Blues face tougher competition for health dollars

By ELISABETH M. WECHSLER

CHICAGO—Mirror, mirror on the wall, who's the fairest of them all: Blue Cross/Blue Shield? Commercial carriers? Self-insurance?

Blue Cross/Blue Shield, known affectionately as the Blues, have long had the edge on the group market as suppliers of hospitalization and physicians' benefits. Even with the steady encroachment of commercial carriers, the Blues still boast 50% of the nation's group medical contracts, with more than 65 million people covered in some 700,000 group policies. The Blues recorded $7.2 billion in group premiums for 1973, the last year for which figures are available.

According to a Blues spokesman, the "minimum growth in coverage is 5% a year and sometimes as much as 10%."

Editor's note: **Ms. Wechsler took a close look at the relative merits of various group health insurers in this article, the first of two. The other will include more views on cost and servicing considerations in group health and medical plans, including self-insurance, ASOs, claims handling, experience rating and other provisions.**

But results from a survey conducted by the Wyatt Co., a consulting actuarial firm, indicate a change in the tide. Of 1,254 corporations surveyed among the Fortune 1000 and top 50 retailers, utilities, commercial banking firms and transportation companies, 66% of the 517 respondents said their medical benefits were underwritten by insurance companies while 14% were contracted with the Blues and 7% were self-insured.

Size and market position, however, tell only part of the story. The range of health and medical benefits offered by the Blues is comparable to what commercial carriers provide with one important exception: Commercial carriers can offer a group benefit package including life insurance, accidential death and dismemberment (AD&D) and long-term disability (LTD) benefits along with

Continued on page 57

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business insurance®

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

Acid cargo which caused air crash to spur actions

By RICHARD L. GORDON

WASHINGTON—A string of errors in the packing and loading of a nitric acid shipment for a Pan American Airways cargo flight in November 1973 may lead to liability actions seeking to recover as much as $6 million in damages, *Business Insurance* learned.

The improperly packed nitric acid leaked from its containers aboard Pan Am flight 160, then apparently combined with the sawdust in which it was improperly packed, and filled the aircraft with dense smoke while it was airborne on November 3, 1973.

The three-man flight crew, unaware that they were carrying hazardous materials on board, attempted an emergency landing at Boston's Logan International Airport.

The aircraft crashed, however, killing the crew and destroying the Boeing 707 jet. The National Transportation Safety Board said it believed the smoke in the cockpit had become so thick the flight crew was having difficulty reading its instruments.

Aftermath of multiple explosions and fires at Sponge Rubber Products Co., Shelton, Ct., one of two major property losses occuring within one week. Combined property and consequential losses could reach more than $20 million. See story on page 2. The New York Telephone Co. fire in downtown Manhattan created major business interruption losses.

United States Aviation Insurance Group (USAIG), lead underwriter of insurance on the airplane, has settled Pan Am's claims for the loss, amounting to around $6 million.

"NO STONE is being left unturned to find the person responsible," a USAIG official said. "It's a little bit of a hornet's nest."

Robert McLarty, vp-claims for USAIG, said the company was currently investigating possible action against the shippers and packers of the acid, and against the Boeing Co. "for failing to provide a safe and reliable smoke evacuation system" on the aircraft.

"I would guess the packers would have a greater responsibility than the shippers," he said.

The packers involved in the shipment were the Lyon-Commercial Export and Packing Division, a Burbank, Ca., unit of Lyon Moving Co., and the Seven Santini Brothers, of Maspeth, N.Y.

Continued on page 2

Phone company's losses self-insured, with excess covers

NEW YORK—New York Telephone Co. is self-insured for the first $1 million in property damage resulting from a fire late last month in a Manhattan phone center that destroyed 31,000 switching mains on two floors and cut off service to 170,000 phones in the area, *Business Insurance* learned.

New York Telephone, a subsidiary of American Telephone & Telegraph Corp. (AT&T) insures the next layer of property damage risks up to $10 million with the American Home Assurance Co. In addition, New York Telephone is known to have a $65 million excess insurance policy through a group of companies, the major portion being underwritten by Lloyd's of London and the Insurance Co. of North America, (INA).

NO PROPERTY damage figures have been released by the telephone company as yet, but one official estimated the fire will cost "between $5 million and $10 million just to restore service."

"This figure doesn't include property damage or the cost of replacing equipment," the official added.

No estimates were available for loss of revenues from the phones out of service. Phone company operations may take more than two weeks to restore.

One insurance industry source noted that the telephone company is not insured for loss of revenue. The consequential loss is not expected to be very substantial, considering the size of the company, observers noted.

The fire also knocked out security alarm systems in a 300-block area of lower Manhattan. Adjusters said the phone company is not likely to be held liable for loss of service since there doesn't appear to be negligence connected to the cause of the blaze.

HOLMES PROTECTION Inc., which has some 3,000 systems in the area affected by the fire, had a "considerable number, but nowhere near all of them" silenced by the blaze, a company official said.

A short circuit in a low voltage cable caused the fire, which started in a sub-basement of the 11-story, 50-year-old building shortly after midnight, Feb. 27, according to the New York fire marshal.

New York City fire commissioner John T. O'Hagan said that such fires are unusual and that he had never heard of one during his 28 years with the department.

Smoldering polyvinyl chloride insulation inside the cables caused smoke so thick that four firemen were hospitalized for smoke inhalation; 150 of the 500 firemen on the scene during the 15-hour blaze were treated for other injuries. ■

International firms unite plans, use local covers, excess 'blankets' abroad

NEW YORK—Consolidation is the key activity surrounding the international property and casualty programs of many top multinational corporations, a *Business Insurance* survey of 50 firms revealed.

"We wanted to achieve a greater degree of control, to consolidate our purchasing power . . . to practice economy of scale," a spokesman for an East Coast conglomerate said in reply to the telephone survey.

THE CONGLOMERATE dropped its former carrier and signed with American International Underwriters (AIU), part of American International Group, to put the program into practice, the spokesman said.

A Midwest-based diversified chemical and consumer products firm also noted a recent change in insurance carriers. "We're almost completely covered by AFIA now," the firm's spokesman said. "Also we're more centralized."

Robert Dorgan, insurance manager for U.S. Industries, New York, noted that his company recently bought a worldwide difference-in-conditions policy from AIU; a West Coast conglomerate with truck manufacturing interests changed its coverage for operations in Great Britain, using an AIU blanket excess policy to supplement local policies, a company spokesman stated.

"Blanket limits are particularly significant for business interruption and property coverages," the spokesman added.

Spencer J. Traver, director of risk management at B.F. Goodrich explained that "for seven months we've been in the process of consolidating and centralizing our insurance plan."

"WE HAVE GLOBAL coverage already," Mr. Traver said, "but we want more in-house guidance."

Robert Reeves, insurance manager for Ashland Oil Co. took a slightly different approach to changing his company's international programs. He went from a totally consolidated program using non-admitted carriers to placing more coverage in local admitted markets.

Continued on page 59

international

OUR ANNUAL INTERNATIONAL ISSUE focuses on London as a major market for the placement of such risks as marine, aviation, oil rig, professional liability, and nuclear cargo. Stories about London's competitive stance begin on page 11 and are scattered throughout the section. The first of three articles by Dr. Norman A. Baglini, who recently completed a major study of risk management in multinational companies, appears on page 48. Insurance buyers are warned to watch out for differences in coverage under Japanese policies (page 20). Strict liability for product damages or injuries is likely to be imposed in Europe (page 64). International air carriers face higher liabilities per passenger (page 60). We viewed benefit trends in Europe (page 35), Puerto Rico (page 38) and South America (page 22). Companies drilling for oil, and building offshore platforms are spending big dollars for rig insurance (page 24). Throughout the section we've profiled the insurance programs of five international firms.

Air cargo hazards . . .

Continued from page 1

Both companies declined comment on their insurance coverages to protect against this kind of liability exposure. The Lyon unit has since been sold to Gulf Ports Trading Corp. of Houston, and is now known as Western Ports Trading Co.

THE SHIPPER of the acid was the National Semiconductor Corp. and the manufacturer was the Allied Chemical Corp.

The National Transportation Safety Board report on the crash found several violations of federal rules regarding transportation of the acid.

"Since sawdust was specified as the cushioning material for red label (flammable) materials, it was presumed by the packer (Santini) that if it was 'OK' for red label materials, it was 'OK' for white label (corrosive) materials," the safety board report said.

"Since Santini did not stock noncombustible cushioning material and had no metal cans in which to encase the nitric acid, the Lyons representative was contacted," the report said.

"The Lyon representative advised the Santini office manager that a metal can was not necessary and that sawdust was permissible," the report said, although the board said federal requirements specified the use of a metal can and noncombustible packing materials for acid shipments.

"Except for the office manager," the safety board said, "no personnel at Santini had been trained for handling hazardous materials shipments."

PAN AM FREIGHT crews later loaded some of the boxes containing the acid on their sides, making the spill possible. The safety board report said the required "This End Up" marking were not on the boxes.

The Federal Aviation Administration, responsible for enforcing the hazardous cargo rules for aircraft, has already fined Pan Am $1,500 dollars for failure to notify the flight crew of the presence of the acid on board.

Fines against other parties, including packers and shippers, have not yet been made, the FAA said. The FAA has collected $85,000 in fines in 291 cases of hazardous materials violations during 1974. That was up from $24,000 collected in 222 cases in 1973.

The safety board said the probable cause of the accident was the presents of smoke in the cockpit "which was continuously generated and uncontrollable."

"Although the source of the smoke could not be established conclusively, the safety board believes that the spontaneous chemical reaction between leaking nitric acid, improperly packed and stowed, and the improper sawdust packing surrounding the acid's package initiated the accident's sequence," the report said.

A contributing factor, according to the safety board, was "the general lack of compliance with existing regulations governing the transportation of hazardous materials which resulted from the complexity of the regulations, the industrywide lack of familiarity with the regulations at the working level, the overlapping (governmental) jurisdictions, and the inadequacy of government surveillance." ■

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Standard on vinyl chloride is sustained

NEW YORK—A stringent one part per million standard for occupational exposure to vinyl chloride gas, a cancer-linked chemical, was upheld by a federal appeals court panel.

The court ordered that the one part per million standard, issued by the Occupational Safety and Health Administration (OSHA) last October, be met within 60 days (April 3).

OSHA officials in Washington said users and manufacturers of the chemical can seek temporary variances from the order.

RALPH L. HARDING, president of the Society of the Plastics Industry, said, "We are shocked at the news and its implications for the entire industry." The gas is used primarily to produce polyvinyl chloride, a widely used plastic resin.

The Society had argued before the appeals court panel of three judges that the standard was technologically unfeasible.

The society also argued that the existing medical evidence did not necessitate a reduction to one part per million to protect worker health; that the standard would force nearly all employes in the polyvinyl chloride resin industry to wear cumbersome, uncomfortable respirators nearly all of the time; and that the application of the full OSHA standard to the users of the chemical was not justified. ■

FM, FIA involved in factory bombing, fire

SHELTON, CT.—Factory Mutual System and Factory Insurance Assn. are both involved in massive losses resulting from the bombing of a big sponge rubber plant here early this month, *Business Insurance* learned.

The destruction apparently was caused by plastic explosive devices planted by three persons wearing ski masks. Officials are now describing the explosions and subsequent fires as this state's worst disaster since 1955. Estimates of damage range from $10 million to $20 million.

FIA WAS THE major property underwriter, while contents, business interruption and machinery were insured with Protection Mutual Insurance Co., one of the FM companies.

B.F. Goodrich Co., Akron, Oh. was said to own the plant, and is the holder of the FIA policy. George Beis, Goodrich insurance manager, declined to comment on the ownership or the insurance coverage.

Sources on the scene, however, indicated that although the bombed plant's contents and operations were sold to Grand Sheet Metal Co. last April, the sale of the building itself was never fully consummated. Thus, Goodrich was still responsible for insurance coverage on its building.

The facility was being used by Sponge Rubber Products Co., a division of Grand Sheet Metal Co., which is a wholly-owned subsidiary of Ohio Decorative Products Co., Spencerville, Oh. Ohio Decorative Products is the Protection Mutual (FM) policyholder. Lowell Powell, insurance manager of Ohio Decorative Products, could not be reached for comment on policy limits.

THE BLAST took place Saturday, Mar. 1 after bombers kidnapped three building guards, taking them into a nearby forest and tying them to trees. There were no injuries or deaths from the blast and fires.

Shelton, a port town of 38,000, lost its major employer with the destruction of the plant. At one time, Goodrich employed nearly 2,000 at the facility, but the new operator, also a supplier to the automotive industry, has laid off many workers in recent months because of economic conditions and the auto industry slump. About 1,000 were employed by Sponge Rubber Products at the time of the blast. The firm was expecting to shut down the facility completely in the future because of economic conditions. ■

GUIDE TO FEATURES

International section starts .. 11
Opinions 26
Info for Buyers 32
Perspective 45
People 66
Dates for Buyers 66

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Flood covers seen doubling

WASHINGTON—Federal flood insurance coverage in force is expected to more than double to $20 billion by June 30, 1975 compared with $8.4 billion on June 30, 1974, according to the Department of Housing and Urban Development (HUD), which sponsors the program.

Budget estimates for fiscal year 1976 expect the coverage amount to climb to $36 billion by June 30, 1976, the department said.

THE INSURANCE coverage is basically designed for small commercial and manufacturing properties and residential properties.

The department asked for $75 million in fiscal 1976 for flood insurance studies to assure that areas having special flood areas are expeditiously identified and that communities enact and enforce appropriate flood plain management measures.

The $75 million request compares with $30 million provided in fiscal 1975. ■

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Laws to impose oil spill liability, insurance fund

By JOANNE GAMLIN

SACRAMENTO, CA.—An oil spill liability insurance fund appears to be an idea whose time is coming in California, where fears galvanized by the $14 million Santa Barbara oil spill in 1969 have yet to subside. Federal legislation, however, may do the job first.

Two separate pieces of legislation proposing oil spill liability funds have been introduced into the California legislature. Both are based on the principle that parties would be reimbursed by the fund for damages spawned by spills without having to go to court to prove injury.

State senators Omar Rains, Democrat of Santa Barbara, and Peter Behr, Republican of Tiburon, on Feb. 10 introduced state bill 387, a 50-page document sponsored by state attorney general Evelle J. Younger. The bill seeks to establish a $35 million oil spill liability fund supported by a fee of as much as five cents per barrel of crude oil. The fee would be levied at the time of the barrel's first transfer, whether that action occurs at the wellhead, on a tanker, or wherever, regardless of whether the oil is domestic or imported.

Liability of petroleum producers for spill damage would be limited by the bill to $14 million per occurrence, in accordance with current admiralty laws. However, the legislation would provide for maximum daily fines of $50,000 for violations.

IN ADDITION, the bill vests control of the ability to regulate the movement and storage of crude oil in the state Water Resources Control Board, an agency that controls water rights and management.

An aide to Senator Rains, who told *Business Insurance* that bill 387 is not expected to emerge from the state house until August, said that the $35 million fund would function as a group insurance plan for all oil companies doing business in California.

A second proposal for a similar fund has been put on the table by the California Coastal Zone Conservation Commission, an agency born of the environmental movement and charged with the protection of the state's coastline.

It would set up a $100 million oil spill liability fund to be administered by the secretary of the California Resources Agency. Maintaining the fund would be a levy of two cents a barrel on petroleum produced from wells on state or federal land and on each barrel loaded or unloaded at state tanker terminals. Limits of liability would be $20 million for individual operators of offshore equipment and $100 million for individual terminal owners and operators, although the liability could go higher if gross negligence or willful misconduct could be shown to have occurred.

The fund would compensate all damages caused by oil discharges resulting from any step in the oil production process, a spokesman explained. He said the fund would then recover from those involved in the spill such as offshore owners and operators, tanker and tanker terminal owners. A part of the fund should go annually toward the development of oil spill surveillance, containment and cleanup technology, he added.

PARADOXICALLY, at about the time the fund recommendations were being readied for legislative analysis, the U.S. Department of Interior issued a lengthy environmental impact statement which predicted that a major oil spill will likely occur if the federal government goes ahead with its plans to permit drilling on 1.6 million acres of offshore Southern California coastline.

The statement, part of a four-volume draft, said that "there is over a 95% chance of a platform spill" during the 30-year life span of the 60 platforms planned for the offshore area by petroleum producers.

Because anxiety concerning offshore oil drilling accidents hangs heavy over California, state bill 387 and the Coastal Commsision's proposal may be greeted with cheers in the state legislature. However, the risk manager for a Southern California petroleum producer may have been speaking for the oil industry when he said that a national liability fund would be preferable to a crazy-quilt of state laws.

"Oil companies would find compliance with a clutch of different state laws to be difficult," he asserted, noting that the idea of an oil spill liability fund is catching on with a number of coastline states. Florida is one state with a law imposing strict liability on people who cause spills.

A SPOKESMAN for Exxon similarly said that his company favors federal legislation.

It was suggested that the Washington, D.C.-based American Petroleum Institute may grab the lead in pressuring the U.S. Congress for national laws regarding oil spill liability.

A spokesman for the Western Oil & Gas Assn., a trade group representing 100 to 120 oil companies doing business in the 11 Western States, took direct aim at bill 387. He said compliance "will cost the consumer a hell of a lot of money."

He added: "Since California produces 900,000 barrels of oil a day and it consumes 1.3 million barrels a day, the bill's levy of five cents a barrel seems very high."

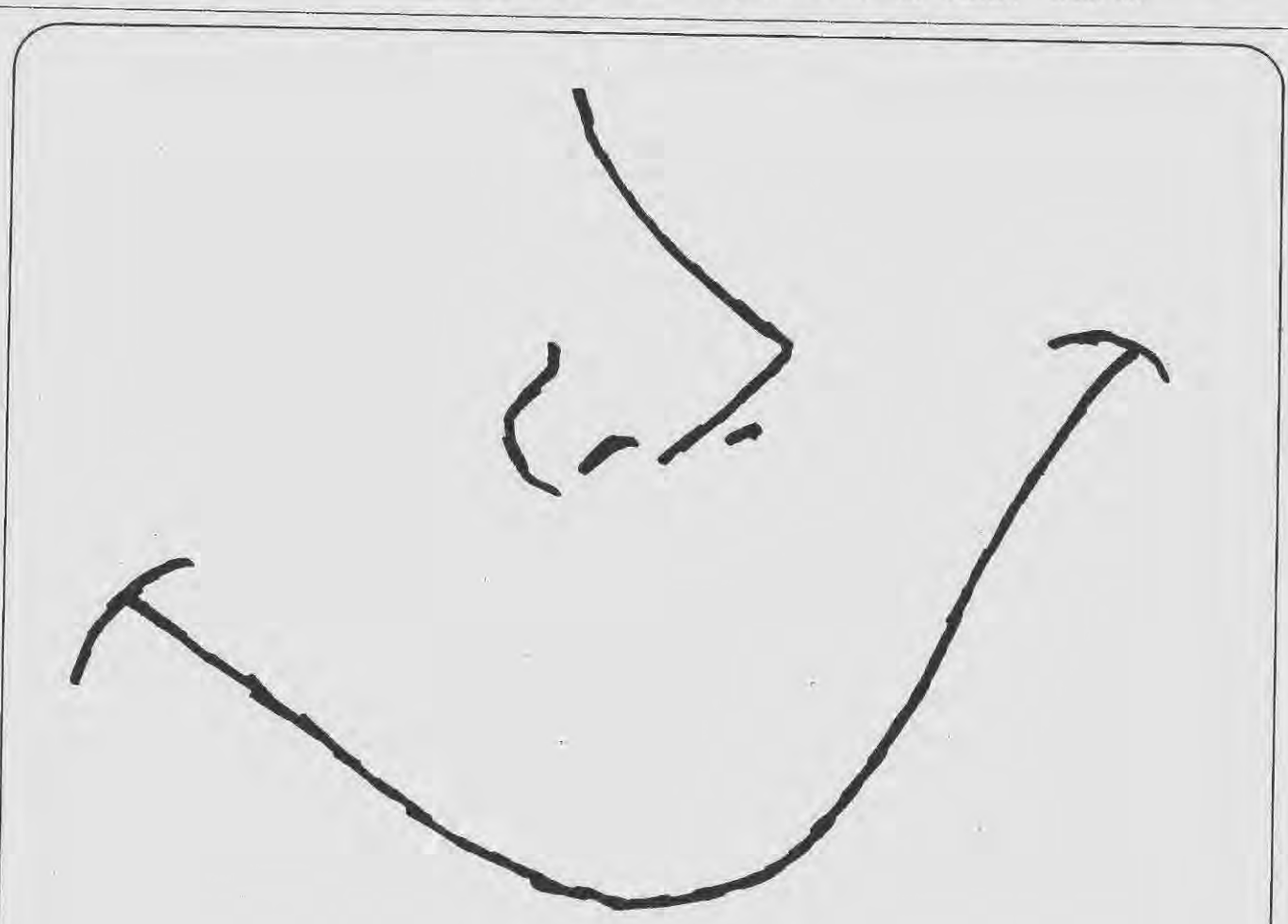
It was further pointed out that a precedent for federal legislation exists in the Super Tanker Ports Bill passed by the U.S. Congress last year. It proposed a $100 million liability insurance fund to cover damages from spills in super tanker ports, which at present do not exist to be supplied by a two cent a barrel fee on crude oil. ■

Lurie takes, pension post

WASHINGTON—The Internal Revenue Service (IRS) named Alvin D. Lurie special consultant on the pension reform law, as its first assistant commissioner for employe plans and exempt organizations.

Mr. Lurie, a tax attorney, is to receive $36,000 a year in the new post, created by the pension reform law signed last year.

The law created a consolidated office of employe plans and exempt organizations to handle previous IRS duties relating to pension and employe benefit plans as well as the new responsibilities created by the pension reform law. ■



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More self-insurance, carrier changes biggest benefit trends: Fortune study

NEW YORK—Self-insured employe benefits programs are increasing, according to a recently released Fortune Market Research study of the top 1,000 U.S. industrial corporations.

The study also found that among companies which insure their employe benefit programs, about half changed carriers within the last five years.

This is a considerably more stable situation than was found in a similar Fortune study of views about the property/casualty market, where 92% of the top 500 and 70% of the second 500 corporations reported shifting insurance carriers during a similar interval.

Long-term disability and group dental plans led the list of the most recent additions to benefit programs, the study found, with survivor income, group dental and group automobile plans the most actively considered as future additions to company benefit plans.

THE TOP 1,000 corporations were found to offer their employes an average of six major types of insurance coverage. The typical company uses three different insurers to underwrite the coverages, Fortune said. Retention or retroactive rating is generally the most frequent method of funding, the survey showed.

Among the top 500 industrial corporations, 45% reported self-insuring an average of 1.7 of the listed employe benefit programs; of the second 500, 36% reported self-insuring an average 2.1 programs.

Approximately one-third of the companies plan to increase the self-insured portion of employe benefit plans over the next three years, the survey revealed. Increases are planned by 44% of the companies that already self-insure and by 29% of those companies which do not yet self-insure.

Temporary disability plans are the most frequently self-insured benefit; 42% of the top 500 corporations self-insure them as do 37% of the second 500 corporations. Retention or retroactive rating is used by 70% of the top 500 and 61% of the second 500 for funding group health plans.

Other employe benefits a majority of the top corporations fund by retention or retroactive-rated plans include: group major medical, group dental, group life and survivor income.

The fixed cost method is used to fund group accident (travel only) by 57% of the top 500 corporations and 61% of the second 500 corporations.

Basic group health plan insurance was the type most recently shifted by the top 500 corporations, (33% did so) while long-term disability was most recently shifted by 29% of the second 500 Group term life was most recently shifted by 22% of the top 500 and 24% of the second 500.

Lower premium cost and better rates were the reasons a majority of the companies, (63% of the top 500 and 60% of the second 500) switched carriers for employe benefits program. Improved service and claims processing were cited by 21% of the top 500, and 17% of the second 500 as reasons for changing carriers.

Three different insurance carriers are used by 27% of the top 500 corporations and 31% of the second 500 to underwrite employe benefits programs. Twenty-five per cent of the top 500 and 28% of the second 500 use two companies and one company is used by 14% of the top 500 and 19% of the second 500.

Of the companies using two or more different insurance carriers, 20% of the top 500 and 18% of the second 500 noted there would be an advantage to using only one carrier, while 78% of the top 500 and 81% of the second 500 stated there would be no advantage to using a single carrier.

The top 10 insurance carriers used by the top 1000 corporations for their employe benefits programs, the study found, are: Blue Cross, (34% of the top 500, 28% of the second 500), Aetna Life, (25% of the top 500, 21% of the second 500); Prudential, (22% of the top 500, 9% of the second 500); INA, (21% of the top 500, 11% of the second 500); Travelers, (20% of the top 500, 18% of the second 500); Equitable, (19% of the top 500, 12% of the second 500); Metropolitan Life, (19% of the top 500, 8% of the second 500); Conecticut General, (13% of the top 500, 10% of the second 500); CNA, (7% of the top 500, 7% of the second 500); and John Hancock, (6% of the top 500, 8% of the second 500).

Bankers Life is rated eighth of the top 10 insurers used by the second 500 corporations; 8% of the companies reported using the insurer, compared to 6% of the top 500 corporations, rating it 11th in that list.

The study found that 24% of the top 500 companies and 28% of the second 500 buy both employe benefit and property/casualty policies from the same company; 75% of the top 500 and 72% of the second 500, however, do not.

The majority of both the top 500 and the second 500 companies obtained coverage for employe benefits programs directly from insurance companies: 78% of the top 500 reported doing so, as did 59% of the second 500. Brokers and consultants are used by 55% of the top 500, 66% of the second 500 and self-insurance is used by 29% of the top 500, 23% of the second 500.

VERY FEW OF the top 1,000 corporations had HMO contracts as of mid-1974, only 1% of the top 500 and 2% of the second 500 had contracts for all locations.

Of the most recently added employe benefits, long-term disability was cited by 32% of the top 500 companies and 26% of the second 500. Group dental was named by 17% of the top 500 and 13% of the second 500.

Group dental programs top the list of benefits under active consideration by 28% of the top 500 companies and 21% of the second 500. Survivor income is being considered by 17% of the top 500, 7% of the second 500.

The study found that 99% of the total top 1,000 companies provide group major medical, programs; group term life is provided by 96% of the top 500 companies, 91% of the second 500.

Basic group health is provided by 95% of the top 500 companies, 97% of the second 500; temporary disability by 87% of the top 500, 77% of the second 50.

Group accident (travel only) is provided by 76% of the top 500 companies and 69% of the second 500; group accident (all risk) is provided by 56% of the top 500, 64% of the second 500. ■

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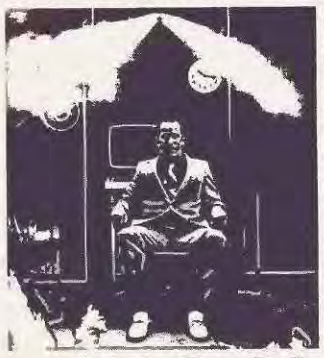

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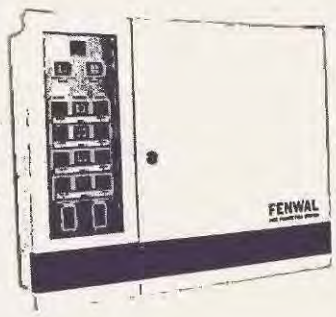

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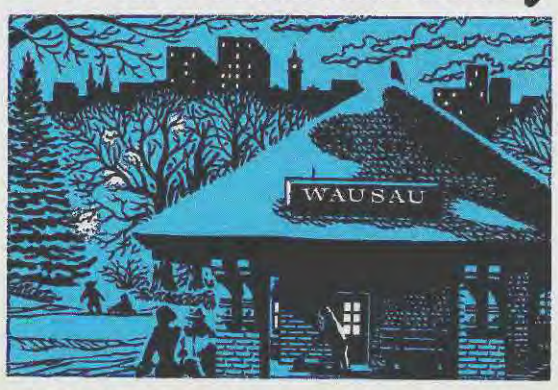

EMPLOYERS INSURANCE OF WAUSAU Wausau, Wisconsin

Bus crash investigation may spur strict medical exams for drivers

SACRAMENTO, CA.—A 1973 Greyhound bus crash near here, which killed 12 passengers and sparked suits by their relatives against Greyhound for $40 million, may bring about rigid standards for medical examinations of long-haul bus and truck drivers.

The 12 passengers were killed Nov. 3, 1973 when a Greyhound "gamblers' special" bus headed for Reno crashed into a concrete pillar. Douglas F. Moore, driver of the bus, also died.

Mr. Moore's death touched off a safe deposit box mystery in which General Fire & Casualty Co., Phoenix insurance carrier for Greyhound, has involved itself, along with the Nyholm Insurance Adjustment Service of Minneapolis.

Affidavits signed by A. Wesley Nyholm of the adjustment service and by John H. Cummings, assistant secretary and claims manager for the insurance carrier, were used as the basis of court efforts to open a safe deposit box in the First National Bank of Hudson, Wi. in the name of W. B. Lee, a resident of Paris and London.

THE SAFE DEPOSIT box, according to spokesmen for the insurance carrier, "may hold documents relating to the physical condition of Moore" prior to the 1973 accident. Mr. Lee claimed the box held "only my will and some ancient love letters." When the box was finally opened, it contained no information about Mr. Moore, and landed Greyhound with an invasion of privacy suit.

The National Transportation Safety Board conducted a 15 month long investigation into the Greyhound bus crash. Although 43 passengers were aboard and some were injured, claims have been filed in court only by survivors of the 12 who died. The safety board concluded that "driver incapacitation was the probable cause" of the crash.

The board recommended that henceforth interstate bus drivers be required to undergo regular medical examinations.

Such examinations, the board said, should be designed to "detect whether bus and truck drivers are susceptible to sudden incapacitation." The board urged establishment of a federal certified highway medical examiner program similar to the procedure now in existence for airline pilots.

THE GREYHOUND bus, chartered from the San Francisco Bay Area by The Variety Singles Club for the Reno trip, was being driven 67 miles an hour when it veered to the right of the center lane on an interstate highway, mounted a curb, overrode a guard rail and crashed into an overpass column.

The safety board asserted a number of factors contributed to the accident, including failure of the guard rail to deflect the bus away from the overpass column, the velocity of the bus and the structural failure of seats in areas of the bus where the crash forces were moderate.

The 20-year-old bus reportedly had been rebuilt three times by Greyhound. The safety board ruled that "clean breaks at weld joints and fittings of the bus seats were the most frequently observed structural failures. This type of construction is conducive to injury."

The investigating board also found that Mr. Moore, 26, was "about 45 pounds overweight for his age and weight" and that he had "slept for 13 to 24 hours prior to the accident." The Sacramento coroner's examination of Mr. Moore found no evidence of "drugs, liquor or heart trouble and no indication of physiological failure."

The co-host on the trip, said that he saw Mr. Moore "clutch his chest, take his hands off the wheel and let the bus drift toward the right without braking or turn signals."

The coroner's autopsy reportedly did disclose that Moore suffered from liver degeneration and chronic gastritis and that he had been last examined by a doctor in April, 1972.

THE SAFETY board report noted the "possibility of narcolepsy and reactive hypo-glycemia" in Mr. Moore. Narcolepsy is a form of sleeping sickness and hypo-glycemia is a low blood sugar condition which can cause fainting.

Currently, the board declared, "any physician or osteopath may conduct the routine medical examination now required of bus and truck drivers. It is not to be expected that such examiners, unless fully employed by the carrier, be fully aware of the requirements of intercity bus and truck operations.

Physicians who specialize in the medical aspects of motor carrier operation, have much better ability to recognize clinically any disabilities inherent in a driver that could lead to sudden incapacitation," the board advise.

The board also noted that "while the rescue operation after the crash was timely and efficient, it was hampered by the fact that the bus windows were eight feet above the ground and difficult to open from the exterior and difficult to keep open.

"The Federal Highway Administration," the board said, "should write new regulations to facilitate evacuation of buses in any emergency, including impact-actuated emergency lighting systems and means by which rescuers can gain entry to a damaged vehicle.

"The FHA also should require that guardrails be capable of deflecting both light and heavy vehicles and guardrail heights should in every instance meet state standards, even when such rails are offset behind a curb or a dike." ■

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RIMS chapter elects

Hugo Hines, corporate insurance manager of Texas Instruments Inc., Dallas, has been elected president of the Dallas-Fort Worth chapter, Risk and Insurance Management Society, Inc. for 1975. Other newly elected officers are Ed Urbanus, asst. treasurer, Southland Corp., Dallas, 1st vp; David V. Roberts, insurance manager, Bell Helicopter Co., Fort Worth, vp; Jack Best, controller, The Dallas Morning News, treasurer; Robert Marginot, manager of insurance, E-Systems Inc., Dallas, secretary; Jack Vandagriff, manager insurance and claims department, Texas Power & Light Co., Dallas, assistant secretary; and Dave C. Morris, manager of insurance and retirement LTV Corp., Dallas, national representative.

Judge orders new trial, calls liability award 'excessive in amount'

SAN JOSE, CA.—In one of the few reversals of a recent product liability awrd, Santa Clara County presiding Superior Court Judge Bruce Allen set aside a $1.1 million breach of warranty and negligence award to Michelle Ahearn, 35-year-old housewife who lost the sight of both eyes while taking Ortho Pharmaceutical Co. birth control pills.

Mrs. Ahearn and her husband, Dennis, were awarded the damages here Dec. 16 by a jury after a six-week trial in which 18 medical witnesses testified about the Ortho-Novum birth control pills.

Lloyd's of London underwrote most of the liability insurance coverage of the manufacturer, Ortho Pharmaceutical subsidiary of Johnson & Johnson.

THE MANUFACTURER appealed the verdict, asserting that three jurors had "exhibited bias" at times during the trial.

In his nine-page decision, Judge Allen ordered a new trial and said that he had found misconduct on the part of the jury, insufficient evidence to justify either the verdict or the damages, which he said were "excessive in amount."

Judge Allen presided over the initial trial in which the jury awarded $1,142,586 to Mrs. Ahearn, and $105,668 to her husband for the loss of her services. The award was one of the largest ever given in a suit for breach of warranty.

The suit was directed by San Jose attorney Sal Liccardo against the manufacturer, its parent company, and also against the retailer from which Mrs. Ahern purchased the birth control pills. She testified she took the pills for two years on a physician's advice.

Judge Allen asserted, in his order for a new trial, that "it is possible that a different result could have been reached but for such bias, prejudice and misconduct on the part of (these) three jurors. Such bias, prejudice and misconduct is the only explanation for the result.

"The loss of eyesight was substantial. Nevertheless, the court finds that the total award is excessive," he stated.

Judge Allen said that a juror had accused the jury foreman and another juror of "telling other jurors that they were well informed in relation to medical matters. (One juror) read to the jurors a prepared statement about big corporations, how much money the drug companies were making and that they should be held responsible," the judge related.

Attorneys and witnesses for the defense had contended Mrs. Ahearn was blinded by a streptococcus infection rather than the birth control pills.

The prosecuting attorney said he would appeal Judge Allen's order to a higher court. ■

American Re reveals loss

NEW YORK—American Reinsurance Co. reported losses of $4,516,000 and issued operating results for the year 1974 compared with adjusted earnings of $16,160,000 including realized capital losses for 1973.

Comparable figures before realized capital losses showed a loss of $4,355,000 for 1974 compared with earnings of $16,477,000 for 1973.

The company noted that the adverse underwriting results for the first nine months of 1974, particularly in surety and casualty lines, worsened during the last quarter. Substantial increases in outstanding claim reserves were required because of increased claim frequency and severity.

The company's per-share adjusted operating loss, including realized capital losses, was 83 cents for 1974 compared with adjusted earnings of $2.97 for 1973. ■

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Early action unlikely on extending federal nuclear no-fault law

WASHINGTON—It appears unlikely that there will be any Congressional action early this session on extending the federal nuclear no-fault insurance law, which expires in August, 1977, *Business Insurance* learned.

Both the Senate and the House last year approved a five-year extension of the program, but the bill was vetoed by President Ford because of a technicality.

The problem then is still the problem now, Congressional sources said. The Senate and the House are going to be reluctant to act until they see the final reports of nuclear safety studies.

Last year, the Senators and Representatives asked President Ford to sign the bill, but they also wanted to retain the power to later kill the extension if they didn't like what the final reports said. The Ford Administration said this would be unconstitutional.

ABOUT MARCH 1, the Nuclear Regulatory Commission (NRC), an outgrowth of the old Atomic Energy Commission, is to report on the feasibility of making utilities liable for damages caused by nuclear material stolen from their facilities.

The report is a response to a proposed amendment to last year's bill by Sen. Abraham Ribicoff (D-Cn.). Nuclear plant operators are not liable for such damages at present.

Sometime in midsummer, a final revised version of the Rasmussen report is due. This report, prepared under the direction of Massachusetts Institute of Technology Prof. Norman C. Rasmussen, was released in preliminary form last year.

It reported that best estimates showed that the most serious accident that could befall a reactor, the melting of its core, would probably produce property damage of only about $100,000, excluding damage to the reactor itself.

Since then, according to the joint committee of atomic energy, numerous comments on the study have been received and they are being included in the final report.

The longer it takes the committee to move on a new extension bill, the more pressing will be the argument to wait for the final version of the Rasmussen report, even if that means no action until late this year.

THE NUCLEAR industry had been seeking early action on the extension to assure the availability of no-fault protection for new power plant projects, which require four to five years of lead time.

The present nuclear no-fault law limits liability to $560 million per plant. Private insurance pools now write about $125 million of that amount, with the government retaining the rest of the risk.

Private underwriters said they hope to underwrite the entire $560 million figure in three to five years. ■

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BART crash covered by self-insurance

OAKLAND, CA.—The Bay Area Rapid Transit System is protected by a self-insurance program and excess insurance policies with London underwriters for the outcome of suits filed in the wake of a recent collision between a test train and a maintenance truck.

The crash killed Arthur L. Briggs, 40, operator of the BART maintenance truck. Two truck crew members were injured in the crash, which caused property damages of some $700,000 to the system's equipment. The lead train car worth $360,000 was a total loss. The second car was also derailed, and was heavily damaged. There was additional extensive damage to electrical installations and train control equipment.

THE FATAL collision occurred on a Sunday when there was no public service. The vehicles were being used to check equipment and the nine car test train was reportedly travelling over 70 miles per hour when the crash occurred.

The train's automatic train detection system apparently failed to detect the truck's presence on the tracks.

Leland J. Hoagland, BART's manager of insurance and safety, was named a member of the six-person BART board of inquiry which will investigate the accident.

During 1974, when Mr. Hoagland was named insurance manager for the system, BART changed from a $30 million wrap-up insurance program to a self-insurance plan using excess coverage purchased in London. Mr. Hoagland works directly with 18 U.K. insurance underwriters. ■

Urge shared risk pool for malpractice

MADISON, WI.—The state assembly's insurance and banking committee, after listening to pleas for help from physicians, recommended passage of a bill to offset the rising costs of malpractice insurance.

According to the proposal, the state insurance commissioner would have the power to require casualty companies offering liability insurance in Wisconsin to join a shared risk pool for physicians unable to obtain malpractice insurance elsewhere.

The pool would be patterned after shared risk pools for auto, property and workmen's compensation insurance plans. All companies writing malpractice policies would contribute to the pool of funds.

Money in the medical risk pool would be used to pay the cost of any successful lawsuit against a physician who had been denied regular malpractice insurance.

Stanley C. Du Rose, insurance commissioner, estimated that 350 insurance companies could be required to join the pool. He attempted to get a clause in the bill that would include accident and health insurers, arguing that such a provision would expand the field by another 300 companies. His request was denied, however. ■

Safety bureau can request prosecution

LOS ANGELES—California's laws covering industrial safety can lead to six month jail terms for employers who allow conditions in their places of business to grow so lax that serious injury or death is likely to occur, a safety official warned here recently.

As a result of a state law passed in 1973 which spells out requirements of the state's industrial safety program, a bureau of investigations has been formed, charged with the responsibility of prosecuting employers who disregard Cal-OSHA regulations.

As section 6425 of the law reads: "Any employer and every employe having direction, management, control or custody of any employment, place of employment, or other employe, who wilfully violates any occupational safety or health standard, order or special order, and that violation caused death to any employe, or caused permanent or prolonged impairment of the body of any employe, shall, upon conviction, be punished by a fine of not more than $10,000 or by imprisonment for not more than six months or both . . ."

At a recent seminar sponsored by the Greater Los Angeles Chapter of the National Safety Council, John W. Hawkes, administrative chief of the bureau of investigations, said that his new agency will investigate when there are five or more injuries or when a death occurs. The bureau is empowered to make a request for prosecution, he said.

GERALD FRIEDMAN, chief deputy of the bureau of investigations in L.A., later told *Business Insurance* that his unit, like the San Francisco counterpart, has been in full operation only since the beginning of the year. Mr. Friedman said as of early February his investigations had already resulted in one conviction.

"If we can fix the facts of a violation that can be prosecuted, we are empowered to give our evidence to the district or city attorney," he explained.

Maurice W. Brailley, an attorney specializing in the civil side of industrial safety laws, said his advises his corporate clients to take advantage of the consulting services offered by the division of industrial safety laws, said he feels such actions would display good faith and thus would be a defense against criminal prosecution.

He also said he believes the criminal liability provisions of AB 150 are open to challenge on the basis of the Miranda decision. It states that police must inform a criminal suspect of his legal right to counsel before they proceed against him.

"Under AB 150, the division of industrial safety can send their agent to investigate a firm unheralded," he elaborated. He predicted that within a year or two there will be a legal challenge to this procedure which may weaken the whole criminal liability side of the law. ■

Brokers offer claims-made medical policy

INDIANAPOLIS — Associated Risk Managers Inc. is making malpractice insurance coverage available to all doctors operating in Indiana, underwritten by Mutual Fire, Marine & Inland Marine of Philadelphia, through Shand, Morahan & Co. of Evanston, Il.

ARM is an association of 16 affiliated brokers in Indiana.

The insurance plan marketed by ARM to doctors in Indiana is on a claims-made basis, a change from the malpractice coverage which has traditionally been written on an occurrence basis. St. Paul Fire & Marine Insurance Co. recently said it will write all future malpractice coverage on a claims-made basis.

ARM is offering primary limits up to $1 million with umbrella coverage available through other markets. The plan includes an option to purchase prior acts coverage.

Program costs are based on a doctor's specialties, with minimum annual premiums for $100,000 limits set at $411 for class one doctors, up to a minimum premium of $6,692 a year for class six doctors, in the riskiest specialties.

ARM said it was in touch with 48 insurance companies and London in developing this program, and the search confirmed a widespread reluctance of carriers to provide a valid program of medical malpractice insurance. ■

Cut awards to solve crisis, says AMIA

CHICAGO—The way to solve the medical malpractice crunch is through reductions in the number and size of awards, not through methods that subsidize or spread the costs, said Paul S. Wise, president of the American Mutual Insurance Alliance.

Reacting to a statement by acting federal insurance administrator J. Robert Hunter, who said that the malpractice problem arises from shortcomings in insurance coverages or carrier performance, Mr. Wise said:

"Those knowledgeable in the field have emphasized that the malpractice crisis arises from deteriorating doctor-patient relationships and legal rules which have encouraged the runaway incidence and cost of medical malpractice lawsuits."

HE SAID that periods of uncertainty such as the present "call for the utmost restraint and responsibility on the part of persons in public as well as private positions of influence, lest unwarranted talk of 'crisis' becomes a self-fulfilling prophecy."

"The insurance industry is cooperating with the HEW, with state legislatures and state regulators to provide continued malpractice coverage for the medical profession. But any purported 'solution' that focuses primarily on ways of spreading or subsidizing the runaway losses is foredoomed to failure," Mr. Wise said.

The only real solution, Mr. Wise said, "is a program that will drastically reduce the number of incidents giving rise to malpractice lawsuits, coupled with certain changes in the system that could curb the unreasonable amounts now being paid out in malpractice awards and for the cost of litigation." ■

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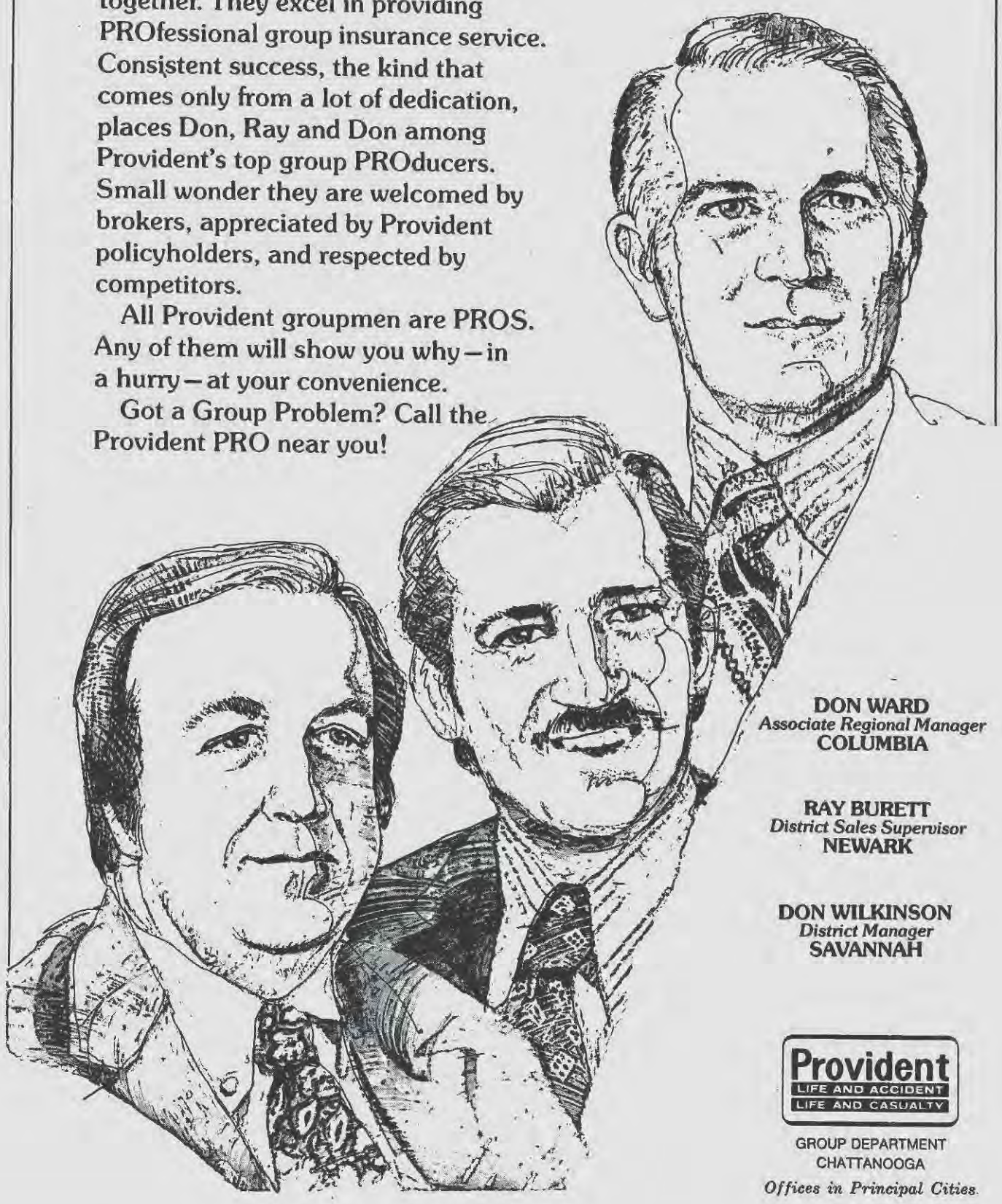

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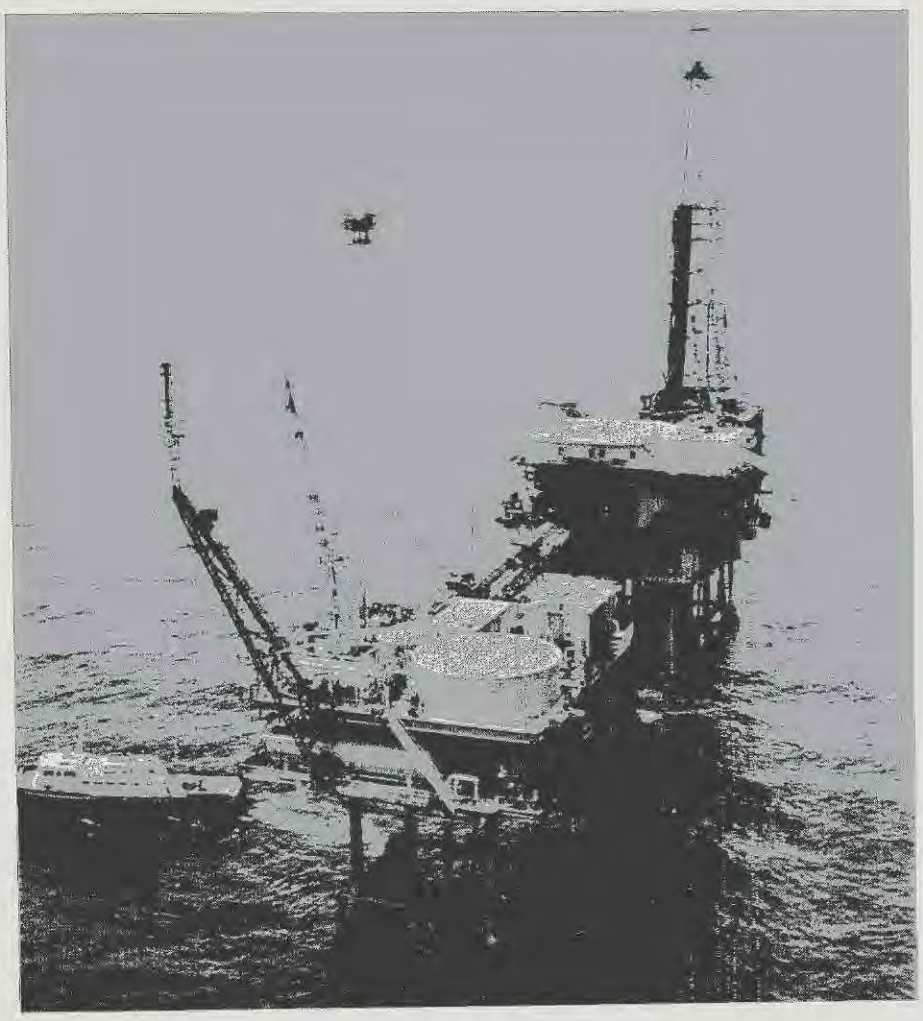
Oil rig rates hit bottom as risks, losses multiply amid exploration boom



Worldwide demand for fuels, coupled with high prices have resulted in expanded offshore drilling, using third - generation platforms, such as this one belonging to Pennzoil in the Gulf of Mexico.

LONDON—The world insurance markets last year saw just the kind of activity on oil rig insurance that they least appreciate: Growing risks, climbing losses, and increasingly competitive underwriting.

As the world's attention focused on the critical need for more oil—petroleum and drilling industries moved into an economic boom which provided an eerie contrast to a recession-bound world.

The worldwide search for offshore oil pushed ahead, with activity concentrated in the Indonesian Basin (Far East), the North Sea off the coasts of England and Norway, and the Gulf of Mexico off the coast of the U.S. A limited amount of drilling was begun off the U.S. East Coast.

The ability (i.e. capacity) of underwriters around the world to absorb the risks and provide the needed insurance for both property and liability improved in 1974. This was a continuation of the pattern over the past three years: Increasing capacity from insurers wanting to handle drilling rig business, and falling rates.

THIS PATTERN may be near the point of change, said Peter Green, owner of the prestigious Janson, Green syndicate at Lloyd's. "Rates have come down a lot over the last four years," he told *Business Insurance* in an interview on the floor of Lloyd's at the Janson, Green box. "Personally I don't think they can go much lower. Rates are presently about a third —or a bit more—below what they were four years ago."

Mr. Green is a leading Lloyd's underwriter of oil drilling rig insurances. He modestly describes his syndicate's position as being "one of the group of eight (underwriting) leaders on London covers for oil rigs." Numerous insureds, however, say Mr. Green is the key man in London on rig policies.

The offshore drilling equipment being used in the North Sea, is, as Mr. Green puts it, "at the very frontiers of human knowledge, and some is even beyond that into the experimental realms."

Thus, underwriters are paying very close attention to loss experience, which began deteriorating in 1974. Wild weather conditions present almost unmanageable hazards for North Sea rigs, and London at least is gearing up for some big losses in the near future.

"THERE HAVE been a number of losses on the older jackup rigs in the Far East, which is where this type of rig is being used," said Mr. Green. "The third generation of rigs, the semi-submersibles, have been through one winter (1973-74) in the North Sea apparently without any terribly serious incidents. They have had their troubles, but these were containable.

"There have so far not been any serious problems this winter," Mr. Green continued. "But the (bad) weather in the North Sea has caused some dismay among the natives." He said that if North Sea rigs can operate 70% of the time during summer months, it's lucky, and in winter, 10% operation "will be fortunate." But, recent newspaper reports have noted that British Petroleum's North Sea field rigs achieved only nine hours of work in the whole month of December, he related.

"DAMAGE LOSSES are increasing because repair costs are going up so fast," said Mr. Green. He compiled a list of 1974 rig losses for *Business Insurance* (see accompanying chart).

"We haven't received all the premium yet from 1974 business," said Mr. Green, "but I should think we'd be very lucky if we make any money on the mobile rigs. Both the number and size of losses are increasing."

The newest generation of platforms, the stationary variety, will create larger problems for insurers in coming years because of their high values often above $100 million, Mr. Green said. "To date, only a small portion of our total book is in fixed platforms, because most were in the Gulf of Mexico and none had very high values. But the fixed units coming along for use in the North Sea are much higher, and the oil companies have had to take another look at the insurance problem," he noted.

One fixed platform being built at the present time will have a total value of some $350 million, he said.

DRILLING COMPANIES have built over 100 new rigs in the past two years. The semi-submersible rigs now being used in the North Sea are valued from $20 million to $40 million. One prominent drilling company is now studying the feasibility of constructing an even larger, new-generation semi-submersible platform with a value of about $80 million, according to Palmer D. Sparkman, chairman of Johnson & Higgins of Texas Inc. (*Business Insurance*, Jan. 23.)

U.S. UNDERWRITERS have been competing hard for a share of the global oil industry business.

Mr. Green specifically mentioned "a great deal of competition from a large American group which seems determined to corner the market at any cost at the rates they're quoting." The company is American International Group, which is often quoting rates 10% to 15% under Lloyd's, Mr. Green said. "We are not willing to lose money at those rates," he contended.

A spokesman from C. T. Bowring & Co. Ltd., however, views U.S. rig insurance competition more as participatory than cornering-the-market variety. This knowledgeable oil drilling insurance broker maintained that "a large number of American insurance companies prefer to participate in the various covers placed in the London market (and) rely on London underwriters' spread of business and expertise, rather than endeavoring to build up their own book of business." ■

Standard set for property insurance with 'estimated maximum loss' rules

By SUSAN ALT

LONDON—The Reinsurance Offices Assn. here issued a new standard definition of the method of calculating estimated maximum loss.

This could have a major indirect impact on underwriters and policyholders concerned with insurance against the risks of property losses, including those from earthquake.

The ROA, which has 260 worldwide members doing 90% of all U.K. reinsurance business, issued the definition in an attempt to avoid the varying terms being used by direct underwriters to assess losses for the purpose of determining the portion of a risk to be retained against the portion to be reinsured. The terms causing confusion in the reinsurance markets include maximum probable loss (MPL); maximum possible loss (MPL), probable maximum loss (PML), possible maximum loss (PML) and estimated maximum loss (EML).

"THE NEW DEFINITION is not intended to be taken as an attempt to impose any restrictions on the freedom of action by direct underwriters," the ROA emphasized. But the effect it will have is not to be minimized, London insurance experts told *Business Insurance*.

"Insurers and the corporations seeking insurance for property risks will certainly be forced to correct the past abuses of these estimates. And accurate EMLs may force a distinct tightening of the market when underwriters find they can't so easily reinsure some of the property risks they've been reinsuring. They'll go to their clients with the news that if the risk is so big it can't be reinsured, then it's so big it shouldn't be insured, either," declared one leading reinsurance executive.

C. A. Ogilvy, director of the ROA, said although the association does not anticipate market changes as a result of this new definition, insurers will almost certainly be forced to pay much closer attention to the accuracy of the figures they get on potentially catastrophic losses. The ceding company (the direct insurer) will have to fill out a questionaire when reinsuring with the ROA member, which describes the insured property in detail and provides specific facts for the EML calculation.

Any impact on insurance or reinsurance rates would be an indirect effect of this clarified EML definition, Mr. Ogilvy added. The EML definition will apply to all kinds of property risks, and came about as a result of reinsurer complaints about unanticipated fire losses in situations where low EMLs had been provided. The standard definition of the EML was initially proposed by a reinsurance officer for a Norwegian company. ROA chairman John C. S. Lepine explained that "the definition

Continued on page 12

OIL DRILLING RIG LOSSES FOR 1974

NAME OF RIG	OWNER	LOCATION	TYPE LOSS	AMOUNT*
Ranger II	Walker-Huthnance Co.	Gulf of Mex.	total	$ 7,000,000
Gemeni	Offshore Co.	Suez	total	4,100,000
TransOcean III	TransOcean Drilling Co.	North Sea	total	15,400,000
Topper III	Zapata Off-Shore	Gulf of Mex.	partial	5,000,000
Mr. Louie	Reading & Bates	Nigeria	partial	1,250,000
C. E. Thornton (Aug. '73)	Reading & Bates	Middle East	total	3,900,000
Platform Rig 70 (Aug. '73)	unknown	unknown	partial	1,000,000
Neptune 6	Forex-Neptune Co.	Madagascar	total	1,350,000
Margie (late '73)	Atwood Oceanics Co.	Australia	partial	1,175,000
Stormdrille 4	Storm Drilling Co.	Gulf of Mex.	NA**	4,000,000
Ekofisk Center	Phillips Petroleum	North Sea	various, partial	15,000,000
Frigg DP I	Elf-Norge	North Sea	NA**	could hit 25,000,000
George F. Ferris	Sun Marine & Raymond Intl.	Alaska	possible total	8,000,000

SOURCE: Peter Green, Janson, Green Ltd., Lloyd's of London.
*Approximate loss, claim paid by Lloyd's, excludes salvage value.
**Losses not yet fully recorded.

New ROA definition . . .

Continued from page 11

was drawn up in the first place because there was a conflict about the many different kinds of estimates, and there was a wide disparity in what the estimates included. They tended to mean whatever the party supplying them wanted the figures to mean."

HE CITED THE fire at Chicago's McCormick Place as the classic case of a total fire loss far exceeding the PML which had been calculated at only about one-quarter of the actual loss of property. The reinsurance markets had further downgraded that PML to only 10% of the final loss from the 1968 inferno.

Mr. Lepine predicted that this new definition could have a beneficial effect on risk management generally. "If a risk had hitherto been accommodated on the basis of a 20% maximum probable loss, and now under the new definition the estimated maximum loss become 80%, and the risk becomes virtually uninsurable, can't be accommodated by the markets, then the loss exposure would have to be reduced in some way," he said.

EML (fire and explosion, material damage only): An estimate of the monetary loss which could be sustained by insurers on a single risk as a result of a single fire or explosion considered by the underwriter to be within the realms of probability. The estimate ignores such remote coincidences and catastrophes as may be possibilities but which still remain unlikely.

The final impact of the definition will depend on how many reinsurers adopt it for use, Mr. Ogilvy noted. The ROA has no authority to impose its use on ROA members.

Reinsurers who are members of the ROA declared that the definition will be widely used because of the past controversy over the impact of sprinklers. ROA members reportedly generally agree that sprinklers should not be used in calculating EML because studies, coupled with historical loss records, have shown that sprinkler efficiency is open to question in terms of reducing risks, particularly in countries with widely varying fire standards. "In the past, sprinkler systems have been factored in, with too much weighting, to substantially reduce the risk being quoted," complained one leading Lloyd's member.

The ROA chose estimated maximum loss as the term to be used and defined because it avoids the use of letters capable of more than one interpretation. The ROA believes it is appropriate in some cases for the total EML to be based on separate assessments and calculations of EML for buildigs, machinery and other contents, stocks and inventories (particularly where contents have a low salvage value or are highly susceptible to damage).

AMONG THE features of the EML definition which will force major changes in the way loss estimates are currently arrived at are the factors which ROA members are saying should not be used in assessing EML. They include:

- any horizontal separations;
- any fire-resisting doors;
- the absence of any normal source of ignition;
- existence or installation of fire detection, prevention, or extinguishment systems including sprinklers and/or fire brigade facilities.

Of this last provision, the ROA stated: "The existence of such installations might merit a higher net retention than that applied to a similar type of risk which is unprotected, but it should be clearly understood that such protections may be rendered inoperative and for this reason should not be taken into account when fixing an EML."

FACTORS WHICH should be taken into consideration when assessing EML are:

- size, height and shape of the area potentially exposed to a single fire or explosion;
- construction of roof, walls and floors;
- presence of combustible linings to walls, roofs, ceilings and partitions;
- nature, distribution and combustibility of contents;
- use of hazardous processes and substances and their degree of separation;
- susceptibility of contents to damage by smoke, heat and water;
- risk of explosion from any source;
- hazards arising from gases or corrosive materials;
- concentrations of values within a small area;
- standards of management and housekeeping.

The ROA defines a single risk as any building or range of buildings not separated:

- from other buildings by an open space of 15 meters in a situation where there are no opposing openings and where the other buildings are of fire-resistant materials (i.e. brick, stone, concrete, and roofed with slate, tile, concrete, metal sheeting or asbestos cement sheeting.);
- from other buildings by an open space of 25 meters where there are opposing openings and the other buildings are constructed of inferior materials to those listed above;
- from adjacent property by a perfect party wall of brick, stone or concrete at least 21 centimeters thick, without any openings, and extending above the roof 37 centimeters.

"In the case of plant in the open (refineries, chemical factories and the like) or of tank storage, the minimum open space between units or groups of tanks shall be 25 meters. In addition, storage tanks must be adequately bonded by container walls sufficient to hold at least 110% of the maximum capacity of the tanks," said the ROA definition.

Where an explosion hazard exists, the definition continued, the perfect party wall cannot be considered adequate separation. Where highly explosive materials are used, "even greater distances are required to provide adequate separation," the ROA said.

The definition also declared that climatic conditions such as strong winds and extreme cold "which could have a material effect on fire spread must also be taken into account in defining single risk." ■

Lead pollution

Problems of lead pollution have been studied by a British government committee which reports that lead's removal from gasoline would cost the nation more than $600 million in refinery modifications. Talks are taking place with various European countries to reach community standards on the lead content of gasoline. Experiments are also being carried on to investigate the lead content of exhaust fumes.

Correction

American Home Assurance Co., Fireman's Fund Insurance Co. and St. Paul Fire & Marine Insurance Co. received the biggest share of a $1.4 million out-of-court settlement of subrogation claims filed after a fire in 1970 which destroyed a fruit complex in California owned by Kern County Land Co.

The $1.4 million was paid by Flintkote Co. and its insurance carriers, American Mutual Insurance Co., Home Insurance Co. and Employers-Commercial Union Assurance Co. An additional sum will be paid by Employers Mutual Insurance Co. of Wausau, the underwriter of a policy belonging to a contractor for the project at the fruit complex.

Subrogation claims had involved Sealzit, a division of Flintkote, supplier of polyurethane foam insulation which was set afire in the accident.

It was incorrectly reported in the Jan. 13 issue of *Business Insurance* that the Kern County Land Co. insurers had paid the $1.4 million. To the contrary, these insurers received payment from Flintkote, its insurers and contractor insurers.

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Correspondents in All Other States

Banana grower is shopper for new coverages on 'Chiquita' operations

By MARIE KRAKOWIECKI

BOSTON—United Brands Co. is shopping for new insurance coverages for its banana-growing operations in the Honduras, Panama and Costa Rica.

The current three-year policy will expire in September. It is written in London on an all-risk repair and replacement cost basis, with a per-loss limit of $15 million.

Growing banana crops, however, are excluded from the expiring policy. And in September of last year Hurricane Fifi ripped through nearly three-quarters of the company's plantations in the Honduras, leaving in its wake a combined crop and facility loss of $20 million.

The catastrophe was intensified for United Brands by the recent apparent suicide of its chairman Eli Black. Among other pressures, Mr. Black was said to have been despondent over the destroyed uninsured banana crops when he fell to his death from the 44th floor of New York's Pan Am Building. (*Business Insurance*, Feb. 10).

IRONICALLY, it was Mr. Black who engineered the acquisition of Boston's United Fruit Co. in 1970 with his own firm, AMK Corp., to form the new company, United Brands.

When he died, so did the knowledge of just how great a part the destroyed banana crops played in his company activities. But it is no secret that the company still considers its special foreign exposures in banana growing to be beyond the reach of insurance.

"Crop coverage is something we consider uninsurable in the commercial market. The main reason is that there is such a tremendous concentration of crops in a small area," Henry Ross, United Brands risk manager, said during an interview.

Mr. Ross, risk manager with the company since 1962 before United Fruit became United Brands, explained:

"It only takes a 34-mile-an-hour wind less than 20 minutes to blow down an entire banana division. That happened to us in May of 1973. We've looked at crop insurance and it's just not feasible. We would end up in a dollar-swapping program."

Most United Brands "Chiquita" brand banana divisions are in valleys, surrounded by mountains with winding rivers running through. There is no spread of risk, because due to the need for water, the young banana plants are grown in concentrations four and a half miles wide by 33 miles long.

UNITED BRAND some time ago eliminated a special reserve fund to self-insure losses on growing banana crops. "We used to keep a special reserve fund of $15 million to self-insure our tropical operations," Mr. Ross said. "But later it was reduced to $5 million. And after that it was eliminated when virtually no claims against it came up."

In 1963, United Fruit found that there was no catastrophe insurance in the tropics. Two years later it developed its first commercial property insurance policy to cover those exposures, but it excluded losses on growing crops.

Today, the banana operations (each one of which supports a population of from 70,000 to 75,000 workers and their families) encompass properties in Europe, the Philippines and Africa with insurable values of nearly $420 million.

Although the banana divisions of United Brands represent only a portion of the total corporate risks, they present unusual exposures for which the property insurance coverage is crucial, Mr. Ross noted.

"WHAT WE DO is negotiate a manuscript policy to cover these foreign risks with an assortment of brokers. Through Marsh & McLennan, for example, we go to London and work with one of the biggest Lloyd's brokerages, Bland, Payne & Co., Ltd. (formerly Bland, Welch.)"

"We sit down with them and work out programs. We write an all-risk repair or replacement cost contract covering everything outside the United States with London. We also have business interruption coverage as an extension of our basic policy which is 80% in London.

"In the United States, there is a 20% participation contract which varies by layers. The principal domestic underwriters involved on it are American International Underwriters and AFIA."

Mr. Ross, known as something of a maverick in insurance-buying circles, gave this basic rundown of how he is shopping for a new policy to cover the exposures of the banana divisions:

"We're going to each of the existing brokers and saying: 'Look. We are now spending $12 5 million in insurance premiums.

Continued on page 16

Banana chopping operation on United Brands tropical plantation.

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Banana grower . . .

Continued from page 15

How do you think these insurance premiums could be better spent? Should we have a captive? If yes, in what lines?' After all, not all lines lend themselves to a captive insurance company."

Currently working with United Brands are the following major brokers and the lines they handle: Alexander & Alexander, domestic property program; Fairfield & Ellis, special policies; Frank B. Hall, marine program and fiduciary liability coverage; Fred. S. James, directors' and officers' liability; Johnson & Higgins, a special cargo policy with the Russians to cover transported rolled paper, plus foreign comprehensive general liability and umbrella liability; and Marsh & McLennan, fringe benefits, aviation and foreign properties. Liberty Mutual handles the company's auto, comprehensive general liability and workers' compensation direct.

When the brokers submit answers to Mr. Ross's questions about using insurance premiums to the best advantage, which he expects during this year, he says the company will retain the option of taking all the ideas, or just some of them, and using them to the best interests of United Brands.

SO FAR, the company has maintained a reputation of dealing aggressively with protecting its interests in insurance claims and losses. For instance, take Travelers, which writes U.S. property coverage. It also writes life and health benefits for United Brands' employes, for which the company pays about $6.7 million a year in premiums.

At one time Travelers wrote flood insurance coverage for United Brands. But when it balked at paying some company claims, United Brands took the matter to arbitration, demanding $4 million in damages in May, 1974.

Travelers and several other carriers involved in the arbitration were ordered to pay United Brands $2.3 million. And at renewal time, the company decided Travelers' wasn't competitive enough on the flood insurance coverage, and the underwriter subsequently lost the account to Lloyd's of London.

Commenting on the special nature of United Brands banana divisions' exposures, Mr. Ross noted that there is no loss prevention program outside of the company research divison which monitors possible diseases that might threaten the young fruit.

"Any disease we have already identified is instantly treated before it can become a threat. In the tropics, this is an extensive operation, and so far the diseases have all been controllable. What's not controllable, I guess, are diseases we don't know about yet. But to date we haven't experienced any we weren't prepared for," Mr. Ross said. "It's nature, and storms that are the real villains."

HE REVEALED a whole spectrum of risk management problems besetting the growing operations of Chiquita bananas. United Brands also buys fruit from certain countries where it is cheaper to do so, shipping to other ports of the world. Not only is charterers' liability involved here, but also the problem of shipboard refrigeration systems.

In mid-February, Mr. Ross's assistant, Jed Todd, was in Italy, protesting a tax the Italian government levied on some bananas United Brands brought into the country. The problem? The refrigeration failed at sea, and all the fruit rotted. If the company had dumped the bananas, there would have been no expense above the loss of the fruit. But to add insult to injury, the Italians charged a duty to bring in boxes of rotten fruit. The company was contesting the charge.

The benefits picture for the Central American locals who work the banana plantations are also quite different from that of the stateside program, because of the unique interdependence of the company and the employes.

THE PLACES where they work are carved out of raw jungle, so the people depend on the company for all their needs from electricity to food to hospitals, schools, railroads and recreation. "We even have our own herds of cattle, slaughterhouses, and commissaries to feed our workers beef," Mr. Ross said.

If anything happens to an employe, the company is in a bad position because it needs every worker on a banana plantation. So some areas, like health benefits, are relatively free of the nitpicking which is common stateside over whether an employe was hurt on the job or on spare time.

"In our banana divisions, we really need each employe. So there is almost a socialistic feeling as far as benefits go," Mr. Ross explained. "After all, a man needs just as much care if he hurts himself playing softball as he would if he were injured chopping bananas." ■

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Risk man has hotline direct to top

BOSTON—Like many of his counterparts in other companies, Henry Ross, risk manager for United Brands, reports the goings-on of his insurance department to the company treasurer, P. H. Brangwynne.

But he managed to open up an added corporate hotline that few risk managers seem able to claim: Direct communication with the chief executive officers of the billion-dollar company.

As Mr. Ross recounts it, it all began a couple of years ago when the late Eli Black, then chairman of United Brands, became very interested in the firm's insurance department in connection with some major losses suffered that year.

Mr. Ross, assistant risk manager Jedd Todd and insurance analyst Maddy Taitelbaum took the opportunity to explain the magnitude of the company's insurance premiums to the chairman.

"HOW MUCH do you think we are paying out in insurance premiums every year?" they asked the United Brands chief. When his guesstimate fell several million dollars short of the $13 million reality, changes were set in motion that gave clear recognition to the function of the insurance department in terms of the total corporate picture.

Mr. Ross won a direct line to the chairman, and the rapport continues today with the upper echelons of management at United Brands.

"He's really a maverick," another risk manager said of Henry Ross, sounding half-envious. "At a workshop with a group of risk managers up here, he described

Continued on page 17

CU sets service division for largest accounts

LONDON—Responding to changing client needs and anticipating a flow of business back into this city, Commercial Union Assurance Co. Ltd. established a new worldwide risk management services division to assist with "non-conventional" insurance programs.

Kenneth J. Duffy, an American with a good deal of experience in U.S. and international insurance and reinsurance fields, was named general manager of the new division, which will include a branch at CU's Boston office.

"I don't think there is any question there will be an increased dollar flow into London," said Mr. Duffy during an interview here.

CU AIMS TO increase its business done with international risks, added Arthur F. Burdett, general manager of the company.

And to do this, CU will provide support services through its new division, on a fee basis, to clients and also to companies not working with CU on conventional insurance programs. The range of services which CU expects ultimately to provide includes: Claims adjusting, all lines; computer loss runs; employe safety programs; engineering inspection and certification; fire protection engineering; loss control analysis and engineering; property appraisal; public liability analysis; rehabilitation programs and services; and statutory compliance services.

"What we're doing here at CU is refining the areas our clients are interested in," said Mr. Burdett. CU's international division services over half of the industrial firms in the Fortune 500 list, he claimed, although he declined to say how many international clients CU has. "At least a few hundred," he added. We deal with far more multinational clients than that, but this number defines the companies which wish to have more centralized discussions and control over their risk management and insurance programs."

CU believes that "more multinationals want to talk to insurers at one central point on the globe, then leave local administration of programs to the local CU offices," Mr. Duffy pointed out. He said that the typical multinational client which CU is catering to has a minimum of three operating locations and range in size upwards of $500,000 in annual premiums. ■

Hotline . . .

Continued from page 16

how when he works with brokers. He'll give them all the figures on current coverages, including premiums.

"The basic idea is: He asks the brokers, 'Can you top this?' We all just sat there in silence when he told us that. There wasn't one other risk manager who ever thought of telling a prospective broker all the specs of the coverage, including premiums," the incredulous risk manager said.

Henry Ross chuckled when the anecdote was brought to his attention, and confirmed he had told a Boston RIMS (formerly ASIM) chapter meeting of his practice, to a generally stunned reception. He added, however, that before he'll go the complete route with a broker, he insists on getting complete information on the interested broker, including references.

IF HE LIKES what he sees, he'll invite the broker to come in and discuss in great detail, including premiums, all aspects of current coverages. Importantly, however, he restrains the brokers from going to any markets until after they develop a program that looks like it might give United Brands something better than what it already has. "At that point we'll let the broker go to a market for us, and not before," Mr. Ross said.

He apparently plans to spread this message to other risk managers. In June, he will take charge of another RIMS chapter workshop with a similar program to the one that stopped them in the aisles in January. ■

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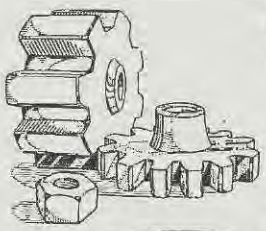

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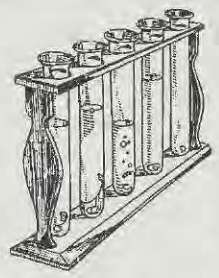

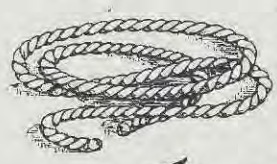

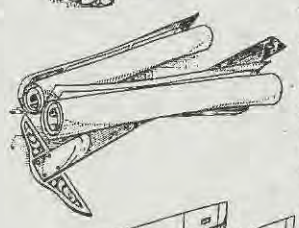

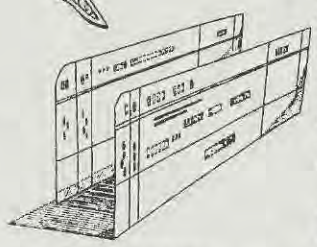

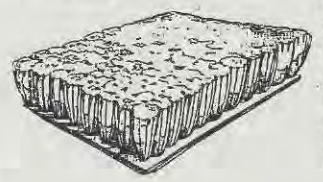

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Outlook for future court awards gets progressively bleaker

London insurers wary of professional liability risks

LONDON—London insurers are being wary of professional liability risks.

Some say they are losing money hand over fist on the business. All agree that U.S. court awards in many liability areas . . . directors' & officers' liability, products liability, medical malpractice, architects' and engineers' liability . . . are prohibitive and that insurance markets are tightening perceptibly. They may disappear altogether, a few insurers warned.

Court awards are not the only problem, however. Huge claims which underwriters have had to pay and look forward to paying are caused by a growing number of suits which require out-of-court settlements, and bigger disasters such as bridge collapses.

"I think too many insurers, including the big American companies operating in London, have tended to overlook the big catastrophe in their underwritings," reasons David W. Hart, manager of the home foreign department, General Accident Group. General Accident is one of the five largest U.K.-based international insurers.

HE PREDICTED liability awards will go up "even faster in the next few years than they have in the past few," a bleak picture causing his company to pull back from all kinds of liability risks, particularly professional liability. "I wouldn't touch architects' and engineers' errors and omissions liability insurance with a barge pole right now. The smaller lines of professional liability (accountants, lawyers, etc.) are not so bad in terms of experience, but this is partially because the limits are lower and the rates have risen very high," he added.

Despite the comments about heavy losses and tightening markets in most professional indemnity lines, the directors' and officers' liability field is one where there is growing capacity, and aggressive rate competition, much to Lloyd's underwriters' dismay.

Leslie R. Dew, deputy chairman of Lloyd's and a leading non-marine underwriter, contended his losses have been "horrendous" in all professional liability lines of insurance. "Accountants' policies are worse than any others, directors' and officers' liability is coming up a close second," he maintained.

He said he was "absolutely convinced" that U.S. insurers who are trimming rates by as much as 50% to 60% and who have been offering broader coverages at these low rates will lose money on the business, if they're not losing it already. He said U.S. insurers have reduced deductibles, cut coinsurance levels, and offered to include subsidiaries without notice under D&O policies. Mr. Dew called these practices "ridiculous."

"If I'm losing money on a policy, I won't continue to write it without certain standard restrictions such as the 5% required participation and minimum deductibles. If U.S. companies are willing to undercut me by 60% on D&O, then state insurance commissioners should look more closely at how they're doing business," he charged.

"I'M LOSING so much money (on D&O) that I'm reducing my commitments in this field preparatory to retiring completely," Mr. Dew declared. Mr. Dew is the lead underwriter on most large D&O policies written at Lloyd's.

Mr. Dew was asked to disclose specifics about loss experience he maintained was "horrendous."

"We've settled several claims in the seven-figure class . . . these were split up in the markets; they were not entirely in my book," he disclosed. "The big one that's going to come up will be against accountants in the eight-figure or more category, involving a multiplicity of managers involved in an SEC (Securities & Exchange Commission) action. And one of the biggest settlements that will come up will involve the manager of a pension fund, but that won't be settled for three years or so," he added, noting quickly that "this is just a prediction. I'm not talking about a specific claim."

These were the only details Mr. Dew would reveal about experience under D&O policies.

He was asked if his last comment referred to the 12 pension fund suits against Continental Illinois Bank filed in 1974. These suits seek $21 million lost as a result of the bank's investment in declining stocks, mainly Penn Central. The suits charge the bank with violation of the securities act.

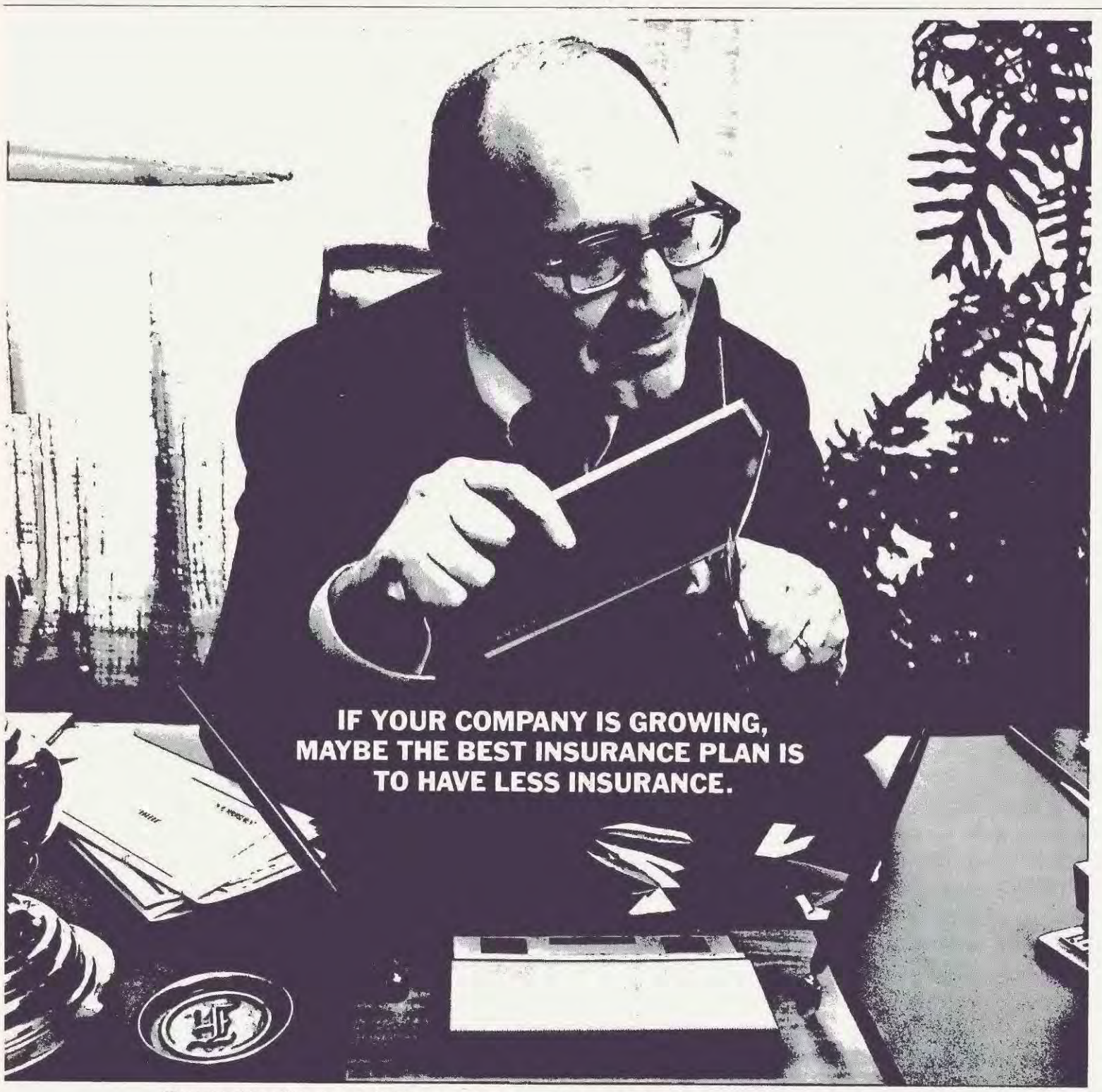
"There is only one thing I will say about that case, and that is the decision, when it comes, is going to be based on the interpretation of the law in effect at the time the court decision is handed down, not the law in effect at the time the suit was filed." The federal pension reform law was passed shortly after the suits were filed against the bank, defining liabilities of money managers for pension fund asset diminution.

MR. DEW decried the practice of brokers seeking lower rates on D&O policies for corporate clients. He charged American agents with irresponsibly seeking price, and only price, when placing D&O risks. "It's not a question of the buyer being convinced that price isn't the only important thing when buying D&O insurance," he said. He blamed brokers for generating potentially troublesome rate competition.

"The overall market, including the American market, for D&O (rates) has probably reached an all time low (ratewise)," predicted Patrick J. Osborn, managing director of Stewart Wrightson (North America) Ltd., the U.S.-risk division of the prestigious London brokerage firm. "I think the next 12 months will see a hardening of D&O rates. In some ways this is dependent on what happens to the reinsurance market in America. The major markets in America are all reinsuring D&O," he added.

On the other hand, he forecast that "in the next 12 months, the London markets will lose still more of their D&O book" to U.S.

Continued on page 19



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Continued from page 18

competitors, because the U.S. insurers are so aggressive that they are lowering rates and deductibles.

Mr. Osborn confirmed that in the last six months, D&O quotes by U.S. insurers have been 50% lower than the London market

international

quotation. Although he does not believe D&O business has stopped flowing out of London yet, Mr. Osborn said, "quite a lot of architects' and engineers' errors and omission coverage has come back to London already. There's been a lot more interest here in primary professional liability coverage than there's been in a long, long time." He cited a larger number of queries received each week that indicate growing interest in London as a market for these risks.

Mr. Dew predicted a contraction for Lloyd's in several other areas of professional liability, too. "Obviously, contraction is ahead in areas where there are those climates like the U.S. with the medical malpractice situation, where court awards have become so outrageously excessive that they're driving the cost of insurance beyond the ability of insureds to pay a reasonable premium."

There may also be a contraction for Lloyd's in those lines of professional indemnity business "where increased areas of care are being demanded, and the remotest connection is being used to impute liability," Mr. Dew said. He noted that accountants' liabilities are being linked to actions or problems of their corporate clients.

IN THE WAKE of suits filed against auditors by clients and shareholders during the financial downturn and stock market slide, "We've had some horrors," in terms of experience, said John Wallrock, chairman of J. H. Minet & Co., the largest broker in the field of professional indemnity. Minet places the insurance for a majority of the eight leading international public accounting firms, as well as numerous other auditing firms. The firm is the largest London broker of directors' and officers' liability insurance.

"The market for accountants' liability insurance is still there," said Mr. Wallrock in an interview with *Business Insurance*. "But it's more difficult." During the last five years, "we've got a lot of outstanding large liabilities, and nobody knows what those will end up costing," he said.

He said he has not personally heard about any move by underwriters to exclude legal costs or set tougher coinsurance provisions for accountants. "Accountants' liability policies include legal costs as a normal part of the program," Mr. Wallrock said, noting that the limits on these policies normally go up to $100 million for the large accounting firms. He characterized the market as one which has always been difficult. "It has never been easy. The professional indemnity market is highly specialized and is different from the other markets. But the capacity is still there," he stated.

Mr. Wallrock indicated that rates for this coverage are continuing to rise, and that there aren't any accountants who are paying the same premiums that they paid several years ago for the same coverage. ■

Controversy over BOAC use of DC10s

LONDON—Controversy has developed in Britain over the decision of state-owned British Airways to operate DC10s on its international flights, including the London-Los Angeles route.

Some Members of Parliament reportedly believe the rear cargo door should be permanently sealed, but the airline asserted that the DC10s it will use have satisfied all U.K., U.S. and New Zealand safety standards.

The DC10s were borrowed from New Zealand Airways, which operated them for some time. The planes will be put on the transatlantic service in March. They have been accepted as safe by Britain's Civil Aviation Authority, which is obviously aware of the Turkish Air Lines disaster last year that led to modifications in the cargo door specification of the DC10 jumbo jets. ■

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Japan differs on fire policies and antitrust laws

CHICAGO—Fire damage following an earthquake is not covered by Japanese fire insurance policies, said William H. Rodda, president of Marine Insurance Handbook Inc.

"If an earthquake occurs and there is fire damage, no claims are honored under the fire policy," Mr. Rodda explained, adding that coverage for earthquake/fire, while available, covers only about 10% of the damage.

Mr. Rodda explained that Japan's fire coverage is different from U.S. type policies because the "possibilities of loss by earthquake are catastrophic." Even with a government reinsurance pool, strict building and engineering codes and a careful people, coverage has been limited since a 1923 disaster that virtually destroyed Tokyo and Yokohama.

Most insurance companies in Japan are owned by large conglomerates which may explain why there are only 21 as compared with some 3,000 American insurance carriers, Mr. Rodda said. Also, insurance in Japan refers to non-life coverage only.

"GOVERNMENT CONTROL tends to stifle expansion and apparently makes it difficult to organize an insurance company there," Mr. Rodda said.

"It's a tremendous sales advantage for a conglomerate to have its own insurance company," he said, though it's not because their corporate group receives any special cash flow benefits or discounts on rates. The profitability of Japanese insurance companies makes them an attractive feather for any holding company's hat, he continued.

"There are no antitrust laws in Japan," Mr. Rodda said. That is what enabled big business to buy up established, but bankrupt, insurance carriers after World War II, he explained.

The Ministry of Finance, which controls all insurance companies except agriculture mutuals, is not consumer-oriented, Mr. Rodda pointed out. "It wants insurance companies to make a profit."

A few years ago this created problems because department stores began selling policies for protection against various calamities that might occur while an individual carried an umbrella. There were no claims facilities set up and policyholders had little idea what exactly was covered. Public outrage put pressure on the stores to stop selling the policies but the Ministry of Finance did not go to bat for the consumers, Mr. Rodda said.

He indicated that the Ministry does not provide consolidated loss experience figures to the business public.

MR. RODDA, an insurance consultant who has traveled twice to Japan, believes that the "tremendous expansion in property values" prompted the Japanese government several years ago to allow foreign carriers to compete in the domestic market.

"Japan's economic objective is to become the provider of essential machinery so that oil-producing countries will have to come to Japan for its machinery," Mr. Rodda said.

"Development of that viewpoint requires Japan to have substantial investments and the values have outstripped Japan's domestic insurance market," he added. "Their capacity is good but the demand for new coverage is tremendous."

American insurers in Japan include Insurance Co. of North America (INA), American Foreign Insurance Assn. (AFIA) and Kemper Insurance Cos., he said.

But foreign carriers generally don't get much commercial business in Japan because the conglomerate-owned insurance companies have woven a tight web around the market, Mr. Rodda said. American insurance companies in Japan usually underwrite for home, auto, or small businesses. "In this respect, they compete for business the same as a Japanese carrier," he said.

"There's not much brokerage business in Japan," Mr. Rodda said. "It's almost a controlled-agency situation in that the agent's commission is dictated by the government and is based on the insurance license level attained."

An individual must have an insurance company sponsor him in order to become an agent, Mr. Rodda explained. Then the agent appointed by the company is tied to doing business only with that company unless he gets permission from that company to buy insurance from other carriers, he continued.

JAPANESE LAW prohibits an insurance broker from earning more than 50% of his business from one source. This means that conglomerate-owned insurance companies must go outside the corporation for a large portion of their business, Mr. Rodda said.

It also means that an agent must have variable sources of clients because one corporate customer cannot buy more than 50% of an insurance company's business.

Some corporations use deductibles to retain more risks, Mr. Rodda said, but "they don't have self-insurance in Japan in the sense of setting up reserves and having a plan to distribute the risks."

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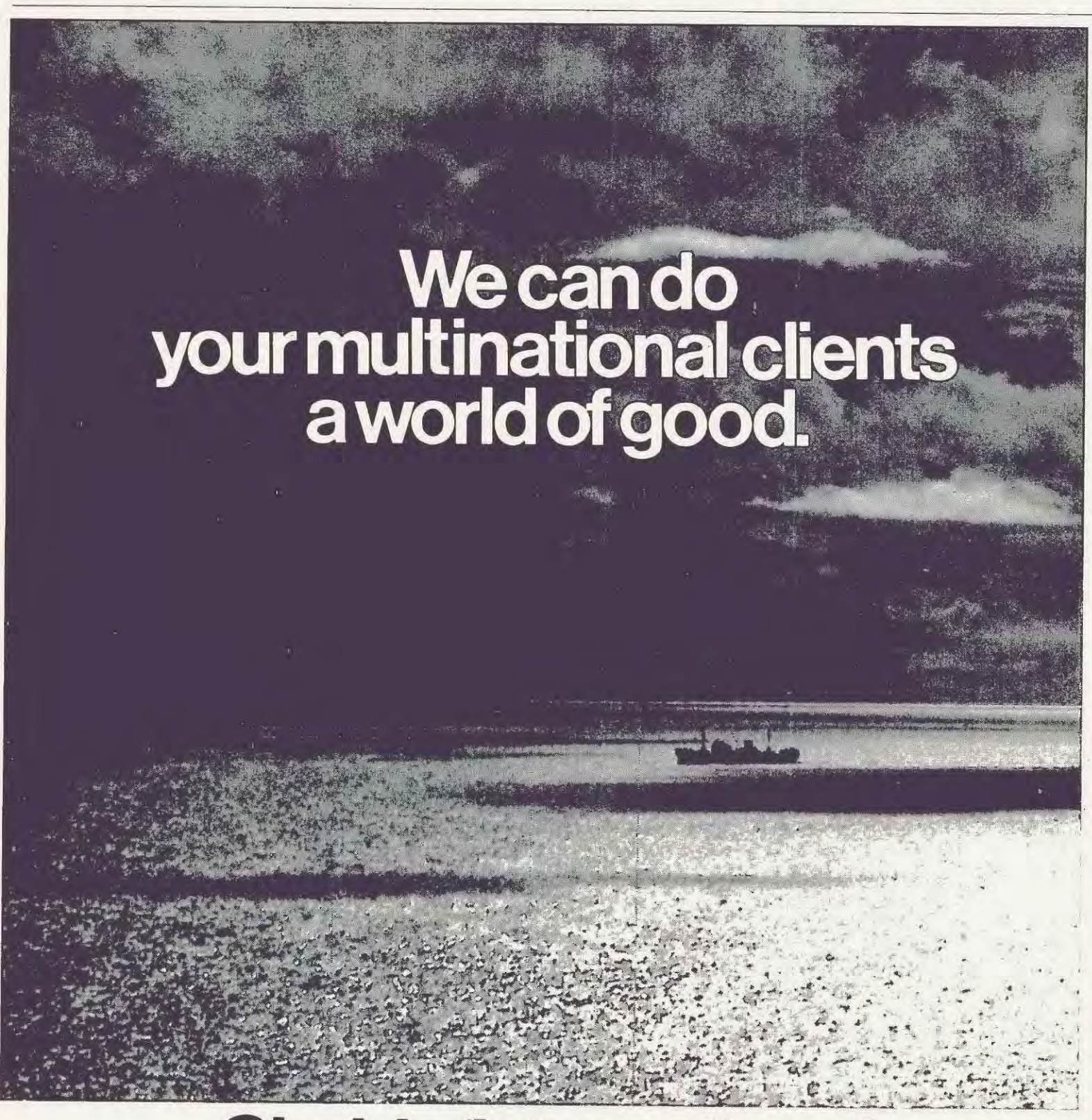

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Continued from page 20

The casualty side of Japanese insurance is considered "backward" by some, Mr. Rodda said. The traditional way to settle a negligence injury, he said, is to take a bottle of sake wine to the injured person's house, make profuse apologies, drink and forget it.

For example, all drivers carry a type of no-fault coverage. The maximum paid for an auto injury is about $8,000 he said. "However, if a driver is found negligent, all family members share the responsibility. If a stranger is in the car, he does not share in the negligence."

Extra coverage is available for liability negligence but it's not purchased because Japanese people don't sue each other, Mr. Rodda said.

He doesn't think any formal workers' compensation insurance program exists because of the paternalistic nature of Japanese businesses. "They probably have some traditional way of taking care of injured or disabled employes," he said.

INLAND MARINE policies don't exist in Japan, Mr. Rodda explained. Insurance on goods stolen or damaged, written in the U.S. under inland marine policies, is written along with fire coverage under non-marine policies there. It's called "movables insurance."

Naval architects' errors and omissions coverage is just as hard to come by in Japan as it is anywhere, Mr. Rodda said. But because Japan depends so greatly on imports and efficient shipping, problems of insurance coverage can affect the whole economy, Mr. Rodda said.

He recounted a story of a shipping conglomerate that wanted to build an improved storage tanker for liquefied natural gas. Instead of the $75 to $80 million insurable value, worldwide coverage was limited to $5 million for the project because the design was new and the risks were considered great.

"There are tremendous refrigeration and insulation problems for liquefied natural gas," Mr. Rodda said. "At 265° below zero, the gas liquefies. The risks are substantial."

Ultimately, the shipping company was not able to build the tanker because they couldn't get sufficient coverage on naval architects' errors and omissions, he said. "The entire worldwide capacity for that type of coverage is about $80 million."

The reinsurance market in Japan operates about the same as it does here, Mr. Rodda explained. "The top-level dominance of Lloyd's is felt there as it is here. Any large reinsurance of risk must take Lloyd's into account," he said. ■

Reinsurers move closer to new rating system for large risks

LONDON—The Reinsurance Offices Assn. is moving toward an ordered rating structure for the reinsurance of large risks as a result of a data system being compiled on annual property and casualty losses above certain excess insurance points.

The ROA completed its charts for the years 1971 through 1973 and now believes it has meaningful claims frequency information and distribution data to use for historical reinsurance loss tables.

In the property category, the ROA recorded 329 claims against reinsurers in 1973 above a $1.2 million excess point. These gross claims totalled $1.7 billion.

PROPERTY CLAIMS for 1973 were up from 306 the year earlier, and up from 323 in 1971. But in monetary terms, the 1973 losses that were above the $1 million point fell substantially from $1.3 billion the year before, and down from $2.23 billion in 1971.

In 1973, the ROA counted 32 property losses over the $12 million excess point, amounting to $314 million. This compared with 33 such losses in 1972, amounting to nearly $400 million, and 34 such losses in 1971 which reached over $725 million.

Casualty claims above the $125,000 excess point totalled 44 in 1973, equalling $11 million over the excess point. This compared with 40 claims in 1972, totalling $11.4 million and 40 claims in 1971 above these excess points, which amounted to $11.6 million. The ROA found that in all casualty categories, the average gross claim over the specific excess points fell each year. ■

J. H. Minet sets up new liability unit

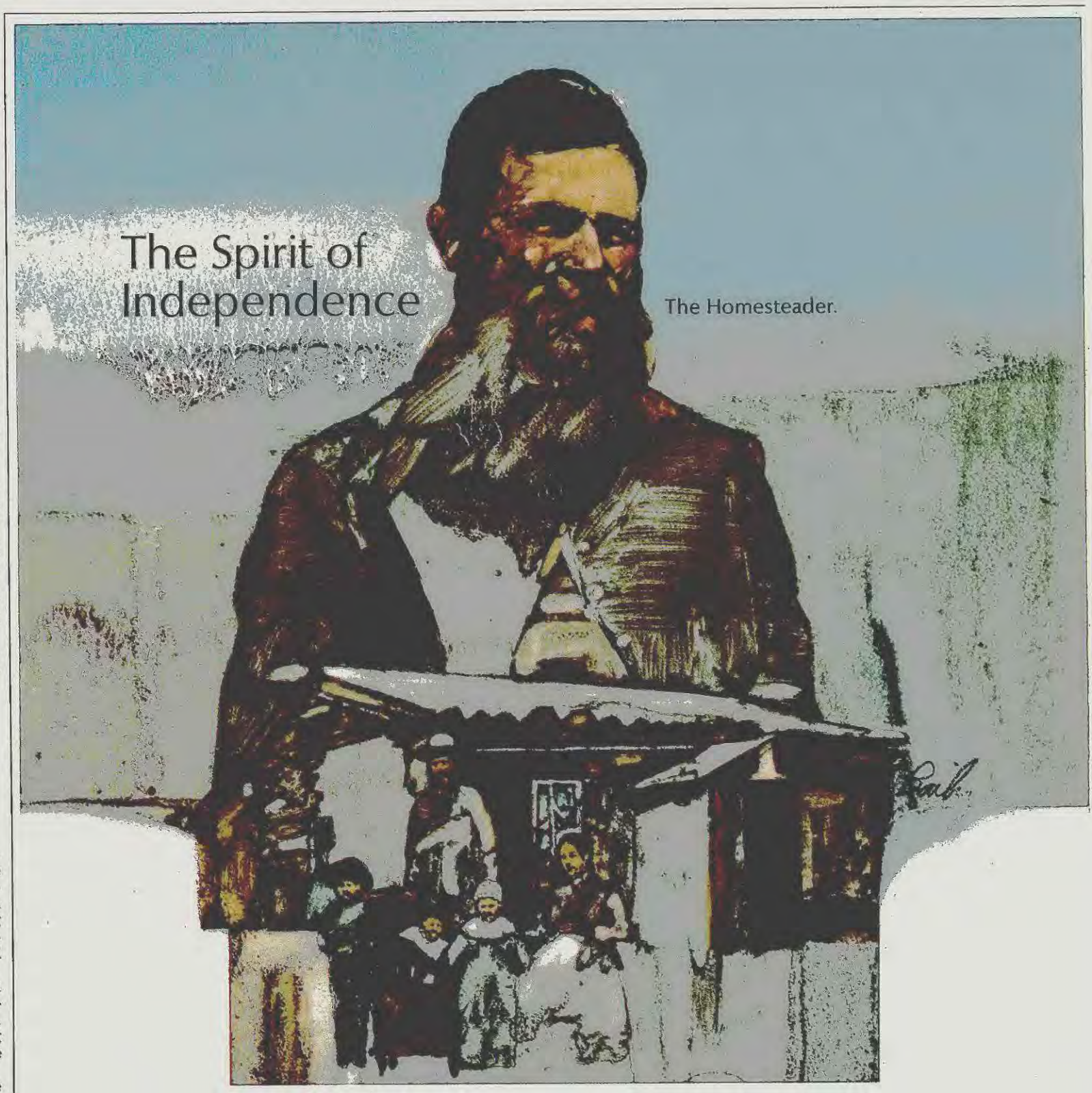
LONDON—J. H. Minet & Co. Ltd., a leading Lloyd's brokerage firm, has established a new professional indemnity division with which to specialize in handling worldwide risks and claims administration for its international clients.

Minet's best known professional liability clients are the international public accounting firms. A majority of the Big Eight auditing firms are known to buy insurance through Minet.

Officers of the new division are B. A. Baldwin, chairman, M. B. Brooks, managing director, and E. N. Jones and R. F. Mabbott, directors.

The division was formed as a result of "the increasingly international aspect of our clients' activities," said Eric N. Jones, a director of the new division. The operation will handle placement of insurance for accounts in worldwide markets, as well as administering professional indemnity suits and claims for clients involved in projects around the world. Minet services architects, engineers, surveyors, lawyers and bankers in addition to accountants.

Minet also includes directors' and officers' liability insurance under this professional indemnity umbrella, Mr. Jones said. ■



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Warner Lambert working toward common Pan American benefits

By LINDA MOSKOWITZ

MORRIS PLAINS, N.J.—The move toward further consolidation of employe benefit plans throughout Warner Lambert Co.'s Pan American operations apparently will not be attempted by a single far-reaching change in corporate policy.

While the firm is "working toward a common program for operations within each country," changes in carriers will be made as the need arises, "as it is appropriate to make a change in any operation in any country," according to Robert E. Gritman, manager of international employe benefits at Warner-Lambert.

The company, which has operations worldwide, is one of the largest producers of a varied line of professicnal and consumer products, including pharmaceutical, optical, household and cosmetic products and equipment.

Employe benefit programs in each country are administered and often funded independently of each other.

Currently, two multinational carriers are utilized worldwide by Warner Lambert. Swiss Life Insurance Co. is used throughout parts of Europe. Travelers Insurance Co. serves the firm in other parts of the world, including the Pan American area.

MR. GRITMAN believes "it makes sense to use multinational carriers," but "it is not reasonable to have the same employe benefit program from one country to another," as a matter of policy.

The variables in national custom, economy, and employe needs are too numerous, he feels, to justify such a program.

Only one program applies worldwide. This is the travel-accident insurance for company related travel, with benefits of two times earnings.

Certain benefits commonplace in the U.S., Mr. Gritman said, are not applicable in some foreign countries.

Savings plans, for example, are "pretty well unheard of in South America," he explained. This is due, in part, to the high level of inflation found there, which could render money saved this year, comparatively worthless in years to come.

GOVERNMENT subsidized medical services are provided in many Pan American countries. Warner Lambert, therefore, may supplement this service with extra medical benefits. However, an extensive company-sponsored medical plan is not always offered to employes in these countries, said Mr. Gritman.

Mr. Gritman declined to comment on the actual costs, limits, or specific benefit provisions of any of the medical plans provided by Warner Lambert for its Pan American employes.

The variances in employe benefit provisions between different countries can be noted by comparing those offered in Canada and Brazil, however.

Canadians working for Warner Lamber are entitled to group life, a medical/dental supplement to government-provided services, long term disability, a retirement plan, savings and stock plans, and accidental death and dismemberment.

All these benefits, except for the medical supplement, are funded on an employe contribution basis. The percentage of employe contribution varies with earnings.

BRAZILIAN employes receive group life insurance, with double indemnity and accidental death provisions, and supplementary medical services handled through a private clinic.

No pension plan is provided in Brazil. Both life and medical benefits are on an employe contribution basis.

Mr. Gritman would not compare costs of any foreign benefits program with those of the U.S. programs, because he felt the comparisons would not be valid for a variety of reasons.

U.S. citizens working overseas for Warner Lambert retain their U.S. benefits, he said.

However, the firm's expatriate policy spells out several additional allowances such employes are entitled to.

THE BASIC feature of this policy is "to keep the person whole," said Dan Mertus, director of personnel at the Pan American Management Center. This means keeping the employe at a comparative salary to that earned before being sent overseas.

"We recognize that such things as additional money may be needed in some countries for housing, the cost of living (differential), taxes," said Mr. Gritman, explaining that salaries are adjusted accordingly to keep employes at the same income level reached before relocation.

Moving expenses, and one year of home leave for the employe and his or her family are also paid for by Warner Lambert for the American employe overseas. ■

Nigeria to OPIC list

Political risk insurance is now available for new American investments in Nigeria, the Overseas Private Investment Corp. (OPIC) said this month. OPIC provides coverages against inconvertibility of local currency earnings; expropriation; and war, revolution, and insurrection.

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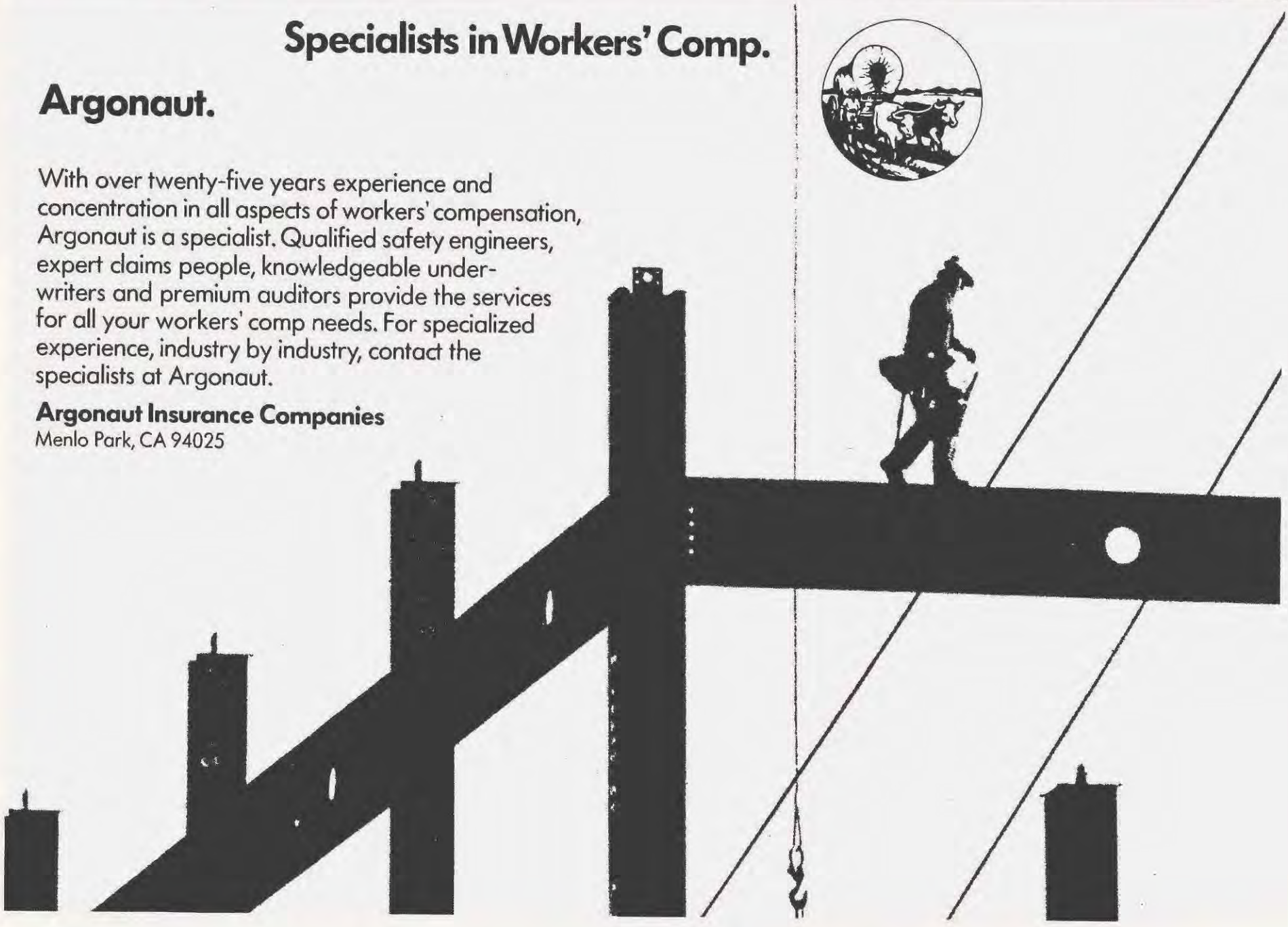

Norway to insure $1.8 billion in offshore rigs

OSLO—Increased interest in the Norwegian Oil Risks Pool indicates that by 1977 the pool will probably be covering insurable values of more than $1.8 billion.

It has only been going since the end of 1972, but has already justified its operations by providing rigs under Norwegian ownership with advantages in both premium cost and policy conditions.

This is the claim the Norwegian pools' chairman Erik L. Flinder, managing director of Polarisk-Norske Sjo Insurance, who told *Business Insurance*: "There's no doubt at all that this new market for oil drilling rigs will be of great help to Norwegian owners in the competitive situation which faces them.

"For a long time the London market was the only one prepared to provide rig cover, and this had concentrated fixing all its tariffs in a single committee.

"BUT WHEN Norwegian shipping corporations began to engage in oil exploration in competition with other exploration groups, they needed to have a Norwegian oil risk pool open to them in their own country."

Initially the London market was the only insurance center prepared to take complicated North Sea oil risks in the fields between Britain and Norway, Mr. Flinder said.

But premiums reached a very high level, even as much as 15 to 16%, and this had a frightening effect on the corporate shipowners who had been used to much lower marine risks, even for VLCCs. Rates began dropping, and fell to 8.5% by the time the Norwegian pool was created, and have now dropped further.

So seven leading Norwegian insurance companies joined in forming their oil risks pool, which now

international

covers all the Norwegian oil rigs that have so far been delivered.

They feel that the kind of rigs on order in Norway are of such a seaworthy quality that any damage bills will be under the average of current premium statistics.

The Norwegian pool is not open to foreign owners, unless there is a significant Norwegian interest involved, or where the rigs are operated by Norwegian rig owners.

"But there's certainly international interest in our pool, and I think other countries will try to copy our arrangements," Mr. Flinder declared. "Cooperation in the pool has given our rig owners significant advantages, and we have managed to carry through a 25% interest cover to the total loss premium for a drilling rig.

"The two Norwegian P&I (protection and indemnity) clubs are cooperating with the marine insurance companies here over liability insurance, and reinsure part of the primary risk with the companies."

Policies are based largely on London's insurance conditions, but special terms are now being planned through cooperation with the Norwegian Drilling Contractors' Assn.

The oil rig cover is the prior interest of the pool, and policies extending to other forms of oil insurance are thought unlikely at present.

This is because pollution liability has been expressly placed on the companies who hire the rig, and as this could in some circumstances be unlimited, the big oil companies tend to act as their own underwriters, according to Mr. Flinder.

Extension of the pool will arise as and when Norwegian rigs get used in other waters, such as off the U.S. and Canadian coastline, or even in the Indonesian and Pacific exploration areas, he forecast. ■

Three-week international risk seminar

NEW YORK—The Risk and Insurance Management Society (RIMS) is sponsoring a three-week, three-part seminar on international risk management for managers of foreign risks, in conjunction with its April conference in Dallas.

The first segment will take place at Temple University in Philadelphia the week before the annual RIMS conference. The dates of this seminar are April 13-18, and it is sponsored by Temple's department of risk and insurance.

THE MIDDLE segment of the seminar coincides with the RIMS conference in Dallas, at which there will be seminars on international risk management.

The concluding segment will cover advanced concepts and practices in risk management, and will take place following the RIMS conference at the Irving, Tx. campus of the University of Dallas. The dates are April 27-May 1, and the seminar is sponsored by the risk management institute of the university.

The society was formerly known as the American Society of Insurance Management. Further information on these seminars can be obtained from the association's headquarters here at 205 East 42nd St. ■

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Offshore rig risks rising faster than rig numbers

Editor's note: Increased world demand for petroleum coupled with skyrocketing crude oil prices have created much activity surrounding offshore oil and gas exploration. For contractors building offshore oil drilling rigs, heightened activity means more risks as fleets, towages and drilling locations multiply. This article examines how some of the major drilling contractors handle these risks.

By MARGARET LeROUX

HOUSTON—"When you're talking oil, you're talking big money," a leading oil drilling contractor observed. "And when you're talking about oil exploration, you're talking about mighty big, expensive risks."

The number of risks and costs of managing them have multiplied even faster than the number of rigs operating offshore.

As of December 1974 there were 250 rigs in operation at offshore locations worldwide, 11 idle, four en route and 167 under construction. A recent study by an engineering consulting firm predicts demand for as many as 1,075 new rigs by the year 2000, depending on a few economic variables.

AND IT'S THE economic variables, namely inflation, that are big obstacles for oil drilling contractors in meeting long-range demand for oil.

Business Insurance spoke to risk and insurance managers for five of the leading offshore oil drilling contractors, including: Penrod, a subsidiary of the Hunt Oil Co.; Odeco, a subsidiary of Murphy Oil Co.; Offshore Co.; Reading & Bates; and Sedco Inc.

Inflation, they agreed, is playing havoc with their property and casualty insurance programs. "How do you maintain enough coverage for rigs when it costs more than twice as much to replace them today as it did to build them a few years ago?" one insurance manager asked.

"A rig that cost you $10 million to build five years ago can't be replaced for less than $25 million today," a spokesman for Offshore Co. added.

Replacement value insurance is available, "if you want to pay the bill," another contracting firm's spokesman noted. "But your premium's going to be almost double."

For years, virtually the only market available to oil drilling contractors was in London, where underwriters followed the Lloyd's "Rig Memorandum" in setting rates.

These rates range from 2% to 6% of the insured value of the rig for property coverage, according to an oil industry source. "Lloyd's determines the rates and permits withdrawal from them only to a limited degree," he said.

DEDUCTIBLES, based on the standard London form, generally start at 1% of the insured value, subject to a maximum of $200,000, "though higher deductibles can be arranged," a risk manager for one oil contractor noted.

Another problem in obtaining property coverage for oil rigs is the rate of depreciation. "Most companies depreciate them over a lifespan of eight to 12 years," a drilling contractor said. "But underwriters frown upon such a rate for insurance purposes."

Competition for the London market appeared in 1972 with the formation of All-American Marine Slip, a marine pool of 29 domestic underwriters. This was followed by American International Group's oil pool in July 1974.

Brokers experienced in placing oil risks believe the two domestic groups offer London competition to be reckoned with. All-American Slip wrote $3.6 million in premiums in its first year, $13.2 million in 1974, "and we expect to write in excess of $20 million in premiums this year," a company spokesman said. (These figures represent total marine P&I business.)

The Slip also insures deductibles for companies covered by OIL Ltd., the petroleum industry captive.

Not all oil contractors are limited to these markets, however.

ODECO, A subsidiary of Murphy Oil insures with OIL Ltd., and operates another captive of its own, Mentor Insurance Ltd. in Bermuda, jointly with Storm Drilling Co.

Offshore Drilling Co. places its domestic property risks in Burton Ltd. and foreign property risks in Malvern Insurance Ltd., both Bermuda captives. Casualty coverage is underwritten by AIG as part of a comprehensive general liability policy, a company spokesman explained.

Offshore Drilling has approximately 25 rigs presently operating, ranging in value from $4 million to $40 million. Premiums for physical damage insurance are more than $5 million per year. The company assumes a $100,000 deductible for most drilling units, "though for high valued units we go to a higher level," the spokesman noted.

Sedco recently organized a Bermuda captive, Cumberland Hills Insurance Co. Ltd. to write a portion of the coverage for its 17 offshore rigs. The balance of the insurance as well as reinsurance is with the London market, a company spokesman said.

Premiums are rated the same on a worldwide basis, he explained, with the exceptions of the North Sea, "where rates depend on the drilling location and month of the year that you're drilling."

Penrod has the distinction of being "probably the only oil drilling contractor who's entirely self-insured for property damage," a company spokesman said.

"There aren't too many contractors with our financial stability," the spokesman said of the subsidiary of Hunt Oil Co.

PENROD HAS 35 offshore drilling rigs in operation worldwide and prides itself on a good loss record: Only two rigs have been lost since the companys founding in the 1930s.

However, "it doesn't take much for a good loss record to get shot to hell," another insurance manager observed.

Offshore Drilling lost three rigs in the last seven years; two of the losses occurred within six months.

Reading & Bates "hasn't jumped into captives or self-insurance" for its 24 rigs, a company spokesman reported. The company places all coverage for its rigs in the London market.

Liability insurance for oil drilling contractors is an area fraught with controversy. One oil industry broker claims that "99% of

Continued on page 25

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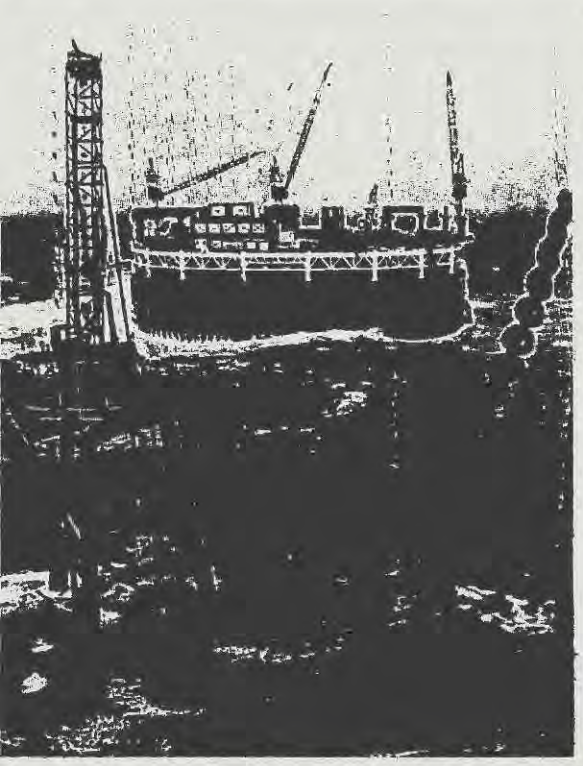

One of the newest kinds of offshore oil drilling risks to be covered is this unique Phillips Petroleum crude oil storage tank, part of the firm's Ekofisk complex in the North Sea. A Phillips pipeline transfers Nigerian crude oil to a tanker for shipment to the U.S.

the major oil drilling contractors aren't fully covered for liability," while another broker maintains, "adequate coverage is available at adequate rates."

A $40 MILLION excess umbrella liability policy is common among the major oil drilling contractors. "But above that figure, the market gets a little tighter," an oil company risk manager noted.

"It all relates to the contract," another broker observed. "You have to be careful how it's drawn."

For example, debris removal if a rig is partially destroyed or sinks, previously was the responsibility of the operators, not the rig contractor. "Now it's becoming a contract negotiating question," the broker noted.

Sedco insures the liability of its rigs with AFIA as part of a worldwide CGL policy. "This includes a $1 million limit for bodily injury and a $1 million limit for property damage," a spokesman said, "We have an excess umbrella policy with London."

Other liability problems facing oil drilling contractors include pollution coverage, war risks, loss of revenues and confiscation or expropriation of rigs.

Confiscation coverage is rather new, according to one oil industry underwriter. G. F. Burke, manager of the oil department of J. H. Blades & Co., Houston, explained the policy his company writes. Rigs are rated according to geographic location, he said. "You're not going to get the same rate off the shore of Chile as you would in the North Sea." No deductible is included and coverage to a limit of $30 million is available.

"We're writing quite a bit of this in Indonesia and the Red Sea," Mr. Burke said.

A spokesman for All-American Slip said his company has been receiving a number of requests for confiscation coverage by contractors drilling in the Persian Gulf. "We're willing to write it," the spokesman said, "but only if we have the hull coverage."

There is no expectation among brokers and underwriters that rates for coverage of oil drilling rigs will drop much more than they have over the last several years. "The industry's loss experience isn't getting any better," one broker said. "So how could rates go down?"

However some downward alteration in future rating can be expected, another broker observed, because new drilling units are more stable than the older ones.

"THE NEW UNITS are less susceptible to blow-outs (when pressure in the well builds up to the point of explosion) and cratering (an offshoot of blow-outs—the ground where drilling is being done caves in)," the broker explained.

Faced with a fast-changing liability situation, complicated by inflation, many oil drilling contractors are taking a close look at their coverage.

"I would think that all contractors should take another look at what they've got," a spokesman for a leading drilling company noted. "We're going to increase our liability coverage."

The ever-present threat of a major disaster—explosions in the North Sea, for example—renders the liability question moot.

If such an event occurred, "I doubt if it could possibly be covered," one broker said. "Whether or not drillers could handle a big disaster," is a problem to be reckoned with, an underwriter concluded. ■

Offshore oil drillers use four rig types

The four basic types of mobile offshore oil drilling rigs include:

SUBMERSIBLE—has a drilling deck above water with fixed legs that touch the sea floor. This type of first-generation rig is limited to ocean depths of 350 feet or less, and is constructed on-site.

JACKUP—has a drilling deck above water with retractable legs. This type of rig has also been limited to ocean depths of 350 feet, though jackups under construction and on the drawing board are planned for use in depths up to 450 feet. This was the second generation rig, towable to the site.

DRILLING VESSEL—(also called ship-shape unit) is a marine vessel with drilling capabilities. The drilling is done either through the center, side or stern of the ship.

SEMI-SUBMERSIBLE—has a drilling deck above and floats on submerged pontoons. Since the pontoon supports are under water, the rig is not affected by wave action. This third generation type of rig is most stable for deep water offshore oil drilling projects and projects in rough waters such as the North Sea.

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editorial opinions

Does London own football and field?

THE MYSTIQUE surrounding London's insurance markets—particularly Lloyd's—is often cultivated and encouraged by those in London. And it may well be working to that market's disadvantage.

This is the inescapable impression felt by an editor of this magazine following a two-week visit there to gather material for this special issue on international risk management.

Prior to our envoy's departure, the logical homework was done: Numerous chats with those who deal or have dealt with London on either a first- or second-hand basis. The results weren't at all encouraging.

"London's underwriters seem unapproachable." "London's habits must be accommodated at all times." "If bureaucracies seem unresponsive in the U.S., they'll seem refreshing after trying to crack the London 'tariff' insurance companies (these are the big, publicly-owned insurers with published rate structures)." "London underwriters own the football, the field and the officials."

■ There were even bitter comments from buyers who've dealt with London over the years, tales charging snobbishness to downright irrational cancellations in mid-term.

Happily, we didn't find London to be as stand-offish as we had been told to prepare for. We concluded, then, the myths surrounding London deserve to be debunked—unless, that is, journalists are treated better there than clients, and that's hardly conceivable.

For the most part, London's insurance experts are willing and, indeed, eager to shed some of the shrouds which for centuries have cloaked much of the city's underwriting activity in secrecy.

Many of London's famous traditions, moreover, are going the way of other clumsy and inefficient practices. Business as usual in London—the people, the settings and the conversation—is carried on remarkably like business here. (With several minor exceptions perhaps: Gentlemen wearing black flannels and grey pinstripes still stroll to work wearing jaunty bowlers and carrying bumbershoots. A few even appear in black silk top hats for the walk to work in the financial center of the Old City. And lunches are still characterized by their length—several hours, thank you—and their alcohol-assisted conviviality.)

■ But London has of late been put in the position of having to compete aggressively with other world insurance markets. A common topic of conversation in the pubs near Lloyd's is the substantial business lost in recent years to European, U.S., Japanese and even other London competitors.

It seems to us that underwriters in London—and especially those at Lloyd's—have been crying in their ale just a bit much. That is, they've taken their eyes from a changing world while other insurance markets have adapted to the demands of a more sophisticated insurance consumer.

London, nonetheless, is keenly aware that business which traditionally came easy to Lloyd's and the companies no longer flows there as a result of no one else wanting it.

One sure sign of London's improved competitive mood and changing traditions is the effort by some Lloyd's underwriters to put figures forward detailing loss experience. Some even talk publicly with the press about rates. Peter Green of the Janson, Green marine syndicate at Lloyd's, for example, supplied a list of major oil rig losses last year. Such disclosure can only work to benefit both buyers and sellers of insurance by promoting a better understanding of rate movements up, down or sideways.

Some of Lloyd's, however, still maintain actual loss statistics are none of your business. Directors' and officers' liability is the classic example. This magazine's attempts to obtain concrete facts and figures were again fruitless.

■ Lloyd's underwriters, nonetheless, are admirably accessible and highly knowledgeable in their specialized fields. But Lloyd's members should recognize once and for all U.S. clients and brokers are restless with this lack of communication. Some have charged the underwriters with opportunism. Others tell tales of rates that lack a statistical base, and of withdrawals from classes of business in order to rush back later charging quadrupled rates. We're not saying all the stories are true, but they're persistent enough to warrant the concern and attention of Lloyd's top brass.

In a word or two, Lloyd's and London should—and will—continue to be an important and viable marketplace for insurance consumers. But it might be much more so if more attention is paid to better communications. In short, we'd like to know more about what you're doing, London. A freer exchange between you and your clients will guarantee that each knows what the other is trying to accomplish.

Spotlight on RIMS

THE APRIL 21 ISSUE of *Business Insurance* will focus on the impact of economic turbulence and recession on corporate programs to manage risks and employe benefits.

The issue will coincide with the opening of the silver anniversary conference of the Risk and Insurance Management Society in Dallas, and copies will be available there for the 2,000 or more members expected to attend.

The RIMS meeting (RIMS was formerly the American Society of Insurance Management) will undoubtedly provide a forum for formal and informal discussions about new risks faced by those executives responsible for conserving both human (employe) assets and financial and material assets (property and liability risks). There are smaller budgets, inflated inventories, skyrocketing liability damage awards and rumblings about the critical health insurance needs of unemployed workers, to name a few. And, yes, there's the risk being quietly being voiced by some risk managers: the future of their own jobs.

On a cheerier note, the same issue will also focus on Texas oil, an industry in the midst of a boom. A *Business Insurance* reporter will be in Dallas and Houston this month gathering material on how the business of managing oil-related risks has been affected by the increasing value of the black gold.

letters

This column is a readers' forum. Letters are welcome. Address letters to the Editor of Business Insurance, 708 Third Ave., New York, N.Y. 10017.

Missing the point

To the Editor: I was disappointed to learn of your opinion of national health insurance as given in your "Editorial Opinions" column, titled "A Tactless Move". I thought that you would favor the private sector of insurance to provide coverage for health care as opposed to the public sector. Surely the failure of the Danish and Swedish systems should serve as a warning to us not to enter into a national health program.

The British system is beginning to crumble as many of their doctors are leaving Britain for greener pastures. I do not believe that the American taxpayer can absorb the cost of a plan of this type.

Please note that when over half of my income goes to the government, the government just might start taking care of me also.

Clint Pruett
Gans & Smith Insurance Agency Inc., Longview, Tx.

Twice

To the Editor: This is to express disagreement with your editorial "A Tactless Move" published in your February 10, 1975, issue, expressing disapproval of the White House announcement that the Ford administration would not submit a national health insurance proposal to Congress in 1975.

Be grateful for small favors.

Something could happen between now and 1976 to bring the Congress to its senses. They might even decide it would be good business to get the government disentangled from health care.

One obvious advantage of such action would be to bring about a reduction in cost and an improvement in quality.

The outlook otherwise is for steadily increasing cost and decreasing quality.

S. A. Chalk, Jr.
Morehead City, N.C.

Editor's note: Readers Chalk and Pruett missed the point of the editorial. Business Insurance *has never endorsed a federal health scheme supported entirely by federal funds. What we have endorsed is a scheme that guarantees equal access to adequate health care for all Americans, rich or poor, financed by the private sector and using private health insurance carriers. The initiative for such a scheme must, of course, come from government, and our editorial merely criticized the Ford Administration for pushing government's consideration of possible schemes to the back burner at this time.*

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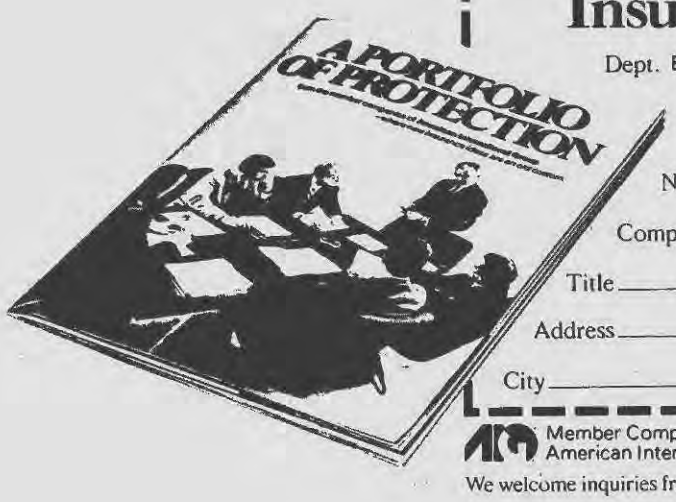

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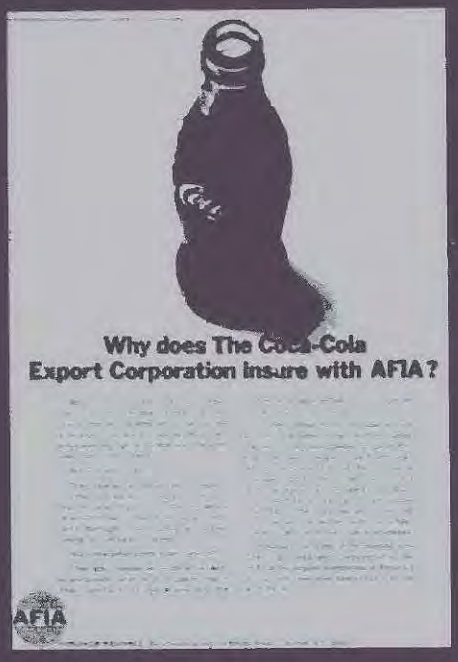

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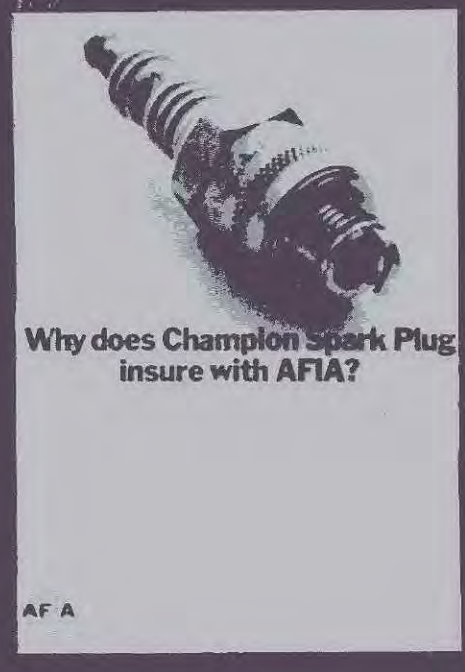

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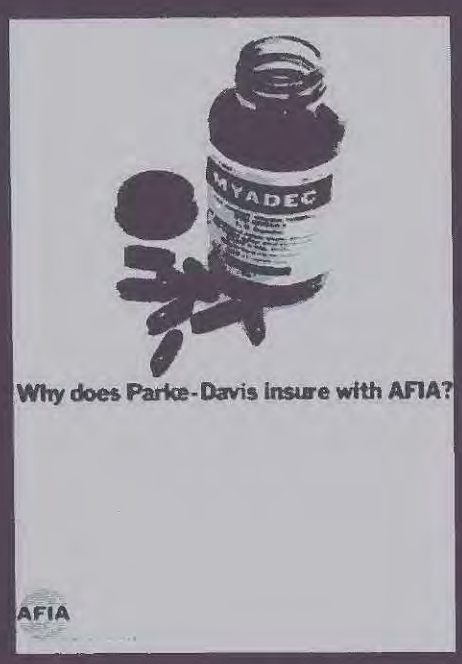

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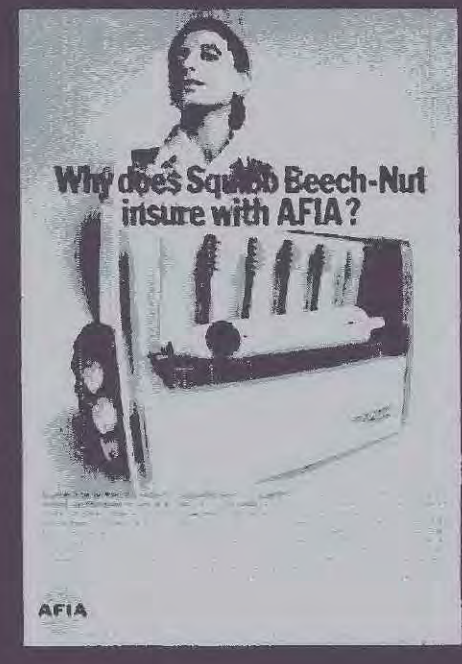

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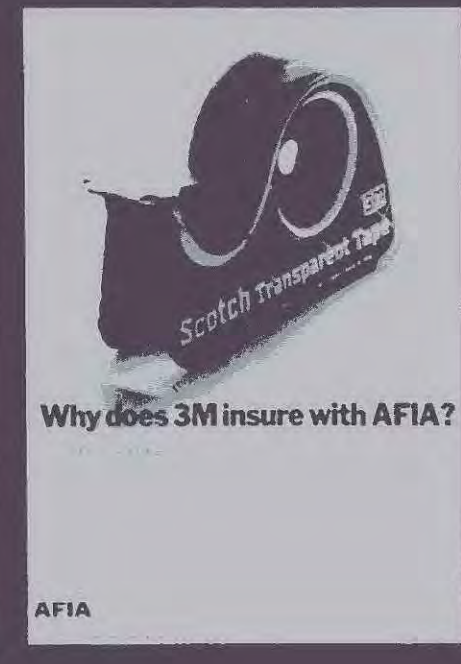

Why does 3M insure with AFIA?

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Marine rates may hold steady, despite big losses

LONDON—Marine insurance underwriters here are trying to raise their rates, but they acknowledge that the world's depressed economic conditions may force them to keep their rates at current levels. Rates may even decline.

"We should be getting higher rates to reflect inflation, if nothing else," declared a Lloyd's underwriter who participated in one of two roundtable discussions with *Business Insurance* in Lloyd's famous upstairs tearoom here.

There is widespread agreement among underwriters here that in 1974 very few insurers made satisfactory, if any, profits on their marine lines. Thus, in addition to inflation, underwriters believe the combined loss experiences of 1973 and 1974 justify higher rates in 1975.

"Figures looked bad on marine losses (excluding aviation) at the end of September, and I think 1974 as a whole will turn out to be just as bad as the first nine months," said a leading marine underwriter at Lloyd's.

Inflation gets most of the blame for pushing marine claims up last year. An increased number of constructive total ship losses in 1973 and 1974 gets the rest of the blame.

LONDON'S OVERALL experience with marine claims last year prompted underwriters to predict that U.S. and Japanese marine competitors won't be able to continue cutting rates to maintain their growth in the marine markets. Some Lloyd's members predict that certain hard hit U.S. marine insurers may pull out of the markets, although they won't name names or cite any loss figures.

The view from Lloyd's is summed up in this statement from an underwriter with a very large Lloyd's marine syndicate: "We see the U.S. market as contracting (in marine lines). Some American companies are taking the business unprofitably, using it as a loss leader. The U.S. marine market, we feel, will undergo a violent upheaval and contraction."

(Several U.S. insurers of marine risks, while conceding marine lines were not highly profitable last year, hotly deny there is any move afoot to restrict the business or pull out of the market.)

Several factors may lessen inflation's impact on rates, however. The first is perhaps most important: a deepening worldwide recessions means fewer ships carrying less cargo will ply the open seas, causing a shrinkage in the total amount of marine insurance sold. Traditionally, such a situation has caused heavy competition among underwriters for the smaller amount of business available.

SECOND London sources maintain that overall capacity may well continue to increase, which also translates into the language of aggressive competition among insurers. One Lloyd's underwriter said, "The outlook for P&I (marine property and indemnity insurance) is generally good. But primary P&I is too cheap at the moment; the market is starting to tighten a bit right now in primary coverages. But London's capacity, as far as pure capacity is concerned, is increasing for marine lines, both in the company markets and Lloyd's.

"Undoubtedly we are going to get an increase in marine capacity again this year, but it may not be as big an increase as last year. Some marine underwriters are full up, and are finding things difficult. And I should think we will benefit from a declining American capacity in the primary casualty lines," he added.

"A few Lloyd's underwriters are not taking on any new primary P&I business right now, and are only writing marine excess coverage above, say, $5 million for railroads, above $100,000 for personal yachts and above perhaps $250,000 on oceangoing commercial vessels.

"NONETHELESS, there has only been a capacity problem at very high limits of marine liability, such as on coverages for pollution liability and in some cases passenger liability (in aviation lines). I can't think of a single instance where a broker hasn't been able to finish a marine risk placement" in recent month, concluded this Lloyd's member.

Hull insurance remains a highly competitive field, said some Lloyd's experts, who sometimes were contradicted by colleagues. "A $100 million value on a supertanker is no problem at all for hull coverage," said one Lloyd's underwriter of the market's ability to absorb big risks, ominously predicting it might cost 5% to 15% more to insure that hull.

Over the last three years, Lloyd's has lost enormous business in marine lines to U.S. and Japanese underwriters. But Lloyd's chairman, Havelock H. T. Hudson, himself a marine man, predicted marine premiums will soon flow back to London. This optimistic outlook is, of course, supported by other individual Lloyd's underwriters. But some individual underwriters said they haven't seen this happen, yet.

Actually, several marine insurance brokers and marine officials at the biggest London-based companies said they think that the gloomy outlook for world shipping, coupled with competitive world marine insurance markets, means that business won't come easily back to London.

IN FACT, LONDON is still fighting to keep its traditional marine business, they said.

For example, when London underwriters recently indicated they would not insure an unusual policy for a long-time corporate client, American underwriters indicated a willingness to handle the business. Rather than have this business go abroad, Lloyd's and the companies introduced a new line classification called "intermarket business." For clients considered "prestige accounts," London will lump together marine and non-marine risks with very large limits (and very large premiums), to be insured under umbrella policies.

By combining these risks in a package, London is able to spread the insurance coverage among an adequate number of marine and non-marine underwriters. ■

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Midland Mutual Life Insurance Co. was low bidder among five underwriters to supply the city of Columbus with life insurance for its 6,500 employes. Midland, which provides other insurance to the city, offered the coverage for 47 cents a month per person per $1,000.

Idle supertankers are risky in strange berths

LONDON—Problems over the safety factor of laid-up tanker ships are urgently facing the marine insurance market. These new risks are compounded by the growing oil crisis spreading to many countries around the world.

Fears are developing that more than $2 billion worth of highly-insured tonnage will be at risk in

international

strange bays and creeks, or wherever shipowners can find a berth, if there is not enough work to keep them busy at sea.

The boom in world tanker usage is clearly coming to an end. Oil consumption is dropping as prices rise, and far less fuel is being shipped along the traditional international ocean routes.

The British marine insurance market, including Lloyd's and the companies, is now ready to deal with large numbers of shipowners who may seek partial downward revision of policy rates while their vessels are not at sea.

Unfortunately idle ships still present fire and explosion hazards, the insurers contend, especially if normal laying-up berths are rapidly being filled up by supertankers of 200,000 tons or more as the demand for them drops to new lows.

"IT'S A HUGE concentration of risk if four or five of these VLCCs are tied up together," one London underwriter explained. "We're prepared to consider returns of premiums, because this has happened previously in tanker slumps, but we must approve the lay-up locations."

Estimates are current that as much as 20 million deadweight tons may be laid up round the world unless the demand for oil improves globally. Norway and Japan are already badly hit, and other countries will be affected if the slump goes on.

Rules for insurance cover on laid-up ships have now been approved by leading underwriters in the U.K. market through the joint hull committee, which lists the following risk factors: Exposure to weather, moorings, fendering, ballasting, gas-freeing, fire-fighting arrangements, and the availability of salvage assistance.

World shipowners are being advised to approach their ship classification society when they want to lay-up very large vessels and get information to meet the safety conditions which will satisfy underwriters.

A spokesman for the joint hull committee told *Business Insurance*: "There's a dearth of areas available for the very large tankers, and some owners are turning to remote anchorages in locations that have not been used in the past. It is intended that the London Salvage Assn. can survey areas not customarily accepted by underwriters, and will comment on the weather aspect and other potential laying-up risks." ■

Clarification

Great Lakes Agency Inc., based in Chicago, markets all lines of insurance, including fiduciary liability insurance. It is a direct producing broker. Professional Indemnity Agency Inc., a division of Tolley International Corp., is also a broker for multiple insurance lines, including fiduciary liability coverage. It is completely separate from Great Lakes Agency. Great Lakes Agency works through The Planning Corp., wholesaler, of the Lloyd's of London fiduciary liability form. Planning Corp., which was created to handle specialty lines as well as mass marketed insurance through trade and professional associations, is an affiliate of Chicago's Great Lakes Agency, but is not a subsidiary of the agency. Planning Corp., in turn, works through Professional Indemnity Agency.

As reported in the Feb. 10 issue of *Business Insurance*, Planning Corp., and Professional Indemnity Agency are exclusively marketing the fiduciary liability insurance policy underwritten by the Langton Syndicate at Lloyd's, through H. Clarkson Ltd., Lloyd's brokers.

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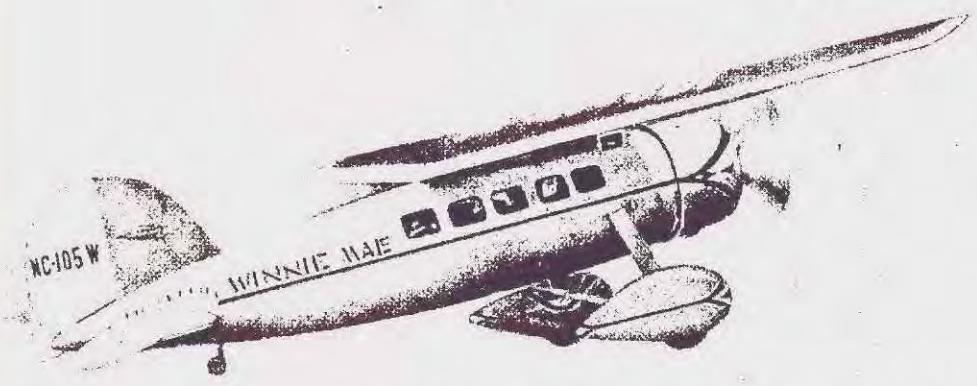

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• **Employe Benefits in Portugal —The Changing Scene** explains in general terms the condition of employe benefits in Portugal today and the main findings of a 1973 survey of companies there. Published by Marsh & McLennan, the booklet presents the country's economic background, social security system and private plan practices. For a free copy write William D. Welsford, Marsh & McLennan/International Benefit Services, 7 King Street East, Toronto, Canada M5C 1A2.

• **Multi/National Trends,** the bimonthly official publication of the Multi/National Business Assn., covers international business and multinational corporations. The November/December issue features articles on New Hebrides as a financial outpost, multinational corporations and pollution control and What Do They Want?, a unique "reader involvement" service. Future articles will include international insurance. The trial issue is $1.50; write to Richard E. Richter, executive director, Multi/National Business Assn., 10889 Wilshire Blvd., Los Angeles, Ca. 90024.

• **The Insurance of Charterer's Risk** is an article that explains the special legal liabilities imposed on those who ship overseas by charter. It covers the special characteristics of charter shipping and the unique liabilities they could incur. For a free copy write the author, Andrew E. Rossmere, at Bleichroeder, Bing & Co. Inc., 127 John St., New York, N.Y. 10038.

• Burns International Security Services Inc. has published a **Security Handbook for Businessmen Overseas,** which is a study by their investigation bureau. The 36-page handbook discusses preventative security, family, office, residence, servants and air travel security. It even explains how to behave in case of a kidnapping. A single copy costs $5.00, but for multiple copies the price is $3.50. Write Ashley W. Burner, Burns International Security Services, Briarcliff Manor, N.Y. 10510.

• Recognizing that many Japanese nationals are now working in the United States, Bayly, Martin & Fay Inc. has prepared a Japanese translation of the OSHA poster, **Safety and Health Protection on the Job.** The English version is printed alongside. Firms desiring a copy should write Samuel Alcorn, national vp, Bayly, Martin & Fay,3200 Wilshire Blvd., Los Angeles, Ca. 90010.

• The booklet **Puzzling Out Benefits in Europe** outlines facts which should be vital to the management of every company, large or small, with operations in Europe. It should be of greatest interest to those concerned with international operations: financial officers and others responsible for personnel, employe benefits, compensation and remuneration in general. Write Insurope Secretariat, 45 Blvd. Bischoffsheim, 1000 Brussels Belgium.

• **New Dimensions** is the new information booklet of the International Foundation of Employe Benefit Plans. The booklet focuses on the organization's broadened educational services and outlines the organization's structure. For a free copy write the foundation, P.O. Box 69, Brookfield, Wi. 53005.

• **Kidnap and Ransom Insurance** is a new brochure released by Lowndes Lambert (U.S.A.) Inc. A schedule of recent ransom cases involving underwriters in the London market is included as are copies of the policy form in current use, proposal forms for use by both firms and individuals and personal accident extensions. For a free copy write Lowndes Lambert, 15 Broad St., Boston, Ma. 02109.

• Keith Shipton Developments Ltd., a London-based risk management consultant firm, has released **Aspects of Pollution associated with the Process Industries,** the first in a series of timely studies. The booklet surveys the environmental, disposal and control problems of chemicals in the process industries. Written by D. H. Napier, an expert in the field of industrial chemical safety, the study provides a general analysis and details the effects of specific chemicals. Copies are available from the publishers, Woodhead-Faulkner Ltd., 7 Rose Crescent, Cambridge, England. Cost is 1.50 British pounds sterling (about $3.50) plus 25 pence for postage and handling.

• **Comprehensive Health Insurance,** underwritten at Lloyd's of London for the first time, has been released by Illinois R. B. Jones Inc. This is a descriptive brochure about a new accident and health plan. Write Richard Ruhe, Illinois R.B. Jones, 175 W. Jackson Blvd., Chicago, Il. 60604.

• **Incendio!** is a 17-minute color film depicting a fire that took 179 lives and consumed much of the 25-floor Joelma Building in Sao Paulo, Brazil, on Feb. 1, 1974. Produced by the National Fire Protection Assoc., the film emphasizes the need to build fire protection into highrise buildings. 16mm prints are $235 each from the NFPA Publications Sales Dept., 470 Atlantic Ave., Boston, Ma. 02210.

• Marsh & McLennan has made available a booklet titled **Australian Employe Benefits in the Seventies.** It discusses some of the recent trends and changes in employe benefits in this growing continent, emphasizing the implications for both employes and employers. For a free copy write Marsh & McLennan/International Benefits, 1221 Avenue of the Americas, New York, N.Y. 10020.

• **Employee Benefit Trends and Practices in the Far East** has been released by Marsh & McLennan. The pamphlet describes factors to be considered in designing employe benefit programs in the Far East and a brief review of the employe benefit situation. For a free copy write William Welsford, Marsh & McLennan/International Benefit Services, 7 King St., East, Toronto, M5C 1AZ, Canada.

Litton's biggest problem abroad, 'the pressure for higher benefits'

By JOANNE GAMLIN

BEVERLY HILLS, CA.—Litton Industries, which maintains an insurance program underwritten by American International Underwriters (AIU) for the 19 countries where it owns facilities, finds the international risk management field almost all smooth going.

With two exceptions.

James Lang, director of insurance for the multinational corporation, pointed out that one problem is skyrocketing fire premiums in Europe, where Litton has its major foreign concentration. But a possibly more severe problem, he indicated in an interview with *Business Insurance,* is the expectation of most Europeans that their pensions will be the equivalent of their final salaries.

Although most European Social Security programs take care of employe health needs, he said residents of the Continent, most of whom have savored national prosperity only recently, look to their pensions for full financial support during retirement.

"WE ARE FEELING the pressure for higher benefits," he acknowledged. Holland is considering a law demanding employes receive 70% of their final pay after retirement, he said. Italy already has a law that entitles an employe to 75% of final pay. Litton has divisions in both nations.

"The problem is that the employes do not seem to understand the relationship between their expectations and the profitability of their companies," he said, emphasizing that he is expressing a financial, not a humanitarian, viewpoint.

Pension costs in Europe, he added, are about 15% of payroll, compared with less than half that in the United States.

Outside of Europe, Litton has units in Singapore, Venezuela, Hong Kong, Lebanon, Australia and Japan. West Germany, however, is the nation which contains Litton's largest foreign exposure. The Triumph/Adler division in West Germany is the primary manufacturer of Royal and Adler typewriters. Triumph/Adler employs 10,000 persons or nearly one-third of Litton's total foreign labor force in fiscal 1975.

THE FOREIGN insurance program is designed similarly to the corporation's domestic counterpart. The 10 policies covering foreign risks are nearly all characterized by high limits and umbrella-type protection. They account for $700,000 in annual premiums, he said. Claims handling is taken care of through AIU in the U.S. Working with AIU is Litton's broker for foreign insurance coverage, Fred. S. James.

"What we do is have our foreign divisions in nations with protective laws buy coverage through AIU which then provides insures through its admitted carriers," he explained.

Mr. Lang went on to say that he believes the advantages of this policy outweigh the drawbacks. The key advantages: The company avoids buying foreign policies which are expensive and tariff rated, and which, in addition, do not allow blanket coverages.

Following West Germany, England and France accounted for the next largest part of Litton's foreign insurance program in fiscal 1975. For the year, West Germany has total values insured—including Triumph/Adler—of $94,493,330 ($179,989 for buildings, $73,357,612 for personal property and $20,955,729 for business interruption). By contrast, England has total values insured of $80,682,962 ($18,305,627 for buildings, $49,159,887 for personal property and $13,217,448 for business interruption). France comes in third with total values insured of only $58,395,061 which breaks down to $6,071,239 for buildings, $37,475,069 for personal property and $14,848,753 for business interruption.

international

Some 28,185 employes are insured in foreign lands by Litton.

When he first started to formulate the foreign insurance program in his mind eight years ago, the insurance executive said he had to design his actions around the Litton philosophy of divisional autonomy.

"We believe in allowing our units abroad to be managed as foreign nationals," he said. "In insurance, this means each division pays its own premiums."

After the program had been worked out with AIU, he said he personally assumed the job of sitting down with the heads of each unit and explaining why Litton wanted the program. To achieve this, he made three trips a year to the foreign divisions, surrendering between three or four weeks to each trip.

"ABOVE ALL, we wanted to convince them that we could obtain economics through pooling. We also wanted to assure them that while the new coverage would be more comprehensive, it wouldn't cost any more than their old policies."

The convincing process took seven to eight years. The payoff: All foreign units have been brought into line, he said, except for the giant Triumph/Adler, and a few minor subsidiaries in South America and Australia.

Mr. Lang obviously feels satisfied about the way Litton's foreign insurance programs look in fiscal 1975. He noted that he has even grown comfortable with the role of risk manager in Europe—even though he is critical of the way insurance is purchased on the continent.

"It's purchased there the way it was here 20 years ago," he commented. He cited the example of general liability and products liability insurance, which he contended are considered unimportant by most managers in Europe. In fact, it's a chore to persuade Litton's foreign divisions that they need liability protection, Mr. Lang explained.

One particularly pleasing by-product of the all-risk program has been a good loss ratio. Outside of fire insurance, where premiums are soaring, Mr. Lang is in the lucky position of being able to state that overseas, at least, premium hikes are moderate. ■

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For a complete list of our offices, and an interesting report on our operations, write James T. Kelley, executive vice president, MOAC, 80 Maiden Lane, New York, N. Y. 10038.

Foreign benefit trends include use of variable return, survivors' pensions

LONDON—Swiss Life Insurance and Pension Co., the largest mutual life insurance company in Europe, sees several clear cut benefit trends for European employers:

- increased use of variable return capital-protected insured benefit plans;
- extension of death benefits and pension benefits to survivors and women equal to male benefits;
- increased provision for lifetime income benefits for survivors instead of lump sum payments;
- slow but sure progress in the inroads being made by long term disability coverage;
- integration of all benefits with Social Security schemes;
- greater inflation-proofing of benefits by providing for predetermined adjustors at predetermined points of time.

John W. Manaton, U.K. manager of Swiss Life, told *Business Insurance* in an interview that the company presently has about 400 multinational clients with contracts in more than country. Of these, he said, about 100 are large enough to be pooled with the other large accounts in the specific countries.

Swiss life's group benefit business with such large multinational accounts has doubled in the last four years, Mr. Manaton added. Swiss Life lists among its international policyholders the giants of the corporate world, ranging from Allied Chemical to Crown Zellerbach, General Motors and a firm named Zoecon.

The firm considers its biggest competitors worldwide to be John Hancock, Aetna General and the Insurope pool, although Mr. Manaton said "In Europe, (Swiss Life) is well ahead of all these."

"WE WOULD hope to double in the next two years our business with international clients," Mr. Manaton stated.

The newest thing in worldwide benefit plans is the deposit administration scheme, he said, citing changing regulations in many countries to allow such variable return insured benefit programs. The way this plan works, Mr. Manaton said, is that benefit fund assets are insured, so that the insurer offers a capital-protected plan, but allows the rate of return on investments to vary with the actual results obtained.

The U.K. has allowed this type of plan for years, he added. Switzerland, Germany and Holland recently changed their statutes to accomodate variable insured plans previously, in addition to us, but now the plans are being widely offered, by at least 15 insurers."

He said Swiss Life's investment return has been 8.4% in 1971, 8.4% in 1972 and 10.2% in 1973.

In 1971, Swiss Life achieved a "breakthrough" by getting death benefits for women under group retirement plans, said Tony Salter, benefit planning manager. More employers are also offering survivors benefits for all women, married or single, as part of a movement toward blanket dependents' benefits, adding 1% to 2% to total pension costs.

"The common practice before that had been to provide life benefits of four times salary for single males, but only one times salary for females, regardless of job position or salary," Mr. Salter said.

He also noted that survivor's benefits are increasingly provided as guaranteed lifetime income instead of a lump sum payment.

Benefit inflation-proofing in the U.K. is being accomplished in two ways, Mr. Manaton said. One way involves a promised rate of benefit increase using a predetermined adjuster. The other involves regular use of a standard formula such as the retail price index to boost pensions. ■

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Saved $20,000, added cash flow by centralizing company's insurance

By SUSAN ALT

LONDON—In the three years since Albright & Wilson Ltd. formed a central insurance department to coordinate company-wide programs, John R. Parkinson figures he has saved the firm an average of about $20,000 a year in premium costs and generated additional cash flow amounting to over $60,000 a year.

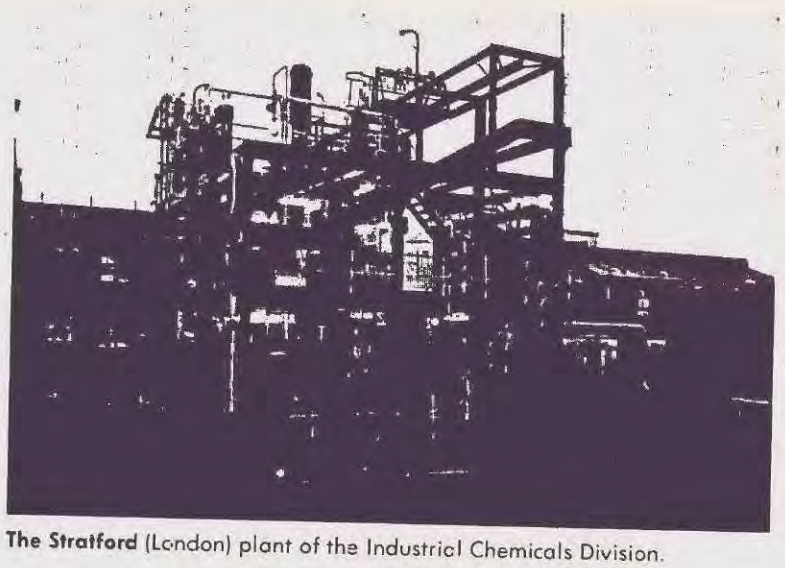
Mr. Parkinson is group insurance manager for the giant chemical company, which records sales of nearly $400 million a year and employs over 15,000 people on every continent of the world.

The group insurance department was formed in June, 1971 following completion of a study by a working party which tried to determine if all the company's many operations were adequately insured. At that time Mr. Parkinson was insurance manager for the industrial chemicals division, one of the firm's four major U.K. divisions. None of the other three had an insurance manager; it was the company secretary's job to look after insurances and use a broker for assistance.

ALTHOUGH Mr. Parkinson definitely prefers to describe his function in the company in terms of insurance, he has in three and a half years used sophisticated risk management techniques to "rationalize" the international firm's many programs.

He prefers not to call himself a risk manager because he fully recognizes that he can't manage a thing without the cooperation and help of numerous front-line people in the company. In fact, he considers plant managers, works engineers, design engineers, buyers, traffic personnel, marketing managers and accountants the real risk managers at A&W.

In fact, in order to make them the best-qualified risk managers around, Mr. Parkinson is launching a first-of-its-kind internal risk management training course for line managers throughout the company.



The Stratford (London) plant of the Industrial Chemicals Division.

"Initially, we are having the course available to all people promoted in a middle management role within the previous six months," he said. "But eventually we hope to get to the other people, which will mean that in two of three years time my company will have a good nucleus of middle management who know what risk management is all about and, I hope, will adopt risk management principles and educate, by example, the people working for them.

"To me, risk management at its best is the education of the people who are really responsible for day-to-day operations and risk control" he declared to *Business Insurance* during a long interview in his Kensington office here.

THE FIRST course will take place at a hotel or nearby management center, in the first half of 1975, lasting a week. About 75% of the first group of 20 or 25 people will be plant managers and works engineers. Mr. Parkinson believes these courses should, ideally, be held two or three times a year. Internal personnel will be the speakers: Probably one person from the board of directors, a senior safety person, a fire engineer, the company solicitor (legal counsel), a design engineer and Mr. Parkinson himself.

"Sometimes we've done this informally in the past, during business meetings," said Mr. Parkinson. "But these classes are specifically designed to explain company policy on risk management and show line managers how they can make a difference in the bottom line profits of their division through effective risk management.

As part of Mr. Parkinson's program of rationalization or coordination of insurance through-

Continued on page 37

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Continued from page 36

out the company, he went to one group personnel insurance policy from four, and at the same time got better coverage for employes, better rates and better purchasing power.

The newest change in the program, the result of long hours of work, is a newly organized worldwide public and products liability policy for the chemical giant, which supplies chemicals and distilled fragrances that go into nearly every conceivable kind of consumer good, including all of the Procter & Gamble and Unilever products.

THE NEW liability policy covers every division and facility around the world, and is, interestingly enough, with American International Underwriters (AIU). "This policy has substantially lowered our costs and has given us the opportunity to take adequate limits of indemnity throughout the world, with very wide coverage that we would not be able to get in local markets. An example would be an error in the design and formulation of a product, and you just can't get that in Australasia," said Mr. Parkinson.

The policy offers $2.5 million limits per occurrence under the primary umbrella coverage, plus another $22.3 million excess coverage. "The savings were about $15,000 a year," he proudly noted.

In order to put this program together, he invited bids through Bain, Dawes (Europe) Ltd. Four insurers submitted bids. This policy is a change from using local insurers in all countries. The new plan is backed by a separate local insurance policy in each country where Albright & Wilson operates, facilitating administration and payment of claims. "An unusual point, however, is that the criterion for handling and paying claims is the English wording of the umbrella policy provision, not the local policy," Mr. Parkinson pointed out.

This change came about as a result of Mr. Parkinson's frequent travels to overseas plants, where he reviews insurance schedules with local brokers and discusses insurance philosophy with divisional operations management. "Personally, I find the biggest gaps in cover at the overseas locations are that they invariably have inadequate limits of indemnity under their public and products liability insurances, and inadequate periods of indemnity under their consequential loss policies," he asserted..

"One also very often finds that their methods of valuing assets for insurance purposes are inadequate and these have to be revised," he added.

TO FACILITATE this whole process, Mr. Parkinson believes it's advisable to work with one brokerage firm worldwide, He has used Bain, Dawes since mid-1971 for public liability, the excess covers and the Lloyd's part of the fire schedule. He uses Marsh & McLennan "where we need them," in Italy and Canada.

Albright & Wilson spends about 1.25 million pounds, or about $3.1 million a year on general insurance in the U.K. The firm spends another $1.9 million overseas for insurance coverages. "That is probably only about 10% to 15% up from what we spent three years ago. We've not had a single rate increase since June of 1971, as a result of the centralization and because we have a good claims record, evidence that risk management works," Mr. Parkinson said.

The company uses only limited self-insurance, although Mr. Parkinson envisions he will be doing more with this in the future. Among other things, he is investigating the possibility of using a captive. "At present, I feel I am only scratching at self-insurance, but my retained premium is well over $250,000 a year and we are making a fair profit on it," he has said.

Self-insured risks include employe travel accident costs, and accidental damage, auto collision and third party auto liability. Some marine hull is self-insured (the firm owns four ships) and employers' liability has a large deductible wth excess coverage. "We are looking at employers' liability now to see if we can do more with self-insurance," Mr. Parkinson said.

Marine hull retention is $25,000 per occurrence; coverage above that is with Lloyd's and the London company market. Employers' liability retention is about $12,400 per occurrence, with what Mr. Parkinson terms "very unusual coverage" above that.

He declined to disclose the underwriter, but explained that the insurance involves a premium retention plan using a small deposit, with the insured paying claims up to the deductible limit, then the insurance company paying claims above an agreed maximum limit.

"WE DON'T USE an aggregate limit; just a per occurrence limit. I don't really have any catastrophic risk in employers' liability areas. All I pay is the premium at the beginning of each year to cover claims the previous year over the 5,000 pounds. So I really set my own premium and am building up a fund" from one year to the next, he noted. The previous insurance company for employers' liability wouldn't even consider any deductible he said. "It had to be ground floor insurance or nothing. So we changed."

The chemical company's fire insurance is about three-fourths in the tariff (company) market, another 17.5% with Lloyd's and about 9% with non-tariff companies. Assets of nearly $600 million are insured to full value. Fire coverage including material damage and consequential loss, accounts for about half of the company's total annual premium expenditure. Gross profit is insured under consequential loss for 18 months.

"We've got our fire rates down pretty low. We're constantly putting pressure on for better rates, but we are like most other insureds in that our hands are tied by the tariff companies. Our only real problem is that, for instance, if an insured takes a $250,000 deductible, you can get may a 15% discount on your rate, at the very most, which is terrible."

Mr. Parkinson explained that as part of his risk management procedure, he has established a system whereby detailed reports of capital spending plans are sent to him after being authorized by the board of directors. This way, he says, he "can write to the particular company or division and ask for further details of the contract or methods of construction. They realize that they cannot go ahead with anything without me knowing about it and without me talking about the risks with them."

He noted that with the overseas locations, after a visit, he completes reports and then makes a "large number of recommendations and points which go a lot wider than insurance matters. For example, I have made recommendations about the provision of additional storage because I felt that the existing facilities ran stocks far too low and made no allowance for fires, breakdowns, strikes, etc. at suppliers premises." In this way, the overseas locations can see that your job is not strictly one of insurance but is one of risk." ■

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Losses from sweat damage are major risk for Libby's canned food operation

By ELISABETH M. WECHSLER

CHICAGO—Between November and April, Libby, McNeil & Libby sometimes is forced to throw out entire shipments of canned goods intended for Puerto Rican markets because of sweat damage, said John C. Hitt, director of corporate insurance.

A marine policy covering $1.5 million per shipment and underwritten by the Great American Insurance Co. with no deductible or aggregate limit solves only part of the problem, Mr. Hitt said. Frank, Gair, Macomber Co. Inc. is the broker for this coverage, he added.

The main problem is that it's almost impossible to engineer down the risks: 50% of Puerto Rico's canned goods supply must be shipped by Libby during this five-month period when warehouses here have temperatures of 55 degrees while warehouses in Puerto Rico reach 80 degrees, according to Mr. Hitt. This condensation created by the environmental change causes rust that can damage the canned goods beyond repair, he explained.

"Some cans can be revived but some must be condemned," Mr. Hitt said, adding that the Puerto Rican government decides what should be done.

Libby has considered two solutions, he explained. They could supply their own dehumidifier containers for shipment since commercial shippers don't make them available, or they could try to estimate Puerto Rico's supply needs and ship the necessary goods before the critical winter period, he said.

MR. HITT pointed out that the former solution is difficult to implement because of the capital outlay for containers that are only needed part of the year. The latter solution is hard to implement because "it's difficult to estimate our supply needs," Mr. Hitt said.

Also, there isn't adequate warehouse space in Puerto Rico for 300-400 containers currently being shipped each year. Since most of Libby's processing is done between June and October, supply needs for Puerto Rico would have to be estimated almost two years in advance to avoid the November-to-April period.

"You have to look at the risks from the standpoint of how much you want to spend," Mr. Hitt said. "If I know I lose $25,000 on shipments a year, do I want to spend $35,000 in premiums?"

He explained that spreading

the risks through worldwide shipments helps. "If Puerto Rico were the only place we shipped merchandise, then there'd be a problem," he continued.

SOMETIMES LIBBY buys separate marine cargo insurance for a specific limit over $1.5 million, Mr. Hitt said, such as for canned corned beef being shipped from South America to Puerto Rico.

Once you're talking about insuring property risks within Puerto Rico, it's a different story, Mr. Hitt said.

Libby's Puerto Rican operation includes seven locations and comprises ethnic food processing, can production, importing, distribution and some exporting. The annual per capita consumption of its products is more than $5, according to Mr. Hitt.

A Puerto Rican farming operation recently acquired, is being sold, he said. "We simply decided that we don't want to be in the farming business."

"We keep individual policies on our property locations as required by Commonwealth law," he explained, adding that some of Libby's buildings are leased from the Commonwealth.

"Our manufacturing and distribution operations are insured un-

Benefits in Puerto Rico are tricky

CHICAGO—"You have to be careful how you give benefits to foreigners working in Puerto Rico," said John C. Hitt, director of corporate insurance for Libby, McNeil & Libby, a food processing and distribution company.

"You're supposed to pay for the benefit in cash," he said, referring to the significant number of workers from other Latin American countries in Puerto Rico. He explained that Puerto Rico doesn't want competition for its labor force and other countries don't want insurance bought outside their own countries for their citizens.

Mr. Hitt pointed out that it's very expensive to buy Venezuelan insurance for Venezuelan workers in Puerto Rico, for example. "There are severe jail penalties if the law is violated," he said.

Any insurance must be purchased in Puerto Rico through local brokers, though they can be affiliated with U.S. brokers, Mr. Hitt said. Most benefits are planned and provided for locally. The reason is to keep the benefit program in line with other businesses in the area, he added.

"IT COSTS 20% to 22% of gross payroll to provide benefits to Puerto Rican or other Latin American nationals," Mr. Hitt estimated. "It depends on whether the workforce is unionized or not," he said.

"The owner of a business there is the same as one here—he pays the minimum necessary to get employes to work for him. Few companies give the range of benefits that Libby does," he said.

Pension, profit sharing and thrift plans are unusual in Puerto Rico, Mr. Hitt explained. Only recently, Libby has offered salaried personnel in Puerto Rico the same pension benefits that its American personnel working there receive.

Puerto Rican employes contribute about 10% toward the cost of their major medical and life insurance benefits, Mr. Hitt said. Other benefits provided are hospitalization and options for salaried personnel to purchase voluntary accidental death and dismemberment and long-term disability coverage.

MOST FOREIGN operations are underwritten locally, Mr. Hitt continued, 'but we control it here." He explained that Puerto Rico and the U.S. could be "tied together for group benefits because Puerto Rico is a U.S. possession."

U.S. employes in Puerto Rico "take their home benefits with them," Mr. Hitt explained. These include pension, disability, voluntary accidental death and dismemberment, and basic and major medical coverage.

Workers' compensation is compulsory in Puerto Rico and is government-sponsored, Mr. Hitt said. Employers' liability, normally included in U.S. workers' compensation policies, is written separately in Puerto Rico.

ALL LIBBY employes in Puerto Rico are covered by New England Life Insurance Co. for basic and major medical benefits. The average family coverage costs an employe $35 and individual coverage costs $13, he said.

Until a month ago, basic medical coverage was contracted through Blue Cross /Blue Shield and major medical was insured through Aetna Life & Casualty.

Group life is underwritten by Aetna Life & Casualty.

Libby's 60 to 70 Puerto Rican employes working at company headquarters are covered by a single local plan. Other Puerto Rican personnel are covered individually because their subsidiaries or divisions were only recently acquired by Libby. ■

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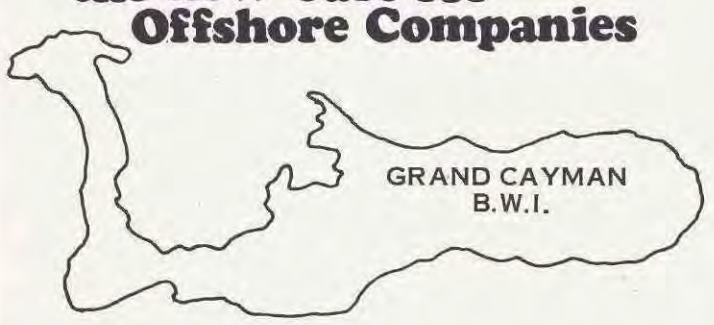

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der one contract," Mr. Hitt said. "Some have co-insurance factors of 80% to 90% and some have replacement cost factors.

"You must know how much it costs to get back into the building after it's damaged and what restrictions there are on the Commonwealth lease contracts. This includes all property for any perils you wish to write plus supplies," he added.

THE MOST COMMON perils are fire and storm, Mr. Hitt said. "There is some flooding and various other interior problems such as air conditioning breakdowns, explosions, etc.," he added. Normal boiler coverage is written in Puerto Rico but it's usually written separately.

In order to comply with Commonwealth laws in insuring property, you must take one of two approaches, Mr. Hitt explained: Deal with a local broker who in turn works with his affiliate. Or, if your business is sizeable, put a U.S. broker in touch with your local operation, he said.

"There are several American insurance companies in Puerto Rico but it's not worthwhile to work through them unless your biggest operation is in Puerto Rico," Mr. Hitt said. He added that he doesn't think there's much U.S.-owned big business in Puerto Rico. Libby has yearly sales of about $25 million, he said, and he doesn't consider that big enough to insure through a U.S. broker.

Automobile coverage for Libby is insured directly through Allstate Insurance Co. here and claims are handled locally, Mr. Hitt explained.

Allstate gives Libby a competitive rate, Mr. Hitt said, based on the company's overall experience rating. The composite rate, based on sales of the Puerto Rican operations, costs about $100 a year per car, excluding collision coverage, he added.

Insurance Co. of North America (INA) covers Libby's Puerto Rican operations along with its U.S. operations for casualty. All general third party liability and product liability exposure is insured for $1 million per occurrence, Mr. Hitt said. Product liability has a $1,000 deductible.

"OUR PRODUCT liability deductible is so small, even for Puerto Rico, that underwriters don't believe it," Mr. Hitt said. He believes that law suits over product liability peaked about two years ago. "I see it as improving as a risk," he said, "because the consumer understands what can happen to a product.'

"We've looked at product recall insurance but we don't feel the agreements available now are what we want," he said. "In the meantime, we're self-insuring."

He went on to explain that "for our particular purposes, the insurance industry doesn't wish to cover all the risks inherent in product recall. We'd like to be able to insure some of these risks —such as phony product recall to cover a retailer's sales slump."

Libby is self-insured for all theft except in Puerto Rico where individual policies for thefts inside and out of buildings, plus securities loss, is written locally by Commonwealth law.

Fidelity coverage can be insured on a worldwide basis except for operations in Communist countries, Mr. Hitt said. "It's nominal—$300 in premium for $1 million coverage on a pro rata basis," he said.

SECURITY FOR the company's operations is handled by one man, Mr. Hitt said. The director of corporate security goes to various locations, such as Puerto Rico, when necessary and sets up safety or security programs. Mr. Hitt said that Puerto Rico has requirements similar to the Occupational Safety and Health Administration.

"Without a safety program your costs could go anywhere," Mr. Hitt said.

Advertisers' liability is a worldwide policy except for Communist countries' operations, he said. On a pro rata basis in Puerto Rico, Libby pays $10 for $100,000 coverage. This policy is covered by a $10 million umbrella with the deductible being the first layer, he explained.

"There's a $5,000 deductible under some conditions," he said, "such as libel, slander, copyright, plagiarism, etc. The deductible doesn't apply to legal expenses, only to the loss itself."

Directors' and officers' liability is covered up to $5 million by Libby's home office through International Insurance Co., Crum & Forster group, Mr. Hitt said. "Any director or officer in Puerto Rico is covered by the U.S. policy," he said, adding that there are six officers and three directors in Puerto Rico. ■

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British risk group sees growth, European link

LONDON—The Assn. of Insurance and Risk Managers in Industry and Commerce could become part of a broader European risk management association, several officers of the group said recently.

"We believe there should be an overall organization which would include Spain, Portugal and such countries which are not now in the European association," said Ronald A. Muckleston, publicity chairman of AIRMIC, and risk management adviser for International Nickel Ltd. The European group is basically an EEC (European Economic Community member countries) organization presently.

AIRMIC, which changed its name late last year to incorporate the "risk" management aspect, is the U.K. counterpart of the Risk and Insurance Management Society in the U.S. The British group has a membership of 500, and while its officers want more members, they voice a concern about keeping the group small enough so that a manageable forum is maintained for the views of members. They view RIMS (formerly ASIM) in the States as a bit unwieldy in size.

AND UNLIKE RIMS, AIRMIC has individual personal memberships rather than corporate memberships. John R. Parkinson, group insurance manager for Albright & Wilson Ltd., and president of AIRMIC this year, said the association has studied the corporate membership system, but rejected the idea. Basically, this was attributed to the fact no one wanted the largest corporations dominating the association, and so there would be no feeling of reluctance to express personal views which might be construed to be the views of the corporate employer.

"We want the best views of each personal member as an expert in a field. The group needs the free and open exchange of ideas among equals," Mr. Parkinson explained the reasoning of AIRMIC.

Mr. Muckleston told *Business Insurance:* "We've just had a 25% increase in membership because of a change in scope."

Strong contacts are maintained with the Societe Europeans des Assures de l'Industrie, which represents insurance buyers in the European Economic Community. ■

U.K. insurance men are angered by bad image of their management ways

LONDON—British and European risk managers are becoming more outspoken about their displeasure over the image being created in the U.S., and being spread by U.S. risk managers and brokers, that overseas risk management practices are less than sophisticated at best, and archaic at worst.

In fact, interviews with several of Britain's leading risk and insurance managers produced strong objections to any implication that risk control practices in the U.K. and Europe behind U.S. practices.

"U.S. risk managers cite the example of the ITT-Longuenesse, France disaster and say we're backward, and we can turn right around tell them to look at the General Motors disaster in Livonia, Mich. several years ago," scoffed the insurance manager for a giant international corporation based here. "We can all play games using hindsight. We can always say things should have been done differently, but the object is to learn from those events and improve risk management practices, not charge the other guy with being archaic yesterday, today and tomorrow," he added.

CARRYING THIS step further, John R. Parkinson, current president of AIRMIC (Assn. of Insurance & Risk Managers in Industry & Commerce), said he objects to "the idea that the U.S. invented risk management and that we've adopted their idea. Or in some cases, that we've been slow to adopt it. The difference is that we did not employ the jargon and do all the technical studies that risk managers in America have used. We've been doing risk management for years, but we've not called it risk management. We achieve the same end result without such a formal risk management organization."

Mr. Parkinson, group insurance manager for one of Britain's largest chemical companies, Albright & Wilson Ltd., also has lashed out at U.S. risk managers who think they've invented something new in self-insurance or captives. "Our American friends," he maintains, took "something which most people were doing in one form or another, wrapped it in theory and jargon and then presented it as a new concept."

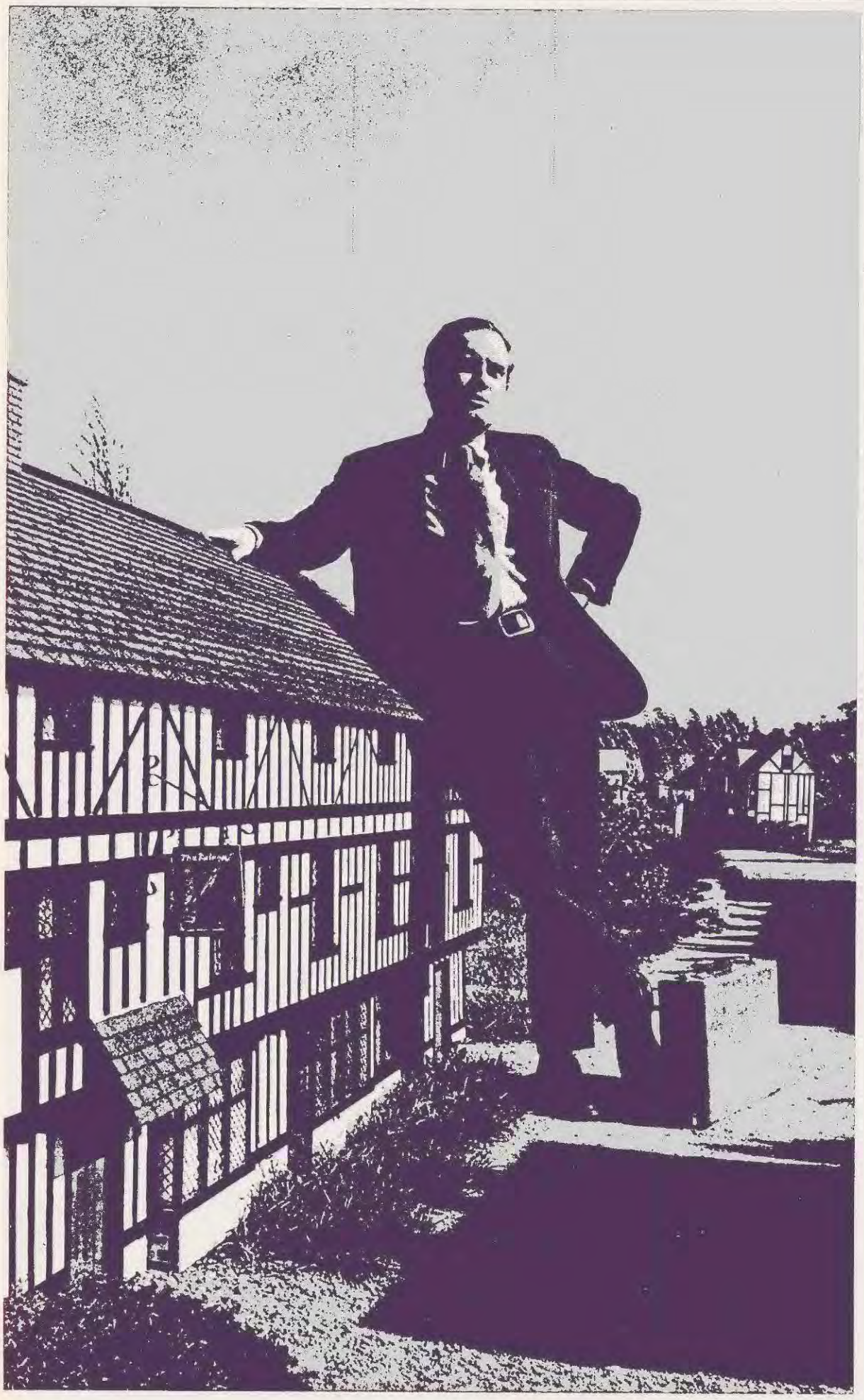
The name of the game may be new, but the practical aspects are as old as the Bible itself, he contended in an interview with *Business Insurance,* quoting Deuteronomy, chapter 22, verse 10, in which Moses charged owners of property with liability for injuries of all persons on that property.

Furthermore, Mr. Parkinson charged U.S. risk managers with distorting their positions within their companies. Insurance managers, no matter what they call themselves, "can't manage risks," he maintained. "Americans try to manage risks, and try to take onto themselves authority which is not theirs to take. We put responsibility for risk management on the line managers, which is a tendency throughout the U.K.," the group insurance manager explained.

"IT REPRESENTS quite a different philosophy of management," he continued. For example, the plant manager is responsible for the actual risk management in his plant, because he's the one managing it. That plant manager is not the author of the programs, but he has to implement them. Risk management is an ongoing, day-to-day thing. I can only explain philosophies to the managers in my company, and they are then the ones who practice risk management," Mr. Parkinson reasoned.

Only the plant manager and other operating managers have any real control over all the tools available to manage risks, declared Ronald A. Muckleston, risk

Continued on page 41



Continued from page 40

management adviser and insurance manager at International Nickel Ltd. "Risk managers produce manuals in America which give the impression that Canadian and U.S. risk managers have the overall authority on risks, that they can demand that things be done. But a risk manager can't operate on that basis," he added. Mr. Muckleston is an officer of AIRMIC, and was also a participant in the meeting with *Business Insurance* here. "A rule book or a manual should provide handrails, not handcuffs, for local managers," he added, claiming that "we've got to the point where some people are letting the rule books be handcuffs."

MR. MUCKLESTON noted that when his position was created by Inco, he was asked what he wanted his title to be, and chose one with "adviser" in it, because of what it denotes and the cooperation it encourages.

"If I could change my title," Mr. Parkinson interjected, "it would be to risk coordinator, because that accurately reflects what I do. The only executive authority I have is to decide where and how to place insurance."

In a discussion about the U.S. view of lack of European emphasis on property fire protection, Mr. Parkinson retorted: "We don't view sprinkler systems as any panacea. Fire rates here often

international

don't reflect the presence of sprinkler systems, so we manage the risks in different ways." He and several other insurance managers who presented their opinions to this magazine noted that risk prevention and control methods in Europe have traditionally been determined on the basis of economic justification, more than in the U.S.

Part of the problem, Mr. Muckleston believes, stems from the fact that U.S. companies think in terms of including sprinkler systems in new buildings, or installing them in relatively new structures. "Over here, because we're much older, it's not a case of building a new building with sprinklers. People have been in some of their building for several hundred years. And when you think in terms of using very old facilities, you don't think in terms of instant fire protection with sprinklers. The buildings have existed without burning for all those years," he explained.

AND RATHER than viewing the protection of the building as paramount, Europeans "look at the consequences of a fire or other event as being more important," Mr. Parkinson added. "We would rather spend our money to keep the business going than on systems to prevent fires. And we realize you can't entirely divorce the two."

Mr. Muckleston feels there are as many problems as there are advantages in protection systems "because they let people fall asleep and get lazy. The British way to manage risks," he went on, "is to rely on backup systems such as alternate facilities to cut the overall loss, and count on the physical protection system not to work anyway."

He used Ford as an example, noting that when Ford's U.K. plant had a partial burnout in 1973, "the section that was destroyed was totally destroyed simply because the sprinkler system was out of commission, and it appears Ford had relied almost completely on this sprinkler system." About half of the sprinklered facility was destroyed, he said. ■

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Ship losses in '74 hit record

LONDON—Shipping losses of a major nature totalled nearly $300 million last year, a record hull and casualty figure for world insurers.

Even this massive total only includes losses of vessels with a known insurance value in excess of $1.2 million, as compiled recently by Lloyd's Intelligence Services here.

The hull tonnage lost is lower than in 1973, when losses in insured values reached $210 million, but inflation boosted liability claims.

The losses include the Italian ore/oil carrier Nai Gionanna ($24 million) which exploded and sank west of San Francisco in February, 1974, and the Cunard liner Ambassador ($19.2 million) which was hit by fire off Key West in September. ■

Ethiopia war rates

Special war rates were adopted in London for cargoes to Ethiopia where troubles have broken out. The accepted cover for war risk is now put at 50 cents per $100 insured value, according to the Institute of London Underwriters rating committee. Risks for strikes, riots and civil commotions are now being accepted at underwriters' discretion, for both sea and air transit arrangements.

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AIU poses biggest competition for London, underwriters revealed

LONDON—One of the firms mentioned repeatedly as a major tough competitor for Lloyd's and the big insurance companies here is American International Group's AIU division.

Thus, although *Business Insurance* went to London with little intention of meeting with U.S.-based underwriters having branches in that city, the competitive feeling about AIU suggested an investigation.

John Lancaster, managing director of American International Underwriters (London) Ltd., boasted that AIU has, indeed, "taken substantial accounts away from U.K. companies." These have basically involved multinational package programs for U.S.-based and British companies with multinational interests which U.K. insurers "weren't willing to do, combining property and complete third party liability coverages," Mr. Lancaster said.

AIG/AIU "intend to grow" more as insurers of international risks in the next few years, and "have the wherewithal to do it," he added. "We're geared to expand in the next two years, with special emphasis on situations where judgment ratings are the practice rather than the rigid tariff rates which are the rule in certain countries and on certain lines," he stated. An example of this area of emphasis, he said, would be political insurance, which AIR has recently begun writing.

(In a Feb. 13 meeting with *Business Insurance* in Chicago, Maurice R. Greenberg, AIG president and chief executive, said the firm now has a "formidable number" of international clients, and indicated the firm will remain highly competitive in its effort to grow internationally. See adjoining story.)

Personal accident insurance is another area where AIU will concentrate its growth efforts, Mr. Lancaster said. "And we have some new programs getting underway during 1975," he added, alluding to other areas of emphasis which will soon be defined.

"We've done quite a lot in the area of pharmaceuticals in the past, and we'll continue to do a lot in this area. It is a difficult area and has to be underwritten very carefully," he continued. "In the heavy manufacturing situations and also in the oil and petrochemical fields we've done a lot of underwriting," he said. It is these areas where AIU has developed an expertise in judgment rating-plans that will be emphasized in the future.

MR. LANCASTER said AIU "is firmly convinced that another capacity crunch is almost here and will be a reality by midsummer, at home and abroad," as a result of heavy losses coupled with the stock market plunge.

Aviation, marine hull and contractors' all-risk are the only insurance lines where there is heavy competition resulting in soft prices, Mr. Lancaster offered. "There have been a couple of aviation slips in recent months, though, that have called for higher rates, an indication of what is ahead," he noted.

He explained that in these cases, a broker had established a lead underwriter with a particular rate for a certain airline risk, but could not compete or get good enough participation by other underwriters, in order to complete placement of the risk. This indicated to Mr. Lancaster that rates are near bottom, and that the market is beginning to tighten. He described AIU as having "developed as a lead underwriter" on some aviation policies in the last two years; "we're one of the second echelon leads, you might say."

AIU's marine book is "relatively modest", and there is no special effort to enlarge this business, Mr. Lancaster said, attributing this to the depressed marine insurance rates. "I think the market is in for a rough time over the next couple of years," he added.

CONTRACTORS' all-risks insurance market competition worldwide is intense, and rates are getting thin, he noted. Rates are particularly low in South Africa, Mr. Lancaster pointed out. "We're not pulling out of any particular geographic area or any particular type of business, but we are being selective, taking accounts with appropriate deductibles and which we feel are correctly rated," he continued.

AIU writes a book of professional indemnity business, although it is "not enormous," the London AIU manager offered. "We are relatively prominent in writing accountants', and architects' and engineers' errors and omissions coverage. We are being selective in these areas, but we are certainly not pulling out of any of these markets," he noted. "Our U.K. experience in professional liability appears to be reasonably good, although we've only written the business here for two or three years, and this business has a long tail. So we won't know if it's really good business for seven or or eight years," he concluded. ■

Announces acquisition

Fort Lauderdale-based Florida First Equities Corp., a public holding company, recently acquired the assets and business of B&W Administrators Inc., a multiple employer trust firm that currently administers in excess of $800,000 in annual premiums. Founded in 1965, B&W is a wholesaler of insurance plans to small employers. Florida First Equities said one goal of the acquisition will be an expansion of services outside the state.

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Lloyd's wants exclusion for trading losses

Bankers' bonds may see changes

LONDON—The wording of bankers' blanket bonds policies may be changed in the near future as a result of bank claims that insurers should cover losses on foreign currency trading, *Business Insurance* learned.

Leslie R. Dew, deputy chairman of Lloyd's and chairman of the R. J. M. Merrett Group, said he is "trying to bring about certain changes in the wording of the contracts to reflect current economic conditions. Since we went from fixed exchange parities to floating currency rates, it has completely changed the risks" faced by insurers, he said.

Merrett syndicate is one of the largest non-marine insurance syndicates at Lloyd's. Mr. Dew does not believe that the bankers' bond insurance policies are intended to cover any currency trading losses, "unless they are clearly accompanied by fraud or infidelity."

But, he added, underwriters "are being forced to establish a clear understanding that unless they can expect to participate in trading profits, they won't cover normal currency trading losses."

MR. DEW SAID he does not believe that losses sustained by Franklin National Bank last fall (*Business Insurance*, May 27, 1974) will even be pressed as a claim. "It's really the non-European banks, including London banks, operating in Europe," which are pressing claims under insurance policies to cover currency losses, he said. "Relatively few of the banks which have sustained exchange losses have endeavored to recover from their insurers. I've paid one very substantial claim which was a clear result of fraud," said Mr. Dew, noting he has "two other very serious outstanding claims in addition to that."

Other Lloyd's underwriters suggested that these two additional incurred claims involve amounts of more than several million dollars each. They were filed by very large banks, including at least one leading U.S. bank, sources said. ■

AIG to continue being competitive, says chief

CHICAGO—American International Group has every intention of continuing as an aggressive competitor of international insurance underwriters, the company's chief executive indicated here.

"We've always had a growth objective of 15% annually for the total company, and our foreign business has always exceeded that objective," Maurice R. Greenberg, AIG president and chief executive told *Business Insurance* while here to meet with securities analysts.

"We would hope to maintain that level of growth" in the international area for 1975, he stated in his normal quiet, but very firm, way. International growth last year resulted from a combination of new accounts as well as more business with established clients, Mr. Greenberg said. "We're known to get new accounts every year," he added, with determination.

Because AIG's international insurance division, American International Underwriters, has been such a formidable competitor for London insurers of U.S. and international risks, Londoners have quietly surmised that AIU must be losing money and will soon pull back from its current stance. Faced with this opinion from London, Mr. Greenberg replied:

"AIU HAS been in the foreign insurance business for 55 years. To my knowledge, they've had only one adverse underwriting year in that entire period. It's hardly likely that we'll get scared and pull back now."

And to the charges of irresponsible rate-cutting, Mr. Greenberg responded: "We haven't found it necessary to undercut rates, because we feel we can offer worldwide services that no one else can offer."

He predicted that London will record a major loss for 1974 in the marine and aviation lines, and said this may be the only area of contraction in the future. "We did not make any money on aviation business last year," he noted. ■

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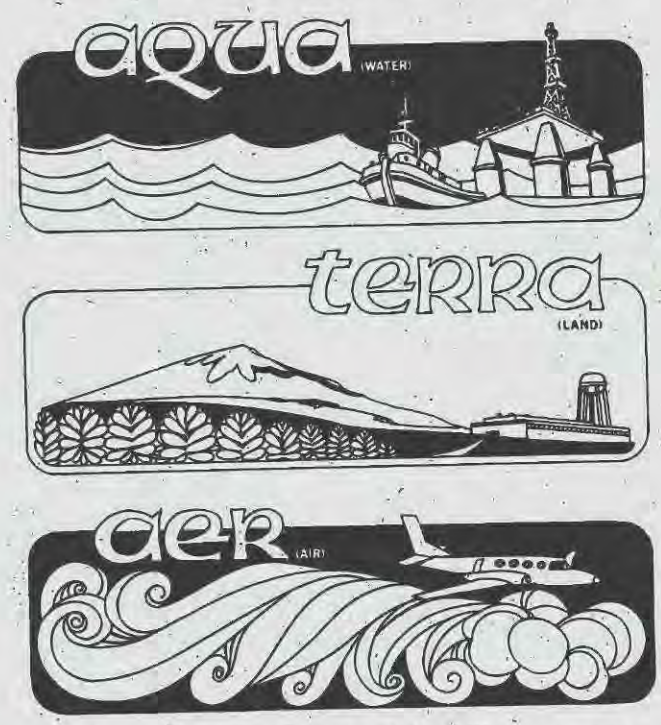

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PERSPECTIVE

Lloyd's blasts rivals, to protect own bailiwick

Ms. Alt spent two weeks in London meeting with top officials at Lloyd's, "the company market," and brokerage firms. The following articles resulted from that visit.

By SUSAN ALT

About $2 billion of premium income passes through underwriting boxes like these during the course of a year.

LONDON—In the narrow streets and alleys of the Old City of London, there is talk of insurance premium dollars flowing back here as a result of the poor financial health of the U.S. fire and casualty underwriters.

But talk of "us" as the winners and "them" as losers is tempered by the acknowledged global economic ills making life difficult for everyone in the insurance community—even London—in terms of inflated casualty settlements and soaring property losses and repairs.

Although prices have skyrocketed 5% to 40% annually for an inflation-ravaged world, London bemoans the heavy underwriting competition in nearly every class of business during that same time, driving rates down. Competition for premium dollars siphoned off substantial business from London, especially Lloyd's.

And now, underwriters at Lloyd's and the giant stock insurance companies maintain, the trend is reversing. But in the next breath they talk of continued "irresponsible" and "cutthroat" competition in some insurance markets. Builders' or contractors' all-risks insurance, directors' and officers' liability coverage, marine and aviation insurance, to name a few, are being irrationally rated, they contend.

INCREASED CAPACITY to insure these risks, coupled with an aggressive drive for a bigger share of the world market, is coming from several quarters, Londoners complain. They name the Japanese and U.S. insurers as culprits in marine markets, and Continental European and U.S. insurers in the non-marine and aviation markets.

"They've got to be losing money, and they'll pull out of the business as soon as the red ink flows," said a Lloyd's marine underwriter hopefully.

Lloyd's and company underwriters speak in terms of cautious underwriting, higher rates, turning down business that's not rated adequately and not trying to meet the competition head-on. The accepted belief in London's insurance community is clearly that the business will flow back to the traditionally stable market . . . London . . . as other world markets suffer losses (as a result of their "irresponsible rate-cutting") and dry up.

To date, however, neither Lloyd's members nor company managers can cite many specific examples of business that had been in U.S. or other world markets flowing back to London. But they're sure it'll happen. When is the question, not if, according to various London underwriters.

And there is some question among corporate insurance managers and even London underwriters (talking in the back rooms, naturally) whether there is a substantial flow of business back to London or any real tightening in world insurance markets except in several specific lines.

Lloyd's would like to have brokers and buyers everywhere believe there are heavy losses and capacity problems in every class of business. Some insight into the reasoning came during a lengthy interview by this magazine with Havelock H. T. Hudson, chairman of Lloyd's. The 55-year-old gentleman looked over his half-glasses and said very properly: "If there is at any time a capacity problem the placing of liability risks will become a good deal more difficult. There are two situations. One is where the capacity is greater than the business available. The other situation is where capacity is less than the business available. The latter situation being quite a good thing for underwriters."

This statement was made in the context of a discussion about the outlook for products liability markets.

Liability markets are visibly tightening and the business is "being offered" to London, said underwriters. But much of this business is not acceptable to conservative London, they added, ruling that area out as a source of business flowing back to their organizations.

Mr. Hudson views professional liability, products liability, medical malpractice and other kinds of errors and omissions risks as "a cloud on the horizon" for Lloyd's. Mr. Hudson, in fact, sees a contraction in the business Lloyd's underwriters in those areas because of deteriorating loss statistics for the classes of risks.

Mr. Hudson further couched his predictions for Lloyd's future in nebulous terms, omitting any concrete evidence that business is picking up. After two or three years of outflow, there are "signs" that business is coming back to Lloyd's, he has said. He did not elaborate on what the signs are. He noted "a feeling" that the outlook for 1975 is "not too bad" considering the mediocre performance of 1973 and 1974.

Mr. Hudson viewed the future as holding "a strong possibility that the outlook for the aviation and marine market is very good." He didn't explain why this possibility is present, despite queries.

"For the non-marine market the outlook is good and open to great opportunities if these are taken," Mr. Hudson continued. Asked to expand on these opportunities, Mr. Hudson said only that "certain risks will come back."

THE DISCREPANCY between the two stories London is telling seems obvious. "Losses are terrible. Rates are too low, all of our premium is being eaten up by the heavy losses," says a London company underwriter, on the one hand. "The outlook (for Lloyd's) is good in almost every class of business at the moment," declares Leslie R. Dew, deputy chairman of Lloyd's, presenting another view.

Couple these conflicting statements with talk of a capacity problem both at Lloyd's and the companies, and it almost seems as if London underwriters are trying to push rates up. Mr. Dew's "good" outlook is for future profits to be made from clients driven frenzied back to the real or imagined "stability" of London.

Mr. Hudson's evaluation of the general state of competition was clearest in his assessment of past history. "The significant thing, and what is most gratifying to me, is that in a previous era (1964-67) there was ridiculous and fatuous rating. The Lloyd's market tended to follow the market down. The difference is that at the end of 1973 and through to the end of 1974 some underwriters who had learned their lesson did not follow the rates down. They recognized they must be prepared to lose business."

He considers the "current situation much healthier and more hopeful," but added "we won't write business on an uneconomic basis any more."

Looking at the figures for the latest year in which Lloyd's closed out its books, it doesn't appear Lloyd's has exactly written business on an uneconomic basis. Marine and aviation premiums were up 12% in 1971 from 1970, and during that same year the claims ratio as a percent of net premiums in both classes fell substantially from the previous year. It's not hard to see that this resulted in an improved underwriting return for the Lloyd's marine and aviation members. Net of overhead, administrative costs and salvage values, the balance was 12.7% for 1971, down from the 13.5% in 1970, but up markedly from any year since 1949.

Non-marine figures (basically fire and liability) were lower, but the return on this class has traditionally been lower. The highest return of 13.5% was registered back in 1948. The 1971 balance was 5.5%, up from 1970 and substantially better than most years since 1954. In only three years since 1954 had the non-marine balance been over 5%.

The life business at Lloyd's produced a whopping balance of 18.1% of premiums for 1971, far lower than the 67.4% underwriting profit earned in the mid-1950s, but very good nonetheless. And, it was up from the previous three years.

LLOYD'S, LIKE any other insurance organization, is affected by inflation. Said Mr. Dew, deputy chairman, "If you're talking about underwriting reserves, we're definitely affected by inflation. But I feel we have an edge because of our three-year reporting procedure. And when it comes to the investment factor, we're different from other markets. Our holdings are almost all cash and short-term instruments and the U.S. premiums are 92.5% in short-term investments."

Mr. Dew continued: "Lloyd's traditionally has prospered in difficult times. We've always boasted that our flexibility helps us take advantage of difficult circumstances."

Mr. Dew said a "personal worry" of his is that Lloyd's may face a capacity problem unless it draws new people into its flock. "It is simply a matter of whether the present generation of underwriters has the will and the ability to grasp the opportunities offered, to cope with the present dismal and changing economic picture

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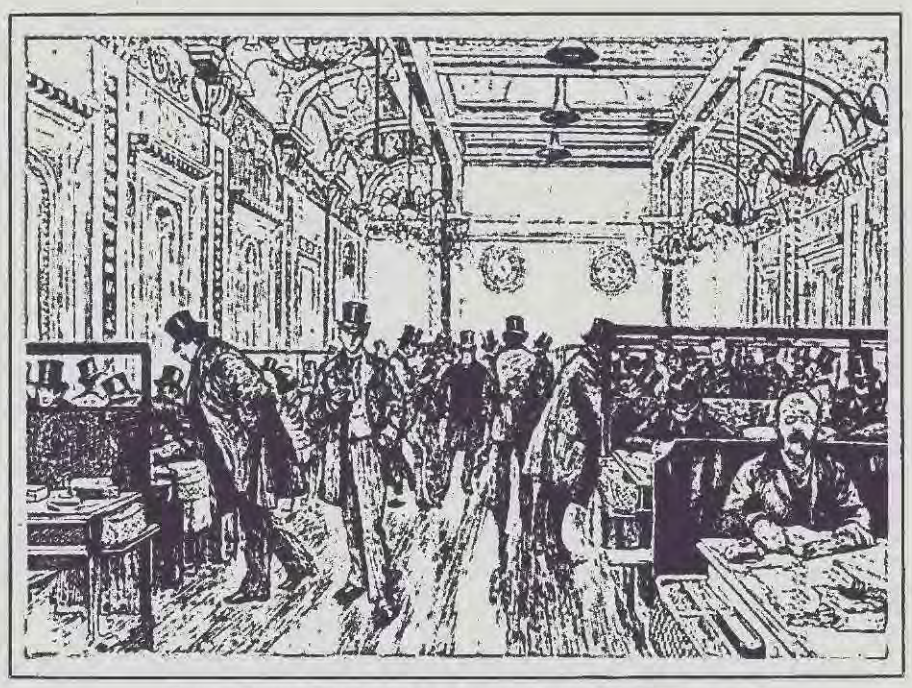

This is how Lloyd's looked at the turn of the century.

business insurance

PERSPECTIVE

London's 'company market' is a major international factor

LONDON—Despite the reputation and some myths surrounding Lloyd's of London, the large insurance companies here control far more non-life insurance business than does the famous Lloyd's.

"The company market" as it's called, claims a full 75% of all non-life business done in London, some of which, of course, is local (U.K.) business rather than being predominantly international as Lloyd's is. Lloyd's is the acknowledged leader on U.S. risks placed in London, largely because of the nature of the business being mainly excess and surplus lines, where "tailored" policies are needed.

As Anthony Sampson says in his book, "The New Anatomy of Britain," the big joint-stock insurers "stand to the Lloyd's Boys as a bus to a taxi."

The five biggest non-life companies are Royal Group, Commercial Union Group, General Accident, Guardian Royal Exchange and Sun Alliance & London Group. These five alone control over $5.5 billion annually in insurance premiums. All have large and growing international divisions. And all are making a concerted effort to provide central services to their international corporate clients, while increasing the numbers of those clients.

THREE OF THESE—Guardian Royal Exchange, Commercial Union and General Accident—are also among the 12 biggest life insurers in the United Kingdom.

A good half to three-fourths of these five companies' total premium income is generated abroad, much of it in the U.S.

Commercial Union, for example, derived 80% of its 1973 premium income from U.S. operations. CU is putting a heavy emphasis on future U.S. business, too, having recently established an international risk management services division especially to attract and manage global clients.

Sun Alliance & London, which is associated with Chubb & Co. in the U.S., derives only 14% of its income from U.S. business but does a very large worldwide underwriting volume.

Overall, about two-thirds of the companies' premiums are generated overseas. David W. Hart, manager of the home foreign department for General Accident Group, summed up the London insurance community's view of foreign premiums when he said, "I think every company here wants to enlarge its business internationally." The emphasis is on increasing the "package" international accounts.

Most London insurers chalked up losses on auto business in Canada last year and some are pulling out of that market, which is being characterized as "ghastly." Mr. Hart said his group at General Accident broke even last year on overall fire lines, but saw red ink in employers' liability, as London, are still soft in the non-hazardous liability lines. There is still plenty public liability, and motor liability lines.

Sun Alliance is in a "consolidation" period for Canada business following "very bad" losses, and is aware of a very distinct tightening in affiliate Chubb & Co.'s underwritings, said international department manager A. R. P. Elliot.

ARTHUR F. BURDETT, general manager of Commercial Union Assurance Co. Ltd. sees room for growth internationally, even though CU's U.S. branch has not performed up to snuff for several years. The employers' liability insurance market is is still "relatively loose," with additional capacity available, he said, pointing also to the property insurance market worldwide as "still soft."

Public liability and products liability are the trouble spots for the immediate future, Mr. Burdett believes. He noted, however, that "European markets, as well of competition."

An even stronger view on London's competitive position relative to other markets came from Mr. Elliot of Sun Alliance. "Capacity is still available here. I think it's too early to say now that the London market for overseas risks is tightening to any significant degree. I would characterize the market as fiercely competitive right now," he declared.

Guardian Royal Exchange, with biggest committments in Germany, Canada and Australia, maintained that London's capacity is generally increasing, not contracting. Furthermore, Peter Eastaugh, international risks manager for GRE, pointed to more insurers and reinsurers operating profitably in London, and "here to stay," as indicating there is still a good deal of healthy competition in the market.

Guardian Royal Exchange "is certainly not cutting rates," said Allen G. Hansen, assistant general manager of the company. He quickly added: "But we will continue to take loss leaders which, when combined with other coverages are profitable." GRE counts 30 to 40 U.S.-based global firms among its worldwide clients.

Auto liability is one of the categories in which the market is tightening, he added. "Motor business, particularly commercial fleets has hardened against U.S. motor risks," Mr. Eastaugh interjected.

Professional liability is another area where the markets are shrinking, said Mr. Elliott of Sun Alliance.

THE CONSENSUS seems to be that there is no contraction in the London market in terms of sheer numbers of underwriters setting up shop and adding capacity. "There is still a lot of extra capacity around," said General Accident's Mr. Hart. "But a lot of it is provided by the fringe market . . . the companies that have started up in the last 10 years around the world to underwrite international business."

The only dramatic contractions he foresees hitting London will occur if "more countries nationalize insurance, such as they've done in India, Ethiopia, and Zambia as well as Canada in the last five years."

Contractors' all-risks insurance markets are hotly competitive in Europe generally, nearly every underwriter noted. General Accident's Mr. Hart described it as "too competitive," and said his company is turning down more business than it is accepting in this field because of inadequate rates. "Third party liability risks on contractors' all-risk policies are growing tremendously." He cited the recent 1974 collapse of a dam in Pakistan which could result in losses up to $25 million affecting both the builders' insurance markets and the architects' and engineers' errors and omissions insurance markets.

Guardian Royal Exchange, similarly, is "being selective" in contractors' all-risk fields, "applying our restrictions to this business, and saying to clients take-it-or-leave-it," according to Mr. Hansen.

That the U.S. market is tightening "could be very tough on petrochemicals and plastics, as well as other general liability lines," said Sun's Mr. Elliot.

HE SAID OF rough competition for insurers in the contractors' all-risk markets: "I wouldn't say there is any sign at all that this market and the rates are bottoming out. American companies writing this business here and in Europe are providing bags of capacity. AFIA, AIU, Federal Insurance Co. (a division of Chubb), FM, INA and Continental are all very competitive," Sun's international chief declared.

"There is also a very well developed market operating in Europe right now which is very competitive and truly an international market. Brokers are going directly to Brussels to do business with this European market, and it shows no signs of bottoming out," Mr. Elliot noted.

"It consists of French as well as American companies. I have lost some big accounts to FM in France recently because I couldn't compete with their price. This has been going on for two or three years now. Clients can save up to 50%. for example, from what they have been paying for builders' risks coverage," he told this magazine.

"So you can see there is tremendous business we're not writing, too," he continued. "We're turning a lot of business down. We've turned at least half the offers down that we've gotten in the last two weeks on builders' risks, because of inadequate rates and unacceptably wide policy wording," he added.

"If losses continue to rise on builders' risk policies, and this is also generally true of fire and liability lines overall, there will be a violent upheaval, a contraction, in the insurance markets. We are trying to take a longer view of this cyclicality. For 1974 we (Sun Alliance) had a run of losses on builders' risk business already written, and this trend is compounded by the problem that some of these policies are for five and six years, not just three years," he said.

IN THIS SAME vein, Mr. Burdett of Commercial Union stated that he gives property underwriters who've been cutting rates "two more years and they will start losing money. The capacity in this area is coming from many underwriters which have experienced relatively good overall loss ratios. In Germany the (property) insurance) markets are really soft: the competition has forced rate reductions of as much as 20%."

Instead of trying to compete in Europe and other countries where the competition is so fierce, Guardian Royal has its eye on "areas where American insurers don't operate, such as the developing countries of Africa," according to Mr. Hansen.

"We are increasing our business in such places as Nigeria, Ghana and the other ex-British colonies." GRE has recently expanded into Liberia, for example, "where not many insurers have operations, so we can offer an on-the-spot service to clients," he added. ■

Lloyd's . . .

Continued from previous page

"I'm not referring solely to the size of the risks. It's the frightening possibility of developing underwriting losses which are out of pattern, completely inconsistent with past experience." He concluded: "I think underwriters may be unwilling to write the business (in the areas where this is happening). They may go for lines which are easier to assess."

Mr. Dew is confident Lloyd's fire/property business will benefit from the flow of business back to London, when it comes. "Our contribution to the property lines will increase, there is no doubt about that. It will be a gradual increase in the flow of business here which over the next two years could add up to something quite substantial. This will result from a pruning of accounts by the U.S. companies." He did not ignore rates for this coverage. His prediction ended with: "Fire rates will certainly have to be upgraded."

But has Lloyd's been writing business on an "uneconomic" basis? Not to hear Paul Dixey, last year's chairman, tell it. Last September, he noted when releasing record 1971 profit figures that "the figures for 1972 give every indication that 1972 will be as good as 1971."

He did note, however, that after only one year's accounting, 1973 figures showed higher claims than several previous account-years shown after the same period.

SPECIFICALLY, the 1973 figures showed a rising claims trend in all lines . . . life, motor, marine, aviation and non-marine. After only one year, the 1973 account showed claims had already eaten up nearly 19% of premiums for that policy year, compared with the 1972 account-year only showing a 24% claims rate after two full years.

Lloyd's now has over 260 syndicates and over 7,700 names. Two-thirds of those members never come near the room at Lloyd's. And the number has been decreasing, thus prompting Lloyd's to admit foreign names and women as members, as well as the set up of a new mini-member wealth test to go into effect in 1976. All these moves were designed to generate new capacity at Lloyd's. About 300-plus of the Lloyl's member "names" are now foreign, many of them U.S. names.

A number of U.S. brokers are members of Lloyd's, including several individuals at Fred S. James, Alexander & Alexander, and Marsh & McLennan. Bob Gallagher, president of Arthur J. Gallagher & Co., Chicago, is on five Lloyd's syndicates including the Merrett Group, a leading professional liability underwriter.

But it's not easy to find new members and attract new capacity, Mr. Hudson said. The new mini-member rule show of wealth near $95,000 instead of the normal show of twice that amount isn't expected to produce a rush of people wanting to join Lloyd's. At the end of 1971, the number of names writing non-marine lines had fallen by 325 from 1967, although marine names had stayed about the same, and names on life and motor business had increased. But the number of marine syndicates had fallen to 144 from 164, even though the size of risks to be underwritten was climbing. The marine business now accounts for some 39% of Lloyd's total premium volume, with aviation accounting for another 10%, and non-marine 46%. The remaining 5% comes from life and U.K. motor business.

AT LEAST 70% of Lloyd's total business of $2.2 billion a year is from overseas, largely from the U.S., Mr. Hudson said. About 40% of volume is primary insurance business, the other 60% reinsurance. There has been a shift toward increased volume generated by reinsurance because of nationilazation of insurance in some countries recently, a Lloyd's spokesman noted.

Mr. Hudson predicted that in the future, "the greatest growth is likely to be in the aviation world and the offshore oil industry." He believes there is a lucrative opportunity for Lloyd's in U.K. and European auto insurance. ■

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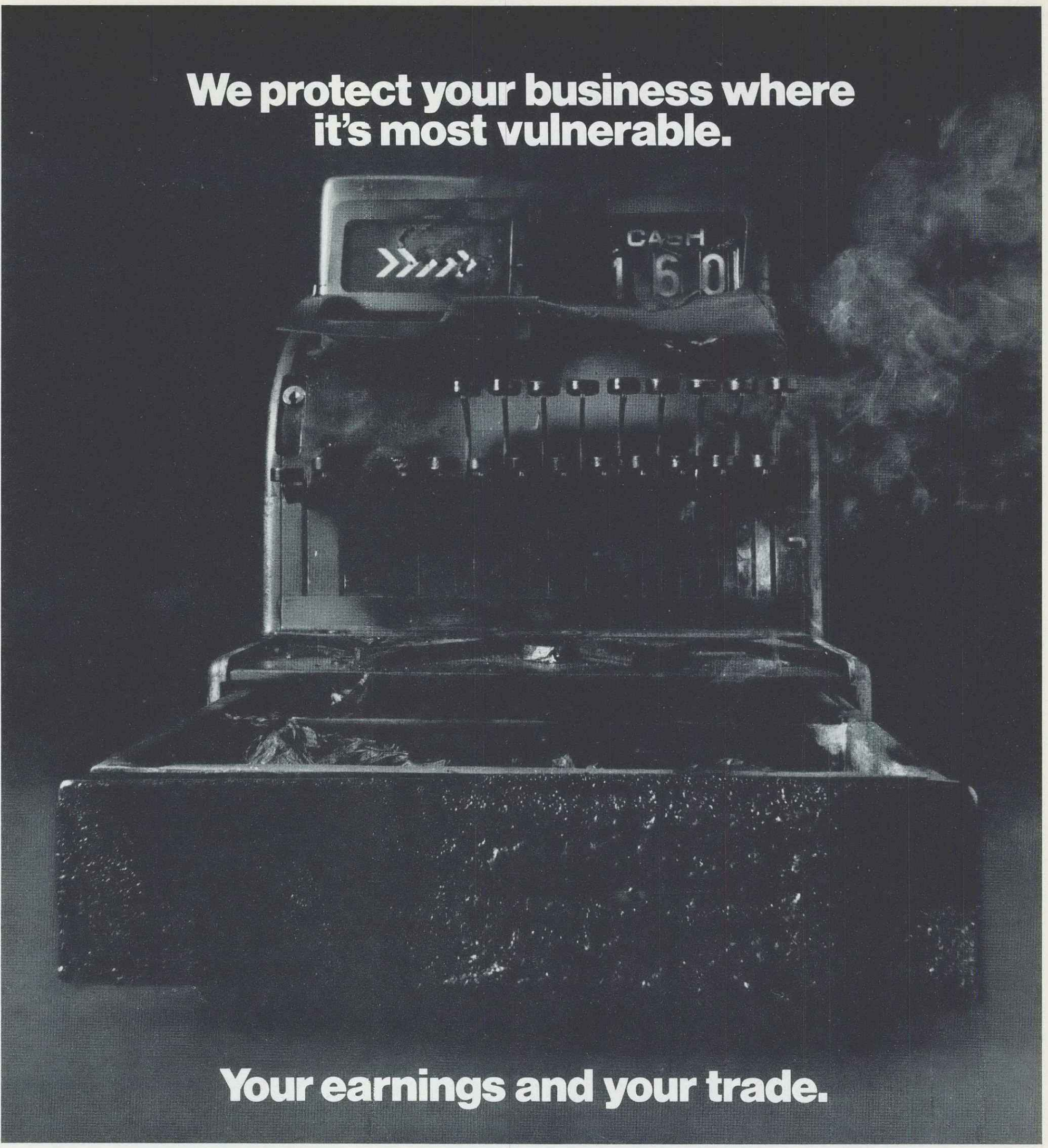

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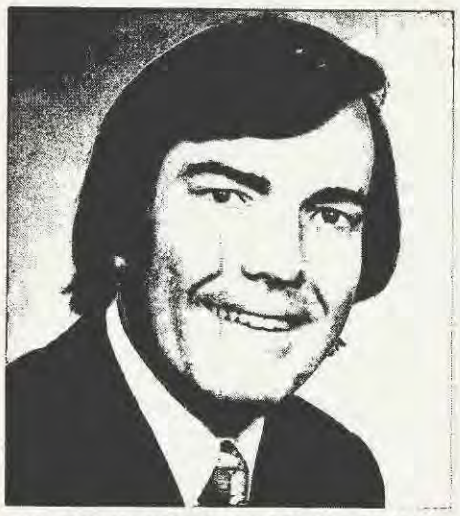
PERSPECTIVE on managing risks of worldwide giants

Study defines risk analysis methods in international firms



By DR. NORMAN A. BAGLINI, CPCU
Director of Underwriting Education
Insurance Institute of America

Editor's note: The following article is the first of several based upon a forthcoming book entitled "Risk Management in American Multinational and International Corporations," soon to be published by the Risk Studies Foundation. The book examines the structure and organization of international companies and how risk management may be adapted to global operations. In addition, the study analyzes the responses of 159 international risk managers to questions pertaining to corporate organization for foreign risk management, current practices of risk retention and foreign insurance programs. Finally, there is a ranking of problem areas as seen by the corporate risk manager. In the next issue of Business Insurance, *Mr. Baglini will discuss the types of property insurance programs which the survey respondents presently use to cover their foreign operations.*

ONE OF THE MAJOR difficulties reported by risk managers is the application of their risk management programs to their corporate foreign affiliates. As a flexible fact-finding and decision-making process, risk management can be as effective in a large multinational firm with numerous foreign affiliates as in a small domestic (one-country) company.

It is generally agreed that the first steps in the risk management process are discovering the risks of financial loss and evaluating the loss potential (collectively called risk analysis). This poses the question, "Which risk discovery and evaluation techniques are most effective in analyzing loss exposures to property and personnel in foreign operations?" In order to find an answer, we must raise a more basic question. "Which of the well-established risk analysis techniques are presently being utilized by international corporations and why are they being used?"

These questions, and several related ones, prompted the Risk and Insurance Management Society (formerly ASIM) to sponsor a study of risk management practices in the foreign affiliates of its international corporate members. Beginning in 1973, extensive data were gathered from 159 corporations, including corporate risk management philosophy and responsibility for foreign risks, risk retention practices abroad, utilization of captive insurers, techniques for placing foreign insurance and information on the extent of the firm's foreign operations. The "average" respondent company operates plants in 11 foreign countries and has assets of over $600 million—of which 20% are outside of the United States. These statistics point out that the survey respondents were predominately the large global firms with substantial foreign assets and earnings which must be adequately protected. In addition, the assets and operations are spread over several foreign countries, each of which has its own regulations, language, and customs.

Underlying this study is the key issue of the usefullness of American risk mangement techniques in the unique risk environment of each foreign affiliate (subsidiary, joint venture, or branch).

The types of risks facing the international corporation are basically the same as those facing the purely domestic firm, with two exceptions—political risk and foreign exchange risk. Even these peculiar risks, however, can be treated through a modification of the risk management process. The differences in risks facing foreign and domestic locations are in degree, not kind. For example, an interruption in earnings due to a strike riot in France may be more or less serious to the operating results of the parent corporation than a loss caused by fire to one of its American plants. It is important, however, to stress that although the types of risks are the same, the management of these risks may vary from country to country because of political, institutional, economic and social conditions.

RISK ANALYSIS in the foreign affiliates of American international firms is particularly complex for three major reasons. First, the sheer size of the firm increases the number of risk-producing locations, and the diversity of products manufactured presents various types and degrees of risk. Second, each foreign affiliate finds itself in a somewhat unique legal, social, and business environment which also produces unusual risks of loss. Third, most international corporations have not adequately consolidated their risk management activities worldwide, and the corporate risk manager generally does not have the necessary authority to implement a coordinated program abroad. According to the 159 risk managers, only half have full responsibility for property and liability insurance placement —the bare minimum of risk management activity. Less than 20% have full responsibility for risk control activities abroad (including property loss prevention, employe safety, and product safety).

The accompanying table presents the responses of the corporations surveyed to the question, "How are risks associated with foreign operations discovered and evaluated?" A risk survey by insurance brokers is the most frequently used method (71.7% of the surveyed corporations). An inspection made by insurance company engineers and inspectors is the second most frequently used technique—reported by 62.9% of the risk managers. This finding may be surprising to those who believe that risk analysis is the most important duty of the risk manager and should not be delegated to persons outside the corporation who cannot be held accountable. In addition, an argument could be made that these methods may tend to be limited to insurable risks, rather than to all risks of loss.

THE MOST LIKELY reasons for the widespread use of these outside sources are that their services are generally provided free of charge and may be used in conjunction with other risk discovery methods. More important, the peculiarities of foreign risks and of the foreign insurance market may require the expertise of outside specialists. Further, the small amount of financial investment in certain countries may not justify the expense of personal visits by the risk manager. Finally, the autonomy of the foreign affiliate (usually a subsidiary) or the lack of cooperation in voluntary risk analysis activities by the manager of the local affiliate may cause the corporate risk manager to depend upon brokers and insurance company representatives to develop the much needed information.

Almost half of the 159 surveyed corporations reported that risks are analyzed through plant inspections by the corporate or local risk manager. This method is extremely valuable in overcoming the regional or "one-country" bias of the risk manager and/or senior management. Although each of the methods listed in the table can contribute in its own way toward the complete analysis of risk, it is only through a visit to the foreign location and a discussion with the local manager that the corporate risk manager can fully appreciate the particular needs and unique environment of each foreign affiliate.

The analysis of financial statements, the fourth most often used risk analysis method, can be accomplished in the risk manager's office without outside assistance. Over 40% of respondents said that this method was employed alone or in conjunction with some other risk discovery technique. One of the reasons for the popularity of this method is the simple availability of the financial statements. Obtaining important data on exposures to loss may be extremely difficult if subsidiaries are remote and autonomous and, hence, the use of financial statements is a "second best" method for risk analysis.

Using the "informal" organization by gathering data casually from employes was reported by 47 respondents (29.6%). Alternative responses from which to choose indicate that the term "employes" excludes local (foreign) risk managers and local subsidiary managers. It seems likely that the use of this method might be necessary in firms having autonomous subsidiaries because of barriers to effective communication between the corporate headquarters and subsidiaries.

PERHAPS THE MOST surprising finding was that over one-fourth of all survey participants indicated that risk discovery data is gathered from local or foreign risk managers. It should be recognized, of course, that the phrase "local risk manager" may mean different things to each respondent. As a result of interviews with several risk managers it does seem clear that this refers to individuals who have specific risk management duties either as the primary responsibility or as an additional duty. If this is the case, it would suggest that international corporations recognize the time and distance limitations of the corporate risk manager in the proper analysis of risks. Therefore, much of this responsibility may be delegated to the local or regional risk managers. It follows that if these individuals have risk discovery duties, they may also be utilized to coordinate a centralized risk management program. That is, if a decision has been made to carry out the risk management program separately in each subsidiary subject to corporate policy, the regional risk manager can be utilized for this purpose.

Tests were conducted to determine what effect, if any, the autonomy of the subsidiary, the size of the firm, and the extent of foreign operations have on the existence of local or regional risk managers. Although the findings are not conclusive, the test revealed that local risk managers are used more often by larger than average (average was $600 million in assets) multinationals with decentralized subsidiaries. In this study a multinational was defined as a firm with affiliates in at least five foreign countries with at least 20% of assets (or sales) abroad. The firms which failed to meet these criteria were classified as "limited" international corporations, while the term "international" corporation refers to both groups.

Relying on the local subsidiary manager for risk analysis was reported by only 22.6% of respondents. This is probably due to the lack of training on the part of these managers as well as their preoccupation with their primary responsibilities.

FINALLY, THE LEAST often used method of risk analysis is the flow chart of activities and operations. This is not surprising because of the complex interdependency between the various manufacturing, assembly and warehousing locations throughout the world and the diversity of products manufactured by most international firms. The chief advantage of the flow chart method is its simplicity in tracing the exposures of one product from acquisition of raw materials to delivery to the consumer. In international corporations involved in producing numerous product lines in many countries, this method loses it effectiveness.

Over 15% of the respondents indicated that other risk analysis methods are practiced to some extent. Among those mentioned were information from the international division or department, engineers employed by the captive insurer, visits by corporate auditors, and engineering blueprints of construction.

From the brief explanation of the risk discovery methods discussed in this article, one point should come into focus: each method, with its strengths and weaknesses, contributes to the task of risk analysis, but no one method is adequate in itself.

This belief was held by over 88% of the survey respondents. Only 13 corporations (8.2%) use only one risk analysis technique, one-fifth use two methods, and approximately 29% utilize three methods of risk analysis. A few respondents use as many as eight and nine methods.

The choice of risk analysis methods is a complex and dynamic decision that depends on several variables. The combination of methods to be used must be determined by each corporation based on its corporate organizational structure, the autonomy of the subsidiaries, the availability of qualified foreign insurance brokers, the experience and authority of the risk manager, and many other factors. Each foreign affiliate consists of a unique cluster of risks which vary in loss-causing potential. The challenge of effective foreign risk management can be successfully met by an ambitious and knowledgeable risk manager who possesses a truly global perspective. ■

Methods of Risk Discovery and Evaluation Utilized in Foreign Operations

Source of Information	Number of Respondents	Percent of Respondents*
Insurance company engineers or inspectors	114	71.7%
Risk survey by insurance brokers	100	62.9%
Plant inspections by corporate or local risk managers	76	47.8%
Analysis of financial statements	64	40.3%
Data gathered from employees	47	29.6%
Data gathered from local (foreign) risk managers	41	25.8%
Risk checklist prepared by the local (foreign) subsidiary manager	36	22.6%
Flow chart of activities and operations	23	14.5%
Other	25	15.7%

*Percentages are based on 159 participating corporations.

Mr. Baglini has been with the IIA and the American Institute for Property & Liability underwriters since mid-1973. He previously spent several years at Temple University's department of insurance and risk doing research and as a teaching assistant while working on a PhD in international economics and risk management. Mr. Baglini has a good deal of experience in the commercial insurance business, having been a commercial accounts underwriter at Marsh & McLennan for three years, and in several positions with Aetna Life & Casualty Insurance Co. over a period of about four years. Mr. Baglini has a master's degree in economics, an MBA in management and finance, and an undergraduate degree in insurance economics.

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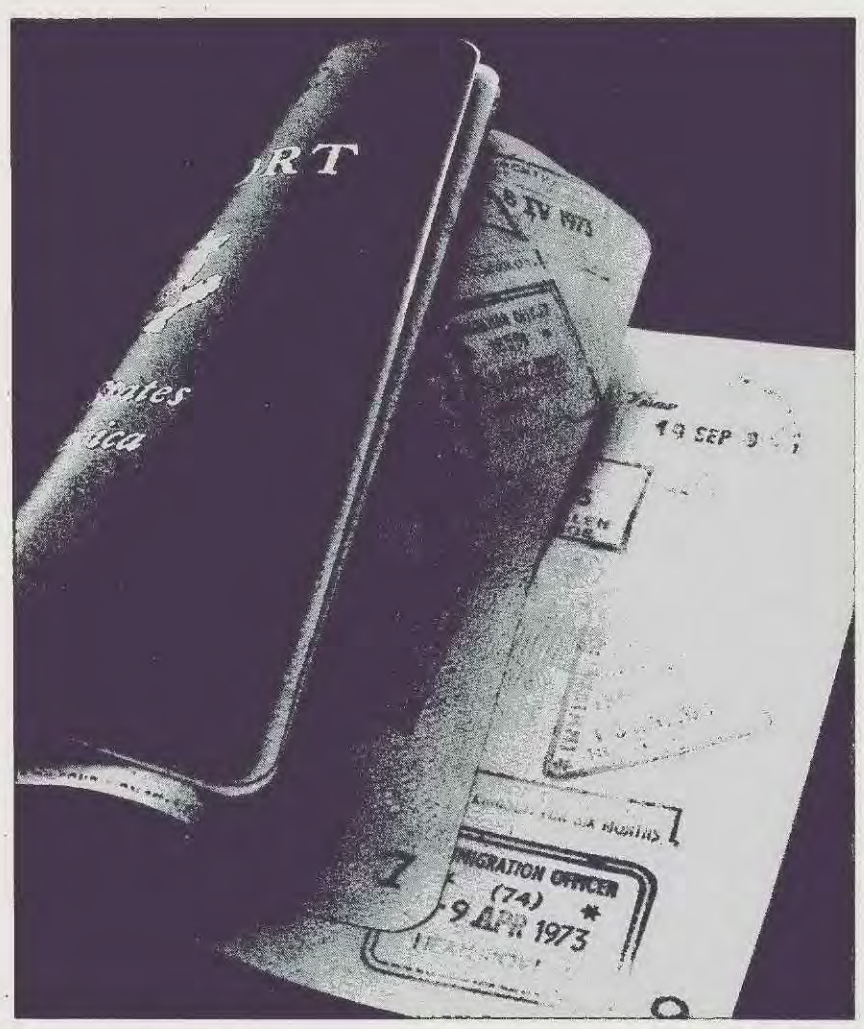

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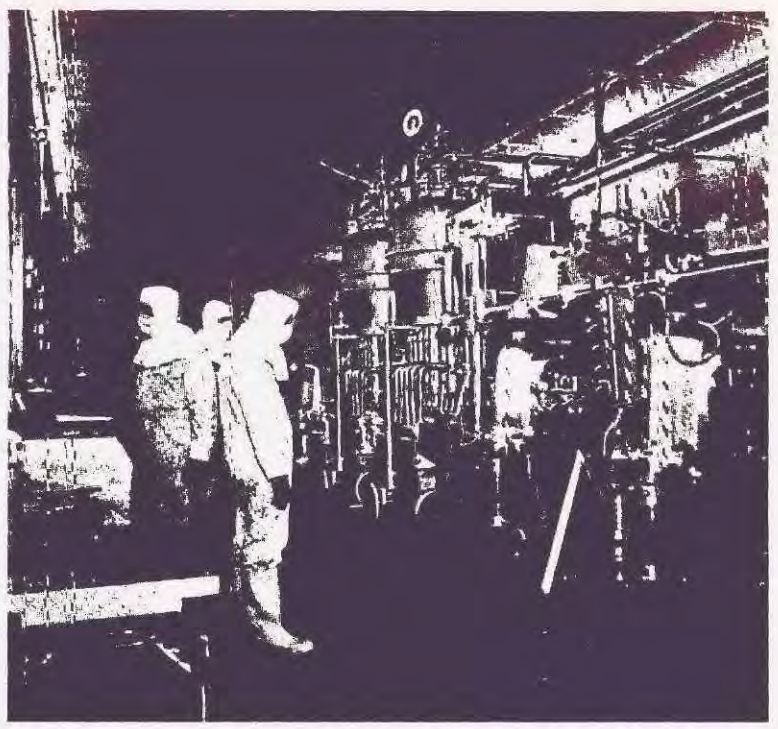
Joint division will use captive more

Giant Unilever hasn't seen a need to centralize, wants coordination

LONDON—The risk managers of Unilever Ltd., while arguing that centralized risk management programs are against their principles and even possibly a "meaningless exercise," have a newly-established joint insurance division which aims, at the very least, to establish formal coordination of the many scattered insurance programs in hundreds of Unilever divisions.

The Anglo-Dutch giant which is Unilever operates in some seventy countries from its dual headquarters in London (Unilever Ltd.) and Rotterdam (Unilever N.V.). Its U.S. divisions (Lever Brothers) are entirely separate financially and managerially; the worldwide insurance managers have little or no contact with their U.S. counterparts.

In fact, Unilever and the insurance managers, John A. Dixon in London and Bernard Kik in Rotterdam, decided they had too little formalized contact with each other. They visited each other once every couple of months, and conversed by phone in between, but infrequently. Mr. Kik handles all Western European risks and insurance, while Mr. Dixon is in charge of the U.K. and the rest of the world.



Unlever's many food processing operations include this dairy products plant in Kleve, Germany, where aseptic conditions are maintained.

THE NEW joint insurance division is changing all that. Instead of Mr. Dixon and Mr. Kik working separately, the whole object is to have them working together to achieve a well-coordinated insurance program, if not a centralized one. They meet at least twice a month, to investigate how to better manage their total insurance programs.

But there seems to be a trend emerging at Unilever, at least in the insurance areas. There may not be any move toward immediate centralization, but Unilever is clearly recognizing a need to centralize information about worldwide insurance programs, and see that divisional managers talk with one another to share information on a regular basis. This may lead to other things, Mr. Dixon acknowledged, but there aren't any firm ideas yet just what will come of the efforts.

Initially these efforts will entail the first meeting held of all European insurance managers and plant managers, with about 25 people expected to attend.

"We want to make sure there is more specific knowledge of the risks we work with. This is a meeting to amplify and explore more of our overall corporate policy thinking (about risk and insurance management) with hopefully some cross-pollination of ideas. This could result in more of an overall worldwide appraisal of insurance programs," Mr. Dixon told *Business Insurance* in a lengthy interview at his office here. Mr. Kik, visiting London from Rotterdam, also participated in that interview.

ALSO POINTING toward a trend at Unilever are the company's recent moves to put more insurance programs into the Unilever captive insurance subsidiary, set up in the Netherlands in the days when few companies had ever heard of such practices. It dates back to the 1920s. Mr. Dixon predicted even more use of the captive in the future.

And Mr. Kik noted that Unilever is "doing more and more with" umbrella wrap-up all-risk insurance packages covering contractors and subcontractors engaged by Unilever. 'Frequently the policies for plant extensions to cover contractors' risks have limits up to $25 million or $50 million. We chose to have one

Continued on page 51

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Continued from page 50

policy to eliminate the question of whether the host of small subcontractors working on our projects are insured at all or underinsured," Mr. Dixon explained.

At first blush, the Unilever policy of decentralization and the methods which Mr. Dixon and Mr. Kik employ would indicate there is little movement toward what U.S. insurance managers refer to as worldwide consolidation. In Europe the same goal is called rationalization of programs, reflecting the desire to avoid any idea of imposed control by the parent company.

BUT THE TARGET often seems the same. At Unilever, for instance, Mr. Dixon spoke of using the captive more "not to achieve cost savings, but as a general reflection of an overall corporate effort to attend our own (internal) operations."

"We're probably going to bring our captive companies more into use," he continued, "taking a share of the business that we hadn't done before. A share in the fire coverage, for example. In Germany, last year we took 100% of the fire risk into the captive up to a certain per occurrence limit. In the U.K., the captive took 10% of the fire risk and then a group of 29 coinsurers took the rest."

In some countries, Mr. Kik pointed out, Unilever is forced by rising tariffs (rates) to put more risks into the captive. In Germany, where changes were made last year, he noted, fire rates soared some 300% from what they were two years ago. "We just didn't want to put up with this high tariff."

Unilever's property exposures are significant, indeed. As a firm with some $11 billion in sales and 353,000 employes, its 200-odd divisions operate in over 70 countries and list land, plants, machinery and equipment, ships and vehicles with a value at cost of a whopping $4.1 billion.

MR. DIXON doesn't know the exact dimensions of Unilever's total annual insurance bill. "It certainly runs into the millions of pounds (multiply that by about $2.50 for the translated value). "We just don't tally things up centrally like that. It might be a meaningless exercise putting total figures together. We do it for various countries, though," Mr. Dixon said.

One of the specific goals of the new joint insurance division, Mr. Dixon and Mr. Kik noted, is to gather more specific premium expenditure information and more detailed property information from managers abroad.

Unilever's biggest premium outlay is for fire insurance. "For most property we insure on the basis of indemnity for a percentage of the replacement value less depreciation," Mr. Dixon stated. "For stocks and inventories, we insure for normal replacement value."

international

Unilever also maintains a very substantial self-insurance reserve for fixed asset replacement, with an annual allocation of retained earnings based on the difference between depreciation calculated on replacement value and depreciation charged against earnings. This reserve totaled $83.5 million at the end of 1973.

Unilever for many years has had a generally-agreed-upon companywide policy which recognized that certain risks should be insured, and outlining other risks which management felt were not worth insuring, Mr. Dixon said. "Our risk management policy was laid down by the board of directors on risks to be insured, and must be followed unless we are consulted first."

"IN MOST countries, local coverages are placed locally, depending on the laws and restrictions. We have some policies which cover multiple locations if there are no restrictions against it," he added.

"We have never insured against burglary or theft because we've never thought it worthwhile. And I suppose that is risk management in the real sense," Mr. Dixon said, as an explanation of the policy's application. "Where we are left with a residual risk after we have applied the overall policy, we choose whether to carry the risk ourselves, decide if it's worth insuring either direct or through brokers, or whether to use the alternative of insuring it in our captive."

As an example of how this works he cited the example of fire risks as Unilever sees them. "We do not insure against consequential loss, so the emphasis is on preventing the fire." Mr. Dixon said that with a new plant, he and Mr. Kik calculate the

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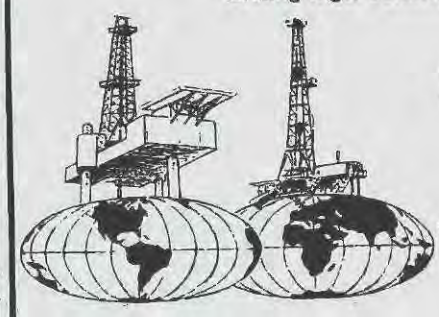

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Unilever changes programs . . .

Continued from page 51

maximum possible loss that could occur, including loss of stocks and inventory, and the consequential loss which could follow a fire. He noted that an important part of the calculation for Unilever is share of market loss, and the advertising and promotion expense necessary to regain market position. "We then measure the investment in prevention and protection systems necessary to control the loss, and compare this with the cost of the loss and the cost of additional insurance.

"My philosophy is that the best insurance is the prevention of loss. I would rather have a factory than a handful of checks," he declared. "Generally we have not insured against the risk of consequential loss because it goes beyond the matter of insurable risk. It involves investing in systems which enable the company to switch production to other facilities and compensate in other areas. There are some unique processes which we do insure, because there is no other plant to take over.

"ONE FACILITY for example, produces plastic sheeting and we insure against consequential loss for restoration of the facility, and for getting production back to earlier levels up to 18 months. We do this because the plant is the only one of its kind."

Unilever's fire coverage includes lightning, explosions, and damage by aircraft. The company purchases separate policies to cover boilers and pressure vessels against losses, "but mostly so we get inspection services," Mr. Dixon reasoned. In addition, the firm buys separate coverage for cranes, hoists and lifting tackle, also for the inspection services which come as part of the package.

"But we don't insure against flood damage, either. We never have. Even though we lost a million quid (slang for one million pounds, or about $2.5 million) in the 1951 Thames floods at our downtown headquarters here," said Mr. Dixon.

Unilever's second biggest premium outlay is for various marine coverages, including hull and cargo. Unilever's transport undertakings are for parent company use and are provided as services to third parties. They include both local and long distance delivery networks of ocean fleets, and an inland shipping fleet. "Our insurance for the ocean fleets is centralized," said Mr. Dixon. "But our barge insurance is handled locally."

A few of the hundreds of food and consumer products produced by Unilever. These 21 products are marketed in eight countries.

AN UNUSUAL kind of insurance which Unilever considers essential these days is against refrigerating risks, providing coverage for the spoilage of food products consequential to breakdown of cold storage equipment used in transporting goods.

Third party liability and products liability insurance are major portions of the total programs, too. For a company supplying everything from A-to-Z household goods (foods to cleaning preparations), paper-plastics-packaging products, and chemicals, to animal feeds, the exposures are tremendous.

"We tend to buy products liability coverage on everything, with a limit of 10 million guilders (equal to 1.5 million pounds or nearly $4 million) per occurrence," said Mr. Kik. "It is common for this to be covered under all our regular third party liability policies.

Mr. Dixon outspokenly declared that he does not belong to the U.K. association of insurance managers. "Why should I?" he scoffed. But he is a member of an elite, informal group of insurance managers for the six biggest buyers of commercial insurance in the U.K., who meet about once a month. Members include British Petroleum, British Aircraft Corp., Royal Dutch Shell, British & American Tobacco and Imperial Chemical Industries and Unilever.

Mr. Kik also belongs to such an informal group in the Netherlands, with only four members: Hoog Ovens, Phillips, Unilever and Akso. "But it will soon be expanded to 12 or 15 members," he said, noting that he would like to see a representative from a large company in each segment of industry. Some new members will be from Dow Chemical, KLM Royal Dutch Airlines, Dutch State Mining, and Royal Dutch Shell. ■

Shirt-Sleeve Forum

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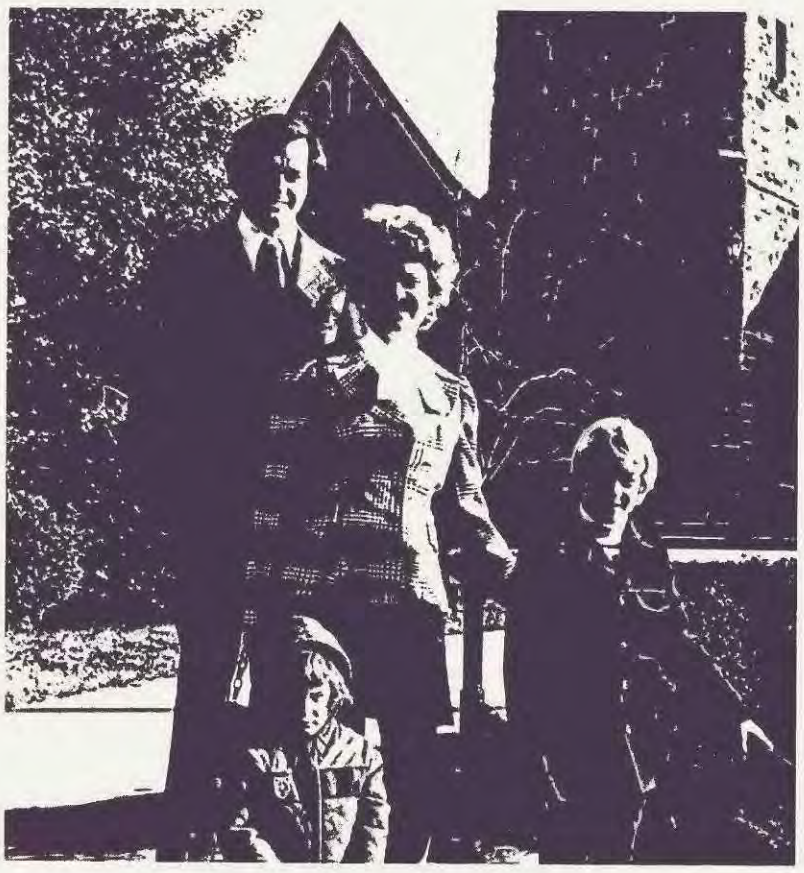

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UK medics in for rate hike

LONDON—Increased costs are weighing heavily on the two societies which give British doctors the benefits of self-insurance against medical liability claims.

The Medical Defence Union, with 73,000 members, faces a four-fold hike in reinsurance premiums in order to keep abreast of its rising liability risks.

Doctors who subscribe to the union plan at the rate of more than $2.4 million a year are hit with rate hikes because courts are now awarding "staggering sums" in damages.

But they still get unlimited indemnity against potential lawsuits. The Union's executive council points out: "Cases will be settled out of court only when it is clear that there has been professional negligence, of that they are likely to lose any court action brought against them. They will not be settled on purely commercial grounds."

Similarly the Medical Protection Society, which also gets annual fees of more than $2.4 million, warns that reinsurance might one day become impossible if claims rise. Higher wages are bond to lead to higher demands for damages from claimants who are laid off work through medical negligence, the society reasons. ■

Marine markets set for rate turnaround: ILU

LONDON—Marine underwriters in Britain are taking the view that in 1975 there must be effective action to improve world premium ratings, or wide scale loss of capacity will follow.

Edwin D. Rainbow, Commercial Union's general manager for marine and aviation risks, told *Business Insurance* at the annual meeting of the Institute of London Underwriters:

"I believe we're very near a turning point as far as price cutting is concerned. It will surprise me if during the next twelve months we don't see quite a substantial turnaround in the trend of ratings. It is impracticable to hold premiums for marine risks down much longer."

IT HAS BEEN a period of intense competition in the past year for the 121 member-insurers of the I.L.U., which represents the company market in Britain, with the Liverpool Underwriters' Assn. still playing an important role as well.

Mr. Rainbow, currently I.L.U. chairman, believes there will always be room for individual initiative, but he feels it should be used for the general good of the market, rather than for short-term advantage.

"For without more self-discipline" he said, "there's little prospect of profitable trading, and before very long the severity of underwriting losses will bring about a contraction of capacity."

He revealed that the trend in his own extensive underwriting

international

had been most depressing, with 1973 running "several points worse" than 1972, and a further slide encountered in 1974.

Capacity has so far grown rapidly in the hull market internationally, and in their quest for profit London-based underwriters have hit snags in recent times.

The cost of repairs has escalated nearly 20% in every major repairing country.

Mr. Rainbow warns: "There are many underwriters throughout the world who are accepting hull business with scant realisation of the large sums of money they will have to disburse in years to come for accidents which have occurred many months back.

"IT ALL SOUNDS most innocuous when people use the phrase IBNR claims, meaning claims incurred but not reported. But in our business these loom large. And when the results of an underwriting year go sour, it's the IBNR factor that counts out of all recognition and causes deterioration in those results. We saw it all a decade ago and the situation today is even more serious."

Cargo insurance cover is being affected by the increase in commodity prices around the world, which has substantially raised exposures, sometimes to two or three times the original amount.

Underwriters are trying to expand their cargo portfolios, but can find themselves heavily exposed on shipments which go by older vessels, so that transit risks are hiked, he explained.

At the same time, because of the "general average" clause in the event of loss, the proportion of cargo coverage in the case of older ships can reach a very large percentage of the total value involved. ■

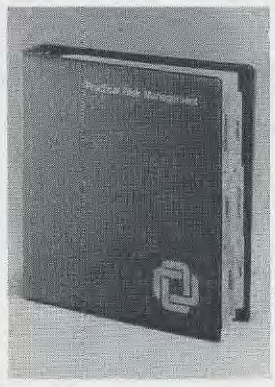
U.K. group notes growth

LONDON—Risk managers in Britain are building up steady membership of their domestic association which was formed eleven years ago to promote their activities in leading industrial corporates.

Ronald A. Muckleston, publicity officer for the association, told *Business Insurance*: "We've just had a 25% increase in membership because of a change in scope."

Total membership in the U.K. is now 500. AIRMIC (Assn. of Insurance and Risk Managers in Industry & Commerce) has extended membership privileges to anyone in industry or commerce, or in local and national government undertakings, who has a responsibility for insurance and risk management matters.

Strong contacts are maintained with the Societe Europeane des Assures de l'Industrie, which represents insurance buyers in the European Economic Community. ■



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Captives warned to avoid conflict areas

LONDON—Captive insurance companies which engage in underwriting their parent companies' liability risks are getting into a potentially problem-ridden area, because of their close relationship to the insured party, said a leading reinsurer and expert on captives.

John C. S. Lepine, chairman of Reinsurance Corp. Ltd. and also chairman of the prestigious Reinsurance Offices Assn., said in an interview that "captives which start writing certain of their own liability risks such as products liability, which bring them into contact with the customers or clients of the parent firm, may encounter problems. Workers' compensation is another such area.

When you're dealing with the public, there could be problems with a captive. It could turn out to put the captive into a sort of two-way stretch, since the captive is not really an independent party (insurer) handling the settlement."

MR. LEPINE said London reinsurers are very interested in reinsuring captives, and are in favor of captives, as long as they are "set up as good business operations, and when they are sensible, technically viable businesses."

Mr. Lepine during the 1950s was employed by a major U.S. corporation and set up the firm's captive insurance subsidiary, managing it for several years.

And the ROA has several members which are captive insurers, most based in Bermuda, "but the number is not growing fast," he added.

Mr. Lepine said captive insurers as competitors can have a "potentially negative influence when they get into the general insurance and reinsurance business merely to generate premiums for purely tax reasons. Quite often they've been a negative influence," when this has occurred, he added.

He contended "there are captives which have been formed which are not viable businesses: no spread of risk, and the loss prevention is not good enough. These captives have been set up only to obtain lower premiums," he said.

"WHEN A CAPTIVE sets out to operate as (general) insurer and a reinsurer, people in the markets don't like it. Some say the captives are weakening the market, that they don't know the insurance business, and all the other reasons that can be cited for captives being a bad influence. The established insurers reason that even if the people operating captives do know the business, they will have to have a gimmick, because of their need to produce fast volume," Mr. Lepine explained.

But generally, he said, reinsurers take the view that a well-run captive is a better risk because through it the risk manager exercises proper loss control and improves the risk. ■

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Group health plans . . .

Continued from page 1

health. Normally, this combination package can cut employers' costs on the health portion.

As several insurance consultants put it, the Blues and the commercial carriers offer similar health benefits. It depends on what the employer wants to pay for the benefits and also on how badly the supplier wants the contract.

"If they want the particular account, they'll do almost anything to get it," said James H. Brennan Jr., vp with Towers, Perrin, Forster & Crosby, actuarial consultants.

The situations which insurers view as "most attractive," according to Mr. Brennan, are:

- a company name that is well-known, with a good reputation and acknowledged status;
- for commercial carriers, it's prior business ties or the potential for increased business in the future that counts;
- for the Blues, it might be strong support from the employer's workforce, so that the group health contract becomes an item of labor negotiation;
- the supplier's preference for a particular workforce size or type, which can vary from year to year;
- for a combined benefit package, commercial carriers prefer life/health contracts in which "there's a lot of life insurance" because that portion is considered more profitable than the health portion.

The cost of group health contracts with similar benefits can vary considerably according to several factors. In fact, "cost" is defined in several ways. For example, besides the individual employe or dependent monthly premium, most employers negotiating group contracts want to know the cost of the carrier's retention, assumed losses and loading factor, total net premiums, and administration charge.

A SURVEY conducted by Fortune Market Research of the largest 1,000 corporations indicates these carriers had "better than average pricing on employe benefit programs":

Within the top 500 companies, 17% of respondents said Aetna Life; Blue Cross 17%; Prudential 17%; Metropolitan Life 14%; Travelers 14%; Equitable 13%; and Connecticut General 11%.

Among the second largest 500 companies, 23% of respondents judged Blue Cross best on favorable pricing; Aetna Life 15%; Travelers 13%; The Bankers Life 10%; Connecticut General 9%; Equitable 9%; and Prudential 8%.

Comparative bids on a Midwestern school system with 3,000 teachers, ages 23 to 65, were made available to *Business Insurance*. Specifications for the comprehensive medical plan, which were to provide "all medical care, including prescriptions" plus a small amount of life insurance were offered to all 13 bidding carriers. Prudential, the incumbent carrier, was the successful bidder.

According to the benefits consultant handling the bidding, this health contract was considered "a cream operation" and bidding was highly competitive. Five-year start up costs were the basis for computation. Life insurance represented less than 5% of the total premium, the consultant said.

While Blue Cross did not submit a bid, the consultant estimated that it would have bid 94 cents on every dollar for claims, leaving a 6% service charge—in other words, highly competitive. Part of the reason, he said, is because the Blues pay no state taxes or commissions. (See Table 1.)

Consultants cautioned that when employers study the specific bids, they should recognize that the figures do not represent an absolute competitive position: With a different range of benefits or a different workforce size, the same carrier may not come out on top.

SOME CARRIERS are noted for their interest in particular group sizes, according to Bill Greenfield, a broker with Arthur J. Gallagher & Co., based here. For groups of less than 10, Mr. Greenfield said he finds commercial carriers most competitive: Connecticut General, Guardian, Prudential and Travelers.

In the 10 to 35 lives range, Mr. Greenfield mentioned that many carriers are "good," including Aetna Life & Casualty, Connecticut General, Hartford, Prudential and Travelers.

For group contracts of 50 to 200 lives, Mr. Greenfield named Hartford the current "best choice," though he added the volatility of claims for this market segment causes different carriers to be in

Continued on page 58

TABLE 1: COMPETITIVE BIDS ON SCHOOL SYSTEM PLAN

Carrier	5-yr. Net premiums	Total assumed losses and reserve increase*	Carrier retention	Percent paid in benefits
Connecticut General	$10,564,000	$9,702,000	$ 862,000	91.44%
Dominion Life	11,265,000	9,694,000	904,000	86.95
Equitable	8,512,000	8,281,000	605,000	93.20
Horace Mann Life	8,793,000	9,708,000	892,000	86.93
John Hancock	10,226,000	9,396,000	831,000	91.36
Lincoln Nat'l. Life	10,462,000	9,736,000	819,000	91.84
Metropolitan Life	10,706,000	9,825,000	880,000	91.28
Midland Mutual Life	11,105,000	8,850,000	1,401,000	84.94
Northwestern Life	10,168,000	9,742,000	612,000	93.77
Pilot Life	9,803,000	9,736,000	653,000	93.38
Prudential	10,160,000	9,397,000	764,000	92.34
Travelers	8,377,000	7,761,000	617,000	92.17
Union Central Life	10,475,000	9,965,000	610,000	93.80

*Includes loss assumption plus loading. Loading factors ranged from zero for Equitable to $610,000 for Metropolitan. Prudential, the incumbent, added a load factor of $182,000.

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Health . . .

Continued from page 57

the lead at different times. "It's a large enough group in terms of lives that it's left on its own (that is, not pooled with other groups). A few unexpected claims can throw a wrench in (the experience rating)," Mr. Greenfield said.

Groups of more than 200 lives will find Aetna, Equitable Life Assurance Co., John Hancock Co., Prudential and Travelers most competitive, Mr. Greenfield said.

Another consulting firm, which declined to be identified, offered two examples of bidding on which the Blues submitted low bid for a 500-lives contract, while Prudential was low bidder on a contract for 2,000 lives. In both cases, a benefit package including health, life insurance, AD&D and LTD was presented.

Blue Cross was low bidder among 15 contenders. Only health benefit costs are shown. Fort Dearborn Life Insurance Co., an affiliate of the Blues, teamed up to offer the non-health portions of the benefit package. (See Table II.)

SEVEN SUPPLIERS submitted bids in June for the contract in which Prudential was the low bidder, (See Table III). Health benefits included dental care and an option for psychiatric coverage, the consultant said.

Another example of a health plan was made available by a consultant who described the plan for 15 participants as "slightly conservative, but average, with no frills such as maternity benefits." He said, "it's a standard package for a non-union plan."

Six insurers bid and State Mutual Life Assurance Co. of Massachusetts won the contract. "Even if they had bid the same, they would have still gotten the contract because their previous contract was with State Mutual," he said.

Aetna Life bid $16.50 on the employe monthly rate; Crown Life (Canada) bid $17.61; Hartford bid $19.65; State Mutual bid $19.00; Blue Cross/Blue Shield bid $16.13; and Lincoln National bid $15.76.

On the dependent monthly rate, Aetna Life bid $32.16; Crown Life bid $29.09; Hartford bid $37.32; State Mutual bid $24.60; the Blues bid $16.31 for employe and children, $24.80 for employe and spouse, and $33.85 for employe and family; and Lincoln National bid $31.46.

STATE MUTUAL knew the clams experience of the group since it was the incumbent carrier, the consultant said. They may have shaved their costs because it was worth $2 per employe to keep the business, he said.

The consultant mentioned that this contract, like several he has known, was accepted after the bid had expired. Health insurance bids commonly expire before they are accepted by the quoting carriers these days because either the clients only get a few days' notice of hefty rate increases upon the expiration of their current contract, or the bids are held for only 15 to 30 days due to the rapid increase in health costs. According to the consultants, 15% to 20% increases tend to stimulate competitive bids.

Recent bids on a basic and major medical plan for an engineering and manufacturing firm with 51 lives (which grew to 100 after it was offered) gave Equitable the contract as low bidder. The incumbent supplier was Blue Cross. Total annual premiums (including life insurance coverage except for Blue Cross) were: Blue Cross $19,635; Connecticut General $19, 508; Equitable $16,822; Hartford $16,744; Kemper $17,213; Prudential $18,103.

A group plan designed for 31 steel fabricating employes was won by Occidental Life, the contract's low bidder. Benefits include an average basic and major medical coverage plus maternity up to $280 for normal delivery. The policy also included life insurance and AD&D.

FOR THE EMPLOYE medical cost, Blue Cross bid $16.98; Occidental Life bid $15.90; State Mutual bid $18.38; Connecticut General bid $21.13; and Hartford bid $18.63.

Dependent medical cost brought in a bid of $39.08 from Blue Cross; $30.46 from Occidental Life; $33.32 from State Mutual; $36.60 from Connecticut General; and $34.30 from Hartford.

Total annual premiums for the medical portion only were bid at $12,487 by Blue Cross; $11,210 by Occidental Life; $11,936 by State Mutual; $13,607 by Connecticut General; and $12,443 by Hartford. ■

TABLE II: COMPETITIVE BIDS ON PLAN FOR 500

Carrier	Annual medical premiums	5-yr. average overhead	Monthly employe rate	Monthly dependent rate
Aetna Life	$241,080	not shown	not shown	not shown
Lincoln Nat'l	no bid	no bid	no bid	no bid
Blue Cross/Shld., Ft. Dearborn	164,652	$17,782	$16.96 (proposed) 22.22 (current)	$51.90 (proposed) 70.74 (current)
Metropolitan Life	233,364	17,015	20.92	70.36
American United	no bid	19,284	not shown	not shown
Nationwide	249,876	21,776	not shown	not shown
Employers Wausau	223,260	no bid	24.35	69.04
Washington Nat'l	no bid	no bid	no bid	no bid
Liberty Life	no bid	no bid	no bid	no bid
Prudential	220,632	15,918	24.80	67.50
Equitable	268,392	21,113	26.70	85.53
Wisconsin Life	232,740	not shown	not shown	not shown
Bus. Men's Assur.	no bid	no bid	no bid	no bid
John Hancock	214,032	19,439	21.35	68.15
Travelers	246,948	13,511	not shown	not shown

TABLE III: COMPETITIVE BIDS ON PLAN FOR 2,000

Carrier	1st year premiums	2nd year premiums	Projected retention: unit rate*
Equitable	$103,470	$105,584	$40.90
Aetna Life	108,300	96,900	53.93
Prudential	88,924	88,924	38.64**
Blue Cross/ Blue Shield	137,892	133,409	49.10
CNA	134,207	134,207	61.81
Bankers Life of Iowa	unknown	unknown	47.98
Guardian Life	not applicable	not applicable	not applicable

*The single unit medical rate is a weighted average of rates for single employes and employes with dependents.

**May be raised by 5% retrospectively if claim experience is poor.

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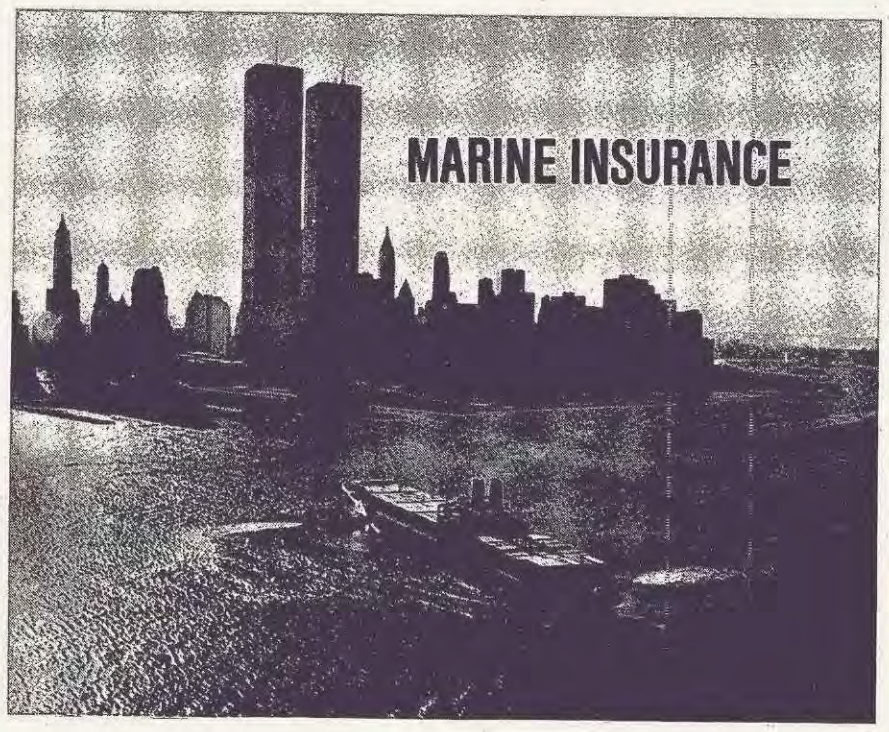

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Survey . . .

Continued from page 1

The advantages of this approach, he explained, include cost savings. "The premium is billed to the local insured, which can be used by the company as a tax deduction."

By insuring locally rather than using non-admitted companies, Mr. Reeves noted, "you're sure you are in compliance with the laws of the country where you're doing business. "This was a point well considered by Ashland Oil, with operations in at least 16 countries.

An East Coast-based paper products company also chose recently to continue using local insurance markets for purchase of casualty coverage for its foreign operations, a company spokesman said. The coverage is supplemented by the corporate umbrella liability policy, he added. "We usually stay with March & McLennan as our international brokers," the spokesman continued, "unless there is an unusually strong agent-broker relationship in a particular area."

AMERICAN BRANDS' insurance manager S.W. Boyd said the company has recently consolidated some of its international programs.

Captives are increasingly being used by multinationals in managing their foreign property and casualty risks more efficiently.

Dean Alexander, risk manager for Consolidated Foods Corp. said, "We're attempting to utilize our Bermuda captive for property risks. Economies such as cash flow are the primary reason," he explained.

A major oil company has transferred most of its international insurance to its insurance subsidiaries and to OIL Ltd. in Bermuda, according to the company director of insurance.

Other multinational companies are considering setting up captives as a method of handling foreign property and casualty programs.

Henry Ross, insurance manager for United Brands said he is considering a captive, as well as other possibilities for coverage of the company's $400 million foreign property values.

A New York-based electronics company also is "looking at a captive," according to a company spokesman. "We may take policies in international locations and incorporate them" into the captive, he added.

JOHN L. CHRISTENSON, risk manager for Weyerhauser Co., however, finds that "the lack of an effective insurance vehicle is the biggest problem in finding insurance abroad."

"Our international coverage is still in its infancy," Mr. Christenson added, "and hopefully there will be developments over the years. But I don't know if these will ever be ironed out to what I'd consider effective."

Finding international coverage is not a problem, Louise Yazzolino, assistant to the insurance manager of Georgia-Pacific Corp. said. "Our brokers are the people who have the problems." Most of Georgia-Pacific's foreign insurance policies are written in English, she added, facilitating the interpretation barrier.

Some risk and insurance managers are looking at new markets for international insurance programs, the survey found.

B. F. Goodrich's Mr. Traver said, "We're currently exploring (the markets), primarily for coverage. There are few good worldwide markets," he continued, "and to that extent, the good ones aren't tightening up because they know how to run a profitable business."

Kenneth Hall, insurance manager at General Electric Co. said he's "constantly looking at new markets. I've got markets that are theoretically good, but aren't so hot in practice, and I've got markets that are supposed to be bad but that really do the job. You just can't generalize," he asserted.

Mentioned by several risk and insurance managers as current highly competitive markets were FIA, AIU, and Insurance Co. of North America (INA).

ONE RISK manager predicted a trend back to the London market in the future, because of turbulence in the U.S.

In addition, E. A. Dekoskie, insurance manager for Allied Chemical noted that extreme competition in the market in recent years caught many underwriters in an inflationary bind. A lot of domestic companies with their cash flow schemes got burned," he said. Mr. Dekoskie also predicted that the marine market would become the tightest market by the end of 1975.

"None of the markets are very competitive," Weyerhauser's Mr. Christenson stated. "I'm not satisfied with any of them."

A few risk managers reported satisfaction with their current international programs. Martin R. Flink Jr., director of insurance for Standard Oil of Indiana said, "We're very happy with the markets we have."

"Our casualty program is virtually self-insured," he continued. "Our property is with AFIA—there's really only one property market," he added, "but you can also consider AIU."

At Monsanto Co. R. B. Chapman, insurance manager, noted, "We're always trying to improve the present situation, but we're not too unhappy with our present programs because we've got adequate coverage and the rates are not out of line."

Standard Oil's Mr. Flink said, "Costs have risen because of inflation and increased property values."

A spokesman for an Eastern-based chemical and consumer products corporation reported a 5% overall increase in international insurance costs this past year.

The tire corporaton has achieved a "highly protected risk" (HPR) status for its European facilities, the spokesman said, "the smartest thing we've ever done," which he credited for keeping property insurance rates steady so far.

ALLIED CHEMICAL's Mr. Dekoskie expects rate increases in the property insurance area worldwide due to underwriters' losses following the Nupro explosion in Great Britain and the Darwin cyclone.

Some increases can't be avoided, risk managers admitted.

Because of consolidating with a shift to a central location, "we're generating 20 times more activity," B. F. Goodrich's Mr. Traver noted. "Some rates have been increased," he said. "If I hadn't made any changes there wouldn't have been an increase."

General Electric Co.'s Mr. Hall was philosophical. "I haven't been pushing the panic button over any particular costs. If you ask me if my insurance costs have gone up over the past 10 years, all I can say is 'sure,'"

At General Telephone & Electronics Corp., however, corporate insurance director William Byland reported his costs have gone down. "When we put together our program five years ago we only had about half our subsidiaries included in it," he explained. "Now we have all the subsidiaries included," he continued, "and subsequently enjoy the economies of size."

GTE has used AIU for overseas insurance programs since 1936, Mr. Byland said. ■

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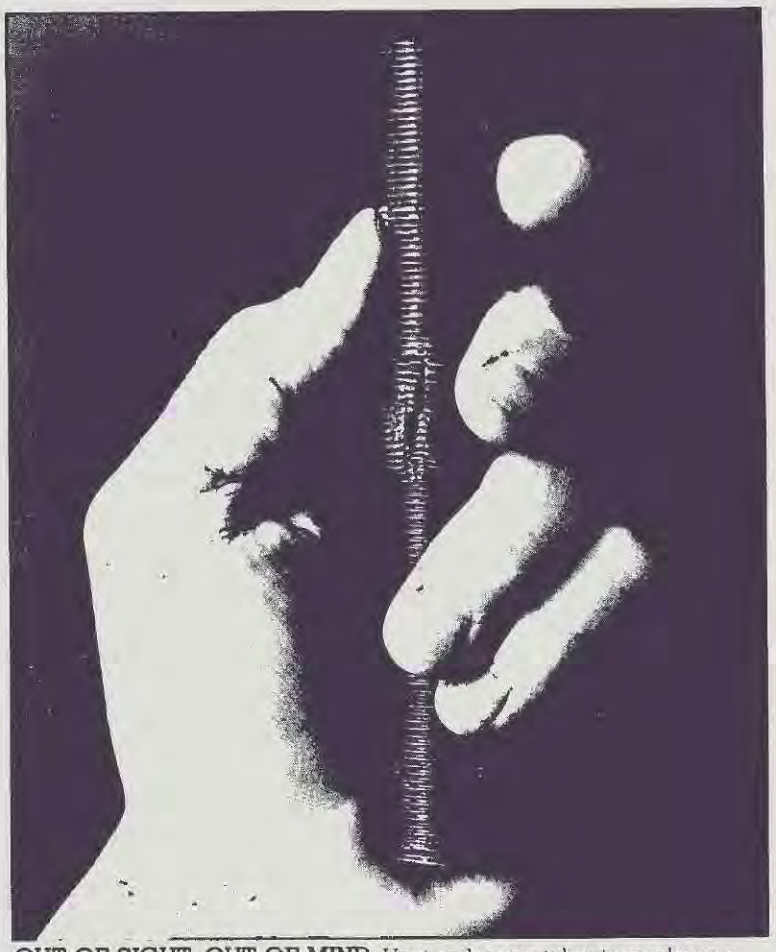

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International airline passenger liability set to soar

By RICHARD L. GORDON

WASHINGTON—The Poincare franc, a 1920s era French gold coin, has turned up as the major stumbling block in carefully orchestrated plans to bring about an overdue increase in the liability limits international airlines must carry to protect their passengers.

The Guatemala Protocol, an international agreement hammered out in 1971, amends the old Warsaw convention of 1929 to set per passenger liability limits at $100,000. That is a dramatic increase from the original Warsaw convention liability limit of $8,290 per passenger.

But it is still not enough to satisfy the U.S. government, which has for several years been pushing for increases to protect U.S. citizens traveling abroad. The U.S., in fact, threatened to bolt from the Warsaw convention in 1966 because other signatory nations balked at big increases in the liability limit.

A last minute agreement, outside the Warsaw convention itself, allowed the U.S. to impose a $750,000 per passenger limit in 1966 on all international air carriers flying to the U.S.

UNDER THE Guatemala protocol, Uncle Sam has won the right to impose a secondary liability blanket on top of the $100,000 international limit to protect U.S. citizens and permanent residents.

The government is talking about a $200,000 excess liability layer that would cover U.S. citizens, permanent U.S. residents, and anyone else who buys an international airplane ticket in the United States.

Article 35 (a) of the Guatemala Protocol, which allows the U.S. to increase the liability level, also states that it cannot impose any more liability on the air carrier.

The way out of this problem appears to be establishment of a separate excess insurance policy, to be operated independently of the carriers, which would provide the additional coverage.

This policy, which would probably be written by a private American insurer, would be paid for by premiums added on to the price of international air tickets bought in the United States.

This would leave the air carriers as "agents" for the excess coverage, but they would still retain individual liability for the $100,000 limit imposed by the Guatemala Protocol.

The excess insurance problem is being handled by the Air Transport Assn., Washington-based trade group for domestic carriers, and by the International Air Transport Assn., Montreal, which represents more than 100 international carriers.

AIR TRANSPORT Assn. officials said several American insurers have submitted proposals to provide the excess coverage, but they declined to reveal names. Prudential, however, is reportedly one of the major contenders.

While this plan seems straightforward enough, nearly four years have elapsed since the Guatemala Protocol was signed, and no major nation has ratified the agreement yet. Everyone is waiting on the United States.

In the intervening time since the protocol was signed, however, the poincare franc has suddenly upset everyone's plans.

Back in 1971, the Guatemala protocol said that all claims were to be settled in Poincare francs, or their equivalent in local currency.

In 1971, that clause did not appear to present a problem. The protocol set the liability limit at 1.5 million poincare francs, and with gold selling at $35 an ounce, it made M. Poincare's coin worth about six cents each, or $100,000.

In that same year, the U.S. moved away from the $35 an ounce "official price" of the metal, and moved to $42.50 an ounce, and overnight the value of 1.5 million Poincare francs became around $120,000.

"NOW THE problem is more serious," according to Claude McCall, secretary to the Air Transport Assn. insurance committee. "Gold has gone wild on the open market," he said. "It hit $195 an ounce. This is horrible."

That original six cent poincare franc, if you use open market gold prices, could be worth 30 cents. And the air carriers' $100,000 liability could be more in the neighborhood of $500,000.

"We are reluctant to complete the project with the price of gold hanging at that level and the U.S. uncertain about having an 'official' price in the future."

The State Department said it was "aware of the problem, but we are not stopping work on this (the protocol).

"At this point the question has been raised by the industry, and we're not poo-pooing the consequences," said David Orter, acting chief of the State Department's aviation programs and policy division.

Mr. McCall of the Air Transport Assn. said he still believed the problem could only be a "resolvable hitch" that might make action on the protocol in the future possible.

He said the association was "very far advanced" in firming up the excess liability plan, but there were problems in determining fees and how much of a reserve would be needed.

The current problems deal solely with passenger liability. Cargo liability changes are to be brought up at a diplomatic conference scheduled for this September in Montreal. ■

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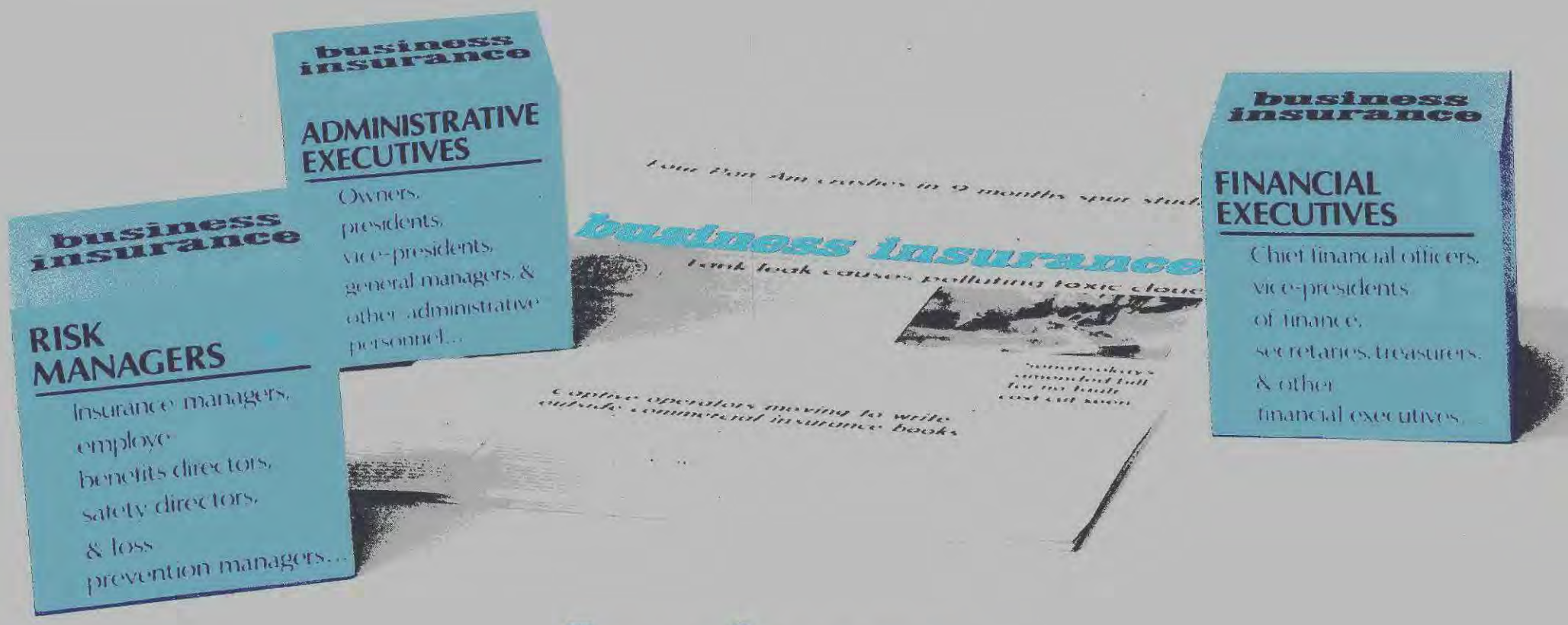

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Aviation rates poised for takeoff after '74 debacle

LONDON—Heavy aircraft hull losses coupled with widespread concern about the outcome of liability claims are driving aviation hull, liability and aircraft products liability insurance rates skyward.

Aviation underwriters and brokers here told *Business Insurance* that during 1975, they foresee:

• "visible" but "marginal" boosts in aircraft hull insurance rates in the area of 5% to 10% for the same coverage previously held;

• "substantial" hikes in third party and passenger liability insurance rates, possibly in the range of 15% to 25% from previous periods for the same coverage;

• "soaring" aircraft products liability insurance rates possibly double previous levels in view of a rise during 1974 ranging in some cases from 30% to 50%.

Underwriters would hardly disagree with these predictions. They have said for several years that competition was out of control and that rates which fell 50% and more over a three year period would not support a period of heavy losses.

ONE LEADING aviation broker with the firm of Lionel Sage said insurance bills for the world's airlines would rise an average of 10% during 1975. Some sources here view that as a minimum.

"The rapid aviation insurance rate slide of the last few years appears to be bottoming out now," said aviation insurance experts at C. T. Bowring & Co. Ltd., one of the largest Lloyd's brokers.

Some business placed in the last few months was at the same price as previous policies, Bowring's brokers noted. But very recently, an airline which bought two wide-bodied jets attempted to have the risks placed at the previous low rate and the balky market "did not respond," said Bowring's. "The rate at which the market did respond was quite apparently higher," brokers at the firm added.

Rates on aviation hull coverage plummeted 50% and more over the last three years, to a low rate of 0.6% of insured value. In early 1974, hull rates were still going down, but by late in the year, rates had settled. Through 1971, the business was enormously profitable for Lloyd's and the London-based companies.

In 1972, however, losses began climbing and competition increased. By 1973, Lloyd's had lost a sizeable chunk of business to competitors. Other London companies had enlarged their share of the business at substantial cost.

The 31 jet losses in 1973 followed by 21 losses in 1974, which turned out to be very expensive, meant hull losses alone were catastrophic, to say nothing of how liability losses will end up. The Paris crash of a Turkish Airlines DC10 in March, 1974, a hull loss of over $30 million when a Lufthansa jet crashed, and a loss of over $18 million when a Tristar was burned on the ground in Boston in April, resulted in property losses alone which far exceeded 1971's total.

"On a net premiums-to-claims basis, it appears 1974 will be a loss to the world's markets for aviation insurance, with the extent of loss for each underwriter depending on how the lines have been subscribed,' Bowring's brokers said.

"If the loss pattern continues, 1975 could be a bad year for aviation underwriters," they added.

Total 1974 aviation losses won't be fully known until the liability situation is quantified, London worries. That depends primarily on the outcome of suits claiming over $600 million damages filed in the wake of the Paris DC10 disaster.

As a result of disclosures and publicity about airline and aircraft safety surrounding the Paris DC10 crash, the market for aircraft products liability insurance has tightened significantly since midyear 1974 although rates began rising in early 1974, insurers revealed.

The market for third party and passenger liability coverages was still loosening during 1974, with reductions available of slightly less than on hulls. But raging inflation and the Paris and Lufthansa crashes have made London underwriters all the more determined to charge substantially higher liability rates on new underwritings and renewals this year, brokers said.

(The London companies write a substantially larger book of aviation business than Lloyd's does.)

Adequate capacity, however, does not appear to aviation experts here to be any problem. "Aviation capacity is not decreasing," Bowring's brokers said. "The underwriters may be slightly more selective about the risks they accept, but the capacity is there at the right price."

During 1974, the international markets had no trouble absorbing hull risks over $30 million and liability risks of the normal commercial airline limit of $250 million, experts said.

In late 1974, A. J. Pagram, chairman of Lloyd's Aviation Underwriters' Assn. noted that "competition from increased capacity (was) continuing to bring about further reductions in rates."

"The Japanese are becoming more important" in aviation markets, London brokers said. Japanese insurers have added very substantial aviation capacity, and the Japanese position right now is characterized as "providing capacity but not necessarily establishing rate leadership.

Major U.S.-based airlines are thought to have their primary coverage approximately 60% with U.S. insurers and 40% in London and other world markets.

INSURANCE observers in London said they are looking for overall 1973 aviation accounts to show underwriting results of break-even, at best. Some pessimists believe there will be an overall loss recorded for 1973, as a result of reduced rates and higher losses affected by inflation. These same individuals, watching both Lloyd's and the companies, predict still worse figures for 1974 and 1975.

Mr. Pagram of Lloyd's said that the 1974 average cost per aviation casualty was already up to $7.5 million, compared with just over $4 million in 1971 and 1972.

Lloyd's figures for the 1974 account showed claims had already eaten up more than the normal aviation premium dollars, even though the account year won't be closed until 1976. Traditionally, claims recorded in the second and third account years end up amounting to 60% of total claims. Since 1969, third year claims alone have been more than triple the first year's claims as a percentage of the total. ■

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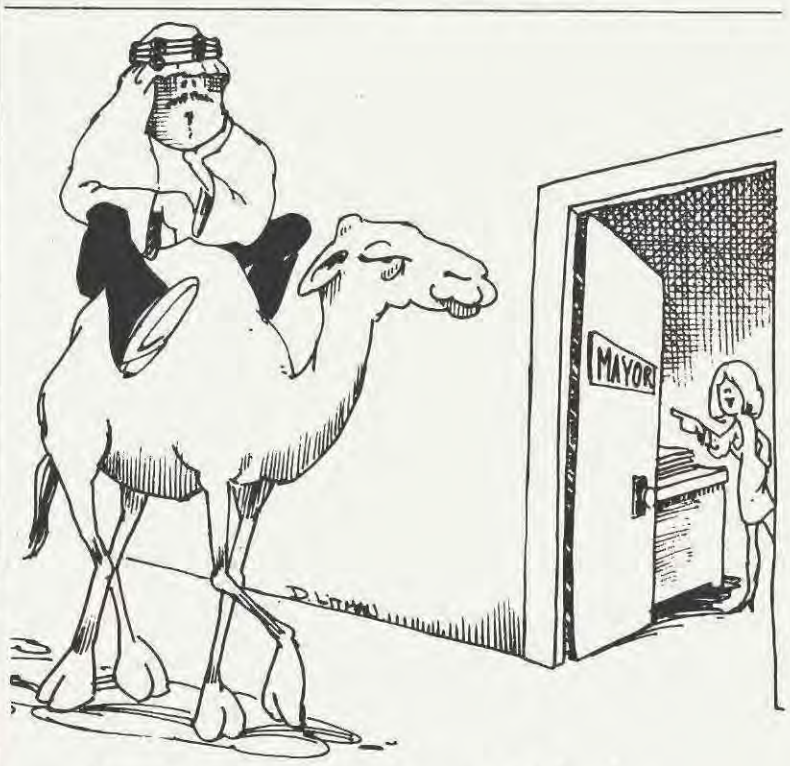

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UK expert sees nuclear transport risk improved despite more cargoes

LONDON—"Nuclear cargo risks have become much more acceptable risks, and people now want to underwrite the business."

This assessment of the current nuclear cargo risk insurance market was offered by Roger W. S. Bradley, Lloyd's underwriter for Janson, Green Ltd., a leading marine syndicate here.

international

When the policy form first came into existence in 1961, Mr. Bradley noted, underwriters were reluctant to take nuclear cargo risks because of the uncertain nature of fissionable materials transport.

Presently, there are 77 Lloyd's syndicates and 23 London companies underwriting these risks, he said. Lloyd's is said to do about 75% of all nuclear cargo insurance business..

NUCLEAR CARGO liability risks can be insured up to five million pounds, or about $12.4 million, as a result of increased capacity to handle the risks, Mr. Bradley said. But none of the business can be reinsured under the terms of the nuclear cargo risk policy, he explained. This means the insurance is always written on a "net lines" basis, which decreases capacity.

"Capacity at the present time is plenty adequate to handle these risks, even though there are many more shipments of radioactive materials," he said. Shippers of radioactive materials by agreement limit the risk by sending only one nuclear cargo consignment per vessel, Mr. Bradley said.

"Nuclear cargoes always go on the deck of the ship, and never below decks. They are always well marked," he said. Nuclear materials packaging is greatly improved from what it was several years ago, he added, which also reduces the risk.

Both large and small shipments of radioactive materials are always insured to the maximum limits available, Mr. Bradley said. The property values of nuclear loads vary greatly, sometimes totalling nearly $250 million.

Despite several sizeable claims resulting from loss or damage on nuclear cargoes, rates are not rising, Mr. Bradley said.

"WE'VE GOT some claims, one or two big ones, in the offing. We don't know how they will turn out. One particular claims could certainly take about a full two years' premium," he asserted.

Later in the interview, he said there is a claim of about $250,000 "coming up right now which may cause us some problems." This is the one which could absorb a full two years' premiums, he noted.

But, he added, "the rates on this coverage are still the same as they have been. I've held the rate hike in abeyance" until after the claims are actually paid, Mr. Bradley stated.

Rates are determined "on an individual basis for individual voyages and distances, and are flexible based on the limits needed and other factors," he noted.

The greater number of nuclear material shipments, by itself, does not bother Mr. Bradley, he said. "We'll wait for the accidents to happen," he noted explaining that that Lloyd's certainly isn't projecting more accidents. In fact, he noted, "experience is getting better" because of improved handling and packaging of dangerous materials.

Brokers normally handling placement of marine nuclear cargo risks in London are Hartley-Cooper, Sedgwick Forbes, and C. T. Bowring, Mr. Bradley said.

When nuclear cargo property and liability insurance is written in London up to the available limit, he noted, the risk is subscribed by all participating underwriters by means of an automatic facility. Mr. Bradley acts as lead underwriter on nearly all primary marine nuclear insurance covers. ■

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EEC proposes strict liability for producers

LONDON—Corporations manufacturing or distributing products in European Economic Community member countries are inspecting their liability insurance policies to make sure they contain specific coverage for products liability damages.

In some cases, corporate insurance managers for European companies are buying additional coverage.

This activity is a direct result of a preliminary draft directive issued last month by the European Economic Community office in Brussels. It would extend the concept of strict liability for product damages to all the countries of the EEC.

For several years, the EEC has worked to unify the laws of member countries. EEC committees are also drafting uniform insurance laws.

That the products liability directive would broaden manufacturers' risks is undeniable. Most European countries do not apply strict liability at the present time, insurance officials here said.

THE FIRST article of the draft directive makes it clear what the liability of producers in EEC countries would be: "The producer of an article manufactured by industrial methods or of an agricultural product shall be liable even without fault to any person who suffers damage as a result of defects in such article."

Bernard Kik, insurance manager for Unilever Ltd.-Rotterdam, told *Business Insurance* that if this drafted directive becomes official EEC policy, "then we must be sure to have a specific inclusion for products liability under our third party liability policies. The EEC directive would broaden our risks."

Only Germany has such a strong products liability rule, Mr. Kik said, noting that the German rule has had a substantial impact on insurance rates. "We already pay 50% more for our products liability coverage there," he said. Mr. Kik is manager of Unilever insurance programs for Western Europe.

The EEC aims to set a limit on a producer's liability for physical damage, and a separate limit in other cases, but the draft directive does not suggest the amounts of limits which are being considered. Producer is defined as any person "by whom the defective article is manufactured and put into circulation" in the form in which it is intended to be used.

Every loss is a separate ground of liability for payment of damages, the directive states.

The directive will also set a statute of limitations for the period in which claims for damages can be brought against producers, but the draft does not define this period.

AN ARTICLE raising the eyebrows of several European producers who talked with this magazine about the rules one which states: "The producer shall not be exempted from liability to the injured party by proof of fault of a person working for him."

Liability cannot be passed by contract to other parties under the drafted rules, which describe liability as mandatory and state "it may not be excluded or restricted by contract."

Claims of the injured party against the producer or the seller based on other legal grounds shall remain unaffected," says the directive.

If the directive is accepted as proposed, EEC member states would be obligated to amend their laws within 18 months to comply with the directive's provisions.

The EEC explained that these rules exclude semi-finished and intermediate products, and would not cover subcontractors. "Only the person who puts the end product of a manufacturing process on the market is responsible for it," the draft explains.

The standard to be used to determine a defect in a product is a comparison between the product's assigned purpose and the fitness of the article for that purpose, the draft noted.

Liability, as defined by the draft, includes any physical and material damage, and loss of profits, but excludes non-pecuniary damage "which, if taken into account would unduly broaden its extent," the draft stated.

The limit of the producer's liability is being defined under the rules, in terms of both extent and duration, in order to make this a "calculable liability and thus insurable," the draft noted.

"SINCE IN the field of consumer protection, adverse effects to health are more serious than pecuniary losses, liability for payment in respect of physical damage should be fixed at a higher level than that for material damage," the draft explained, noting that there will be discussion about the ratio between the two, with the amounts ultimately fixed.

The rules would provide that claims must be filed within a reasonable period, following the French practice of a flexible period, the EEC said. It believes the question of period to be regarded as "reasonable" should be left to the courts, taking into account that every article deteriorates with use. Thus, the EEC reasoned that the producer should be free from liability after a general limitation period. The length of the limitation period is yet to be set.

The laws of several EEC member countries would be changed by the provision that the producer cannot be relieved of liability by proving fault of a person working for him, the draft said.

The rules would also force a change in the laws of some member countries which now say that a producer can restrict or exclude his liability as far as negligent use of a product is concerned. ■

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Oil firm maneuvers first 'inter-market' placement

LONDON—"The markets are tightening here, as they are elsewhere, but London realizes it has to be competitive in terms of its product," said Peter Wright, deputy chairman of Sedgwick Forbes Holdings Ltd.

The company is parent to one of the largest Lloyd's brokerage firms, which counts among its clients such corporations as Plessey, Imperial Chemical Industries, British Petroleum, Royal-Dutch Shell Group, Morrison Knudsen, Mobil Oil, Fluor Corp. and many others.

MR. WRIGHT cited an example of the way in which London is being competitive with its products: A large multinational oil company wanted to buy a single excess umbrella property and liability insurance policy above the amounts of insurance written in its own captive insurance subsidiary, through Sedgwick Forbes. The oil company required different limits for each different exposure covered under the package policy. The exposures range from marine risks—the oil company owns a fleet of tankers—to refineries and petrochemical plants around the world.

Despite some problem getting London underwriters to accommodate this, Mr. Wright related that the policy was worked out in the end. In separate interviews, Lloyd's underwriters and company insurance officials added details and explained how the market responded to a "prestige account's" request.

London insurers at first said they couldn't write catastrophic coverage across the whole acount —fire, hull, liability, etc.—with an aggregate deductible.

A coverage that cut across both marine and non-marine risks had never been written before.

The tariff insurance companies (those which have published rates and use standard classifications to establish rates) were reluctant to quote on this package policy, "because it was a very extraordinary kind of coverage which was totally foreign to our way of doing business," explained a top official of a large London insurer. Lloyd's members were also troubled by what was called an "inter-market" client.

"But I am on the Committee of Lloyd's, which is good fortune," said Mr. Wright of Sedgwick Forbes. He described the problem as one of inducing the market to let down its "artificial internal barriers" in order to write this policy. He subsequently worked with Lloyd's underwriters to see if the policy could be written to meet the client's requirements.

IN THE END, the London companies worked out an "inter-market policy classification" using three major companies plus Lloyd's as leaders on the risk to work out the coverage and the rates. Then the risk was spread around the London markets, each underwriter taking the share of the risk desired. The client obtained coverage over $30 million for fire risks (property) up to agreed limits on ships, freight, plants, and every risk not fully underwritten in the captive. "Some limits went up into the hundreds of millions of dollars," said a London expert, amazed at the new inter-market precedent. ■

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Rockwell Intl. risk man is new assistant to chairman

William R. Fitz, former risk manager for Rockwell International Corp. at its Pitsburgh headquarters, was promoted to administrative assistant to Rockwell chairman Willard F. Rockwell Jr. His new duties include summarizing company activity for Mr. Rockwell, supervising paper work and handling special projects as needed. Mr. Fitz succeeds Walter Locke, who died. Most recently Mr. Fitz worked directly under E. William Altstaetter, director of corporate insurance and risk management for Rockwell. Although Mr. Fitz will have no insurance or risk management responsibilities in the new position, he said that Mr. Rockwell wanted someone "familiar with the companys' world-wide operations and who knew who was in charge of what" so that communications would be effective. "A risk manager has a good feel for all corporate operations," Mr. Fitz said. He joined the company in 1966 as insurance manager and was later named risk manager for the commercial products group. Before that, Mr. Fitz was safety director and insurance manager for Rust Engineering Co., Pittsburgh.

* * *

Hertz Corp., New York, named **James H. Combes** chief financial officer and vp-finance. In this position Mr. Combes will be responsible for insurance and safety as well as other financial functions. He will report to Hertz chairman and president, Robert L. Stone. Previously, Mr. Combes was treasurer of NCR Corp., Dayton. He succeeds Earl Kaufmann, who left the company.

* * *

Bruce Thomson was promoted to the new position of director, benefits and insurance for Baker-Beech-Nut Corp., Canajoharie, N.Y. Mr. Thomson joined the company in January 1974, as manager of employe benefits. His broadened responsibilities include the company's property and casualty insurance needs which he said were "formerly handled by several people on an administrative basis. Mr. Thomas reports to William Johnsey, vp-finance.

* * *

Lane Kohan was named risk and insurance manager for the newly formed Fiat-Allis Construction Machinery Co., a joint venture between Fiat Motor Co. of Italy and Allis-Chalmers, Milwaukee. Mr. Kohan will be based at the Springfield, Il. headquarters of Fiat-Allis. His position, also newly created, includes responsibility for property, casualty and employe benefits programs. He formerly was insurance manager for Roper Corp., Kankakee Il. Mr. Kohan replacement there is **Daniel Laffey,** previously assistant insurance manager at Roper.

* * *

General American Transporta- Corp., (GATX) hired **John W. Barker** for the newly created position of manager of research, planning and development in the beneftis department. Mr. Barker's responsibilities for the Chicago-based company include total benefist planning and administration for both domestic and international operations. He reports to Burt Ochampaugh, director of benefits. Formerly, Mr. Barker was corporate employe benefits manager at Chemetron Corp.

* * *

John W. Working was named corporate employe benefits manager at Chemetron Corp., Chicago, last month to replace Mr. Barker who joined GATX. He reports to Mel Shulman, corporate director of personnel resources. Mr. Working previously was staff consultant, employe benefits at Kaiser Industries, Oakland, Ca. As yet, no replacement has been announced.

* * *

City Products Corp., Chicago, hired **Charles Murray** as assistant insurance manager to replace **J.W. Gorvett,** who left the company to join Marsh & McLennan. Mr. Murray, formerly in the claims department at American Mutual Insurance Co., is responsible for casulalty programs and reports to R. J. Lowins, insurance manager.

* * *

W. J. Dahl was named manager-insurance at Houston Gas & Electric Co., Houston, Tx. to replace **Graham May,** who retired last October. Mr. Dahl was previously district manager for Argonaut Insurance Co., Houston and was with Phoenix of Hartford Insurance Group. His responsibilities include property and casualty insurance for the utility company, and he reports to the vp-controller. ■

dates for buyers

Mar. 19: The second annual Capital I Day will explore a wide range of problems facing the insurance business. Sponsored by 11 insurance associations representing companies, agents, buyers and professional societies, the meeting will take place in Washington, D.C. Reservations can be made through the Metropolitan Washington Assn. of Independent Insurance Agents, 1750 Old Meadow Rd., McLean, Va. 22101.

Mar. 24-26: Health Maintenance Organizations are the topic of an American Management Assn. meeting to be held in New York. For more information write the AMA at 135 W. 50th St., New York, N.Y. 10020.

Apr. 2-4: The American Bankers Assn. will hold a risk management in banking seminar at the University of Georgia in Athens, Ga. The seminar is designed primarily for insurance executives of southeastern banks with deposits of $200 million or less. For more information write Ed Armstrong, American Bankers Assn., 1120 Connecticut Ave., NW, Washington, D.C. 20036.

Apr. 6-9: The International Foundation of Employe Benefit Plans will hold an institute for new trustees, advanced trustees and administrators of Taft-Hartley plans, in San Juan, Puerto Rico. For more information write to the foundation at P.O. Box 69, Brookfield, Wi. 53005.

Apr. 8-9: The American Society for Industrial Security will sponsor a workshop on drug abuse and control. Authorities from industry, hospitals, pharmacies and drug manufacturers will participate in the workshop to be held in Washington, D.C. For more information write the ASIS, 2000 K Street, NW, Washington, D.C. 20006.

Apr. 9-11: The National Assn. of Manufacturers will hold its Spring conference in Washington, D.C. Of special interest are panel discussions on OSHA and employe benefits. The latter will cover pension reform, HMOs, and the future of Social Security. The cost of the conference is $125. For more information write the association's Office of Program Development, 1776 F St. NW, Washington, D.C. 20006. (202) 331-3823.

Apr. 10-11: The Society of Actuaries will hold a meeting at the Americana hotel in New York City. More information is available from James C. Harrison, North Carolina Mutual Life Insurance Co., Durham, N.C. 27701.

Apr. 15-17: The Factory Mutual System is offering a seminar for architects, builders, specification writers and contractors entitled "Designing for Firesafety & Hazard Control." The three-day course will emphasize the nature of firesafe design through the use of various construction techniques and materials. Applications and further information are available from Paul Lasky, Education Dept., Factory Mutual Engineering Corp., 1151 Boston-Providence Turnpike, Norwood, Ma. 02060.

Apr. 22-23: OSHA/USA '75, the second annual conference and exhibit on industrial safety and health sponsored by Occupational Hazards magazine, will be held at the New York Hilton in New York City. Leonard A. Woodcock, president of the United Auto Workers, will be the luncheon speaker on Wednesday, Apr. 23. For more details contact Ivan L. Weinstock, OSHA/USA Conference, 614 Superior Ave. West, Cleveland, Oh. 44113.

Apr. 25-26: The National Health Lawyers Assn. is sponsoring a Health Law Regulation Review at the Royal Sonesta hotel in New Orleans. Topics of discussion include the National Health Planning and Resources Development Act of 1974, provider appeals, HMOs, a malpractice update, PSRO structures and the pension reform act. The registration fee for NHLA members is $125; non-members—$160. For registration information, write David H. Greenburg, Esq., executive director, NHLA, 522 21st St., NW, Suite 909, Washington D.C. 20006.

Apr. 27-30: The International Foundation of Employe Benefit Plans will hold an investment institute at the Diplomat Hotel in Hollywood, Fl. For more information, contact the foundation at P.O. Box 69, Brookfield, Wi. 53005.

Ask funds for pension law enforcement

WASHINGTON—The Labor Department requested a $14.7 million budget to fund its new Office of Employe Benefit Security (OEBS), responsible for implementing the pension reform law for fiscal year 1976.

The budget request was substantially above the $8.15 million allocated to the Labor Department for pension reform expenses in the first six months of 1975.

The fiscal 1976 budget request would include funds for about 435 Labor Department employes in the pension reform area.

Assistant Labor Secretary Paul Fasser said that he expects full year expenses for Labor Department responsibilities under the pension reform could run to $30 million or more and involve as many as 2,300 employes. ■

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