercial insurance. I don't hear much these days about the industrial insured exemptions to mail-order insurance regulatory statutes. I think that problem has been largely cleared up to permit corporate buyers of insurance wide latitude in dealing with insurance carriers.

Q What are some of the other problems and challenges that face NAIC and the state insurance commissioners?

A NAIC and the individual insurance commissioners have been concerned with the problem of solvency in the insurance industry, and I believe this concern has been most appropriate. Now most states, 46 I think, have guaranty funds for property-liability insurers, and some states already have adopted guaranty funds for life and health insurers. This does not solve the problem, but it gives insurance companies an interest in their brethren and this is salutary. The development by NAIC of solvency tests for property-liability insurers is a good first step in identifying the problem companies. We intend to expand the solvency testing to the life insurance area. Solvency has been a point of overall emphasis of regulation, and I am gratified to say that it's becoming more self-executing. I don't think that NAIC or the individual commissioners should abandon their concern about solvency, but there are other areas that need more time and energy.

Concern...

Continued from page 12

Other replies on this question included, "We'll look at anything," "We'll use it if applicable to our state conditions," "We don't have enough personnel to apply the study to our state," "All meaningful material is considered," "As much of the study will be used as we deem appropriate in our state." A few commissioners tartly answered, "We have no plans to use the NAIC profitability study."

Confusion about state action on automobile no-fault laws was evident from the replies of nearly all of the 32 insurance commissioners. The largest number of respondents (13) said that no-fault was being considered in their states by committees or commissions appointed by governors or the legislatures. Nine other state insurance commissioners said that bills had been introduced with mixed legislative results. Three states (Florida, Massachusetts and Oregon) reported passage of some form of no-fault, and three other commissioners simply expressed confusion on the issue.

PERHAPS the most candid and meaningful comment on no-fault legislation came from Rhode Island Insurance Commissioner Peter F. Mullaney, who described the situation in his state as "moribund." Ohio Insurance Director Kenneth E. DeShetler said that bills introduced in his state ranged from "total and pure no-fault to nothing more than forms of extended medical payments."

A difference between states evident in the replies is that some state insurance commissioners (Illinois' Baylor and Pennsylvania's Denenberg, for example) took active roles in sponsoring no-fault legislation. Many other commissioners have taken no active part and simply wait to be consulted by study commissions or legislators.

Beyond automobile no-fault legislation, the insurance commissioners reported that the most important legislation of the past year has been the NAIC model act governing insurance holding companies, a bill enacted in 12 states.

Other active legislative proposals have been property-liability insurance guaranty funds enacted in seven states, life and disability insurance guaranty funds enacted in four states and new regulations governing cancellations and nonrenewals adopted in four states.

LEGISLATIVE actions also reported included comprehensive revisions of insurance codes, unauthorized insurer controls, approval of health maintenance organization, unfair trade practices acts, control of mutual nonprofit hospital and medical service corporations, authorization of variable annuities sales and title insurance regulation.

One commissioner, conscious of the importance of loss prevention, included in his legislative roundup the passage of a more stringent law controlling drunken drivers.

Half of the commissioners responding to the *Business Insurance* survey said they had no control over spiraling costs of health care, but the other half said that they either do exercise some control or would do so if they had legal authority for such action.

Those who do exercise control (10 states) do so by conducting rate hearings on health insurance filings, by rate regulatory deci-

sion, by sponsoring new rate regulatory laws, by "exercising close supervision over the 'Blues,'" by encouraging the formation of statewide health care corporation, by hospital cost control laws and by promulgating model contracts to be effected between hospitals and nonprofit medical service corporations.

Pennsylvania has taken the further step of requiring greater consumer control of Blue Cross and Blue Shield plans.

ALABAMA'S Insurance Commissioner John G. Bookout represents the greatest number of respondents in saying flatly, "This department has no control over hospitalization costs." At the other end of the spectrum is New Hampshire Insurance Commissioner John A. Durkin, who boasts, "Our year-long struggle with the 'Blues' is beginning to bear fruit. They are in the process of terminating their contracts

with the hospitals and will be going to a prospective rating contract as of Oct. 1."

Ohio's Mr. DeShetler feels very strongly about his role in curbing spiraling health care costs and offered a series of cost control suggestions in his state that in-

STATE INSURANCE REGULATION



cluded the proposal that when doctors' incomes become substantial, they should pay back to hospitals the amount that was paid to them while in training. He adds, "If the community, the doctors, the hospitals and Blue Cross all cooperate, we may be able to reverse the spiraling costs."

California's Mr. Barger made this pronouncement: "This department would support a state law or would not oppose a feder-

al law which would grant authority for the establishment of a rate review board applicable to doctors and other practitioners.

In Illinois, the insurance department supported, among other things, the establishment of health maintenance organizations which Insurance Director James R. Baylor believes could be effective in cutting health care costs and health insurance rates.

YET IN THE District of Columbia, Insurance Superintendent Edward P. Lombard believes such moves are outside of his jurisdiction. "I do not think," he asserted, "that the insurance regulator should undertake to control the locations of hospitals, etc."

Differences between activists and passivists in insurance regulation were also apparent in responses concerning regulation of mass marketing of property-liability insurance.

New York's Insurance Superintendent Benjamin R. Schenck, for example, says that mass marketing has been encouraged since 1968 "as a matter of department policy." And New York has a mass-marketing regulation that prohibits such abuses as compulsory participation, tie-in sales and fictitious arrangement.

On the other hand, 13 of the respondents said their states have either done nothing about mass marketing or prohibit it altogether.

Four states exercise surveillance over mass-marketing programs through rate examinations at regular intervals even though they have no specific law regulating mass-marketed insurance. Another four states are drafting regulatory legislation, and one state (New Hampshire) is now considering repeal of a restrictive mass-marketing law that was passed three years ago.

Continued on page 30

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Concern . . .

Continued from page 29

THE DISTRICT of Columbia's Mr. Lombard comments acidly on mass marketing, saying, "As in the accident and health field, this lovely theory of mass marketing can be abused and become just mass distributing with kickbacks and the like."

Nevada's Insurance Commissioner Dick L. Rottman said that a critical requirement for mass marketing in his state is that all members of a group must have the opportunity to buy coverage if the mass-marketing plan is to be authorized.

If there is division among insurance commissioners on such matters as control of medical care costs and mass marketing, there is no such division on the matter of state versus federal regulation of insurance. The

commissioners are unanimous: They want to maintain state regulation and they believe that the way to do so is to do a better job within the states for the consumer.

All emphasize the need to be active and aggressive, doing on the state level what the federal government might usurp. They suggest stronger and more uniform state regulatory laws, larger budgets for state insurance departments and the National Assn. of Insurance Commissioners and upgrading of regulatory personnel.

MEETING consumer demands requires, in the opinion of the commissioners, provision of such coverages as crime insurance, better complaint handling procedures, fairly balancing the interests of the industry and the consumer, effective company examinations and establishment of guaranty funds, cooperation be-

tween the states to achieve greater statutory uniformity, and improved field enforcement of regulatory laws.

STATE INSURANCE REGULATION



Vermont's Insurance Commissioner Charles F. Black sums up this attitude in four words, "Do a good job." And Pennsylvania's Mr. Denenberg put it this way, "Use state authority in the public interest."

Commissioners in Ohio and New York talk not so much in terms of protecting states' rights; but rather about cooperation between federal and state governments to find solutions to common problems. "The federal government and the state insurance departments have legitimate in-

terests in the same problems," says Ohio's Mr. DeShetler. "By forming a partnership in cooperating together, state regulators and the federal government can utilize their talents and solve the problems of the insurance industry together."

Mr. Schenck of New York agrees, "This department welcomes federal programs such as in the case of crime insurance where the problem could not be met fairly by private companies or state pools. Where state regulation meets its problems effectively, there will be no need for federal regulation. But where exists a vacuum, someone should fill it."

MR. BELL, elected insurance commissioner of Kansas, sees the federal-state dispute as a more fundamental issue. "We are now facing the issue of federal insurance versus private enterprise," he said. "The history of this

country, its growth and general prosperity, tell us which system is best and those of us involved in insurance regulation must devote all our time, efforts and energies to its preservation."

California's Mr. Barger puts it in other terms, "The legislative and executive branches of state government must stop thinking of the insurance departments solely as revenue-producing agencies of the state treasuries and fund the insurance departments to where they can attract and retain qualified staff in order to be more effective regulators."

"They should also fund the NAIC to where it can become a more effective and influential body. The insurance departments must be responsive to consumer needs in their own individual states by designing and advancing reasonable regulations and legislation which will provide an adequate regulatory environment. If the reasonable needs of the insured are met in every state, there will be no need for federal regulation."

J. O. Wigen, insurance commissioner of North Dakota, may have topped all of his colleagues in state regulation with the ultimate solution to the federal versus state argument. Says Mr. Wigen:

"Eliminate the Socialists from Congress."

32 states answer BI regulation survey

CHICAGO — Thirty-two states responded to the *Business Insurance* state insurance regulation survey: Alabama, Arkansas, California, Colorado, District of Columbia, Florida, Georgia, Hawaii, Idaho, Illinois, Indiana, Kansas, Kentucky, Maine, Massachusetts, Nevada, New Hampshire, New Mexico, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Utah, Vermont, Washington, West Virginia, and Wyoming.

City sued for \$75,000 for falling tree

HARTFORD—A Glastonbury, Ct., man has filed a \$75,000 suit in Hartford County superior court against that Hartford suburb, charging two town highway department employees with carelessness and negligence in connection with a 1970 incident.

George Cavanna contends that he was driving down a Glastonbury road when a tree that was being cut down by the two town employees fell on his tractor, injuring him and damaging the tractor.

He charges that there were no barriers to prevent him from driving down the road, while the men were cutting the tree down, and that there were no look-outs. He admits, however, that he did see a "Men Working" sign.

Mr. Cavanna is asking \$75,000 to cover personal injury, loss of wages because of hospitalization and damage to the tractor.

The town of Glastonbury has a liability policy with the Travelers Insurance Cos., Hartford, which is applicable in this situation, *Business Insurance* was told. Travelers is to assign a lawyer to defend the town and its two employees.



Pro

*"It is not strength, but art, obtains the prize.
And to be swift is less than to be wise.
'Tis more by art, than force of numerous strokes."*

Alexander Pope

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U.K. insurance study group says future demands can be satisfied

LONDON—Capacity problems in worldwide insurance markets have been reviewed by the British Insurance Assn. so that it can meet future demands.

The opinion reached by its study group, *Business Insurance* learned exclusively, is that future growth can be satisfactorily achieved now that profit margins are being put on a realistic basis.

"Rates have hardened in most fields, and this has undoubtedly led to some degree of self-insurance," its report states.

But it takes the firm view, clearly of importance to risk managers in many branches of industry, that while reinsurance support is necessary, there is this to be said for the future:

"WITH RISK improvement programs and realistic rating, even the most hazardous risks can be covered."

The importance of the survey is based on the fact that the British Insurance Assn. represents all the big U. K. insurers outside Lloyd's and covers nearly 300 insurance companies.

Prospects for the future are put in its report, which was prepared by a panel of 10 insurance experts under the chairmanship of L. B. Reynolds of the Cornhill Group.

"The number of large, target and catastrophe risks is growing in relation to the number of ordinary risks, with a consequent effect on portfolio balance and on the relative demands for direct cover and reinsurance," he said. "An important implication of this gradual change is that exposure to risk is increasing more rapidly than the number of risks covered. Therefore reserves will need to be increased more than in proportion to the expansion of business written."

"THIS in turn implies that increased premium rates are likely to be required, irrespective of the effect of other factors, such as continuing inflation, if long-run profitability is to be maintained and the necessary level of reserves built up."

Information from the files of 10 large U. K. insurance corporates, including several that operate in the U. S. market, was used to enable the panel to survey world demand in the past 10 years. It also studied the experience of 41 countries, representing 99% of free world insurance.

Its conclusion: "During the 1960s worldwide effective demand for non-life insurance expanded at an average rate of over 9% a year, measured in terms of U. S. dollars, slightly faster than the overall rate of economic growth as expressed in terms of gross national product."

"The market shares of U. K. insurers, both companies and Lloyd's, were declining during this period in most territories. Little business has been turned away, with certain exceptions in liability classes, for reasons other than the inadequacy of rates quoted, but overall profitability has been relatively low. In most fields rates have now hardened, and the indications are that more satisfactory profit margins will be achieved, at least in the short term."

SURVEYING different types of risks, the report makes these forecasts:

- **Property and pecuniary loss classes:** Accommodation of very large or target risks will be a problem as long as they continue

to be thinly rated. The same applies to the large consequential loss risks, particularly in those sophisticated industries that depend on single key units without duplication of processes.

To some extent, assessment of maximum probable loss to facilitate the placing of large property and pecuniary loss risks is now regarded by reinsurers with considerable scepticism and distrust.

Overseas there is a developing supply problem in relation to certain natural perils such as earthquake.

Present supply of capacity on most proportional and excess of loss treaty programs is adequate, and this is likely to continue, subject to price and satisfactory

profit. Accommodation of large industrial schedules in the facultative market is sometimes a problem, and some placings may have to be effected on other than original conditions.

- **Liability classes:** The long-term nature of this class, the relatively modest premiums charged, the very large limits of indemnity sought, and the high and largely unpredictable claims potential are factors that inhibit the supply of heavy catastrophe cover. Even so, there is no evidence at present to suggest that direct writers will be unable to meet future demands for high limits or large risks, although the market for product liability may be more limited.

But all this depends on adequate rates being maintained and keeping pace with inflation, particularly in personal injury awards.

- **Marine:** Larger exposures likely to confront underwriters during the next few years should not be beyond the capacity of the international market. But premium increase has done little more than keep pace with the increased tonnage afloat and with inflation, and for current exposures the levels of premiums must still be increased.

- **Aviation:** Airline hull and liability risks present no serious supply problems, even for the largest risks, including the latest wide-bodied craft and the Concorde supersonic. This position is likely to be maintained for at least three years, provided no unforeseen adverse cycle develops. But the very creation of a wider market brings strong pressure to bear on rates for the

main volume of ordinary business, and this reflects the danger of over capacity.

SUMMARIZING other trends, the British Insurance Assn. reports: "Difficulties exist in meeting all the requirements for products liability and war risks cover, as although substantial cover is available, underwriters adopt a cautious attitude because loss frequency and potential are less predictable."

"Profitability alone is not the solution to difficult risks. Technical measures, including wider use of reinsurance, are being developed, and there should be no long-term difficulty."

"But further research is necessary to project long-term demand in general throughout the world. Relationship between premium income growth and gross national product may be one means of estimating future demand."

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GRINNELL

Security bill makes its way through House

WASHINGTON—A compact between New Jersey and New York, which would give the Waterfront Commission authority to provide security measures at major airports in the two states, has been forwarded from a subcommittee to the House judiciary committee for consideration. The subcommittee, however, made no recommendation concerning the measure, which was introduced in 1970 for Congressional ratification.

In a separate compact, the industry-financed commission is seeking increased enforcement powers on the waterfront where they now control licensing of terminal operators and dock personnel. The waterfront measure is

still under consideration by the New Jersey legislature.

If the airport compact is ratified, the commission would have the power to mandate certain cargo security regulations at airports and to place their own guards at cargo entrances and exits. The commission could also establish high-security cargo areas, requiring all personnel to show licenses or permits to enter.

"A YEAR AGO, anyone could get close to airport cargo areas without having legitimate business," said a spokesman at the commission, "and, although this has changed somewhat due to stricter regulations to deter bombing extortions, cargo securi-

ty still needs improving."

"We have no authority to issue licenses to truck drivers at the waterfront or at airports. This type of policing could cut down on thefts considerably," he noted.

The commission is receiving considerable opposition to the bill from the airline industry, which would have to foot part of the cost of the increased protection. Noting that increased security measures have already gone into effect, they contend that additional policing by another agency is unnecessary and financially undesirable.

"We have our own guards," commented an official for the industry. "Since we will have to bear the costs, we should have some authority in the matter."

The Waterfront Commission is financed by an assessment on the payrolls of waterfront employers. If its activities are expanded, the air freight industry would be responsible for the additional costs. ■

Giant quake simulator can test up to 60 tons

BERKELEY, Ca.—The world's largest earthquake simulator, a 45-ton concrete platform poised delicately on a column of air, has been installed by the University of California on the 66th anniversary of the earthquake and fire that destroyed San Francisco.

Developed by university engineers here, the \$800,000 laboratory was built with funds from the National Science Foundation and is part of the Earthquake Engineering Research Center directed by Prof. Joseph Penzien, a structural engineer. The principal purpose of the simulator is to devise methods of improving the safety of high rise buildings, dams and freeway overpasses.

The shaking table is a 20-

foot-square cutout of the floor of the new laboratory, marked off by a foot wide plastic collar that seals it to the floor as the lid. Beneath this is a reinforced concrete pit containing jacks to undergird the 45-ton table.

IN A SIMULATED earthquake, the table or lid is tossed about by seven hydraulically powered rams which can produce motions of greater force than any ever recorded in a California earthquake. Full-scale structures up to 40 feet high and weighing 60 tons can be bolted to the table for shake testing. One ram is located at each corner in the pit to produce vertical motion. Three rams across the center provide horizontal push.

The first test, to be made this summer, will see a three floor steel frame structure bolted to the table.

A variety of instruments to record stresses and their impact on the structure will be used to measure the toughness of building materials as well as the capacity of the materials to absorb energy without collapse. "Information derived," Prof. Penzien said, "will help architects and engineers to design safer buildings and to write more effective building codes." ■

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Eye-catcher talks about eye safety

LONDON—Pretty Teresa Flanagan is helping to cut down accidents on plant factory floors. She is touring Britain as "Miss Beautiful Eyes of 1972." She is delivering her messages on accident prevention on behalf of the British Safety Council to plant workers throughout the country.

Chosen from more than 60 factory worker entrants, Miss Flana-



Teresa Flanagan

gan, 18, is handing out eye-safety instructions in engineering, paint, footwear, brewery, printing and electronic corporates.

The idea was devised by the British Safety Council, whose Press Officer, Sharon Farr, told *Business Insurance*: "The aim is to make men in industrial plants realize the need for safety precautions. We find from checking out after her campaign that many more workers wear eye protectors than they did before her tour. It is all part of a scheme to emphasize risk prevention in industry."

Miss Flanagan was chosen as an eye-catching beauty queen from girls at the British Steel Corp. plant. ■

NAIC office aids 'regulation

MILWAUKEE—Four years ago the central office of the National Assn. of Insurance Commissioners was a two-person operation in Des Plaines, Ill., that arranged NAIC meetings and did the association's necessary bookkeeping.

Today the NAIC central office here is staffed with four lawyers, an economist, a professional librarian and a busy clerical staff. From this office issue scholarly reports on vital aspects of insurance regulation, research materials for the use of individual commissioners, position papers on federal-state relationships in insurance regulation and a host of other materials used by public officials and those interested in the insurance industry.

This transformation, one of the most important forward steps in more than 100 years of state insurance regulation, owes to the idea of Robert E. Dineen and the performance of a young staff directed by Jon S. Hanson.

MR. DINEEN, who has been coming on strong for 68 years, was superintendent of insurance of New York from 1943 to 1950 by appointment of the late Gov. Thomas E. Dewey. After that he was chief executive officer of Northwestern Mutual Life Insurance Co., a giant insurer domiciled here in Milwaukee. During both of his careers in insurance, as regulator and executive, he had a vision of stronger, more independent regulation of the insurance industry.

In 1958, Mr. Dineen and two colleagues drew up a landmark position paper titled "A Better

NAIC: Insurance Regulation in the Public Interest." The paper, presented to a zone meeting of NAIC in Michigan, stirred considerable comment, much of it from wary insurance company executives who were not sure they wanted a "better NAIC."

For a full decade the report lurked in the background as a kind of a printed conscience for insurance commissioners who realized that they needed, among other things, some intelligent staff support to distill and understand the problems of an industry they regulated on a day-to-day basis.

AT LAST, in 1968, NAIC adopted what came to be known as the "Portland Resolution," a commitment to the policy set forth by Mr. Dineen and his colleagues in their 1958 paper.

With Mr. Dineen as the guiding spirit, NAIC promptly set up a central office in Milwaukee and chose Jon S. Hanson, a young lawyer, as its executive secretary and director of research.

In the four years NAIC's central office has been operating in Milwaukee perhaps its greatest contribution to effective state regulation of insurance has been the publication of studies of specific regulatory problems. These studies, Mr. Dineen is fond of saying, are intended to "elevate the level of debate by taking the gas out of discussions of NAIC policy development."

Mr. Hanson adds, "Our work is done in an atmosphere of academic freedom. That is, the commissioners set the policy and call

upon us to develop studies, but the information and conclusions of these studies do not necessarily bind the national organization or individual commissioners. Because our reports are quasi-academic, we welcome both prior discussion and subsequent reaction to the reports. Often we have representatives of the industry or other interested individuals here for day-long discussions of their points of view."

STATE INSURANCE REGULATION



Out of this process have come:

- A study of mass marketing of property-liability insurance which, Mr. Dineen says proudly, "debunked the arguments of those who opposed mass marketing to protect their special interests."

- A study of automobile insurance, its availability and cost, used as a standard reference by insurance commissioners and those

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Plan October workshops on product liability and benefits communication

CHICAGO—Workshops on the dynamic areas of communication of employee benefits and product liability will be held by *Business Insurance* at Chicago's Regency Hyatt House on October 9-11.

The one-and-a-half-day sessions will be held back-to-back to enable corporate executives to attend both workshops. They are:

1. Product Liability Workshop, Oct. 9-10.
2. Employee Benefits Communication Workshop, Oct. 10-11.

Currently the most vexing problem of corporate risk management, product liability will be examined from various points of view by a faculty of experts similar to those who conducted the highly acclaimed *Business Insurance*

Product Liability Workshop held in January.

OCTOBER'S PRODUCT liability workshop will add the dimension of small group discussions of particular problems in the product liability area including:

- Product liability claim prevention.
- Defense of product liability suits and ways corporate managers can cooperate with defense counsel.
- Insurance against product liability claims and product withdrawal.
- Risk managers' responsibilities in product liability situations.

Communication of employee benefits, a continuing concern of

all corporate managers, will be examined and discussed at the workshop by experts from the fields of communication, graphic arts, employee benefit plan design and employee benefit administration.

Workshop sessions will be designed to give participants practical methods and examples of communication that can be translated by them into effective brochures, computer printouts, letters, employee publications and the increasingly popular visual and audio-visual techniques of presenting employee benefit programs.

AUTHORITIES ON graphics and effective copy will be chosen for the workshop by editorial executives of the marketing publications of Crain Communications Inc., publisher of *Business Insurance*.

Editors of this magazine will add to the faculty experts on the design and administration of employee benefit programs to give participants a complete picture of how such programs can best be communicated.

Alfred Malecki, publisher of *Business Insurance*, said the workshops are "a natural adjunct to the editorial service of our magazine which keeps on top of new ideas for risk managers, employee benefits administrators and other corporate managers."

Mr. Malecki added, "Those corporate executives who are concerned about product liability problems and have long wanted to communicate benefits better should register themselves and members of their management teams to participate in these dynamic workshop sessions."

Product liability sessions will begin at 6 p.m. on Oct. 9 and continue through 4:30 p.m. on Oct. 10. Employee benefits communications sessions will start on the evening of Oct. 10 and continue until the evening of Oct. 11.

Early registration fee is \$115 for each workshop or \$200 for both workshops, if tuition is paid by Sept. 15, 1972. The fee is increased to \$140 and \$250, respectively, after that date.

To register for the Product Liability Workshop or Employee Benefits Communication Workshop or both, complete the form on this page and send it, with your registration fee, to Workshops, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611. ■

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U.K. crime rises

British insurance corporates paid out \$55 million in crime losses last year, a 3% hike over the 1970 figures. Sizeable bullion hijackings in London and provincial England led to a rise in insurance claims for loss of cash or specie, and there was also a rise in claims for goods in transit. Aonghais Macdonald, of British Insurance Assn., commented: "This is the familiar story of escalating crime losses. But improved security arrangements in industry are making criminals turn to easier pickings from private dwellings."

Fund contributions up

A new three-year contract accepted by about 3,200 members of the Retail Employees Union Local 1092, Portland, Or., from retail grocers May 6 will increase employers' contributions to the union's health and welfare trust fund from 26.5¢ to 33¢ an hour.

for the record

Loss of insurance and lawsuits face airports

SACRAMENTO—Possible loss of insurance coverage as well as potentially "thousands of successful and costly lawsuits" against community-operated airports within California may result from a California supreme court ruling that such airports are liable for air and noise nuisances arising from airport operations.

Los Angeles city attorney Roger Arnebergh has already recommended to the airport commission and the city council that Los Angeles International Airport, one of the busiest in the world, "be shut down within 30 days" if attempts to exempt it from air-noise suits are unsuccessful.

At San Francisco William Bourne, city attorney assigned to the airports commission, warned that "the supreme court decision carries serious implications and grave danger to municipal airports."

THE SUPREME court had ruled, at San Francisco, that owners of property near airports may sue city airport authorities for the damage and nuisance caused by aircraft, noise, fumes and other adverse side effects of full airport operation.

The Los Angeles airport is the target of suits now pending that total \$4 billion. A number of such suits have been filed against the San Francisco airport and some have been dismissed and some have been settled out of court.

At Los Angeles, Dr. Arnebergh said "the problem is complicated by the traditional position of Federal courts that only the U.S. government has jurisdiction over air travel. If huge lawsuit losses forced a city to close an airport, federal aviation people probably would file court action to keep it open."

"Under the supreme court decision," Mr. Arnebergh continued, "California cities face unlimited and unforeseeable liability and property owners could win judgements far beyond the ability of the city's taxpayers to pay."

ONE ASPECT of the decision has attorneys arguing over interpretation. The court held that "every repetition of the wrong may create further liability" which some attorneys take to mean that every time an aircraft takes off or lands, such action "might" result in additional valid claims.

The decision was against the city of Santa Monica where the state supreme court ruled that "even if there had been no condemnation or damaging of property due to airport operations, the plaintiffs could initiate an action on the theory of nuisance."

Southern and Northern California municipal legal experts have gathered at Sacramento to attempt to devise remedial legislation to nullify or modify the court decision.

Hartford Group signs another mass plan

HARTFORD—The Hartford Insurance Group has begun a mass-merchandised automobile insurance plan with the Connecticut Educational Assn. The association has about 28,000 mem-

bers.

The plan is being written through Kronholm and Keller Inc., a Hartford agency, which has established a counseling agency here to detail the program to eligible members.

The plan is the 25th the Hartford has established for Connecticut motorists. Most have been set up with associations and they now cover about 125,000 drivers in the state. The Hartford has been writing mass plans for two years.

Part of Miami death award covered

MIAMI—Miami city commissioners have agreed to pay \$252,237.60 to the parents of a 19-year-old Tennessee youth shot to death by a city policeman at the end of a high-speed chase.

Alan Rothstein, city attorney, told commissioners that he joined the city's insurance company attorneys in recommending that the city drop its appeal because "chances are very slim" for overturning a federal court judge's ruling against it.

The city's insurance is to pay \$152,237.60 of the judgment, while \$100,000 is to come from municipal funds.

U.S. District Judge James Lawrence King in February ordered the monetary award to Mr. and Mrs. Edmund G. Mayhall, parents of John Paul Mayhall of Hendersonville, Tn. Judge King called the shooting "an unjustified

killing in cold blood."

The youth, driving a dune buggy, sought to escape from officers seeking to question him about the vehicle's ownership. Two officers had cornered him in a dead-end street and were standing within arm's length of him when Officer Arthur Dragon hurried onto the scene and fired the fatal shot.

He testified that he believed the Mayhall youth was drawing a weapon, even though the two closer officers did not draw their revolvers.

Arkansas will examine no-fault

LITTLE ROCK—A joint committee of the Arkansas general assembly's legislative council will conduct hearings June 26 on proposed no-fault insurance plans.

At present, the state has no no-fault laws and it is known that several will be offered in the

next session of the legislature in 1973.

Julian Streett, state representative, of Camden and a lawyer, asked for investigation into a no-fault plan and told the council that the committee should examine no-fault plans "from the consumer's view." He said the committee should "examine it on what's best for the people, not some particular segment that is looking for a profit."

The Arkansas Bar Assn. has frowned on the no-fault concept, but the state's insurance agents' association has come out in favor of a no-fault plan. Gov. Dale Bumpers has asked for a complete investigation into no-fault plans.

The committee will be composed of the council's committee on corporations, insurance and banking and the committee on judiciary. It will hear opponents of no-fault first. Ten days' notice must be given to the committee. ■

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NAIC . . .

Continued from page 33

their investment income all along, but by insisting upon the freedom to apply investment income as they wished insurers were destroying their credibility with insurance commissioners and with their policyholders.

"Under NAIC's profitability reporting plan, profits are explainable to the consumer who knows what percentage he gets on his money at the savings and loan or bank or from stocks and bonds."

FINANCIAL ANALYSTS who have reviewed the NAIC profitability study point out that it has the advantage of providing more realistic measurements of property-liability insurers profits, thereby giving them greater confidence to take on large risks and

to end practices that restricted the market, like cancellations and nonrenewals of auto insurance policies. For the consumer, it tells the return on the rate base; for the investor, it tells the return on net worth.

On the matter of reporting profitability by individual companies, Messrs. Hanson and Dieneen explained that profitability reports for each company prepared by A. M. Best Co., statistical agents for NAIC, are available to individual insurance commissioners on request.

That means that insurance commissioners who want to explore, for example, the impact on rates and profitability of open rating laws may examine the results of individual companies and, for that matter, provide the press with their conclusions.

NAIC's data bank is now being placed on computers to match the insurers' method of handling their information. Upon this data

NAIC may now impose its 11 tests for solvency, dubbed the "early warning test," devised by financial analysts and experts from the insurance business.

This "early warning test" will hopefully forestall insolvencies, thereby protecting solvent companies from paying assessments into guaranty funds.

The current research project at NAIC's central office is the drafting of a report on the effect on competition of the adoption of

STATE INSURANCE REGULATION



open rating laws in 22 states, which represent about 50% of the nation's property-liability insurance volume.

This report will attempt to develop tests for finding whether competition operates to the consumers' benefit under open rating.

Florida joins battle on deceptive cover ads

MIAMI—Florida's insurance commissioner has taken a slap at mail order health insurance firms, which he contends are flooding the state with potentially deceptive advertising.

Tom O'Malley charged that a policyholder would have to remain hospitalized for seven years to collect the maximum benefit in one policy claiming to offer \$600 a month up to \$50,000. "One has to look at this type of mail order insurance with a jaundiced eye," the commissioner said. "They are promising great sums of money where the possibility of payment is almost impossible because of the restrictions built into the policy."

Mr. O'Malley claimed that ex-

tra costs or hidden restrictions on coverage may be found in the policies' fine print. Advertisements promising \$200 a week up to \$20,000 actually mean that only if the policyholder is hospitalized for almost two years can he receive up to \$20,000.

Although the average hospital stay for people over 65 is 14 days, he said, many policies being advertised don't even begin paying until the seventh day of hospitalization.

"**WE INTEND** to take whatever action is necessary to stop misleading advertising by suspending licenses of state companies or by going to the Federal Trade Commission for companies out of state," said Mr. O'Malley.

Mr. O'Malley's office is hurrying into print a booklet entitled "The Great Hospital Insurance Puzzle" to serve as a guide for potential insurance buyers.

The commissioner complained that most mail-order policies exclude alcohol or drug rehabilitation, extended care facilities or nursing home care, expenses incurred while in a state or federal Veterans Administration hospital, and treatment for venereal disease. Many also exclude coverage in the case of a recurring illness or injuries incurred before the policy took effect.

One question answered by the commissioner's booklet is, "How far will a policy that promises to pay \$100 a week go toward my expenses in a Dade County (Greater Miami) hospital?"

According to the booklet, such a policy would mean a maximum payment of \$14.82 per day regardless of the actual cost. Yet seven hospitals in Dade County quoted ward room daily rates ranging from \$32 to \$56 per day. ■



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letters

Continued from page 16

A correction

To the Editor: Page 44 of the May 8 issue of *Business Insurance* included an ASIM conference report summarizing my comments on the oil industry sessions. The section of the report on OIL is inadvertently misleading, as it gives the impression that I may be speaking on behalf of OIL or perhaps Standard Oil Co. (N.J.), whereas of course I was merely reflecting comments made during the meeting. Standard Oil Co. (N.J.) is not a member of OIL and my comments were made in the capacity of chairman of an educational briefing session.

I would appreciate your setting the record straight for the benefit of your readers.

J. V. Cockshott

Risk Management Division,
Standard Oil Co. (N.J.), New York, N.Y.

Plaudits from CMS

To the Editor: Just received my copies of *Business Insurance* for May 22. From all of us here at CMS a sincere "thank-you" and a hearty "well done" for the article on Check-Mate Systems by Teresa Norton. She wrote an excellent article and we are very appreciative of her efforts.

John L. Sperling

VP, Advertising, Check-Mate Systems Inc., Lionville, Pa.

Blames insurers for making arson profitable

MONTREAL—Insurance companies are partly responsible for creating a situation in which setting fires on purpose is profitable, says the head of Montreal's arson squad.

Detective-Lieutenant Jean-Louis Fourcaudot said his files are crammed with cases of arsonists trying to collect insurance money and most of them could have been prevented. "All the insurance companies have to do is ask the Fire Underwriters Investigation Bureau about the owner and the commercial establishment seeking a new insurance policy," said the police officer.

"This organization was set up to help insurance companies cut down on the risks but they don't take advantage of it."

FUIB WAS established in 1923 and has files on every fire that resulted in an insurance company paying out more than \$500 in claims.

"We suspect many insurance agents are too busy gathering business instead of checking out whom they are insuring," said a FUIB spokesman.

The lack of advance investigation is one of the reasons for a 10% arson rate in Montreal, it is maintained. One out of every 10 fires in the city is deliberately set, Fourcaudot said.

In one case last fall, an arsonist just released from jail bought a small business with borrowed money and took out \$5,000 worth of insurance on it. He had the policy's value increased to \$33,000 within two weeks of his release from jail. The insurance company agreed to increase the policy without investigating the business.

A MONTH later, police investigating a fire that destroyed the building arrested the man. They said he was planning to pay off his loan with his claim money and pocket the rest of the \$33,000.

He now is serving a second prison term for arson.

Lt. Fourcaudot said 20% of the fires set deliberately in Montreal are set with insurance claims in mind. Other arsonists set fires literally for the fun of it and not

all of them are children or adolescents, he said. "We arrested a businessman last year who set fires during his lunch hour," the lieutenant added.

Fires had also been set by jealous wives or husbands.

Although the crimes they investigate are rather spectacular, arson squad members spend long hours sifting through the files of the FUIB, the fire commissioner's office, and questioning witnesses.

Lt. FOURCAUDOT said most of the squad's cases are built on circumstantial evidence. The only easy cases were the ones in which a suspect confessed.

Two years ago, in one of the few cases in which someone confessed to committing arson, a

suspect was caught with his pants down—literally.

The suspect's trousers caught fire while he was attempting to set fire to a garage. He fled the garage in his underwear, leaving his wallet behind. Police found the wallet with all the identification intact and went to the man's home. The man, wearing a pair of pants twice his size, ran up the street and was about to open the front door when police moved in.

"He was so surprised he confessed to everything on the doorstep," Lt. Fourcaudot said.

The squad has encountered variations on the arson theme including the restaurant and store owners who only want part of their establishments destroyed so that equipment or merchandise

they couldn't pay for or sell could be eliminated.

SOME OWNERS hire an arsonist for \$500 or more, depending on the amount of insurance and risk involved in the job, he explained.

Police records also show that a number of persons have been killed or injured in the process.

Two men trying to burn down a fish store were killed when naphtha fumes came into contact with the pilot light of a gas burner. Lt. Fourcaudot said: "They forgot about the gas heater and went about placing the naphtha bags on the floor and slashing them open. The force of the explosion sent them flying through the door into the street."

But getting away with a criminal fire in Montreal is difficult. Police arrested 50 persons last year after investigating 261 cases.

Following any fire in Montreal an investigation is launched by the fire commissioner, a public investigator with powers similar to those of a coroner. Once the fire commissioner produces evidence of criminal involvement the arson squad takes over. Between the two sets of investigators few details escape.

"By finding the place that is most charred we can determine where the fire started," an investigator said. "If there is more than one place of origin we suspect arson."

If gasoline is used, investigators can usually smell it.



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Sen. Tower asks OSHA amendments

WASHINGTON—The Occupational Safety and Health Act, the target of criticism from just about everyone who has had anything to do with it, has come under fire this time from Sen. John Tower (R.-Tx.).

Sen. Tower, while agreeing that the act was structured to insure the health and safety of workers in American industry and business, felt that small business was subjected to what he called "unnecessary hardships" when forced to comply. Therefore, he has urged the Senate to amend the act to exempt farms and small businesses.

"The bill would exempt from the act small businesses and farms that employ 25 or fewer persons," the senator said. "This same exemption has been applied to the Equal Employment Opportunities Act."

In his opinion, health and safety conditions could be kept high in small businesses on an informal basis because it would not be uncommon to find employers and employees working side by side. ■

Don't depend on insurers for loss prevention

MONTREAL—The director of safety and loss prevention at Allied Chemical Corp. said here that services of brokers and insurance companies are valuable tools to risk management but that dependence on them as the nucleus of a loss prevention program "will never work."

Sanford Schreiber made the remark before a standing-room-only panel discussion on property

loss prevention at the American Society of Insurance Management conference.

Noting several reasons why it should be management's ultimate responsibility for loss prevention and pointing out that those retained for outside services only visit a location on a scheduled basis, Mr. Schreiber asked why managements "who jealously guard their prerogatives with re-

spect to production and sales of their commodities are so willing to delegate the responsibilities for assuming the well-being of their employees and continuity of operations to an outside insurance agency.

"It is our opinion," the Allied Chemical man declared, "that in the past managements have delegated these responsibilities only because they were not fully aware of the implications and costs associated with a poor loss record. Today," he added, "with the more restrictive insurance market, spiraling costs and increased pressures from federal and state legislation, they are suddenly forced into an area that they know little about, and in most cases are not staffed to handle."

CITING AN example drawn from Allied Chemical's experience, Mr. Schreiber said that the company had one fire and explosion exposure "so serious in nature that our company could not sustain it from a financial standpoint."

"At the time of this analysis," the Allied man continued, "... we were insured with an insurance carrier who in my opinion had the best chemical engineering loss prevention department in the country. Though they were on this risk for many years, this analysis and recommendation to reduce probably maximum losses was never discovered by that carrier, and I do not make that statement to downgrade their ability—only to illustrate the fact that it requires industry expertise and a total knowledge of the implications of loss potentials."

Emphasizing that Allied has long recognized that insurance expenses are directly related to corporate loss experience, Mr. Schreiber said that company policy is that "only those exposures which could have a significant effect on earnings or balance sheet position be insured."

"We believe," he said, "the ideal solution to any exposure is obviously its elimination or its reduction to a point where it no longer poses a significant threat to profitable operation—in a word, loss prevention."

THE ALLIED MAN pointed to one particular case in his company which had deteriorated over a period of years. Once the risk

was determined, Mr. Schreiber said, company management approved expenditures of about \$1 million to "completely redesign the area."

"Most importantly," Mr. Schreiber emphasized, "the company decided to stockpile critical equipment which, if destroyed, could have been financially devastating to the company in terms of length of time it would take to get the operation rolling again."

"Just recently, due to additional expansions, our department

determined that our disaster plan for that area had become out of date. And, once again, we made this point to our management and once again our management recognized the potentials and business hazards and authorized an additional \$1 million to upgrade our disaster plan."

"These," Mr. Schreiber said, referring to sound risk evaluation and loss prevention in-house programs, "can only be developed by management and not by an outside insurance agency." ■

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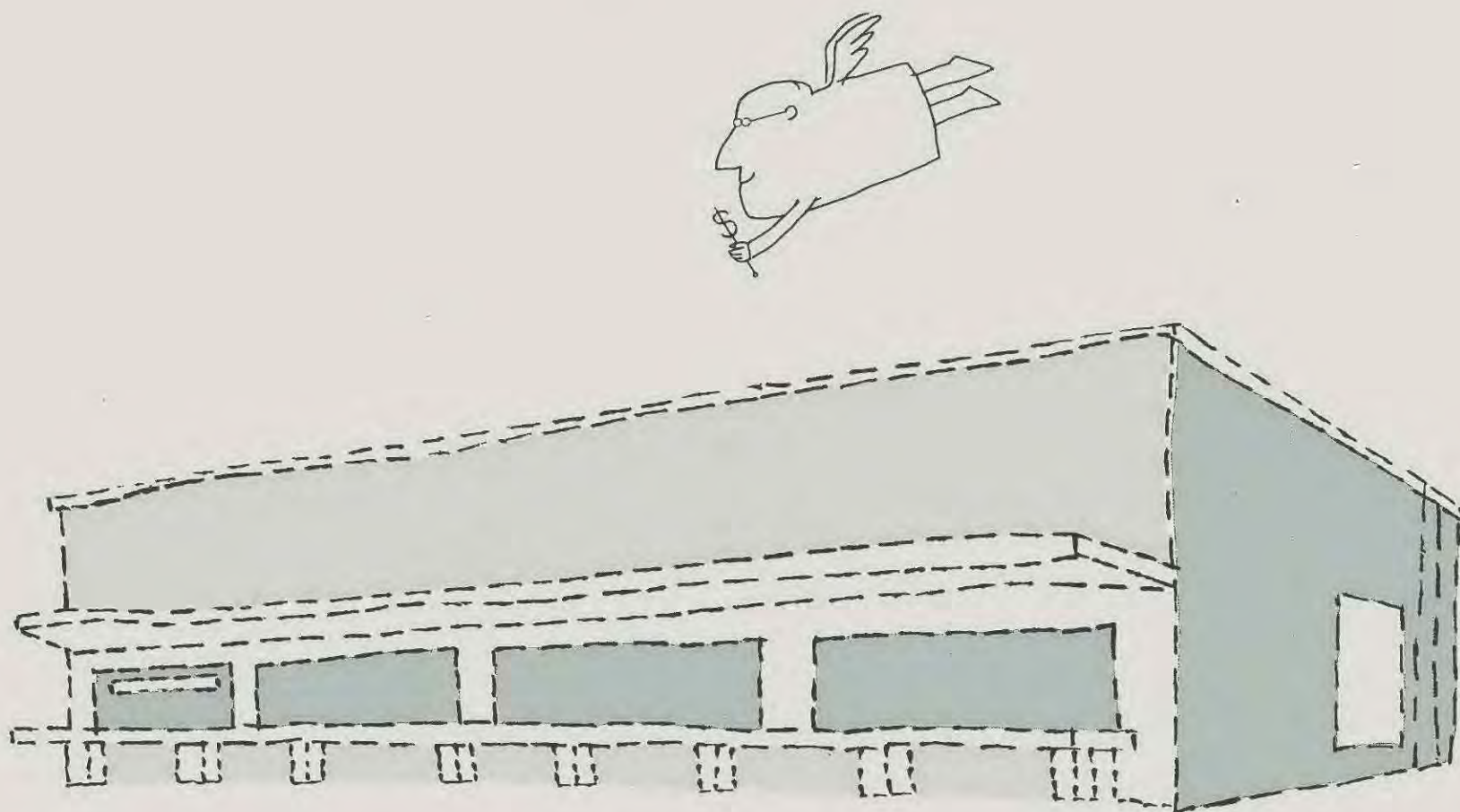
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