

Starting a risk department

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business insurance

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

Mills says 'bureaucracy' can't handle health plan

ATLANTA—An outline for legislation that would provide "a basic set of health benefits," either largely or partly at employer cost and possibly by extension of the unemployment compensation program, has been set forth by Rep. Wilbur D. Mills (D.-Ark.), chairman of the powerful House ways and means committee.

In listing "possible major elements in any health insurance legislation likely to be approved by the House," Rep. Mills ruled out turning over to the "federal bureaucracy" the "entirely impossible administrative task of managing our entire health complex" but said the government would "call a few tunes."

Rep. Mills viewed improved health coverage for the poor, better protection for middle income groups, and assured benefits for the self-employed as major objectives in what he envisioned as a "mechanism under which virtually every American family, regardless of its situation, will have the same basic coverage at about the same price."

THE WAYS and means chairman made known his positions on health insurance legislation at a conference of the Institute for the Study of Health and Society. His talk followed by about a week the

introduction of his legislation that could bring pressure for health and pension action by increasing Social Security benefits by 20%.

In his talk on health insurance, Rep. Mills said that for the "great bulk" of employed Americans and their families "we can follow the general idea of our existing workmen's compensation programs by requiring that all employers provide a basic set of health benefits largely at employer cost." He said that "in this way we could avoid the serious problems inherent in the Administration bill where the employer merely has to offer the insurance. We could quite easily and appropriately extend the purposes of the unemployment compensation program to include maintenance of health insurance protection during periods of employment."

The possibility of benefits "largely at employer cost" was followed in Rep. Mills' talk by the statement that "I would, however have employers, employes and the government share equally in the cost. Employers should not be asked to shoulder the entire burden."

He said legislation should also include "a system to assure basic benefits to the self-employed and perhaps small employers. It may

well be that we will have to develop two or more nationwide options under government auspices to provide health insurance coverage to these groups on at least as favorable terms as those for employes of large firms."

A NATIONAL health insurance law "will need a system for meeting catastrophic health costs," said Rep. Mills, but he added that a catastrophic provision would have to "measure the catastrophe by comparing the amount of a family's medical expenses with its financial situation" as "what is a catastrophe in one family would not be in another."

For this reason, "an approach which would relate health costs to taxable income would seem to hold the most promise of assuring adequate protection for those who need help while avoiding spending public funds for those who do not need it," said Rep. Mills.

Other "tunes" Rep. Mills thinks the government might call involve health care delivery: "We could require private insurers as well as government programs to use medical foundations . . . to perform all utilization review functions."

"We could add to that a provision setting up a medical group at

Continued on page 2



A fireworks holocaust obliterated 16 of 18 structures comprising the Melrose Fireworks Display Co. Property damage estimates are still pending on the effects of explosions felt over a 10-mile radius.

—Wide World photo

Blast hits 'lost' plant

ORLAND PARK, Ill.—The Melrose Fireworks Display Co., demolished by explosions that killed three people and injured at least 18, was not licensed by either the explosives division of the Illinois department of mines and minerals or the state fire marshal's office. According to Bernard O'Brien, Cook County zoning administrator, the five-acre, 18-structure complex was situated in a sector zoned for single-family dwellings.

Although the fireworks plant, located in a southwest Chicago suburb since 1956, had previously experienced minor explosions, Harry G. Hughes, assistant state

fire marshal, told *Business Insurance* that his office had received no notification of the incidents or complaints. "We didn't know such a place existed," he said. "I called my deputy out there and even he didn't know it existed."

Officials of the state mines and minerals department explained that companies storing a sufficiently dangerous amount of explosives were required to make application for licensing.

Anthony Cartolano, owner of the plant, was unavailable for comment to *Business Insurance*. Mr. Cartolano had threatened reporters at the blast site with bodily injury.

AAU, Travelers and Met all hit hard by Mohawk turboprop crash

ALBANY—The crash of a Mohawk Airlines turboprop plane as it was approaching the airport here March 3 will have rather wide ramifications for aviation underwriters, a life insurer and a travel/accident underwriter, according to information pieced together by *Business Insurance*.

Seventeen persons were killed in the crash, including nine General Electric employes. GE has rather liberal life and travel/accident benefits written by the Metropolitan Life Insurance Co. and Travelers Insurance Cos. The wife of another GE employe was also killed. Injured in the crash were 10 other GE employes and the wife of another. One occupant of a house the craft plowed into as it crashed was also killed.

Mohawk Airlines, a relatively small regional carrier here in the northeast, has its hull and liability primary insurance coverage with Associated Aviation Under-

writers Inc., New York. The hull of the craft was valued at \$900,000.

IT WAS LEARNED from aviation sources other than Mohawk and AAU that the airline has primary limits of \$100,000 per passenger up to a \$3.5 million maximum for bodily injury. Property damage coverage totals \$1 million. Above this, the sources pointed out, the airline has about \$75 million in excess liability written in the London market. Mohawk would not confirm or deny these figures.

According to GE, the company's basic life plan written by Metropolitan provides for benefits of two times annual earnings. Met also writes an accidental death and dismemberment policy on GE employes equal to one times annual earnings. The basic benefit for those killed in the crash, therefore, will be three times an-

nual earnings.

In addition, GE employes may also opt for an "employee-pay-all" plan of up to \$100,000 in travel/accident coverage written by the Travelers. Employes above a certain executive level may, in addition to this, get travel/accident coverage of five times annual earnings from Travelers. The GE source told *Business Insurance* that all except one of the nine killed in the crash had this extra coverage. One had \$170,000 worth, he said. The additional life plan is offered in chunks of one, one and one-half or two-times annual earnings, and is written by Metropolitan.

General Electric also has a life insurance scheme tied to its savings plan and four of those killed were reported to be eligible for that benefit. Under the plan, employes may contribute 7% of

Continued on page 2

3 ways brighter for B.I. readers

THIS ISSUE of *Business Insurance* comes to you folded and wrapped to provide added protection in the mails.

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TWA's ransom raises new insurance queries

KANSAS CITY—Uncertainty surrounded insurance coverage for a \$2 million ransom prepared by Trans World Airlines for an

anonymous plane bomber who demanded the money and then blew up a TWA 707 jet in Las Vegas.

Airline officials generally view ransom demands as robberies covered under conventional crime insurance policies, but insurers have lately included ransom exclusions in crime policies issued to commercial air carriers. This move was viewed as a reaction to a ransom case involving Northwest Airlines that has not been finally adjudicated.

Damage to the TWA 707, inflicted by a bomb apparently planted in a lavatory in the New York-Las Vegas jet, did not exceed the deductible provided in TWA's hull insurance coverage. The jet's cockpit and front end were severely damaged by the blast; TWA officials could not determine whether the plane could be repaired and put back into service. No passengers or crew members were aboard at the time of the early-morning blast. ■

\$1.6 million loss is self-insured by city

PHILADELPHIA — The city of Philadelphia has agreed to pay a self-insured \$1.6 million to an attorney who suffered permanent brain damage as a result of an auto accident on an expressway here.

A spokesman in the city solicitor's office told *Business Insurance*, "The city is just out of pocket \$1.6 million on this. We are self-insured for all accidents."

It was reported that the out-of-court settlement finally resolved an extended legal fight between the city, which had appealed a \$3 million damage award handed down a year ago by a federal jury which found the city solely negligent, and legal counsel for Graeme Murdoch, an ex-deputy state attorney general for Pennsylvania.

Mr. Murdoch suffered multiple injuries when his car struck a post in the roadbed of a cut-off in 1965. He was hit in the forehead by a horizontal pipe.

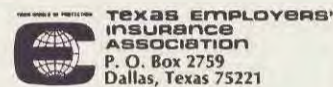
The district court jury found the city negligent because it had allowed an improperly marked roadway with an unmarked pole on the paved area.

On work comp board

California's workmen's compensation appeals board has been restored to full strength by the appointment of Roy L. Wonder, attorney for Lockheed Aircraft Corp.

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AAU ...

Continued from page 1
their earnings to the scheme with GE matching that by one-half for a savings total of 10.5% of earnings. Of the 7% employee contribution, 1% may be put into life insurance under a plan written by Aetna Life & Casualty.

GE's benefit plan also insured the wife killed on board the flight for \$5,000. Met writes that plan. The GE wife who was killed in the crash was on a house-hunting trip, said the GE official. Her husband, who survived, was already in the Albany area.

According to GE, the 19 employees aboard the ill-fated flight were traveling for a variety of reasons. He said it was not unusual to have that many unrelated employees on a Friday evening flight to Albany since the company has 27,000 employees in the area.

The company does have a rule that an executive may not have more than two persons who report to him on the same flight with him and that rule was not exceeded on this flight. ■

Mills ...

Continued from page 1
the national level composed of representatives of the various medical specialties to advise local foundations about current changes in recommended diagnostic and therapeutic practices."

Rep. Mills said that while legislation by itself "cannot drastically modify an industry as large and complex as our health industry," it can assure that "real rather than merely paper progress" is achieved.

NO HINT of a timetable for health legislation was given by the ways and means committee chairman. He is reported doubtful that bills could be passed this year on either health insurance or private pension reform.

While neither of these areas appeared due for early enactment of legislation, a Mills measure that would increase Social Security benefits across the board by 20% is geared for rapid passage. Stressing "early enactment of this legislation," the announcement of the bill by Rep. Mills' office stated its aim is "to increase Social Security benefits by 20% effective with the month of June, 1972, for checks payable in July, 1972."

THE LEGISLATION would increase the average benefits of retired workers from \$133 to \$162 a month. Benefits for aged couples would increase from \$222 to \$269 a month, and aged widows would receive \$153 a month compared to the present \$114.

The announcement said tax rates under existing law "are higher than would be necessary and therefore a 20% benefit increase is possible while at the same time the tax rates over the next 40 years can be lowered somewhat." ■

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Sao Paulo highrise fire brings stiff fire safety codes to South America

By JAURES MAZZONE

SAO PAULO, Brazil—The fire that totally gutted the 26-story Andraus Building in downtown Sao Paulo will probably bring more severe fire safety regulations and more efficient enforcement here.

On the day following the fire late last month, the mayor of Sao Paulo, Figueiredo Ferraz, announced that he had ordered a complete survey of the city of 7 million concerning safety, especially in buildings where large numbers of people work, play and live. (The fire killed 16 and injured several hundred.)

The mayor said he was sending a new construction code to the city council to "better discipline buildings, especially large ones." He added, "Only with strong, realistic measures is it possible to avoid reoccurrences of fires." He said the city government would demand that safety regulations be obeyed without delay. "And if the demands are not heeded," he said, "this will bring the direct intervention of the city to solve the problem."

CITY ENGINEERS are even suggesting that a regular program of fire-drills be required for large buildings such as the Andraus. Technicians say an entirely new "mentality" in the area of safety regulation has been brought about by the shock of the fire. According to the new building code, sprinkler systems will be required in all areas judged to have inflammable materials. Instead of fire stairs, a new emergency system may be used in Sao Paulo in which cable chairs may be employed. Luiz Sanfirardi, head of the city building code commission, said that the external fire stair and the Magirus stair have proved to be impractical and

a new, more efficient system must be employed.

In the case of the Andraus fire last week, many people refused to use the Magirus stairs, preferring to face the flames or wait for other aid. Mr. Sanfirardi said that the traditional fire stairs and escapes haven't had good results because the fire usually throws smoke over the entire building and it is sometimes impossible for people to get out through the windows. The steel cable system, he believes, would be better.

The Andraus fire is already being called the most expensive (in terms of property damage and building area) and extensive building fire in Brazilian history. The 26-story building had a total constructed area of 26,000 square meters completely burned out. Many of the biggest companies had their offices there including Shell, Siemens, Petrobras and others. It also housed a large number of insurance companies: Yorkshire, Novo Mundo and Tokyo Fire.

No estimates of damage and loss have been made as yet. It has not even been determined whether the reinforced concrete structure can be saved. The building's architect, Majer Botkowski, and its constructor, Nicolau Paal, are sure that the structure is still strong and will not cave in, though it is completely burned out. They say the fire spread rapidly through the elevator wells. The fire, which began on the lower floors in a department store, reached the upper stories within half an hour. Engineers here claim that reinforced concrete resists fire better than steel structures.

ONE OF THE peculiar points of the Andraus Building was that it had a heliport on its top, and this proved to be what saved most of

the workers in the building, especially in the upper half. Fleeing from the rapidly advancing flames, hundreds of people sought refuge on top of the building. When the building was built in the 1950s this area was used as a heliport. While the flames scorched the 25th floor, the choppers began their rescue mission, which was 100% successful.

The architect said that the top of the building was thick enough to resist the heat of the flames exactly because it was intended to serve helicopters. It is quite probable that if it hadn't been for the heliport, the death toll would have gone up into the hundreds. In fact, a city authorities are now talking about requiring a heliport for all large buildings as a safety measure.

MUNICIPAL experts also claim that the rapid spread of the fire was due in great part to the fact that there were no parapets between the floors, allowing the fire to quickly move from one floor to another. Also, they claim, the Andraus Building had no internal walls at all. Each floor was one huge room. Each occupant installed divisions, usually of highly flammable material. Thus, there were no concrete internal walls to stop the spread of the fire on each floor.

There were stocks of bottled gas in the Pirani department store where the fire began and in many of the office areas where they were used in kitchens for coffee. The presence of bottled gas stocks, the authorities claim, should require special restrictions and safety measures.

The fire department of Sao Paulo noted that although the Andraus Building was well equipped with fire-fighting equipment, there were no people in the building trained to use it. ■



The fire in this 26-story Sao Paulo office building proved a grim spur to city fire safety officials. —Wide World photo

Varner sets education goal for Chicago ASIM

CHICAGO—Education will be the keynote of the plans of the Chicago chapter of the American Society of Insurance Management for the coming year, according to the new chapter president, H. Jay Varner, manager of corporate insurance for Bell & Howell Co.

"We plan a chapter education program that will complement the national ASIM's 10-year ed-

ucation program announced last fall," Mr. Varner said, "because we believe that education is one of the important ways we can help members of ASIM to assist their corporate employers."

Mr. Varner, who served as program director of the Chicago ASIM during the past year, joined Bell & Howell five years ago.

AT BELL & HOWELL he manages a multinational insurance program for the diversified Lincolnwood, Ill., firm that produces photographic equipment, microelectronic and business equipment as well as a variety of training and education schools.

"While we have a high concentration of values," he said of his job, "our property risks have become superior-rated through the attention we have given to loss prevention over the years."

In addition to the Lincolnwood headquarters and plant, Mr. Varner's responsibilities extend to Bell & Howell plants that employ 12,500 persons in the U.S., United Kingdom, Canada, Japan and European countries including Italy, Sweden, Switzerland and France.

"With these extensive properties we feel gratified that the tightness has been relieved after the capacity crisis that crimped the ability of the insurance industry to provide adequate markets," Mr. Varner commented.

OTHER OFFICERS elected at the annual meeting of the Chicago ASIM chapter were Philip B. Gehrke, Joslyn Mfg. and Supply Co., vp; Geoffrey J. Burns, Continental Illinois National Bank & Trust Co. of Chicago, treasurer, and Ann Auerbach, Goldblatt Bros. Inc., secretary.

Elected to three-year terms as directors were Arthur P. Bostwick, Sunbeam Corp.; John F. Ross, Nalco Chemical Co., and

Waller B. Smith, United Air Lines Inc. Robert D. Poole of Commonwealth Edison Co. was elected to a one-year director's term to fill a vacancy.

New members include J. L. Groves of the American Hospital Assn.; W. H. Nimtz of DeKalb AgResearch Inc. and D. A. Spartz of Petibone Corp. ■



Awards for outstanding service to the Chicago chapter of the American Society of Insurance Management are presented to Geoffrey J. Burns, veteran treasurer of the chapter, at left, and Ann Auebach, long-time secretary of the ASIM group. Making the awards are William J. Gibbons, insurance manager of Standard Kollman Industries Inc., retiring chapter president, and H. Jay Varner, manager of corporate insurance for Bell & Howell Co., incoming president. Douglas Barlow, president of the national ASIM, reviewed plans of the organization at the Chicago chapter's annual meeting. —Clifford J. Manning photo

Safety issue May 22

CHICAGO—On May 22, *Business Insurance* will publish its annual safety, security and loss prevention issue.

The special issue this year will concentrate on the Occupational Safety and Health Act, which has been in effect just one year. The ramifications of OSHA will be explored from many angles to give those who are faced with the responsibility of complying with it the broadest possible view.

In the area of fire prevention and protection, the issue will deal with some new developments in technology. The adoption of standards to deal with the threat of certain types of fire hazards will also be discussed.

The May 22 report will concern itself with the problems of combating one of the country's most popular avocations, stealing from the company. New developments in the area of cargo security will also be presented.

A special Info for Buyers section will list literature regarding new loss prevention systems and services.

Readers who have suggestions and ideas for editorial material in the areas of safety, security and loss prevention are invited to send them to Patrick Thomas, associate editor, *Business Insurance*, 630 Third Avenue, New York, N. Y. 10017.



washington watch

Private pension reformers in Senate are still pushing for legislation in '72

By JOHN REVETT
Washington editor

WASHINGTON—Despite indications of opposition from the House side, Senate backers of private pension reform are moving ahead with plans to push for legislation this year.

Sen. Harrison A. Williams (D.-N.J.), chairman of the Senate labor and public welfare committee, is about to signal the inten-

tion of Senate pension reformers with the introduction of a bill combining his position with that of Sen. Jacob Javits (R.-N.Y.).

Once under way, a Williams/Javits reform effort—in the view of pension law opponents as well as supporters—could very well overcome reports that an early slowdown on major legislation is in the offing because of election year considerations. (*Business Insurance*, Feb. 28) Moreover, there

are indications that pension law is gaining favor over the thornier area of health insurance legislation with senators and congressmen who want some sort of social reform passed before everything is pushed aside for 1972 politics.

AT THE SENATE labor subcommittee, word is that Sens. Williams and Javits will make a bipartisan move on the Williams bill before the end of March. Com-

mittee sources are somewhat vague on specifics of the proposed measure but say it will incorporate many of the concepts of the existing Javits bill, including vesting, funding and portability provisions.

For his part, Sen. Williams is said to place more emphasis on vesting and funding than on separate portability. Thus the bill will provide "more credit for work time spent by employees during the 20-to-30-year-old period," a subcommittee staff member said.

The thinking, according to this source: "What we're really trying to protect is the person who goes to work at the age of 20 and moves a couple of times. Usually, and this would be true under the Nixon Administration's 'rule of 50' (age plus time with a company), the employee is 40 before vesting really starts. That's after the age of mobility and not where the problem lies."

A voluntary portability provision—namely Sen. Javits' federally controlled fund into which employers could channel pension funds—is probable in the new bill, but staffers say it isn't a central issue because "better vesting can take care of portability."

ALTHOUGH Rep. Wilbur Mills, House ways and means committee chairman, is reported to feel that neither pension nor health legislation is likely this year, others in the House are forging ahead on pension studies as if the next few months will be a period of business-as-usual.

Tom Hart, head of the pension study task force for the House subcommittee on labor, chaired by Rep. John Dent (D.-Pa.), said that in the event of Senate passage of Williams/Javits legislation, House pension reformers can be expected to "be ready for discussion" even though differences in approach between House and Senate proposals are becoming fairly distinct.

A main difference is the direction being taken by the Dent pension study group, which could result in revision of Rep. Dent's proposed pension measure. "Expansion of pension coverage is the main direction indicated by what we've found so far," said Mr. Hart. "Slightly less than half of the work force in the U.S. is not covered by private pension plans, and a sizeable percentage of them aren't covered by anything."

Mr. Hart said the task force is considering a proposal that would either call for some way of encouraging or requiring employers to have private plans providing a minimum benefit, fully funded, with vesting at "about" age 30 with three years on the job.

THE PAY BOARD is out with a resolution on Congressional amendment exempting employee benefits from Phase II controls (unless they're "unreasonably inconsistent" with pay hike standards).

Announced after weeks of struggle with the exception amendment, the resolution hasn't met with total approval. It sets an "exempted benefit standard" of 0.7% above the 5.5% wage increase standard. An additional 1.5% increase may be exempted in situations where no new fringe benefit plans have been added or improvements made in three years, and in cases where the current benefit portion of a wage base is less than 10% of the base, an extra 5% may be added to the employer cost provided the resulting employee benefit total doesn't exceed 10% of the base.

Large corporations and industry associations with legal representatives here are said to be satisfied with the guideline, but a number of life insurance companies and others writing group health plans and handling pensions are described as disturbed over "the narrow view" of the Pay Board regarding the "unreasonably inconsistent" proviso, with some contending the guideline counters the intention of Congress.

"A lot of pension planners are stunned by this," said an IRS Phase II official who was formerly with the IRS pension trust branch. But top aides of Sen. Lloyd Bentsen (D.-Tex.), sponsor of the exemption amendment, say that so far there is no plan to make a formal protest. "Since we put the 'unreasonably inconsistent' wording in, it's pretty hard for us to criticize it," a Bentsen man said.

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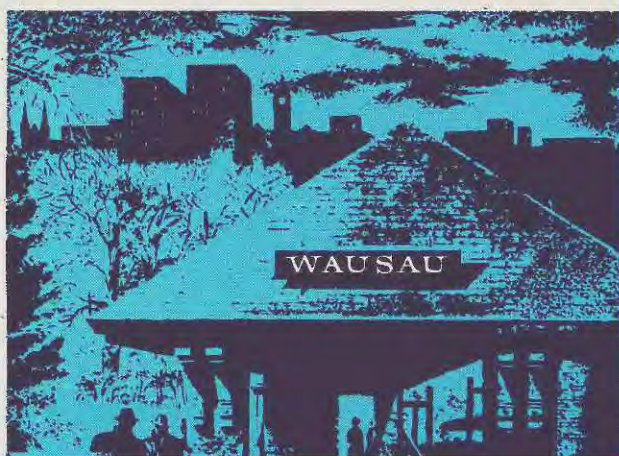
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Transit Management head says self-insurance grows with no-fault

NEW YORK—The concept of self-insuring a large fleet of vehicles will probably grow as the concept of no-fault insurance gains in popularity, at least according to a man who administers a number of these self-insurance plans for corporations around the country.

Edward T. McGhetigan, president of Transit Management Corp. Inc. here, said that the adoption of no-fault would aid self-insurance plans because "liability would be limited to, say, \$5,000. As it is now, the self-insurer usually retains \$20,000 to \$50,000 per accident and he buys excess coverage over that."

He said that another reason

firms with large fleets, 1,000 to 10,000 vehicles, were looking more and more at self-insurance was that "insurance premiums for fleets have sky-rocketed but engineering control and claims handling by the insurance companies has not kept up.

"TRANSIT Management develops programs which bring the claim service closer to the client's operation," Mr. McGhetigan explained. "We set up the risk management program for the client, which gets many management and supervisory personnel involved in reporting accidents and evaluating their causes. One of our main functions is to bring claims handling and accident

areas together to work as teams."

He believes that, for this reason, the kind of self-insurance programs administered by Transit Management, and other firms, could save money for certain fleet owners.

"Delays are normally the things that run up costs," he told *Business Insurance*. "With a standard insurance setup, you have the insurer and the broker reporting and your loss reports are always behind. Under the self-insurance plan, claims are reported quickly and directly to the persons responsible for the investigation. Because of this promptness, the cost of claims has got to go down because costs begin with the collision and don't

stop until every detail is taken care of."

Transit Management uses the services of independent investigation firms that comply with its standards. "They must be available 24 hours a day and the investigators must be experts in auto investigation. We don't want a guy who spends part of his time investigating fires or anything else," Mr. McGhetigan noted.

GETTING a number of people involved in claims and evaluation was an important aspect of the program, according to Mr. McGhetigan. Transit Management provides a monthly loss report to all of its clients but "with this plan, different managers can see who is causing the accidents and if patterns are developing on a daily basis.

"In a conventional insurance program," Mr. McGhetigan continued, "where the big company

turns over the problem of accident claims to an insurance company for the cost of premiums, basic information about the company's casualty rate gets tucked away in the insurance department, where it escapes the scrutiny of management. Many instances of slack handling, bad driver training and problems of employee morale escape the direct supervision of management. The opportunity for improving safety practices and other steps which management can take are frequently overlooked or lost."

He admitted that the self-insurance program would by no means stop all the company's accidents but he did feel the involvement would reduce the number of mishaps.

"One reason you can't stop all the accidents is because of the nature of business," he said. "If a man's business is selling, he isn't likely to fire his top salesman because the guy has had a few auto accidents. You can't always get rid of bad truck drivers because of unions, either."

MR. MCGHETIGAN, whose firm has a current business volume of \$16 million annually, felt that the self-insurance would benefit only large fleets with high loss experience. "If you have a small fleet," he said, "or your loss experience is not so bad, it would be cheaper to use an insurance company."

But where the company suffers a high degree of losses, he felt that cost factors other than merely the automobile liability entered into the picture.

"We've always known that a big company is losing, or paying out, many times the simple liability costs to second parties for its accidents," he said. "This excess has accumulated in workmen's compensation payments to their own employees, employee's lost time and the loss of his function, down time on the vehicle and the cost of repair—all this in addition to the liability.

"With the self-insurance program," he continued, "the client will save on losses because of increased awareness and responsibility; I mean, he will look hard at his reserves because that is his money, not an insurance company's. He will save in servicing because he's paying only for the service he requires and he will save on costs.

"I FEEL the client who runs his program exactly as we lay it out for him will save, at the minimum, between 12% and 18% over the cost of an insured program."

Some of Transit Management's clients, like Econocar, owners of a large rental fleet, reported savings as high as 25%.

"Another reason for some firms looking at self-insurance, though certainly not the major one, is that they can invest their own reserves," he said.

He said that many of the firm's clients were auto rental companies and that much of the rest of their business came through those firms. For example, when Westinghouse Electric Co. bought Econocar, the giant electric firm decided to use Transit Management's services for its own fleet.

In summing up, Mr. McGhetigan said, "What we provide for the self-insured industrial client is a total management package, including such elements as coverage by bonds in states where bonding is required, excess insurance coverage, catastrophe insurance, legal services throughout the United States and the vigilant administration of a realistic nationwide claims settlement network."

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• The Machinery and Allied Products Institute, 1200 18th St., Washington, D. C. 20036, has made available copies of Memorandum G-56, **The Organization, Content and Administration of Company Products Liability Programs—A MAPI Survey**. The results of the survey can serve as a guide for companies in devising and administering programs to circumvent some of the effects of product liability claims. Copies are \$1 for MAPI members, \$2 for nonmembers and available by writing MAPI.

• Sidney Z. Karasik, a featured speaker at the *Business Insurance* product liability workshop, has made available reprints of **State of the Art or Science: Is It a Defense to Products Liability?**, a reprint of an article published in the Illinois State Bar Journal. For your copy write Mr. Karasik, c/o *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

• Homemakers Home and Health Care Services Inc. has prepared a package of information that describes how insurance companies, industries and self-insurers can reduce the costs of many workmen's compensation, accident and health claims. Homemakers provides paraprofessional and other services in the home which may allow a claimant to be discharged from the hospital sooner. For a free copy write to R. E. Rosenberg, national insurance program director, Homemakers Home and Health Care Services Inc., Kalamazoo, Mich. 49001.

• **Professional Counsel in Risk Management**, produced by Warren, McVeigh & Associates, describes the scope of risk management and the sequence of actions used in a consultant's evaluation of a corporate insurance program. For your complimentary copy write Warren, McVeigh & Associates, 680 Beach St., San Francisco, Cal. 94109.

• **Architects & Engineers Errors and Omissions**, from Illinois R. B. Jones Inc., is an explanation as to why such coverage is needed and presents 21 important questions answered by architects and engineers with a further analysis of the policy insuring agreements, conditions and exclusions. For copies write Richard Oldani, Illinois R. B. Jones, 175 W. Jackson Blvd., Chicago, Ill. 60604.

• Marshall and Stevens has made available **How Not to Cook Your Corporate Goose**, an issue of the company's newsletter, which offers first-hand information on insurance policies and co-insurance clauses in order to provide adequate coverage and acceptable proof of value in the event of loss. The article is written from the viewpoint of the appraiser, the insurance company and the adjuster. For a copy write John Heath Jr., vp, Marshall & Stevens Inc., 1645 Beverly Blvd., Los Angeles, Cal. 90026.

• A paper presented to the National Foundation of Health, Welfare & Pension Plans Inc., **Medi-**

cal Electronic Equipment for Multiphasic Health Testing by Paramedical Personnel, discusses the costs of multiphasic screening for early disease detection. The Humetrics Corp. sponsored the presentation, in which cost examples center on heart disease detection via EKG analysis techniques. For copies write Kenneth L. Dufour, director of marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Cal. 90045.

• **Employee Benefit Communications** is a brochure produced by Towers, Perrin, Forster & Crosby describing a comprehensive survey of employee benefit communications procedures in more than 200 major American companies and organizations. For copies write Joseph A. Banik, TPF/C, 3 Penn Center, Philadelphia, Pa. 19102.

• Three brochures—aimed at the sole proprietorship, the partnership, and the closely held corporation—describe a new approach by CNA insurance to fund a buy-sell agreement in the event of the death, disability, or retirement of the business owner. For copies write Steve Hirsch, Continental Assurance Co., 310 S. Michigan Ave., Chicago, Ill. 60604.

• **Hospital Operating Income Insurance** is a brochure issued by the National Union Fire Insurance Co. explaining in detail the need for hospital operating income coverage which protects hospitals from loss of operating income and extra expenses incurred from the time of physical damage to the time when normal operations are resumed. For your copy write the company, Dept. A-14, 102 Maiden Ln., New York, N. Y. 10005.

• **The Legal Liability of Owners and Operators of Airports**, a summary of the law presented by the United States Aircraft Insurance Group, covers such topics as aircraft accidents, fueling, hangarkeepers, police and security, indemnity, liability to surrounding property owners and special events. For copies write USAIG, 110 William St., New York, N. Y. 10038.

• **Airkem Emergency Smoke Odor Removal Service** is a brochure describing how Airkem's service removes residual smoke odors from buildings and contents after fires. It describes the network of service outlets who perform the service as well as the types of buildings that can be effectively deodorized. For your free copy contact Lawrence J. Mulcahy, Marketing Mgr., Smoke Odor Service, Airwick Industries, 111 Commerce Rd., Carlstadt, N. J., 07072.

• **CIRCA—Commercial and Industrial Replacement Analysis** is a packet of descriptive literature from Automated Appraisal Systems outlining the CIRCA method of determining property replacement costs. Copies are available by writing John Fulton, president,

CIRCA, P. O. Box 3015, West Glen Station, Peoria, Ill. 61614.

• **Proper Planning . . . For New Construction . . . Additions . . . Alterations** is a kit containing an 8-page general planning guide for building construction in outline form plus 18 booklets, folders and information sheets covering specific hazards and recommended fire safety precautions. Each kit is \$3 and available from the field service department, Improved Risk Mutuals, 15 N. Broadway, White Plains, N. Y. 10601.

• The doctrine of comparative negligence as interpreted in the original Wisconsin statute is discussed in a 36-page book from the Defense Research Institute. **Comparative Negligence—The Wisconsin Rule and Procedure** analyzes the Wisconsin comparative negligence statute in detail and contrasts it with comparative and contributory provisions in other states. Copies are available to DRI members and subscribers for a \$1 handling fee; for non-DRI member the fee is \$2. Write the institute, 1100 W. Wells St., Milwaukee, Wis. 53233.

• George B. Buck Consulting Actuaries Inc. has put out a booklet, **Proposed IRS Regulations Affect Lump-Sum Distributions**, that discusses the proposed Treasury department regulations concerning the allocation of lump-sum distributions under qualified pension and profit-sharing plans between the part taxable as long-term capital gains and the part taxable as ordinary income. For copies write the company at 2 Penn Plaza, New York, N. Y. 10001.

• **The Management Approach to Funds Evaluation** describes A. G. Becker & Co.'s funds evaluation service that measures, compares and evaluates the past and current performance of retirement and other non-taxable funds. For copies write Robert Brehm, Corporate Services, A. G. Becker & Co. Inc., Two First National Plaza, Chicago, Ill. 60670.

• CNA Insurance has made available literature on its new series of IRS qualified and preapproved retirement plans. Pamphlets are available on four different plans, each plan available both as a master plan with the Illinois State Bank as trustee and as a prototype in which the employer designates his trustee. The plans are the defined benefit, the defined contribution, the assumed benefit pension plans and the profit-sharing plan. Copies are available from Steve Hirsch, Continental Assurance Co., 310 S. Michigan Ave., Chicago, Ill. 60604. Please specify the plan in your request and whether master plan or prototype.

• **Now that You Have a Retirement Plan Distribution Coming** is a booklet from Investment Annuity Administrators Inc. describing a new annuity which allows the annuitant or his investment advisor to invest his deferred or immediate annuity reserves as he chooses—in stocks, bonds, mutual funds, savings or government securities. The plan allows the annuitant to avoid immediate taxation on the distribution from his profit-sharing account and tax shelter the investment yield on his annuity reserve investments. Copies are available by writing Craig Johnson, Investment Annuity Administrators Inc., 1624 Car-gill Bldg., Minneapolis, Minn. 55402.

• **The Problems of Total Remuneration in the European Eco-**

nomic Community and United Kingdom is a revised brochure on wages, salaries, benefits and other forms of employe remuneration in the Common Market countries and U.K. Available from Towers, Perrin, Forster & Crosby, you can order your free copy by contacting Joseph A. Banik at TPF/C, Three Penn Center, Philadelphia, Pa. 19102.

• **International Group Life and Pension Services** is a detailed source book from the Swiss Life Insurance and Pension Co. The brochure discusses experience rating in multinational plans and unallocated funding as well as offering more specific information on the company, its methods of handling the two topics mentioned, the scope of its international network and services provided. To order your free copy write the company, General Guisan Quai 40, 8022 Zurich, Switzerland.

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Set cost of alcohol abuse at \$15 billion yearly

WASHINGTON—The Health, Education and Welfare department's National Institute on Alcohol Abuse and Alcoholism has labeled alcohol the "most abused drug in the United States" and says problems related to it, in and out of industry, have "reached major proportions."

"Alcohol abuse and alcoholism drain the economy of an estimated \$15 billion a year," states the institute's first report to Congress, a 121-page document called "Alcohol & Health."

The report says that of the \$15 billion total, \$10 billion is attributable to lost work time in business, industry, civilian government and the military, with \$2 billion going for health and welfare services to alcoholic persons and their families, and property damage, medical expenses and

other overhead costs amounting to another \$3 billion or more.

ELABORATING on the cost to industry, the report states that the \$10 billion "is paid each year by industry and workers as a result of lost time, medical expenses, impaired job efficiency, and accidents incurred by employed persons suffering from alcoholism." The report set at 4.5 million the number of workers with alcohol-related problems, including 240,000 U.S. government job holders.

Citing development of prevention, treatment and rehabilitation programs for federal employees by the Civil Service Commission and the institute, the report urged private industry to "keep in step with this trend" by establishing similar programs.

It noted that some corporations already have "personnel policies consonant with the emerging view that alcoholism is a treatable illness," and added: "This approach generally calls for helping an alcoholic employe locate resources for help rather than ignoring his needs and worth, and forcing him into job dismissal. Preliminary results are heartening. When faced with these alternatives and offered competent treatment programs, from six to seven out of 10 alcoholic employes achieve control of their condition."

Dr. Morris E. Chafetz, institute director, said a main aim of a public service ad campaign being started by the institute is to awaken borderline alcoholics and persons with alcoholic tendencies in the general population. "We

have focused on skid row derelict alcoholism because, by isolating a group far removed from our own perception of the world, we feel more comfortable with our concerns about our own drinking behavior," said Dr. Chafetz. "The skid row derelict model (de-

scribed in the report as representing only between 3% and 5% of alcoholics in the U.S.) allows us not to notice our associates, our own families, and the reality that many of the people we know are suffering from drinking problems."

Insurers will appeal N.J. profit limit rule

TRENTON, N.J.—New Jersey, in the second pocket-pinchingswipe at insurers in the state since the first of the year, has ruled that auto underwriters should be limited to a profit of 2% on underwritings and 6% on investments.

Last month the state's courts began tacking 6% interest on all judgments won by accident victims in an effort to clear clogged courts (*Business Insurance*, Jan. 31).

The most recent development, promulgated by Robert L. Clifford, insurance commissioner, is expected to be appealed to the state's high court. The ruling ends, for the moment at least, five years of legal maneuverings over how much insurance companies could make in the state, and is viewed by the insurance industry as a test case of sorts in the nation.

Representing the insurance companies in the battle was the Insurance Service Office, which had testified at rate hearings that the companies needed a 5% profit from their \$524 million, four-year underwritings and a 7% return on investments.

The state's attorney during the case was Isadore Glauberman, who contended that insurance underwriting was just a "sideline" with the big insurers. The companies' major interests were the profits from investing money they receive from selling auto insurance, he argued.

Pursuing this line of reasoning, Mr. Glauberman and other witnesses who testified before the insurance department, urged that the companies should include investment income when calculating their financial rate-making capacity.

The Insurance Service Office, representing many, but not all, of the property and liability companies doing business in the state, at first objected to including investment income for rate-making purposes. The ISO later retreated from this position. However, during the final stages of the battle they argued that they needed a far higher rate than Mr. Clifford ruled this month (7%).

Soccer fans covered

SAO PAULO, Brazil—Soccer, the most popular spectator sport in South America, can also be the most dangerous for the spectator.

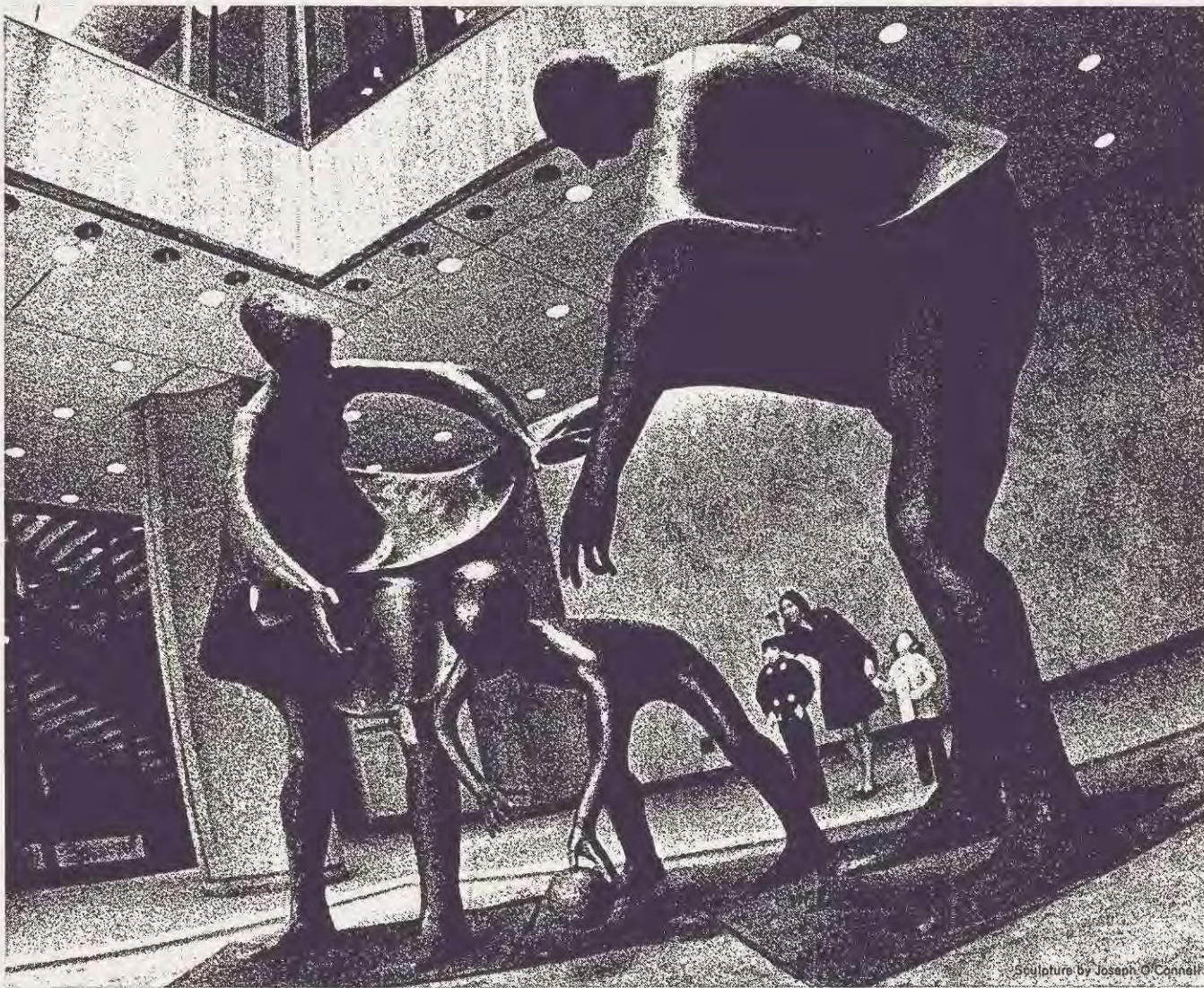
A few years ago, 200 people died in a soccer riot in Peru, and in Central America a soccer game helped instigate a war between El Salvador and Honduras.

Now, insurance for medical and hospital care is being offered to fans in the southern Brazil state of Rio Grande do Sul. The policy only covers fans who actually buy tickets and it protects them against any type of accident that occurs within the stadium.

In the major stadiums coverage goes as high as \$3,500, while in the smaller stadiums it is \$1,800 and \$1,000. The policies extend to permanent incapacitation.

This type of policy was created by the state private insurance division and allows private companies to participate.

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A lot has been said about mass marketing in recent years. Much of it negative. It has been called everything from a "monster" to the "death knell" of the independent agency system.

Before responding to these criticisms, The Travelers decided to test the validity of the mass marketing concept. And we have. With agents and brokers in more than 125 cases.

What we have learned is this: mass marketing is an effective answer to growing consumer demand for increased service and lower insurance costs. This demand is well documented. By independent surveys and studies. And by thousands of calls to our Office of Consumer Information.

Why is meeting this consumer demand important to us and to you? Because if we don't respond, government may. With even stricter industry regulations. Or worse, as a direct competitor. All this can lead to shrinking markets and shrinking productivity.

We also learned that while mass marketing can increase productivity dramatically, it disturbs very little of our existing business. Because it opens up

markets now dominated by direct writers.

And finally, Travelers agents and brokers need mass marketing tools today just to stay competitive.

For these reasons, we think the time has come to recognize mass marketing for what it is: a viable method to help you expand your markets, increase your productivity and assure your continued growth. It's not intended to supplant one-to-one selling, but to supplement it.

Mass marketing, we believe, can become an important part of your mix of business. And The Travelers offers the full support of our expertise in group selling and our experience in developing competitive mass marketing plans.

After all, helping your business grow, helps us grow.



THE TRAVELERS

ASIM reveals N.Y. no-fault stand though testimony by Avis' Murphy

ALBANY—The American Society of Insurance Management, in an indirect way, has made its position on no-fault automobile insurance known at a state government hearing on the subject here.

John J. Murphy, vp of Avis-Rent-A-Car System Inc. and the spokesman for the Car and Truck Renting and Leasing Assn. (CATRALA) on no-fault matters, was authorized by ASIM to present its position as well at a public hearing of the joint legislative committee on insurance rates and regulations.

The committee is considering a no-fault measure endorsed by Gov. Nelson A. Rockefeller and introduced by Sen. Bernard G.

Gordon (R.-Peekskill). The measure was detailed in the Feb. 14 issue of *Business Insurance*.

In his testimony, Mr. Murphy emphasized that both CATRALA and ASIM were satisfied with most of the provisions in the Gordon bill. However, he said, "it is apparent that the subject bill tends to discriminate against trucks by applying penalties that do not appear to be justified by any existing credible statistics.

"WITH RESPECT to this section," the Avis vp asserted, "we are of the opinion that trucks should not be treated any differently than cars, and no lapse back to the tort system is justifiable."

The Gordon bill, as reported earlier, contains a clause that allows for subrogation by insurers in accidents involving trucks and passenger vehicles. In such cases, the insurer of the passenger vehicle would be able to recover on a fault basis from the truck's insurer or, in the case of self-insured fleets, from the truckers themselves.

Mr. Murphy told the legislators that CATRALA also supports the concept that would substitute for a dollar threshold the requirement that an accident victim would have to suffer six months of total disability before he could sue under the tort system.

"In the light of constitutional

questions raised in Illinois, this change might well merit consideration," Mr. Murphy told the legislators. The constitutional issue involves the alleged discrimination some no-fault measures appear to render the low-income citizen, whose threshold of economic loss is considerably below that of the average accident victim.

ON ANOTHER point of the proposed N.Y. auto reform measure, the Avis risk management head, who is also an attorney, said that CATRALA feels "coverage for first-party benefits should be personal to the insured and should follow him on a primary basis into private passenger vehicles other than the vehicle in connection with which he is insured.

"Because of the personal nature of first-party reparations, there appears to be a valid reason to have the primary coverage follow

the insured rather than the vehicle," he said.

Mr. Murphy told *Business Insurance* that he was authorized—and indeed invited—to testify on ASIM's behalf by Edward P. Lalley, risk manager of Kraftco Corp. who is ASIM's national vp for legislation. Heretofore, such testimony has been presented by James E. Bailey, ASIM's Washington-based legislative counsel. ■

Nine months jail for Noe

LONDON—Dr. Clifford D. Noe, currently under indictment in Miami on a \$150 million mail fraud with Philip M. Wilson and others (*Business Insurance*, Jan. 31), has been sentenced to a nine-month jail term in London's Central Criminal Court for trying to start a bail bonding scheme in contravention of British laws.

He has been in Britain since December, 1970, and must still face trial in London over a \$2.5 million scheme to set up bogus business deals in Europe.

Judge Edward Clarke, however, has ordered his deportation back to U.S. when these matters are completed in the English criminal courts, so it is possible that the American federal authorities will be able to deal with him in Miami later this year. Meanwhile he stays in prison in Britain after being convicted of trying to create a public mischief over his bail bond scheme.

DR. NOE, it was alleged in court, had had many occupations in insurance and finance in the U.S., Honduras, Bahamas and Switzerland before leaving for Britain in 1970. He had earned \$25,000 a year as a financial consultant, and had graduated as Ph.D. at an American college.

His defense lawyer pleaded that in the U.S. it was normal for bail bond companies to provide money for sureties, and said, "Dr. Noe had been in England such a short time that he thought he could do the same thing in London, and did not realize that under British law it was a public mischief to indemnify bail for someone else." ■

ASIM confab call heard in Zambia

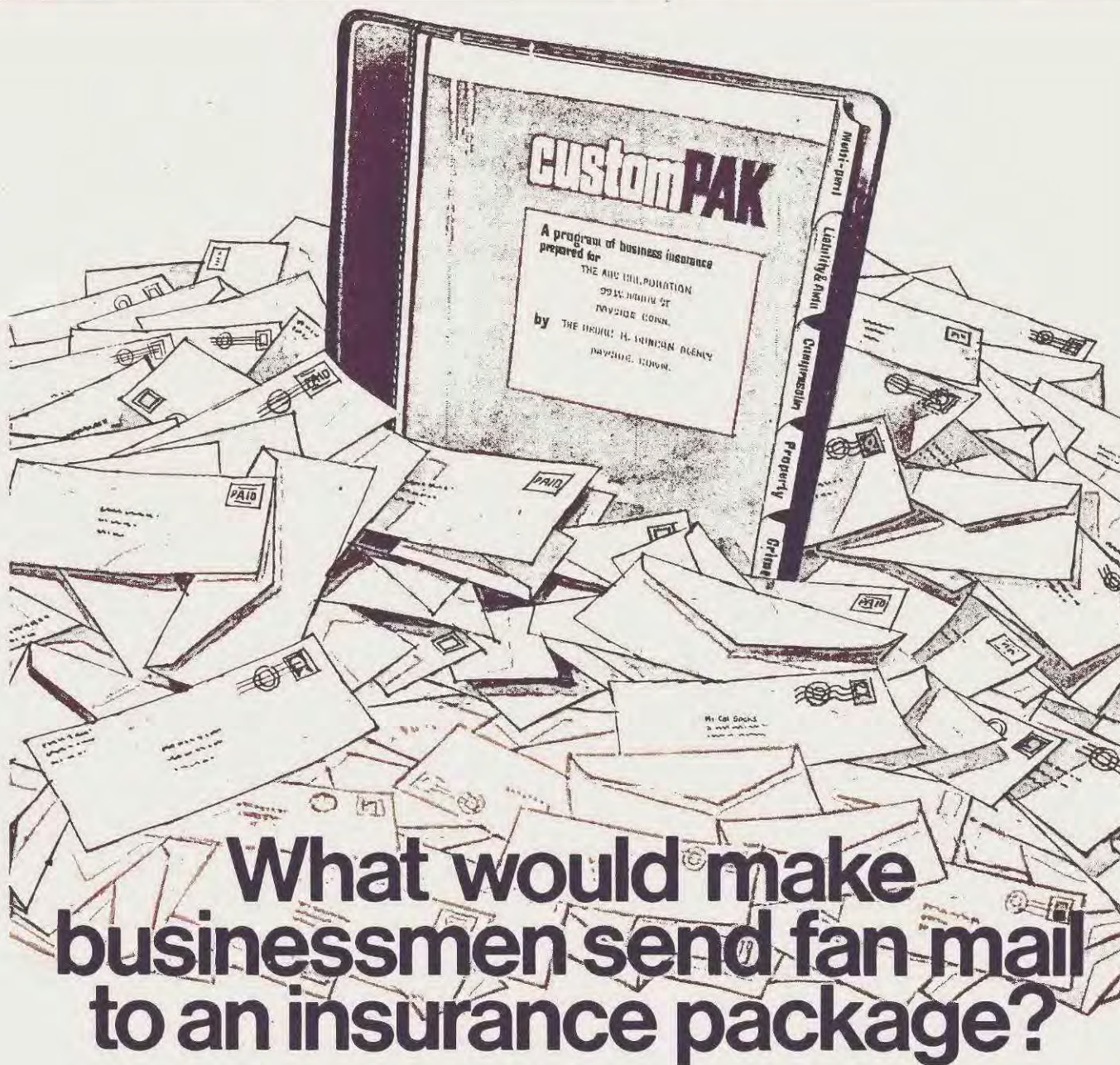
NEW YORK—The international flavor of this year's American Society of Insurance Management annual conference, beyond the fact that it will be held the last week in April in the most European of North American cities, Montreal, has been heightened by registrations and inquiries from as far away as Zambia and Australia.

Zambia? According to an ASIM spokesman, one of the registrants for the conference is a risk manager for a mining concern, affiliated with American Metal Climax, in that African country.

Among the registrants from England is Roy White, president of Assn. of Insurance Managers in Industry and Commerce (AIMIC), the British equivalent of ASIM.

ASIM has also received inquiries from risk managers in Italy, France, Australia and Japan who, according to the spokesman, will probably be coming.

Insurance brokers from many countries, including Belgium, England and Bermuda will also be in attendance.



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Engelhard Minerals' first risk man wastes no time

NEW YORK—The problems facing a risk manager attempting to start a fledgling insurance/risk management operation in a huge company that had survived for years without one, can understandably, be overwhelming. For Martin S. Hodes, even finding an office was something of a problem.

"This is it," Mr. Hodes, the new insurance/risk manager at Engelhard Minerals & Chemicals Corp., indicated, gesturing grandly at a desk and bookcase in a geology department stock room. "This is the insurance department."

The desk was piled high with documents and papers of all varieties, held down by numerous books (the smoking type) and ash trays. One shelf of the bookcase was crowded with official-looking folders; the items on the lower shelf, less formal, were kept in place by a tobacco can full of flower seeds.

MR. HODES explained that responsibility for the firm's risk management procedures had become his province only a few months ago and that a real office is being prepared. It should be pointed out that the lack of a spiffy office has not deterred him at all from what he considers his main job—saving money for Engelhard.

"This company spends over \$5 million a year on insurance, including benefits, but with some coordinating and combining the figure will drop," Mr. Hodes said. "It will take about two years before a substantial savings shows up. By substantial I mean a savings of about \$1 million."

Mr. Hodes, who took over the position Nov. 1 last year, joined Engelhard after management here recognized the need for a centralized insurance department. Prior to that date, much of the company's insurance work had been handled by legal people within the various divisions and a consultant, Sterling & Sterling Inc.

"The main advantage of the central insurance/risk department so far has been that we can get a concentrated overview of the insurance that had been in effect," Mr. Hodes noted. "Because of this overview we can reduce insurance expense by detecting and eliminating any duplications in coverage."

"CLAIMS WILL now be centralized and controlled," he continued. "We now decide which claims will be absorbed and which will be filed. This risk retention program is important because our policies are loss rated."

It was at this point that he stated that Engelhard, to his knowledge, was one of two companies in the world with a "Lloyd's worldwide open all-risk contract. It's an old, comprehensive contract which insures the stock of the company wherever it may be and the fidelity of the employees."

Engelhard Minerals & Chemicals Corp. is divided into three major divisions with a vast number of branches and subsidiaries both in the U.S. and around the world. The Engelhard Industries division engages in the manufacture and processing of precious metals, and manufactured the silver clad strip for the Eisenhower dollar. The Minerals and Chemicals division is in the mining and milling of clays, among other things, and the Phillip Brothers division, the marketing arm, is the world's largest trader of various commodities, according to Mr.

Hodes. Each of the divisions handles its own employe benefits, Mr. Hodes pointed out. That will continue though he is trying to get similar benefits throughout the entire company. "We have 7,000 domestic employes and we're trying to get the benefits levels to such a point that a person can transfer from one division to another and have virtually the same benefits."

HE ALSO noted that long-term disability and personal accident insurance for employes were entirely self-insured.

Mr. Hodes said that his immediate task when he began the insurance/risk management department was "to implement risk retention and deductibles, inspire better loss prevention and man-



Martin S. Hodes

age OSHA."

How, then, did he go about it? "The first thing I had to do," he recalled, "was to centralize the

physical location of the insurance policies. They had to be brought in from division headquarters in New Jersey.

"While I was waiting for them to come in," he said, "I visited as many of the plant sites in New Jersey as I could so I could learn about the facilities and the details of their coverages."

IT WAS during these visits to the sites that he noticed "a definite lack of communication among the divisions regarding insurance, security and loss prevention."

To inspire communication, he sent letters to 30 locations asking that one person in that location's finance or administration section be appointed insurance risk-management representative. It then became the responsibility of

the representative to, among other things, "be aware or advised of any pending or actual increase or decrease in the replacement or actual cash value of tangible corporate assets."

Then, upon any changes in value, the representative would prepare a form supplied him by the department requesting changes in coverage.

The insurance risk management representatives were also asked to handle initial reports and procedures in case of accidents or fires.

EACH OF THE representatives was given an insurance instruction manual, prepared by Mr. Hodes, which outlined his duties and provided him with the need-

Continued on page 40



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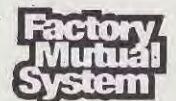
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Cost of crime to business is \$16 billion annually

WASHINGTON—A Commerce department staff report has put a \$16 billion annual price tag on business losses caused by crime and says the problem of crime against business is "costly, severe and getting worse."

The report was critical of business efforts to stop the trend. It stated that "in a sense, businessmen may be tending to view criminal acts and rising crime rates as 'society's' problem" and "something over which they have no control and from which they should be protected by others."

Although businessmen are spending \$3.3 billion in private prevention efforts, said the report, "there are indications that these efforts may be too passive. For example, insurance representatives claim that businessmen

often take minimal precautions against robbery and burglary once they have obtained insurance."

AT ANOTHER POINT, however, the report said private security expenditures increased 150% between 1960 and 1969 compared to a 90% increase in public law enforcement expenditures during the period. Cited as reasons for the private security growth: "Rising insurance rates and the expansion of categories for which property insurance cannot be obtained" and "insurers requiring the use of private security systems or granting premium discounts when private security measures are taken."

But this security growth "has not been accompanied by training

programs adequate for the field," the report said.

The breakdown of the crime loss total was estimated as follows: retailing, \$4.8 billion; manufacturing, \$1.8 billion; wholesaling, \$1.4 billion; services, \$2.7 billion; transportation, \$1.5 billion; arson, \$0.2 billion; preventive measures, \$3.3 billion.

The report said the difficulty of obtaining statistics on the cost of crime losses in the manufacturing sector "is particularly imposing . . . there is no real information available for this sector." It said the \$1.8 billion loss figure was from the American Society of Industrial Security.

It stated that manufacturers who make "small, high-value consumer products are thought to suffer more substantial losses" than makers of large products and that "less automated industries suffer tool and part losses."

than makers of large products and that "less automated industries suffer tool and part losses."

WHOLESALEERS "generally suffer from the same types of crimes as retailers, particularly employ theft," said the report. It cited a Senate small business committee estimate of \$1.5 billion in cargo theft now and a prediction of \$2.7 billion in 1972. Of the current total, \$900 million, or 60%, was attributed to truck cargo theft, \$250 million to railroad cargo theft, \$210 million to marine theft and \$110 million to air cargo theft.

In addition to restaurants, hospitals and hotels losing an estimated \$2 billion annually from crime, the report listed these other service area losses: \$494

million in securities stolen from brokerage firms and banks in the first six months of 1971, more than twice the total of all of 1970; \$10 million due to bank robberies in 1970; one estimate of \$140 million lost through the fraudulent use of stolen credit cards in 1970, another category of up to \$400 million a year at present.

Noting that one reason for government interest is increased consumer prices caused by crime losses, the report called on business and industry to "start to view crime just like any other component of business cost. Crime losses are costs. Cutting crime losses should receive the same sort of constant aggressive attention devoted to cutting labor costs, facility costs or any other costs that sap profits."

In a list of suggestions, the report asked business to "learn and adopt (if not develop) more professional approaches to property protection;" "devote more attention to what industry associations are doing" about new techniques and "make greater effort to follow through on prosecuting people apprehended."

Insurance committee under fire

GALVESTON, Tex.—The effectiveness of Galveston's city insurance committee, appointed by the city council to give the city professional advice in all insurance matters, has come under fire.

The criticism of the committee, the only municipal committee receiving pay, emerged after the city council awarded the Seinsheimer Insurance Agency a one year contract for liability and fleet coverage at an annual premium of \$38,462.

Other agencies bidding did not include fleet coverage and the Seinsheimer bid contained the condition that it receive all the insurance business or nothing, and that premiums would not be split with other agencies.

Other agents said they could not bid for the fleet coverage because Seinsheimer had the advantage of carrying such coverage for several years and has a complete fleet history and information file.

CITY COUNCILMAN Joe Ginsberg criticized the fact that in return for services, up to 50% of the city's fire schedule is to be written by the three committee members.

Ex-city councilman Joe Blackshear, representing the Seinsheimer firm, told the council he thinks the city is not getting a fair representation from the insurance committee.

He said the intention was that one of the three members would be replaced on the committee each year, but the first year five-year fire policies were written; for four years any new member would not share in the service fee.

Mr. Blackshear charged the committee does not see bid specifications for city insurance and does not even know when the various city policies expire. He said alternatives include the city hiring an insurance audit firm to advise on insurance matters or hiring a professional insurance agent to act as the city's own agent.

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editorial opinions

Mr. Donaldson shuts 'suitcases'

THERE WAS GOOD news for all buyers of insurance in the announcement from Nassau that the Bahamian government has dropped 74% of the insurance companies licensed on the islands before 1970. Charles Donaldson, Bahamian registrar of insurance companies, cleaned the slate after months of poring over complicated financial statements of "suitcase companies" that used the islands as a haven for marginal insurance activities. Mr. Donaldson deserves the thanks of the entire insurance buying community for the difficult job he accomplished in setting things right in the wake of the infamous Bay Street Boys.

There have been some nasty undercurrents of racism emanating from those who would prefer that Mr. Donaldson fail at his task. Representatives of another British colony in the West Indies unsuccessfully disputed a *Business Insurance* report on questionable reinsurance activities on their island. They said that our report was mistaken because the blacks had taken over the government of the Bahamas and were obviously the ones who were duped by marginal insurance operators. As it turned out, the *Business Insurance* report was correct, and it led to the expulsion of an international insurance swindler.

Now Mr. Donaldson has proved that the black government that took over the Commonwealth of the Bahamas five years ago is perfectly capable of administering its insurance affairs. Indeed, he told *Business Insurance* that he plans to go beyond the clean-up in the Bahamas to enlist other governments in the West Indies in an effort to bring about some uniformity of insurance laws and the formation of a cooperative regulatory association patterned on the model of the National Assn. of Insurance Commissioners which operates in the U.S.

We wish Mr. Donaldson well in his efforts to organize such an association because the integrity of the insurance industry and the confidence of insur-

ance buyers depends on the effectiveness of regulation in every jurisdiction. More than that, the condition of insurance regulation in the West Indies has an important bearing on the willingness of U.S. companies to set up offshore captive insurance companies on the islands.

The importance of effective insurance regulation everywhere was pointed up dramatically by the indictment in Miami of 22 accused mail-fraud swindlers who used a Nassau-based company as a "shell" from which they launched questionable reinsurance and advance-fee operations that netted them \$150 million over three years, according to the federal grand jury indictment. Had the victims of this alleged scheme been alert enough (or willing) to ask Mr. Donaldson's office about Trans-Continental Casualty Insurance Co. Ltd., they would have learned that it was not financially capable of undertaking the vast commitments made for it by those now accused of mail fraud. The sad fact is that many of those who are victimized by insurance swindlers have a little larceny in their own hearts and are not interested

in checking the status of companies they do business with. Honest seekers of insurance coverage or loans from insurance companies are likely to check the authenticity of companies and the offers they make. Such was the case when a California risk manager spent three or four dollars to check on a Missouri minimutual whose coverage was offered through a surplus lines broker. That telephone call led ultimately to a mail-fraud indictment and a 3-year series of articles in this magazine exposing the minimutual operators.

Those who sincerely want to know the condition of Bahamian insurance companies may ask Mr. Charles A. Donaldson, Registrar of Insurance Companies, Ministry of Finance, P. O. Box 557, Nassau, Bahamas. "I'll be glad to tell them anything we know about the 90 companies that we find satisfactory and about the 255 companies we have dropped from our rolls," he promised. That's a good offer from a good insurance regulator who's proving that the Bahamian government is not interested in cooperating with organized crime by allowing "suitcase companies" to operate.

Keep watch on ads

THERE ARE encouraging stirrings from insurance commissioners on the sensitive matter of advertising of health and accident insurance. Rules governing such advertising were adopted by the National Assn. of Insurance Commissioners, but as with all NAIC rulings, the impact depends upon enforcement by individual state insurance commissioners. The Federal Trade Commission, though it has authority over mail advertising, has been strangely quiet about the offerings of health and accidents insurers.

Old Reliable Herbert S. Denenberg, insurance commissioner of Pennsylvania, held a hearing last month on the offerings of insurers domiciled in his state, and he is expected to announce very soon the restrictions he will im-

pose on such advertising. His ruling will not be welcomed by the insurance fraternity, but perhaps those who complain about restrictions ought to take a close look at the advertising that raised Commissioner Denenberg's ire.

It should be noted that Denenbergism on health and accident advertising is contagious. Wisconsin's Insurance Commissioner Stanley DuRose issued a warning on deceptive advertising; Insurance Commissioner Oscar Ritz of Indiana called a hearing last month, and Utah Deputy Insurance Commissioner Jack G. Edwards issued a warning to insurers to "tone down" the use of certain misleading words and phrases.

It sounds as if insurance regulators are feeling the vibrations of an irate public.

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letters

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

'Fair criticism'

To the Editor: I think your Feb. 14 editorial "Where was ASIM?" is fair criticism and a constructive contribution to the aims of ASIM. Mr. Lalley, our vice-president-legislation, shares my opinion.

Douglas Barlow

American Society of Insurance Management Inc., New York.

Editor's note: Our editorial took ASIM to task for its failure to present testimony on behalf of risk managers to the National Commission on State Workmen's Compensation Laws. We were pleased to learn after the publication of the editorial that the commission is holding a supplementary hearing in New York on March 20 and that ASIM will be represented on the witness list. Preliminary results of the Business Insurance survey on workmen's compensation will also be presented at that hearing.

Missing book

To the Editor: Your editor's note on recommended books dealing with product liability omitted my new book, previously advertised in *Business Insurance*, on "Product Liability and Safety" (Coiner Publications, 1971). Since I had asked the publisher to send a book review copy to you, I hope that this is not an opinion as to the merit of its contents.

George A. Peters

Attorney at Law, Sherman Oaks, Cal.

Editor's note: We certainly did not mean to ignore Mr. Peters' recently published "Product Liability and Safety," but space limitations forced us to select only a few volumes from a bibliography prepared for *Business Insurance* by the library of CNA Financial Corp. The volume mentioned by Mr. Peters is available from Coiner Publications Ltd., 3066 M Street, N.W., Washington, D.C. 20007.

More on workshop

To the Editor: Your articles in the Jan. 31 issue reviewing the Product Liability Workshop were extremely informative and generated considerable interest in our claims and underwriting departments. If possible, we would like to review any additional information you have regarding this workshop so that our library may be updated and be of greater assistance to our insureds. The texts of the papers delivered and any other background material on product liability would be extremely useful.

As you have suggested in your Info for Buyers section, Kaiser Aluminum & Chemical Corp. has been contacted and we await their 30-minute program on product liability.

Our sincere appreciation for your anticipated cooperation and continued service to the insurance industry.

Willard J. Gentile

Associated Aviation Underwriters, New York

Editor's note: The workshop coverage in the Jan. 31 issue was intended to cover workshop high-
Continued on page 20

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San Francisco's medical society to institute city-wide prepaid program

SAN FRANCISCO—The San Francisco Medical Society has announced it will launch a "wave of the future" health insurance plan to provide every San Franciscan comprehensive medical care at a fixed monthly cost.

The plan would leave patients free to select their own doctors and hospitals and members could choose physicians who participate in the program. Membership will be open to groups as well as individuals, and contracts with the state would eventually provide the same benefits to Medi-Cal patients.

More than 700 San Francisco doctors contributed \$100 each to finance early planning of the program. The University of Califor-

nia medical center allocated \$40,000 and joined the medical society "to create a link between the program and major teaching hospitals." The Department of Health, Education and Welfare has given \$156,000 to the program and \$30,000 was received from the Irvine Foundation.

WITH THE nearly \$300,000 total the medical society hopes to enroll the first trial group of 300 subscribers within 18 months. Smaller pre-paid medical care plans have been started by the medical societies of Sacramento and San Joaquin counties.

The proposed San Francisco plan will utilize a centralized computer system for recordkeep-

ing and accounting. The plan will also eventually include dental care as well as drugs.

Membership in the San Francisco Medical Society Health Plan Inc. will be open to everyone in San Francisco regardless of age. Fees still being developed will be competitive with those of other plans, and the first trial program will provide coverage for 300 employees of the California State Dental Society who work in San Francisco.

All of the city's 2,200 physicians will be asked to join in the program and to accept fees set by committees of their society as full payment for services they render under the program.

Pressures toward establishment

of programs such as now proposed in San Francisco were outlined in the Sept. 13, 1971 issue of *Business Insurance* relating efforts of the Council for Health Plan Alternatives, organized by labor groups in 1967. The council, directed by Einar O. Mohn, Western Conference of Teamsters, has concentrated on finding "new ways" of purchasing insurance and of directing improvements in health benefits under labor provided insurance programs.

ADDITIONAL evidence of the "crisis state" of California health care came the same day both Gov. Ronald Reagan (see related story page 28) and the San Francisco Medical Society disclosed their plans. Dr. Francis J. Curry, San Francisco health director, announced closing of the 45-year-old city operated Hassler Hospital because "the Reagan administration efforts to reduce Medi-Cal costs have left the San Francisco

health department facing a multi-million dollar deficit.

"Our department," Dr. Curry said, "has had to stop filling job vacancies and postpone acquisition of such new medical equipment as ambulances because of the new state rules under which the poor and the elderly will suffer."

The fiscal hassle began last October, Dr. Curry said, when the state reduced its Medi-Cal payments for care of aged and chronically ill long-term patients from \$28 to \$14 a day per patient.

At the same time, the Reagan administration introduced a new regulation requiring that all Medi-Cal applicants be certified as eligible by county welfare departments, "and this," Dr. Curry said, "created a super paper bureaucracy which is costing our department alone some \$2 million a year for paperwork."

FCIA makes good on a prediction

NEW YORK—Reginald J. Denton, president of the Foreign Credit Insurance Assn., has made good a prediction he made in this magazine, among other places, last year, (*Business Insurance*, Aug. 30, 1971, page 67).

At that time, Mr. Denton said that the export credit insurance association would insure \$2 billion worth of U.S. exports in 1971, double the figure for insured exports in 1970. Well, Mr. Denton has now announced that the \$2 billion goal, set by the association and the Export-Import Bank of the United States, has been reached. The association authorized \$2.024 billion in export assistance in 1971.

He said that about half of that figure had been in short-term coverage, \$375 million in medium-term coverage and \$130 million in combination policies that support U.S. equipment sales to foreign dealers. FCIA master policies, which provide coverage for all the insured's short-term and medium-term dealings throughout the world, accounted for \$455 million.

This year's goal has been set at \$4 billion "in assistance to the U.S. exporting and banking communities," according to Mr. Denton. In four years, he hopes to see his association protecting \$10 billion worth of exports.

FCIA is an association of some 50 insurance companies which, in cooperation with Eximbank, protects exporters against non-payment by foreign buyers because of political or commercial credit risks. The association also aids in the financing of term credit sales.

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we help keep you in power. The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut. Now, about that steam log-hauler. Designed by Alvin Orlando Lombard, this crawler-type monster weighed 20 tons, travelled 4½ mph flat out, and revolutionized the logging industry by making it possible to cut and haul where no river flowed and the horse and sled were impractical.



letters

Continued from page 18

lights. We do not have speakers' texts available, but in this week's Info for Buyers column there is a listing for an article written by Sidney Z. Karasik, one of the workshop speakers. Because of the interest in the Product Liability Workshop expressed by Mr. Gentile and many other readers, *Business Insurance* plans to conduct another product liability program in the near future.

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Product safety head urges industry to act before government does

NEW YORK—Samuel Hart, deputy director of the bureau of product safety of the Food and Drug Administration, advised manufacturers to establish their own product safety requirements and not to wait for government to make the first move. He spoke at an American Management Assn. conference here on product liability and product recall.

"Manufacturers should establish an adequate quality assurance program," he noted; "the manufacturer must accept the responsibility of placing only safe products on the market."

Mr. Hart explained that the year-old product safety bureau is responsible for regulations under

the Federal Hazardous Substances Act, the Child Protection and Toy Safety Act, the Poison Prevention Packaging Act and part of the Flammable Fabrics Act. The bureau coordinates its activities within four primary divisions.

The chemical hazards division determines compliance with federal regulations for chemical and toxicological products used in the home. It also acts as a clearinghouse for poison control centers across the nation. Information on product ingredients, ingestion, symptoms and treatment are supplied to the various centers on file cards. The bureau, however, is conducting an experiment in se-

lected hospitals using a cathode ray system (similar to a television tube) which is connected to a computer in Washington.

"THIS INCREASES our ability to get information to hospitals from 60 or 90 days to only 24 hours," said Mr. Hart. The computer system also feeds information on injuries associated with certain products into the bureau much more rapidly.

The children's hazards division is responsible for developing standards, regulations and test procedures for mechanical, electrical and thermal children's products. To date, the division has issued regulations concerning

ingestion, aspiration and puncture hazards. Standards have been developed for specific toys such as the popular clapper balls which are two balls, connected by string, that swing and hit each other. Prior to the bureau's regulations, the balls were causing serious injury due to breakage and splintering.

An injury data and control center was formed "to help decide what types of problems we, the manufacturers and the consumers are facing," said Mr. Hart. The center gathers information from electronic recording devices installed in the emergency rooms of 119 hospitals across the country. The devices are tied into a computer hook-up in Washington that collects information concerning the severity, type, place and time of injuries plus personal data on injured parties. After determining the frequency and severity of certain injuries, Mr. Hart noted,

"we can plan our programs and set our priorities."

Field staffs in 19 district offices are set up to investigate significant injuries. "We are finding out information about injuries associated with products—not necessarily caused by them," he added.

THE DIVISION of compliance is responsible for setting guidelines for standards under the Hazardous Substances Act, the Child Protection and Toy Safety Act and the Poison Prevention Packaging Act.

"The Hazardous Substances Act is primarily a labeling act," noted Mr. Hart. A chemical or toxicological substance that is classified as hazardous must include the following on the label: the ingredients that contribute to the hazard, a definite warning signal such as the word "danger," an explanation of the specific danger involved and a list of precautionary measures to be followed. If the product is poisonous, the word "poison" and a skull and crossbones must be pictured along with instructions to keep away from children.

"When the hazard is so great that labeling won't suffice, the substance can be banned," said Mr. Hart. This was done in the case of a water-proofing compound called X-33, which was so flammable that numerous accidents occurred even though the product carried proper warnings. According to Mr. Hart, the mere flick of a light switch in a room in which the product was used could cause the substance to ignite.

He advised manufacturers to be particularly careful concerning hazardous products. "Any article or substance sold by a manufacturer or distributor, whether or not banned at the time of original sale, must be repurchased when declared hazardous," he explained.

UNDER THE Child Protection Act, a children's product that contains a hazardous substance is automatically banned. In 1969, the Child Protection and Toy Safety Act amended the Hazardous Substances Act to include mechanical, electrical and thermal hazards. However, certain children's products containing these substances are allowed to be marketed if they are sufficiently labeled and are intended for mature children. Toy chemistry sets have been approved although some extremely dangerous chemicals are still prohibited.

The advisory committee of the bureau, composed of members of the Department of Health, Education and Welfare, members of the Department of Commerce, consumerists, manufacturers and scientists, develops standards to be used under the Poison Prevention Packaging Act. Under this statute, certain household products harmful to children are required to have special packaging that would be difficult for children to open or to obtain much of the product once opened. The committee has devised a simple method to test this type of packaging.

The product is given to two small children to open within certain time limits. If the children can't open it initially, they are given a visual demonstration and a second chance. If the children win, the product fails. This method of testing became official on Jan. 19, 1972. Manufacturers are permitted to market one size package which is not in compliance with the regulations if it is labeled that it is not for use in households with young children.

Packaging restrictions are also being considered for aspirin-containing drugs, prescription drugs,

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N.Y. insurance department reveals commercial vehicle no-fault stand

NEW YORK—In the face of a controversy here, the New York insurance department has formulated a department memorandum outlining its philosophy and alternatives to the treatment of commercial vehicles under so-called "no-fault automobile insurance."

The controversy developed when the insurance department initially drew up a no-fault scheme. Under that plan, written during the tenure of former Superintendent of Insurance Richard E. Stewart, commercial vehicles would have been held strictly liable in truck-private passenger car accidents.

Under a revised plan announced early this month (*Busi-*

ness Insurance, Feb. 14) expected to be introduced into the state assembly with Gov. Nelson A. Rockefeller's backing shortly, that approach has been modified somewhat. The new plan would now allow only for subrogation on a fault basis in car-truck accidents. That is, the insurer of the private passenger vehicle would be able to recover medical and other economic loss expenses from the truck's insurer or, in the case of self-insured fleets, from the truckers themselves, if the truck was at fault.

THE MEMORANDUM developed by Benjamin Schenck, superintendent of insurance, and his aides explains the insurance de-

partment's reasoning on the subject:

"In the absence of special treatment for commercial vehicles, premium rates for commercial vehicles, especially large trucks, would decline under no-fault almost to the vanishing point," the memorandum says. "The reason is that the driver of a truck is very seldom injured severely in a crash and, if he is, workmen's compensation would pay all the medical expense and most of the wage loss.

"The result," the insurance department reasons, "would not only seem patently unfair to owners of private passenger cars but it would also be socially undesirable to the extent that it

would appear to encourage everybody to ride around in cement trucks in order to reduce their insurance premiums."

Referring to the department's earlier stand on the matter—strict liability for commercial vehicles—the memo notes that "the insurance premium effect of this treatment was never definitively analyzed but it was estimated that commercial vehicles would have wound up with premium levels approximately equal to today's while private passenger vehicles would have saved from 30% to 50%. Owners of commercial vehicles have objected strenuously to this proposed treatment.

"IT IS BELIEVED that the insurance department would be willing to modify the original proposal in order to gain support from owners of commercial vehicles for the passage of no-fault legislation.

"One possibility," it says, "would be to leave commercial vehicles out of the no-fault system altogether. They would not be required to provide no-fault benefits to anyone and they would not be made subject to any special secondary cost transfer. Instead they would just continue to be liable in tort, as they are today, and continue to be required to carry liability insurance.

"Another possibility," it says, "would be to include commercial vehicles in a no-fault system. Passenger-carrying commercial vehicles such as buses and taxis would be treated just like private passenger cars. Property-carrying commercial vehicles such as trucks would, like cars, taxis and buses, be exempt from tort liability and required to carry insurance to provide no-fault benefits, but would also be subject to a special secondary cost transfer.

HOWEVER, instead of a 100% transfer, there would be a transfer of only that percentage (to be determined by the insurance department) which would be sufficient to provide for commercial vehicles the same percentage savings in insurance premiums as would be provided to passenger vehicles. The justification for this approach, and the manner of setting it forth in the statute, would be that property-carrying commercial vehicles would be made to bear the same proportion of accident costs under a no-fault system as they bear today under the fault system," the memo notes.

"A third possibility, a variant of the second," it goes on, "would be to have the secondary cost transfer not on a strict liability basis but on a fault basis. This would probably achieve roughly the same premium savings as the second alternative, even considering the additional expense of operating on a case-by-case basis in transferring costs. It would avoid many of the technical problems in working out the second alternative. ■

Sikorsky workers get new pact

STRATFORD, Conn.—Some 3,500 workers at the Sikorsky aircraft division of United Aircraft Corp., members of the Teamsters Local 1150, have voted to accept a contract offer containing substantial improvements in pension and retirement benefits, health and life insurance, bereavement and jury duty pay and layoff and recall procedures.

Under the pension phase, payments will be adjusted in accordance with the cost of living and employees are to pay only 2% of earnings over \$9,000 to the pension fund. (Under the previous contract, they contributed 5%.) Retirees will be entitled to at least \$7.50 per month, per year of service. For example, a retiree who has worked 10 years will get a minimum of \$75 per month.

The agreement entitles workers to full retirement benefits at age 62 (previously it was 65), and a worker with 20 or more years may retire as early as age 55 and receive increased retirement compensation.

Surgical and medical benefits will be paid full, as compared to 80% under the previous contract. Maximum disability income is boosted from \$114 to \$120 per week, and maximum life insurance coverage is increased by \$600. ■

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Reagan seeks 'catastrophe' health cover through payroll deductions

SACRAMENTO—A \$300 million "catastrophe" medical insurance program to cover 17.6 million Californians has been proposed to the state legislature by Gov. Ronald Reagan.

The plan would be financed by mandatory payroll deductions of \$3 a month from most California workers and would provide the opportunity to enroll voluntarily in a second basic health insurance program, besides allowing retention of existing insurance plans if such plans met minimum state standards.

If the private plans, such as Blue Cross, Blue Shield or Kaiser Permanente, become exhausted through disastrous illness, the Reagan-proposed program would

cover expenses beyond \$8,000.

Catastrophe health insurance benefits would include surgery, hospitalization, x-ray and laboratory services without any limitations while the basic health plan standard would call for 100 days of in-patient hospital care, including surgery, plus 30 days of post-hospital recovery care and up to \$3,000 maximum for specialized out-patient services.

ALL RESIDENTS of California would be eligible except for recipients of Medi-Cal which theoretically now provides catastrophic coverages. Persons covered by military health programs would also be excluded.

Dr. Earl Brian, director of the

state department of health care services, estimates that as many as 10,000 persons a year in California are struck by illness with resultant treatment costs averaging \$25,000. Gov. Reagan's California health security plan would establish basic health insurance program standards for private insurance firms and would pick up costs beyond the \$8,000 "deductible," or when basic medical coverage lapses.

The catastrophic phase would be mandatory but the basic health insurance coverage would be optional. The governor contended that if the legislature acted "quickly" the plan could become effective as early as January 1, 1973. Dr. Brian added that

the Reagan plan, if adopted by the legislature would be run by a seven-member California health security commission.

HE SAID there are now an estimated 700 insurance companies offering Californians a wide range of medical insurance coverage at an equally wide range of premium costs. Some of these, particularly the Kaiser and Blue Cross plans, either already meet or exceed state standards. Blue Cross now has nearly four million subscribers in California. The Kaiser Permanente plan has 2,100 doctors and more than two million members, of which 1,700,000 are in California.

The catastrophe plan would not cover heart transplants but would include unlimited dialysis treatment for kidney patients. Standards would not cover cosmetic surgery, private duty nursing, hearing aids, eye-glasses or routine medical check-ups.

Gov. Reagan's plan was described by George R. Moscone, San Francisco Democratic state senator and gubernatorial candidate, as a "boondoggle for the insurance industry, offering only an \$8,000 deductible." He attacked the regular medical check-up exclusion as "a failure to recognize the need for preventive medicine. Provision for routine medical check-ups are imperative for good health standards."

Candidate wants state health plan

SACRAMENTO—Major medical legislation to cover all Californians under a single plan partially financed by payroll deductions will be sponsored here by San Francisco Democratic senator George Moscone, an announced candidate for governor against Ronald Reagan.

Mr. Moscone said his legislation "will revolutionize doctor-hospital care plans while at the same time revising the manner in which the typical person now pays for medical insurance.

"We must be prepared," he noted, "to invest a portion of all of our incomes into a statewide health care system that will provide one high standard of care for all of our citizens."

UNDER LEGISLATION Mr. Moscone is preparing to introduce during the current session of the California legislature, the new health plan would be 50% financed by paycheck deductions and the rest by the state tax-supported general fund.

A semi-public foundation would be established to supervise the program which would include what the legislator described as "a preventive medicine approach, to provide regular check-ups.

"There will be certain limits on medical costs," he explained; "we don't know whether we could carry someone for up to \$50,000 or \$60,000 in medical bills."

Dr. Earl Brian, Gov. Reagan's medical chief, estimated that a comprehensive state sponsored health care program would cost between \$6 and \$8 billion a year.

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COMBINED OPERATING RESULTS (000 omitted)

	1971	1970
PROPERTY AND CASUALTY INSURANCE OPERATIONS		
Net premiums written	\$ 422,552	\$ 393,761
Net earned premiums	413,860	376,704
Statutory underwriting gain	7,845	22
Expense prepaid on increase in premiums written	2,173	4,264
Adjusted underwriting gain	10,018	4,286
Investment income	25,924	21,647
Total adjusted operating income	35,942	25,933
Combined ratios	97.4%	98.5%
LIFE INSURANCE OPERATIONS		
Premium income	28,654	25,517
Operating earnings after taxes	2,065	1,583
Life insurance in force	1,653,456	1,514,626
ALL COMPANIES		
Combined assets	\$ 822,997	\$ 746,606
Capital and surplus	219,480	194,521

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Knauer says states must act soon

SAN FRANCISCO—If the states fail to enact no-fault automobile insurance, a St. Mary's College symposium on consumerism was told "the national administration will look into national no-fault insurance."

Mrs. Virginia Knauer, special assistant to President Nixon for consumer affairs, told the symposium, "there is great need for auto insurance reform and no-fault is an essential part of that reform.

"The implication is clear," she said, "that this will come, and soon, if not at the state level, then at the federal level."

Mrs. Knauer also complained of "Congress taking its own sweet time on consumer-oriented legislation. The public must press for action on administration sponsored bills to regulate product safety, warranties and medical devices."

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No lost time mishaps at plant in six million hours

BATESVILLE, Miss.—When a manufacturing facility runs up over six million man hours without a lost time accident, it is reasonable to assume that the facility's management spends a great deal of its time drumming safety regulations into employees' heads.

However, in the case of the Pennaco Hosiery plant here, safety and that huge number of lost time accident-free hours just seem part of the normal operation.

"Safety is something all the

employees here are aware of," said Sidney Wood, manager of the knitting facility, "but we don't try to make a big issue of it all the time.

"We get great cooperation from the employees," he continued, noting that the last accident-causing loss of time occurred September 28, 1964. "We ask them to report anything that looks like it might be hazardous and we make inspections. Our insurance company also does inspections for us. We also investigate every acci-

dent, even the small ones. If someone gets a little cut on his finger, we will investigate the cause."

HE REPORTED that the ladies' hosiery firm had not really carried on a specific safety campaign but that employees were kept safety conscious by a series of "regular insurance company posters." He mentioned that the insurer was Aetna Casualty & Surety Co.

The Batesville plant now employs 325 workers, though during the period in which the safety achievement was accomplished employment was as high as 800. "The production is the same now as when we had 800 employees because of automation," Mr. Wood said. "We have high speed sewing and knitting machines that are really not too hazardous, but accidents can happen on the safest machines."

Mr. Wood also said that the six

million man hour total achieved by Pennaco, a division of U.S. Industries, was the highest ever in the hosiery industry.

When asked what he thought the key to running a safe, accident-free operation was, he replied, "Well, we just do what the insurance company tells us to do. It's worked."

State controller seeks amendments affecting N.Y. pensions

ALBANY—State controller Arthur Levitt said early this month that he will seek two constitutional amendments designed to tighten up state employee retirement plans.

The first, Mr. Levitt disclosed here, would require that negotiated pension plans be funded so as "to pay the cost of the benefit from the first year on," as they accrue.

A second amendment he will seek "would require that any new benefits be applicable to all members of the system alike." This, Mr. Levitt contends, would eliminate much of the competition among unions that now goes on in various pension negotiations.

Hall acquiring Los Angeles broker

NEW YORK—Frank B. Hall & Co. Inc. has reached an agreement in principal to acquire Allen T. Archer Co., a Los Angeles brokerage firm.

According to Gardner F. Gillespie Jr., a Hall vp here, Archer has about 85 employees in offices in Los Angeles, Anchorage, Chicago, Dallas, San Francisco and Seattle. Included in the merger is Mebus Bartlink & Associates Inc., a brokerage firm affiliated with Archer in the California city.

While Archer is a multiple line brokerage firm, Mr. Gillespie did say that a special expertise is in the area of helicopter insurance. That is one reason, incidentally, the company has a large book of business in Alaska. "They're very active there because the helicopter is becoming a more common mode of transportation than the dog sled," the Hall vp told *Business Insurance*.

When it joins the Hall organization, Archer will bring with it annual commissions and fees in excess of \$3 million.

Squibb will appeal \$500,000 court award on Bloplant suit

DAYTONA BEACH—A \$500,000 award in punitive damages against E. R. Squibb and Sons, Lawrenceville, N. J., is insured under the products portion of a comprehensive general liability policy with a \$60 million limit, according to a Squibb spokesman. The policy, however, is a retrospective plan with a "self-contained stop loss."

David F. Stickney, a Daytona Beach service station owner, claimed a Squibb product called Bloplant was taken off the market by Squibb two weeks prior to an orthopedic operation he underwent using the product. The Bloplant, which is a processed cow bone used for reconstructive surgery, was rejected by his system and he underwent two subsequent operations.

Squibb is planning to appeal the decision.

"We haven't written a check. We intend to pursue this matter," said a company lawyer. He noted that Bloplant was approved by the U. S. Food and Drug Administration after Squibb had completed eight years of testing.

\$563,948 spent by City, on commissions Beame reveals

NEW YORK—New York City controller Abraham D. Beame has disclosed that the city pension system paid commissions of \$563,948.39 to 70 stockbrokers who handled transactions for the City Employees Retirement System from last June 1 to Dec. 31.

Mr. Beame, when questioned on the matter by city councilmen, noted that 2,000 transactions involving purchases and sales of stocks were handled by the fund's administrators during the seven-month period. He did not divulge the nature of the major transactions but said he would supply the councilmen with a list of stocks bought and sold if they wished.

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Planning group insurance for such an expansive operation was a complex assignment. But Pacific Mutual has

become one of the largest group insurance companies in the nation by tackling underwriting problems like this.

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Highrises scare him

SAN FRANCISCO—Insurance companies providing earthquake risk liability insurance for new highrise buildings recently constructed in downtown San Francisco couldn't be blamed for beating a path to the door of Karl Steinbrugge, University of California structural design professor.

Mr. Steinbrugge, who also runs the earthquake program of the Pacific Fire Rating Bureau, has publicly told a disaster preparedness meeting of the Western Conference of the Council of State Governments that "there are some new highrises in downtown San Francisco that scare the hell out of me." He declined to name them but added, "Older highrises are structurally sound and thus tend to cause some complacency in the minds of some building designers. There have been a few who barely make the letter of the earthquake standards law."

Mr. Steinbrugge did comment that "a major earthquake probably could cause more damage, including substantial loss of life, in the East Bay than in San Francisco."

"The reason for this," he explained, "is the goodly number of earthen dams in the East Bay which could give way and cause severe flooding, as well as the larger number of railroad, gas, oil and water lines and freeways which cross the East Bay's Hayward Fault, compared to those on San Francisco's San Andreas Fault."

He said, "recent experiences in earthquakes in Mexico, Venezuela and Alaska have shown that high-rise buildings above eight to 10 floors can be damaged by quakes whose centers may be 100 miles distant."

"These buildings," he explained, "may be more resistant to the rapid frequency tremors of a nearby quake, but the rolling, slower shock waves of a distant quake could cause serious internal damage or even collapse." ■

Product . . .

Continued from page 22

furniture polish and products containing more than 5% methyl salicylate.

CURRENTLY, only drugs are required to pass governmental tests prior to marketing. "This is not required of other products, so manufacturers must accept the responsibility," Mr. Hart commented. "Manufacturers must consider the conditions under which a product will be used, who may use it, hazards, safety features, testing and evaluation."

Retailers are also responsible, he added. Under the Hazardous Substances Act, a retailer may be found liable if he accepts a misbranded or banned product in interstate commerce. Mr. Hart advised retailers to protect against such an occurrence by stipulating in purchase orders that products should comply with federal safety regulations.

"Be alert and designate product safety responsibility," he said. "Assumption of compliance without testing is risky." ■

Gray named

Peter Gray has been named manager of the mass merchandising underwriting department of Commercial Union Cos., Boston.

"Other kids wanted castles.
I wanted
a little grass shack."



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Pension system changing in Spain, but new uncertainties likely to arise

NEW YORK—The pension system in Spain is in a period of transition according to John C. Roberts, a partner in the firm of Hewitt Associates, Libertyville, Ill. "It is bound to introduce into the life of the manager in Spain another element of uncertainty, over and above the uncertainties which have plagued him in the past," said Mr. Roberts in a speech to an American Management Assn. conference on international employe benefits and pension management.

Prior to 1963, most workers relied on benefits provided by industry mutual benefit societies formed by specific trades such as the food or drug industry. In

1963, the government enacted social security legislation designed to integrate federal benefits with the benefits from the industry societies. The act, which became effective in 1967, provides most employes with old age pension, survivors and disability benefits, cash sickness, hospital and medical benefits, and unemployment and workmen's compensation.

"The crucial aspect of the Spanish social security system is the basis upon which employes and employers contribute to the system," explained Mr. Roberts. All Spanish employes are classified under 12 occupational title groups. Each title group has a set social security contribution base.

This base is, in fact, an assumed salary level that has no relationship to a worker's actual earning level.

"ALTHOUGH THE system is unrealistic, we could say that it is very Spanish in character, since it regards the title which a man carries rather than the salary he earns for his work as the true measure of the value of his job," he said. An employer contributes 42% of the base level and the employe contributes 8%.

Social security contributions for work accidents and occupational illness are, however, based on actual earnings up to a ceiling of about \$3,000 per year. The

employer pays the entire amount.

Legislation introduced by the ministry of labor in December, 1971, proposes basing all social security contributions on actual earnings levels up to the present ceiling of \$3,000 per year. If the law is passed, it will be enacted over a four-year period beginning April 1, 1972. The 1972 ceiling will be 90% of the eventual maximum to be reached in 1975. The program is expected to constitute an additional cost to the employer of less than 2% of payroll in 1972, he explained.

It is a common practice in Spain for an employe to receive a portion of his salary under the table, he said, noting that most American companies do not follow this procedure. "Under the proposed social security contribution regulations, this practice could spread even more widely, to the relative disadvantage of the American employer in Spain," said Mr. Roberts.

OLD AGE pension is payable at age 65 if a worker has paid social security contributions for 10 years. "The pension has a basic portion equal to 25% for 10 years of contribution plus 1% per year up to 50% for 35 years or more of contribution, and a supplemental portion equal to the basic pension originating from the industry mutual benefit society," he said. Information on the old age pension formula under the new bill has not been released.

"However," Mr. Roberts said, "the bill does make provision for the periodic upward reevaluation of pension benefits, thus permitting them to retain their buying power and keep pace with Spain's high rate of inflation." The proposal calls for the government to provide about \$61 million in its annual budget for the benefits plan and to raise the rate of return on the present social security reserves.

Under the 1963 law employers may not provide private company benefits unless they voluntarily increase their employe benefits under the state social security system. "It must be said that, in practice, this law seems to be very largely ignored," he added. The three methods specified for upgrading social security benefits are the establishment of a higher contribution basis, the direct supplementation of benefits, and the establishment of additional contribution rates. The first is the most commonly utilized plan. Employers may increase the contribution level up to actual earnings level or to the annual ceiling of approximately \$3,000.

"No clearly defined patterns have emerged in the design and administration of private plans," said Mr. Roberts. "Nevertheless, certain observations may be made." Mandatory retirement is illegal in Spain so many companies offer incentives for employes to retire at age 65. Maximum benefits are offered at age 65 with reductions if an employe remains past that age. "All employes are normally covered, since discrimination in this area is looked upon unfavorably by the tax authorities," he noted.

RETIREMENT pensions usually provide a percentage of final average pay. A benefit of from 60% to 80% of final earnings is common for employes who have served a company for 40 years. "From this benefit, the employes' social security benefits are then deducted," said Mr. Roberts. In several industries, such as banking and insurance, the government requires employers to pay a pension of 100% of final pay regardless of an employe's age at retirement. Mandatory retirement at age 65 is permitted in these industries.

Survivors' benefits differ from company to company. "Some companies prefer lump-sum death benefits, while others tend toward widows' benefits," explained Mr. Roberts. "Disability benefit practices vary from lump-sum distributions to flat rate annual benefits or benefits geared to the pension accrued to the date of disability."

In Spain, pension plans are rarely insured or invested because the government restricts investment policies. "Only recently, one insurance company obtained approval for a deposit administration contract, with unrestricted investments," he said. In all other cases, insurance companies must have at least 30% of their assets invested in government bonds with not more than 40% in mortgages and not more than 30% in equities. Also, a high rate of inflation coupled with low

Continued on page 48



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london line

Pollution legislation is raising some cover concept questions at Lloyd's

LONDON—Pollution cover is causing problems at Lloyd's because of the constant flood of legislation that can change the entire concept of an insurance policy as originally underwritten.

This was revealed by Thomas B. Duncan, new chairman of Lloyd's Marine Underwriters' Assn., who told insurers, "One of the principal problems facing the liability market is the demand for cover against pollution and how it can be provided in the face of increasing legislation.

"The U.S. Congress has been discussing amending legislation which will broaden the Water Quality Improvement Act to include every kind of substance which can cause pollution.

"THE BRITISH government has passed a law which gives it power to destroy a vessel which is a pollution danger. Such a situation arose after the Wafra was stranded off the Cape of Good Hope, and was then towed away and sunk by bombing by the South African government."

Reviewing the current insurance market with 1972 developments in mind, Mr. Duncan made these points:

- Ship repair costs in the U.S. are more than twice those in Britain, and show the need for sharp hull premium rises.

- After deductibles were insisted on in the British and other markets, the number of hull claims dropped.

- Insurers are concerned about the ever-rising cost of injury awards in the U.S.

- Rates for insuring ships under construction may have to be revised because major casualties continue in many countries.

Mr. Duncan revealed that contrary to earlier hopes (*Business Insurance*, Jan. 3) there could be substantial losses to the London market from the India-Pakistan war. Large amounts of cargo were impounded, and several vessels were either sunk or seized, particularly around Chittagong.

Norwegian insurers have expressed delight at a U.S. special court's decision on oil pollution laws. They had protested on behalf of Norwegian shipping companies against the Florida proposal to demand guarantees far above the requirements of federal laws.

N. B. Herlofson, director of one leading Norwegian insurance corporate, said the Florida demands could, in theory, have amounted to \$14 million. He felt the judgment favored the Norwegian attitude that the demands were too high, and though it could go to the U.S. Supreme Court, he said he, personally, believes this unlikely.

* * *

SAFETY EXPERTS are intrigued by the news that Dunlop Rubber Co. has invented an auto tube that can be driven at 100 mph even after a blow-out and will still operate for another 100 miles deflated at lower speeds.

The company has spent more than \$1 million on research to insure that the tube stays on the wheel rim, instead of spinning off

when punctured, and so will operate safely until repairs are possible. It is hailed in European motoring circles as the biggest development since radial tubes were invented, but it might take time to reach U.S. production lines.

It uses similar engineering processes to those devised for radials.

* * *

ENFORCEMENT agencies are looking into the activities of the British-American Bank of Nassau, Bahamas, which has been so-

liciting funds from U.S. depositors.

The bank claimed in an advertisement in British newspapers that it is "fully insured with Lloyd's against disappearance, destruction, and dishonesty." But Lloyd's will make no comment on this claim, and is maintaining reticence about confirmation.

The bank changed ownership, according to the London Sunday Times, last fall after getting Nassau banking authorization in 1966.

It is now linked with two subsidiaries, named as Citizens Bank of Clermont, and the American National Bank and Trust Co., of St. Petersburg, both in Florida, according to its new owner, Dr. Federico Cruz. Reason for British interest is that the bank has been

planning to open a branch in Glasgow, Scotland.

* * *

LLOYD'S holds about \$2 million of the war risk cover on the Lufthansa jumbo jet that was seized by guerrillas, while Joseph Kennedy was on board, between New Delhi and Athens.

But insurance circles in London explained that this is excess of loss cover. Most of the hull risk, estimated at \$25 million, is held by the West German government under its special arrangements with Lufthansa to protect the airline against war risk and hijacking contingencies.

The hijackers wired dynamite to the aircraft, but it was later released before the explosives went off.



The Great Chicago Fire

Could Ansul Have Prevented the Disaster?

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

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

Panic at the Water Works.

In addition we would have sug-

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

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

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THE ANSUL SYSTEM



Benefits man sees Common Market as possible pension portability aid

MINNEAPOLIS—The European Common Market may provide the link necessary for portable benefits for the worker who moves from country to country.

It has already triggered the beginnings of partial portability of social security and pensions and, according to Kent Barker, Control Data Corp.'s employe benefits manager here, the Common Market has helped to resolve some loss of social security for a man who moves within it.

With pensions, he explained, if an employe is transferred by an employer to another country, the employe's assets and benefits may be retained as long as they remain under the same insurer.

For instance, Swiss Life permits transfer of benefit credits for Control Data employes from one country to another as long as Swiss Life or one of its affiliates handles the new plan.

Mr. Barker contends that as the Common Market becomes more active it may influence its members to standardize their benefits, tax regulations and legal requirements. As it stands now, there are nearly as many different concepts of benefits and funding requirements as there are countries. And each country's own set of laws further complicates matters.

"BEFORE COMPLETE portability can be a reality, these differences must be ironed out. If the Common Market does achieve this, then workers would be in a better position to move from one country to another," Mr. Barker said.

Mr. Barker, in developing benefits programs for Control Data's international branches, uses guidelines prepared a number of years ago—the most important of which is to avoid haste in planning programs, he said.

"Acting too rapidly," he cautioned, "could result in costly mistakes. You can't jump right in with preconceived benefit or funding approach and expect everything to work out on its

own. What may have worked in one country won't necessarily work in another." International firms spend much time studying employe needs and expectations, competition, government regulations and government programs already available to establish proper goals.

A company must also be prepared to negotiate with insurers. What may appear on paper to be impossible because of government regulations, can sometimes be achieved through patient negotiations with the local insurance carriers, he said. "Recently, by working with an insurer, we were able to reduce a tariff rate by one-third and improve the profit-sharing formula to produce 10% more than what the government allegedly allows."

MR. BARKER recommends using, whenever possible, competent local help, such as tax con-

sultants, lawyers, actuaries and insurers. "These specialists," he said, "can keep you up-to-date on changes, proposed regulations and what the competition is doing. At present there are pending changes in social security in France and Switzerland, new tax bills in Denmark and white papers to change pensions, both federal and private, in the United Kingdom."

"And if you don't know what the other companies are doing you may wind up with a benefits package that is not competitive in the employment market," he warned. "The employes exert a great deal of interest in the benefits programs. Even a young European employe is very interested in how good the pension plan is. A decision to accept a particular job often is weighted by the pension plan."

By maximizing the use of specialists and their advice, benefits programs can be worked out so they are profitable for the employe, a cost-saving for the company and competitive in the employment market. "The high costs of providing benefits abroad are often a startling fact for a company going overseas for the first time," Mr. Barker said. "So it's impara-tive for a company to know all the methods for saving money."

Mr. Barker also uses the consultants as an extension of himself. This means that Control Data's local management in each country can turn to local consultants to talk over problems and needs. The benefits manager further warned that "you can't transplant U.S. concepts in a foreign country. You must adopt a local point of view based on local need, mores and custom."

FOR EXAMPLE, he explained, in Italy there is minimal need for private pension plans because of high social security and government plans. "Pensions," he said, "may be 80% of final pay. So you must gear your salary and benefits around this."

One unique feature in many European plans is that the pension plan provides for survivors' benefits. Except for the United Kingdom, there is little reliance on life insurance. Survivor benefits under the pension plan are usually based on what the employe's pension would have been at normal retirement. His widow receives a certain percentage of that and each child also receives a certain percentage. However, the specifics of such plans vary greatly from one country to another.

"You must also look at the needs of the various groups of employes," Mr. Barker said. Like most companies with plants overseas, Control Data has three groups of employes and each group has different needs. The first, and largest, group is the local national employe, who is a citizen of that particular country, hired to work in a plant in that city.

The second group is the U.S. expatriate. Such a person works for Control Data in the U.S. but is sent to a foreign country for a specific assignment.

ACCORDING to Mr. Barker, "This individual is kept as much as possible under all our U. S. employe benefit plans. If he is going to a country with socialized medicine, we promise him that he'll receive the level of reimbursement comparable to what he had in the states."

The last, and most difficult to define, group is the third country national, commonly referred to as TCN. His principal benefit

Continued on page 48

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following the funds

TRW Inc. in-house pension fund management working well, vp says

NEW YORK—TRW Inc. has been managing a rather substantial portion of its pension portfolio in-house for the past four years and, if the testimony of its vp in charge of pension matters for the company is any indication, things have been working out quite well. That is, the advantages of such an arrangement are outweighing the disadvantages.

This, at least, is the impression conveyed to a Conference Board session on pension fund management held here late last month.

TRW, noted vp William R. Donnelly, has six funds with assets of more than \$200 million. One of these funds—about 30% of the total—is managed in-house. The other five are managed by outside advisors. Fund investments are split roughly this way: 75% in stocks, 15% in real estate and the balance in bonds.

Referring to the TRW "team" that manages the in-house fund, Mr. Donnelly, with a note of pride in his voice, said, "You're looking at him. Myself and one secretary—a good secretary."

POINTING TO the advantages TRW has found with in-house fund management, Mr. Donnelly noted that corporate investment goals have been more clearly defined because of close communication with management. Another, he said, is that there is greater control over the portfolio. "You do have some portfolio overlaps when you have multiple managers and you can affect the price of a stock in a buy or sell situation by, in effect, competing with yourself."

N.Y. official backs legal insurance

ALBANY—Asserting that "it is a sad and ironic fact of our society today that large segments of the middle-income class cannot afford necessary legal services to protect their basic rights and privileges," Attorney General Louis Lefkowitz has proposed a prepaid benefit plan as the best way to offer legal services to middle class wage earners.

Mr. Lefkowitz forwarded his proposal to all bar associations in the state and noted that he thought such a plan might be established through a non-profit corporation or by insurance companies.

Elaborating on his proposal, Mr. Lefkowitz noted, "The affluent have no difficulty in meeting legal expenses and the indigent in our society are now able through efforts of legal aid and publicly-funded legal services to obtain free legal representation. (But) the average moderate wage earner, earning between \$6,000 and \$15,000 a year, too often finds himself in a position where his income exceeds maximum levels which would entitle him to free legal aid, but is insufficient for him to retain private counsel to represent him."

Legal insurance is being touted by some as an employe benefit of the future. Some unions in this country, in fact, have successfully negotiated employer-supported legal insurance plans. ■

Noting that his experience has been that "there is a dearth of good portfolio managers," Mr. Donnelly told the Conference Board meeting that in-house management makes it easier for a fund to reassign a poor portfolio manager.

The TRW vp also said that high turnover in outside management houses can also affect a fund's performance. Noting that in two cases involving his firm there have been three people managing portfolios in the last four years, Mr. Donnelly said that this un-

doubtedly affects a fund's growth.

"When you have to switch to a new portfolio manager you naturally have a change in personalities. This, in turn, results in a change in portfolio make-up," he said, adding that major changes in portfolio make-up cost a fund money.

OTHER advantages to in-house management listed by the TRW man included these:

- It increases the ability to use in-house management information. For example, he noted,

the in-house fund manager can seek out research information from the company's top financial men and economists.

- It also increases the ability to direct broker commissions "to those firms you want to give most commissions to." This provides an additional source of compensation for those sources from which research material comes.

- In-house management can help trim some commission expenses "by dealing in the third and fourth market" or by negotiating commissions on large blocks of stocks.

- In-house management helps protect "against potential conflict of interest." Mr. Donnelly pointed to two general areas of conflict: stock turning by brokers who need the commissions, and the investment of funds in underwritings in which a broker is participating. On this latter point the TRW vp said his company had had some problems of this nature

but "had effectively put a stop to that."

Among disadvantages listed by Mr. Donnelly were the problems of staffing up for in-house management and finding and keeping competent money managers. He also pointed to the problem of justifying high money manager salaries to upper management.

There is also the problem of boards of directors, he added. "Many boards are made up of senior citizen types and you know, as I do, that they tend to be more conservative" when it comes to investment of pension funds. "Some directors," he added, "are becoming increasingly concerned about class action suits from disgruntled retirees claiming the board made a bad investment decision affecting retirement benefits." This, Mr. Donnelly asserted, can force directors into too conservative an investment posture and greatly inhibit the money management of funds. ■

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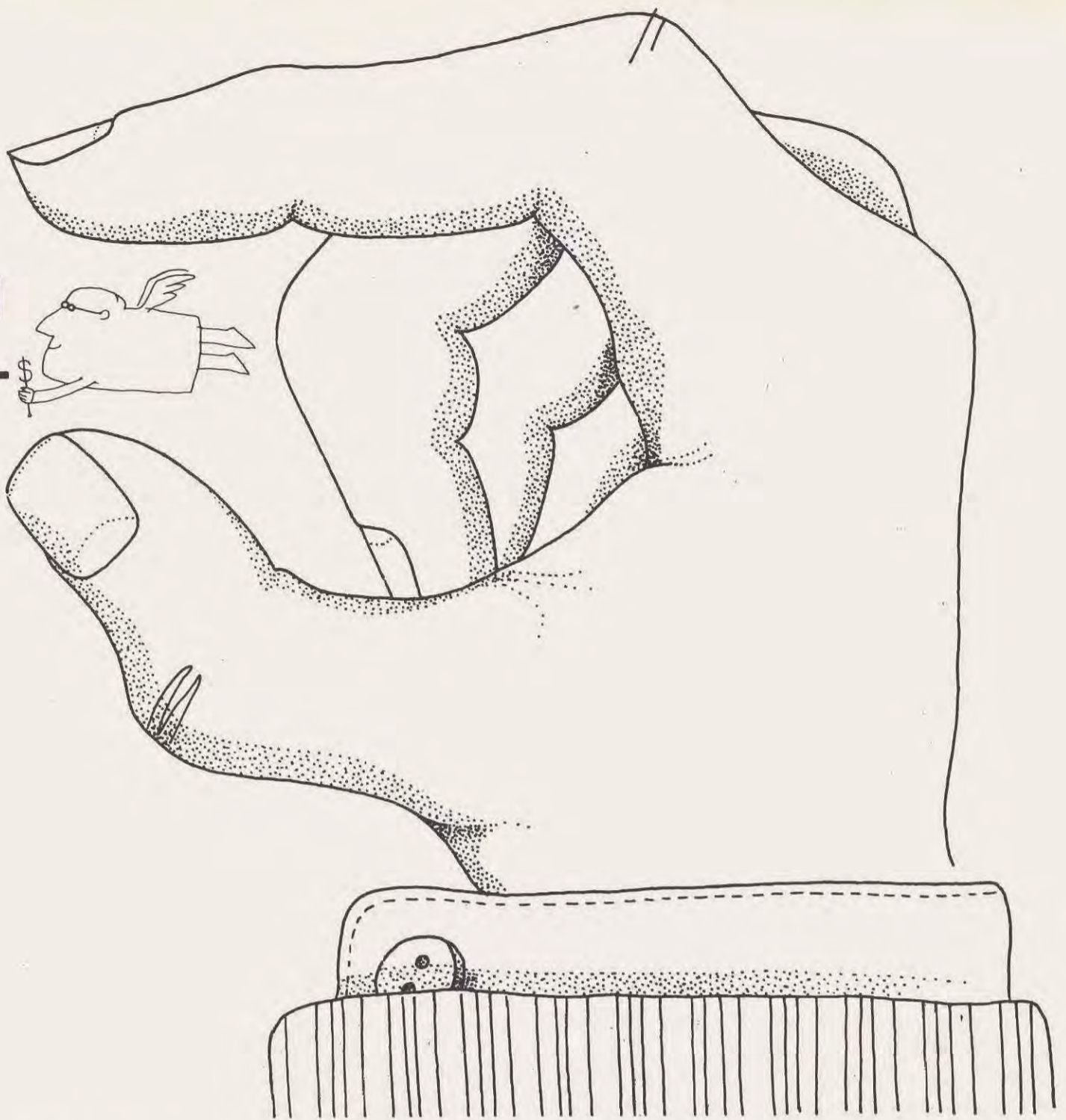
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PERSPECTIVE

Risk managers: Don't worry about the carrier making profits



BY WILLIAM W. DINTLEMAN
manager, insurance and safety,
Falstaff Brewing Corp.,
St. Louis, Mo.

"Insurance companies that do not make a profit are on their own from my viewpoint, as the scales are weighted in their favor over the long term. Workmens compensation and liability retrospective rating plans have built-in profit factors except in years of extremely severe loss experience, and those will be offset in future years."

cause I'm sure that most say it with complete sincerity and they may even operate on that premise.

Yet, their corporate purchasing and construction departments may have just authorized final payment on a contract for a new plant that was a blood bath for the general contractor and three of his subcontractors which has them on the verge of bankruptcy. Not only are they unconcerned about the contractor's loss, it is likely that the president has recommended the director of engineering be made a vice president when the board next meets.

Insurance companies that do not make a profit are on their own from my viewpoint, as the scales are weighted in their favor over the long term. Workmens compensation and liability retrospective rating plans have built-in profit factors except in years of extremely severe loss experience, and those years will so affect the experience factors of large insureds as to be offset in future years. An exception to the

certain profits develops through poor underwriting practices and staffing, which are the causes of a large percentage of underwriting losses, and these are the sole responsibility of the carrier.

The poor practices are frequently employed because of the eagerness to obtain premium dollars for investment purposes, yet carriers do not want the investment income included in the rating data for rate increases. Not doing so would only encourage further poor underwriting practices which would result in requests for additional rate increases which would hurt the smaller buyer, as the larger corporations with shrewd insurance managers would take advantage of the competition for his premium volume.

Personal experience with this mode of operation occurred in my underwriting days when I was employed with a large mutual company. Auto loss ratios were high and companies were screaming for higher rates, and my company was as

vocal as any. At the same time, we were applying automatic schedule credits of 15% or 25% on a graduated scale to any fleet of five or more units prior to application of an experience rating plan which provided further cost reduction factors for the fleet buyers.

WHAT'S MORE, the agents always reported the risk had excellent experience. Similar practices were applied on garage liability policies, and all of these premiums and losses went into the rate make-up for auto bodily injury and property damage liability as proof for the need of substantial rate increases. The rate increases were approved and all auto rates went up sharply, but the credits offset most of the larger commercial insureds increase, so the individual auto owners ended up paying most of the total premium increase—along with the poor guy who had three or four automotive units. Perhaps I should at this point confess some bias as I was an individual auto owner at the time.

At the 1966 ASIM conference in Los Angeles we were given what I considered an overly thorough dissertation on the wonders of the California rating plan for treatment of fire risks. This plan allows certain rating freedoms which stimulate price competition, and the virtues of the plan were extolled by the president of a major carrier based in the state and the California commissioner of insurance. When the question period arrived, many people asked why similar treatment was not give to workmen's compensation which has long been so closely regulated in the state that California premiums and experience cannot be combined with that of other states for either interstate rating or retrospective rating plans. Included in the answer was a comment that the profits in the workmen's compensation line enabled a carrier to do some of the things they were doing with their fire rating plan, and this told me that we who have industrial operations in the state are subsidizing the domestic purchasers of fire insurance.

I should add that the above was no great surprise, as anyone who ever purchased earthquake insurance at bureau rates in California knew he was subsidizing something. One of my earlier coverage changes as an insurance manager was replacement of our California earthquake coverage with a difference in conditions policy. That policy covered seven additional plants on a much broader scope, carried a lower deductible and cost less than the earthquake coverage on the small California plant. It would be interesting to know the amounts of earthquake premiums and losses in the state since 1906,

Continued on following page



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

Review corporate insurance statement of policy periodically

"As risk manager, you may find that your corporation has no written statement of policy on insurance, and that the management is reluctant to approve one."

vacuum. You should be guided in some way by what your top management expects of you. For this purpose, the expectations of management should be expressed in the form of a statement of corporate policy.

A statement of corporate policy about insurance usually deals primarily with the insurance which should be carried by the corporation.

There can be problems, however, in preparing such a statement of corporate policy. The statement can be either a general statement of principle, or a precise instruction as to what should be done.

For example, in dealing with the deductible for liability insurance, the statement of policy may provide that the corporation shall be responsible for the first \$100,000 of loss. Such a statement provides

specific guidance in the purchase of liability insurance. However, such a statement of policy should be reviewed periodically to determine whether it still fits the needs.

Or, the corporate policy might provide that the corporation will absorb whatever deductible is reasonable in the light of operating requirements and the financial position of the corporation.

Such a statement of policy could remain suitable indefinitely, but whenever insurance is bought under its terms, the policy should be reviewed to determine again the financial position of the corporation, and the effect of changes in its financial position on the deductible.

Accordingly, whether the statement of corporate policy on insurance is expressed in specific terms or general this policy, or its application to current condi-

tions, must be reviewed regularly.

There can be other difficulties. As risk manager, you may find that your corporation has no written statement of policy on insurance, and that the management is reluctant to approve one. How do you handle this situation? There are several possibilities. You may find, from conversations with officers and directors, that the corporation does have a corporate policy on insurance—but that the policy is implied rather than specifically stated. If there is such a policy, it is certainly your duty to know what it is.

How can you find out? You could discuss it with officers and directors. You may find that they have definite ideas about what they expect from the corporate insurance program. If a major loss occurs

Continued on following page

THE FIRST ARTICLE of this series stated that, when insurance is purchased, the best results are obtained when the corporation's insurance professional negotiates and buys the insurance. However, the management of the corporation still has a definite place in the purchase.

What insurance should you buy? In working this out, you cannot operate in a

business insurance

PERSPECTIVE

Risk . . .

Continued from preceding page

and I'm sure the loss ratio brings a happy smile to the face of every insurance company president and treasurer whose company has participated in the profits. I'm equally sure the rate structure can be supported by pointing out that it is a catastrophe line that is not expected to have any losses, since the loss that eventually may come could be a whopper and consume many times the annual premium. I doubt, however, that much of the past premiums will be available for loss payments having long since gone into subsidiaries of other lines, dividends and similar deserving places. Moreover, I expect any sizable loss will bring immediate loud cries for a sharp increase in the California earthquake rates to generate even greater excessive charges in future years and the subsequent profits will again be put to many good uses unrelated to the peril of earthquake.

A GREAT DEAL is said about building a relationship with your carriers over a period of years, and the best way to do this is by ensuring that they always make a profit. The best part about this arrangement is that it requires very little action on the part of the risk manager, because all he has to do is remain passive while the carrier gives him and his company the business. What is not said about the relationship building method of doing business is that relationships are built with and through people, and most people employed by insurance companies are transitory and are seldom around long enough for a meaningful relationship to develop. The first time you run into trouble you find that your friend the underwriting manager:

- Was just transferred to Nome, Alaska.
 - Resigned and went with your carriers' principal competitor.
 - Has joined a brokerage firm because he feels his old employer was a cheap outfit and he strongly recommends a change to carrier XYZ who gives more consideration to long-term relationships.
- As you can tell, it's my thought that

relationships seldom, if ever, mean anything when you contract for insurance coverage, and I've had all kinds of experiences to prove it. One that quickly comes to mind is the selling job a large carrier did in acquiring our property coverage. While it was not a major factor in our decision, their representative stressed the advantage of dealing directly with their claims representative who would be interested in maintaining a good relationship with us, as opposed to the other carrier which had all claims handled by an adjusting firm which was very impersonal and concerned only with the terms of the contract.

A year or so later we had a loss and duly reported it to the agent, who notified

"You must realize that I not only believe that making a profit for the insurance carriers is solely their responsibility, but I believe it is the responsibility of the risk manager to see that the carriers' charges reduce his profits by the least amount possible."

the carrier. Two days later I received a call from an adjuster with the impersonal adjusting firm stating they were handling the loss for our new carrier. Don't count too much on building relationships with insurers unless you are in a loss-free industry or you are one of those persons who always permits the insurance company to make a profit on his business, in which case I have to question whether you are being paid by the right company, because I don't believe your employer is getting full value for your salary.

My thought with regard to profits of insurers can be summed up in one sentence. I want all well-managed insurance companies to make a reasonable profit, but I don't care if they never make any in their dealings with my company. I know they will because they have so many things going for them, including our awareness that our losses directly affect our costs, but I firmly believe that insurance companies have no more right to guaranteed profits than any other business operation. Those that are poorly managed and staffed should go down the drain and make room for those which are efficient to

grow and help their insureds reduce costs. Those that have weak underwriting or claims staffs should correct the situation or fall by the wayside. As a practical matter, I would like to point out that the harm done by a weak underwriting department will primarily fall upon the carrier, but a weak casualty claims department can tear big chunks out of an insured while running the carrier into a merger or bankruptcy. If you deal with companies that seem weak in claims handling, I recommend that you limit your coverage to your property lines.

This reminds me of another experience about the practicalities of dealing with insurance companies that further reinforced my conviction that costs and profits of insurance companies should not enter into my attempts to properly do a job for my employer.

THROUGH THE YEARS we have paid excess premium charges in our comprehensive auto and general liability retrospective rating plan. In the history of the company we had only one excess loss of \$7,000 more than our loss limit, which was less than one year of excess premium. We

pointed this out to the broker and carrier and properly received the reply that excess losses were not to be expected, and our excess premiums were being applied to pay excess losses of other insureds. We knew that, but thought a try at reducing the charge would be worth the effort. A few years later we had an excess loss case which could have been closed for \$25,000 over the loss limit but was referred to the home office claim department in New York because of the claim size.

There it was referred to a loophole specialist who made a couple of bad decisions and wrote a memo to the effect that there was question as to whether we even had coverage, but in any event the claimant could only recover his property loss and could not collect for loss of income, so there was no need to settle the claim promptly. On seeing a copy of the memo through an error on the part of someone in their claim department, I immediately called the claims manager in the region where the claim originated and asked what the hell was meant by the comment about coverage and further pointed out that if the claimant sued, the suit would

take place in the claimant's home territory, rather than New York city. I suggested they settle the claim before he got tired of the delays and got an attorney. The region man said he agreed with my thoughts but couldn't move without instructions from New York. Months of delay followed, the claimant got an attorney and our carrier settled for \$27,000 more than the amount we had helped negotiate immediately after the loss. A total of \$52,000 of the loss was excess, so the carriers' mishandling of the claim had no direct effect on our retrospective premium charge, but they came back to us in the middle of the three-year plan and stated they did not put enough excess premium charge into the plan and had to have more!

Obviously, this carrier regards excess premium charges as a one-way street to underwriting profits. If you have no losses the charge is just right. If you have a loss that exceeds the charge then an upward adjustment is in order and damned quickly. With that kind of attitude around, I have a great deal of difficulty understanding why anyone on the other side of the negotiating table is concerned because his insurance carrier failed to profit from some line of his coverage.

The excess loss story also makes a point for the insurance or risk manager to consider seriously. The claims dollars paid out come from your company at one time or another and you have to watch how they are being spent if you are to do your job well. You should know when a large claim has been mishandled into an even larger claim, because that knowledge will be important at your next contract negotiation.

By now you must realize that I not only believe that making a profit for the insurance carriers is solely their responsibility, but I believe it is the responsibility of the risk and insurance manager to see that the carriers charges reduce the profits of his company by the least amount possible. It must be emphasized, however, that this attitude and effort must be founded on a base of complete honesty, because those who lie and cheat in their dealings with agents and carriers will eventually discover they can find no one to deal with but agents and carriers who operate by similar methods.

William W. Dintleman, manager of insurance and safety for Falstaff Brewing Corp., St. Louis, joined his company in 1963 after he had spent nine years working for insurers. Mr. Dintleman holds a Chartered Property and Casualty Underwriter certificate as well as a designation as an Associate in Risk Management. He is past president of the St. Louis chapter of the American Society of Insurance Management and considers himself "a practical risk manager."

Review . . .

Continued from preceding page

in your industry, prepare an information bulletin about it. Describe what happened, how it happened, and what the probable loss will be. Circulate the bulletin. The reaction may help you to define the expectations of your management.

It may not be that easy. I once had to deal with a busy executive who refused to put any time into the formulation of corporate insurance policy. "You're the insurance manager," he said. "That's your job."

You might argue that formulation of corporate policy on insurance is a responsibility of management. However, if management says that this is the responsibility of the insurance manager, that makes it the responsibility of the insurance manager! Certainly, he cannot refuse any assignment from management dealing with insurance.

YET THIS DOES NOT change the fact that corporate policy on insurance should properly be a standard for guidance of the risk manager. If you believe that this standard should properly be derived from sources outside the risk manager and his department, how should the risk manager go about the development of such a standard?

One approach might be to consider the

interests and expectations of the stockholders of the corporation.

When a stockholder buys stock in a corporation, he probably expects that corporation to follow usual industry practices in carrying insurance. Accordingly, one logical approach in developing a corporate insurance policy is to make a survey to determine what insurance is normally carried by other companies in your industry. In some industries, there are already committees of risk managers who are doing this very thing.

There are other possibilities. You might express possible loss in terms of cents per share. I once tried to obtain approval of a deductible of \$100,000. The corporation in question had 16 million shares of stock outstanding. I was therefore able to say that any loss suffered by the corporation because of the deductible would be less than one cent a share.

With information obtained from surveys, or discussions with executives, you may be able to formulate a statement of corporate policy on insurance which you believe to be suitable for your corporation. If no other statement of policy is available, you may have to use this. You might label it a "draft" statement of policy. This will emphasize the fact that it is subject to review and change.

However it is obtained, a statement of corporate policy as to insurance should be available to the risk manager for his guidance in buying insurance.

Risk management notes

Internal controls help stop insurance fraud

BY WARREN, MCVEIGH & ASSOCIATES, risk management consultants, San Francisco—Los Angeles

THERE IS an excellent article in the Price Waterhouse Review for winter 1971-1972 titled, "How to Spot Insurance Buying Frauds." It gives specific cases where an insurance manager defrauded his company by use of a dummy insurance company and where a broker defrauded an insured by issuing a policy but not actually placing the business. The article points out some internal controls which are desirable, such as verification of policies purchased by someone other than the insurance manager and verifying coverage direct with the insurer.

We might add another caution which is advisable to anyone who is not insured through the half dozen or so largest insurance brokers, and that is to require your broker or agent to submit evidence of his own professional liability insurance cover-

age to limits of at least \$1 million. This should be a standard procedure, not evidencing any degree of mistrust at all but simply a prudent and conventional business practice.

A Salary Check

As a somewhat informal check of salaries for risk or insurance managers and their assistants throughout the country, we record all salaries listed in help wanted ads in the trade press. This is by no means a statistically valid sampling, but it may be of some interest to note that the average insurance manager's salary offered through the ads in 1967 was \$16,000, while that of an assistant was \$12,000. In 1971, the average salary offered was \$21,500 for insurance manager, and \$15,500 for an assistant. The range in 1971 for insurance manager was from a low of \$12,000 to a high of \$35,000.

The figures indicate the growing stature of the position.

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CNA/insurance will supply expertise. And charge you only for the services you need.

Then administering your self-insurance program could cost less.

And it'll be done right.

Because the Money Muncher is just one way your self-insurance can lag behind your business.

And he's just one of the Self-Insurance Lags we can help you beat.

Contact your CNA agent. Or write us.

CNA/insurance
Your way to beat the Lags

British casting stern eye on insurer regulation

LONDON—Collapse of the Vehicle and General Insurance Co., which left 1 million auto users uninsured, has led to a searching review of British insurance rules by a government tribunal.

The company has left \$50 million in debts split between its policyholders, who found themselves without cover, and its stockholders who lost all their money when it went bankrupt after 10 years.

Its managing director, Anthony T. Hunt, once worked for American Military International Insur-

ance, which collapsed with an estimated \$500,000 deficiency. He introduced the idea of low-rate coverage for British motorists, who are compelled by law to be insured against claims on them, and hiked its premium income to \$35 million a year.

BUT WHEN long-established British insurance corporates competed strenuously with its rates, they won back customers and its income dropped to such a point that it could not meet outstanding claims.

The British government was so worried that it set up the tribunal under Justice Arthur James to find why insurance officials had failed to spot in time that the company was going insolvent. (*Business Insurance*, Nov. 22.)

Prime Minister Edward Heath has now ordered tighter checks from time to time on insurance companies, especially those that have only small asset backing, to make certain that they can keep up proper claims-to-premium ratios. The department of trade, which for more than 25 years has had powers to supervise insurance companies, has been told to keep more closely in touch with them.

It has had explicit permission since 1967, when several auto insurance corporates crashed, to send investigators to look into the finances of any company that might appear to be running into cash problems. But it did not exercise them until it was too late in the case of Vehicle and General, and Christopher W. Jardine, a top official of the department, is blamed for "lack of initiative" in failing to spot the danger signals.

THE TRIBUNAL report states: "Informed sources in the insurance industry told the department that the V. and G. company's reserves were inadequate and that it was making insufficient provision for outstanding claims. The company was asked to refute this, but while it asserted that it could meet claims, it never produced sufficient evidence to prove this."

Dealing with the normal claims system in British auto insurance

corporates, the tribunal stated: A common practice in Britain is to reverse 40% of the year's premium income for unexpired risks on the assumption of an even distribution of annual policies throughout the year and initial expenses of 20% of the premium. But this is unsound if initial expenses exceed 20%, for example, by granting over-generous commissions to brokers.

Vehicle and General had a ratio of 60% of claims paid and outstanding to premium income, rising to 70% two years before it collapsed. This was generally in line with other U.K. auto insurers, but the true effect of the ratio was distorted by its rising

premium income.

Justice James commended: "Ratio comparisons must be treated with caution. We are interested to learn of an entirely different method of checking. This involves compiling statistics of aggregate numbers and amounts of policies, claims, costs and payments for various categories of risk, and then applying the average figures from these statistics to the size, nature and experience of the business undertaken by a company whose financial reserves are in question."

Life and Casualty Insurance Co. of Tennessee put \$2.5 million capital into Vehicle and General in 1965.

Connecticut to switch to new insurance agent?

HARTFORD—The state of Connecticut is thinking of dropping John P. Kelly Co., Hartford insurance agency, as agent-of-record for the state's multi-million dollar insurance coverage.

The Kelly agency negotiates insurance for which Connecticut pays about \$1.5 million in annual premiums. Commissions are in the \$90,000-plus category.

Among those being mentioned for new agent-of-record, is the Rene Liegeot Insurance Agency of New Britain. (Gov. Thomas J. Meskill hails from New Britain and has appointed a number of his home city residents to key administration posts recently.)

If a change is to be made, it is to be made by the state insurance purchasing board, operational since 1963. The Kelly agency had the state account for several years before the state board was formed and has since been retained by the board.

Previously, Connecticut political tradition had the state agent-of-record in the bracket of patronage, appointed by the state comptroller and distributing commissions to scores of agents designated by the party in power.

Under the board's modus operandi, however, only the agent-of-record now receives the commissions.

Have you considered Non-insurance?

Non-insurance is an integral part of Risk Management Planning — a new concept of protection that rejects passive acceptance of insurance as "the only answer." Instead Risk Management Planning considers all methods of risk elimination or minimization before turning to insurance.

Uncertainty of loss is reduced, costs are controlled and clients have an opportunity to conserve cash. This is a proven program for maximum protection at minimum expense . . . cost oriented, fitted to per-share earnings.

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Engelhard ...

Continued from page 15

ed forms. Mr. Hodes reported that the manual would be expanded as time went on.

One of the first additions to the manual was a memo to the representatives from Mr. Hodes regarding automobile insurance. The memo informed them that the comprehensive insurance on the company's 350 vehicles was being replaced by fire and theft coverages only with a \$100 deductible on each coverage. The deductible on the collision coverage was raised to \$1,000 per vehicle.

The memo concluded: "Your responsibility will be to have initiated an inter-office memo to all

vehicle operators advising them of the changes in coverage and emphasizing the increased requirement to operate the vehicle with greater care and safety consciousness. This is one of the first aspects of loss prevention which will undoubtedly result in substantially lower insurance cost allocations to your location and further savings, if it is effectively carried out."

Mr. Hodes also acted rapidly in the security area. "Our Lloyd's contract covers all metals in transit," he said, "and the premiums had risen sharply. Security had been very loose and we had suffered many losses that were covered by the carrier for a maximum of \$100 and the rest was just written off. Security is tighter now."

IN THE AREA of safety, Mr. Hodes reported that an OSHA inspection at one plant site had caused no problems and that the deadline for correction of defects had easily been met. He said that the company had a high awareness of safety because "the minerals and chemicals division is subject to inspection by the Bureau of Mines as well as OSHA."

"Another reason for the safety effort is the industrial relations manager at Engelhard Industries," he continued. "He is a strict believer in OSHA and he wants its provisions followed to the letter. I would really like to absorb him into risk management as our responsibilities increase."

In safety, as well as other aspects of risk management, Mr. Hodes believes that human relationships should be stressed. "The industries division holds off-the-job seminars on safety, birth control, whatever the employees would be interested in. This kind of thing results in higher morale which, in turn, results in higher productivity."

"The duties of a risk manager,"

he said, "are to protect the company's personnel, assets, property and profits. I like to keep personnel first on the list."

SO ENGELHARD'S new insurance/risk management department, Mr. Hodes and William Hayes, his new assistant, are quite rapidly bringing things into line.

"There were really very few gaps in the coverage here," Mr. Hodes pointed out, "but there were many duplications which we are trying to eliminate."

"One problem we have is communication with our foreign operations. They have been on their own, insurancewise, in the past and the possibility exists that they are covered by the Lloyd's contract and don't know it. We are starting to communicate with them now."

His impressions after a few months on the job can be summed up by his statement, "The potential here is great for vast improvement in the overall management of insurance, risk retention and self-insurance. We are to the point where we are considering the feasibility of a captive."

"Insurance is now given the emphasis in the department's title," he smiled, "to give the various managers the knowledge that insurance advice is at hand and that there is money available for buying insurance. Eventually, risk management will be the emphasis."

Mr. Hodes, whose career includes several positions in different areas of insurance, felt that any company with more than 500 employees should have an insurance department.

"Like I said, we hope to save \$1 million after two years," he noted. "Management should look at the experience. The return on the investment in a department can be great."



COSTS HAVE GONE UP!

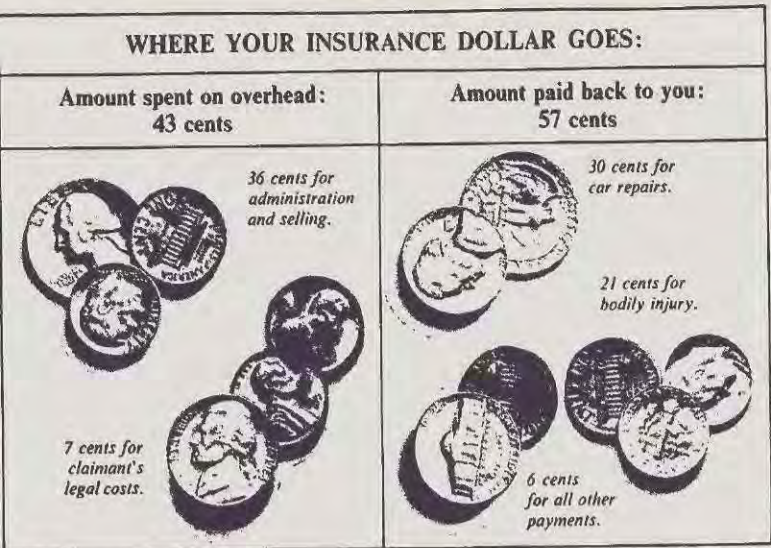
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This graphic illustration of where auto insurance dollars go is used as a companion to the text and questions in the Ford Motor Co. ad on no-fault auto insurance. Editorials in *Business Insurance* have presented similar figures developed by the U.S. Department of Transportation. DOT officials used statistics compiled by Best's.

Overseas Private Investment seeks \$85 million to cover Chilean claims

WASHINGTON—Overseas Private Investment Corp., the quasi-governmental agency created just over a year ago to insure U.S. companies operating abroad, is seeking \$85 million from Congress to cover claims from Chilean expropriations that could come to \$216 million.

OPIC is still clinging to the hope that Chile's Marxist government will reimburse part of the book value of Kennecott, Cerro and Anaconda copper mines and telephone company holdings of International Telephone & Telegraph Co. Reportedly, Chile has indicated an intention of making substantial repayments to Cerro and a Kennecott subsidiary.

But Bradford Mills, OPIC pres-

ident, told members of the Senate appropriations subcommittee for foreign operations that the agency would feel more secure with reserves of at least \$200 million—\$85 million from Congress plus \$115 million in earned reserves it expects to have by next month.

The way Mr. Mills put it, the appropriation would amount to "restoring earnings" that OPIC would have had in its reserves if the previous government overseas insurance program, operated by the Agency for International Development, had been permitted to retain and invest its earnings as OPIC is allowed to do now.

Mr. Mills told the subcommittee, chaired by Sen. William Proxmire (D.-Wis.), that since

the government insurance program for foreign investors was created in 1948 it has earned \$140 million in fees and has paid out only \$4.2 million in claims. But, he added, in addition to having no previous latitude with its funds the agency has had \$200 million in U.S. treasury notes rescinded by Congress and \$50 million diverted to AID's Latin American housing program. ■

Sen. Williams speaker

Sen. Harrison A. Williams (D.-N.J.), chairman of the Senate labor committee, will be the headline speaker March 20 when the Society of Actuaries meets in New Orleans.

Ford ads boost no-fault auto cover

DETROIT—The Ford Motor Co. has become the first major corporation to publicly endorse no-fault automobile liability insurance. And, according to a Ford official, the company's risk manager was consulted on the decision to back no-fault.

In large "informational" advertisements taken in the *New York Times* and *Wall Street Journal*, as well as other daily newspapers, Ford urged that "legislatures investigate and adopt (no-fault) on a 'trial' basis. Hopefully, with experience, the optimum plan will emerge." The advertisements called attention to the apparent success of the Massachusetts plan and asked readers to let their feelings be known by filling out a coupon and sending it to the company's Dearborn, Mich., offices.

According to the Ford spokesman, the company's risk management department was consulted before the advertisements were drawn up.

"Bill (William) D. Kramer and his people were involved," the spokesman said of Ford's risk management unit. Mr. Kramer is manager, corporate insurance department. "The advertisements reflect a corporate position and are a result of the input of Mr. Kramer and other Ford executives." ■

School fire cover raised

SPOKANE, Wash.—A 7% increase in fire insurance coverage on West Valley school district buildings and their contents has been authorized by School District 363, board of education.

The district's fire insurance, renewed in February, is carried by six companies under provisions including a \$1,000 deductible clause instead of a \$5,000 deductible clause as previously.

A survey of the cost of replacing equipment in the buildings, which had been ordered, showed the value of "loose" articles in the schools had increased from about \$553,000 in 1967 to \$638,000. ■

New Lloyd's move

Lloyd's has established its own corporate, to be known as Lloyd's Market Facility Ltd., to provide small premium facilities for U.K. domestic business only.



We have a message for the man who "no's" about self insurance.

The message is brief.

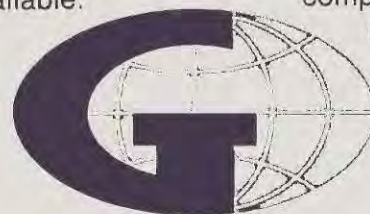
Our clients, corporate and institutional self insurers, are profiting every day by keeping their premiums in their own working capital. In addition, Gallagher's complete nation-wide professional on-the-spot services can provide enormous savings at no risk.

Coverage for all exposures is available: property, automobile, workmen's compensation, general liability, products liability, and dishonesty.

During 1971, our 44th year, our Gallagher-Bassett Division handled more than 19,000 losses and claims, and administered funds exceeding \$9,000,000 in behalf of these clients.

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Bahamas government lists insurers and brokers licensed on the island

NASSAU, Bahamas—Charles A. Donaldson, registrar of insurance companies for the Commonwealth of the Bahamas, has released to *Business Insurance* a list of 76 insurance companies and 15 brokers that have obtained certificates to operate on the islands under the Bahamian Insurance Act of 1968.



Charles A. Donaldson

"We went through a long, involved process to unravel the financial affairs of 255 companies we found to be 'unsatisfactory,'" Mr. Donaldson said, "and after months of work we feel we can vouch for those companies that have certificates."

He said the screening process was intended to eliminate what he called "suitcase companies," some of which have been used for illegal activities in the U.S. and other countries. One "unsatisfactory" company wiped from the Bahamian rolls was Trans Continental Casualty Insurance Co. Ltd., involved in a \$150 million mail fraud indictment in Miami.

(See box. Also see the editorial "Mr. Donaldson shuts 'suitcases'" on page 18.)

Here are the other-than-life companies that have received Bahamian registration certificates:

The Continental Insurance Company, Scottish Union & National Ins. Co., Norwich Union Fire Ins. Society, Title Insurance Corporation of Pennsylvania, Dominion Ins. Co. Ltd., Motor Union Ins. Co. Ltd., British Traders Insurance Co. Ltd., Eagle Star Ins. Co. Ltd., Union Insurance Society of Canton Ltd., Na-

tional Employers Mutual General Ins. Co. Ltd., Caledonian Ins. Co. Ltd., The Western Ins. Co. Ltd.

Federal Ins. Co., Royal Ins. Co., Insurance Co. of North America, Pearl Ass. Co. Ltd., General Accident Fire & Life Ass. Co. Ltd., Commonwealth Ins. Co. Ltd., Liverpool, London & Globe Ins. Co. Ltd., The Licenses & General Ins. Co. Ltd., Liverpool, London & Globe Ins. Co. Ltd., The Licenses & General Ins. Co. Ltd., Sun Insurance Office Ltd., London Ass. Co. Ltd., Alliance Ass. Co. Ltd., Gresham Fire & Accident Ins. Society, Regent Ins. Co. Ltd., Prudential Ass. Co. Ltd.

Phoenix Ass. Co. Ltd., The Travelers Indemnity Company, Provincial Ins. Co. Ltd., Motor Owners Mutual Ins. Assoc. Ltd., Aetna Insurance Limited, The Imperial Insurance Co. Ltd., Island Insurance Co. Ltd., Inter-County Title Guaranty & Mortgage Co. Ltd., St. Paul Fire & Marine Ins. Co., Home Insurance Co. of New York, Commercial Union Assurance Co. Ltd., Hartford Fire Insurance Co. Ltd., Granary Insurance Co. Ltd., Excess Insurance Co. Ltd., Eastern Hemisphere Insurance Ltd.

Victoria Insurance Co. Ltd., The Century Insurance Co. Ltd., The American Home Assurance Co. Ltd., Firemen's Insurance Co. of Newark, National Safety Life Insurance Co. Ltd., Chicago Title Insurance Co., American Security Insurance Co. of Atlanta, The New Providence Ins. Co. Ltd., The Reinsurance & Investment Co. Ltd., U.S. Reinsurance Co. Ltd., Trans-Pacific Ins. Corp. Ltd., Jamestown Ins. Co. Ltd., Commercial Insurance Co. Ltd. and Trans-American Ass. Corp. Ltd.

Here are the life and other-than-life insurance companies with certificates:

British American Ins. Co. Ltd., Dominion Life Ins. Co. Ltd., Crown Life Ins. Co., Star Insurance Co. Ltd., Caribbean Atlantic Life Ins. Co., American Life Ins. Co., Family Guardian Ins. Co. Ltd., British Fidelity Ass. Ltd., Abbey International Ins. Co. Ltd., The Travelers Ins. Co. Ltd.

First Federation Life Ins. Co., Surety Ins. Co. Ltd., Crusader Ins. Co. Ltd., Colonial Ins. Co. Ltd., Gulfstream Ins. Co. Ltd., Gulfstream Ins. Co. (Bahamas) Ltd., Imperial Life Ass. Co. of Canada, Oxford Ins. Co. Ltd., Fidelity International Ins. Co. Ltd., Bahamas Industrial Life & Health Ins. Co. Ltd., and Bahamas International Ass. Co. Ltd.

Here are the brokers with Bahamian certificates:

Tomenson Saunders International Limited, Hanseatic Insurance Brokers Limited, Robinson & Company, Bahamian Properties Limited, Sassoon Insurance (Agents & Brokers) Ltd., British Reinsurance Facilities, Insurance Associates of Bahamas Limited, Delcoral Insurance Brokers Limited, AFA (Bahamas & Caribbean) Limited, Transcontinental Reinsurance Brokers Limited, Marsh & McLennan Inc., Nassau Insurance Ltd., Carib Insurance Agency Ltd., Foreign Underwriters Corporation Ltd., and International Insurance Brokers.

Giant mail fraud trial on April 10

MIAMI—Trial for 22 defendants in an alleged \$150 million mail-fraud swindle has been set for April 10 by Federal District Court Judge Joe Eaton.

Among those on trial is Philip Morrell Wilson and Carl Brown, who are also under indictment for 16 counts of mail fraud in St. Louis in connection with minimutual insurance company operations. The Miami indictment alleges the sale of worthless reinsurance coverage and the offering of advance fee finding by Trans Continental Casualty Insurance Co. Ltd., Nassau, Bahamas.

Trans Continental is one of 255 "unsatisfactory" insurance companies removed from the roster of licensed companies by Bahamian Insurance Registrar Charles A. Donaldson.

The Miami indictment charges, in part, that the 22 defendants used sales pitches that included, "(Trans Continental) is a company of large financial resources which possesses an excellent reputation in the financial community," "Trans Continental is a 'gilt-edged' company" and "That Trans Continental is a bona fide client of the Bank of Sark."

Increase benefits in railway workers pact

WASHINGTON—The railroad industry has announced through its bargaining unit, the National Railway Labor Conference, that it has reached agreement with more than 20 unions on a two-year health and hospitalization package that will cover 525,000 employees.

"This is really a good agreement from the employees' standpoint," William Sullivan of the Assn. of American Railroads told *Business Insurance*. "They get many improvements and it doesn't cost them anything."

It will, however, cost the railroads an added \$85 million a year in health and welfare payments. The present agreement brings the total health and welfare payments to \$340 million annually. Mr. Sullivan said the agreement would increase the railroads' payments to \$54.73 a month for each

employee. This is an increase of \$13.05 per month.

The benefits agreement, described by the labor conference as "one of the most comprehensive in all industry," includes, among other things, improvements in major medical coverage, length of hospitalization benefits, psychiatric care and surgical care.

Mr. Sullivan pointed out that the agreement contained 12 clauses, the major points being:

- Maximum number of hospital days increased from 180 to 365 days per stay.

- Lifetime major medical payments increased to \$50,000 from \$20,000.

- Surgical schedule increased from \$550 to \$650.

- 65% of total charges for out-of-hospital psychiatric care to be paid by railroads, up from 50%.

dates for buyers

March 23, American Management Assn. briefing session, "Directors and Officers Liability," AMA management center, Chicago. For more information write to AMA, 135 W. 50th St., New York, N.Y. 10020.

March 28, American Management Assn. briefing session, "Directors and Officers Liability," AMA headquarters, New York City. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

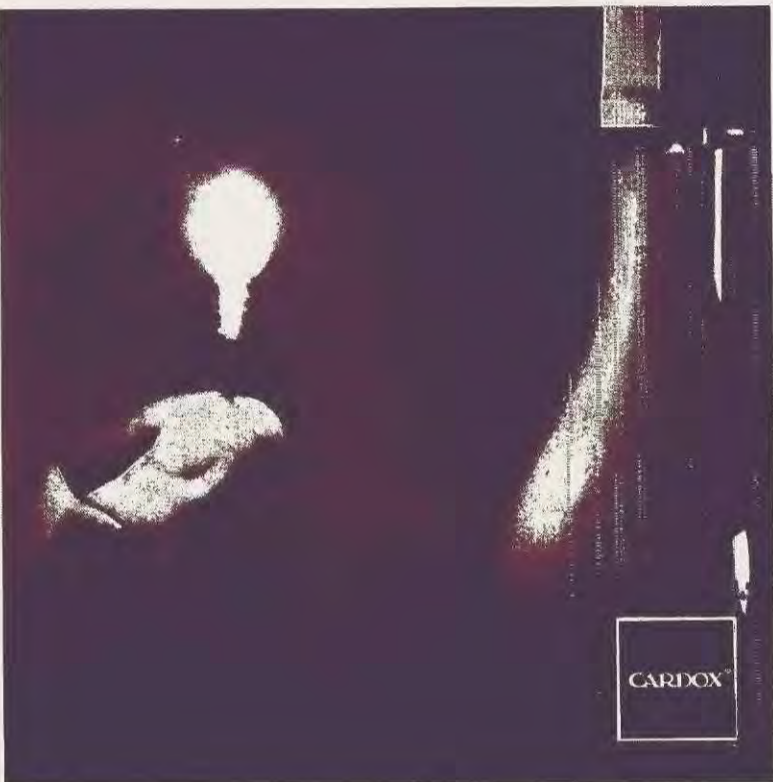
April 3-5, American Management Assn. orientation seminar, "Holding Companies, Mergers and Acquisitions in the Insurance Industry," AMA headquarters, New York City. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

April 10-12, American Management Assn. briefing session, "Mass Merchandising and Equity Product Sales in the Insurance Industry," AMA Management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

April 10-12, American Management Assn. orientation seminar, "Communicating Employee Benefits," Sheraton-Lincoln Hotel, Houston. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

April 10-12, American Management Assn. workshop seminar, "Reinsurance Management," AMA management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

April 24-28, American Society of Insurance Management's 10th annual risk management conference, Queen Elizabeth Hotel, Montreal. For more information write ASIM, 500 Fifth Ave., New York, N.Y. 10036.



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Miami's police department, faced with two death suits, is self-insured

MIAMI—A federal judge has ruled that the city of Miami and one of its police officers must bear financial liability for the death of a teenager shot escaping officers.

The city has argued that 19-year-old John Mayhall was shot in self-defense. A justice of the peace ruled in May that Mr. Mayhall's death was "justifiable homicide."

Miami's police department is self-insured.

U.S. District Judge James Lawrence King ruled in favor of young Mayhall's parents, who had labeled the death "an unjustified killing in cold blood . . . by an angry, frustrated, excited officer."

THE JUDGE, ruling in a civil case which does not affect the "justifiable homicide" decision, will enter a written order later specifying how much damages the city and police officer Arthur Dragon must pay Mr. and Mrs. Edmund Mayhall. State's attorneys in Miami said they will study Judge King's ruling before deciding whether to seek criminal action in the shooting.

Mr. Mayhall, on April 6, raced his stolen dune buggy away from Officer Dragon after the policeman had stopped to check his driver's license. Following a high-speed chase, six police cruisers cornered the young man after he crashed the vehicle into a wall.

According to testimony, other officers were preparing to bring Mr. Mayhall down from the wall

he was attempting to scale when Officer Dragon arrived on the scene and shot the youth from 35 feet away; he contended that Mr. Mayhall motioned toward his belt as if he were drawing a gun.

But Mr. Mayhall's attorneys pointed out that officers nearest the youth didn't draw their pistols and gave no indication that they were fearful of danger. "Officer Dragon did not act as a prudent officer and did not act in self-defense," argued one attorney, "but committed an unnecessarily brutal and angry killing."

OFFICER DRAGON had denied on the witness stand that he was frustrated or angry after the chase through Miami's downtown business district.

But another of the Mayhalls' three-man legal team declared during the trial, "Officer Dragon's actions were to summarily execute the fugitive, to try and execute him at the same time."

Meanwhile, the city and another officer were hit by a similar suit filed by the father of a Coco-

nut Grove youth killed in February. Joseph Veargis sued in federal court, contending that the shooting of his son, Joseph Jr., represented "excessive use of deadly force and below a reasonable standard of care."

Young Veargis, 17, was shot to death on the night of Feb. 20 by Officer Robert Evans.

During an inquest—at which the death was ruled justifiable homicide—Officer Evans testified that Mr. Veargis was one of four youths running from a stolen car at the time of the shooting. The policeman said he fired once at Mr. Veargis when the fleeing youth half turned with what the officer believed to be a weapon. It later was identified as a tear gas pencil.

The elder Veargis asked damages in excess of \$10,000. ■

A&A acquisition

Alexander & Alexander Inc. has acquired Anistics Inc., a New York-based risk management consulting concern, and has retitled its own consulting section the Anistics division of A&A. Anistics, a young industrial risk management and loss control consulting outfit, got its name from "analytical statistics," which is the firm's major emphasis.

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Estimates \$150 billion health bill

MILWAUKEE, Wis.—Sidney Doppelt, insurance specialist and member of the Wisconsin health care committee, has warned that a government takeover of health insurance could cost \$150 billion a year.

Mr. Doppelt, addressing the Milwaukee Assn. of Life Underwriters and the Health Insurance Underwriters of Milwaukee, said, "It is possible that we may create the most expensively medical attended population, yet at the same time the most starved, ill housed, illiterate, unemployed population, if we permit an imbalance of funds for a national health insurance program."

He said that early costs of \$80 billion on a federal budget already showing a deficit would affect America's world trade as well as its domestic economy.

Mr. Doppelt said the Burleson-McIntyre bill favored by the Wisconsin Health Care Committee would cost about \$5 billion in public funds. He urged support for its passage, saying it would make use of the private insurance industry, which now insures about 90% of the population. ■

EEC entry affects U.K. insurers little

LONDON—Britain's entry into the European Economic Community will have little immediate effect on its domestic insurance companies, but they are expected to benefit in the long term, according to the British Insurance Assn.

Several British corporates already operate in Europe, with a total premium income of \$375 million a year from the Common Market countries. This is achieved through association with local companies in the various foreign countries, as well as branches and agents.

"These companies, branches and agents are already operating in strong competition with the European insurance companies, so the opportunities for creating new markets for British insurers is limited," declared the association.

Any increased demand is likely to come from the general economic expansion of all European countries. Reinsurance is expected to benefit substantially in the London market, and Lloyd's sources have pointed out its own specialist services should gain if it can harmonize with European insurance laws.

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Parents of crash victim receive \$1.8 million

MIAMI, Fla.—Parents of a teenage boy killed when a stricken cargo transport crashed into the Miami shop where they were working have been paid nearly \$2 million in judgments.

The cash judgments totaling \$1,797,013.60 were paid by underwriters at Lloyds of London and by the Compania Dominicana de Aviacion—or Dominicana Airlines; the national airline of the Dominican Republic.

Circuit court records indicate that 37 insurance companies contributed to the judgment payments, and that the parents, Mr. and Mrs. Charles Knapp, and their attorneys have stipulated that they are satisfied with the award.

THE PARENTS had asked \$4 million damages in the death of one son, Clifford, 15. They are asking an additional \$4 million for the loss of their 17-year-old son Clyde, who also died in the June, 1969, holocaust after a Dominicana Airlines DC4 crashed into the street in front of Mr. Clifford's auto body shop.

A circuit court jury awarded the Knapps \$1.8 million in May, 1970, for Clifford's death. The amount was augmented by interest which built up while attorneys for the airline and Lloyds appealed the verdict unsuccessfully to an appellate court and the Florida supreme court. Interest grew at the rate of 6% a year.

An investigation by the National Transportation Safety Board concluded that both mechanical problems and the misjudgment of pilots confronted with an emergency, contributed to the crash which took 10 lives including those of four crewmen.

A third defendant firm participating in the judgment was Iberia Airlines of Spain, which sold the DC4 to Dominicana.

INSURORS made the check out to the Knapps, plus their trial attorneys, Spence, Payne and Mastington, and their family attorney, George Vogelsang. The Spence

firm reportedly agreed to take less than 45% fee considered standard in such cases. Vogelsang presumably received a referral fee.

Miami newspapers reported that the Knapps will turn over a portion of their judgment to consumer advocate Ralph Nader to help underwrite his campaign to require the U.S. government to enforce on foreign airlines flying into this country the same operational standards required of American carriers. ■

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Sweeping workmen's comp changes pass Pennsylvania state legislature

HARRISBURG, Pa.—Gov. Milton J. Shapp has signed into law a package of bills providing sweeping changes in Pennsylvania's 57-year-old workmen's compensation program.

The five new laws have the net effect of ending the quasi-judicial and independent status of the workmen's compensation

board and replacing it with direct administration of the program through the state labor and industry secretary, who is an appointee of the governor. Both business and labor groups in Pennsylvania supported the changes.

The board is replaced by a new "workmen's compensation appeals board" which can review referees' decisions, and it is expected that appeals from the new board will go directly to commonwealth court and bypass local common pleas courts. Appeals from the commonwealth court would go directly to the state supreme court, bypassing the superior court.

The new laws:

- Remove from office members of the old board and existing referees, effective with the governor's signature.
- Repeal sections spelling out procedures for determining compensation for insured workers.
- Set up new administrative machinery calling for civil service status for referees.
- Place most staff workers for the workmen's compensation and occupational disease programs under civil service protection.
- Provide general procedures to be followed in workmen's compensation cases, giving the

labor and industry secretary control of staff, referees and the appeals board.

THE LABOR and industry secretary is given strong supervisory powers over insurers and self-insurers.

While the old law provided for payments based on percentages of the worker's weekly wage, new language has been added to provide that the weekly wage shall not be less than 1/13th of quarterly earnings during the first four of the last five completed quarters. The statute of limitations was extended from 16 months to two years, with the added proviso that if the employee does not know of the injury the statute of limitations does not begin until he does know.

The state labor and industry department is given the responsibility of enforcing time and performance standards in processing

cases and payments. The first compensation payment is due 15 days after notice or knowledge to the employer and, if not paid, interest accrues at a rate of 10%.

THE NEW LAW also provides that if an insurer contests a case and loses, a claimant must be awarded "reasonable costs," attorneys' fees, witness and medical fees, and the value of unreimbursed lost time to attend legal proceedings.

However, the assessment of attorney fees may be excluded when a reasonable basis for the contest has been established. When counsel's efforts produce a favorable result, the hearing official may allow reasonable counsel fees without regard to any proceedings.

Under the law, independent adjusting firms must register with and file reports with the labor and industry department. ■

New comp plan gives more equity

SAN FRANCISCO—Legislation providing greater equity for severely disabled workers through redistribution of permanent workmen's compensation insurance benefits becomes effective April 1 throughout California.

The mechanics of developing a redistribution formula now confront claims executives and other insurance company personnel involved in delivering workmen's compensation benefits.

"Everyone agrees the innovation will mean more equity," commented a spokesman for the California Workmen's Compensation Institute here, "but it also entails a new method for computing permanent disability indemnity."

THE LEGISLATURE provided for redistribution by progressively increasing the number of benefit weeks, from three to eight weeks for each 1% of disability, in a series of steps graduated with the severity of the disability.

Awards under the new system produce "an upward curve rather than the straight line" of California's previous workmen's compensation insurance law.

"The end result," explained the institute spokesman "is substantially more indemnity for the more serious disabilities, twice the prior levels in some instances."

A legislative amendment also provides that no employee will receive less under the new system than he would have received under the former law at the \$52.50 maximum weekly benefit.

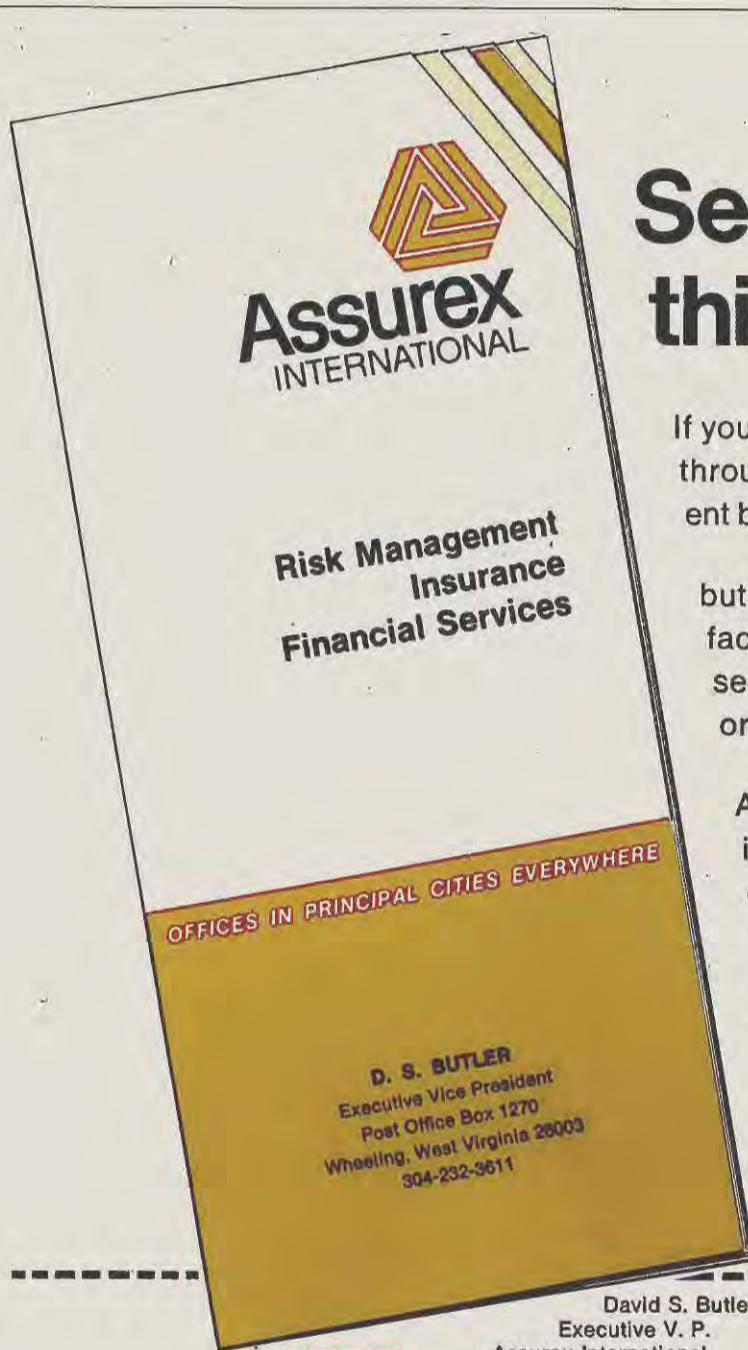
"IT IS THIS legislative guarantee," the spokesman pointed out, "that is causing the state's insurance industry concern."

As a "solution" the institute has just published and is now distributing a "California Permanent Disability Rating Computation Table" which lists the cumulative number of benefit weeks for every possible permanent disability rating and the value of the award at the new \$70 maximum weekly rate.

The institute emphasizes that "since nearly 73% of all recipients will be entitled to the maximum amount, no computation will be necessary in the vast majority of cases." ■

Spielman appointed

Howard Spielman, safety director of Hughes Aircraft, has been appointed to California's new advisory committee to help draft new state occupational and safety regulations. The committee, which is composed of 15 labor, management and government officials, must revise California's standards by Dec. 31.

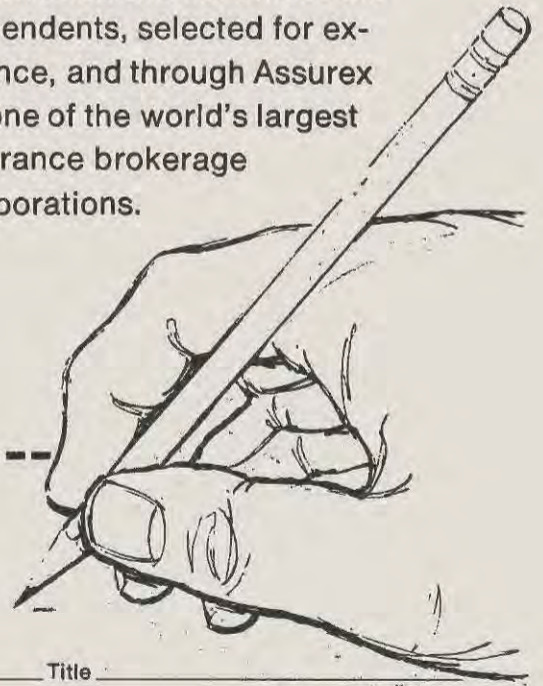


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Spain...

Continued from page 32

interest rates has made insured plans unattractive. The common benefit practice is for employers to make payments as they fall due.

Private pension plan contributions by employers are tax deductible to a limit of 10% of the total payroll, but employee contributions are only deductible if the employee files a tax return and makes in excess of \$3,000 annually if single or \$4,600 annually if married. Pension payments are tax free under the social security system, but private benefit payments carry a 19.2% tax on any amount in excess of \$612 a year. Lump-sum distributions, however, are tax free.

"AT THE MOMENT, it is too early to tell in what ways the

new social security proposals will affect the private pension movement," said Mr. Roberts. "However, it is unlikely that the proposed expansion of the social security system will be so great as to make private pension plans redundant."

Private benefit plans in Portugal are not particularly common, for the social security system provides rather substantial benefits and employers are required by law to pay large termination indemnities.

"Since 1966, old age pensions, disability pensions and funeral payments have been the responsibility of a single national office," said Mr. Roberts. "Contributions to social security amount to 17% from the employer and 6.5% from the employee on earnings up to 180,000 escudos a year (\$7,200)." Social security retirement payments, which amount to about 50% of final pay, are based on a

basic retirement pension of 80% of the employee's career average covered pay after 40 years with a minimum of 60% of his final 10 year average pay," said Mr. Roberts.

Retirement benefits are payable at age 65 or age 70 if the employee chooses to continue working. The present earnings ceiling is \$7,200 but will be raised to \$9,600 next year. Employees frequently postpone retirement to age 70 in order to receive larger termination payments from their employers. The minimum amounts are: half a month's salary per year of service up to 15 years and one month's salary per year of service for those employees with more than 15 years of service, he explained, adding, "The amount payable is reduced by 50% if the employer gives sufficient notice." Most industries, however, have negotiated for higher payments than the government requires.

There are two popular schools of thought concerning private benefits plans in Portugal. One is to establish a benefits plan to replace the termination indemnity program, and the other is to initiate a plan designed to supplement social security payments. "An example of the first type would be an unintegrated benefit with a rate of about 1% of final

pay per year of service," said Mr. Roberts. "The latter might have a formula of 2% of final pay per year of service from which social security would be offset." Lump-sum benefits are also quite popular in Portugal. These may consist of the actual benefits or they may be options under a certain plan. ■

Benefits...

Continued from page 34

problem, is his short service in different countries. For example, explained Mr. Barker, the TCN seldom remains long enough in one country to develop local pension rights or social security benefits. A possible solution might be to guarantee him from all sources, private and governmental, a certain level of income when he reaches retirement. The benefit would be based on the number of years he was employed by the company and on his earnings.

When setting up a benefit plan for a foreign subsidiary, "always integrate your benefits with social security, termination allowances, medical plans and accident insurance," he said. "If you don't integrate benefits, you'll duplicate benefits and your costs will be needlessly high." He added that taxes are often very high in comparison to the U.S. and that benefits and salary must be planned around these taxes.

Because of all the variables in planning benefits for foreign subsidiaries, it is wise to work out programs face-to-face with

local management and the consultants. Relying primarily on correspondence can become ineffective because of the problem of different interpretation of terms.

MR. BAKER recommends regular visits to foreign offices to review their needs. On his most recent trip he implemented a pension plan in one country, reviewed pension and disability plans in another, modified a medical and life plan in one country and reviewed the financial arrangements of Control Data's Master Cover Operation.

Communicating benefits to employees is up to each office's personnel department. Control Data uses its consultants to assist in writing booklets. However the regular use of booklets to communicate benefits is a fairly recent development that is just beginning to take hold in Europe. Once a booklet has been written Mr. Barker reviews a translation of it to be sure that the explanations are accurate descriptions of the benefits to be provided.

Sound benefits planning for a foreign office, Mr. Barker contends, can be achieved by taking one step at a time. ■

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Metropolitan and Pru had very cheery group year despite the freeze

NEW YORK—If group life insurers had reason to bite their nails over the wage-price freeze during the last five months of 1971 you wouldn't know it by the two giants of the industry, the Prudential Insurance Co. of America and Metropolitan Life Insurance Co.

Both companies disclosed here early this month that they had the best year on record, though officials of both attribute this largely to "extremely good first halves."

At press conferences here on successive days, the Met reported it sold \$6.3 billion of group life last year, the largest amount ever issued in one year by any company, for a gain of 9.3% over the previous year; the Pru, meanwhile, sold \$6.1 billion, up \$594 million from 1970.

In addition, the Met reported that for the first time in the company's history, group life insurance in force exceeded that of personal life. Group life in force at the Met totaled \$90.1 billion at the end of 1971; personal life reached a record \$86.9 billion. Pru, in the meantime, had \$66.8 billion group life in force, while personal life stood at \$101.4 billion.

THE COMPETITION between the two insurers, particularly within each group department, is almost as classic as the old Macy-Gimbel line, and last year was no exception. Metropolitan, of course, has persistently beaten out the Pru in group business but in recent years the underdog has been edging up.

Remarked James B. Jacobsen, senior vp of Pru's group operation: "Each year I kind of give Bill Thomas (Met's group vp) a nudge and say, 'This looks like it will be the year, Bill.' But he always seems to pull a biggie out of the bag just before year's end."

Of an unrelated nature, the Met also noted that it was two and one-half years along into a five-year health maintenance organization (HMO) experiment in St. Louis but those results to date are inconclusive.

The experiment is being conducted with several employers in the St. Louis area, Monsanto and General Motors the largest among them. Controlled groups of employees are being offered either a prepaid medical plan or private health insurance.

ACCORDING to Charles A. Siegfried, vice chairman and chair-

Hijacks not only problem

NEW YORK—"Truck hijacks make the headlines, but they only account for 20% of the \$1.5 billion lost annually in transportation crime. The heart of the problem is theft or pilferage . . . losses going out the front door, right under the noses of management," according to Benjamin O. Davis Jr., assistant secretary of transportation safety and consumer affairs, Department of Transportation.

At a National Transportation Institute meeting here, Mr. Davis stressed the importance of improving screening and identification of cargo workers to help alleviate "front door" losses.

as the Pru did a year ago.

"There's no real need for us to get into it on a direct basis," Mr. Fitzhugh said. He added, however, that this is an "internal decision" made by the present management. What the question boils down to, he said, "is whether it is good to give our agents another product to sell or whether it might possibly dilute our life insurance sales."

Mr. Fitzhugh did not rule out the possibility altogether, though. "One of these days," he said, "we probably will be in the business. But it certainly won't be until after I retire, not because of my retirement but because of the calendar." Mr. Fitzhugh retires in two years.

SPEAKING of the good group sales year, the Met chief executive noted that most of this came from the upgrading of corporate employe benefit plans the company already underwrites. It was

not, in other words, new sales.

Met executives are quick to note that the company underwrites group benefits for 27 of the largest 50 in Fortune's 500 and 46 out of the top 100. (Which might just suggest a new ad campaign for the insurer. Something like, "We're known by the company we keep." Or is that being used already?)

Likewise, Pru's executives also had some boasting to do upon the release of their year-end figures.

Kenneth C. Foster, president noted that the company lost only about \$4 million in group health insurance last year. However, Mr. Foster added cheerfully, "that's out of total premium income of \$750 million."

Not bad.

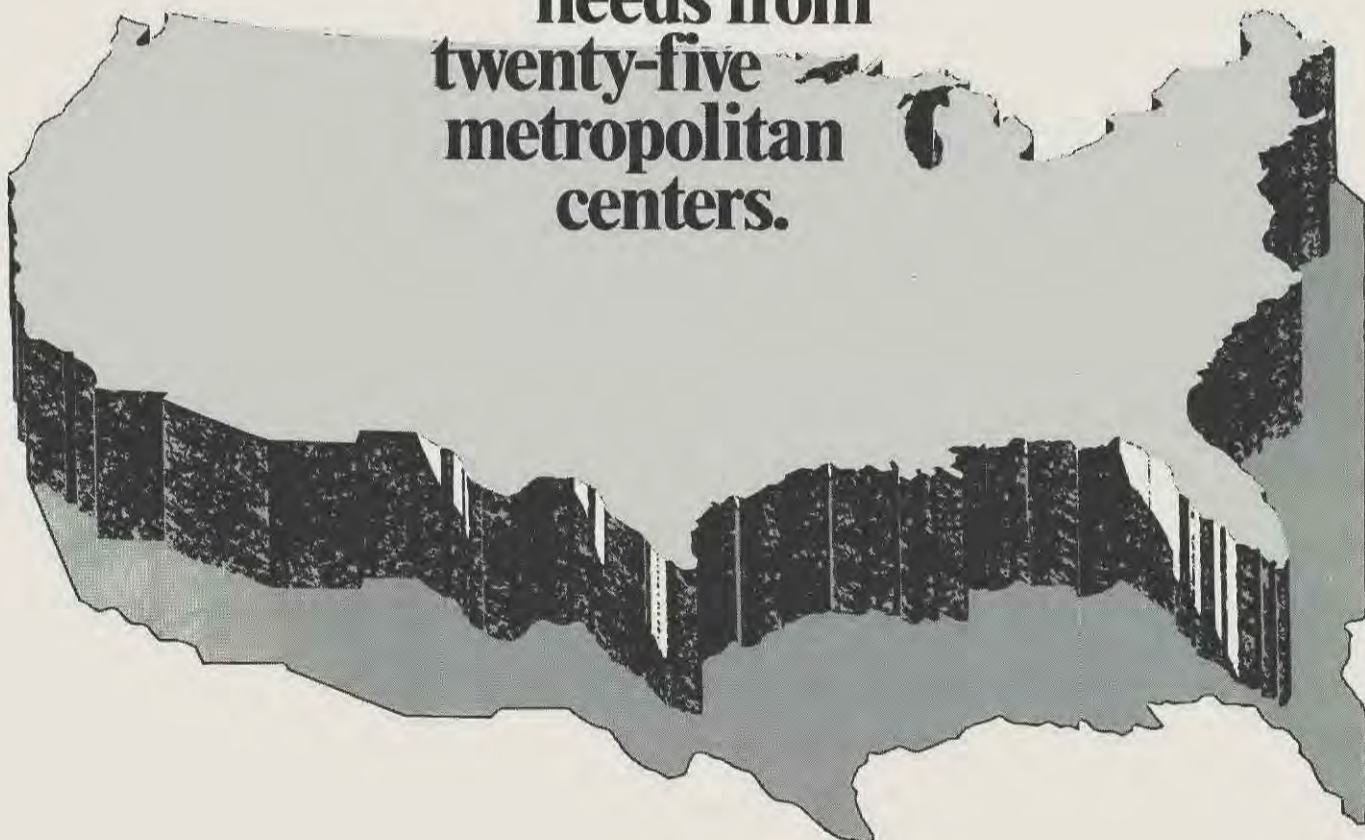
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Texas insurance board considers coastal rates

DICKINSON, Tex.—The school board here, faced with the expiration of \$7.5 million in building insurance, approved a short term insurance package at a cost of \$8,707.

The board took the action hours before the current policy expired, said A. J. Labay, superintendent.

The insurance, however, will last only through Apr. 1, by which time the state board of insurance will have had time to establish rates for the coastal areas, the superintendent noted.

The temporary insurance covers 26 buildings, valued at less than \$50,000, with a \$100 deductible clause and 27 other buildings, valued at more than \$50,000, with a \$10,000 deductible clause, Mr.

Labay pointed out.

R. J. BOWNS, insurance agent for the district, recommended the move to allow the insurance board time to hold hearings on possible rate restructuring the Texas insurance catastrophe pool.

Under the pool, rates in counties bordering the Gulf Coast are about 150% higher than manual rates.

A group of state insurance agents have asked the state insurance board to lower pool rates, and a hearing on this matter has been scheduled.

Some of the topics the board will consider are increasing the amounts property owners can col-

lect. As of now, only \$100,000 can be collected on a house or \$500,000 on a commercial or public building, no matter how great the loss. The board is considering raising these limits to \$1 million on houses, \$5 million on other structures.

Another proposed change is abandoning special policy forms which ban refunds in favor of standard windstorm policies where some refund may be made.

In addition, the board said it would consider reducing pool rates for beach property, which are three times as high as standard rates. Required deductibles might be changed for damage to buildings or beach areas—defined as property within 2,500 feet of the water and not behind sea walls. The board will consider raising deductibles on houses from 1% to 2% with a \$250 minimum and the 2% deductible on commercial beachfront buildings would be replaced by a \$500 deductible. ■

Huge bank fraud leads to some cover questions

LONDON—Banks have been tricked out of more than \$30 million by two confidence men who pioneered a new kind of fraud. It is Britain's biggest business swindle ever and has shocked the banking industry by its boldness and left it wounded because British banks do not insure against fraud.

The two men created a chain of export and import companies ostensibly to deal in raw quinine on a worldwide scale. Then they obtained substantial bank loans to fund their operations, which seemed perfectly genuine until London fraud squad officers investigated after they ran the fake scheme for four years.

Robert Fowlie, police inspector,

and his team found there was no quinine in existence, and that the whole massive series of deals was built up on a phantom structure of bogus forms and invoices, which completely deceived the banks because they were worded so imposingly that no one thought to check them.

THE BANKS had been persuaded to advance millions of dollars for the loans on real estate properties that had been inflated in value. The real estate had been listed in official public authority registration documents at high prices and this led the banks to believe the two men were genuinely rich.

The banks have got much of their money back because the two men were so intrepid that they even placed some of it in deposit accounts at the very banks they were robbing. But the Co-operative Bank of London is out \$12 million and two other banks are out \$3 million through the fraud. It is not covered by insurance as it is not the practice in Britain for banks to insure against fraud.

But now some banking officials are beginning to wonder if they should seek the advice of Lloyd's or insurance companies on the possibility of covering risk of losses in this way because fraud is on the increase since it is more profitable than violent crime, and new techniques are being developed by swindlers every day. The techniques are often passed by word of mouth, or other criminal channels, to potential confidence men in other countries.

Banks in Britain are having to learn not to trust everyone as readily as they have done in the past, for if they had taken the trouble of asking to see the quinine they would soon have found it never existed.

The two men, Ellis Seillon and Elias Fahimian, were convicted of fraud in Britain's central criminal court. Mr. Seillon was sent to the penitentiary for five years, and Mr. Fahimian for four years, but they will be set free in less than two years on parole because they have no previous convictions. ■

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Lead poison scare leads to inquiry

BRISTOL, England—An official inquiry has been set up by the British government into lead poison scares at the \$36 million processing plant of the Imperial Smelting Corp. which was opened only three years ago as a "technological showpiece."

The plant has been closed by its overall corporate, the Rio Tinto Zinc Corp., after complaints that more than 100 workers have lead levels in the blood well above the safety limit.

Robert Carr, Britain's industrial employment secretary, told Parliament: "The plant represents an important breakthrough in the technology of lead and zinc production. But its development has been accompanied by events which have given rise to anxiety for the health of its employees."

Medical experts will prepare a report on safety precautions at the plant to decide whether Britain's 60-year-old lead safety regulations are outdated.

Barbers vote to disband looted pension fund

INDIANAPOLIS—According to former Sen. Homer Capehart of Indiana, members of the Barbers International Union have voted 25,000 to 5,000 to discontinue the union's financially troubled pension fund.

Mr. Capehart, in a telephone interview with *Business Insurance* from his Indianapolis law office, said the fund's assets would be distributed to union members who contributed to it. The fund covered 58,000 members.

Mr. Capehart was appointed receiver for the fund by the U.S.

district court in Indianapolis. He said the fund has about \$7 million in cash and certificates of deposit and \$7 million in stocks and bonds.

HE ALSO said there are about \$11 million in loans of which \$5 million may be lost.

Federal Judge William E. Steckler, Indianapolis, ordered the union vote after hearing testimony that the fund was financially unsound.

Wisconsin, the only state with a law requiring pension funds to

be actuarially sound, played an important role in prosecution of the case. The Wisconsin insurance commissioner's staff investigated the fund and concluded that it would have been unsound even if it had no loan troubles.

The fund, begun in 1966, was to have started paying benefits Jan. 1, 1971. Each member who paid \$5 a month was to receive \$25 a month on reaching age 65. A \$10 per month payment would qualify the pensioner for a \$50 per month pension.

The Wisconsin insurance com-

missioner's staff determined that only the older barbers would benefit from the plan and that nothing would be left for the younger ones.

Joseph DePaola of Indianapolis resigned as union president after pleading guilty in Federal Court in Chicago to acceptance of kickbacks on loans from the fund. He was sentenced to a year in prison.

Mr. Capehart said it appeared that 44 loans by the fund were uncollectable. It was reported in 1970 that Lamot du Pont Copeland Jr., son of the board chairman of E. I. du Pont de Nemours & Co., was one of the debtors. The fund was involved in court cases in several cities.

The Indianapolis suit was filed by Victor Hood, a barber who demanded that the fund make no payments until its soundness was

established.

The barbers, in their balloting, had the choice of terminating the fund or overhauling it. ■

SEC chairman relates need for more financial planning service

WASHINGTON—A strong bid for increased family financial planning service has been made by William J. Casey, chairman of the Securities and Exchange Commission.

Mr. Casey told the Assn. for Advanced Life Underwriting that the need for new money in the stock market could be answered by meeting another need—that of 50% of the American work force for retirement security.

"In addition," he said, to the 50% of the nation's work force not covered by any pension plans, "many people want to supplement their company pensions. Members of AALU have great expertise and ingenuity in designing how this family security capital can be generated from savings that can be picked off and set aside from

the stream of income."

THE SALE OF equity or variable life insurance policies could bring a high infusion of institutional equity money into the marketplace, he asserted, adding that a strong capital market is vital not only to the 100 million Americans who have a stake in stocks, insurance policies, pension plans and mutual funds but also to "the welfare and economic progress of all 200 million Americans."

He told AALU members that the big increase in large blocks of stock now being traded has come from pension funds and life insurance companies putting a larger portion of their portfolios into stocks and from active trading by institutions. "The process of planning family savings, at which you

are so expert," he said, "has clearly reached towards higher insurance protection balanced by equity accumulation."

He said that a four-year study by SEC on the future of the securities market may provide the basis for giving all investors access to the same disclosure of prices, volumes and quotes and the best available buying and selling opportunities.

Speaking of the possibilities for combined insurance and equity sales, he told the group, "Your life insurance sales machinery hasn't set the world on fire in selling mutual funds. But it knows how to sell protection and when that protection has built-in inflation protection, I see life insurance companies becoming an enormous factor in the equity markets." ■

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State may strengthen property insurance fund

MADISON, Wis.—The state property insurance fund, described by one expert as little more than a "petty cash" account, may be strengthened as the result of action taken by the state legislative council.

Spencer Kimball, former law school dean at the University of Wisconsin and staff director of the insurance laws revision committee, recommended legislation that would build up the fund. He said the legislature's action last year, providing \$1 million worth of self-insurance on any building owned by the state, "destroys the character of the fund." He added that the fund "becomes a convenient petty cash account for the payment of small losses and does not amount to much more."

He also said that "the real need for insurance is in the range

above \$1 million, not below it."

THE STATE legislative council, by a 10 to one vote, endorsed a bill that would return the fund to the solvent position it held before the July 24, 1970, bombing of Sterling Hall at the university. Prior to the bombing, and the destruction by fire of the Old Main building at the university's Whitewater campus, a reinsurance program was in force to cover losses when the fund dipped below \$2 million. The Whitewater fire and the Madison bombing depleted the fund.

The measure to build up the fund and support it with reinsurance is not expected to be acted upon during the current session of the legislature.

Mr. Kimball noted that the measure would prevent "raids"

on the fund by the legislature to pay for other expenses. Surpluses in the fund have been used by the legislature in recent years to balance the state budget.

The legislative council also rejected a proposal to raise the policy face value limit of the state life insurance fund to \$14,000 from the present \$10,000. In addition, it turned down a proposal to permit advertising for the fund.

The state life insurance fund, administered by the state insurance commissioner's office, offers life insurance policies comparable to those of private carriers, but at less cost.

Increasing the limit on policies would keep the program in step with inflation, Mr. Kimball argued.

But Joseph E. Jones, Democratic representative from Milwaukee, countered that the entire bill would be jeopardized if it contained the provisions to increase the policy face values and permit advertising. The provisions were deleted on a nine to one vote.

Commercial properties unaffected by award

PROVIDENCE, R.I.—Large businesses in Providence, the grand award winner in the National Fire Protection Assn.'s 1971 fire prevention contest, will feel little if any effect from the award in terms of reduced fire insurance rates according to insurance specialists. Insurance companies feel that this type of city prize does not affect the fire risk of a single firm.

"We rate companies' risks individually," said one insurance executive. However, this award might have some bearing on premium reductions for homeowners and small businessmen."

Maurice Boulais, assistant vp of the New Providence Corp., a subsidiary of Allendale Mutual Insurance Co., and chairman of the Providence fire safety committee, agreed that businesses would not receive immediate reductions. "However," he said, "overall fire prevention efforts of this type do pay off. There is a correlation between fire prevention measures and fire loss."

THE GRAND award, given by the NFPA on the basis of fire

prevention education programs and prevention inspections, was previously awarded to Providence in 1962 and 1968. The city program is coordinated by the Chamber of Commerce and the Providence fire department and includes twice-yearly inspections of every dwelling in the city.

Businesses participate in a variety of ways, according to Mr. Boulais. "The chamber's fire safety committee is composed of representatives from many Providence firms. We also receive financial support from them for our activities."

Franklin Eggleston, secretary of the committee, commented, "Many businesses take the initiative to establish their own fire safety programs and require such measures as fire drills for their employees."

Each spring the Providence group sponsors a massive clean-up week. During the campaign, the fire department conducts an exterior inspection of the buildings in 10 square blocks in downtown Providence and makes recommendations concerning fire hazards. "Firms have been very cooperative in this clean-up effort," noted Mr. Boulais. "We've had tremendous response."

Although both the Chamber of Commerce and the NFPA feel that these fire prevention methods decrease accidental fires, the award does not reflect a city's actual fire experience, as the award is based solely on prevention programs.

Dollar devaluation effect is minimal

NEW YORK—The dollar devaluation seems to be having only a minimal effect in at least one area of overseas operations—the payment of retirement pensions for U.S. citizens working abroad.

"We are making no adjustment in our pension plan for overseas personnel," noted a corporation benefits manager here. Most companies, he explained, have two distinct benefits plans operating for their foreign subsidiaries: One plan applies to U.S. employees and another to nationals.

Under this system, nationals receive both pay and benefits in local currency. Expatriates, however, receive income computed on the basis of the U.S. dollar and are covered under their company's standard U.S. benefits program.

"Expatriates are expected to return to the states on retirement," explained one benefits director, "so long-term benefits are always related to their base pay." Most U.S. employees have the option to receive payment in foreign currency as a matter of convenience, but it is based on the standard rate of exchange at the time.

One company spokesman told *Business Insurance* that the question of expatriate retirement plans had not even come up for discussion. "For one thing, the expatriate group is fairly young," he said.

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