Arab list tangles foreign trade, insurance

INTERNATIONAL

Our annual International Issue looks at the techniques and problems of managing risks, insurance and employe benefits around the world. It begins on page 11 and runs through the special Directory of Global Services on pages 70-72. Among the international newsmakers this year are war risk rates, fighting in Beirut, and benefits for third nationals (TCNs).

By MARGARET LeROUX

NEW YORK—Insuring cargo shipped to some Mideast nations or insuring subsidiaries in Arab nations will be difficult, if not impossible for multinational corporations, because of a newly enacted New York law.

The law, effective Jan. 1 prohibits cooperation with blacklists and boycotts because of race, creed, color, national origin or sex. A company can lose its license to do business in the state of New York if found in violation of the law.

The New York law, chapter 622, human rights section, "might be construed to prohibit . . . the answering of questions presently being asked by Arab interests," the American Institute of Marine Underwriters told its members in a memo after the New York law was enacted.

The Arab interests, among them Saudi Arabia and Kuwait, have in the past asked U.S. companies to certify that neither they nor their insurers are not on the list of companies blacklisted by the Israeli boycott office. The list is commonly referred to in the industry as the Saudi Arabian blacklist and includes the names of 89 insurance companies.

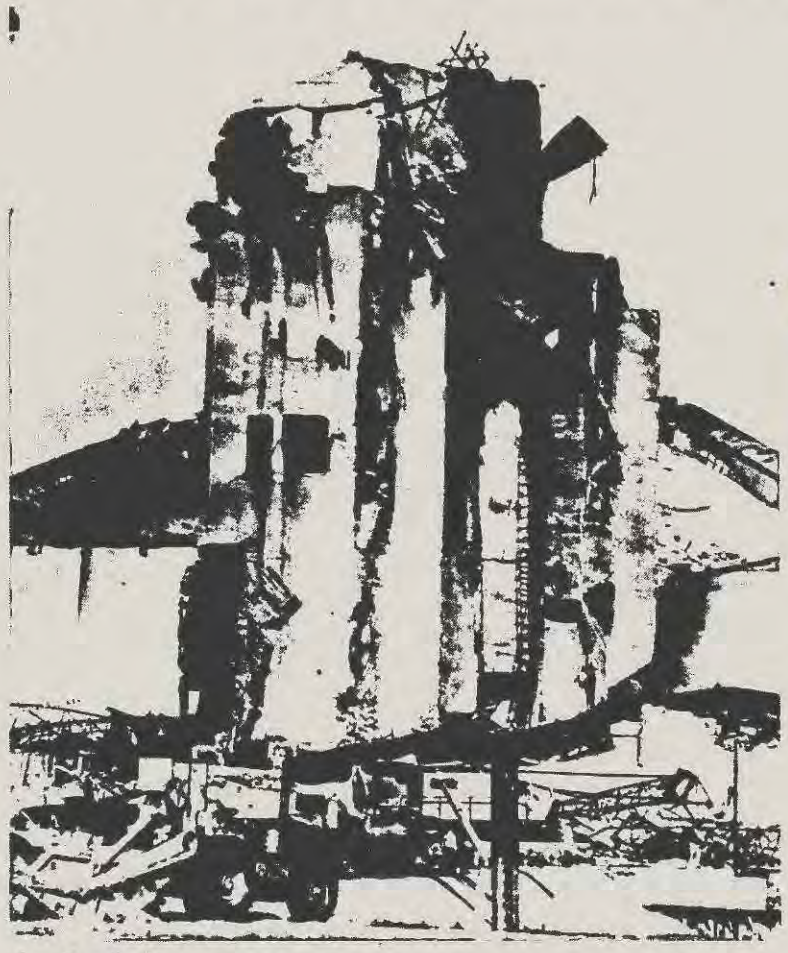
Among the major underwriters included on the list are: Allstate Insurance Co., Aetna Life & Casualty Insurance Co., The Aetna Casualty & Surety Co., Connecticut Mutual Life Insurance Co., The Home Insurance Co., Fidelity Mutual Life Insurance Co., New England Mutual Life Insurance Co., Pacific Fidelity Life Insurance Co., State Mutual Life Assurance Co. of America and Transamerica Insurance Co.

"You can't get a letter of credit in some Arab nations without the certification that your insurer is not on the blacklist," an international broker told *Business Insurance*.

Prior to passage of federal and state legislation dealing with the blacklist, it was common practice for letters certifying that a company or its insurer was not on the Saudi Arabian blacklist to be supplied to Arab countries who demanded them.

Business Insurance obained a copy of such a letter of certifica-

Continued on page 68



An Explosion which destroyed a grain elevator owned by Goodpasture Inc. resulted in nine deaths and property losses totaling more than $70 million. Millers Mutual Fire Insurance Co. underwrote property coverage for the grain elevator operation, although the limits aren't known. Texas Employers Insurance Assn. is the workers' compensation underwriter. However, Goodpasture did not have any business interruption insurance, a company executive admitted. The firm's grain exporting business is expected to be severely affected during the year it will take to rebuild the elevator.

Cause has not been determined, but eyewitnesses reported seeing welding operations before the occurrence. Goodpasture denied any welding was being done. Grain stored in the elevator accounted for $20 million of the loss. The fire is the second to occur at the elevator in two years. In late 1974, the facility was extensively damaged by a flash fire. The latest explosion ripped through a series of multi-story concrete buildings at the sprawling grain storage facility along the Houston Ship Channel.

Week of March 8, 1976

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Award to DC10 crash victim may set future liability pace

By JOANNE GAMLIN

LOS ANGELES—A compensatory damage award of $1,509,950 was made on February 26 by a six-man jury hearing the first damage lawsuit to arise from the March 3, 1974, crash of a Turkish DC10 jetliner near Paris which killed 346 persons.

The award was made in U.S. District Court here for the death of Britishers David and Phyllis Kween who perished in the crash. The judgment was the first award in the huge case which embraces more than 1,100 plaintiffs and is expected to exert a powerful impact on the continuing settlement discussions involving wrongful death claims on behalf of the 346 persons killed in the crash, making it the worst air disaster ever.

The four defendants in the case are McDonnell-Douglas Corp., General Dynamics Corp., Turkish Airlines and the Federal Aviation Administration.

The $1,509,950 verdict in the Kween case, however, was only against McDonnell-Douglas Corp., the builder of the DC10, according to a spokesperson for Judge Pierson M. Hall, who is presiding in the complex case.

General Dynamics, designer of the aircraft, will contribute to the award under terms of the sharing agreement which was announced by Judge Hall last July 8.

Turkish Airlines has already paid $60,000 toward the verdict, under terms of a prior agreement that said the airline would pay $30,000 per person killed in the crash who could prove dependency. That particular agreement, however, was torn up once the sharing agreement was formulated. Details of the agreement aren't fully known.

The FAA's role in the verdict is unknown, according to the same spokesperson.

The Agence France-Presse said on its wires Friday, Feb. 28 that Lloyd's of London expects to become liable for up to $100 million in connection with the 1974 crash. John Hewitt, who heads the Lloyd's aviation section, said the Los Angeles award indicates the catastrophe will become the most expensive in the history of civil aviation.

A source close to the Kween case told *Business Insurance* that the defendants had offered $200,000 to the plaintiffs as an out of court settlement prior to the trial.

An appeal of the verdict appeared certain, said sources close to the five-week trial.

Attorney Gerald C. Sterns, the lead attorney representing the Kween family and about 70 other British plaintiffs, at one time told *BI* that he thought an appeal is likely on the issue of the application of California law to the case and the judge's ruling as to what the rule of law is in California.

Mr. Sterns is known to believe that the judgment is the largest ever awarded in California for a double death.

Under California law, the $1,509,950 judgment must be distributed by Judge Hall.

The largest portion of the award will go to the couple's offspring, Melissa, 4, and Lauren, 3.

Preparations for a trial on the liability issue of the crash are now underway. In fact, a tentative trial date of October, 1976, has been set. A second trial for compensatory damages is set to commence under Judge Hall on March 2. ■

FTC probe draws Blue Shield sparks

By PAUL R. MERRION

WASHINGTON—Blue Shield president-designate William E. Ryan said "it's unfair to say doctors are responsible for increasing costs" of health care, in reference to the Federal Trade Commission's announcement February 26 that it is investigating physician control of the Blue Shield system.

Speaking at a hearing on national health insurance, before the House subcommittee on Health and Environment, Mr. Ryan was asked about the investigation.

"Those charges are not correct," he said. The FTC has not publicly announced any charges, but merely announced an investigation of the "nature and extent" of physician control of Blue Shield, "and its impact on competition in the delivery of health care."

The FTC investigation is part of a larger program to gather data on competition in delivery and financing of health care services.

An attorney for the FTC said he does not anticipate that there will be public hearings to investigate the Blue Shield organizations. Rather, the FTC's subpoena power to obtain documents and testimony from witnesses will be used, he told *Business Insurance*.

As the FTC reported in its announcement, approximately 40% of the population pays for physician services through Blue Shield, and, collectively, Blue Shield pays out more than $3 billion annually in physician fees.

"Thus," the FTC said, "their practices may affect fee levels and other forms of competition in the provision of health care."

Meanwhile, the American Medical Assn.'s five representatives on the board of the National Assn. of Blue Shield Plans have resigned. An AMA spokesman said that the resignations were unrelated to the FTC investigation, having been initiated last December.

The FTC attorney would not comment on when the investigation began, or exactly what prompted it, but said it "has been going on for some time."

The investigations are "nonpublic." The Commission also said that the existence of an investigation does not imply that violations of law have occurred. ■

Special International Perspective—pages 63-66

SCM manages product risks with a thorough safety plan and new insurer

By LINDA MOSKOWITZ

NEW YORK—CNA Insurance Co. was awarded the product liability account of SCM Corp. after the firm decided to drop the services of Kemper Insurance Co. as of the first of the year, *Business Insurance* learned from reliable sources outside the company.

It is understood that the new carrier will afford SCM better coverage at a better price.

While SCM acknowledged that the firm had changed carriers for this account, spokesmen declined further comment.

However, Harry Eiermann, manager-safety and loss prevention at SCM, agreed to discuss the firm's product safety program.

"Whether for business, industry, or the consumer, the safety of our products is a prime concern," stated Mr. Eiermann.

Product safety awareness exists at all levels of operations at SCM, where the yearly sales total over $1 billion.

While SCM was always conscious of safety considerations in the production of its multi-faceted line of goods, the recent rise of consumerism has "reactivated, strengthened and emphasized the total safety program," explained Mr. Eiermann.

The product line at SCM includes a wide range of items, from industrial chemical coatings and colorings to consumer foods and appliances. It is the consumer market, however, that produces the most product liability claims.

Currently, the firm self-insures up to a sizeable deductible amount per claim. The reserve fund for these claims has grown substantially within the past few years, as a buffer for the ever-increasing costs of product liability claims.

In order to hold down the number of claims, the company has implemented a comprehensive product safety program, which was somewhat expanded with the passage of the Consumer Product Safety Act in 1973.

SCM's loss prevention program is decentralized. However, the president of the company issues a policy statement on product safety which "sets the groundwork," said Mr. Eiermann.

The details of the program are then worked out by the individual divisions, each of which is responsible for the formation of product safety groups.

"Managers of each group," explained Mr. Eiermann, "are called upon to set up effective, active and working product safety committees."

A representative from each phase of operations, including engineering, manufacturing, advertising and sales is a member of the committee. Quality control people usually chair the group, Mr. Eiermann said.

Top legal representatives are present also, at the group meetings. The committee, said Mr. Eiermann, are supposed to deal with all aspects of legal liability.

The executive corporate role at SCM is primarily that of overseer of divisional activities. Financial decisions are also made at this level.

Safety programs are not as effective with just one top manager in charge, believes Mr. Eiermann, which is the way many companies function. The responsibility for product safety can easily be passed over in the individual departments, he feels.

Corporate responsibilities to the product safety committees include keeping the groups informed of regulations and legislation affecting their operations.

Records are kept at the divisional level, tracking where products are sold and where they are after purchase. This is helpful in the event of a product recall.

Corporate executives, such as Mr. Eiermann, must also review the activities of the committees. They will attend meetings from time to time. The minutes from each meeting are sent back to corporate headquarters.

Product liability claims or related complaints also come to the attention of the corporate executives.

Once a complaint or claim is filed, Mr. Eiermann stressed that each one must be followed up to see that the accident never happens again and to find out why it happened.

Complete reports are filed with regard to the complaint, which are then forwarded to the divisional department responsible for the problem.

Sales and marketing departments are actively involved in this process too, Mr. Eiermann continued, as they must be aware of potential problems.

In the industrial product line, SCM is most concerned about compliance with Occupational Health & Safety Act (OSHA) provisions.

"Some of the equipment we sell can be dangerous if not handled properly," Mr. Eiermann commented, referring to machinery sold primarily to the textile industry.

The paints and chemicals SCM manufactures are "involved with extremely rigid labeling and quality control procedures," continued Mr. Eiermann.

This process, to insure product safety, has been standard at SCM, long before the current wave of consumerism, he added.

Office copier paper produced by SCM, while responsible for few problems claims-wise, also had to be developed in accordance with OSHA regulations.

Purchasers of the paper could "ask us if the paper is safe from an environmental standpoint," Mr. Eiermann said. He explained that the toner used in the copier paper is flammable and could possibly give off harmful fumes to its users.

A liability claim could be the result if proper controls are not followed in the paper's manufacture.

"You must anticipate all problems," emphasized Mr. Eiermann. Suits can be filed as late as 30 years after manufacture, he said.

Complicated legal maneuvering is often required if the firm's liability is to be disproved, in such instances.

An example could involve a machine produced by a firm and sold, then later modified by the purchaser or user. If a worker is injured on this machine, Mr. Eiermann explained, the original manufacturer could be sued.

It would then be necessary to determine whether the injury resulted from the modification or if the original design of the machine was at fault, Mr. Eiermann said. ■

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Product liability policies should assume payout

TAMPA—"The pragmatic underwriter does not write products liability today with any thought that his company's legal staff is going to win the cases. He assumes instead that if the product injures someone he will have to pay and he underwrites accordingly."

So stated John M. Haker, vp of Northwestern National Insurance Co., Milwaukee, at a CPCU seminar here last month.

He noted that manufacturers are "the most difficult products risks to insure" and that "extreme caution is needed in all underwriting areas" where a product is capable of producing serious injury.

"Perhaps the product was reasonably safe by standards in force at the time it was produced," Mr. Haker said. "Today that may not be sufficient."

Among the factors an underwriter must consider is design. "What safety margins were built into the construction?" Mr. Haker would ponder before agreeing to underwrite a product risk. "A manufacturer is not required to design a product that is completely accident-proof. However, he is expected to anticipate the possibility of accidents . . . and to try to prevent injuries or reduce their possibility through careful design of the product," he said.

"The underwriter must determine whether or not the insured has a well-planned quality control program and whether or not it is being carried out in practice," Mr. Haker observed.

"Concern with possible product claims should start with top management and continue through the assembly line. The highly desirable risk will have an individual or group of individuals responsible for product safety. These individuals should have genuine knowledge of the product and safe-problems," he emphasized.

Mr. Haker recommended that safety officials be kept separate from production authority so that they may be free to "take a firm stand."

Another area involves recalling defective products, he explained. Records of customer name and address can be important "if a risk begins to run a fever." In this case, the underwriter "may have no recourse other than cancellation unless the insured can quickly recall and correct the product defect causing the losses."

If component parts are foreign-made, subrogation is often possible. Thus, it is important for the underwriter to know where component parts are purchased or made and if the suppliers carry sufficient insurance.

He pointed to careless advertising of a product as another area underwriters should be wary of. If a product brochure portrays someone using a product in an unsafe way, "the defense of assumption of risk (can fall) apart."

For products that are custom designed, product liability coverage may be more difficult to obtain, he explained, because the architect's plans are often altered through adaptation to use.

"In today's climate, a manufacturer must foresee and allow for misuse in the design," Mr. Haker warned.

Noting that product liability rates are based on manufacturers' current sales "even though it may be a poor measure of the exposure," Mr. Haker advised a consideration of "all sales within the product's life span" in determining the rate.

Though wholesalers and retailers have certain product liability exposure, it is different from that of a manufacturer, Mr. Haker observed.

"Warranties have to be clear and understood. If this is done, mistakes made by others can be passed on. If not, the manufacturer will be responsible," he said.

"A middle man . . . could imply through overselling a product that it can perform beyond what was intended by the designer or manufacturer. He could be responsible for the storage and transportation of the product to the retailer or user," Mr. Haker pointed out.

A retailer "can be held responsible if he knowingly sells a dangerous or defective product," he continued.

Restaurants, sewer construction, heaters, etc. are considered pure classes of risk. "These classes are concise and well defined and do not cover broad, general areas encompassing a wide range of products," Mr. Haker explained.

"Therefore, we can reasonably expect that the rates for these classes will at least reflect past losses," he said.

On the other hand, ladders, ropes, scaffolding, etc. "are associated with very severe injuries (which) makes such products very difficult to write, even though the product may be well engineered," he noted.

Bicycles, swing sets and power mowers rank "high on the list" too, in Mr. Haker's opinion. Because people can suffer injuries while using them "you will probably have to pay." ■

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Federal flood claims grow with program

WASHINGTON—A rapidly expanding national flood insurance program helped account for more than $72 million paid out last year in flood insurance claims, three times the amount paid in 1974, according to the acting Federal Insurance Administrator, Robert Hunter.

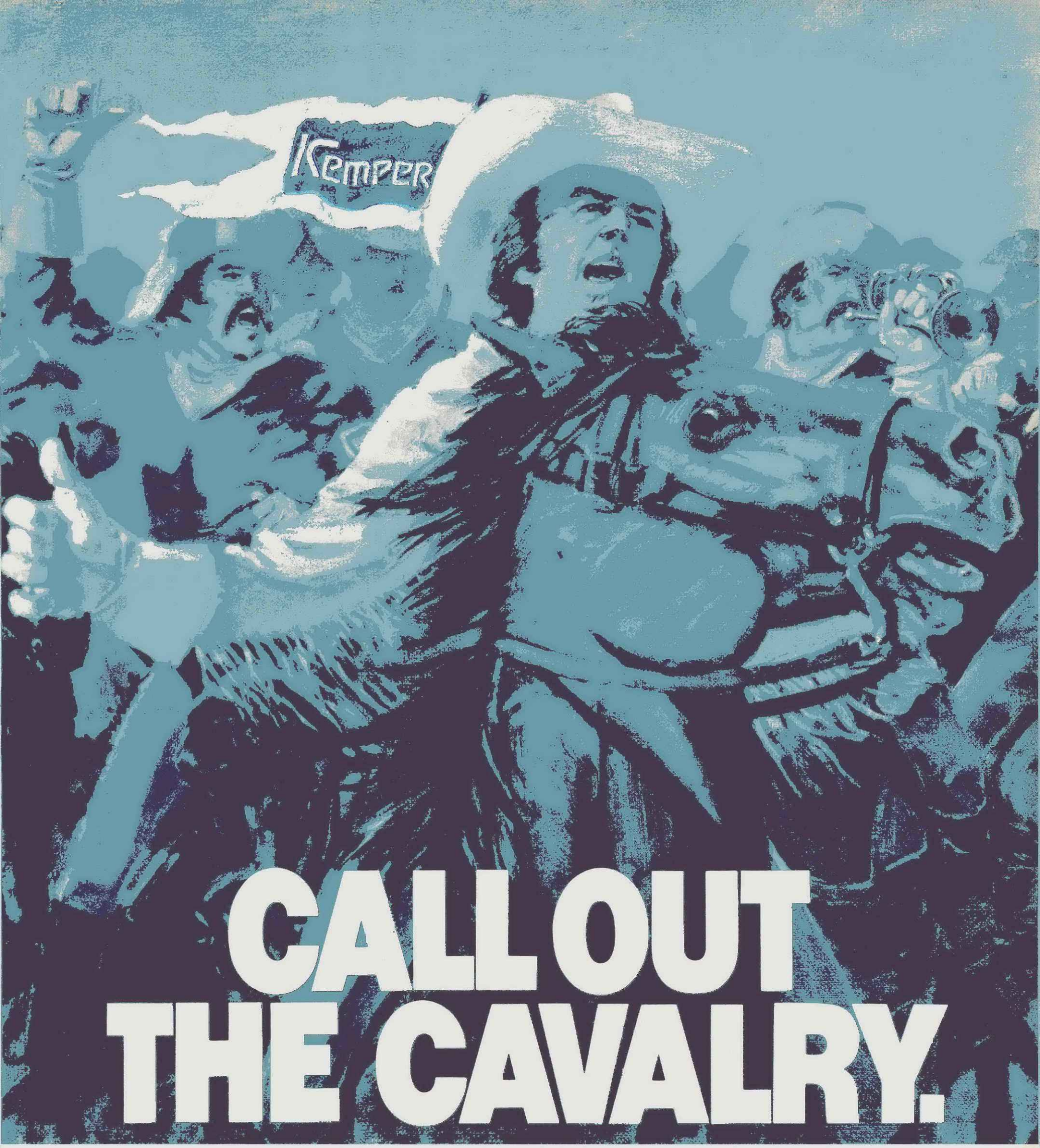
Hurricane Eloise, which struck the East Coast in September, was blamed as the largest single cause of last year's damage.

The number of communities participating in the program more than doubled in 1975, Mr. Hunter said, growing to 13,256 from 5,488 in the previous year.

Sales of the federally-subsidized insurance were up 40% in 1975, along with a 45% increase in the total coverage in force, figures from the Department of Housing and Urban Developmeent show.

The flood-prone state of Pennsylvania had a dramatic increase in flood insurance coverage. Only 683 such policies were in effect in 1972 when tropical storm Agnes hit, compared with 40,180 policies when Hurricane Eloise struck, HUD figures show.

In other flood insurance matters, the Senate last month killed a measure that would have allowed individuals in flood-prone areas to buy the insurance even if their communities do not participate in the program. ■



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Even good liability risks are severely penalized by market capacity, rates

TAMPA—Vanishing insurance markets for malpractice and products liability insurance may lead to "cost causative pricing" or costly first party liability systems such as no-fault insurance.

According to David Z. Webster, vp and director of Frank B. Hall & Co., the insurance rates—aside from ISO classification by industry—do not reflect the differences between risks in a group which demonstrate good risk management and loss prevention and those that don't. "Cost causative pricing" would make those risks causing the increase in cost pay more, by penalizing those individual insureds with the worst losses.

"It would appear that the insurance industry may want to study the benefits of more thorough cost causative pricing so that the good risk is not as severely penalized by the lack of market and the high premiums which are being charged for coverage today," Mr. Webster said in a speech at the CPCU products liability seminar in Tampa.

Among the remedial laws currently being considered are statutes to limit recoveries and attornies' fees (contingency fees), shortening the statute of limitations, passing comparative negligence statutes for tort cases, and making employers liable for any workers' compensation damages when employers are at fault.

Mr. Webster, who manages several professional liability insurance programs, examined an as-yet untried plan for elective no-fault liability insurance which would apply to all kinds of accidents, including medical and manufacturers' products.

The no-fault insurance, proposed by law professor Jeffrey O'Connell at the University of Illinois, would allow all persons, corporations and professionals to elect or select to pay for injuries they cause on a no-fault basis.

As an example, Mr. Webster explained that a power tool manufacturer would elect to take out a no-fault insurance policy to pay for out-of-pocket expenses if an amputation resulted from the tool.

Other losses caused by the product would not be covered. The professional provider of services or manufacturer of products could limit his no-fault liability to certain injuries, a certain time limit and for a certain stated amount of money.

Professor O'Connell "argues convincingly that his plan will increase the deterrance to produce unsafe practices," Mr. Webster said. Mr. Webster also said that remedial legislation is on the horizon and outlined the National Machine Tool Builders Assn.'s (NMTBA) two proposed amendments to the Workers' Compensation Act of 1975.

Under NMTBA amendments, when an injury caused by the employer's violation of an OSHA regulation, the employer can be held liable to a third party for recovery of payments. Also, capital equipment manufacturers can use the employer's violation as a defense in a subrogation action by the employer or his workers' compensation insurance carrier.

"Thus, as (Washington atttornies) Covington & Burling state, state workers' compensation laws, which were originally conceived and designed as legislative devices to protect the working man by insuring that he would be adequately compensated if injured on the job, have now become a shield which protects careless employers who use over-aged and improperly maintained equipment and machinery without up-to-date safety equipment to reduce manufacturing costs, from full responsibility for loss as a result of conditions which they bring about rather than the manufacturer," Mr. Webster stated.

Currently, contributory negligence can be raised in the courts in North Carolina, Pennsylvania and California, he added. A third party held liable for an employe's injury can recover losses from an employer to the extent of the employer's workers' compensation liability.

Wisconsin is one of the few states permitting the defense of contributory negligence. But Wisconsin, and many other states, have contributory negligence. But Wis- applying to all tort losses, including products, he said.

Assigned risk facilities and Joint Underwriting Authorities, such as the JUA recently proposed in Massachusetts sponsored by the Smaller Business Assn. of New England, would provide products liability insurance to those who can demonstrate that they cannot otherwise secure it, he pointed out.

However, without cost control mechanisms and other remedial legislation the small businesses will have created a vehicle for availability but the high cost of transferring risks will still exist if losses become prohibitive, Mr. Webster stated.

In the extreme case, costs may be so prohibitive that businesses cannot afford the facility and must liquidate because of an inability to secure products liability insurance and court defense costs, as in the case of Havir Manufacturing Co. in St. Paul, Mi.

Referring to the favorable protective legislation passed in a short time period for the physicians and surgeons, Mr. Webster said:

"In my opinion, it is questionable whether other consumer groups will have the bargaining power and be able to captivate the interest of legislators—and maybe public support—to secure as quickly and as forcefully similar protection." ■

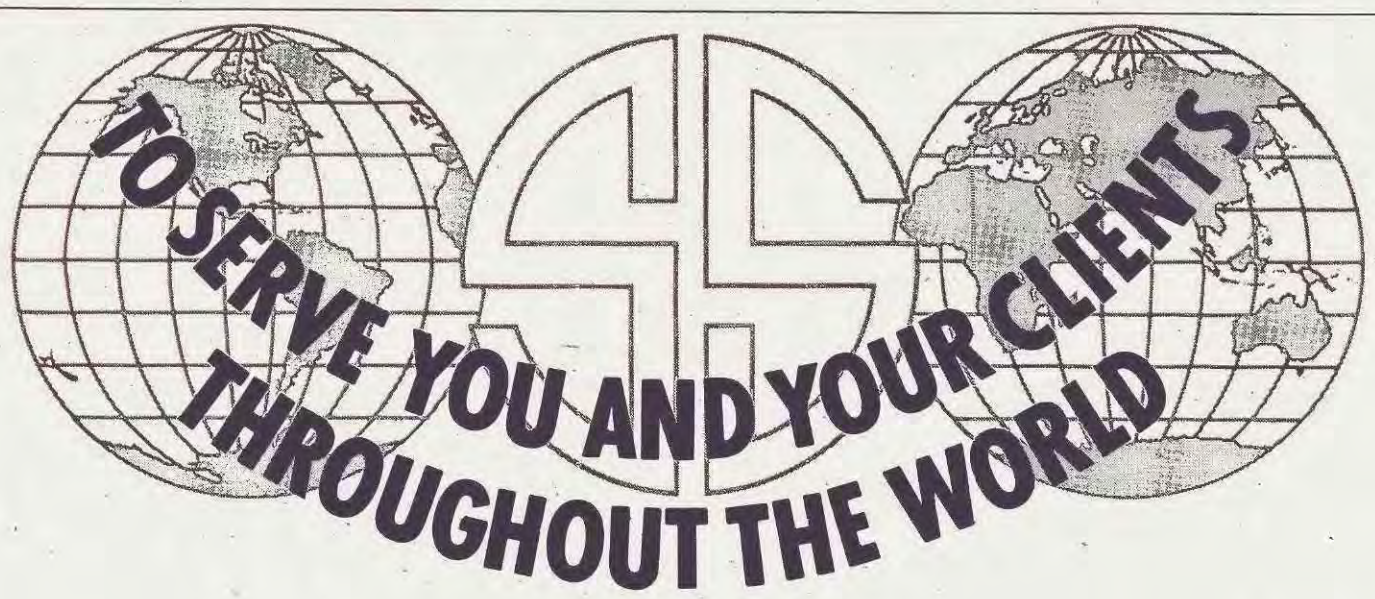
Jr. colleges offer training

WASHINGTON—Free occupational health and safety training is being offered by 26 junior colleges around the country in a $1.2 million program funded by the Occupational Safety and Health Administration (OSHA).

A total of about 45,000 persons are expected to receive short-term training covering OSHA, safety and health standards, and hazard recognition and prevention. The training is geared for employers and workers in high hazard industries.

In order to reach those who cannot take time off from work, the classes will be held in the evenings and on weekends at job sites and nearby locations.

In addition, two of the junior colleges will offer free on-site consultations. They are Valencia Community College in Orlando, Fl., and Triton Community College in River Grove, Il. ■



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RISK MANAGERS AND BROKER INQUIRES INVITED

INTERNATIONAL

MONSANTO BENEFITS MAN WORKS FOR YEARS ON A COHESIVE PLAN

By ELISABETH M. WECHSLER

ST. LOUIS—When Stan Boudreau of Monsanto Co. has a problem, defining it seems to be most of the solution.

Like many other large multinational companies, Monsanto worried about providing a cohesive and equitable retirement program for its so-called third country nationals (TCNs), a term which usually refers to a citizen of one country working in another country for a corporation based in a third country.

After he and his predecessor grappled with the issue for almost 10 years, Staunton E. Boudreau, international employe benefits manager, reached an intriguing solution. It's centered around three elements he considered key to the problem: Defining final average pay, computing years of service and accounting for different Social Security laws abroad.

The diversified chemicals company, based here, guarantees its TCNs a minimum pension benefit payable in U.S. dollars and indexed to the International Monetary Fund's special drawing rights (SDRs) to protect the retiree against extreme fluctuations in local inflation.

Mr. Boudreau believes the solution is unique in that SDRs are used for the index. "The only other way it's used that I know of is among the OPEC nations to price their oil on world markets," he noted.

Towers, Perrin, Forster & Crosby's international division in New York was retained as a consultant in devising the TCN policy, but Mr. Boudreau maintains it was Monsanto's persistence that resulted in using SDRs as the index. "They gave us the germ of the idea but it was so new they left it up to us to develop."

Monsanto's TCN policy is offered as an umbrella with an offset of any other company and government benefits accrued as a TCN is transferred from one Monsanto operation to another. "When it's time for an employe to retire, he must collect the pieces from around the world," Mr. Boudreau said. "If it doesn't equal the minimum pension guarantee, we pay the difference."

He hastened to explain that Monsanto classifies an employe a TCN after being transferred "permanently" one or more times across international boundaries. "It only take two countries rather than three," he commented, adding that questions of citizenship are "irrelevant" to the solution.

"I think it's a basic mistake to try to anticipate where a man will retire and spend his money. It's fruitless because there's no way to predict this, or the conditions there, even if he follows your predictions," Mr. Boudreau said.

In the case of a "temporary" international transfer, usually considered up to three years, Monsanto retains the employe's home country benefits. "We follow the local customs regarding benefits to the extent possible," he explained.

At the present time, Monsanto has approximately 250 TCNs. However, some 200 are located in Brussels as a result of moving its European headquarters from London a few years ago. A special solution was devised for them, he said. The other 50 are scattered throughout the U.S., Europe, the Far East, Latin America and Canada.

In some countries, death and disability benefits are tied to years of service and final average pay, Mr. Boudreau pointed out. Because the Monsanto operations try to keep each country's benefit program in line with local standards, this difference can also adversely affect a TCN. As a result, Monsanto's umbrella policy covers death and disability benefits where necessary.

Percentages are used to define the umbrella benefit, and Mr. Boudreau describes it as "very competitive with our better local plans."

When Monsanto's corporate management adopted the TCN policy idea last July, they committed themselves to making the guarantee to the employes involved.

"The second phase is arranging the funding for it," Mr. Boudreau pointed out. Remembering that the objective is to utilize local plans and government benefits as much as possible, he said he expects the TCN policy to remain "unfunded."

"Funding restrictions overseas are usually more flexible than they are in the U.S.," he explained. "We will work with the local plan to permit greater funding than normally would be reflective of service—for example, by escalating final average service pay."

"You couldn't get the tax deductions here but the tax codes overseas allow more discretion," he emphasized.

For the 200 employes who were transferred from London to Brussels, Mr. Boudreau explained that a "hybrid arrangement" was developed, combining some of the British and Belgian local retirement plan features.

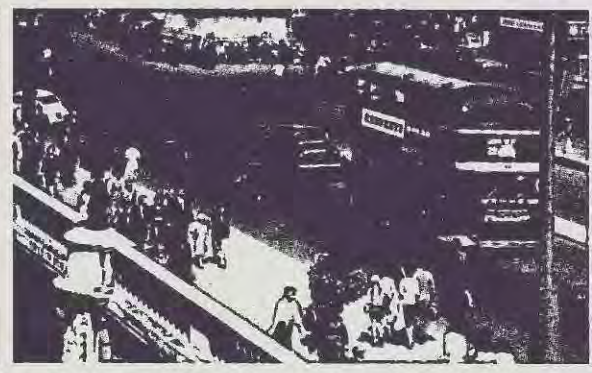
"The situation worked fortuitously because the non-contributory U.K. plan was lower in benefits than the contributory plan in Belgium," he said, adding that the employes felt they were moving toward an improvement in retirement benefits but that they had to contribute for the first time.

Because approximately two-thirds of Monsanto's employes outside the U.S. are located in Europe, Mr. Boudreau said there is someone in London responsible for benefit planning and development for the U.K. and Continental operations. "When a proposal is ready, it must come through me to get approval," he noted.

In other parts of the world, Monsanto has roughly one-sixth of its overseas employes in the Far East. The others are divided fairly equally between Canada and Latin America.

"There's no slowdown expected in overseas benefits," Mr. Boudreau said. "Changes are going on around the world every year. The

Continued on page 14



Benefits vary according to custom around the world, but Monsanto found a way to ease the transition.

Rates soar, but no one can provide loss data

WAR RISKS DEFY ANY EASY TREATMENT

By MARIE KRAKOWIECKI

NEW YORK—Companies with international war risk exposures are finding it virtually impossible to evaluate treatment of the risks, particularly in the marine area, because there is no loss data available.

While risk managers are completely isolated from the very information which might help them analyze and treat their exposures, they are being quoted rates that are as high as those for difference in conditions (DIC) coverages.

In general, marine war risk insurance rates are running at between 3 cents and 5 cents per $100 of coverage. To add insult to injury, the marine war risk underwriters themselves are saying that there is no overall source of loss statistics to which even they have access.

Stefan J. Valovic, director of insurance for Kaiser Aluminum & Chemical Corp. in Oakland, Ca. commented: "We know there is a marine war risk exposure, but to evaluate it properly, we need data. We have tried, all to no avail, to get the information from Lloyd's (currently the largest writer of marine war risks).

"The word coming back to us through our brokers is that Lloyd's doesn't keep records on it.

"Frankly, I'd like to know how they develop their rates if they don't have any loss statistics on hand," he groused.

Business Insurance called a Lloyd's member which writes a significant portion of the international marine war risk market to find out.

Stephen L. Morrett of Roy J.N. Morrett Syndicate Ltd., London, confirmed that there isn't any general war marine risk statistical information in one place.

"Total Lloyd's figures are kept only on a global basis and are not classified according to specific kinds of risks," Mr. Merrett explained. Individual syndicates might keep separate records, but there is no attempt to coordinate them with those of other syndicates.

That means war risk loss data would be buried among the information for all classes of marine risks underwritten by all the syndicates participating in the Lloyd's network.

And although the Merrott Syndicate writes a significant portion of marine war risks, Mr. Merrett said that most of the syndicates at Lloyd's also underwrite that line. That would make the loss data on those exposures hopelessly fragmented, because the figures from every syndicate would have to be sought out and examined.

But the London syndicate spokesman does not think risk managers would really gain much by being able to look at such figures even if they were available.

In dealing with a political situation, he says, a strictly actuarial approach would not do much good.

"With this sort of exposure, you're all the time dealing with what you think will happen in the future. Statistics on what happened in the past are of limited value," Mr. Merrett asserted, unless a strictly actuarial viewpoint is sought.

Marine war risks underwritten domestically don't afford risk managers much more in the way of loss data. The American Hull Insurance Syndicate takes on that sort of exposure, but international brokers and several risk managers from multinational firms with war risks, said they weren't able to find out anything about loss experience through the U.S. syndicate.

By press time, AHIS did not answer queries about the availability to risk managers of marine war risk loss data.

One of the biggest complaints voiced by insurance buyers and brokers over the war risk market, both marine and on-land, concerns the abrupt cancellation clauses written into most policies.

One risk manager of a large weaponry manufacturer with exposures in the Mideast said he buys no war risk coverage at all because London will usually can-

Continued on page 12

GLOBAL SERVICES

A special listing of international risk management and insurance services appears on page 70 through 72 of this issue.

War risk exposures . . .

Continued from page 11

cel with seven days' notice. And many other insurers impose immediate cancellations if hostilities break out.

"So even if you get the coverage, which is not cheap, it would probably only cover you for a single loss," he said.

The Overseas Private Investment Corp. (OPIC), which is the government agency that will insure new private investment in developing nations, does keep some available statistics on land war risk loss data. (It does no insuring of marine war risks.)

During the first week of March, OPIC sent a report to Congress proposing the formation of a special corporation to deal exclusively with a war risk portfolio.

To be insured by OPIC, a corporation must sign a long term contract, usually for 20 years, and be willing to pay a fee up to six-tenths of 1% per year on the currently insured amount.

"That's not that good a deal for large corporations, particularly those in the Fortune 500," remarked the head of international services for a major brokerage firm.

"We can usually get a better price than that working through correspondents in London."

The better price? "Anything less than six-tenths of 1% makes it competitive," he said.

Of course, if a risk manager opts for the cheaper premium from London, he's stuck again with the problem of not being able to get any loss data. As a government agency, OPIC will release figures on claims paid relative to premiums earned.

Here's the rundown OPIC gave *Business Insurance* in late February:

- In 1967, two claims in the Dominican Republic amounting to $38,000 were paid to Chase Manhattan Bank and First National City Bank.
- In 1968, one claim in Jordan for $140,000 was paid to the Crow Construction Co.
- In 1971, Western Hemisphere Enterprises Inc. was paid a claim of $13,000 in the Dominican Republic.
- In 1972, OPIC paid $413,000 to Vinnell Corp. for a claim in Bangladesh, and $18,000 to Hercules Inc. for a Pakistan loss.
- In 1974, Vinnell Corp. was paid for another Bangladesh claim, this time for $12,500. International Chemical Fibers Inc. was paid $128,000 under two coverages it had in Chile. However, one of the coverages was an expropriation policy, and there is no breakdown of how much of the total claim went for war risk and how much for expropriation.

The figures above total $762,500. However, in a separate statement, OPIC said it has paid out only $630,000 in war risk claims since the early 1960s, so apparently some of the others also include amounts for expropriation or inconvertibility coverage.

Premiums collected during that time period amounted to $75 million-plus, the agency reported.

Even from an actuarial standpoint, the figures provided would make for a very sketchy assessment of what is happening in the area of war risks. And other considerations complicate matters.

The imprecise nature of war risks, reflected in the many disagreements over what exactly constitutes one, make it more difficult to evaluate claims figures like the ones just presented.

For example, we reported here on May 19, 1975, that five companies were insured for original values of some $50.3 million by OPIC in Vietnam prior to its takeover by the Communists that month.

But when information was requested from OPIC about the extent of war risk claims involved, an agency spokesman said:

"That's a very interesting and unusual case. When Saigon was taken, it seemed like war risk claims would apply. Expropriation and currency inconvertibility did. But things are relatively peaceful there now. There is even some indication the Saigon government might encourage foreign investment.

"Nobody knows yet just which way things will go. But what at first might have been considered a war risk situation has taken on a different complexion now." ■

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Assurex International

New pool to be formed for insurance on war exposure

WASHINGTON—A new corporation will be formed to exclusively underwrite an international war risk portfolio of exposures if a proposal scheduled to be presented to Congress this week is accepted, *Business Insurance* learned.

The Overseas Private Investment Corp. (OPIC) said in late February that it is seeking insurers from the private sector to participate in the war risk insurance corporation.

OPIC, the government agency which encourages private U.S. investment in more than 80 developing nations through its political risk insurance and finance programs, said it was sending a report to Congress the first week of March proposing the new venture.

Last year, OPIC formed the Overseas Investment Insurance Group (OIIG) to insure and reinsure U.S. private investment against the political risks of expropriation and currency inconvertibility.

OIIG, however, did not get involved in a property-damage war risk portfolio, and OPIC hopes to form a group to handle those exposures.

"We are trying to attract as much private sector participation as possible for this new war risk insurance company," an OPIC spokesman said.

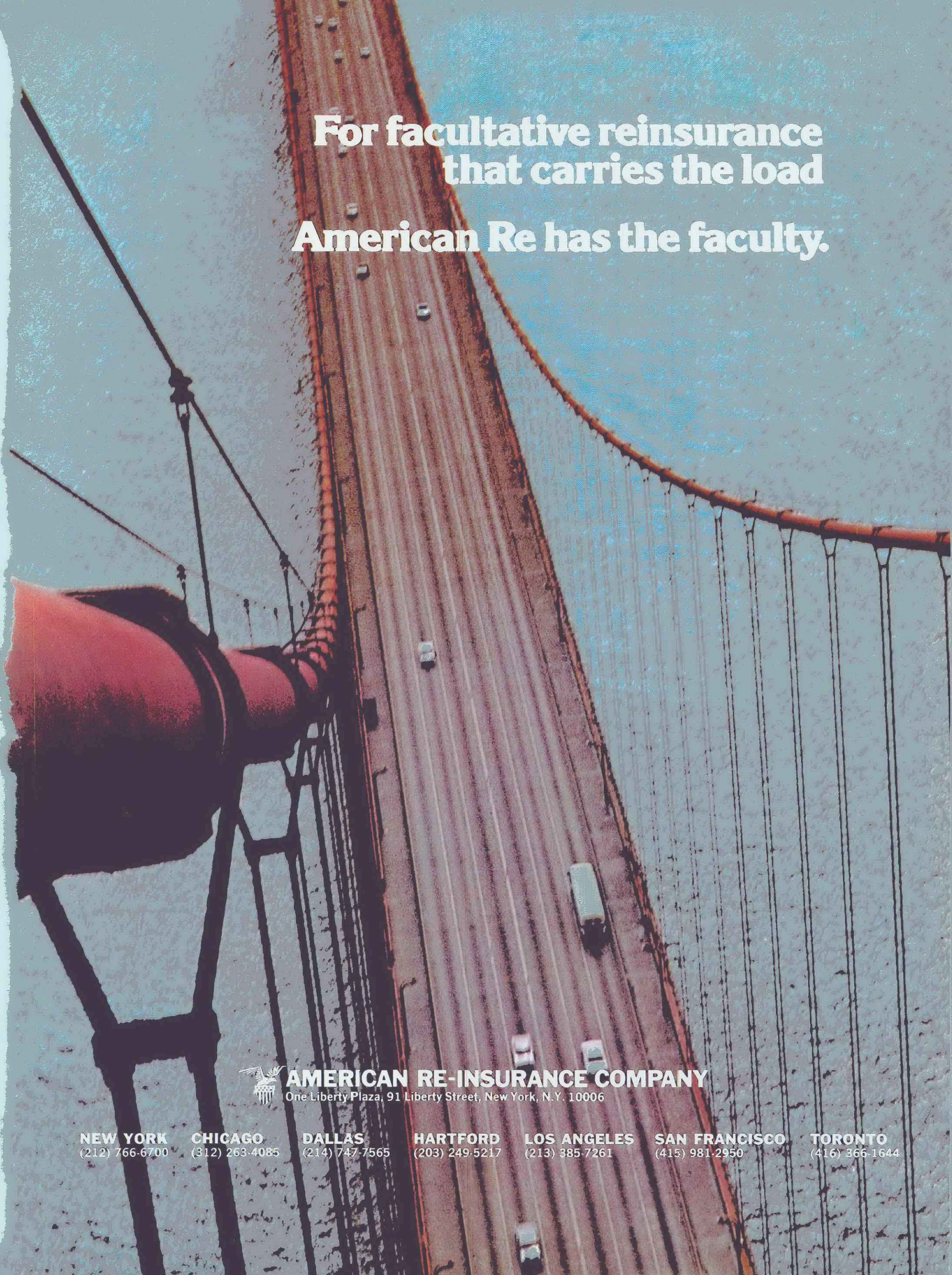
"The theory on this one is that we would set up a mutual or reciprocal company in which OPIC and its policyholders would participate."

The proposed war risk company is to be set up along lines similar to those of OIIG in which private insurers subscribed a total of $6,550,000 of a $40 million per country first loss pool, with OPIC taking up the balance.

OIIG functions as a combined underwriting and reinsurance pool, providing for the issuance of new insurance coverages and for sharing a portion of the risks in OPIC's existing portfolio.

At this writing, a name for the proposed war risk venture has not been selected, but OPIC said one under consideration is The War Risk Insurance Corp.

When OIIG was formed, 13 private insurers and reinsurers, including Lloyd's of London, participated in its signing. OPIC hopes to attract a similar cluster to write war risk exposures. ■



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Coverage for British Concorde is not affected by projected landings in U.S.

By JOHN H. MILLER

LONDON—Insurance factors affecting the British Concorde are now being appraised in the light of its hopes to start trans-Atlantic operations within the next two months.

But so far there has been no reason to alter the insurance arrangements made for its passenger flights to Bahrain which began recently.

As previously reported (*Business Insurance*, Dec. 1, 1975) the Concorde is being treated by British Airways as a normal commercial aircraft, except that its hull value of just over $40 million makes it the costliest risk in the market.

This figure was reduced by the airline from its original estimate of $50 million hull exposure, and was accepted by the market, (both Lloyd's and U.K. companies) as being agreeable to all concerned.

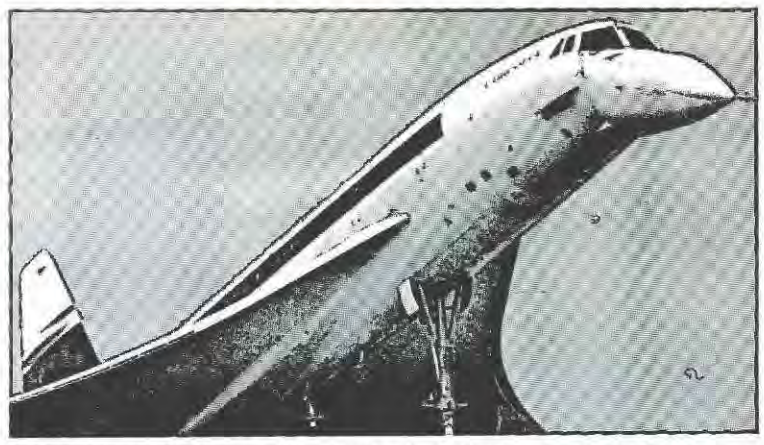
Fear of sonic boom damage is being strongly countered by airline executives, who are insistent that this is an unnecessary anxiety even on its projected landings in the U.S.

There is an obvious reason for this which may not have been taken into the account by Concorde's opponents. Quite simply, U.S. Transportation Secretary William Coleman has authorized trial flights to New York's Kennedy Airport and Washington's Dulles Airport whose locations on the Atlantic seaboard are such that they will not require pilots to reach supersonic levels until well out into the Atlantic from land.

This is accepted by airline officials as the normal flight path both for takeoffs and landings.

But it is emphasized that the Concordes will be making the usual type of landings below the supersonic level as they approach these two airports, and will be no different from other airlines in this respect.

Already on its runs to Bahrain, the Concorde does not break the sound barrier over western European countries, so that there has been no need to take out any special insurance cover for sonic boom damage in these areas.



British Concorde takes off in cloud of continuing political controversy.

So the 16-month trial period which has been granted to both British and French airlines will be a valuable asset in improving technological knowledge of "sound barrier aircraft."

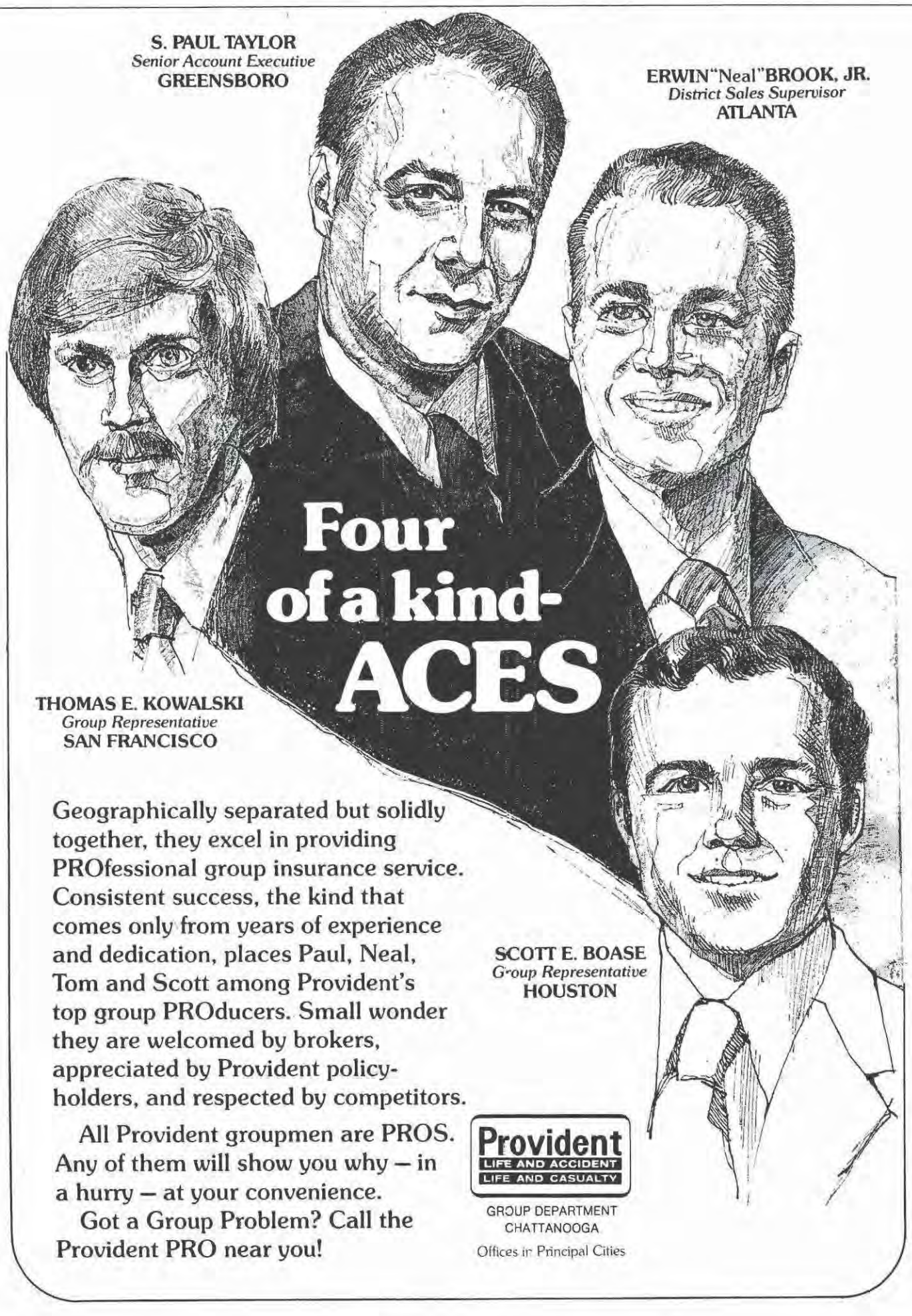
Russia is already operating supersonically over its internal land masses with regular TU-144 flights from Moscow to Alma-Ata, capital of the central Asian republic of Kazakhstan. These are currently for cargo and mail only, but will be extended to passenger services this summer. They cover a 1,900 mile flight, and may well provide interesting data if Russia can be persuaded to release it.

British Airways takes the view thus, discounting the fears people may have, that for their present operations they do not need to purchase any special sonic boom insurance themselves. They would be in a position to face any justifiable claims from their own resources, in the event of U.S. insurers feeling compelled to take action on behalf of clients, provided that due liability were established as with all commercial air operations.

Noise problems are, of course, a separate issue, which will be carefully monitored by all parties involved during the experimental period granted.

The practical benefit of the U.S. decision to the insurance market is that it will extend the spread of hull cover for the costly SSTs to a considerable extent, for until now there has only been the limited services to Bahrain and Rio de Janeiro on which premium income could reach the market. So this in turn could assist premium ratings in due course.

Passenger liability for Concorde operations is the same as that for any other commercial flights, except that there is less overall risk because there are fewer passengers than in a jumbo jet. ■



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Monsanto . . .

Continued from page 11

Latin American countries are just developing, and you're dealing with a political situation on benefits."

"We, and most employers in Australia and New Zealand, have deferred all changes except to keep the benefit plans running," he said. "We're adopting a wait-and-see attitude, because the governments are changing directions and it's not clear what will be happening in terms of Social Security. We plan to do the minimum and wait until the dust is settled."

Mr. Boudreau said he regrets he doesn't know more about the overall cost of Monsanto's overseas benefit plan.

"Perhaps it's not proper to compare the costs of the overseas and domestic benefits," he noted. "For example, the West European governments act as the purchaser of and provider for many benefits through higher taxes."

One of Mr. Boudreau's objectives for the year is to put detailed cost figures together. "It will be difficult because you're comparing apples and oranges since each country's government plays a different role in benefits," he said, adding characteristically: "First I'll have to define the problem. . ." ■

Catastrophic losses almost nil in Lebanon

By LINDA MOSKOWITZ

NEW YORK—No catastrophic losses are reported as a result of the recent Lebanese conflict between warring Moslems and Christians, according to major American-based international insurers.

While the fighting brought business activity in the Middle Eastern financial center of Beirut to a standstill, most major U.S. firms suffered relatively minor property damages, industry sources report.

Frequently, the only loss exposure faced by foreign businessmen was on personal property or company-owned equipment, since many Beirut offices are leased from Lebanese property owners.

Such was the case with the Holiday Inn in Beirut, where a much-publicized siege by guerilla factions caused extensive property damage.

Total property damage estimates for the hotel will not be available for at least another month, a Holiday Inn spokesman commented.

A major problem facing the hotel chain owners is whether the losses facing them are insured at all.

"The main thing that has to be determined is whether or not this is considered a war or an act of violence," said the Holiday Inn spokesman.

American Foreign Insurance Assn. (AFIA), one of the major insurers in the area, which also underwrites the Holiday Inn account, will most likely not cover claims filed as a result of the violence. This is because losses incurred as a result of war are not covered in clients' policies in the area, an AFIA spokesman explained.

"Claims have not been numerous," stated James A. Morone, executive vp of AFIA regarding the Lebanese situation, "and it seems to be generally recognized that the conflict has been of such a magnitude as to fall within the exclusions of property damage and most other policies."

American International Underwriters (AIU), another large insurer operating in Beirut, similarly noted the minor nature of claims reported.

However, an AIU spokesman cautioned that the political situation in Lebanon was still unsettled. "We're just looking at each claim on an individual basis," he said, and predicted that it would be many months before the situation is completely sorted out.

At the Continental Insurance Co., which also holds a large share of the Beirut insurance market, no major losses are expected.

Little else could be learned about Continental's accounts in the area, due to general confusion regarding the status of the conflict and communications problems with their offices in Beirut.

Most of the foreign businesses that had operated in the Lebanese capitol have moved their offices to more secure headquarters by now, many choosing Athens as a new base.

All sources agree that it will be many months before more precise damage estimates are available, and before decisions are made whether or not these damages are considered insurable. ■

Insure with Polish govt.

WAYNE, N.J.—Insurance on foreign interests or currencies in Poland must be handled through one of two national insurance companies, WARTA. However, U.S. dollar insurance is often written for these interests.

WARTA also provides primary insurance for all inland and ocean marine risks. Poland operates on a dual monetary system, with internal transactions in Zloty, and most foreign trade in U.S. dollars or convertible rubles, according to AFIA's World Wide Insurance Guide.

Poland's domestic insurance company, PZU, and WARTA are both monopolies, but are self-sufficient, profit-making monopolies, said AFIA. ■

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editorial opinions

A need for competitive bid rules

WITHIN THE LAST few decades, government bodies have been forced—unwillingly, at times—to award contracts to suppliers of goods and services on the basis of competitive bids. Theoretically, statutes mandating bid procedures would open government purchasing to more competition.

Insurance needs of municipalities traditionally have been filled by agents, brokers and underwriters who were allies and personal confidantes of mayors and other top officials. The same insurance intermediaries for decades commonly monopolized the property, casualty and benefits insurance in their respective communities, restricting competition by establishing "committees" to fend off any competing middlemen or by using personal friendships (and sometimes family relationships) to obtain contracts by assignment rather than on the basis of professional qualifications.

These corrupt and costly systems led to a growing number of statutes requiring all insurance purchasing to be based on the bid system. In recent months, however, risk managers for government bodies and often their consultants in the insurance management area have been arguing that mandatory competitive bid systems create more problems than they solve.

▪ They tie their criticism of the bid process to the shaky (and tightening) condition of the liability insurance markets. The logic goes this way: When a political entity calls for bids on, say, its liability risks, 10 or 15 agents and brokers may want the business. They will respond by asking insurance companies to prepare quotes. If there are only four or five underwriters insuring these particular liability risks for governments, the insurers will, in effect, be asked to prepare duplicate bids. The result: The insurers supposedly incur such heavy administrative and clerical costs that they ultimately decide they cannot make enough profit to cover their costs and don't bid at all. This is called "shaking up the markets," in the jargon of those who've experienced this kind of vicious circle.

Particularly if the governmental risk being put out to bid is very large, with perhaps $10 million to $50 million policy limits specified, a further narrowing or shrinking of the available insurance market occurs.

Insurance consultants also tell of instances where the insurers being asked to bid on city business are afraid of being judged solely on the basis of price, and not on a package of services. Insurers worry that if price is the sole criterion, and if, under a bid statute, the insurance program is re-bid each year or two, the underwriters will incur heavy acquisition costs to obtain the business, only to lose out to a lower bidder after a short time. Thus, they become reluctant to participate, say the government insurance purchasers.

Some consultants have suggested that the best situation is for competitive bid statutes to allow negotiation and preselection of all "providers of professional services." In the property insurance area, competitive bid rules are fine, say the so-called experts. But in the words of one consultant, "there is a special situation in the liability markets, and this is where competitive bids are counterproductive."

Unfortunately, some municipal insurance buyers and consultants seem to think it's all right to thwart the statutes requiring competitive bid procedures.

Legal ways of circumventing the statutes include obtaining waivers from local governing bodies for "special situations," or by purchasing policies which are "continuous" or are written for 10-year terms. The latter method involves some negotiating with agents and carriers which, appears to be extra-legal, at best.

▪ A perfectly legal way to conform to the bid laws but avoid some problems is to obtain permission to use the "qualified competitive pool" approach, narrowing the number of brokers or agents who will go into the markets seeking bids. Generally, three to six agents are named and are assigned markets to approach, so they are not all soliciting proposals from the same few insurers in a field.

There are times when this assigned-market method won't work, such as when the risk being placed is so big as to require *all* of the available markets for shares of the risk, in order to obtain the desired high limits. But this is a special situation, holding true in only a limited number of situations.

We deplore efforts to circumvent competitive bid statutes. They were enacted in recent years in response to horrendous abuses by politicians (and others, including corrupt purchasing agents) recklessly spending millions of dollars of taxpayers' money. Those paying the bills of cities, counties and states have every right to expect professional purchasing procedures, and decisions made on the basis of cost-efficiency and solid qualifications of a supplier, not on the basis of political rewards and personal affiliations.

Government insurance managers and consultants who talk of getting around the statutes and going back to their old systems of assigning one (or a few) favored agents are just asking for the wrath of taxpayers. To change or circumvent all the competitive bid statutes now, in the face of a typically cyclical condition in the insurance industry, is folly.

▪ To say competitive bids are counterproductive is hogwash. There is no true competition among suppliers of goods or services until a number of middlemen are sent into a number of markets seeking the best price for a carefully specified product.

It appears that statutes requiring re-bidding of insurance every time there is a policy renewal discourage underwriters from submitting quotes. Too freqent re-bidding creates high turnover of carriers for the insured, which can be very damaging in the long run.

Statutes should, we believe, call for competitive bidding on all governmental insurance business—indeed, for all goods and services above a certain annual dollar amount deemed significant—every five or six years, with provisions that the business can be let out to bid more often, if the situation requires it.

But the statutes should not be negated to allow preselection of agents and insurers at the discretion of an insurance purchaser. This would be a step backward to a system which is subject to abuse and criticism.

letters

Letters are welcome. Address letters to the Editor of Business Insurance, 708 Third Ave., New York, N.Y. 10017.

Setting record straight

To the editor: Reference is made to the article which appeared on page 15 of the December issue of *Business Insurance* entitled "Kraftco insurance arm ups outside business." There are errors appearing in this article which could be quite damaging if they remain uncorrected, and we are therefore calling them to your attention.

In addition to the headline, it is incorrect to categorize Ideal as a "wholly owned subsidiary of Kraftco," and to refer to Kraftco as Ideal's "parent company."

Ideal is a mutual insurance company chartered under the laws of the State of New York and, as such, is owned by its policyholder members. Kraftco, as a policyholder, is limited by law to 10 votes out of an approximate total of 4,300. The Ideal board of directors, which is elected by the policyholders, consists of 13 directors who bear a fiduciary relationship to all of Ideal's policyholders. Although Kraftco is a major customer of Ideal, only 3 of these 13 directors are officers or employes of Kraftco and no officer or employe of Kraftco is either an officer or employe of Ideal.

This matter is a serious one since there are very specific statutory requirements which would attach if Ideal were a controlled insurer, as you stated in your article. It could result in unnecessary problems for Kraftco, Ideal and their employes.

Edw. P. Lalley
President, Ideal Mutual Insurance Co., New York, N.Y.

Additional survey input

To the Editor: In response to your Editorial Advisory Panel findings in the January 12 issue: Within the past year, we have experienced a 74% rate increase in the primary liability and a 50% rate increase in the excess coverage. These, coupled with volume increases, resulted in almost a doubling of costs, with an actual reduction of coverage since retained limits also increased.

Actual experience did not in any fashion justify the increase, but we have an exposure which lends itself to enrichment of the legal profession. In that respect, we closely parallel the machine tool industry problems. We've had past problems in securing coverage and no relief is seen in the near future.

No business is immune from the present problem. What's the solution? In my opinion, four concur-

Continued on page 18

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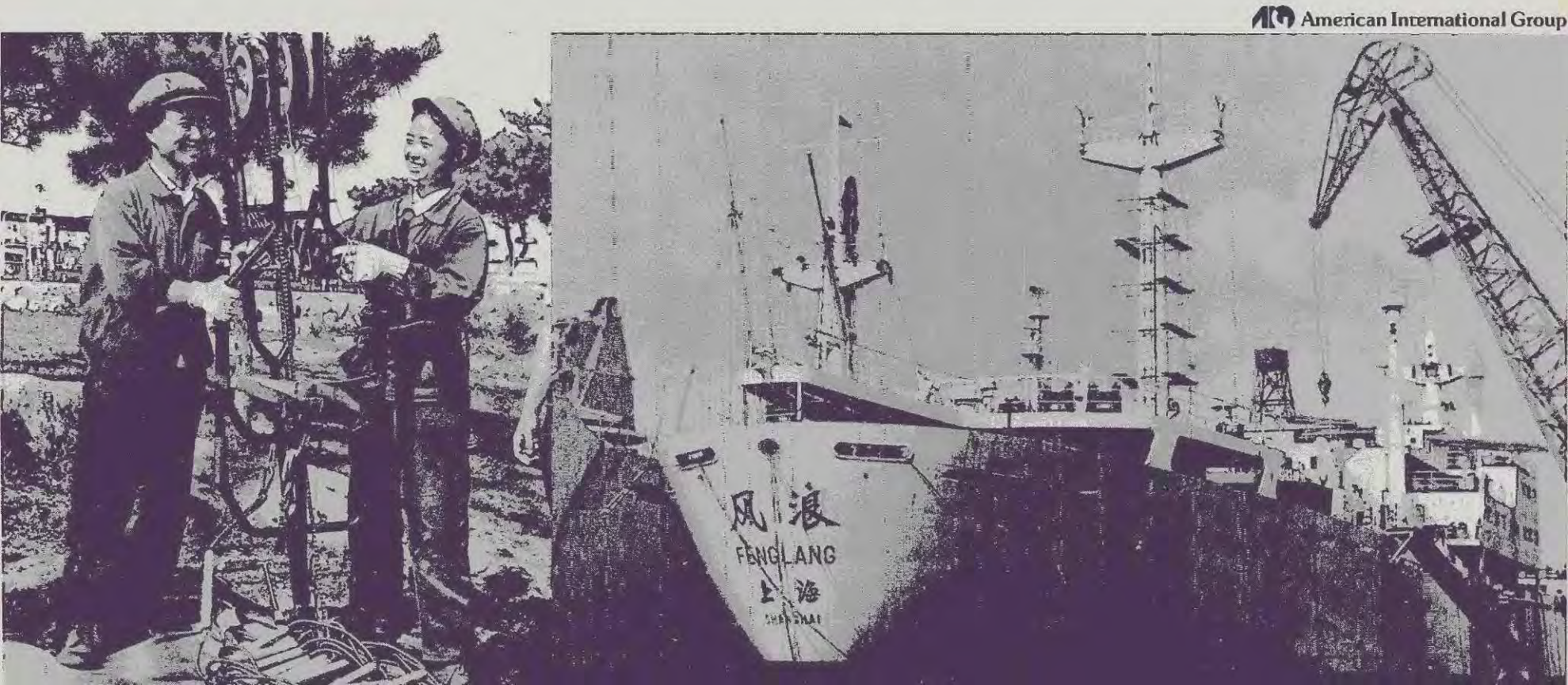

letters

Continued from page 16

rent programs will resolve the present problem:

1) A legal redefinition of what constitutes true liability.

2) Severe curtailing of legal contingency fees, with automatic award of defendants' legal fees in an effort to curtail nuisance suits. If plaintiffs had to risk their personal resources, the volume of suits should decrease substantially.

3) A firm posture by the respective insurance companies to attack the problem on an industry-by-industry basis via development of common litigation defense programs, thus presenting a united front on all claims, rather than considering themselves as "tin gods" who always have the expertise to properly settle a claim.

4) Massive public educational campaigns regarding where insurance proceeds actually are derived.

T. J. Geiger
Manager - Financial Planning, The Ohio Brass Co., Mansfield, Oh.

Consultant certification

To the Editor: Indeed, it was with a great deal of interest that I originally read your editorial of December 29, 1975 entitled "Certification of Risk Consultants". My initial reaction was to contribute my thinking on the subjects brought forth in that editorial but on rereading it felt that you really said all that needed to have been said and anything further would be gilding the lily.

However, after reading the letter to the editor from my friend and colleague, Dave Warren, CPCU, in your January 26 issue wherein he commented on your editorial, I am moved to again have second thoughts and offer some additional thinking on the subjects covered:

As far as the basic question of certification of risk and insurance consultants is concerned, I would like to remind you and your readers of the project of the Insurance Consultants' Society—their certification program—that was well publicized in 1971 in *Business Insurance* but that died in birth because of the schism that developed over the question of ethics (see below) and that saw the Institute of Risk Management Consultants come into being, said organization sponsored, then, by a number of members of ICS that resigned over the ethical question.

At the time of the schism, this entire certification program was ready to be put into operation. A manual of certification standards was actually at the printers and it was the intention of ICS to make it public at the ASIM meeting that fall. As a result of resignation of many of our most active members, including Dave Warren, the whole program was tabled; for to put a program such as this across, it would take the united and combined efforts of all practitioners in this field and a climate that just didn't exist after the establishment of a second society.

As part of the certification standards, ICS developed standards for the risk and insurance consultant. These standards were to have been:

1. (a) Five (5) years of general insurance or risk management experience plus either Bachelors degree, CPCU or RM.

OR

(b) Two (2) years of college plus seven (7) years of general insurance or risk management experience.

OR

(c) Ten (10) years of general insurance or risk management experience.

2. Qualifies for ICS membership, except for requirement of one (1) year of consulting experience.

3. Must pass examination given by a Society-prescribed body.

4. May not ethically certify unless he remains qualified for ICS membership.

Unquestionably, these standards will not satisfy every proponent of certification but I think it must be admitted that it was a giant step concept on the part of ICS made during the time that Dave Warren and a number of members of IRMC were members of ICS and voted on by the general membership at the time.

I think the forced dormancy of this program, the setting aside of the certification standards for the insurance or risk management consultant because of the "competition" between the two societies, etc. are good and valid reasons why there should be but one professional society for risk and insurance consultants—even though IRMC appears to be prospering and 1975 was unquestionably the Insurance Consultants' Society's most successful year.

There is unquestionably a division in thinking between the two societies as to the question of ethics, as Dave Warren spelled out in his letter. It seems that both societies are very concerned with ethics. What IRMC seems to be somewhat overly concerned with is the "appearance" of impropriety. It strikes me that when two groups of very intelligent people disagree on a point as moot as this that certainly there can be a meeting of minds that can take both points of view into consideration and allow for a single society, a united effort for the good of all and a climate that would encourage such projects as this certification program.

IRMC established a code of ethics (as has ICS since about 1963) to avoid incidents that can be interpreted to at least be an appearance of impropriety on the part of members. In spite of that, they felt obliged to take action concerning one of their members who accepted an assignment from an insurance carrier. ICS does not think that that was an improper thing to do if—to quote your editorial—the arrangement is clearly defined and all parties are informed and agree to it.

As I stated in a letter to the editor that was published in your magazine on June 30, 1975, "There is no question in my mind that the risk management consulting fraternity is too small for two societies". Possibly the situation involving the IRMC member in what at the time was an embarrassing situation . . . "and the final outcome of it can prove useful in convincing the Institute's members that their ethical stand may have been too severe, possibly to the detriment of the public, for a strong risk management consulting society encompassing the whole profession can do so much more for the profession than can two groups who are in reality marching to the same drum."

Leonard J. Silver, CPCU
President, First Insurance Management Co., Wyncote, Pa.

Federal rate making

To the Editor: Your editorial of 26 January 1976, espousing a federal takeover of insurance ratemaking is a typical example of one of America's most noteworthy characteristics; to wit, a total inability to learn from history. What federal rate making has done to the competitive transportation industry, it can also do to insurance. Bad as it might be, state regulation allows some vestage of individuality and "eyeball to eyeball" confrontation. I fear you have taken leave of your senses.

John T. Langdon
Wyoming Insurance Commissioner, Cheyenne, Wy.

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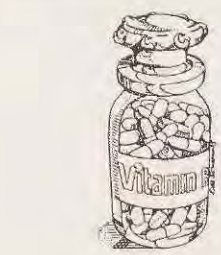

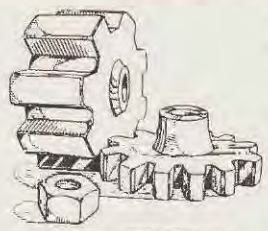

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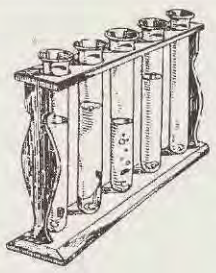

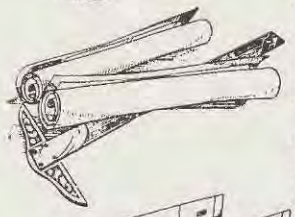

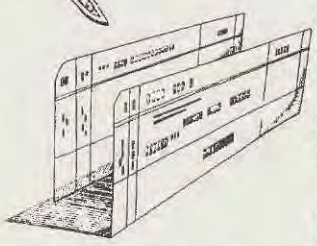

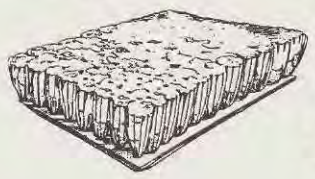

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Risk managers rely heavily on overseas brokers in Spain

NEW YORK—American companies stepping up their corporate interests in Spain have little new activity to report on the international insurance coverage front.

Despite the heavily-publicized death of dictator Generalissimo Francisco Franco last year, restrictions on foreign investors have not loosened significantly.

Therefore, planning by U.S. management has been laboriously slow and has not trickled down to the risk management level yet. Added to that is the restrictive nature of Spanish insurance regulations themselves (non-admitted carriers are prohibited). Thus, risk managers tend to rely on their international brokers for guidance.

Dow Chemical Co., for instance, has finalized plans to enter into a joint venture with a group a Spanish partners to build a $450 million petrochemical plant.

But as far as Dow's insurance department is concerned, the plans are so far into the future that it has not even begun to formulate an insurance strategy to cover the risk.

Dow has its general international policy through American International Underwriters, brokered by Fairfield & Ellis. But it's not likely Dow could use the same package to cover the Spanish petrochemical plan, because of the presence of the Spanish partners.

Fred S. James, which has another portion of the Dow account, has already inquired about getting the business, but at this point, no brokers are even being considered until the company's top management gives the go-ahead.

In a similar position is the insurance department of Great Lakes Carbon Corp. On the very day Juan Carlos took power in Spain, Great Lakes Carbon signed a contract with Banesto, Spain's largest bank, to jointly build a petroleum coke operation.

However, Great Lakes' insurance manager Robert L. Burr said nothing involving the deal is going on in his department. "That's something way into the future," he commented.

The venture received publicity when Business Week magazine outlined Great Lakes' on-again, off-again posture before it finally decided to sign with Banesto. After the article appeared, Mr. Burr got inquiries from brokers looking to capture the insurance part of the deal, but he says he turned them all away.

When will the company include the insurance department in the planning of the facility so coverages can be arranged? "That's pretty hard to pin down," Mr. Burr answered.

His remark was typical of insurance departments of other companies which have recently decided to go into Spain for the first time or to expand existing facilities there.

Insurance managers from other companies which have had holdings in Spain for years were unanimous in saying there has been little or no impact in their international insurance programs since Mr. Franco died.

"You want to know about any differences since Juan Carlos came in? I've seen none, heard of none, felt no trauma in this (risk management) department, or found any situation which has caused us concern over insurance," said a spokesman for Seagrams, which has Spanish operations and does half of its business overseas through affiliates.

Jesse Pagonis, corporate insurance manager for Foster Wheeler Energy Corp., the major U.S. subsidiary of Foster Wheeler Corp., which has some design and engineering facilities in Spain, was one of the few insurance managers to say he was going to Spain to assess the situation there firsthand.

"I'm not aware of any significant change that has affected our insurance coverage so far," Mr. Pagonis said, "but I do foresee some changes that might occur when Spanish inflation steps up."

He also believes that an increased demand for political risk insurance may crop up there soon, because of developments in nearby Portugal.

William J. Ott Jr., insurance and benefits manager for F. W. Woolworth Co., which has some small operations in Spain, foresees a change in the Spanish insurance climate for U.S. buyers because of the influence of Portuguese politics.

Mr. Ott himself is relatively untouched by any of those considerations, however, since all operations in Spain are handled by the local managements, and insurance for stores and contents are covered by locally-negotiated policies through Marsh & McLennan's Spanish correspondent.

According to the U.S. Department of Commerce, current political strife in Spain, such as labor unrest which resulted in a large

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number of strikes in January, has not changed plans by big U.S. corporations to invest some $300 million in new manufacturing plants during 1976.

Last year, existing U.S. corporate investment in Spain totaled $1.8 billion, and the country estimates it will need more than $1 billion of outside capital annually in coming years.

Ford Motor Co. increased its commitments in Spain from $600 million to $1 billion, making it one of the largest U.S. investors in that country.

This year alone, Ford will sink some $250 million into a new auto stamping plant near Valencia, and has remained staunch in the face of labor strife. Ford officials had no comment on any change in their Spanish property and casualty insurance coverages.

Spain's restrictive insurance laws, by all accounts, seem to be causing more headaches for international brokers than for risk managers. "There's a terrible licensing problem for brokers in Madrid," grumbled a vp of a international division of a large U.S. firm.

"It springs from a Spanish law changed in 1969 to require that Spanish agents can be non-Spaniards only if there is reciprocity.

"In short, it is very difficult for a (brokerage) firm to be formalized and owned 100% by outsiders," he remarked.

Some of the correspondents which operate for foreign brokers in Spain include: Agentes Interprovenciales Unidos for Marsh & McLennan; Gil Y Caravajal for Johnson & Higgins; Luis Parajone Y Diaz for Fred S. James; and Alexander-Gonzales, a joint venture with Alexander & Alexander.

One oddity in Spain's approach to property insurance includes its unusual "consorcio" endorsement.

The consorcio endorsement, in effect since the 1950s, makes the government the funding party for coverages involving expropriation, earthquake, flood, volcanic eruption, riot, windstorm and civil disturbances.

Consorcio, in effect, makes the insurer a semi-governmental agency, at least with respect to those coverages. All insurance policies issued locally in Spain must have a clause saying there is a pool to cover these risks, according to one international broker.

AFIA, which writes extensive international coverages and has four offices in Spain including one in Madrid, reports that blanket property insurance is not available in Spain.

Neither is insurance allowed, written in U.S. dollar terms (except on marine cargo) or general liability on a per occurrence basis.

Business interruption is available only on Spanish underwriters' forms, and the maximum fire protection credit is 45%.

Premium taxes, income taxes and fees payable by insureds vary, ranging up to 10%. ■

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Czech policy is similar to W. European

WAYNE, N.J.—While U.S. dollar insurance is not usually permitted in Czechoslovakia and nonadmitted insurance is prohibited, its insurance and reinsurance policies are similar to American and Western European lines, according to the 1976 AFIA Worldwide Insurance Guide.

Insurance and reinsurance in that East European country are handled by two state-owned insurance units—the Ceska Statni Pojistovna headquartered in Prague, and the Slovenska Statna Poistovna in Bratislava.

By internal agreement, AFIA reports, the "Ceska" limits its activities to Bohemia and Moravia, with the "Slovenska" operating in Slovakia.

In its domestic market, life and accident insurance are available from the state organizations to supplement the national Social Security System. The compulsory automobile third-party liability and some property exposures "attach automatically as soon as conditions specified by law come into existence, even in the absence of insurance contracts having been issued," AFIA reports in its guide. ■

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Underwriters still trembling over Guatemalan earthquake impact

By JOHN H. MILLER

LONDON—Tremors are occupying the worried thoughts of Japanese insurers after the Guatemalan earthquake shock. Halfway across the world, Japanese underwriters have just been working out the cost of a similar catastrophe in their country, and the figures they have come up with are staggering.

The impact on insurers in London and many other big insurance centers could also be heavy, for much of the cost will have to be borne by world reinsurers if there is a real disaster in terms of industrial damage near Tokyo.

INTERNATIONAL

Total aggregate earthquake exposure for insured commercial property in the whole of Japan is now more than $4 billion, with 30% of this involved in the highly concentrated Tokyo area. A whopping £5% of this insurance placed with domestic insurance companies in Japan is reinsured overseas.

On top of this is another $14 billion for personal lines business, with direct support in this case being given by the Japanese government towards reinsurance, as it would obviously be a national problem.

Economists have now come up with even more frightening figures, quite apart from the insurance factor. They estimate that the loss to Japan in the event of a huge catastrophe could run to nearly $200 billion, and could cost twice as much in replacement bills.

They have been making comparisons, quoted by the London-based Reinsurance Offices Assn., with the massive Kanto earthquake in 1923 which killed more than 100,000 people around Tokyo and Yokohama and cost many millions of dollars.

The figures were prepared for the Japanese magazine, The Economist, by S. Yoneda, chief scientist at the Fujita Industrial Technology Center, on the basis of present-day costings.

He calculated that Japan's industry and population are now concentrated much more heavily in the Tokyo area in the 50 years that have passed since the last big quake disaster struck.

The effect on the Japanese economy, reports the magazine, would be to throw it into utter confusion in the event of a further "Kanto-size" shock.

"Many Japanese apparently think, from the experience of recovery after the Kanto earthquake and the Pacific war, that they will be able to recover even from another big earthquake if it occur in the future," he added.

"But the situation is quite different from the days of the Kanto quake, where the majority of the people were able to get water from wells and cook food with fuel wood. The size of houses, as well as the mode of life, has changed greatly since then.

"Because of demands for reconstruction of damaged industry, whose own production could fall by 20%, there will be less productive capacity available and so exports will drop.

"This in turn will affect Japan's position as a trading nation, and the yen would weaken in currency markets. Public utility companies would be affected in many ways, and with unemployment soaring to five million, this will cause big new social problems.

"Prices will rise steeply through these factors, and inflation might reach 200% in a very short time. This in turn would mean that Japan, instead of having a large national income, would become one of the world's poorest countries, because normal economic activities would be destroyed," Mr. Yoneda said.

Insurance coverage in Japan for earthquakes is broadly split into two classes, industrial and household.

Demand for industrial cover has increased so much in the last 15 years that the country is divided into 12 zones so as to control the accumulation of earthquake exposure. This is based on the scientific theory that intensive quake damage may be confined to a 30-mile radius of the epicenter.

The largest zonal accumulation is around Tokyo, where it reaches more than $1.3 billion, but this represents partial coverage only and is limited to 30% of the total fire risk insurance now written. Premius average 5.4%, and Japan's gross premium income for earthquake cover is estimated at $2.2 million.

Household risks are protected by law through the Japan Earthquake Reinsurance Co., which has an excess of loss arrangement with the government under which insurance companies can pay up to $400 million for any one catastrophe on their own account, with public funds then becoming responsible for the remainder, up to a statutory level. ■

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GM wants safety

DETROIT—General Motors spent $79 million in 1974 to comply with federal occupational safety and health regulations, according to vice chairman Richard L. Terrell. In a speech to the American Foundrymen's Society here, he said a GM survey last year showed that "GM spent more than $1.3 billion (in 1974) in this country complying with or in anticipation of government regulation at all levels." The survey includes those costs which could reasonably be allocated and identified, and it is probably "on the conservative side," he said.

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A most unusual company

Bristol-Myers uses pooling for overseas benefits

By MARGARET LeROUX

NEW YORK—Pooling overseas benefit plans has paid off in a number of ways for Bristol-Myers Co.

The company maintains separate benefit plans for each of its operations in more than 55 countries, says Sven U. Grasshoff, director, international compensation and benefits for the firm's international division. Bristol-Myers uses two underwriters, American International Underwriters and John Hancock Mutual Life Insurance Co., to insure all the plans on a worldwide pooled basis.

Though both the plans and the level of benefits differ from country to country, by pooling them Bristol-Myers gains experience rating and premium credits for volume.

"As a result of pooling, we get a substantial international dividend over and above dividends paid at the local level," Mr. Grasshoff said.

Carrying the savings aspect of pooling one step further, Bristol-Myers recenlty established a captive into which the international dividends are placed to finance a pension plan for the company's third country national employes (TCNs).

"We're the first U.S. company to do this," Mr. Grasshoff said. The dividends, estimated at $300,000, had been allowed to accrue on the insurers' books. "It took me four years to get this set up," he interjected.

The amount finances the pension plan, structured after the company's U.S. pension plan, for some 60 key executives who don't qualify for Social Security or other retirement benefits in foreign countries.

This is a group of highly skilled, mobile employes who transfer frequently among Bristol-Myers' subsidiaries, the benefits director explained. Their mobility means they don't build up enough consecutive years of service to qualify for retirement benefits in any one country.

Pooling is just one example of Bristol-Myers' close financial monitoring of the international benefits programs.

For medical insurance, Mr. Grasshoff said, "We utilize the cash flow system. We pay claims plus a charge to the insurance companies for administration."

The investment experience of all overseas pension plans is reviewed annually by a pension committee in the U.S. headquarters. "A continual poor investment performance usually results in the change of investment manager," Mr. Grasshoff commented.

The company also requires frequent actuarial valuation of benefit plans.

The financial implications of close monitoring and coordination of benefit plans "are staggering," the benefits director noted.

In an address to the Council on Employe Benefits, he explained that if a commitment to purchase benefit plans for 10 different countries can be obtained simultaneously through solicitation of quotes by the parent company rather than by 10 individual subsidiaries, the overall acquisition cost is significantly lower.

Also, by substituting retention standards common to the U.S. parent company rather than those customary in some foreign markets, a considerable savings can be realized.

Pooling of overseas benefit plans offers advantages to the subsidiaries as well as to the parent.

"The big stick concept is advantageous to the local subsidiaries," Mr. Grasshoff explained. "If we complain about how a local claim is handled, we carry the clout of the worldwide policy."

It's corporate policy at Bristol-Myers to implement locally competitive benefit plans for all foreign subsidiaries.

"We look at the total benefits level provided under government regulation and contract negotiations before implementing a benefit plan," the benefits director noted.

And on an international basis, there is a wide range of locally competitive benefit packages.

"Some countries have only life insurance provided by the employer," Mr. Grasshoff stated, "while others have the complete set-up."

In Italy, for example, the government provides practically all medical services and a pension plan amounting to 80% of final salary plus a lump sum severance payment.

How to reconcile corporate uniformity in benefits practices with the worldwide diversity of legislation and local custom in countries where our subsidiaries are located is a problem, the benefits director acknowledged.

Further legislative complications in international benefits planning arise from laws that vary not only from country to country, but can change in an individual country as governments change.

In New Zealand the Labor Party implemented a revised pension system, but when the Conservatives came to power late last year, they indicated they would change the pension system within the year, Mr. Grasshoff noted.

In the U.S., the most significant change in benefit plans in many years has been the Employe Retirement Income Security Act (ERISA).

"The problems U.S. benefit managers are going through as a result of ERISA," Mr. Grasshoff commented, "have been a day-to-day occurrence for international benefits managers for years."

Germany, the United Kingdom, Australia, Switzerland and New Zealand all have different pension legislation that is more strenuous than ERISA, he said, "Vesting after one year isn't uncommon."

"You have to devise a benefit plan so it has limitations to protect the future financial liability of the company," he continued. "In many countries, notably South America, once a benefit is granted, it can't be taken away." ▫

RIMS benefits program

Workshops featured at the employe benefits segment of the Risk and Insurance Management Society's conference in Los Angeles, April 26 and 28, include: The use of 501(c)9 trusts in funding employe benefit programs; trends in pension planning and funding; negotiating with group insurance carriers; managing international benefits; benefit communications; the role of the benefits manager in union negotiations; cash flow funding and risk sharing programs; ERISA reporting and disclosures; business travel and 24-hour accident programs; and an update on HMO's.

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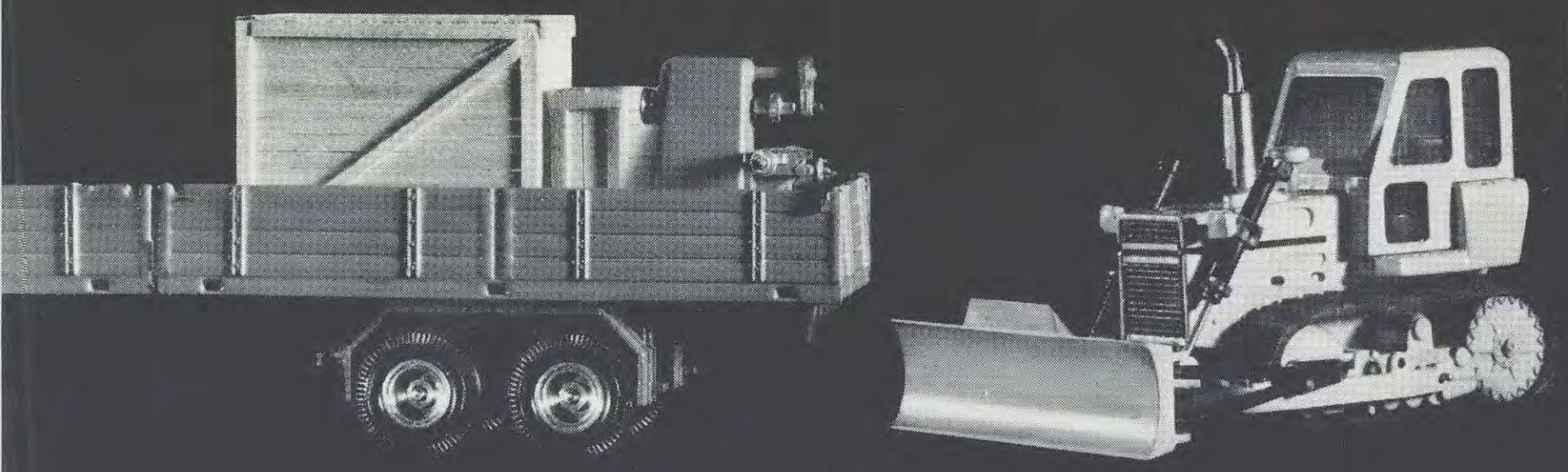

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AIG is first U.S. firm to reinsure in China

NEW YORK—American International Group (AIG) has become the first American insurer to write reinsurance in the People's Republic of China, in a reciprocal agreement with the country's sole state-owned insurance company.

The AIG coverage will be "connected with China's foreign economic activities," explained Houghton Freeman, American International Underwriter Corp. executive vp, who was part of an AIG group that visited China last year to negotiate the agreement.

The arrangement became effective January 1.

Reinsurance will be written on marine, cargo, hull and aviation on international flights to cover China's international business. AIG will be working with the People's Insurance Co. of China (PIC).

The PIC is owned by the People's Bank of China, which is the only bank in the country, also state-owned.

"All insurance benefits were taken over by the PIC in 1948," said Mr. Freeman, after the Communists came to power. By 1958, "all domestic insurance in China was phased out," continued Mr. Freeman.

The PIC writes only non-life insurance, primarily for international trade purposes.

The Chinese prefer that countries importing goods from China write their own coverage for the cargo, Mr. Freeman said. Insurance for goods which China imports is covered by the PIC.

"AIG and the PIC will act as claims agents for each other in their respective countries," explained Mr. Freeman.

Insurance is primarily written only on international trade because other state-owned institutions in China have sufficient reserves to protect any property/casualty losses, according to Mr. Freeman.

"The PIC has 10 outward reinsurance treaties," to cover trade with "400 companies in 80 countries," Mr. Freeman said. "The guiding principle of the PIC is 'equality and mutual benefit,'" he added.

The head office of the PIC employs about 100 people in Peking, and approximately 400 others in 29 branch offices throughout the country. The PIC maintains no branch offices or facilities outside China.

Another American firm, Toplis & Harding Inc. of New York, has been appointed as survey and settling agents for marine claims on behalf of the PIC," according to Mr. R. K. Tisdall, vp at Toplis & Harding. ■

Lloyd's expands

Increased space is being made available for non-marine business in Lloyd's historic underwriting room, which has now been extended to accomodate extra underwriting boxes. More than 11,000 square feet of space were provided to supplement the existing 44,000 square feet, representing an addition to 25% to Lloyd's international facilities.

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• **International Benefit Planning Concepts** is a writeup based on a presentation given by Kwasha Lipton Inc. at the Risk and Insurance Management Society national conference in Dallas in April, 1975. For a free copy, write Dept. M, Kwasha Lipton Inc., 429 Sylvan Ave, Englewood Cliffs, N.J. 07632.

• **Flixborough: The Implications for Management** is available from Keith Shipton Developments Ltd., for $5 a copy sent to the U.S. or Canada. The brochure discusses the implication of the disaster which apply not only to chemical plants but to all organizations, says author H. D. Taylor. It also considers some of the technical aspects of interest to plant managers. Write to Jan Wisotzkey, publitions' officer, Keith Shipton Developments Ltd., Adelaide House, London Bridge, London, EC4R 9DS.

• **International Employe Benefit Planning: 10 Commandments** includes the factors a multinational employer should consider when developing international benefit programs. For a reprint of this Kwasha Lipton article, write to Dept. M, Kwasha Inc., 429 Sylvan Avenue, Englewood Cliffs, N.J. 07632.

• **International Employe Benefit Planning: 10 Commandments Revisited** is a followup reprinted newsletter. For a free copy, write to Dept. M, Kwasha Lipton Inc., 429 Sylvan Avenue, Englewood Cliffs, N.J. 07632.

• The **Stewart Smith Kidnap & Ransom Insurance Kit** contains the following: Cover letter, corporate application and individual application, a kidnap and ransom policy, schedule of assureds, individual kidnap and ransom wording, optional coverages, ransom and extortion extension and a suggested kidnap detention procedure. For a free copy, write to Irwin Katzman, director, research and development, The Stewart Smith Organization, 125 S. Wacker Drive, Chicago, Il. 60606.

• A promotional brochure on **Swiss Life's Master Cover Contract for Multinational Employe Benefits** is available without cost from the company. It describes Swiss Life's way of linking two or more local group contracts under a pooling arrangement. Address: Swiss Life Insurance and Pension Co., International Dept., General Guisan Quai 40, CH-8002 Zurich, Switzerland.

• **Company Philosophy and Employe Benefits,** published by the International Dept. of the Swiss Life Insurance and Pension Co., describes various company types (ethnocentric, policentric, geocentric) as well as their implications in the mulinational employe benefit field. Topics dealt with are: Business objectives versus pension fund goals, targets, kind of benefits, priorities, eligibility, social security and funding aspects. For a free copy write Hans-Heini Scotoni, account executive, Swiss Life Insurance and Pension Co., International Dept., General Guisan Quai 40, CH-8002 Zurich, Switzerland.

• A joint venture American International Group and certain Iranian business leaders is described in Iran-American International Insurance Co. The brochure explains what the insurance covers, the organization's goals and who the company's officers are. For a free copy, write to Info for Buyers, AIG, 102 Maiden Lane, New York, N.Y. 10005.

• **United Kingdom: State Social Security,** by John W. Manaton of Swiss Life Insurance and Pension Co., explains the British Social Security system where the state provides a flat rate old age pension in return for earnings related contributions. Also discussed are the Three Pillar concept, partnership between public and private pensions, widow/widower benefits and employer/employe contributions. For a free copy, write Mr. Thakkar, International Dept., Swiss Life Insurance and Pension Co. General Guisan-Quai 40, CH-8002 Zurich, Switzerland.

• **The Crown Life International Group Passport** is a pocket-size vinyl booklet containing 16 pages of descriptions of group life, health and pension program details. It explains group insurance terminology and includes disability sections. The passport from Crown Life Insurance Co. is available in English, French or Spanish. Free copies are available to readers by writing M. P. Buriak, Manager of Group Marketing Dept., Crown Life Insurance Co., 120 Bloor St. East, Toronto, Ontario, Canada M4W 1B8.

• **Lettre D'Information,** reprinted from July 1975, summarizes the economic insurance research done by the Geneva Assn. For a free copy, write to O. Giarini, Secretary General, Geneva Assn., 18 Chemin Rieu, 1208 Geneva, Switzerland.

• Keith Shipton Developments Ltd., risk management consulting division of a large international brokerage firm, has done a study on **Employe Benefits in Modern Society,** available for $5 to U.S. and Canadian readers (1.75 pounds in the U.K., 2.00 pounds in Europe, and 2.50 pounds elsewhere). The study draws attention to critical factors to be taken into account when a company is considering a benefit package. Descriptions of the most commonly found benefits, attitudes of management and employes toward these benefits, and possible future developments are discussed. For a copy of the study, write to Jan Wisotzkey, Publications Officer, Keith Shipton Developments Ltd., Adelaide House, London Bridge, London, England EC4R 9DS.

• A promotional brochure on American International Underwriters' contractors all risk insurance—**The Trend is Big**—is available from the company. For a free copy, write to the firm at 102 Maiden Lane, New York, N.Y. 10005.

Biggest builders' risk policy is set on Hong Kong Transit project

LONDON—The Hong Kong Mass Transit Railway Corp. placed what is said to be the largest contractors' all risks and third party insurance scheme underwritten by the London market through U.K. insurance brokers Stewart Wrightson, a member of the Matthews Wrightson Group.

INTERNATIONAL

The policy, signed earlier this year, involves premiums in excess of $8 million paid to the London market. The policy has limits of $4 billion in Hong Kong dollars, or about $890 million in U.S. currency.

The wrapup coverage using a blanket policy represents a change of approach for the Hong Kong operation. Formerly, each individual contractor involved would take out its own insurance. The building project, begun in November of 1975 and scheduled for completion in five years, involves 25 civil engineering contracts and 10 supply and installation contracts.

By the corporation's move to take out all the necessary coverage for the work to be done, it was able to present underwriters with a large single package and a much more attractive premium level.

Reports from London indicate premiums on the all-risk portion of the policy will be paid in five annual installments, amounting to about $800 million. With the exception of about 16% placed in Hong Kong, the remainder is in London.

The third party portion of the coverage for the 15.6 kilometer, 15-station project, was placed worldwide, with the American market participating in a $30 million layer for any claims in excess of $20 million. Total third party limits are more than $80 million.

The policy does not contain any cancellation clause. It is good until the time construction is complete and passengers are using the facility.

The Hong Kong subway is expected to carry more than a million passengers daily.

Stewart Wrightson, which hopes to act as broker also on any expansions of the transit scheme, has previously arranged coverage for underground construction work in Germany, South America, and the U.K. ■

Return comp dividend to loggers assn.

SAN JOSE, CA.—The Associated California Loggers received $127,968 in workers' compensation safety dividends under its insurance program from Employe Benefits Insurance Co., based here.

Although logging is regarded as one of the more hazardous industries, accidents were held down in 1974, according to James E. Little, vp of Employe Benefits Insurance. The association received an overall return of 30.8% on workers' compensation premiums.

Among techniques used to hold down accidents was a helicopter rescue service. Radio-equipped, four wheel drive vehicles also video taped lumber operations in action. The tapes were played back to loggers on the job so that they could spot potential dangers themselves, Mr. Little explained.

"From our preliminary 1975 results, we already know that our safety efforts are continuing to successfully hold down claims cost and accident rates in the logging industry," he said.

Employe Benefits Insurance has 11 offices in California, Oregon and Washington. Its 1975 premiums totalled more than $8 million. ■

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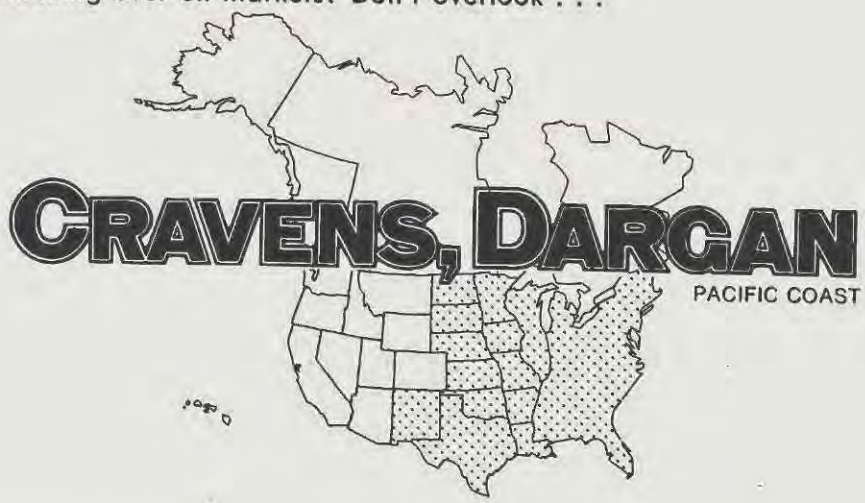

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New benefits follow Nordson shift to foreign execs

By ELISABETH M. WECHSLER

AMHERST, OH.—"Some companies have tried to eliminate foreign service premiums and it hasn't worked. It could be partly because they're top heavy with Americans," said the executive of a U.S. manufacturer decidedly international in outlook.

Nordson Corp., a privately held producer of paint spray and adhesives equipment, took its sales and service overseas only eight years ago. It now derives more than half its profits from foreign markets.

In response to the economic impact of its foreign business, the company, with $50 million in domestic sales, decided to make top management more representative of different nationalities.

"We are purposely on a program to reduce the number of American managers everywhere because we're an international company," said William Schoppenhorst, 43, vp of personnel. Of 24 key management positions overseas, only five are occupied by Americans, he said.

This philosophy shows up in Nordson's benefit program too, he explained. An international assignment policy, prepared with the help of consultants Towers, Perrin, Forster & Crosby, explicitly "applies to all Nordson personnel assigned across national boundaries."

Many large companies give an American sent overseas a more attractive arrangement than a foreigner sent to either the U.S. or another country, Mr. Schoppenhorst believes.

"Americans can't expect to be paid more to work overseas", he emphasized.

Cost of living allowances depending on the country involved are added as a percentage to the country-of-origin salary. For example, a Canadian relocated to France would receive a 15% differential. A Swiss employe transfered to Germany would receive nothing extra, however, because the cost of living is comparable.

"A premium is added to send someone overseas but it's generally based on actual, additional out-of-pocket costs not just on the psychological impact of the move," he emphasized. "Otherwise, the employe couldn't easily readjust if necessary."

Nordson has approximately 350 employes overseas, compared with about 1,000 in the U.S. All the company's overseas employes are salaried, Mr. Schoppenhorst noted.

The largest company operations are located in Germany and Japan, he said. Other operations are in Belgium, England, France, Holland, Switzerland, Canada, Mexico, Australia and Hong Kong.

Benefits are non-contributory and are geared to local practices in each country. "Essentially benefits are more extensive overseas," he said, adding that Nordson's approach is to offer "a little above the average."

Employe Benefit Plans of Brussels has been retained for European benefit planning, Mr. Schoppenhorst said. "Nordson has always believed in using consultants because it would be difficult for a company our size to retain experts on our permanent staff."

Industrial psychologists Rohrer Hibler & Replogle, an international firm, helps screen overseas salaried personnel for Nordson. "We use testing overseas because in Germany, for example, it's illegal to give an employe a bad reference. After a probationary period, he's yours."

John Hancock Mutual Life Insurance Co.'s offices in Boston and Brussels are used for its insured benefit program except in Canada, Mexico, Australia and Japan.

"For almost any benefit change overseas, I'd decide," Mr. Schoppenhorst said. "If it's a mandatory government requirement, local management complies and then informs me," he added.

"You rarely have the choice of whether to give a benefit overseas," he continued. "When you're in business in another country, you must comply or you won't be in business there: To fire someone with tenure in Belgium, a company must pay the employe two years' salary and the cash value of his benefits. We think we're fair regarding severence pay, but two years is just profiteering."

Except for England, France, Hong Kong and Japan, Mr. Schoppenhorst believes the company's overseas benefit costs "have outstripped" the domestic benefit cost of approximately 25% to 30% of payroll. He estimates that benefits for its Dutch operations cost between 35% and 40% of payroll, although Hong Kong has the lowest benefit cost, 5% to 8% of payroll, he pointed out.

Because of recent legislation in Canada, most benefits are taxable to the employe. "Everyone is looking for non-taxable benefits," he said. Germany allows employes to receive lunch money and commuting fares tax free, Mr. Schoppenhorst continued.

The only unresolved overseas benefit problem for Nordson is the quality of health care in the U.K. "Our employes feel national health has deteriorated to an intolerable level," he noted, adding the minimal cost for supplementary insurance is $73 a month per family.

"This is a higher percentage of salary there," he said, adding that he's worried about insurance company cost efficiency. Tying Nordson to long range costs involving annual increases of 30% to 40% is unthinkable, he feels. Yet if the employe is asked to pay part of the cost, the increases would become even more burdensome, he added.

Only 5% of companies are giving supplementary health coverage in the U.K., Mr. Schoppenhorst claims. Nordson's chairman of the board heard about the problem and has taken a personal interest in solving it, but insists it be done in a "fiscally responsible" way.

Two years ago Nordson offered a stock purchase plan to all its employes worldwide but, according to Mr. Schoppenhorst, it wasn't entirely successful.

"In Japan, employes aren't used to owning company stock. They don't even think about it," he explained. "In Holland, it created tax problems for our employes. In England, there were currency problems involved in the transaction."

Nordson uses a Cleveland clinic to give physical examinations to about 75 of its middle and top management employes each year.

His wish for the future is that Common market countries "get together on benefits and establish standards to ease the transferability of employes within the European Economic Community." ■

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Salvage stalled by bad weather, negotiations

Insured $50 million Onassis tanker aground

LONDON—Marine insurers face further heavy claims over the new 275,000 ton supertanker for the Onassis group, the Olympic Bravery, which ran aground off Ushant (France) January 24.

This follows payouts which are expected to reach over $55 million for the Berger Istra and the Kriti Sun.

Putting all three together, there will be more than $100 million involved in potential claims if the Olympic Bravery is not salvaged.

Insurance on the Olympic Bravery in the U.K. and elsewhere totals $50 million, as it is a newly-built ship and one of the top vessels in the Onassis fleet. It was on its way from France to be laid up in Norway, because of the tanker recession, when it ran aground near Ushant with reported engine trouble.

Tugs later tried to salvage it, but as it is seriously holed, there will be heavy claims to be faced if it is refloated.

Between 40% and 50% of the cover is held in the London market, between Lloyd's and company underwriters, and the rest is spread around the world.

It is partly insured in New York, with the American Hull Insurance Syndicate.

The Hull Syndicate reportedly insures a 10% share. Additional cover is in other countries, believed to include both Norway and France. This is in line with Onassis group habits.

When one big European salvage group withdrew from the scene, two others decided to examine the huge vessel in case either of them could negotiate satisfactory terms for fresh salvage efforts.

Heavy seas which pounded the vessel caused salvage operations to be suspended after about 10 days, while representatives of both the U.K. Salvage Assn. from London, and the U.S. Salvage Assn. watched anxiously for developments.

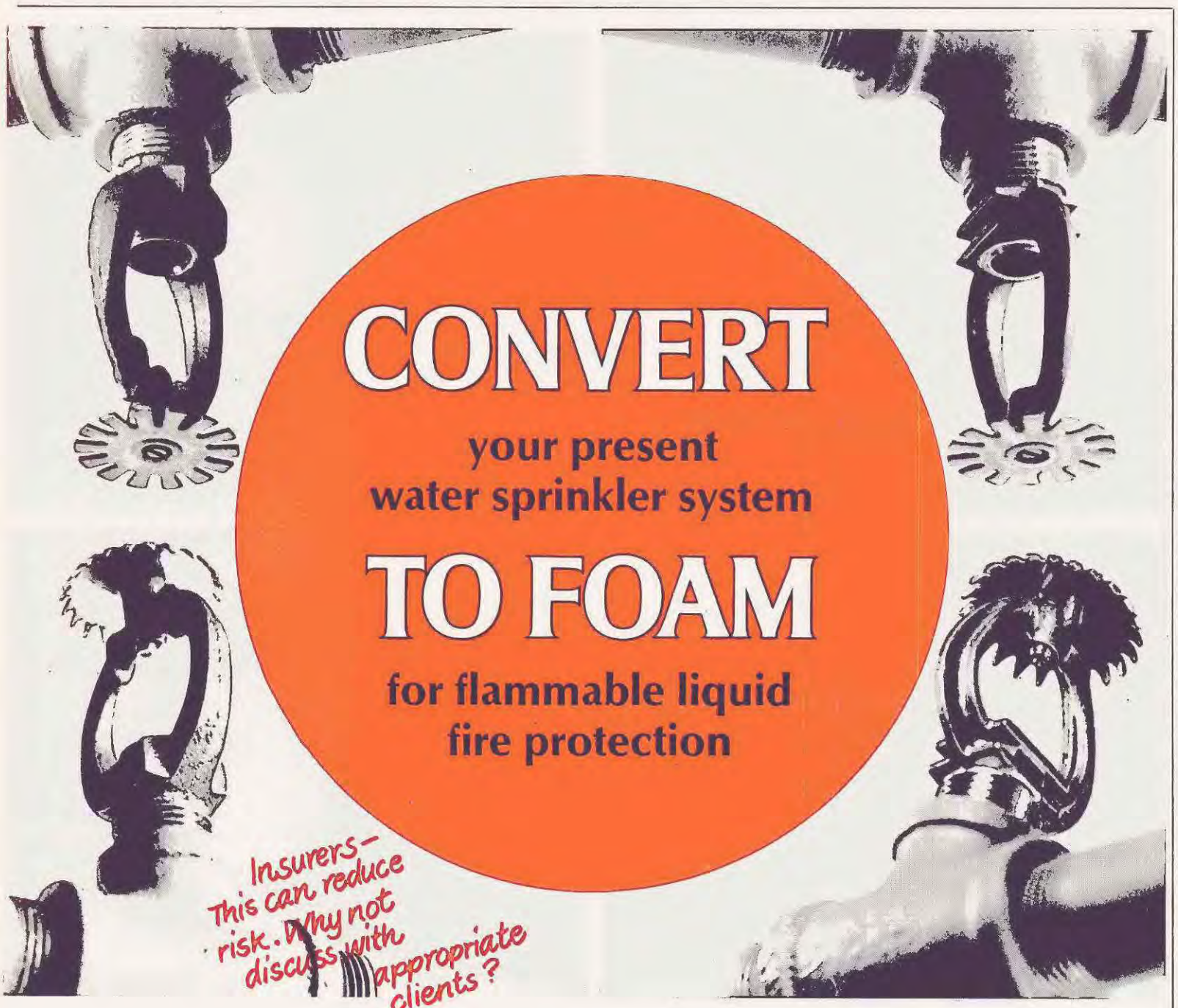
The two additional salvage firms which joined the effort were BV Bureau Wijsmuller, which did some spectacular salvage work on the $25 million tanker Elwood Mead off the English Channel Islands in 1973, and Smit International.

But with damage to the ship increasing every day under fierce weather conditions, it was clear that substantial losses will face the world insurance market. Even if it does not break up under the strain, or become a constructive total loss, repairs would exceed its insured value.

Built recently for the Monte Carlo-based Onassis group, Olympic Maritime, at St. Nazaire, the 275,000-ton tanker developed machinery trouble off the northern coast of France and hit the rocks at Ushant.

U.K. brokers for the risk are the Lowndes Lambert group, but it is understood the Onassis group used other brokers for the various other international markets where hull cover was taken out.

The tanker will be the insurance industry's biggest shipping loss in history if it becomes a total loss. ■



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Loss is told for quake in Guatemala

LONDON—Damage caused by the Guatemalan earthquake will result in insured claims estimated at $75 million. This is a moderate figure compared with some catastrophes, mainly because most of the stricken areas were too poor to be able to afford special quake coverage.

Claims are being lodged with six or seven domestic companies in Guatemala, mainly on business and industrial premises in Guatemala City, and it is thought in London that U.S. companies may be involved.

But many of the risks were placed by way of reinsurance with the U.K. market, which sent a senior loss adjuster, Robert Cole, of Toplis & Harding, to the devastated zone to check damages.

The bulk of reinsurance was held by British companies, with only a small amount at Lloyd's. A report now being prepared by Mr. Cole, who is an expert on earthquake risks, shows that only about 10% of the Guatemalan earthquake exposure of $750 million was affected. (*Business Insurance*, February 23.)

This is largely because business and industrial sections of Guatemala City were less severely hit than other parts of the country. But in the Nicaraguan earthquake in 1972, when Managua was hit, there was 30% exposure involved in claims, totalling similarly about $75 million, as business centers were worse off. Darwin (Australia) had a 1974 cyclone which led to $300 million in insurance claims. There have been many severe catastrophes in other countries where insurance losses proved higher than Guatemala. ■

Insurer acquisition

Wohlreich & Anderson Ltd., a member of the Howden Swann Insurance Group, acquired Voigt, Walker & Co: Inc., a West Coast surplus lines broker, based in Seattle. Other Voigt, Walker offices are located in Washington, Oregon and California.

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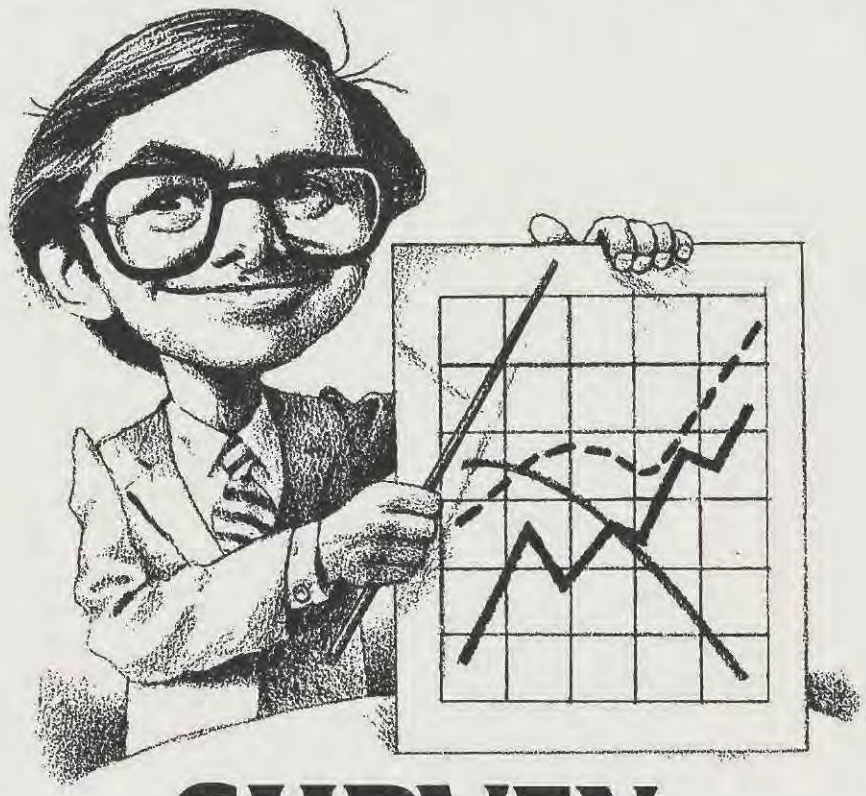

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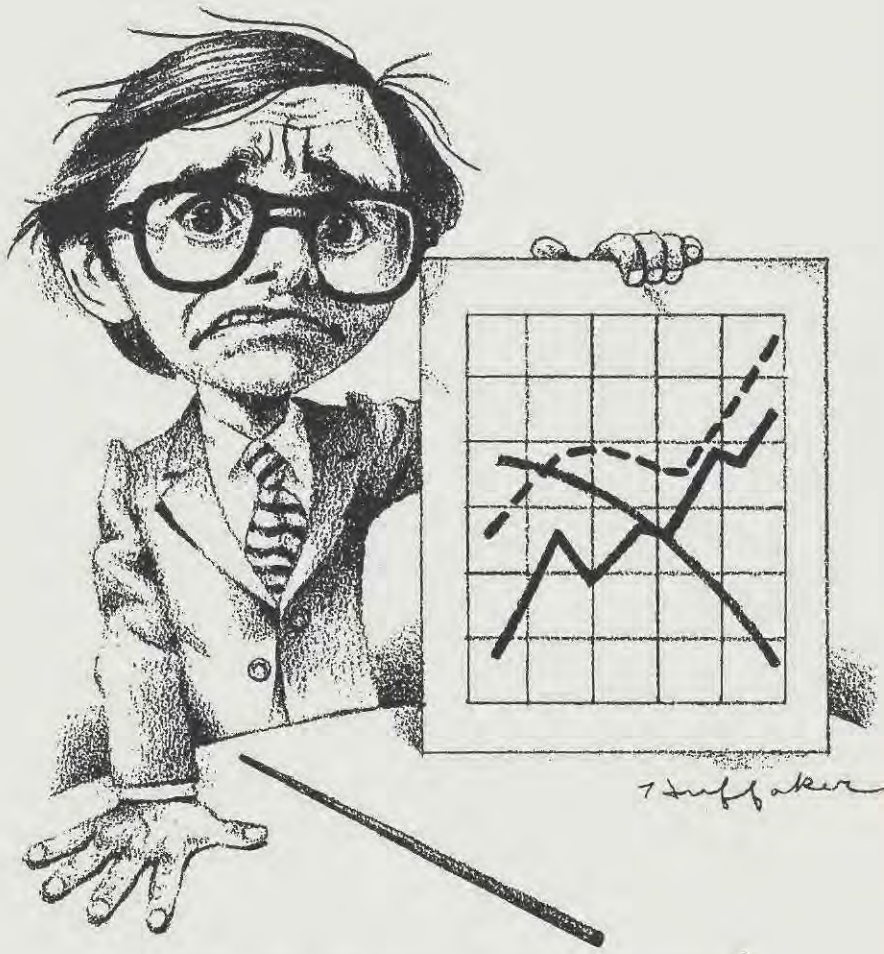

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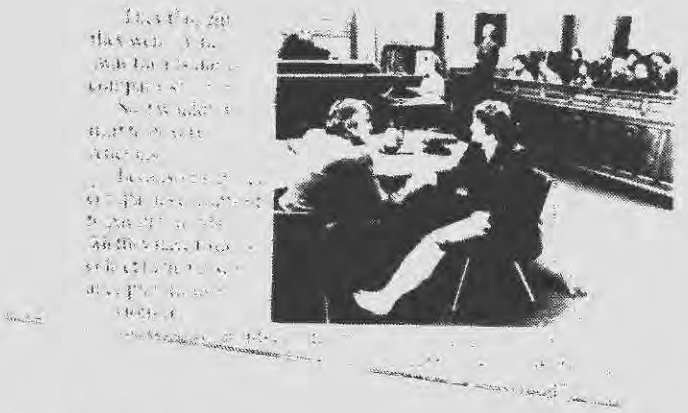
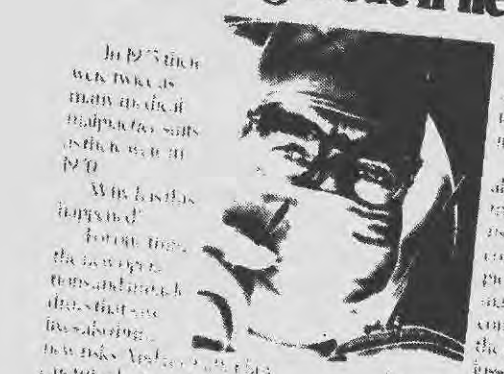
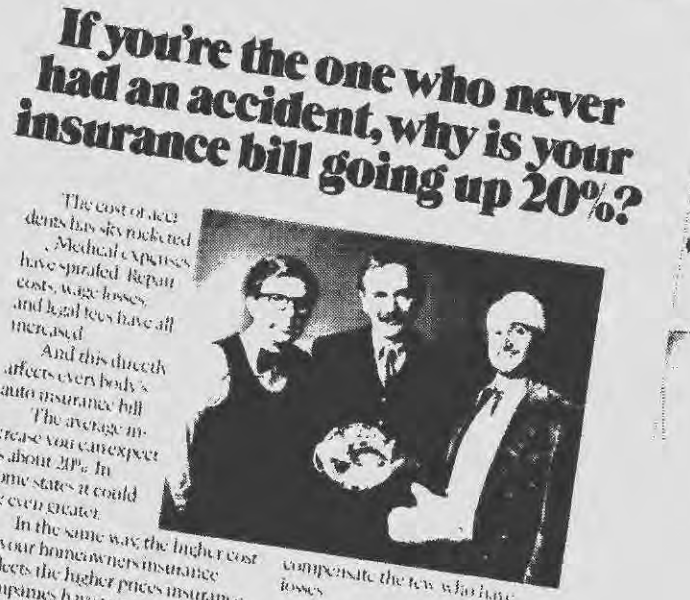






Superscope, marketing its products in 68 nations, plans unified strategy

By JOANNE GAMLIN

CHATSWORTH, CA.—Logically enough for a corporation that transports about $100 million of home entertainment products a year from the Far East to Los Angeles and to Europe, Superscope Inc. can say that about 50% of its total insurance covers foreign operations.

In the past, Superscope could have been most readily identified as the exclusive U.S. distributor of Sony home audio products. Now the Sony-Superscope relationship is being phased out.

Nevertheless, the moderate-sized publicly held company is uncontestably an international operation, with markets in approximately 68 different overseas nations, and with overseas manufacturing facilities in Japan, Taiwan and Belgium. For example, Superscope manufactures its well-known Marantz receivers, stereo cassette tape decks, tuners and amplifiers in the Far East.

INTERNATIONAL

Hence, it is not surprising that the $160 million concern was ambitious enough to recognize in early 1975 that the risks posed by the far-flung operation demanded the knowledge of a professional insurance manager. William G. Miller was named to that post in March of last year. He had formerly been insurance manager for the Western group of U.S. Industries, Inc., which closed its doors in 1975.

In liability risks, the overseas operation translates into a triple layer insurance program. Basic primary overseas liability exposures are covered by foreign insurers as is required by law in those nations, Mr. Miller told *Business Insurance*.

Next, there is a basic insurance contract for coverage above the foreign limits, underwritten by Pacific Indemnity Co., Los Angeles, according to Mr. Miller.

Marsh & McLennan, L.A., is the broker for this policy as it is for all Superscope coverages.

Marine Bonding & Casualty has the third excess liability layer, and this policy is written on a worldwide basis.

The limits on the foreign coverage are in accord with foreign law, or $1 million for a per occurrence basis, continued the insurance manager. He noted the limits on the domestic risks are much lower: $300,000, also on a per occurrence basis.

The around-the-world excess coverage from Marine Bonding & Casualty sports a $5 million limit with a $10,000 retention for any exposure not protected by the basic coverage, he disclosed.

Mr. Miller pointed out that Superscope's loss experience under this umbrella coverage has been favorable. The company's loss ratio for the program has been a laudable 40%, for example.

"Even product liability coverage, which is included in the umbrella program, has not been worrisome," the insurance manager went on, noting that there are minimal risks of serious accidents occurring in the home audio field.

Thanks to the fact that 20 to 25 employes work in a Massachusetts distribution center, no-fault auto liability protection from that state makes an appearance on the manager's list.

Directors' and officers' and fiduciary liability are both underwritten by National Union Insurance Co. The D&O has a $10 million limit, Mr. Miller related, noting that the policy also contains a $20,000 retention plus a provision that Superscope pick up 5% of the first million dollars of loss. Fiduciary liability coverage, by comparison, has a $5 million limit and a $1,000 deductible.

The executive went on to point out that to bring Superscope's $1 million, non-contributory pension plan into compliance with ERISA, the company will have to expend about $20,000. The pension fund, which at present pays benefits to three people, has all of its funds invested in an insured guaranteed-interest contract from Connecticut Insurance Co.

Mr. Miller said that total dollar premium payout for liability insurance last year totaled $230,000. For property coverage, the payout was higher—$390,000, he said.

Contributing to the expansion of property coverage is Superscope's new, supersize headquarters, warehousing and manufacturing structure in Chatsworth, situated in the far western end of Los Angeles County. The facility is described as the largest building of its kind in the country, equal in size to a dozen football fields.

Factory Insurance Assn. (FIA) is the HPR underwriter for the $17 million, 600,000 square foot facility which, with its inventory included, will be worth about $50 million, Mr. Miller said.

FIA also underwrites a $12 million earthquake policy for the building, he continued. Chatsworth, it should be noted, is regarded as quake territory.

A difference in conditions (DIC) policy, written on a nationwide basis, covers the new headquarters facility and all other Superscope structures.

American Home, at the same time, supplies all-risk nationwide property protection on other locations. The policy has a $15 million per loss limit.

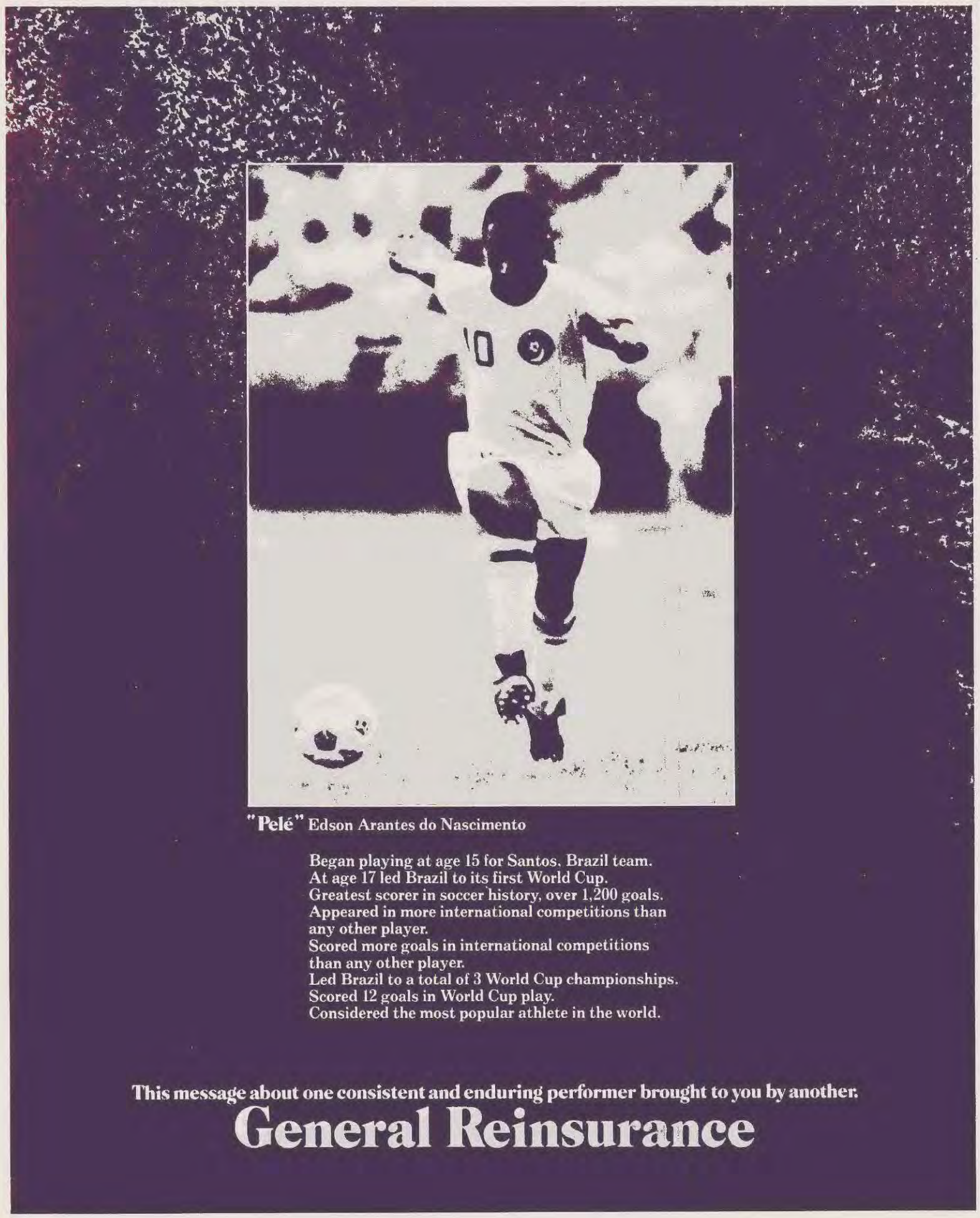
Business interruption and extra expense coverage, however, is written by FIA. Mr. Miller pointed out that Superscope regards the extra expense portion of the policy as the more significant of the two coverages.

American Home re-enters the company's insurance program by underwriting the Superscope ocean cargo policy, which provides $3.5 million per loss at sea and $750,000 per loss in the air. The protection is critical to the corporation due to its reliance on international trade—about $100 million of goods are imported each year.

Foreign property coverage is in the hands of Granite State Insurance Co., he continued. The policy has a $17.5 million limit. "Our overseas loss experience has been solid," asserted Mr. Miller, pointing out that as far as he knows the policy has chalked up only one loss—that claim being for a highly tolerable $1,600.

Workers' compensation is one area where Superscope is working hard to reduce losses. It is also an area where Mr. Miller moved to make a change last year after his previous carrier, Leatherby Insurance Co., opted to constrict its writing of California risks (*Business Insurance*, Dec. 1, 1975).

Mr. Miller and his brokers at M&M transferred the coverage, which generates about $90,000 a



year in premiums, to Employers of Wausau.

Since a new safety operation swung into operation last June, the insurance manager is confident his company's workers' compensation loss experience will exhibit a brighter face this year.

For one thing, accidents involving lifting and the opening of cartons—a high frequency category for Superscope—may be alleviated in 1976, due to the streamlining and automation made possible by the Chatsworth plant.

Mr. Miller also wears the hat of employe benefits manager. And this, he emphasized, is the area that has kept him scurrying the most since he joined Superscope last year.

The biggest change brought about by his staff, he said, is a self-insurance program for Superscope's medical, dental and short term disability benefits. It is combined with an administrative services only (ASO) program from Prudential Life Insurance Co.

Although it is still too early to issue a firm evaluation of the new setup, Mr. Miller pronounced himself eminently pleased with the cost savings that appear to be inevitable. "Given pending premium hikes, we concluded we could benefit substantially and offer improved benefits at the same time."

"At this point, we continue to be enthusiastic. We calculate that the paid loss ratio is less than 25% of what the premium would have been. However, being realists, we anticipate that the paid loss ratio will rise to between 70% and 80% of the former premium."

Connecticut General had been the underwriter for the coverage which is now self-insured.

For extra protection, he noted, the self-insurance program is capped by an aggregate excess contract from Safety Mutual Insurance Co. which is geared to hold losses to what they would have been if the insured program had not been terminated.

Left out of the self-insurance program is coverage for life, accidental death and dismemberment (AD&D) and long term disability (LTD). The former two are underwritten by Prudential Life Insurance Co. and LTD is in the hands of Confederation Life Insurance Co.

Group life insurance benefits equal two times an employe's annual salary and AD&D benefits come to four times annual salary.

One unique benefit is a provision for permanent life insurance for spouses of employes who work for 18 months or more.

Mr. Miller went on to reflect that among the changes he would like to make during his second and third years on the job include an expansion of the self-insurance program begun in the employe benefits area.

"The first step would be an increase in deductibles in our property/casualty program," he said thoughtfully. "Most of them are in the low $1,000 area, although automobile liability has a still lower deductible—only $100.

"Later, we may evaluate our program for areas where complete self-insurance would be advantageous."

He contemplated a moment and then added: "Ocean cargo might be a place where we could carry a $5,000 or higher deductible and make it work to our benefit.

"After all, ocean cargo coverage has both low losses and the potentiality of premium credits." ■

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Consultant in France provides liaison

Brunswick prefers overseas plan using broker with foreign branches

By ELISABETH M. WECHSLER

SKOKIE, IL.—Brunswick Corp. would like to establish an international insurance program using a single brokerage firm worldwide with actual subsidiaries, not correspondents, but apparently this isn't possible.

"Regardless of what brokers say, none of them have one person on each continent for total implementation," claims Ron Bokowy, Brunswick's assistant risk manager and responsible for the company's overseas insurance program.

To fill the gap, Brunswick retained a former broker, an American expatriot living in France, about 12 years ago to act as a consultant on risk management matters. (Understandably, the Brunswick manager declined to disclose the name.)

"He's the one man who answers to the total implementation of our programs in the U.K. and Europe," Mr. Bokowy, 40, said. He explained that operations elsewhere in the world are on a small scale or are joint ventures.

A U.K.-based broker with subsidiaries on the Continent is used for most coverages there, he said. Brunswick's major interests are located in Northern Ireland, Ireland, Scotland, England, Germany, Belgium, France, Italy, Iran and Lebanon.

"It's the consultant's job to communicate with local foreign management and the home office. He utilizes local services as needed but takes his total direction from Brunswick in the U.S.," Mr. Bokowy noted. One of the advantages of this arrangement is that he can "unbundle brokerage services to give a more custom approach," he added.

The consultant is not considered a Brunswick employe and receives his compensation from shared brokerage commissions. "We've considered going to a fee basis," Mr. Bokowy explained.

He believes this solution is better than sending someone from the home office because the consultant has market access as well as risk management knowledge:

"He's totally familiar with our operations in that area of the world. He has important market contacts and sometimes goes direct."

Once a year, Mr. Bokowy said he personally inspects facilities in the U.K. and Europe. "You need face to face contact with local management to explain the risk managment concepts," he noted. He said he always makes sure the consultant can go along with him. "We coordinate schedules and set up topic outlines on what we want to accomplish."

The key to managing an international insurance program is control. "If you don't have control, you don't have a program," he emphasized. "But if you try to assume too much control, you will have difficulty with local implementation," he warned. "Successful control and implementation depend on local management's goodwill and involvement. Any individual works better when you explain the kind of backup you need and why."

If local management is given only the responsibility to implement a program but none of the decision making power, goodwill is lost, Mr. Bokowy continued. "You must involve local management so they don't fragment the implementation and complicate the control," he stressed.

Brunswick uses local national admitted companies as required, he explained. Beyond that, Switzerland General Insurance Co. Ltd. is used for all property coverages that do not qualify as highly protected risks (HPR). The Factory Mutual System is used for HPR risks.

For casualty insurance, The Zurich Insurance Co. is used except where local restrictions prevail "although it is admitted in many areas," he noted. All premiums and losses for the primary cover are paid in local currencies.

"To augment primary coverages, we have domestic policies with U.S. underwriters with excess worldwide endorsements where permitted by law," he said.

For crime insurance a $25,000 primary policy is written locally. A domestic endorsement with Insurance Co. of North America takes the crime cover up to $1 million in locations where it is allowed, Mr. Bokowy explained.

Product liability insurance has limits of $1 million, written by the Zurich for goods manufactured and distributed in Europe and the U.K. Products manufactured in the U.K. and Europe which "somehow are sold in the U.S. or Canada," are insured by the Zurich up to a $25,000 limit only, he revealed.

A domestic policy underwritten by Northwestern National Insurance Co., Milwaukee, protects Brunswick above the $25,000 limit on foreign goods distributed in the U.S. and Canada.

"What scares foreign underwriters is the U.S. and Canadian product liability situation. We've assured them it is not our intention to sell products made overseas in the domestic market.

"Our product liability experience for overseas operations has been excellent," he said. "Ratios have always proven to be competitive though we still use a bid approach from time to time."

Brunswick deals with the head offices of both Swiss General and Zurich. "There are no capacity problems, we think, partly because we form long term relationships with our underwriters," Mr. Bokowy pointed out.

"Claims services as we know them here don't exist there," he continued. We usually rely on the broker for claims services. The European form of claims adjuster is really an arbitrator. Our consultant oversees any large losses —that's the way we handle it in the U.K. and Europe," Mr. Bokowy said.

Premiums for foreign operations are estimated at between 15% and 20% of total domestic property and casualty premiums. Some 8% to 10% of total domestic premiums are represented in the premiums for the U.K. and European insurance alone, he explained.

Insurance for joint ventures is generally handled differently from that of wholly-owned subsidiaries, Mr. Bokowy noted. "The problem with joint ventures is that there is very little consideration of in-

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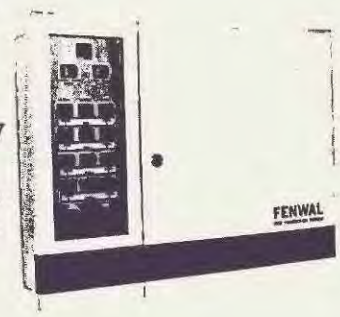

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surance when they are set up. That's why it's important to know about the joint venture internally before it happens.

"When you find out about a joint venture in the works, you then find out from a broker what the local insurance regulations are for admitted and non-admitted carriers," he said. Brunswick has joint ventures in Japan, Central America and South America.

"Sometimes the joint venture is already completed before you hear about it. Even if it's not officially signed, your advice still falls on deaf ears if it's 90% negotiated," he said.

"With top management it's a matter of priorities. It may accept detrimental features in insurance in order to penetrate a market. Sometimes the insurance program is pretty far down the line, especially if it doesn't defeat the priority of penetrating the market," Mr. Bokowy explained.

Joint venture agreements usually allow the local national parent company to buy the coverage, which Mr. Bokowy laments because of the control implicitly lost.

"Local foreign management is not usually trained in risk management techniques and may be dominated by a local brokerage firm," he pointed out. Sometimes there is a rebate of 10% on insurance purchased, equivalent to a brokerage commission, that goes to the buyer of the coverage, he said, adding "it's never happened to Brunswick but it can happen with local underwriters who write direct in Europe."

Among the problems of being forced by local requirements to insure only with admitted carriers, Mr. Bokowy mentioned these:

- You are restricted to a choice of underwriters in that country.
- Rates are regulated and there is little price flexibility based on individual loss experience.
- The structuring of an insurance program can be affected because you may have to use fronting policies. For example, in certain states in Germany you must buy property coverage up to a certain limit with a higher rate strcture applied to that portion.
- Coverage is often restricted. In France, for example, co-insurance requirements are more stringent and replacement value is not usually written.
- It's mandatory to have certain types of insurance, such as debris removal in Germany, by virtue of local laws regarding this problem. ■

Rule covers domestic help

SAN FRANCISCO—California insurers may be required to provide workers' compensation coverage automatically after Jan. 1, 1977 under many policies that did not originally contemplate it, warned Thomas R. Brown, chairman of the California Committee on Household Workers' Compensation Insurance.

Under a new state law, all homeowners' package policies including comprehensive personal liability (CPL) as well as all individual CPL policies in effect in 1977 will include coverage for all domestic and casual employes.

For 1976, domestic workers must work more than 52 hours a week and casual employes over 44 hours a month for one employer in order to be covered by workers' compensation. ■

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International hotelier's exposures mushroom with corporate growth

By HARRIET KING

SEATTLE—It's understandable why the elusive Howard Hughes chose Canada's Bayshore Inn for an extended stay in Vancouver not long ago. The Bayshore is one of the prestigous, quality hotels that make up the Western International Hotels company.

But if Hughes wanted to, he could choose from any number of exotic WIH hotels. WIH is involved with 24 hotels abroad, in Mexico and Canada. Some are fully owned and WIH has equity positions of varying degrees in others. Some are managed by contract, others affiliated through reservations and marketing. There are an additional 18 WIH hotels in the U.S. and Hawaii, including the world's tallest hotel, the newly opened 70-story Peachtree Plaza in Atlanta. Six hotels were opened in 1975 and two other "super-hotels" are scheduled to open within a year.

INTERNATIONAL

Consequently, the company's insurance exposures have mushroomed as have the responsibilities of A. J. Vettori, corporate insurance manager of the Seattle-basde company.

"This job is no longer something I do in my spare time," says Mr. Vettori, who has been with the company for 12 years and in his insurance capacity for seven. "We're enlarging the scope of our activities and trying to build a program of loss prevention and security, covering the whole scope of risk management. We have to be more than just insurance buyers today."

He also notes that establishment of a captive insurance company is imminent.

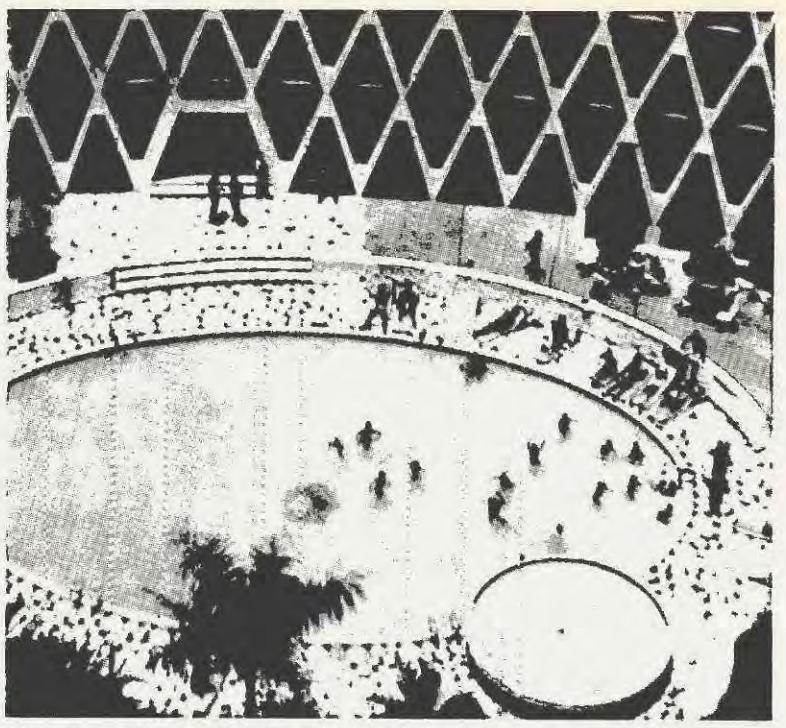
Consequently, one of Mr. Vettori's most important roles is that of consultant and advisor. For instance, through its Mexican subsidiary, Hoteleles Camino Real SA, WIH has contracts with seven hotels, including the luxurious Mazatlan Camino Real and the Acapulco Malibu. "I've gotten into the structuring and evaluation of their insurance program," says Mr. Vettori. "Even though majority ownership of the hotel might belong to someone else, we want to make sure that the insurance coverage is adequate, a program that is being properly structured to protect investments."

Hotels are grouped geographically in the operating structure of the company. The vp who handles WIH's Latin America hotels asked Mr .Vettori a year ago to reevaluate that district's insurance coverage. "We found that the hotels were underinsured and we asked that they be reappraised. They were and we got them bumped up, coverage-wise."

In Manila, WIH will have a management contract and a minor equity position with the Philippines Plaza, now under construction. (The balance of the ownership is held by a foundation, the cultural center of the Philippines)

"We made 10 pages of recommendation, based on WIH experience," says Mr. Vettori. Many of the suggestions were technical, relating to firesafety, number of exit doors for lounges and ballrooms, etc.

In Canada, WIH has substantial equity in most of its six properties. "On our coverage there, companies must be qualified to write insurance in Canada. We use companies like Kemper Group for property coverages and Fireman's Fund for liability."



The glimmering pool in front of the Guatemala Camino Real, owned by Western International Hotels.

At one time, Mr. Vettori envisioned an "idealistic" insurance program for foreign properties. "I wanted to put together an international program, an insurance group to write coverage as needed in those countries. But it wouldn't work for a number of reasons. The owners may want to buy their own coverage. In at least one case, the owners have an interest in a local insurance brokerage firm."

One problem that could be international or domestic is earthquakes, such as the one that struck WIH's Guatemala City Camino Real. Indications are that damages will likely run between $500,000 and $1 million in what is presently characterized as "cosmetic," not structural, damage. "Luckily, we have business interruption insurance because the hotel will be closed for 30 to 45 days. We encourage all of our foreign operations to carry this coverage," says Mr. Vettori.

Earthquake coverage is in fact, one of Mr. Vettori's more "troublesome" lines. The coverage is split between carriers because of the location of some WIH hotels in earthquakes zones—Hawaii, California and Latin America, etc.

"This is one of the lines in which stability is tenuous. We're

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A. J. Vettori

constantly juggling it to keep it intact because so many quakes are occurring around the globe," says Mr. Vettori. "Carriers get antsy at the slightest tremor."

Clearly, WIH has grown far, far beyond the initial concepts of its founders who gathered a chain of small hotels around them in the 1930s, starting in Seattle and expanding into Washington, Oregon, Montana and Idaho. Then, each hotel had its own insurance coverage "that managers placed with an agent down the street from their hotel." Slowly but surely, WIH changed direction and began selling its smaller hotels and picking up large, quality hotels located in the downtowns of major cities. The company entered Latin America in the late 1950s.

Mr. Vettori notes that today, two U.S. hotel complexes alone—the Peachtree Plaza that's insured in excess of $60 million and the equally large and expensive Bonaventure in Los Angeles—have more value combined than was in the company altogether when he joined WIH.

WIH is involved in other spectacular hotel ventures in the U.S. and around the world, including the 1,500-room Detroit Plaza. Just last year, through its Mexican affiliate, WIH also opened a beautiful new 250-room resort property in Cancun in the Caribbean. Many other spectacular hotels are now on the drawing boards.

Having vast properties does, of course, present massive loss exposures. The Century Plaza in California, "a drawing card for Hollywood jetsetters and stars," and frequented by presidents and other notables, there's a matter of garage keeper's liability. "We have valet parking and the cars are all expensive—some run $35,000 and more," says Mr. Vettori. "Their scratches become our scratches, and the coverage is expensive. Early on, a few car jockies accellerated on the long ramps and at least one car was totaled. You can believe that problem is under control now, however."

WIH covers U.S. and Canadian risks under a broad, blanket program for property. "We're constantly looking at market conditions and our changing needs," says Mr. Vettori. "We have a number of different programs since we manage some hotels and own others, and we have a certain obligation to majority owners who may want a certain type of program. The ultimate, of course, is the best product at the best price."

He terms general liability, like earthquakes, a "troublesome line. Like everyone else today, we have had a marked increase in premiums and are bothered by coverage instability. It's the most problem-making line because of increasing activity in the courts. We've had more lawsuits in the last four months than we've had in the last several years."

WIH self-insures workers' compensation in Washington state but overall, Mr. Vettori notes, "A high degree of self-insurance is impractical because of our complex contractual involvements with various hotels. For instance, if we bowed out of a contract, what would that hotel do for insurance/ How would we handle reserves? What would we do with the unfunded liability?"

When WIH's management decides to become involved in a new property, the insurance department, carriers and the hotel chain's design and construction divisions all carefully review the plans. "We evaluate our insurance involvement. Maybe we shoud do something different, maybe there's no hold harmless clause agreement. Maybe there's something that puts us at a disadvantage."

Mr. Vettori was pleased that the insurance coverage for the WIH-managed Peachtree Plaza was included under WIH's insurance program. "It's evidence of the quality of our program because the coverage was based strictly on price and product," he notes.

The boiler and machinery coverage for all hotel properties has been written direct by Mr. Vettori "at a substantial savings. That's something that every risk manager wants to do." The coverage is with Arkwright-Boston Manufacturers Mutual Insurance Co. and the related fire coverage is with Kemper.

WIH provides builders' risk coverage for buildings under construction if it is requested by the owners or if WIH has full control. Out of this occasionally come some unusual incidents. "We were putting a 407-room addition into the Continental Plaza Hotel in Chicago in 1974 when I got a frantic call. The caller asked if we were insured in case the Knickerbocker Hotel (now the Playboy) behind the Plaza fell into the big hole we were digging. I called a friend at Kemper who looked the construction site over and decided the Knickerbocker wasn't in any danger."

Several years ago, WIH merged with United Airlines into UAL. "When the dust settled, we were asked to take a long look at each other so Waller Smith, director of insurance for United, and I became fast friends. Our companies had some things in common, but there were more differences than similarities, we found. But we're constantly exploring avenues of commonality, such as in fiduciary liability under ERISA.

"And right now, we are making a feasibility study of a combined ground property program. I'm reluctant because we're both heavily concentrated on the West Coast, particularly as our exposure relates to earthquakes. But if we could save money, we might combine." Another common area that has proved successful is directors' and officers' liability coverage. "They had it when we merged. We didn't."

Mr. Vettori would like to establish a reinsurance captive for casualty lines in Bermuda. "We have really dissected that animal and are just waiting for approval. The plans are there and our carriers know it. It could help us all by providing a dramatic incentive to hold losses down—the best of both worlds for the carrier and the insured. We will be able to say to our hotels, 'Look, we have a captive company and you can benefit from it.'

"We'd start out cautiously, walking instead of running into the captive. First in would be workers' comp and liability, perhaps crime coverage. A captive can get around the inherent problems that self-insurance has for our company and its diverse ownership which inhibits our

Continued on page 44

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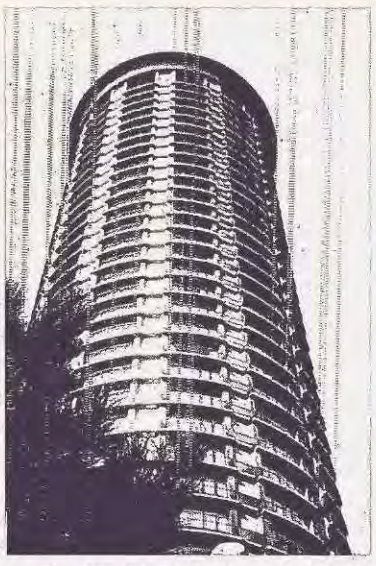
Hotels . . .

Continued from page 43

broadening out our self-insurance program."

Presently, the areas that generate the most claims are bodily injury and disappearance of guest property. "Bodily injury is the worst, because you usually have tangeable evidence that a person has been injured. It's sometimes hard to say if the injury was our fault or not, but the injury is there.

"And room thefts!" exclaims Mr. Vettori. "Hotels are unusual places, home for many people of diverse backgrounds who are brought together by unusual circumstances. So this lends itself to even more unusual circumstances. We provide safe deposit boxes and communicate that fact to our guests through a variety of means, such as signs in the rooms and notes on registration slips. But people still allege that their rooms are ransacked and that their personal belongings disappear.



The Washington Plaza Hotel.

"Some guys even admit they've taken ladies of the evening to their rooms. I say, if you park on the freeway and someone bumps you, whose fault is it?"

WIH has a 3-D policy (dishonesty, disappearance and destruction) for employes which goes into effect if guest property loss is perpetrated by an employe. Otherwise, the loss goes under general liability coverage. Mr. Vettori says WIH has never had a problem yet with control of safety deposit boxes. "But I've read of other hotels that have had problems so it makes us look closely at our own procedures."

Mr. Vettori notes that before he hired Dee Lockwood as his assistant last year, "I didn't have the time to get into a lot of long range loss prevention programs. Since then, we've implemented new programs on loss and control and security." The new assistant is an engineer who formerly worked for five years in Factory Mutual's home office in Norwood, Ma.

"Now we're developing prototype programs in security and loss prevention. We'd like to work out a concept for one hotel that we can plant in others and hope it flourishes, depending on layout, location, and size of the hotels, of course."

A loss control manual is underway. "The objective is to implement a loss control program in each hotel that would be self-starting, perhaps through the safety committee. It's a vehicle to get management involved in total risk management."

Although the program is new "we can definitely see results," says Mr. Vettori. "Our workers' comp rate has improved, and general liability on an adjusted basis has gone down—even with the addition of new hotels. We're stressing safety committee meetings, etc., and are hitting managers with a multi-faceted approach of films and literature," he said.

Harry Mullikin, president of the hotel company, is fond of saying, "We'd like to think we set the standards that every other company can emulate." And, says Al Vettori, "I like to think that I'm doing the same thing in insurance." ■

H&R Block sees profit in international reinsurance

KANSAS CITY, MO.—If a tax expert tells you that reinsurance is a good business, you'd probably believe him, right?

This is no idle question because H & R Block's chairman of the board Richard A. Bloch has set up two Bermuda reinsurance captives "strictly for profit."

"I happen to believe insurance is a good business if it's properly handled," Mr. Bloch told *Business Insurance*. "I believe the capital invested can earn a reasonable return."

One captive is a subsidiary to the tax preparation service company and the other is Mr. Bloch's personal business venture. Neither captive is used for parent company risks, he pointed out.

The captives, set up in 1972, reinsure "mostly London risks" in marine, non-marine and aviation. "We exclude any long tail risks," he said.

J. H. Blades & Co. of Houston and Bermuda provides management services for the captives, including their representation in London markets. Both facultative and treaty type policies are arranged, Mr. Bloch explained.

The capital and surplus of each captive stands at more than $3 million, he continued. "We take a relatively small risk for our capital." He added that captives write less than one times capital in premiums, a ratio he terms "conservative."

Though he describes current profit levels as "negligible," Mr. Bloch said that 10 years from now he expects the captives to be profitable. "We see it as a very long range business."

Mr. Bloch believes the captives will increase in size mostly through earnings but emphasized he does not rule out further capital contributions. "The longer we're in the reinsurance business and the longer brokers get to know us, the bigger we'll become," he predicts.

He is a strong believer in paying claims promptly and views the captives as "competitors of anyone in the reinsurance business."

As far as H&R Block's insurance needs are concerned, Mr. Bloch describes them as "mostly self-insured." Insurance is not a "major factor," he says, "because we're so widely diversified." That philosophy also holds true for the company's errors and omissions exposure and advertisers liability exposure, Mr. Bloch said. ■

Lower nuclear risks

Property insurance rates for nuclear facilities will decrease 29.5% after March 1, in the form of a premium discount, according to Nuclear Energy Liability/Property Insurance Assn. and Mutual Atomic Energy Reinsurance Pool. Favorable underwriting experience in 1975 is the reason for the discount.

Money. *Big* money. That's what we're talking about. Because that's what you stand to lose if you have the wrong Fiduciary Liability Policy. And you may not even find out your coverage was inadequate until you have to pay a claim.

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That's why we earnestly suggest that you take a long second look at your current policy. Remember—*all policies are not equal*. Simplicity in filling out an application is not as important as making sure you have the most comprehensive coverage available. Your Company attorney should certainly be in on the decision-making because this is a very complicated field with very few experts in it.

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Advises due caution in analyzing trade risks

By Chandler G. Ketchum,
president
AMERICAN INVESTMENT
GUARANTY CORP.
Pittsburgh

THE DESIRE and financial ability of oil producing countries to rapidly develop all aspects of their economy and social services has naturally attracted the attention of American suppliers and contractors. In the enthusiasm to obtain "a piece of the action," caution should be taken to avoid unusual contactual requirements or omissions which are not found in domestic American business practice.

The arbitration clauses of these contracts often are subject to the laws of the host country. Even when provision is provided for arbitration elsewhere, the enforceability of arbitration proceedings or awards is subject to question.

In such situations, there is always the threat of contract repudiation, and also frequently the related possibility of an unfair calling of an advance payment guarantee or standby letter of credit. This can present a serious problem, even though there is no negative cash flow projected, since there are often heavy commitments to sub-contractors and suppliers in the early and middle stages of the contract, well beyond the extent of progress payments received. While it is true that everything should finally work out if the contract goes to completion, there can be an insurmountable problem for the contractor when commitments suddenly come due if the contract is repudiated or the advance payment guarantee is called unfairly. The amount of loss in such a case can be 20% to 40% or more of the total contract.

Therefore it is essential to analyze in advance month by month, progress payments in relation not only to cash expenditures, but to commitments as well, which may demonstrate that there is a large negative *risk* flow as compared to *cash* flow.

This analysis has three beneficial effects:

1. It identifies the risk faced by the contractor.

2. It may be possible then by shifting arrangements with sub-contractors (or even adjusting the payment schedule) to substantially reduce this risk.

3. All or part of the remaining risk can be transferred through the use of contract contingency insurance.

The time to make this analysis is while pricing the contract, so the cost of insurance can be included. But even if it is too late for that, it should be considered after the contract is signed, since what may be a catastrophic risk can still be insured, and for a small fraction of the total contract cost.

In the case of a performance guarantee (which may exist in addition to or instead of the above) there is usually a fixed amount at risk which runs for the period of the guarantee, and no risk flow analysis is necessary. ■

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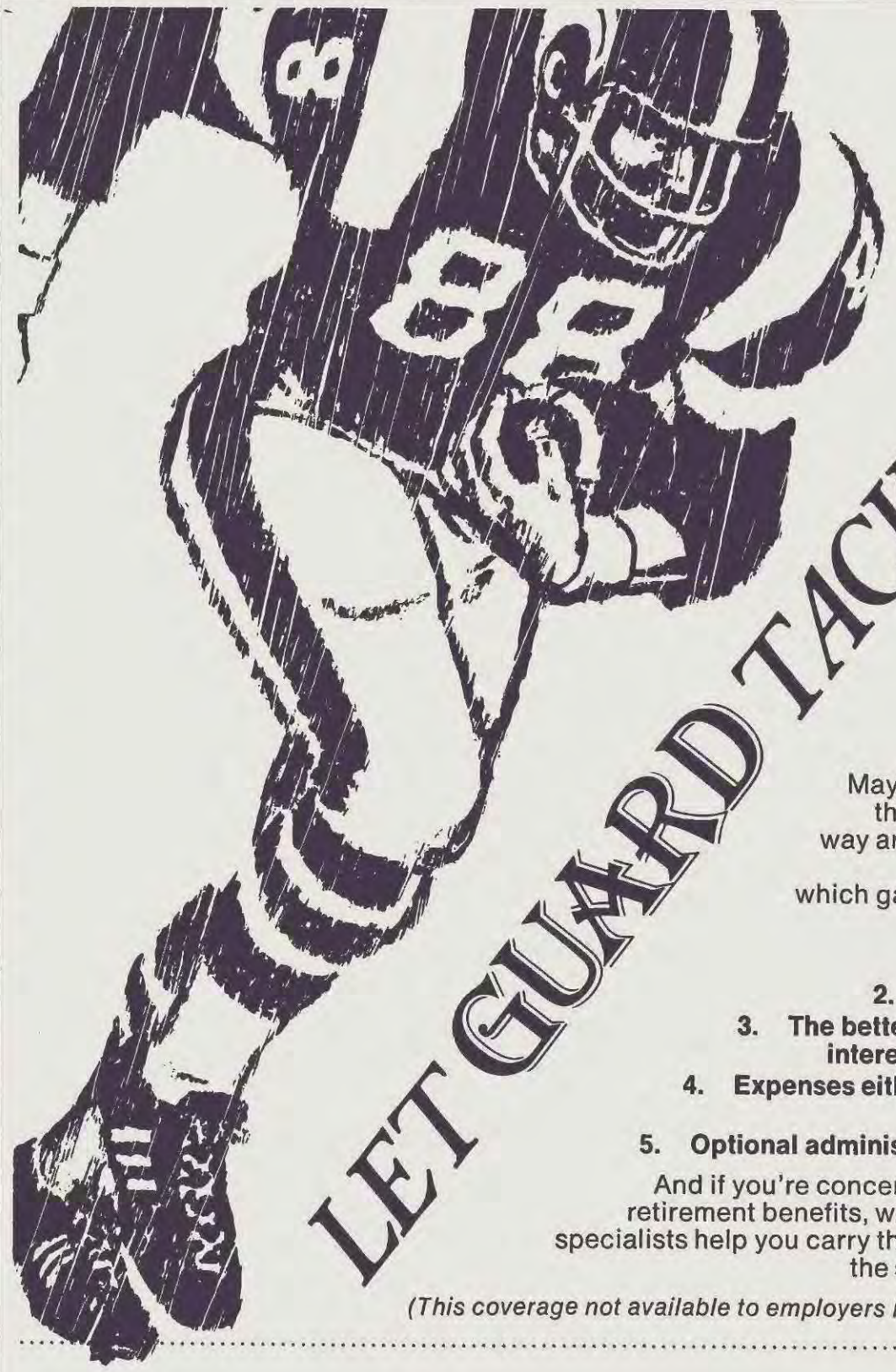

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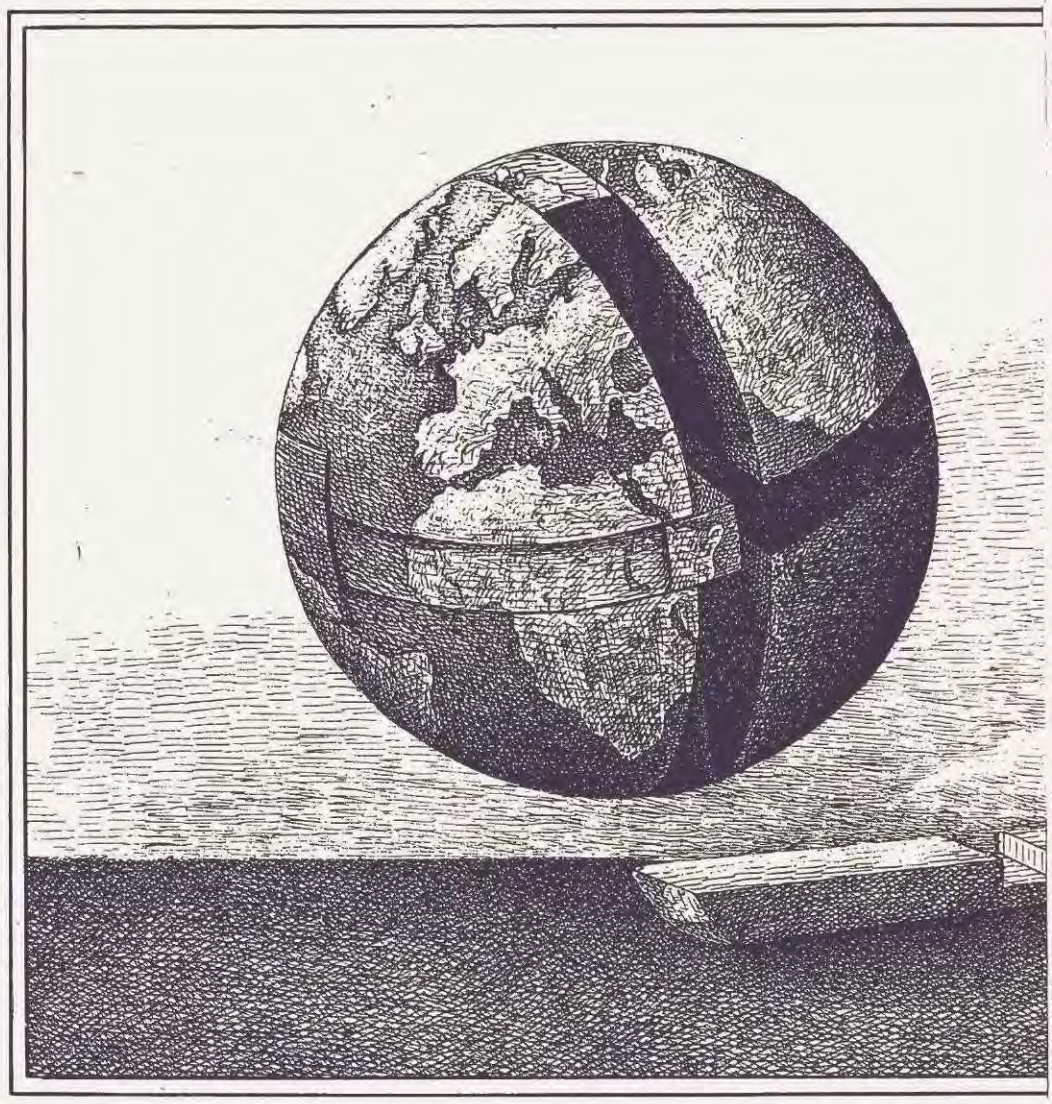
American companies doing business abroad usually want insurance that matches their domestic coverage. But insurance overseas is a tangle of widely-varying practices that often differ sharply from U.S. standards.

A brief review by INA of an insurance topic of interest to business executives.



The concepts and principles of insurance and risk management are essentially the same everywhere in the world. But with the globe now under the sovereignty of 142 independent nations, variations in insurance practices and policies worldwide are enormous.

Among the difficulties this can present to American companies with international interests, language barriers are only the beginning. Others include:

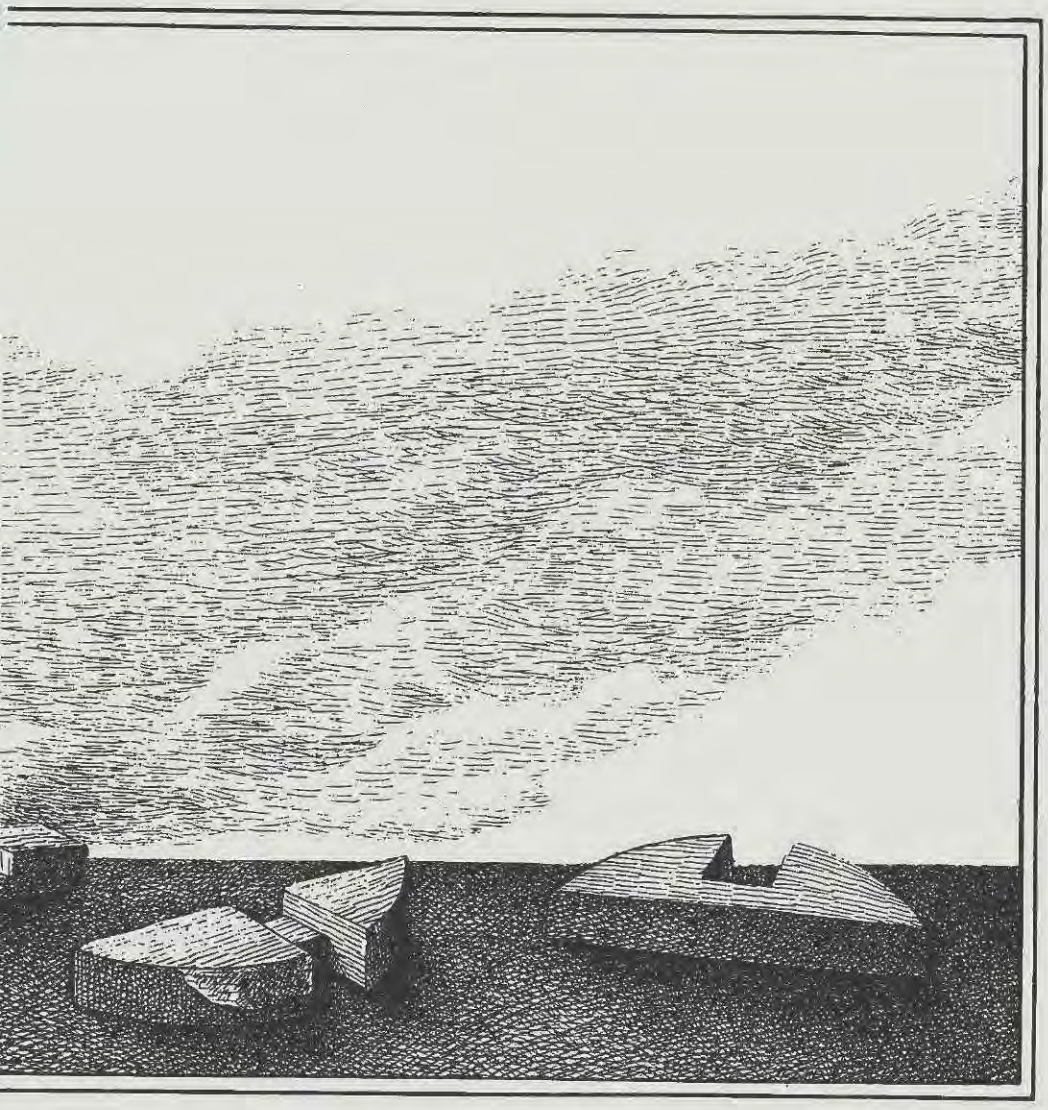
- Over 100 different currencies, with attendant problems of stability and convertibility.
- Wide differences in business law and customs.
- Varying degrees of political and social stability.
- The restrictive influence, in some countries, of intense nationalism.
- Great variations in insurance laws and government regulation, policy forms and perils insured against.
- Loss prevention and control capabilities which range from advanced to nonexistent.

For the increasing number of American companies owning factories, warehouses or retail outlets abroad, international insurance is a necessity—as it is for exporters, importers and even business travelers. Fortunately, despite the maze of regulations, there is a simple way to write most risks to American standards.

A primary source for international insurance

Usually working through an agent or broker (many of which have their own network

Abroad



of correspondent brokers overseas), a company can place its overseas business with a property and liability insurance company that has extensive on-the-spot representation in foreign markets. International services, including claims, loss control and prevention and other facilities, are generally equal to those offered by the same company at home.

In effect, such an insurance company can become the primary source for a complete worldwide insurance program. This can include property, casualty, marine, automobile and group insurance, as well as worker's compensation and builder's risk and surety.

This does not mean, of course, that the primary insurer will write all the policies required. The underlying policies may be issued by insurance companies operating in the local markets. They will be supervised and coordinated, however, by representatives of the American insurer.

Most important, the variations between insurance standards in the U.S. and those abroad can be adjusted via a master policy known as a "Difference in Conditions" policy. Written by the American insurer, this policy can make the entire international program uniform with domestic coverage.

The master policy, it should be noted, is usually for the benefit of the parent company and is ordinarily written at its expense.

As a fuller discussion of international insurance from an objective standpoint, INA has prepared a booklet entitled, "Insuring Abroad: Some Professional Considerations." Copies may be requested by writing INA Corporation, 1600 Arch Street, Philadelphia, Pa. 19101.

* * *

The Insurance Company of North America was founded in Independence Hall, Philadelphia, in 1792. Today INA and its affiliated companies operate around the world with major interests in property and casualty insurance, marine insurance, life and group insurance, reinsurance and risk management services.

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INA

Insurance Professionals

London looks toward hardening of world aviation insurance rates

By JOHN H. MILLER

LONDON—Recent air crashes in which damages have run more than $125 million are causing the U.K. market to think about tougher rates for world aviation cover.

But the problem of available capacity for business, which works in favor of the airlines but against the insurance market, means that any substantial hike in rates is unlikely in the near future.

Demands for better rates were made in an interview with *Business Insurance* by Stanley W. Ockendon, director and underwritter of Westminster Aviation Insurance Group in London, who pointed out that in the past few weeks there had been four major losses and two lesser ones.

"It is to be hoped these losses will persuade leading underwriters of the need to stop giving reduced premiums at renewal of aviation policies," he said. "Many of us have watched with considerable alarm when reductions of

INTERNATIONAL

up to 25% have been granted in the past two years by 'support' underwriters. This has led to reduced premium income, and I strongly urge the leading underwriters to call a halt to any further reductions and stop competing with each other. Support underwriters in turn should cooperate by respecting the lead and not competing."

Mr. Ockendon made his appeal because of a series of air crashes in November through January, in various parts of the world including the U.S.

Unfortunately for the hopes of Mr. Ockendon, there is so much reinsurance capacity available that leading underwriters in the U.K. and elsewhere feel they are working from a position of strength and so will still happily compete for business even though the smaller underwriters may suffer.

Mr. Ockendon, who has been in the London market since 1937 and handles substantial U. S. and other foreign lines, accepts that this is so.

"But I'd like to see ratings stabilized ready for the increases which are bound to come," he prophesied. "If the leaders would make it known to all aviation operators that their cover will cost at least the same, or possibly more, at the next renewal, it will help all of us to get on an economic basis."

He urges aviation underwriters to get together and sign an agreement, like the joint hull agreement in the marine market, authorizing and supporting leaders in fixing renewal terms, initially for a five-year period.

But reaction in the market is that while his argument is sensible for many underwriters, there are too many powerful "cash flow" influences at work for leading underwriters to accept his view at the moment.

* * *

Lloyd's suffered one of its biggest-ever losses with the sinking of the supertanker Berge Istra near the Philippines while on a voyage from Brazil to Japan.

The tanker was valued at $18 million, with another $9 million for its cargo of iron ore, as it was a specially built oil/bulk ore carrier of 226,000 tons deadweight.

Tanker experts will now try to probe the cause of the disaster which struck the Norwegian-owned, but Liberian-registered, vessel during its trip across the Pacific.

The tanker vanished virtually without trace. Two survivors picked up by a Japanese fishing vessel said that three explosions occurred within one minute out at sea on Dec. 31.

The historic Lutine Bell was rung at Lloyd's to warn underwriters of the $27 million loss, which is carried 70% in London between Lloyd's and insurance companies, and 30% in Norway.

Anxiety is felt over the safety aspects of other large tankers, for just before the Berge Istra vanished Lloyd's was hit by another huge claim on the Greek tanker Kriti Sun, insured for $30 million, which exploded while in harbor at Singapore.

Marine insurers, however, have such a vast spread of risks, with more than $1.5 billion of premium income yearly reaching the U.K. market, that they expect to absorb these losses without any general effect on their rates.

* * *

Though Lloyd's is prepared to accept a hull value of $50 million for the newly-introduced Concorde supersonic aircraft (*Business Insurance*, Dec. 1), British Airways have decided to rate it at just over $40 million.

Underwriters agreed to this figure, which the airline feels is appropriate for its needs, while remaining open to a higher sum if it proves necessary at any future date.

Because the British Airways fleet is already widely covered in the London market for both its domestic and worldwide services, it has been able to include the Concorde in its spread of cover for global operations with its existing insurers in Lloyd's and the company market. A comparatively small excess may be taken up by other underwriters in the same field.

But the Concorde still remains the world's costliest civil aircraft in service. It ranks well above the $25 million to $30 million range which generally has been applied to both passenger or cargo jumbojets.

Insurance experts with British Airways feel it is unnecessary to take out any special cover for sonic boom damage, as the chance of such a contingency is thought to be small in spite of environmentalists' fears.

Full capacity is available in the market for both hull and passenger liability for the introduction of Concorde to major routes.

* * *

Insurance cover for $800 million has been placed in London for the construction of the new mass transit system planned for Hong Kong Island. The system will be completed in the next five years.

More than a million people will travel daily on the twelve-mile stretch of line, much of it running below the surface of the island.

Premium income of nearly $2 million a year will reach the UK market over the next five years as a result of the deal, but there will be a lesser amount of insurance reaching the U. S. and other markets so as to spread the risk.

The risk has been placed by Stewart Wrightson (International) Ltd., on behalf of Hong Kong's Mass Transit Railway Corp. The all risks construction policy, largely held in London or Hong Kong, contains a further section for third party liability in which the U. S.

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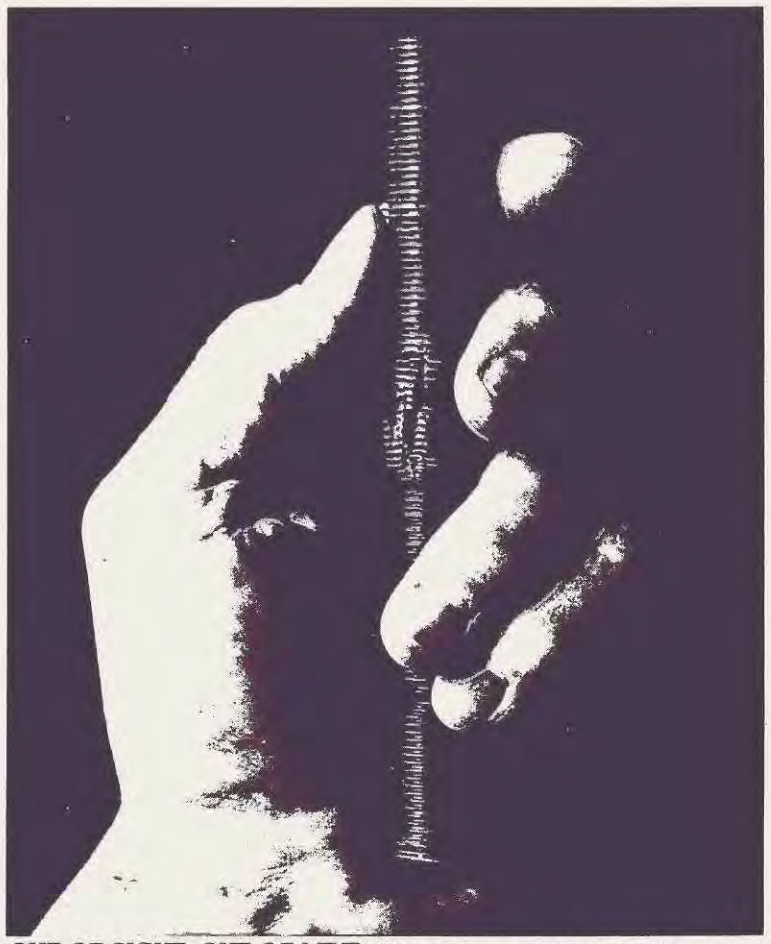

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Liability cover under this heading provides for a total indemnity of $80 million, while the actual construction of the subway, which runs under Victorial Harbor, is itself covered up to $800 million for engineering and similar risks.

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* * *

Discussions between leading Egyptian officials and UK marine insurers have made it clear that the Suez Canal is no longer being rated as an exceptional area for the purpose of war risk cover.

Global hull war risk rates for shipowners are basically 0.1% or ten cents per $100, but there are certain geographical exclusions needing a higher rate because they are in potentially unstable areas.

These include Egypt, which merits a higher rate because of the Middle East situation, but transit through the Canal itself is at normal rates, as it is felt that all latent dangers from the Egyptian-Israel war have been removed.

Obviously, however, if a shipowner wants to protect himself against the capture, seizure or trapping of a vessel by any new outbreak of hostilities in that area, he would have to take out selective cover for this purpose.

This would require an extra 0.05% premium, or five cents per $100 on the ship's value, but even for a $40 million containership this would only cost $20,000. Cargo war risk insurance is at current global rates of 0.0375%, or 3.75 cents per $100, and no special extra premium is required for such shipments through the Suez Canal.

* * *

Medical malpractice costs in the U.K. are still so small that doctors need only pay fifty dollars a year into their mutual insurance pools to be protected against them.

This situation, which exists largely because of moderate court awards to victims of medical error, benefits more than 140,000 doctors in the country.

They get their indemnity cover at much lower rates than lawyers, who have to pay between $600 and $700 a year for their own professional protection.

So far court awards in the U.K. have not risen much over $150,000. And cases are often settled for less, perhaps because there are no jury awards and the figures are set by judges assessing the true needs of victims rather than reaching emotion-inflated verdicts.

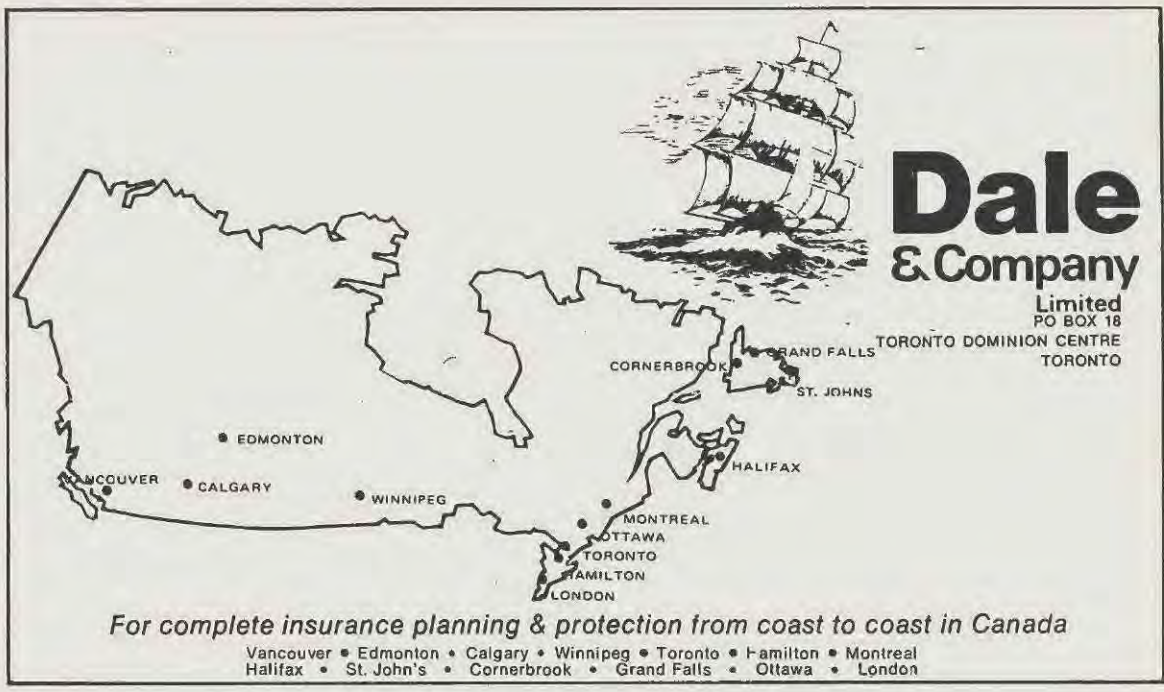
Dr. J. Leahy Taylor, secretary of the Medical Protection Society, which insures more than 60,000 medical people, told *Business Insurance:*

"It is difficult in the U.K. to imagine the state of affairs in the U.S. over its malpractice crisis.

"But we realise that in the U.S. insurance carriers are ceasing to operate, and doctors are retiring from practice or refusing all but emergency cases.

"Circumstances are different in many ways, but it does perhaps not do to be too complacent that such things could not happen in Britain. In particular, it is necessary that the reasonable standard of liability demanded by the law is not translated by expert witnesses as the standard of perfection.

"At the end of the day it is the profession, in the advice it gives to the courts, which determines what is, and is not, acceptable," Taylor said. ■



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Chinese insurer looks to marine, cargo trade

WAYNE, N.J.—The People's Insurance Co. of China, located in Peking, concentrates its activity on marine cargo insurance on Chinese import and export shipments and hull coverage on Chinese flag vessels. The Chinese insurer is also in the business of reinsurance.

INTERNATIONAL

AFIA Worldwide Insurance reports in its 1976 World Insurance Guide that People's Insurance Co. exchanges reinsurance with almost 300 companies in over 60 countries. The government-owned monopoly also provides insurance for foreign diplomats living in China and property coverage on exhibitions in the country.

The Chinese company maintains branches in six cities worldwide and where there is no branch, the Bank of China acts as its agent. The Chinese government has ownership interests in China Insurance Co. Ltd. and Tai Ping Insurance Co. Ltd. whose head offices are in Peking but they operate outside the country, mainly in Hong Kong, AFIA writes.

People's Insurance Co.'s marine cargo coverage is available on the basis of total loss only, WA and all-risks, each including general average contributions and salvage expenses, AFIA reports.

While there is war risk coverage, it is automatically terminated "should the insured goods be used for serving a war of aggression launched by imperialism," said AFIA. ■

AFIA tells Hungarian local rules

WAYNE, N.J.—In Hungary, all classes of insurance and reinsurance are handled by the Allami Biztosito, the state insurance monopoly, and non-admitted insurance is prohibited for all classes, according to the newly-released AFIA Worldwide Insurance Guide.

Insurance applications are automatically accepted from the date of submission if not rejected within 15 days, AFIA noted.

Even though the nationalized insurance industry is a government monopoly, the insured and insurer are given equal rights in the courts, the guide reports. Under the compulsory workers' compensation system, Hungarians "have the option to proceed in law" against their employers even though no employer's liability insurance is written.

Property is valued at its cash value. Builder's risk, machinery installation and contractor's equipment can be written all-risk, according to AFIA. ■

US-dollar is freely written in the USSR

WAYNE, N.J.—In the Soviet Union, unlike some other Communist Bloc countries, U.S. dollar insurance is freely written and non-admitted insurance is not prohibited for foreign citizens or interests, AFIA reports in its 1976 Worldwide Insurance Guide.

Ingosstrakh, an autonomous agency of the Soviet government, handles foreign risks, foreign currencies, and non-Soviet interest insurance.

London's Black Sea & Baltic Insurance Co. and Hamburg, Germany's "SOVAG" both maintain connections throughout the Soviet Union.

Marine insurance is written subject to Ingosstrakh conditions and the U.S.S.R. Marine Commercial Code; war risk insurance is obtainable at prevailing international rates, according to AFIA.

Soviet domestic insurance is handled through Gosstrakh. The workers' compensation program is extended to cover all persons employed in the Soviet Union. ■

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Bulgaria has totally nationalized coverage

WAYNE, N.J.—Under Bulgaria's nationalized insurance market, even the public transportation fares include passenger accident insurance, according to AFIA Worldwide Insurance, in its newly-released World Insurance Guide.

According to AFIA, international insurance written by Bulstrad in Sofia covers foreigners living in Bulgaria and foreign construction projects as well as the property of Bulgarians abroad, aircraft and travel accidents.

Domestic insurance in Bulgaria —handled by the Darjaven Zastrahovatelen—provides work injury compensation for all employes through the Social Security System.

In joint ventures with Romanian companies, all employes including most foreigners, are covered by the national workers' compensation system, including medical payments, AFIA reports.

International and ocean marine transactions and those of foreign property interests have their insurance handled by the state insurance Administration of State Insurances (ADAS). Non-admitted insurance is generally prohibited.

Business interruption coverage is available on U.S. and British forms. Builder's risk, contractor's equipment and machinery installation coverage can be written on an all risk basis, according to AFIA. ■

Automobile bodily injury and property damage liability insurance are compulsory. A portion of the premium income from compulsory insurance is allocated to loss prevention activities.

Romania, currently undergoing growth in international trade and foreign private investment, permits writing of U.S. dollar coverage for non-compulsory insurance.

Wisc. Blues plan merger

MILWAUKEE, WI.—Blue Cross of Wisconsin and Surgical Care/ Blue Shield are planning to merge as early as July 1, according to Leo Suycott, Blue Cross president.

The merger will reduce administrative costs by 6% to 8% for both groups, officials said. It would eliminate duplication of efforts in a number of ways and save the plans at least $1 million per year.

The two plans were strongly criticized by Gov. Patrick J. Lucey recently when they raised their group premiums an average 35%.

More than 1,620,000 persons are covered by Blue Cross in Wisconsin and more than 1,460,000 have Blue Shield coverage.

In a related development, Mr. Suycott announced that Blue Cross had trimmed its plans for a 35 story, downtown Milwaukee building to one with only 10 stories. Increased construction costs forced the cutback, he said. ■

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UK safety officials warn overseas firms to abide by British safety rules

LONDON—Multinational organizations have been warned by British officials that they must make sure the firms they control in the U.K. comply with domestic loss prevention regulations.

James D. Hammer, government-appointed chief inspector of factories, said in his annual report on workplace accidents: "I am very concerned that some international corporations have allowed their subsidiaries in the U.K. to operate with unsatisfactory safety standards.

"So I have set up an accident prevention advisory unit which will identify the parent company. This should enable an approach to be made at senior corporate levels to ensure they improve their practices."

He reminded multinational managements that there are strict new safety rules in Britain which are meant to cut down plant casualties. There is also a statutory obligation on makers of plant and materials to ensure their products are designed so that they can be used safely in industrial processes. This has led to foreign manufacturers seeking advice from this government department to make sure they comply with their statutory obligations under U.K. laws.

* * *

Risk managers in the U.K. should be selected in many cases from outside the insurance industry, says Anthony P. Benson, of the Glaxo international business corporation.

Quoting from the *Business Insurance* survey last year into the desired qualities of risk managers, Mr. Benson, who heads the group's internal unit, Glaxo Risk Management Ltd., comments:

"If we wish to see the risk management function recognized in the U.K. as it has been recognized in the U.S., we must now begin the process of deliberately picking out the right managers for the future.

"It will be a grave mistake for British risk managers to close the ranks of their profession so that entry is largely limited to former insurance personnel.

"We should cease to look only towards the insurance profession, from which so many of our current risk managers have come, and think of people who have had substantial industrial experience.

"Many risk managers in the U.K. work in industrial or commercial environments to which they are relative latecomers with their own historic insurance backgrounds.

"But if they are to be effective in their own companies they need to achieve credibility as senior executives, directly responsible to their chief executive, and it may be in the future that the man trained in the mainstream of his company's managerial activity, with a track record as an engineer or production man, may be more likely to fulfill this function than recruits with a purely insurance background."

Mr. Benson was writing in a U.K. risk management journal, Foresight, produced by the Keith Shipton Group.

International guests like Dan Sullivan, RIMS president, were welcomed by Jim Seatter, chairman of the U.K. risk managers' organization, at its annual dinner in London. Others included Brian Jameson, New Zealand risk management chairman, and J. A. Makinson, from South Africa.

Mr. Seatter, who is group insurance manager with United Glass in the U.K., told the 450 dinner guests: "Our more enlightened firms are really working hard at risk control, but we've still got a hard sell to achieve our objectives. Insurers should take more experts from industry onto their staffs, and brokers should emphasize the long-term advantages of risk protection to medium sized firms. We've all got the constant duty of advising employes on the plant floor that you don't reap any profit from destruction."

He supported the contention of E. J. Gordon Henry, chairman of international brokerage Stewart Wrightson, that people ought to "belly ache" more if they feel they are being overridden by other authorities, and urged risk managers to do the same if they did not get enough support from corporate industry.

Mr. Sullivan was given a special welcome by leading officials of Britain's AIRMIC (Assn. of Insurance and Risk Managers in Industry and Commerce), including its publicity officer Ron A. Muckleston, risk management adviser to International Nickel, during his visit to London.

* * *

Political and economic risks in overseas contracts are protected in Britain by the government-run Exports Credit Guarantee Department which insured $14 billion worth of exports last year.

Now it has added an inflation-proof cover to its facilities for businessmen who ship large supplies of goods to foreign markets.

This scheme will operate in depth over deals with Middle East countries where many nations, including the U.S., are seeking to capture large industrial contracts.

Trade Secretary Peter Shore told Parliament: "Many Middle East customers want firm prices and in present circumstances exporters are unable to absorb all the increases in costs which can arise during long-term manufacturing processes. So we will insure exporters against higher-than-expected rates of inflation."

The export credit section of the government will now provide cover for contracts over $4 million which incur manufacturing periods of two years or longer.

Exporting firms will be expected to bear all cost increases up to 10%, but the U.K. government will cover 85% of extra costs in a 10% range above that level.

But it is banning new credit guarantees for deals with the Argentines in view of the current lack of political and economic stability in that area.

* * *

Sex discrimination was abolished in Britain, January 1. Equal opportunity rules now apply for all business operations. Millions of women celebrated the occasion, which was a historic landmark in U.K. legislation, as it guarantees equal pay and terms of employment for all workers.

But the Sex Discrimination Act of 1975, which brought in the new age for women, recognizes that in the field of life insurance, discrimination between the sexes is not only reasonable but necessary.

It cannot alter the fact of life that women tend to live longer than men, usually by at least three years on overall average, so premiums are lower for them.

Insurance companies sitll feel that women in employment are likely to have short periods of illness than men, so this is taken into account in certain pensions and health coverage facilities. Auto insurers are entitled to accept that women drivers may have a better accident record than some of their men clients.

Male opponents of sex discrimination are still fighting a rearguard action, particularly in traditional "men only" bars, and legal actions may be brought to establish the rights of women.

* * *

Marine Insurance losses which hit a new world peak for the shiping industry last year are causing renewed anxiety in the Lloyd's market over future rates.

Sources at Lloyd's told *Business Insurance* that altogether losses are expected to reach $250 million, compared with $325 million in 1974.

But these cover only vessels worth $1 million or more for hull and machinery value, so there are many losses of smaller vessels to be taken into account.

There is frequent debate these days in many insurance centers over the so-called "flags of convenience" which some owners adopt, with Liberia and Panama figuring frequently in the controversy. Many of the lost or damaged vessels came from these two countries' shipping lists, with further ones from Greece, which usually strongly contests the argument that some owners are using it for their own interest.

These three countries, together with Cyprus, accounted last year for claims totaling more than $140 million, or no less than 60% of the total world marine losses on a major scale. The costliest loss last year was the Greek tanker Kriti Sun, valued at $30 million, which was struck by lightning off Singapore. ■

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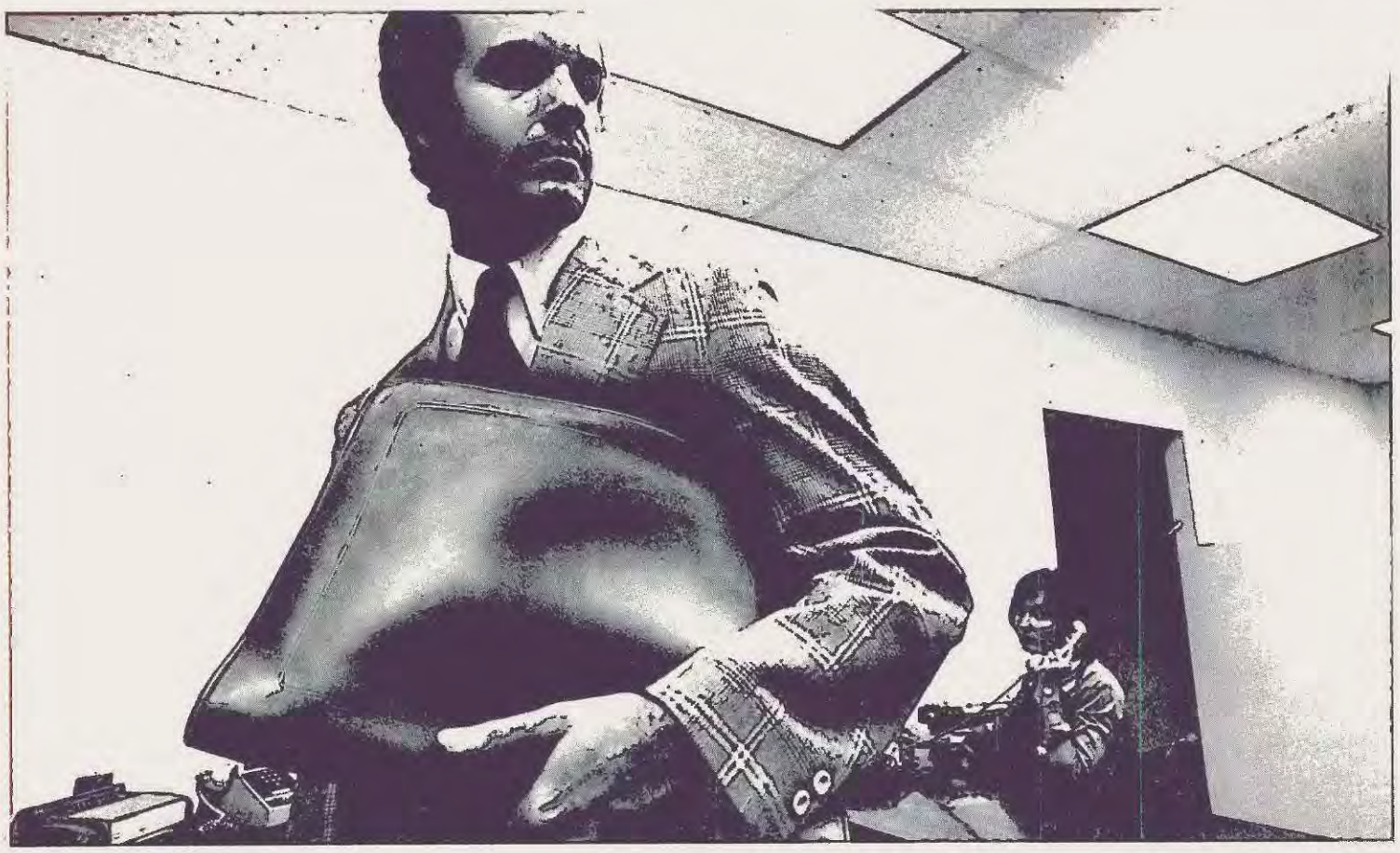

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French insurance system viewed as highly restrictive by outsiders

PARIS—Restrictive legislation complicates the task of managing risks in France, both from the risk managers' and the insurance industry's point of view.

On the national level there's the Assembly Premiere which regulates the insurance industry. Under French law, only admitted insurance companies can write insurance.

French laws also prohibit the writing of reinsurance by non-admitted companies.

Cataloging other laws in France that make corporate risk management a headache, industry spokesmen mentioned that home office expenses are severely limited for tax deductibility.

Yet another French law requires an insurance company to put up at least 105% of its outstanding losses and keep that amount in liquid form in the country.

France, like other European countries, has an attitude toward deductibles and retentions that differs from what U.S. companies are used to.

A U.S.-based multinational company is accustomed to buying a single worldwide policy for risks such as fire and extended peril, said a spokesman for an insurance company with affiliates in France. "It does complicate things to work within the French system of insurance laws."

As a result, working around rather than within the insurance laws is common practice for foreign companies operating in France.

Many U.S. multinational companies with subsidiaries in France often use a fronting company (a French admitted company) for the primary layer, with the bulk of the risk placed with an international insurer on a worldwide blanket difference in conditions (DIC) policy.

Major U.S. underwriters are represented in France. The American International Group's admitted company is the New Hampshire Insurance Co. St. Paul Fire & Marine Insurance Co. is the AFIA company licensed to operate in France. The Chubb & Son Inc. Group and Insurance Co. of North America also have French affiliates, as does the Factory Mutual System.

The major U.S. brokers also have affiliates or correspondents in France, though a number of risk managers for U.S. based multinationals told *Business Insurance* they preferred to do business through their U.S. broker.

"Local correspondents tend to want a direct relationship with the subsidiary," the risk manager for a West Coast multinational said. "That leaves you, the risk manager in the U.S., out in the cold."

"I want direct control. I don't want to go through a correspondent," another risk manager noted.

Some sources are looking to the Common Market for relief from the entanglements of French insurance laws. They're pinning hopes on the Freedom of Establishment Act which would allow an insurance company domiciled in any of the Common Market countries to do business in any of these countries.

At present, progress on the Act is mired in jurisdictional disputes: Which country's insurance regulations would apply in a case where one country has stricter insurance laws than another?

The Common Market countries signed a directive in 1973 that agreed to the act in principle. The directive made it the responsibility of the individual Common Market countries to pass harmonizing legislation to permit the agreement to go into effect.

The deadline for the harmonizing legislation was Feb. 2, 1976 and at present, only one Common Market country, Denmark, has passed such legislation.

A number of risk managers for multinational corporations agreed that applying the Common Market approach to insurance in Europe "would make our job easier."

Despite complications involved in managing risks in France there is still a healthy interest on the part of U.S. corporations to establish subsidiaries in that country.

While conceding the difficulties in arranging insurance in France, the risk manager for a Midwestern-based multinational noted, "I hardly think the insurance difficulties would be a deterrent to the company's setting up business in France." ■

Mirage of Eiffel Tower hovers over crowded Paris street.

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Paying off losses in cheaper rubles?

Russia's credit deals create insurance friction

By MARIE KRAKOWIECKI

NEW YORK—U.S. firms selling and shipping heavy equipment to the Soviet Union could face trouble because of restrictive insurance practices which evolved in trade negotiations with Russia.

"We get our dock receipts and forget about it," an insurance manager whose company shipped tractors to the U.S.S.R in 1973 said that year. His reaction was typical.

According to Thomas A. Fain, president of the American Institute of Marine Underwriters (AIMU), the Soviets, as well as the governments of about 16 other countries, discriminate against the U.S. marine insurance market, by shutting it out of the business of underwriting exports.

INTERNATIONAL

In Russia's case, shipments from the United States are covered by "free on board" or "free along side" arrangements under which the U.S. seller merely agrees to place the goods on board the carrier and pay freight charges. The merchandise then becomes Russia's risk.

Since 1972, few risk managers have expressed concern over these FOB and FAS contracts, or over the lack of U.S. marine insurance industry participation.

But there is some evidence they may be courting trouble in the event of a major loss at sea, because of currency shortages in the Soviet Union.

A major portion of the Soviet purchases are made on credit because, according to an expert in Soviet affairs, they frequently find themselves short of hard currency.

What this means is that in the event of a major loss at sea of a shipment of goods from the United States, there would probably be a delay in payment to the American supplier. Depending upon the economic conditions in Russia, and how short of hard currency the country is at the time, settlement could be a long, drawn-out affair.

Mr. Fain, who is spearheading a drive to get the U.S. government to insist on trade practices which would allow the American marine market to do business on exports to the Soviet Union, feels that insurance buyers here would get better service in case of a loss of goods bought on credit.

"All these discriminatory practices interfere directly with the right of an American exporter and his overseas buyer, or an American importer and his supplier, to negotiate freely which party to a contract is to purchase marine transportation insurance and where that insurance is to be purchased," Mr. Fain said.

The American Institute of Marine Underwriters, an association with 120 member groups, and the principal speaker for the marine insurance market for the United States, has formulated two policy positions it wants to negotiate with the Soviet Union's governmental insurance monopoly, Ingosstrakh.

The first would require that cargo insurance be placed with a company or companies in the American marine market in all cases where the United States finances exports to Communist countries.

That would include any goods financed through our Export-Import Bank, Commodity Credit Corp., or Overseas Private Investment Corp.

The second position relates strictly to privately financed trade between this country and Russia. It would require that such cargoes be insured in the American market in the same proportion as the financing accomplished in the United States bears to the total cost of the shipment, but not less than 50%.

These policy positions evolved largely through Mr. Fain's efforts. Before joining AIMU in 1973, he was a foreign service officer with the U.S. State Department, and headed our consulate in Moscow from 1962 to 1965. He speaks Russian, is accustomed to negotiating with Soviet officials, and thinks the United States' current policy of detente with the U.S.S.R. is a "sheer giveaway," at least with respect to insurance trade practices.

"They're building their insurance market at the expense of ours," Mr. Fain commented of Ingosstrakh.

Since 1972, based on an estimated $3 billion in exports to the Soviet Union, the American marine insurance market lost out on a potential $49 million of premiums.

For about 16 other countries which also, by unilateral action, give preferential treatment to their domestic markets, U.S. marine insurers were out about $30 million in potential gross premiums.

In late 1975, a U.S. maritime delegation went to Moscow to try to win some insurance concessions from the Russians in the latest sale of wheat from our government.

"We were hopeful that this (wheat deal) was a good opportunity to win participation by American marine insurers because it was obvious the Soviets needed the wheat, and we therefore had something to bargain with. But detente overruled," Mr. Fain said.

"In effect, the Soviet Union has been allowed to dictate to American exporters on the question of marine insurance. Everyone in Washington is very nice when we approach them about this problem, but when push comes to shove, they don't shove when

Continued on page 57

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Continued from page 56

they're negotiating with Russia," he lamented.

Mr. Fain assumed the presidency of AIMU as successor to Carl E. McDowell, who retired early this year after heading the organization for a quarter century.

But the former foreign service officer joined AIMU just in time to assist in pressing for passage of the Trade Act of 1974.

At the start of World War II, the American marine insurance market was covering some 70% of U.S. exporters. That has dwindled to about 30% today.

Marine insurers here feel that the Trade Act of 1974 is a giant step toward re-establishing a free, competitive international marine insurance market, because of its Section 301.

Section 301 deals with relief from unfair trade practices, and it authorizes the President to withdraw or suspend a trade agreement or impose duties or other restrictions on a foreign country if it restricts or discriminates against U.S. commerce.

Another section of the Act (405) which deals with authority to enter into commercial agreements, requires the President to see that a "satisfactory balance of concessions in trade and service" has been maintained during the life of a commercial agreement.

One of the biggest stumbling blocks marine underwriters are having in getting the government to include them in international trade situations is that insurance is a "service" and services have for some time been neglected in considerations of commerce and international trade.

Unlike the United Kingdom, the United States has absolutely no official post or Cabinet position dealing with services.

Britain has a delightfully-named "Committee on Invisible Exports" dealing with overseas earnings of the U.K. on such services as insurance. Ivor Binney, chairman of Lloyd's insurance brokers' association, was chosen late last year to join the Invisible Exports Committee, becoming the first direct representative of Lloyd's brokers to participate. There is nothing comparable here.

"Since it is always easier to see the actual goods and ships which move in trade than the forces which propel and service them, there has been a tendency on the part of both government and the general public to overlook the importance of such invisible elements of the commercial process as insurance," Mr. Fain said.

"The Congress, by passing the Trade Act of 1974, clearly intended to bring these elements into proper perspective for both our U.S. negotiators and our trading partners. Throughout the Act, 'commerce' and 'international trade' are defined to include services as well as goods," Mr. Fain testified last July at special trade representative hearings in Washington, D.C.

There is presently some legal tangle over services which is an obstacle to U.S. negotiators. Before the Trade Act of 1974 was passed, there was a law called General Agreement on Tariffs and Trade, or GATT.

While services are expressly covered under the Trade Act, they are not covered in GATT, despite the fact that as long ago as 1959 GATT contracting parties adopted a recommendation supporting freedom of contract in transport insurance.

Mr. Fain pointed out that since the signing of the U.S. and U.S.S.R. Trade Agreement in 1972, the American marine insurance market has been totally shut out of participation.

"This is clearly in contradiction to the intent and spirit of the Trade Act of 1974," Mr. Fain said.

On behalf of the American marine insurance market, he is asking Congress that any new commercial mercantile agreement between the United States and Russia, or any other nation for that matter, must contain provisions for reciprocal and equitable conditions in goods and services, with a balance of concessions in these areas. ■

Brokers for Lloyd's see world trend

LONDON—Long term forecasts for insurance business have been made by R. M. Salter, chief executive of Lloyd's brokers Leslie & Godwin, who told a commercial seminar:

"The insurance sophistication involved in covering a $20 million drilling rig, a $60 million catalytic cracking unit, or a 500,000 ton supertanker, will make it essential for companies to be more interested in acceptance of international risks or reinsurance in various phases.

"Except for three extremely well-known groups, the international market in the U.S. has only really become a factor for overseas business in the last few years. Yet its insurance market's financial strength has been available for many years. I think we will see more insurance centers springing up in various parts of the world."

International competition, he added, will have to be countered vigorously by the U.K. market if it is to retain its strength. ■

So much Blarney?

The famous Irish tourist landmark, the Blarney Stone, which overseas visitors from the U.S. and elsewhere often kiss for luck, has become the property of Lloyd's titled underwriter, Sir Richard Colthurst. He acquired it by taking possession of Blarney Castle, near Cork, where the traditional stone has rested for nearly seven centuries.

The Blarney Stone is supposed to give the gift of eloquence to anyone kissing it. Sir Richard, whose family has lived in Ireland since 1589, is fond of telling fellow insurers that his persuasiveness over rates for precarious risk rests on this link. Sir Richard has been with Lloyd's for 16 years. ■

Everybody's FBO. *Russ Miller is the current chairman of NATA, the National Air Transportation Associations. ☐ That figures, because he is also founder and president of AirKaman, Inc., a $20-million-a-year aviation service organization that is all things to all customers at Windsor Locks, Connecticut; Omaha, Nebraska and Jacksonville, Florida. AirKaman offers support services for everything from a single-engine Beech Sundowner to an airline Lockheed 1011. ☐ Russ learned a lot about coping with risks during WWII and the Korean War when he was flying everything from B-24's to F-100's. He wants his widespread operations covered by people who understand the inherent safeguards as well as the risks of his business. That's why he has insured with USAIG since his opening in 1961. ☐ "They are pros. They sometimes seem hard-nosed about a few of our exposures, but that's really because they're interested in our protection. They have always proven fair. And their reaction to claims is immediate." ☐ Two pros working together: AirKaman, everybody's FBO; USAIG, everybody's insurer.*

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Unified plan with few exceptions seen as key for international risks

CHICAGO—Selling an overseas risk management program to top management involves proving that it "will work wherever there are company operations, without a lot of exceptions," believes Arnold F. Berg, 48, director of risk management for Borg-Warner Corp.

To establish workable consistency, Mr. Berg has seen to it that Borg-Warner's overseas operations use Factory Mutual Ltd. for their property risks, wherever possible. For overseas casualty coverage one worldwide underwriter, which he declined to name, is used.

Overseas property/casualty premiums are "probably 15% of what we spend here in the U.S.," Mr. Berg noted.

INTERNATIONAL

"All our operations in Europe and South Africa are highly protected risks (HPR) except for a big facility in France," he said, explaining that it wasn't a wholly-owned operation originally. "We didn't have the control until about three years ago."

The reason for stressing an HPR approach is premium savings as well as a corporate philosophy that facilities should be properly protected. Borg-Warner's overseas facilities are valued at $350 million for property damage, he said, with locations in Europe, Africa, Japan, Australia, South America, Mexico and Canada.

The fire protection program for manufacturing operations has a $10,000 deductible on property damage per occurrence and a $25,000 deductible on business interruption per occurrence, he explained. For chemical operations, the deductibles are higher. "Most foreign underwriters insure from the first dollar for fire protection risks," he pointed out, adding that "a lot of American companies are using deductibles now."

With a deductible, local management is "more concerned about loss prevention," Mr. Berg believes.

In addition to the HPR system, Mr. Berg said Borg-Warner has a full-time fire protection engineer in the U.S. with worldwide responsibility, a risk management assistant both in London and here, and a manager of loss control, in addition to Mr. Berg, who share in monitoring the corporation's overseas property.

Borg-Warner's York division supplies cooling for passenger tubes gliding to different levels of DeGaulle Airport near Paris.

Auto physical damage has always been insured overseas, Mr. Berg explained, but added that Borg-Warner is "considering dropping the coverage and non-insuring it. Our claims haven't been that significant. It's more a convenience than a necessity," he said.

No deductibles are used for overseas casualty risks because the operations "haven't generated the claims to warrant it," Mr. Berg explained. "Our loss experience has been favorable," he added.

Premiums are negotiated in the U.S. and charged to each operating unit according to loss experience and exposure, he continued.

Workers' compensation is "probably our biggest exposure overseas," Mr. Berg pointed out, but clarified that by saying in some countries it is difficult to separate medical claims from workers' compensation claims.

Product liability has not been a significant exposure up to now, he said. "This is not to say we haven't had claims, but I don't think we've had anything over $5,000. General liability has not been that great an exposure either," he added.

The "vast majority" of Borg-Warner's products manufactured overseas, stay overseas, he commented.

"Our corporate risk management policy is worldwide. We don't distinguish between countries," Mr. Berg said.

He doesn't think captives are worthwhile for international risks unless the premium volume is at least $1 million. "We don't foresee using them for the future because we don't have enough premium volume," he said.

"You can't be successful as an overseas risk manager unless you visit the foreign facilities," believes Mr. Berg, who has spent 24 of his 30 years at Borg-Warner in risk management. 'It's not diplomatic to dictate policy. We don't like to lay down the law with our overseas managers. We hope our approach is reasonable enough for any local manager to accept on its own merits." ■

Yugoslavia's rules on cover

WAYNE, N.J.—Yugoslavia has divisions of the nationalized insurance industry, but in 1968 the divisions became independent and in competition with one another, unlike other East European countries.

Foreigners and foreign interests can be insured in any of the Yugoslavian companies, according to AFIA in its 1976 Worldwide Insurance Guide. Among the largest companies, after several mergers, are Sava, headquartered in Ljubljana, and the Jugoslavija-Beograd and the Dunav, both in Belgrade.

AFIA reports that non-admitted insurance is permissible in non-compulsory classes and on properties or interests of foreigners. ■

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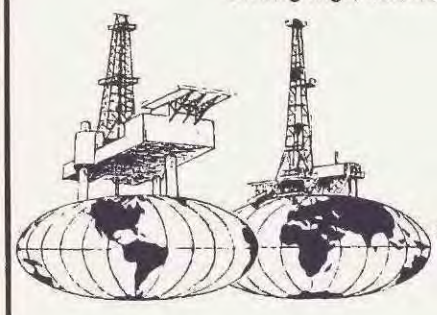

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Canada carrier absorbs oil pool, broadens book

TORONTO—Canadian Industrial Risks Insurers is absorbing the business of Canadian Oil Risks Insurers through a reinsurance arrangement, to broaden the base of property coverages for large Canadian property industrial risks, and to expand premium income.

R. A. Elms, senior vp of the Royal Insurance Co. and chairman of the governing committee of Canadian Industrial Risk Insurers, likened the move to one that was made here in the United States last year.

That was the merger between Factory Insurance Assn. (FIA) and Oil Insurance Assn. (OIA) to form a new pool known as Industrial Risk Insurers (*Business Insurance*, July 14, 1975.)

Before December, Canadian Oil Risks Insurers limited its activities to underwriting and associated engineering in connection with oil, gas, and petrochemical risks, and Canadian Industrial Risks Insurers covered big industrial risks outside those areas.

Mr. Elms explained that the oil risk pool is being effectively wound up and its liabilities are being assumed by the industrial pool through reinsurance.

The oil pool will continue in existence because it has some outstanding losses, but it will not issue any new coverages, and will be eventually phased out entirely.

In the year ended Nov. 30, 1975, total premium income for both groups was approximately $9 million. Backers of the consolidation of the pools hope it will expand the volume of business rapidly by establishing a single leader in providing property and business interruption insurance for industries.

"The larger total premium base of the new pool will contribute to the stability and risk bearing capability of this specialized insurance market," Mr. Elms said.

"The objective is to provide a solidly-based integrated market providing high quality insurance and loss prevention service on a sound basis, and able to respond to the ever-expanding property and associated business interruption needs of Canadian industry."

Canadian Oil Risks Insurers was formed in 1972 and Canadian Industrial Risks Insurers in the following year, Mr. Elms said, because of the gigantic insurance requirements of risks like major refineries, pulp and paper mills, chemical plants or major metal working facilities.

The basic philosophies of each group will remain the same despite consolidation. Harry Hougas, underwriting manager for Canadian Insurers Industrial Risks will direct the day-to-day operations of the new pool except for those concerning oil, gas and petrochemical business.

They will continue to be run under the supervision of Dale Wood of Insurers Advisory Organization.

Thirty-two insurance companies are all fixed-percentage participants sharing in the losses of risks assumed by the new pool. ■

British analysts fear big CU loss for '75

LONDON—Fears that Commercial Union may face a massive underwriting loss on last year's business, largely because of bad results in the U.S., have been recorded by financial analysts in London.

This anticipation follows the cutback in U.S. premium income, by eliminating unprofitable accounts to the extent of possibly $100 million.

For although this reduction in its spread of risk will cut out heavy claims in future years, there will still be an unavoidable impact on its U.S. underwriting results for 1975, analysts noted.

Initially it had been thought CU's losses would be in the $135 million range, but it now seems as if the last three months of 1975 have created new difficulties.

There is also considerable speculation about whether Commercial Union took the right course in reducing its U.S. exposures so drastically.

In a critical comment, the London Daily Telegraph said: "CU is out of favor because it has made some major errors which its chief rivals have avoided. The wholesale pursuit of premium income worldwide is now seen to have been excessive and not too well controlled. Cutting back on business in the U.S. is correct, but it will have the effect of limiting CU's scope for recovering losses when the American market recovers." ■

Broker survey tells Europe's benefit plan

LONDON—Pension facilities in 17 European countries are reviewed by the U.K.'s Noble Lowndes, an insurance broking and consulting group. In its latest guide for international corporations, the firm covers both Social Security benefits as well as corporate pension schemes, and shows areas where funded schemes still have room for development.

Belgium, for example, has extended its Social Security in recent years, but there are still large gaps to be filled by private benefit plans.

Denmark finds need for additional benefits from private schemes to supplement its state-security retirement benefits, with foreign-controlled companies tending to prefer defined benefit plans integrated with the general retirement pension. Some plans are changing to "money purchase based" annuity programs, the report said.

Top management in France can still make valuable use of private schemes, but most employes are covered by compulsory industrial benefits. In Italy Social Security is regarded as the most comprehensive system now operating in any part of Europe and provides liberal benefits for all Italian citizens.

Social Security benefits are low, however, in the Netherlands where occupational pension schemes are needed for many workers.

Britain has a wide range of corporate pension schemes to supplement state benefits, and Norway and Switzerland also use occupational schemes to "top up" state benefits, the guide points out. ■

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Diamond coated drill maker bores away to heart of risks

By JOANNE GAMLIN

SALT LAKE CITY—Christensen Diamond Products, a multinational company with operations scattered over the globe, boasts an interesting international insurance program for its warehousing and sales facilities in Australia and Singapore.

The $65 million company is in the business of manufacturing and selling diamond coated drills and industrial saws for deep well drilling. It is a subsidiary of Christensen Inc., a holding company formed about eight months ago in order to permit the company to sell its stock on the Over-The-Counter Market.

Placing and administering all insurance for the subsidiary's operations in Australia and Singapore, as well as in this country, is Trustco Inc., a Salt Lake City brokerage firm.

Leo H. Barlow, vp at Trustco Inc., told *Business Insurance* that American Home Insurance Co., part of AIG, underwrites most of the property and liability coverage for Australia and Singapore.

Noting that general liability rates have not risen, although premiums have increased due to a growing exposure, Mr. Barlow said that American Home Insurance Co. underwrites coverage for bodily injury in the two overseas areas. In addition, there is an excess policy provided in American markets at substantial limits, he said.

Mr. Barlow gave the liability limits for bodily injury as $100,000 per person and $500,000 per occurrence. Property risk carries a $100,000 limit on a per occurrence basis. All policies are written on a first-dollar basis, he said.

Following the trends in the United States, Mr. Barlow said he anticipates the excess coverage will be hit with "a substantially higher rate boost a year from now when we renegotiate the contract."

He explained that the excess coverage was negotiated two years ago, prior to the time when the shrinking liability insurance market, together with higher rates and premiums, took shape in this country.

Automobile liability limits in Australia are covered under a mandatory government plan.

In Singapore, automobile liability coverage comes under Christensen Diamond Products' worldwide liability coverage underwritten by USF&G. Picking up the excess layer is Mission Insurance Co., Los Angeles.

Mr. Barlow went on to discuss property coverage in terms of three different areas: Fire and allied perils, burglary and theft, and fidelity.

He noted that at this point property values in the two overseas areas have not climbed to a level requiring split coverage in the first category.

"One company can handle fire and allied perils in both places," he said, noting that the policies written for fire and allied perils emulate those of Britain by encompassing protection for flood and earthquake damage.

Fire insurance rates are rising in Australia due to increases posted by local fire brigade boards, he said. "Until recently, there was a 5% surcharge that a fire insured had to pay. And there was an additional 15% surcharge which was absorbed by the insurance carrier. Now there is a 40% surcharge against the fire insured in Australia," explained the broker.

He went on to point out that business interruption is part of the fire and allied perils coverage in Australia and Singapore.

INTERNATIONAL

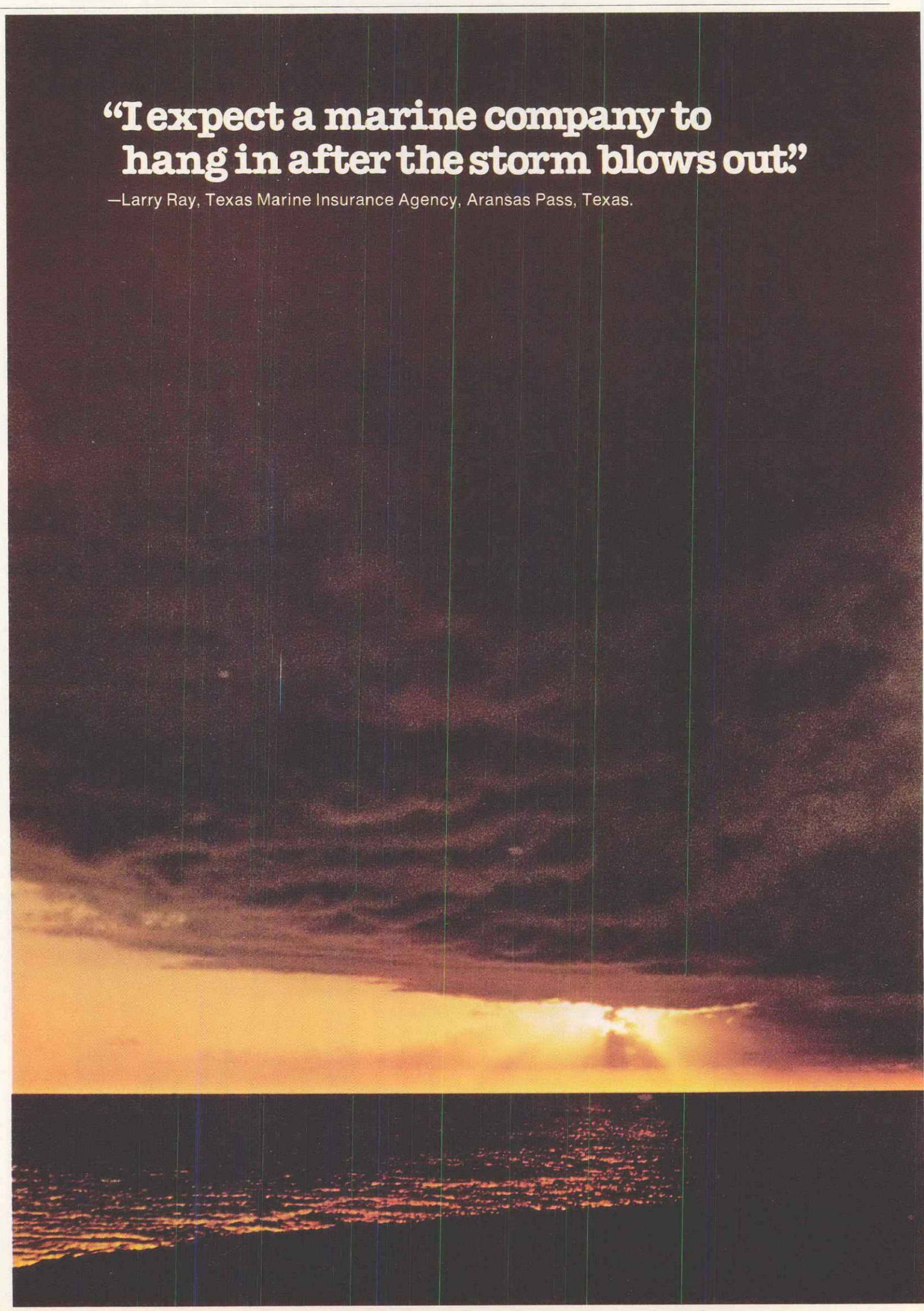
Mr. Barlow said that business interruption protection stipulates a specific amount of insurance in four different areas: Gross profits, accountants fees, salaries and wages and additional costs of doing business.

"In Australia, business interruption premiums have been based on building rates," he elaborated. Because these rates are affected by the surcharges levied by the fire brigade boards, he indicated that rates, and therefore costs, will probably go up.

American Home Insurance Co. is the underwriter for fire and allied perils in Australia. Singapore, however, depends on the South British Insurance Co. for this form of protection. Christensen Diamond Products likes to utilize local insurance companies whenever possible, Mr. Barlow observed.

American Home is also the carrier for burglary insurance for the industrial saw manufacturer in Singapore and Austalia. "Under burglary protection, we insure stock on inventory and buy limited protection for equipment," continued Mr. Barlow, adding that he also expects a general rate increase in burglary insurance this year.

Blanket fidelity coverage, also from American Home, has been recently reviewed, he said, with the result that "the policy's limit will be set to correspond with that



of the U.S. policy."

Workers' compensation in Australia, where coverage is on a government mandated basis and is supplied by a government insurance company.

The government body in New South Wales recently increased benefits approximately 50%, noted the broker. He added that there have been no changes in the other three policies.

While Christensen Diamond Products' facilities in Australia and Singapore are not engaged in high hazard activities, the company has racked up a good loss ratio in workers' compensation due in large part to the high priority given to loss control by the producer of diamond coated drills.

In workers' compensation, the biggest risk at present is probably salesmen calling on people who work on offshore drilling rigs, and personnel travel risks in general, he reflected.

"Yet as operations in Australia and Singapore move from these lower risk areas into the more hazardous avenues of manufacturing and distribution, we anticipate that the sophisticated loss control methods in force in the United States will be rapidly implemented abroad," Mr. Barlow said.

As part of its desire to provide top drawer service in those two distant lands, Trustco has established consulting arrangements with brokerage firms in Singapore and Australia.

In Singapore, the Trustco firm works with International Broking Service and in Australia it maintains a relationship with Glavill Holland.

"One of the advantages of working with these firms is that we can keep abreast of the trends in, for example, political restrictions or changes in coverage," observed the broker.

Christensen Diamond Products' corporate headquarters in Salt Lake City, moreover, receives the originals of all policies written abroad.

Trustco consultants then carefully reviews these policies with the company's executives. ■

Pensioners in Canada told of losing out

TORONTO, ONTARIO—Canada Pension Plan contributors will lose some benefits if they fail to apply for monthly payments when they reach age 65, according to William M. Mercer Ltd., based here.

Except for Quebec contributors the earnings test is no longer applied to the Canada Pension Plan. This means that a full pension is available at age 65 regardless of other income, the benefit consulting firm stated in its bulletin "Making the Best Use of the Canada Pension Plan."

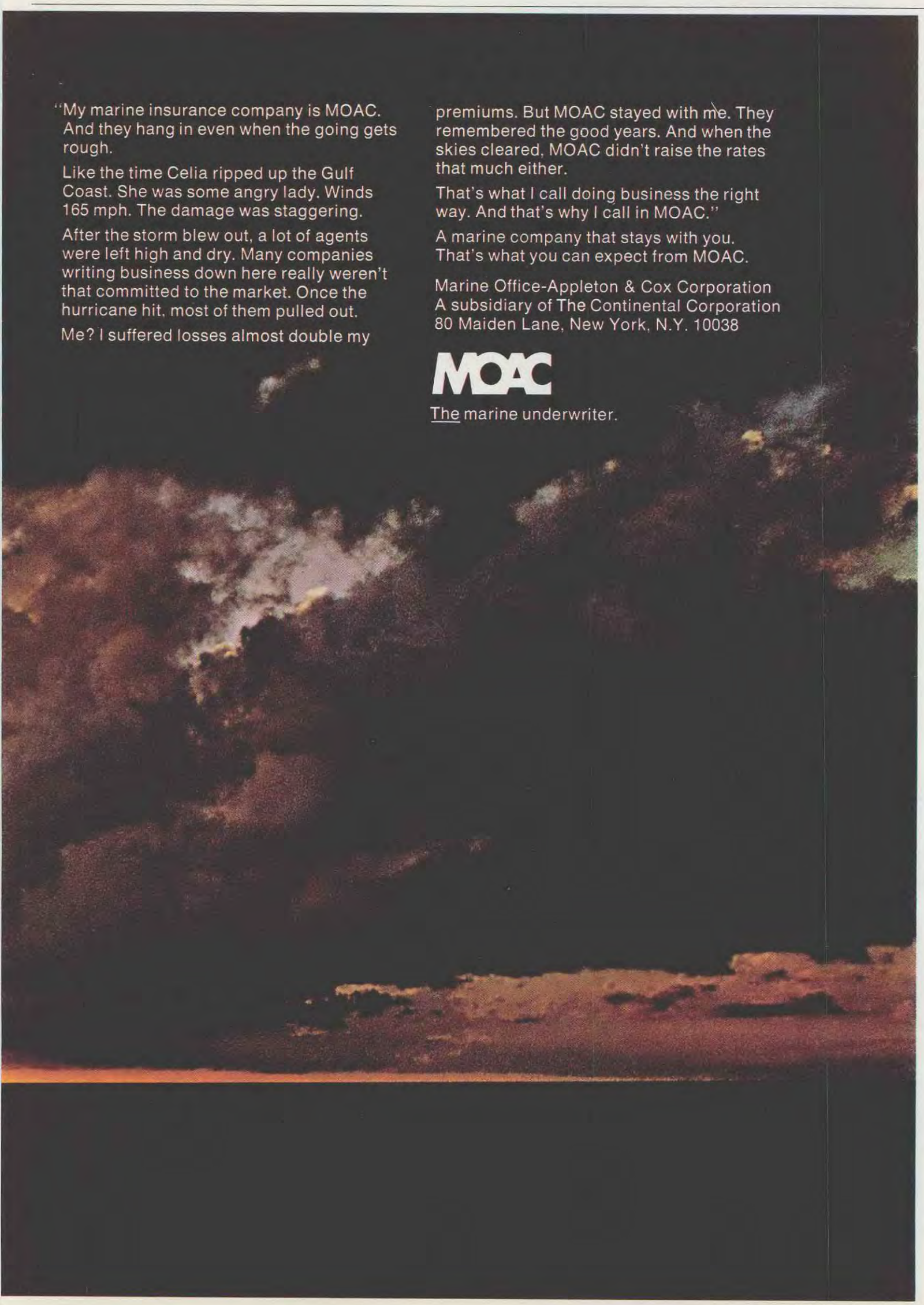
Mercer does suggest, however, that an employe reaching age 65 at the end of a calendar year—particularly in December—postpone taking his pension until the following January because of different indexing that applies before and after the date of commencement."

For example, the maximum monthly pension for someone retiring in 1976 is $154.86, while the maximum monthly pension for someone retiring in 1977 is $173.61.

By postponing retirement one month, the employe loses $154.86, which has an actuarial value of $800, Laurence E. Coward, executive vp of the Canada-wide firm, who supervised the bulletin.

An employe who contributes to the plan after reaching age 65 may use these months to replace earlier months in which full contributions were not made.

The Canada Pension Plan is "mature" with the transitional period of 10 years now expired, it continued. ■



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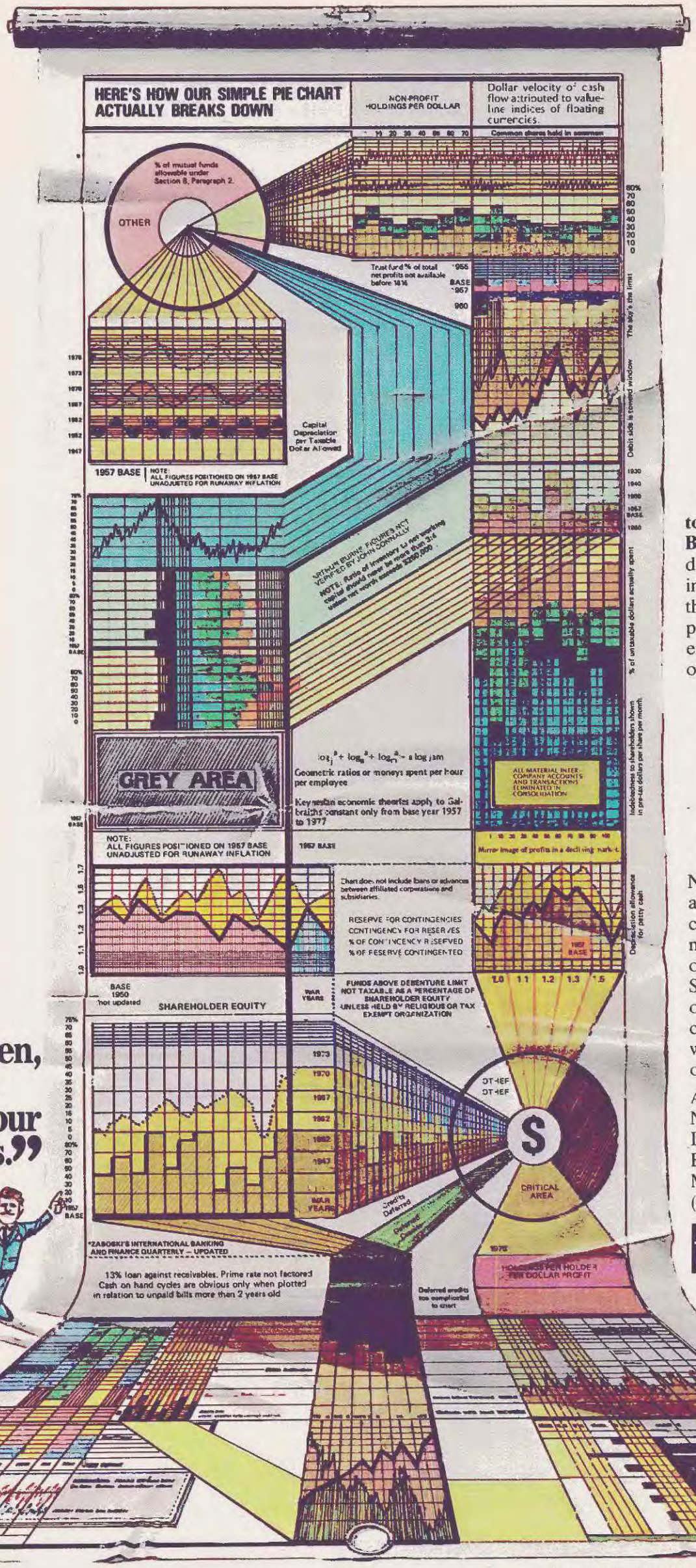

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PERSPECTIVE INTERNATIONAL

NATIONALISTIC TREND IN WORLD: IMPACT ON RISK MANAGER'S ROLE

Insurance managements across the world realize that nationalisation is a fact of insurance life. It's likely to become more prevalent, not less.

By J. PENTON LEWIS, Controller
Marsh & McLennan International

INSURANCE IS the most international of all business enterprises. Long before many of today's industries existed and long before modern national boundaries were set, risks were being passed to the predecessors of today's insurers—in rudimentary fashion, perhaps, but with minimum obstruction from any then-existing frontiers. It has long been basic, moreover, to the marine insurance business, that more than one country is inevitably involved in the coverage of many important risks. The job to be done was and is more important than nationality. It is true also that insurance has been a welcome and largely constructive partner in the growth of industry in all countries, no matter how their political complexions have changed or their business climates have developed. In fact, even where the capitalist entrepreneur has been persona non grata, insurance has had a role to play.

This international aspect of the insurance business is doubly emphasized today, when the value of some single risks has grown so immense that it makes no sense—despite the mechanisms of national co-insurance and reinsurance—for one risk to be carried solely within a single national insurance industry. Much of this internationalism functions, of course, through treaty and facultative reinsurance channels.

Internationalism in the insurance business is no fly-by-night phenomenon and will certainly continue. Alongside this—and not as much of a paradox as it might appear—there is a marked trend to nationalisation of all or some of the insurance industry in many countries. The reasons are several. Some governments argue that healthy and equitable commercial growth needs strong state control over the principal providers of capital-banking and insurance. In other countries, the insurance business is seen, with greater or less justification, as a symbol of excessive and sometimes monopolistic commercial power—a catalyst to discontent for many. In yet other countries, it is simply a tenet of national policy that all industries—with minimum exceptions—be state controlled.

This is not a forum for debating the pros and cons of nationalisation. Insurance managements in this country and across the world already realize that nationalisation is a fact of insurance life. It is likely to become more prevalent rather than less. We have seen in the last three years the power of O.P.E.C. and the beginnings of coffee and copper cartels. While the analogy is not perfect, some of the reinsurance groupings, such as the Arab Reinsurance Pool and the Latin American Reinsurance Pool, may soon start to flex their muscles too and express the insurance views of their groups. These actions will reflect largely national interests rather than those of private insurance carriers.

Nationalisation is often construed as total government control. In the insurance context, the picture is more complex. The multinational corporation is exposed to different degrees and types of nationalisation from country to country.

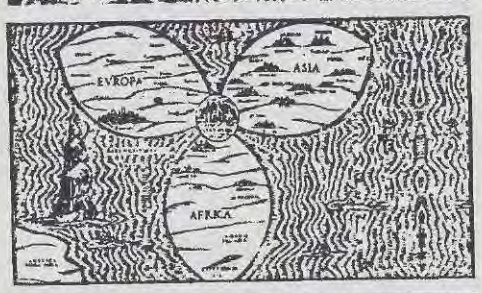
The Soviet Uuion, at one end of the spectrum, has two state-owned insurance monopolies. Gosstrakh has responsibility for all domestic insurance and Ingosstrakh covers all foreign risks and foreign-related business in the U.S.S.R. The People's Republic of China operates through a single government owned carrier, The People's Insurance Company of China. Many other countries, primarily but not exclusively those in the Sino-Soviet Bloc and in Africa, have insurance industries which are totally government-owned. In the West, Portugal is a well-publicized example of recent moves towards nationalisation of the insurance industry. Costa Rica and Uruguay, on the other hand, first passed nationalisation laws in 1924 and 1911 respectively.

Many countries believe in the merits of a mixed public and private economy—a belief echoed in their insurance industry. France is an example where government-owned companies such as L'Union des Assurances de Paris compete with stockholder-owned companies such as the Groupe Concorde and L'Abeille. Iran, too, has the Bimeh Iran Companies (which are government owned) in more or less direct competition with the privately owned Alborz, Bimeh Pars and others. It should be noted, though, that other state enterprises are often required to insure primarily through the national companies—which means that insurance competition is not entirely free.

There are further instances where the reinsurance business is essentially a government monopoly but the retail insurance business remains more or less in private hands. The Argentinian INdeR (Institutio Nacional de Reaseguros) handles virtually all the reinsurance business in that country whereas a substantial number of local and foreign companies co-exist in the direct market. Brazil, with the IRB (Instituto de Resseguros do Brasil) has a similar arrangement. These nationalised reinsurance monopolies control, in large measure, the workings of the total insurance market. In both Argentina and Brazil, premiums written by the retail companies must be ceded totally or in their great majority to these state reinsurance organizations. INdeR and the IRB are also responsible for rating and it may be significant that the rates established by them in these highly nationalised markets are among the highest anywhere. The full risk is of course not insured ultimately in Argentina and Brazil, which means many of the functions of these national organizations are carried out in an international framework.

Nationalisation—at least for our purposes here—sometimes stresses not so much government ownership as *national* ownership. Typical recent legislation in Colombia (destined for consummation in 1978) and Venezuela (for compliance by 1977) mean that a majority of the stock of every insurance company must be held by national citizens. This has meant a strenuous effort on the part of U.S. and other foreign carriers to transfer their operations in an orderly fashion to local ownership. This is not govenment control but the government directed withdrawal of foreign interests. It can still mean that the insured may see changes in his relationship with the carriers—even though the insurance business is the insurance business—whatever the composition of stock ownership.

The United States is not, at first glance,



"Long before modern nationcl ooundaries were set, risks were being passed to the predecessors of today's insurers."

a country with a nationalised insurance industry. There are, at a second look, many aspects of U.S. insurance already fully controlled by government. The Social Security system is a compulsory nationalised insurance organization. The Federal Deposit Insurance Corp. and the Federal Savings and Loan Insurance Corp. are other examples of nationalised insurance fully established and accepted as such in the United States. This may not be germane to the central argument here but shows that nationalisation is closer to home than many would think.

This has been a rapid and certainly not an exhaustive survey of the ways in which nationalisation is affecting insurance in some selected countries around the world. The situation is fast changing and needs constant monitoring if an insured is to keep up to date with the status of nationalising legislation in every country with which he is concerned.

There are several ways in which a company's insurance program may be affected by insurance nationalisation. Being unaware of them can lead to problems. Nationalisation typically occurs in a commercial climate which is itself becoming increasingly regulatory—for insurance and other businesses also. Two areas where the risk manager may need to take positive action are these: the choice between admitted and non-admitted coverage, and the meeting of compulsory insurance requirements. The rationale which leads a government to nationalisation of the insurance business is often paralleled by more stringent insurance regulation and more scrupulous adherence to the law. Many countries for years have had legislation on the books prohibiting non-admitted insurance but in many cases these have not been rigidly enforced. The 1975 punishment of some well-known U.S. companies in Argentina for contravention of the non-admitted law there was, therefore, all the more of a surprise. The new nationalistic environment means that non-admitted insurance is almost always barred—with rare exceptions for certain classes of business. There is also evidence that governments mean to see the laws involved are obeyed. In fact, the choice between admitted and non-admitted coverage will increasingly be no choice at all.

Non-admitted insurance is prohibited by law in India and Indonesia, in Mexico and Morocco, in Kenya and in Kuwait (with marine as an exception there). Of these six countries—six chosen among very many—only India has a fully nationalised insurance system but in each country the tenor of commercial life has strong state orientation.

There would clearly be little or no sense in establishing a nationalised insurance in-

Continued on following page

INTERNATIONAL

Nationalisation trends across globe affect insurance . . .

Continued from preceding page

dustry and then freely allowing the export of business of many potential insureds—particularly when that might be better quality business to an underwriter. This move towards admitted coverage is often strongly backed by the local tax authorities, who are equally loath to see a possible source of taxable profit escaping the country. Puerto Rico, outside the United States from a taxation viewpoint, is a case in point and authorities there have been vigorously enforcing all aspects of admitted insurance legislation.

Another likely effect as the insurance business becomes increasingly nationalised is that more types of coverage will become obligatory. This has a certain advantage to a nationalised industry. It provides a minimum and forecastable base of premium income. It can help the nationalised industry to write a balanced book of business and not find itself left only with underwriting debris. Compulsory coverages also often fit the political and social mold of many societies, by cushioning the citizen from the perils of unbridled free enterprise. Two classes of business which are already compulsory in many countries are, of course, workers' compensation (often as an integral part of the Social Security system) and automobile third party insurance. These compulsory coverages are a fixed point already in most risk programs. The evidence is there that further compulsory insurances will steadily become basic to risk programs around the world. In Brazil, for instance, most forms of fire insurance constitute a compulsory coverage.

Critics of monopolistic industries—whether nationalised or not—claim that costs to the buyer tend to rise. This argument has been well demonstrated and documented in many businesses worldwide. This is, not surprisingly, the experience also with the premium rates of many nationalised insurance industries. The three provinces of Western Canada and their "nationalised" automobile insurance schemes have not produced genuinely lower costs through provincial ownership. This is not to say, of course, that premium rates cannot and do not rise in private companies. They can and do.

While this is in no way inevitable, nationalised carriers have an inherent tendency to grow more bureaucratic and lethargic than at least the best of private companies. They often do not enjoy the capability of earning investment income that can be turned to substantial advantage—in some years at least—by insurance carriers in a free market. They are also often effectively exempted from the strict financial requirements imposed on private companies—which by itself means a less disciplined approach in a nationalised concern to a sound underwriting and cost-aware operation. A risk manager should then be alert to an increase in insurance costs, whenever he is dealing with a country where the carriers are in the process of being turned over to full state control or, to a lesser degree, where the insurance companies must be owned exclusively or primarily by local interests.

There are positive sides to the nationalisation of insurance companies also. These have scarcely had a word here so far. Even though there is substantial control in most countries over the reserves and other financial criteria of insurance companies, it can and does happen that private companies go out of business and, in the process, leave their policyholders with a major problem and no cover. The collapse of the Brandaris Company in the Netherlands in the mid-nineteen sixties, and of the Vehicle and General in the U.K. in 1970 were examples, unusual perhaps, of substantial insurers virtually disappearing overnight and leaving chaos in their wake. For all the problems inherent in state owned insurance industries, it would be unusual and unlikely for a state company to go out of business. Put another way, a nationalised company has access to government funds not normally available to the private insurer.

There is a further related advantage. Government legislation in such countries as Mexico and Brazil calls for automatic cancellation of a policy if the premium is not paid within specified time limits. These countries do not have totally nationalised insurance industries but they have in this way nationalised one aspect of the operation. This puts insurers back into the insurance business and takes them out of the banking and credit businesses. This is a plus for any serious insured.

The risk manager in a nationalised climate may have to contend with deteriorating service—in advice, in information and in loss handling. While there are certainly exceptions, a nationalised industry may not be as efficient or as flexible in the handling of claims. Furthermore, the wider "commercial" view taken by many private carriers on the merits of a particular loss will often be replaced when dealing with a nationalised concern by a rigid and unforgiving adherence to the book of rules. This is understandable and perhaps inevitable. It means that an insurance department must be better informed and more adroit than ever to overcome any potential disadvantages in the service area.

The nationalisation of insurance is then no disaster for the insured. However, the risk manager will be operating in a climate which is more complex and more regulation conscious than in the past. It is probable that insurance nationalisation will increase rather than decrease as time passes, particularly the nationalisation of reinsurance businesses. At the same time, though, we will continue to see an insurance interdependence between nations. The recent claim handling and reinsurance treaty agreements between the American International Group and the People's Insurance Co. of China is symptomatic of that healthy and exciting trend. In effect, dealing with governments and governmental agencies is becoming increasingly another vital area of expertise for the risk manager. ■

Structuring a worldwide insurance plan

TOTAL CENTRALIZATION NOT ALWAYS BEST

By PETER S. GODFREY
Senior VP, Reed Shaw Stenhouse of Mass. Inc., Boston

THE MOST COMMON ERRORS in structuring and administering the worldwide insurance programs of many large U.S. multinational corporations are the logical result of one fundamental fallacy in the rationale for almost all of these programs: That practices in the U.S. insurance business are more highly developed and reflect more accurately than anywhere else the needs of the buyer.

Too many buyers are concerned with "bringing local coverage up to U.S. standards" before reflecting on their real needs in the country in question, before researching the country(ies) in question and before attempting to understand what can and cannot be provided economically in local markets. This kind of thinking is by no means discouraged by many brokers and U.S.-based multinational insurers, who stand to profit from maximizing their own home-based involvement. The result is a proliferation of programs built with skyhooks, from the top down, often as uneconomical and unstable as skyscrapers would be, built in the same fashion.

Compounding these difficulties is a tendency for many, particularly brokers and insurers, to ignore or minimize the influence which the nature of the insured's business should have on his insurance program. To take an extreme example, consider a computer manufacturer with plants in several European and South American countries whose prime markets include banks and insurance companies. How many of those banks and insurers will become customers if the manufacturer insists on satisfying all his banking and insurance requirements outside the local markets?

A multinational insurance program can be divorced from the facts of commercial life and practice in the countries in which the insured operates despite the often compelling arguments in favor of the "ideal" centralized solution. The program must be built carefully from the ground up, based on a thorough understanding of each country's laws, practices and marketplace together with a comprehensive knowledge of the insured's own methods, markets and objectives. The resultant program will be a carefully constructed mosaic of greater or lesser complexity depending on all of the relevant factors. It will also be the most economical program for the insured, for it will accurately reflect the proper blend of local and worldwide insurance to best accomplish his ends.

Impossible, too difficult, too time-consuming, too expensive, you will say. No—none of these. Let us look at two examples from real life in which the home-foreign approach, while simple, proved very costly to the insured in question.

Local standards for insurance coverage, as for farming techniques, often serve local needs better than American imports.

Company A operates very large auto fleets in a great many countries requiring compulsory auto liability insurance. In most of these countries, unlimited bodily injury liability coverage can be provided on a form perfectly adequate to protect the insured's interest under the respective laws for the same price as for basic limits. Nevertheless, local operating companies are instructed to buy reduced limits. A worldwide policy then provides a limited excess layer at a flat annual charge per vehicle. Result: Over $50,000 per year wasted on useless coverage.

Why? Local forms are often not as broad as the U.S. form but in almost every case the local form tracks local jurisprudence so that the owner is indeed fully protected in that jurisdiction. A worldwide policy is necessary to protect against suits brought in third countries or other unusual circumstances but the cost associated with the automobile exposure need be only a small percentage of that currently being spent. Furthermore, a much more stable program, both in cost and coverage, would result from proper use of local markets.

Company B is a U.S. pharmaceutical manufacturer with several European subsidiaries. A few years ago the parent company bought a worldwide primary liability program (including products) from a multinational insurer. The form, the limits and price were very competitive in the U.S. market. In Europe, however, the U.S. form proved more restrictive than those in force locally, had a limit only ¼ to ½ of the local policies less troubled by products suits and with much lower awards, were far more responsive to the insured's needs.

How did this disaster happen? Evidently there was more concern to "bring local coverage up to U.S. standards" than there was to understand the local policies and jurisprudence. Cost was evidently secondary to goals of simplicity and uniformity—admirable goals but of questionable value when they preclude a more economical and better solution.

What is obvious from these two examples is that local markets, especially in the liability field, can often provide better solutions than can a single worldwide market. It is incumbent upon both the broker and the risk manager to assure themselves that they have investigated each possibility well enough to be able to make sound decisions. On the other hand, the examples certainly do not prove that there is a single correct approach and that no others are valid. They merely point out that every insured faces his own peculiar problems and that a pragmatic, open-minded approach will eventually get the best results.

Certainly this method will create some frustrations and a liberal dose of patience is recommended. Yet it is not necessary to reinvent the wheel each time one approaches a problem in another country. Reliable up-to-date information is available from a variety of sources, the best, of course, being the broker's and insured's own colleagues in the country(ies) in question. Their experience and knowledge must be an important ingredient in the development stage of a durable, efficient and predictable program, regardless of the role they may ultimately play. A beneficial side effect is that proper reliance on their expertise can often eliminate many of the post-implementation blues so familiar to those who have had to deal with unhappy colleagues.

So far the emphasis has been on the third party liability side of the ledger. Property insurance, by its very nature, is much more subject to the laws of physics

Continued on page 66

INTERNATIONAL

INSURING VENTURES IN AFRICA: LEGAL BOUNDS, GOOD MARKETS

"Loss experience on the African continent has been much better in some areas than would normally be anticipated."

By JAMES J. GIBBONS
Insurance Coordinator (International)
International Bank, Washington, D.C.

THERE IS LITTLE DOUBT that the attention of the world has been focused on the Middle East and the continent of Africa during the past decade: The first mentioned due to the importance of oil and petrodollars to the economy, and Africa with its undeveloped natural resources and large population concentrations.

While many segments of the U.S. business community have been active in various parts of Africa, the American insurance industry has not participated to any great degree. Modern risk management techniques are only now being introduced in most African countries.

The English speaking countries of West Africa, consisting of Gambia, Ghana, Liberia, Nigeria and Sierre Leone, are all represented in an organization known as the West African Insurance Consultative Assn. (WAICA). WAICA was founded in 1973 to assist in the building of indigenous African insurance and reinsurance companies, and to formulate plans to promote exchanges of reinsurance, technical training and education, and sound insurance markets.

Perhaps the most interesting aspect of the WAICA organization is the diversity of the regulation of the insurance industry among the member counries. These range from a completely free market to total government ownership and operation. The progress and success of the insurers operating under these various systems will bear close watching and should provide a definitive yardstick for determining the course of industry regulation throughout the world.

Since the majority of these countries were formerly under English colonial administration, U.K. contract forms, marketing methods, and accounting and statistical practices are most often used. Some of the American insurers active in this area have even adopted these methods for their own use.

Every type of insurance available in the industrialized countries of the world is being marketed in these West African nations today. Naturally, due to the state of their development, and size of the economies, the premium volumes are small in comparison to the United States and Europe. Not surprising is the similarity of their problems to insurers everywhere. The major concern in West Africa is of course, automobile coverages with escalating claim costs due to inflation, increased bodily injury costs and a claim conscious society being the contributing factors. Adaptation of a true "no-fault" automobile law is under active consideration by various members of the WAICA organization and it is here that the first implementation of the original Keaton-O'Connell plan may be realized.

Nigeria has long had its own Insurance Institute, which is affiliated with the Chartered Insurance Institute in London. Other WAICA member countries are studying the need to form their own organizations on similar lines. Regretfully, the American Institute has not been active in the area, and should give some consideration to extending educational assistance to these developing countries.

It is sorely needed, and would be greatly appreciated, and undoubtedly be beneficial to American insurers and other businesses active in Africa.

The majority of the West African countries have a compulsory automobile liability law, and a mandatory workers' compensation law. At least one has a compulsory pension scheme, and several others have various Social Security plans which may or may not be integrated with the workers' compensation laws.

As a general statement, those African countries which were formerly under French administration, prohibit non-admitted insurance. Those countries formerly under British administration do not prohibit non-admitted insurance, other than on the compulsory classes, uually limited to automobile liability and workers' compensation. Government financed projects, or joint ventures with private firms often require insurance covers to be placed wih a local carrier.

Within this framework, there still exists a wide degree of latitude for the corporate risk manager or insurance buyer. Those organizations which normally utilize worldwide or global admitted programs will find that, with some modifications, they can function as well in Africa as in any other part of the world. Some may even find to their surprise, that utilization to some degree, of a local market will produce significant savings and result in superior service for their local affiliate.

James J. Gibbons of the International Bank, at a social gathering with executives of leading African insurance companies, and a U.S. insurer.

For example, one large multinational corporation requested its insurer to change its workers' compensation policy to a retro-rating basis, which should have provided a lower cost. Within two years, the experience had deteriorated to the point where they switched back to a standard plan. Whether the increased losses were due to inadequately trained staff, poor management practices, or other factors is unknown, but, the local insurer was able to provide the required protection and services at a lower net cost to the company.

Many municipal services which are taken for granted in the more developed parts of the world, such as power supplies, fire protection and medical facilities are poor to non-existent, and must be considered in an entirely different manner. Frequently an industrial plant will have to provide one or more of these facilities solely from its own resources, or at least develop emergency alternatives.

Conversely, loss experience on the continent has been much better in some areas than would normally be anticipated. Fire losses are modest, liability verdicts have not escalated out of sight, and many of the natural catastrophes such as earthquakes are completely absent from many areas.

For the businessman contemplating entering the African market, or the risk manager soon to be faced with administering corporate assets in that region, the scant information commonly available should not be a deterrent. Sound risk management practices can be implemented within the framework of the various legal restraints in force, and reasonable, reliable insurance protection is available. It would be most unfortunate if a fear of the unknown, or decisions based on misconceptions, were the cause for rejecting a venture which is otherwise viable and mutually beneficial to the parties concerned. ■

Mr. Gibbons, CPCU (1971), is a native of Philadelphia, and is a director of the Insurance Co. of Africa (Liberia). He has been employed in various phases of the insurance industry, both domestic and overseas, for many years.

COVER IN EASTERN BLOC TAKES PLANNING

"Some Western contractors feel that it is a courtesy to the host country to offer at least part of the risk to the state company."

By M. B. SMITH
Managing Director
M. B. Smith & Co. Ltd.
Wolverhampton, England

TWO YEARS OR SO AGO we were asked by a large corporate client to look into the problems of placing insurance in Eastern Europe as they were unhappy with their existing arrangements. Initially the problem did not appear to be too difficult. We had to find an insurer capable and willing to provide carte blanche, 12 months' "Green Card" cover for individually-owned private cars used by this firm's employes in most of the Eastern Bloc countries, including at that time, several based in Russia. Cover was required also to allow personnel free access into West Europe and to cater to their return journeys to the U.K.

We began to realize very quickly that traditional U.K. insurers were not prepared to help, at least not on the scale we had in mind. We turned our attention next to the major West European market, but found that markets abroad were similarly hidebound by borders between countries, especially between Iron Curtain countries and the West. However, after many months of research and very large inquiry file, we were able to arrange with a major international insurance underwriting group the cover that was required at competitive rates. Since the arrangement was originally set up we adapted and expanded the insurance program to incorporate many different situations within the same contract.

Coverage was arranged to include:

- Cars based in East Europe allowing for any compulsory local liability cover with a state insurer, or A/D plus DIC and also providing for the issuing of the international Green Card, as required.
- Cars based in West Europe where cover can be obtained under the block policy and fronting policies issued if necessary.
- Cars temporarily based in the U.K. providing only for the U.K. exposure rates comparable to U.K. market tariffs.

After spending so much time in these investigations our interest naturally grew in placing commercial insurance in Eastern Bloc countries. For the commercial operator in Eastern Europe, activities fall broadly into the following main areas:

- Sales and service personnel making brief visits.
- Similar staff on tours of duty who will live in a country, for maybe a year or more, perhaps becoming temporary residents.

Employes under any of these headings would, of ccurse, normally be retained on the staff of their parent company in the U.K. or West Europe. The question of normal employe benefits is therefore no problem but some employers believe that due to the posting, it is necessary to extend and improve normal assistance to employes in areas of health plans, school fees, death in service benefits and travel cover.

We have been able to assist personnel further by arranging house and personal effects cover (including some cover in Moscow) which is difficult to arrange, at least from the U.K. We have recently introduced a life insurance savings scheme which takes advantage of offshore invested funds and is particularly useful for those personnel receiving their salary outside the U.K. Very effective rates of growth in investment value have been achieved and

Continued on page 66

INTERNATIONAL

FOCUS IN MIDDLE EAST ON LOCAL COVERAGE; BROKER HELP NEEDED

By EDGAR S. CLARK
Vice President
Alexander & Alexander Inc.

AMERICAN ACTIVITY in the Mideast has increased rapidly in the past few years, due primarily to oil revenues. Saudi Arabia and Iran are the world's largest oil exporters and income so derived has caused massive foreign investment thus giving the risk and insurance manager a real need to know how to operate in these countries. For the purpose of this article, the Middle East is defined to include Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Saudi Arabia, Syria and both Yemens.

Edgar S. Clark

Because of cultural and political differences, implementing a program calls for patience, understanding and the need to utilize those who are expert and have proper facilities. From the brokerage viewpoint, the major American firms have established or are in the process of establishing local facilities, usually on a joint venture basis. The same is true of the leading international insurers. It is my experience that a risk and insurance manager cannot successfully implement a program in this part of the world without assistance from a major U.S. broker and, less urgently, from an international insurer.

Ocean marine and transit exposures are a major factor. Many countries in the Middle East require that ocean cargo and inland transit insurance be purchased from a locally licensed company. At the present time, Egypt, Iran, Iraq, Jordan, Syria and Yemen all have regulations which require the shipper to purchase or insure locally, otherwise letters of credit cannot be negotiated. A further problem arises from the Arab controlled Israeli boycott office which prohibits Arabian banks from issuing letters of credit when insurance companies on the boycott list are used to insure the shipments in question.

The list in my possession of boycotted insurance companies includes organizations such as Allstate, Aetna and The Home. This is further complicated by the Department of Commerce, whose export administration has recently ruled (Bulletin 149) that it is illegal for an American insurance company to certify that it is not on the list. This "catch 22" situation is so new that suggestions for solutions are welcome. Let us take a quick tour of the specific situation in each country.

Egypt—Insurance in Egypt was nationalized (or Egyptianized) starting in 1957 and there are presently three direct and one reinsurance companies, all owned wholly or partially by the government. Ocean marine insurance must be written by a licensed company and nonadmitted insurance is prohibited. Marsh and McLennan has a correspondent, but no American international insurer has any local facility.

Iran—Insurance in Iran is partially nationalized. Although there are a number of privately owned insurance companies, they must all reinsure 25% of their business (50% for life) with a state-owned reinsurer. Any operation or construction project owned 50% or more by any government agency or instrumentality must be insured with a government owned insurer, unless the board of directors of the organization being insured passes a resolution allowing the insurance to be placed elsewhere in Iran. Nonadmitted insurance is prohibited and, because of the compulsory reinsurance, the government evercises strict and effective control over all rates and forms. Marine insurance on imports to Iran financed by letters of credit must be written by a licensed Iranian company, usually at very restrictive terms and at very expensive rates. M&M, J&H, FBH and A&A and some English brokers have local facilities in Iran.

Iraq—Starting in 1960, insurance companies operating in Iraq were nationalized. There are now one direct non-life insurer, one life insurer and one reinsurance company, all owned by the government. Nonadmitted insurance is prohibited and goods imported into Iraq under letters of credit must be purchased on a CIF basis and the insurance placed in the Iraqi market. To the best of my knowledge, there are no American brokers or insurers with facilities in Iraq.

Israel—Any involvement with Israel should, naturally, be kept entirely separate when dealing with Arab and Persian areas of the Middle East. The reasons for this are self-evident (see *Business Insurance* March 4, 1975). Insurance is regulated in a fashion not too dissimilar to American practice. While nonadmitted insurance is not specifically prohibited, currency controls prohibit the payment of premium to any insurer other than a company licensed in Israel. Marine imports and exports must be insured locally as well. A number of American insurance companies operate through local general agents and most of the major U.S. brokers as well as some English firms have facilities either through correspondents or branch offices.

Jordan—While nonadmitted insurance is prohibited in Jordan, there are some private insurers operating there and there appears to be no government supervision of insurance company operations. Imports into Jordan financed under letters of credit must be insured with a locally licensed company. American insurers operate primarily by means of reinsurance and, to the best of my knowledge, there are no American brokers with facilities in Jordan.

Kuwait—Kuwaiti law prohibits nonadmitted insurance but there are a number of non-Kuwaiti insurance companies licensed to operate. Reinsurance may be arranged outside of Kuwait and then fronted locally. Marine insurance does not have to be placed in Kuwait. There are no American brokers with permanent local facilities.

Lebanon—The recent civil insurrection in Lebanon has clouded the insurance picture. To the best of my knowledge, while nonadmitted insurance is prohibited, there are a number of international insurers operating in Lebanon on a very competitive basis and programs have been implemented without too much difficulty. Marine insurance does not have to be placed in Lebanon. The major international insurers operate through branch offices and most American brokers have facilities on a joint venture or correspondent basis.

Oman—Insurance is relatively free and there is no prohibition against nonadmitted insurance. Marine insurance covering imports or exports is free. Several U.S. international insurers operate through local agencies, but there do not appear to be any local facilities for American brokers.

Saudi Arabia—This fascinating country has no insurance laws or regulations. Nonadmitted insurance is not prohibited and ocean marine does not have to be written with Saudi companies. In fact, Islamic canon law ("Shari") does not recognize the contract of insurance and prohibits in principle any speculation on human life. There may be some changes in the future, however. According to the January 3, 1976 issue of the Saudi newspaper, the Akhaz, a bill is being prepared which will be put before the government regarding the legalization of insurance in some form. The article goes on to say ". . . after passage it will be put before the king for approval." It looks as if some form of insurance recognition, and hence regulation, may be forthcoming in the not too distant future. Most U.S. insurers operating overseas have facilities in Saudi Arabia, all in the form of agencies, not branch offices. M&M, J&H and A&A have local correspondents in Saudi Arabia and FBH has a branch office.

Syria—Insurance was nationalized in Syria in 1961 and all insurance must be placed with one government owned insurer/reinsurer. Nonadmitted insurance is prohibited and imports must be insured locally. No American insurers or brokers have local facilities.

Yemen—Not too much is known by me of the situation in either of the Yemeni countries, aside from the fact that the People's Democratic Republic of Yemen has nationalized insurance, prohibits nonadmitted insurance and requires that marine cargo must be insured locally. Insurance information for the Yemen Arab Republic is said to be similar to Saudi Arabia. No American insurers or brokers have local facilities.

It is possible to protect your investment and operations in most of these countries. But this cannot be done by sitting behind a desk somewhere in the U.S.A. and relying on others to do your job for you. You must pack your bag, obtain proper introductions and board an airplane (probably without the availability of alcoholic beverages, since the Koran prohibits their consumption) to your destination, where you must be prepared to spend at least twice the amount of time you would spend in the U.S. for a comparable operation. ■

Edgar S. Clark, vp of Alexander & Alexander and a member of their international division, previously was a vp and director of Risk Planning Group, Inc. Prior to that he was with Marsh & McLennan, first as manager for Europe & resident director headquartered in Brussels and then as assistant vp & manager of M&M's western division risk management, captive company and international division.

Structuring worldwide plan...

Continued from page 64

than to human jurisprudence. Consequently it often and justifiably receives first attention in the establishment of worldwide programs. Even so, there is a remarkable tendency among American insurance buyers, brokers and underwriters to refuse to learn from their insurance counterparts in other countries.

Fire protection is a good example. The French have developed a highly sophisticated code for the protection of refineries and chemical plants quite different from U.S. norms in certain aspects, yet how many U.S. loss prevention engineers have studied the French codes and attempted to learn from them?

How often have we seen worldwide property programs imposed in an attempt to consolidate buying power and standardize perils only to see local costs skyrocket as the former underwriters are replaced by the designated worldwide carrier, necessitating a new rate filing or official inquiries into the rates initiated by deposed (local) carriers, not to mention the new carrier's local representative's interpretation of the "going market rate."

Our ideal should, of course, be to protect the corporation's assets as efficiently as possible through all means available to us. The advantages of worldwide insurance programs built to acceptable standards, consolidating buying power and absorbing everyday losses at the corporate level are numerous and well-known. But many programs have serious faults because they are too costly (rather than cheaper), because they create complexities where none need exist (why battle a rating bureau over U.S.—style fire protection when local standards are just as effective, easily accepted and no more costly), because they ignore the fact that many foreign markets are more, or at least as, sophisticated as the U.S. market (of necessity and longevity.) because they fail to fully understand the local jurisprudence or because they fail to recognize that insurance is only a small part of an on-going commercial venture. ■

Mr. Godfrey is manager of Reed Shaw Stenhouse's Boston office, opened in July 1975. His experience in international insurance includes two and one-half years in Paris as manager for France of Marsh & McLennan International, participation in the design and implementation of numerous worldwide programs,conduct of captive insurance company feasibility studies and implementation of captive programs, as well as the use of a variety of European and other foreign markts for the placement of both U.S. and foreign risks.

Eastern Bloc coverage . . .

Continued from page 65

have been projected for the future.

Construction and erection contracts, particularly joint ventures and turn-key projects are on the increase. In general the insurance risks are arranged by the contractor in the normal Western insurance market. State insurers—WARTA in Poland and Ceska Statni Projistovna in Czechoslovakia are examples of state monopoly insurers who are actively seeking involvement in construction risks arising in their countries and elsewhere. Some Western contractors feel that it is a courtesy to the host country to offer at least a part of the available risk to the state company.

Where purely local risks are involved, employer's liability and vehicle insurance for example, such risks might be entirely placed in the host country. Some contracts contain clauses which insist on certain risks being placed with the state insurer.

In addition to normal construction risks which may include cover on parts and equipment being insured from numerous sub-contractors premises to the site, including the assembly and testing of equipment etc., it is becoming more frequent for contracts to call for performance bonds.

Where it is felt that local cover establishes a more direct control, particularly in the area of claims, local state insurers can adequately provide this service. Certain areas need care in arranging cover. This is certainly true where Western contracts e.g. liabilities and products cover, are based on worldwide cover. Some contracts may exclude Communist states and claims investigations can sometimes be a problem, although state insurers will usually assist Western companies in this area. ■

Mr. Smith has been in insurance broking for over 20 years, having worked with two international Lloyd's brokers for long periods, starting his own company five years ago. There are three companies within the group specializing in personal business, commercial insurances and life and pensions and financial planning.

Movie studio calculating property loss from holiday fire

HOLLYWOOD, CA.—Property coverage for the historic Samuel Goldwyn Studios, which was partly swept by fire last Christmas day, is provided by two underwriters, according to Len Johnson, Goldwyn's general controller.

They are: Northbrook Insurance, Northbrook, Il., which has the primary layer, and Harbor Insurance Co., a part of UnionAmerica Corp., Los Angeles, which has the excess layer.

Total property coverage for the old, independent studio (it is not associated with Metro-Goldwyn-Mayer) comes to over $10 million, Mr. Johnson told *Business Insurance*. While no final damage figures for the studio have been established yet, Mr. Johnson said he believes the property damage will be under $3 million.

The fire, the second major blaze at the Goldwyn Studios in 19 months (*BI*, May 27, 1974), destroyed the sound stages where television's "Cannon" series films.

Spokesmen for the Los Angeles County fire department said the day after the blaze that they put its cause at discarded smoking material which started and smouldered in a dressing room at the western end of stage 1.

QM (Quinn Martin) Productions, the producer of Cannon, had the property used in the series insured by Fireman's Fund American through the offices of Albert G. Ruben & Co., Beverly Hills.

An Albert G. Ruben & Co. spokesman said he estimates damage to QM Productions at between $150,000 and $200,000, including direct and consequential losses. He added that QM's property coverage is sufficient to cover the loss.

Mr. Johnson of the Samuel Goldwyn Studios explained that no final damage figure has been set yet because objectives destroyed by the fire were moved from stage to stage on a daily basis.

The Goldwyn studio property coverage, which is brokered by Johnson & Higgins, Los Angeles, was moved to the present day carriers in January, 1975.

They replaced Unigard Insurance Co., which assumed the account in April, 1974, one month before a big blaze on May 6 consumed three sound stages and created several million dollars of damage.

Subsequently Unigard declined to renew Goldwyn's coverage at the renewal date in early 1975, a spokesman for the underwriter revealed. He added that the coverage had been arranged for Unigard through the offices of Allen, Miller & Associate, San Francisco. ■

Comp benefit now 75% of take home pay

CHICAGO—A worker earning the national average wage now would receive a nationwide average of 75% of take home pay in workers' compensation benefits as of Jan. 1, 1976, according to the American Mutual Insurance Alliance (AMIA).

The comparable figure for a state-by-state study conducted in 1972 was 63% of take home pay, the AMIA found. In 1960, workers compensation benefits replaced an average of 54% of spendable earnings, which are defined as gross wages minus federal and state withholding taxes.

The 1972 recommendations of the National Commission on State Workmen's Compensation Laws pointed to states providing at least 80% of spendable weekly earnings for temporary total disability benefits, the AMIA said.

Twenty-one states have met or exceeded this goal of 80%. Together they represent 32% of the U.S. work force.

Another 22 states, or 52% of the nation's work force, provide benefits equal to between 70% and 79% of spendable earnings, the AMIA found.

Four states—Indiana, Louisiana, Missouri and Tennessee—or 9% of the U.S. work force provide between 60% and 69% of spendable earnings for temporary total disability.

Arkansas, Mississippi, Oklahoma and Texas provide less than 60% of spendable earnings as workers compensation benefits for temporary total disability.

The AMIA noted that the improvement in average benefits nationwide have increased about 19% since 1972. ■

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Arab blacklist . . .

Continued from page 1

tion by the Hartford Insurance Co.

The letter is not dated. It states: "As far as we are aware and to the best of our knowledge, this insurance company is not on the Saudi Arabian Blacklist."

When asked if such letters of certification are still being issued, a spokesman said the company's position is not to comment on the matter.

Sources in the company, however, said the letters are no longer being issued.

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"Since the law came into effect, we are no longer providing any certification as to whether we're on the blacklist or not," the source said.

"The New York law has put us in an impossible situation," a spokesman for one of the top domestic ocean marine insurance companies said.

If an insurance company certifies it's not on the blacklist, it is in violation of the New York anti-discrimination law; if it refuses, it stands to lose the sale of insurance to an account.

That's also true for an insured company certifying the status of its suppliers and insurers.

"This law is going to cost us one hell of a lot of money," the spokesman complained. "It's going to mean we'll lose business to the London market."

A spokesman for another ocean marine underwriter predicted "more premiums will be written by our offices outside of New York" because of the state's anti-discrimination law. It may mean that certification of not being on the blacklist will come from offices in states other than New York, he explained.

The New York law, however, applies not only to companies doing business in that state. It also states that "if a non-resident person or foreign corporation violates any provision of this article . . . such person or corporation shall be prohiibited from transacting any business within this state."

"Whether New York can reach out with the extra territorial aspects is of questionable legality," one industry source noted.

New York is the only state whose anti-discrimination laws are more stringent than the federal regulations, enforced by the Export Administration of the Department of Commerce.

"Blacklisting occurs for economic reasons," a spokesman for the Export Administration said. "There is a general misunderstanding about discrimination and blacklisting."

Thus the federal regulations prohibit "taking any action . . . that has the effect of furthering or supporting a restrictive trade practice . . . which discriminates against U.S. citizens or firms on the basis of race, color, religion, sex or national origin."

Examples of prohibited requests include inquiries as to the place of birth or the nationality of parents of employes, stockholders or directors or inquiries as to whether they are Jewish, negro or female, the government regulations state.

However, another section of the Export Administration's regulations, set forth in Bulletin 149, effective Dec. 1, 1975, deals with restrictive trade practices or boycotts. Under this section companies "are encouraged and requested to refuse to take any action . . . that has the effect of furthering or supporting other restrictive trade practices or boycotts fostered or imposed by foreign countries."

Examples of this type of action, the government says, include requests for certification as to the nationality of individuals (e.g. Israeli or South African as opposed to national origin or ethnic background) or the absence of a firm from the blacklist of a country or group of countries.

The federal regulations require any U.S. company requested to supply such a certification to report the request and the person, company or country making the request to the Export Administration. Failure to report the request for certification can result in a fine up to $1,000. Getty Oil Co. was fined $1,000 for failure to report a request in support of the Israel boycott made by Kuwait.

The regulations also add that boycotting of a U.S. firm by another U.S. firm in order to comply with a restrictive trade practice by foreign countries against other countries friendly to the U.S. may constitute a violation of antitrust laws.

Bechtel Corp. has been sued by the Justice Department for antitrust law violations in refusing to hire blacklisted subcontractors and by refusing to allow subcontractors to buy from blacklisted companies.

Emphasizing the difference between the New York law and the federal regulations, a marine underwriter noted, "There's quite a difference between 'encouraged and requested to refuse' and 'prohibited from' taking action."

"The arena is confused; there are a lot of issues criss-crossing and no positions are clearly stated," was the assessment of yet another ocean marine underwriter.

For some interests, there is no confusion of issues.

In a statement during the hearings on the New York state anti-discrimination law, Bernard Kutner, chairman of the National Discrimination Committee of the Anti-Defamation of B'nai B'rith said the law will have "a substantial impact on permitting American companies to do business in the Middle East without capitulating to the Arab demands which restrict the free trade policies so long a hallmark of U.S. commercial principles."

He further noted, "The only way to insure that no company will be at a competitive disadvantage in refusing to capitulate to Arab boycott demands is to pass laws which will make this capitulation prohibitive."

Among the number of brokers and underwriters questioned by *BI*, it was found that only one marine underwriter, Wm. H. McGee & Co. Inc. had issued a statement instructing their assureds "not to clause any special policy or other insurance documents in any way that may be interpreted as aiding or abetting discriminatory practices."

Other major ocean marine underwriters, including CNA, Fireman's Fund and MOAC, refused to comment on the record as to how they were handling compliance with the New York law.

A spokesman for St. Paul Fire & Marine Insurance Co. said, "we're holding a tight rein. Compliance with the letter of the law is a nationwide approach."

Far more typical, however, was the response of an underwriter who asked to remain anonymous.

"If we have customers who want to sell to the Arabs, shouldn't we be able to insure them?" he asked. "Let's face the economic facts of life. The exporters want to make sales and the Arabs have the money." ■

Reduce fire rates

Japan, which experienced an 8% decrease in fires in 1975, will have the fire insurance premiums reduced in April by 10%. The Fire Defense Agency reported that fires in 1975 totalled 62,080, an 8.3% decrease from the 1974 figure.

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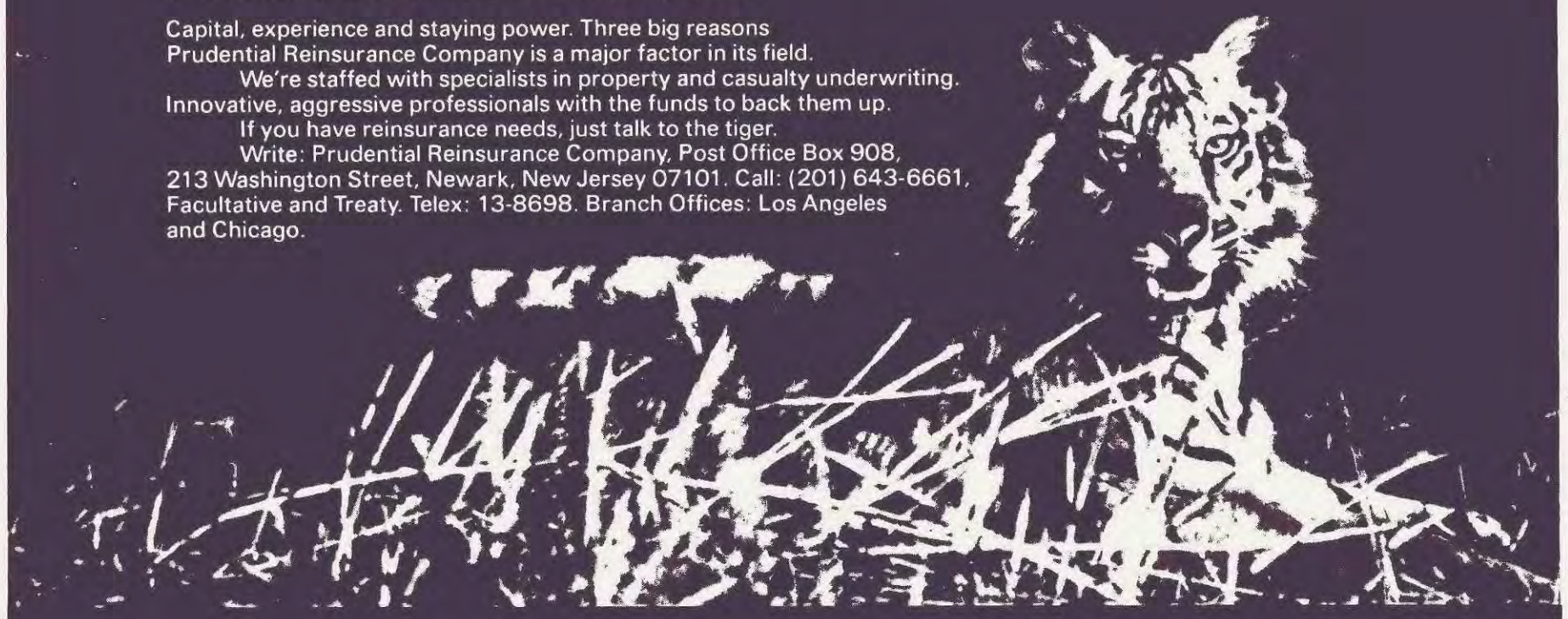

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Strict liability creating many new problems

TAMPA—Expanded interpretation of product liability laws now affects not only warranty contracts but also manufacturer's negligence in design defects, product misrepresentation and failure to test for wear and tear, warned an insurance company executive.

Joseph P. Decaminada, vp, secretary and counsel of the Atlantic Cos., said in a speech at the CPCU products liability seminar here that the trend towards strict liability is creating many legal and financial problems for manufacturers.

Consumerism, the courts and the federal government have helped develop two concepts that lead to strict liability, he noted: First, that the manufacturer is in the best position to bear the burden of injuries and losses caused by the defective product, and second, that a manufacturer is alleging his product is defect-free when it enters the market.

Strict liability provides that the manufacturer is liable for any personal injury or destruction of property caused by a defective product with the plaintiff having only to show that the product was in some way defective when it was produced. The manufacturer will be held liable even if he shows "reasonable care in the preparation of the product and has utilized the best material available in its production," Mr. Decaminada stated.

While warranties, either expressed or implied, did involve a breach of contract between the seller and the consumer, the courts now permit all injured parties to recover from the manufacturer and the seller rather than restricting the right of recovery to only the individual who purchased the item.

Under the broad term of "negligence" manufacturers have been held liable for failing to give adequate warnings and clear directions; for design defects creating concealed dangers; for misrepresenting through advertising or lables the quality of a product; and failing to test for normal or long term wear and tear, he pointed out.

Manufacturers have the duty to warn the user of the product's dangerous characteristics. According to Mr. Decaminada, producers "must now anticipate all possible and reasonable ways that their product could be misused" and their directions and warnings must be prepared in such a manner as to be intelligible to all, including a variety of backgrounds.

In the new area of design defect lawsuits, the consumer usually tries to prove one or more of the following: Insufficient safety devices, an inherent danger in the product resulting from design, or in complying with the design, the manufacturer had to use materials not strong enough for accepted standards.

In other negligence cases, the courts now are insisting that the manufacturer's product comply with its advertising statements. This involves testing all products to determine whether they will be safe after normal wear and tear.

Because the law is moving into the area of strict liability, "manufacturers can anticipate a greater number of claims and should also anticipate that many of these claims will be successful and that substantial judgments will be awarded," Mr. Decaminada concluded. ■

Storms cost millions

Storm damage which spread across Western Europe the weekend of January 4-5 will cost insurance companies millions of dollars in claims. Many business premises and homes were flooded or destroyed by winds with a heavy death toll in some areas. The surprise outbreak of freak weather from the Atlantic had 100 mph winds. Damage in the U.K. has already reached $50 million and may prove to be even higher. Most insurance companies feel that they can meet the claims without any effect on premium rates.

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Aetna's overseas offices can be contacted at: Generali European Marketing Office (employe benefits only), 149 Avenue Louise, 1050 Bruxelles, Belgium. Telex: 21772 RAVAS B. Or contact Aetna Life of Australia & New Zealand Ltd., 2 Help St., P. O. Box 192, Chatswood NSW 2067, Australia. Telephone: 412-3133

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Contact Richard M. Murray, vp, The Travelers International Department, One Tower Square, Hartford, Ct. 06115. Telephone: (203) 277-3287. Telex: 99-4467. Cable: TRAVINCO.

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Oil pollution bill would set huge new liabilities

WASHINGTON—The House version of an oil pollution liability bill is past the hearings stage and there's a good chance it will go to the Senate this spring.

The bill would establish huge liabilities for damages and cleanup costs of oil spills from vessels, onshore and offshore facilities, pipelines and deepwater ports.

Liability for cleanup costs would be unlimited as the bill now stands, and provisions for the collection of damages would be set at $100 million for the operator of a deepwater port, $50 million for on-shore and offshore facilities and $150 per gross ton for vessels.

Availability of coverage in the insurance marketplace is "the big unanswered question right now," said an aide to Sen. Joseph R. Biden, who introduced a similar bill in the Senate last fall.

Quick action by the House would seem to be the bill's only hope, according to the aide: "Unless the House moves fast and gets legislation over, the bill will probably die in this Congress."

The three Senate committees with jurisdiction will be tied up with other legislation until March, the aide said. A special joint subcommittee then will be formed to study the bill, composed of five members each from the committees on Commerce, Interior and Insular Affairs, and Public Works.

An Administration bill has also been proposed which would tie together liability for cleanup costs and damages, with a $50 million ceiling on the liability for each owner or operator of oil transport facilities.

The staff of the House Subcommittee on Coast Guard and Navigation is now working on the bill, proposed last fall by Rep. Gerry E. Studds (D-Ma.), that recently underwent hearings.

One of the things the staff is working on is a concern brought out in the hearings that "all rational payments be made, but we don't want to make it so broad that people can take advantage of it," a subcommittee staff aide said. "We don't want to make it a welfare program."

The aide said it will be several weeks before the bill is ready for consideration by the subcommittee. "But I think we can get a bill reported and passed this spring," he said.

He added that he doubted whether liability for cleanup costs would remain unlimited. "Frankly, I don't see the need." Several witnesses during the hearings said they couldn't get coverage if the liability was unlimited.

But the aide to Sen. Biden said, "It's been our experience that when the limits are placed high, the market seems to meet it.

"The cost of spills should be borne by those whose operations cause them," the Senator's aide said, noting how the oil companies have formed organizations to pool their risks before.

The purpose of the oil pollution liability bill is to consolidate the liability for oil spills that several laws now cover. ■

Indexing to become more common here

CHICAGO—Indexed insurance policies, more common in France and Brazil where inflation rates have traditionally been high, may become more widespread in the U.S., predicts a consultant.

"Germany and Sweden's insurance markets are currently dabbling with the idea of indexing," according to H. Felix Kloman, president of Risk Planning Group, Darien, Ct., in the latest issue of Risk Management Reports.

General Reinsurance Corp., one American insurance company that has pushed indexing since 1974, now has approximately 52% of its treaty excess loss business on an index basis, a spokesman said.

An index clause promotes an equitable sharing of inflation between the assuming and ceding carrier. "Otherwise, a disproportionate amount would normally sit on the reinsurer," said the General Re spokesman.

He pointed out that while indexing doesn't solve the problem of inflation, it does make the allocation of inflation more "equitable."

The French method is a "good example of the use of indexing," Mr. Kloman said. The insurance industry in France developed an index applicable to industrial customers which includes three basis components—buildings, equipment and material or stocks.

"According to our French sources, (their) indexing scheme has been most popular with small commercial clients who become tired of their insurance carriers constantly requesting an update in their insurable values," Mr. Kloman explained. ■

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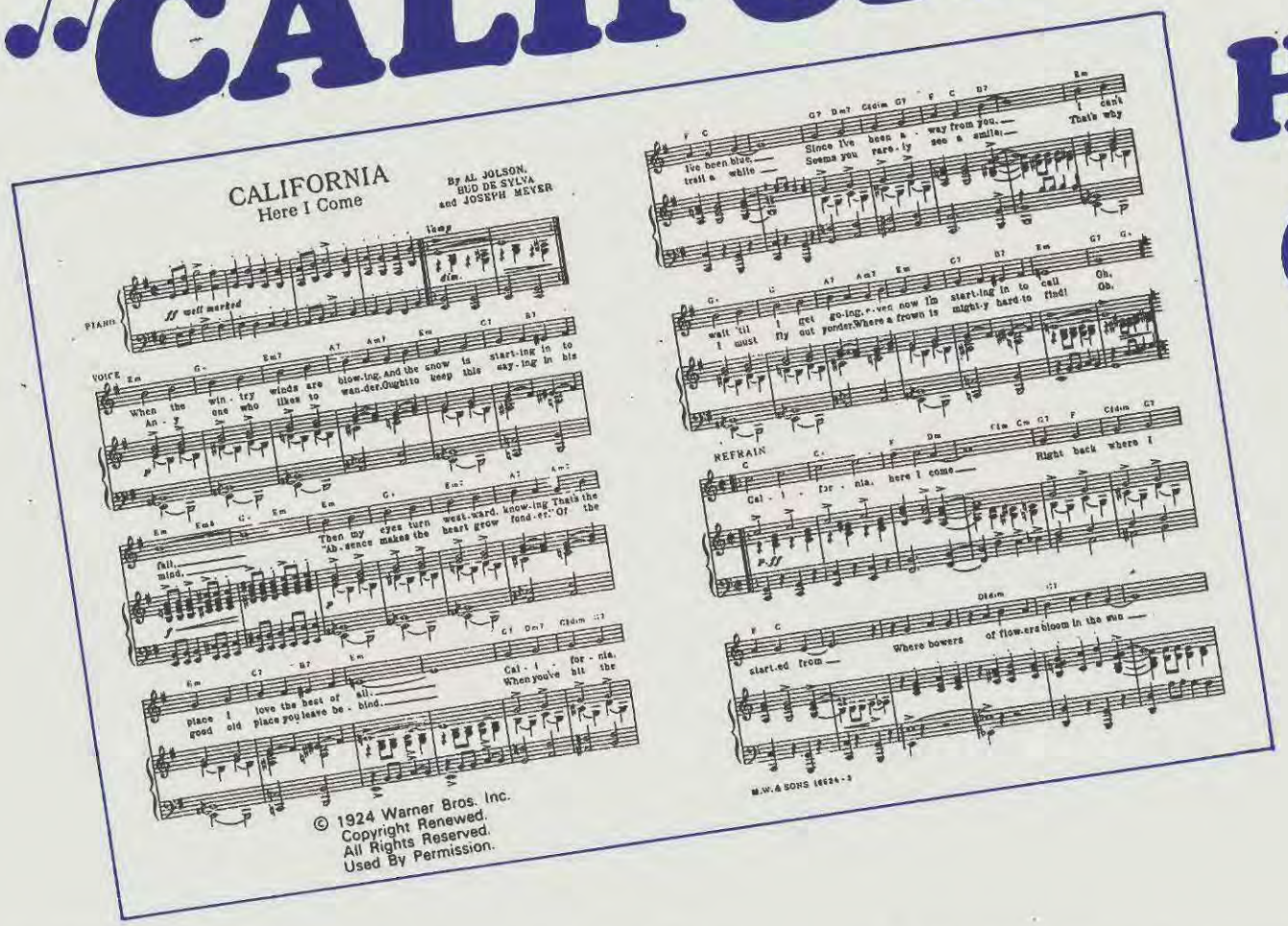

In 1924 Al Jolson wrote and recorded "California Here I Come" along with the other songs that made him famous.

In April, 1976, BUSINESS INSURANCE will be heading for California too, but to cover the annual Risk and Insurance Management Society's annual conference in Los Angeles.

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Also, watch for the winners of the annual BUSINESS INSURANCE Employe Benefits Communications Awards Competition. Awards will be presented at the Tuesday, April 27, 1976, R.I.M.S. Employe Benefits Conference luncheon at the Biltmore Hotel.

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benefit tax slants

Entice top executive with sizeable life insurance policy to build estate

By JOSEPH S. ROBINSON
Attorney-at-Law

IN ORDER TO BRING a top flight executive into the corporate fold, companies often give them the opportunity to build a sizable estate. One way to do this is through life insurance such as the $4.375 million worth that Norton Simon Inc. negotiated for David Mahoney, its chairman. Here's how it was worked out:

A $2.375 million portion is insured in the group plan in which all Norton Simon employes participate with coverage generally from three to five times their annual salary. Mr. Mahoney's current base pay is $400,000 a year plus a guaranteed bonus tied to performance goals. The bonus can add 75% to 125% of base pay to his compensation.

His remaining $2 million coverage is insured by an individual policy under a version of the split-dollar plan. Norton Simon Inc. is paying the premium but retains the right to the cash surrender value from which it would extract reimbursement of its premium payments in the event of his death. Mr. Mahoney's beneficiary would get the rest of the proceeds.

Normally, the company and the executive split the premium charges too. The cash value is considered an asset to the company for borrowing and other purposes. The executive obtains a rare bargain in insurance coverage. A 52-year-old man like Mr. Mahoney would have to pay about $82,000 in annual premiums if he were to finance a $2 million life insurance policy entirely on his own.

* * *

Although sponsors of pension plans do not require government okay before going ahead, almost no company will proceed without a firm commitment from I.R.S. in the form of a "determination letter" guaranteeing the plan's tax-preferred status. But what happens if the Treasury either fails or refuses to issue the sought after letter?

Under provisions of the current pension act, any interested party can take their case to the tax court. The latter has limited jurisdiction to issue a declaratory judgment whether a retirement plan qualifies for deductible donations and whether the related trust is exempt. The petitioner can docket the case whether the I.R.S. disapproves or simply fails to act on the application for qualification. *(I.R.C. Sec. 7476)*

* * *

A Closely Held Corporation having a non-contributory profit-sharing plan wants to convert the plan into a tax qualified employe stock ownership plan. The participants would have no say on conversion. But the ESOP would remain non-contributory.

Query: Do the sponsors need SEC approval? No registration is required says the SEC. Reason: Since the employes had no choice about the conversion, they will not be making an investment decision when their vested profit-sharing plan benefits are changed into vested ESOP benefits. *(SEC Letter to Decouper Industries, 11/20/75)*

* * *

Group-term life insurance cost is not considered wages subject to withholding tax according to Treasury Proposed Regs. Nor is insurance on the employe's spouse or children where such insurance is merely incidental.

However, sick pay is treated as wages subject to withholding. But there is an exception for sick pay that is excludable from the employe's gross income under the rules provided certain records and other requirements are met. *(Proposed Reg. Sec. 31.3401 (a)(14)-1 (a); 31.3401(a)-1(b) (8) (ii) (a) and (b).*

* * *

When are employe benefit managers illegally practicing law? In an advisory opinion, the New York State Bar Assn. says that accountants, actuaries, bankers, pension consultants, insurance agents, security brokers and other laymen are unlawfully practicing law if they perform for others any of the following services in connection with the design, drafting or adoption of pension, profit-sharing, or similar plans:

- Preparing a plan or trust for execution or adoption with data gathered from the company and representing that the plan is suitable in all respects for the company's particular circumstances.
- Advising that a particular plan is tax qualified or complies with ERISA.
- Advising on the effects of the tax laws and other laws on the specific situation of the company or participant.
- After adoption, interpreting the operation of the plan or trust under ERISA or under tax or other laws. *(NYSBA Advisory Opinion #28-10/1/75).* ■

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legal brief

Group insurer must tell employe of policy changes, says Alabama court

IN A CASE OF historic significance, the Supreme Court of Alabama has ruled that an insurer under a group disability policy had a duty to give an employe notice of changes in the policy provisions. The court also held that notice of the changes given to the employer did not discharge the duty. This case was unique in that it was the first time under the state's new Judicial Article that the supreme court was requested to answer the United States court of appeals.

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Il.

The federal court had requested instructions because it could find no clear controlling precedents in the decisions of the Alabama Supreme Court on the question of whether a notice of cancellation or termination of a policy by an insurer and the issuance of a new policy was required to be given to the insured's employes and, if so, whether the notice to the employer was sufficient.

Woddie E. Harrison, an employe of the Tennessee Valley Authority (TVA), became insured under a group disability policy issued to his employer by the Insurance Company of North America (INA) on October 1, 1965. Subsequently, the policy was renegotiated and replaced by a second policy on October 1, 1966. The second policy differed from the first policy in that it excluded disability benefits for injuries to which benefits were payable under the Federal Employes' Compensation Act (FECA).

Harrison suffered an accidental injury on August 13, 1969, causing permanent and total disability. His claim for disability benefits was rejected by INA because he was receiving benefits under FECA. After renegotiation of the group policy, INA printed new Certificates of Insurance and had them mailed in bulk to INA's office in Nashville. The Nashville office then sent them to Knoxville. Harrison did not receive any notice of a change in coverage of his 1965 certificate until after his employment-connected accident. TVA mailed him a new certificate about six to seven months after the accident. Harrison recovered against INA in federal court. When INA appealed, the federal court of appeals requested this clarification of Alabama law from the state's supreme court.

The Supreme Court of Alabama concluded that Alabama law did, in fact, apply to this case. The court also agreed that Alabama law was "unclear" whether INA had a duty to notify Harrison of the cancellation of the 1965 policy. The court reviewed prior decisions and concluded that INA had a duty to notify Harrison and that notice to his employer was not sufficient. The court believed that the notice to TVA did not constitute notice to Harrison because "TVA was the agent of INA in so far as the notice issued is concerned."

Consequently, the court ruled that the 1966 insurance contract was not effective with respect to Harrison, who received no notice of the new contract. *Harrison* v. *Insurance Company of North America*, Supreme Court of Alabama, August 28, 1975, Shores, J., 318 So.2d 253 (BI/03/F.—$3)

Double indemnity benefits

A California appellate court has ruled that where an insured was suffering from a condition that in and of itself would not have caused his death, but had been set in motion by an accidental fall, the insured died as a result of accidental bodily injury.

Consequently, the court concluded that the California-Western States Life Insurance Co. was not relieved of liability for the double indemnity death benefits by a clause in the group life policy providing that the benefit was not payable if death "is contributed to by" disease.

Here the insured, who died on November 3, 1971, had been a member of the State Bar of California and actively engaged in the practice of law. He was insured under a group policy issued by California-Western. The pertinent portion of the policy provided double indemnity accidental death benefits if the insured dies as a result of accidental bodily injury, directly and independently of all other causes. But the policy also stated that the benefit was not payable ". . . if death . . . is contributed to by: (1) disease or bodily or mental infirmity . . ."

At all pertinent times, the insured had hemophilia type 8, a congenital condition present since his birth. On October 30, 1971, he slipped and fell to the floor, an accidental occurrence. The bodily injuries sustained by the insured in his fall proximately caused a subdural bleeding that commenced at the time of the fall. This bleeding was the direct and immediate cause of the insured's death.

The trial court found that in the absence of the accident, the insured would not have died from his preexisting condition of hemophilia, and concluded that death did not result from and was not contributed to, by disease within the intent or meaning of the exclusionary provision.

While acknowledging that no California court had construed policy provisions identical to those here, the court concurred with an Illinois Appellate Court decision in *Carlson* v. *New York Life Insurance Co.*, 222 N.E.2d 363, wherein the court held that a preexisting disease or illness, although contributing to the loss resulting from the accident, did not relieve the insurer of liability where the accident was the proximate cause of the loss.

The court believed that an identical result was compelled here, where the insured was suffering from a condition that in and of itself would not have caused his death, but had to be set in motion by the accident. *Arata* v. *California-Western States Life Insurance Co.*, California Court of Appeal, First District, August 22, 1975, Taylor, P.J. 123 Cal.Rptr. 631 (BI/04/F.-$3)

Burglary endorsements

In this action an insured warehouse corporation brought suit against the Charter Oak Fire Insurance Co. to recover certain losses and damage under a policy covering "safe burglary or attempt threat." A Florida appellate court ruled that there had been no felonious entry into the safe as required by the mercantile robbery and safe burglary endorsement in the policy. The court also concluded that, where money had actually been taken from the safe, the loss was not covered by provisions of the policy covering an attempt at safe burglary with force and violence.

The insureds' money had been taken from the safe during business hours after an employe had rotated the dial of the combination lock through the first two sequences. The dial had only to be rotated to stop in the proper direction for the intruder to gain entry. The key to the locked door of the interior compartment was in the lock. The court emphasized that the intruder who forcefully entered the premises by breaking a window opened the safe without force or violence and left no vis-

Continued on page 76

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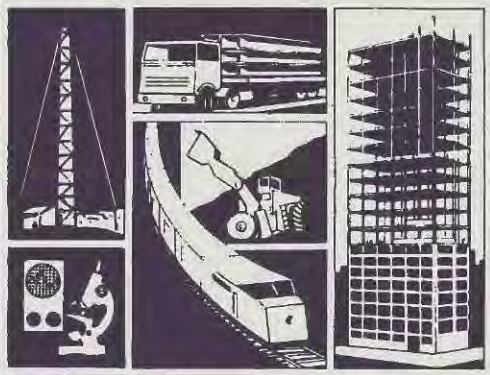

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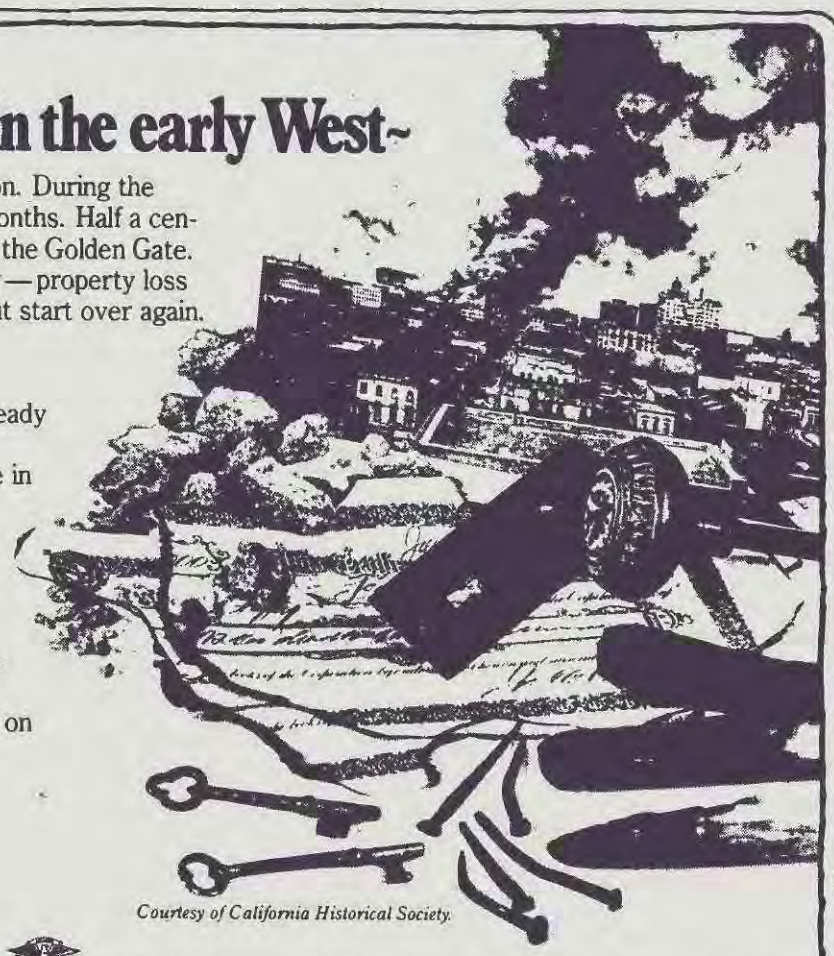

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people

Retailer hires W. G. Cain for insurance

Dayton Hudson Corp., Minneapolis, hired **William G. Cain,** 39, as director of insurance on February 23. He reports to the vp-finance and replaces **Ralph Boline,** assistant treasurer, who is slated to retire later this year. Mr. Cain is responsible for property/casualty risk management, including loss prevention, safety and claims. He formerly was corporate insurance director at Kane Miller Corp., Tarrytown, N.Y., and is replaced there by **Norman Hoffman,** as reported (*Business Insurance,* Dec. 1, 1975).

* * *

Jeffrey P. Wilkens, 33, was appointed director of compensation and policies at TRW Defense and Space Systems Group, Redondo Beach, Ca., in January. He is responsible for employe benefits as well as personnel policies wage/salary administration, general compensation planning and administration. Mr. Wilkens reports to **Berwyn N. Fragner,** vp and director of industrial relations, and replaces **Wayne Ammons Jr.,** who was named special assistant to Mr. Fragner for industrial relations planning. Mr. Wilkens joined TRW in 1969 and most recently was manager of employe benefits and personnel policies. His replacement has not been named yet.

* * *

The University of Missouri, Columbia, named **Michael O. Reese,** 33, manager of staff benefits, effective March 1. He reports to the director of personnel services and is responsible for coordinating employe benefits for faculty and staff at the four University campuses. The program includes retirement, medical, life insurance, accidental death and dismemberment, and tax deferred annuities for hourly and salaried personnel. Mr. Reese replaces **John Graves,** who died in July, 1975. Formerly, Mr. Reese was corporate compensation and benefits manager at The Lane Co., Alta Vista, Va. His replacement there is **Landan Lane Jr.**

* * *

On February 16, **John A. French,** 51, joined National Can Corp., Chicago, as corporate manager of employe benefits. Formerly a senior consultant with Hay Assoc., Chicago, Mr. French also served as director of employe benefits at Carrier Corp., Syracuse, N.Y., for 15 years. In his new job, Mr. French reports to the assistant treasurer and is responsible for group insurance, pensions, profit sharing, disability programs and compliance work as needed; part of his job includes the financial aspects of benefits planning. Mr. French manages a staff of five and was hired to replace John Flaherty, who joined National Services Industries Inc.

* * *

John Flaherty, 45, took over the newly-created position of director of employe benefits at National Services Industries Inc., Atlanta, in January. Outside consultants had been used before, Mr. Flaherty explained, and the benefit program was decentralized. His first job is ERISA compliance for the conglomerate's 18 savings and profit sharing plans and 50 welfare plans. Mr. Flaherty also plans to centralize the various existing benefit plans. He reports to the vp and general counsel. Formerly corporate manager of employe benefits at National Can Corp., Chicago, he is replaced there by John A. French, as reported above.

* * *

Pittsburgh-based H. H. Robertson Co. hired **Nicholas Bucci,** 28, for the newly-created position of manager of employe benefits, effective March 1. His responsibilities include plan design, administration, records maintenance and ERISA compliance. Duties also include financial negotiations with insurance carriers. Mr. Bucci reports to the assistant secretary of the company. He formerly was manager of employe benefits at Joy Manufacturing Co., Pittsburgh. No one has been named to replace him there yet.

* * *

Robert S. Rooney, 31, was named insurance assistant at Continental Grain Co., New York, to manage property/casualty risks and to handle claims for its subsidiary, Allied Mills Inc., Chicago. Mr. Rooney said he replaces the function performed by **Jay Misicka,** who joined Borg-Warner Corp., Chicago, in September (*BI,* Oct. 6, 1975). Previously, he was in sales at The Equitable Life Assurance Society of the U.S., New York. At Continental Grain, he is one of six on the staff which manages parent and subsidiary company risks worldwide. Mr. Rooney reports to Continental Grain's insurance manager and is assisted in administering Allied Mills' insurance program by **Barbara Katz,** based in Chicago.

* * *

WellTech Inc., Houston, created the position of safety director and hired **Jim D. Adcock,** 42, to fill it in February. Mr. Adcock reports to the president and is responsible for coordinating safety programs for the company. Previously, Mr. Adcock was manager of safety services for Highlands Insurance Co., Midland, Tx. He is a member of the American Society of Safety Engineers. WellTech has about 500 employes at locations in Texas, Louisiana and Oklahoma. Its 1974 sales were $8 million. ■

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Policy changes . . .

Continued from page 75

ible marks of any character on the doors of the safe.

While the court agreed that insurance policies such as the one at issue are to be read in such a way as to resolve all ambiguities favorably to the insured, it could not accept the insureds' contentions that in these circumstances their loss of money was covered by the terms of the policy.

The court did not dispute that "all doors" of the safe were "duly closed." The court also assumed that the doors were "locked by all combination locks thereon." But the court did not believe that it could sustain coverage if it gave effect to the policy requirements that the felonious entry into the safe be made by actual force and violence, of which there are visible marks on all doors of the safe. *Rosie O'Grady's Wareh., Inc.* v. *Charter Oak Fire Ins. Co.,* District Court of Appeal of Florida, First District, October 10, 1975, Smith, J. 319 So.2d 632 (BI/05/F.-$3)

Group health insurance

Important issues in the administration of group insurance programs for the benefit of employes were raised in this appeal. The principal issue for determination was whether an employer could be held to be acting as an agent of a group insurer for the purpose of accepting insurance applications from eligible employes.

The Supreme Court of Minnesota ruled that an employer which had the responsibility for forwarding the forms.

The court noted that there may be situations where the insurer performs such functions as enrolling employes through their completing applications for themselves and dependents, collecting employe contributions, if any, and remitting premiums to the insurer; terminating the reinstating insurance, and assisting in the processing of claims. Where the insurer performs all these functions itself, the plan is, according to the court, "insurer-administered," in which case no issue of agency between the employer and insurer arises.

But the court pointed out that there are other situations, as in this case, in which the employer performs such a number of these functions that, at least as a shorthand expression, it could be considered, in whole or in part, to be "employer-administered." To the extent the employer, with the consent of the insurer, performs the functions of the insurer, it may properly be considered the insurer's agent, the court stated. *Norby* v. *Bankers Life Co. of Des Moines,* Supreme Court of Minnestoa, July 11, 1975, Peterson, J. 231 N.W. 2d 665 (BI/04/D.-$3)

(Copies of the entire decisions described in this column may be obtained by writing to Business Insurance, *attention: Editor, 740 N. Rush St., Chicago, Il. 60601. Please enclose a $2 check made out to Cases Unlimited Inc., for each case, and specify the code number of the opinion, which is at the end of each brief.)*

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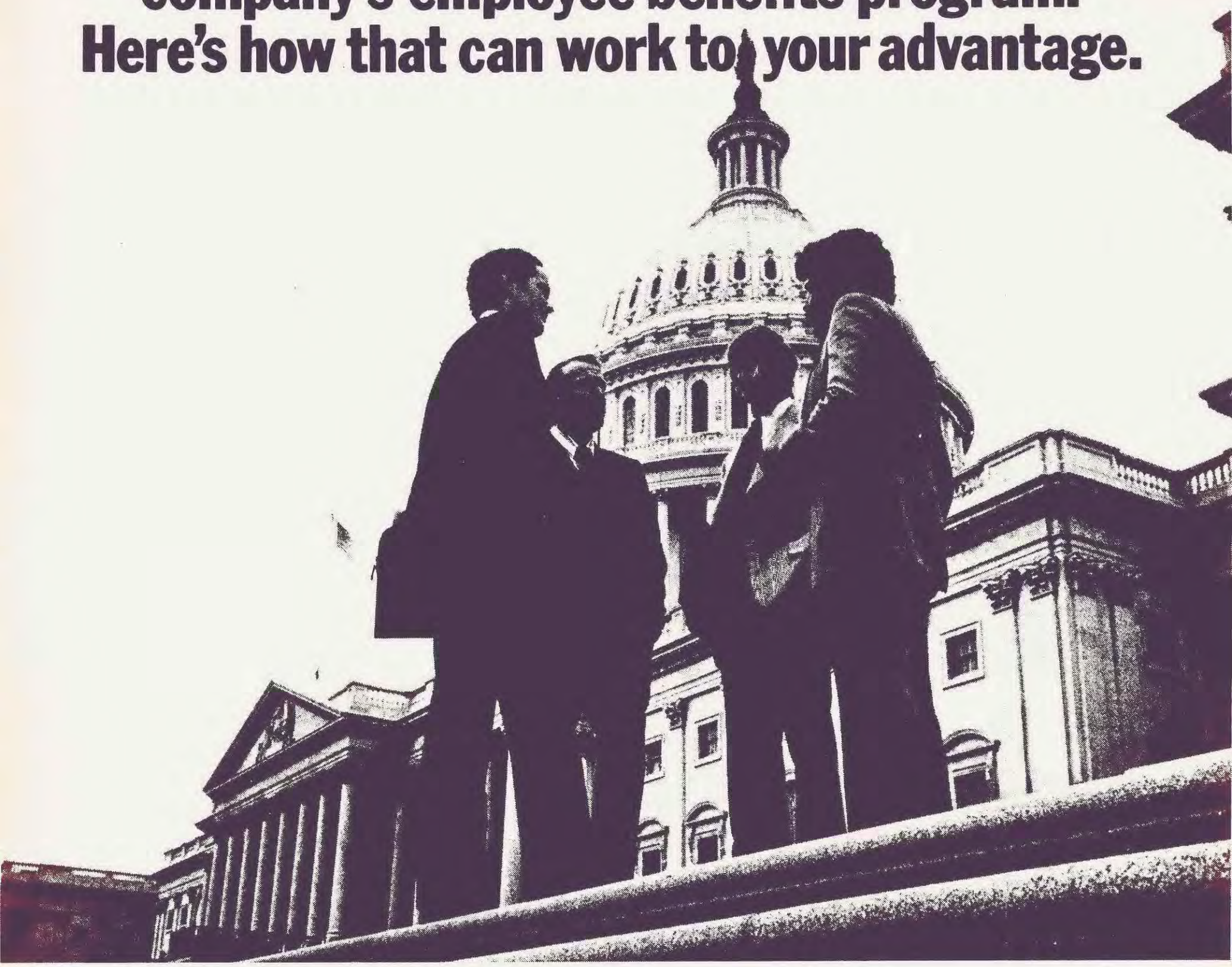

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