

## United's work comp

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## Colorado captives are limited option

DENVER—Colorado early this month became the first state in the nation to enact legislation favorable to, and indeed encouraging the formation of, captive insurance companies that may underwrite corporate risks on domestic exposures.

The measure is expected to generate something short of a stampede by companies anxious to set up their own insurance operations in the friendly atmosphere of a sovereign U.S. state. Heretofore, domestic captives have had to be based in "off-shore" locations, such as Bermuda and the Bahamas.

The Colorado legislation will not affect captive companies set up to write overseas risks held by U.S. corporations. These must still be based offshore. Nor does the measure allow the formation of captive companies to insure employe benefit risks, such as life, health and disability insurance.

**IN A RELATED** development, Frank B. Hall & Co., New York, announced on March 10—the day after the captive legislation was signed into law by Gov. John A. Love—that it had established a management company based here to "make feasibility studies and, where warranted, (to) charter and manage insurance subsidiary companies for its clients." The brokerage company, in fact, aggressively worked behind the legislative scene for well over a year to get an "acceptable" captive insurance measure enacted.

Immediate reaction to the Colorado law was mixed, *Business Insurance* discovered after a cursory sampling of risk managers and captive industry people last week.

Risk men generally look upon the legislation with favor, as one might expect of any development that broadens their options for insuring corporate risks. Captive industry people, and this is most particularly true of those independent captive management shops that have made strong commitments on the island of Bermuda, are somewhat dubious, noting that the Colorado statute is still more restrictive than that in the British haven.

Interest among U.S. corporations, nonetheless, is running high.

According to Charles H. Groves, who was named president of the new Frank B. Hall Management Co., "a minimum of 25 companies" helped push for the new law by directing letters of support to Gov. Love—prior to introduction of the legislation.

**THESE COMPANIES** included TRW Inc. (which, incidentally, was the first company to announce it had begun a feasibility study leading to the possible establishment of a captive in the Rocky Mountain State), Eastman Kodak Co., Montgomery Ward & Co., Syntex and CFI Steel Corp. Mr. Groves was director of insurance from 1950 to 1969 at the latter firm, before joining Hall as a commercial insurance

consultant in Denver.

Discussing reaction to the new law, Mr. Groves further told *Business Insurance* that his office in Denver has had "pretty firm statements of interest directed to us from about 15 companies."

The Colorado measure also applies to trade associations and other common groups that may wish to set up a captive to spread risks among their members.

Mr. Groves said that one of the "obvious" advantages to setting

up a captive in Colorado is that companies must pay only a 1% tax on premiums. This, of course, is considerably less than the 4% federal excise tax that must be paid on premiums allocated to

*Continued on page 46*



A propane tank explosion on a construction site at the Lowell Institute of Technology, Lowell, Mass., which killed one person and injured 13 is scheduled for investigation, according to an official at the Perini Corp., Framingham, Mass., the construction firm for the building. "We have a comprehensive general liability policy with Aetna Casualty and Surety which would cover this situation," he said. "However, I don't believe we will be completely responsible. There are several areas where responsibility could lie." —Wide World photo

## Testimony includes facts on wide supplementation of workmen's comp

NEW YORK—Half of the more than 200 corporations that responded to a *Business Insurance* survey supplement workmen's compensation benefits by keeping work-injured employes on their payrolls or by purchasing supplemental occupational disability insurance.

In testimony before the National Commission on State Workmen's Compensation Laws here, Richard C. Bjorklund, editor of *Business Insurance*, said that the degree of supplementation is an indication that a growing number of employers are finding it necessary to override depressed workmen's compensation benefits. He said that 30% of the survey respondents keep work-injured employes on their payrolls at full or partial pay, and that another 20% provide additional wage replacement benefits with occupational disability insurance.

A full tally of the survey, taken through a questionnaire that appeared in our Feb. 28 issue, appears on page 50. Respondents to the survey employ more than 1.5 million workers, or about 2.5% of the 59 million workers covered by state workmen's compensation laws.

Here are the key results of the survey:

- A majority of respondents (51%) favored adoption of uniform federal guidelines, spelling out minimal coverages and procedures to be adopted by the states. Another 4% favored federal takeover of workmen's compensation as an adjunct to Social Security. Forty-five percent of respondents favored continued regulation by the states without federal action.

- Ninety-six percent of respondents favored a requirement that states allow employers to

the work force not now covered by workmen's compensation were favored by 59% of *Business Insurance* readers. Forty-one percent of the respondents favored leaving undisturbed those state laws that exempt workers from coverage through numerical and industrial exemptions or by making workmen's compensation coverage voluntary.

Respondents to the survey offered more than 100 separate suggestions on how to improve the administration of workmen's compensation and how to reduce the amount of litigation involved in the present system.

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## Price Commission nods okay to major insurers

WASHINGTON—Virtually every major U.S. insurance company has made the Price Commission's approval list in the past three weeks with rate increases ranging from just above zero to more than 30% in several insurance categories, including group accident and health, employer liability and workmen's compensation.

The hikes, granted in a mass action on backed-up insurance requests, were in nearly all cases far above the 2.2% Phase II price increase standard.

A Price Commission staff member insisted, however, that the insurance industry isn't getting preferential treatment; "their prices are based on actuarial tables, what they're predicting for the year. Last year a lot of them

got stung, with losses much higher than what their tables read."

The commission spokesman said projected revenue increase percentages were considered more important than the price hikes themselves in the anti-inflation battle. This represents at least a shift in emphasis on the meaning of the 2.5% standard, which had been widely considered applicable to actual price increases.

In a number of cases the commission followed the lead of state insurance regulators, who had approved increases based on information supplied by companies, some of which hiked rates after states asked for benefits increases "requiring adjustments."

None of the more than 100 insurance price increase requests

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## ASIM backs model act

NEW YORK—The American Society of Insurance Management endorsed a model state workmen's compensation act and wide latitude for buyers of workmen's compensation insurance at the final public hearing of the National Commission on State Workmen's Compensation Laws.

Speaking for the national organization of corporate risk managers, William L. Hollingsworth, director of insurance and loss prevention for Olin Corp., said,

"We believe that the drafting of a model law would be the best role the federal government could play. It should contain the International Assn. of Industrial Accident Boards and Commissions' standards and a few other provisions we would like to see incorporated in such an act."

Mr. Hollingsworth urged that the model be "recommended" for enactment by states that do not meet its minimal provisions. He

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# Equitable seeking new markets; talks with employe benefits clients

By STEPHEN GILKENSON

NEW YORK—The Equitable Life Assurance Society of the U.S. is quietly meeting with a "small sampling" of its employe benefit clients to learn more about their property and casualty insurance "needs and circumstances," *Business Insurance* has learned.

The large life and health insurer, however, has squelched rumors that it might soon enter into an agreement with a property and casualty insurer similar to that made between Prudential and Kemper a year ago when Kemper agents began selling and administering individual auto and homeowners policies underwritten by a newly formed Prudential property and liability company. That short-lived agreement, incidentally, will be terminated in June. (*Business Insurance*, Jan. 31.)

"We are visiting with a small sampling of our group clients to find out their attitude toward property and casualty insurance and mass merchandising in particular," said an Equitable spokesman. "This is in line with previous comments made by President (Henry J.) Smith," he added, referring to a recent press

conference during which Mr. Smith disclosed that Equitable was studying the possibility of entering into the auto and homeowners field by marketing payroll-deducted plans to corporate clients.

"But," the Equitable spokesman emphasized, "no relation with any (other insurance) company is established or planned. Obviously we are talking to companies to find out about the business. We know very little about it." He added that the study is "no where near completed."

ACCORDING TO one corporate insurance manager who was interviewed by Equitable, the survey centered around practically all lines of commercial insurance. These ranged from multiple-peril, fire, inland marine and glass insurance to workmen's compensation, boiler and machinery, directors and officers liability and aviation coverage.

The source noted, however, that the emphasis of the interview, which lasted more than an hour, was in mass-merchandised lines.

For example, three broad questions were asked. First, he was asked if his company had a mass-merchandised or payroll deduction auto insurance program currently in effect or planned in the near future. He was also asked his company's philosophy on the subject, the reasons the company was considering such a plan if that was the case, whether the company expected to consider a payroll plan within two years or if the company did not expect to consider a plan in the "foreseeable future."

The Equitable man also asked if there was significant employe interest in payroll-deducted auto and homeowners plans. Companies with unions were asked if they anticipate "significant union interest in this coverage."

THE INTERVIEWER moved to corporate property and casualty lines from this point and asked what coverage the company now

had in effect, who the insurer was, whether it was the original or replacing insurer, the years the policy had been in effect with the present insurer and the broker or brokers involved. Equitable also asked the approximate total premium paid for property and casualty coverage in effect.

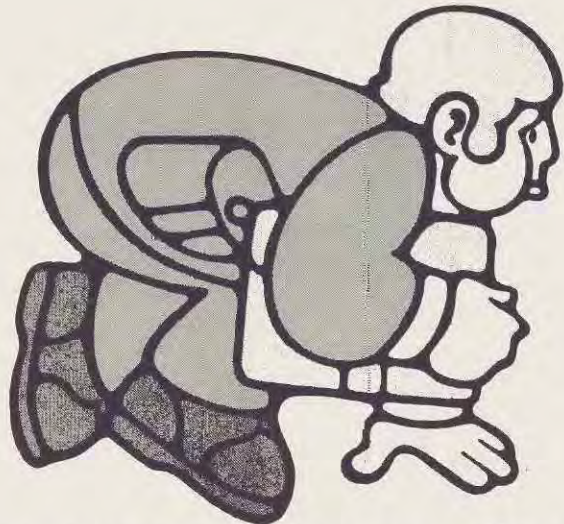
According to the questioning, Equitable also appeared interested in corporate risk managers' feelings regarding the splitting of coverage among insurers. "What advantages," the *Business Insurance* source was asked, "are gained in placing property-casualty insurance with one or two carriers?" He was also queried about advantages to placing coverages with more than two carriers.

Three other broad areas touched upon during the interview were:

- The basis or criteria the company used to select a property and casualty insurer for a new coverage and the bases or criteria used by a company when it decides to change carriers on a coverage.

- Difficulties the company has had in obtaining certain property and casualty coverages.

*Continued on page 11*



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# High praise for U.S. risk management concepts

LONDON—High praise for U.S. risk management concepts was given by Hugh R. Spencer, senior assistant with Esso Petroleum Co., when he returned home after his six-week study tour under the Winston Churchill Memorial Trust (*Business Insurance*, Oct. 25).

He told *Business Insurance* in London: "The most exciting thing I found in North America is the tremendous amount of importance given to fire prevention and employe safety. In every corporate I visited top management demanded a safe operation, and in some this has gone on for so long that loss prevention has become a normal way of life.

"Almost anything can be done in the name of safety. No one in the companies I saw appeared to adopt the attitude: If we insure, why should we spend money on safety?"

"THIS ATTITUDE seemed to a British visitor to be too good to be true. But the loss records are there to prove it. So, in many corporates, are the safety awards."

Speaking of the "definite desire" adopted in the U.S. to avoid interruptions in production and protect employes, Mr. Spencer, a risk management executive, declared, "In the U.S. insurance is thought of as a means of protection against losses which might occur in spite of prevention measures.

"Several companies I visited reported a lack of attention to loss prevention in their autonomous foreign subsidiaries. This

## Insurer ad crackdown in Utah

SALT LAKE CITY—Advertising by large insurance companies of medical and hospital insurance plans, seen in Salt Lake City in the form of full-page newspaper advertisements, has come under state regulation this month.

Jack G. Edwards, deputy state insurance commissioner, said the regulation, a model document adopted by the National Assn. of Insurance Commissioners, will make the advertisers tone down the use of such words as "all, full, complete, comprehensive, unlimited, up to, as high as," and others. "The insurance companies will be required to show that their policies can actually meet those glowing claims," he noted, "and they'll be required to stop using enrollment deadlines which get prospective purchasers excited about missing out."

The ads give a deadline, then claim the insurance will never be offered again. "But," he said, "30 days later, there is another ad, and another enrollment deadline."

He said the companies "are all legitimate" but that policies, when closely inspected by experts, have exclusions on benefits that most applicants don't notice or understand.

The regulation will require that advertising show in one block the listed exclusions "so that the ads don't promise one thing and then take it away" somewhere else in small type, he said. The goal, Mr. Edwards reported, is not to eliminate the advertising or ban the policies, but just to insure that claims of benefits available are not exaggerated beyond the terms of the policies.

includes their British subsidiaries and indicates the impressive attention given by major North American corporates to loss prevention."

Mr. Spencer, who has now resumed his London job with Esso, is impressed by the high level of voluntary deductibles which U.S. companies carry. He commented briefly: "This reflects the modern approach and is sound commercial sense. To some British insurers it may not seem right. But a few insurers in North America actively support the approach and offer related services, such

as claims-handling arrangements."

FULL OF PRAISE though Mr. Spencer is for American loss prevention techniques, he offers this challenge:

"One of the most important developments in the field of risk management has been the recognition that insurance buying, loss prevention, safety and other similar activities are all within one functional area and concerned with the same general objective.

"This explains the term 'risk management', and many people have tried to create an approach

to embrace all these activities. But no person can be everywhere in a company at the same time, and in view of the enormity of the task of loss prevention, surely it is ineffective to place the responsibility with one man.

"The best approach must be to involve everyone in the company in the task of dealing with loss prevention in all areas."

SO, MR. SPENCER believes, the new role of the risk manager ought to be developed and expanded so that he becomes, in fact, the corporate "manager of

risk management."

In effect, this means that he will become an executive not just to do the job of risk management, but to plan, coordinate and assist all management to do the job.

This is already happening in some U.S. corporates, he pointed out. But in Britain many companies are still uninterested in any great effort in this direction, unless forced by their insurers or domestic statutory regulations, and loss prevention techniques are too often only spasmodic efforts.

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## washington watch

# Mutual agent spokesman suggests government step into auto coverage

By JOHN REVETT  
Washington editor

WASHINGTON—The federal government started off with veteran's life insurance and Social Security, then added crop, hail and flood insurance; coverage of U.S. business losses from war, insurrection and expropriation abroad and Medicare and Medicaid. Most recently it began offering crime insurance and riot

reinsurance.

Where will it go from there? Robert V. McGowan, last year's president of the National Assn. of Mutual Insurance Agents, has suggested that the next area should be auto insurance. In a talk to insurance agents in Connecticut, he went so far as to say that "perhaps right now is the time for the industry to go to government and invite a joint solution."

The real problem, in Mr. McGowan's view, doesn't involve the no-fault hassle, which he feels is "obscuring" things, but failure of the insurance industry to provide enough people with coverage, to "satisfy the reasonable demands of the consumer." This would be rather well covered by the Senate's main no-fault bill, which carries a strong availability requirement.

But Mr. McGowan sees as

possible a private insurance corporation with government support, something along the lines of COMSAT, the communications satellite corporation. It's a concession that Mr. McGowan doesn't feel the industry "must" make—handing the government the job of subsidizing drivers "whose losses exceed that of the capacity of insurers to bear"—and he thinks there "may still be time" for industry solutions. But he also suggests that "we have no choice but to take more dramatic action, to recognize the possibility of government partnership."

NAMIA members who agree with Mr. McGowan are said to be interested in the idea for at least two reasons. They sense that the trend toward more federal involvement in the insurance business could shift heavily toward general auto coverage problems after the smoke has cleared from no-fault and government finds itself with some expertise in the

field. They want to be first with a plan and not left out in the cold if one is developed. (As one NAMIA man put it, "It's possible that the government could sell auto insurance from windows in the post office.")

There is also the possibility that, by proposing a government role in auto insurance long enough and loud enough, agents can persuade auto insurers to be more liberal in writing and renewing, thus boosting agent business. But NAMIA sources say the McGowan suggestions are no mere threat and represent thinking among agents who "aren't kidding now" and weren't when they backed government crime insurance.

Reaction to the idea in government is fairly scant so far, but the possibility of federal participation in auto insurance beyond proposed no-fault plans is recognized and has been discussed.

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"IT'S PRETTY FAR down the road, but of course that could mean only two or three years," said George K. Bernstein, head of the Federal Insurance Administration. As Mr. Bernstein sees it, any government coverage under the present Administration would be limited. "We in this department, and the whole Administration, are opposed to getting into auto insurance on a direct basis. We'd rather provide incentives and pressures without going in and creating a whole new bureaucracy."

Perhaps a partial government role in an insurance set-up like COMSAT? It's not under active consideration, according to Mr. Bernstein. It would require Congressional approval in any case.

Which brings up the situation in Congress. At present, there is no legislation being proposed or widely discussed that would provide government coverage for drivers who can't get insurance company coverage. Considerations in this area are focusing instead on the pending federal no-fault insurance bill of Sens. Philip A. Hart (D.-Mich.) and Warren G. Magnuson (D.-Wash.). In addition to proposing a nationwide no-fault system, it permits insurance companies to refuse only people who don't have licenses or who don't pay their premiums. A company could charge more for high-risk drivers, but this would come out in periodic rate and loss ratio reports to the Department of Transportation, and drivers paying more (people under 25, for instance) would be able to compare and turn to a less expensive insurer.

**THE BILL** is next in line after proposed product safety legislation on the agenda of the Senate commerce committee, which is chaired by Sen. Magnuson. Committee staff members say it will probably be taken up in April, at which time the relative quiet in which the federal no-fault issue has been hibernating for the past few months is expected to end.

If the Hart-Magnuson bill, strongly opposed by many in the insurance industry, fails to pass Congress intact or fails altogether, would government high-risk coverage then be ripe for consideration? NAMIA is sure there are Congressmen who will listen, but there's one ear that won't be given to the McGowan proposal as it stands. "Sure," said Sen. Hart's counsel, Dean Sharp, "they might want the government to take over just the high risks. Maybe the government should be providing insurance—period—if the private companies can't do it for everyone."

# Touchy Question #22

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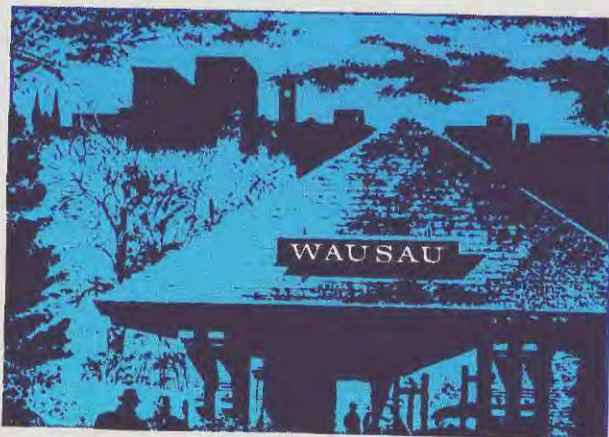
The skilled risk manager is far less concerned with the cost of the policy he is buying today than with what he will have to pay for the same or similar coverage three, five, ten, or twenty years hence. He knows he can do very little about the price of the immediately-needed protection, because it has been largely fixed by past events. His eye is on the future. His aim is to reduce or eliminate the exposures which today are establishing his rates and premiums for tomorrow.

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71C0004	07-25-71	LAY LEWIS A BRUISE LOVER BACK WHEN HE	WELDING	10	10					
71C0005	08-13-71	FRANK JAMES FROM SPILLER	WELDING	10	10					
71C0006	08-10-71	DESMOND EDWARD L ASPHYXIATION FROM WELDING	WELDING	10	10					
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## All-risk policy covers armored truck booty

ROCHESTER, N. Y.—The loss of "around \$700,000" from an armored truck making a cash delivery at an Eastman Kodak plant here is "fully insured," according to the president of the armored truck company.

"We have an inland marine all-risk policy that covers this loss," John A. Doyle, president of Doyle Armored Service Co., told *Business Insurance*. He pointed out that his firm was responsible for the money at the time of the loss. "A number of domestic insurance companies are involved in the primary coverage and Lloyd's has the excess."

Mr. Doyle acknowledged that the policy contained a "negotiated deductible" and that "the lim-

its of the policy are much higher than the loss."

**THE MONEY** was taken from the truck by at least two men, according to several witnesses, while the driver and guard were inside the Kodak plant. The thieves apparently used a key to enter the unattended truck, and, in less than five minutes, drove away with about \$700,000 in small bills. The money was to have been used to cash Kodak employe checks.

The theft, which was referred to by Rochester police officials as "the biggest theft in the history of our city," was abetted by the fact that the thieves arrived next to the truck in a car marked "Doyle Courier Service."

Since the thieves were allegedly unarmed and accomplished the theft in the manner in which they did, they cannot be prosecuted for robbery if they are caught, only for grand larceny or burglary.

Mr. Doyle said that "this is the first loss for us in 42 years of operation, but I guess we have to live with it."

He also pointed out that "insurance for this kind of thing is somewhat difficult to obtain but it is available. But, like anything else, you definitely have to pay for it."

## Asks survivor law changes

ALBANY, N.Y.—Widows of those state employes killed in the Attica riot, widows of state troopers shot or killed in the line of duty; in fact, widows of any state employe killed in the line of duty have this in common: New York state gives them the opportunity to continue their coverage in the state health insurance program, but they must pay the full cost of coverage for themselves and their children.

This comes to \$37 a month.

Yet, the state is paying the cost of this same insurance for state employes who are laid off from their jobs under the present contract negotiated by the Civil Service Employees Assn. with the state. But, when this present contract expires March 31, 1972, this benefit will end, unless renewed.

Retired state employes may continue in the state health and hospitalization plan, without charge, but they pay 25% of the cost for dependents.

These are the varying rules that govern these different groups, and these rules are about to be challenged. A legislative move is underway to provide free coverage for widows of those prison guards and employes who died at Attica. Others want the same privilege extended to state police families and those of other state workers.

## City hall security

The Portland (Oregon) Assn. of Insurance Agents has financed the \$3,885 project of new security lighting illuminating the exterior of Portland city hall. The project was designed to deter vandalism or a repeat of a 1970 bombing. Eight 1,000-watt mercury vapor luminaries were installed in the building's cornice, and a 400-watt fixture lights the portico beneath the rotunda where an explosion shattered the city's Liberty Bell replica.



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# United's work comp self-insurance was difficult to get off the runway

By TERESA NORTON

CHICAGO—Waller B. Smith, insurance manager for United Air Lines Inc., described his recent experiences with self-insuring workmen's compensation as "traumatic" to members of the Chicago chapter of the American Society of Insurance Management here.

"My performing muscles had atrophied," he said, "and I had gotten smug, fat and lazy in my business. All this hit me when I went into self-insurance." Mr. Smith said he did not realize until then how many times in the past he had "voted for the status quo because it was easy and comfortable."

Further lambasting himself, he told the risk managers he had "gotten a little bit chicken" in making some of his decisions and getting into self-insurance had made him realize that his broker had become his "security blanket."

Until a year ago in the air industry, he said, workmen's compensation had been a part of everyone's aviation insurance package (The "tail on the dog," he called it.) and everyone took what their insurer handed them. Compensation "became an orphan," however, when the market went from horizontal to vertical shares, he pointed out.

THE FIRST STEP at United in

determining how best to deal with its workmen's compensation needs, according to Mr. Smith, was an analysis of the situation by the broker, which resulted in the three obvious alternatives available: staying with an insurer, going to a captive or self-insuring. "And self-insurance dangled the prize of hanging onto your dough," he said.

Until then, said the risk manager, everything was theory but the "hard and cruel" facts came to light when his broker started contacting all United offices in 17 states to begin application for self-insuring status. "What we thought would take three months' work took nine," he sighed, and when United finally



Waller B. Smith

launched its program it still had only 15 of the 17 states committed.

Mr. Smith gave a brief synopsis of the "horrible facts about trying to get qualified as a self-insurer in so many states:

- California made a bond

about equal to one times United's annual losses "but it took awhile," he said.

• Colorado's requirements for the amount of cash to be put up were so high that the sizeable interest on it almost proved to be a stumbling block, he said, and much negotiation was required to solve the problem.

• Florida, Georgia and Virginia, according to Mr. Smith, "were a breeze." They required a certificate of stop loss, a statement of claims-handling procedures and were interested in United's loss prevention techniques. "These were the only states that seemed to care about loss prevention," he noted.

• Illinois was a state in which Mr. Smith expected to be asked for a high bond. However, he told ASIM members, the initial request was for \$20,000 and this was eventually raised to \$40,000. "Illinois requirements are very low," he said; "this state could stand to copy some of the tougher states."

• Maryland is a difficult state in which to be qualified as a self-insurer, he explained, because it requires a meeting of the full board of commissioners to finalize the matter.

• Massachusetts he described as "in a class by itself. If you're self-insured you have to handle your own claims. No insurance company can provide the service for you." Massachusetts also required a large bond, 40% of one year's expected loss, he added.

• Michigan and Minnesota required large bonds, also, he said, but proved to be very efficient to deal with.

• Nebraska was a bit of a problem, said Mr. Smith, because the state "realizes that a big bond premium does it no good but a premium tax does." The requirement eventually boiled down to United having to report the wages of all air staff landing within the boundaries of Nebraska and the state collecting 3% on that amount. Nebraska didn't seem too worried about "bonds or stop loss or silly things like that," noted the United executive.

Continued on page 45

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## Equitable . . .

Continued from page 2

and if the risk manager tends to place certain coverages with specific insurers who also provide the "harder-to-get" coverages.

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"This is exactly how our people started when they began looking," said a source at Prudential. "I have the feeling," he added, "Equitable is going to do a lot more looking before they get into it."

There is one major difference, however. When Pru disclosed that it was going into the property and liability field, it emphasized it would begin by going the individual insurance route, although the company did not rule out commercial lines.

Equitable, on the other hand, has said that any subsequent move into property and liability lines would likely come in the commercial or mass-marketed area.

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• **American Institute Hull Clauses**, an analysis of hull insurance clauses adopted two years ago and now in standard use by the American Hull Insurance Syndicate and marine underwriters, may be obtained on request from Miss Mary Mullooly, American Hull Insurance Syndicate, 99 John St., New York, N.Y. 10038. The 32-page brochure was written by Raymond M. Hicks Jr., syndicate claims manager.

• The 15th biennial edition of the American Insurance Assn.'s **Summary of State Regulations and Taxes Affecting General Contractors** discusses prequalification, licensing, tax and additional requirements pertaining to construction contracts in respective states. The booklet is intended as a general guide, and encourages readers to seek information locally. Copies may be ordered from the publications department of AIA, 85 John St., New York, N.Y. 10038 for \$1.10.

• A 15-minute, 16 mm color film on the most frequently raised questions consumers ask on no-fault auto insurance has been made available on a free loan basis by West Glen Films, 565 Fifth Ave., New York, N.Y. 10017. Produced by Travelers Insurance Cos., the film employs non-technical and easily understandable language. Allow four weeks from ordering to the date of showing, and specify an alternate date. Two-way postage is the only fee required.

• **Accident Prevention Manual for Industrial Operations**, a 1,654-page comprehensive "how to do it" compendium, discusses almost every area related to industrial safety including training, materials handling, noise control, personal protection, machine guards, industrial hygiene and audio-visual aids. The manual is available from the National Safety Council, 425 N. Michigan Ave., Chicago, Ill. 60611 for \$23, specifying stock number 121.36. Quantity prices are available upon request.

• **New Integration Rules Issued by IRS**, an article issued by George B. Buck Consulting Actuaries Inc., discusses and summarizes the new rules covering the integration of pension and profit-sharing plans with Social Security benefits as set forth in Revenue Ruling 71-446. For your copy write the company at 2 Penn Plaza, New York, N.Y. 10001.

• A brochure discussing heart disease detection programs for mass use in industry and communities has been prepared by Humetrics Corp. The pamphlet describes the company's Electro-Cardio Analyzer systems and their usage. For copies write Kenneth L. Dufour, director of marketing, Humetrics Corp., 6374 Arizona Circle, Los Angeles, Cal. 90045.

• **Multi-Employer Pension Plans**, a basic informational guide for employers, union offi-

cials, consultants and administrators concerned with jointly administered labor-management pension plans, has been published by the Institute of Life Insurance. The handbook covers major factors in setting up such plans and calls attention to the facilities of life insurance companies in underwriting them. Single copies are available free. Quantity price information may be obtained by writing Joseph M. McCarthy, assistant vp, Institute of Life Insurance, 1701 K St., N.W., Washington, D. C. 20006.

• A booklet offered by William A. Dreher & Associates Inc. covers legislative proposals and private pension plans, the cost of vesting, funding and reinsurance and investment performance audits to regulate investment earnings. **Private Pension Funds—Hazards and Options for the '70s** is available by writing the company at 444 Madison Ave., New York, N.Y. 10022.

• Deferred Compensation Administrators Inc. has made available **PLANTAX—Personalized Computer Calculations Comparing Tax Consequences of Profit Sharing Distributions**. The brochure is a computer prepared analysis of federal income taxes attributable to distributions from qualified pension, profit-sharing and thrift plans. It makes possible a comparison of the tax consequences between various alternatives of receiving the distribution and between various dates of distribution. For a sample copy write Craig Johnson, Deferred Compensation Administrators, 1624 Cargill Bldg., Minneapolis, Minn. 55402.

• **What is Value?**, a 25-minute slide presentation, defines and illustrates the proper applications of the various terms of value for clear communication in business transactions. For more information write Joel Leath Jr., Marshall and Stevens Inc., 1645 Beverly Blvd., Los Angeles, Cal. 90026.

• Certified Portfolios Inc. has released a new booklet, **How to Establish a Flexible Corporate Pension or Profit Sharing Plan** based on CPI's variable Master Plans. A worksheet is also provided for the reader. For your copy contact Ron Thon, CPI, 500 Newport Center Dr., Newport Beach, Cal. 92660.

• **Bankers Executive Protective Insurance Kit Portfolio** discusses the coverage which protects bank officials against the hostage/extortion type robbery by providing restitution to the bank upon proof of loss. The kit portfolio contains an explanatory brochure, specimen policy and application. Available through the American Home Assurance Co., copies may be obtained by writing the company at Dept. A-14, 102 Maiden Ln., New York, N.Y. 10005.

• **A Decision to Curtail Decisions** is a brochure released by Zurich-American Insurance Cos.

outlining in detail the advantages of long-term disability insurance to both employer and employee. Copies are available free by writing H. C. Strohson, asst. U.S. mgr., Zurich-American Insurance Cos., 111 W. Jackson Blvd., Chicago, Ill. 60604.

• A subscription cassette tape program, **Foundation Forum**, has been instituted by the National Foundation of Health, Welfare and Pension Plans. The series is basically a news and information service in the employe benefits field, and each cassette is a one-hour presentation of news items, interviews, in-depth reports, book reviews and such standard features as a digest of legal and legislative developments in Washington, a report from Wall Street and an idea roundup. For price information write the foundation, P.O. Box 69, Brookfield, Wis. 53005.

• Valuation Counselors Inc. has made available **Services to Meet Key Property Insurance Policy Obligations**, a checklist of policy obligations for risk managers including a description of the company's services. For a free copy write the company at 230 W. Monroe St., Chicago, Ill. 60606.

• Written from a layman's viewpoint, **Exacting Demands of Inheritance & Estate Taxes** gives a working knowledge of the federal estate and state inheritance tax laws. It enables the reader to check the approximate effect these taxes may have on his estate and suggests a practical way to minimize their consequences. Produced by the Union Central Life Insurance Co., the booklet is available without charge by writing the sales promotion department, Union Central Life Ins. Co., P.O. Box 179, Cincinnati, O. 45201.

• First Investment Annuity Co. of America has made available **A Guide to Your Personal Investment Annuity Policy**. The pamphlet describes the policy in an extensive and direct question-and-answer format and includes a specimen custodian fee schedule. For your free copy write the company at 1845 Walnut St., Philadelphia, Pa. 19103.

• CNA Financial Corp. has released a booklet, **Intergroup Prepaid Health Services Plan**, which outlines the operations, administration and coverages of a new prepaid health maintenance program formed by insurance subsidiaries of the CNA Financial Corp. The program is initially offered in Chicago and the northern Indiana area through group practices in business, unions, and other organizations as an alternative to conventional health insurance plans. For copies write Edward Boltin, Intergroup, CNA Financial Corp., 310 S. Michigan Ave., Chicago, Ill. 60604.


• The Northwestern National Life Insurance Co. has made available **Group Survivor Income Benefits**, a brochure describing the company's new plan designed to offer young families the security of a continuing monthly income coordinated with basic group life insurance and Social Security. The pamphlet may be obtained by writing Norton Korn, grp. sales promotion mgr., Northwestern National Life, 20 Washington Ave. S., Minneapolis, Minn. 55440.

• **Patterns of Multi-national Organization Design** is a summary report of a study of the organization in design patterns in 47 large North American and European multinational firms. The booklet

is offered by Towers, Perrin, Forster and Crosby and available without charge by contacting Joseph A. Banik, TPF/C, 3 Penn Center, Philadelphia, Pa. 19102.

• A check list for building a foreign insurance program is one of the topics covered in a brochure, **Meeting the Challenge**, prepared by the international division of Chubb & Son Inc. Copies are available by writing to Chubb & Son Inc., International Division, 90 John St., New York, N.Y. 10038.

• **U.K. Pension Plans—The 1971 Government White Paper** is a booklet outlining the British proposals in brief and identifying those areas of company pension plans which are most affected. Produced by Marsh & McLennan International, you may order your copy without charge by writing the company at 70 Pine St., New York, N.Y. 10005.



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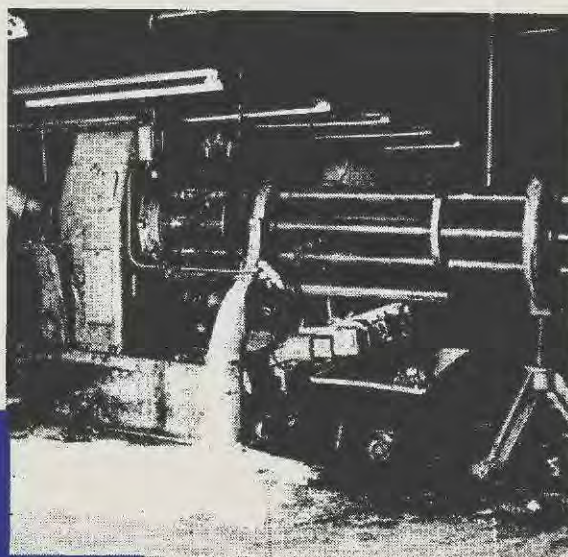
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## Employers fully fund school retirement plans

SALT LAKE CITY—A major cost increase for Utah in 1972-1973 and subsequent years will result from legislation providing for full employer funding of retirement contributions for state and local school employes, reported the Utah Foundation, a non-profit research organization.

The new obligation, approved by the budget session of the Utah legislature, will add approximately \$10.6 million to state expenditures next year with further increases scheduled in future years, the foundation reported. Under the present public employe retirement law, the employer and the employe each contribute 4.5% of salary costs to the state retirement fund.

When the new law takes effect on July 1, 1972, the employer will assume the employe's 4.5% share, resulting in a total cost of 9% to the state. Furthermore, this total contribution by the employing unit will be raised to 9.5% in 1973 and to 10% in 1975.

**THE EMPLOYEE'S** share of this cost, which will now be paid by the state, will be immediately vested to the credit of the employe. Thus, if an employe should leave public service before retirement, he or she will have claim

on this portion of the contributions to the fund.

At the present time, the state retirement program covers about 8,300 persons employed by the state, 13,500 school teachers, and 6,500 other employes of the state's school districts. The state assumes all of the cost for local school employes through the state aid financing program for local schools.

The \$10.6 million cost of the new pension program amounts to about one-third of the total increase approved by the budget session for general purpose spending next year.

The budget session, which meets every other year, also passed legislation permitting Utah public safety employes, such as fire departments, police departments and highway patrol, to pay the full costs for retirement programs of their employes if they so choose. If public safety employes exercise this option, the full funding of the program will also take effect July 1, 1972.

## dates for buyers

**April 12-14**, American Management Assn. workshop seminar, "Modernizing the Group Insurance Plan," AMA headquarters, New York City. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**April 12-14**, American Management Assn. briefing session, "Mass Merchandising and Equity Product Sales in the Insurance Industry," Sheraton-Lincoln Hotel, Houston. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**April 12-14**, American Management Assn., workshop seminar, "Modernizing the Pension Plan," Sheraton-Lincoln Hotel, Houston. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**April 12-14**, American Management Assn. workshop seminar, "Modernizing the Pension Plan," AMA management center, Chicago. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**April 24-26**, American Management Assn. orientation seminar, "Appraising the Potential of the Captive Insurance Company—and Its Alternatives," Hilton Inn, Atlanta. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**April 26-28**, American Management Assn. workshop seminar, "Communicating Employee Benefits," Hilton Inn, Atlanta. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**May 8-12**, American Management Assn. course, "Principles And Practices of Insurance Buying," AMA headquarters, New York, N.Y. 10020. For more information write the AMA, 135 W. 50th St., New York, N.Y. 10020.

**May 15-19**, National Fire Protection Assn. annual meeting and fire safety exhibit, Marriott Motor Hotel and Holiday Inn, Philadelphia. For more information write NFPA, 60 Batterymarch St., Boston, Mass. 02110.

**May 24-26**, Pension & Welfare News and Trusts & Estates magazines' annual conference on employe benefits, Americana Hotel, New York City. For more information write Robert W. Lord, editor, Pension & Welfare News, 461 8th Ave., New York, N.Y. 10001.



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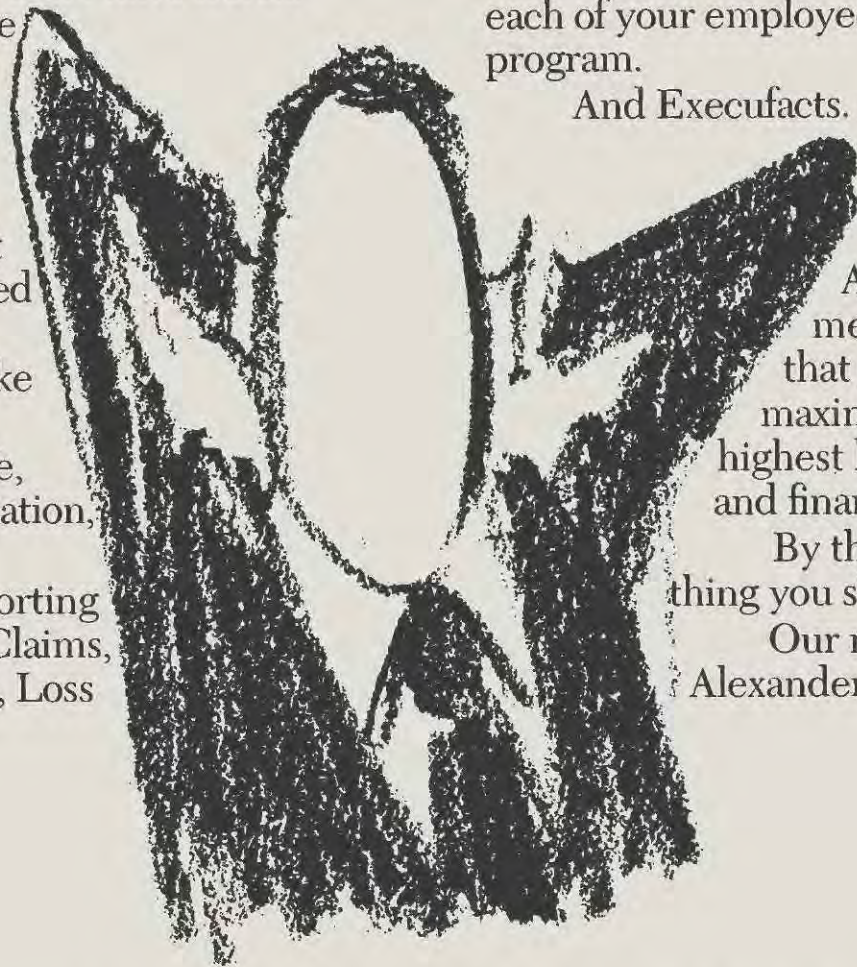
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# editorial opinions

## Different bombs, other violence

IN THE WAKE of the Martin Luther King riots several years ago many insurance industry executives irately denounced government officials for failing to maintain an orderly society, claiming that law and order was essential to the effective operation of private insurance.

One of the clearest expressions of this point of view came from James S. Kemper Jr., who said, "Every citizen must be concerned, as a citizen, with the deterioration in American attitudes toward legal, social and moral responsibility. This condition affects insurance people not only as citizens but as businessmen, because the insurance mechanism does not work and will not work in a disoriented society. Only in a reasonably orderly society of responsible citizens can we serve the great majority of those whose attitude toward the rights and the property of others entitles them to insurance protection at a reasonable cost."

We have no quarrel with Mr. Kemper and his colleagues in the industry who support the principle of an orderly society, but too often we witness instances where insurers turn their heads away from law and order situations that cause more harm to society (and to insurance companies) than the terrifying episodes of burning and looting that followed the assassination of Dr. Martin Luther King. It is as if the insurance industry is concerned primarily about law and order among minorities and political protesters.

The insurers are quick to complain that the police have not kept demonstrators in line, but they have little to say about breaches of the law by marginal business practices.

Take two recent examples.

• In Orland Park, Ill., a fireworks plant explodes killing at least three people and inflicting property damage, insured and uninsured, in an area 10 miles around the illegal plant. It turns out that the plant is located in an area zoned for single-family dwellings, that it does not have a required

state license and that it has never been inspected by Illinois state authorities responsible for monitoring the production and use of explosives. Indeed, state officials were blissfully unaware that the plant was in operation even though it had been the scene of several minor explosions prior to last month's fatal blast.

• In Man, W. Va., a slag dam erected by a mining company loosens suddenly, allowing a cascade of water to deluge communities killing 116 people and inflicting substantial property damage in an area already oppressed by poverty and joblessness. Again it was found that there had been official laxity, a failure by state authorities responsible for public safety to order the mining company to make its jerry-built dam safe for those who lived in the valleys below.

These are but two examples that come quickly to mind; other similar breaches of law and order occur daily,

but the insurance industry generally looks the other way—in the direction of the long-haired demonstrators who ought to be put in their places by police action.

It's hard to remember a demonstrator bombing episode that wreaked havoc over a 10-mile radius. And even the worst of the inner-city and political demonstrations never killed 116 people.

Fireworks made in an illegal plant are, we suppose, a different kind of bomb. And water drowning innocent people is, we presume, a different kind of violence. Yet the people killed are no less dead, and the property no less lost.

It's time for insurers, on behalf of all of us, to get their dander up at the breaches of law that are very much a part of our disoriented society.

The makers of much of our most costly violence do not demonstrate for social change. They are, instead, defenders of the status quo, no matter how high a price society must pay.

## Is this necessary?

WE RECEIVED an invitation the other day from something called the "host committee" for the annual meeting of the National Assn. of Insurance Commissioners to be held June 11 through 15 in Denver. J. Richard Barnes, insurance commissioner of Colorado, is "honorary chairman" of the committee, but the general chairman, executive committee members and all chairmen of subcommittees are insurance company executives. This, to us, is as if a meeting of the Federal Communications Commission were to be staffed by executives of the major networks. It's another case of the rabbits guarding the lettuce.

Before you hastily draw the conclusion that this is another case of *Business Insurance* taking off on insurance regulators, who are among our favorite targets, consider the opinion of Richards D. Barger, president of NAIC:

"This procedure of having an industry-run host committee is extremely foreign to me. I don't approve. NAIC meetings should be self-supporting." Mr. Barger added that William Y. McCaskill, Missouri's superintendent of insurance, also expressed serious reservations about the "host" group.

In a sense, however, the existence of the insurance executives' host committee is not to be blamed on Mr. Barnes or Mr. Barger or any insurance commissioner. Rather, it is the consequence of short-sighted legislators who, in the most recent year of record, allocated only 4.39% of insurance taxes and fees to the operations of insurance departments.

Until this practice of parsimonious funding ends, we suppose that the rabbits will continue to guard the lettuce to the detriment of independent regulation.

# letters

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

## 'Valuable service'

To the Editor: On behalf of the Pennsylvania Chamber's insurance committee, I wish to congratulate *Business Insurance* on the Workmen's Compensation Survey. We feel the survey will provide a valuable service to the National Commission on State Workmen's Compensation Laws. The insurance committee is extremely anxious to study the results of your survey.

Since the workmen's compensation procedures and benefit scales were recently revised in Pennsylvania, the insurance committee is considering conducting a similar survey in Pennsylvania after the new workmen's compensation system has had a chance to prove itself and opinions can be documented by facts. Perhaps we will be able to work closely with you in conducting such a survey.

Fred F. Bergdoll Jr.

Secretary, Insurance Committee, Pennsylvania Chamber of Commerce, Harrisburg

Editor's note: Results of the Business Insurance survey were presented to the commission March 20 and appear elsewhere in this issue.

## Insurance degree

To the Editor: Could you please furnish me with some information as to what schools award degrees in insurance. I am interested in employing someone who wants to make his career in risk management, and if possible would like to give the opportunity to someone who followed insurance in school. Any assistance you may be able to give me will be appreciated. Your publication is the most valued source of insurance information I have found!

Ronald K. Rappold

Assistant Secretary, Peoples Drugstores, Washington, D. C.

Editor's note: According to a survey of risk and insurance education conducted in 1962-1963, at least 82 schools in the U. S. have major programs in insurance at the undergraduate level; 26 schools have major programs at the master's level and 13 schools at the doctoral level. For a complete list of the schools, see "Risk and Insurance Instruction in American Colleges and Universities" by Robert D. Eilers and Linda P. Fletcher, a survey conducted by the S. S. Huebner Foundation for Insurance Education at the University of Pennsylvania.

## 'No agents'

To the Editor: Regarding your Feb. 14 article on Pitney Bowes payroll deduction personal insurance program, we would very much appreciate your correcting the article as follows:

Pitney Bowes has not reached a selling agreement with Connecticut General Insurance Company, Hartford, to allow insurance agents to mass market automobile and other lines of insurance coverage to the firm's 12,000 employees.

Pitney Bowes has signed an agreement with the Connecticut General merely to provide payroll deduction for employees who

Continued on page 44

# business insurance

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# Woolworth warehouse loss survey raises fire prevention questions

LONDON—Risk managers are learning valuable lessons on fire prevention in warehouse complexes from a survey of the \$10 million loss at the Rochdale store of the Woolworth chain.

The fire, one of the largest covered by insurance ever to occur in Britain, involved many different lines of merchandise. It was covered by Phoenix Assurance Co., though other insurance companies shared in the risk.

Executive officials of the Fire Protection Assn., which aims at reducing Britain's \$300-million-a-year fire losses, studied the details of the outbreak. It occurred in May, 1971, in the bulk storage area of a warehouse complex which was originally an old cotton mill and was taken over by the Woolworth group several years ago. But supplies to its chain stores throughout the U.K. were not materially affected, as producers helped to restock them by direct shipments from plant headquarters.

AMONG questions raised by the fire are:

- Can maintenance on sprinkler circuits be completed without cutting off the overall alarm system?
- Should flammable and non-flammable merchandise be kept strictly separate?
- Is over-stocking likely to lead to obstructions in the way of firemen?
- Should water pressure for sprinklers be checked with local city supply authorities?

The Fire Protection Association report states: "The fire started in a partially enclosed corner of a bulk storage area containing palletized merchandise stacked in

racks.

"It was discovered in its early stages, but there was some delay in calling the fire brigade because the fire alarm system which had a direct line to the fire brigade, was not operating at the time. The sprinkler system was ineffective and the fire spread rapidly over the top of the storage racks.

"The fire alarm system," the report continues, "was out of action because work was being done on one of the sprinkler installations, and the alarm circuits were so phased that they could not be isolated individually. So that while the sprinkler alarm circuits were operating internal-

ly, warehouse personnel had to get to ordinary plant telephones to alert the fire brigade."

ACCORDING TO the report, "Two employes noticed the fire at 3:55 p.m., and the fire brigade was contacted within six minutes.

"A pallet containing greaseproof paper, or paper tissues packed in cartons, was on fire. In the bulk storage area were paper tissues, greaseproof paper, wicker baskets, plastic buckets, aerosols, and rubber mats in vast quantities.

"Palletized merchandise was stacked in racks, but no areas were designed specifically for particular goods, so that flamma-

ble materials were distributed throughout the building."

Then came another problem, outlined in the report, which states: "The sprinklers failed to control the fire because the water supplies to the system were inadequate for high-piled storage. There was water in an internal pressure tank, but when this dropped, the town municipal mains were unable to deliver enough pressure, particularly at that time of day.

"THE FIRE continued on the racks while the initial sprinkler attack was in operation. For the burning material was completely protected by the upper shelves of the racks, as well as by projecting pallets, which had an umbrella effect."

The report goes on to say, "When the fire brigade arrived they noted that virtually no water was being discharged from

the heads which they had operated; and when the fire reached sections of the building covered by the other sprinkler installations, no water was available from the mains, so they were completely ineffective.

"Some of the aisles were obstructed by palletized merchandise for which no room could be found on the shelves, and access for firemen to a static water tank was completely obstructed by stacks of empty pallets, boxes and containers. The fire spread across the top of the racks faster than a man could run."

Because there had been regular evacuation drills at the premises under the supervision of the local fire brigade, every one of the 700 employes was safe and evacuated from the premises.

The report does not seek to fault anyone, but records the facts as a guide to fire prevention problems. ■

## Hertz is held liable for crash

HARTFORD—The Connecticut state supreme court has upheld a \$62,500 damage award in an action brought against the driver of a rental car and the Hertz Corp.

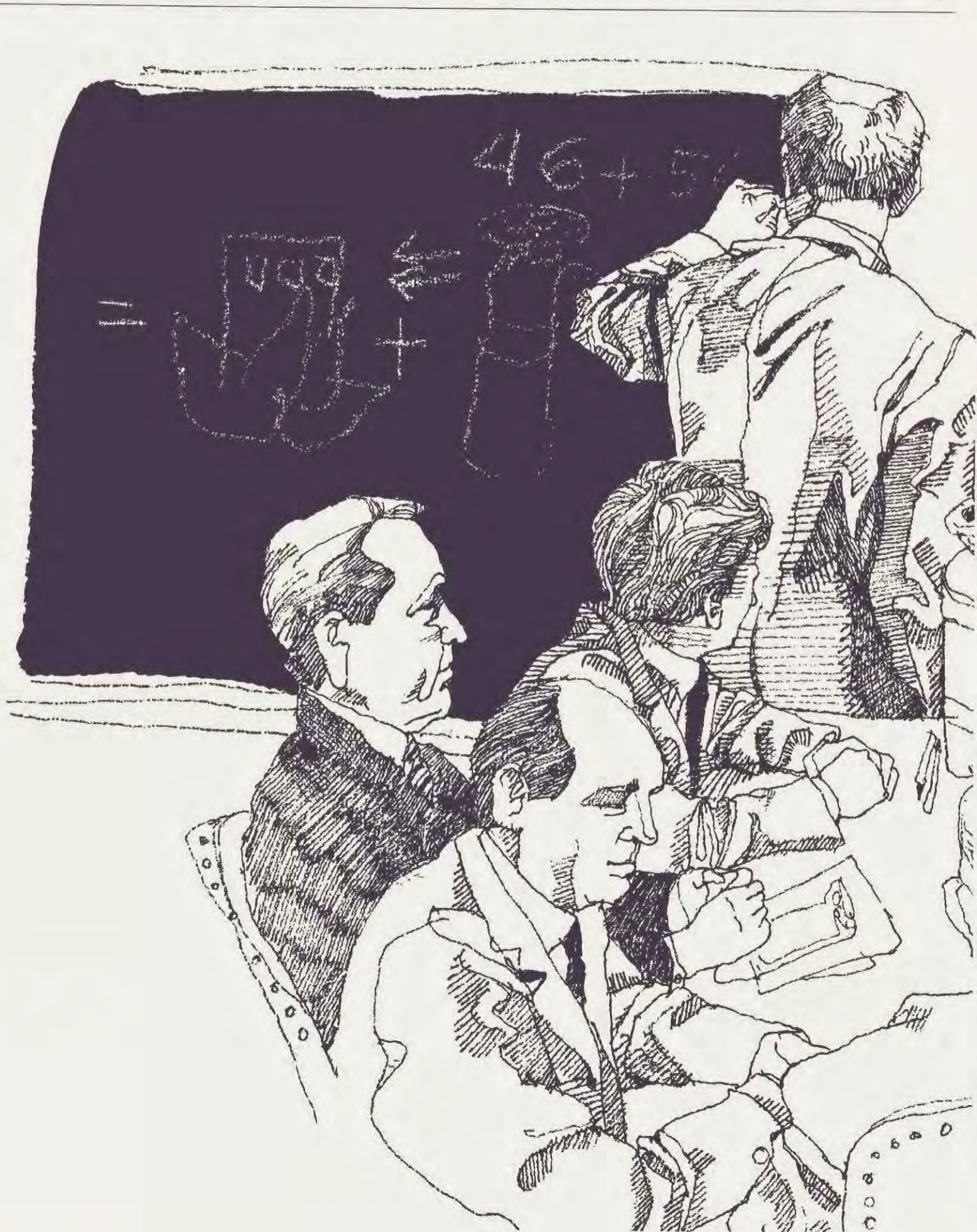
The high court's opinion noted that the rental agency (Hertz) is liable for damages, regardless of provisions of the rental contract restricting use of the vehicle to specified individuals.

Hertz had claimed that a restrictive clause in its contract—limiting use of the rented car to a member of the customer's immediate family—divested the firm of liability in the case.

The action was brought by F. C. Fisher, administrator of the estate of Richard F. Fisher of Danbury, Conn., killed in 1968, in an accident involving a car rented by James Hodge of Danbury and driven by his brother, Charles Hodge.

THE COURT found that in the context of the rental agreement, Charles was a member of the "immediate family" of his brother and that he had been using the car with proper permission.

The court added: "Even if Charles, the operator, was not a member of the immediate family of the lessee, James, on the evidence the jury could reasonably and logically find that the defendant, the Hertz Corp., was liable for the damages caused by the operation of the rented vehicle 'while so rented or leased.'" ■



# Handling excess suits requires delicate tactics by defense bar

CHICAGO—The problems of lawyers defending cases with verdict potentials in excess of policy limits include the possibility that if they lose the case they may end up on the wrong end of a professional malpractice suit, defense lawyers here were warned.

Defense lawyers must always attempt to protect themselves while conducting an excess defense, according to John J. Costanzo, partner in Spray, Gould & Bowers in Los Angeles, because "lawyers as defendants aren't too popular with juries." Mr. Costanzo, who spoke at a defense tactics seminar here, won the first Corvair suit filed against General Motors and handles all of that company's product liability de-

fense in suits filed in the Western states.

The problem of defending excess suits arises out of a natural conflict, he told the seminar, because a lawyer's first duty is to his client "but the insurer that hired him is always in the background." The lawyer must also deal with a client whose attitude in the face of an excess suit is often: "Isn't this what I have insurance for? It's the insurer's money after all, isn't it?"

MR. COSTANZO said that his firm once kept a file of the letters from plaintiffs' lawyers claiming that their clients' injuries were worth more than the defendants' policy limits and stating that if a

settlement was not made out of court up to the policy limits excess damages would be sought in court. This file was kept for possible use by the firm in its own defense, if necessary, he said, and follow-up research indicated that court awards following such letters were substantially less than the policy limits. He added, however, that these statistics were compiled before the doctrine of absolute liability had been upheld in the courts.

When an excess letter is received, noted Mr. Costanzo, the defense lawyer must advise his client of the demand right away, in order to protect himself, and, for the same reason, should persuade his client to work toward a

settlement within the policy limits.

A second difficult defense situation arises when charges of an intentional tort accompany the negligence charges, he pointed out. Even though the intentional counts and punitive damage claims may be dismissed, and even though the lawyer has no obligation to defend against them because they are not covered by insurance, Mr. Costanzo explained that there may be "a high degree of punitive damage money" hidden in the general damage award. This is one time when a defense lawyer may have to face the risk of settling out of court, he said.

The problem of defending a client whose policy has low basic limits or a client who is impecunious can best be handled, he said, by using the voluntary settlement approach. "Call in all those involved," said Mr. Costanzo, and let the court attempt to

make a pro rata distribution of whatever remains to be shared among the plaintiffs.

Occasionally, he told the seminar, the defense lawyer will find himself involved with a client who has full coverage but who, for reason of personal vindication for instance, refuses to settle for an amount the attorney considers reasonable. A few such cases, he said, have been settled without consent of the client and with the carrier assuming the risk of being sued by the insured for breach of contract or mental anguish. Damage awards sought in such a case, he added, "could be in the never-never land" range.

Another example of a non-cooperative client that Mr. Costanzo mentioned involved an army deserter who was being sued in civil court on non-military charges. The defendant could not be located and the insurer sought relief in the form of a "no coverage" declaration based on lack of cooperation by the client. ■

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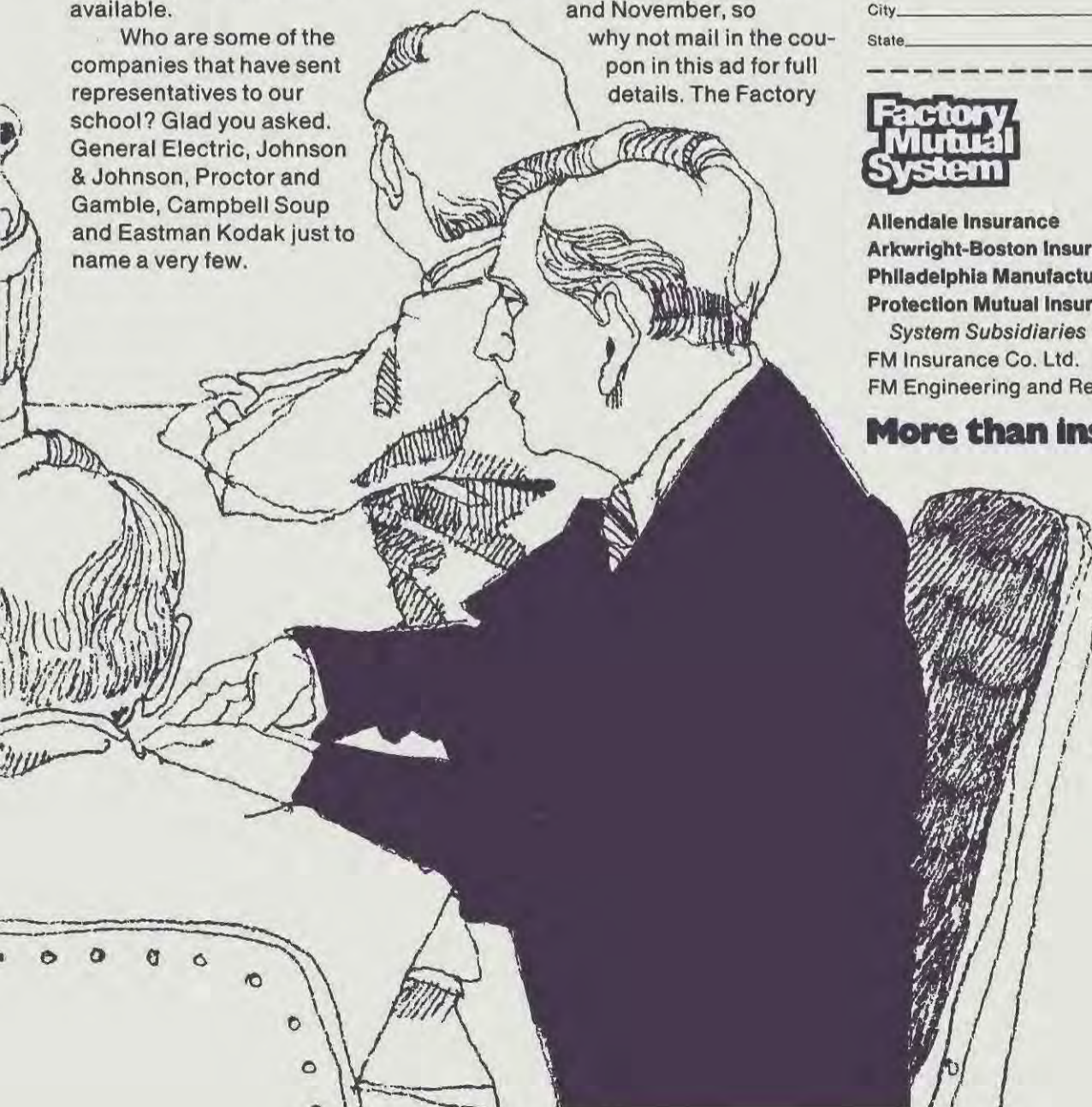
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## New Jersey pension fund bankrupt

JERSEY CITY, N.J.—The Hudson County employes pension fund has been ordered by a superior court judge into temporary receivership. Judge Samuel Lerner handed down the order on the application of Attorney General George Kugler Jr., who said the fund was being "grossly and fraudulently mismanaged."

The judge indicated that the application by the attorney general was a precedent but disagreed with the pension fund's counsel, who had contended that the court had no jurisdiction to appoint a receiver for the pension commission, which is a public corporation.

The commission has given no new pensions since Jan. 26, the date Mr. Kugler filed his civil action but has, according to Judge Lerner, continued to pay large amounts of money to persons whose pensions he said were "under a cloud." Of those receiving pensions, Mr. Kugler contended that 70 persons were not eligible for them.

Under the system, employes have the right to retire at half pay as soon as it is certified that they have a condition that prevents them from further work.

A Hudson County grand jury last June indicted the five pension commissioners, four of whom remain in office, and the county medical examiner, who makes the decisions as to which employes are entitled to disability pensions.

In an 84-count indictment, the jury charged the defendants with misconduct and conspiracy, as well as with 82 unjustified awards totaling over \$300,000 in pension money.

Judge Lerner declined to name the receiver but indicated that he would have nothing to do with Hudson County. ■

## No-fault hearings

The joint interim judiciary committee of the Wyoming legislature has scheduled public hearings in Cheyenne April 7 and 8 on a proposed no-fault insurance program for the state. Ben Murphy, Wyoming insurance commissioner, said studies showed 80% of the state's drivers—those with full coverage—would receive an estimated 15% reduction in premiums under the no-fault plan. He added that those with minimum coverage would have an increase in premiums.

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## Contractors' group to develop new health plan

SEATTLE—Increased medical costs and a drop in the number of insureds under the Associated Plumbing Heating Cooling Contractors' group insurance plan here forced Pacific Mutual Life to pay out more than \$10,000 of benefits in excess of premiums collected last year.

As a result, the APHCC board of directors has agreed to a substantial increase in premium rates.

However, the board also has retained a broker-consultant to design and promote a new group insurance program to an expanded market. The new program, when developed, will also be made available to all members of the Employers' Council of Wash-

ington, into which the APHCC will soon consolidate.

ACCORDING to Max Tonn, APHCC president, the merger will provide an initial market of more than 350 employers as compared with the 83 current members of the plumbing, heating and cooling group.

He also pointed out that workmen's compensation insurance rates in Washington have increased an average of 72% to help pay for an 80% increase in benefits granted by the 1971 state legislature. Medical aid premiums went up 25%.

The new basic rates for plumbing, heating and ventilating contractors in the Class 3 category henceforth will be .0904 for industrial insurance and .0475 for medical aid. Individual rates will be determined by multiplying the base rate by the employers' experience modification factor.

Self-insurance and group insurance are permitted under the new Washington law. Specific programs, however, have not yet been formally established.

IN ADDITION to the increased workmen's compensation and medical aid rates, employers must also pay 2.5¢ per day or part day worked by each employee; this will be matched by the worker. The 5¢ a day is to provide for increases in pension benefits.

In 1971 employees injured at work in Washington were paid more than \$61 million in insurance compensation. The largest amount, \$18,635,000, paid more than 439,000 medical bills. More than \$16 million went into workmen's wage compensation payments.

Lifetime pensions worth more than \$13 million were established for 411 permanently disabled workers and for widows of workers killed on their jobs in the plumbing, heating, cooling and air conditioning industries.

There were more than 1,400 job injury claims, for a total of 125,000, and on-the-job fatalities increased from 164 in 1970 to 169 in 1971.

## Oregon picks Blue Cross for employes

SALEM, Ore.—Blue Cross of Oregon has been selected as the carrier for three of the four health insurance plans for some 32,000 state employes.

State workers will receive state aid in paying for medical insurance costs for the first time, effective July 1, 1972, under a law passed by the 1971 legislature.

Blue Cross was picked to provide the basic, major medical and comprehensive health insurance coverage. Negotiations are currently under way for a group practice plan which involves insurers who own hospitals and assign doctors to patients.

Under the new law, the state will pay up to \$10 a month for health insurance for its employes.

Under the Blue Cross proposal, an employe will not have to pay anything for basic and major medical coverage for himself, but will have to pay \$3.57 a month for comprehensive coverage and for coverage for his spouse and children.

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## Brazilian fire victims will receive 'ample and immediate' payment

SAO PAULO, BRAZIL—The Brazilian Reinsurance Institute has been given the go-ahead to make "ample and immediate" indemnification of the personal and material damages resulting from the Andraus Building fire here last month. (*Business Insurance*, March 13).

The Pirani organization, in whose department store on the first floors the fire is said to have begun, announced that it was amply covered by fire insurance and would suffer no losses at all since it was also covered by a "business and profits losses" policy.

Pirani, which has three stores in Sao Paulo and is the fifth largest department store in Brazil, said that the store in the Andraus Building represented 30% of its business and that this loss would be covered by its policy.

At a meeting of the owners of the Andraus Building, it was decided that the burned out structure would be renovated and refurbished. City engineers approved the safety of the structure. The building owners requested an advance of one-third of the indemnification money. The building was insured by Yorkshire Co. Ltd. for \$2 million.

THE ANDRAUS fire has brought

a wave of demands from public and private groups for more severe safety measures in large buildings. The city is beginning an inspection of all structures and is preparing a new, rigorous building code to be presented to the city council this month. The first inspections of buildings of more than 25 stories in downtown Sao Paulo showed that few had functioning fire extinguishers, one of the few fire safety regulations under the present antiquated code. In both the insurance and construction sectors, suggestions are being made for a variety of fire safety and prevention equipments. Most often mentioned are sprinkler systems and fire escapes.

External parapets and internal fireproof divisions are probable requirements in the new building code. Their absence is pointed to as the principal reason for the rapid spread of the Andraus fire, which claimed 16 lives.

Performance bond insurance is again being mentioned as a guarantee of safety of structures both against fire and structural defects. The national housing administration is now thinking of making this type of insurance mandatory to start with in its large urban residential projects, and then gradually introducing the system in all the projects it finances.

This gradual use of performance bonds is necessary, local experts say, because of the higher expenses involved in construction with performance bonds. However, several Sao Paulo insurance companies are equipped and ready to begin writing performance bonds.

## Nuclear rate drop

NEW YORK—Nuclear property insurance rates went down 7.7% in premiums on all new and renewal policies effective March 1, according to the Nuclear Insurance Rating Bureau.

Rates, according to the bureau, will henceforth be determined by the actual loss experience of the nuclear industry. Heretofore, the NIRB had, in its own words, "found it necessary . . . to rely primarily on judgment and past experience in related areas of property insurance in setting the rates for nuclear coverage. It has now developed a sufficient base to have rates for nuclear property insurance based on actual experience," the bureau said.

The experience, obviously, has been good.

## Lost plane's insurance is unclear

SAO PAULO, Brazil—The disappearance of a Cessna plane with the pilot and four passengers near Sao Paulo has brought up an insurance problem.

The plane has been missing for 25 days, yet there hasn't been the slightest clue as to its whereabouts. Because the area is covered by dense forests and mountains near the Sao Paulo coast just south of Rio de Janeiro, the chances of finding it soon are very slight.

According to the Brazilian air code, in the case of a lost plane in which the victims are not located, indemnification can only be paid after five years. However, since there has been no evidence of an accident, some insurance specialists claim the case may fall within the normal civil code.

The insurance company holding the policies on the plane and passengers, Cia. Novo Mundo de Seguro of Sao Paulo, is waiting for final word from the civil aviation investigation commission before it makes any decisions.

The Sao Paulo Aero Club, from whom the plane was rented, had three policies on the plane and passengers.

The club president Alfredo Julio Filho would like to pay the families of the victims as soon as possible. However, even if the five-year waiting period were waived, there are other legal demands that make indemnification complicated. For example, the insurance company can't pay on any of the policies without a death certificate issued either by the air force or a local authority. Furthermore, there must be a court order stating who the beneficiary should be as well as the presentation of identification documents of both the victims and the beneficiaries.

## County dental plan

The San Mateo County (California) board of supervisors has approved a county-paid dental plan for most of the county's employees. The county contribution will range from \$5 to \$9 per employe and will provide 95% comprehensive coverage from the Occidental Life Insurance Co. The plan will cover members of the Peninsula Assn. of Public Employees, American Federation of State, Municipal and County Employees and carpenter and nurses union members employed by the county.

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# Brazilian fire provokes risk manager notice here

SAN FRANCISCO—The loss of lives in the Sao Paulo, Brazil, fire that gutted the 26-floor Andraus office building gave emphasis to a warning delivered to the Insurance Forum here by Franklin J. McClain, engineering manager, Underwriters' Service Inc.

Mr. McClain told a meeting for corporate risk managers, devoted to loss prevention, that "current construction of highrise office and apartment buildings poses new and potentially grave fire hazards that demand development of new methods of fire prevention and control.

"The almost age-old design concept that building occupant safety can be assured by more exits," he declared, "is not only fallacious but is downright dangerous. Building codes as applied

to high rise construction must be strengthened. Design and construction of such buildings must be tailored to the prevention as well as the control of fires."

**DAVID WARREN**, of Warren, McVeigh & Associates, San Francisco insurance consultants, and chairman of the meeting, asserted that "safety, fire protection and security are the policies which support any company's risk control and insurance program.

"Recent federal and state legislation," he said, "points up the importance of these policies. New equipment is changing conventional thinking and professional assistance is now available for many new sources."

The subject of corporate security was discussed by Philip L.

Schiedermayer, president, Profitect Inc., and problems of safety were reviewed by William V. Strattan, assistant vp and manager West Coast casualty loss control, Johnson & Higgins.

Mr. Schiedermayer said business and industry risk managers "should be more aware of the philosophical changes taking place in the attitudes of police departments around the U.S. In the past, police have operated in accord with the basic concept of reacting to events. Now they are becoming more and more concerned with prevention rather than reaction.

"**RISK MANAGERS**," he said, "are in error whenever they assume that the mere purchase of insurance protects their companies against a risk. They have an obligation to their management

to go far beyond this and to create an environment hostile to loss, whether the loss be from crime or from carelessness.

"Billions of dollars are lost to business crime each year," Mr. Schiedermayer added, "and yet business seems to take far too little interest in preventing crime once they have insured themselves."

Mr. Schiedermayer outlined new products that are being used to provide business security, such as use of a laser beam to protect property, computers to authorize access, and the use of closed-circuit television, to scan protected areas. Excessive losses of cargo to thieves, he continued, "may well result in much stiffer new federal crime control laws and the government may impose costly new rules on business.

Effective and strict enforcement of the new federal Occupational Safety and Health Act was described by Mr. Strattan as "perhaps the most important major advance of recent years in personnel safety, which is, or should be, a concern of the corporate risk manager.

"**UNFORTUNATELY**," he added, "I am fearful that risk managers and their bosses have not really paid enough attention to this new federal law or to its enforcement or what violations can mean.

"Prevention of injury," Mr. Strattan emphasized, "has been legislation and it will be enforced. There are even stiff penalties that can be imposed on business or employes for any interference with OSHA inspectors."

The law was designed, he believes, "to increase production in the U.S. and to achieve this, the government is determined to make the new law work."

Mr. Strattan pointed out that, to date in its enforcement, at least 80% of the business operations inspected have been cited for violations of the law. Citable offenses can be found in noise, dust, fumes, bad lighting, anything adverse to an employee's health. He also said he believes very few employers are in compliance with the Department of Transportation regulations and that fines of up to \$10,000 and six months in jail "may become common.

"Corporate risk managers," Mr. Strattan concluded, "must get so that they are familiar with every word of such new legislation as well as with enforcement regulations. Then they must insist on changes within their companies that will result in conformity with the law."

## Says special pensions deplete fund

HARTFORD—Proposed Connecticut legislative bills singling out individuals for special, unearned retirement benefits are "raping" the state retirement fund, Nathan G. Agostinelli, state comptroller, has asserted.

Addressing the Connecticut State Employees' Assn. executive board, Mr. Agostinelli said he objected to measures giving designated persons with eight or 10 years of service the same pension income as those serving 25 years or more.

"I can understand how it is difficult for a legislator to turn down a constituent's request," he said, "but too many such bills get introduced and passed."

Mr. Agostinelli is secretary of the State Employees Retirement commission. The Connecticut State Employees' Assn. is opposing forced retirement and elimination of positions in branches of state service.

## New skiers policy

Continental Assurance Co., a CNA Financial Corp. subsidiary, is now writing permanent life insurance for members of the U.S. Ski Assn. The whole life policy premiums are \$25 or \$50 per quarter and can provide up to \$10,162 and \$20,324 in coverage depending on the age when the policy is purchased. The policy requires no medical examination, but coverage ends at age 65, at which time all premiums paid into the plan are returned in full.

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

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## Giles on the law

# 'Aesthetic' wheel blade injury is compensable under strict liability

By John W. Giles  
Attorney at law

WASHINGTON—A sharp wheel cover may make an automobile manufacturer strictly liable. The wheel cover was designed with two ornamental blades protruding some three inches from the base of the cover itself. The spinners served only the purpose of aesthetic design. These spinners were recessed two and one-eighth inches within the outer perimeter of the car's body shell. Within the five square feet of the car's rear wheel well there was no covering or protection

from the blades.

A woman riding on a motorcycle collided with the car and the woman's leg was injured when it came in contact with the protruding sharp wheel cover. The federal court concluded that the Iowa court would apply the doctrine of strict liability to a person in the plaintiff's status. Clearly, the plaintiff would be covered as a person within the vicinity of the use of the product under the test of foreseeability, which is operative in these strict liability cases. The court said, if anything, bystanders should be entitled to greater protection than the con-

sumer or user where injury to bystanders from the defect is reasonably foreseeable. (CA. 8 *Passwaters v. General Motors Corp.* Jan. 10, 1972.)

\* \* \*

AN EMPLOYEE brought an action for injuries sustained while dismantling a crane which had been sold by the defendant to his employer. The U.S. court held that, in the absence of any express contract of indemnity between the seller of the crane and the purchaser, the Nebraska workmen's compensation act insulated the purchaser from contribution

or indemnity in favor of the seller in an action by the purchaser's employe for the injuries sustained while dismantling the crane.

Oklahoma has taken the position that their workmen's compensation statutes do provide such insulation. Iowa courts have held that the workmen's compensation act dictates a contrary result. The federal court said that Nebraska would find that the exclusivity of the Nebraska workmen's compensation law would bar the employe's claim. (*Petznick v. Clark Equipment Co.* 333 Fed. Supp. 913. 1971.)

\* \* \*

HOTEL OWNERS may note a recent case in the District of Columbia where a hotel patron brought action for loss sustained after the patron left his automobile with the doorman for parking in the hotel garage. The court

of appeals held that where a garage was physically part of a hotel structure, and access to the garage was only through the hotel lobby or by way of a ramp, and the cost of parking by hotel patrons using the garage facilities was absorbed by the hotel, the hotel was an insurer of the patron's property under the doctrine of *infra hospitium*, even if the hotel was not aware of the contents of the automobile.

The court further held that the fact that such doctrine was applicable against the hotel did not preclude the hotel from having the jury decide the question of negligence as raised in the cross complaint against the garage, whose attendant admitted having custody of the automobile but failed to deliver it. The court said that it should make no difference that another business entity operated the garage or that the ticket handed the patron contained both the hotel and the garage names. There was certainly no privity between the patron and the garage. Viewed through the patron's eyes, the garage was reasonably part of the hotel. (*Governor House v. Schmidt.* 284 At. 2nd. 1971. See also *Hallman v. Federal Parking Service.* 134 At. 2nd 382.)

\* \* \*

WHAT ARE THE liabilities of a drug manufacturer with respect to birth control pills? In this federal case twins were born with mongoloid deformities. The complaint alleged that the drug manufacturer's birth control pills altered the chromosome structure of the mother of the plaintiffs to produce their mongoloid deformities. The injury was caused prior to the conception of the plaintiffs.

The court said that no authority in Oklahoma was cited to allow a child to recover for his malformation caused by injury to the ovum of its mother prior to his conception. In fact, no holding by any court can be found that a child may recover for injury to the sperm of its male parent or the ovum of its female parent before the two unite in conception. The court concluded that it is general knowledge that birth control pills have been merchandised for several years.

Likewise it is general knowledge that articles by medical authorities respecting dangers incident to such use have appeared in the medical publications. Any right of a child arising out of injury to the chromosomes of its mother through the use of such pills prior to its conception should be created by the legislature and not by judicial decision. (*Jorgensen v. Meade Johnson Laboratories.* U.S. D. C. W. Oklahoma. Feb. 1, 1972.)

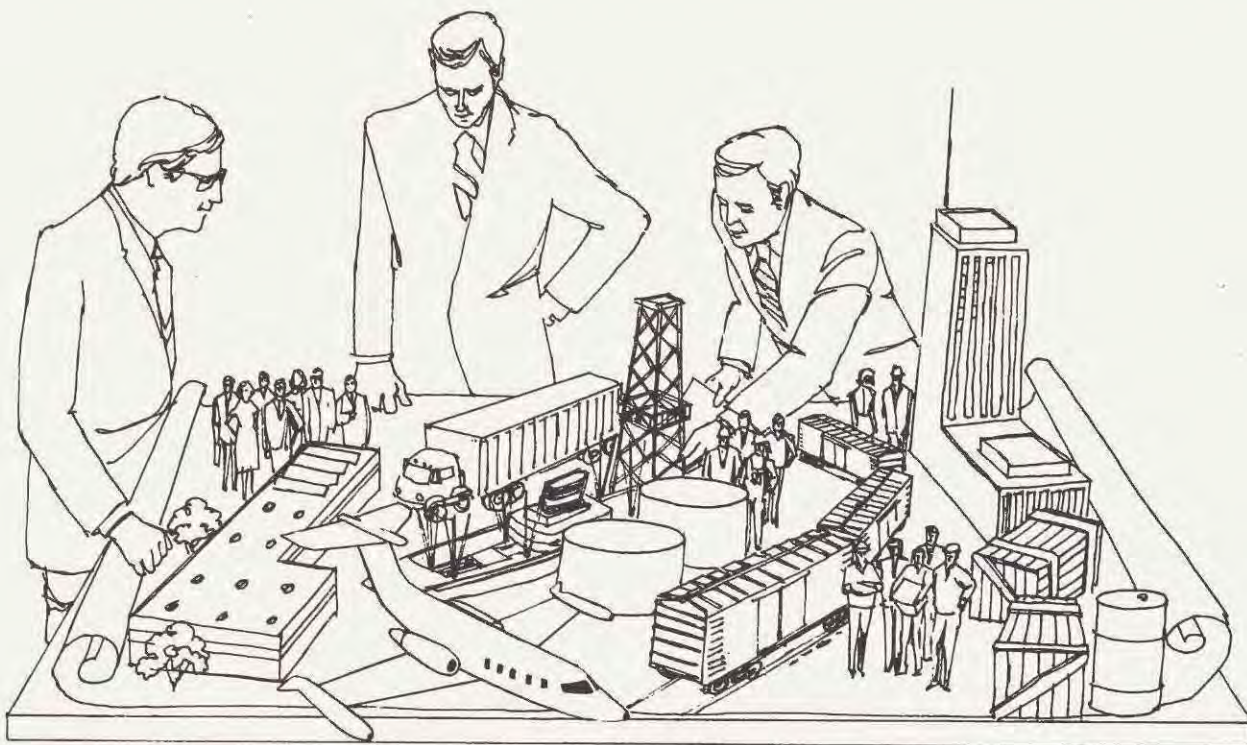
\* \* \*

IF ONE OF YOUR employes is suspected of a misappropriation of company funds, it might be well not to confront him with such a charge in the presence of the board of directors, especially if he has a heart condition. In a recent case in Georgia, a widow brought a workmen's compensation claim against a hospital. Her deceased husband had been employed by the hospital and died during a confrontation with his employer's board of directors, at which time the decedent was accused of misappropriation of money, and his resignation was requested.

One of the board members was the personal physician of the plaintiff's husband, and he advised the board, during the discussion, of the decedent's serious heart ailment and cautioned the board as to the danger of making

Continued on page 33

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# for the record

## Connecticut group will monitor doctor's fees

HARTFORD—What is believed to be a precedent in the health care field—establishment of a group to monitor doctors' fees and spell out guidelines for "quality control"—will become operational in Connecticut this spring.

Backed by the Hartford County Medical Assn. (HCMA), the Hartford County Health Care Plan will function as a peer review group and be composed of representatives from the consumer category plus Blue Cross and Connecticut Medical Service (CMS). Upwards of half of Hart-

ford County's practicing physicians have already implied willingness to participate, according to Dr. Max Goldstein, HCMA president.

Key elements will be the constant monitoring of physician charges to individual patients and peer physicians to question a physician who exceeds the on-going fee in the county. Dr. Goldstein indicated that in the event the physician cannot justify the higher tab, the figure will be reduced, on health care plan request.

The plan's chairman, Dr. Andrew Canzonetti of New Britain, will be working, with consumer people, Blue Cross, CMS, plus representatives of labor, management, industry and the insurance field.

The upcoming approach is endorsed by the Connecticut State Medical Society, the Hartford County Medical Assn., and the Health Insurance Council, the national organization representing some 300 insurance companies writing health insurance coverage in the U.S.

The plan is unique, *Business Insurance* was told, because for the first time, as far as is known, non-medical "involvement" is being sought.

Dr. Goldstein added: "We are confident that the health care plan efforts will affect consumer costs for premiums. If this is true, the health insurance industry has promised to pass on the savings to the consumer in Hart-

ford County in the form of increased benefits or stabilized (hopefully, lower) premium charges."

## Chavez's farm union lands Coke contract

MIAMI, Fla.—Amidst a storm of rumors and denials that Coke has bowed to the threat of a national boycott, United Farmworkers and the Coca-Cola Co. food division reached agreement on a three-year contract providing pay and benefits increases.

The pact will give the company's 300 full-time hourly paid workers 25¢ per hour increase from the \$1.85 to \$2.00 they had been earning. The 900 piece-rate harvesting workers will receive 40¢ for a box of oranges instead of 35¢.

Full-time workers will also receive paid vacations, 10 paid sick days and nine paid holidays yearly. Seasonal employees who

worked at least 100 days the previous year will be eligible for about half the benefits going to the full-time workers.

Union spokesmen said the accord was the first collective bargaining agreement for the Florida citrus business and pointed out that somewhere near 50,000 more workers, over half of them migratory, had yet to be organized.

Spokesmen for other Florida citrus growers indicated that agreements with those firms might not be quick in coming.

It was reported that some citrus industry people felt that the only reason Coke had agreed to terms was because the union had threatened to boycott Coke products. However, both union and Coke officials denied this.

## N.Y. strikes blow to dread disease insurers

NEW YORK—The state insurance department has dealt a blow to "dread disease" insurers, most of whom sell their products through direct mail solicitation or newspaper advertisements.

The new regulations, which go into effect May 1, will not affect most health insurance policies now held by New Yorkers. The only policies affected are those that play on the potential customer's fear of cancer, heart trouble or some other high-mortality disorder. These policies usually play down or ignore the fine print under which virtually every other kind of health-care need is excluded from the policy.

According to the regulation, there are about 20 exceptions

*Continued on page 37*

## Board points to alcohol, drug concern

VANCOUVER, B.C.—Answers to questions provided on a questionnaire given to delegates to the Canadian Workmen's Compensation Board conference here last January indicated that the majority of companies in attendance felt that they had a drug and/or alcohol problem.

An alcohol problem was reported by 87% of the companies and 52% reported a drug problem; though neither group felt that their troubles were severe. Their alcohol problem was rated severe by 18% of the delegates and 9% considered drugs a severe problem.

The board's analysis showed that 54% of the delegates felt that the abuse of alcohol or drugs was a contributing factor in industrial accidents but management and labor took different positions on this point. Of the management delegates attending, 62% said that alcohol and drugs caused work accidents but only 42% of the labor delegates agreed.

Both labor and management delegates agreed that there was indeed a problem, according to the survey, but they parted company as to the problem's extent. For example, 83% of the management delegates recognized an alcohol problem within their companies but 92% of the labor people felt that there was an alcohol problem where they worked.

The survey also pointed out that only 27% of the companies sending representatives to the conference had some form of company policy providing for the rehabilitation of employes with drug or alcohol problems. ■

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markets now dominated by direct writers.

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



**THE TRAVELERS**

# Longshoremen's contract contains one-shot early retirement program

NEW YORK—A number of pension changes, including a one-shot early retirement program, were among the items in the contract ratified by most members of the International Longshoremen's Assn. earlier this month.

Under the contract terms, an employe who is 50 years old and has 20 years of service can retire at \$300 a month and a 55-year-old employe with 25 years' service can retire at \$350 per month. The normal retirement age for dock workers is 62. The contract did not change the retirement age but did raise the normal retirement benefit from \$300 to \$400 per month.

However, the early retirement provision is, according to an ILA spokesman, "a one-shot item. They have between now and June 1 to decide if they want to

apply for the early retirement. After that date they can't get it."

**THE INCLUSION** of the early retirement program in the contract was viewed by management as a way of cutting the number of excess workers on the docks, many of whom receive a guaranteed annual income whether they are working or not. It has been estimated that there are 2,500 more workers than there are reg-

ular longshoring jobs in New York.

The contract tightened work rules, reduced job classifications and generally made it a bit more difficult for a high seniority dock worker to receive a full year's pay without doing any work. It was hoped that the early retirement plan would give these men an incentive to get out of the business.

The ILA spokesman told *Busi-*

*ness Insurance*, "There is really no way of telling right now how many men will apply for the early retirement but they went through the same thing three years ago and not much happened."

To finance this, and other pension changes, employers have agreed to contribute \$31 million to the pension fund during the first year of the three-year contract. That contribution will rise to \$34 million in the second year and \$37 million in the third.

**LOOKING AT** employer contributions on an hourly basis, the employers will give 87¢ an hour during the first year, \$1.05 in the

second year and \$1.22 per hour in the third year of the contract.

Longshoremen with 15 to 25 years of service and over age 40 can receive a disability pension, under the terms of the pact, starting at \$240 a month for those men with 15 years' service and increasing to \$16 a year for each additional year of service up to \$400 for 25 years. For example, a longshoreman with 19 years of service who is eligible for a disability pension would receive a total of \$304 a month.

Among other changes in the pension plan was an increase of \$25 a month for those who already have retired and are receiving pension benefits. ■

## Pre-trial broker suit conference

LOS ANGELES—A 1969 suit against Marsh & McLennan Inc., based on the bankruptcy of United Benefit Insurance Co., will have its first trial-setting conference in superior court here April 7.

The suit evolved from the crash of a Flying Tiger cargo plane on March 15, 1962, over the Pacific. A Marsh & McLennan spokesman in Chicago told *Business Insurance* that the brokerage had placed 12.286% of the aviation liability insurance on the plane with United Benefit. The majority of coverage was placed in the London market, he added. The spokesman said Marsh & McLennan is no longer Flying Tiger's broker but that, at the time of placement of the coverage and the loss in question, it was the airline's broker "in whole or in part."

Flying Tiger is seeking \$186,704.28 plus interest and costs on the grounds that the United Benefit policy coverage was to extend from July 31, 1961, through July 31, 1962, but that the insurer resisted the claim for the 1962 crash.

**UNITED BENEFIT** was placed in liquidation by the Nebraska director of insurance on Nov. 24, 1965.

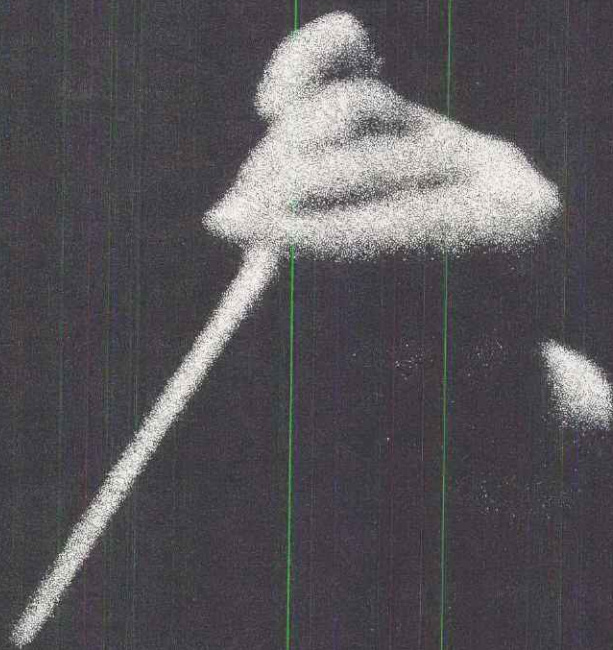
B. K. Pyle of the Nebraska insurance department said there are "quite a number of law suits pending throughout the country against United Benefit," most of which are still in the process of being settled.

Marsh & McLennan sources said they are defending the suit vigorously and described the claim as "unfounded, outrageous and without merit."

According to Wayne Partridge, legal counsel for Flying Tiger, the trial setting conference is held to work out a compromise between both parties, "hopefully," or set a date for trial if no agreement is reached. Mitchell, Silberberg & Knupp is the legal firm representing Flying Tiger. ■

## On accident board

Massachusetts Gov. Francis Sargent has named Edward S. Zelazo, former chairman of the state emergency finance board, as chairman of the state industrial accident board.



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# Aetna unveils payroll politics deduction plan

HARTFORD—A payroll deduction program by which employees of Aetna Life & Casualty can make contributions to their favorite political parties and candidates has been unveiled by the huge insurer but it may be some time before it is known how strongly the employees respond to it.

Called the "Employees Political Support Program," the plan enables the employees to choose the

amount they want deducted every month, when the deductions should begin and whether to have the trustee bank send the contributions directly to the party or candidate or back to the employee for forwarding.

The program, said to be the first of its kind in the New England area, is being run on a non-partisan voluntary basis for Aetna's 26,000 employees nationwide. The employee's selection of

a party or candidate is kept confidential by means of a trustee bank, the National City Bank of Cleveland, which distributes the funds according to the employee's instructions.

If the employee chooses to participate in the program, he begins by filling out two sets of instructions. He then sends one of them to the Aetna payroll department. This form authorizes deduction of whatever amount is chosen. The other form, sent directly to the trustee bank by the employee and not seen by anyone at Aetna, contains directions as to the dispersal of the contribution.

**JAMES DORSCH**, Aetna legal

counsel in Washington and the man who put the program together, told *Business Insurance* that he had no idea what the employee response would be, but "if we have 10% of the employees in the program after 10 years in operation I'll be extremely happy. The program has only been running about a month now so I can't really make a prediction as to how it will go."

He also pointed out that only a few other companies in the country had such programs for their employees but that "most people who are politically aware think this is a great idea."

"This is one way to get people to give on a broad base," he con-

tinued. "The government has now made it easy for people to contribute because of the income tax deduction and a program like this will help create a greater awareness in employees of the need for them to help make the system work."

"Surveys have shown that most people who have never contributed to a campaign said that they had never been asked. What we have basically done," Mr. Dorsch concluded, "is led the horses to water. It's up to them if they want to drink." ■

## Canada fund investments

MONTREAL—The Canada Pension Plan invested \$914 million in 1971 as opposed to \$861.5 million in 1970. Most (\$864.9 million) of the investments took the form of provincial government bonds.

Money raised by the fund from pension contributions that is not needed to make benefits payments can be borrowed by the provincial governments as special non-marketable bonds. Interest paid to the fund on the loans is similar to that on federal government bonds.

The provinces (excluding Quebec) had access to the fund's money on the basis of contributions collected within those provinces. The largest borrower was Ontario with \$500.4 million and Prince Edward Island was the smallest at \$3.6 million. In between were British Columbia, \$131.7 million; Alberta, \$87.3 million; Manitoba, \$54 million; Saskatchewan, \$43.3 million; New Brunswick, \$26.9 million and Newfoundland, \$17.7 million. ■

### Stamps awarded in plant safety contest

FITCHBURG, Mass.—If the image of a baseball player at bat reminds an employee to tell his wife to "Stay on the Ball With Safety," then his family might win 600 or more S&H Green Stamps in a safety program sponsored by the Weyerhaeuser Co. paper division here. Weyerhaeuser is offering this bonus to employees' families who can recite the company's bi-weekly safety slogan when called on the phone.

What is unique about this three-year-old incentive program is that it encourages family members as well as employees to participate, according to the company. "This is one way of communicating safety and getting the message home," said Dick Waters, Weyerhaeuser safety coordinator for the North Atlantic region.

Slogans appear on illustrated silk screen posters supplied by Howe Services, a safety promotional display company. They picture such scenes as a rooster boasting "A Safe Day—Always Worth Crowing About" or a corseted miss warning "Avoid Pinchpoint—Use Your Safety Equipment."

Families are called twice daily in the bi-weekly contest. The jackpot of 600 stamps doubles daily until someone wins. "The response has been extremely favorable. This is only part of our overall safety program, but I would say our plant experience has improved since we initiated it," commented Mr. Waters. ■

**re** Masters Of The Art series



## \$311 million suit says Blues violated Phase II

MILWAUKEE, Wis.—A \$311 million suit against Blue Cross and Blue Shield was filed in U.S. district court here Feb. 11 by a Marquette University law student.

Paul A. Piaskoski, a former subscriber to a family health insurance policy, charged that his premiums were increased without advance notice to the U.S. Price Commission. He said that was a violation of Phase II of President Nixon's economic controls.

Mr. Piaskoski filed the suit on behalf of himself and about 78,000 other persons with similar policies. The suit alleges that 155,536 contracts were involved and asked \$2,000 per contract.

Mr. Piaskoski stated that his nongroup policy covering hospital, surgical and medical care for himself, his wife and two children cost \$38.95 a month when it went into effect Aug. 22. The premiums rose 18.5% to \$46.15 a month in December, he said, exceeding the limits set by the Economic Stabilization Act.

Mr. Piaskoski terminated the policy in January. The Wisconsin Blue Cross Plan and the Surgical Care/Blue Shield Plan are operated by Associated Hospital Services Inc., which was named as a defendant. Also named was the Milwaukee County Medical Society, which controls Blue Shield.

A Blue Cross spokesman said the charges were in compliance

with federal wage and price regulations. "We have spent endless hours researching the provisions of the federal law and have disclosed all of our actions in great detail with representatives of the Internal Revenue Service during Phase I of the program," he said. "We have been filing, and continue to file, detailed reports with the Price Commission.

"The price freeze only froze the charge of health care. It did not freeze where people go to get their care, how many services they use or what type of services they use," noted the spokesman.

"Hospitals have been given a release by the government to increase their charges up to 6% and doctors up to 2.5% without advance approval. Since the first of this year," he said, "hospitals are required to make payments toward unemployment compensation for their employees. These factors all affect the cost of health care."

## Liability cover in force in negligence case

PHILADELPHIA—The city of Philadelphia, the Philadelphia National League Ball Club (Phillies) and two architectural firms named as defendants in a \$3.1 million suit for negligence concerning the construction and maintenance of Veterans Stadium here are insured for liability, *Business Insurance* has learned.

The suit was filed on behalf of the family of Glenn M. Shober who died after falling through an open storage pit behind the stadium scoreboard to a concrete base 27 feet below. The family charges that the area was insufficiently protected and that a hatch cover had not been replaced over the storage pit.

The city of Philadelphia, which

owns the stadium, normally self-insures accident claims, according to a spokesman for the city solicitor's office. "But we did have insurance on the stadium," he said. "We made the Phillies take out a policy and we're co-insured with them."

"THE PHILLIES' general liability policy is written by the Aetna Casualty and Surety Co.," reported Herb Needhammer, insurance representative for the ball club, "and we have umbrella coverage with the Insurance Co. of North America."

The architectural firms, Stonorov & Haws and George M. Ewing, both of Philadelphia, carry professional liability policies similar to doctors' malpractice liability to protect them from claims arising from architectural error and omissions. Most policies of this type include defense costs.

According to J. Frank Haws, a partner in Stonorov & Haws, the company carries a professional liability policy with Continental Casualty Co., Chicago, a member of the CNA Insurance Group. "I can't imagine how it could be an architectural problem," commented Mr. Haws, referring to the storage pit. "It's as if someone fell through an open window in a house and then blamed the architect because it was open."

The firm of George M. Ewing is also insured through Continental Casualty. Dongkyu Bak, a chief architect for Ewing, did not feel the stadium design was inadequate. "The equipment was there—someone just forgot to use it," he noted.

A third firm, Hugh Stubbins & Assoc., Cambridge, Mass., is being named in the suit according to defense attorney Arthur G. Raynes. Hugh Stubbins, the executive architect for Veterans Stadium, said that he had not been notified of the suit. One company spokesman, however, said, "I'm sure we're covered for that type of thing."

## Legislation brings relief

HARRISBURG, Pa.—Gov. Milton J. Shapp has signed legislation freeing physicians and hospitals from liability—except in cases of negligence—in blood transfusions and organ transplants.

The new law also applies to blood banks and their employees and all hospital employees.

Negligence is defined, but not limited to, as failure to observe accepted standards for collection, testing, processing, handling, storage and labeling of blood, tissue, bones or organs.

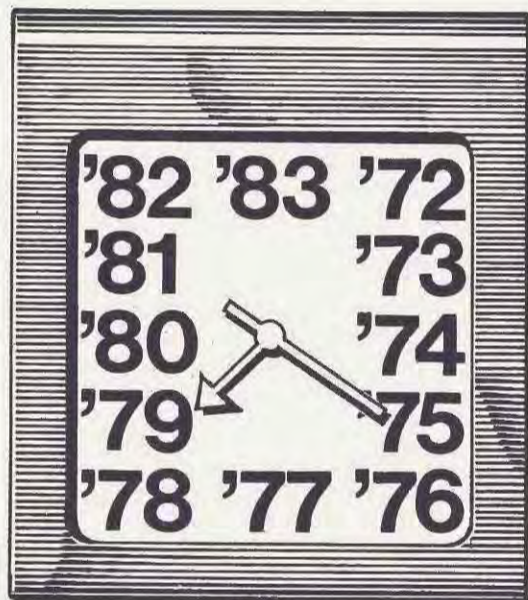
The drive for the new law was led by blood banks in Pennsylvania which were plagued by rising insurance rates and lawsuits by patients who developed hepatitis after receiving blood.

Dr. Ned Maxwell, director of Pittsburgh's central blood bank, said the risk of blood contaminated by hepatitis could not be removed because there is no fool-proof way of detecting it. He said Pennsylvania had been one of 13 states that did not protect blood banks even if they were not negligent.

Dr. Maxwell said there were two lawsuits pending against his blood bank and that 1972 insurance premiums had tripled from \$8,000 to \$24,000 last year.

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LIFE & CASUALTY

# Audit shows pension benefit law violations

BUFFALO, N. Y.—State auditors said the Buffalo board of education is violating state law by paying pension benefits to unions representing school system employees working in the building trades.

"A municipality is specifically prohibited by statute from providing retirement benefits except by membership in the state employees retirement system," the state department of audit and control said. The disclosure came in an interim audit of the Buffalo public school system's financial affairs that has been under way for about a year.

In the latest report, the auditor said, bricklayers, carpenters and other skilled craftsmen who work for the board are paid more than equally skilled craftsmen who work for the city.

ARNOLD B. GARDNER, school board president, announced plans, however, at the last board meeting to scrap the higher pay for skilled craftsmen and put them

on graded civil service status as has been recommended by the management consulting firm of Cresap, McCormick & Paget.

The consultants said that by paying the tradesmen graded civil service wages, instead of prevailing union rates, the board could save up to \$500,000 a year.

Joseph F. Jones, associate superintendent for plant services and school planning, said the change to graded civil service positions for tradesmen would eliminate pension payments to unions on behalf of the workers.

The audit said the base pay and fringe benefits to school tradesmen range from \$7.60 per hour for painters to a high of \$10.04 for steamfitters.

## OSHA 100 NIGHTMARE or WORK HORSE?

LOG OF OCCUPATIONAL INJURIES AND ILLNESSES			
LOG NUMBER	DATE	DESCRIPTION OF INJURY OR ILLNESS	ICD-9 CODE
710001	07-03-71	RODRIK BARNES SERIOUSLY INJURED WHEN HE JUMPED FROM ROOF PIPEFITTER	850.0
710002	07-08-71	WILLIAMS JAMES STRAINED BACK, LIFTING WELDING MATERIAL WELDER	840.0
710003	07-17-71	MANFOLD ROSE TORN LIGAMENT IN BACK WHEN HE LIFTED IRON	840.0
710004	07-25-71	SMITH LOUIS BRUISED LOWER BACK WHEN HE WAS LIFTED	840.0
710005	08-15-71	SMITH JOHN SLIGHT BURN FROM SPILLED OIL CROCKERY WORKER	940.0
710006	08-20-71	ALPHYNTATION FROM HOUSE CROCKERY WORKER	940.0
710007	08-27-71	SMITH JOHN KICK FROM PIPE	850.0

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## Pension application confusion

ALBANY, N.Y.—The state comptroller's office, deluged by government workers' pension applications under an April 1 cut-off date that is being challenged, looked to the court of appeals in Albany to postpone the deadline and turn off the spigot.

The case concerns a decision by Albany Supreme Court Justice John H. Pennock, who held that the 1971 legislature improperly set April 1, 1972, as the cut-off date for government workers seeking retirement to file for consideration of unused vacation pay in computation of their pensions. The judge ruled that the April 1 cut-off date should apply only to those who enter the state retirement fund on or after April 1—and not to any of the 500,000 city, county, village and state employees from Metroland who already are members of the fund administered by Arthur Levitt, comptroller.

The comptroller appealed; the state's highest court heard the case and reserved decision; and the court of appeals was expected to rule on the timing element that was argued. The question asked is: Because Gov. Rockefeller did not sign the April 1 cut-off measure until June 9, 1971, shouldn't the deadline be moved up to June 9, 1972?

Meanwhile, thousands of fund members eligible for retirement have descended on the state comptroller's office to file applications in order to cover themselves no matter which way the high court's decision goes.

## No-fault report

A report on no-fault auto insurance is expected to be adopted in May by a committee of the National Commissioners on Uniform State Laws. The special committee on a uniform motor-vehicle accident reparations act meets in March and April to consider six alternative drafts that have been presented. A final report of the committee is to be submitted to the commissioners at a meeting in San Francisco, Aug. 4-11.

## Review board enlarging city's safety program

WEST UNIVERSITY PLACE, Tex.—An accident review board has been created by the city commission here to operate and enlarge the city's safety program.

Whitt Johnson, city manager of the Houston suburb, urged that the new board be made up of two city department heads and three citizens. It will be supervised by Denny Arnold, assistant city manager.

Mayor John Neighbors asked Mr. Johnson to bring a list of recommended board members for commission consideration after the city manager suggested board membership be assigned to city officials on a rotating basis.

MR. JOHNSON said West Uni-

versity Place has never had a concerted safety program before creation of the review board. He estimated six of the city-involved accidents, which occurred during 1971, should have been referred to the type of review board now established.

"We are not interested in meeting our punishment," the city manager said. He terms the new board's function as fact-finding.

Neighboring Bellaire has an accident review board composed of any five department heads except the one whose department is involved.

Mr. Johnson said his city's board will review a written case history of what happened and determine who is at fault when a

city employe has an accident. He also said the new board will be in a position to determine whether or not the accident was a result of negligence on the part of the city.

Don E. Harris, city commissioner, said he favored the program but felt some thought should be given to a merit project to reward employes for such things as safe driving, "for a reward as well as a reprimand."

Mr. Johnson said the city is due a rebate on its insurance because of few accidents.

### WQIS insures 3,274

The Water Quality Insurance Syndicate, which inaugurated its oil spill coverage on June 1, 1971, now insures 3,274 vessels, with an aggregate liability of \$254,188,300. The federal Water Quality Improvement Act of 1970 imposes clean-up liability of \$100 per gross ton of the offending vessel or \$14,000,000, whichever is less.

## Lawyers change focus to business liability

PALM SPRINGS, Cal.—The emergence of no-fault automobile insurance will shift the attention of industry and the legal profession from auto liability to other forms of liability, such as product, malpractice and directors and officers liability.

This was the tone of remarks from a variety of speakers who appeared before a meeting of the Federation of Insurance Counsels here early this month.

"We can prepare ourselves for a new approach to what I call business insurance, as it would appear that the bulk of the insurance business in the future will be of this type," said Emile Rago, vp of the Interstate National Corp.

Mr. Rago told defense lawyers, who make up most of FIC's membership, that "the days of the very small defense firm handling only automobile cases are probably numbered as that firm, in short order, will soon be obsolete" as so-called no-fault insurance plans grab hold throughout the country. He also urged the attorneys to consider business insurance, such as directors and officers liability, as "a field of coverage and potential litigation unmatched by any of the prior coverages designed and written for the American insurance buyer."

A PROMINENT St. Louis defense attorney, John C. Shepherd, noted that the introduction of the no-fault concept will eventually spill over to product liability and may influence jurors in favor of the plaintiff. As no-fault advocates "talk about it in automobile insurance, it's bound to have a spill-over in the minds of the jury . . . on product cases. It puts a bigger burden on the defense lawyer to get the jury to turn down an injured person," he said. The legal counsel for the California Hospital Assn., James E. Ludlam, told the group that no-fault auto insurance is driving increasing numbers of attorneys from the auto field into medical malpractice.

"Our claims in malpractice in California have jumped 30% in the past six months," he said. "We think it's the impact of no-fault insurance in the automobile industry, that the lawyers are fleeing from that area and are already looking for new areas to conquer."

### They 'don't believe' in libel insurance

NEW YORK—New York magazine, which has been named as defendant in a \$150 million libel suit, does not carry libel coverage, according to Clay Felker, editor and publisher. "It is not company policy. We don't believe in it," he commented. "We think libel insurance only invites suits."

Allen Klein, president of ABKCO Industries, is suing the magazine for an article which alleges that some proceeds from a benefit record album for Bangladesh managed by Mr. Klein are unaccounted for. The album, "The Concert For Bangladesh," contains recordings by two of his clients, George Harrison and Ringo Starr, and Mr. Klein handled both the record's distribution and its revenues.

New York magazine is supporting the author of the article, Peter McCabe, who is also named in the suit. They contend that Mr. Klein would not talk to Mr. McCabe concerning the album's proceeds prior to publication and that the matter needed to be explained.

"We have one of the best libel lawyers in the country," noted Mr. Felker, "and he went over the article thoroughly before it was printed. We will fight any libel suit to the Supreme Court."

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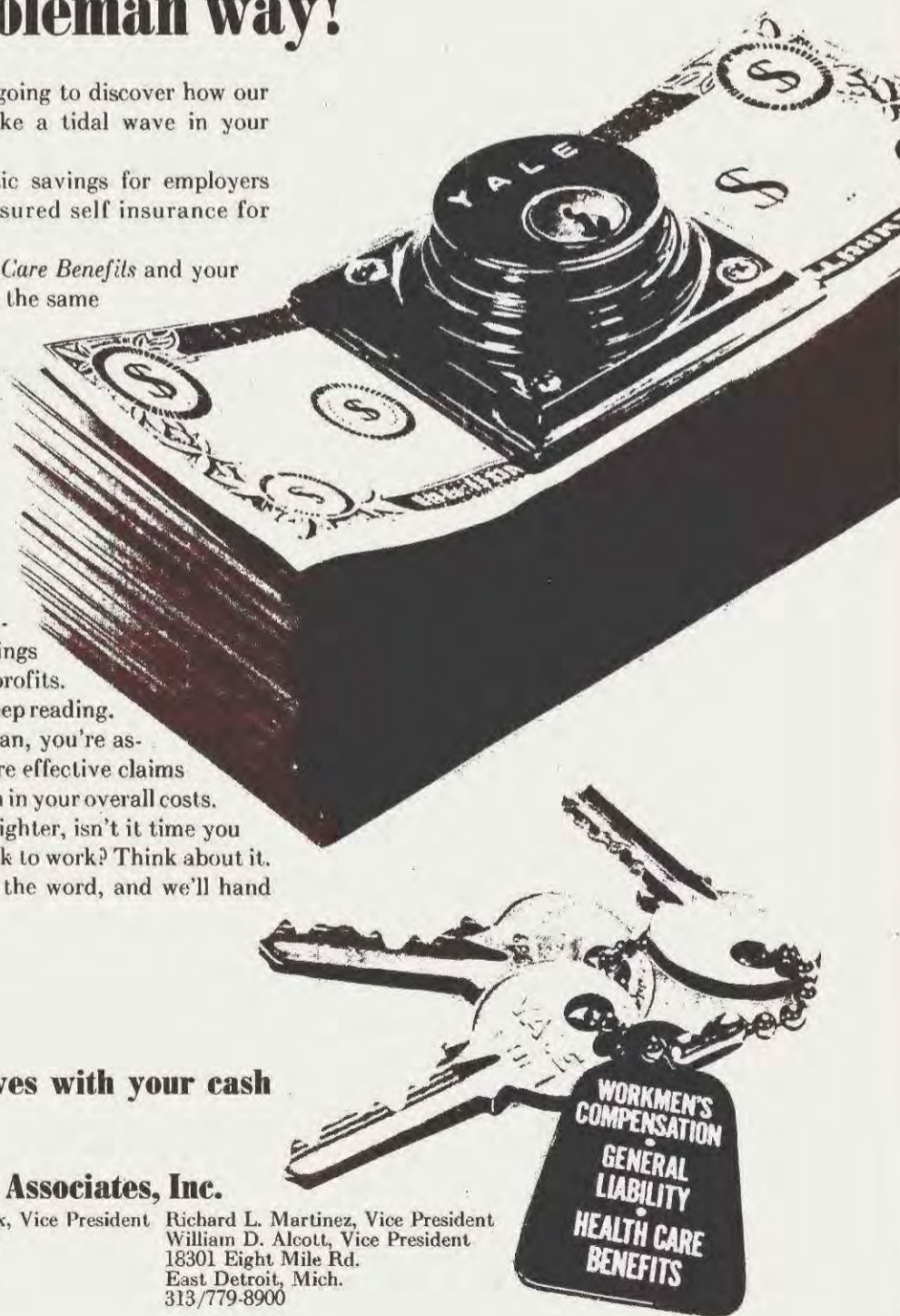
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# Giles . . .

Continued from page 24

these charges. The plaintiff's husband collapsed and died moments after signing the requested resignation, while he was still in his office briefing the board members on certain matters and answering certain questions by the chairman regarding unauthorized use of the hospital facilities by physicians not on the staff. His death resulted from a fatal coronary thrombosis.

The court said that the finding of the workmen's compensation board to the effect that the injury was accidental was correct, being emotionally initiated, rather than physically. The employer and the insurer failed to carry the burden of proof in establishing that the employee's injuries resulted from willful misconduct. (*Travelers Ins. Co. v. Kathryn C. Neal*, Ct. of Appeals, Ga. 186 S.E. 2nd 346. Oct. 21, 1971.)

\* \* \*

**ISSUERS OF** credit cards may not be pleased with this Massachusetts decision. The holder of the credit card signed an application on which appeared the words "We agree to surrender credit plate on request and to be responsible for all purchases through its use until surrendered or until the company has been notified of its loss or theft in writing." The card was lost and \$600 worth of merchandise was purchased by the finder. The customer was billed. Was he liable?

"No," said the Massachusetts supreme judicial court. The court said there has been a division of authority in cases such as this. There are no controlling decisions in Massachusetts. Some cases elsewhere, in circumstances largely distinguishable, have to some extent permitted enforcement of the agreement subjecting the card holder to liability for unauthorized purchases prior to notice to the issuer of loss of the card. In other cases the issuer has been held to a duty of care, on various theories, including that the card holder is made, by the agreement, essentially the guarantor of a wrongful user of the card, and is thus entitled to have his obligation strictly construed.

The court said the preferable rule is that requiring the issuer of a credit card, or one extending credit on the basis of the card, to use due care to ascertain that the person using the card is its proper holder or one authorized to use it. The obligation is not merely to use good faith. The use of due care in the circumstances is also necessary. (*Mass. Sup. Jud. Ct. Lechmere Tire & Sales Co. v. Burwick*, Jan. 4, 1972.)

\* \* \*

**IF YOU KEEP** a vicious dog on your office or factory premises in Maryland to protect your property, and the dog attacks and injures a trespasser, are you liable? In this case the owner kept a German shepherd which he knew was vicious. The plaintiff claimed he did not know he was trespassing. The Maryland court held the defendant not liable. The court said, "The plaintiffs here concede that they were trespassers but contend that the owner is liable for the attack of his known vicious dog because the trespass was inadvertent. To accept this contention would result in a categorization of the trespass doctrine that Maryland does not recognize.

"This court has long and studiously avoided distinctions or deviations in the law of trespass in an attempt to achieve consistency and certainty, so people

will understand their respective rights and obligations. It would be ludicrous to hold that someone is liable because his watchdog failed to discriminate between an inadvertent trespasser on the property and one who is there bent on criminal activity. Likewise, if the plaintiff's argument is accepted, there would be an unwarranted expansion in this state of an owner's liability for injuries caused by this animal." (*Md Ct. App. Bramble v. Thompson*, Feb. 16, 1942.)

\* \* \*

**IF YOU ARE** leasing golf carts and brakes fail, are you liable for breach of warranty or liable under the doctrine of strict liability in tort? No, says the court of appeals of Maryland. Here the plaintiff was injured due to brake failure. The law in Maryland is clearly limited to sales of goods. The strict liability

Continued on page 34



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**It may be habit forming**

## Giles . . .

Continued from page 33

doctrine should not be applied because the defendant lessors were not persons who sell products. (*Rudolph Bona v. Edward Graefe*, Court of Appeals, Md. Jan. 11, 1972.)

**IF A SEAMAN'S** family brings an action for wrongful death on the high seas, can they recover for the decedent's pain and suffering and funeral expenses? The answer is "yes" under a recent U.S. court of appeals decision. The court said funeral expenses are much in the same category as pain and suffering. They, too, are not recoverable under the Death on the High Seas Act. Nevertheless, whether these expenses are payable by the estate or by the personal representative, it is a damage occasioned by the defendant's negligence or the unseaworthiness of his vessel.

There is, of course, no modern precedent under the general maritime law for the recovery of this element of damage because until *Moragne* was decided, there was no cause of action for wrongful death. The majority of the states permit recovery for funeral expenses and no reason is perceived why this should not be a proper element of damage under the general maritime law. (CA. 5. *Dennis v. Central Gulf Steamship Corp.* Jan. 4, 1972. See *Moragne v. United States Marine Lines*, 398 U.S. 375.)

**IF YOU ARE A** manufacturer of photographic film, can you disclaim liability for negligent processing, except replacement of film? Eastman Kodak has this disclaimer notice: "This film will be replaced if defective in manufacture, labeling, packaging or if damaged or lost by us or any subsidiary company even though by negligence or other fault. Except for such replacement, the sale, processing, or other handling of this film for any purpose is without other warranty or liability."

The plaintiff insurance company indemnified the National Geographic Society for losses caused by the manufacturer's negligent processing and became subrogated to the society's rights. In holding the disclaimer proper, the court said if some type of liability limitation were not in effect, there would be no way for the manufacturer to price its film since the efforts that it otherwise takes in order to protect against known risks would price the product right out of the market.

This is not to say the present liability limitation is the only possible one. A limitation might be, for example, that the company would be liable for no more than \$1,000, or in no event would it be liable for more than three times the cost of the film, or something similar. However, the current limitation seems to be an honest, open, straightforward, and reasonable one and therefore not unconscionable. (D. C. Super. Ct. *Aetna Casualty Co. v. Eastman Kodak*, Feb. 3, 1972.)

**IN MASSACHUSETTS**, if one of your truck drivers kills a pregnant woman, there can be no recovery for the death of the 7-month-old fetus. The question is arising all over the country. Massachusetts says, "If a fetus is born alive it becomes a 'person' with at least the theoretical possibility of survival and of enduring the consequences of prenatal injury during the rest of its life. A fetus not born alive seems to us to incur no such risk of con-

tinuing injury and also not to be a 'person' within our interpretation of the legislative intentions." (Mass. Sup. Jud. Court. *Leccese v. MacDonough*, Feb. 7, 1942.)

**IN OTHER** decisions concerning the accidental death of a pregnant woman, courts in 16 states and in the District of Columbia have held that an action for wrongful death lies for the death of the child which at the time was a healthy, nine-month-old fetus, yet unborn. In eight states it has been held that no action may be maintained. Many of the decisions are based upon wording peculiar to a state's wrongful death or survival statute. The Indiana statute simply says that a father may maintain an action for the death of a child. Indiana has followed the common law in according property and inheritance rights to unborn chil-

dren, and the state's statutes have also recognized the unborn infant as a child in the abortion and in interment instances. The court said it is both just and logical to treat an unborn child who has spent 280 days in gestation as having a legal being and legal personality distinct from that of its mother. (Ind. APP. Ct. Div. 2nd. *Britt v. Sears*, Dec. 29, 1971.)

**LANDLORDS** in Chicago must comply with the building code before they can evict their tenants for non-payment of rent. If a landlord fails to comply with the building code, he is, in effect, violating his implied warranty of habitability. This warranty of habitability is fulfilled by compliance with the pertinent provisions of the Chicago building code. (Ill. Sup. Ct. *Jack Spring Inc. v. Little*, Jan. 28, 1972.)

## BBB gets liability cover

WASHINGTON—The Council of Better Business Bureaus has taken out liability insurance for its 143 local bureaus in an effort to reduce intimidation of local staffs by businesses threatening lawsuits over BBB activities.

The council obtained its policies—one master policy for the bureaus and a separate policy for the council itself—from St. Paul Fire & Marine Insurance Co., St. Paul, Minn. They provide general liability coverage for slander and libel charges and the premiums are paid by the council.

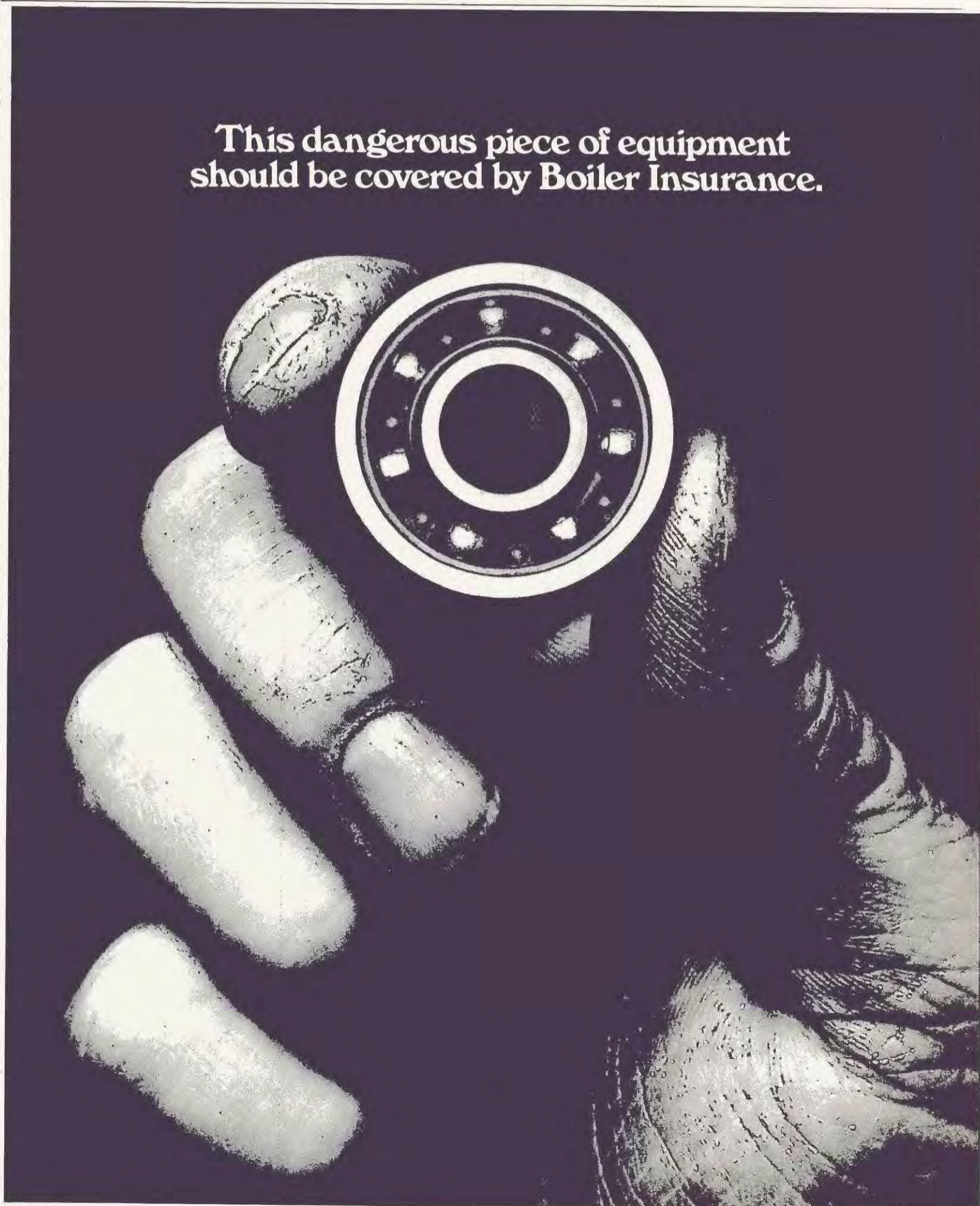
Norman Gottlieb, general counsel and CBBB corporate secretary, declined to comment specifically on the amount of coverage but said it was "substantial enough" to allay any bureau fears of going out of business because

of a lawsuit. This concern of local bureaus is said to have been a reason for bureau failures to disseminate adverse information which was brought out in a recent report by Rep. Benjamin Rosenthal (D.-N.Y.).

According to Mr. Gottlieb, an unusual aspect of the coverage is that the insurer agrees not to settle any case without the consent of the council in writing.

"This is to keep anyone from silencing or slowing down activities of the bureaus by concluding a case we feel is a good one with a fat settlement," said Mr. Gottlieb. "Most insurance companies are delighted to settle and avoid loss of time and legal costs, but we can't let someone who's in the wrong say 'I sued and they paid.'"

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should be covered by Boiler Insurance.



## following the funds

# N.Y. senators introduce measure to terminate state pension programs

By LYNN LATHAM

NEW YORK—In an attempt to halt spiraling governmental pension costs, seven upstate senators have introduced a bill to terminate existing New York state and local municipal pension systems as of Sept. 1. The purpose of the move, according to Sen. Dalwin Niles, a principal sponsor of the bill, "is to stop proliferation of the disadvantages in the present system while the state pension commission is working out a more equitable system."

The permanent commission on

public employe pension and retirement systems was formed by the legislature in June, 1971, to review the existing public employe retirement systems and make recommendations concerning them. In a January report, the commission advised against enacting further pension amendments until it could make additional recommendations. The commission also asked the legislature to defer on action extending temporary pension provisions until the specific bills had been reviewed.

In conjunction with the termi-

nation bill, the senators have proposed a constitutional amendment to create a statewide pension system in which all retirement plans would be equal. The amendment which requires passage by two separately elected state legislatures before it goes before the public in a referendum, provides that retirement benefits could be granted only "by legislation which shall apply alike to all members of a pension or retirement system."

Current members in the public employe retirement systems will not be affected by the proposed

legislation due to a 1938 provision in the state constitution granting that a governmental employe's pension may not be impaired or diminished in any way. "If the termination bill is enacted, the attrition rate of covered employes should cause pension costs to level off in about five or seven years," noted an aide for Sen. Niles.

AN INTERIM plan would be developed to cover new employes for death benefits until the legislature enacted a new pension system. Retirement benefits would be retroactive.

Currently, the state of New York administers three pension systems and the city of New York administers five with numerous special plans in effect for certain state and local employes. One of the most liberal plans, applicable to state legislators, provides for retirement after 20 years of service at half pay regardless of age. Various other

groups have negotiated for similar benefits and one plan, pending before the legislature, calls for 20-year half-pay, 40-year full-pay retirement benefits for New York City workers in District Council 37, State, County, and Municipal Employees Union.

According to the January report by the pension commission, the cost to the state and its local government last year for retirement benefits payable to 500,000 members of the New York State Employes Retirement System and the New York State Policemen's and Firemen's Retirement System increased from \$335.6 million to \$486.5 million. "This is an increase of 44%," remarked Sen. Niles' aide. "Within, say, five years the system, which is taxpayer supported, would reach astronomical levels. So the proposed legislation is aimed at eliminating the more liberal plans.

"We want to leave the specifics of a statewide plan up to the commission," explained Sen. Niles. "We felt we had neither the expertise nor the time to devise such a system."

SEVERAL recommendations concerning pension revision were  
Continued on page 36

An ordinary ball bearing isn't as harmless as it looks. Bearings freeze. And break. And the resulting chain of circumstances can be unpredictable, dangerous and expensive.

In the same sense, all machinery is dangerous. Yet a lot of plant equipment remains uninsured.

### The problem: the buyer's doubts

Some buyers tend to forget that "Boiler" means "Boiler and Machinery" insurance. So they buy a policy covering pressure vessels and let it go at that. Or, knowing that state laws make inspection of such items mandatory, they may feel that they don't have to be insured at all.

It's no secret that accidents covered by Boiler and Machinery insurance can be catastrophic. Why then, is it so peculiarly neglected?

Possibly because some executives think that other forms of insurance, such as Fire with Extended Coverage, are sufficient protection. And that buying Boiler and Machinery would be buying overlapping coverage.

Not so. No other form of insurance can protect you against many specific hazards. And as for overlapping, it can be minimized or even eliminated by exercising reasonable care in buying.

Another reason may be the policy itself. The subject matter is technical, and is expressed in technical language. So the buyer may conclude that it's a subject for the plant engineer rather than for the risk manager.

Again, not so. The coverage is vital. And you don't have to become an engineer to buy or understand it.

### The goal: accident prevention

Interestingly, as disastrous as boiler explosions can be, they don't happen frequently. The explanation is that the danger in boilers is so obvious that almost every state requires periodic inspection.

The dangers lurking in machinery aren't as obvious. And therefore tend to be ignored. If all machinery were inspected as boilers are, accident frequencies might drop dramatically.

When your equipment is covered by Boiler and Machinery insurance, at least you have a safeguard. It is clearly in the insurance company's interest to try to prevent accidents. So it maintains a staff of field engineering representatives trained to inspect equipment.

But there is no substitute for a program of thorough inspections, supervised by a plant's own safety department, in preventing accidents.

### Save premium dollars with minimal pain

Boiler and Machinery insurance is essential. But it needn't be expensive.

For instance, on three-year policies, the policyholder is entitled to a "gradation credit" on the amount of premium over \$3000. And with multiple locations, you can combine policies for a larger credit.

Some equipment is used only seasonally. Some is standby, for emergency use only. In either case, ask

whether you can get premium credits.

Perhaps some of your equipment shouldn't be covered at all. If your deductible is \$1000 you have little hope of recovery on losses involving items of equipment valued at less than that. You can effect savings by self-insuring them.

If you occupy multiple locations, ask for a "Blanket Limit of Liability", which extends your largest amount of coverage to each location.

### But don't save on the coverage that counts

Since most equipment contains hazards, the logical approach to coverage is to assume that whatever can happen, will.

A method of coverage which has become widespread is called the Blanket Group Plan. You just list categories instead of listing the specifically insured items. Premiums are based only on items covered, so you don't pay for something you don't need. And you're automatically covered for any new equipment, if it's at the named locations and in the insured categories.

Most important, include Business Interruption coverage. Accidents to equipment have a nasty way of interrupting production. You may or may not need refinements like "consequential" coverage, which protects you against such losses as spoilage or deterioration resulting from an accident. But Business Interruption coverage itself is so necessary that Boiler and Machinery insurance can hardly be completely effective without it.

### Should you expect more than just claims payments?

Unequivocally, yes. If a loss does occur, the staff of a knowledgeable insurance company can and should provide invaluable assistance. They're experts at knowing where to locate parts, replacements and services. And they have an obvious vested interest in getting you back into full production quickly. Especially when you have Business Interruption coverage.

But the most valuable service you should expect is help in preventing losses in the first place.

In short, you should expect the advantages of the knowledge and experience of a team of experts. And if you don't know who the experts are, ask your nearest Continental agent.

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## Fund yield reduces contribution

NEW YORK—City Comptroller Abraham D. Beame announced a 4.95% yield on the city's five pension funds during the fiscal year ending in June, 1971,—the highest yield in history—and attributed the performance to a bond-switching program he initiated during his first term in office in 1962. Since that time, the comptroller's office has been selling low-yielding municipal and U.S. government bonds held by the fund for higher yield corporate securities.

"Since the tax exemption feature of municipal bonds is of no value to the tax exempt pension funds, these bonds may be sold, as market conditions permit, to advantage to individuals and firms desiring this tax exemption. The proceeds are then invested in higher yielding, high-grade corporate securities," explained Mr. Beame in a report to the funds' trustees.

The comptroller's office controls investments of \$5.960 billion in five pension systems: the New York City Employes Retirement System, New York City Police Pension Fund, New York City Fire Department Pension Fund and the New York City Board of Education Retirement System.

The yield on \$682.5 million of long-term investments made during the year was 8.16%, up .67% over the previous year. The overall yield of 4.95% represented a .35% increase over 1970 and a 1.41% increase over 1962, the first year of the bond-switching program.

Members in the system are guaranteed a 4% return on their investment. Any excess is returned to the city's general fund. "In effect, this means that the .95% yield which goes into the general fund will reduce the amount the city contributes to the system by about \$57 million," noted a spokesman at the comptroller's office. In 1971, New York City and other public bodies contributed \$497.3 million to the retirement funds.

The bond advisor for the comptroller's office is the First City National Bank, New York. ■

# New risk management manual: 'Excellent job in a difficult area'

By CHARLES F. LEVINSON  
Director of Insurance,  
United Brands Co.

**T**HE RISK MANAGEMENT Manual is, as publicity says, a concise and practical reference on risk managing techniques starting off with some basic concepts of risk management such as establishing a management insurance policy.

Running through risk identification, analysis, and evaluation, it then branches into the theories of risk control through minimizing or eliminating the exposure. The theory section ends with a thorough discussion of the merits of no insurance, self-insurance

and how to formally insure when deemed necessary. Finally, a group of allied activities that fill the insurance buyers day such as valuations, marketing, disaster planning, loss handling and communications are thoroughly and expertly discussed.

Evidently it is the intention of the author and editors to issue bimonthly supplements that will discuss the latest trends and ideas in insurance. For this purpose they have issued the book in a looseleaf binder form which from time to time will be updated with supplements either expanding the topics or adding additional materials not already covered.

The author and the editorial staff have done an excellent job

in a very difficult area in putting together in one place most of established theories and practices of good insurance management. It's at its best when it tells the insurance buyer such things as "that he must steep himself in all facets of the operation and become as familiar with its details as anyone" Again we will all agree when the buyer is told that risk evaluation is a constantly continuing process requiring frequent review and possible adjustment when circumstances change. Before anyone thinks this is strictly a Pollyanna type collection of sickly sweet generalities, let me say there are many areas that are extremely detailed and specific such as loss adjustment

and comparative bidding.

**THE ONE AREA** where the information is weak is where the "employee" relationship of the insurance buyer is not understood. This would seem to be a logical inclination or direction to lean away from, for the authors are actually insurance consultants and not insurance buyers. For instance, discussing directors and officers cover they ascribe the many d&o policies written to the insurance managers that feels there is a great exposure when in reality a d&o decision is usually made by upper echelon management.

Again, in discussing hold harmless agreements the author cautions the insurance manager against requiring highly restrictive agreements of lessees because he may have to sign the same agreement when his position is that of a lessee. This, of

*Continued on page 51*

## Funds . . .

*Continued from page 35*

included in the commission's January report. They advised that a balanced system be provided to take into account all tax-supported retirement benefits received by public employees. At present, tax-free pensions are provided to state and local governmental employees without regard to supplemental income from Social Security benefits and other sources. The report revealed that some New York City employees receive city pensions, Social Security benefits and a union annuity fund, all supported to a large degree by the taxpayers of the city.

"**CONSIDERATION** should be given to developing various safeguards such as limits on the years of service for which full-time benefits would be paid, actuarial reductions for those retiring before normal retirement age, and limits on the age beyond which benefits could be earned," concluded the report.

Joseph Metz, executive director of the commission, told *Business Insurance*, "Since the termination bill and amendment were just introduced, we have not had time to make a recommendation concerning them; but we are extremely interested.

A spokesman at the state comptroller's office said that state pension costs had been mushrooming. "At present the \$165.1 million yield on the state pension fund is considerably less than half of the \$374.2 million contributed by employers and members last year, so there is a considerable burden on the taxpayer," he noted.

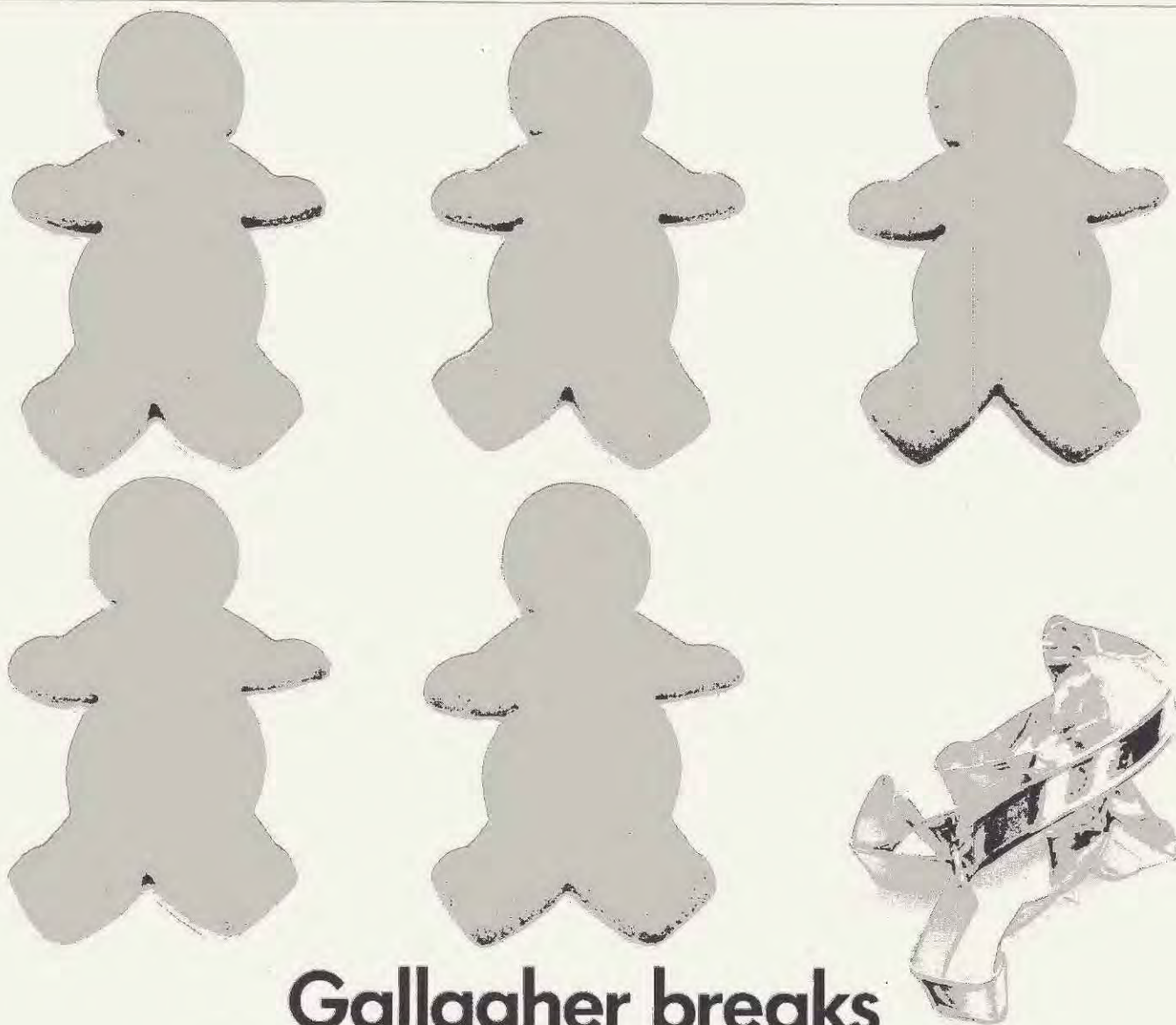
"It becomes more expensive with salary increases. Most state employees have a retirement equal to final average salary over the last three years. The reserve fund has to equal the amount of increase in benefits, so it's inflationary to increase the benefit. There are far too many people and the plans are far too liberal," he said.

**THE NEW YORK** City comptroller's office, in the meantime, has just reported an overall 4.95% yield on the city pension fund. Members of the fund are guaranteed 4% and the remaining .95% is returned to the city's general fund.

A spokesman at the comptroller's office commented, "The pension fund's in great shape. If the city were in as great a shape we would have nothing to worry about. This new bill," he said of the legislation proposed, "is a result of the pigeons coming home to roost. The state is not completely innocent in the matter. They have mandated pension benefits on the city in the past."

Both the pension commission and the bill's sponsors anticipate opposition from the public employees' unions.

Jack Carey, coordinator of state negotiations for the Civil Service Employees Union, which covers members of the New York State Employees Retirement System, told *Business Insurance* that the union had not yet taken a stand. "But I'm sure we will be opposed," he noted. "The fact is that the vast majority of public employees who are retired receive less than \$4,000 a year in retirement benefits. The bulk of the benefits are not that high. It's time we took a good hard look at the infractions made by the fat cats."



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# Record...

Continued from page 26

permitted under the provision that policies may not exclude coverage according to types of illness. These include pregnancy and mental illness, which, state insurance department officials estimate, would involve "major cost implications" for policyholders. If such illnesses were not excludable, in other words, 25% to 50% costlier premiums would result.

## Court rules that Alger Hiss wins government pension

WASHINGTON—A federal court has ruled that the so-called Hiss Act was applied in an unconstitutional manner when it was used to deny its namesake a government pension.

Alger Hiss, the central figure in the Congressional investigation of the State Department in 1948, won the court decision and will get a \$61-a-month annuity retroactive to Nov. 12, 1966.

The court ordered the government to pay the benefit plus interest and to continue the annuity on a monthly basis.

Mr. Hiss was convicted of perjury after denying before a federal grand jury that he had given state department secrets to communist spies. Although he served three and a half years in a federal prison before his release in 1954, he has steadfastly maintained that he was innocent.

Mr. Hiss was represented by the American Civil Liberties Union, which attempted to bring the suit as a class action and thus win benefits for others who were released from government work after communist ties were alleged during the Sen. Joseph McCarthy era. The court, however, declined to consider the case as such.

An ACLU attorney, nonetheless, said that anyone who "falls into the same category (as Mr. Hiss), will not now have much difficulty getting claims rectified."

## Hecla Mining Co.'s miners win better benefits

SPOKANE, Wash.—Some 200 employes at Hecla Mining Co.'s Lucky Friday Mine east of Mullan will receive wage and fringe benefits totaling about \$1.28 an hour over three years under a new work agreement approved March 2, according to Larry L. Marshall, Kellogg staff representative for the United Steelworkers of America.

Fringe benefits include a \$7 monthly pension increase; a \$250 monthly disability pension plus improvements for retired pensioners (not disclosed); non-occupational disability pay of \$75 per week and a new cost-of-living program starting in the third year of the agreement, and improvements in hospital and medical plans.

## Expanded pension plan offered Quebec employes

QUEBEC—The Quebec government has offered to set up an expanded pension plan covering all the province's public and para-public employes.

The offer was made at a meeting between Jean-Paul L'Allier, public civil service minister, government officials and leaders of a three-union common front cur-

rently negotiating a new three-year contract for Quebec's 200,000 organized civil servants.

However, Mr. L'Allier said, the province would have to decrease the proportion of its contribution to such a general scheme. The government now contributes 75% to a pension plan covering 160,000 employes, mainly teachers and civil servants.

The proposed plan would cover the 200,000 employes represented by the common front—The Confederation of National Trade Unions, the Quebec Federation of Labor and the Quebec Teachers Corp.—as well as another 40,000 represented by independent organizations and 15,000 management personnel.

Claude Castonguay, social affairs minister, said at the meeting that the proposed plan would allow employes greater mobility and split costs more equitably between groups involved. ■

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## Conn. Blue Cross asks for group hike and cut

HARTFORD—Connecticut Blue Cross has applied to the state insurance department for approval of a 7.8% boost in its semi-private hospital group insurance plans, covering some 250,000 persons handled through 113,000 contracts.

At the same time, the health plan is requesting a May 1 rate cut of 7% for 35,000 persons covered by extended and comprehensive hospital insurance.

Under semi-private, Connecticut Blue Cross provides full payment for room and board in a semi-private hospital room and full coverage for such special services as operating rooms, anesthesia, radiology and drugs. Provision is made for \$12 to \$15 daily

for hospital room and board plus full payment of special hospital services under extended pay and comprehensive plans.

**GROUPS COVERED**, 5 to 100 persons, are rated as a whole, rather than as separate units, according to John Kennedy, Connecticut Blue Cross vp.

Mr. Kennedy attributed the rate chopping on extended and comprehensive to lower hospital usage on the part of the covered individuals. "It's hard," he conceded, "to draw any conclusions from the experience of such a small sampling of people."

He remarked that those covered by the extended and comprehensive plans get only \$12

to \$15 daily for semi-private room and board; they must make up the difference in hospital costs, since medical facilities are charging from three to four times that figure.

As for the drop, it was noted that the sizable numbers of patients who have to pay for themselves are shying away from what is characterized as hospital stay abuse as well as unnecessary hospitalization.

Moreover, Mr. Kennedy commented that many of those individuals covered by extended and comprehensive happen to carry other insurance, such as major medical, which would pick up part or all of the difference. ■

### Insurance appointment

Malcolm MacKay has been named first deputy superintendent of insurance in New York. He has been a deputy in the department since July, 1969.

## Legislation would fund pre-paid health plans

WASHINGTON—Legislation that would provide \$500 million to \$1 billion annually in government aid to groups setting up pre-paid medical treatment programs in which employers could participate has been introduced by Sens. Edward M. Kennedy (D.—Mass.) and Alan Cranston (D.—Cal.).

The funds called for in the Kennedy/Cranston bill would go mainly to non-profit medical groups establishing medical treatment programs for which subscribers pay premiums in advance for the right to all types of medical treatment regardless of cost.

An aide to Sen. Kennedy said the bill does not in any way supercede the Kennedy-Griffiths

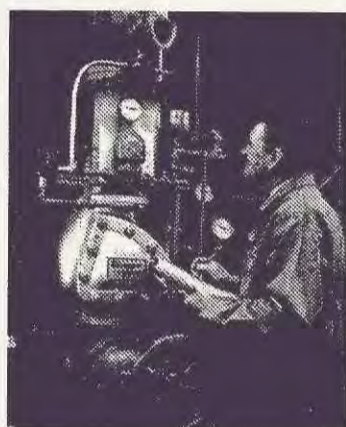
proposal for national health insurance, though the two overlap somewhat. The pre-paid measure "is primarily directed to reorganizing services rather than reorganization of financing," he stated.

**PREMIUMS** under the treatment programs envisioned in the bill—and already in operation on a private, profit-making basis in several parts of the U.S. but primarily on the West Coast—would come to approximately \$200 per person for the widest of coverage, ranging from major medical and hospitalization to dental and prescription drug costs. Premiums would vary on an actuarial basis by region and by the scope of what an organization offers.

According to a staff spokesman for the Senate health subcommittee, which will hold hearings on the bill, experience with existing pre-paid programs indicates that service costs can be cut considerably, by as much as 50% in the case of hospitalization. He said employers could use the government-backed programs either to provide full health care coverage for their employees on whatever payment share arrangement they wish or to supplement their existing health care plans.

In addition to promoting growth of non-profit organizations offering the pre-paid programs by granting them start-up funds and covering operating losses for up to three years, the Kennedy/Cranston measure provides for loans to profit-making medical groups and private hospitals that want to start pre-paid plans. It also calls for establishment of a health maintenance organization to operate in urban areas and a health service organization for rural areas. ■

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(Fire Journal July 1970, Vol. 64, No. 4)

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## Dropping benefit plan challenge

QUEBEC—The Quebec government will give in to Ottawa in the current federal-provincial dispute on unemployment insurance.

Jean Cournoyer, labor minister, has indicated that Quebec will drop its challenge to the new federal program following a meeting with leaders of Quebec's major unions. Mr. Cournoyer said the Quebec position is "not solid enough" legally to press the case further.

Some weeks ago the province advised 310,000 public service employees to withhold unemployment insurance contributions for the duration of the dispute. Included are teachers, hospital workers, Hydro-Quebec workers and liquor commission employees.

Union leaders said they would back the province only if Quebec could offer them the same benefits as the federal plan.

The province had argued that Quebec civil servants are already protected by job security clauses and other benefits and therefore do not require additional unemployment insurance protection. A second major reason rested on the Quebec claim that because the federal plan includes maternity benefits, sickness benefits and retirement bonuses, it amounts to a social aid program, which Quebec considers a provincial responsibility. ■



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# business insurance

# PERSPECTIVE

## The 501 (c) (9) trust meets an 'immediate' funding need

"Investments held under a 501 (c) (9) trust would need to be somewhat more liquid, at least in the initial stages, than those held under a pension plan. Progressive asset managers, and at least one insurance company, offer separate pooled investment accounts to qualified insurance trusts."



BY WILLIAM J. JONES III (left) director, Ingram, Armistead, Wallace Inc., Great Neck, N.Y.

AND FRANK W. BURR (right) vice president, Alliance Capital Management Corp., investment subsidiary of Donaldson, Lufkin & Jenrette Inc., New York

group medical as well as reserves in workmen's compensation would be placed in the 501 (c) (9).

**THE MAIN TAX** advantages enjoyed under qualified pension plans are also available under approved 501 (c) (9) trusts. These are:

- Tax deductible contributions by an employer.
- Tax exempt earnings on the fund.
- No current tax impact to employees for contributions made on their behalf.

Prior to the Tax Reform Act of 1969, contributions by employers and employees could not total less than 85% of the total annual receipt of a 501 (c) (9) trust. This placed a severe limitation on the reserve buildup that could occur because it restricted the amount of investment income. The 1969 Tax Reform Act removed this restriction entirely. Employers should now consider whether the trust can be used to provide benefits that require a significant reserve buildup, such as long term disability,

group life, health, and more medical benefits.

Establishment of claim reserves is an essential ingredient in any soundly financed employe benefit program. Group insurance reserves held by insurance carriers, depending upon the coverage, may range in amount from a low of two months' premiums, to a high of perhaps eight years' premiums. Earnings on these reserves can be an important source of cost reduction, and are generally treated by the insurer as a credit in their "retention charge." The retention, however, does not fully measure the overhead cost of a group insurance contract since it neglects consideration of the employer's cost of money held in reserves. Use of a 501 (c) (9) trust provides the employer with two distinct advantages with regard to earnings on reserves:

- The employer may be able to utilize reserves in a more efficient manner.
- There is no federal income tax on the earnings of a qualified 501 (c) (9) trust.

Premium taxes on group insurance premiums have a significant impact on retention costs, and insurers have developed the minimum premium arrangement to reduce such taxes. To avoid these taxes entirely, some employers have adopted self-insured (pay-as-you-go) arrangements for benefits such as weekly disability income benefits and workmen's compensation.

Contributions to a 501 (c) (9) trust are not insurance premiums, and would not be subject to premium taxes unless the insurance commissioner of the state in

which the employer operates contends successfully that the trust is engaged in the business of insurance. State premium taxes usually run from 2-12% to as high as 4% of insurance premium.

There is some lack of legislation with respect to providing nonpension benefits, other than by typical group insurance contracts. Furthermore, it is too soon for the courts to have thoroughly explored the implications of the Tax Reform Act of 1969. There is some uncertainty in several areas concerning the 501 (c) (9) trust that should be clarified within the next few months. From all indications, the new regulations will provide clearer guidelines similar to what has evolved in the pension trust regulations, including minimum and maximum funding requirements and unfunded prior service liability determination.

Another question is the taxation of proceeds to beneficiaries from a 501 (c) (9) trust. Corporate counsel differ in their opinions on how death benefits would be taxed. However, the major opinion appears to be that health and medical benefits paid from the trust would be taxed no differently than from payments under a group insurance contract.

A catastrophe such as the explosion of a plant facility, or generally poor, unusual claims experience, can have serious financial implications on your newly qualified trust. Sound financing and professional aggregate loss analysis can produce the information necessary to plan and negotiate proper aggregate of loss or stop-loss protection. Continued storage of adequate statistical data and constant analysis of this data is necessary for proper insurance negotiations for protecting against the disaster, as well as negotiating the best administrative plan.

Like pension trusts, 501 (c) (9) can be established with corporate trustees, individual trustees, insurance companies, or asset management firms. The investments held under a 501 (c) (9) trust would need to be somewhat more liquid, at least in the initial stages, than those held under a pension plan. Progressive asset managers, and at least one insurance company offer separate pooled investment accounts to qualified insurance trusts.

Corporations have and are looking at captives or insurance company subsidiaries for property liability insurance, mostly off-shore. Workmen's compensation can be self-insured with tax advantages accruing on a straight corporate balance sheet basis. And now we come to employee benefits. The captive route, just for benefits and not to "sell" insurance, seems too costly and involved a route. There remains the 501 (c) (9) trust. ■

**THIS ARTICLE DEALS** specifically with the corporation insurance trust funding mechanism, a trust arrangement that is akin to the position played by trustee pension plans in the 1930s. With the growing cost, as well as the benefit increases, of corporate group insurance programs, coupled with certain Internal Revenue Service regulation changes in the past three years, the IRS Regulation 501 (c) (9) trust's time is upon us.

A "newly" discovered vehicle for placing employe benefit insurance premium reserves in an attractive tax treated category has suddenly come to light. The insurance trust of Internal Revenue Code Section 501 (c) (9) describes the specific regulations regarding this funding mechanism. I will now briefly describe the main advantages of using a 501 (c) (9) trust.

Discussion of the advantages of the trust is aimed at the utilization of the 501 (c) (9) in conjunction with a cost-plus or administrative insurance company claims handling agreement. The most advantageous type of liability to be funded through 501 (c) (9) is post-retirement death benefits and long-term disability benefits. Currently, there is very little, if any, funding for the inevitable growing liability inherent in these two group insurance benefits. The 501 (c) (9), therefore, fulfills an immediate need by providing the corporate treasurer with a vehicle for prudent funding which has extremely attractive tax advantages, while leaving these monies under corporate trustee investment control. In addition, the float on

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

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

**I**NSURANCE, like many other fields, has developed its own technical jargon. One unfortunate aspect of this is that the technical words of insurance are frequently ordinary words in the English

language with ordinary meanings which sometimes get in the way of their technical insurance meanings. Here are some insurance terms which are useful to the buyer of insurance.

**Credibility** refers to the extent to which you can rely upon past loss experiences. Let us look at two extremes:

• I once had the problem of buying insurance on an old wooden building with no sprinklers, no fire walls and a high-risk manufacturing occupancy. It was obvious that there would never be more than one fire in that building. When it occurred, the loss would be total. But the angels who watched over the building had been kind and hardworking. There had

never been a loss. In evaluating past experience I assigned it a credibility of "zero." The fact that there had been no losses in the past did not change the fact that there could be a total loss next year—or next month.

• On the other hand, let us take a giant chain of stores with 10,000 units. The law of large numbers indicates that the amount of loss among these stores would not fluctuate greatly. The extent to which past losses would indicate future experience approaches 100%.

**Severity of loss** refers to the total amount of loss in a given period. No matter how careful you are in your loss  
*Continued on following page*

## Do you really know what all those insurance terms mean?

"I once had the problem of buying insurance on an old wooden building with no sprinklers, no fire walls and a high-risk manufacturing occupancy."

## business insurance

## PERSPECTIVE

## Risk management notes

# 'No need' for the accuracy of professional property appraisal

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

**M**OST BROKERS, agents and insurance company representatives advise insureds to obtain professional appraisals of their property. Though this is the most accurate method of determining an inherently ambiguous figure, risk managers who have given the subject thought find the improvement in accuracy obtained does not justify the high cost.

First of all, even the best appraisal is valid only on the day it is made and no insurer guarantees to use it in a loss adjustment. As a practical matter, however, they are used unless unusual conditions arise.

Second, and more important, there is no need for this degree of precision. To see why, look at the only two reasons for using an appraisal for insurance purposes: developing adequate limits to avoid underinsurance or coinsurance clause penalties, and providing a source document for loss adjusting.

With regard to the first point, most companies of any size have many locations insured under blanket policies which apply the total limit to any location so there is no chance of underinsurance. However, if there is only one location, the values obtained from sources less accurate than professional appraisals may be increased by a safety factor sufficient to cover any doubt and the resulting insurance premium increase would be substantially less than the cost of an appraisal.

**TO ELIMINATE** coinsurance penalties, a "stipulated amount" agreement can be reached with underwriters, if reasonably supportable figures are used and revised

annually, as they should be.

The second rationale for professional appraisals is provision of a source document for loss adjusting. Such a document would provide a more accurate portrayal of property values, but such lists are quickly obsolete and do not necessarily benefit the insured. In the absence of an appraisal, arbitrary valuations with the adjuster must be made and there is no reason to believe that these will result in lower or higher figures.

Another point to consider is that there is no such thing as an accurate value. A building costs what a contractor will charge to erect it. Such charges vary from one contractor to another, and will depend on conditions such as whether the contracting business is good at the time the property is built. Even the best appraisal is only an educated guess.

Quite apparently, there is no need for the risk manager to commission a profes-

**"Even the best appraisal is valid only the day it is made and no insurer guarantees to use it."**

sional appraisal for insurance purposes. Nevertheless, he should obtain the best possible source data, whether it be the original construction cost, a contractor's estimate, or the determination of a figure from published costs per square foot for the type of building concerned. Each important building should be represented by a file showing the source data and each addition or deletion, as well as annual factors applied for construction cost changes. If properly maintained, these sources will serve the purpose.

ly. For a high-grade, sprinklered, modern factory, probable maximum loss may not be more than a few hundred or a few thousand dollars. What happens if a fire starts is that the sprinklers open and put it out.

**Possible maximum loss** is the largest loss which can be expected if the loss prevention systems do not operate properly. Suppose the sprinkler system is disrupted by explosion or windstorm. The resulting fire may destroy everything in a given fire area, being stopped only by fire walls, distance, or other physical factors.

**Non-insurance** is the complete opposite of insurance. Insurance is not carried, reserves are not established, nor is any other provision made for losses. If losses occur, they are charged to current expenses.

**Self-insurance** is a system, more or less formal, under which insurance is not carried, but provision for loss is made in advance. A formal system of self-insurance may have many of the features of insurance. There may be engineers for inspection, lawyers or adjusters to settle claims, actuaries to determine costs and contributions to reserve funds.

**Deductible insurance** provides that some fixed amount will be deducted from the total loss to determine how much of

the loss is covered by insurance. The insured bears the first part of an individual loss (specific deductible insurance) or the first part of the total loss for a policy period (as in aggregate deductible insurance).

The amount of the deductible is determined in the light of past experience, the savings which can be effected, and the amount of loss which the insured can meet without impairment of his financial position. The purchase of a deductible policy is frequently the first step in a move toward more complete assumption of risk by the insured.

### Three-year Retro Plans

We recently saw a public liability policy with a \$50,000 limit developing an annual premium about \$250,000 under a three-year retrospective rating plan having a maximum three-year premium in excess of \$1 million. This isn't insurance at all, but simply an expensive cost-plus method of handling losses. It is expensive because the costs are greater than they would be under a self-insured program since they have to cover insurance company overhead and acquisition costs as well as premium taxes.

The public entity purchasing this policy believed it was buying insurance but there was really no transfer of risk. The insurer couldn't lose. With such a low limit and with that volume of claims, it is easy for the underwriter to foresee—over a three-year span—when the maximum premium would be reached and to cancel just before it arrives, if experience should be adverse.

Most authorities agree that three-year retrospective rating plans are often unde-

desirable, not only because of the situation as described above but because the potential credits from good experience are small with relation to the potential debits from poor experience. Retrospective rating plans are desirable in many situations but should normally be limited to one year.

**Excess insurance** is carried to protect against the possibility that an insured loss will be greater than the protection provided by existing underlying insurance. For this purpose the excess insurance adds one or more "layers" of insurance to the existing insurance. Excess insurance may be carried in either of two forms:

- Specific excess insurance protects the insured if the loss resulting from a single fire, accident, or other insured event exceeds the protection from underlying insurance.
- Aggregate excess insurance protects the policyholder if the total loss during the policy period exceeds the protection from the underlying insurance. It might appear that aggregate excess insurance would

provide more protection to the policyholder than specific excess insurance.

However, in a sense, the specific excess policy protects against severity of loss, whereas the aggregate excess policy protects against frequency of loss. This might work out on a short-run basis, but in the long run, the protection from the effects of frequency of loss must come from the loss prevention program of the insured rather than from his insurance program.

Specific excess insurance is easier to administer than aggregate excess insurance. Under specific excess insurance it is relatively easy to keep track of the few events which result in losses covered by the insurance. For aggregate excess insurance, however, all losses for the policy period must be compiled to determine the amount of the claim against the insurer. In a large corporation with extensive operations, this can require considerable work.

**"Even the precise legal mind boggles a bit when it comes to insurance requirements."**

- Liability insurance was required where the product exposure was important yet no mention of it was made. Since many liability contracts do not cover the product hazard, this is a vital error of omission.

- Property insurance was required "to full insurable value." Does this mean replacement value or actual cash value?

- A lease contract specified fire and extended coverage insurance although many other perils could cause significant loss to the property. Responsibility for loss from other perils was not made clear.

- Workmen's compensation insurance was required though the company required to carry it was an authorized self-insurer.

- A bond indenture required earthquake insurance to full value, not recognizing the impossibility of obtaining it without a substantial deductible.

- Great care was taken to require fire insurance to full value on a revenue bond but the more important consequential loss from loss of revenue was overlooked. ■

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Bion Francis graduated from Massachusetts Institute of Technology with a degree in mathematics. He has served as insurance manager for Wellington Sears Co., West Point Pepperell, Olin Mathieson Chemical Corp. and Crucible Steel Co. of America. He has also been manager of benefits planning of Colt Industries Inc. and president of the Insurance Buyers' Assn. of Pittsburgh. He is now an insurance consultant in Milford, Conn.

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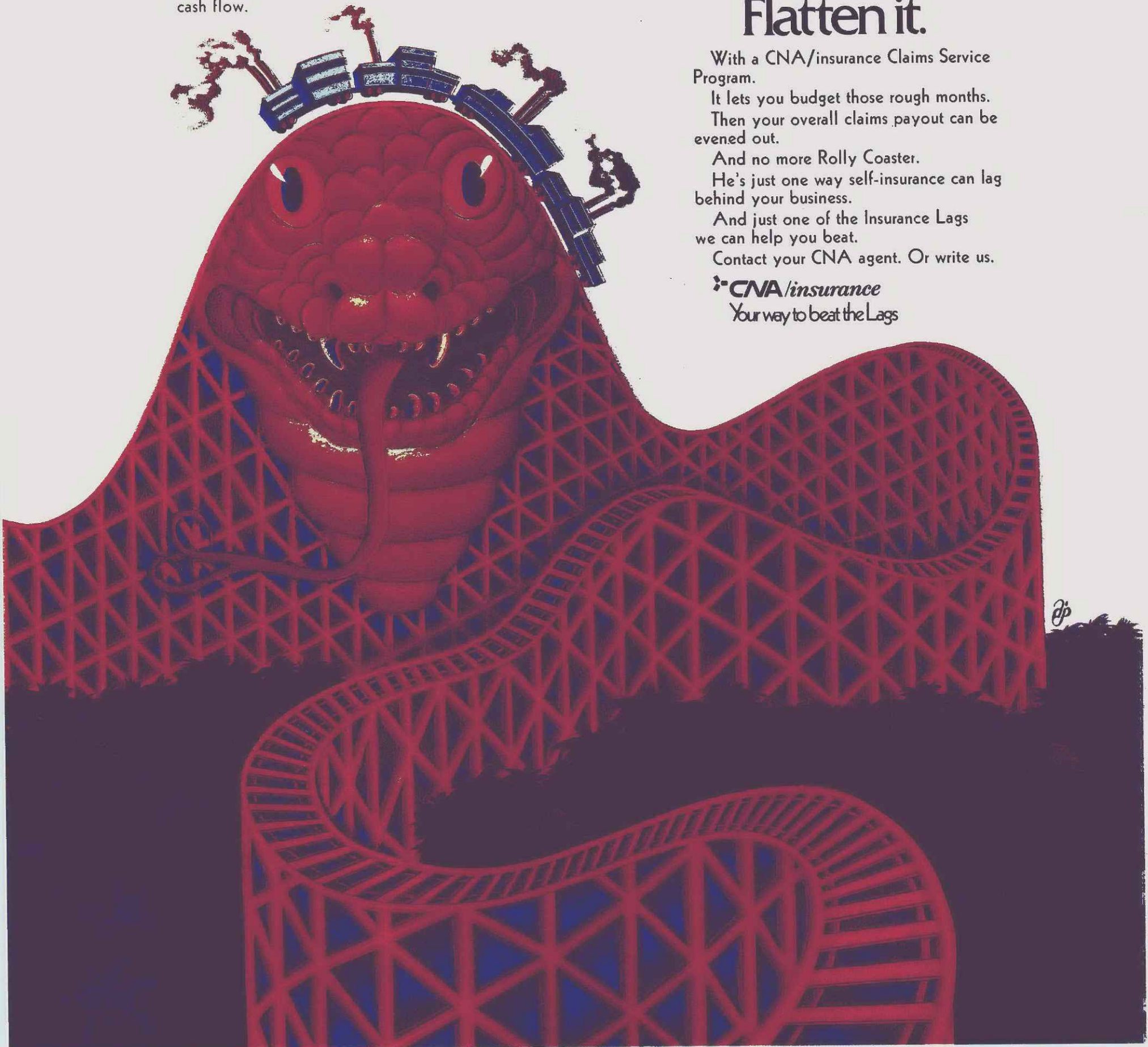
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# letters

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wish to sign up for this voluntary program. No agents will be allowed to mass market insurance to the employees. Pitt and Pauley, in conjunction with Connecticut General representatives, are the only two corporations allowed to solicit insurance.

**Peter S. Pauley**  
President, Pitt and Pauley Inc.,  
Greenwich, Conn.

## What's self-insurance?

To the Editor: Regarding "Police are self-insured in death case" (*Business Insurance*, Feb. 28). Well, are they "self-insured" or are they "uninsured?" It seems to me that we should carefully reserve the designation "self-in-

sured" for those who have made a conscious effort to set up reserves and really self-insured, and not use it for those whose "self-insurance" consists in crossing their fingers and hoping. They are "un-insured" and should be described as such. Were the police "self-insured" or "uninsured?"

**Ray Phillips**  
A. R. Phillips & Co., Los Angeles

*Editor's note: Mr. Phillips takes what we consider to be a narrow view of self-insurance. Many companies that practice risk retention (or self-insurance) do not set up specific reserves losses as business expenses as they occur, but this practice does not necessarily mean that they are "uninsured," as Mr. Phillips suggests. Inequitable tax rules, unfortunately, prevent self-insurers from getting tax deductions for loss reserves. Lack of a tax advantage for self-insurers means*

*that there is scant financial advantage in setting up self-insurance funds. It also means that insurers have leverage when they offer coverage because insurance companies receive the benefit of tax deductibility for loss reserves, an advantage that is denied self-insurers. Risk retention can be advantageous to profit-making companies and municipalities if it is properly planned, with or without loss reserves. We would use the word "uninsured" in cases in which the risk-bearing company or municipality has done nothing to plan its program, has done nothing to control its losses and has not determined whether and at what point commercial insurance might be a viable alternative. Perhaps Mr. Phillips would be better satisfied if we said that such losses were "self-assumed." For another viewpoint, see Bion Francis' article in Perspective, page 41.*

# U.K. market lowers many war risk rates

LONDON—World war risk cover has been reviewed by the London insurance market in order to set new basic rates for cargo shipments, by both sea and air, for the current year.

The result, effective March 9, is to drop recommended rates to lower levels in several geographic areas where they have been in force at exceptional premiums for several months. This includes both the Bangladesh territory, and the Israeli-Egyptian area, where the threat of hostilities had to be taken into account during 1971.

Clearly, insurers think the world is now going to be more peaceful for their business operations in many directions.

**BUT THE MOST** significant change is the new rate for insuring cargoes to China, and ports on the China coast, which has been lowered to the basic worldwide minimum, 5¢ per \$100, that operates throughout most of the world.

The new low rate has been fixed by the joint body of marine underwriters from Lloyd's and the British insurance companies, through their war risks rating committee, whose views are accepted by agreement throughout the London market. They are also passed for guidance to the U.S. through the American Institute of Marine Underwriters in New York, and to a marine underwriters board in San Francisco.

Was China specially selected for new rates after President Nixon's visit? Sources in the

London market told *Business Insurance*, "No, it's just a happy coincidence that the new rates are being introduced about now. The time had come to revise schedules, some of which had been in existence for two years, and China was naturally included."

The new rates are 5¢ per \$100 for China and all Chinese coastal area destinations, which previously ranged from 12.5¢ for Macao, 7.5¢ for Canton, 6.25¢ for Taiwan and 5¢ for Hong Kong.

**THE RATES** cover war, strikes, riot and civil commotion risks, and as one commentator said, "Who has heard of a strike in China?"

Vietnam, Laos and Cambodia are still rated at underwriters' discretion, and Bangladesh at \$1 per \$100, as mines can affect shipping there. War risk rates for Egypt's and Israel's Mediterranean ports are now 2¢ per \$100, and 3.75¢ for their ports around the Gulfs of Suez and Akaba.

Air cargo rates are being reduced for shipments to several destinations, including Bangladesh, Vietnam and West Pakistan, but are still above the minimum level.

The potential effect of hijacking or bomb-ransom threats on cargoes is still to be assessed. Hull values for damaged aircraft are the problem of the aviation market, which has already recognized the situation for many months since hijacking began. ■

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## Denenberg sees push for group auto coverage

PITTSBURGH—Herbert S. Denenberg, Pennsylvania insurance commissioner, in a speech that is not likely to endear him to employers, told a state AFL-CIO convention here that his department has come up with new regulations to "authorize and encourage" group auto and homeowner insurance and is also working to knock down barriers in the path of group legal insurance.

"Group auto and homeowners insurance are logical targets for additional employe benefits," Mr. Denenberg told the labor meeting. "We have set the stage for (them). The rest is up to you."

Noting that under the new regulations the same advantage of group life and health insurance will apply to auto and homeowners, the Pennsylvania official asserted:

"You'll now see more and more group auto and homeowner protection in your union contracts. This can mean better protection at savings of up to 25% or more. Group auto and homeowner insurance have the potential of saving Pennsylvanians more than \$100 million a year.

"We are also knocking down

any barriers in the path of group legal insurance and group legal services," the insurance regulator continued. "Now the public does not have fair access to legal services, and often ends up without legal advice or must pay excessive fees for legal advice. We see too many going without legal advice altogether because they cannot afford it, or paying 40% and 50% contingent legal fees that are clearly excessive.

"Group legal insurance applies to the principles of Blue Cross and commercial health insurance to the provision of legal advice. By an insurance approach to legal services, legal advice can be made readily available and at a reasonable and easily budgeted cost. Group legal services," Mr. Denenberg suggested, "achieve even more dramatic economies by putting lawyers on retainer or salary to serve the needs of the members of a group, such as a union."

## United's . . .

Continued from page 11

• For New Jersey Mr. Smith had one comment, "You can't get qualified there."

• New York, he said, not only has high bond requirements but also "paperwork problems."

• Mr. Smith said he is "not sure" the law in Washington (state) will work but "we're qualified."

• Utah he described as a "simple" state for qualification as a self-insurer.

UNITED'S expense level for 1972, according to Mr. Smith, will be "about the same" as the previous year's. He expects, however, to save \$5 million in five years. "In self-insuring workmen's compensation," he said, "I feel that in five years you will

have accumulated 180% of one year's premium."

Prior to self-insuring, United had a cost-plus insurance plan and was paying a total premium in the neighborhood of \$2.5 million for workmen's compensation coverage. The company was attracted to self-insurance in this area because of the predictability of the flow of money and, he added, "so far I'm hanging on to my dough like crazy."

When asked if United had ever considered a fronting company to avoid the high costs of bonding, Mr. Smith said, "No, because the total cost of all the bonds is less than 3% of one year's former premium."

The new self-insurance program has not affected the work load of his staff, he said, because Massachusetts is the only state that is fully self-administered. The Hartford handles the administration in 12 states, "somewhat" at United's direction, he added. ■

## Exchange rate loss insurance

BONN, W. Germany—A plan to provide West German exporters with insurance against exchange rate losses is expected to be put into effect soon.

Under the plan, insurance will be available only for contracts negotiated in U.S. dollars, sterling or Swiss francs and will apply only to contracts where there is a gap of more than two years between final signing and the date for final payment.

In addition, the insurance will be paid only if the exchange rate loss amounts to more than 3%, although the measure will not use official parities but prevailing market exchange rates. Furthermore, if an exporter takes out insurance and then makes an exchange rate gain, he will be allowed to keep it only so long as it does not exceed 3%. ■

## Brown pleads guilty and gets 8 years; Wilson trial Apr. 10

MIAMI—Carl Brown, under indictment here and in St. Louis on mail fraud charges involving insurance companies, has entered a guilty plea to the Miami indictment with a stipulated sentence of eight years.

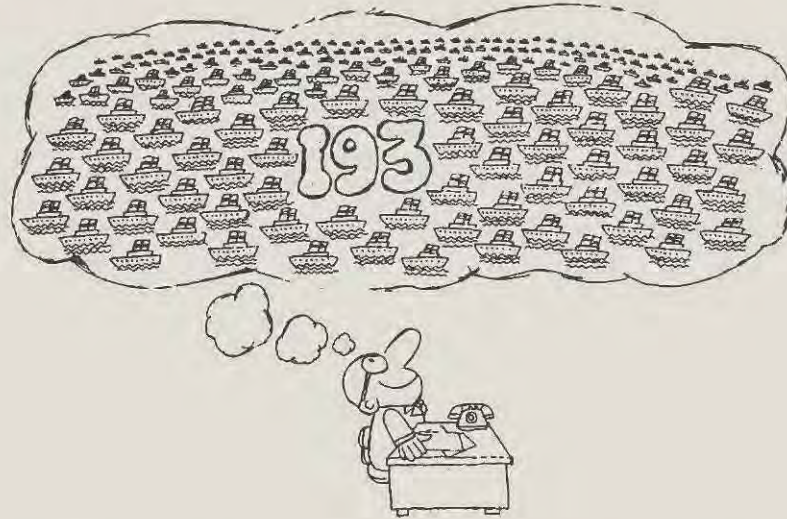
Mr. Brown is one of 22 defendants in a \$150 million mail fraud case in which, the government charges, a Bahamian insurance company was used to defraud investors in an advance fee swindle and policyholders in an international reinsurance racket.

He is also a defendant in a St. Louis case that resulted in a federal indictment charging that Mr. Brown and three others defrauded insurance policyholders, brokers and agents through the operation of a Missouri mutual company. A co-defendant in both cases is Philip M. Wilson.

Mr. Wilson, who is free on \$100,000 bond, will go on trial April 10 before U.S. District Judge Joe Eaton to answer charges in the 78-count indictment returned by a federal grand jury in January.

Six of the 22 defendants have already pleaded guilty and have accepted stipulated sentences of eight or nine years in prison. The stipulated sentences have yet to be approved by Judge Eaton, who will examine the defendants' probation records.

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## Prices . . .

Continued from page 1

made to the Price Commission has been denied. Slightly more than 70 had been approved within a three-week period at *Business Insurance* press time and 35 more were to be announced as approved without any hitches.

**THE INCREASE** list included: Metropolitan Life Insurance

Co.—30.3% for group accident and health insurance premiums for Hobart Manufacturing Co. (.0104% revenue increase); 22% for group accident and health at Picklands, Mather & Co. (.0062% revenue increase); 16.4% for group accident and health at A. P. Green Refractories (.0031% revenue increase); 13.4% for group accident and health at Gardner Denver Co. Prudential Insurance Co. of America—15.6% for employee benefits program (.4% rev-

enue increase); Travelers Corp., Travelers Insurance Co.—31.2% for group life and accident and health, national group insurance plan, railway labor organizations (2.36% revenue increase).

New York Life Insurance Co.—22.9%, premiums for group health insurance, Ohio automobile dealers program (.027% revenue increase); Occidental Life Insurance Co. of California—10.3% increase in premiums for group accident Green Refractories (.0031% revenue increase); American Mutual Liability Insurance Co.—13.1%, premiums for doctor's professional liability insurance in California (.8% revenue increase).

Companies increasing workmen's compensation and employers' liability rates .7% in Wisconsin and 14.7% in Kentucky included Aetna Casualty & Surety Co., American Mutual Liability, Liberty Mutual, Home Insurance Co., Continental Insurance Cos., Hartford Insurance Group, Kemper Insurance and U.S. Fidelity & Guaranty Cos.

Among companies granted 10.7% Michigan workmen's compensation and employers' liability rate increases were Allstate Insurance Co., Sentry Insurance Co., and Firemen's Fund American Insurance Cos.

## Propose pension legislation

**BOSTON**—A proposed bill now before the Massachusetts state legislature could regulate pension plans in private industry.

It would provide vested pension rights after six years of 10% increasing at the rate of 10% per year, reaching 100% of benefits after 15 years.

It would require that workers be allowed to transfer accrued benefits to other companies with similar plans and require firms to insure their pension funds against bankruptcy.

## U. S. results triple

General Accident Assurance Group, Perth, Scotland, reports that its U.S. results showed \$14.8 million underwriting profit last year, compared with \$4.8 million in 1970. Operating ratio was 92.70%, against 96.62%. Net premiums written were \$270 million against \$237 million.

## Captives . . .

Continued from page 1

U.S. risks that are exported to offshore captives in Bermuda. The 1% gross premium tax charged by Colorado is also less any premium dividends reinsured and less any tax assessed by any other other state on premiums allocated to that state.

**A SECOND** advantage cited by Mr. Groves is "the permissive use under the Colorado law of an irrevocable letter of credit to satisfy capital and surplus requirements—which is an aggregate of \$750,000 (\$400,000 and \$350,000 respectively).

"With bank letters of credit available for .25% to 1% interest per annum, this provides substantial cash flow advantages" for the corporation insuring U.S. property and liability risks through a Colorado captive, the management firm's president asserted.

Also mentioned by Mr. Graves is the fact that captive insurance

companies are exempt from participation in state fire and auto insurance pools and guaranty funds.

One possible disadvantage to the Colorado scheme mentioned by persons other than Mr. Groves was the question of investment freedom for captives. Such companies do have complete freedom in Bermuda, while state insurance laws in this country are generally restrictive. The Frank B. Hall executive, however, countered this by saying that "Colorado has probably the most liberal investment laws of any state in the nation."

Captive people on both sides of the fence—the dubious and the enthusiastic—do agree, nevertheless, that Colorado is bound to take some business from Bermuda, though international captive business is likely to be just as brisk as ever on the resort island. Some companies—TRW, for example—may even operate captives in both places. The Cleveland-based manufacturer already operates a captive for foreign risks in Bermuda.

## ASIM . . .

Continued from page 1

also called for Labor department action to develop meaningful data on workmen's compensation.

**ON THE MATTER** of options for insureds, Mr. Hollingsworth said, "We feel that it should be the employer's right, subject to financial requirements of the state, to make his own decision as to whether he will purchase insurance to provide financial backing in either a private insurance company or state fund, or that he will go it alone, that is, pay directly to the employe the benefits provided by the act, or use all three methods within a state.

"To force an employer to choose either one or two of three methods of meeting his obligation can prevent such an employer from reducing his cost below the average of employers in a similar business," he concluded.

Under questioning by commission member Michael R. Peevey, director of research for the California AFL-CIO, Mr. Hollings-

worth at first said that ASIM would favor establishment of state funds in all states. After conferring with James E. Bailey, ASIM legislative counsel who was seated at his side, the ASIM spokesman said, "I am advised by our counsel that ASIM opposes state funds."

Sources close to the ASIM legislative committee told *Business Insurance* that ASIM does not have a policy statement categorically opposing state workmen's compensation funds, but the sources indicated that it is the general policy of the organization to oppose government competition with private enterprise.

In response to a question by William J. Moshofsky, commission member and assistant to the chief of Georgia-Pacific Corp., Mr. Hollingsworth said that the general membership of ASIM was not consulted on the framework of the statement to the commission. Rather, he said, it was drafted by the ASIM national legislative committee, a group of about 17 risk managers who determine legislative policy for the organization.

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# City seeks greater pension plan investment return

FORT LAUDERDALE, Fla.—City commissioners have agreed to hire a consultant to find a new pension plan trustee who can give the city a greater return on its \$6 million investment.

A commission majority agreed to spend up to \$5,200 for the actuarial firm's counseling.

The pension presently is managed by Provident Life and Accident Insurance Co., criticized by individual commissioners for what they consider a low return on the city's pension plan funds and for the type of insurance provided in connection with the plan.

The decision was opposed by James Leavitt, mayor, and Edmund Burry, the commissioner who was instrumental in obtaining the Provident plan for the city 18 years ago.

**MR. LEAVITT** favored employing a new trustee directly without waiting for advice from an actuary. He suggested that First National Bank of Fort Lauderdale would be a logical choice since two other big local banks had disqualified themselves.

Mr. Burry, on the other hand, angrily defended the Provident plan and denounced the hiring of a consultant although Provident officials themselves have acknowledged that a revised plan could benefit the city.

Mr. Burry was particularly angry at insurance consultant Robert Gertz, a member of the pension committee, who told commissioners the city could save a million dollars a year by changing only the insurance portion of the pension plan. Mr. Burry claimed he didn't know what Mr. Gertz was talking about.

"That ape over there says there'd be \$22 million saved if they did this, that or the other thing," declared the testy veteran commissioner who helped get Fort Lauderdale together with

Provident in 1954.

**THREE** actuarial firms and officers of three local banks have recommended that the city switch from an insured pension plan to a trustee-administered program. They agreed that the city's current plan returns too little from funds invested and that it is combined with whole-life insurance policies instead of less expensive group policies.

Provident's dual role of trustee and insurance carrier has been singled out for specific criticism since investment policies first drew attention two years ago.

Owen Smyth, a Provident vp, told the commission that the company became trustee for the fund in 1954 because there were advantages to the system under the then-existing tax laws. "We

recommend (now) someone other as trustee; we recommend you do that," he said. He also recommended that all new city employees be covered by the less expensive term insurance.

Members of the pension committee, though, are unanimous in recommending that both new and old employees be covered by term insurance and that the cash values of existing policies—an estimated \$3 million plus—be invested, along with the savings in premiums effected by switching the type of insurance.

**MR. SMYTH** estimated a saving of \$168,000 for the year beginning April 1 if the types of insurance were switched.

William Godfrey, chairman of the pension committee, told commissioners that the committee will

meet with Fort Lauderdale's city attorney to draw the necessary new ordinances for changes in the pension plan.

Those changes don't necessarily mean that Provident will no longer act for the city either as its insurance carrier or its trustee, committee members and Provident officials agreed. But the dual role of trustee and carrier, which has drawn criticism, will be abolished.

Mr. Smyth, responding to questioning, said that the insurance company charges .25% to handle the pension funds, which now amount to \$3,047,762.

The insurance policies carry a cash value of \$3,724,184, a figure that will increase by \$931,983 with payment of a premium amounting to \$1,203,876 due April 1.

## Governor strikes out at auto cover

AUSTIN, Tex.—Gov. Preston Smith said he would recommend a no-fault insurance law to the legislature if a study by the Texas insurance board deems it "advisable."

"We must somehow change the system, which today pays the injured victim only 42¢ in benefits out of every dollar fed into automobile liability insurance," Gov. Smith said.

"We must change the system under which 55% of those killed or seriously injured received no benefits whatsoever in the tort liability system.

"**WE MUST** change the system, I feel, which requires the courts to determine who was at fault, and to evaluate pain and suffering—the complex issues that are so difficult to determine," he said.

The governor said if the states don't act on no-fault, the federal government will. "Perhaps it is wiser for the states to find the system that is best for them, without having a standard law imposed upon them by the federal government."

Gov. Smith said hospitalization insurance returns 95¢ in benefits for each dollar in premiums, group life and health insurance return 80¢ or more and workman's compensation delivers 67¢ in benefits for each dollar.

"No other form of insurance costs as much and provides as little as automobile insurance," the governor said.

## Receives diploma

Donald Stehr, director of insurance and employe benefits of the Jos. Schlitz Brewing Co., was awarded his diploma as an associate in risk management by the Insurance Institute of America and the American Institute for Property and Liability Underwriters at a recent meeting of the Rock River Valley and Wisconsin chapters of American Society of Insurance Management. Douglas Barlow, president of ASIM, addressed the joint meeting.

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# Tanker insurance syndicate raps owners' self-insurance schemes

NEW YORK—The chairman of the board and manager of the American Hull Insurance Syndicate said at the organization's annual meeting here that he views self-insurance schemes by tanker owners as a dangerous gamble "based on the supposition that accidents always happen to others."

In a wide-ranging report that touched on a number of problems facing tanker owners and underwriters, Allen E. Schumacher declared that premiums must be charged which are commensurate with the risks run, and that unless loss ratios improve "there will be no alternative but to exact further increases."

Warning against the dangers of self-insurance schemes, Mr. Schumacher further said that it is "to the long-range benefit of tanker operators to remain with the commercial insurance market" to offer underwriters the maximum spread of risk. "The beneficial result to all," he asserted, "will be an earlier leveling of premiums on this class of vessel."

The American Hull Insurance Syndicate, which has a membership of 51 companies and makes up the majority of the hull insurance market in this country, reported a growth of 30% in writ-

ten premiums for last year. Over two-thirds of this was by way of new business, Mr. Schumacher noted.

**IN ADDITION**, the reelected chairman disclosed, there was a "dramatic increase" in the number of foreign hulls insured. That book of business, in fact, now accounts for 37% of overall premium volume, as against 17% four years ago.

The growth of the syndicate, however, has not diminished the problems inherent in such an operation, the chairman reported.

Syndicate losses in 1971 were dominated, as in recent years, by major partial losses (those exceeding \$100,000). A three-year

easing off of total losses ended, as well, with \$9.3 million being paid in this category, an amount which tripled the cumulative payout on such losses for the preceding 36 months, Mr. Schumacher noted.

There were nine total and 38 major partial losses reported to the syndicate last year, and these absorbed 37% of the premium earned during the year. An additional 5% of the year's premium went to pay for previously undiscovered damage to a major 1970 casualty, the syndicate chairman revealed, noting also that contributing to the underwriting results were increased Japanese repair costs because of the recent devaluation of the U.S. dollar.

**TURNING TO** the problems created by the huge tanker risks of recent years, the syndicate chairman recalled that last year's report had noted a five-year loss ratio of 112% for oil carriers in excess of 75,000 deadweight tons. Last year's experience, he said, worsened the record, with a ratio of 122% having developed from 255 reported losses aggregating \$105 million, against \$86 million in premiums received.

Losses to mammoth tankers (150,000 dwt. and over), taken separately, he said, showed 16 claims totalling \$54 million for a loss ratio of 130%. This, he said, clearly depicts "the shock loss effect of this class of business."

Noting that insurance is now the tanker owner's largest single operating expense, Mr. Schumacher said that this is "solely because of the losses which are occurring."

There is a need, the syndicate chairman emphasized, for im-

proved communication in the business and for the "development of even closer relationships between the underwriters, those with whom they work and, particularly, those whom they insure."

**"THE DAY OF** the ostrich and the arm's-length attitude is past," he said.

"Shipowners want and deserve to know what the underwriters think and how they function. Underwriters must further increase their knowledge of shipowners' operations, plans and programs. Together," he added, "we must develop, analyze and disseminate knowledge and experience on the newer types of vessels. It is also vital that we both work to resolve the continuing human failure aboard ship (cited in a recent study as the major cause of tanker losses), which will have to be brought under better control." ■

## State paid \$61 million to the injured

OLYMPIA—The Washington state labor and industries department has reported employes injured at work in the state received more than \$61 million in workmen's compensation benefits during 1971.

William C. Jacobs, director of the department said the largest single amount—\$18,635,000—went toward payment of medical costs arising from on-job injuries.

Some \$16,219,000 was paid in wage compensation to employes whose injuries kept them off work temporarily. A small part of this sum provided payment for artificial limbs, funeral costs and the expenses of travel for examination, Mr. Jacobs noted. Cash awards to injured employes with permanent partial disabilities totaled \$13,334,000 in 1971.

**PENSIONS** were established for 270 employes whose job injuries rendered them permanently and totally disabled, and for 141 widows of fatally injured workers. To assure monthly payments for the remainder of these pensioners' lives, \$13,283,000 was placed in a pension reserve fund with the state treasurer.

The director said the department received 125,000 job injury claims last year, up nearly 1,400 from 1970. The number of on-job fatalities also increased from 164 in 1970 to 169 in 1971.

Mr. Jacobs said 1972 total benefit figures are expected to be substantially higher, owing to the extension Jan. 1, 1972, of workmen's compensation benefits to virtually all working persons and to the 80% increase in benefits that took effect in mid-1971.

The workmen's compensation program is funded by employer and employe premiums, with employers bearing approximately 80% and employes 20% of the costs. ■

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# General contractors worry about spotty coverage

HOUSTON—The Associated General Contractors of America have expressed concern that many items are not covered by builder's risk insurance.

During a discussion on builder's risk insurance, the contractors have expressed concern that they no longer had coverage once the building was completed and turned over to the owner.

A joint cooperative committee report of the insurance industry and AGC, made at the contractor's 53rd annual convention held here, revealed that completed operations insurance does not cover the cost of replacing a building or pay for damages or injuries caused by the structure's failures. In the report, made by co-chairman Simon Korshoj of Korshoj Construction Co., Inc., Blair, Neb., the insurance representa-

tives agreed to discuss the possibility of providing insurance to replace contractor's work that fails after completion.

**AMONG THE** exclusions noted by AGC that are not covered by builders risk coverage were faulty workmanship on prefabricated items, malicious mischief, glass breakage and graffiti.

The insurance representatives agreed to review coverage provided under builder's risk including the use of the 17¢ exclusion, which will not fully cover a contractor's loss unless he had a contract for the total project.

The AGC report's portion concerning a standard form stated that the insurance representatives advised there were already basic forms for builder's risk and

all-risk builder's risk, but that clients often demand individually written insurance contracts.

The committee also reported that the insurance industry agreed to check with their respective associations regarding the possibility of working with AGC to secure anti-hold harmless legislation in the various states. AGC said it had no objection to holding others harmless for the contractor's own acts of negligence.

**THE AGC ALSO** proposes that the premium for workmen's compensation insurance be based on hours worked instead of the contractor's gross payroll. The committee report also stated that the insurance representatives reported they have been studying workmen's compensation laws

and were supporting liberalization of benefits.

"They contend the choice is some increased premiums for liberalized benefits or the tremendous cost of 24-hour coverage, a cradle to grave program, run by the Federal government," said the committee report. "AGC was requested by the insurance industry members to support their efforts to upgrade state workmen's compensation laws.

Other subjects discussed by the joint cooperative committee were:

- "The number of states having Fair Access to Insurance Requirements (FAIR) Plans has not changed since last year's figure of 28. Coverage under FAIR plans is available in most large metropolitan cities and in college towns in the 28 states covered.

Coverage generally excludes burglary and theft.

- "Federal crime insurance is available in 11 states at 'affordable rates' where there had previously been a critical shortage of insurance coverage. The federal crime insurance program had originally been intended to cover the small shops, but it has been the large 'blue chip' apartments which are applying for it. As of Oct. 15, 1971, 1,100 policies had been issued under the program.

- "The committee agreed that if the construction manager is responsible for the performance of the architect, the construction manager should carry errors and omissions coverage. It was noted that in many circumstances, contractors are being asked to hold the construction manager harmless.

- "Even if a contractor is cited by an Occupational Safety and Health Act inspector for gross negligence under the Construction Industry Safety Law, the insurance representatives agreed that his general comprehensive insurance will continue to cover him as long as the negligence is not intentional. The effect of OSHA will be felt in increased rates as higher losses are paid due to additional claims. With increased comprehension and third party claims, the insurance companies will likely be more selective in whom they insure.

- "The insurance representatives requested time to study the court case in New York which apparently overturned a waiver of subrogation. Their initial reaction was that it was simply a question of which coverage, fire or liability, should pay the loss.

- "The contractors felt they were paying too high a premium for coverage provided by liability, bodily injury and property damage. The insurance representatives stated the premium had to be large enough to carry the inequities."

## Propose night patrols of schools

HOUSTON—Night patrols and a central alarm and communications network are proposed by the Houston school district to prevent losses from vandalism and burglaries that are costing nearly \$500,000 a year.

Losses jumped from \$351,000 in the 1969-1970 school year to \$389,000 last year. In the first three months of the current school year, losses totaled \$97,461, up about 20%.

The district is self-insured for vandalism and burglary coverage because it feels coverage would cost more than losses.

Linus Wright, school business manager, said in his opinion insurance would further encourage vandalism and burglaries. He believes money for premiums would be better spent for preventive measures. "It's possible to install a central monitoring system for probably \$500,000 which would not only protect against vandals but control maintenance in the buildings and also monitor for fires," he said.

The district reduced its fire insurance on Jan. 1 to cover only losses of more than \$50,000. This will save \$100,000 a year in fire insurance premiums. The cost of contracting for night patrols involving at least 12 security guards would be from \$175,000 and \$200,000 a year.



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## Survey . . .

Continued from page 1

**MOST FREQUENTLY** mentioned of the proposed improvements in administration was the adoption of standard reporting forms for compensable work accidents. Readers pointed out that national uniformity could be achieved by requiring states to follow the reporting form contained in the Occupational Safety and Health Act.

Respondents also favored keeping politics out of the decision-making process through the appointment of more competent, non-

political hearing officers.

A number of respondents favored a national guideline for wage-replacement benefit levels that would set compensation at a certain percentage of the injured workers take-home pay. This, they indicated, would take care of regional differences and differences between companies and industries by making wage replacement self-adjusting by tying it to the injured worker's own wage level.

Readers also indicated that they believe administration of workmen's compensation would be improved and litigation would be reduced if lawyers were prohibited from taking contingent fees in workmen's compensation cases. Some indicated they believe that lawyers should be entirely eliminated from the claims process under workmen's compensation.

**TAKING THE ADVERSARY** system out of workmen's compensation was another suggestion made by respondents, some of whom suggested greater use of ar-

bitration procedures and less use of conventional civil courts through restrictions on the right to file legal action for work-related injuries.

Closer cooperation between labor and management could eliminate litigation under the system, readers indicated. They suggested a labor-management team to hear cases and a mandatory employer/carrier/employee conference before any legal action could proceed.

Better communication on workmen's compensation to employers and employees was a need cited by survey respondents. Federally sponsored workshops and seminars to explain workmen's compensation for employers, and booklets in layman's language for employees were suggested. ■

### Acupuncture offered

Acupuncture has become the newest fringe benefit offered by the Teamsters' Union as an inducement in its current drive to organize San Francisco's Chinatown workers.

## FIA striving to keep up with industrial growth

**HARTFORD**—A major goal for remainder of 1972 is even greater cooperation with industry groups in the pooling of funds and technical knowledge in expanded research on the part of Hartford-based Factory Insurance Assn. (FIA).

The largest underwriting pool servicing the needs of protected industrial risks for property insurance, FIA is hopeful that the on-going approach will reflect the

growing appreciation by managements that loss control, per se, is of an importance equal to that of other elements tied to new product development.

The pool has total insurance in force of more than \$210 billion covering 23,000 properties.

An FIA spokesman remarked that 1971 saw the continuation of efforts by industry to develop increased productivity and economy through the concentration of operations into highly automated, large-valued complexes.

Admittedly, the situation is not within its own problems.

**FOR ONE THING**, the FIA spokesman noted, such facilities are much more vulnerable to acts of incendiarism, environmental hazards, equipment malfunctions, plus operating failures, with resultant increased possibilities of catastrophic losses.

He said that to reduce the volume of catastrophic losses, especially in the six- and seven-figure brackets, the past two years have seen greater efforts to enlist plant management in protection involvement, plus pre-planned programming for emergency situations.

It is acknowledged that industrial loss control, as such, can never be really static, and that there must be continuing, on-going development of protection standards for new materials and processes.

FIA is intensifying its efforts to provide the insurance capacity and engineering assistance to enable industry to counteract the disadvantages.

FIA, which issues syndicate policies providing property damage and business interruption coverage, is comprised of the major capital stock insurance companies in the U.S. ■

### Fire figures

Fire destroyed over 18,000 restaurants in the United States during 1971. Of these fires, 34% started in kitchens. Restaurant fire losses totaled over \$54 million. These facts were quoted by Leo B. Menner, president of Leo B. Menner & Co., a Lloyd's of London correspondent with headquarters in Chicago, in introducing a film presentation made as part of an educational program being developed by the firm's new security unit.

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## Readers views vary widely on reform of workmen's comp

**EXECUTIVES OF MORE** than 200 U.S. corporations responded to the Business Insurance survey of workmen's compensation that appeared in a questionnaire published in our Feb. 28 issue. Results of the survey were presented to the National Commission on State Workmen's Compensation Laws on March 20 by Richard C. Bjorklund, editor of Business Insurance. An article detailing results of the survey begins on page 1 of this magazine. Views of corporate executives who participated in the survey will be used by the commission in formulating its final report to be submitted in June to President Nixon and to the Congress. The study conducted by the commission was the first in the 60-year history of workmen's compensation, which began as a state-run program in Wisconsin in 1911. Here are the results of the survey on the form that appeared in the Feb. 28 issue:

1. **On the regulation of workmen's compensation, I favor:**
  - 45% Continued regulation by the states without federal action.
  - 51% Regulation by the states under uniform federal guidelines spelling out minimal coverages and procedures.
  - 4% Federal takeover of workmen's compensation as an adjunct to Social Security.
2. **On meeting employer obligations under workmen's compensation, I favor:**
  - 96% Allowing responsible employers to self-insure provided they offer good administration and proof of solvency.
  - 4% Allowing states to prohibit self-insurance.
3. **On supplementing workmen's compensation benefits voluntarily or under union contracts, my company:**
  - 50% Does not supplement workmen's compensation benefits.
  - 30% Supplements by keeping work-injured employees on the payroll at a percentage of their regular pay.
  - 20% Supplements with coverage under occupational disability insurance.
4. **About 20% of the nation's work force is not now covered by workmen's compensation because of numerical exemptions, excluded industries and voluntary laws in some states. On this question, I would:**
  - 41% Leave present state law undisturbed.
  - 59% Adopt federal guidelines to require coverage for most of the unprotected workers, with a form of interim coverage provided by the federal government.
5. **Do you have any suggestions for improving the administration of workmen's compensation, such as uniform forms, easier ways to report to state industrial commissions or other means?**

Readers suggestions for improving the administration of workmen's compensation ranged from uniformity in forms and procedures to appointment of nonpolitical review boards. A number of readers asked for an easier reporting system that would require only the reporting of lost-time accidents on standard forms that would comply with standards contained in the Occupational Safety and Health Act.

6. **Do you have any suggestions about how workmen's compensation litigation could be reduced?**

Workmen's compensation litigation could be reduced, readers believe, if lawyers' fees were reduced and if lawyers were eliminated from workmen's compensation claims procedures. Arbitration, time limits on extensions and better qualified hearing officers were suggested as ways to improve court procedure. At least one reader suggested federally sponsored workshops and seminars for employers that would explain workmen's compensation laws.

# Town body acts on insurance commissions

BLOOMFIELD, Conn.—Commissions earned on the sale of insurance coverage for this Hartford suburb can no longer be divided among other insurance agents handling town insurance. They can now be received only by the town's insurance agent of record, under passage of a town council vote.

The aim, a council spokesman noted, is to save money for Bloomfield.

At the same time, the council has directed Gordon Willoughby, the town's insurance agent of record, to negotiate with Bloomfield's insurance carriers "to effect a reduction in the cost of the town's coverage by an amount equal to an equitable portion of the commissions formerly distributed."

The move comes following protracted discussion on the part of council members and insurance agents here.

STEPHEN RABINOVITZ, a Bloomfield resident, and president of the North American Underwriters Insurance Agency,

## Manual . . .

Continued from page 36 course, is not the practical operation of everyday business reality.

Altogether missing are discussion of major exposure such as crime and ocean marine coverages. Actually this book could form the nucleus of an expanded set of more detailed and currently up-to-date facts on insurance buying such as the Charles Spencer organization does in the

told the council that appointment of the town's insurance agent of record "should be removed from the political sphere, and insurance coverage for the town should go out to bid."

Present premium totals for Bloomfield are \$100,000.

Mr. Rabinovitz remarked: "On an open bid basis, the town's insurance can be written on a \$75,000 premium because there are some 1,500 companies in the U.S. who would desire to write Bloomfield's coverage." Joseph Gozzo, councilman, objected to the Rabinovitz comment. "If the press picks up your \$75,000 figure," he said, "it looks bad for the town's agent of record. I think it was impetuous."

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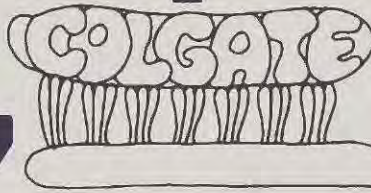
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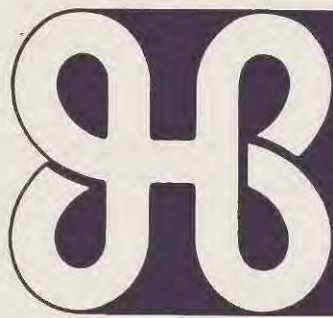


employe benefit field with its excellent Employee Benefit Plan Review.

Regardless of the few comparatively small faults I have outlined, I believe Dr. Lenz and associates have come up with an excellent text and guidebook for novices and part-time buyers that is readable, logical and up-to-date. Insurance managers should buy at least one copy as a training manual for new help and also for the use of a new boss when he wants to know, "What in hell is a risk manager?"

Seriously, I do believe Risk Management Manual is well worth the \$48 first year charge.

Written by Dr. Matthew Lenz, Jr., chairman, property and liability division, the College of Insurance. Edited by H. Felix Klotman, James O. Matschulat and Jan H. Widen of Risk Planning Group Inc. Published by Insurers Press, P. O. Box 1430, Santa Monica, California, 90406. First year subscription rate: \$48, which includes bimonthly supplements. Annual renewal cost: \$36.



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## General sessions at ASIM meeting to zero in on risk management aides

NEW YORK—When Peter B. McDonough, manager of general insurance for General Foods Corp., sat down with an American Society of Insurance Management committee some time ago to begin planning the general sessions for the society's annual conference in Montreal next month he approached the problem somewhat scientifically.

The initial question, of course, was rather easy: "What, based on reactions to past conferences, had ASIM members seemed most eager to hear more about?" The answer seemed to be that they wanted to learn how to solve those routine but necessary day-to-day problems.

Pursuing this line of reasoning

a little further, Mr. McDonough and his co-chairman, Richard W. Zeitler, insurance manager of Lone Star Industries, concluded that many of these problems revolve around the purchasing or administering of service programs for their companies. There is, they concluded, more and more recognition by risk managers that the purchase of insurance these days is largely a purchase of an insurance company's services; more specifically, loss prevention and claims.

The ASIM general sessions begin Wednesday morning, April 26, at the Queen Elizabeth Hotel, Montreal. (The ASIM conference actually opens, of course, two days earlier when employe bene-

fit and industry sessions begin (*Business Insurance*, Feb. 14).

**LEADING INTO** panel discussions on the subject of risk management services that will be held Wednesday afternoon—after, incidentally, luncheon speaker Ralph Nader has either helped or hindered the digestion of risk managers attending—are a series of speeches devoted to the purchasing, evaluation and providing of risk management services.

Frank X. McCahill, insurance manager of Bristol-Myers Co., will kick off the program with "Purchased Services—Is the Risk Manager Satisfied?" Those who know Mr. McCahill, of course, may assume that the Bristol-Myers risk man will not answer that question with a simple, gratuitous, "Yes."

Mr. McCahill will be followed by Howard Blasch, principal, Peat, Marwick, Mitchell & Co. speaking on "Staffing to Meet Service Needs of Risk Managers;" Melvin Holmes, president, Frank B. Hall & Co., represents the broker's viewpoint; and Harold E. Bliss, senior vp-product management, Employer's Insurance of Wausau, with the insurance company viewpoint.

Following Mr. Nader's luncheon address, Mr. McDonough's committee has scheduled six concurrent panel discussions that attempt to zero in on specific risk management service problems. Bearing the overall subject heading of "Risk Management Services—Purchased vs. Do It Yourself," the panels are subtitled: (1) property loss prevention, (2) personnel safety, (3) fleet safety, (4) casualty claims control, (5) marketing, and (6) administrative consulting.

**THE PANELS** will be chaired, respectively, by Herbert L. Cunningham, director-risk management, Transamerica Corp.; Merlin C. Race, director of safety services, Consolidated Edison Co. of New York; A. R. Tredwell, director of insurance, ITT Continental Baking Co. Inc.; John J. Murphy, vp, Avis Rent-A-Car Systems; William S. Mortimer, director-risk management and insurance, Norton Simon Inc.; and Howard T. Weber, director-insurance, 3M Corp.

The panel discussions will be followed on Friday morning by Frank F. Hogg, manager-loss control, Union Carbide Canada Ltd. Mr. Hogg's presentation, titled "Total Loss Control," will be an audio-visual look at how his company has, in the words of ASIM's conference literature, "pulled it all together and how, through effective utilization of risk management services, positive and meaningful results have been achieved."

### Defining cover rules

Legislation has become effective recently requiring the California insurance commissioner, the savings and loan commissioner, and the corporations commissioner to define reasonable grounds under which a lending institution may refuse to accept an insurance policy as providing adequate protection for property on which it has a mortgage. All three state agencies will hold public hearings on proposed regulations that would define and establish standards required by the legislation.

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## Two commissioners disagree on rate certification for price commission

CHICAGO—Two of the nation's most influential insurance commissioners disagree sharply over an arrangement under which state insurance commissioners have been asked to certify to the federal Price Commission that rate increases granted insurance companies conform to federal guidelines.

The dispute, which came to light in a telephone interview with Pennsylvania Insurance Commissioner Herbert S. Denenberg and California Insurance Commissioner Richards D. Barger, centers around Mr. Denenberg's refusal to comply with the

federal agency's request.

Mr. Barger, who is president of the National Assn. of Insurance Commissioners, said that the arrangement between state and federal officials was developed after "extended negotiations" between NAIC and the Price Commission.

"I can't understand," he said, "why Commissioner Denenberg didn't go along. A detailed draft of a procedure manual was developed at a meeting that included representatives of 38 state insurance departments, but nobody from Commissioner Denenberg's office attended. The final agree-

ment was developed by the Price Commission, Michigan Insurance Commissioner Russel E. Van Hooser, Jon S. Hanson of the NAIC staff and myself."

"OH, THEY'RE speaking for me," was Commissioner Denenberg's retort. "The reason I didn't go along with their 'agreement' was that I was not all that impressed with what NAIC was doing. They overlooked the fact that the Price Commission was giving the state insurance commissioners the run around."

"Price Commission officials first consulted with the insurance companies. They paid more at-

tention to what the insurance industry wanted than to what state insurance commissioners might say in behalf of insurance consumers," he charged.

In his original blast at the Price Commission request, Commissioner Denenberg said, "The federal wage and price bureaucracy has been unresponsive, inaccessible and evasive; because it has failed to consult with the insurance department and consumer groups; because it has promulgated guidelines, which would mean second-guessing the determinations of the insurance department."

Mr. Barger said that Commissioner Denenberg was mistaken in his attacks on the Price Commission because the Pennsylvania insurance regulator alluded to a

Price Commission in the early months of the Nixon freeze when no such commission existed.

When the Price Commission's authority was first spelled out there were questions raised about its relationship to state insurance regulatory officials who, by law, have sole authority over setting insurance rates. Mr. Barger's NAIC action was intended to eliminate state-federal conflict. ■

## Travelers paid claim; cash disappears again

NEW YORK—Arrests have been made, the Federal Bureau of Investigation has "disciplined" four agents, Franklin National Bank is happy but Travelers Insurance Co. still doesn't have its money.

The money that the Travelers does not have was part of the haul of a 1968 bank robbery that netted somewhere near \$300,000 for a group of thieves.

"We paid the bank's claim rapidly," a spokesman for the insurer told *Business Insurance*. "All insurance companies pay these claims fast because the bank closes when there is a robbery. As soon as the auditors announce how much was taken, the claim

is paid. Sometimes it's only a matter of minutes between the announcement and the payment."

He said that an arrest soon after the robbery accounted for the return of \$39,350 of the \$300,000. From then on, with an occasional bright spot, the missing money situation has looked rather cloudy.

Shortly after the robbery, two men were arrested in Louisiana and charged with the crime. At the time of the arrest, they had \$161,352 in their possession. They were extradited to Brooklyn to stand trial and the money was returned as evidence.

Several week ago, the men were convicted of the crime and

Travelers sent a man to the United States Attorney's office to retrieve the money from the evidence vault. It was then discovered that \$80,000 was missing.

A thorough search of the vault turned up a suitcase which contained \$50,000 of that amount. The other \$30,000 is still missing.

"We have filed a formal request for the entire amount with the attorney's office," the Travelers spokesman said. "We do not have the money as yet but we really don't anticipate any problems getting it."

It would appear, then, that the only people with problems caused by the case are the four FBI agents who had contact with the evidence bag. After an intense investigation they were "punished" by being transferred from New York to places considered less desirable. ■

### Legislation considered

The Pennsylvania senate is considering legislation that would require employers to furnish "free of charge" to their workers, all necessary personal protection devices. The devices would include such things as gloves, goggles, leggings and "hard hats." They would remain the property of employers and would have to be returned upon termination of employment. The measure is being opposed by the Pennsylvania Manufacturers Assn., which said: "What is handed to an employee gratis will not be given the same care as that which the employee had to purchase. In addition, shoes, hard hats and eyeglasses could be sold but reported lost." The senate also is considering a house-passed measure designed to protect accident victims from undue pressure immediately after their mishap.

### Pension regulation pays men more

NEW YORK—Sherry Carr, an aide to Assemblywoman Constance E. Cook, informed a legislative hearing on discrimination of an unfair pension regulation which provides male teachers with up to \$2,800 more per year in retirement benefits than female teachers.

The male advantage stems from the fact that male and female mortality tables are used to calculate yearly benefits payments. Under this system, a man with a 35-year teaching career might receive an \$11,712 yearly pension, whereas a woman with the same career would receive only \$8,878. Miss Carr pointed out to the committee that numerous other differences were ignored when tabulating benefits such as differences in blacks' and whites' mortality rates.

Assemblywoman Cook has introduced legislation to correct this discrimination, but no action is expected to be taken this year. "If the bill is passed, it would only affect those teachers retiring after it is enacted," Miss Carr told *Business Insurance*.

She explained that male and female teachers' benefits vary only when the pension plan is contributory. "In 1968, the teachers' retirement system became non-contributory," noted Miss Carr, "so this legislation would only affect those who had contributed under the old system. It would also bring the matter to state attention, so if any portions of the state were to return to a system of employee contributions, the women would be protected."

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## Private, insured plans in biggest 1970 gain

NEW YORK—An annual report issued by the Institute of Life Insurance revealed that nearly 48 million active and retired workers were covered by major private and government pension plans at the beginning of 1971. The majority of these workers were also covered by Social Security. The report did not include some 960,000 persons receiving survivor benefits under the plans or those who will eventually be covered but have not yet met age or length of service requirements.

Private insured plans showed the largest increase in the number of covered workers with an 8.5% gain compared to a 2.9% gain for private non-insured plans. A 1.8% gain for government administered programs and a 4.8% gain for state and local plans was reported. This brought the number of covered workers under all plans up 3.9%, an increase of 1.8 million workers.

Benefits paid out to retired workers in 1970 because of age, length of service or disability requirements totaled \$34.3 billion compared to \$11.6 billion in 1960. Private plans showed the greatest increase, paying about \$6.7 billion to more than 4.7 million retired persons. Government-administered programs paid \$6.4 billion to nearly 2.3 million persons, while Social Security (OASDI) benefits totaled \$21.2 billion to 14.8 million persons.

A HIGHER proportion of persons receiving private benefits qualified for Social Security payments than persons receiving government-administered benefits.

In the last 10 years, private plan payments have increased more than 3.8 times, and Social Security and government-administered payments have increased 2.8 times.

Assets and reserves for all plans were \$260 billion compared to \$108.7 billion in 1960. Private plans held reserves of \$137.0 billion with \$41.2 billion in private insured plans and \$95.8 billion in private non-insured programs. Government-administered programs contained assets of \$84.9 billion, and OASDI had \$38.1 billion.

EMPLOYERS contributed nearly 90% of the premiums paid into private pension plans, which totaled \$13.5 billion. Of the \$12.0 billion that went into government-administered plans, more than 55% was contributed by the government as employer. Social Security taxes were divided almost equally among employers and employees and totaled \$35 billion.

## Dun & Bradstreet in group life business

NEW YORK—Dun & Bradstreet, the credit-reporting and communications company, is offering group life insurance in four Midwestern states through the newly formed Dun & Bradstreet Subscribers Insurance Trust.

"To be eligible, a company has to be a subscriber to Dun & Bradstreet's other services," explained a company spokesman.

"This is part of a continuing effort to expand the scope of Dun & Bradstreet," he noted. "The stage as present is one of development in this area. Expansion into other insurance areas has not been discussed."

The group life policy is underwritten by North American Life and Casualty Co., Minneapolis, and is being offered in Northern Illinois, Minnesota, North Dakota and Montana.

## 'Muscle' suit dropped

PITTSBURGH—A federal district court here has dismissed a civil suit brought by the Travelers Insurance Cos. that charged Blue Cross of Western Pennsylvania with using "boycot, coercion and intimidation" to dominate the group hospitalization insurance market.

Filed almost a year ago, the Travelers action contended that Blue Cross was able to charge less for its services because of monopolistic practices. The legal move was seen as a challenge to Blue Cross programs throughout the country by private health insurers.

Dismissing the suit, Judge Herbert P. Sorg said that "the only available judicial remedy for Travelers' plight, the enjoining of Blue Cross activities, would necessarily produce a result inconsistent with the basic and ultimate goal of the federal antitrust laws—consumer protection." Judge Sorg added that in seven weeks of testimony that ended last June, the Hartford-based insurer had failed to prove that Blue Cross' group insurance dominance is a result of illegal coercion. Coercion is a necessary element in establishing antitrust.

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## Court extends state's liability to nearby areas

HARTFORD—The Connecticut state supreme court has ruled that the state highway commissioner's liability in matters of hazardous accumulation of snow and ice is not limited to the traveled portions of highways. The liability, according to the high court, may extend to adjacent public parking areas.

In an opinion, the court has upheld a \$12,000 judgment against the state highway commission in a damage suit brought by Luva M. Baker of Portland, Conn. She was injured when she allegedly slipped and fell on ice and snow in an unpaved parking area off Rte. 17A in Portland in 1963.

The state of Connecticut appealed a lower court's jury verdict on the claim that its responsibility regarding snow and ice was restricted under the law to clearing the traveled portion of a highway.

IN ITS appeal, the state cited a state statute (Section 13a-93) which says that "the commissioner shall remove the snow from the travelled portion of any completed state highway thereof when the accumulation thereof renders such highway unsafe for public travel." The high court, however, found that the statute was not meant to restrict the extent of the state's responsibility, nor did it restrict liability under the defective highway state statute.

The high court cited precedents showing that recovery was allowed under the state statute when there is a defect "in, upon or near the traveled path" so as "to obstruct or hinder one in the use of the road for the purpose of traveling thereon."

It noted that although the site of the fall was some 32 feet from

the highway's edge, it was in an area where public parking was invited by state-posted signs.

In a footnote, the court emphasized that the decision does not hold that the state has the responsibility to guard against defects such as snow and ice anywhere within the highway's right-of-way line.

## Allows 53 to self-insure work comp

OLYMPIA—The Washington department of labor and industries has reported that for the first time 53 employers in the state have received approval to self-insure under new workmen's compensation laws.

The number of employees and employers covered is larger than many predicted could qualify when the law was passed by the 1971 legislature. Previously, the only way state employers could provide mandatory workmen's compensation was through the state system.

Phillip T. Bork, state industrial-insurance supervisor of the department, said the 53 firms have a combined annual payroll of \$630,000,000 and an estimated 81,000 employees.

Employees of self-insuring firms get the same benefits if injured on the job as those who have state coverage. The difference is that the employer pays the benefits rather than the state insurance system. The next chance employers will have to self-insure will be during June, Mr. Bork noted.

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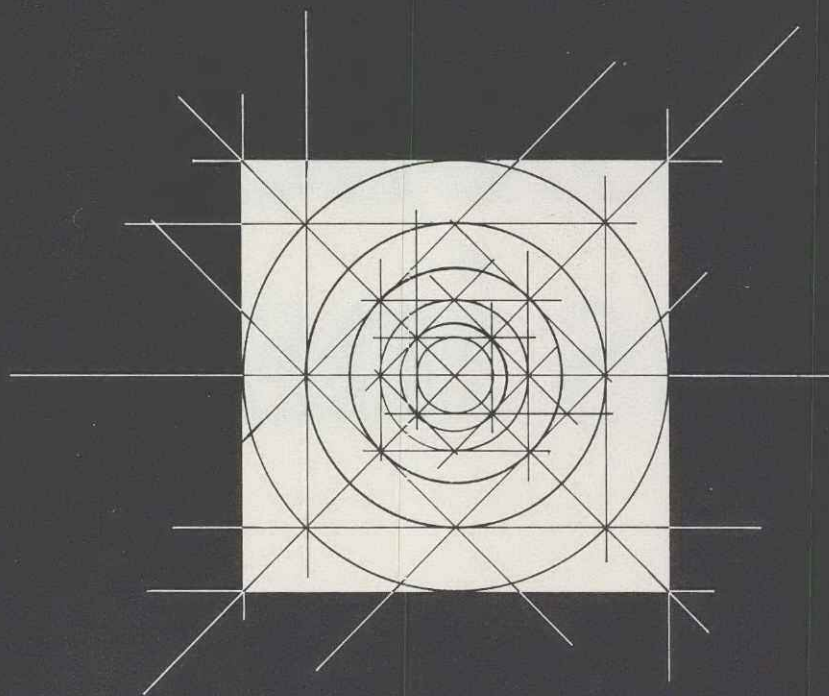
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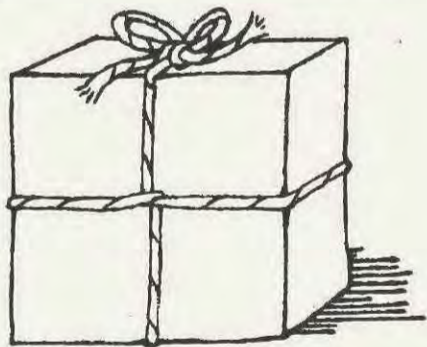
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