

New corporation law affects officers' and directors' coverage

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business insurance

for buyers of employe, property and liability protection

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Liberian-registered tanker, Ocean Eagle, breaks up in heavy seas in San Juan harbor last week after running aground.

Put San Juan loss at \$2,000,000

SAN JUAN, Puerto Rico—The ghost of the Torrey Canyon haunted San Juan harbor last week as a petroleum tanker ran aground and split in two, spewing thousands of gallons of crude oil on the island's shore line.

The ship was the Liberian registered Ocean Eagle, a 579-foot, 12,065-ton tanker which was maneuvering just outside the entrance to the harbor in rough seas.

Barring any return on salvage,

preliminary loss estimates reached at least \$2,000,000, according to insurance sources. Unlike the Torrey Canyon which hit U.S. insurers for \$9,500,000 of the \$16,500,000 loss, most of the coverage on the Ocean Eagle was with foreign insurers.

The estimates of damages do not include property and indemnity suits that could ensue from the tourist concerns whose beaches were covered with an oil slick, and from shipping compa-

nies and shippers whose vessels and cargo were delayed.

In addition to the \$16,500,000 in damages from the Torrey Canyon, the British government is suing the tanker's owners for about \$7,000,000 in liability damages. Other suits are also pending. An insurance source indicated that similar suits could result from the Ocean Eagle mishap here especially from the tourist industry which earned some \$270,000,000 last year.

Survey insurance commissioners on N.J. investment income ruling

NEW YORK—State insurance commissioners are playing it cozy over a New Jersey insurance department decision that refused an industry request for automobile rate increases because investment income was not balanced with claims of ten years of underwriting losses.

The decision, reached by Charles R. Howell, New Jersey's insurance commissioner, was against the National Bureau of Casualty Underwriters, which requested increases of about 20% on bodily injury and property damage liability.

In essence the decision said that insurance companies should use investment income earned from unearned premium reserves, unpaid claims and loss reserves.

The Howell decision on investment income came just two weeks after the insurance industry issued an elaborate report, which contends that investment is not a subject to be considered in rate making.

The report, which was financed by the American Insurance Assn., states that any

change in the current treatment of investment income would threaten the financial structure of the entire insurance industry.

However, some critics of the insurance industry point out that by using investment income in setting rates, capacity would be increased and lower rates could be effected.

Insurance commissioners polled by *Business Insurance* generally reacted according to their state statutes and current policies on rate making.

T. Nelson Parker, insurance commissioner of Virginia, agreed in part with the Howell decision, but he contended that only investment income on unearned premiums should be considered in rate making.

ACCORDING TO the Virginia commissioner, investment income from unpaid claims and loss reserves should not be used because in effect the money is absorbed from the insurance companies' surplus funds which are usually not invested.

Virginia uses investment income from unearned premiums

in determining rates but, according to Mr. Parker, it does not reach sizeable amounts.

He said agents' commissions and the fact that policyholders do not always pay in advance are contributing factors that lessen the insurers' chances of using the money for investment purposes.

Virginia's insurance department is administered by a state corporation commission, a three-

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WC premium volume up 10%

NEW YORK—Premium volume of workmen's compensation insurance approached \$2.9 billion in 1967, an increase of almost 10%, according to the National Council on Compensation Insurance.

Rate levels increased 2.7% last year, the council stated, based on increases in statutory benefits and hospital and medical fee schedules of an average 4.1% and a decrease of 1.3% due to experience.

Group life outstrips individual sales among eight biggest carriers

NEW YORK—Group life sales of the eight biggest life insurers accounted for an average gain in 1967 of 55%—compared to an 8% increase in individual life sales among the same companies, a *Business Insurance* study shows.

The group sales increases range from a high of 135% at Metropolitan and 103% at Aetna, to a low of 9.7% posted by the Travelers.

A table comparing group, individual life sales is on page 30.

At Metropolitan, a share of credit for the gain was given to the updating of the federal employe benefits early in the year. The company is the direct writer for the government employees' account and reinsures it among approximately 107 companies.

AETNA, which would not disclose the identities of new corporate customers, said the large increase resulted from several unusually large new group life plans, one of which provides protection of more than \$1 billion and is the largest account ever written by the company.

As reported in *Business Insurance* on Feb. 12, General Electric, which amended its savings and security program in July, included a provision which allows eligible employees to apply 1% of their payroll deductions towards the purchase of life insurance from Aetna, based on earnings and age.

Since there are approximately 300,000 employees at GE, the business should account for a "sizeable hunk of the billion dollars," according to a GE source.

Aetna is also the carrier for International Harvester Co., which would reflect gains made in employee benefits by the United Auto Workers. In addition, the merger of Richfield Oil Co. with Atlantic during 1967, is estimated to account for another \$500,000,000 of new business. Aetna handled Atlantic and now handles Richfield.

CONTACTED AT Prudential headquarters in Newark, Richard G. Merrill, director of group sales and services, attributed a substantial portion of the increase to reinsuring a portion of Metropolitan's direct line on federal employees. Mr. Merrill also pointed out that "there is a definite trend toward more liberal group benefits, especially in the area of survivors' benefits, which adds a lot of life insurance per head."

Mr. Merrill also said that the company has increased its portion of life coverage on American Telephone & Telegraph Co. employees. Prudential underwrites all of the New Jersey Bell Telephone system.

At Travelers, George Chekney, vp of new business, pointed out that a corporate merger usually results in updating life insurance schedules.

This was particularly true among railroads, an industry in which Travelers underwrites all nonoperating employees. Mr. Chekney also said that a substantial amount of business had been picked up from reinsuring Metropolitan's federal employees line.

CONNECTICUT General, with identical 13% raises in both group and individual sales, said that the group increase "can't be tied down to any big cases."

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LBJ's call may spur more fringe benefits

WASHINGTON—Employee benefit managers can expect pressure from Washington and presumably from insurers to expand health insurance coverage to those not currently covered and to respond to labor's demands for establishment of prepaid comprehensive corporation health plans, according to President Johnson's health message last week.

Also, as a result of the message, a more persuasive push by labor for prepaid prescription drug plans can be expected in the not to distant future.

The message called for an all-out attack on rising health care costs in the U.S. and asserted, as did the report of the National Advisory Commission on Health and Manpower released late last year, that federal programs and dollars cannot do the job alone.

THE PRESIDENT called on society to help fight rising health care costs. His 12-point program to "mobilize America for health" includes a call to expand voluntary health insurance to those

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Dupont safety director fears adverse effects of safety bill

WASHINGTON—The administration's proposed occupational health and safety bill "may well have serious consequences upon the workmen's compensation system of the states," J. Sharp Queener, safety director of Dupont Co. told the House Select Labor subcommittee during hearings on the proposal.

Section three of the bill would create a federal obligation that requires employers to maintain a safe plant or shop, he explained. Thus, an employee injured on the job could bring a federal cause of action against his employer for breaching this obligation, he said.

Mr. Queener, who testified for the U.S. Chamber of Commerce, explained that under current workmen's compensation laws industrial employers assume the cost of occupational disabilities, without regard to fault or employee negligence. The resulting economic losses are considered

costs of production, he explained.

THESE LAWS serve to relieve employers of liability from common law suits involving negligence and insure employers of compensation for job-incurred injuries irrespective of fault, he said.

"We do not believe that it (the bill) was intended to undermine the workmen's compensation laws in this manner," he said. "It should be made clear that the bill is not intended to create a new federal civil damage action to be superimposed on the coverage state laws afford for injuries arising in the course of employment."

Mr. Queener expressed strong concern over the "extraordinarily broad" mandate granted to the Secretary of Labor, which he said presumably covers every aspect of a plant's operations from the parking lot to the cafeteria.

"We urge that any bill passed requires that rules of standards be made on the record after the public has been given an opportunity for an agency hearing conducted, pursuant to the appropriate provision of the administrative procedure act," he said.

MR. QUEENER cautioned that his specific criticisms of the proposal should not be construed as an approval of the general concept of the legislation. "An alternate course, designed to preserve our traditional state-federal relationship while upgrading local programs where needed, should be explored and is certainly to be preferred over the present suggestion to federalize our safety efforts," he said.

He then asked for a "national dialogue" to determine what should be done to improve occupational safety and health programs in the U.S.

Hike ocean cargo liability limits

BRUSSELS—Foreign delegates attending a diplomatic conference here late last month cast a majority vote approving a U.S. government proposal that will increase ocean cargo liability limits for shipowners to \$662 a package or 90¢ a pound, whichever is greater.

Also approved at the week long conference was a U.S. proposal that all cargo shipped in containers or pallets be enumerated in the bill of lading and treated as separate packages.

The issues on liability limits and containers stemmed from a 1924 agreement, known as the Hague Rules, which limited shipowners liability to \$500 a package, regardless of its size or real value. Insurance companies, which pay losses to the customers of the steamship companies, were restricted in subrogation—claims against the shipping companies—to the \$500 limit.

THE PROPOSALS, which are subject to Senate approval, were presented at the conference by the Federal Maritime Commission after weeks of hectic bargaining with U.S. ship users,

shipping companies and marine insurers.

Edward Schmeltzer, managing director of the Federal Maritime Commission, one of two U.S. delegates, told *Business Insurance* the package limits were accepted by the government with the provision that cargo shipped in containers be considered as separate packages. He said some U.S. shipping companies had opposed the container provision because of the broad liability increases that will result.

The U.S. State Department had originally proposed a pound limit of \$3.70, but pressure from shipowners, exporters and the insurance industry forced them to revise the package concept to 90.

WHEN THE U.S. delegation left for Brussels it was not certain what limits would be accepted. Mr. Schmeltzer said the original proposal approved by U.S. interests was \$662 a package and 97¢ a pound, although it was expected the pound limit would be reduced to about 90¢ in order to reach an accord with other

countries at the conference.

While it would seem that the insurance industry would have favored a limit of \$3.70 in order to subrogate against the shipowners, a source explained that insurance companies wanted conservative limit increases because they receive premiums from shipping companies as well as ship users.

He said if liability limits on shipping companies were raised too high, the resulting premium increases (in addition to the increased subrogation limit) could make certain classes of cargo unprofitable for the shipping companies.

ANOTHER VIEW expressed by a shipping company executive was that the 90¢ a pound limit will provide insurers with more than adequate subrogation limits. He said that insurers often cover both the ship owner and his customers for the same cargo, and a higher limit could be one way to spread the risk.

A spokesman for the ship users cited reasons why they opposed excessive limits for the shipowners:

- A ship user with a good loss ratio can get low insurance rates, and the increase in liability limits for shipowners could cause premium increases which would be reflected in the shippers' freight rates.
- The high limit could lead to irresponsible packaging among ship users if they feel the shipping companies will bear the brunt of cargo losses.

FRANK McGRATH, insurance manager for National Distillers, agreed that steamship owners objected to liability increases because they will have to pay more claims through subrogation, thus increasing insurance and freight costs.

Mr. McGrath pointed out that for his company's distilled liquor products the original U.S. government proposal of \$3.70 was preferred, although for other commodities a lower limit was acceptable.

THE EXCLUSION of containers from the original \$500 package limit could go a long way in deciding court cases that are now

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W. J. Schieffelin III, president Schieffelin & Co., uses 1,000,000 real dollars to emphasize the company's promotion investment to distributors. Wells Fargo guards deposit the money.

Schieffelin gains coverage on \$1,000,000 publicity stunt

NEW YORK—The computer said no to insuring \$1,000,000 in small bills but Schieffelin & Co. secured coverage through an agreement with Wells Fargo, which rode hard on the money.

Schieffelin used the \$1,000,000 to dramatize to members of the liquor trade, press and guests the promotion investment of Teacher's Highland Cream scotch whisky, distributed by Schieffelin.

All risk coverage on the \$1,000,000 publicity stunt was provided through Wells Fargo's blanket liability policy, according to a source at Wells Fargo.

Business Insurance learned that Commercial Union Insurance Group writes the policy.

When Wells Fargo learned it was to maintain control of the funds, it was able to secure necessary coverage for one day through its own liability coverage. Four Wells Fargo guards accompanied the crisp bills to the middle of a table at the Regency Hotel.

According to the Wells Fargo source, the Schieffelin caper isn't the first time such a large amount of money has been handled. "We've had larger sums going out but we were hesitant at first because we weren't sure who would control the funds," he said.

The money, by the way, was returned to the First National City safe and sound.

Insurers' fears kill Arkansas bill to control mail order sales

LITTLE ROCK, Ark.—A proposed bill regulating nonadmitted insurers that was supposed to pass easily during a special session of the Arkansas legislature has been withdrawn when it became evident that several carriers, including Lloyds of London, were aligned against it.

The bill, modeled after the so-called Wisconsin type legislation, would penalize insurance carriers not admitted to the state from doing business in that state through certain taxes or fees. The bill would have regulated insurance solicitation by mail, aimed primarily at health and life insurance companies.

Two lobbyists from New York City, one representing Lloyds, were present to testify against the bill. In addition, it is understood that the American Society of Insurance Management had worked to have the bill amended to include an industrial exemption that would allow business to obtain certain coverages wherever they could find a market.

THE ARKANSAS Power and Light Co., for example, said that the bill might prevent it from obtaining coverage for its planned multi-million-dollar nuclear power plan on the Arkansas River. It was pointed out that Lloyds does pay Arkansas state taxes, although it is not regulated by the state insurance department.

Lloyds is admitted only in Illinois.

The Wisconsin-type bill also

came under fire when the Teachers Insurance and Annuity Assn. (TIAA), which has federal tax immunity as well as tax-exemption in all the states, asked for continued exclusion in Arkansas.

The Teachers group contended that if the Arkansas bill would establish even a small tax, that other states and the federal government might follow this lead. They also were represented by a New York lobbyist.

The Teachers group was founded in 1918 by the Carnegie

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Union local says Bosch Arma won't provide insurance data

SPRINGFIELD, Mass.—Local 206 International Union of Electrical Workers, AFL-CIO, has filed unfair labor charges against the American Bosch Arma Corp. for failing to provide insurance information for the upcoming contract negotiations.

Stephen J. Jaross, union business agent, disclosed that a complaint has been filed with the National Labor Relations Board, which is conducting an investigation.

The complaint stems from the company's alleged delay in providing information concerning its insurance program for employees which is needed to prepare contract negotiations.

THE INSURANCE information requested includes hourly costs; life insurance for em-

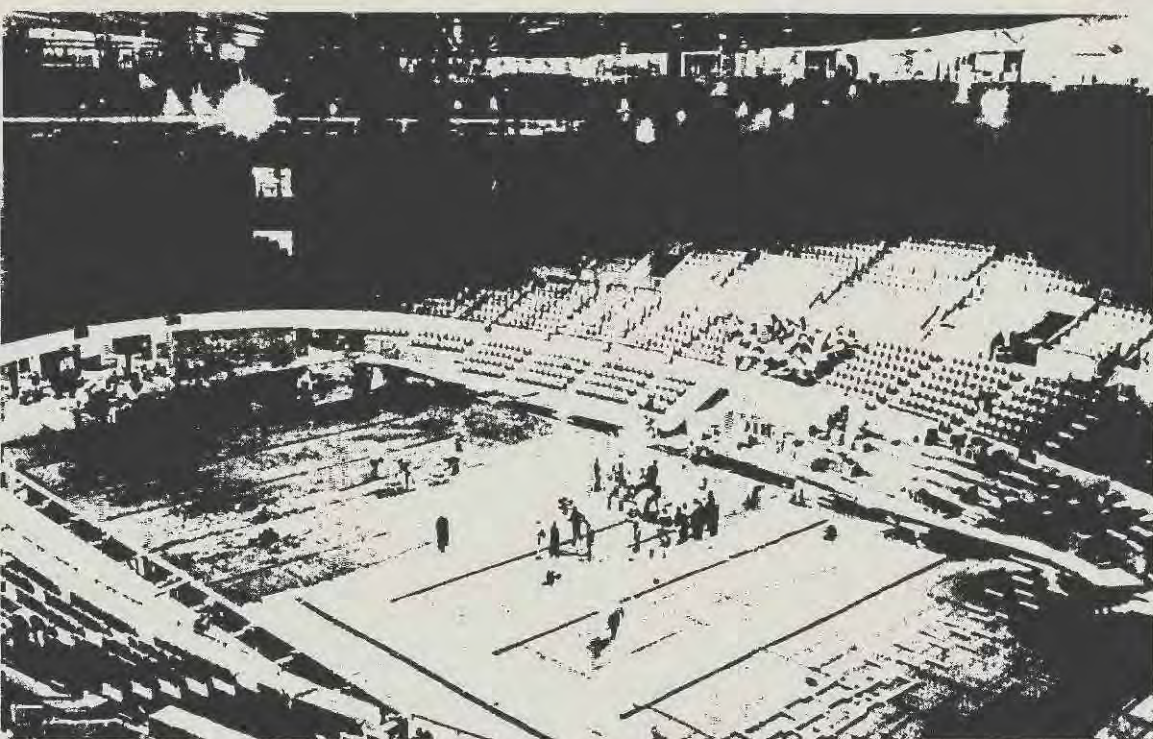
ployes and hourly costs; hospitalization coverages and hourly costs; surgical benefits; and any changes in costs to employee effective after Jan. 29.

Mr. Jaross commented that the local's negotiating team has questioned 26 shops in western Massachusetts about their insurance programs, and this information is currently being compiled.

Findings will be compared with the program offered by American Bosch and then proposals will be made to bring its program up to regional rates.

The negotiating committee contends that the present insurance plan is completely inadequate "and way behind the area as compared to other insurance programs."

The present contract deadline is set for midnight April 14.



It's a new look for Madison Square Garden situated above Pennsylvania Station. The finishing touches are being put on the 20,000-seat arena. In case of fire in such enormous area, the crowds can be evacuated in three minutes through high speed elevators and a number of escalators.

Madison Sq. Garden's insurance covers elephants to ice hockey

NEW YORK—A comprehensive insurance program, involving revised liability limits, has been arranged for the brand new Madison Square Garden, which opened for business Feb. 11.

Rising above the site of the old Pennsylvania station, the new Garden incorporates an arena seating 20,000, a 50,000 sq. ft. exhibition rotunda, a 48-lane bowling center, restaurants, cinema and the 5,000-seat Felt Forum. Below is the redeveloped and modernized Penn station.

With a greatly enlarged area, increased facilities and many more people, C. J. Reid, Jr., president of C. J. Reid and Co., broker for the Garden, arranged through Fireman's Fund American Insurance Cos. liability coverage with a single limit of \$5,000,000 in excess of \$25,000 self-insurance. Excess limits up to \$15,000,000 have been placed with the Home Insurance Co. and Fireman's Fund.

GENERALLY LICENSEES of the Garden are automatically covered except for certain spectacles such as circuses, ice shows or horse shows. Special insurance has to be arranged by the event to cover its own liability exposure.

Other events, such as lectures, orchestral performances, college basketball games and the I.F.E.

are automatically covered under the Garden's basic coverage.

Along with property damage and liability insurance, other of insurance coverages, such as key-man life insurance on highly paid and publicized athletes, are essential. Reid, Collins and Co. has arranged for key-man coverage on famous athletes including Bill Bradley and Cazzie Russell of the New York Knickerbockers.

In addition to the sports center, Madison Square Garden owns the Ranger hockey team and the Knickerbocker basketball team. The workmen's compensation for the players is written on a retrospective rating basis. In addition to workmen's compensation the team members are protected by travel accident insurance, hospitalization and a pension plan. The pension plan is handled by the player's union.

COVERAGE ON BUILDING and contents is written on an "all risk" basis. The Garden has assumed standard deductibles on fire and extended coverage, and the insurance is underwritten equally among the Glens Falls Insurance Co., the Home Insurance Co. and the Hartford Insurance Co., according to C. R. Thomas, vp of C. J. Reid and Co.

In the event of fire, the 20,000-seat arena can be emptied in less

than three minutes through emergency exits and 44 high-speed escalators.

There is also a huge elevator with a capacity of 24,000 pounds which is designed to handle the unusual freight requirements of the garden—such as elephants.

The partially sprinklered building complies with all the strict New York City building and fire codes, said Mr. Reid.

BUSINESS INTERRUPTION coverage is, of course, a "must" and this covers the Garden on an "all risk" basis with no waiting period. When an event sponsored by the Garden is being conducted outdoors, such as a boxing match at Shea Stadium, weather insurance is often obtained to cover the contingency of being "rained out."

During construction, which began in 1965, the loss experience was relatively good because of close cooperation among the insurance carrier, broker and management.

The Zurich American Insurance Co., which also insured Penn Station, covered the Garden with a wrap-up policy. By using the same carrier, Mr. Reid said, any controversy over who was responsible for a loss was eliminated.

One particular problem was protection for the crowds using Penn Station during construction and remodeling work. Close cooperation between the Zurich's safety engineer and the Turner Construction Co. helped maintain high safety standards and minimized this problem.

Glens Falls Insurance Co. was the carrier for underwriting a \$32,000,000 "all risk" builders risk policy on a first dollar coverage basis. There were no major claims reported under this policy.

Beier joins Nuveen

Elliot Beier has joined Nuveen Corp., New York stock broker, as manager of pension and profit sharing services. Mr. Beier, a columnist for *Business Insurance*, formerly held the same post with Maxwell Ohlman & Co. and before that was editor of *Pension & Welfare News*.

Non-British investors in Lloyds to be liable 'down to collar studs'

LONDON—Non-British members of Lloyds of London will be subject to the same unlimited liability as British members.

"The basis of membership will not differ from that of existing members, a spokesman told *Business Insurance*. "They will still be liable right down to their collar studs."

As soon as the announcement was made that Lloyds will now accept non-Britishers as members, breaking a 280-year-old tradition, it is believed that two Middle East oil sheikhs made application to join the world's oldest insurance group.

Through its some 300 syndicates Lloyds collects at least \$960,000,000 in premiums a year, and it is hoped that with an influx of new capital for wealthy people outside the Commonwealth this figure may be doubled in two years.

INSURANCE CIRCLES in London are speculating about the number of wealthy Americans who will apply for membership of Lloyds. Many people believe that at least 50 will come forward in the first year.

Many of Lloyds underwriters have been placed there by their companies—insurance firms and large brokers—which put up all

the necessary money and securities. The supposition that is prevalent is that many U.S. insurance concerns will do the same in order to gain a strong foothold in the London insurance market.

This will be no new venture, because some U.S. insurance companies already have opened offices in London and others have close working arrangements with London-based companies.

THE NAMES of the first new outside members will not be known, under the present rules, until December. Lloyds elects new members only once a year and the admission process is long and complicated. All the new foreign members will be "outside" underwriters, which means that they will be members of syndicates providing the capital, but not actually functioning on the spot. The actual work will be done for them by underwriting agents.

One broker, who knows his way around the international insurance market told *Business Insurance* he didn't think any American would put money in Lloyds "on a straight investment basis." He said the big reason would be for prestige.

French insurance law changed

NEW YORK—Insurance changes in France and Guam have been noted by the American Foreign Insurance Assn. here.

The French government has levied an additional 3% tax on compulsory automobile third party liability insurance premiums, applicable for 1968 and 1969. The tax is payable by the insured to the insurance company, which passes it on to the government.

"It is understood that certain insureds who are not subject to social security legislation, either as an employer or as an employee, are exempt from this tax and reimbursement will be made upon satisfactory proof of such exemption," AFIA said.

THE PRESENT taxes now applicable in France for auto insurance policies are 8.75% basic premium tax on all premiums, 1.5% on compulsory third party liability premiums (for an unsatisfied judgment fund) and the new 3% tax on compulsory third

party liability for the social security administration.

In Guam a bill passed by the legislature provides for increases in workmen's compensation benefits, effective July 1. Compensation shall not exceed \$56 per week (up from the present \$35) and compensation for total disability shall not be less than \$28 per week, provided that if the employee's average weekly wages are less than \$28 per week, he shall receive as compensation for total disability his average weekly wages.

IN COMPUTING death benefits the average weekly wages of the deceased shall be considered to have been not more than \$84 nor less than \$36, but the total weekly compensation shall not exceed the weekly wages of the deceased.

"Reasonable" funeral expenses are being increased from \$400 to \$600. Total compensation for injuries not resulting in death will be boosted from \$10,000 to \$20,000.

Horne named commissioner

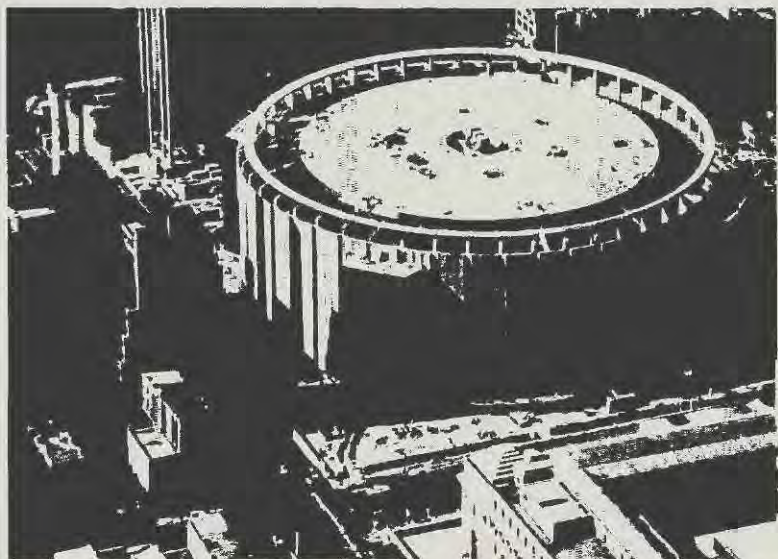
LITTLE ROCK, Ark.—Allan W. Horne, 35, has been named state insurance commissioner by

Gov. Winthrop Rockefeller.

Mr. Horne, 35, who has been with the state insurance department since April 1957 as chief attorney and assistant commissioner, succeeds John Norman Harkey, a Batesville lawyer who Gov. Rockefeller selected a year ago to clean up the insurance industry in Arkansas.

A native of Nashville, Mr. Horne attended Hot Springs schools and served four years in the Navy. He later attended Henderson State College at Arkadelphia, Ark., and the University of Arkansas Law School.

He practiced with a Little Rock law firm until he joined the insurance department. The job pays \$15,000 a year.



In the heart of Manhattan, a new Madison Square Garden, costing \$130,000,000 includes an arena, bowling alley, restaurant, theater and 5,000-seat forum.



Allan W. Horne

Ohio Blue eyes 'efficiency' bonus; some hospital units fight discounts

CLEVELAND—Blue Cross of Northeast Ohio has announced plans to give area hospitals a cash bonus for keeping their costs below average, amid a continuing controversy over the "discount" rates which Blue Cross is paying hospitals.

The proposal, to be adopted, must be accepted by 13 of the 57 hospitals in the 11-county area served by the Blue Cross unit. It follows a recommendation by a Presidential Advisory Commission on Health Care that health insurance agencies give hospitals an incentive to keep costs down.

Other incentives insurers are experimenting with include prepayment of bills and reimburse-

ment to hospitals on other than a "reasonable cost" basis.

To determine the annual bonus each hospital could receive, current costs will be used as a base. If a hospital should have a lower-than-average increase, it will receive a payment of 20% of the difference between its increase and the average increase of all 57 hospitals.

FOR EXAMPLE, it was explained, if hospital costs in the area went up in average of 12% in 1968, and one of the hospitals eligible for the bonus reported costs were up only 4%, it would receive a bonus of one-fifth of 8%.

The bonus money could be used only for capital improvement, medical education or research—items for which Blue Cross does not now reimburse hospitals.

The reluctance of Blue Cross to pay for these and other areas of cost was the main reason that six Akron, O., hospitals withdrew as members of Blue Cross of Northeast Ohio last fall. The hospitals argued—and they were backed by a ruling of the Ohio supreme court—that they shouldn't have to provide services to Blue Cross at so-called "discount" rates.

The supreme court ruled that the hospitals didn't have to

accept Blue Cross payments as full reimbursement for bills of members. The Akron hospitals said that Blue Cross paid between 91 and 97% of actual charges.

Last week Blue Cross of Southern California came under fire from 12 Long Beach, Cal., hospitals for a similar reason. In paying the hospitals either the amount of the bill sent by the hospital to Blue Cross subscribers or the hospital's cost plus 6%, whichever is lower, Blue Cross isn't including all of the Long Beach hospitals' cost, they complained.

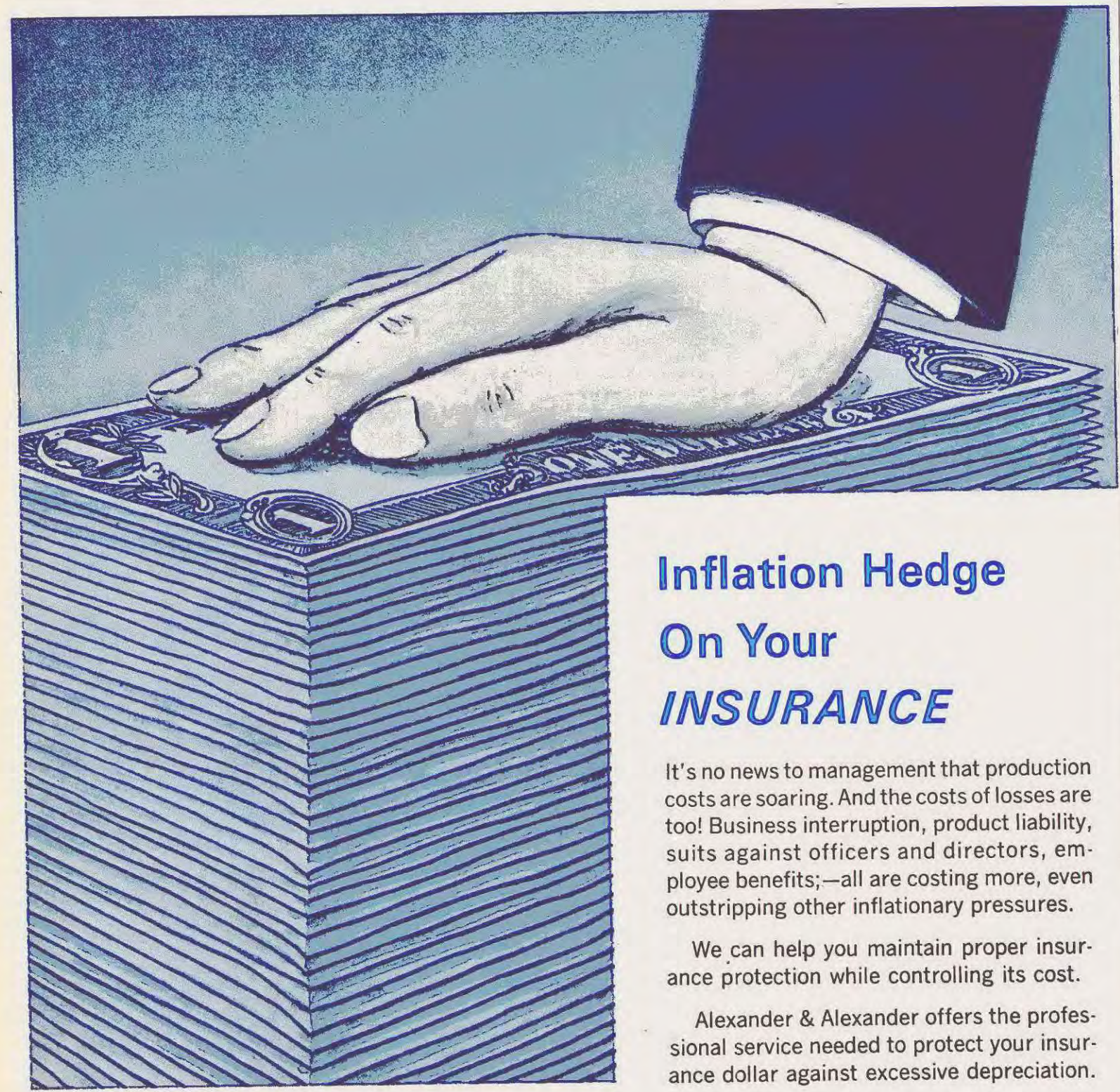
The hospitals gave the Blue Cross unit six months' termination notice. They said they wanted to include as part of their costs such things as their efforts to collect bad debts, rent allowances, charity patients, depreciation and the cost of operating coffee shops and fund raising pro-

grams, which they said other health plans pay for as part of the total bill.

A SPOKESMAN for Blue Cross of Southern California told *Business Insurance* that the hospitals are trying to get Blue Cross to stop auditing their books to determine costs. He said Blue Cross "owes it to its subscribers" to monitor health care costs.

Travelers Insurance Co., Hartford, in January sued Blue Cross of Western Pennsylvania over what Travelers said was restraint of competition and monopolistic practices. The suit alleges that the Blue Cross unit received discounts from hospitals so that subscribers don't pay the full price for their hospitalization.

The suit, filed Jan. 23, will not go to trial until at least mid-April, Travelers said.



Inflation Hedge On Your INSURANCE

It's no news to management that production costs are soaring. And the costs of losses are too! Business interruption, product liability, suits against officers and directors, employee benefits;—all are costing more, even outstripping other inflationary pressures.

We can help you maintain proper insurance protection while controlling its cost.

Alexander & Alexander offers the professional service needed to protect your insurance dollar against excessive depreciation.

Hartford sets group variable annuity plan

HARTFORD—The Hartford Insurance Group's new group variable annuity plan may allow employees to elect as much as 50% of their retirement income benefits on a variable basis, according to a company official.

If an employee elects that 50% of his retirement income go into the variable form, the other 50% will be in a fixed annuity, he said.

The variable annuity, prepared by the Hartford Life Insurance Co., a member of the group, will be offered in conjunction with its two forms of group pension plans, the deposit administration and the immediate participation guaranteed contracts. The difference between the two contracts is that with the deposit administration, at retirement an amount is withdrawn to purchase an annuity.

ALTHOUGH THE variable annuity will be offered on contributory as well as non-contributory plans, only the employer's contributions will be used in offering the variable benefits; the variable annuity must not involve any of the employee's contributions, according to Security Exchange Commission's rulings.

The premium for Hartford's variable benefit will be placed in a separate account which is invested primarily in common stock. The variable benefit will reflect the actual investment experience of this account, including income and capital gains or losses.

Internal Revenue Service qualified pension and profit sharing plans covering 25 or more employees are eligible for the variable annuity plan.

Hartford Life has sought approval to sell its product in a number of states and has already qualified in several others.

According to the Hartford executive, most states are in the process of revising their codes to accommodate variable annuities and the National Assn. of Insurance Commissioners is working on model legislation in this area.

"This is a dynamic, changing area. The product has been developed by a number of companies but the states have not paralleled their regulations to accommodate it," he said "However, most states are moving quite rapidly in this direction."



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Whatever happened to group health insurance?

It's alive and well at Wausau.

In the past 20 years or so, group health costs have been running away. You know about that. We know how to slow them down.

Reason being the way we know employee coverages. Fifty-six years of workmen's compensation experience starts it.

We've learned how to work with doctors and hospitals. They understand us. We know them.

We have a national staff of occupational nurses skilled in employee health needs. Can your insurance company say that?

Our claims handling speaks for itself. Forty-eight hours is standard coast-to-coast.

That's not all the machinery. We add the computer. It's the sort of sophisticated technology you once expected only from a life insurance company.

But we're the people who know business insurance like nobody else in the business. And a healthier combination you won't find.



**Employers
Insurance
of WAUSAU**

Get the Wausau Story about all forms of business insurance.
At the lowest price.

Replogle Globes, Inc., Chicago, makes more globes than anyone else in the world. Luther I. Replogle, president, wants group health and accident insurance that's good for both employee and company. We've given him that for 15 years.



Prof attacks commission method for brokers; motives questioned

CHICAGO—A university professor told the American Society of Insurance Management's annual conference here that the commission system of paying brokers creates uncertainty as to the primary interest of brokers in providing service to clients.

"Too often questions are raised as to the motivation of brokers when it appears that their immediate economic welfare is involved in recommendations," Prof. W. Wayne Snider, chairman of the department of insurance and risk at Temple university, told the conference in a session on fee or commission, present and future.

"Only by removing his own economic interests from the

scene can he (the broker) hope to achieve the full confidence of all those with whom he has dealings," Dr. Snider said.

In establishing specific guidelines for professionalism among brokers, Dr. Snider said, a problem arose because an insurance agent or broker is serving several different groups whose interests are often antagonistic to one another.

HE POINTED out that accepted common characteristics of a profession include a distinctive body of knowledge, proficiency standards, a desire to serve and a code of ethics.

Richard A. Archer, president of Allen T. Archer Co., Los An-

geles, defended the commission system as "the most satisfactory and sensible basis of remuneration for a broker."

"Due to the competitive nature of our business, how long is a broker either incompetent or failing in service going to maintain an important account employing an astute buyer?"

"Many people do not recognize that the brokerage business requires substantial capital investment and working capital funds," Mr. Archer said. His company invests between \$12,500 and \$15,000 per employee.

He pointed out it is becoming more common that "on large placements involving a known amount of brokerage expertise, a

broker unilaterally or sometimes with the knowledge of his client adjusts his commission rate downward to pay him a proper and adequate income for the effort expended."

MR. ARCHER said the average commission on property liability and aviation business in his shop is slightly less than 10%. He compared that with a report that the Johnson & Higgins average commission is between seven and eight per cent.

Mr. Archer said the commission system enables the client to obtain a fixed known cost for his insurance, not subject to a variable depending on the amount of service required.

He also pointed out that many services and facilities are available from the broker without concern for additional costs. In addition, "without the sales incentive provided by the commission system and the ability to

spread development costs over an entire book of business, it is unlikely if many improved or new products would ever be developed," Mr. Archer offered.

"IT IS A possibility that a broker being paid on an hourly basis might not have the incentive to maintain the same efficiency in his operations since the more time he spends on a client's activities, the more money he would make."

Mr. Archer also pointed out certain state laws prohibit use of fee as an offset to a commission, and that business general agents, underwriting managers, surplus line brokers, Lloyds brokers and reinsurance brokers are paid on a commission basis.

Edward P. Lalley, insurance manager of National Dairy Products Corp., said the broker acts for the insurance company and is paid by the carrier, and "no matter what clerical arrangement is made in writing the checks, this system isn't logical."

"It is only a question of time before the retainer fee system will become the established method for corporate insurance programs, but it won't come easily nor quickly."

MR. LALLEY SAID it is asking too much of a broker to expect him to cut his payment by recommending higher deductibles and other noninsurance items.

"We encourage our own brokers to think and bid fee, where state laws permit," Mr. Lalley said.

A. H. Criddle, president of O. W. Criddle Associates Inc., Philadelphia, said he felt that "the commission system was responsible for the large number of sales of officers' and directors' liability, which is very hard to sell."

But he said that the fee system will become more prevalent. He said his brokerage firm works either on a commission or fee basis.

Reaction to cold ruled compensable

RENO, Nev.—A former Nevada test site employee, who developed a rare sensitivity to cold, has won his disability suit against the Nevada Industrial Commission.

Jesse Pepper, Eldorado, Ark., was afflicted with Reynaud's phenomenon, which left him with an ultra-sensitivity to cold, vibration and friction.

Mr. Pepper complained that while he worked for a chemical company in the Pahute Mountains during 1964, he was forced to endure temperatures ranging from 0 to 10 degrees for long periods of time. He said he did not realize he had the affliction at the time and as a result, his body reached a "cold saturation point."

Mr. Pepper said gangrene set into his fingertips.

Washoe County District Judge Grant Bowen pushed aside NIC arguments that the injuries were not of an industrial nature and were not caused by his work at the test site.

Judge Bowen ordered the NIC to pay Mr. Pepper compensation retroactive to March, 1965 and to continue the payments for not more than 100 months.

Whether the affliction is permanent will be decided later.



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(AP) NEW YORK, N.Y.---EXPLOSION SITE---The remaining walls and rubble of the executive office building of a major appliance manufacturing firm ripped apart during an explosion are shown above. Fortunately the accident occurred on a Sunday when employees were at home. (AP) (abk857/4251kp) 1968.

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Buyers view Medicaid cutback in N.Y.

See related story on page 29

ALBANY, N.Y.—Gov. Nelson Rockefeller's proposal this month for a \$1.1 billion program to construct and rehabilitate municipal and nonpublic hospitals, is viewed by employee benefits managers in this state with marked reservations.

"This really ties in with the governor's recent announcement that he's cutting back \$200,000,000 on Medicaid," one manager explained. "He's robbing Peter to pay Paul," he continued. "Medicaid has to be cut back because this state is so overcommitted, but he hopes to get everyone in through the back door through more and more state intervention in the form of compulsory health insurance."

Mr. Rockefeller has proposed cutting back eligibility requirements for Medicaid, and it is estimated that close to 1,000,000 persons will be removed from the program.

UNDER THE provisions of Medicaid, the state, local and federal governments must pay the medical bills for persons qualifying as indigent. The whole subject can raise blood pressures, especially in New York City, where earlier this month over 2,700 druggists refused to continue filling Medicaid prescriptions because payments were long overdue. The boycott, however, was short lived.

Most of the billion-dollar program sponsored by Mr. Rockefeller would go toward reconstructing and modernizing existing municipal hospitals. The governor has proposed that \$500,000,000 be set aside for this purpose. Another \$400,000,000 would be used for expanding nonprofit nursing homes for patients with less demanding medical needs.

Nonprofit groups in urban core areas desiring to establish health facilities will also have \$2,000,000 available for their use. Loans will also be granted to limited profit nursing homes which presently do not qualify for state funds.

MR. ROCKEFELLER has said that most of the people who will be disqualified under his Medicaid cutbacks will receive adequate medical care if his compulsory health insurance proposals and current requests are approved by the legislature.

"The compulsory medical health program will affect all employers in the state who have one or more employees" explained an employee benefits manager. "Details have not yet been settled, but one way proposed to fund the plan is by 50% contributions from employers."

"The obvious implication," said another benefits manager for a corporation headquartered in New York, "is that Medicaid has become so encompassing that the state can't afford it—therefore shift the burden to employers."

THE GOVERNOR also said that the \$700,000,000 needed for improving the hospitals and other health facilities would be realized through the sale of bonds by the State Housing Financing Agency (SHFA), and would not incur any increase in the state or municipal debt. The proposed bonds would be "self liquidating."

info for buyers

To make it easy for *Business Insurance* readers to get additional information offered in editorial items below and advertising in this issue, Reader's Service cards are bound in at page 9. These cards should be used only for items that are offered without charge. Items shown below with a price have the complete address of the supplier and your requests for such items should be sent direct to the supplier with payment, indicating that you saw the notice in *Business Insurance*.

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

• **"What Every Businessman Should Know about Pension and Profit-Sharing Plans"** details the factors which induce a retirement plan, the factors which aid in choosing the type of plan best suited to the company and the funding of a retirement plan. This 40-page booklet, offered by the Provident Mutual Life Insurance Co. of Philadelphia, may be obtained by writing No. 159 on the Reader Service Card.

• **"The Harvest Years Corporate Retirement Program"** sample kit includes a copy of "Harvest Years," a monthly publication geared to provide employees with up-to-date detailed information on retirement housing, financial planning, use of leisure, facts on Social Security and Medicare, an index of articles that appeared in 1967; a copy of the bi-monthly newsletter; and a partial list of corporations using the Harvest Years program. The kit, prepared by the Harvest Years Publishing Co., is offered free. Write No. 160 on the Reader Service Card.

• **"The High Cost of Burning"** points up premium savings resulting from the installation of an automatic sprinkler system and lists the cost of installing sprinkler systems in different classifications of buildings. For a free copy of this brochure, published by "Automatic" Sprinkler Corp. of America, write in No. 144 on the Reader Service Card.

• **"Prudential Group Insurance Highlights,"** a 24-page booklet, describes how the employer and employee benefit from the Prudential group plan. The booklet lists eight vital emergencies and the protection afforded by this group insurance. Published by the Prudential Insurance Co. of America, a free copy is available by writing No. 147 on the Reader Service Card.

• **"Record Retention Timetable"** is a chart which lists over 125 different types of office records, together with a list of government authorities and the specified time the law demands that records be kept. Along with the chart, released by Electric Wastebasket Corp., is a two-page article describing the steps in a paper disposal program. Write No. 148 on the Reader Service Card.

• A limited supply of two recently published reports on inju-

ry statistics are available on work injuries and accident causes in the concrete brick and block industry (Reader Service Card No. 149) and work injuries and work injury rates in heavy construction (Reader Service Card No. 150). Copies of these reports, published by the Bureau of Labor Statistics, may be obtained free by writing the appropriate number or numbers on the Reader Service Card.

• **"Employee Benefit Awareness"** is designed to help employees better understand the nature, effectiveness and value of their group life and health insurance benefits. Published by Northwestern Life Insurance Co., a copy of the booklet may be obtained by writing No. 137 on the Reader Service Card.

• **"The Problems of Total Remuneration,"** the result of two years of intensive research in Europe, is designed to assist international management in solving some of its informational needs on overseas pay and benefits and aid in coordinating North American and European business methods. This 16-page booklet, prepared by Towers, Perrin, Foster & Crosby, may be obtained free by writing No. 141 on the Reader Service Card.

• **"Electronic Computer Systems"** gives an indication of the major areas of consideration and a basis for an intelligent evaluation of fire protection requirements for electronic computer systems. This 30-page booklet is sold for 60¢ by National Fire Protection Assn., 60 Battery-march St. Boston 02110.

• **"The Liberty Mutual Fleet Evaluation Seminar"** outlines the data most vital to the reduction of fleet accidents. Released by Liberty Mutual Insurance Co., this 12-page booklet is available by writing No. 139 on the Reader Service Card.

• **"Digest of Boiler and Machinery Insurance"** sets forth the general scope of coverage afforded by the boiler and machinery policy. Published by Royal Globe Insurance, a free copy may be obtained by writing No. 140 on the Reader Service Card.

• **"Detex Property Protection Manual"** is a pocket-sized guide for both employers of protection personnel and the guards themselves. It includes information on dangers to watch for, how to set up a guard's tour and first aid, among other things. Prepared by the Detex Corp., single copies are available free by writing No. 136.

• **"International Insurance and Employee Benefit and Pension Management"** offers seven separate articles highlighting various phases of international insurance. Published by American Management Assn., copies are \$4.50 to nonmembers and \$3 to members. Write: American Management Assn., 135 W. 50th St., New York 10020.

• An area of growing corporate concern, the liability of its officers and directors for errors and omissions, is reviewed in **"Directors and Officers Liability Insurance."** The booklet, released by EBS Management Consultants Inc., is available free by writing No. 142 on the Reader Service Card.

• **"Coloramics"** discusses the use of color to promote better employee relations, to improve efficiency of operations and reduce accidents, to maintain quality of product and to ease strain on the eye in industrial situations. Published by Marsh & McLennan Inc., a free copy may be obtained by writing No. 151 on the Reader Service Card.

• **"How to Skid Costs Downhill"** lists specific precautions to be taken to reduce the possibility of accidents in logging operations. A free copy of this booklet, published by Employers Insurance of Wausau, is available by writing No. 152 on the Reader Service Card.

• Designed for mailings, handouts and distribution to employees is a folder covering a ten-point program of safety practices which will keep workshops safe from fire. Released by National Fire Protection Assn., a sample copy is available without charge by writing No. 153 on the Reader Service Card.

• **"Workmen's Compensation"** is a ten-page brochure that discusses the basic objectives of workmen's compensation and the services offered by Employers Insurance of Wausau. Write No. 154 on the Reader Service Card for a free copy.

• **"Current Pension Developments of Interest to Financial Officers"** highlights accounting opinions on investment results and assumptions, general benefit levels, rate of past service amortization, the place of employee contributions in a plan's financing and Social Security changes. Released by Johnson & Higgins, a free copy is available by writing No. 155 on the Reader Service Card.

• **"Employee Welfare Funds Registered with the Insurance Banking Departments of the state of New York under the Employee Welfare Fund Act of 1956, as of June 1, 1967"** includes names and addresses of 1,268 welfare and pension funds registered with the insurance department and 186 funds with the banking department. Copies are available at 50¢ each. Write: Insurance Department, 123 William St., New York, N.Y. 10038 or 324 State St., Albany, N.Y. 12210. Check should accompany order.

• **"Fact or Fiction"** discusses some basic concepts of employee pension plans and analyzes the various factors which influence pension costs. This 20-page booklet, published by John Hancock Mutual Life Insurance Co., is available free by writing No. 156 on the Reader Service Card.

• **"Clean Up—Stop Fire"** reads the new Sparky poster which heads the list of 36 spring clean up and related items designed for both plant and home distribution by National Fire Protection Assn. Samples of spring clean up materials and the 1968 price list-order blank may be obtained free by writing No. 157 on the Reader Service Card.

• **"Driver Engineering Service"** gives a detailed explanation of the driver training program offered by Allstate Insurance Co. for company personnel. The two-day course includes six hours behind the wheel of a simulator trainer, ten hours of classroom instruction and testing and two hours on the road. For a free copy, write No. 143 on the Reader Service Card.

Diversified Martin Marietta firm keeps insurance boss hopping

NEW YORK—Reflecting on his new responsibilities as director of insurance for Martin Marietta Corp., James H. Hughes feels that one of his chief problems is "keeping tabs on what's happening in such a highly diversified and widely spread organization."

For example, he pointed out, in one day he talked about printing inks, textile dyes, rock products and highly technical aerospace programs. "It makes the work fascinating," Mr. Hughes said in an interview with *Business Insurance*.

It used to be that after about one year an insurance manager would have his particular business sewed up, Mr. Hughes explained. "However, that's unlikely to happen here."

To give some idea of the insurance problems involved, Mr. Hughes explained that Martin Marietta is organized into two major groups, each with its own operating divisions.

AEROSPACE GROUP designs, develops and produces missiles, space launch vehicles, nuclear power plants and defense systems.

Commercial group produces cement, lime, refractory materials, printing inks, concrete, industrial sand, dyes, crushed stone, and sand and gravel used for construction purposes.

Both operations are domestic and international, and the company maintains facilities in 37 states and 14 foreign countries. Mr. Hughes "expects to be traveling frequently!"

In the aerospace division, "it's absolutely imperative" to have the missiles and space projects protected at all times. "You dare not leave them uncovered," Mr. Hughes said, "but if you lose one you'd be wiped out in the underwriting market because of the values concerned."

THE GOVERNMENT HAS experts who constantly audit Martin Marietta for costs "which include insurance. They want rock-bottom prices and first-class work," he said.

"We have to put out enormous capital assets" for government contracts, Mr. Hughes pointed out, explaining that most government business is conducted on a "fixed price contract" basis.

Under a fixed price contract, the insurance executive explained, no sales are recorded until the product is delivered.

Fleet safety program set

NEW YORK—The American Insurance Assn.'s engineering and safety department is sponsoring a one-week training program for member companies involved in motor fleet safety activities.

The session is scheduled for the week of April 1 at the Holiday Inn, 5733 Airline Highway, New Orleans.

Training received by company representatives will better enable them to conduct safety educational programs for their insureds who maintain fleets of trucks, busses, cars and other vehicles, according to E. W. Fowler, department manager.

This means that inventory builds up while work is in progress, and adversely affects profits while a contract is getting under way.

"Therefore, we have to be aware that nothing is overlooked in our protection of corporate assets," Mr. Hughes pointed out.

Working in this field can sometimes be a "gray area," he said, because there are times when the government holds the company free of responsibility, and others "when we have to find a lot of coverage at very short notice."

Although insurance is of the utmost importance, Mr. Hughes continued, "we think safety is

equally vital. This probably emanates from our aerospace program in which we have to pay strict attention to employee safety."

AT CORPORATE headquarters in New York, two safety engineers are maintained on the staff under the direction of Milton Durham. Mr. Durham also supervises about 40 district safety managers.

To stress the importance given to safety training at Martin Marietta, Mr. Hughes said that a convention of company safety managers will be held in New York early in April.

At that time, safety tech-

niques will be thrashed out, and managers will be taken on field trips for demonstrations of practical applications of theory.

MR. HUGHES THINKS that the current capacity problems will increase—not decrease—in 1968. "The days of proliferating a conglomeration of buildings in one location is a thing of the past," he remarked.

"We don't have a capacity problem at the moment," he said, "but of course this situation could always develop. Fortunately, we could triple the size of some of our cement locations without it causing any problems."

"At rock quarries you don't really have any great fire exposure," Mr. Hughes said. "A quarry can't burn, but you do have tremendous safety problems with your employees. Here again, our record has been good."

Capacity problems will mainly affect those companies who haven't rejuvenated their equipment, Mr. Hughes observed. "Not only does ancient equipment prevent your making money, but you have accelerated safety problems."

If a business doesn't take the trouble to modernize, "they'll have to pay heavily for their protection or be uncovered." It's an important part of arranging an insurance program, he said.

Mr. Hughes also feels that the devaluation of the pound "is bound to have some effect." Underwriters will need dollar business and will "aggressively" seek it out.

The recently appointed executive reports to William M. Lucas, secretary and treasurer of Martin Marietta. Prior to joining the company last fall, Mr. Hughes was director of insurance and employee benefits for Canada Dry Corp.



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'We're forced to buy cover for expected losses'

(See related story on page 11.)

NEW YORK—The corporate buyer of insurance is "caught in the system" whereby he is forced to buy coverage for expected losses in order to secure adequate insurance for major risks, according to Francis X. McCahill, insurance manager of Bristol-Myers Co.

One solution, Mr. McCahill told *Business Insurance*, is for the buyer to absorb the expected losses himself in the form of higher deductibles. The trouble is, he explained, when the deductibles reach a certain point underwriters are reluctant to reduce premiums by a commensurate amount.

"We're not out to beat the insurance companies," stressed Mr. McCahill, who is currently serving as the president of the Risk Management Institute, the New York chapter of the American Society of Insurance Management. "We're out to get catastrophic coverage.

"**IF IN ORDER** to get catastrophic coverages (which, after all, should be the main concern of any corporation), we must maintain primary coverages, we will do so. However, we're looking forward to the day when underwriters will make available to insureds a practical insurance program giving credit for the higher deductible," Mr. McCahill explained.

He said Bristol-Myers is willing to absorb up to a \$25,000 loss on boilers and a \$100,000 loss for difference in conditions (DIC) coverage. The average deductible, Mr. McCahill said, was between \$5,000 and \$25,000.

Mr. McCahill disclosed that Bristol-Myers spends what he considered a "phenomenal amount" (estimated by outside sources to be close to seven figures) for property and liability coverage, through Firemen's Mutual (fire and boiler); Utica Mutual (workmen's compensation); and Travelers Insurance Co. (crime and liability). Brok-



Francis X. McCahill

ers are Brown, Crosby & Co. for workmen's comp; Marsh & McLennan for crime and liability; and Johnson & Higgins for officers' and directors' liability, pro-

mulgated through a Stewart, Smith & Co. form.

Appalachian Insurance Co., a wholly owned stock company of Fireman's Fund, provides overriding world-wide coverage in any countries where local policies are inadequate—as long as the world-wide insurance does not contravene any local laws.

BRISTOL-MYERS finally decided on the directors' liability coverage after a study of two or three years, Mr. McCahill said. His initial reaction, he recalled, was that he didn't like the "ambiguity" of the coverage, but since then he has come to the conclusion that it's a needed protection against unfounded law suits.

Mr. McCahill is studying closely these days a captive insurance

company arrangement. "What profit is it to me to insure our losses when I know that our company is paying one-and-a-half to two times what we'd pay in a self-insurance program?" he asked.

The captive setup could make good sense, Mr. McCahill believes, in a company such as Bristol-Myers which is reaching toward \$700,000,000 in sales. With the addition of Mead Johnson & Co., with which the company has just merged, the sales figure is well over that mark. Mead Johnson markets Metrecal, pabulum cereal and a long list of ethical drug products.

OTHER COMPANIES which Bristol-Myers has absorbed along the way include the Drackett Co., Grove Laboratories and

Clairol hair coloring. The parent company itself sells such well known consumer products as Vitalis hair tonic, Ban deodorant, Bufferin and Excedrin headache remedies and Ipana toothpaste.

Under an ideal insurance arrangement, Mr. McCahill said, a corporation would: (1) assume the risk of normally expected or noncatastrophic losses; (2) have expert, outside engineering services for the "maintenance of the best safety and loss prevention program available;" and (3) buy true catastrophic insurance at a "reasonable premium."

"That would be perfection, I think," Mr. McCahill stated. "And the signs are good that we're headed that way. There are some insurers even now who will entertain such a program."

Lloyds reports tonnage mark at 10-year high

LONDON—The final figure of tonnage of ships for which plans were approved by Lloyd's Register of Shipping in 1967 will be the highest for ten years. The figure is likely to be more than 5,500,000 tons—exceeded only by the exceptional years of 1956 and 1957.

This year will see the publication of a further addition of the society's requirements for the construction and certification of containers, in view of the progress which has been made in this field since the provisional requirements were published early in 1967.

Already certification from Lloyd's Register has been requested for several thousand containers ordered in the U.K.

During the year, the society installed a new IBM 360-30 computer. This is being used extensively by the scientific department of the society and means that calculations which previously were impossible can be carried out—such as three-dimensional analysis of ships' structures.



What Bristol-Myers asks potential merger partners about insurance

(See related story on page 10.)

NEW YORK — Bristol-Myers Co., involved in quite a few mergers within the past several years, has evolved a standard set of questions its insurance department asks of the prospective merger partner. Following is a list of the questions drawn up by Francis X. McCahill, Bristol-Myers' insurance manager.

Prior to the execution of the purchase contract, Bristol-Myers requests information on the prospect's:

1. Current insurance policies showing underwriter, type coverage, term of policy, insured value or limit of insurer's liability, annual premium.

2. Premiums and losses, by year, under all their insurance coverages for the past ten years.

3. Any exposures, ordinarily covered by commercial insurance, which the firm is self-insuring or for which they are assuming the risk.

4. All outstanding insurance claims, including: (a) the company's claims against insurance companies for damages to or loss of its property or income; (b) claims for damages alleged to have arisen out of their legal liability for personal injury or property damage. (This latter list should describe the nature of the claim, whether it is covered by insurance, and the amount of

reserve set up by the firm or by its insurer.)

5. All product claims and dispositions over the past ten years. (This list should show by product the type of injury alleged, whether or not the claim is open or closed, and the amount paid or reserved by the company or its insurer.)

6. The legal liability insurance policies carried by the corporation over the past ten years. (This list should show, by year, the underwriter, policy period, limit of insurer's liability for: (a) bodily injury—any one person; (b) bodily injury—any one occurrence; (c) property damage; (d) products bodily injury

—any one person; (e) products bodily injury—any one occurrence; (f) products bodily injury—aggregate; (g) products property damage; (h) any other aggregate limitations.)

7. All real property locations, owned or leased by the firm, together with value of such property, if the company owns it or is responsible therefore, and its contents.

8. Any "wrongful acts" (error, misstatement, misleading statement, wrongful act, omission, neglect or breach of duty) claimed against officers or directors of the firm in their individual or collective capacities as officers or directors.

9. Any aircraft or watercraft owned or leased by the corporation.

In addition, Bristol-Myers reviews current insurance policies covering the merger prospect and current agreements for lease of property, for construc-

tion, for lease of vehicles, for lease of EDP and office equipment. Any other agreements under which the firm indemnifies others or is required to carry insurance for the benefit of others are also screened.

MR. McCahill also suggests certain provisions be included in the purchase contract. They are:

1. A requirement that during the contract period the firm will be responsible for: (a) any damage to or loss of the property to be conveyed, and (b) any claim, expense, loss, judgment, etc., arising out of its real or alleged legal liability for personal injury or property damage.

2. A requirement that all insurance policies in force as of contract date (a list of which is included as an exhibit in the contract for purchase) will be kept in force during the contract period.

3. A requirement that any insurance policies having expiration dates within the contract period will not be renewed without our prior approval—the firm to give us specific notice of any such expiration at least ten days prior thereto.

Mr. McCahill also requests an opportunity of visiting each of the merger prospect's major plant locations as soon as possible to evaluate exposure to losses through injuries to personnel or damages to property.

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British brokers adopt member conduct code

LONDON—A new code of conduct, devised by the Federation of Insurance Brokers, will be implemented by a disciplinary board with wide powers to enforce it.

The code will expect members to exercise "the utmost good faith" between clients, insurers and other insurance brokers. They must be extremely careful to avoid misleading advertising, keep proper records and accounts and safeguard the confidence of present and former clients, "except upon orders of a court of competent jurisdiction."

It is obligatory for a member to inform the federation if he knows that another member has been guilty of unethical, illegal or unfair practices. He must also not be connected in any way with another occupational business, which, in the opinion of the federation council, is inconsistent or incompatible with federation membership.

Any member who fails to comply with the code will be asked to explain his conduct to the disciplinary board. The board will have powers to impose fines, suspend membership, expel members found guilty of "infamous behavior," impose conditions of restitution and advise legal action against a member.

Federation Chairman Gordon J. Hayman said that the measures were intended to show that the federation was "determined to continue protecting the welfare of the public."

Name Williams to safety post

George M. Williams has been appointed safety and health services manager of Employers Insurance of Wausau's Wausau branch. He formerly served the company as a safety consultant in Green Bay.

opinions

Certified risk managers?

A *Business Insurance* reader asks in the Letters column whether there is such a thing as a certified risk manager. We replied that there is no such official designation and that the only present criterion is membership in the American Society of Insurance Management, which connotes that the member spends most of his time administering an insurance program and is willing to participate in ASIM activities. Certification of risk managers demands much more.

The insurance industry, for example, already has Certified Property and Casualty Underwriters (CPCU's) and Certified Life Underwriters (CLU's), designations which require that aspirants complete extensive study courses and pass rigid examinations. Other fields, including public relations, have professional designations that are not, like medical doctors and nurses, recognized by law.

There are many compelling reasons for gaining recognition for risk managers, including greater professional stature, potentially higher salaries and more workmanlike attitudes on the part of those who manage corporate risks.

Achievement of professional certification for risk managers requires the cooperation of ASIM and educational institutions, including the Insurance Institute of America; businesses, which must eventually support risk managers' professionalism with time off and contributions to study course tuition; and risk managers themselves, who must live up to professional status.

The case for protection against punitive damages

Buyers of marine insurance, we believe, will be greatly interested in a very recent decision by a United States district court. It enunciates the novel doctrine that punitive damages may be awarded in admiralty where the captain of a sinking ship was so callous about the welfare and safety of his crew that he refused to order the ship abandoned, resulting in the deaths of ten members of the crew and the injury of others.

It occurs to us that buyers of marine insurance should now be certain that their liability policies cover them against punitive damages for the torts of their marine personnel. Sometimes punitive damages can reach large proportions and we believe, in the light of this decision, they should give serious consideration to separate protection and indemnity coverage.

A welcome development

We were interested in what seem to be two related developments at the American Society of Insurance Management's annual conference in Chicago. One was the ASIM's decision to appoint a full-time legislative aide, and the other was a statement by the society's president-elect, Kenneth R. Huston, that legislative matters will be high on his agenda in the coming year.

"Although not acting as lobby groups, but rather as educators and information aids, local ASIM chapters must be able to openly discuss

business insurance

for buyers of employee, property and liability protection

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Where accidents happen

DEATHS

OFF-JOB: 98,800

ON-JOB: 14,500

DISABLING INJURIES

OFF-JOB: 8,620,000

ON-JOB: 2,200,000

American businesses are faced with mounting off-job accidents and deaths among employees and their families. As the 1966 figures above indicate, six times as many persons die in accidents off-the-job than in work mishaps. Nearly four times as many persons are hurt away from work as those who suffer on-job disabling injuries. Off-job accidents affect the cost of health insurance, group life insurance and group disability policies. Moreover, there is a significant amount of work time lost as a result of such mishaps in addition to the emotional stress of employees whose families are involved in accidents. Many businesses are attempting to counter the off-job accident toll by distributing safety leaflets, conducting safety classes and sponsoring other information programs for workers and their families.

Source: National Safety Council

legislative matters with state insurance commissioners, and state insurance commissioners should be able to seek out ASIM chapters for advice," Mr. Huston told this publication.

We think ASIM is taking the right approach. It's very important, we have said, for legislators—both state and federal—to become aware of the viewpoints of corporate insurance buyers. These viewpoints don't always coincide with the ideas of insurers and brokers.

While it's great to get together with these groups, as ASIM did during the conference, to arrive at some degree of consensus, togetherness in legislative areas can be carried too far. We contend that ASIM, as spokesman for corporate business consumers, should rigorously determine what is in its own best interests, and we are confident that developments at the society's annual meeting indicate it is heading in this direction.

Beware of reciprocity deals

An affidavit signed by American Standard Inc. and the Federal Trade Commission has put the insurance and employee benefits manager on notice that the government is looking with increased disfavor on reciprocity deals.

Under a reciprocal buying agreement, a firm tries to get its insurer, for example, to influence the sale of the firm's products in projects in which the insurer has an interest. Or, it could work the other way: The insurer might use its ability to influence the purchase of materials to coax a firm into buying insurance from it.

We realize that such arrangements are most often made at the top echelons of the participating firms. But we contend that insurance buyers have an obligation to go on record against reciprocal buying agreements when top management passes down the word—if only because such agreements would tend to lessen the need for professional insurance advice and obfuscate the reason for choosing one insurer over another: better service and lower price.

For auto safety standards

The Federal Highway Administration has proposed new federal motor vehicle safety standards for 1969 and 1970 model automobiles. The proposed amendments to the initial federal motor vehicle safety standards issued a year ago are expected to take effect Jan. 1, 1970.

The new standards under consideration include head restraints for passenger cars, required on all cars built after Dec. 31, 1968; head lamp concealment devices for passenger cars, trucks, busses and motorcycles; hood latch systems for passenger cars, trucks and busses; theft protection for passenger cars, trucks and busses; theft protection for passenger cars; vehicle identification numbers for passenger cars; impact protection from interior compartment doors of passenger cars; and exterior protrusions and windshield mountings for passenger cars.

We believe that your support of these amendments is in your company's financial interest. These changes could well help check the ever-mounting cost of motor vehicle insurance by limiting the severity of accidents and thus reducing the amount of liability claims.

letters

Who's a risk manager

To the Editor: First of all, I would like to congratulate you and your associates on the interesting and informative articles in *Business Insurance*. I realize that your publication is essentially geared to the buyers of business insurance, but I want you to know that as a salaried representative for an insurance company, I find valuable use of many of the articles related to employee benefits.

The real purpose of this letter is to ask you to direct me to information on the "risk manager" concept. Specifically, what organization designates a person as a risk manager? Are there specific educational requirements which must be met? Any other information that you believe would be of interest to me on this subject.

Thank you for your assistance on my request and continue the fine work.

Dana R. Fales,
District Group Manager,
General American
Life Insurance Co.
St. Louis, Mo.

Editor's note: See the editorial titled "Certified risk managers?" on this page. Mr. Fales and other Business Insurance readers may obtain information about professional studies in risk management from the Insurance Institute of America, 270 Bryn Mawr Ave., Bryn Mawr, Pa. 19010.

Keeton-O'Connell flaw

To the Editor: I read with interest the editorial headlined "Study basic protection" in your Feb. 12 issue.

I think you are 100% right in saying that, "There are good reasons for risk managers to give serious study to basic protection proposals." There are good reasons for anybody remotely connected with automobile insurance to give serious study to these plans.

The only quarrel I have with the editorial relates to the comment attributed to Bob Keeton that corporate buyers might save as much as 15% to 20% of their fleet liability premiums. The implication is that, if this is the case, buyers might be expected to look with favor on his plan. We agree that trucking concerns and other substantial fleet operations might well pay lower premiums, and this is one of a number of real inequities which we find inherent in Keeton-O'Connell. We do not agree that heavy users of the roadway, with high mileage and high accident potential, should pay a lower rate than school bus fleets with light highway use, as would probably be the case.

Are you saying that a segment of the insurance buying public should support the proposal because one of its serious inherent flaws would tend to work in their favor?

Donald P. McEwan,
Director of Public Relations,
Kemper Insurance,
Chicago, Ill.

Editor's note: We quoted Prof. Keeton in our editorial on the subject of fleet premiums under basic protection because shifts in premium costs under basic protection is an important consideration. Whether this redistribution is a "serious inherent flaw"

Continued on page 16



washington watch

Latest employe benefit bill may do away with 'need for rainy day'

WASHINGTON—An old Washington story has it that labor is planning to introduce a bill outlawing rain.

Without rainy days, the story goes, there would be no need or incentive for savings and organized labor's most coveted goal would be met.

The story is an old one and has lost most of its sting. It is, however, still dusted off by some old-timers whenever a new employe benefit bill starts down the legislative road.

Its most recent revival was spurred by the introduction of an administration proposal which would permit employer contributions to trust funds to provide employes, their families and dependents with educational scholarships.

OBSERVERS point out that with pensions, Social Security, vacation plans and health, accident, unemployment, life and other corporate insurance programs, higher education is one of the last expenditures requiring a well-disciplined savings program on the part of most union families.

The bill, introduced by Sen. Ralph Yarborough (D., Tex.) and Rep. Frank Thompson (D., N.J.), would amend section 302 of the Labor-Management Relations act to permit employer contributions to jointly administered funds for certain prescribed purposes.

In addition to authorizing collective bargaining for scholarship trusts, it allows for trust funds for the establishment of child care centers for preschool and school age dependents.

In testifying before the Senate labor subcommittee, solicitor of labor, Charles Donahue, said the need for any legislation at all arises because section 302, enacted in 1947, contains broad provisions flatly prohibiting employer contributions to trust funds except in very limited situations. These include medical or hospital care, pensions on retirement or death, compensation for injuries or illness resulting from occupational activity, unemployment benefits and life, disability, sickness and accident insurance.

THE LAW has been changed only once. In 1959 it was amended to include payments to trust funds for pooled vacation, holiday, severance or similar benefits, or apprenticeship and other training programs.

Mr. Donahue explained section 302 was added to the National Labor Relations act partly in response to a growing concern about the huge sums of money being accumulated in a fund

over which a union maintained almost complete control. "Obviously the mere presence of such vast sums enables any individual controlling them to wield an unusual amount of power," he said.

But, he continued, section 302 was developed at a time when comparatively little information was available on the precise types of funds existing and at a time when "no one could have foreseen the tremendous growth

and infinite variety of welfare and pension funds and other fringe benefits." As a result, he said, "Congress placed in the statute standards which, in retrospect, appear to be unduly rigid and narrow."

JACOB Sheinkman, general counsel for the Amalgamated Clothing Workers of America, told the subcommittee that the bill "reflects a growing frustra-

tion on the part of responsible employers, employer groups, labor organizations and the public at large with the present uncertainty as to the permissible beneficiaries and benefits under joint labor management trust funds."

Because of present restrictions, he said, contributions to trust funds covered by this bill can only be made to those controlled solely by employers, with the union involved having no control over administration of the funds. "Such a result runs counter to the legitimate interest of the labor movement in promoting the aspirations for a better life of more than 17,000,000 organized workers."

In discussing the child care center portion of the bill, Mr. Sheinkman took a stab at the welfare sections of last year's Social Security amendments regarding compulsory work for women on welfare.

"While the Amalgamated believes that every encouragement should be given women with infants and preschool children to obtain employment, particularly under the protection afforded under a union's collective bargaining agreement, it does not believe that women with dependent children should be required to work," Mr. Sheinkman said.

He pointed out that the AFL-CIO at its sixth constitutional convention gave its support for the use of federal funds for the expansion of child care facilities, and additional liberalization of the child care tax deduction available to working mothers under federal income tax provisions.

"If Congress wishes to reduce the number of mothers receiving aid to dependent children, this we believe is the approach which should be adopted," he said.

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Johnson named exec vp

E. Eric Johnson, formerly vp and manager of the employe benefit department in the Los Angeles office of Johnson & Higgins, has been named exec vp of J&H of California and a director of the parent company. Mr. Johnson becomes the fourth exec vp of J&H of California, which has offices in Los Angeles and San Francisco.

Big uninsured restaurant blaze points to severe loss experience

EASTON, Mass.—A \$200,000 fire loss of a wood frame restaurant here has pointed up some of the fire insurance problems restaurant owners and operators face.

The fire at the Five Seasons, owned by Mars Inc. of Boston and managed by Robert Masseo of Norwood, Mass. apparently started with the gas equipment, according to Mr. Masseo. He added that a suit for approximately \$500,000 will be filed against the gas company serving the restaurant.

Because premium rates were too costly, fire coverage had not been taken out for the establishment, according to the manager.

He said premium costs would have run about 14% or \$1,400 per \$10,000 of insurance and "we just couldn't afford that type coverage," he said.

Mr. Masseo added that the building burned like a "match box." If the restaurant is rebuilt, it will be a brick structure and more than likely insurance coverage will be considered.

HOWEVER, a spokesman for a rating bureau indicated that these rates seemed quite high, although he admitted that he did not know all the details of the risk.

The spokesman said that rates for fire coverage ranged from a

low of 50¢ per \$100 to a high of \$3 per \$100.

The spokesman also pointed out that some restaurant fires are caused by "mortgages rubbing together," that is, when the operation is not successful financially and insurance premiums are used to pay off anxious mortgagors. "We don't have many statistics on those fires," he quipped.

From 1962 to 1963 restaurant fire losses ranged from a low of \$37,100,000 in 1962 to a high of \$42,100,000 in 1964. The 1967 figures won't be available until September from the National Fire Protection Assn.

A New York Fire Rating Bu-

reau spokesman pointed out that restaurants have certain hazards not common to other types of businesses and a majority of restaurants are without protection features normally utilized. Specifically identified as restaurant hazards were the kitchen area and cigaret smoking.

Since a restaurant is a place of public assembly, the spokesman continued, people do certain things they wouldn't do in other places. For instance, lit cigarets are left in ash trays and then an employe "dumps a burning cigaret into a tablecloth."

Ignition of grease on cooking equipment heads the list of causes of fires originating in restaurants, according to a study released by the National Fire Protection Assn.

The next five causes of fires are electrical wiring faults, ar-

son, ignition of grease in hoods and ducts, careless use of cigarets and appliance defects.

ACCORDING to the study, 45.5% of restaurant fires originate in the kitchen; 13.5%, in the storage room and 11.7%, in the dining room.

In rating a restaurant establishment, the New York rating bureau considers, among other things, fire resistant materials used, type of management and fire protection of the property.

"We take into consideration whether the property is classified as being under public protection or not, the water supply from the hydrants and the location of fire hydrants," the spokesman said. He added that the hydrant distance from mercantile property should be not more than 600 feet.

N.J. trade association adopts monthly survivor benefit plan

NEWARK—The South Jersey Manufacturers Assn. has adopted a survivor income plan which will provide a monthly lifetime income rather than a lump sum death benefit.

Most company benefits or group coverages pay a death benefit equal to twice annual salary, which is quickly used up in paying off mortgages and final expenses, according to John T. Scott, president of New Jersey Life Insurance Co., which is underwriting the plan. For a young widow with children the lack of monthly income is a real hardship, which is not completely allayed by Social Security, Mr. Scott said.

According to Don Curtis, executive director of the association, the 180 member-companies were looking for a plan which would "provide family protection and maintain a decent standard of living for an appreciable length of time."

The association approached Miller, Mason & Dickenson, Philadelphia, Mr. Curtis said, "which was able to come up with a versatile plan at a reasonable cost."

THE SURVIVORS' income plan will enable an insured to

provide a family income for his spouse's lifetime at a cost of approximately 1.5% of his average annual salary, explained Melville P. Dickenson Jr., president of the consulting firm.

"Much thought and planning has been given to survivors' benefits in Europe," Mr. Dickenson pointed out, "and we drew on this experience to devise a plan which helps to fill the income gap without imposing heavy costs on the employer or the employee."

IN PRACTICE, all or part of the premium will be paid by employers, or it may be offered to employees on a mass merchandising basis with a payroll deduction arrangement.

Should a participant leave his employment he can continue the coverage on his own. The premium will remain the same for the duration of the policy, and because of mass marketing, the coverage can be obtained without a medical checkup.

The plan pays a monthly income to the beneficiary until the deceased spouse would have reached age 65—then half this amount payable monthly on a lifetime basis.

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Broker saves construction firm \$37,000 on Shea Stadium job

By WILLIAM GUEST

GREAT NECK, N.Y.—An insurance broker here was able to save a construction company \$37,000 in premiums during the building of Shea Stadium, home of the New York Mets.

The stadium, which was built as a joint venture by Thomas Crimmins Construction Co. and P.J. Carlin Construction Co. was completed in 1964 at a cost of \$16,000,000.

Near the end of the job, Bernard Weininger, secretary-treasurer of Carlin, was approached by Arnold M. Cohn, president of National Preferred Risks, insurance broker, who asked if he could review the construction firm's existing coverages.

"QUITE FRANKLY," Mr. Weininger told *Business Insurance*, "in the construction business we get so many insurance brokers walking in who claim that they can save us money that I wasn't very enthusiastic. However, I did let Mr. Cohn take a look at our policies." Mr. Weininger also related that he had been dealing with another insurance broker at that time for 15 years, and was in no mood to make any changes.

"I feel that your insurance broker should be selected as carefully as your lawyer and accountant," he emphasized, "and once you've made your decision it's best not to change. In this way, your broker gets to know your past history, and claims record, and is also supposed to be able to get you better coverages."

When Carlin first started work on Shea Stadium, Mr. Weininger said, it received four insurance bids. The lowest came from the United States Fidelity & Guaranty Co., which got the business.

"YOU MUST ALWAYS remember," Mr. Weininger said, "that our jobs are on a bid basis and are not negotiated. I would safely say," he continued, "that most contractors overpay thousands of dollars in insurance premiums because their brokers don't know their needs. However, if we lose a bid we can't go back and ask for another chance because our insurance broker made a mistake."

The construction executive said that he was called by Mr. Cohn, who told him that \$45,000 in premiums could have been saved in the overall composite rate. "Since this was net cash that we had paid out, I had to listen," Mr. Weininger said.

A meeting was immediately arranged between Mr. Cohn and Carlin's attorney to see if there were enough grounds for approaching the USF&G asking for a rebate. During the meeting, Mr. Cohn suggested that the insurance premiums were too high because an improper factor had been used in arriving at the composite rate.

HE EXPLAINED THAT a composite rate is based on the estimated payrolls which are allocated to various aspects of a construction job. At that time,

Nay promoted

Louis T. Nay has been named chief pension analyst in the life underwriting division of the life, accident and health department at Travelers Insurance Cos., Hartford.

the rates were based on each \$100 of payroll, but currently the payroll rate is \$300.

For example, \$100,000 may be allocated to the concreting and \$50,000 to masonry. In the case of Shea Stadium, the broker noticed that USF&G had allocated a high rating towards the cost of providing paving for public roads—and it dawned on him that no public roads were involved in this particular construction job.

"Nobody felt that this was intentional," Mr. Weininger said, "but was the result of lack of knowledge of the job site." As a result, many meetings were ar-

ranged with the insurance company, which he attended accompanied by Mr. Cohn, "since I wasn't qualified to talk about the specifics."

Eventually, a settlement was arranged for \$37,000. "This proved to us," Mr. Weininger said, "that a contractor has the right to expect his broker to make up his proposals for him and take it to the insurance company for special consideration."

THIS MAY MEAN that the broker should go out and inspect the site, talk to the engineers, and spend a lot of time at the construction office. "I know this

means a lot of effort," Mr. Weininger conceded, "but the broker isn't there just to collect the premiums."

The biggest problem facing an insurance buyer for a major construction company is obtaining adequate limits of liability, Mr. Weininger observed.

"The specifications of a job don't necessarily require high enough limits to protect the contractor," he pointed out. "Sometimes the limits required are too low. We always raise them and also take out an overall umbrella type of coverage—that way I sleep at night."

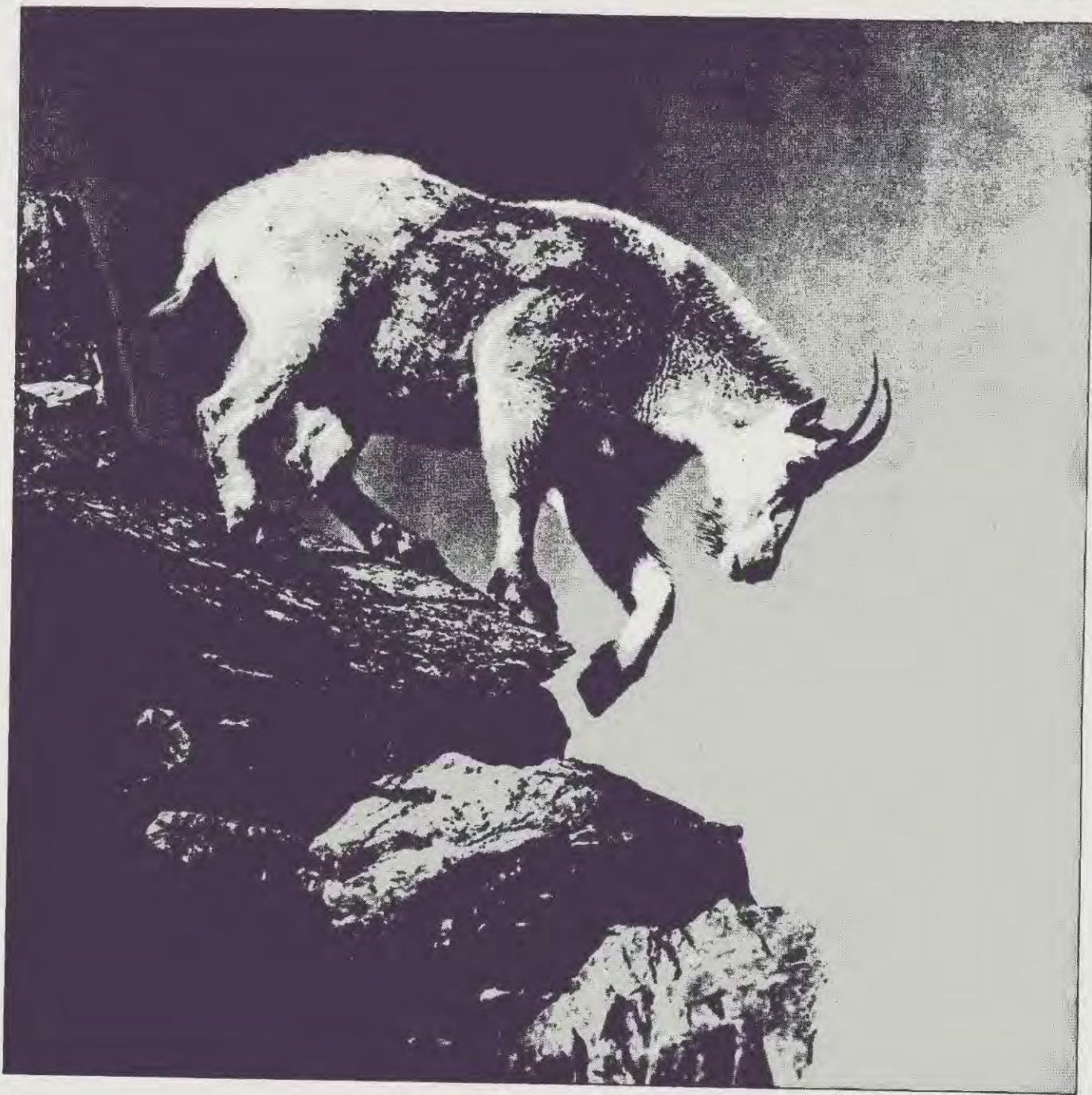
Mr. Weininger related an incident which showed the necessity for carrying high limits of liability.

A 40-YEAR-OLD father of five was crossing the street during a wind storm near New York Community College, which the

Carlin firm is constructing, when a plank fell on him and killed him. The result was a liability suit for \$1,000,000, which was settled for \$250,000. "We were glad to have the coverage and not have to fight it out in the courts," Mr. Weininger said.

"Recently," he continued, "Mr. Cohn arranged a meeting between myself and our surety carriers. This was the first contact I had made after so many years—and yet surety is the life line of the construction business."

Mr. Weininger felt that this meeting was invaluable, "although brokers don't generally like you to meet the companies. Now we can talk as people," he said. "I don't directly negotiate, and our relationship is more social. However, I do feel that Carlin is now regarded as more than just a statistic on the balance sheet."



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letters

Continued from page 12

is something that risk managers and other insurance consumers must consider in weighing the proposal to shift to a no-fault system of compensation for auto accident victims.

Asks for index

To the Editor: Among other things, the responsibility for managing this company's insurance program is assigned to me. Your publication is most helpful in this regard.

You have asked for suggestions for making *Business Insurance* more helpful to its readers; I have one. Would it be possible to prepare, once each year, an

index by subject matter, of the information published in the last six months? I am sure that many recipients of your excellent bi-weekly retain previous copies—as we do—for future reference. Such future reference would be greatly facilitated by the index herein suggested.

Barry Shepard,
Executive Vice President,
Acme-Hamilton
Manufacturing Co.
Trenton, N. J.

Editor's note: The Business Insurance staff is preparing an index of articles that will be published periodically in future issues. We believe an index will aid the many risk managers and employee benefits administrators who file their copies of Business Insurance.

It's necessary

To the Editor: Thank you for sending us copies of *Business In-*

surance. We have found it has become a necessary part of our department.

We hope you will continue to receive the support to sponsor this fine magazine.

David G. Zellmer,
Assistant Manager
Insurance Department
First Wisconsin National
Bank of Milwaukee
Milwaukee, Wis.

For reform

Editor's note: The following letter was written by Percy Chubb 2nd, chairman of Chubb & Son Inc., to New York State Sen. Bernard G. Gordon, chairman of the joint legislative committee on insurance. It is reprinted here to make Business Insurance readers aware of the views of a prominent insurance executive on reform of the automobile tort-liability system.

Dear Senator Gordon: We wish to indicate our support of those who have appeared before the joint legislative committee and expressed their views that it is time for innovating reform of the automobile tort-liability reparations system.

Plans for reform which would substantially modify or eliminate the fault system of liability, or which would move away from the third-party liability system toward one which is not dependent upon fault and which provides standards for measurement of damage, would obviously require major adjustments for the insurance business, as well as for the legal profession and others. We believe, however, that such adjustments are not only inevitable, but also, on balance, are highly desirable from the point of view of the public interest and indeed for the insurance business itself. We need a more rational, manageable and economically efficient system of reparations in the field of automobile claims.

Percy Chubb 2nd
Chairman, Chubb & Son, Inc.
New York, N.Y.

Most informative

To the Editor: From the standpoint of a corporate insurance manager, *Business Insurance* is the most down to earth, informative publication of this type I have ever seen. It is read from cover to cover and then distributed to executive officers of the companies who would be interested in particular articles.

As time goes on, I would hope that corporate insurance managers throughout the nation will contribute their own gems of wisdom to your publication so others of us could gain from the knowledge they obtained through their own experiences.

Gerald W. Raschke,
Corporate Insurance
Department,
Associates Corporate
Services Company, Inc.
South Bend, Ind.

On containerization

To the Editor: Your initial editions have been thoroughly impressive in style and content and we are pleased to note the acceptance you have been given by major advertisers.

We are particularly appreciative of the recognition accorded Matson Lines in the Jan. 1, edition. We hope you will continue your interest in dynamics of the container trade. Related to the "on deck problem" are recent actions of American Institute of Marine Underwriters following

to some extent action of London Underwriters. The American Bureau of Shipping will also be showing some action soon.

A recent edition of the New York Times commented upon the fact the container has not cured the theft problems suffered by cargo. These are as old as major trucking's development. Anything on wheels in a major metropolitan area is subject to loss by hijacking, unless closely attended or protected by a good, active security organization. "Containerization" did not create the problem.

John V. Beahrs
Insurance Manager
Matson Lines
San Francisco, Calif.

'Many thanks'

To the Editor: We have been receiving your publication *Business Insurance* since its inception and find your articles very interesting and informative. We also appreciate the inclusion of more employee benefit topics.

Many thanks for including us on your mailing list.

J. Fred Berry,
Corporate Insurance Manager,
Alton Box Board Co.,
Alton, Ill.

'Meets aims'

To the Editor: You state that your aim is to make each issue "extremely informative and helpful" and we believe you have accomplished your objectives.

We would also like to compliment you on the type of information which you have included in your publication, as *Business Insurance* appears to be the only publication specifically aimed at corporate insurance buyers.

J. I. Brierley,
Insurance Manager,
Ethyl Corp.,
Richmond, Va.

Compares notes

To the Editor: *Business Insurance* has a very good range and coverage of insurance subjects.

I should appreciate seeing more topics pointing out trends in the government's part in insurance.

Your articles on directors' and officers' liability were especially good. All contributors should be congratulated. While some of us may not know these answers so positively, it's good to compare notes with others who take a strong stand.

L. G. Haskins
Manager Credit Collection
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ASIM views federal regulation in inevitable, matter-of-fact terms

CHICAGO—A "Windy City panel" on the final day of the American Society of Insurance Management annual conference here discussed the inevitability of federal regulation of the insurance business in somewhat matter-of-fact terms.

"Some form of federal regulation is inescapable," said H. Clay Johnson, president of Royal Globe Insurance Cos. The insurance industry, which is selling security, is on a "collision course" with the social planners, who also emphasize security, he stated.

"Nature and the social planners abhor a vacuum," Mr. Johnson explained. It's inevitable that the government will move into the field of overseeing the area of security, but "we shouldn't fear this type of regulation, we should adjust to it."

OTHER PANEL MEMBERS

seemed to agree. Ambrose B. Kelly, counsel for Associated Factory Mutuals, predicted "steady and inevitable pressure for further federal intervention," but he added that in the process of acquiring federal supervision of the insurance business "we're not going to eliminate state regulation. We're going to have both, which leaves both Clay (Johnson) and me in complete frustration."

From an insurance point of view, said Charles K. Cox, senior vp of Insurance Co. of North America, "the distinct possibility of a wide variety of response" to the regulation problem will be "difficult and expensive to live with. The problems of riots, for instance, are a national problem, and we'd like to see a uniform answer." The federal government, he added, has "greater capabilities to help us solve our problems."

Mr. Johnson was of the opinion that "state regulation has not been a boon to our business in the past 20 years. I've always recognized some advantages of federal supervision of our business, although I'm not an advocate of it."

OTHER SPEAKERS on the panel—which was chaired by F. X. McCahill Jr., insurance manager of Bristol-Myers Co., and G. J. Rabbett, insurance manager of Chas. Pfizer & Co.—took up the problem of shrinking capacity, whether investment income should be considered in setting rates, officers' and directors' liability and crime cover.

Mr. Kelly called on buyers to "bear your share of the responsibility" in generating increased capacity. He said it's "not right" for corporations to build a single facility "which if knocked out" could endanger our economy and national defense. His advice to buyers was for them to "limit your exposure" and not "put all your eggs in one basket."

Mr. Cox contended that there's capacity in the U.S. "far in excess of what's being used," as seen by insurance companies' move into the holding company and mutual fund areas. "There's something to be said for diversification," Mr. Cox acknowledged, "but I'm sure there would be less of this had it not produced a very healthy rate of return."

He maintained that "the cost of insurance must go up before the capacity problem will change."

Mr. Kelly made the point that risk managers have made such

hard bargains for primary insurance that reinsurers have been hard pressed to match the low rates. He said that Factory Mutuals' facilitative reinsurers want a higher rate for limits exceeding \$35,000,000 than the group was charging for primary insurance.

"You've done such a successful job of running down the cost of insurance," Mr. Kelly said, "that when we go into the world market reinsurers throw up their hands and say it's an impossible situation" to match the price.

Norris C. Flanagan, chairman of the Kemper Insurance Group, said that it's "a fact of life" the reinsurers are getting hit with

losses "on business you'd never write yourself."

WILLIAM S. MORTIMER, director of insurance of Hunt Foods & Industries Inc., maintained that insurance companies have "gone out and reached reasonably good conclusions" about the need for loss prevention programs, but "they haven't had the guts to back them up." Mr. Mortimer said that the carriers have "done the industry a disservice" and have given insureds "a false sense of security."

He added that insurance proceeds "are a very poor substitute for being unable to operate." His company, Mr. Mortimer said, is

in the business of "buying shelf space, but all that advertising money is wasted if you don't have the product available."

Mr. Kelly admitted that the Factory Mutuals might have been advocating sprinklered systems for "the wrong reasons." He said the group had been selling the advantages of sprinklers as a way to reduce premiums, but he stated that a better reason is because they helped reduce industrial accidents.

THE FACTORY MUTUALS executive said that risk managers should ask themselves if they'd still want sprinklers and other loss prevention equipment if they were self insured. "All of you will have less of a capacity problem if you have an effective loss prevention program," Mr. Kelly said.

H. Wayne Snider, professor at Temple University, said that in-

surance managers were increasingly recognizing that the cost of a risk is "not just the cost of insurance." He also stated that "traditional restrictions" on underwriting practices are less important than coming up with new solutions to solve capacity and other problems.

Most panelists voiced reservations about the present officers' and directors' liability coverage, and Mr. Mortimer suggested that perhaps ASIM should develop its own form.

E. J. KETTEL, insurance manager of Sinclair Oil Corp., said his company hasn't purchased officers' coverage. He said "it's very confusing as to what insurance is provided." Sinclair is "still kicking it around," Mr. Kettel stated, but the firm's attorneys feel that a change in the bylaws to provide broader in-

Continued on page 23



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R. I. unions move to establish new health insurance program

PROVIDENCE—The Rhode Island AFL-CIO is moving to set up its own health insurance program, complete with a union-financed medical center.

The idea of the project, according to Thomas F. Policastro, president of the union, is to beat "the high cost of being ill. Many top people in the community are singing the praises of the program and so far management has been very receptive."

The union chief said that the AFL-CIO's relationship with Blue Cross might be continued when the new operation is under way (target date is Labor Day, 1969). He said that the state AFL-CIO will stop dealing with Physicians Service, which offers coverage for doctors' care.

EDWIN C. BROWN, secretary-treasurer of the state AFL-CIO, said that organized labor in Rhode Island has long been concerned that its members have not been getting adequate medical care, although health benefits negotiated in collective bargaining have steadily increased.

Experience elsewhere has shown, he stated, that hospitals can be better used through emphasis on preventive medicine and the provision of diagnostic services on an out-patient basis—which the union's medical center hopes to offer.

Comp benefits in Washington hit record high

OLYMPIA, Wash.—Earnings of more than \$8,000,000 on investments more than paid administrative costs of the state workmen's compensation program last year, Harold J. Petrie, director, State Department of Labor and Industries, has reported to legislators.

Mr. Petrie said the fund was able to return 3.8% more on each \$1 of premiums.

The report submitted showed a record \$50,000,000 in benefits was paid by the fund in 1967, an increase of 16% over 1966. The administrative costs were 9% of the premiums, Mr. Petrie said.

The fund also had a record premium collection of \$63,300,000, up 17% over the previous year.

"Total reserves on hand of over \$167,000,000 are an all-time high, guaranteeing future payments to workers already injured," he noted.

"AN INCREASE in reserves of almost \$21,000,000 includes a substantial amount to reduce reserve insufficiencies inherited three years ago."

Largest outlay in 1967 was \$14,000,000 for medical benefits. Next came \$12,000,000 for workmen temporarily disabled; \$10,000,000 for those permanently disabled; \$8,000,000 for pension payments and \$4,000,000 for supplemental pension payments.

Temporary disability payments were up 11% over 1966; permanent disability payments up 31% and medical benefits up 27%. Average for all was 16%, Mr. Petrie added.

To implement the new insurance program, legislation has been introduced in the state House of Representatives incorporating a non profit, tax-exempt Rhode Island Group Health Assn. The bill authorizing the group has been assigned to the House committee on corporations.

ALTHOUGH THE AFL-CIO in the state represents about 65,000 workers, Mr. Policastro said the medical center would be limited to about 30,000 union members.

Continued on page 23



R. W. Cheatham

Cheatham named at J-M

NEW YORK — Robert W. Cheatham, formerly industrial relations manager at Johns-Manville Corp.'s research and

'Forgotten' employees to be unearthed by firm's computer

HARTFORD, Conn.—To be sure that none of its 14,000 employees gets overlooked for promotions and other changes, the Hartford Insurance Group is installing a centralized personnel data system involving the use of computers.

engineering center in Manville, N.J., has been named to the same post at the firm's corporate headquarters in New York.

Mr. Cheatham, who will be responsible for employee benefits and medical services, as well as recruiting, succeeds Ralph E. Hartwig, who has been appointed to the newly-created post of manager for marketing services.

The information recorded will fall into two categories, according to J. Stewart Johnston, personnel vp: basic personal information and a skills and education inventory.

"The main objective," Mr. Johnston said, "is to be sure that all persons eligible for job promotions and changes will be given consideration."

Under the present system, Mr. Johnston explained, "this information is buried in personnel files, and no one person can carry it all in his head." He also pointed out that with so many personnel, there could be 20 people qualifying for a position, and by using computers "nobody will be forgotten."



American Cyanamid upgrades its benefits

LINDEN, N.J.—American Cyanamid Co. has put into effect a benefits package which would make employees eligible for enrollment in its retirement plan after two years of service, regardless of age.

It's part of a three-pronged program which embraces: (1) employee retirement; (2) personal protection including life and accident insurance; and (3) long-term disability protection.

FORMERLY, persons had to be 35 years old and have two years of service for enrollment in the retirement plan. For those already enrolled, benefits will be updated to reflect enrollment after two years.

Work is under way to provide qualifying employees with a personal statement reflecting their retirement plan benefits based on the improvements and changes in the plan, including the updating of benefits. Most of this data is computerized with the necessary individual alterations.

Concerning higher benefits, those who choose early retirement at 62 receive 88% of credited benefits instead of the former 77.5%, retirements at 55 receive 60% as against the former 46.5%.

Additional changes in benefits include an approximately 20% reduction in an employee's contribution to the personal protection program. This reduction went in-

to effect Jan. 1 and is based on the present schedule for men.

ON THAT SAME date, amounts of life insurance and work-related accidental death benefits and contributions for women are on a par with those for men in the same pay bracket. In this respect the company is conforming to standardized procedure, pointing out that because of national legislation it can hardly discriminate between the sexes.

"We have no choice in the matter," a company spokesman said. "About 20 years ago we made an informal survey and learned that women objected to paying for life insurance since the burden of costs traditionally was borne

by the men. Now we have to stay in line with other corporations in this respect."

A new aspect of comprehensive medical coverage is a "coordination of benefits" provision. After Jan. 1 benefits paid for allowable medical expenses are not to exceed 100% from all plan sources. Details are fully outlined in an employee's brochure which is automatically distributed to new personnel.

FRED W. DAU, manager of employee benefits service, noted that over the year the cost of the long-term disability program has increased. "The company will absorb this additional cost and will continue the coverage," he said.

"A change is being made in plan benefits to take into account family benefits from Social Security. Minimum benefits including primary Social Security, workmen's compensation benefits and disability benefits from the retirement plan will continue to approximate 60% of pay in any case.

"However, where employees receive both long-term disability benefits from the company and family benefits under Social Security, total monthly disability income from all sources will be limited to 100% of pay."

The improvements and changes apply on the effective dates to all qualifying employees, full- or part-time, permanent or temporary. These employees are eligible for the change when they are accepted by the duly certified representative of their collective bargaining units, since the company cannot make them unilaterally.

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Illinois to get proposal for new filing law

CHICAGO—The Illinois department of insurance will submit a proposal for a new state rating law to the General Assembly in the near future, Insurance Commissioner John F. Bolton has revealed.

The new rating proposal will follow California and other state no-prior-approval filing systems, Mr. Bolton said. Illinois revised its insurance code last year when the General Assembly passed 37 bills.

Commissioner Bolton called the present filing system archaic, saying the present prior approval statute served the state in the past, but "it is now necessary and essential to permit the free play of supply and demand to operate."

Mr. Bolton also pointed out that reinsurance of fire and liability risks in Illinois may not be assumed by a company with less than \$2,000,000 without his approval. He said the smaller liability companies have neither the professional staff nor the reserve capacity to enter the reinsurance market.

He said that regulations have been proposed and are pending promulgation which would increase the amount of reserves that liability companies are required to maintain for losses and adjusting expenses.

For example, by 1975, automobile liability insurers will be required to maintain surplus of \$300,000 in addition to their original capital requirements.

Lenhart named B-W engineer

CHICAGO—Thomas O. Lenhart has been named a fire protection engineer in the insurance department of Borg-Warner Corp.

A graduate of the fire protection engineering school of Illinois Institute of Technology, Mr. Lenhart was with the Western Actuarial Bureau five years before joining Borg-Warner. He previously was with Ohio Inspection Rating Bureau in Cincinnati.

london line

Fire brigade fees bear little or no relationship to risk

LONDON—Should British industry be made to pay for fire brigade services in a different way than now?

Mr. Robert L. Carter, lecturer in economics at Brighton College of Technology, has taken the view that the weakness of the present system of pricing is that the charge to firms (and individuals) bears little or no relationship to the risks involved.

The contributions made to the fire services through rates and taxes do not take into account probability of loss, nor, in consequence, the potential demand on

the fire brigade.

At the moment, should a fire occur, there is no further charge for attendance by the fire brigade. "Therefore," said Mr. Carter, "persons and firms engaged in activities presenting heavy fire risks have their protection services subsidized by the rest of the community, and the financial incentive to undertake more fundamental fire preventive measures is thereby weakened."

REFERRING TO THE growth of private protective agencies

(which provide anti-crime or anti-fire patrolling outside working hours), Mr. Carter said this growth indicates that in some quarters there is a demand for more protection than is being provided by the public services in Britain, and thus either more public expenditure on protection is needed, or a redistribution of existing efforts. He wondered whether the fire brigades could extend the range of services which they offer—perhaps by competing with the private agencies in certain spheres of activity.

Mr. Carter thought that there were three ways in which industry could be charged for the cost of fire brigades.

In the first place, total brigade costs could be recouped by making turnout charges, leaving industry to insure such contingent expenses if it wished. Such charges could be based on the type and number of appliances

and the time spent in attendance at fires.

A POSSIBLE DRAWBACK is that failure to insure this cost by smaller firms could lead to costly delays in calling for the brigade while firms tried to tackle fires themselves.

As an alternative, a two-tier pricing system could be introduced. Establishment costs could be charged for on the basis of individual loss expectancies, as a form of retainer fee, leaving only a brigade's operating costs to be collected by turnout charges. Here, from the brigades' point of view, it would be more expensive to administer.

The third suggested method of charging would be for total costs to be allocated in proportion to the fire and explosion premiums being paid by companies. This would spread the cost of protection over all firms in proportion to their expectancies of loss.

agreed on for the purpose of brigade charging.

In support of this theory, it has been suggested that because higher premiums would mean higher fire service charges for a firm, there would be a greater incentive for companies to improve their fire preventive measures—thus reducing both their insurance premiums and fire service charges.

Unemployed tax credit to be used in '67

WASHINGTON—Businessmen computing their Federal unemployment tax for 1967 will not have their normal 2.7% credit reduced to pay back the federal government for funds made available to the states under the Temporary Unemployment Act of 1958.

Employers normally may reduce the amount of unemployment tax they pay to the federal government by up to 2.7% of the wages on which they pay unemployment tax. However, under the 1959 temporary unemployment compensation act, the government subsidized the unemployment compensation programs of the state, and in cases where the states have not repaid these loans, business have had their 2.7% credit reduced.

No such reductions apply on 1967 taxes. In 1966 credit reductions applied to wages paid for services in Alaska, New Jersey and West Virginia.

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Dental assn. provides group plan for retirement under Keogh law

CHICAGO—The American Dental Assn. has set up a retirement trust for its 108,000 members with the Equitable Life Assurance Society of the U.S. The plan went into effect Jan. 1.

The trust has been set up to meet provisions of the Keogh law which allow general income tax benefits for the self-employed. Participants may contribute \$2,500 or 10% of net income, whichever is less, to their retirement fund and deduct this amount from Federal income tax. Tax is paid on the amount set aside until benefits are received.

Under terms of the agreement with the ADA, Equitable will handle promotion and administration of the fund. "However, there will be no commission salesmen calling on members," Harvey Sarnar, secretary for the ADA council on insurance, told *Business Insurance*.

PROMOTION WILL be handled by direct mail, articles in the ADA Journal, one of which Mr. Sarnar has prepared for the March issue, plus enrollment kits that are mailed to dentists upon request. More than 4,000 have already been mailed, Mr. Sarnar said.

Equitable has also set up a telephone information service in more than 40 cities across the U.S. and will provide personnel for various state and local dental society meetings.

The retirement fund is one of three group plans the ADA offers members. More than 35,000

are enrolled in the \$25,000 group life plan and more than 26,000 are enrolled in the group disability plan, which provides first day benefits of up to \$1,200 per month.

MR. SARNAR said it is too early to tell what the participation level will be on the retirement fund, but he pointed out that enrollment for the other two ADA group plans was handled in a similar manner.

Mr. Sarnar said the Equitable plan was selected from 35 presented to the ADA.

Equitable invests the retirement fund in common stocks and fixed investments or combinations, at the dentist's option. An

unaudited prospectus on the separate account for common stocks showed a market value of \$72,095,088, as of June 30, 1967. Equitable will report to members on a regular basis, similar to mutual fund reports. He also pointed out that the ADA trustees have the option to buy the retirement annuities "on the market."

MR. SARNAR pointed out that dentists pay no loading fees.

Under terms of the Keogh Law, full time employees with three years or more of continuous service must be included in the plan. However, the self-employed may include employees with less service at his option.



Harvey Sarnar

Benefits must be taken between the ages of 59½ and 70½.

Charges and fees deducted by the Equitable include a \$25 enrollment fee, an expense charge of .5% of the aggregate value of the pension account, and a \$12 annual administration fee. Mr. Sarnar pointed out that these charges were the lowest charges of any plan the ADA investigated.

Keogh joins Conn. Mutual

HARTFORD—A former Congressman who led a decade-long fight for legislation ending tax discrimination against self-employed persons has been retained, on an exclusive basis, as a consultant by the Connecticut Mutual Life Insurance Co.

He is Eugene J. Keogh, sponsor of the self-employed individuals tax retirement act, who retired from Congress in 1967 after 30 years as a member of the House of Representatives.

The Keogh act, as the legislation has become known, was passed in 1962 and amended four years later. It allows self-employed persons to build personal retirement funds with tax-free dollars on a basis similar to corporate pension plans.

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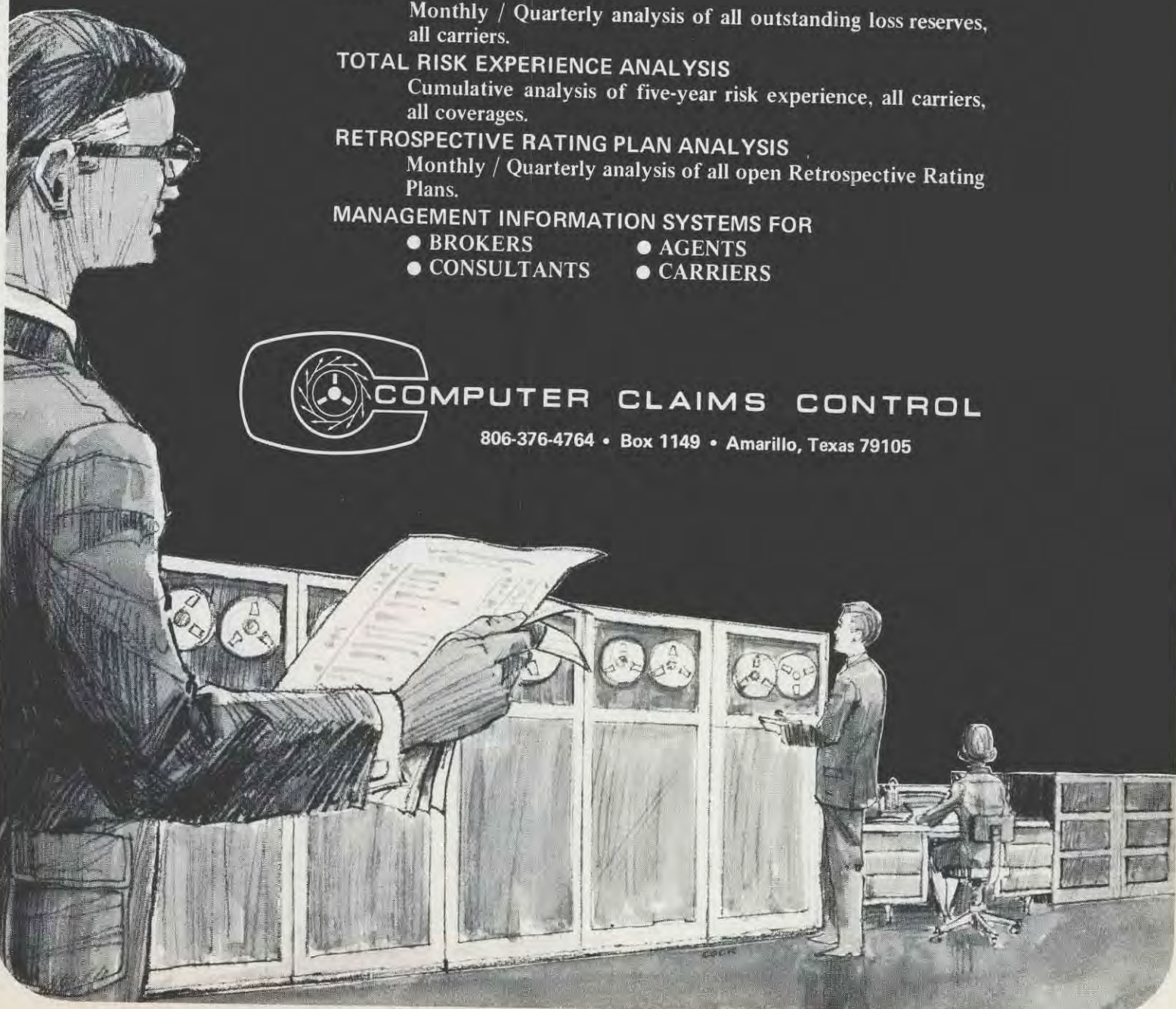
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Engineers for BART sued by fastener firms

SAN FRANCISCO—A damage suit of \$25,000,000 has been filed here by Railroad Rubber Products Inc. and Railroad Permanent Way Products of Ohio against the Bay Area Rapid Transit (BART) consulting engineers.

The action, filed in U.S. district court, contends that BART engineers had "maligned" the products of the two manufacturers of track fasteners.

The suit asked an injunction to prevent "any further derogatory reports about Railroad Rubber's rail fasteners" as well as punitive damages and loss of opportunity to sell to BART.

The suit claimed damages from the BART's engineers, Parsons and Brinckerhoff-Tudor-Bechtel. The firms presumably are covered by insurance against such suits.

The consultants, according to the suit, tested the rail fasteners "but in some tests made a deliberate alteration and improper installation and in other tests simply misstated the facts."

Rail fasteners are devices used to hold rails to cross ties or to concrete surfaces.

Rail fasteners will cost BART more than \$2,000,000 for the 75-mile rapid transit system now being built.

Contracts for the fasteners have not yet been let, although bids have been opened. Apparent low bidder was Landis Sales Co., Los Altos, Cal., for \$2,400,000. Other bidders were General Tire and Rubber Co. and Gregory Industries.

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Discuss adding interruption, extra expense coverage to basic policies

NEW YORK—The pros and cons of including extra expense and business interruption coverage with basic fire and boiler policies were included among a broad range of topics thrashed out at a three-day seminar of the American Management Assn.

Buyers, insurers and brokers were told by Charles P. Kovar, assistant secretary, Central Hudson Gas & Electric Corp., Poughkeepsie, that the coverage is designed for operations that must continue despite losses.

MR. KOVAR NOTED that in many cases extra-expense coverage is of "little value" if there are no outside facilities available to continue business. In the utility business, he explained, Central Hudson can purchase power from neighboring utilities, which is paid for under an extra expense policy.

Several in the audience contended that extra expense insurance is an alternate to business interruption which raised the question of whether buyers needed both coverages.

Mr. Kovar said that extra expense insurance can reduce the business interruption loss. "If a company must maintain its service," he said, "it needs extra expense, in addition to business interruption."

CENTRAL HUDSON also uses a manuscript form, which is drawn up as a cooperative effort by the insurance department, the underwriter and broker. Mr. Kovar urged buyers to be fully informed about coverages because when top management

asks questions the broker may not be available.

Mr. Kovar maintained that an insurance policy should cover each company as an individual risk and not include everyone else's perils—one of the reasons why the utility favors the manuscript form. He added that this is the only way the company can get coverage for its "particular" needs.

The pros and cons of the valued use and occupancy (business interruption) form as opposed to the actual loss sustained form were pointed out by Leyton B. Hunter, president, the London Agency, Atlanta, who indicated the valued form is "more flexible."

FOR EXAMPLE, he said, a firm could be shut down after a

fire and still not suffer a business interruption loss if it had stockpiled its product. Mr. Hunter contended that losses involving stockpiling could cause an extra expense to replenish material used up during the shutdown.

ONE OF THE disadvantages of the valued form cited by Mr. Hunter is that only about six or seven U.S. companies write valued use and occupancy insurance, in addition to the Lloyds market, and which is only writing at two-thirds of its former capacity, according to Mr. Hunter.

"If the patterns of business fluctuations of a given risk are unpredictable," said Mr. Hunter, "it is not a proper subject for valued use and occupancy insurance."

Zeroing in on the corporate safety problem, J. Victor Bowman, insurance manager, Corning Glass Works, Corning, N.Y., said safety and industrial hygiene are the "eyes and ears" of the Corning treasurer's department, which handles the insurance coverage.

ACCORDING TO Mr. Bowman, who has a background in accounting, the safety department makes recommendations to the treasurer's department, which are followed up on a continuing basis. "Housekeeping is a chief concern of Corning," said the glass company executive.

Corning, which has 39 manu-

facturing plants in the U.S. and 11 overseas, relies strongly on the advice of brokers and agents about new coverages. Its fire risks are insured with Factory Insurance Assn., Factory Mutuals Systems, stock companies and Lloyds.

MR. BOWMAN SAID the company does not jeopardize its rates on package policies if newly acquired properties do not fit into a preferred class. "It is usually cheaper," he said, "to place a nonpreferred risk in a separate insurance market."

Low deductibles are used by Corning on its fire and boiler policies, which, Mr. Bowman said, has eliminated at least 60% of the "nuisance" claims (those under the deductible amounts). He added that rates for Corning are low and it does not pay to use excessive deductibles.

R.I. unions...

Continued from page 18

bers and their families. For that reason, he said, unions which put up the money to finance the venture will get first crack at becoming members of the group health insurance program.

The state AFL-CIO has already appointed a medical director of the group health association. He is Dr. Harry E. Darrah, formerly director of medical education at Roger Williams General Hospital and immediate past president of the Rhode Island Group Medical Society.

The union is planning to apply for a federal mortgage insurance loan of between \$800,000 and \$1,000,000 to finance 90% of the costs of building the medical center, which it is hoped will be at or near one of three area hospitals.

MR. BROWN SAID it will cost about \$250,000 to get the new program under way, not counting the construction costs. He added that the job now is to recruit between 18 and 20 full-time, salaried physicians.

Dr. Darrah said he believed the "establishment of a successful group practice can well be an excellent deterrent to future intrusion of the federal government into the field of health services."

The Rhode Island Group Health Assn. would be authorized to provide its subscribers with hospital, medical, dental and optometric services. Hospital service could be provided "by a contracting hospital or by a hospital owned by the corporation," according to the House bill.

The rates charged to subscribers would be regulated by the state department of business regulation.

A source at Grinnell Co., which employs about 1,500 AFL-CIO workers, thought that the union proposal might be at least a "partial solution" to controlling costs.

Allston Clarke, personnel director of Taft-Pierce Mfg. Co., Woonsocket, R.I., said that his company would be "willing to listen to what the program is all about. That doesn't mean we've decided to make a change" from Blue Cross and Physicians Service, Mr. Clarke told *Business Insurance*.

Grinnell also uses the two medical plans in the state, and the firm's rates—which are based on the company's experience—have been "fairly constant" for the past 15 months.

ASIM views...

Continued from page 17

demnification for officers might mitigate the need for such coverage.

Mr. Kelly said he didn't feel officers' liability was a "needed" coverage, although he conceded that "the climate is changing." Several new members of the boards of Factory Mutuals' member companies have inquired about the coverage, Mr. Kelly said. "We're under growing pressure, but so far we've resisted."

Mr. Mortimer said he recommended the coverage to Hunt Foods' attorneys, who in turn endorsed it "lukewarmly" to top management and the company purchased it. Hunt so far has had two claims, both of which have "disappeared," Mr. Mortimer said. He is now of the opinion that "you don't get much else for your money except a pretty paper in a jacket."

DAVID H. WINTON, vp-director of Johnson & Higgins, said the brokerage firm currently has five officers liability cases in the shop. All claims exceed the policyholders' deductible, and in all five cases the premiums paid over the last three years will "definitely be exceeded."

"If there is one thought I want to leave you with it's this," Mr. Winton said, "I can think of no situation where an officer or director in a derivative action can be reimbursed by the corporation." Mr. Winton specializes in such coverage, and his brokerage firm has about 100 clients who have purchased it.

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business insurance/perspective

New Delaware corporation law's effect on officers' and directors' coverage

By J. P. Olsen
insurance manager
Ingersoll-Rand Co.



J. P. Olsen

The directors and officers of private corporations long have been subject to major liabilities arising from the suits of shareholders and others. The number of suits has not been declining and the grounds for these actions are seemingly expanding. When one considers the legal and related expenses involved even when the defense is successful, it is easy to understand the apprehension of those exposed to these lawsuits.

For the past several years, a major controversy has raged between and among insurance men and corporation attorneys concerning the most appropriate methods to mitigate these risks. The major questions debated have been the powers and rights of a corporation to reimburse or indemnify its directors and officers for their liabilities and expenses, and the insurability of those risks not reimbursable by the corporation. Last year, following the enactment of a new Delaware general corporation law, the dust that has engulfed this controversy has shown some signs of settling, although most agree that a thorough testing in the courts will be required before all questions can be resolved.

TO BEGIN WITH and in order to understand the problem, it is absolutely necessary to have, however brief, a general but accurate knowledge of the liabilities to which the corporate director or officer is exposed. In general, these liabilities may be divided into two distinct categories. The first results from a suit brought by the corporation itself or, as is usually the case, by a shareholder on behalf of the corporation. It is commonly referred to as a *derivative* action and usually involves such areas as conflict of interest, self-dealing, faulty business judgement resulting in waste of corporation assets, mismanagement or negligence.

The important point to remember is that a derivative action is for the benefit of the corporation (contingent attorneys fees excepted) and for all practical purposes it is really the corporation that is bringing the action.

The second category is generally referred to as *third party actions*. These

cover a wide variety of suits. They include: antitrust actions; violation of the Federal securities law (e.g. section 11 of Securities Act of 1933—material misstatement in a registration statement—and sections 16b and 10b of the 1934 Act—short swing profits and insider manipulations such as the Texas Gulf Sulphur case); injuries to shareholders (e.g. non-payment of dividends); and statutory liability (e.g. illegal payment of dividends, improper repurchase of stock, loans to director). There are other areas but these are the common bases for suit.

THE FIRST AND MOST important question a company must resolve before any other is the extent to which the corporate director or officer may be indemnified by the corporation for any monetary loss he may sustain. The new (July, 1967) Delaware general corporation law should be examined carefully because some 35% of the companies listed on the New York Stock Exchange are incorporated in Delaware and about 20 other states pattern their corporation laws after Delaware. New York, incidentally, is a noteworthy exception.

The new Delaware law, like its predecessor, is termed permissive. Briefly, this is intended to mean that in addition to the rights under the law the corporation, via bylaws, may extend or broaden these laws. However (and perhaps in the interest of adding to your confusion), leading legal scholars point out that although the statute says the corporation may extend or broaden the law via bylaws, courts have consistently rejected many extensions. Legal mumbo jumbo? Perhaps, but a point you should keep in mind.

Now, as to the new law, Section 145 covers the entire subject. It subdivides into five subsections with (a) referring to third party actions, and (b) to derivative actions. Under (a) or (b), if the director is successful in his defense, then, as a matter of right, he is entitled to indemnity from the corporation for all reasonable expenses. In other words, if he wins the corporation pays his expenses. But then, this is nothing new. It is really when he loses or settles before what is termed a final adjudication that the problem exists. In third party actions, the new law entitles him to indemnification even if he loses, if he "acted in good faith and in a manner not opposed to the best interest of the corporation..." and with respect to any criminal action "... had no reason to believe that his actions were unlawful."

THE "GOOD FAITH" and criminal language have been standard. The intent of the language "not opposed to the best interest" is still open to question. Some believe this is intended to exclude indemnification for situations such as the Texas Gulf Sulphur case. Although perhaps an over-simplification, it is generally correct that in the case of a third party action if the director or officer acted in good faith or in a criminal matter did not believe his actions were unlawful but still loses, he is entitled to indemnification. Incidentally, any settlement or a plea nolo contendere or the like in and of themselves does not bar indemnification.

Subsection (b) dealing with derivative

actions is another situation. No indemnification is permitted for amounts paid to the corporation for the obvious reason that it is really the corporation bringing the suit. In effect, the corporation would be paying the officer for the amount they had just recovered from him. However, subject to complying with certain procedural requirements in the courts, the director or officer can lose a derivative action and still recover his legal expense if he acted "reasonably and honestly." This language is new and unique.

The question of insurance against the liability risks of officers and directors has been the subject of considerable debate. The Delaware law, Section 145(e), now expressly permits the payment of premium for and purchase of insurance by the corporation covering the risks of officers and directors. The intent of the statute is to construe such payment of premium as part of reasonable compensation. The present policies are written on a dual form—one protecting the corporation to the extent of its indemnity to the officer and director, the other covering the officer or director.

STRANGELY, and to the consternation of many corporation attorneys, premium in many instances had been distributed on the basis of 90% to the corporation policy and 10% to the officers' and directors' policy. In view of the comparative risks, the best defense I have heard to such a distribution was that it was highly unlikely, in view of the premium amounts involved, that a derivative action would be started. This did not, however, take into account a derivative action based on accumulated premiums over a period of years. The Delaware law now appears to expressly take care of this. However, I should add that one of the largest corporations in the U.S., a Delaware corporation, on advice of a prominent law firm, has purchased the dual coverage and notwithstanding the new statute, has distributed costs on the basis of 55% to the directors and officers and 45% to the corporation. They apparently are not seeking to be the initial test as to the validity of the new law.

The next question is whether the policy insuring the directors and officers will be declared void or illegal on the grounds its purchase is against public policy. Those advocates of this position claim that the acts for which the directors and officers will be held liable (and not entitled to indemnification) will be of such a nature that the court will not permit insurance to respond. In support of this argument is a six-page opinion, written by legal counsel to one of the most prominent insurance brokers in the U.S. Admittedly, the insurance firm was attempting to market a different policy at the time, but nevertheless counsel stated: "If a corporation lacks the rights to indemnify a director or officer for an alleged wrong, it is highly questionable whether the insurance company could do it." This same firm, following withdrawal of the coverage it had been promoting, is now actively marketing the insurance presently available in the market.

Some legal scholars, notably Professor Joseph Bishop of the Yale Law School, have some doubts concerning the legality of the insurance. However, I think the

consensus of opinion is that underwriters will not raise the question concerning its legality and therefore as a practical matter it may never be raised.

HOWEVER, THE POLICY contains this language: "Loss shall not include fines or penalties imposed by law or other matters which may be deemed *uninsurable under the law*..." The language must be carefully considered in light of any public policy questions.

The policy's exclusions also require careful examination. The exclusions for "libel and slander" and "failure to effectively maintain insurance" are of little moment. The latter can be eliminated and there is no case in legal history on the matter. The former may be provided under other coverages. Exclusion (b) prohibits coverage for profits to which a director or officer is not legally entitled. As a practical matter, all of the conflict of interest or self-dealing cases therefore would be excluded. Exclusion (c) prohibits coverages for any excess remuneration. Apparently, this would only apply in those states where shareholder approval is required, such as New York. Exclusion (d) excludes section 16b of the Securities Exchange Act of 1934. These are the "short swing" insider trading profits. Exclusion (e) prohibits coverage for dishonesty but goes on to describe dishonesty as "active and deliberate and with actual dishonest purpose and intent." This should place a substantial burden on the insurer and perhaps is sufficiently vague as to be ambiguous.

The officers' and directors' policy leaves much to be desired. However, if a derivative action is successful and therefore not reimbursable by the corporation and the public policy issues and exclusions can be avoided, a recovery—perhaps a substantial one—may be effected.

THE COVERAGE IS subject to a \$20,000 deductible and the directors and officers are required to pay 5% of all losses in excess of this amount. This alone should be reason enough for careful examination of the indemnification provisions previously discussed.

These comments are simply to alert you to the severe limitations of the policy, but should not be construed as an opinion against the coverage. I think the new statutes permitting the purchase of the officers' and directors' portion of the insurance by the corporation and the liberalization of the indemnification provisions present good arguments for the purchase of the coverage both for the corporation for its indemnification risks and for the directors and officers for their risks. However, a careful and detailed explanation of the coverages and the possible areas of future litigation should be clearly presented to your management.

One concluding note: If ever a coverage required close and careful consultation with corporate counsel, this is it. ■

John P. Olsen received a B.S. degree from the University of Virginia in 1945 and an LL.B. degree cum laude from the New York Law School in 1954. He has been manager of the insurance department of Ingersoll-Rand since 1965.

perspective

Telling the Benefit Story

What's in it for me—or my family?

By Howard L. Peck
Partner
Hewitt Associates



Howard L. Peck

In this day of burgeoning benefits—and costs—there appears to be a growing conviction that in communicating with employees about their benefits, booklets and flipcharts and articles are not enough. Because benefits absorb so large a part of the payroll dollar, it is recognized that we need to get down to cases, to tell the employee precisely what the program means to him—now and in the future—and to give him some idea of its value.

To meet this need, more and more employers are turning to the individual benefit status report, usually computerized. Most employers who use them appear to be enthusiastic about them. "Greatest thing we've ever done." "Never did anything in benefit communication that got a greater response." These are typical reactions. There are exceptions,

of course. One steel company executive reported no employee response. This phenomenon may have something to do with the atmosphere or climate in which the reports were issued.

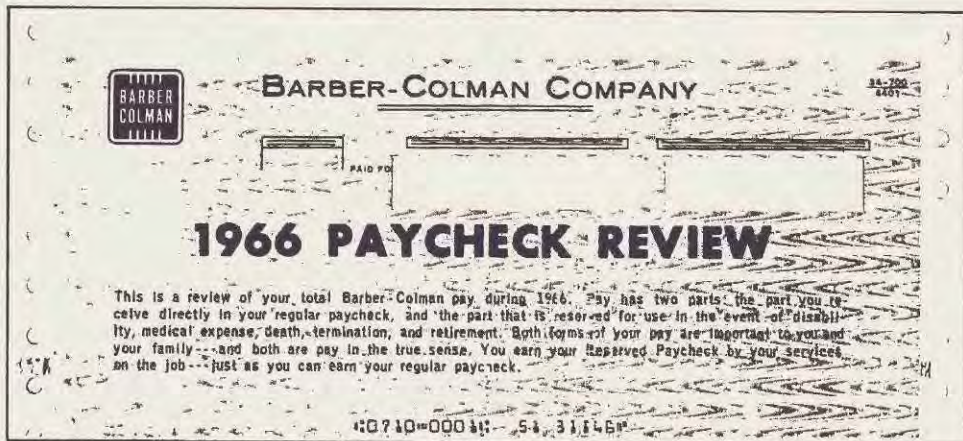
As benefits become more sophisticated, it is more difficult for the individual employee to relate the story in the booklet to his own circumstances. Employers with complex benefit programs find the status reports especially useful.

CONTINENTAL AIRLINES is a case in point. Its retirement benefit structure for pilots, for example, typical of the pattern in the airline industry, includes a fixed-benefit pension, a "regular variable plan" and a "special variable plan." Recently, Continental distributed a report that included, among other things, estimated monthly incomes from the various plans for normal retirement, early retirement, disability at various ages, and termination at various ages.

"The response was extremely gratifying," said Harrold W. Bell Jr., personnel relations vp. "The pilots are a well-informed group. They know their compensation and benefits. Yet this report brought the program to life for them, provided information they were unable to develop for themselves, so that they could grasp the real value and significance of the retirement program."

Another booster for the benefit status report is Thomas B. Bartel of American Hospital Supply Corp.'s executive office personnel department. In its current use of the status reports, American Hospital Supply covers about 3,000 employees. As personnel records in various units are placed on a uniform basis, it is planned to expand to embrace the entire work force, now about 8,000. "Many of our people have told us that this is the greatest thing they had ever seen, and we plan to make it an annual part of our communication effort," says Mr. Bartel.

The status report is distributed in May and mailed directly to the employee's home. Among other data included in the report are the names of beneficiaries un-



This personal statement of employee benefits is distributed annually by Barber-Colman Co., one of a number of major firms that communicate precise benefits to each employee. Included in the statement is the amount of

der the company's insurance programs. Accompanying the report is a brief questionnaire, asking the employee to check his beneficiary designations to make sure they are up-to-date, and inquiring whether he would like further information. As a valuable by-product of the process, Mr. Bartell reports that at least 150 employees out of the 3,000 made changes in beneficiary designations.

SOME EMPLOYERS are hesitant to send information on beneficiaries to the home, on the theory that it may, in some cases, come as a surprise in the family circle. Asked whether his company had encountered any static on this score, Mr. Bartel said that it had not.

Few employers have longer histories of using computerized status reports than Argonne National Laboratory, Argonne, Ill. The laboratory has issued reports in each of the past nine years. According to W. F. Thompson director of the employee services department, "Our people have come to expect the reports and to accept them as a regular

regular and reserved benefits including disability income protection, medical expense protection, death benefits, profit-sharing accruals and the aggregate cost of benefits for the year.

part of their employer's reporting process. The degree of interest is indicated by the fact that, as the date approaches for distributing the reports—about May 10—many employees ask when they can expect to receive it." Like the Continental Airlines report, the Argonne report also shows a projection of a variable retirement benefit.

Roy Hardy, vice president of Barber-Colman Co., Rockford, Ill., comments that it is difficult to place a dollar value on the status reports, but that intangible values exist.

"It's hard to say how much these reports improve employee understanding of fringe benefits," says Mr. Hardy "but we feel one of the most useful aspects of such reporting is that it is obvious we are trying to improve communications. In issuing a report, we are telling the employee that we care enough about him and his family to go to the expense and trouble of developing a personalized, comprehensive statement on his benefits. I can't say to what extent the reports have

Continued on following page

Protect your plants, trees and shrubs from lawsuits

by John W. Giles
attorney-at-law
Washington, D.C.

Today many companies have moved to the suburbs and landscaped the approach to their plants so effectively that they resemble country clubs and make going to the office almost a pleasure. The preservation of these trees, lawns and shrubbery from destruction is a concern of insurance buyers.

Plants, shrubs and trees are often destroyed by the weight of snow, ice and sleet—in fact more often than by a violent wind storm. How should you have your policy written so as to cover this possibility without a resulting lawsuit?

There are very few cases on the subject, but the lesson of a case in the Virginia supreme court of appeals illustrates the necessity of clear and specific lan-

guage on this potential loss in the policy (*National Fire Insurance Co. v. Dervishian*, 1965).

IN THE CASE, the insureds, under a comprehensive dwelling policy instituted an action against the insurer to recover for loss or damage to trees and shrubs from the weight of snow and ice. One clause of the policy excluded liability from loss to trees, shrubs and plants from the weight of snow, ice or sleet, except as the direct result of the collapse of a building. However, another clause provided for extension of coverage, at the insured's option, of up to 5% of the coverage on the insured's dwelling to cover loss of trees, shrubs and plants, with a limitation of the amount to be paid for each tree, shrub or plant, such extension of coverage clause specifically excluding coverage for losses resulting from certain named perils, but not specifically the peril of the weight of snow, ice or sleet.

The trial court entered a judgment for the plaintiffs. On appeal, the trial court's judgment was affirmed.

The court held that notwithstanding the policy provision excluding liability for loss of trees, shrubs and plants from the weight of snow, ice or sleet, the insureds could recover under the provision for extension of coverage at the insureds' option. The court's position was that where the language of an insurance policy is susceptible of two constructions, it is to be construed against the insurer.

IT WAS ARGUED by the insurance company that where the policy is a stated peril policy and not an all risk policy, and the insurer specifically declines to provide insurance against the peril of weight of snow, ice or sleet on trees, shrubs and plants, there is no ambiguity nor does the policy manifest any intent of the insurer to provide insurance against that damage.

Absent a collapse of a building from such weight, the supreme court should set aside the judgment, the insurer maintained. But this argument was not accepted by the supreme court of appeals.

The court of appeals found coverage here under the "optional extensions of coverage" provision of the policy. The court pointed out that the liability for



John W. Giles

snow damage was not expressly excluded there, as were various other risks.

"If the defendant company had intended excluding the peril of the weight of snow, ice or sleet from the extension

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increased employee understanding, but I do believe they appreciate our sincere effort to keep them honestly informed on the estimated value of their fringe benefits. It certainly helps them in their financial planning."

TODAY, MANY EMPLOYERS are asking themselves whether they should get involved with status reporting. If you're one of these, let me make a few suggestions. First, decide what it is you're trying to accomplish. Then ask yourself whether it appears that a personalized report is the way to accomplish it. If the answer is yes, you're ready for the next steps.

1. Plan carefully—don't rush into it. Check your costs, and make sure you want to take on the commitment on a continuing basis, because once you start reporting it's hard to stop.

2. Consider going beyond benefits to embrace total compensation. Even salaries, bonuses, contingent and indirect forms of compensation (like tuition refunds) can be underestimated or misunderstood in looking at the whole compensation package.

3. Develop the content of your report with care. Resist the temptation to overload it with figures, merely because the computer will generate them. Too much information can be confusing.

4. Make it attractive and readable. Too many reports look as though they were created by computer technicians, not communicators.

5. Keep in mind that reporting is just one of the three major functions in communicating on benefits (or most any other subject). It needs to be accompanied by a regular program of listening, and clear and consistent explanation. ■

Howard L. Peck is a partner in the firm of Hewitt Associates, Libertyville, Ill., independent consulting actuaries, analysts, and advisers on pensions, profit sharing and employee benefits. He heads the firm's activities in employee communication. Mr. Peck, who has been active in the advertising and communication field since his graduation from Grinnell College, spent several years handling investment securities advertising. He was a program director for Wisconsin radio stations and for 15 years was an account executive and later vice president of a Milwaukee advertising agency. Since joining Hewitt Associates in 1952, Mr. Peck has handled employee communication projects for many companies in various parts of the country.

continued from preceding page

of coverage, it could easily have done so by including this peril along with the three perils specifically named and excluded," the court said. Any other construction here would leave the language of the policy ambiguous and meaningless.

AS A BUYER OF insurance, you are not interested in a complicated lawsuit if all the trees, shrubs and plants are injured by the weight of ice and snow. Your only interest is to get paid if they are.

We submit that any policy protecting your beautiful grounds from damage should be clearly written to include not only damage from hail, wind, etc., but damage from the weight of snow, ice or sleet. A company will, we believe, certainly write this clearly; the subjects involved are worthy of adequate protection. ■

John W. Giles, attorney at law, is a member of the bar of New York, Chicago and Washington, D.C. He is a former special consultant to the Comptroller General of the U.S., professor of law at Catholic University of America and the University of Kansas, assistant general solicitor for the Chesapeake and Ohio Railroad, and resident attorney for International Minerals and Chemical Corp.

What architects and designers should know about their potential liabilities and defenses against them

By Bradley M. Walls, partner,
Austin, Burns, Smith & Walls,
New York



Bradley M. Walls

In these days of more and more suits for personal injury and property damage, the architect or building designer should take a longer and closer look at his potential liability when he is planning a new structure.

While other professions, especially medicine, are accustomed to suits for malpractice, lately this type of action has begun to concern the architect and designer.

On the surface, it would seem that an architect or designer would have little reason to be involved in a suit where someone falls down a flight of stairs and becomes injured. This is not the sometimes puzzling reasoning of the law, however.

A RULE INCREASINGLY applied to architects and designers today began when a colorful and pioneering New York judge wrote a decision for his court in 1916, to the consternation and loss of the Buick Motor Co. It seems that a wheel on the car of a Mr. MacPherson collapsed, and caused him to be injured. The wheel was found to be inherently defective.

Up until that time, a consumer could not sue a manufacturer for defective products unless he had directly contracted with that manufacturer.

Usually there was a wholesaler and dealer, or retailer, between the manufacturer and the consumer. This made negligent acts by the manufacturer almost impossible to prove.

THIS WAS CHANGED in the MacPherson v. Buick case. The court ruled a manufacturer's product carries with it an implied warranty that it is safe for its intended use. Such a manufacturer would be liable for personal injury caused by an inherent, dangerous and hidden defect, whether he had contracted directly with the injured person or not.

Gradually, this rule or doctrine was extended to include other products—

mechanical, chemical and food. For a long time, the courts were reluctant to extend this to the building industry. It has been only recently in terms of the law, that liability has been extended to the architect and designer, who puts himself in a position similar to that of a manufacturer.

At this point, the architect or designer is probably puzzled, because he can see no comparison between himself and a manufacturer, since he considers himself a professional man. Injury, whether caused by a manufacturer or by a professional man, is the key issue.

THERE ARE MANY legalisms which could be discussed here to explain the difference between a doctor who performs a sloppy operation and a designer or architect who draws defective plans. These distinctions are minor when liability can amount to approximately the same thing.

One rule which must be considered is an element contained in any case against a professional man. This is the degree of professionalism with which the architect or designer does his job.

In the law, this is known as 'the standard of care' which the architect uses in specifying materials to go into the construction and the soundness of the plans which he draws. Keep in mind, this is viewed from the standpoint of the injured party, as well as the views of architects generally.

FOR EXAMPLE, if fire breaks out in a public building and people are injured trying to exit, the architect might be sued on the ground that he failed to provide for adequate aisle space. If it can be shown that most other architects would have provided more space, the architect could be held liable.

If there is no building code requirement involved, the standard of care is in the form of a question: Did the act, or the specifying of materials, or the drafting of plans conform to the standards generally recognized as good architectural practice?

To determine what is good architectural practice, both sides in a case would call on testimony from other architects for their opinion. The decision would be left for the judge or jury.

There is a different situation, however, where there is a building code requirement. Where the code sets the type of material to be used, or the design of a structure, the code itself sets "the standard of care." The only room for argument is whether the architect or designer met the code and whether failure to meet the code caused the injury or damage.

POTENTIAL LIABILITY to an architect or designer could develop when he seeks and obtains a code variance. In such a case the architect would have to prove that the substitution equaled the safety and other standards of the code. Where the architect or designer meets the code implicitly, the plaintiff or injured party must prove the plans or materials were defective.

For example, suppose the code requires that a building have a class A, B or C fire rated roof. The designer asks permission to install another material which does not implicitly meet these standards, such as untreated wood shingles or shakes. A fire starts on the roof, burning

the building and injuring several people. In a suit charging that dangerous materials had been specified, the architect or designer would have to prove that the substitution was equal to the code. An opposing attorney might argue that fire rated asphalt roofing, asbestos, tile or other roofing should have been used.

How about the fire commission, planning board, or agency which approved the variance? Such approval might be used as evidence in defense. But a strong case might be presented that such variance was mistakenly or improperly approved. The architect's representation to the approving agency that the materials of his choice were equivalent to code specification could impose ultimate liability on him.

SUPPOSE AN ARCHITECT or designer contracts to design and build a church. The code calls for a minimum standard, such as Class C fire rated roof. He asks for, and obtains a variance to use different materials. A picture of the building is now proudly displayed in his reception room.

Then, one night during a service, a crank arsonist drives by the church and throws a gasoline bomb on top of the roof. It burns quickly, the worshippers are caught by surprise. Some are injured fleeing the building. One man is killed.

Outside, a 25-mile per hour wind has started to whip at the roof. Burning brands start to fly off and become airborne. They begin to settle on surrounding houses and buildings, igniting these roofs. By the time the ordeal is over, a square mile of fire damage has been done and several people are injured or dead.

Is it farfetched that the architect or designer could be held liable for the entire conflagration? Held for the fire damage, personal injury and the deaths of one or more people? The amount of liability? One million? Two million? Three?

The best way an architect or designer can protect himself is to consult his attorney frequently.

But when no lawyer is at hand, there are basic questions the architect should ask himself when doing a job: Would most architects or designers specify this material, or draft the plans this way? Is there a code requirement involved? If there is, should I take the risk of asking for a variance? And, finally, am I adequately insured? ■

Bradley M. Walls, attorney-at-law, is a member of the New York bar and a partner in the law firm of Austin, Burns, Smith and Walls, New York City. He received his bachelor of arts degree from Harvard university, Cambridge, Mass., and a law degree from Cornell university, Ithaca, N.Y. He also holds an LL.M. degree from New York University. Mr. Walls has written articles and pamphlets on such subjects as copyright law, tax exemptions for church properties, rights of Puerto Rican immigrants and canon law. He is a book reviewer for the Houston Post. He is a member of the American Bar Association's trade association committee. Mr. Walls has been a guest lecturer at Cornell University law school, the Episcopal Seminary d'el Caribe in Puerto Rico, and the Hampton Institute, Hampton, Va. He is also a chancellor of the Episcopal diocese of Haiti.

in focus



Administrative costs must be considered by a dynamic risk manager. Douglas Barlow, general risk manager of Massey-Ferguson Ltd., Toronto, told the ASIM conference.



Braun Babb Maier Mackie Gollmar Strickland Salisbury

Settling down for lunch at the annual conference of the American Society of Insurance Management in Chicago were Phil J. Braun, Braun & Braun, Flint, Mich.; D. Melvin Babb, insurance consultant of Newport, Ark.; Henry

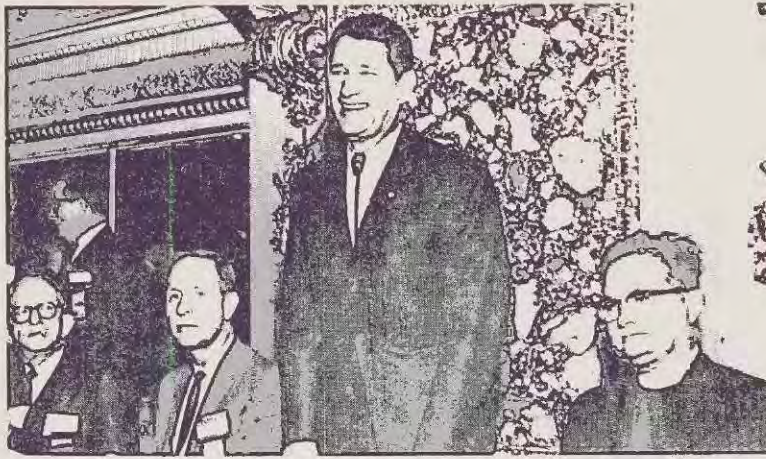
Maier and H. C. Gollmar, Chromalloy American Co., Elyria, O.; David F. Mackie, Marsh & McLennan; Lloyd Strickland, Gulf & South American Steamship Co., and J. William Salisbury, South Coast Corp., both New Orleans.



The 1968 American Society of Insurance Management president's award is presented by A. Grant Whitney (left), vp and general manager of insurance for Belk Stores, Inc., and former president of ASIM, to Joe T. Parrett, insurance manager for Carnation Co., Los Angeles. The award is for outstanding service to the profession of risk management and devotion to the principles of ASIM.



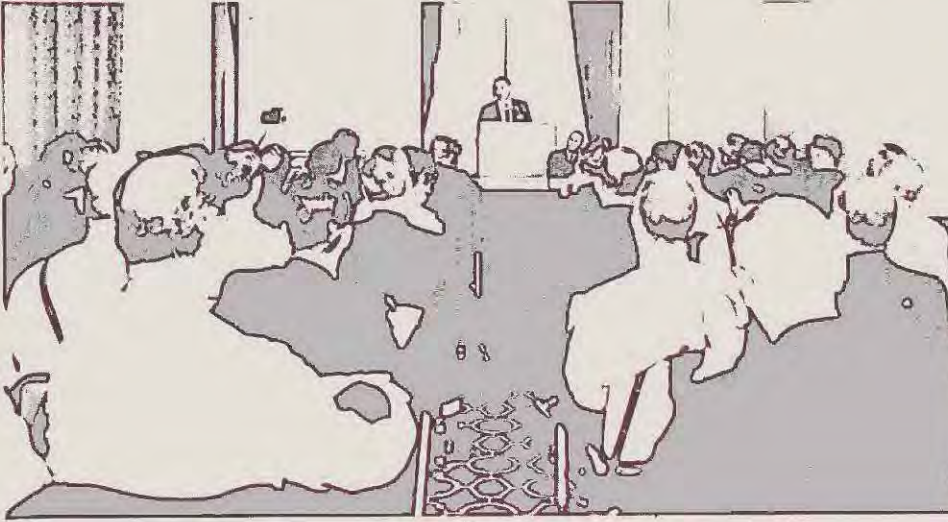
Lead-off speaker in a session on business interruption coverage at the ASIM annual conference was Donald B. Maxon, vp of Toplis & Harding Co., San Francisco adjusters.



A good yarn told by a good yarn teller. Joe Foss told some good ones at a luncheon during the ASIM annual conference. His stories came from his past including being a war hero, former governor of North Dakota, star of a syndicated television series and former commissioner of the AFL.



A discussion of problems relating to risk management in Canada presented by the ASIM Canadian chapters, was one of seven split sessions during the ASIM national conference. More than 800 attended the sixth annual conference.



The Wisconsin ASIM chapter presented a split session on new concepts in risk management at a split session during the ASIM national conference held in the Pick-Congress Hotel in Chicago Feb. 21 to 23.

Benefits managers puzzle over Rocky's compulsory health bill

See related story on page 8

ALBANY—Gov. Nelson Rockefeller's compulsory health bill has caused confusion in the state capital and among employee benefits directors over what the governor means by 120 days of semi-private hospital accommodations.

When *Business Insurance* went to press, they were trying to determine whether the 120 days would be per year or per illness.

According to one employee benefits manager, this makes a "lot of difference to our plans."

Several benefits directors felt that the governor's plan could impose a financial burden on employers that would ultimately be felt by the consumer's pocket-book.

IN ADDITION to the 120 days of accommodation, Gov. Rockefeller's plan calls for 100 days of home care following hospitalization, maternity benefits up to \$150 and inpatient and outpatient hospital services.

The home-care benefit provides for visiting nurses and doctors coming to the patient's own home but doesn't include nursing homes, according to the governor's office.

Ark. bill...

Continued from page 2

Foundation to provide low-cost cover for college teachers. The business is based in New York, and in 1938, Carnegie transferred the stock to an independent board of trustees. The company, without a sales force, sells through the mail.

In 1952, a companion corporation, the College Retirement Equities Fund was created to provide retirement benefits for college teachers based on investments. In Arkansas, ten colleges and several other educational groups participate in plans offered by these two groups.

In 1967, the state legislature waived admitting these groups to do business in the state and paying any state taxes on premiums or license fees.

Some insurance groups had been rankled at this waiver and asked Gov. Winthrop Rockefeller to amend the law to require them to register. When the TIAA saw the mail order bill, it sent a representative to the state to work out a compromise with the state insurance department that would continue its tax-exempt status.

Hike ocean...

Continued from page 2

being contested, according to the viewpoint of marine underwriters. In one case Sea Land Service, Elizabeth, N.J., is at odds with an insurance carrier for the loss of about 57 containers by its ship, the Summit, last April.

Under the original Hague Rules, Sea Land would have been liable for \$28,500—but under the revision limits could go far beyond that figure.

Several other cases are still being disputed in court and one insurance manager said it could be years before even one case is decided. If a court should rule in favor of the subrogation claim of one insurance company, he pointed out it would set a precedent for all future claims.

The health plan would apply to every employer with one or more employees other than domestic workers. Gov. Rockefeller said the small firm is the target of the compulsory health program.

Most employee benefits managers see the 120 days of semi-private accommodations as a most unusual feature of the program especially since Medicare only offers 90 days of hospital care.

ACCORDING TO Robert E. Royes, secretary of the employees' benefits committee of American Telephone and Telegraph Co., New York, "120 days is longer than some corporations offer now."

A typical Blue Cross-Blue Shield plan pays for the first 21 days in a semiprivate room and then pays 50% of costs beyond that, said an employee benefits consultant.

According to Blues statistics, 91% of the patients are out of a hospital within 21 days.

Gov. Rockefeller has indicated that if an employer has a health insurance plan that meets or exceeds the state's minimum requirements, then this plan could continue in force.

"BUT YOU CAN'T really tell how your plan matches up with the governor's until you lay them side by side," Mr. Royes said.

D. W. Briggs, employee benefits manager, ACF Industries, New York, said whether changes have to be made in current company hospitalization programs will depend on just what the governor means "by meets or exceeds minimum requirements."

If the program forces companies to make changes there could be some resistance on the employer's part, another said.

Most managers agreed that a common problem should the proposal become law would be how to give employees not working in New York equivalent benefits "you could increase benefits for all your employees," said one manager or "you might have your New York employees pay the difference between the state plan and what the company now provides," said another.

The governor's recommendations are expected to be introduced during the 1968 legislative session.

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man administrative body appointed by the legislature and headed by Mr. Parker.

C. Eugene Farnum, Massachusetts insurance commissioner, said there is much to favor the use of investment income in rate making. He contended that un-

earned premiums belong to the policyholders and income derived from that source should be considered.

OREGON INSURANCE Commissioner James R. Faulstich called the debate over investment income "fighting the battle at the wrong bridge." The key issue, he maintained, is providing insurance companies with an adequate return for investors.

Mr. Faulstich cited report figures that show regulated utilities, such as American Telephone and Telegraph, have averaged about 7% profit while insurance companies average only 4%.

Commissioner Faulstich declared flatly, "We in Oregon do not plan to take the New Jersey attitude that investment income must be considered in setting insurance rates."

California's unique file-and-use rating law makes the investment income argument unimportant because carriers themselves set the rates and competition governs rate levels. Insurance Commissioner Richard S. L. Roddis said, "Some companies include their investment income and others do not when making rate filings in California. The use of investment income to offset losses is always de facto in California because of competition."

MR. RODDIS shrugged off the dispute as "an argument in se-

mantic theology." The real issue, he added, is that rates must be adequate to provide a return on capital so that company reserves can be used to expand to meet the market needs.

The use of investment income in rate making is under study by the Michigan Insurance Bureau, and Commissioner David J. Dykhous declines to take a position pending his completion of two reviews affecting the insurance industry.

The first report, due in about a month, will examine the state's auto insurance industry, Mr. Dykhous told *Business Insurance*. A conclusion on the use of investment income will be made either in that report or in a second study, to be issued in June, dealing with regulation of insurance companies for solvency.

The commissioner noted that a study by Robert Bailey, chief actuary of the bureau's property and casualty section, concludes that it is feasible to consider investment earnings in setting rates. "It's possible to get a fix on the part of income that is due to insurance premiums and the part that comes from ownership surplus," Mr. Dykhous said.

Allan W. Horne, new insurance commissioner in Arkansas, said that investment income on unearned premium is a factor that should be considered in ratemaking.

The Insurance Rating Bureau

has requested a rate increase in Arkansas on automobile liability and collision insurance. A decision is expected this month. Mr. Horne would not take a position on whether investment income from unpaid claim reserves would be considered in the request.

According to the bureau, the rate increase is necessary because of an increase in the cost of paying for insured accidents in Arkansas.

DAVID O. MAXWELL, insurance commissioner of Pennsylvania, declined to comment on the Howell decision because of a similar request for rate increases that is pending in his state.

In Kentucky, Robert D. Preston, insurance commissioner, will hold rating hearings in the near future in response to a request last year by his predecessor, S. Roy Woodall Jr., for the national rating bureaus to present evidence regarding the applicability of investment income to insurance rates for automobile liability and property coverages.

Commissioner Preston said it would not be appropriate for him to comment on Mr. Howell's action prior to these hearings.

The National Board of Casualty Underwriters, which submitted the request on behalf of insurance companies, said it has not decided if or when to appeal the New Jersey decision. ■

LBJ's call . . .

Continued from page 1

not now covered and include services not now included; to encourage the opening of health centers to provide complete care in every community; and to identify and reward new approaches by medical societies, group practice organizations and hospitals for delivering better health care at lower costs.

A White House spokesman told *Business Insurance* that the President's order directing the Secretary of Health, Education and Welfare to begin "immediate extensive tests of incentives designed to reduce the cost of medical care" would most certainly include extensive questioning of the business community concerning its role in reducing rising health costs.

President Johnson recommended that Congress authorize HEW to "establish a reasonable cost range to govern reimbursement for drugs now provided under Medicare, Medicaid and maternal and child health programs."

He also gave the first administration backing to a bill to establish a U.S. compendium on drugs. Primary purpose of the compendium would be to promote the use of generic name drugs. ■

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GROUP LIFE, INDIVIDUAL LIFE SALES OF EIGHT LEADING INSURERS: A COMPARISON*

COMPANY	GROUP LIFE SALES	% INCREASE OVER 1966	GROUP LIFE IN FORCE	INDIVIDUAL LIFE SALES	% INCREASE OVER 1966	INDIVIDUAL LIFE IN FORCE
METROPOLITAN	\$4,854,977,895	135%	\$64,357,906,081	\$8,677,469,451	4.5%	\$74,924,310,076
PRUDENTIAL	3,601,000,000	23.7%	45,592,000,000	9,706,000,000	3.3%	84,000,000,000
AETNA	4,800,000,000	103%	39,200,000,000	1,200,000,000	down slightly	7,500,000,000
TRAVELERS	3,372,883,000	9.7%	35,742,000,000	1,162,413,000	3.4%	8,241,000,000
EQUITABLE	1,804,439,000	23.8%	34,241,347,000	2,507,396,000	0.2%	22,386,434,000
HANCOCK	2,200,000,000	31%	21,200,000,000	4,500,000,000	2.5%	27,000,000,000
CONN. GENERAL	1,432,243,264	13%	16,300,000,000	1,733,687,017	13%	8,200,000,000
N. Y. LIFE	862,817,659	54.7%	7,746,708,115	3,951,052,859	5.72%	31,735,915,717

*Ranked by group life in force

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Group life . . .

Continued from page 1

An important account picked up by John Hancock in 1967 was McGraw-Hill Inc., which was previously insured by Aetna. The Pepsi-Cola-Frito Lay merger resulted in a consolidation of group life and health insurance at Hancock.

Commenting on the big growth of group insurance during 1967, an employee benefits executive at Marsh & McLennan explained that the big jump was because "the value of a man's life is being upgraded, resulting in death benefits increasing all the time."

Several years ago, he pointed out, the average group life protection was a death benefit equal to one year's annual salary. Today, however, this benefit is frequently two-and-a-half times annual salary, and even this figure will probably increase as benefits "are more related to an employee's potential earning power."

James F. Oates Jr., chairman of the Equitable Life Assurance Society, said group life insurance sales rose to \$1.8 billion, a gain of 23.8%. He said group health sales rose 46.2%, and group annuity business was up 17.6%.

THE ESTIMATED total group

contracts in force during 1967 at 6,777, covering more than 300,000 new persons last year. The Society's sales of group and individual life insurance was up 8.9%, Mr. Oates reported.

The results of the eight biggest life insurers reflected an overall increase posted by life carriers. The Institute of Life Insurance reported group life sales hit about \$40 billion in 1967, up 54%. The institute pointed out that about \$8 billion of this increase came from upgrading the federal employees' group life program.

INDIVIDUAL LIFE sales reached \$97 billion last year, up 8.4% from 1966.

Group life insurance in force at year-end was about \$385 billion, the institute estimated, compared with \$580 billion in force for individual coverage. ■

Special risk brokerage opens

Associated Underwriters Inc., St. Petersburg, Fla., an insurance brokerage firm specializing in unusual and difficult risks, has opened at 3110 1st Ave. N. Joseph E. Yungel is president of the firm, Mary M. Burns is vp and Joan W. Yungel is secretary-treasurer.

ASIM meeting hears pros, cons on mass merchandising plans

CHICAGO—An employee benefits manager and a risk manager teamed up against an insurance company executive in a debate over insurance by payroll deduction at the American Society of Insurance Management annual conference here.

And the audience, primarily employee benefits and risk managers, seemed to side with its own in kind on the controversial subject of mass merchandising of insurance plans.

James R. Morris, manager of personnel for the communications systems division of Control Data Corp. and formerly manager of corporate employee benefits at Control Data, and Waller B. Smith, manager of corporate insurance and claims for United Air Lines, both said that their companies, at least for the present, have decided against a mass merchandising program.

Howard T. Weber, manager of the general insurance department, 3M Co., moderator of the panel discussion on mass merchandising, asked for a show of hands from those who had begun a payroll deduction insurance plan.

HE COUNTED only six out of an audience estimated at 400.

Roger S. Arnold, underwriting secretary, Insurance Co. of North America, presented the carrier's viewpoint. He defined mass merchandising as selling personal lines, such as automobile and homeowners policies, to employees through employer sponsorship with premiums collected by payroll deduction.

He said such plans are similar to supplementary group life insurance, salary continuance and accidental death and dismemberment covers that are offered many employees.

Mr. Arnold outlined three factors for a successful mass marketing plan. First, he said "we must deal with an employee benefits-minding employer—one who believes in using the leverage of the employer's corporate buying power to provide the best benefit program for his employees;

"Second, the employer should be concerned about accident prevention both on and off the job and be willing to support the carrier's safety programs for employees;

"Third, the employee should be able to buy as much of his personal insurance coverages as he cares to, with personal counseling on company premises."

MR. ARNOLD likened the furor over mass merchandising today to the "cries of anguish (that) were raised in 1917 with the advent of group life" coverages. He pointed out that group life now accounts for 40% of all life sold in the U.S.

"The prediction has been made that the premium volume of auto insurance in 1975 will be \$24 billion and of that, \$5 billion will be produced through mass merchandising," he said.

"We believe that the over-all long term effect of mass marketing will benefit the public as the leverage of the group buying power of employers broadens a current restrictive market in personal automobile and to some extent in homeowners."

Mr. Arnold pointed out that more than 100 foreign educators and students at the University of Pennsylvania are insured at nor-

mal rates on its mass marketing plan but who would normally be assigned to higher risk categories.

Mr. Arnold said that the University of Pennsylvania program began 11 months ago, and 1,000 of 9,000 eligible have been enrolled. He said that INA expects 50% enrollment after three years, with an annual premium of \$1,000,000. He also said that eight persons have been denied coverage under the plan.

In addition, INA has a hold harmless clause for employers who have their mass merchandising program.

MR. MORRIS said that looking

at payroll insurance, a Control Data study developed a list of pros and cons. The disadvantages included

- 1) Another decrease in take home pay;
- 2) A threat in having the company pick up a greater share of the cost of the cover in the future;
- 3) A new, relatively untried employee benefit;
- 4) A question about the employer's legal liability, especially when advice is given on coverages;
- 5) Administrative headaches, such as lost enrollment forms, changes in status;
- 6) Unavailable on a nation-

wide basis, with doubts on service capabilities (Mr. Arnold confirmed that no carrier can sell mass plans in all states due to differences in state laws);

7) Inability to cover all employees.

The Control Data study cited these advantages:

- 1) Potential savings for employees with a direct hike in spending; power;
- 2) Convenience for the employee in spreading out insurance payments;
- 3) Employee more assured of getting a financially responsible carrier because carrier is picked by a risk manager who is an expert in insurance matters;
- 4) Although a quasi-group plan at present there is evidence of a trend to a real group cover and an individual gets better treatment when carrier has to think of entire account;
- 5) Safety program begun by

carrier, up to 2% of the premium devoted to such things as driver's training, parking lot planning and auto safety campaigns for captive employee audiences;

6) Part of a trend to group coverages;

7) Insure more adequate insurance levels for employees;

8) With increasing cost pressures on companies, an added benefit for employees in a low-profit year.

UNITED AIR Lines Mr. Smith pointed out that payroll insurance was "buying a lot of trouble" and suggested that perhaps the best place for such coverages would be through the company credit union.

Mr. Arnold pointed out that in a meeting with Walter Reuther of the United Auto Workers, it was apparent that unions are intent on putting group auto cover on the bargaining table. ■

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W. F. (Bill) LEONARD JR., director of safety and insurance. The Southland Corp., Dallas, enlists the help of Dennis Morton, Texas Instruments Inc., and Gordon Middleton, Times Herald Printing Co., shows safety poster.

Southland cuts accident rate by 40%, company tells ASIM

DALLAS—The Southland Corp., which operates 2,600 convenience food stores and six dairies in 30 states, employs 15,000 persons and has 5,000 trucks, has in the last 12 years reduced accident frequencies 40%. And, although the number of personnel has increased fourfold since 1955, Southland has had no death claims since 1950.

The Dallas-based company has achieved this record because of its emphasis on safety programs, according to W. F. (Bill) Leonard Jr., Southland's director of safety and insurance.

Speaking to members of the Dallas-Fort Worth chapter of the American Society of Insurance Management, Mr. Leonard said his company beams its safety program to its 472 supervisory employees. It is a five-point program concentrated on "attitude, teamwork, good housekeeping, horse sense with horsepower and enthusiasm."

"We must realize," he explained, "that education and patience are the essentials in selling safety. He listed these steps in training a new employee: Put him at ease; explain the key points; make it clear; be patient; try him out; correct him and explain why you corrected him."

"Employees better understand what you're talking about if you convert accidents in terms of products they handle," he pointed out. "If an ice department worker injures his leg, tell him the accident costs the equivalent of 9,000 blocks of ice... or a bad accident involving a truck hauling potatoes costs 40,000 sacks of potatoes."

The speaker stressed the importance of checking the background and driving record of

employee applicants. "Repeaters cost you money and increase insurance rates," he declared. ■

Dallas-Ft. Worth ASIM Elects

The 1968 officers and directors of the Dallas-Ft. Worth chapter of the American Society of Insurance Management presided for the first time at the organization's regular monthly luncheon meeting Jan. 18.

New officers are: president, Hal B. Barnes; executive assistant, Dallas Power and Light Co.; vp, Gordon Nettleton, assistant to the treasurer, Times Herald Printing Co.; treasurer, John Burns, office manager, Anderson Clayton Co., foods division; and secretary, Larry Wallace, insurance manager, Otis Engineering Co., all of Dallas.

Directors are: Fred Silverthorne, Republic National Bank; Charles Teeple, Mobile Oil Corp.; Gene Aldridge, Texas Instruments; Raymond Harrison, American Petrofina; Dave Morris, Ling-Temco-Vought; Orlean Ehrlich, D. Harold Byrd; Jack Hertz, Southern Union Gas Co.; and J. L. Hamilton, Campbell-Taggart Bakeries.

Court battle seen over Expo suit

MONTREAL — A protracted courtroom battle could erupt over a \$1,293,459 suit instituted by the Republic of China against Expo '67.

The suit claims damages resulting from a May 30 fire in the Chinese pavilion. Shortly after the fire it was reported that damage to the interior was about \$200,000; the government said in the complaint that the pavilion cost \$333,543 to rebuild. Added to this amount is over \$943,000 worth of valuable articles which were destroyed, according to the Chinese.

Named as a co-defendant was the Hegeman-Harris Co. of Canada Ltd., whose employees were allegedly cleaning the building the night of the fire. According to the suit, the fire, insofar as determined, was caused by negligence

or carelessness of the employees.

However, according to Expo, an investigation following the fire did not prove this contention. The investigators ruled the fire was of accidental origin and the most probable cause was the careless disposal of a cigaret.

In the complaint, the Chinese contended they were led to believe by Expo officials that fire protection on immovable property was provided by a \$25,000,000 overall policy offered to participants in the exhibition.

A spokesman for Expo termed the charges by the Chinese government "incorrect." He said that Expo arranged a \$25,000,000 comprehensive general liability policy for all participants through a pool of eight insurers.

Fire insurance on immovable property was to be placed by the

participants through either a pool of 54 insurers arranged by Expo or through a fire underwriter licensed to do business in Quebec or with Lloyds.

The Chinese said they understood the \$25,000,000 insured against any loss by fire of immovable property. Further, the government said it never received any notice from Expo that the pavilion was not insured or of means for securing coverage.

Expo's spokesman also called this allegation "incorrect." For one thing each participant was instructed through regulations on what insurance was needed and how to provide for coverage.

The suit also named eight insurers as obligated to indemnify and pay the \$1,283,459 on behalf of Expo. Insurers included the Canadian Indemnity Co. ■

Foolproof way to manage



Employees confused by benefits, Calvert tells Canadian meeting

TORONTO—Employee benefits have grown to a point where more than 26% of all labor costs in North American are flowing into benefits, and this percentage will increase to 34% within the next ten years, members of the Canadian Pension Conference were told.

Geoffrey N. Calvert, president of Alexander & Alexander Services Ltd. in Canada and director of personnel coverages for the firm in New York, said that an employee is well aware of his base earnings, but he warned that he is "utterly confused and bewildered when it comes to understanding details and values of employee benefits."

What is needed, he advised, is personalizing "into a single comprehensive statement the whole spectrum of benefits which apply to him and his family. He needs this information because it is a major part of the reward for his services."

MR. CALVERT TOLD his audience that an employee needs to know about his benefits before tragedy strikes, including how to apply for them, the amounts of each benefit, waiting periods, etc. He pointed out that it is not surprising to read of accounts of employees who have forfeited benefits of great value simply because they did not know

where to apply for them.

Employees don't want to read about benefits which apply to Mike the Mechanic or Conrad the Captain or Employee A or X; "he wants to know how the benefits apply to him, not some fictitious illustration," Mr. Calvert said.

He recommended that the best method of communication is to set all information on a single large sheet of paper showing all of the specific items applicable to the individual employee and in a form which can be mailed to his home.

"Not only the employee but also his wife needs to read and understand what it is her husband

is working for and how well she and her children are protected," he advised.

THIS NEW APPROACH, an individualized employee statement, is "sweeping rapidly through industry," and he predicted that within a few more years, it will be "regarded as much in the light of an essential employee service as are the fringe benefit programs themselves."

Mr. Calvert quoted one employer as saying "only when a company has effectively communicated its fringe benefit programs to its employees does the company get its own fringe benefit."

The employer cited such benefits to the company as increased loyalty by the employees, enthusiasm and appreciation from employees, a greater orientation of an employee to his company and a lower rate of turnover.

Mr. Calvert gave an example of an oil company which printed a cartoon illustrating this point. An employee walked resolutely up to the boss's desk with a piece of paper in his hand marked resignation, put it on the desk, walked to the door, hesitated, retraced his steps, picked up the paper, tore it up and said, "Damn those fringe benefits!"

This can only happen "where the employee knows about his fringe benefits," Mr. Calvert concluded.

State Farm lowers rates

CHEYENNE, Wyo.—State Farm Mutual Insurance Co. has announced a 2% decrease in state-wide auto insurance premiums in Wyoming, lowering total premiums by \$78,700.

The new rates, effective Feb. 15, are a reflection of an improved driving record of insured motorists in Wyoming, said a State Farm official.

Insurance costs effectively:

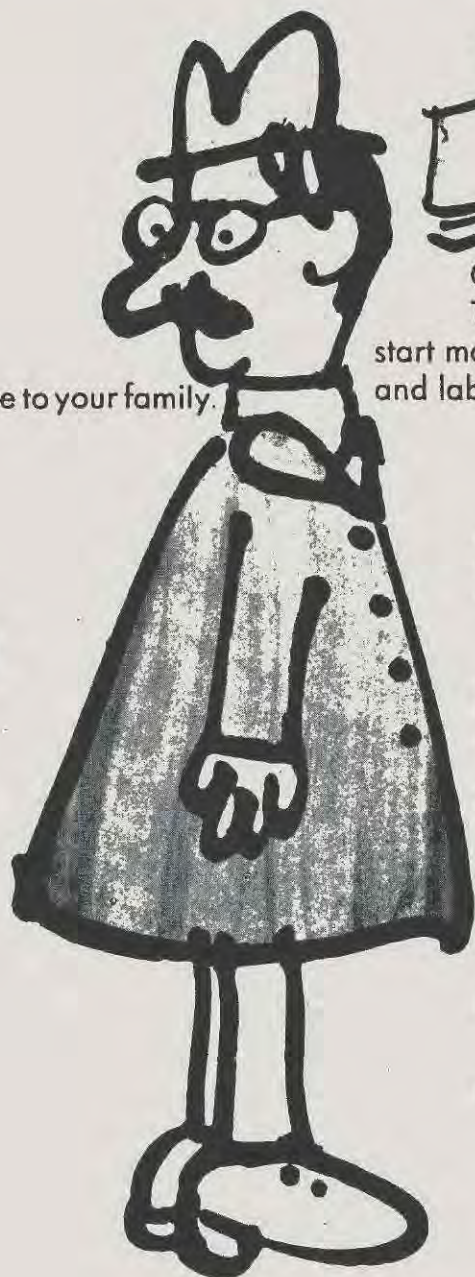
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*IRIS means Industrial Risk Information System



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Rules no benefits in strike

SAN FRANCISCO—Union members locked out of their jobs as a result of a labor dispute may not collect state unemployment insurance benefits in California, if the dispute was caused by their union.

The state court of appeals has refused to grant unemployment benefits to movie projectionists for the period of the strike and lockout that closed many San Francisco theaters from November 1964 to January, 1965.

The projectionists had lost their case before the State Unemployment Insurance Appeals board but had won an appeal before Superior Court Judge Joseph Karesh. The court of ap-

peals reversed his decision.

The strike began after negotiations between the union and the Theater Owners Assn. had broken down. Union leaders demanded the manager of the Cornet Theater sign a proposed contract.

When the manager refused, the union struck and closed the theater, the only one closed. Other theaters in the association closed in sympathy.

Projectionists at the other theaters filed for unemployment benefits. The appeal court held the lockout was the result of union action. State law forbids payment of benefits to persons denied by a labor dispute.

Airport cargo heists continue; metal shipment at Kennedy hit

NEW YORK—Insurance companies seeking third party reparation from KLM Royal Dutch Airlines for a \$503,000 cargo heist at Kennedy Airport last week might have to settle for about \$5,250 under present liability limits on air freight carriers.

Under current rules insurance companies after paying losses to shippers are restricted in subrogating against air carriers to liability limits of \$7.50 a pound on international shipments and \$50 a shipment or 50¢ a pound on domestic shipments.

Liability limits have been a common problem facing transport industries. However, ocean cargo limits, based on the 1924 Hague Rules, were revised in Belgium and new limits were set for surface carriers such as trucks at a meeting in Holland this month.

The American Institute of Marine Underwriters said it is "keenly interested" in an air cargo revision for international shipments, imposed by the Warsaw Convention, and the domestic limits, based on a tariff imposed by the Civil Aeronautics Board.

THE SPOKESMAN FOR the AIMU said that until the limits on air cargo shipments are revised the insurance industry can only "encourage" shippers to increase the declared values on their shipments, which would force the airlines to take on greater liability and responsibility while cargo is in their possession.

As it stands now shippers are reluctant to declare even as much as 10% on some shipments, such as jewelry, because cargo freight rates are based partly on declared value and would be raised accordingly—thus making

certain classes of cargo unprofitable to ship by air.

According to the AIMU, if the declared values were increased to even 25% of the real value insurance companies could subrogate for that increased amount against the airline which in turn might respond by tightening security measures.

KLM SAID the \$503,000 loss occurred at the airline's cargo center when two thieves presented forged customs papers to a guard and eventually left with a 700-pound shipment of palladium. U.S. insurance sources said the shipment was international and was covered by Dutch insurance companies but added the loss is indicative of the problem facing all insurers and shippers.

The KLM theft raised the losses at Kennedy during the first two months of this year to \$653,000, compared with a total of about \$2,000,000 for the year 1967, and came amid a drive to halt air cargo theft losses at New York's airports.

In a legislative move to reduce losses Gov. Nelson Rockefeller said he would seek legislation to extend the state's police authority to New York City's three major airports.

The governor's proposal would grant the New York Waterfront Commission authority to police Newark, LaGuardia, and Kennedy airports.

AIMU has announced it is con-

ducting a survey to study losses of \$1,000 or more in 1968, which a marine underwriter explained is intended to keep insurance premiums down through loss reduction.

Though the air cargo crime problem seems to be confined mainly to New York's airports, insurers, shippers and carriers are concerned that "organized crime elements could infiltrate the business nationwide, similar to what has happened in the ocean marine and trucking industries."

Arizona post to J. P. Shea

PHOENIX, Ariz.—Jerry P. Shea, 49, has been named state insurance director by Arizona Corporation commissioners, with Commissioner Dick Herbert dissenting.

E. T. Williams Jr., commission chairman, said Mr. Shea, associated with A. A. Haney and Associates, local insurance brokers, since June 1966, was appointed at the same \$14,400 salary paid George A. Bushnell.

Mr. Bushnell, 12 years in the post, was disqualified as director by the Arizona supreme court last year for accepting a home loan from an insurance company under his regulation. This decision may be appealed.

Publish new appraisal manual based on computer information

CHICAGO—The American Appraisal Co., Milwaukee, unveiled here a new building valuation manual that embodies a new approach to appraising based on computer analysis of unit costs.

Published by the Boeckh division of American Appraisal, the three volume manual may be used for quick, broad estimates, for accurate cost estimates using size, shape and other observable features and for supportable conclusions developed from component in-place cost guides, according to E. Barbatelli, executive of American Appraisal.

An American Appraisal spokesman said that by using additional tables that detailed costs of a building's components, accuracy can be improved to approach professional appraising.

THE VOLUMES are divided into residential and agricultural; commercial; and industrial-institutional groupings. Each volume is complete and has a nontechnical introduction.

The manual does not use the traditional case history approach to appraising, Paul Winslow, American Appraisal office and production manager, said, but uses computer analyzed information. A computer determined unit prices of the various components of structures from samplings across the U.S.

Although 1967 construction prices were used, Boeckh will publish bi-monthly modifiers to adjust cost data for year and locations in the U.S., Mr. Winslow pointed out.

COLOR illustrations of typical buildings aid in the identification of specific models, with as many

as five or six model groupings.

Mr. Barbatelli pointed out that risk managers would find the new manual useful in determining insurable values of plant properties and would be able to separate building costs, such as foundations, that are normally excluded in fire and extended coverage policies.

Prepublication price of a set of three books is \$90. Also sold individually, volume one is \$33, volumes two and three \$39 each. After June 1, a set will cost \$99, and individual prices will also be hiked.

A one-year subscription to the cost-modifier pamphlet is \$15. Boeckh officials feel that with the modifier pamphlet, the manual can be kept current for up to five years before a revised edition will be needed.

Union drops pension fee

NEW YORK—A proposed pension administration service fee of \$100 a year for retired members of the National Maritime Union, which was reported in *Business Insurance* on January 29, has been rescinded.

According to Joseph Curran, union president, the proposed fee has been an "emergency measure" and could be lifted since the union no longer needed the income.

Union finances will now be helped by the shipping companies, which have agreed to reimburse the costs of operating union hiring halls in 25 deep sea ports. The union expects this to increase their revenues by over \$750,000 a year.

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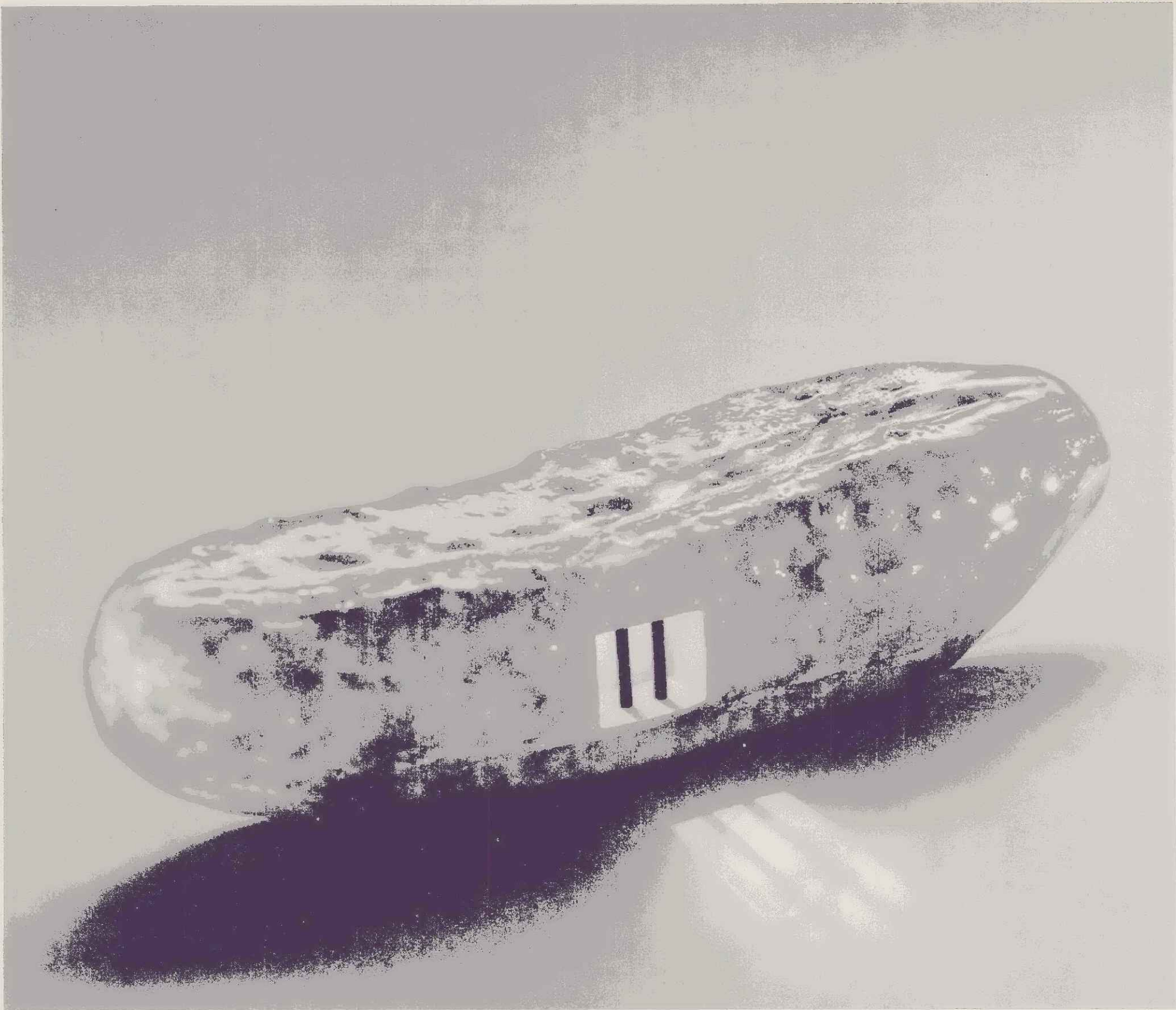
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