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Mattel, insurers clash on appraisal clause

By CHARLES WINGIS

LOS ANGELES—Mattel Inc. has filed suit in superior court here charging 23 insurance companies with failure to pay \$8 million of a total \$10 million in payments due for business interruption losses.

The suit contends that business interruption losses resulted from a fire which destroyed a Mattel warehouse in Mexicali, Mexico, in 1970. The company claims a \$16 million business interruption loss, with \$10 million of the loss covered by policies written by the defendant insurers.

MATTEL, in its suit, charges that its insurers have failed to pay the \$8 million because the company has refused to comply with appraisal of damages provisions contained within the policies. Mattel has maintained that the appraisal clause is intended for fire insurance losses, not for business interruption, and therefore is not subject to appraisal.

The largest amount withheld from the company by any

one insurer, according to the complaint, is \$7 million underwritten as third layer coverage by Appalachian Insurance Co., Providence, R. I. The third layer carries a \$3.1 million deductible.

Second layer cover, amounting to \$2 million with a \$1.1 million deductible, is underwritten primarily by Lloyd's, Commerce and Industry Insurance Co. and Cornet Insurance Co. Mattel's primary layer, underwritten mainly by Scottish and York Insurance Co. and Lloyd's, provides \$1 million with a \$100,000 deductible.

Although the Mattel complaint does not state the exact amount paid or the remainder due from its primary carriers, it does allege that Appalachian produced a written policy not in keeping with the intended agreement "as a consequence of fraud of the third tier insurer, the mutual mistake of third tier insurer and plaintiffs, or the mistake of plaintiffs of which third tier insurer knew or should have known."

THE PLAINTIFF'S suit charges that the appraisal provision, in the case of Appalachian, is ambiguous and does not expressly apply to business interruption loss, although it is contained in a business interruption policy.

The Mattel lawsuit was revealed as a result of reports filed with the Securities and Exchange Commission, including a pretax special income as the result of recovery of lost profit and costs stemming from the Mexicali fire. The special income increased fiscal 1971 dividends by 32 cents a

share, according to the report.

In the defense motion, filed here recently, the defendant companies admitted the nonpayments

charged by Mattel, but countered by stating that the appraisal provisions are required by the California insurance code and that

the Appalachian policy "was prepared in accordance with the request of plaintiffs or plaintiffs' agents."

Product liability cases

Drug firms are 'well insured'

ST. LOUIS—In two separate suits, totaling \$8.5 million, filed here earlier this month against McNeil Laboratories, a hospital and two physicians charged that Innovar, a drug manufactured by McNeil, caused irreparable brain damage to two patients when administered to them prior to surgery.

In another product case, an out-of-court settlement in Chicago of a lengthy product liability suit is costing the Sterling Drug Corp. \$1,007,000 through its insurer, Royal Indemnity Co.

A spokesman for McNeil Laboratories, a Fort Washington, Pa.-based subsidiary of Johnson & Johnson, told *Business Insurance* that the company was "well insured" against product liability losses. "A drug manufacturer absolutely must carry product liability insurance," he emphasized.

Insurance industry sources pointed out that Johnson & Johnson's general liability coverage, which includes its product liability exposure, is written by Aetna Life & Casualty. The limits on the policy are believed to be quite high.

One of the suits, filed by the parents of a 12-year-old girl and

asking \$5 million, alleged that the child lost her motor and muscle control, memory, speech, intellect and sight after receiving Innovar before surgery at St. John's Mercy Hospital here to remove a growth from her leg.

THE OTHER McNeil suit, which asks \$3.5 million, charged that a former stewardess was rendered bedridden as a result of the drug's administration. She received Innovar at the same hospital prior to a Caesarean section birth operation. Her child was born unaffected by the drug.

Sources here indicated that the malpractice coverage on St. John's Mercy Hospital is underwritten by the Continental Insurance Cos. through Alexander & Alexander of St. Louis.

A spokesman for the hospital noted that the malpractice insurance was handled by the Sisters of Mercy here in behalf of a number of hospitals. This, the spokesman noted, enabled the hospitals involved to keep their costs down.

While specific figures were not immediately available, sources pointed out that most hospitals, on an average, carried a primary mal-

practice policy with a limit of \$1 million. On top of that, the sources said, they usually had umbrella coverage for another \$5 million.

Innovar, which the suits contend caused a drop in blood pressure in both patients that resulted in a stoppage of blood flowing to their brains, has been used for "a number of years with no side effects," according to one insurance man. It received approval from the Food and Drug Administration in 1968 and has been on the market since that time.

The drug is primarily used to increase the effectiveness of the anesthetic in surgical cases and is a combination of droperidol, a tranquilizer, and fentanyl citrate, a potent pain killer.

"The problem in cases like this," explained a malpractice insurer, "is that the patient is given anesthesia and, sometimes, a number of drugs. In this instance, it was Innovar getting the blame but who the hell really knows which drug was responsible—or maybe it was just the combination of all of them that caused the problems."

Another malpractice underwriter concurred, adding, "There

Continued on page 2

Amtrak, Penn Central split derailment cover

WASHINGTON—Coverage of the March 18 derailment of Amtrak's Broadway Limited near East Palestine, Oh., is split between the Penn Central Railroad's insurance and federal government self-insurance and excess layers.

Amtrak will pay claims from injuries to 19 passengers via self-insurance up to \$1 million. Excess claims between \$1 million and \$25 million is written for the rail system by domestic and foreign insurers, including Lloyd's.

Penn Central's liability, which is partially subsidized by Amtrak, will cover the nearly \$400,000 in damage to Amtrak equipment, including the Dana, the system's showcase observation-bedroom-lounge car, which was completely destroyed.

One person, a Penn Central

employee traveling on an employee pass, was killed in the derailment, and his death is covered by Penn Central's group coverage.

A legal officer of the government-backed passenger rail system said the shared coverage applies regardless of fault. Preliminary investigations indicate that either a track was out of alignment after a minor train mishap preceding the derailment or the roadbed was weakened by recent heavy rains.

The shared coverage also came into play in two other Amtrak accidents this month. In Maryland, a Penn Central work train hit an Amtrak Metroliner, injuring 10, and at least two cars were damaged earlier when an Amtrak Super Chief derailed near Newton, Ka.



Amtrak's self-insurance will pay claims of 19 passengers injured when the Penn Central's Broadway Limited derailed near East Palestine, Oh. Amtrak-subsidized Penn Central liability will cover \$400,000 for damaged equipment. A Penn Central employee was killed in the incident. —Wide World photo

Marine exec questions self-insured plans

NEW YORK—"One of the particularly disquieting events of the past year has been a proliferation of insurance programs incorporating high claims deductibles, annual aggregate deductibles and other forms of partial self-insurance, Allen E. Schumacher, chairman of the American Hull Insurance Syndicate, declared here earlier this month.

Speaking at the syndicate's annual meeting, the chairman expressed his understanding of the need for shipowners to cut high insurance costs. "Owners should be considering means to level these costs or even to reduce what has come to be a very substantial part of their operating expense." He added, however, that shipowners should question

whether they can afford the risks they are assuming.

"From an underwriting viewpoint, the effect of these attempted economies is that we are being forced into the role of catastrophe insurers through being denied the spread that premiums for lower levels of coverage have customarily afforded," Mr. Schumacher said.

Admitting that the high-risk marine underwriter needs to be prepared for "shock" losses, Mr. Schumacher explained the value of reserve funds for this purpose.

If insurance costs are too high, other plans are available to the shipowner, he said, suggesting that "an owner is better advised to take a vertical slice, a percentage of more nearly full form insurance for the time being if he

wishes to experiment with control of his insurance premium outlay."

Speaking of 1972 loss experience with guarded optimism, Mr. Schumacher warned that it is possible that this newly-acquired balance in the world marine insurance market may be ephemeral. To stress his point, he cited the case of the mid-1960s, the "years of red ink." This period came about as a result of "over-enthusiastic competition which had driven rates to submarginal levels at a time when inflation and other factors were moving losses inexorably in the opposite direction."

REFERRING to the law of supply and demand, the hull syndicate executive noted that during the past year other marine insurers have "moved in to challenge the leadership with reduced rates, softer terms and greater commission discounts."

Mr. Schumacher said that the most significant development during the past year for the syndicate was the increase in underwriting capacity from \$15 million to \$40 million on any one vessel. A year ago, he noted, this was unnecessary. Shipowners were able to purchase full cover in the marine insurance market with no trouble.

But, in the spring of 1972 the "energy crisis" developed, and it became apparent that a substan-

tial fleet of mammoth tankers and LNG (liquefied natural gas) carriers would be needed within the next 12 years.

"**THE MARITIME** Administration began to give serious thought to applying its construction subsidy funds to vessels of these classes which were to be built for the first time in American yards, and concern about adequacy of insurance coverage began to be voiced," he said.

Looking back over 1972, Mr. Schumacher noted that there was a "respite from the serious losses which have plagued mammoth tankers in recent years, although it must be borne in mind that the impact of total losses and major partial losses on all classes of vessels remained."

Continuing, he said that 42% of the syndicate's entire premium writings were paid out in settlements involving losses in excess of \$100,000. These consisted of nine total losses and 57 major partial losses.

An 18% jump in premium writing was experienced by the syndicate last year. The increase came in nearly equal parts from acquisition of new fleets, change in composition of fleets currently insured and the effect of rate adjustments on renewals, the chairman commented.

Turning to the subject of large tankers, Mr. Schumacher reported signs of improvement in

this vessel category. He said, "We are hopeful that the attention being given to loss prevention aboard these vessels is beginning to pay dividends." All previous loss ratios in this category have totaled more than 100%. This year, tankers over 75,000 deadweight tons showed a loss ratio of only 96%.

SYNDICATE claims manager Raymond M. Hicks Jr. told the AHIS annual meeting that a sharp rise in total and partial losses exceeded \$50,000 last year. He noted that losses jumped from \$25.5 million in 1971 to \$37 million in 1972.

Mr. Hicks also noted that most collisions investigated last year resulted from negligent navigation by either the ships' officers or pilots. Of 18 fully investigated, 16 were due to human failure, according to the report. The claims manager projected that the others not yet fully investigated were due to the same cause—human error.

Mr. Hicks expressed a dire need for navigational safety programs and cited one established by the U.S. Coast Guard. During the past year, he said, they have developed a new vessel traffic system for major American ports. In addition, a subcommittee has been formed providing guidelines for a safe navigational watch. It calls for international standards of training. ■



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McNeil, Sterling drug cases . . .

Continued from page 1

is a fine line between the quality of the drug and the quality of the recommendations that go with it. Perhaps the drug shouldn't be used in combination with other drugs—but is, as sometimes happens. You never know. The drug company feels the recommendations of the doctors are faulty and the doctors blame the drug. That's what courts are for."

An insurance source here said that, as a result of the suits, many St. Louis hospitals had stopped using the drug and that physicians had been busy raising the limits on their malpractice umbrellas.

Three other suits have been filed against McNeil in other parts of the country, according to the company spokesman. All of them apparently charge Innovar with causing brain damage.

Originally filed in 1965, the action against Sterling sought \$1,235,000, alleging that Mrs. Anna Singer, an artist from Gary, Ind., was blinded as a side effect of a Sterling drug prescribed as a treatment for a skin rash. In February, 1970, a U.S. district court jury found the drug manufacturer not responsible for the sight loss, but a court of appeals review of the case showed that "erroneous instructions" had been given the jury by U.S. District Court Judge James B. Parsons, and ordered the case reheard.

IN THE second trial, Mrs. Singer's lawyers sought \$2,275,000 in compensatory damages. The settlement was made before the New York drug firm's lawyers presented their testimony and is the last in a series of claims against a Sterling product called Aralen.

Royal Indemnity Co. insures Sterling for \$5 million per single product liability claim and \$10 million for aggregate occurrences. The drug firm also has an umbrella liability excess of \$65 million underwritten by nearly a

dozen U.S. and London insurers.

The 45-year-old Czechoslovakian native first took the drug in 1957 under prescription from her dermatologist as treatment for a skin disease known as lupus erythematosus.

Alarmed by severe eye problems, the women went to an ophthalmologist who discovered, according to court testimony, "extensive damage to the rod cells of

SEC fight: A new move

WASHINGTON — Announcement by the Securities & Exchange Commission that it gained modification of a stay against its new rule limiting institutional investor memberships on stock exchanges is having little effect on legislative efforts to tie the rule to a break for pension fund investors. (See story page 16.)

The SEC postponed putting the rule into effect and limiting institutional membership to companies doing mostly public stock business after a federal court in Philadelphia put a stay on the regulation while deciding on a petition against it by the Philadelphia-Baltimore-Washington (PBW) Exchange. The SEC asked that the stay be lifted and the court ruled to modify it by stating all new members of PBW must adhere to the SEC rule while institutions with memberships before Jan. 16 can trade as before with the proviso that SEC can move to vacate the stay if their business is "substantially" increased.

Staff attorneys of the Senate securities subcommittee said the legislative course won't be altered and bills by Sen. Harrison A. Williams (D-N.J.) and Rep. John Moss (D-Cal.) will be sent on for final committee consideration. ■

her retina." Her visual field had constricted, she lost her side vision and her central vision was diminishing, the eye specialist said. Today she can only determine light from dark.

In substantiating the size of her hefty claim, Mrs. Singer's lawyers stressed the fact that she is a sculptor and jewelry maker who has been trained by "well-known European masters." Her work, they noted, has been exhibited world-wide, and her defense was helped along by testimonials from art critics and appraisers.

Sterling developed Aralen Phosphate in the early 1940s after the Japanese takeover of the Far East cut off America's supply of quinine, an antidote for malaria. In 1957, the Food and Drug Administration approved Aralen as a treatment for arthritis and lupus erythematosus. In its report on side-effects to the FDA, Sterling noted that the drug had been known to cause "temporary blurring to vision" but was "not yet known to cause serious permanent visual defects." The report also noted that the drug sometimes caused changes in hair color. ■

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S&H man eyes risks to stamps, carpets and drills

By MARIE KRAKOWIECKI

NEW YORK—A single S&H Green Stamp measures roughly half a square inch and is worth only a fraction of a penny, but it stands as the symbol of the \$600 million Sperry & Hutchinson Co. for which Donald W. Cherry acts as the vigilant corporate insurance manager.

Mr. Cherry is a friendly man whose easy-going manner might belie the broad scope of his responsibility with the nation's oldest producer of that supermarket-service station bonanza, the trading stamp. Until, that is, he starts talking about his job.

"I've been on the insurance management side of the line since 1951, and head of S&H's corporate insurance since 1971," said Mr. Cherry, who oversees the purchase of all the corporate insurance except employee benefits for S&H and its subsidiaries.

The subsidiaries include six interior furnishing companies, among them Bigelow-Sanford, Inc., America's oldest carpet manufacturer; Bayly, Martin & Fay Inc., one of the nation's 10 largest

High-pile storage (goods stacked in racks high atop one another) is used in all the warehouses because "it is most economical." But given warehouses full of commodities stored in this manner, awaiting shipment to S&H stamp redemption centers, and warehouses full of high-piled Bigelow carpets, the threat of fire damage looms prominently, not only in the mind of the insurance manager, but in the books of the underwriters.

"PROPERTY insurance rates are greatly increased," Mr. Cherry explained, "because the warehouse buildings we use were originally constructed without in-rack sprinkler systems, although overhead sprinklers have since been installed."

He pointed out a number of ways in which the exposures are being met. "In our old plants we try to divide storage racks with fire barriers, not only to contain fire but to concentrate the heat so our overhead sprinklers are set off more quickly. Fire curtains, which are metal or treated plywood, extend down from the ceilings, and also contain the heat."

"We're working toward in-rack sprinklers for Bigelow, and all our new Sperry & Hutchinson warehouses are now built with this type of protection, like our new Atlanta warehouse."

"In Chicago we have a modern warehouse where the men can get the goods they want from the racks by an entirely mechanized push-button operation that works almost like a railroad switchyard," he said.

The corporate insurance manager indicated that some major changes are in the wind for S&H's format of property coverages. Many of the current property policies are written by the Home Insurance Co., with deductibles usually of \$25,000 on DIC



Donald W. Cherry, S&H Co.'s risk manager, is a 22-year veteran of insurance buying.

policies and \$5,000 on other policies.

However, Mr. Cherry, noted that he is trying to consolidate all the property coverage for S&H in a blanket policy with the Factory Insurance Assn.

"I was in Hartford last week negotiating for the blanket coverage from Factory," Mr. Cherry revealed. "In an outfit as large as S&H the ability to have all your insurance coverage with one underwriter is very important. Say, for instance, that one of our subsidiaries puts on an addition to its building, and forgets to mention it in a formal report, and the insurance company is never notified about it."

"If the building and the addition both burn down and you have a blanket policy on all your facilities, you can at least be assured of coverage for a good portion of the total loss, based on the insured portion for the value of the original plant."

Mr. Cherry made it clear that the details of the blanket policy he envisions are not entirely spelled out yet, but he said he was considering moving to policies with higher deductibles and higher excess limits.

The blanket policy which would cover fire, extended coverage, vandalism and liability would probably have top limits of about \$300 million, based on values of the individual properties covered. (S&H carries \$138 million in property values; Bigelow-Sanford has \$106 million).

Mr. Cherry means business in going after a consolidated blanket coverage, and he has a plan of action ready even if the negotiations he has his hopes pinned on should fall through.

"If we're not successful with our negotiations with Factory Insurance Assn.," he asserted, "we would consider establishing a captive offshore carrier and reinsuring our risks for property."

The Home Insurance Co. is currently S&H's main carrier on liability coverages and comprehensive general liability policies. Liability policies are retrospectively rated, and have basic limits of \$100,000 for property damage and products liability, and \$200,000-\$1 million for bodily injury. Excess liability policies have "considerably higher limits," he said.

However, expiration time is nearing for the liability policies, and the insurance manager indicated that he intended to consolidate them along the same lines as he has planned for the property coverages.

"In all our major renewals we ask for competitive quotes," Mr. Cherry noted, "and right now we're asking for quotations from some of the largest carriers for a consolidation of our casualty coverage."

While most of S&H's present policies are uniform, coverages for the subsidiaries vary from location to location, depending upon when the subsidiary was acquired by the premium stamp giant.

"SEPARATE companies and property centers that we acquire have their own insurance in force when we get them," Mr. Cherry said. "Of course, if the coverages there do not meet our standards, we will provide new insurance under policies similar to those used by S&H divisions."

"But," he continued, "the use of money is very important to us. S&H is a money manager at heart, and we don't arbitrarily cancel policies at our newly-acquired subsidiaries. Instead we'll let existing policies expire, and then look at the best way to provide new coverages."

Following the money management philosophy of the company

Continued on page 36

corporate profile

commercial insurance brokers and sole broker on all S&H buying transactions monitored by Mr. Cherry; the State National Bank of Connecticut; Hens & Kelly, a Buffalo-area department chain; and Magna Dental Studio Ltd., a dental appliance firm in Manhattan.

The biggest day-to-day exposure on Mr. Cherry's corporate property headache chart is fire risk, which is a natural menace to S&H's commodity warehousing operations.



TV host makes an insurance deal

LOS ANGELES—Monty Hall, television host of "Let's Make A Deal," has been insured for what some might consider "over-zealous greed risks."

The popular host is subjected daily to hysterical contestants, garbed in bizarre costumes, trying to win prizes. Mr. Hall's safety has frequently been in doubt as frenzied prize winners—usually sobbing—beat him from the sheer ecstasy of landing a great American windfall.

Hatos-Hall Productions Inc., which produces the program for American Broadcasting Co. and for syndication, has just obtained a Lloyd's of London

policy for \$1 million on Mr. Hall, who is a partner in the production. The policy covers disabling injury or death incurred during the show.

The 20 employees of Hatos-Hall Productions are now covered with a medical and dental plan by Occidental, fully paid for by Hatos-Hall.

The employees are also eligible for a pension and profit-sharing plan, in which they are fully vested after five years employment. Hatos-Hall's consultant on the plan is Shadur, Gallop and LeVine and City National Bank is trustee for the funds.

VW gets new head of its insurance services

ENGLEWOOD CLIFFS, N.J.—If you're looking for the man who works the bugs out of the insurance programs for the Bug, look to Volkmar C. Neudoerffer, recently named manager of Volkswagen of America's insurance services department here.

Mr. Neudoerffer acts as the buyer for the insurance of all the risks encountered by Volkswagen, except business risks. He oversees loss prevention and the purchase of corporate policies for marine insurance and general coverage.

The Englewood Cliffs operation where Mr. Neudoerffer is stationed is the national importer for all Volkswagen and Porsche automobiles in the U.S. Although the VW insurance manager says there are "no special risks" entailed in the extensive import operations whose exposures he monitors, Mr. Neudoerffer did note that the biggest exposures were physical damage to the VW's after they were unloaded from the ships and physical damage to buildings.

The Protection Mutual Insurance Co. writes physical damage coverage on marine policies for VW with "ceilings that are quite high," Mr. Neudoerffer said.

One of the most significant parts of his new job is his involvement with loss prevention programs, particularly in respect to marine and transport insur-

ance. In conjunction with a loss prevention manager, Mr. Neudoerffer looks after ship arrivals of the VWs and Porsches to try to isolate areas where damages might be incurred. As an example, he noted that if the unloading equipment used by the stevedores to take the cars from the ships' holds was either too big or too small, the cars could be dam-



Volkmar C. Neudoerffer

aged, so the unloading equipment must be carefully evaluated.

Mr. Neudoerffer's position also involves supervision of workmen's compensation coverage, and some consultation on employee benefits, although the VW personnel department handles the bulk of benefits.



washington watch

Pension reform foes find weapon in White House-authorized report

By JOHN REVETT
Washington editor

WASHINGTON—The Nixon Administration is advancing on what it considers one soft spot in the case for pension reform—the number of employees actually losing out on benefits because of plan terminations.

According to a report prepared for the White House by the Labor and Treasury departments

and submitted to Congress this month, 8,400 employees in 293 plans terminated in the first seven months of last year were shown to have lost benefits—more than 50% of amounts claimed in most cases. However, says the report, in 400 other plans terminated during the period, claimants did not lose benefits. It contended that if the period is representative of the full year, then the number of persons

losing benefits because of plan terminations in 1972 shouldn't exceed .1% of the 23 million workers covered by private pension plans.

The figures are viewed as valuable material for opponents of one main provision in pension reform legislation: Mandatory plan reinsurance.

"THEY'RE sure to say this shows that the number of people

losing out is infinitesimal and doesn't warrant the cost to employers of plan termination insurance," one reform advocate said. But he contended that the report doesn't include benefits losses caused by plans that were partially terminated by way of plant or company divisions that were closed down.

"This accounts for more losses than full termination," the reform spokesman, a Senate staff attorney, said. He added that reformers feel use of the figures by opponents "could serve to remind people around here that the losses, while small, are continual and haven't stopped just because we're talking about legislation."

Reform opponents say many companies see plan reinsurance as an unnecessary expense for the number of persons affected. Do employees agree? Not according to Ralph Nader and Karen Ferguson, a Nader associate on pension reform. They told the

House labor subcommittee that if the cost of reinsurance is too much for employers, employees could be called on to help out. Nader questionnaire returns, said the witnesses, show that "if necessary, it is a cost that plan participants themselves would be willing to share." They also told the subcommittee that while "to be sure, these bills would ensure that fewer persons would lose" pension benefits, pension reform legislation currently in Congress does "too little" and "institutionalizes the defects of the system."

* * *

INTENSE investigation of the massive collapse of one-third of a 24-floor condominium under construction in Virginia is producing friction between insurance men and the Occupational Safety & Health Administration. Some insurers and their construction company clients in the case were dismayed when in the first few days after the March 2 collapse they counted "something like 50" OSHA and Labor department officials on the scene. One said the cave-in site had a "training ground" appearance and said there were fears that OSHA might look harder than usual for violations and use the nearby collapse to display enforcement vigor at a time when control has changed hands in the Labor department and OSHA.

Officials of the government job safety unit acknowledge that there were many on-the-scene "inspectors"—from Labor secretary Peter Brennan on down. But it was "nothing like fifty," said one. "That's ridiculous." He said seven OSHA field inspectors have been assigned to the case, about the same number investigating the recent gas tank disaster in New York.

As for finding violations, "it's our job to look for the causes," another OSHA man said. "And we'll issue as many citations as are warranted." It was noted that if OSHA seems especially vigorous, it's in part because Virginia's state OSHA program hasn't received final approval yet, and under the terms of a recent court order against temporary state jurisdiction, only federal inspectors have authority to enforce OSHA rules in Virginia.

ALSO PART of the reason, and this extends to renewed enthusiasm toward preventive work, is the effect of Peter Brennan. Now in office just over a month, the new Labor secretary has shown a strong interest in work safety. The Virginia building collapse was not the first job disaster site visited by Mr. Brennan. He was also on the scene of the New York tank disaster as well.

Moreover, it's understood that the Nixon Administration's nominee for assistant Labor secretary in charge of OSHA, John H. Stender, a Washington state senator and vice president of the International Union of Boilermakers, was hand-picked by Mr. Brennan. There had been talk that the administration would make its own choice to succeed George Guenther, in the process showing Mr. Brennan who's boss. But unless Mr. Stender moves OSHA in directions that indicate otherwise, it looks like Peter Brennan is in full command—of the Labor department's job safety program, at least.

Promoted to director

William G. Robertson has been promoted to director of insurance at Combustion Engineering Inc., Windsor, Ct. He has been with the company for 25 years and was appointed manager, insurance department, in 1952.

They're not kidding about flame safety

The pressure is coming from all quarters for full time flame safety on combustion equipment.

FACT: National Fire Protection Association standards now advise pilots and electronic flame detection on any system firing at less than 1400°F.

FACT: NFPA recommendations are being enforced as "regulations" in many phases of the Occupational Health and Safety Act of 1970. OSHA will spend \$64 million implementing this law in the next fiscal period.

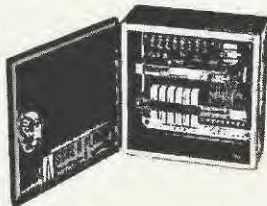
FACT: Associations of equipment manufacturers and factory insurers have issued joint requirements for flame supervision on all gas fired processing equipment, whether it operates at high or low temperatures.

FACT: The courts mean business too. In product liability cases, manufacturers who fail to use the latest state-of-the-art in building equipment are often left without an adequate defense.

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California looks into 'Chinese retro' schemes

LOS ANGELES—Prompted by complaints from California insurers and brokers, the California department of insurance is investigating the alleged sales of illegal "Chinese retro" policies in the state.

"In intent, what this product apparently is," said Lawrence Baker, the department's general counsel, "is an indemnification against the possibility of incurring a penalty on a retro-rated insurance policy. It is, in a sense, a reverse-retro policy which has the effect of reducing, or even eliminating, the penalty."

Some insurance companies, he said, offer a "unity-max retro" option to provide basically the

same assurance, and such plans are not illegal. Unity-max plans obviously carry higher price tags than standard retro-rated policies, he noted.

"Some companies feel it is contrary to the intent of retro-rating to issue such an option, so some consumers would buy reverse-retro from another company. When this happens, there are all kinds of claims that it's unethical, dishonest and all sorts of other charges."

The reverse-retro scheme becomes illegal, Mr. Baker said, when it provides for guaranteed cost and "pays insureds for either good or bad experience and has nothing whatever to do with in-

demnification.

"The information we've received indicates that there is a possibility that's what being sold in California might go outside of the realm of legitimacy," he said.

The department has been told by irate insurers that Chinese Retro policies are being purchased for their customers by brokers trying to lure the customers' business.

"I would presume that what may be happening—and all this is conjecture—is that if a broker sold a retro policy to a client and he was unhappy with the penalty provisions, the broker, to retain the business, would offer to get a Chinese retro policy and pay the

premiums himself. If the broker does pay for the insurance he sells a client, it is a rebate and is illegal."

West Coast insurance sources say the illegal forms of the reverse-retro plan are surfacing not only throughout California, but in Arizona, Oregon, Alaska and other states.

"At this point we don't know exactly what is being offered here," Mr. Baker said. "We've been offered a lot of opinions, and we are presently seeking details."

According to sources, the insurance practice, apparently, is popular in California's aeronautics industry.

Blue Cross gets new trademark; announces consumerism program

NEW YORK—The Blue Cross Assn. has scrapped its 34-year-old trademark—complete with eagles, smoldering lamps of knowledge and Latin inscriptions—for a new symbol decorated with an abstract of a human figure.

The trademark change was one step in the giant health insurer's push for a new consumer-oriented image and prefaced the announcement of a 10-point program which the association says will increase its "commitment to serving today's consumer."

The new program promises to provide subscribers broader coverage and benefits through an increase in covered services, expansion of Health Maintenance Organizations, increased consumer representation on the firm's governing bodies and better information about preventive maintenance.

In spending more than \$800,000 to advertise its new consumer-oriented approach, Blue Cross reportedly angered some consumers who feel that such giant advertising expenditures cannot be justified in light of the high cost of medical insurance premiums.



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Correspondents in All Other States

Legislator asks pension data review

PHOENIX—The requirement of nearly \$5 million in additional government funding of the Arizona Public Employee Retirement System will be given serious study, after David Kret, state senator, urged an investigation into the actuarial report.

The legislator said he had discovered at least one factual error, and possibly others in the data used by Charles G. Bentzin and Assoc. to determine funding needed for the pension system for elected officials and public employees.

Acting on the actuarial report, the retirement system board has asked the state, counties, cities and school districts with employees covered by the system to increase employer contributions from 5% to 5.74% this year.

In addition, the cost of covering public officials with the plan will jump from 16.5% of payroll in 1971 to 26.18% this year.

Mr. Bentzin said he stands by his projections.

St. Paul's group legal plan at starting gate

ST. PAUL—Legal fees may soon be covered by a new employee benefit marketed by St. Paul Fire and Marine.

However, changes in two federal regulations will be required to allow widespread use of this plan. The Taft-Hartley Act and an Internal Revenue Service ruling must be amended before unions can negotiate for legal expense coverage and employers are willing to contribute to the premium cost.

Legal expense insurance is designed to help take some of the financial worries out of consulting an attorney. According to Fred Themmes, superintendent of St. Paul's general casualty department, "we want to encourage people to get proper advice regarding legal matters rather than relying on non-expert advice."

He contends that with pre-paid coverage a person will be more apt to seek professional advice knowing that the bills will be covered by his insurance. And with this coverage a person selects his own attorney.

THE ST. PAUL policy covers four separate areas: legal advice, office work, judicial and administrative proceedings and major legal expense. A policy can be written to include all or any arrangement of the four areas.

According to Mr. Themmes, "we recommend that the last two areas be written together."

Because of differences in state laws regarding insurability of legal costs, the St. Paul Co. has had to draft what it calls "a long- and a short-form." The coverages are the same; the differences come in the risks that are covered.

The short form has been filed in states where legal insurance is applicable only when the person is a defendant. The long form is designed to cover both when an insured is a defendant or a plaintiff.

UNDER advice and consultation, the policy pays about \$120 per year based on a per interview fee and carries no deductible.

Mr. Themmes expects that since this section does not have a deductible this will be a big incentive to people to seek professional advice and perhaps solve a minor problem before it becomes major.

For office work the policy pays approximately \$250 per year based on an hourly rate with a \$10 deductible per case. For judicial and administrative proceedings the coverage is \$500 per year with a \$25 deductible per case. This section covers a whole spectrum of legal matters, including divorce, adoption, change of name, traffic violations, civil proceedings and bankruptcy.

Under the shortened form, this area would be limited to involuntary bankruptcy, traffic violations, felony and party defendant in civil proceedings.

THE MAJOR legal expense segment pays 80% of the legal fee up to \$2,500 per year and picks up when the limit of coverage under judicial and administrative proceedings is exhausted.

These are approximate limits, Mr. Themmes said. Specific limits will be geared to the prevailing bar fees in different sections of the country. "When we issue a policy we will work with the insured group and the local bar association in defining the schedule of benefits," he explained.

Exclusions under the policy include, among other things: Expenses in connection with business pursuits; fines, penalties or judgments; expenses incurred in class action suits; expenses arising out of a case in which defense or other legal representation is provided through an insurance policy or any other means; expenses involving a duplication service or advice previously obtained on the same problem and previously claimed; expenses arising out of legal matters pending or controversies ex-

isting prior to the date of coverage and expenses for filling out and filing tax forms.

"However, advice on tax problems or questions is covered," Mr. Themmes commented.

LEGAL expenses insurance is available to employee groups, unions, associations and other such groups. However, the Taft-Hartley act will have to be amended to include legal expense insurance as a negotiable item before unions can include the benefits in their lists of demands. The Taft-

Hartley act spells out what unions can negotiate for and legal expense coverage is not included. Still, the pending Williams-Javits bill in the Senate could change all this.

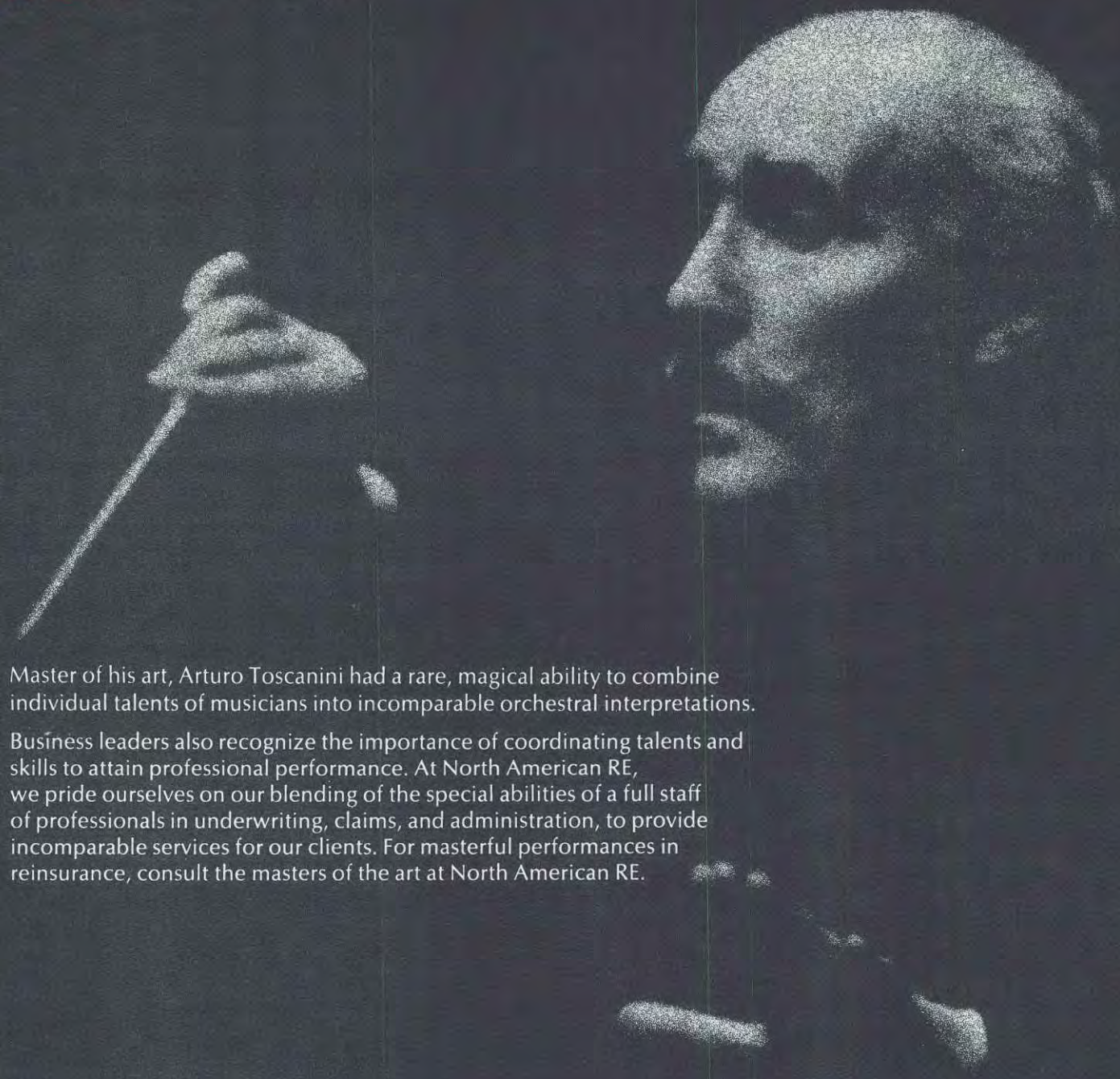
Mr. Themmes mentioned that one union is interested in purchasing coverage for union members and paying the premium out of union funds.

Another hurdle not yet overcome is an IRS ruling that does not allow an employer's contribution to such a benefit as a deductible business expense. So for

the present, the cost of the coverage would be paid for by the employee, possibly through payroll deductions if the employer is amenable. However, once the ruling is changed, the employer could assume all, part of or none of the premium cost.

The new product will be marketed through St. Paul's agents. The insurer is drafting a booklet written in laymen's language to use in its marketing program. Once a policy has been written, each member of an insured group would receive a booklet. ■

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State's pension expenses rising

HARRISBURG, Pa.—The Pennsylvania taxpayers' cost of funding the state employees' retirement system will rise by \$24.6 million in fiscal 1973-74 and reach an all-time high of \$113.1 million, it has been disclosed.

The cost of the state pension system has doubled in the past five years.

Richard L. Witmer, director of the state employees' retirement fund, said the sharp increase was due to the "fantastically increased cost of the payroll itself." Over-all payroll costs are projected to go from \$1 billion during the current fiscal year to \$1.3 billion in fiscal 1973-74.

Mr. Witmer said the controllers of individual state agencies will have to set aside about 8% of their payroll appropriations to contribute to the retirement fund, and that the state has been contributing to the pension fund in recent years on the basis of a 5% annual salary growth.

info for buyers

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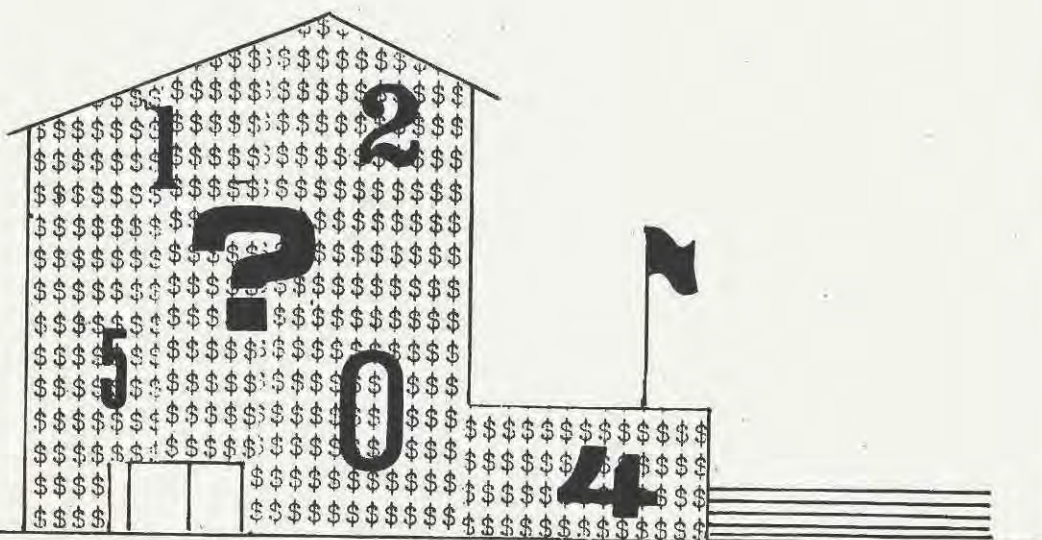
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• **Executive & Employee Benefit Plans Inc.** has made available **Self-Insurance—An Actual Case History**. The brochure deals with the actual first-year experience of a corporation which self-insured its employee group health program utilizing the administrative services of Executive & Employee Benefit Plans. For a free copy write the company, P.O. Box 4626, Columbus, Oh. 43212.

• **Du Pont Safety Management Services** is a booklet describing Du Pont's safety consulting service, a program being offered to firms desiring to improve their safety performances. For free copies write J. B. Partain, Education & Applied Technology Div., Du Pont Co., Wilmington, De. 19898.

• **Universal Health Care Inc.** has prepared a brochure of questions and answers about self-funding group health care. For a free copy write William D. Alcott, Exec vp, Universal Health Care Inc., 18301 E. Eight Mile Rd., E. Detroit, Mi. 48201.

• The **OSHA Safety Center** has designed a computer-graded, five-phase, 41-test accident prevention course called **Operation Zero** which is orientated to requirements of the Occupational Safety and Health Act. The course is prepared for safety directors, personnel directors, middle-management and front-line supervisors. The course is offered at cost, \$40, and may be obtained through the OSHA Information Center, Fred. S. James & Co. Inc., 230 W. Monroe St., Chicago, Ill. 60606.

• **Werbel's Variable Annuities** (second edition, first printing) is a concise explanation of variable annuities involving both definition and function. The operation of fixed annuity is used as a comparison to illustrate special features of variable annuities and the workings of separate accounts. The booklet is suitable for preparation for state examinations, and is available for \$1 from Werbel Publishing Co. Inc., V. Merkel, Mgr., Circulation Dept., 595 Old Willets Path, Smithtown, N.Y. 11787.

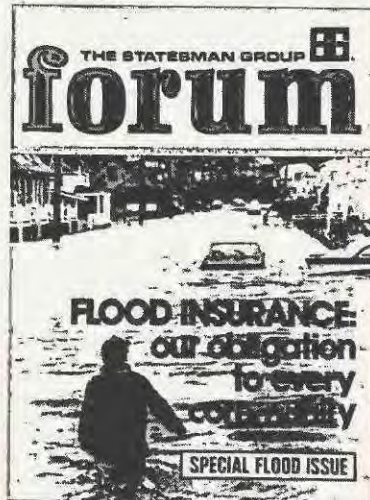
• **SEC Liability Insurance**, a booklet prepared by Stewart, Smith Mid America Inc., discusses the possibility of inadvertent violations of SEC regulations and insurance coverage for resultant legal actions. The brochure may be obtained without charge by writing Stewart Smith Mid America Inc., 141 W. Jackson Blvd., Chicago, Ill. 60604.

• **Managing Human Resources With Coordinated Benefit Planning**, available from Alexander & Alexander, describes A & A's activities in the area of employee benefit consulting and actuarial services, including the design, administration, management and communication of employee benefit plans. For a free copy write R. Scott Taylor, director of communications, A & A, 1185 Avenue of the Americas, New York, N.Y. 10036.

• **Mass Insurance Consultants and Administrators Inc.** has published a booklet entitled **Fundamentals of Jointly-Managed Health and Welfare Fund Operation**. The booklet describes the basics of operating a welfare fund and may be obtained by writing Allen Whiteside, vp, Mass Insurance Consultants and Administrators Inc., 209 S. LaSalle St., Chicago, Ill. 60604.

• **Life Insurance and Estate Planning for the Corporate Executive** is available from Bankers Security Life Insurance Society. The pamphlet emphasizes the importance of co-ordinating an executive's will and various fringe benefit plans, such as stock options, deferred compensation and qualified pension and profit-sharing plans, in order to achieve maximum tax savings and family objectives. For a free copy write Fran Podlesney, Bankers Security Life Ins. Society, 1701 Pennsylvania Ave., Washington, D.C. 20006.

• The **Statesman Group** has announced the availability of a special issue of their company publication which was devoted entirely to the subject of flood insurance. The publication provides all the information necessary for



a community to become eligible for flood insurance. Complimentary copies of the manual may be obtained from Flood Insurance Task Force, The Statesman Group, Des Moines Building, Des Moines, Ia. 50309.

• **Is Your Building Earthquake Safe?**, a booklet from Bob New Inc., gives the basic facts about earthquake risk analysis (ERA). ERA is a precise scientific technique that accurately predicts what will happen to every member and joint of a building during any probable earthquake. For a free copy write Bob New, Bob New Inc., 736 N. Glendale Ave., Glendale, Ca. 91206.

• **Underwriters Adjusting Co.** has released its annual up-dated **Directory of Service Locations**. The book is used by risk managers, insurance company claims executives, auto fleet drivers, agents, brokers and self-insured companies to find adjusters in case of fire, accident or other loss. For a free copy write Robert L. Tatrow, Underwriters Adjusting Co., 224 S. Wacker Dr., Chicago, Ill. 60606.

• **Management of Employee Benefit Plans**, a brochure published by the Trust Co. of Georgia, explains the bank's investment philosophy, illustrates its investment decision process and relates some recent performance histories. Copies of the brochure may be obtained by writing Robert Caper, Trust Co. of Georgia, 25 Pryor St., Atlanta, Ga. 30302.

• **How to Buy Insurance for a Corporation**, a 13-part series authored by *Business Insurance* contributing editor Bion Francis, is now available in booklet form. The booklet discusses the problems to be expected when buying insurance, and offers practical solutions for solving them. Single copies are \$3.50 or \$3.25 for orders of 11 or more. They may be obtained by sending a check or money order to Bookshelf, Crain Communication, 740 Rush St., Chicago, Il. 60611.

• **Paying For Your Pension**, an employee-directed booklet from Hewitt Associates, answers such questions as how pension benefits are provided, what goes into a pension fund (how much, when, who decides) and what happens to it. For a free sample copy write Al Schlachtmeyer, Hewitt, 102 Wilmet Rd., Deerfield, Il. 60015.

• **The Continental Individual Life Product Guide** is a free, 31-page booklet in a binder from Continental Assurance Co. The booklet describes everything from death and disability riders to business continuation. For a copy, write Ed Rice, Continental Assurance Co., 310 S. Michigan, Chicago, Il. 60604.

• **You Need Sens-A-Flame**, a brochure prepared by Pyronics Inc., describes the company's all-electronic, multiple-burner flame safety system for combustion equipment. Included are a point-by-point description of components and their operation and brief application examples. For a copy contact Edward M. Kuska, Pyronics Inc., 17700 Miles Ave., Cleveland, Oh. 44128.

• **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 insurance agreements, conditions and exclusions. For copies write Richard Oldani, Il. R. B. Jones Inc., 175 W. Jackson Blvd., Chicago, Il. 60604.

• **Employers Insurance of Wausau** has published a booklet, **Navigating OHSA with the Vital Few**, which explains how OHSA's unfamiliar waters can be sailed with the guidance of a reliable priority computerized system. For a free copy, write Roger Drayna, Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wi. 54401.

• **16 Ways To Live Longer**, available from Royal-Globe Insurance Cos., is a concise, descriptive guide on safe driving. The booklet highlights the dangers of careless driving and contains artists' drawings for each of the 16 points which are examined. For free copies write Joseph A. Venturelli, Corporate Communications, Royal-Globe, 150 Williams St., New York, N.Y. 10038.

• **APB 8—Five Years Later**, offered by Frank B. Hall & Co. Inc., is a look at the Accounting Principles Board 8 and its impact during the five years since its introduction. Copies are available

without charge by writing Barnet N. Berin, vp, Benefit Consulting Div., Frank B. Hall & Co. Inc., 88 Pine St., New York, N.Y. 10005.

• **GAB's Little Red Book** provides a description of all General Adjustment Bureau Inc. services and lists GAB offices in the 50 states, the District of Columbia and Puerto Rico. A free copy is yours by writing Management Services, General Adjustment Bureau, 123 Williams St., N.Y. 10038.

• **Executive & Employee Benefit Plans Inc.** has published **LTD—Pure Insurance or Insurance Extravagance?** The brochure deals with the potential advantages to a major company of self-insuring long term disability benefits through the use of a 501 (C) (9) trust. The brochure is available by writing to E&E Benefit Plans, P.O. Box 4626, Columbus, Oh. 43212.

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Each issue of **Business Insurance** is filled with information for you. Now we want to turn the tables and get some information from you. We have selected, at random from our subscriber rolls, a group of readers who will receive questionnaires within the next few days. We would like to get some information on your reading habits, occupation, job responsibilities and similar facts.

If you are among those who receive a questionnaire in the mail, we would be most grateful if you would take the time to fill out the form and return it, using the business reply envelope.

Research Department

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Three British insurers announce improved U.S. underwriting ratios

LONDON—Better results from U.S. underwriting activities last year have been reported by three of Britain's largest insurance companies who operate widely in the American market.

They are Commercial Union, Royal and General Accident groups, all of whom have achieved substantially high profits on their

operations.

The London Daily Telegraph, in a comment on General Accident's improved operating ratio of 88.94% in 1972 against 92.7% in 1971, declared, "Far away now seem the days when anything under 100% was greeted with acclaim, for the new ratio of 88.94% is phenomenal. Premium

rate increases can hardly be justified by General Accident to the U.S. authorities with 11 points of profit, while the cost of claims must rise even if the success of Nixon's anti-inflation policy has moderated the progress."

General Accident made more than \$27 million in profits, as opposed to nearly \$15 million in

profits in 1971, on its U.S. underwriting. Commercial Union made a 1972 profit of \$5 million, against \$100,000 in 1971 and Royal Insurance \$4.8 million, against \$600,000. Royal's operating ratio was 97.1% compared with 98.8%. Commercial Union's ratio was 95.7% against 97.5%.

* * *

SAFETY FACTORS in machine design will be probed at a U.K. conference on ergonomics which Erwin R. Tichauer, professor of biomechanics at New York University, will attend in London this summer.

The conference is organized by the British Safety Council, which has stated: "Techniques for designing machines to fit the needs of operators have proved successful in the U.S. Their adoption by British managements will

help to reduce industrial injuries."

Prof. Tichauer, who was professor of industrial engineering at Texas Technological before going to NYU in 1967, will speak on the need to eliminate injuries and accidents from lifting and handling operations in industry. He will be backed by Dr. Bob Murray, medical adviser to Britain's Trade Union Congress, which represents millions of workers.

* * *

BRITAIN'S first full-scale pollution congress with government support will be held in London this June. It will tackle pollution problems in five main divisions—air, land and water, noise, waste and marine. Environment Secretary Peter Walker, from the U.K. Government, will preside.

In London's central criminal court an English shipping company has recently been fined \$6,000 for polluting the sea off Nova Scotia when oil escaped from one of its vessels on a voyage from Quebec to New York two years ago. It was the first case ever in which a British shipping firm was prosecuted for an incident happening thousands of miles away, and was the outcome of new legislation, which Britain hopes other nations will adopt in their own courts, for international benefit.

* * *

GOVERNMENT taxation will add 10% through a value added tax (VAT) to many business activities in Britain as of April 1, but insurance transactions will be exempted in most cases. There will be no material impact on marine, aviation or transport insurance and other foreign coverages from the new tax rates.

* * *

CONTROL of its European insurance interests by a new coordinating unit based in London has been announced by International Telephone and Telegraph Corp. (ITT). It will be managed by Charles F. Elsasser, head of the New York department of Hartford Insurance, who will supervise ITT's insurance interests in London, Utrecht (Netherlands), Hamburg and Rome.

* * *

INSURANCE experts in Britain are sending N.C. Strother Smith, director of the U.K. Fire Protection Assn., on an international tour to promote fire safety.

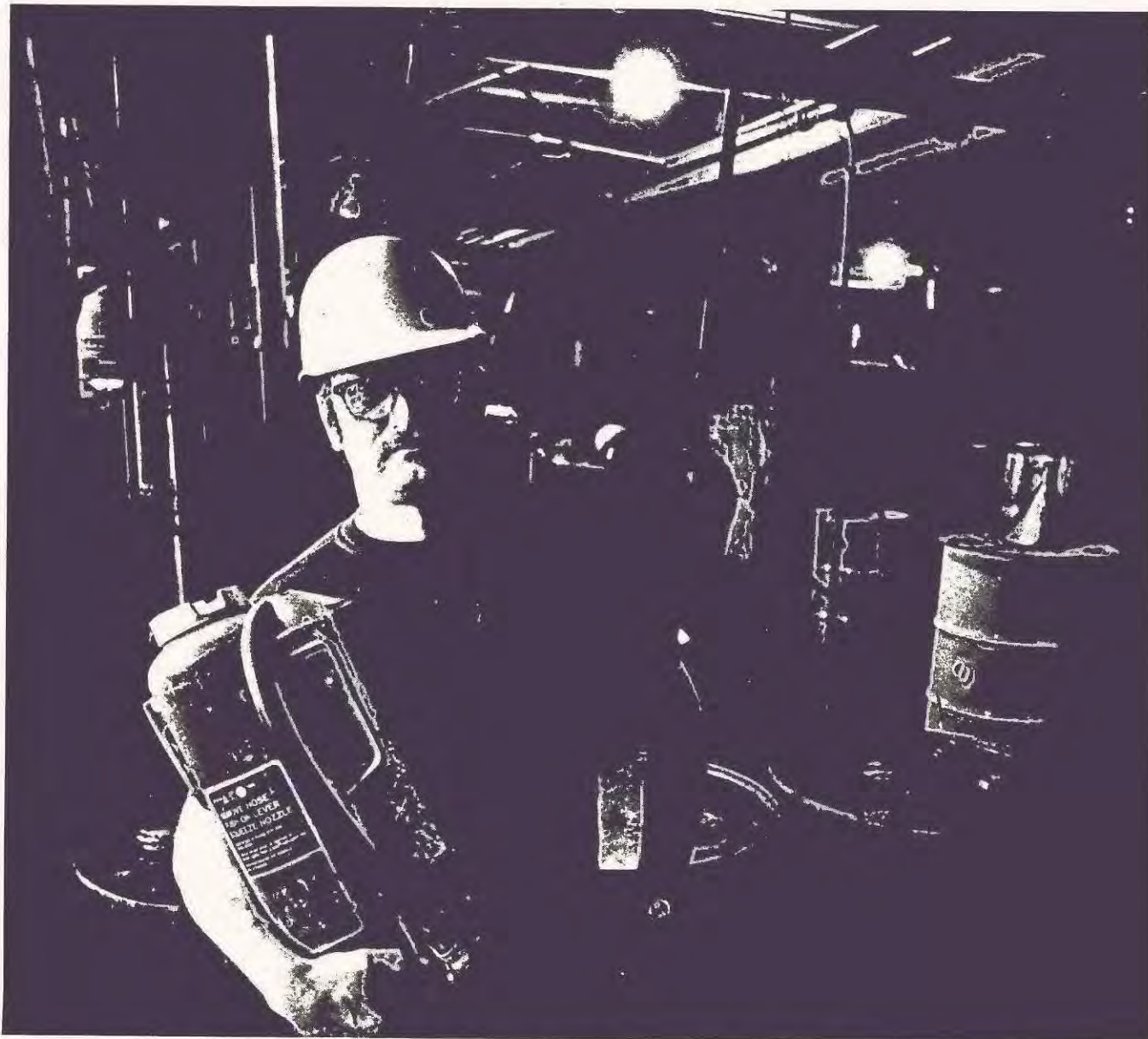
He will visit Hong Kong, where he will discuss with corporate management various ways of improving the island's fire safety situation, which is said to be "rapidly deteriorating."

Long-term efforts to promote preventive safety education among Hong Kong's industrial enterprises have been promised.

Mr. Strother Smith will also visit Australia, South Africa and Mozambique on his round-the-world trip. He will discuss the schemes adopted by insurance companies and Lloyd's in Britain to develop the Fire Protection Assn. in order to combat risks and help reduce premium rates. ■

Name farm safety chief

D. C. Weaver, of Silverton, Or., group safety coordinator for the Oregon state accident insurance fund, has been named chairman of the governor's committee on farm safety. He will be responsible for the development of safety programs for use by the numerous groups and associations which purchase their workmen's compensation insurance from the state accident insurance fund. The 20-member committee is responsible for coordinating the safety activities of all agencies and organizations serving Oregon farms.



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New York's open-rating plan faces legislative war

ALBANY—Superintendent of Insurance Benjamin R. Schenck will soon recommend to the New York state legislature that an open-rating system begun here as an experiment in 1969 be extended for four more years when legislative approval of the experiment runs out at the end of this year.

Superintendent Schenck's recommendation—which has won the approval of many large commercial insureds, who contend that open rating has opened up new markets and increased capacity—is expected to run into roadblocks from some legislators who contend the opposite is true.

While a detailed report containing the recommendation was being whipped into shape by the insurance department at mid-month for presentation to the lawmakers later this month, Superintendent

Schenck would only say that "the experience was not bad" under open rating. The system allows insurers to set premium rates without getting prior approval from his department.

According to a high-placed Albany source, however, the general sentiment among state senators is "emotional and highly opposed to open rating's extension." The source noted that, during the hearings the state held previously on no-fault auto insurance, senators got a very unfavorable picture of the insurance industry which is coloring their present reactions.

"QUITE A FEW senators oppose open rating. They feel that the state should go back to the prior approval system. The fact is, during no-fault debate the insurance

companies took a beating on the senate floor, and many of the senators feel the industry is getting away with murder in overcharging the consumer," the source said.

He continued, "The senators, many of them, feel that open rating augments this 'murder' and they want to clamp down on it as a means of clamping down on the insurance companies."

The chairmen of the state assembly and the state senate committees on insurance have a less hostile attitude to the proposal for open rating, but do advocate a more cautious approach than a straight acceptance of another four-year extension.

Assemblyman John G. McCarthy has introduced a bill that would extend open rating—but only for one year. His bill would

also put no-fault insurance premiums back on the prior approval system.

ASSEMBLYMAN McCarthy's bill would also pose an admonition to the insurance industry that open rating would continue only if some definite benefit could be shown to the consumer.

"Insurance companies did not use open rating to its full advantage the first couple of years it was in operation," he told *Business Insurance*. "We're just now starting to see a leveling-off of premiums."

"Now we want to see some definite reductions for the consumer, not just a leveling off. And we're not going to be satisfied with comparisons of the rise in premium rates to the rise in the general cost index," the as-

semblyman asserted.

Senator John R. Dunne, chairman of the senate insurance committee, is staying "open minded" on the subject, according to his counsel, Michael Stafford. But the counsel indicated that "Sen. Dunne's feeling at the present time (subject to change upon reading Superintendent Schenck's official report) is that it would not be harmful to have some extension this year of the open-rating system."

MR. STAFFORD noted that the senator feels a reevaluation is in order for the open-rating system, however, and that a full four-year extension of it might be too long. Like Assemblyman McCarthy, Sen. Dunne favors a shorter extension of open rating so all of its aspects may be more closely examined.

On the other side of the fence are representatives of the American Society of Insurance Management, who have steadfastly supported open rating for its cost-saving benefits to the insurance consumer.

"We're very, very much in favor of continuing open rating in New York," said Martin Seigal, vp of the New York chapter of ASIM. "We feel it does provide competition among insurers, and opens up more markets. In commercial lines, open rating has resulted in the reduction of premiums, and has attracted the business of carriers who were not interested or could not make a profit before under the old prior approval system," Mr. Seigal said.

Rolyn Storey of SCM Corp., another New York ASIM vp who serves on the insurance commissioner's advisory board, said, "I'm in favor of extending open rating in New York. It opened up more markets for commercial lines, and improved capacity."

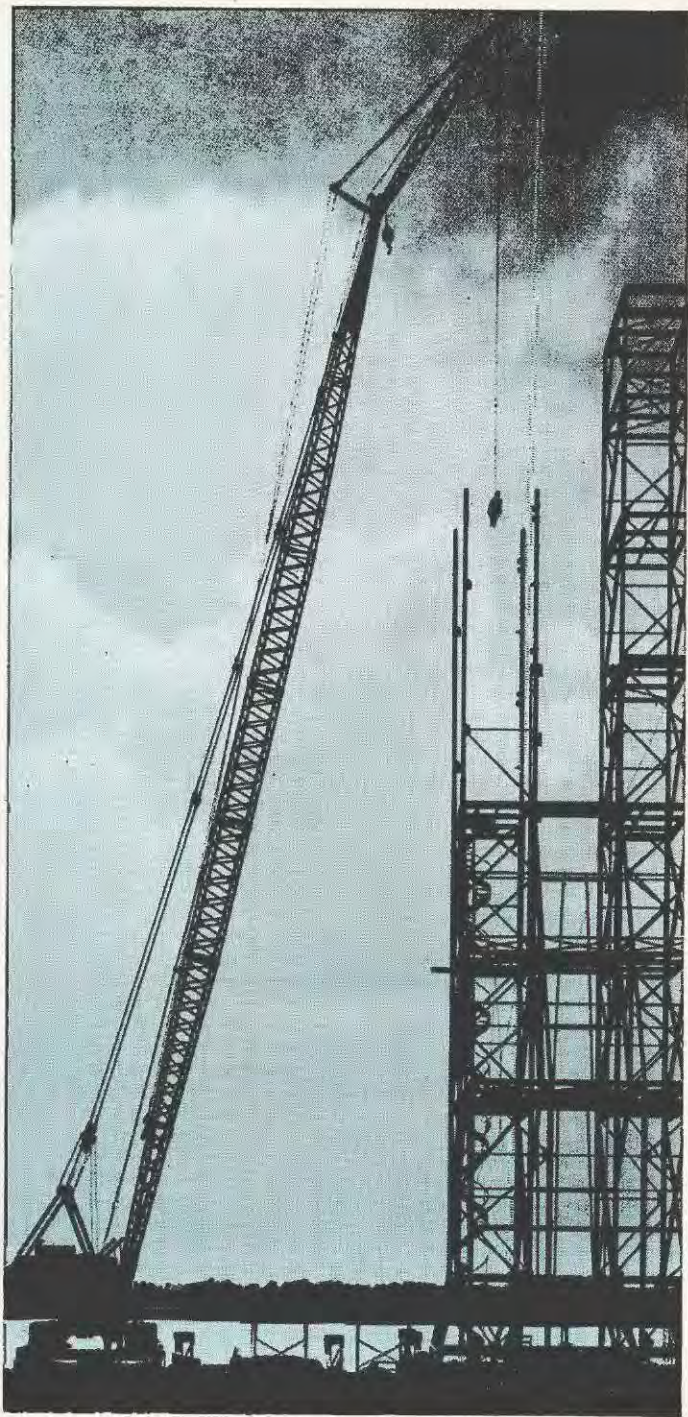
Stender appointed as new OSHA chief

WASHINGTON — President Nixon has nominated John H. Stender, a Washington state union official, as Assistant Secretary of Labor in charge of the Occupational Safety & Health Administration.

Mr. Stender, whose nomination requires Senate confirmation, reportedly was one of several nominees for top Labor department posts submitted to the President by Peter Brennan, former union leader who became Labor secretary last month. Insiders say the Stender nomination indicates that, initially at least, the White House is giving Mr. Brennan what, in many cases, department and agency heads do not have—the right to select their own key personnel.

If confirmed by the Senate, and there is no indication so far that he is a controversial nominee, Mr. Stender will take over the top OSHA post vacated early this year by George C. Guenther, who joined Insurance Co. of North America, Philadelphia, as senior vp with responsibility for all of INA's loss prevention activities.

Mr. Stender, 56, is a Republican state senator from Auburn, Wa., and is international vice president, International Union of Boilermakers, AFL-CIO.



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Securities group takes militant stance on negotiated rate issue

NEW YORK—Should negotiated commission rates be allowed to supplant the current schedule of fixed minimum commissions paid to stockbrokers on all exchange transactions under \$300,000? The hubbub surrounding this question in Eastern investment circles is steadily swelling, and the latest development arises from the militant stance taken by the executive committee of the Securities Industry Assn. earlier this month.

The SIA, a trade association for investment firms, stated its "formal opposition" to negotiated rates, noting that it "would be clearly unwarranted at this time" to institute negotiated rates on transactions of less than \$300,000.

Since the SIA normally functions as a low-profile activist on industry problems, its pronouncement is something of a rare event, for it puts the members of the blue ribbon panel in direct opposition to the stance adopted by James J. Needham, chairman of the New York Stock Exchange.

MR. NEEDHAM upset the investors' applecart in February when he shifted the position of the Big Board, which has used some form of fixed commissions

since its founding in 1792, by advocating negotiated commissions between brokers and their customers on all transactions, large and small.

When Mr. Needham, who is supported by the Big Board directors, unveiled his plan to activate negotiated rates, he outlined a companion strategy designed to bolster sagging profits by abolishing the so-called "third market" of over-the-counter trading of securities listed on the Big Board. "We feel our position in this matter represents the public interest," Mr. Needham recently commented in response to the SIA pronouncement.

The sensitivity of the fixed commission question has been heightened by the reputed operation-in-the-red of more than 30% of SIA member firms during the first two months of 1973, usually considered a good profit period.

Critics on Wall Street view the Needham plea for negotiated rates as a trade-off, because it accepts the negotiated rates sooner than many in the industry would like, on the condition that the third market is abolished.

JOHN C. WHITEHEAD, head of the 850-member SIA, objected to what he called the "inadvisable

speed" of the Big Board and said that more precise data on the impact of present rates on services to investors was needed.

There is a feeling among some in the investment industry that fully negotiated rates could result in higher transaction costs for individuals, a factor that might drive the investing public from the stock market. The ultimate concern is that without proper study and safeguards, the existing marketplace system could be placed in jeopardy.

But what the industry dreads as "jeopardy" would be utopia as far as some institutional investors and other exchange members are concerned. The state of Connecticut, which recently had its seat on the PBW Stock Exchange challenged by an SEC ruling (*Business Insurance*, Jan. 29) is pushing for a system of entirely negotiable commissions in exchange transactions.

And in Congress, Senators Harrison Williams (D.-N.J.) and John Tower (R.-Tx.) have introduced a bipartisan bill that would lower the ceiling for negotiated fees from the current SEC-upheld \$300,000 to a maximum of \$100,000.

Brokers' commissions have been negotiated on those portions of trade above \$300,000 since April, 1972. Before then, the cut-off point was \$500,000. What will happen now to the schedule of fixed commissions is open to debate—and plenty of it—with choruses rising from the New York Stock Exchange, the state of Connecticut, the PBW Stock Exchange, the investment industry and the SEC. The official opposition laid out by SIA, for the moment at least, just adds another dimension to the disharmony over negotiated rates now growing in the investment community. ■

Connecticut city appoints new agent

WEST HARTFORD—Allen, Russel & Allen Inc., Hartford, is apparent low bidder on contract to be West Hartford's insurance agent-of-record. The firm bid \$20,420.

The new firm, according to town finance director Richard A. Russo, will be in a unique niche since the agency is to assume responsibility for all town coverage, instead of just one or two lines as has been the traditional policy in Connecticut communities.

Mr. Russo estimates that the town will save as much as a third of its coverage costs over a three-year period, noting that under the previous plan, the towns' most recent cost was \$9,600 per year (\$28,800 for three years).

"In a period of inflation," Mr. Russo remarked, "it appears that we'll be able to save even more money."

The agent-of-record is to negotiate with insurers for West Hartford's coverage in all areas, including workmen's compensation, liability, automobile, boiler, fire, valuable papers, money and securities, bonds, group life and major medical. In addition, it will periodically evaluate coverage and recommend changes.

West Hartford's highest premium payments are made under group life coverage, amounting to \$149,512. Workmen's compensation is next at \$137,750, followed by liability, \$84,000.

Other bidders were: J. Watson Beach Inc., Hartford, \$24,300; R.C. Knox & Co., Hartford, \$27,000; Fred S. James & Co., \$35,000; May, Potter, Murphy & Carter Inc., \$38,883; and Arthur A. Watson & Co., \$37,700.

A seventh company, John P. Kelly Co., bid a price of per cent of premiums. It was disqualified, according to Mr. Russo, because the town sought a fixed price. ■

THE MARYLAND'S 48-HOUR GUARANTEE IN ACTION:

Sale of first group auto coverage gets go-ahead in Massachusetts

BOSTON—Massachusetts state insurance commissioner John G. Ryan has announced approval of the Bay State's first plan for the sale of group auto insurance coverage.

The concept, according to state insurance department findings, could save an average driver \$27 if he has \$20,000-\$40,000 liability and \$100 deductible collision insurance.

Mr. Ryan said the plan would allow reductions of 4% on compulsory \$5,000-\$10,000 liability insurance, 11% on additional liability and 16% on collision insurance.

At the same time, Mr. Ryan announced special rate reductions for four companies writing

auto coverage in Massachusetts.

THE NEW group plan is to be sold similar to group medical coverage, with the employer deducting premiums from payroll checks. In effect, the employees in group plans are able to spread premium payments over a year's time span without a finance charge involved.

Reduced premiums are to be made available also to those individuals who have their coverage with companies writing group insurance. (This is because Massachusetts insurance laws do not allow a company to charge different rates for the same coverage.)

The first company to write the

insurance will be Travelers Indemnity Co. of America.

Mr. Ryan has termed the concept "an important start." Its effect is not expected to be felt during 1973, since all policies are operational Jan. 1, as Mr. Ryan does not think that the cost of changing during the year would outweigh any savings.

THE SAVINGS are attributable to a reduction in commissions for group insurance—Travelers has chopped commissions for group coverage to 7% across the board.

Mr. Ryan noted that normally the commission on compulsory coverage is about 12% and anywhere from 16 to 18% on non-

compulsory. Although his department has submitted legislative proposals to change the present insurance laws to authorize group insurance sales, he said that he does not believe legislative action is needed.

Neither the legislature nor the courts can approve the sale of a type of auto insurance not named in the law, he said, but, in this situation, "we are talking about a selling technique, not a new type."

It is expected, however, that the legislation will be approved to end any doubts involving the new concept. Mr. Ryan added that he assumed Travelers would continue to sell group coverage in 1974 and would be joined by other companies.

There has been opposition over the new concept expressed by insurance agents, brokers and several mutual insurance companies.

Mr. Ryan asserted that it might be easier for agents and brokers to sell a group policy to one company and collect the lower commission from a group than to seek and get the higher commission on an individual sale and still have to collect the premium.

His department has also approved reductions in premium charges for four companies: State Farm Mutual, 5% reduction for all coverage except compulsory, medical and uninsured motorist; Motors Insurance Co., 10% less on collision, Allstate and St. Paul Fire and Marine, to charge up to 20% less on collision coverage for new cars with bumpers meeting certain standards for crash resistance. The 1973 rates already permit a 10% discount for cars with such bumpers.

Pension bill gets stiff opposition

SYRACUSE—A proposed uniform public pension system now being considered by the New York State legislature is getting stiff opposition from public employees.

Representatives of 16 public employee unions met here to discuss methods of defeating the proposed pension system. These unions intend to fight the measure, which has the strong backing of Gov. Nelson A. Rockefeller, said Theodore C. Wenzl, head of the state Civil Service Employees Assn.

Mr. Wenzl charged that the proposal of the state pension commission would cut a sanitation man's pension by 57% if he is hired after July 1, compared to his fellow worker hired on June 15. New York transit workers would get 54% less; policemen, 38% less; city teachers, 58% less, and state hospital workers, 36% less.

Mr. Wenzl also serves as chairman of the state conference of public employee organizations which was organized by the unions to block the anti-pension bill. He said that conference members were "stunned" by what he termed the "inconsistency" of trying to promote greater productivity among employees on the one hand, and trying to take benefits away from them on the other.

Among those attending the meeting here were heads of the Police Conference of New York Inc., State Professional Firefighters Assn., Local 237 of International Brotherhood of Teamsters and the State Nurses Assn.

A short time ago, The Maryland ran an ad guaranteeing to give our agents and brokers action on their correspondence within 48 hours.

Our President said we'd reply to their claims, endorsements, renewals, or whatever, in two working days—or else. Or else we'd give them a call and tell them when they *would* receive a definite answer.

Since then, everyone at The Maryland has been making an all-out effort to live up to that guarantee, and the response has been very gratifying. Here are some of the actual comments we've had to date:



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succeeded with me." R. Fuller Johns, R. Stuart Cottrell Inc., Richmond, Va.

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editorial opinions

Open rating

THE SUBJECT of open rating will come up in New York again shortly when Benjamin Schenck, superintendent of insurance, asks the state legislature to extend for four more years an experimental open-rating law that was enacted in 1969.

Even before Mr. Schenck has formally passed his request along to the state's legislators, however, forces have begun moving to defeat it. Those against open rating argue that, with the recently passed no-fault automobile insurance bill on the books, open rating will be a "joke." Open rating, they say, will negate the savings auto insureds are supposed to realize under the no-fault system.

This may be the only possible argument that opponents of open rating have these days. In the main, the system has worked well for New York insureds. For many commercial insureds it has resulted in a reduction of premiums in some lines. In general, it has also increased capacity in the insurance marketplace by creating greater competition among insurers.

In the months ahead, we do hope that New York legislators will consider the open-rating question for its broadest implications and not solely from the viewpoint of what open rating under the no-fault law (which goes into effect next Jan. 1) will mean.

In short, New York lawmakers should keep an open mind. There is sufficient reason to believe that a compromise might even be made on the issue. Why not continue to let open rating function where it works best, while instituting prior approval in insurance lines where it might not work as well? It's a question, we think, worth pondering.

'Very peculiar'

IN A CLASSIC what's good for the goose is not good for the gander scenario—or, perhaps, what's not good for the goose is good for the gander—the State of Missouri apparently feels it can self-insure benefits for 25,000 state employees and at the same time continue to battle St. Louis-based Monsanto Corp., which has been doing essentially the same thing for almost 10 years.

The script reads something like this:

- In 1964, Monsanto begins self-insuring health insurance and is promptly sued by Missouri's insurance department, which claims the state is losing premium tax revenue and that Monsanto is running an insurance program without being a licensed insurer.

- On Jan. 4, 1973, legal delay after legal delay later, a St. Louis county circuit judge rules in favor of the state—that self-insured medical benefit programs are illegal in

Missouri. Monsanto is ordered to drop its plan. The company appeals the ruling.

- Early in March (*Business Insurance*, March 12) it is disclosed that on April 1 the State of Missouri will begin self-insuring medical benefits for 25,000 state employees.

In a statement that was almost embarrassing in tone, James Dalton, Missouri's superintendent of insurance, told this magazine: "I will admit this all seems very peculiar, but there's one major difference. The state is all-powerful internally and has the power to do whatever it wants. The state makes the laws, Monsanto doesn't. That's the difference."

Indeed it is very peculiar, and indeed there is a major difference. The State of Missouri is sovereign, after all, and it is free to legislate one thing for itself and another for businesses in the state.

At the same time, however, we do see a measure of hypocrisy here that, at the very least, could give the state more bad press than it bargained for.

For a state to deny a business the right to operate efficiently (e.g., self-insuring benefits) is one thing, but to turn around and do the same thing for itself outside of the law is another. In business circles the word gets around when a state becomes so restrictive to business and industry that it is no longer as attractive as it was.

Restricting self-insurance, of course, is not likely to affect a mass pullout of business and industry from within its boundaries. Through such behavior, however, Missouri could be taking a slice off its nose to spite its face.

Poor example

PERHAPS HIS head is a little thicker than most, but we think Secretary of Labor Peter J. Brennan was setting a poor example when he visited the site of a construction accident outside Washington, D.C., earlier this month (*Business Insurance*, March 12).

Mr. Brennan was photographed observing a collapsed building—while rescue operations were still going on, in fact. He wasn't wearing a hard hat. An Occupational Safety and Health Administration official and two construction workers along side him were, however.

To be certain, Mr. Brennan has a fine head of white hair, but we think it would have been tragic—not to mention embarrassing—had he been struck by even a small piece of flying debris.

And so, Mr. Brennan, let it be written here that thou shouldst practice what thou preacheth.



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letters

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

'Appalling' award

To the Editor: I am appalled at the award of \$4 million which was reported in a front page article in the Feb. 12 issue of *Business Insurance*.

I just cannot visualize how an award of this magnitude can be justified under any set of circumstances for any one personal injury regardless of what or whose negligence. In this case, it seems to me that it is much worse in that it is directed against a hospital and a doctor, both of whom I would presume have reasonably high professional ethics. To attach an award to a case of this kind, just seems to me to be absolutely ludicrous.

I would be interested in one other piece of information, and that is how much the lawyer who presented the case got out of it. I think that's a matter all of its own but certainly a very important factor in this expensive charge against society as a whole.

So many people seem to think that a big wealthy insurance company or group of insurers is making payments of this magnitude, but they're really kidding themselves by thinking that such payments are anything else but a built-in cost to all society for all of the things that it requires in life.

I think another shocking statistic is that on page 2 of the same issue, where the yearly claims of the Chicago Transit Authority are said to be running at \$9 million or "5% of gross revenues."

One final comment. On page 25—still the same issue—one might well change the heading "Insurance Firms Chisel Public, Attorney Claims" to read "Attorneys Chisel Public, Insurance Firms Claim" and they probably would still be expressing a truth.

The sooner we get to "no fault" in all its aspects, the better off we will be.

D. M. Stuart
Insurance Manager, Canada Packers Ltd., Toronto

Go right ahead

To the Editor: As part of our forthcoming reinsurance seminar, to be held on the University of Dallas campus, May 20 to 24, we would appreciate your permission to reproduce a Perspective article by David Warren in the Nov. 6, 1972, edition of *Business Insurance*.

The article, "Captive Insurance Company is Vehicle for Many Different Goals," is particularly relevant to one of the discussion sessions we will be holding.

Your assistance and contribution to our program will be most appreciated.

Bruce D. Evans
Assistant Professor, University of Dallas Irving, Tx.

Editor's note: Permission granted.

'Ludicrous' description

To the Editor: I find your description of the late Roberto Clemente's pension benefits (*Business Insurance*, Jan. 15) to be ludicrous. Perhaps you should publish benefit entitlements upon the death of all celebrities.

Brian R. Demsey
Amherst, N. Y.

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Predicts one million product liability suits in the United States by 1985

SAN FRANCISCO—Product liability lawsuits in the U. S., already at the half-million mark, according to Arthur Spiegelman, vp engineering and safety service, American Insurance Assn., will exceed one million a year by 1985.

"If both the public and business are to avoid such a cost-incurring, profit-crippling surge of litigation," Mr. Spiegelman told a two-day products liability seminar here, "insurance carriers must maintain leadership in the products safety field as the pendulum of consumer concern continues on its long, upward arc."

Mr. Spiegelman was one of eight insurance authorities who addressed the seminar sponsored by the AIA to review the U.S. Consumer Product Safety Act and its implications for property and liability insurers.

David E. Glass, assistant vp, Fireman's Fund American Insurance Cos., introduced the sessions as "the first on the West Coast to examine all sides of the products liability question."

IN HIS keynote address, Mr. Spiegelman said American preoccupation with product safety has "enjoyed cyclical prominence in the past, going back to public demand for safer foods and safer manufactured products and goods in the 1900s."

"However," he added, "it appears that the present consumer movement, launched in the early 1960s still may not have reached high-tide."

"The public outcry for greater protection," he said, "is bound to be with us for some time and business must act responsibly in meeting such calls for public protection."

Mr. Spiegelman and other speakers emphasized that the increasing emphasis on safety has had its effect on products liability insurers who have had to respond to a number of simultaneous factors which they described as:

- Judicial decisions, which have expanded product liability exposures through the decline of the privity rule and the movement towards strict liability in tort;

- Unprecedented technological change, which has brought forward thousands of new and untried products; earlier and more widespread public recognition of potential product hazards occurs as a result of improved communications;

- Expanding federal interest in the problem and changes in product distribution patterns, which mean that hazardous products no longer are confined to small marketing areas near manufacturers.

"THE RESULT of all of this," Mr. Spiegelman said, "has been an astronomical increase in product liability cases."

In 1963, he pointed out, there were 50,000 such cases in the U.S. In 1971, there were 500,000, while the size of individual judgments has been sharply increasing.

"The insurance industry," he insisted, "has for years been a leading force in product safety, both as sound business practice and out of social responsibility. The thrust of this insurance industry effort must maintain its momentum."

Speakers joined with Mr. Spiegelman in urging more extensive investigation of accidents to determine causes and an evaluation of product accident statistics.

ALSO PROPOSED were: more research and development of improved product standards; better interchange of product liability information which could help to bridge communications gaps between design groups, management and loss control personnel; development of product test procedures which simulate the end use of the product more accurately and also anticipates misuses; improved assistance to insureds through application of stricter loss control measures; general educational programs for the public on hazardous materials, equipment and operations; industry trade association work for greater safety, and cooperation with government.

Speakers and workshop leaders included: Roy R. Peterson, Insurance Co. of North America; Fred W. Jung, counsel, Defense Research Institute; C.P. Cairelli, product safety consultant, Hartford Insurance Group; J. Robert Adams, chief engineer, Atlantic Cos.; Edward S. Charkey, AIA product liability engineer; Terry C. Chapin, Aetna Life & Casualty, mechanical engineer; and George A. Smith, Bureau of Product Safety.

Benefits director

John T. Bell has been promoted to director of employee benefits, home office personnel department, Aetna Life & Casualty, Hartford. He has served as manager of employee benefits, since joining the firm in 1969.

New division

The Wyatt Co., an actuarial and employee benefit consulting firm, has established a property and liability risk management division. Heading the division, as director of risk management consulting services, is Warren G. Brockmeier, who moves to Wyatt from Ebasco Services where he was director-western region, risk management department. Mr. Brockmeier will be based in Wyatt's Chicago office.

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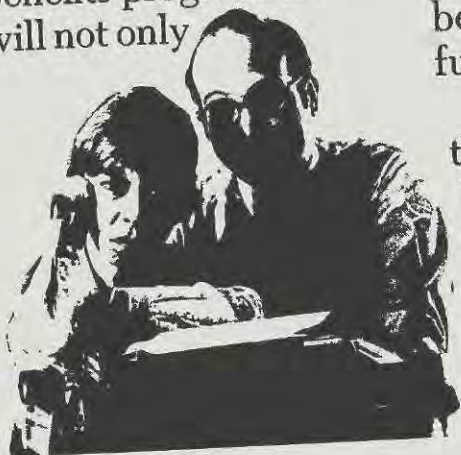
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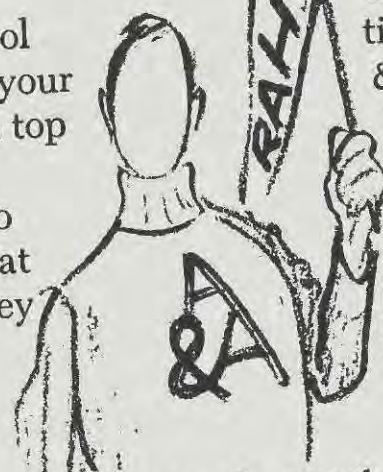
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Diversification of Textron makes life interesting for its new risk man

PROVIDENCE, R.I.—When you are responsible for the risks of a corporation that has its fingers in manufacturing pies ranging from vegetable oil crushers to eyeglasses—with a great deal in between—just what are some of the problems that would have a tendency to keep you awake at night?

"When you understand the diversification of the corporation," answered John L. Morse, the new insurance manager at Textron Inc. here, "it becomes a bit easier to understand that we have exposures of one sort or another in almost everything."

He pointed out that Textron, which had sales last year in the neighborhood of \$1.6 billion, operated 184 manufacturing plants around the world, as well as numerous warehouses and regional offices for its many divisions. Considering this, Mr. Morse said he was happy that the largest exposure in any one place, in terms of dollars, was \$60 million.

MR. MORSE, who described his responsibilities as insurance manager as "encompassing everything in the risk management area except employee benefits," had been Textron's assistant insurance manager for five of his 10 years at the company before taking the reins of the insurance department himself last month.

"I had been involved in our insurance programs all along so I certainly didn't inherit any prob-

lems that I wasn't already aware of," he told *Business Insurance*, adding that he was quite satisfied with the way things were when he took over.

"The communication between the divisions is good," he noted, "but the main thing I would like to accomplish over the next little while is beefing up communications in the foreign insurance area. We are expanding that way and I would like to combine our various exposures into blanket policies."

Textron has operations in five principal groups—consumer, aerospace, industrial, metal product and venture capital—and, of the five, Mr. Morse's greatest headaches are caused by Aero-

space and consumer.

"The consumer group is a problem because of the product liability situation," he said, noting that just some of the corporation's products included snowmobiles, chain saws and other items

corporate profile

which could be deemed hazardous. "Product liability has been a problem for us just like it has for everyone else. The scene keeps changing and all you can do is

try to keep up."

He mentioned aerospace as a problem area for one specific reason—Textron's Bell Aerospace division is working on the air cushion vehicle concept.

"This is a whole new thing to insurance underwriters," Mr. Morse commented. "It's a very unique product (it can haul freight or passengers over land, water, ice or snow) and, because of this, the insurance markets are quite limited. The problem is one of getting insurers oriented to the air cushion vehicle because we believe that it is the basis of the future Navy."

The company has sold one such vehicle to Canada and is holding on to another.

MR. MORSE considered himself somewhat lucky in that there was no shock attendant to the transition from assistant insurance manager to the head man.

"The transition was very grad-

ual," he said, "and I credit my predecessor, George Long, for its success. He retired after 27 years here and, as retirement approached, he slowly phased himself out and I phased myself in. It took about a year."

Looking to the future, Mr. Morse noted that there was a pending acquisition on the horizon which could have a marked effect on his department.

"We're going to buy the Security Corp., a Hartford-based insurance group," he said. "This is bound to have some kind of effect on the way we do things but we'll have to wait and see whether Security becomes a viable market for our coverages. Right now, I really don't know."

Mr. Morse, who joined Textron after a stint as casualty underwriter and account executive at a brokerage house here, is vp of the Central Massachusetts chapter of the American Society of Insurance Management.

Charge judge with union funds fraud

NEW YORK—Retired State Supreme Court judge David L. Malbin, the chief clerk of the court's criminal term, and 28 officers and trustees of the International Production, Service and Sales Employees Union have been charged with fraud for using union funds for their own entertainment purposes.

It was reported that more than \$50,000 from the union's welfare fund was used for expenditures by the defendants for annual conventions in Miami, Kiamesha Lake and Honolulu. Included in the tally were travel expenses, rented cars, entertainment and liquor, all drawn from accounts maintained by the international and its six locals.

As of February, 1971, the international's welfare fund totaled almost \$4 million and the combined receipts of the international and the locals exceeded more than \$1 million per year, according to Labor department sources.

Strike-force lawyer, James O. Druker, contended that the defendants stand in violation of the Landrum-Griffin Act and the Labor Management Reporting & Disclosure Act. The defendants have "embezzled, conspired, or aided and abetted in spending large sums" at three conventions, the attorney said.

The union, with headquarters in Brooklyn, has an estimated membership of 20,000 persons living in the Greater New York area. Members provide a variety of services to manufacturers, tire suppliers, zipper makers, Chinese food distributors and metal-products companies.



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Over 49 million Americans now protected by pension programs

NEW YORK—Private and government-administered pension plans covered more than 49 million working persons in the United States at the beginning of last year, according to figures released by the Institute of Life Insurance here.

The institute pointed out that the tally does not include close to one million dependents or survivors of deceased workers receiving benefits from the various plans nor are the huge number of workers who will one day qualify for benefits under the plans when they reach required age and length of service levels counted in the total.

The number of employees covered by all types of plans, ex-

cluding Social Security (which also covered the majority of the 49 million), showed a gain of 3.2%, or 1.5 million, during 1971. Insured funds showed the largest increase, 4.6%, while non-insured private plans gained 2.5%.

The government-administered plans managed to gain 3.4% during the year even though the railroad retirement plan registered a decrease in both the number of active workers and number receiving pensions.

PRIVATE PLANS exhibited the largest increase in the number of retired employees receiving benefits and benefit payments. 1971 saw the private plans pay nearly \$8.4 billion to over 3.2

million retirees. During the same period, close to 2.4 million retirees received \$7 billion from the government-administered plans.

Social Security (Old Age, Survivors and Disability Insurance) benefits amounting to \$24.6 billion were paid to some 15.6 million retired persons during the year. These Social Security benefits went to a higher percentage of retirees also receiving private pension benefits than to government pensioners.

The total of benefits paid during 1971, according to the institute, was \$40 billion, compared with \$13 billion just 10 years earlier. The figures showed that private plan payments had jumped 4.3 times during the 10-

year period, while government and Social Security payments had both increased 2.9 times.

The institute said that private plans held assets and reserves of \$152.8 billion at the start of 1972. Of that total, \$106.4 billion was held by non-insured plans and \$46.4 billion was in the hands of life insurance companies. Government-administered plans had more than \$84.9 billion in assets while the OASDI trusts held \$40.4 billion.

Employers contributed nearly 90% of the \$16.9 billion paid into the private plans in 1971. The government-administered plans received \$13.4 billion in payments during the year, 55% of it contributed by railroads and government branches. Social Security taxes amounted to \$38.3 billion, with the payments divided almost equally between employers and employees, except where self-employed individuals were concerned. ■

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following the funds

Pension reform spurned by unions; proposals would ban bargaining

ALBANY—In an angry confrontation in the state senate and assembly here, it's union leaders versus reform legislators in a verbal shoot-out over the proposed overhaul of public employee pension systems.

Being gunned down are the recommendations of the state commission on public employee pension and retirement systems, which advised the cutback of benefits paid to all public employees hired after July 1, 1973. Workers hired before that date would continue to receive their

current benefits, because the state constitution says that a benefit, once granted, cannot be reduced.

"So the state proposes to create two classes of workers," charged Theodore Wenzl, president of the Civil Service Employees Assn., which represents some 200,000 workers.

At a series of closed meetings with key lawmakers, the pension reform's chief opponent, John J. DeLury, head of a coalition of civil service unions, brought in his own team of pension experts

to do battle with the state commission's findings.

The union experts under Mr. DeLury's wing argued that the proposals to shut down the old pension systems after June 30 and to begin new, lower-benefit systems would create "chaos" in the ranks of public employees.

"Chaos" is an old and familiar war cry in the whole public pension fray. When the state commission, headed by Otto Kinzel, first unveiled its recommendations (*Business Insurance*, Feb. 12), it announced that they were de-

signed to cut back on the "chaos" rampant in city public pensions.

But in the furor that has ensued, little chaos seems to have been reduced, although the chances for intact passage of the pension reform seem dimmer and slimmer than ever.

"It has no chance in its present form," according to Richard E. Schermerhorn, chairman of the senate's committee on civil service pensions. Mr. Schermerhorn, who has come under stiff union fire for his position supporting some of the plan's major changes, says his committee, as well as the assembly's, backs reform in order to cut down on abuses in the current system.

UNDER THE hotly-debated commission recommendations, public employee unions would be prohibited from bargaining for pensions in their contract negotiations. It is this provision that has union leaders up in arms.

But while union representatives contend that the pension reforms are unthinkable, the reform proponents are just as adamant in pointing out that the spiraling pension costs must be curbed. Pension costs now eat up 22.5% of public payroll as opposed to 5.5% in private industry, and the annual amount needed to support pensions by 1980 at the same level is an estimated \$5 billion.

State Sen. Jeremiah Bloom (D.-Brooklyn) says that most of the legislators "do not understand the technicalities and nuances of the fiscal impact public employee pensions have." He has asked Lt. Governor Malcolm Wilson and State Controller Arthur Levitt to explain the projected costs at private meetings of the Democratic senate and assembly conferences, so that the lawmakers can understand what they are voting on.

Meanwhile, the Civil Service Employees Assn. has a blueprint for a kind of political gambit that they hope will really help the lawmakers to "understand" how to vote. They plan to raise a \$2 million fund to campaign in 1973 against any legislator who supports the state commission's recommendations on reform. ■

House urged to protect profit sharing

WASHINGTON—Pointing to what they considered the strong distinctions between pension plans and profit-sharing retirement plans, spokesmen for profit-sharing oriented companies asked a House subcommittee to amend pending legislation so that profit-sharing plans may still invest in stock in their own companies.

One of the spokesman, Arthur M. Wood, chairman of Sears, Roebuck & Co., expressed the view that legislation should make it absolutely clear that profit-sharing funds will be able to keep investing in company stock so that employees will still have a stake in the ownership of their company.

He used his own company's profit-sharing plan as an example of "motivation inspired through part ownership of the business."

ANOTHER company chairman, Raymond H. Giesecke, of McGraw-Edison Co., concurred, saying that the Senate pension reform provisions do not limit investment by profit-sharing, stock bonus, savings or thrift plans in the company's own stock, whereas a regular pension plan would be prohibited from such investments. He stated that the House should look in the same direction.

In this case, however, he admitted that closely-held family corporations should not be allowed to begin profit-sharing funds because there was no ready market for the stock.

"We recognize that where legislation requiring vesting, funding and, possibly, reinsuring a fixed pension benefit is being considered," Mr. Giesecke commented, "a logical corollary would be to require some regulation of the investment of retirement funds."

"We do not believe, however," he continued, "that the same considerations which lead to regulations of pension funds necessarily apply to the case of retirement plans which are funded through profit sharing." ■

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PERSPECTIVE



BY MARSHALL W. REAVIS
Professor of business administration,
Governors State University,
Park Forest South, Ill.

This is the second of three articles on practical areas of risk management. The first (Jan. 29) dealt with the importance of real estate record keeping.

NO FIRM CAN fully grasp the possibility that it will face a crisis any more than an individual can conceive that in the near future he may face death, a lingering illness or an accident. For this reason, many firms have no pre-established plan for facing crises, whether a man-made or natural disaster. An immediate reaction to this statement by most risk managers might be, "What do I have to do with public relations? My job is to protect the company assets from loss and to collect, if possible, from responsible parties who damage, destroy or set claim to these assets."

However, if one seriously considers the problem, he will recognize that the activities of the firm during a disaster or immediately following one can have a long-term effect on not only the image of the firm but also upon the size and type of claims which develop. Taking this more expansive view, one can see that the role of the risk manager in disaster public relations work becomes increasingly vital.

Also, if we look at that segment of risk managers to whom these articles are directed, the one-man shops in the corporations of \$50 million to \$400 million in sales, we will probably find that the company does not have a full-time public relations man. However, if they do and if the risk manager contacts him about an emergency plan, he may be told it has low priority. The risk manager, therefore, once again finds an opportune time to prepare materials for use by top management and, as a result, increases his own stature. One note of caution: If there is a public relations man, he should be involved in approval of the final plans. Also, the risk manager may find it tactful to yield some of the authorship to the public relations manager.

THE NEED for a formal disaster plan is obvious. Take, for example, three recent transportation losses which occurred in the Chicago area.

During the first disaster, a great deal of radio and television coverage was given to the loss which occurred early in the day. It quickly became apparent that lives were lost in the accident, but the media only speculated. Finally, a company representative was interviewed and made the statement that they could not release names until a committee met to determine

Don't wait until disaster hits—develop emergency plans now

"... recognize that the activities of the firm during a disaster or immediately following one can have a long-term effect on not only the image of the firm but also upon the size and type of claims which develop."

how it was going to be handled. A feeling of ineptness developed about the firm following that statement and continued throughout the day.

The second loss was handled completely differently. A representative of the firm announced that disaster headquarters had been established both on-site and in downtown Chicago, and full disclosure of all individuals involved was made quickly to the press. A pre-planned operation was obviously in operation.

The third loss, however, yielded yet another image, a near reversal of the second. Immediately following the disaster, the firm on whose equipment deaths had occurred placed a blanket of silence on the details. All future operations for the day were cancelled and the injured parties and their relatives were segregated from the press. At that point, newsmen proceeded to have a field day discussing what could have happened, what must have happened, and what they assumed did happen to cause the loss.

Many individuals far removed from the

loss were interviewed and this added to the speculation. Many conjectures were made as to just what facts the company involved must be hiding, and this reaction by the media created an unfortunate set of circumstances which could have had an adverse effect on the firm at the time of loss as well as in the future when expected litigation begins.

THESE THREE incidents demonstrate that the actions taken by a company during a disaster are subject to public interpretation of lasting consequence.

In any disaster the firm is faced with deciding what type of a public relations policy should be established as well as what procedures to invoke for dealing with various communications media. But the time of loss is not the time to call a meeting to set up these procedures. Planning must be done in the clear light of day without the frustrating pressures of crisis. A pre-established plan can be very important, particularly in the event that serious legal questions could develop in

the future. To prevent such a void in management planning, the risk manager must see to it that a disaster control program is established within his firm.

Because a firm today may have several locations, each with different operations, a policy should be established which is either specific for each location or flexible enough to be adapted to several units. Once developed, the program should be reviewed with unit managers so that the reasoning behind the plan can be spelled out and the recommendations of the local managers reviewed. These plans can then be published and retained by the units, subject to annual review and update.

Some action was taken in this area soon after the urban riots of the late 1960s. A number of seminars and workshops were held on what to do in the event of a riot. The general purpose of these sessions was to gather background knowledge for the participating firm with an emphasis on preparedness. As a result, many companies did establish riot-protection procedures.

Continued on following page

Change to four-day work week must be on widespread basis



BY BION FRANCIS
Insurance consultant, Milford, Ct.

This article is the third of a four-part series on the four-day week (previous articles ran in Business Insurance Jan. 29 and Feb. 26). The fourth article in the series will deal with the need for continuing education and how the four-day work week can help meet that need.

"The change, then, if there is to be one, should preferably be on a broad, popular level, spearheaded by a substantial segment of the national economy."

OUR PRODUCTIVITY has doubled in the period since 1950. Our mounting problems of ecology and energy shortages seem to indicate that rising productivity should be used at least in part to shorten the work week. Despite this, the last 20 years have seen practically no decrease in the average number of hours worked each week.

Why has there been so little activity in this direction?

Some light is thrown on the situation by the experience of a magazine which tried out the four-day week. However, most of the magazine's material was drawn from business and financial sources, and as long as these sources worked on a five-day week basis, the magazine soon found that out that it had to do likewise.

THIS example indicates that the change-over would be difficult for a single company which had to adapt itself to suppliers and customers. The change, then, if there is to be one, should preferably be on a

broad, popular level, spearheaded by a substantial segment of the national economy.

Timing, though, is important. In the change from a six-day week to a five-day week, a world war, a great depression, and a sharp rise in productivity all played major roles.

THE PROBLEM involved is how to make one big change possible (from the five-day week to the four-day week) through a number of small changes (the increase in productivity each year for a number of years). Some figures may clarify the problem. Our disposable net income per capita was \$1,657 in 1951 and was \$2,679 in 1971, an increase of 62%. Throughout this period, the average work week remained at approximately 40 hours. If disposable income had remained unchanged, and if the work week had been reduced to 32 hours (four eight-hour days), the change in the hours of work

Continued on following page

business insurance

PERSPECTIVE

Disaster...

Continued from preceding page

dures for their personnel. These have probably gathered dust by now, but they are excellent resource material for establishing a disaster control plan.

The business community is always subject to natural disasters and other massive disruptions in various parts of the world. Because a crisis may strike at a distant location, the company headquarters may not know what has happened to its facility or personnel for some period of time. Disaster reporting then becomes very important and must be built into the over-all disaster plan. A program of to whom and how often to report must be spelled out clearly because communications can generally be sent out of a disaster area with greater assurance that they will be received than messages coming into the disaster zone. One firm chose to have local managers report to the home office on an every-four-hour basis until the crisis passed or until adequate communications were established.

AN IMPORTANT first step in establishing the disaster plan is to identify a control center and a plan for continuity of management leadership. In other words, someone at a specific place must always be in a position to make final decisions for the firm. This person must also know to whom to pass information within the company and to whom to assign duties. A secondary control center location should also be named in the plan so that personnel can report there if they cannot get to the main center.

It is not unusual for a manager to assign these duties to one of his staff members when he is on vacation but an effective program requires this responsibility be passed on whenever he is out of town, and on evenings or weekends when he is not available.

Establishing what is to be covered by the disaster control plan is also important to the firm. Some situations such as physical loss of facilities, natural disasters and riots lend themselves to such plans. However, there are other events to which

firms react with little or no coordination. As an example, one firm, which had grown rapidly from a regional organization to a large multinational company, experienced its first employee fatality overseas in an aircraft accident.

SEVERAL departments pulled in several directions as personnel, legal, insurance and international all sought to do what they thought best. As a result it was several days before the widow was contacted and weeks before any funds were made available to her. Therefore, another major point in the disaster control plan is to include steps which can apply to those unusual situations a company could encounter.

Individuals who are named as eligible to manage the disaster control center

"... employees are well-trained for various kinds of crises, but the training is useless if they cannot be reached at the time of a disastrous occurrence."

should always have in their possession the disaster control manual. It is advisable to have one copy at home as well as one in the office. Of utmost importance is the inclusion of an up-to-date home and office telephone list including addresses for all key personnel.

In many industries, employees are well-trained for various kinds of crises, but the training is useless if they cannot be reached at the time of a disastrous occurrence. A system of a radio announcements or a telephone pyramid may be used to get employees to return to work. In some small-town situations, a mutual aid plan may be worked out with other companies and some system such as a special signal on the fire siren could be utilized. The drill and training of these employees should also include instruction on how to conduct themselves with reporters and cameramen.

Other areas of importance for the control team include a checklist on personnel and materials. Here, department heads

would be given the responsibility to report this data to the control center so that information can be passed along to the press.

Additional input to the control center is necessary on what processes, if any, are shut down, the status of raw material shipments, extent of damage to finished goods, facilities lost and other related areas because customers, suppliers and employees will soon seek this information from the firm. Department heads in production, shipping, and purchasing should have checklists prepared and be aware of what information the management control center needs.

There should also be a program to beef-up security and to shift key personnel as needed. Mutual aid agreements may be worked out with other firms to handle

such items as data processing and even production. These plans should be in writing and known to the control team.

Insurance carriers may be involved immediately and may even be a source of expertise needed at the disaster site. In any case, the disaster manual should contain information on how to obtain emergency equipment and machinery and experts.

FINALLY, the organization of the control center should make certain that there are adequate facilities for the media. It may be that the press center should be located away from the control center so that activities cannot be monitored. Nevertheless, frequent reports and prompt decisions must be made to insure that the actions and intent of the company are not misinterpreted. A room should be set aside as press headquarters with one or more of the corporate personnel assigned full-time to the task of assisting the press. Adequate clerical and telephone facilities

should be provided at the press center. From this location there should be a plan for transporting newsmen and photographers to the scene.

TO REDUCE confusion, all information should be released through one person. It is advisable to keep the media informed of what has happened and what is being done as quickly as possible, so that insinuations won't be printed.

If, for some reason—particularly safety reasons—the press cannot enter the disaster area, an interview should be set up with someone who has been at the scene. Release as soon as possible the names of the dead and injured, possible cause of the disaster and other key information. It is of utmost importance, however, that relatives be notified before the names of the dead are released to the press.

Once a disaster program has been developed it should be reviewed regularly with members of top management, with unit heads, with functional executives and with personnel in the field. Assignments should be made and should be made known when there are personnel changes.

A risk manager might review the details of the disaster control plan such as that discussed here and ask, "Why me? Why should this be my concern? Shouldn't personnel or production establish the procedures? Why shouldn't public relations develop the plan?"

The risk manager is disaster oriented. He must constantly imagine the worst, and it behooves him to initiate setting up such a plan. If he wants to establish his position in the firm, he will go ahead and take the steps necessary to assemble this information and set up a strong program. He should remember that if there is a loss and if the claims against the corporation are substantial, it is not going to be the personnel manager, nor is it going to be the public relations manager, that has to answer to management if claims exceed insurance coverage. It's going to be the risk manager. Therefore a disaster plan is one true risk control approach—stepping in to assist others in reducing risks prior to the time of loss. ■

Mr. Reavis is university professor of business administration at Governors State University, Park Forest South, Ill., and had had extensive risk management and insurance experience. He holds an AB and MBA from Indiana University and is currently a candidate for a PhD in business at the University of Georgia. A former corporate risk manager for Baxter Laboratories, he holds the CPCU designation and is currently working toward the CLU designation.

Four-day...

Continued from preceding page

would have been equivalent to an increase of 20% in income.

But per capita income actually increased more than 60%. A 20% increase would have been enough to finance the change to a four-day week, while the remaining 40% increase in disposable income would have been used for an increase of 40% in the standard of living.

This is what could have been. In actuality, despite the increase in productivity during this period, there was no change in the length of the work week. Instead, during the 20 years from 1951 to 1971, per capita income increased by more than 3% a year. Suppose that the entire increase for any year had been used to finance a decrease in the work week. The decrease in the work week which could have been obtained in this manner would have been about an hour a week. With a one-hour decrease in the work week, the average employee would have considered that he was still working a five-day week. Psychologically, the change would accomplish little in improved employee relationships, and the average employee would probably demand more money instead.

It is interesting to consider that part of this change has already been met by recent legislation. We now have five

Monday legal holidays. In transferring these holidays to Mondays, the federal government, in effect, created five four-day weeks throughout the year. We might say that the government has taken care of one-tenth of the problem of creating the four-day week. In fact the government may have done more than that by creating something we can build on.

SUPPOSE we add seven more Monday holidays. These seven Mondays, together with the five Monday holidays which we now have, would mean that we would then have twelve four-day work weeks and twelve three-day Monday weekends throughout the year.

What would this cost? It would cost 2.8% of payroll, or slightly less than the 3% of payroll which we just said would not be effective.

If we did this, we would have to be careful not to say that we had a four-day week, or a three day week-end each month, for two of our present five Monday holidays fall in the same month (Columbus Day and Veterans Day in October). In order to have a four-day week in each month, we would have to supplement our present five Monday holidays by eight new Monday holidays, rather than by seven, and this would increase the cost from 2.8% of payroll to 3.2%.

While we are considering these alternatives and their cost, there is another option we should look at. The proposed

three-day weekends would have more value if they fell on a fixed weekend each month. Suppose, when we referred to the holiday of the "first Mondays," we were referring to a three day weekend ending on the first Monday of each month. This would give us a simplified holiday and vacation structure on which we could build still more easily.

But only one of our present five Monday holidays could be used for this, so it would require the addition of 11 new Monday holidays, which would raise the cost by 4.4% of payroll.

Of our five present Monday holidays, four would fall outside the period of the "first Mondays," which would mean that under this arrangement, we would have 16 three-day weekends throughout the year.

SUCH A system would have many advantages. A four-day week, with its accompanying three-day vacation once a month, would give a psychological boost of value to employee-employer relationships. Many of the major union contracts run for three-year periods. During a three-year contract, it would be practicable, if desired, to add another four-day week, once a month. The cost of adding the holiday of the "second Monday" each month would be 4.4% of payroll, or 4.8%, depending on whether one of the present five Monday holidays is available to be used.

If the purpose of vacation is to keep employees rested and to improve their efficiency, would a once-a-year vacation be more effective for this, or a three-day weekend 12 times a year? (or 24 times, or—ultimately—52 times a year?) I'll leave the answer to you.

A study of the change from the five-and-a-half to the five-day week indicates that the companies which led the way may have done so in large part because of very specific advantages—the pick of the labor market, a reduction in turnover and absenteeism and increased productivity. It is difficult to put figures to these variables and I have not tried. But the first companies to adopt the plan of the "first Monday" holidays may find the advantages such that they can establish it on a 52-week-a-year basis, perhaps with an intermediate step first at four-and-a-half days.

You may object that all this does nothing more than deal with the mechanics of the four-day week, and that the real accomplishment is the rise in productivity which makes possible this increase in leisure. This is perfectly correct, but, as the last 20 years have shown, the increase in leisure is not automatic and the mechanics of the problem must be worked out somehow.

And there may be important reasons why we should do it promptly. We'll discuss that aspect in the next article of this series. ■

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Workmen's comp coverage called 'bargain'

COLUMBIA, S.C.—Calling workmen's compensation "one of the biggest insurance bargains available," a Liberty Mutual Insurance Co. executive told an audience here that costs for this type of coverage have been kept to about 1% of payroll despite rising costs of other employer benefit expenses.

Bryce D. McFall, vp and manager of business sales for Liberty Mutual, dug into the workmen's compensation subject at an insurance forum held earlier this month at the University of South Carolina.

Mr. McFall told participants that, while an insurer has a basic concern with service to people, it must also "work diligently in its own and the policyholders' behalf to reduce the extent and cost of

disability—and thereby lessen the financial loss."

Pointing out that the industry's 60 years of experience in the science of loss prevention and claims is more valuable than ever, the Boston-based executive charged insurers with the responsibility of going beyond payment of benefits and damages to the higher goal of protecting, preserving and restoring. He named loss prevention, preventive research, disability control, pre-accident control, treatment control, rehabilitation and job placement as some of the more vital concerns in achieving this goal.

CALLING LOSS prevention "one of the great contributions of private insurance to the American business community," Mr. McFall

pointed out that the industry now employs over 6,500 full-time personnel in occupational and health services, whose primary function should be to provide loss-control consulting services to policyholders.

HE STRESSED the importance of preventive research to deal with problems like highway safety, air and water pollution, chemical hygiene and environmental problems, and he cited a Liberty Mutual research center in Massachusetts as an example of how underwriters could assemble an interdisciplinary staff of scientists and engineers to deal preventively with a broad spectrum of problems affecting the American worker.

"The concept of workmen's compensation insurance is based

on a common concern for human need," Mr. McFall stated, "the need of the worker in the face of occupational disability and disease."

In line with this concept, Mr. McFall feels that disability control, encompassing pre-accident and treatment control, should be a venture of insurers.

THE EMPLOYER ideally will be helped in pre-accident control by the insurer to identify exposures and to select a physician to match the hazards, Mr. McFall told the forum. If the employer's exposures run toward chemical burns, for instance, his medical care needs will be quite different from those of an employer whose biggest hazard is back injuries from the handling of heavy ma-

terials.

In treatment control, an insurer's representative makes sure that the attending physician is aware of the patient's specialized job requirements. The physician may be asked to estimate a date when the employee will be ready to return to work, the theory being that return to work is often the best possible therapy.

One novel aspect of return to work "therapy" is what Mr. McFall called the "never on Monday" approach. He explains it as follows: "We feel that the return day should, if possible, be a Thursday or Friday . . . It benefits the employee in two ways: he



Bryce D. McFall

works a day or two to get back into the swing of the job and then has the weekend to rest before tackling a full work week. And he usually earns more for those days than his compensation benefits would pay. It also benefits the employer because he saves four days compensation payments."

FOR VICTIMS of tragic injuries, Mr. McFall indicated that the insurer's efforts should be aimed at providing rehabilitation and job placement. Someone capable of guiding the entire recovery period, a rehabilitation nurse, for example, should be employed to cooperate with the attending physician in bringing the patient to full restoration, the executive advised.

As for the future of workmen's compensation, Mr. McFall said that the report of the National Commission on State Workmen's Compensation and the reform efforts that will be made by business, industrial groups, insurers and regulators will serve to create a more equitable system for the worker, with a "massive effort" due on the part of business and industry to keep up with OSHA requirements for a safe working environment. ■

Work comp legislation

The Oregon legislature has received a package of bills on workmen's compensation introduced by the senate labor committee. Senate bill 223 would increase the maximum benefit for temporary total and permanent total disability to two-thirds of the average weekly industrial wage in the state and increase minimum benefits to \$75 a week for temporary total disability and \$65 a week for permanent total disability. Elimination of review of workmen's compensation cases by the workmen's compensation board is provided in SB 234, which also would restore jury trials in such cases heard in circuit court.



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Senate hearings to focus on group life policies

WASHINGTON—Senate anti-trust subcommittee hearings on life insurance pricing so far have produced appeals for federal regulation, suggestions that the states should act and contentions that the industry's current methods of informing buyers is adequate.

Sen. Philip A. Hart (D-Mi.), subcommittee chairman, said he would decide whether legislation should be introduced after further hearings late next month or in May. The upcoming sessions will focus more on the industry side of the question than those just completed, and, according to the subcommittee's chief staff member,

group term life insurance could become a more significant part of the picture.

"What we haven't had yet are comparisons to show us the differences between treatment of groups and individuals," the staffer said. "Of course, we already know that there's usually competitive bidding and a company specialist involved in group term purchases. We don't know whether people involved in group policies with savings provisions get any better breakdown of prices than individuals with private policies."

THUS FAR, the hearings have dealt primarily with cash value policies purchased by individual consumers and what Sen. Hart thinks may be a need for a measure requiring a premium break-

down. As aides have said, the main purpose of the hearings is to determine if a "truth in life insurance" bill is needed.

Witnesses favoring regulation or federal standards included—some-what surprisingly for those not previously acquainted with his views—New Hampshire Insurance Commissioner John A. Durkin. There is "tight regulation for solvency," said Mr. Durkin, but "none for price. Companies are free to charge whatever they wish and hide it in a profusion of complicated configurations of policy provisions and benefits."

Mr. Durkin said the main competition in the industry is a battle among giant companies to see who can "erect the tallest glass office building" and between agents who earn initial commissions exceeding first-year premiums on certain

policies.

Without some sort of "federal encouragement," said Mr. Durkin, effective regulation of life insurance pricing is only "a pious wish."

Virginia Knauer, President Nixon's consumer affairs adviser, said she would rather see the states act, contending that federal legislation would be "premature." She was critical of what she said was industry unwillingness to provide "meaningful" cost comparisons on cash value policies.

An industry representative, Edwin Matz of the American Life Insurance Assn., defended the traditional "net cost" pricing disclosure method as giving buyers "accurate information on premiums, dividends and cash values." Mrs. Knauer had described as "discredited" the net cost method of com-

paring outlays for premiums and returns from dividends without noting the time at which each was made.

Uninsured employer

The first workmen's compensation benefit ever paid to an injured worker whose employer did not carry the insurance, in violation of California law, has gone to Harry L. Barron, Petaluma, Ca. A check for \$109.28 in temporary disability benefits was sent Mr. Barron by the department of industrial relations uninsured employers fund. He received the payment for medical bills and unemployment benefits after he suffered burns on his left hand and wrist while a cook at a San Francisco restaurant which was not covered.

Barrett found guilty of mail fraud

CHICAGO—Edward J. Barrett, Cook County clerk, has been found guilty of mail fraud in federal district court here for accepting rebates from Arthur J. Gallagher and Co. for placing insurance coverage on the county's voting machines (*Business Insurance*, Oct. 9, 1972).

The 72-year-old politician was also found guilty of tax evasion and interstate bribery for receiving kickbacks on the purchase of the machines from the Shoup Voting Machine Co. of Bala-Cynwyd, Pa.

According to Thomas A. Foran, Mr. Barrett's defense attorney, the case will be appealed. Robert E. Gallagher, president of the brokerage firm, told this magazine, "I don't care to comment on the case, particularly since it is up for appeal."

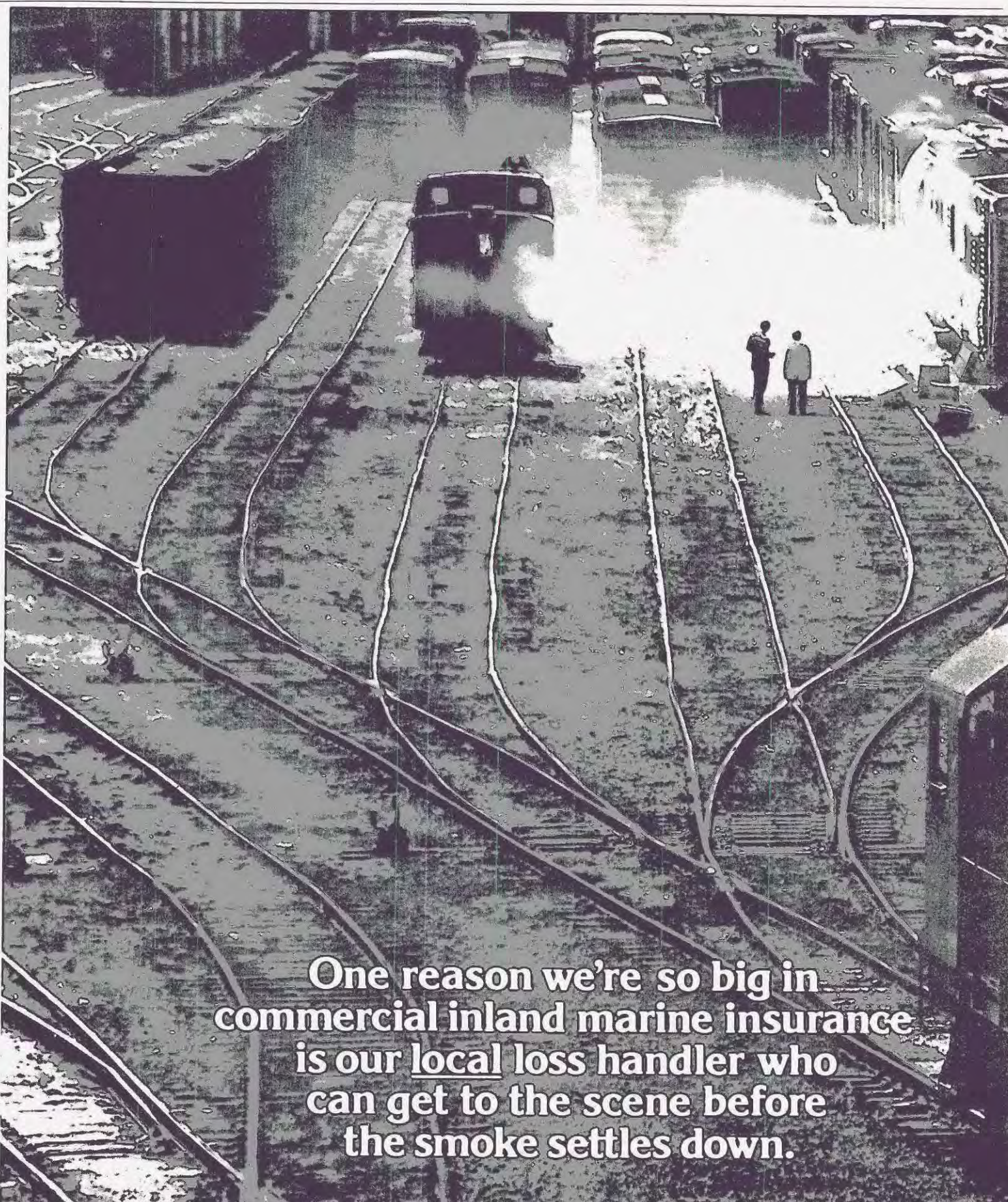
Overshadowing the insurance aspects of the case were the interstate bribery charges and testimony of the government's star witness, Irving H. Meyers, of the voting machine firm. Nonetheless, the word is out in both government and insurance circles here that, from now on, the spotlight of federal prosecution will be focused on similar insurance situations involving Chicago politicians and their brokering activities.

THE FACT that Mr. Barrett received approximately \$6,000 over a four-year period for placing insurance through the Gallagher firm—and receiving checks through the mails—was never denied by the defense. What became the central issue, however, was whether Mr. Barrett, as a public servant whose job was to purchase voting machine coverage, could do so and continue to receive a broker's fee outside his county clerk's salary.

The jury unanimously agreed he couldn't, although the defense argued that many politicians run insurance brokerage businesses on the side. (*Business Insurance*, Feb. 26.)

That fact, it seems, has come to the attention of James R. Thompson, U.S. attorney here, who stated: "If any of them (local politician-brokers) are engaged in the same kind of conflict of interest situation that Barrett was, we'll take suitable action if we find them."

Prosecuting attorney Sheldon Davidson, head of the Justice department's strike force here, noted that Mr. Barrett's insurance rebate convictions "are the first of their kind" in federal courts.



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labor beat

500,000 rail workers win pension improvements by show of strength

By TOM WALSH

WASHINGTON—The half-million workers who keep what's left of this nation's railroads operating won their contract battle, it seems, simply by showing management they were willing to fight.

The 15 unions representing the workers have tentatively settled on a wage and fringe package which increases present compensation by 10.7% over the 18 months beginning July 1. Direct

wage hikes amount only to 4%, a figure which should successfully avoid the wrath of Washington's economic bureaucrats and might, just maybe, earn their praise. The bulk of the improvement will be granted through yet another rejuggling of the oft-amended Railroad Retirement System, the major rallying issue behind workers' demands and an area sheltered from the clutches of Phase Three.

The agreement, victorious union strategists are quick to note,

is contingent upon grass-roots approval and an omnipotent okay from Congress, but union sources say both are little more than formalities. The workers are happy to have won what they've been after for a long while, and the legislators, it seems, are basking in the assurance that strikes can be avoided and that at least a half-million of the 4.7 million workers due to renegotiate contracts this year are happy with the outcome.

Under the new settlement, the

carriers, after Oct. 1, will make up the difference between the tax demands of the Railroad Retirement System and the Social Security system. The railroad system delivers higher benefits than Social Security, but at a higher tax cost. Rail workers are paying 10.6% on the first \$900 of their monthly earnings, while workers in all other industries are paying a Social Security rate of 5.85% on the first \$10,880 earned annually. With the carriers now assuming the difference, workers who contribute the maximum amount will find an additional \$42.75 monthly in paychecks received this fall.

THE SETTLEMENT also dictates that the carriers will finance pension increases now provided on a temporary basis by the government and legislated to end on June 30. Under the first scheduled increase, employer contributions to the retirement fund will increase to \$47.50 on Jan. 1,

1974.

The law under which the government provided temporary funding also included a June 30 deadline for restructuring of the Railroad Retirement System, but the new agreement asks Congress to extend the deadline over the life of the settlement to provide for further huddles between labor and management.

The new agreement does not include any changes in vacation schedules, but does provide for amendments in the workers' medical coverage. Major medical benefits under a policy underwritten by Travelers Insurance Co. will be increased from \$50,000 to \$250,000, effective July 1. Management will again meet the costs, which union sources estimate to be \$13.92 per month for each of the 500,000 workers.

The new contract also adopts a 30-and-out retirement base that allows workers to retire at age 60 without any annuity penalty. Under present contract terms, only women are eligible for such a retirement option.

IT SEEMS the rail workers have taken home all the spoils of battle without shedding a drop of blood, and, most amazingly, have done so more than three months before the contract expiration date. Their secret, they contend, is in their organization and the ability of their workers to convince management that their demand for pension payment relief was indeed a demand and not merely a wish.

A series of 100 meetings on proposed pension reform were conducted by the unions throughout the country, and the thousands of workers who were concerned enough to find time to attend them apparently represented an army of anger sizeable enough to ward off any hard-line refusals by the somewhat less-than-solvent railroad barons.

"Let me put it this way," one rail union source said. "When you can get 1,000 people to show up at a meeting at 7 p.m. in a gymnasium in Altoona, Pa., you know there's pretty strong sentiment about this pension issue. I think this kind of fantastic grass-roots support just made management, Congress and the union leadership realize just what a crucial factor in the settlement this issue really was. The tax burden has been growing gradually but steadily, and it just had to end."

How the nation's teetering railroad system will absorb the financial burdens of the new contract remains to be seen. While some lines have already projected rate increases, some well-polished cynics are calling the settlement another aid to the railroads in undermining themselves to a point where Congress can be arm-twisted into paying their debts and relieving them of the modern-day headaches inherent in the care and feeding of the 1970s rusting Iron Horse. ■

Crop insurer in black

The Manitoba Crop Insurance Corp. says that the total number of acres protected by its crop coverage was up 41.4% last year even though the number of farmers in the province who had the coverage dropped 3.2%. The crop insurance company ended last year with a surplus of \$1.5 million, perhaps because the number of crop insurance claims was the lowest since 1967. The year before last the insurer showed a deficit of \$310,000. At the same time, the hail insurance program also ended with a surplus, \$164,000 worth, as opposed to the previous year's \$21,000 deficit.



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S & H...

Continued from page 3

a new angle on workmen's compensation is being tested—quite successfully under Mr. Cherry's watchful eye.

"Effective January 1, we went to self-insured workmen's compensation for Bigelow-Sanford in South Carolina and Georgia," he revealed.

THIS DECISION was dictated not by any shortcomings or criticism of Liberty Mutual, which formerly handled the workmen's comp there, but by the fact that, with a self-insured plan, we would have the use of our own money," he explained.

"Bayly, Martin & Fay (S&H's wholly-owned insurance broker) in Atlanta manage the program, and provide claims-handling and engineering services. After only three months we are already

very pleased with the way it's working out. There'll be a formal evaluation in May, and, on June 1, we are seriously considering extending the self-insured workmen's compensation to all facilities in the Carolinas, Georgia, Tennessee and Virginia," he remarked.

"The big thing you have to look for in a self-insured plan like this," Mr. Cherry said, "is that your service organization (in this case, Bayly, Martin & Fay) can provide the safety engineering so important in OSHA regulations and a good claims handling service."

The majority of S&H's non-self-insured workmen's compensation is written on a retrospective basis by the Home Insurance Co. Two subsidiaries use Employers Mutual Fire Insurance Co. of Wausau.

BESIDES THE day-to-day worries of fire exposures in S&H

warehouses, Mr. Cherry manages the risks on occasional exposures that arise from importing commodities. S&H has a division which furnishes premium offers ("... for only \$5, get a lovely set of dishes...") in supermarkets. The merchandise used for these premium offers is frequently breakable dishware, and is purchased overseas. Mr. Cherry has exposures related to the transportation of these goods.



"When the products are packed in one country, shipped to another port, rehandled, then shipped here and unpacked in one of our warehouses, you just can't pin down where the breakage, if any, took place," he noted.

"In some instances, our premiums were so high we switched to self-insurance. But S&H does

have inland marine and ocean marine coverage in a broad form from the Home Insurance Co., Bigelow, although it does not use overseas shipping, has inland marine coverage from General Accident Fire and Life Assurance Corp., Ltd., Scotland, and uses Sun Insurance on ocean cargo," Mr. Cherry noted.

The phone in Mr. Cherry's office rang, and he began giving the caller some consultation on employee benefits even though benefits are not among his major responsibility at S&H.

AFTER giving the caller some tips on life insurance tied to survivors' benefits and assertions to "get competitive quotes" from such and such an underwriter, Mr. Cherry hung up and hastened to explain.

Before he became corporate insurance manager for S&H, he was in charge of handling employee benefits for the Bigelow-

Sanford division, and he still handles them for the carpet concern. S&H had a consultant draft a new, consolidated employee benefit program for Bigelow. Once the consolidation is complete, Mr. Cherry will no longer do Bigelow's employee benefits. In the meantime, however, the executive vp of Bigelow called to get his opinion on some of the newly-proposed coverages.

The conversation shifted to loss prevention, and Mr. Cherry responded with enthusiasm. "We have property loss prevention programs in all our plant and warehouse operations. They include safety meetings, weekly inspections of fire protection equipment, and plant safety procedures," he stressed.

He explained how each plant had a safety brigade, headed by key employees who had been trained as fire marshals in a school run twice a year by the Factory Insurance Assn. In the few instances where fires broke out in warehouses, Mr. Cherry said they had been quickly checked by the fire marshals there.

REDEMPTION centers are inspected for safety by the company's auditors, who submit up-to-date reports on even the most minor safety recommendations like the need to fix a broken window pane.

Unfortunately, the theft problem at the redemption centers is not as easy to check. Mr. Cherry stressed that S&H has an extremely strong security force in-house, but that many of the redemption centers are located in shopping centers in buildings that are not owned by S&H. This limits the types of precautions S&H is allowed to take with the security from building to building. Most of the losses (which are covered on the \$25,000 deductible DIC policies) are direct results of night-time break-ins in these non-S&H-owned redemption center buildings.

In contrast, Mr. Cherry pointed out that S&H's in-house security is so tight that, when a serious fire recently ravaged the executive offices on Madison Avenue here, it was the security guards who discovered it, before any alarm systems even had gone off.

The fire, incidentally, caused about a quarter of a million dollars' damage, but since S&H only rents the building, their liability is limited to a furniture and fixtures policy with Home and a policy for improvements and betterments with the Westchester Fire Ins.

"VERY FAVORABLE" is Mr. Cherry's description of the overall loss experience of S&H. He noted that the biggest losses were sustained on the DIC policies when Hurricane Agnes hit last year and wiped out several facilities in the floods.

He mentioned that, to date, S&H has had no difficulty in negotiating coverage for their high capacity risks, because most of the buildings they construct are built in accordance with underwriters' specifications.

Mr. Cherry, who said he kept the company's coverages under continual review, seemed happy that S&H owned its own brokerage house, Bayly, Martin & Fay. "It really keeps us up to date on new developments, the latest wrinkles in the insurance world," he said.

"You know," he mused, "in the last five or 10 years, there's been more strides made than ever before in insurance. That's one thing I really like about this business. It's always changing, and you have to change with it."

The Statements of Condition of The Atlantic Companies on December 31, 1972

Atlantic Mutual Insurance Company

Admitted Assets	
Cash in Banks and in Offices	\$ 6,561,913
Securities:	
United States Government	\$37,113,222
Other Bonds	66,167,624
Preferred Stocks	3,353,525
Common Stocks	60,599,852
Premiums Receivable not over Three Months Due	12,944,551
Other Assets	10,924,773
TOTAL ADMITTED ASSETS	\$197,665,460
Liabilities	
Reserves:	
Claims and Claims Expense	\$60,353,011
Unearned Premiums	45,084,861
Expenses and Taxes	3,290,787
Reinsurance in Non-Admitted Companies	2,079,546
Miscellaneous	745,849
Other Liabilities	14,324,911
	\$125,878,965
Voluntary Reserve	\$61,786,495
Guaranty Fund	3,000,000
Surplus	7,000,000
SURPLUS AS REGARDS POLICYHOLDERS	71,786,495
TOTAL	\$197,665,460

Securities carried at \$2,310,002 are deposited for purposes required by law. Common Stocks include the stock of the Centennial Insurance Company, wholly owned, at cost.

Securities are carried at values prescribed by the National Association of Insurance Commissioners. On the basis of December 31, 1972 actual market quotations for all securities owned, this Company's total Admitted Assets would amount to \$192,075,267.

Centennial Insurance Company

Admitted Assets	
Cash in Banks and in Offices	\$ 2,141,245
Securities:	
United States Government	\$11,797,941
Other Bonds	24,796,108
Preferred Stocks	1,080,963
Common Stocks	18,137,355
Premiums Receivable not over Three Months Due	4,314,850
Other Assets	2,871,906
TOTAL ADMITTED ASSETS	\$65,139,468
Liabilities	
Reserves:	
Claims and Claims Expense	\$20,117,570
Unearned Premiums	15,028,287
Expenses and Taxes	1,143,412
Reinsurance in Non-Admitted Companies	693,182
Miscellaneous	241,385
Other Liabilities	\$37,223,636
	4,034,869
	\$41,258,505
Capital	\$ 1,500,000
Surplus	22,380,963
SURPLUS AS REGARDS POLICYHOLDERS	23,880,963
TOTAL	\$65,139,468

Securities carried at \$2,393,580 are deposited for purposes required by law.

Securities are carried at values prescribed by the National Association of Insurance Commissioners. On the basis of December 31, 1972 actual market quotations for all securities owned, this Company's total Admitted Assets would amount to \$63,301,147.

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ASIM-UCLA seminar

Good risk control starts with policy statement

By CHARLES WINGIS

This is the first of six articles covering a recent seminar conducted by the Southern California chapter of ASIM and UCLA's management extension division. Other articles appear on pages 38, 39, 40 and 41.

LOS ANGELES—The structure of the risk management process, its objectives and how to attain them were but a few of the fundamentals reviewed and updated at an intensive full-day seminar at the Century Plaza Hotel earlier this month.

Principal thrust of the conference, conducted by 14 management professionals, was the conservation of financial assets in insurance and risk management. For the first time, the Southern California chapter, American Society of Insurance Management co-sponsored the event with a major academic institution, the UCLA Extension for Continuing Education in Management.

Moderated by Richard H. Soper, assistant manager of corporate insurance, Hughes Aircraft Co., the seminar drew a total of 165 participants. Mr. Soper, who was also the lead-off speaker, is an extension instructor in risk management at UCLA.

THE STRUCTURE of risk management, as outlined by Mr. Soper, encompassed such areas as risk identification, loss exposures, risk and loss measurement, financial and management considerations and risk control monitoring techniques. His structure also covered risk-reducing techniques (loss prevention and reduction, combination of exposure units, risk avoidance, and non-insurance transfer), and risk financing techniques such as risk retention and insurance transfer.

Most of the outline received more than just passing mention during the course of the seminar, beginning with a keynote address by C. C. Griffin, managing partner, Warren, McVeigh & Associates.

Simply stated, Mr. Griffin said, the objective of any sound risk management program is to achieve maximum protection against catastrophic losses at the least possible cost. He said this objective is often difficult to achieve in large corporations where risk-related activities take place in many different departments.

"It is important," he noted, "that an organized plan be established so the purchasing and administration of insurance can be handled in a manner to complement and support other management activities. A formalized written statement of policy will provide broad guidelines useful not only to persons responsible for insurance management, but also to all managers whose actions influence risk costs."

THE WRITTEN statement, Mr. Griffin commented, can illustrate how insurance and other activities affecting risks are interrelated, and should clearly communicate top management's support of the program. It will have the effect of forcing participants in drafting the policy to focus on fundamental issues. However, he noted, the statement should be short and simple and avoid becoming a management straight jacket.

Topics which should be considered for inclusion in the policy

statement, he said, are:

- Assignment of responsibility and delegation of authority for insurance placement in the selection of insurance brokers;
- A clear statement of loss prevention policy, encompassing such areas as employee safety, fleet safety, fire protection and security;
- The degree to which the organization will retain risk and assume losses without insurance;
- Specific policies on other matters such as the use of aircraft or private autos on company business, or authority for execution of contracts involving assumption of liability or insurance provisions.

Turning to the subject of communications, which he termed "a difficult and continuous problem area for the risk manager," Mr. Griffin said, "The risk manager must establish methods of communications with all departments and subsidiaries, so operating managers will be aware of the importance of prompt and accurate loss reporting and other functions critical to effective risk control. He also must receive data needed for risk evaluation."

One method of communicating to various operating units is to develop and disseminate a corporate insurance manual, he suggested. Such a manual should contain:

- A copy of the corporation's formal statement of risk management policy;
- Complete instructions on how to report accidents, both insured and uninsured;
- An explanation of safety and fire protection standards (including OSHA requirements) and instructions on how to deal with inspectors from insurance companies, the federal government and other entities;
- Information and procedures on specific situations involving risk and insurance, such as leasing of vehicles and aircraft, use of personal cars on company business, and so forth;
- Delineation of responsibility

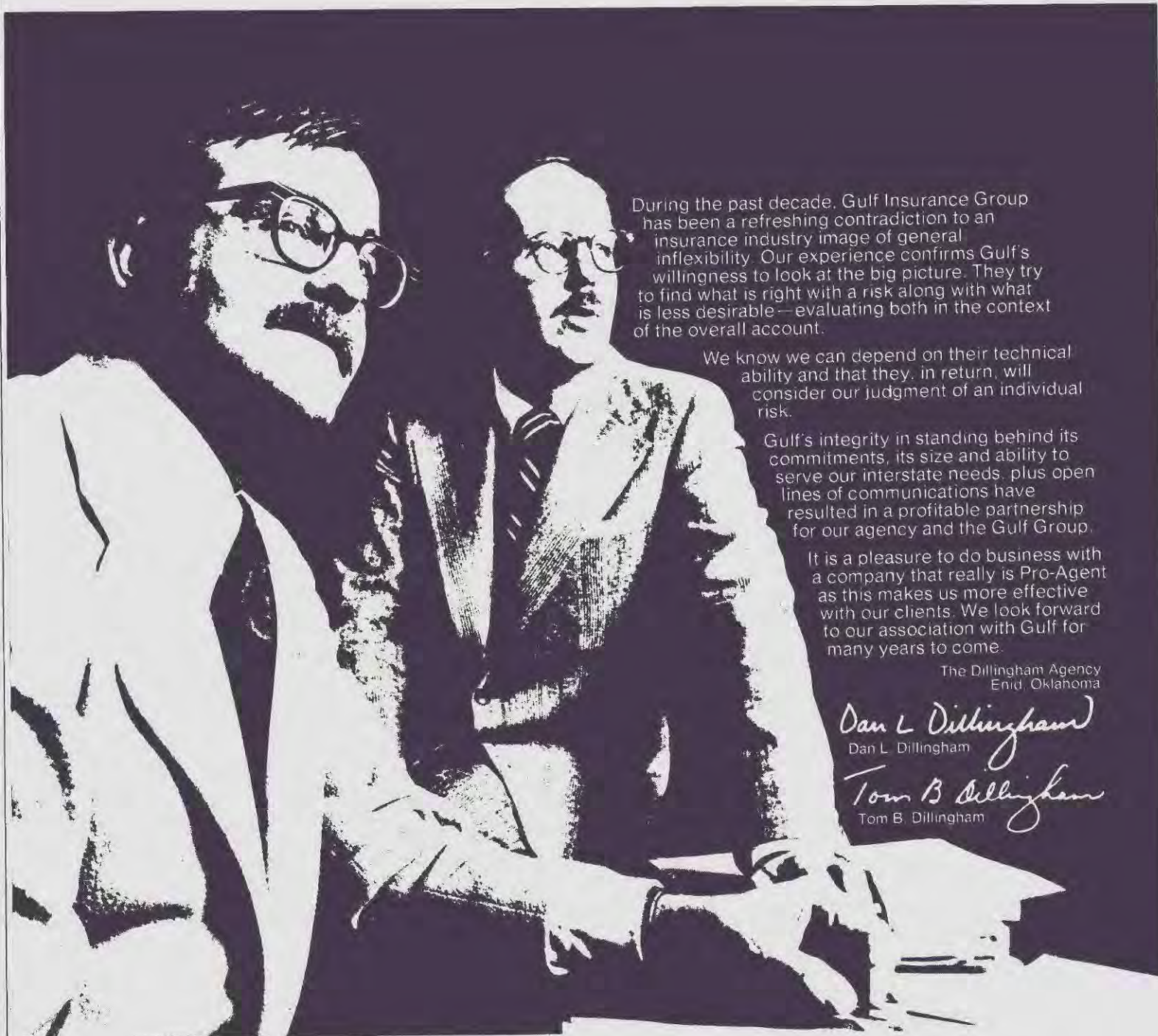
and authority for all risk-related activities;

- Explanation of how important changes in operations or hazards should be reported to the risk manager.

Mr. Griffin also emphasized that the risk manager must communicate upward, for which he suggested a system of periodic reports—perhaps generated on a semi-annual basis—to management on insurance department activities, achievements and problems.

Another key speaker, William S. Mortimer, director of planning for risk management services, Insurance Co. of North America,

Continued on page 40



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ASIM-UCLA seminar

Litton, Signal risk managers outline self-insurance programs

LOS ANGELES—The corporate expense reductions made possible by well-managed self-insurance programs and cost control techniques can be substantial and, if your company is a conglomerate like Litton Industries, your annual cash flow savings may be counted in the millions of dollars.

This was the substance of remarks made by James P. Lang, Litton's director of insurance and pensions, Beverly Hills. He was one of two speakers to present complementary case studies on expense reduction earlier this month at a one-day seminar devoted to the conservation of financial assets here in Century City.

Co-sponsored by the Southern California Chapter of ASIM and the UCLA Extension for Continuing Education in Management, the seminar also featured

a case study presented by Allon J. Green Jr., risk manager, Signal Oil & Gas Co., Houston. Mr. Greene placed particular emphasis on the various forms of cost control efforts at Signal Oil.

Mr. Lang termed self-insurance of risks "one of the effective tools we have to conserve the financial assets of our companies, provided the company is large enough to self-insure a substantial portion of each loss and diversified enough to obtain a true spread of risk."

With more than 2,000 major locations, 120,000 employees, sales of \$2.5 billion and insurable values of \$1.8 billion, Litton more than meets these qualifications. It is also important, said Mr. Lang, to set up self-insurance plans to provide real protection to the various divisions against unusual or unexpected losses to their profit and loss statements.

"At Litton we do this by charging management fees to each of our divisions and reimbursing them for their claims," he said. "We have two such plans: A property self-insurance program with annual fees of \$2.5 million, where we self-assume the first \$500,000 of each loss, and a workmen's compensation and liability self-insurance plan with annual fees of \$5 million. In the latter plan we self-assume the entire workmen's compensation exposure and the first \$1 million of liability losses."

Insurance fees, Mr. Lang commented, are based on accurate underwriting information but at discounted rates and collected on a routine basis. In the property program, rates have been set at 25% less than the rates charged by a commercial carrier. For the workmen's compensation and liability plan, rates are discounted 10% from published rates.

Mr. Lang noted that Litton's property program adjusts over 500 losses each year, just as though an insurance company were involved. Under the workmen's compensation and liability, claims and engineering services are purchased from a national insurance company.

Cited by Mr. Lang as advantages of the property program during its first five years of operation were its ability to afford broader protection to the divisions, reduce administrative expense of placing coverages and adjusting losses and improving cash flow by giving Litton the use of about \$800,000 per year.

REGARDING the corporation's workmen's compensation and liability self-insurance program,

which has been in existence for nearly two years, Mr. Lang pointed to a projected cash flow advantage by Aug. 1, 1973, of over \$6 million, when comparing the self-insurance results to the previously insured plan. He added, "We anticipate retaining over \$10 million of reserves in the first five years of the plan, plus annual savings of about \$500,000 due to lower operating costs."

Self-insurance of group life and health benefits presents some problems due to tax laws and employee relationships, said Mr. Lang. But, he noted, "Of the \$27 million group insurance premiums we paid last year, \$12 million was deposited in a Litton bank account under Metropolitan's 'Mini Met Plan.' There was no change in the prior handling of the insured benefit plans, but the company gained the use of the funds deposited in one of our member banks for the purpose of maintaining a compensating balance of about \$1 million."

Self insurance plans, explained Mr. Lang, do not represent the corporation's entire insurance program. In all, Litton divisions spend \$36 million for insurance each year. Of this, the corporation self-insures \$19.7 million.

THE LITTON executive, who is responsible for the corporation's worldwide insurance and pension programs, also set forth basic guidelines to accept before adopting a self-insurance plans. These included:

- Be willing to self-assume individual losses of at least \$500,000, even \$1 million, in order to be able to purchase true excess coverage at realistic premium levels.
- A deductible program where the insurance company simply allows a credit equal to the amount of the claims below the deductible incurred in the prior year does not provide the necessary economies to self-insure. In such cases all of the redundant expense items remain in the premiums.
- Do not attempt to purchase

aggregate stop loss coverage since this will mean your excess carrier will have to participate in each loss adjustment regardless of size. You will have lost much of your freedom and the economies of handling your own losses.

• Do not adopt self-insurance plans if you believe conditions in your company might change and make self-insurance undesirable.

Cost control efforts at Signal Oil take many different forms, according to Allon Greene, the company's risk manager. Risk management information gathering, said Mr. Greene, was one of the earliest cost-reducing efforts implemented at Signal Oil. A second cost-saving device was a claims information retrieval system, through data processing, to permit rapid location of specific claims. He said the statistical information has been valuable in determining the dollar area in which claims are occurring, the type of losses, their frequency and cause. It also breaks losses down to cost centers.

Mr. Greene also explained that Signal determines the correct level of retention, noting that "for the past 17 months we have been operating a retained minimum level of \$100,000 on everything except fire and boiler coverage. These areas have been delayed because of marketing peculiarities of the oil industry, but they, too, will be included during 1973."

"A review of our history over 10 years was made with particular emphasis on the last five years prior to implementing this approach," he said. "This loss study, coupled with our assessment of the possibilities of materially changing our past loss experience, left us feeling that no significant deviation could be anticipated."

In calculating the potential performance of the \$100,000 retention, the actual out-of-pocket premium was compared at inception rather than any final retrospective premium. This was done for two reasons, according to Mr. Greene.

"From a cash flow viewpoint the standard or deposit premium is lost to the corporation for a minimum period of 18 months. Further, it was felt that to weigh such a change in claims handling philosophy on a purely retrospective basis would be disallowing any possible decrease in cost by superior handling. For Signal such a computation yielded a cash flow saving in excess of \$400,000 annually," he said.

Costs of setting up a sophisticated retention program can run from negligible to substantial in comparison to the savings, depending on the attention given to the project. Governmental laws are frequently a problem, he said, and at least three to four months is required for a program to be implemented.

"**IN THE** state of Texas, where self-insurance is not permitted, the only answer is to utilize a fronting carrier," Mr. Greene explained. "Texas General Indemnity does principally this. They require a minimum of 8½% of experience modified manual rates as their service charge."

Among the benefits of having a self-insurance program for Signal were the elimination of much internal paper work and data previously required for low-level underwriting. Mr. Greene said cargo declarations have been substantially reduced, and that claims no longer need to be reported to two or three locations, but only from the accident location to the adjusting service.

Structuring of the self-insurance program over a retained area is no larger problem than a primary, he said.



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ASIM-UCLA seminar

Claims control is one key to asset conservation

By ROBIN SUHRBIER

LOS ANGELES—Early implementation of claims expense control programs can conserve corporate financial assets, according to E. V. Schmidt, president of R. L. Kautz & Co., and Donald G. Maxson, vp, Toplis & Harding Inc.

They described how companies can protect their financial assets during a one-day seminar sponsored jointly by the Southern California chapter of the American Society of Insurance Management and the UCLA Extension for Continuing Education in Management. Donald W. Barber of Virgil R. Wells law offices cited examples of unusual law cases that can result if all else fails.

Mr. Schmidt stressed the need for early planning of effective claims control methods. In too many cases, he noted, he has found that such programs have come about after a company suffered profit-erosion due to a loss.

THERE seems to be a trend among financial people at the corporate level to neglect establishing good claims expense control programs, he said, as well as a tendency to rely on outside providers of services, such as insurers and brokers, to provide claims service and control.

"But, in fact, only 10.8% of every premium dollar is earmarked for loss control and safety," Mr. Schmidt commented. "The momentum and ingredients for a really good program will have to come from the inside out."

He cited 10 ingredients that can give a company a good claims expense control program. These are: Establishing and communicating a management philosophy, developing a statement of corporate policy, defining an operating policy, creating a project control group, implementing employee communication, developing risk management standards, requiring pre-employment physicals, creating a claims review system, establishing a prompt injury reporting system and creating return-to-work programs for injured employees.

HE ASSERTED that "no outsider can be as equally concerned about your company's profitability as your own people. It is your program, your cash flow, your earnings per share and your premiums spent or saved; to ignore this concept or leave it totally in the hand of outsiders begs the problem of an unstable and costly program resulting in profit erosion somewhere downstream."

Mr. Schmidt pointed out that all too often either the unavailability of coverage at any price or self-insurance by force or design is still the greatest incentive for a loss control program.

He gave an example of a particular company that inaugurated an effective loss control program but only after its profits were hit hard by a product liability loss. The company designed a corporate control and safety program for product liability risks, an exposure which was particularly great.

The company's goal was to increase profits by reducing product liability claims.

Its program, Mr. Schmidt said, called on the cooperation of all levels of employees from top management on down. A product

safety committee staffed by operating heads was formed to review, monitor and recommend action in connection with product liability claims and expense potential. The committee's responsibilities were to evaluate in detail current product risks; establish a risk elimination control program; establish a library of safety and product liability information; maintain a complete file of field experience records on all claims having to do with products; recommend action or design revisions to reduce future liability potential and review and monitor all new product design developments, procedures, tests and warranties.

AS FURTHER illustration of how profits can be reduced by losses, he went on to cite several examples of workmen's compensation cases that appear in a booklet entitled "California's Painful Jackpot—the Workmen's Compensation System."

One such case involved a claimant alleging back injury as a result of a fall. He claimed he could not raise his arms above the shoulder level or lift more than 25 pounds. At the workmen's compensation hearing, however, investigators showed films of him carrying 100 pound trash cans and playing tennis vigorously. Yet the award for lifetime disability amounted to a \$150,000 reserve package, and benefits were not reduced.

There are many examples of outright fraud, Mr. Schmidt contended, and, until changes in the law are made to take the profit incentive out of being injured, corporations must attack the problem with good loss control programs.

Careful selection of employees, prompt and accurate communications regarding all claims and special emphasis on employee relations are the three main ingredients to build into the employee claims part of a loss control program, Mr. Schmidt said.

HE ADDED that personnel managers properly educated in connection with the control program should be particularly alert to the symptoms of bad employees. There is a correlation, Mr. Schmidt said, between lowering workmen's compensation claims costs and how management exercises better selection of employees.

Furthermore, he noted, through a good communications program with employees, an employer can make it known that a permanent disability based on an impaired ability to work can result in restrictions which will require a change of job classification or termination. There is, he said, an increasing tendency among employers to impose work restriction in strict accordance with permanent disability ratings.

"Such a program fairly and consistently applied has quite impressive effects," he stressed.

DONALD G. Maxson, vp, Toplis and Harding Inc., described another major step in protecting a company's financial security—property and business interruption insurance properly written and tailored to "meet your special needs."

He warned that the destructive impact of a major fire or other insured catastrophe can be as devastating to the financial structure of a corporation as to its physical assets.

When a loss occurs it is impor-

tant not only how much coverage a company has but "how quickly a settlement can be arrived at and payment made," Mr. Maxson said. He added that large losses involving complicated equipment and structures take time to evaluate but partial payments and close cooperation between insurer and insured can solve many of these problems and shorten the time to finalizing a claim.

"A good insurance program," he said, "should not only protect your assets but shield you from the consequential effects of interrupted cash flow and other side effects."

He pointed out that a majority

of losses are handled in a routine manner with a prompt and equitable settlement for both parties. Those losses that become troublesome, overly complicated and drawn out are usually due to a lack of understanding between the insured and the adjuster about the nature of the assured's business and the interpretation of the provisions of the business interruption policy.

HE CITED one example of lack of communication between the adjuster and the assured resulting in problems settling a business interruption claim. In this particular loss, the adjuster

and the insured attempted to settle the claim after the insured had completed his repairs, and disagreements developed as to the actual length of time it took the insured to complete the repairs. The adjuster claimed that the insured did extensive remodeling while making his repairs and, therefore, the actual time for making repairs was less than that claimed by the insured.

The actual period of suspension for repairs should be established prior to the repair work, Mr. Maxson said. "This could have been avoided," he added, "with closer understanding and

Continued on following page

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Asset conservation...

Continued from preceding page

communication at the early stages of the adjustment."

Pitfalls which arise in the adjustment of business interruption losses include the difficulty of establishing the period of suspension, he asserted, suggesting that all business interruption forms contain language to the effect that the period of suspension shall not exceed the length of time to rebuild, repair or replace damaged or destroyed property.

Mr. Schmidt advised his listeners to give careful consideration to selecting or tailoring business interruption coverage to meet their own needs. Often, he said, a form is chosen because of its apparent simplicity and ease of determining the dollar loss in the event of a shutdown by an insured peril.

But this, he noted, results all too often in risks that have been underinsured.

ONCE A loss occurs, the two men agreed, the insured can help expedite a prompt and equitable settlement by educating the adjuster about the insured's particular business operation. Mr. Maxson suggested that the insured appoint someone thoroughly acquainted with the nature of the insured's business, and who has a general knowledge of in-

surance coverages, to work with the adjuster.

Donald W. Barber, of Virgil R. Wells law offices, pointed out to what extremes substantial awards are being made against businesses. By citing the more unusual cases, Mr. Barber attempted to illustrate to his audience what happens "when everything else goes wrong."

Judgments are on the increase, Mr. Barber warned, for jurors frequently assume that since insurance is involved the defendant will not have to pay the verdict himself. Juries, he asserted, tend to be more sympathetic toward the injured party.

Furthermore, more liberal instructions are being given to juries by judges, according to Mr. Barber. He read to his audience past instructions from product liability cases and more recent instructions to illustrate that the burden of proof in such cases is now falling more heavily on the defendant, or manufacturer.

ONE OF the "more unusual" cases he cited involved a 37-year-old man, who admitted to having consumed a fair amount of alcoholic beverage, driving a recreational vehicle. The vehicle went over the side of a cliff and the man claimed that the steering housing broke. He sued the manufacturer of the vehicle.

Even though the defense claimed that the steering housing broke as a result of going over the 500-foot cliff, the verdict went to the plaintiff in the amount of \$700,000.

Another case Mr. Barber cited involved a suit against the owner of a parking lot facility and the manufacturer of an elevator man lift. The elevator lift is for the use of the parking lot employees only. There were signs posted in the parking facility, reading "not for the use of the general public." The elevator lift belt broke and the elevator company was called in to fix it. However, repairs could not be made immediately so the company shut off the elevator and posted signs on each level of the ramp, warning customers not to use the elevator. Two stockbrokers, however, chose to ignore the signs, and substantial injuries resulted, to one man in particular. There was a verdict against the parking facility only in the amount of \$3,525,000.

He offered still another example, a slip-and-fall case against the owner of an amusement park. A patron went through a fun house, at the end of which was a rotating barrel. He attempted to go through the barrel, fell down and sustained severe injury. Testimony at the trial showed that 1,000 people daily went through the barrel, had been doing so for four years and that this incident was the first injury that had ever occurred. Nonetheless, a judgment for \$207,124 was made

against the amusement park.

A MEDICAL malpractice case Mr. Barber outlined, involving the drug Thalidomide, was tried against a doctor who testified he never had possession of the drug. The plaintiff claimed she was given a drug by the physician in the early months of her pregnancy. The manufacturer of Thalidomide, through its records, disclosed that this doctor was never sent any of the drug samples. The verdict against the doctor and the drug manufacturer: \$2,750,000.

Mr. Barber offered some advice on what companies can do to prevent such verdicts. First, he suggested, report and promptly investigate any case. "One of the most important things, and one of the most difficult tasks we have as defense attorneys, is to reconstruct the facts of any situation, a year or two years or five years after the event. It's important to record the facts as soon as possible," he commented.

On any case, he suggested, don't assume counsel knows all about the case, for many times he doesn't have the little "nitty gritty" facts that lawsuits are sometimes won or lost on.

Adverse judgments in law and the increasing number of expensive losses sustained by busi-

nesses should be a warning light that effective claims expense control methods which curb losses and increase profits must be developed, the three speakers concurred. Well-defined loss control programs, they agreed, supported by continuous communications from top management on down can help to stem the tide of expensive losses that hit hard at company pocketbooks. ■

Lockheed vp stresses all resources

LOS ANGELES—The conservation of corporate financial assets is linked to the larger picture of conserving all the nation's resources, according to one financial executive.

"When we talk about risk management and corporate assets and all the rest, we think first of all about the financial assets. But there are other assets that stand behind the financial ones, and in a very real sense generate them," said Roy A. Anderson, senior vp of finance, Lockheed Aircraft Corp. He was speaking at a one-day seminar sponsored jointly by the Southern California chapter of the American Society of Insurance Management and U.C.L.A. Extension for Continuing Education in Management.

Mr. Anderson called on corporations and the nation as a whole to give serious consideration as to how to conserve both human and physical assets or "we may have few financial assets to worry about."

"WE ARE beginning to realize that neither is unlimited, that both must be used wisely and that the need to conserve both is urgent," he said, adding, "our planet's resources are not infinite."

Pointing to the current energy crisis, he noted that the United States has had to turn to foreign countries to meet our own energy needs. By 1980, he noted, the projected energy trade deficit will be from \$15 billion to \$21 billion. "We must counterbalance this deficit by increasing exports in other areas—and that involves striving for an open and competitive world of trade and increasing our ability to compete in it," he warned.

Mr. Anderson commented that this country's role as a world power would be jeopardized by its becoming a debtor nation, and that its lead in various other markets is under attack by foreign governments.

He told his audience, "if we conserve and utilize our human resources, the nation will be more productive and more competitive as a nation."

He recommended education, equal employment opportunity, welfare reform, changing patterns of work and leisure, increasing employment of women and minority groups as means to avoid wasting human potential.

Mr. Anderson called on businesses to cooperate closely with government in pursuing programs to conserve these resources and promote general economic health. The major creative thrust will still remain in individual and corporate hands, he asserted, and "all of us must become bolder and more innovative in experimenting with ways to increase our own corporate and individual productivity." ■

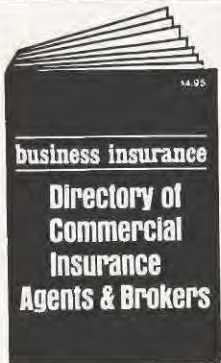
Statement...

Continued from page 37

pointed out some of the reasons for buying risk management services separately, instead of having them packaged with an insurance policy.

"I am not faulting the insurance package as I believe it has served very well and will continue to serve most of the highly-protected risks and the smaller accounts well into the future. However," he noted, "it no longer provides the quality and quantity of a specialized service needed by the larger corporation to enable it to use the most cost-effective means of managing risks worldwide."

According to Mr. Mortimer, disadvantages of purchasing services in the insurance policy package include the fact that they are normally oriented to the needs of the underwriter and are primarily concerned with trying to avoid experiencing losses that would be payable under the policy. He further noted that the quality of the service included in the insurance package is geared to the average risk and tends to be very general in nature. ■



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ASIM-UCLA seminar

Building codes alone don't dictate fire cover

LOS ANGELES—Three inter-related phases of financial cost control techniques and applications of risk management were brought into sharp focus Mar. 1 at a one-day seminar here in Century City.

Sponsored jointly by the Southern California Chapter of the American Society of Insurance Management and the UCLA Extension for Continuing Education in Management, the day-long conference placed particular emphasis on loss control and expense reduction (property and casualty), claims expense control and adverse judgments at law.

Phase one, that of loss control and expense reduction, was discussed by Richard R. Huntington, partner in the risk management firm of Warren, McVeigh & Associates, Los Angeles. Mr. Huntington observed that the basic steps of the decision-making process essential to determining where, what and how much property protection to include within a given project should: 1) define the problem; 2) develop alternative solutions; 3) set out, evaluate and compare the advantages of each solution using the cost/benefit approach; and 4) select the right alternative.

In matters of fire protection, said Mr. Huntington, the premise that there is very little choice, that building codes dictate the extent of built in protection, is not the case. Some codes should be considered as minimum standards, while others are purely for property preservation with little regard for life safety, he said, noting that they vary geographically.

IN MANY cases, the decision to install such a device as a sprinkler system can be based on straight economics, he said. If the system costs \$10,000, and \$2,000 is saved in premiums each year, then sprinklers appear to be the proper choice. But, he added, "substantial premium savings for sprinklers will not generally pay for the extra cost of installing the system. This fact is demonstrated by the general lack of sprinklers in office and apartment buildings."

Factors to be considered when developing alternative possibilities, he said, should include:

- Increased cost for the improvement.
- Insurance premium savings.
- Additional insurance required (possible sprinkler leakage).
- Offsets in other construction requirements due to increased protection, including 4-hour to 2-hour floors and walls and only two stairways instead of three.
- Contingent and time factor loss control and reduction including loss of profits, rents, records and customers.
- Life safety benefits.
- Production efficiency or lack of it.

MR. HUNTINGTON said, "Several of these factors are difficult to measure, but through experience some value can be placed on them. As example, a recent news article states that Transamerica Corp. spent \$340,000 in extra safety features, or less than 1% of the project cost in their recently completed 48-story pyramid office building in San Francisco. They were interested in safety to life and felt this cost was worth it," he said.

Recent changes in the Uniform Building Code include many of the features incorporated in the Transamerica building, said Mr. Huntington. "The new code is a welcome relief to fire protection engineers because it has put proper emphasis on life safety standards. It is now more of a performance standard rather than a 'cookbook' form of specification standard, and there is design flexibility."

The casualty side of loss control and expense reduction was the subject of John Rheinheimer, vp safety services, R. L. Kautz & Co. He described OSHA as "the prime mover upon which more effective loss control measures can now be mounted, and made

to roll in a more positive direction.

"OTHER THAN that," he said, "OSHA probably isn't important to a discussion on loss control and expense reduction. For example, even if your company were up to full compliance standards, it would only reduce total workmen's compensation losses and costs by about 10%. The millions of dollars already spent in meeting OSHA standards have probably been expended on correcting conditions, most of which never directly contributed to a single accident."

Mr. Rheinheimer said it is imperative the loss control program be tailored to meet the

needs of the industry and the people it is supposed to serve. He also stressed the need for placing the loss control effort into the hands of a professional. In most cases, he said, the framework for an effective loss prevention program can be identified as having proper control in six areas:

- Housekeeping control, the most fundamental activity, is really the cornerstone of safety since it is the one common denominator which must be present in any endeavor;
- Injury investigation;
- Safe practice procedures should be spelled out for each job and reflect both good industry practices and whatever OSHA requirements may be required;

- Environmental engineering;
- Hazard control is the process of systematically recording, and then tracking any unresolved problem until it has been properly identified as to cause and eventually controlled;
- Properly communicate the other five control areas to every one in the organization.

Compensation bill

A proposed bill that would require employers to pay death benefits under the workmen's compensation act to the estate of employees with no dependents has been introduced into the current Rhode Island state legislature.



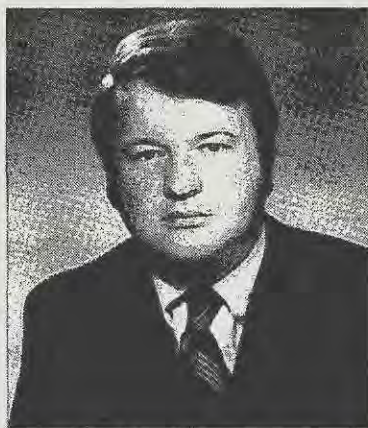
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Labor expert urges national pension fund, review board as ways to reform

NEW YORK—Labor expert David Raff, director of clinical programs for the New York University institute of labor relations, is a man with a plan for pension reform, but with not much hope of getting it passed.

In testimony to a largely unresponsive House subcommittee in Washington earlier this month, Prof. Raff called for a three-fold reform plan which would revolve around the establishment of a pension benefits review board; an annual statement which would notify the individual of his pension plan status and, perhaps most controversial, a national pension fund which would permit pension plans to be initiated in businesses which cannot afford maintenance of pension plans for their employees.

The pension benefits review board that Prof. Raff envisions is aimed primarily at speeding up payment of pension benefits to elderly retirees who have a claim dispute with their plan. According to Prof. Raff, who runs a clinic that has handled over 300 cases of lost retirement benefits, many elderly pensioners with claim disputes either die before their cases are cleared up in court, or spend the last years of their lives in a costly and undignified struggle to win pension benefits.

PROF. RAFF told *Business Insurance* that the claims procedure of his proposed review board should take only between four and five months—a fraction

of the time required for similar cases now litigated in the courts. "The board is just an extremely expeditious procedure for having a hearing," he commented. "Its main concern is whether the individual is entitled to the benefits under his plan."

The pension benefits review board would be composed of five Presidentially-appointed pension plan experts including one representative from management, one from labor and three public members. Claims examiners at a regional level would review each case, and later act as the claimant's advocate if they found there was probable cause that benefits were due. All involved parties would then go before a hearing officer.

If a pensioner so desired, he could still have his case heard in court rather than before the review board, which would serve as a legal alternative to the court system. No case would be tried simultaneously in court and before the board unless there were unusual circumstances surrounding it and the Secretary of Labor intervened.

The second part of the professor's pension reform proposal would institute broader mandatory disclosure provisions in pension plans to subvert what he terms "the cruel discovery (on the part of a retiree) that these long years of faithful service were to lead to a degrading old age of dependence on children and government subsidy."

He would require an annual

statement which discloses the number of days, weeks or months, which constitute a working year of covered service, the participant's standing as far as the qualifying requirements under the covered service provisions of the plan and the retirement qualifications in terms of age and/or years of service which determine when the participant may begin collecting benefits.

THE THIRD and most controversial, part of Prof. Raff's proposals calls for the creation of a national pension fund, which he says, "would prove beneficial for those employees working for firms which could not afford a pension plan due to lack of resources either to establish a fund of sufficient size or to successfully contend with the administrative costs occasioned by the establishment and maintenance of a plan."

The fund would provide a common pool to which an employer could send his contribution and would be strictly regulated with a fee schedule to discourage companies from abandoning their existing private pension plans.

Reaction to the proposals was cool, both in the House subcommittee and in the Senate, which

he addressed earlier. "The Senate let me know that the Department of Labor had made it clear that it opposed any plan which might increase their administrative burden," Prof. Raff noted bluntly.

HE CONTINUED: "They were violently opposed to the idea for a national pension fund. One Congressman even followed me into the hallway after I had finished my presentation, to continue debating the proposal."

The labor expert noted that the legislators seemed satisfied with proposed pension laws and were not enthusiastic about any modifications to their bills.

"They (the house subcommittee) ducked the pension review board issue quickly," Professor Raff commented. "They seemed to be satisfied with their HR 2 and HR 462 bills, and didn't want to hear about any modification to them."

David Raff is intense about the need for his proposed reforms, but he is not optimistic about their passage, based on the response his testimony has received thus far.

"There is no chance of this going through on a state level," he told *Business Insurance*. "And if you want my honest opinion about whether it can be passed through Congress, the answer is 'no.'"

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A. W. Clausen, president, said California department of insurance permission also has been sought to operate BA Insurance Co. Inc.

The underwriting, Mr. Clausen explained, would be related to extensions of credit by Bank of America and by other affiliates of BankAmerica Corp.

The FRB recently added credit life and disability underwriting to permissible activities of bank holding companies, providing "public benefits" can be shown, with underwriting directly related to extension of credit by the bank holding company or its affiliates.

Mr. Clausen said BankAmerica's application to the Federal Reserve Board seeks approval for a direct underwriting business but that the corporation would initially limit activities to reinsurance of credit life and disability insurance written by an independent established carrier for installment loan and real estate borrowers.

"We define re-insurance," Mr. Clausen said, "as underwriting the risk of the insurance carrier. To the borrower carrying the insurance, it means that while the policy would be written by the insurance carrier, claims filed by insured borrowers would be paid by the bank holding company subsidiary."

Although 70% of Bank of America's personal loan customers now carry insurance on their loans, the coverage is not a requirement for loan approval.

Mr. Clausen added that the Federal Reserve Board has been told the coverage proposed will represent both improved policy benefits and lower premiums.

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