# Republicans set liabilities limit for Miami Beach convention in '68

see page 18

Zoos insure people . . . . . page 6
Variable annuities . . page 25
Unions alarmed . . . . page 31
Giant wrap-ups . . . . page 19


# business insurance

for buyers of employe, property and liability protection

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November 13, 1967




## Train spills new automobiles

**About ten cars** of a New York Central train loaded with Chrysler Corp. autos derailed last week on the West Point grounds on the bank of the Hudson River. Chrysler indicated it has contingency coverage for such accidents if the carrier is not liable. The railroad is self-insured. Eighty-six cars were damaged, but no injuries were reported.

*Wide World photo*

## Supreme Court liability decision termed 'beneficial' to airlines

NEW YORK—A Supreme Court decision on airline liability was called "beneficial to the whole airline industry in sharing the cost of claims" by James F. Dixon, director of insurance for Eastern Airlines. An American Airlines spokesman agreed.

The court last week left standing without explanation a lower court ruling that held both Eastern and the federal government negligible in a crash involving an Eastern flight between Charlotte, N.C., and New York on Nov. 30, 1962.

Both parties had been held liable for damages in a suit brought by the estate of a dead passenger. The plane had been in a holding pattern for 45 minutes because of fog. The government was responsible, it was alleged, because a Federal Aeronautics Administration controller failed to notify the pilot that fog had again lowered. It was also held that Eastern, on its part, had failed to notify the crew of visibility conditions.

**THE GOVERNMENT** will now have to share the cost of liability claims "in questionable situations," Mr. Dixon said, adding "after all, the FAA dictates many aspects of take off and landings."

A spokesman for American Airlines agreed. Now there is a possibility that an airline will not be "stuck" for the full amount of a loss, he explained, especially where the government is guilty of "contributory negligence."

In another action the Supreme Court agreed to review a lower court ruling which allows overseas airlines to be sued for more than the international Warsaw Convention passenger liability limit of $8,300 per passenger.

On Feb. 26, 1960, an Alitalia airliner crashed at Shannon, Ireland, killing 13 U.S. citizens.

**A SUIT BROUGHT** on their behalf charged that tickets issued by Alitalia didn't conform to the Warsaw Treaty, which required that all tickets notified passengers of the $8,300 limit.

It was charged that the notification was spelled out in small unreadable type that didn't satisfy the treaty. This was upheld by a federal district court and an appeals court.

However, in 1966 all international airlines serving the U.S. agreed to raise the $8,300 limit to $75,000 a passenger. This is felt in some circles to make the lower court decision "of little prospective importance."

**THE CASE HAS** attracted worldwide attention and is being watched by foreign governments. Mr. Dixon said that the $75,000 passenger limit is considered very high in certain countries, and not everyone feels that much is needed.

"After all," he commented, "anybody outside the U.S. would be glad to settle for $8,300, but this wouldn't be suitable here." Mr. Dixon disclosed to Business Insurance that Eastern carries higher limits than $75,000 per passenger.

The spokesman for American commented that the Warsaw Convention limits don't affect internal domestic flights, and that American Airlines also carries higher limits.

"It's the overseas international airlines that are involved," he explained, and the higher requirements are causing "lots of activities" in the traditional insurance markets.

## Strike insurance plan set for final approval by contractor group

WASHINGTON—A strike insurance plan initiated to stiffen resistance to union demands at the bargaining table will be presented by the Associated General Contractors of America to its members for final approval at the group's convention next March.

The plan outlined by the AGC's subcommittee on strike insurance would calculate premiums and benefits at about one-tenth of 1% of each contractor's value of contracts held at the beginning of each six-month period.

The method of collecting premiums and making strike-aid payments is the "guts" of the strike insurance program, the report stated.

**THE STUDY** estimates the percentage of one-tenth of 1% would approximate an average contractor's weekly overhead. Because most general contractors' agreements run for three years, only one-third of 1,000 contractors on an average would be struck.

Strike benefits would begin two weeks after the strike—the first two weeks not being covered—and would continue for the duration of the strike or until the funds are depleted.

A spokesman for the AGC said it was unlikely that an insurance company would be used to administer the fund. Rather, the group will set up its own fund with a committee of three members to review applications, investigate strikes and determine payments to struck firms.

One of the ground rules yet to be decided is the definition of what strikes will be covered by the policy. The plan suggests that coverage should be limited to strikes involving the general contractor's own employes and not strikes involving subcontractors and other firms.

## Social Security bill seen easing integration rule

WASHINGTON—A proposed boost in Social Security payments may ease Social Security-private pension plan integration rules scheduled to be released soon by the Treasury Department, a department spokesman told Business Insurance.

Following the 1965 Social Security increase, the Treasury released a proposal which would have lowered the percentage that corporations may pay in retirement benefits on wages in excess of of the Social Security cut off. The reasoning was that higher paid executives should not be allowed retirement benefits from tax exempt plans in excess of the amount allowed the lower paid employes.

*Continued on page 34*

## Blue Cross works toward national setup

DETROIT—The countdown is beginning toward the Nov. 1, 1968, effective date of a precedent-setting Blue Cross-Blue Shield "national account" for Ford Motor Co.

The agreement to equalize employe health benefits at Ford locations throughout the country was a key provision of the three-year contract negotiated between Ford and the United Auto Workers Union, and subsequently ratified by the union's membership.

Industry observers generally expect Chrysler Corp., which is presently bargaining with the UAW, and General Motors Corp. to accept the benefits package pretty much as it rolled off the Ford bargaining table. The Ford contract provides for improved medical and health benefits, the first national prescription drug insurance plan, better pension contributions and the national account with the Blue plans.

**CHRYSLER AND GM,** however, are not as enthusiastic as Ford about turning control of their hospital and doctor expense plans over to Michigan Blue Cross-Blue Shield, which will have substantial powers as the controlling plan under the Ford account.

The reason is that GM and Chrysler have dealt with local Blue plans on a direct basis, while Ford for some time has been moving toward an equalization of benefits by working through the Michigan Blue plans.

Whatever the outcome of the

*Continued on page 34*

# Six major carriers set to write slum coverage

HARTFORD—A plan to guarantee property insurance to people in depressed urban areas is promised by Jan. 1, 1963, six Hartford-based insurance companies have assured the Connecticut state insurance department.

State Insurance Commissioner William Cotter told Business Insurance that he has withdrawn his threat to force such a plan in exchange for additional promises that include:

Declaring a moratorium on "arbitrary and capricious" cancellations and nonrenewals of property insurance.

Providing an "urban area plan" guaranteeing property insurance to homeowners. (This action is similar to plans that now are in effect in Boston, Detroit and Cleveland.)

Continuing the moratorium on cancellations and nonrenewals of commercial property insurance until an "urban area plan" for commercial property is also worked out.

**MR. COTTER** said he had worked out the compromise with Aetna Insurance, Covenant Group, Hartford Insurance Group and Nationwide Insurance.

The companies had been expected to provide such a plan in early October. Mr. Cotter had said that he would force the firms to agree to an insurance department plan if they failed to comply by Oct. 30.

Mr. Cotter said the new plan is a satisfactory compromise.

'The moratorium," he said, "solves the temporary problems for riot-prone areas, and the urban area plans for both homeowners and commercial areas will be a permanent solution."

**MR. COTTER** said the insurance industry has needed federal co-operation as well as financial backing in what's been labeled a delicate area.

James F. Wyatt, Hartford Insurance Group vp, cited the reasons for the industry's caution.

"When this kind of fire and extended coverage insurance was written,' he said, "we did not contemplate the complete breakdown of civil authority.

"Premiums charged are based on past experience and projected losses."

State Sen. Frank A. Piocolo, head of a state legislative commission to study the feasibility of an assigned risk fire plan, told Business Insurance that he agreed with the compromise.

"The main thing is that the insurance companies convinced us they are willing to work in good faith for such a plan. We are convinced they are honestly trying to work out a solution to this very serious problem," he said.




Pugh Hess Kuchta Harrison

**The name of the game** is Who's Who in the Delaware Valley chapter of the ASIM. Studying the bulletin board are Bill Pugh, and John W. Hess, both of the Insurance Co. of North America; and Peter R. Kuchta and Wayne S. Harrison, AMP Inc. See story on page 3.

# Farnam sees shift in claims pay under Keeton-O'Connell plan

BAL HARBOUR, FLA.—A "massive increase" in claims payments would shift from owners of commercial vehicles, such as trucks and taxicabs, to private passenger car owners under the proposed Keeton-O'Connell auto liability plan, according to C. Eugene Farnam, insurance commissioner of Massachusetts.

Speaking at the 22d annual meeting of the National Assn. of Independent Insurers, Mr. Farnam explained that in his state commercial vehicles cause 9,000 personal injuries to private passenger car riders each year. "The private passenger car insurers would pick up the cost of these injuries under the Keeton-O'-Connell basic protection plan," he said.

A spokesman for Mr. Farnam later explained to Business Insurance that rates for individual car owners would increase because a private motorist would collect from his own carrier up to $10,000, rather than seeking indemnity from the commercial driver's insurer.

Commercial auto rates would decrease because of the same shift, the source explained.

**UNDER THE KEETON-**O'Connell proposal, liability cases under $10,000 would be paid by the individual insured's own company, regardless of fault in a settlement procedure similar to workmen's compensation. Proponents say this system would eliminate the need of excessive and costly litigation.

Those who endorse the proposal are not fully informed about its implications, according to Mr. Farnam. He predicted that compulsory insurance, which makes it mandatory for a motorist to carry liability insurance, would be replaced by a financial responsibility law—not by Keeton-O'Connell basic protection.

A financial responsibility law is pending in the Massachusetts House of Representatives, said Mr. Farnam, and would require $5,000-$10,000 bodily injury liability coverage and protection against uninsured motorists.

In addition, he said, the proposed law would create a motor vehicle accident claims fund maintained by a fee of $50 for uninsured motorists. Recovery from the fund would be restricted to victims not covered by uninsured motorist coverage.

**MR. FARNAM CALLED** the compulsory system "inadequate." It breeds, he said, claims consciousness, because motorists involved in a minor accident consider it a "fortunate event—a chance to press an exaggerated or patently fraudulent charge."

Another critic of the Keeton-O'Connell plan, Egbert L. Haywood, president of the International Assn. of Insurance Counsel, called for improvement and modernization of the present liability system at the courthouse, statehouse and insurance levels.

"Revolutionary schemes" to change the nation's liability system were scored by Mr. Haywood, who contended that proposals such as Keeton-O'Connell must be avoided "if the constitutionally guaranteed right of trial by jury and the adversary system are to be preserved."

Mr. Haywood said he had no intention of challenging the motivations of the authors of the basic protection plan, both of whom are university professors.

"I say their motivations stem from a lack of the practical," he commented. "Getting a blend of town and gown is never easy. To temper the ideas of the campus with the practicality of the town is an ever-challenging task of our legal profession, for we are the bridge between the law school and the halls of justice."

# Producer not absolute insurer for all risks, appeals court rules

NEW ORLEANS—A manufacturer is not the absolute insurer for all risks connected with its product, the U. S. Court of Appeals for the Fifth Circuit held in a product liability suit against Helene Curtis Inc.

A woman charged that Curtis was responsible for the third degree burns she suffered while using a mixture of a Curtis hair spray with a peroxide solution. Both products were labeled "for professional use only."

The court held that the woman, who was not a beautician, failed to show that the mixture of the spray and the peroxide was an intended use, that she was an intended user, and that the toxicity of the products caused her injury. It is possible that the method of application caused her burns and not the nature of the mixture, the court pointed out.

The imposition of strict liability on cosmetics makers does not mean that the maker is liable for any harm to anybody under any circumstances, the court said. One method of determining liability is by application of the intended-use doctrine. This, the court said, is composed of two factors: the marketing scheme of the maker and foreseeability of harm.

The court said Curtis could not have foreseen the mixture by the woman, since the trade secrets of one maker prevented any safety tests on the product of the other. Manufacturers cannot be responsible for a combination that they did not recommend and that they had no way of guarding against at the manufacturing stage, it added. Furthermore, the court said, it could find no evidence of a marketing scheme aimed at the general public.



Mikita Geithner Withers

**The cocktail lounge** is a popular place for a break during the annual meeting of the Delaware Valley chapter of ASIM. Here D. J. Mikita, Boston Manufacturing Assn.; Paul Geithner, Ellcott Machine Co.; and Jack Withers, Boston Manufacturers Mutual Insurance Co. take advantage of a break to discuss the lectures. See story on page 3.

# Consider product liability measure

WASHINGTON—The advisability of a federal law on product liability is sure to receive a great deal of consideration by the National Commission on Product Safety, certain now to be established.

A bill to set up such a commission passed the House last week by a vote of 205 to 102. A similar bill passed the Senate by a voice vote in June.

During Senate hearings on the bill in March, J. Herbert Hollomon, acting under secretary of the Department of Commerce, told a subcommittee of the commerce committee that he would urge the commission to give priority to the question of manufacturers' liability.

**STATE LAWS** are not uniform on liability, he said, and lead to complicated legal situations. "Is warranty the best protection? What standards for legal liability should be set and by whom? Should there be a federal statute on product liability? Whom may the injured consumer sue, where, and in what court?" he asked.

"There is a good analogy and precedent for raising the question of manufacturers liability," he continued. "When it was recognized that the employer was responsible for diligence in providing safe working conditions for his employes, the workmen's compensation laws were enacted.

"The legal question of liability traditionally has been left to state law. Certainly, federal and state relationships should receive the attention of the commission. Not to be forgotten in addition is the effect of existing non-uniform laws on industry. The prospect of having to operate under a single uniform statute on liability rather than under 50 or more should receive serious consideration."

The bill calls for the establishment of a seven-man commission which will report back to Congress and the President its recommendations for legislation or other action to protect the public against unreasonable risks of injury from household products. The House bill includes a provision limiting to four the number of members who may come from one political party.

**IN ADDITION** to reviewing federal, state, and local consumer safety laws, the commission will study the extent to which voluntary self-regulation by industry provides protection and the role of common law product liability in this area.

It will not go into motor vehicles, food, drugs, cosmetics, pesticides or firearms because laws have already been passed or studies made in each of these areas.

# Kaiser saved $2,500,000 by look at new company's pension fund

By WILLIAM A. GUEST

MIAMI BEACH—A unit of Kaiser Industries Corp. saved $2,500,000 in purchasing an additional company through analysis of the accrued but unfunded pension liabilities.

The final purchase price was $6,500,000, down from $9,000,000.

Details of the money-saving analysis were given at the National Foundation of Health, Welfare and Pension Plans by Walter B. Farrell, vp of industrial and union relations at Kaiser.

About ten years ago, Mr. Farrell said, a Kaiser unit acquired a large operation in New England from another major industrial concern. The plant was an old one and had many long-service employes.




Gabel Seal Huffman

**John Gabel, Retirement Plans,** Inc., makes a point, while Hilary L. Seal, professor at Yale, waits to score IRS regulations concerning widows' pensions. Sam Houston Huffman Jr., the Wyatt Co., listens at the foundation meeting in Miami Beach.

**THE PRIOR** owner's pension program had not provided any prefunding for pension benefits. Mr. Farrell said this followed the general industry pattern.

"In reviewing the purchase agreement", Mr. Farrell continued, "it was noted that no adjustment in the purchase price was being made for the accrued but unfunded liability.

"After analyzing this liability, we found we could save about 28% of the original purchase price of $9,500,000," Mr. Farrell said.

Kaiser learned an "unforgetable" lession through this experience.

Funding for the pension plan began shortly after the plant was acquired, Mr. Farrell revealed, "and now there are substantial assets available to insure payments of pensions to covered employes.

**REFERRING TO** another acquisition, he said . . . there was an option available to either merge these trust funds and plans into basic Kaiser programs, or as was finally decided, to freeze the benefits under these plans and utilize them as past service programs. The new employes were covered under Kaisef plans "for future service."

When a Kaiser company sells a plant, "we're very interested in protecting our employe's rights to pensions and related benefits," Mr. Farrell said.

Continuation of coverage, Mr. Farrell said, can be achieved either by retaining existing trust fund assets or to transfer such assets to the purchaser and require him to use the funds exclusively to provide pension benefits for these employes.

In one case, Mr. Farrell disclosed, the purchaser of a Kaiser unit agreed that Kaiser would retain control of the accumulated trust assets and provide pensions earned while the employes had worked for Kaiser.

Delaware Valley ASIM

# New officers' liability questioned by Bishop

By ROBIN MENZ

PHILADELPHIA—The value of Lloyd's of London directors' and officers' liability insurance is "questionable," according to Joseph W. Bishop, professor at Yale University Law school.

While conceding that the present policy is much better drafted than its predecessors, he pointed to ambiguities in some of the exclusion clauses which make it difficult to determine the extent of coverage. Mr. Bishop also objected to the lack of statistics covering the possibility that corporate officers can be sued or held liable.

Mr. Bishop spoke to the Delaware Valley chapter of the American Society of Insurance Management. He said he had not been able to find a reported case in which directors of an industrial corporation were held liable in a stockholder's suit.

**THERE WERE,** he said, a "fair number" of cases in which directors of banks and financial institutions had been held liable to receivers for the benefit of depositors, typically when their failure to supervise properly gave employes a "free hand to plunder the institution and leave it insolvent."

"But even such cases," Mr. Bishop said, "have been very rare in recent years, presumably because banks with unsophisticated directors are no longer common."

His conclusion was that a director who doesn't enrich himself at the corporation's expense and who uses his best business judgment on its problems needn't "lose sleep" over the possibility that he will be held liable in a stockholder's suit.

**IN ANY CASE,** the policy seems to exclude liability based on self-dealing, he said. If a director is vindicated in such a suit, the corporation can indemnify him against counsel fees and other litigation expenses, and, depending on the premium and risk, might decide to insure itself against such obligations to its executives.

Robert E. St. John, secretary of the underwriting department of Insurance Co. of North America, told the chapter increased benefits, liberal interpretations and jurisdictional questions have contributed greatly to increased workmen's compensation rates nationwide.

For example, he said, if an occupation contributed to a heart attack, it can be a workmen's compensation case; the heart attack need not result from a single incidence. Such a case could cost as much as $100,000.

Recently, Mr. St. John noted, a workmen's compensation referee upheld the claim of a widow that her husband contracted lung cancer and died because on-the-job pressure caused him to start smoking heavily.

In jurisdictional questions, he described the case of a Delaware contractor who finished a contract in New Jersey even though he never entered the state. However workmen's compensation provision for New Jersey applied to the employe who signed the contract.

**"WHETHER SUCH** cases will continue in the future, only time will tell," said Mr. St. John, "but I expect increasingly liberal judgments of workmen's compensation cases."

Both employer and employe benefit from mass merchandising of personal lines, a new dimension in employe fringe benefits, contended Roger S. Arnold, secretary of the underwriting department of INA.

Mass merchandising of automobile, homeowner and personal excess coverage aids the employer in recruiting new employes, reducing turnover and decreasing off-the-job injuries, said Mr. Arnold. The employe benefits from convenient payroll deduction, the probability of savings, vehicle and home inspections and safety programs.

K. C. Gudenas, superintendent of casualty claims for the General Adjustment Bureau, predicted that liability for injuries which now applies primarily to products will be expanded to services such as those performed by an architect or advertising agency.

**THE BUYER OF** a product today can sue a wholesaler, retailer manufacturer or any supplier of component parts if de-

*Continued on page 38*




Nayman Mead McCauley

**Comparing notes** at the meeting in Philadelphia of the Delaware Valley chapter, ASIM, are J. E. Nayman, Aetna Life and Casualty Co.; A. E. Meac, J. A. Montgomery Inc.; and Russell McCauley, E. I. DuPont de Nemours & Co.

*Riots and reinsurance*

# Squeeze on reinsurers causes abrupt property cancellation

PHILADELPHIA—When a mutual fire insurance company cancelled property coverage on Philadelphia's public housing in the heat of this summer's riots, speculation was triggered among insurance buyers as to the ground rules under which carriers might decide to cancel again.

The housing authority, which owns 40 high-rise apartment buildings valued at about $137-000,000, and more than 900 "scattered" one- to four-family dwellings, received a 30-day cancellation notice from the Mutual Fire, Marine & Inland Insurance Co., and was left with the task of finding insurers willing to write its coverage.

Because reinsurers were unwilling to share the risk with Mutual Fire, unless riot coverage was excluded, the insurer said it was forced to cancel. The contract was eventually rewritten with 12 carriers through Parker & Co., Philadelphia broker representing the housing authority. Mutual Fire has retained 5% of the risk.

**THE ABRUPT** cancellation in the midst of this summer's riots pointed up the tightening reinsurance market, industry observers told Business Insurance, caused by disasters such as Hurricane Betsy, the Torrey Canyon, the McCormick Place fire and various floods. Damages caused by hurricanes, floods, fires and ship casualties were largely responsible for an 89% dip in profits at Lloyd's of London in 1964, the latest year for which figures are available. Lloyd's is generally acknowledged to be the leading reinsurance market.

While some insurance companies have contended that rate increases will relieve the tightening insurance market, most buyers interviewed by Business Insurance maintained that a better solution would be to open up new worldwide markets.

London was called "the catcher's mitt" for reinsurance support, but insurance buyers pointed out that it can't be relied on indefinitely. "You can't put together any large lines for limits exceeding $50,000,000 without the help of London," said one buyer. "But the insurance industry has to look for carriers in countries like Switzerland, Italy, France and Japan to increase capacity."

**AS IF THE** reinsurance market weren't already bulging at the seams. buyers pointed out that the advent of the supersonic transport plane will really put a strain on the market. It's estimated that property and liability limits for one of the SST's will reach as high as $400,000,000.

The riots, while not the major factor in the growing scarcity of coverage, tend to dramatize the problems of both insurance buyers and sellers faced with the need for greater capacity as property values—and risks—climb.

"If the housing authority cancellation had happened in my backyard," said Rudolf Pizl, insurance manager for American Home Products, "I would want to know how secure my insurance package was.

"I don't like to see the Federal government getting involved with regulating the insurance industry," he explained to Business Insurance, "but something should be done to protect the insurance buyer."

At the same time, Mr. Pizl contended, it is "unfair" to have the insurance industry threatened with a social problem like mass rioting, and he contended that the government might have to lend financial support if the situation can't be controlled.

**ACCORDING TO** Joseph E. Franklin, insurance manager for First National City Bank, New York, cancelling insurance policies becomes "a very serious" problem at the time the insured is threatened with a serious loss.

He pointed to a ruling by Frank J. Kelley, Michigan attorney general, which stated that insurance companies may not cancel policies covering riots and civil commotion during periods when the peril is imminent or in progress.

"That ruling is one way to protect the buyers' interest." said

*Continued on page 38*

# Employer shouldn't have to pay all of 'petty' medical bills: Hendrix

NEW YORK—There is nothing "sacred" about "petty" medical expenses which dictates that they should be paid in full, Algie A. Hendrix, vp of industrial relations, General Dynamics Corp., told delegates to the Council on Employe Benefits.

Mr. Hendrix said that General Dynamics' philosophy is to give effective coverage to employes for catastrophic illnesses and things which they were unable to pay for themselves.

On the other hand, the company is not committed, "and we do not apologize for it," to pay every first dollar of group insurance claims. Like a dent in the fender or a plumbing bill "minor medical expenses will happen."

**MR. HENDRIX** discussed several methods of claims control which have been successfully instituted at General Dynamics.

He said he was reluctant to use the term "fringe benefits," since this generally described an area costing between one-quarter and one-third of the payroll. The term "collateral compensation" might be more descriptive, he suggested.

The two most important corporate objectives at General Dynamics, Mr. Hendrix said, are "doing a good job for our customers and making a fair profit for our shareholders."

Mr. Hendrix pointed out that a "disturbing" fact in all fringe programs is that benefits go equally to the most productive and least productive employe. "Fringe benefits are a nondiscriminating cost," he noted.

The employe who is barely hanging on and may be contributing very little to the productive output gets the same fringe benefits as the outstanding performer, Mr. Hendrix explained.

Therefore, although inadequate fringe benefits and coverages can result in dissatisfaction and the deterioration of employe morale, by themselves they are not truly an incentive nor a motivator to be offered to the "highest performer."

**MEETING THESE** objectives requires properly motivated employes, he continued. Therefore, the over-all fringe benefits program and the manner in which it is administered is "exceedingly important to employe morale."

It is "incongruous," Mr. Hendrix said, that some managements who would not build an addition to a plant without consulting the engineering department will run a "slip-shod, don't-give-a-darn" benefits program. Far too often the benefits program is turned over at the firing line to a few "confused low status, low paid, nonsupported" administrators.

Good employes by their nature and training are cost-conscious, Mr. Hendrix said, and do not respect a loosely-designed or poorly-administered fringe program.

The same attention to detail should be given to the spending of benefit dollars as to any other business expense. "Does it make sense to rush into a brand new disability income plan which pays 100% of income from the first day, just because two or three neighboring companies have such a plan?" Mr. Hendrix asked.

He cited two instances which indicated the importance General Dynamics places on plan design.

**ABOUT TWO YEARS** ago a major division was facing a strike deadline over the question of coordination of benefits, Mr. Hendrix said. The provision had been agreed upon in principle with the international union, but had not been accepted locally.

Mr. Hendrix said it would have been easy to "roll over and play dead" over what might be called "an insurance technicality."

General Dynamics didn't think so, Mr. Hendrix continued, "because we recognized that to give in on this point would have thrown the economic package above acceptable levels." With five minutes to spare, the local union finally agreed.

For many years the life insurance plan covering several General Dynamics divisions included a lump-sum permanent and total disability benefit, Mr. Hendrix said. A typical lump-sum payment was $13,000, and statistics proved that more disabilities were occurring "than any actuary had expected."

**THE PLAN WAS** improved so that the total payout to a disabled individual would be greater, "but now payments are made on a monthly basis rather than in a lump sum."

For salaried employes the plan now provides a monthly income of about 50% of earnings payable throughout his disability until age 65, Mr. Hendrix said. It still maintains at least 50% of his life insurance.

For hourly employes, only the first $2,500 is available as a lump sum, and the remainder of his life insurance is paid in monthly installments. However, a previous lump-sum payment of $13,000 can now amount to a total dis-

*Continued on page 38*


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New England Life


# Prudential and agents' union ok benefit hike

WASHINGTON—The Insurance Workers International Union of the AFL-CIO and the Prudential Insurance Co. of America have agreed on a $13,000,000 two-year boost in benefits for 17,000 company agents.

As part of the agreement, agents will increase their contribution to the company pension plan by 50%. This will cost Prudential 68¢ per agent per week.

The lifetime maximum on major medical was increased from $10,000 to $40,000, the agent's disability contribution was increased to 38¢ per week and a new weekly compensation schedule will replace a minimum annual plan.

The disability and compensation plans are based on a guarantee of 65% of the average agent's earnings. Formerly the agent waited until the end of the year to be paid. The change will cost Prudential about 40¢ a week for each agent in the first year and 27¢ in the second.

A special debit allowance was raised from $10 to $15 weekly.

# washington watch

## Buyer views on federal vs. state laws sought

"How do corporate risk managers feel about the federal vs. state regulatory issue?"

This question was recently asked by a top investigator for a Congressional committee which has been carrying on a continuing investigation of insurance industry practices and the adequacy of state regulation.

It is a sad commentary that major changes in insurance industry regulation are being considered in Washington without knowing how the largest single insurance consumer—the corporation—feels about the matter.

After all, the primary purpose behind any proposal for regulatory change is to better protect and help the consumer. Therefore, it would seem that a key question in considering the issue would be: are the corporations better served by state insurance commissions and their ability to provide a more intimate and flexible approach by carrier to corporate insurance problems? Or would corporations get a better shake from an industry regulated by a single federal agency operating under a uniform code of laws.

**AT LEAST THREE** major investigations of the industry are in the offing and one of the major considerations will be the adequacy of state regulation. An interesting situation emerges if one examines closely the list of those who have testified at past insurance hearings and who presumably will testify at the upcoming ones.

The insurance industry has been, and will certainly continue to be, well represented by its increasingly large Washington lobby. The states, the small consumer and labor unions will also be represented.

But no group proposes to speak for the single largest insurance consumer. It should be evident that no honest judgment can be made on the merits of either state or federal regulation without first knowing how these large insurance consumers feel.

It would be presumptuous, however, to assume that no change will be made without the corporations' counsel. Their silence can only be interpreted by the government to mean that they approve of federal moves into this area.

**THE MOST RECENT** development leading to a possible major change in insurance regulations was the release of a House antitrust subcommittee staff report on the auto insurance industry. It said that by any objective standard the industry's performance is unsatisfactory.

Rep. Emanuel Celler [D., N.Y.] said, in recommending a full-scale investigation, that any study of auto insurance would be tortuous and added that it would be difficult, if not impossible, to limit such a study to auto insurance and avoid other fields of the industry.

The report stated that any consideration of amendments to the McCarran-Ferguson act relative to auto insurance "necessarily must include evaluation of the effect of the amendment, as well as its desirability, in reference to other lines."

The Department of Transportation is working on a study for the Senate Commerce committee, headed by Sen. Warren Magnuson (D., Wash.) to determine the scope and requirements of a full scale investigation of auto insurance practices. It is expected to be completed by the end of the year.

A former staff member of Sen. Thomas Dodd (D., Conn.) is in charge of the department's preliminary staff study.

Sen. Philip Hart (D., Mich.), chairman of the Senate antitrust subcommittee, has announced that his committee will launch an investigation into the auto insurance industry early next year.

Sen. Hart's committee is poised to begin a second round of hearings into credit life insurance practices. The first round of hearings, held last May, investigated the question of state vs. federal regulation.

The thrust behind the investigation lies in recent cries from consumer interests that lenders cheating the consumer out of at least $175,000,000 a year by overcharging for credit insurance.

In addition, there is a good chance that the subcommittee will raise some questions about rating systems of life insurance firms and the adequacy of state regulations.

**A REAL SLEEPER** here could be Rep. Joseph Resnich (D., NY).

Rep. Resnich has charged that the Farm Bureau has used its status as a tax-exempt organization ostensibly devoted to the welfare of farmers to build a "gigantic, interlocking nationwide combine of insurance companies and other businesses."

The Farm Bureau is reputed to control an empire of 92 insurance companies, with assets of about $1.2 billion. Rep. Resnich is chairman of the House Agriculture Committee's subcommittee on rural development.

## Lofgren acting IIHS president

WASHINGTON—Nils A. Lofgren, vp for the Insurance Institute for Highway Safety, will serve as acting president until a successor is named for Russell I. Brown, who resigned effective Oct. 31.

Mr. Brown had been president of the organization since its formation in 1959.

Mr. Brown's resignation ended a long dispute with the institute's board of directors. It is understood that the board's push for a research-oriented program had been resisted by Mr. Brown, who preferred a program of highway safety promotion.

The announcement was made by Arch Seymour, institute board chairman and exec vp of Royal Globe Insurance Cos.

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Insurance Co. of North America has set up a new office specializing in manufacturing, oil and chemical risks.


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# San Diego Zoo, Sea World insure their visitors more than animals

SAN DIEGO—As tourists flock here to two world-famous animal attractions, the San Diego Zoo and Sea World in Mission Bay, their operators have had to make certain that the visitors are properly insured.

At both attractions, in general it's the humans, not the animals, that are covered. Both, of course, have employe, property and liability insurance.

An estimated 2,500,000 people will visit the 125-acre zoo, and 1,300,000 will cross the wooden bridge over Sea World's moat this year.

The zoo is operated by the San Diego Zoological Society for the city. A staff of 400, with a budget of $3,600,000, care for the world's largest collection of animals, including more than 800 mammals, 2,800 birds and 1,500 reptiles.



**Some insurance underwriters** thought this moving sidewalk alongside a tropical rain forest in the San Diego Zoo would be a source of slips and falls by visitors. However, the zoo has an outstanding safety record, according to its broker, with an on-board first aid station and well-trained personnel contributing a great deal to its success.

**SEA WORLD IS A** privately-owned enterprise that opened four years ago. The 40-acre park and restaurant complex has 280 full-time employes, and an additional 270 are hired during the summer. An estimated 60% of Sea World's business is done between June 1 and September 30.

Sea World features Shamu, a trained killer whale, Google the Great, an elephant seal, and the Murata Pearl Japanese Village.

The zoo has a $1,000,000 basic combination policy for personal injury and property damage with a $4,000,000 comprehensive indemnity umbrella that provides worldwide protection for its collection of animals.

Sea World has an umbrella policy with a single occurrence liability limit of $1,000,000, up to a $3,000,000 maximum. The coverage includes Sea World's vehicles (cars, trucks and boats), a fidelity bond, theft and rides.

Allen T. Archer Co., Los Angeles, is broker for Sea World, and Aetna Life & Casualty Co. is the major carrier. Continental Insurance Co. of America has the liability and Marine Insurance Co. of America the hull portion of Sea World's three hydrofoil boats.

Barney & Barney, San Diego, is broker for the zoo and Insurance Co. of North America is the carrier. The broker calls its zoo coverage "Zoopac."

**THE INSURANCE ON** Sea World's hydrofoil fleet, with annual premiums of $12,000 for liability and $1,000 deductible hull coverage, "has forced us to be very safety conscious," said David De Motte, Sea World's secretary-treasurer and manager of insurance policies.

The boats are powered by the same type engines that World War II P-51 aircraft used. Each hydrofoil operator follows a special check list procedure before getting underway with a load of passengers.

The zoo has a moving sidewalk alongside a tropical rain forest that some insurance underwriters thought would be a source of slips and falls, according to G. A. (Jeff) Blackman of the Barney firm, "but since the policy has been in effect, we've had an outstanding safety record."

Both operations maintain first aid stations and instruct personnel on how to administer minor first aid treatment.

The workmen's compensation policy at Sea World has been divided into two risk categories. The longshoreman's coverage applies to the hydrofoil operators, and fish collectors located throughout the world. All other Sea World employes, including the four Sea Maids who perform underwater in the Chicken of the Sea show and a trainer who puts his head in Shamu's mouth as many as ten times daily, are covered in the second group.

**MR. DE MOTTE SAYS** that early problems of earaches among divers have been solved through use of special hygiene habits, including washing with special solutions before and after work in the water.

Insurance on the animals for both attractions is basically self-insurance by providing back-up animals and continued collection of new animals. For example, Sea World has acquired two more killer whales to replace Shamu when necessary.

The main problem in insuring animals, according to Messrs. Blackman and De Motte, is the difficulty of determining replacement value and useful life.

With the first killer whale ever captured, Lloyd's of London put the premium at $23,000 or 45% of the whale's estimated value for 21 days during shipment from Namu, British Columbia, to Seattle, Wash. The whale arrived in fine fettle, said Mr. De Motte, but died later after coverage had expired.

The insurance was purchased by Ted Griffin who bought the whale from the fisherman who caught it.

The zoo, which does an extensive amount of animal shipping, at one time carried coverage for animals in transit but dropped the policy because of high cost, Mr. Blackman said.

Both operations have preliminary claim reports that visitors and employes must fill out. After that, claims are turned over to the carriers.



**Two young visitors** to the San Diego Children's Zoo feed two young goats. The animals must be changed every few days as a safety precaution. "The kids get overly friendly, and the animals get overtired," says G. A. Jeff Blackman, of Barney & Barney, the zoo's broker.



**Holding a whale-sized tongue depressor,** James Richards, trainer at Sea World, prepares to check the teeth of Shamu, a trained killer whale. Frank Powell Jr., Sea World's general manager, looks on. During the act, the trainer puts his head in Shamu's mouth.

# Utah sets auto rate increase

SALT LAKE CITY—The Utah state insurance department has authorized a rate increase for 140 of the state's more than 900 licensed insurance companies, effective Nov. 15.

The companies, represented by the National Bureau of Casualty Underwriters and the National Underwriters Assn., write about 40% of the auto insurance in the state.

The increase ranges from 4% in Salt Lake county, where 485,000 of the state's 1,100,000 citizens live, to 1.6% in second-largest Weber county.

**ONLY SUBURBAN** Davis county will get a 1.6% reduction.

The increased percentages are based on a typical auto insurance policy which includes the basic limits of coverage of bodily injury and property damage, full comprehensive and $100 deductible collision.

The rate increases were requested due to higher loss experience, according to C. N. Ottosen, Utah insurance commissioner.

**THE RATES** reflect increasing costs in bodily injury claims, although collision, comprehensive and property damage claims have decreased.

John Paradise, examiner in the insurance commissioner's office, said even with the increase Utah's rates were still lower than the national average.

He said Utah's average liability cost per claim is $837, while the national average if $906. Utah's average property damage claim is $174, as compared with a national average of $196.

# Dykhouse fears insurance pullback as Michigan fire pool is postponed

DETROIT—Action on a proposal for a compulsory fire insurance pool in Michigan will be postponed past the current special session of the state legislature, Insurance Commissioner David J. Dykhouse said here.

As author of the proposal, Mr. Dykhouse early last month urged Gov. George Romney to include the matter on the special session agenda. Now, the commissioner indicates that legislative hearings may begin soon, but official consideration won't take place until the legislature meets again in January.

At that, there is barely enough time to get the pool organized and in operation before the onset of summer next year, Mr. Dykhouse said. He estimates that it will take 60 to 90 days to get the pool in motion and, to cut that lead time, is beginning to explain the plan to insurance companies.

**HE ALSO HAS** extended a moratorium on nonrenewals and cancellations to Jan. 1 in an attempt to hold off what he predicts will be a large-scale withdrawal by insurers from urban area risks. A 90-day moratorium on policy action by insurers, inposed after the July riot in Detroit, ran out Oct. 31. That riot resulted in estimated insured losses of nearly $60,000,000.

Mr. Dykhouse has urged creation of a compulsory pool of the 295 property insurance companies that are licensed to do business in Michigan. Each of the insurers would assume a share of each property underwritten by the pool in proportion to the amount of business that company does in the state.

The pool would be required to accept any business or residential property for fire and extended coverage insurance if the property measures up to local building codes on inspection.

**IN A RECENT** speech in Detroit, Mr. Dykhouse predicted a severe contraction of the availability of insurance in Michigan beginning early next year.

"A constriction of up to 5% in coverage of the $50 billion of real and fixed personal property in the state is not unreasonable," the commissioner said.

**IN INITIAL** recommendations to Mr. Romney, the commissioner noted that "cancellations are occurring at an accelerated pace. While the numbers are not yet large, the trend is clear." Mr. Dykhouse now suggests that his call for a moratorium is being broken by a growing number of companies.

In his Detroit speech, Mr. Dykhouse charged that Lloyd's of London underwriters will not accept riot risks in reinsurance agreements that will take effect after the beginning of next year.

**"I RECENTLY** received a letter from a Lloyd's representative assuring me that no change would be made in negotiations as a result of the riots," Mr. Dykhouse said. "The same day I received a confidential copy of a Lloyd's memorandum for renegotiating contracts. The exclusions, including riot coverage, were terrifying."

The Dykhouse plan, of course, is but one of several remedies already put forward for the urban property insurance problem. The major implied opposition to the plan comes from the American Insurance Assn., which has asked for a federal reinsurance backup against the prospect of riot loses.

**MR. DYKHOUSE** argued that federal reinsurance "merely helps preserve the solvency of the companies; it does not act as an inducement to insurance companies to write more policies in urban areas. The AIA does a disservice by saying that its companies will write policies if they get reinsurance."

Under the Michigan pool plan, insurance could not be denied on grounds now fairly common that a building is in a riot area or a potential riot location or that a home or store is next to a rundown property.

A property owner would be required first to make "a reasonably diligent effort" to secure insurance in the conventional way.

Rates would be those assigned by the Michigan Inspection Bureau plus a uniform surcharge. Losses that develop will "be folded back into the total state base rate so that companies will recover," Mr. Dykhouse said.

## Toilet trip may not be in line of duty: court

WASHINGTON—Going to the toilet on the job is not always a work-connected activity, the U. S. court of appeals for the District of Columbia ruled in upholding a workmen's compensation board decision.

A lame truck mechanic died while urinating behind the shop after reporting for work. Medical authorities said the cause of death may have been that urinating in the cold morning air aggravated his arteriosclerosis (hardening of the arteries.)

The court held that without conclusive proof on the cause of death, there was no connecting evidence or condition between the employment and the fatal collapse.

The court said that if it could have been proven that urinating in the 40 degree weather was the precipitating factor in the collapse, it might have been held, under some authorities, that the event was in the course of the employment.

The dissenting justice argued that there is no need to show a direct connection between employment of the individual and his death. The general rule of law only denies compensation in this type of situation when abnormal means are chosen for relieving oneself, he said. Therefore, the lack of a definite medical conclusion on the cause of death and of evidence showing the means or place to be unreasonable must lead to an adherence to "the statutory presumption that the claim is compensable."

## Norris joins broker

Warren G. Norris has joined Johnson & Higgins, New York, as a senior consultant in the employe benefit plan department.


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**Switch from Blues**

# *McGraw-Hill's new benefits plan includes national medical scheme*

NEW YORK — McGraw-Hill Inc. has implemented a sweeping revision of its employe benefits program which the company believes will result in more effective control of claims service and a uniform schedule of benefits.

The revamp included a switch on McGraw-Hill's medical coverage from Blue Cross-Blue Shield. The move was made because the publisher needed a national plan, which, it said, the Blues "by their very nature" were not able to provide.

"In deciding to change from our exisiting carriers," explained Alan Macdonald, employe benefits manager for the international publisher, "our primary concern was not necessarily financial. We felt it of utmost importance that a national company like ours should have uniform and mechanized claims service throughout our various locations."

Mr. Macdonald explained to Business Insurance that he invited bids from eight companies to establish the one best equipped to handle McGraw-Hill's needs. The former carrier, Aetna Life Insurance Co., was also included in this analysis. Details were sent to all companies in a 41-page specification letter, and any additional information was given out on an impartial basis.

After narrowing down the field to three carriers, Mr. Macdonald and his team visited each company to determine its methods of processing claims. The final award went to the John Hancock Insurance Co., Boston, which will underwrite McGraw-Hill's group life, accident and sickness and hospital and comprehensive medical coverages. The Insurance Co. of North America, Philadelphia, retains the travel accident and long-term disability plans.



**Alan Macdonald**

**MR. MACDONALD SAID** that McGraw-Hill's decision to change from the previous carrier of the medical plan—Blue Cross, Blue Shield and Health Service Inc.—was in no way an indictment of these organizations. They provide good coverage, he said, but since Blue Cross and Blue Shield are made up of autonomous organizations their coverage works better when the group being covered is localized in a specific locality, he stated.

"For McGraw-Hill, with nationwide offices, a national plan with uniform allowances and procedures for everyone was desirable. Blue Cross and Blue Shield by their very nature were not set up to provide us with this kind of service," he explained. "We are vitally interested in the ratio of claims to premium, in any given region, and we also want to keep tabs on doctor's charges between areas."

Although Mc-Graw-Hill initially anticipates an increase in premiums, Mr. Macdonald said, the company expects costs to be reduced by the second year in spite of the increased benefits. He explained that Blue Cross has traditionally enjoyed a privileged billing position with hospitals amounting to a discount as high as 8% in some cases. Now, however, hospitals tend to treat Blue Cross much the same as any other carrier, which Mr. Macdonald said somewhat reduces its competitive edge.

To be certain that all employes thoroughly understood the improvements, Mr. Macdonald planned an orientation campaign with military precision. A "speakers bureau" presentation was given at the home office in New York, attended by key employe benefit personnel from as far away as St. Louis and Novato, California. Talks were given by top company officials and benefits provisions were illustrated by charts and slides.

"We organized this program completely by ourselves," said Mr. Macdonald, "and did not use the services of the carriers or the brokers."

**AFTER HOME OFFICE** orientation, the benefit experts fanned out across the country to conduct meetings at major locations. A chart was kept in Mr. Macdonald's office showing the numbers of employes lectured to on any given day. For example, on one day alone 52 people were seen in Los Angeles, 95 in New York and 60 in Atlanta. Eight meetings were held on one day at Hightstown, N.J.

During these meetings, enrollment cards were distributed and employes were asked to choose supplemental coverages. Over 90% have enrolled for the supplementary comprehensive medical expense plan, Mr. Macdonald estimated.

Two kinds of life insurance coverage are available: A basic package paid for entirely by McGraw-Hill, and supplemental coverage to be paid for on a cost-shared basis.

The basic coverage provides $4,000 of life insurance which is given regardless of whether an employe elects the supplemental plan. The old program provided $2,000 of free insurance, but was available only if an individual signed up for all the insurance for which he was eligible.

# Aviation pool signs consent agreement

WASHINGTON—A government antitrust suit charging that airlines and other aircraft operators have been denied the benefits of unrestricted competition in the sale and purchase of aviation insurance was settled with the filing of a proposed consent judgment by the Justice Department.

The judgment grew out of a 1965 antitrust suit against the insurance pool, Associated Aviation Underwriters, Chubb and Sons, Inc., and Marine Office of America. It forbids these firms from restraining competition in the aviation insurance business.

The judgment requires that the pool ease its requirement for membership and enjoins it from suppressing the formation of new aviation insurance pools. It also enjoins the group from restraining competing aviation insurance underwriters and from depriving these underwriters of reinsurance service "through intimidation and threats against reinsurers abroad." The original complaint called for the dissolution of AAU.

The AAU accounted for 45% of the total U.S. insurance in 1965, or $56,000,000.

# N. C. hikes truck, bus liability

RALEIGH, N.C.—The minimum amount of liability insurance required of all commercial motor carriers in North Carolina will more than double as of next Feb. 15.

A North Carolina Utilities Commission order has ruled that present liability limits are "inadequate," and the commission has increased the carrier minimums under authority of a 1967 law.

Most buses will be required to carry $25,000-$300,000-$10,000 minimum coverage instead of the present $10,000-$100,000-$5,000 limits. All freight vehicles will have to carry $25,000-$100,000-$10,000 minimum coverage instead of $10,000-$50,000-$5,000.

Commission spokesmen said the order brings North Carolina minimums exactly in line with what is required by the Interstate Commerce Commission for carriers operating from state to state.

The order makes other carrier insurance changes, including the creation of a graduated minimum liability scale for passenger vehicles, ranging from 25-100-10 coverage to the 25-300-10 required of standard buses. The present table requires 10-100-5 limits for all buses, while the new table varies the limit according to seating capacity.

The order also places the minimum requirement on some currently exempted vehicles—mostly localized buses engaged in carrying workers to and from industries. Such companies are not required at present to report coverage to the utilities commission.

## Martin changes name

Martin & Associates, Dallas retirement and group benefit plan consultant, has changed its name to Modern America Cos. and has named J. G. Thompson president of the firm. Mr. Thompson, formerly exec vp, succeeds V. F. Martin, who remains chairman.

# info for buyers

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• **"Private and Public Pension Plans in the United States"** is a new edition of an historical and statistical analysis of the American pension system. The booklet, released by the Institute of Life Insurance, covers insured and uninsured pension plans, retirement plans for civilian employes of government agencies, the railroad retirement system and the Social Security system. A free copy is available by writing in No. 108 on the Reader Service Card.

• **"Directors and Officers Liability"** answers the ten most frequently asked questions regarding directors' and officers' liability coverage. Also offered in this Stewart, Smith publication is a list of cases illustrating areas of personal liability of corporate officers and directors. Write No. 107 on the Reader Service Card for free copy.

• Basic facts relating to property and liability insurance are contained in **"Insurance Facts 1967,"** a yearbook published by the Insurance Information Institute. Single copies are available free of charge by writing No. 103 on the Reader Service Card.

• **"Loss Prevention Program"** outlines and explains more than 80 "proved" ways to check the danger points of embezzlement, burglary and robbery. Employe dishonesty is dealt with in detail in this booklet issued by Fireman's Fund American Insurance Cos. For a free copy, write No. 104 on the Reader Service Card.

• The dangers and delusions of self insurance for local government properties are highlighted in **"At Your Own Risk,"** a reprint from the Journal of Insurance Information. For a free copy, write No. 105 on the Reader Service Card.

• **"Sourcebook of International Insurance and Employe Benefit Management,"** published by the American Management Assn., describes Social Security programs, insurance laws, customs, regulations and practices of various countries. The publication costs $7 for AMA members and $10.50 for nonmembers. Write American Management Assn. Inc., 135 W. 50th St., New York 10020.

• **The "Handbook on Negotiated Multi-Employer Pension Plans"** serves as a basic guide on plans negotiated between employers and trade unions. This 56-page booklet, published by the Institute of Life Insurance, includes legal requirements, plan design, cost analysis, financing, administration and a brief history of the development of such pension plans. For a free copy write No. 115 on the Reader Service Card.

• First aid for injured eyes and the do's and don't's for eye safety are described in **"Guide to Eye Safety."** For this review of industrial eye hazards, published by General Scientific Equipment Co., write No. 110 on the Reader Service Card.

• **"Embezzlement Controls for Business Enterprises"** indicates steps that may avoid embezzlement. A 39-page booklet, released through Fidelity and Deposit Co., this publication features a checklist of internal control procedures. For a free copy, write No. 111 on the Reader Service Card.

• A booklet containing varied messages on traffic safety is **"Life on Four Wheels."** Individual safety messages, supplied through Employers Insurance of Wausau, can be duplicated on company letterheads or be used in employe publications. Copies are available at no charge by writing No. 112 on the Reader Service Card.

• **An "Educational Program in Risk Management"** is directed to individuals involved with the responsibility for planning, implementing and controlling risk management activities for business firms. A brochure on this self-improvement program, developed by Insurance Institute of America, is available free. Write No. 116 on the Reader Service Card.

• **"New Executive Liabilities and Insurance Coverages"** discusses the growing problem of officers' and directors' liability. Insurance coverages for this exposure are also included in this 27-page booklet released by Employers Insurance of Wausau. For free copy, write No. 106 on the Reader Service Card.

• A method of purchasing dental services on a prepaid basis is described in **"The Dental Service Corporation."** The booklet, published by U. S. Department of Health, Education and Welfore, outlines the procedures involved in organizing and developing a dental service corporation. Write No. 113 on the Reader Service Card for free copy.

• **"Recommendations for General Management Responsibility for Effects of Fire on Operations"** (1967 edition) covers responsibilities of the president, members of the executive committee and others involved in top policy-making positions. Also outlined in this National Fire Protection Assn. booklet is a method for evaluation of loss possibilities. Copies available at no charge by writing No. 114 on the Reader Service Card.

• A method of measuring the need for fidelity coverage is presented in **"How Much Honesty Insurance?"** a 15-page booklet published by the Surety Association of America. Write No. 117 on Reader Service Card for a free copy.

*Southern California ASIM*

# Riot insurance pool won't work, Johnson tells ASIM conference

LOS ANGELES—The proposal that riot coverage be handled by an insurance pool has been called impractical by H. Clay Johnson, president of Royal-Globe Insurance Cos.

Speaking to the Southern California chapter of the American Society of Insurance Management, Mr. Johnson contended that "risks which are uninsurable at permissible rates cannot be made insurable merely by having them written through a pool or syndicate."

Apart from being an invasion of free enterprise, any statutory compulsory pool would not make the market better but worse, by encouraging even more restrictive underwriting and the dumping of risks into the pool, Mr. Johnson said.

**THE ROYAL-GLOBE** executive held that the cost of riots should be absorbed by all of society, with the government providing assistance in the form of reinsurance.

Mr. Johnson pointed out that while the objective of the insurance business is to obtain some form of relief from exposure to catastrophic riot losses, the main interest of state and other governmental officials is to preserve the market for insurance coverage in riot-affected areas in order to encourage rehabiliation efforts.

The problem, he said, is to find a solution that keeps these two objectives in balance.

**THE LLOYD'S MARKET** is going through "its most difficult period in modern times," according to John Spencer, president of Swett & Crawford.

Mr. Spencer pointed out that catastrophe risks have been renewed year after year without change. This pattern can no longer continue, he said, "and now an underwriter must know exactly what is being covered." He cited the case of a a small machine shop, whose owner turned in claim for a miner in a gravel pit.

Apart from life and accident and health insurance, all other forms of coverage are now unprofitable, Mr. Spencer pointed out. Therefore, higher premiums will be necessary for new policies and renewals. Underwriters must also be protected against multiple coverages for the same insured, he said.

**IN THE FIELD** of employe benefits, Darwin S. Liggett, vp of Pacific Mutual Life, observed that participants are showing "little personal interest and responsibility for the economic success" of such programs. Costs have not even reached a "temporary ceiling," he stated.

The insurance commissioner of California, Richard Roddis, said that three areas of insurance are currently presenting problems. Mass merchandising, automobile insurance and coverage of the "inner city."

Mr. Roddis did not attempt to give solutions to these problems, but he warned that when the federal government intervenes into any area, it generally sets up regulations which are usually not in agreement with state laws.

Donald H. Garlock, vp of the Travelers Indemnity Co., maintained that technology of insurance pricing has not kept pace with technological changes in other areas of business, where manufacturing and processing units are becoming fewer, larger and more concentrated. "We fail to apply the principle of spread of risk by assessing or debiting each of these jumbo risks for the one catastrophic loss," Mr. Garlock stated.

Other speakers at the conference were James Chastain, dean of the Insurance Institute of America; Thomas J. Ryan, Fred S. James Co.; and K. R. Huston, insurance manager of Consolidated Coal Co.

## Cal-Western approves American General pact

A majority of the directors of California Western States Life Insurance Co., Sacramento, has approved merger of the company with American General Insurance Co., Houston. A "stockholders' protective committee" organized by some of the California Western shareholders have been vigorously fighting the merger.

# Maxwell says industry's 'bad image' its own fault

PHILADELPHIA—The insurance industry is responsible for its own bad image because of its failure to communicate, according to David O. Maxwell, Pennsylvania insurance commissioner.

"All we ever hear about are high rates," said Mr. Maxwell at the Insurance Information Officers Conference luncheon, "and not the protection insurance provides against the perils of life.

"It is high time that the industry get together and tell its story to the public. It is inept at telling its side. It provides a service but does not explain it properly."

**THE INSURANCE** commissioner predicted that when people are kept in touch with what the insurance industry is doing, the climate of distrust will wane.

One of the factors causing the image problem, contended Mr. Maxwell, is that insurance is an "abstraction" and if the buyer doesn't have losses, he doesn't feel he purchased anything.

Mr. Maxwell argued with some members of the press who play up "irrelevant" issues to sell newspapers.

For example, he said, at a meeting to promote ethical insurance in Harrisburg, an insignificant self appointed critic spoke out and received good press coverage, while more important speakers were ignored.




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*Atlanta ASIM*

# Insurance is 'wide open' area for lower costs, says Jackson

ATLANTA—The concept of risk management set the pace for the sixth annual Southeastern Insurance Management Conference during a lively two-day program that included discussions of officers' and directors' liability and legislative trends affecting employe benefits.

Calling for risk managers to become active in top management teams, M. Glenn Jackson, insurance manager of Vulcan Materials Co., Birmingham, said "risk managers must keep the lines of communication open between executives and the insurance department.

"A risk manager must be willing to accept his role and needs a thorough knowledge of his company before top management can discuss problems with him," said Mr. Jackson.

The insurance executive suggested to his audience that a working relationship should exist between the insurance department and other vital company departments such as accounting, personnel, engineering and marketing. "This is mandatory to risk management," he said.

**A RISK MANAGER** can show top management the "pitfalls" of his company, Mr. Jackson continued, but he has to be ready to assume the role of "watchdog."

Knowledge of insurance markets is a risk manager's greatest asset, according to Mr. Jackson. He advised those attending the conference to "forget about standard forms and concentrate on developing insurance markets and a program of insurance needs."

Buying insurance is only a small part of the job, stated Mr. Jackson, and he stressed that buyers should concentrate on being managers.



RICH GRAHAM QUAY

**Officers of the Atlanta** ASIM conference who kept the program moving included Robert E. Rich, conference chairman and first vp, membership; Charles E. Graham, secretary; and William H. Quay Jr., national director.

"Corporations must have a policy clarifying the position of risk managers," he said, "and their responsibilities must be coordinated with other executives.

"Risk managers cannot exist in a vacuum," he continued. "Their message should be carried as high as the company president and to the board of directors."

**HE POINTED OUT** that the risk cost of insurance is a "wide open element" and one of the few costs a company has that is variable.

"Companies have to wake up to this wide open variable cost," said Mr. Jackson. He explained that a company usually knows the approximate cost of material, labor and other fixed administrative expenses which leave insurance as one area where costs might be lowered—if top management is willing to let the risk manager act as a flexible member of the management team.

Buyers of officers' and directors' legal liability insurance were warned of the pitfalls of "coercive reciprocity" by Daniel B. Hodgson and L. Neil Williams of Alston, Miller & Gaines. Atlanta legal firm, and David H. Winton, of Johnson & Higgins, New York.

Coercive reciprocity, where two buyers purchase exclusively from each other, excluding outside competition, was scored by Mr. Hodgson as a danger businessmen should avoid.

**"THERE SHOULD BE** a criterion for purchasing," said Mr. Hodgson, "and insurance managers would do well to advise their executives to avoid the dangers of coercive reciprocity."

Illegal outside interests are another problem for company executives, warned Mr. Hodgson. "There are people who spend their lives reading forms filed by companies with the Securities and Exchange Commission and they are looking for problems to start a legal action.

"An executive can be tried for investing in outside interests, even in a wholly-owned subsidiary that does not affect the home company," he said.

**"EVERYONE CAN'T** purchase officers' and directors' liability insurance," said Mr. Winton. "Some insurers do not like closely owned family companies and prefer broadly owned corporations."

Most policies are sold with a 95% coinsurance feature, explained Mr. Winton, and the three-year premium costs written through his company varied from $6,000 to $250,000.

Policy limits averaged about $10,000,000, according to Mr. Winton, with some $5,000,000 and a few $20,000,000 in effect.

**LEGISLATIVE TRENDS** affecting employe benefits were viewed as a danger to the continuance of private employe plans by Joseph W. Satterthwaite of Towers, Perrin, Forster & Crosby, Atlanta.

"The federal government is going to have a bigger voice in developing the employe benefits business," said Mr. Satterthwaite, "and it is speaking openly about expanding the role of Social Security."

He urged all insurance managers to study employe benefits proposals under consideration by the government.

Supporting private pension plans, Mr. Satterthwaite contended that an individual is interested in a plan when he has certain rights and values to future benefits.

**A NATIONWIDE** employe benefits plan was suggested by Mr. Satterthwaite as a healthy approach to helping an employe maintain his benefits if he changed companies.

"For example," he said, "an employe could lose ten years of accrued benefits by changing companies." With a private nationwide plan shared with all companies, the employe would retain his accrued benefits, Mr. Satterthwaite explained, and it would add greater strength to the private benefits plans.

"Even if it resulted in companies losing key personnel," said Mr. Satterthwaite, "it could be healthy to have cross polarization between corporations."

**A FEDERAL PLAN** would be disastrous, according to Mr. Satterthwaite, because of the threat of poor financial management.

In addition, he pointed out a benefits plan under Social Security would cause taxes to increase and eliminate many of the benefits currently available under private plans.

He urged corporation insurance managers to follow a path away from government plans and to understand that private employe benefits plans are "the greatest security an employe has for the future."

The Southeastern Insurance Management Conference, sponsored by the Southeastern chapters of the ASIM, included buyers and industry executives from Florida, Tennessee, Georgia, Alabama, North Carolina, South Carolina, Louisiana, Arkansas and Virginia.

Robert E. Rich, conference chairman and insurance manager of the Cotton Producers Assn., announced that next year's conference will be held in Memphis.

## *Sause joins Dooly*

Gene Sause, formerly vp and manager of the marine insurance department at Marsh & McLennan-D.K. MacDonald, has joined Dooly & Co., Portland, Ore., where he will organize an expanded marine department.


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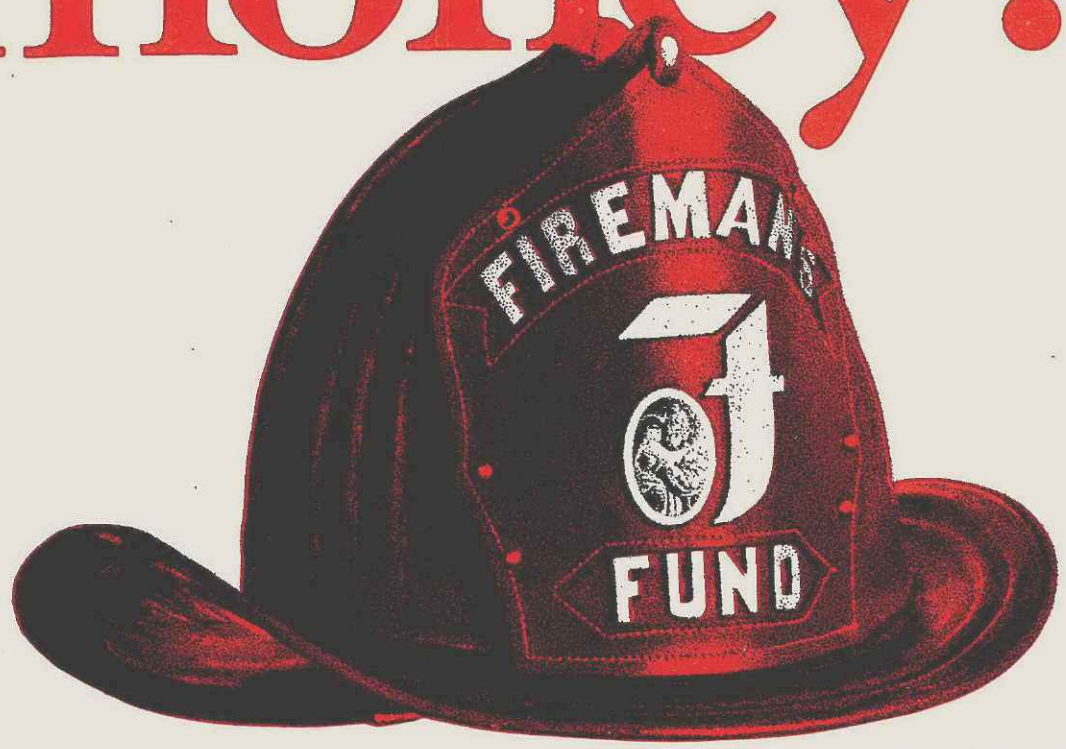
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# High insurance premium seen for demolition of London Bridge

LONDON—A preliminary conference has been held to discuss insurance coverage for the demolition of the 176-year-old London Bridge, but no specific details have been worked out. Participants were John Mowlem & Co., which has been awarded the contract for the demolition of the present bridge and the erection of a new one, and its broker, Lambert Bros.

Although it was indicated that Lloyd's of London will most likely get the business, both firms declined to comment about cost of the insurance and limits involved. It's known, however, that demolition contractors as a rule are forced to pay higher insurance premiums than building contractors because, underwriters maintain, the chance of accidents is greater.

Many well known insurance companies will not consider giving cover for demolition work, even though they already grant cover to building contractors, Business Insurance was told. But if a building contractor, who already has a comprehensive insurance policy, decides to undertake demolition work, it is possible to add an extension to the policy for a particular job.

**THE ENTIRE CONTRACT,** which includes both the demolition and the erection, will cost the city of London over £4,000,000. But as usual with such contracts there is an escape clause to cover such eventualities as rises in wage rates and increases in the costs of materials, so in the end the cost is likely to be more.

Another escape clause deals with time. The contractors must cover themselves against delays caused by industrial disputes, strikes, civil commotion and similar risks. Without these escape clauses it would be extremely difficult to obtain insurance cover.

Other hazards have to be considered, particularly when excavations have to be made in an historical place like London. A well known Lloyd's underwriter cited the case of the new city headquarters of the Legal & General Assurance Society. The new building necessitated the excavation of the site to more than 30 feet below the surrounding ground level.

The scooping out of the earth brought to light a prehistoric Roman temple of the pagan god Mithras. The interest aroused by the newspapers, the City Corp. and archeologists caused a delay of some weeks in the clearance of the site. The delay is said to have cost many thousands of pounds, which was eventually borne by the City Corp.

**IN THE PROCESS** of pulling down London Bridge, who knows what archeological remains may be found, especially when new foundations have to be laid for a larger and stronger bridge?

All the bridges under the jurisdiction of the City of London Corp. are insured at Lloyd's for third party risks only. If any of the bridges are damaged either by traffic passing over them or by shipping passing beneath them, the corporation repairs the damage and then seeks recompense from the owners of the vehicle responsible.

The contract for the new bridge stipulates that traffic under or over the bridge must not be impeded during demolition and reconstruction; therefore, the Mowlem firm must rebuild almost as soon as they demolish. This rather complicates the question of the insurance cover that they will require during the entire double process Lambert stated that, so far, no insurance cover had been arranged, though it is obvious that the contractors must have taken insurance costs into account when they submitted their tender for the work.

Work on demolition is not expected to commence until the end of November, but inquiries made seem to show that the start is more likely to occur in the new year. The preliminary conference was said to cover only the outline of the insurance required. Details would be thrashed out at later conferences.



**Advocating higher benefits** for married men, Harvey Saffeir (right), Towers, Perrin, Forster & Crosby, outlines his ideas to Thomas H. Paine, Hewitt associates, at the AMA session on employe benefits cost control.

## Liberia has biggest merchant fleet

Liberia has passed the U.S. as registered owner of the world's biggest merchant fleet, according to Lloyd's Register of Shipping. Liberia now has ships totaling 22,598,000 tons, an addition of almost 2,000,000 tons in the last year. The U.S. lost 464,000 tons in the year, bringing its total tonnage to 20,333,000, including 7,250,000 in the reserve fleet.

# Coverage for work stoppages during riots urged by Damon

DETROIT—In the aftermath of this summer's riots, the insurance manager of Parke Davis & Co. has called on carriers to provide coverage for intangible losses such as work stoppages during riots.

During the rioting here, large-scale absenteeism and curfews caused work interruptions which were uninsured because of "underwriting restrictions," according to E. Dean Damon.

"We were unable to seek or claim indemnity because of the contractual requirement that there must be damage to property before claims can be filed," Mr. Damon told Business Insurance.

Parke Davis has not attempted to estimate the dollar losses resulting from riot-caused work interruptions, but the company has set up a top level task force to investigate emergency procedures that might minimize losses in future disturbances. It is expected to be several months before the findings of the investigating team are complete.

**"WE HOPE THE** insurance industry will look toward providing coverages for intangible losses like work stoppages," said Mr. Damon, "even though property is not actually damaged."

At this time Parke Davis contemplates few changes in its insurance program to provide additional riot coverage. "Present underwriting restrictions keep us from obtaining complete coverage," said Mr. Damon.

**THE DRUG COMPANY'S** insurance manager pointed out that the insurance industry developed many new coverages over the years. "For example," he said, "long term disability was pioneered by the insurance industry after companies studied the market. Now they have to do the same with current perils like rioting: learn what kind of premium can be developed and proceed to underwrite."

Rate increases would probably be needed for riot coverage, according to Mr. Damon, but he felt buyers would be willing to pay provided premium costs were adjusted to losses sustained.

The tendency of the insurance industry to rely on the federal government to pay losses for riots was scorned by Mr. Damon as a "sick situation" and a growing threat to a free economy. "I feel the insurance business is big enough to provide coverage and pay claims, and it doesn't seem necessary for them to seek government protection," he said.

**AT J. J. NEWBERRY** Co., New York, a variety store chain with 558 outlets throughout the country, steps were taken to minimize losses when riots occurred.

According to C. W. Hall, insurance manager, unarmed personnel remain in their stores overnight when a riot is imminent.




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# Management of risks topic at Wisconsin

MADISON—William J. Gibbons Jr., director of insurance and administrator of employe benefit plans for Standard Kollsman Industries, Melrose Park, Ill. and Casimir Z. Greenley, president of Advisors on Corporate Insurance, Skokie, Ill., will lead panel discussions at the University of Wisconsin extension institute on corporate risk management Nov. 13 to 15.

The three-day course will include sessions on risk determination and exposure, discussion on the wording of the new comprehensive liability policy, and coverage of workmen's compensation benefits.

Panel discussions will also be led by Philip R. Brereton, staff member of the university Management Institute and Joseph A. Matt, national accounts coordinator of the marketing department of Employers Insurance of Wausau.

# Dallas makes 1st workmen's comp award

DALLAS—Trustees of the city's school board have awarded their first contract for workmen's compensation insurance, covering 10,000 employes, to Floyd West & Co., Dallas agent for the International Insurance Co., New York.

The premium for 12 months is $189,007, but the contract provides for a sliding scale providing for a year-end refund in a ratio with the claims filed during the year.

If the claims reach 78.1% or more of the total premium, the district will pay the full amount, but if no claims are filled the carrier will give a refund of $158,766. The net cost of the insurance would then be $30,241.

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# Law of supply and demand forcing insurers to increase rates: Heilman

By GEORGE YOUNG

PHILADELPHIA—Higher insurance rates are being advocated by H. Richard Heilman, president of the Insurance Co. of North America, to help solve the industry's current financial woes.

The price of insurance in today's market, Mr. Heilman maintains, is inadequate to meet industry expenses. "Buyers will have to pay more," he told Business Insurance, "and the law of supply and demand will force the industry to raise rates."

Although the demand for insurance will increase, said the insurance executive, prospects for a similar increase in supply are less likely.

Insurance for riots was originally written to cover mob violence resulting from strikes, Mr. Heilman explained. "Rates for riot insurance are predicated on that type of limited risk. This is different from the riots we have today."

He noted that today the possibility exists for millions to revolt and cause an uncalculable amount of damage.

Many buyers contend that semantic problems exist regarding riot coverage, and clearer definitions of riots, civil commotion and insurrection should be made in the policies. But Mr. Heilman asserted that the problem is more than semantics. "It's a problem of magnitude," he said.

An insurance pool for riot coverage was put forth by Mr. Heilman as "a useful tool to spread the risk around."

**A GOVERNMENT AGENCY** might be given money to provide coverage for riot risks, he suggested. "A pool would be a mechanism to carry out the plan," he said. "With the federal government providing funds, the states could regulate the legal aspects and the insurance industry would act as administrators of the pool," Mr. Heilman stated.

He noted that this would remove the threat of actual Federal intervention in insurance because of the part played by the states and the insurance industry.

"The insurance industry is not interested in a pool to attract new business," said Mr. Heilman, "but it would be willing to participate if the federal government were interested." At the same time, he noted that the industry would have to charge a fixed expense to administer the pool, though this would be limited to basic administrative costs.

It's important, Mr. Heilman stressed, that distress business like riots be kept apart from normal business for rating, statistical and other purposes.

**WHEN ASKED ABOUT** an extended coverage endorsement that would cover every peril throughout the U.S., including riots and other major risks, Mr. Heilman stated that "spreading the risk like that is not a solution to the industry's problems of making coverage available at a fair price.

"People in areas like New York don't want earthquake insurance," he said, "because the chances of such occurrence are remote." He added that some companies and brokers would start cutting prices in the endorsement by eliminating unnecessary coverages.

Mr. Heilman felt that buyers were getting their money's worth from the standard extended coverage endorsements. "The endorsement is sold at a fair price," he said. "The perils exist and the price is right."

Investment income and advance premium payments are "separate animals," according to Mr. Heilman, and shouldn't be used to pay off current claims.

**INSURANCE COMPANIES** operate on a fiscal basis like any other company and have to make a profit on investments, said Mr. Heilman. For example, he noted that if his company insures a building for 20 years, the income earned during that period should not be used to pay off a catastrophic loss if the building is destroyed in the 20th year.

"Of course, we insure a large number of buildings," he said, "and the policyholder who doesn't have losses has to pay for one who does. We use premiums earned during that year to pay claims."

Mr. Heilman noted that income derived from investment funds is the stockholders' rightful return on the money they have invested in the company. "Policyholders have no equity in such funds, nor any right to the income derived," he said.

He pointed out that investment income earned by other industries has increased steadily during the last ten years, but no one expects those companies to reduce the prices of their commodities because of profits earned elsewhere.

**THE SHRINKAGE IN** the world's reinsurance market was cited by Mr. Heilman as curtailing the supply of property insurance at current low prices. "There is always insurance at a price," he said. "We have to raise rates to increase our capacity to write more coverage."

This is opposed to the views of many insurance buyers who maintain that insurance rates are too high and that catastrophes like Hurricane Betsy, Torrey Canyon, McCormick Place and the riots in Newark, Detroit and elsewhere are only excuses for premium increases.



H. Richard Heilman

"The buyers have been getting their insurance at cost for years," said Mr. Heilman, "and they don't want to change."

**MR. HEILMAN NOTED** that his company sets insurance prices on estimated losses for a certain period. When unexpected disasters occur, adjustments must be made in premiums, he explained.

Going to London will not solve buyers' problems, according to Mr. Heilman. "The only reasons buyers shop overseas is because they get insurance cheaper," he said. "Eventually they will resort to domestic carriers because the London market is shrinking due to recent catastrophic losses."

Risks are increasing in value at a tremendous pace, Mr. Heilman noted. "For example," he said, "jumbo jets will fly with a loss potential of $200,000,000 each. We have to attract more premium capital to pay claims if one goes down."

**IN THE CASE** of riots—where the amount of losses exceeded insurance premiums earned for that coverage—Mr. Heilman said that carriers generally feel the riots stem from a "social upheaval." "Restitution will have to be made from the outside," he maintained.

"The insurance industry can't possibly handle losses ensuing from riots," said Mr. Heilman. "There must be law and order in this country. The government is responsible for protecting citizens' property from riots.

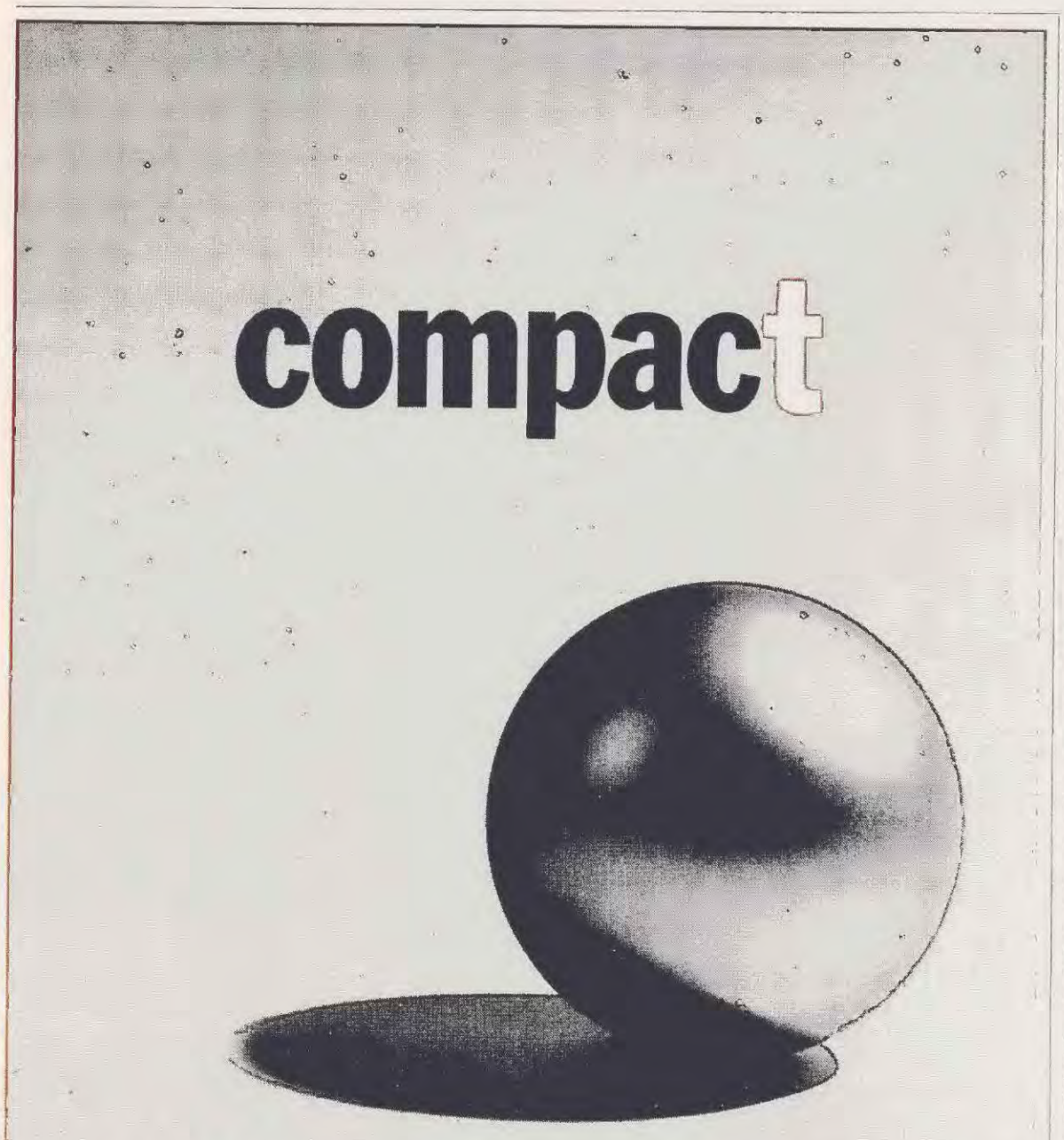
"The insurance industry doesn't want to get out of the riot business altogether," said Mr. Heilman. "We want to insure the riot coverage which was orignally intended."

# Governors get usual cover on 8-day cruise

NEW YORK—State governors cruising for eight days aboard the liner Independence were "treated the same as any other group of passengers from an insurance point of view" and no special limits were provided.

R. F. Pitcher, insurance manager, American Export Isbrandtsen Lines, explained to Business Insurance that the governors were all traveling on individual passenger tickets and that the voyage was not a charter.

"They didn't ask us, nor did we ask them for any special indemnifications," Mr. Pitcher said. Their baggage was covered by the usual ticket protection clauses which limits liability to $200 per passenger.


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# Carriers 'can't survive' losses from ammonia plants, says Badger

MEXICO CITY—Managements of modern, multimillion dollar ammonia plants have "determinedly" resisted stocking vital spare parts for critical equipment, a boiler and machinery insurer has charged here.

F. W. Badger, assistant chief engineer for the Hartford Steam Boiler Inspection & Insurance Co., warned that insurance companies "cannot survive" the current loss experience with ammonia plants.

"Already, many underwriters have seen fit to withdraw from the market," he said at a joint meeting of the Instituto Mexicano De Ingenieros Quimicos and the American Institute of Chemical Engineers.

"The management of a plant costing several million dollars will often deplore spending a small fraction of plant cost to obtain vital replacement components for machines, reformers and boiler objects that have a lead time of four months to a year in the event a major repair is required," he added.

**MR. BADGER CITED** the possibility of a six-month production loss in plants having daily insurance exposures ranging up to $50,000 a day, as a risk that "can't be tolerated by any insurance company." The large, often one-of-a-kind high exposures machines, he said, have produced dollar losses of such magnitude that provisions for individually-owned, readily available spare parts for vital rotating and stationary components has become an absolute prerequisite for boiler and machinery insurance coverage.

The deductible written with such insurance has increased to a point where "it is not uncommon today to see a $1,000,000 deductible," Mr. Badger contended.

He scored designers, manufacturers, builders and operators for their negligence in using ultimate judgment in designing, constructing, engineering and operating ammonia plants. Mr. Badger blamed plant owners for resorting to whatever measures they think necessary to get the plants "on steam" as cheaply and as soon as possible because engineering advances may make a new plant obsolete in a few short years.

**"COMPETITIVE BIDDING** and the use of bonus penalty provisions become incentives to the contractor to cut corners, to deviate from previous high standards and to forsake conventional practices to appease the dictates of economy at the expense of reliability," he added.

Mr. Badger held that there must be more emphasis on operator training prior to plant start-up; "too frequently like the unbroken horse and the novice rider, the plant and the operators start off together."

He said the instigation of emergency drills and written procedures for operators to follow plus periodic evaluation of operational procedures, are necessary if operator-caused losses are to be kept to a minimum.

The insurance executive touched upon accidents to four general categories of equipment —steam generating facilities, reformers and piping, compressors and turbines and storage facilities—and suggested means of improvement.

Of 12 large losses to wasteheat recovery equipment in the past four years, he said the average gross loss was nearly $200,000 each for direct damage and business interruption. Many plant owners have been satisfied with a "bare minimum of boiler controls, water level indicators and temperature and draft instrumentation," Mr. Badger stated.

**ANOTHER REASON** for failures is the extreme sensitivity of steam heaters to water conditions.

"With the present-day knowledge of boiler water conditioning, it is hard to find an excuse for corrosion attack or scale deposits," he said.

The limitless number of welding failures in new plants gives evidence, he said, of the lack of welder integrity and proper supervision.

With reformers and transfer piping, losses indicate gross deviations from welding procedures and the wrong choice of welding rods "with little thought given to the consequences," he said. Of 12 such cases the average gross loss was $300,000, he said.

**"IT IS APPARENT,"** Mr. Badger told his audience, "that closer control of shop welding and tighter supervision of field welding must be obtained by competent welding engineers."

# Hold back surplus premiums, Foust advises AMA cost group

NEW YORK—Two catagories of employe benefits and effective methods for reducing their costs were discussed by George C. Foust Jr., vp of Towers, Perrin, Foster & Crosby, at the American Management Assn. meeting on employe benefits cost control.

The catagories, Mr. Foust explained, are current benefits such as disability income, medical and death payments; and deferred benefits which provide pensions, profit sharing and savings.

The cost of current benefits, which account for roughly 40¢ of the benefit dollar, can be determined by benefit design over which management has control, Mr. Foust said. He recommended the application of the three "R's" of rates, retention and reserves.

**RATES SET BY** carriers are too often redundant, he said; that is higher than necessary to cover claims and administration. "Why should your carrier enjoy the use of surplus premiums all year only to return it at the end?" Mr. Foust asked. "You could use it to better advantage yourself."

Retentions cover plan expenses other than claims and claim reserves and are made up of taxes, commissions and general administrative costs. "The prudent buyer should explore with his carrier ways to reduce some or all of these retention elements," Mr. Foust said.




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# opinions

## Get more leverage by buying benefits

Bion Francis, insurance manager for Crucible Steel, made what we think is a valid point in his opening feature article for our new publication. Mr. Francis contends that insurance managers who limit their activities to property and liability coverage are in a weak bargaining position when they deal with the multiple-line carriers which also supply employe benefits insurance.

Not only that, he said, but if the same man isn't responsible for buying both types of insurance it could result in duplicate coverage or gaps where employes receive no coverage at all.

It's our premise that the insurance buying function is one of the widest ranging jobs in today's corporation. The man responsible for administering his firm's insurance program comes into contact with virtually every department, from marketing to production to finance.

That's why we've resisted the temptation of dividing our publication into sections, with one section dealing with property and liability and another dealing with employe benefits.

We have the idea that administering an insurance program cuts across all areas of corporate activity and that our readers should be just as interested in the employe benefits terms of the Ford-UAW settlement as they are in Belk Stores' captive insurance operation—both characteristic of the stories we carried in our opening issue.

And yet, Mr. Francis is right. Some insurance managers stop short of stepping into the arena of employe benefits. One man, who oversees both types of coverage at his company, has the notion that insurance managers are somewhat afraid to involve themselves in what they think is an alien and mysterious area. Actually, he said, the intricacies of benefit programs are no more baffling than the property and liability side, and in some respects a bit easier to master.

So, if insurance managers want to develop the versatility that impresses not only carriers but their own bosses, we recommend that they work on boning up on group and key man life insurance, pension and profit sharing plans and major medical.

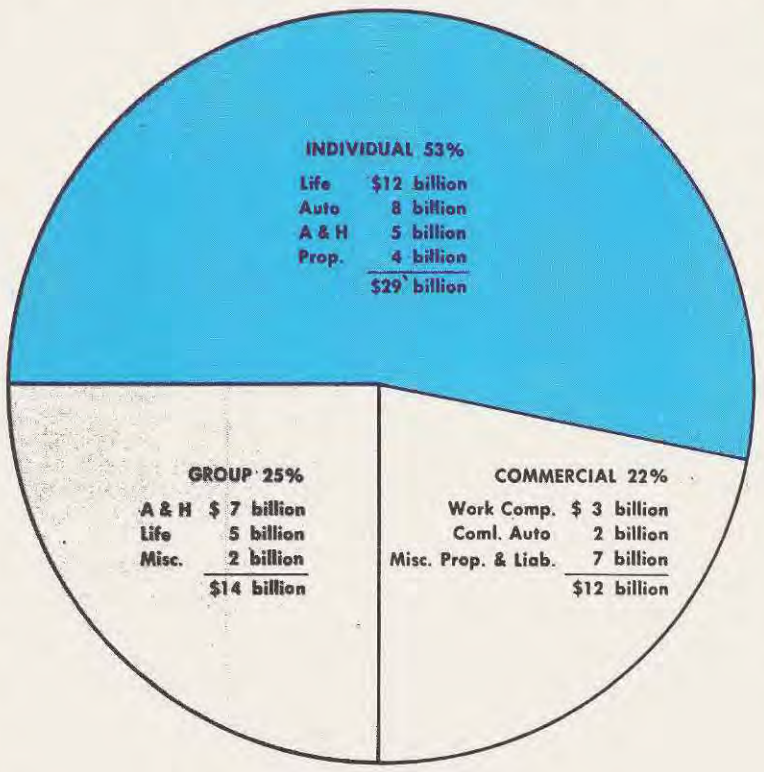
It's not as mysterious as you might think, and, besides, you can read all about it in Business Insurance.

## How to be a hero with insurance buyers

Hardly a day goes by when we don't read a somewhat urgent plea for insurance managers to think seriously about buying officers' and directors' liability insurance—before it's too late.

We therefore found it noteworthy to read about a company that had decided against such coverage. It seems that the insurance manager of the firm, Ritter Pfaudler Corp., came to the conclusion that should one of their directors be hit with a negligence suit, it wouldn't present a "sudden crippling predicament" like a fire or other serious accident.

## Who spends insurance dollars?




**Nearly half of** the $55 billion in insurance premiums collected in the U.S. last year came from buyers of business insurance, as this chart shows. Direct commercial insurance premiums amounted to $12 billion, concentrated in workmen's compensation, motor fleet coverages and miscellaneous property-liability lines. Buyers of business insurance also control a major share of $14 billion in group insurance premiums.

In the same issue we carried a story on another form of coverage, product recall insurance, getting close scrutiny from insurance managers, especially those managers who work for companies which have had to pull one or more of their products off the shelves. Most insurance buyers quoted in the story, however, complained that the coverage was too expensive and restrictive.

If the insurance companies really want to make themselves heroes with insurance buyers, they might concentrate on developing a comprehensive recall policy and other coverages to protect buyers from risks which present hazards of an immediate and crucial nature.

**Toledo (O.) Times**

### *Car Insurance Costs*

Due to the ever-growing traffic accident record and spiraling accident costs, insurance companies have been notifying policyholders of increased automobile insurance rates. Thus safe drivers have to pay for the faults of the reckless drivers, and automobiles are built in such a way that fenders, headlights, and grilles become an expensive body job if damaged. Apparently the current automobile designers give little thought to the cost of repairing their products, and damages awarded by juries steadily increase. As a result, rates have to rise because insurers are losing money on their policies.

This sets the stage for political agitation to put the Government into one more line of business—insurance. Already, it is predicted that a proposal will be made to establish direct federal insurance—with, of course, the taxpayers standing the losses if rates fail to cover them. In the meantime, insurance companies are working on plans to meet the growing costs of automobile accidents. But it will take the cooperation of not only the insurers, but of the automobile manufacturers and drivers as well to lick the problem.

**Providence (R.I.) Journal**

### *Rehabilitation Pledge*

The life insurance industry's pledge to invest a billion dollars in slum rehabilitation projects has the earmarks of a major breakthrough in the use of private resources to solve this country's major urban problems.

The industry deserves commendation despite the dollar profits to be gained and the lack of risk involved. The action it has taken goes well beyond the verbal commitment made by some for whom public opinion is the foremost, if not the sole, consideration. It has "put its money where its mouth is" in an area where most conservative investors fear to tread. It has contributed considerable time and effort since last May to solicit interest and cooperation among nearly 350 life insurance companies, and it has set an example for American business that in the long run could prove far more valuable to society than the dollar amount diverted from other, perhaps more lucrative, ventures.

While the industry has seen fit not to make this an open-ended commitment—it is for one year only—the possibility of a renewed pledge has been kept alive.

Industry in this country must ask itself whether it is fulfilling its obligations to society by seeking profit alone, whether creating jobs and selling products and services is a sufficient contribution to the betterment of urban life, or must it do more in an era of social upheaval with the haves and have-nots on the brink of civil strife?

Under the free enterprise system, there is more business and industry can do, as the life insurance firms have shown. It remains now for other groups to follow the lead. Government cannot do the job alone.

**business insurance**

*for buyers of employe, property and liability protection*

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Published by Advertising Publications, Inc., Chicago, publisher of Advertising Age Industrial Marketing, Advertising & Sales Promotion, Marketing Insights.
G. D. CRAIN, JR., *chairman* S. R. BERNSTEIN, *president*
M. A. HARTENFELD, *vice-president and business manager.* G. D. LEWIS, *vice-president, sales.* J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, D. J. CLEARY, JR., *vice-presidents.* G. R. CRAIN, *secretary and treasurer,* J. H. TERRY, *assistant secretary and assistant treasurer.*

Cable address: *ADAGEAPI*

Published at 740 Rush St., Chicago 60611 (337-5200). Offices at 630 Third Ave., New York 10017 (YU 6-5050); National Press Bldg., Washington, D.C. 20004 (RE 7-7659); 1018 Fisher Bldg., Detroit 48202 (TR 2-7211); 6404 Wilshire Blvd., Los Angeles 90048 (OLive 1-3710).
35 cents a copy, $8 a year in U.S., Canada and Pan America. Elsewhere $4 a year extra. WILLIAM STRONG, circulation director. Four weeks' notice required for change of address. Address all subscription correspondence to ELOISE D'OVIDIO, circulation services manager.
Business Publications Audit of Circulations membership applied for.

# letters

### Lives up to promises

To the Editor: As perhaps the smallest advertiser (classified) in Business Insurance, I think you ought to know that your recent issue has lived up to every promise that has been made.

As administrator of a number of national insurance trusts, I cannot tell you how important your publication seems to me, because this industry has long needed a market place where the "buyer's" voice can be heard.

Not only my congratulations, but my sincere best wishes for a future no less formidable than the one faced by Advertising Age at its inception. You folks have the know-how, and the will to do, and I am delighted to welcome you to the family of publishers.

**Robert H. Feldman**
Employe Administrators Inc.
Hartsdale, New York

### A reader predicts

To the Editor: Hey! Hey! Business Insurance looks like a real winner. Prediction—in five years it will be the No. 1 book in the house.

My sincerest congratulations.

**Rudy Schlacta**
The Rylander Company
Chicago, Illinois

### A wish for success

To the Editor: Thank you very much for sending the charter issue of Business Insurance. It is an excellent publication, and I extend my good wishes to you for its future success.

**John T. Fey**
President
National Life Insurance
Montpelier, Vermont

### Paraphrase is 'misleading'

To the Editor: In thanking you for the coverage you gave Paul Hood's talk in Dallas, I regret the need to point out that there was a deviation from the sense of his text. The paragraph on page 27 starting "In an assessment" and ending ".... in the medical package" should have been paraphrased as follows:

"In an assessment of the future employe benefit situation, Mr. Hood predicted that the unions will push for liberalization of early retirement plans, reduction in vesting requirements, the addition of dental and prescription drug insurance in the medical package.

"Management will continue to favor the adoption of thrift or savings plans to encourage employe thrift. This will be especially true in those situations where employe contributions to other plans are either eliminated entirely or substantially reduced."

As you can see, that part of your story was misleading.

**J. C. Dine**
EBS Management
Consultants
New York

*Editor's note: The original paragraph read, "In an assessment of the future employe benefit situation, Mr. Hood predicted that unions will push for liberalized early retirement plans, a reduction in vesting requirements, the further development of thrift or savings plans and the addition of dental and prescription drug insurance in the medical package."*

# New rubber contract emphasizes family protection, says tire exec

AKRON—A 70% increase in pensions, higher limits on life insurance and extensions of hospital benefits and supplemental workmen's compensation coverage were among the provisions of the contract recently negotiated by the United Rubber, Cork, Linoleum and Plastic Workers union.

The benefits point to an "increasing awareness of family protection," according to D. Bruce Sidebotham, director of employe services of General Tire & Rubber Co. here, who explained the new contract in an interview with Business Insurance.

The monthly pension level has been increased to $5.50 per month per year of service, Mr. Sidebotham said, so that a worker with ten years' service whose previous pension was $32.50 will now receive $55.25 a month. This increase applies to all future retirees.

**THE BENEFIT FOR** present retirees was increased by an additional $1.50 per month, multiplied by years of service. "You could call it a retroactive pay increase," Mr. Sidebotham said.

Prior to the agreement, optional retirement was possible at age 62 without any reductions in benefits. However, there was a five-year "certain" option, which began at age 65. A certain provision means that retirement benefits are guaranteed for a number of years after retirement.

The weakness of the old plan, Mr. Sidebotham explained, was that if a man died between the ages 62 and 65, after electing an early retirement, his benefits stopped immediately.

Under the new contract negotiated by Goodyear, B. F. Goodrich, Firestone, Uniroyal and General Tire, the new five-year certain benefit will begin at age 62.

**MR. SIDEBOTHAM** explained that at General Tire this provision had been modified so that if a man dies while actively employed between ages 62 and 65, his widow will be guaranteed a five-year certain pension. If the man lives, his benefits will start at 65.

The basic mandatory limit on life insurance and accidental death and dismemberment has been increased from $6,500 to $7,500. This will automatically become the base benefit for other employes who are not on a bargaining basis, it was explained.

In the field of hospital and surgical benefits, Mr. Sidebotham continued, the maximum coverage for any period of confinement has been increased from 365 to 730 days. This covers all charges for semi-private confinement except for personal items such as a telephone.

**SURGICAL BENEFITS** have also been changed from a "relative value" basis, with a maximum of $450, to "full, reasonable and customary costs" for surgery.

Under a new co-ordination of benefits provision, using the example of an $800 surgical operation, a working wife's contract would be considered the primary carrier. If she were covered for $450, her husband's union contract would pick up the difference.

"We still don't duplicate" Mr. Sidebotham pointed out, "but we do pay the difference in the bill."

The same provision and improvements in the hospital benefits have been passed on to current retirees.

Mr. Sidebotham also said that if a worker should die while actively employed, having completed 15 years employment and after age 55, hospital benefits would continue to his spouse until she dies or remarries. If the active employe does not qualify in other respects, benefits would still continue to the widow for 90 days after his death.

Turning to the area of weekly benefits for sickness and accident, Mr. Sidebotham explained that the old benefit was $60 a week for males and $59 for females. Both were subject to a maximum of 26 weeks.

At General Tire, Mr. Sidebotham said, the maximum is now 39 weeks. Benefits are on a sliding scale ranging from $50 to $80 with no distinction made between male and female. Benefits are determined by "average straight-time hourly earnings" for the week just prior to a disability.

**THE REST OF** the rubber industry has increased benefits to $70 for males and $60 for females, up to 39 weeks.

The supplementary workmen's compensation for the industry has been increased from 26 to 39 weeks, Mr. Sidebotham noted. This provides up to 80% of average straight-time weekly earnings, less any state benefits. "These benefits are integrated with any Social Security coverages," he continued, "but the same total limit will be provided."


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# Hancock European pact allows transfer of pension plan benefits

BOSTON—John Hancock Life Insurance Co. and 11 foreign insurers have agreed to provide transfer of pension and group insurance benefits from country to country.

The agreement follows a similar expansion abroad by Continental Assurance Co., Chicago, to market employe benefit programs in Western Europe with two foreign carriers.

Negotiations are under way between Hancock and several big corporations, according to Arthur G. Weaver, vp of new developments, and the insurance firm expects to sign a contract with one of them soon.

**PROVISIONS OF** the bilateral agreements would allow employes to move from one country to another without loss of benefits under pension plans and group insurance, Mr. Weaver explained. The program now includes 16 countries, and John Hancock next year hopes to expand into eight additional nations in Europe, South America and Africa, Mr. Weaver stated.

Prior to the new agreement, Mr. Weaver told Business Insurance, an employe usually relinquished his benefits when he was transferred to another country. Now, the reserves he has accumulated are transferred to the new insurer.

Covered in the agreements, according to Robert E. Slater, president of Hancock, is group insurance in the life, hospitalization and pension fields.

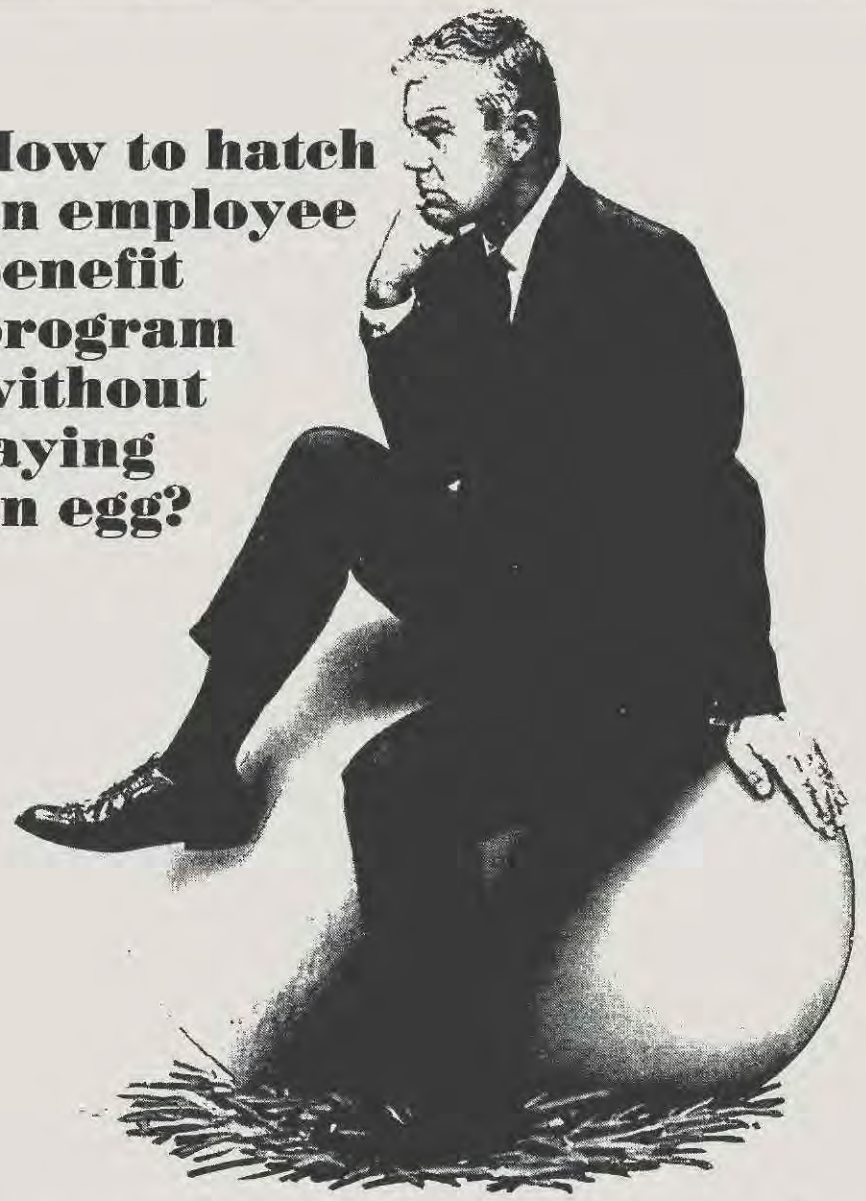
The international arrangements provide for pension and insurance geared to the specialized needs of U.S. corporations with subsidiaries abroad, lower administrative costs, a tighter rein on a company's expense ratio, international experience rating for the parent company and subsidiaries and prompt claims payment, Mr. Weaver said.

**PROVIDING EXPERIENCE** rating statements for parent companies will give them a certain degree of control over foreign branches and a picture of what is happening and how costs vary in the different countries, Mr. Weaver said.

Participating insurers include Eagle Star Insurance Co. Ltd., United Kingdom; Societa Assicuratrice Industriale, S. Pa., Italy; Swiss Life Insurance and Pension Co., Switzerland; the Victoria Lebens-Versicherungs-Aktien-Gesellschaft, Germany; Australian Mutual Provident Society, Australia; Compagnie Belge d'Assurances Generales sur la Viet et contre les Accidents, Belgium; and Groupe Drouot, France.

Excluding the South American insurers, John Hancock will work with the other companies on a reinsurance basis. The local company writes the policy, then reinsures up to half.


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# Republicans set coverage for '68 convention

By DON BEDWELL

MIAMI BEACH—While details have yet to be worked out, the Republican National Committee will carry a minimum of $3,000,000 in liability insurance on next summer's national convention here.

There apparently will be no special coverage to shield the convention from outside disruption.

One reason offered behind the scenes for the Republicans' selection of Miami Beach was south Florida's past freedom from racial disturbances and the city's relative insulation from any trouble that might break out on the Miami side of Biscayne Bay.

**"THE PREMIUM TO** cover any rioting or picketing would be quite high, because there is no way to protect against acts of spontaneous violence," said Miami Beach City Attorney Joseph Wanick, who helped work out the basic contract with the national committee.

"If a group leasing the Miami Beach convention hall caused the building to be damaged or destroyed through their own actions, they would have liability under the law," said Herbert Friedlander, the city's insurance and safety division supervisor.

"But if somebody from outside blew up the building, it would be a criminal act, in which the perpetrator, not the convention, would be held responsible." The city protects its convention hall and auditorium with insurance covering everything from riot to civil commotion, vandalism, malicious mischief and even explosion.

Fred Scribner Jr. of Portland, Me., general counsel for the Republican National Committee, said a decision still must be made on the total amount of liability coverage the committee will carry.

**"BUT IT IS** a good hunch we will have coverage in excess of the limits asked by the city," said Mr. Scribner. "This will cover the Republican Party from any liability for injuries suffered by anyone at the convention."



**This resembles the scene** when the Republicans meet next year in Miami Beach's convention hall. Another group, the American Legion, is shown in session here.

The contract signed with the city requires the Republicans to provide public liability insurance protecting both the party and the city against damage claims for injury to person and property. The contracts requires coverage of $300,000 for any one person and a total coverage of $3,000,000. Property damage is to be $100,000 for any one claim.

While Miami Beach's minimum requirement for convention hall lessees is only $100,000/300,000 bodily injury and $25,000 property damage, Mr. Friedlander does not consider the national convention coverage high.

"We've had circumstances where an organization might carry $25,000,000 in primary insurance—a circus for example, or maybe an ice show," he explained. "Although we set up minimums, the organizations normally want coverage in the millions."

The convention to open Aug. 4 is expected to draw as many as 60,000 persons, including 3,500 delegates, alternates and party officials.

The 1,200 newsmen point up another interesting aspect of the convention's insurance coverage: the need to cover a valuable lode of camera and electronic equipment being brought in to record the gathering.

**WILLIAM McANDREW,** president of NBC News, has said his network will begin moving 55 tons of equipment to Miami Beach next June. "That's five tons more than we used in covering the last Republican convention in San Francisco in 1964," Mr. McAndrew said .

**NBC, WHICH** will summon a staff of more than 600 for the convention, will bring in equipment which includes 300,000 feet of camera cable. CBS and ABC are expected to move in a similar volume of equipment.

"Other insurance will be required to provide workmen's compensation for employes and to provide various security bonds for delegates handling party money," said Mr. Friedlander. "There will be coverage required for the computer equipment brought in for tabulating results, and the city will need personal injury insurance to cover claims that might grow out of false arrest when that many delegates are in town."

Mr. Scribner said the GOP's insurance will be handled by Ray Bliss, national chairman, with the advice of the arrangements committee.

"An attempt is always made to do as much business as possible in the local area," Mr. Scribner said, "recognizing that substantial funds have been raised and commitments made by the local area in order to secure the convention.

## Bureaus ask new auto rates in Connecticut

HARTFORD—The National Bureau of Casualty Underwriters and the National Automobile Underwriters Assn. asked for a 12.5% liability rate increase in commercial autos in Connecticut and a 25% hike for garages buying broad coverage.

The rate hike would include liability insurance for on-premise injuries as well as damage to vehicles.

The filing also asks for a 16.7% increase in medical payment premiums and an average statewide reduction of 5.5% in physical damage premiums for commercial cars.

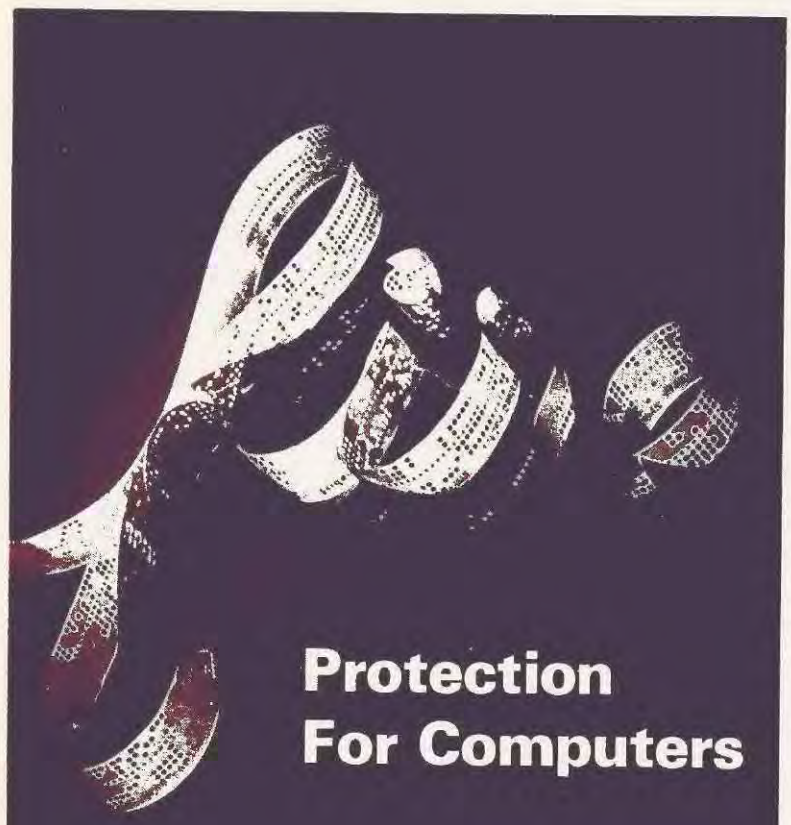
**ASSUMING** $20,000 coverage for property damage and bodily injury for any one accident, commercial liability rates would decrease 4.7% in Hartford and 5% in suburban Hartford. Rates would increase 19% in Waterbury, and 12% in New Britain.

With $5,000 physical damage insurance, commercial rates would increase 18% here, 11% in Waterbury, 21.8% in New Britain and 9.5% in suburban Hartford.

State Insurance Commissioner William R. Cotter must approve the new rates. No hearings on the filing have been scheduled.

### *Leong named partner*

Leonard P. J. Leong has been named a principal partner in the actuarial consulting firm of Milliman & Robertson, Seattle.


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36

AMA Chicago

# Giant wrap-ups, small piece work discussed at contract liability meet

CHICAGO—Problems of exposure and coverage in contractual liability, ranging from giant wrap-up for a $400,000,000 project for the Port of New York Authority to piece work done by "little old Molly" for a large retail chain, were discussed by a panel of 13 experts here.

Molly sews draperies in her home. The risk manager for the retailer asked the 40 buyers and producers attending an American Management Assn. seminar on contractual liability, "Suppose she were to leave a pin in one of her drapes and it will put out an eye of one of our customer's children?"

The rhetorical question pointed out the hidden dangers in contractual liability coverages.

**JOSEPH P. DE MARINIS,** assistant insurance manager for the port authority, said the minimum project size for an authority-sponsored wrap-up plan is $20,000,000, with coverage limits of $3,000,000 and $10,000,000. He said the port authority has four manuscript forms for various wrap-up coverages. The size and type of project dictates the form the authority sends out to carriers for review, Mr. De Marinis said.

**HE CITED SEVERAL** advantages of wrap-ups, including: (1) fostering uniformity of administration; (2) no worry about contractors with insufficient coverage; (3) premium saving through elimination of pyramiding of liability coverage by contractors and subcontractors; (4) cutting the cost of auditing, particularly for workmen's compensation; and (5) a more favorable loss experience because the carrier puts safety engineers on the project who set uniform safety standards.

Mr. De Marinis also pointed out that a central medical facility for each wrap-up project tends to cut workmen's compensation claims.

Some disadvantages Mr. De Marinis noted about wrap-ups included: (1) the contractor has no control over coverage provided and he may feel it necessary to buy additional coverage; (2) refunds and dividends for favorable experience are eliminated; (3) contractors with unfavorable safety records get the same treatment as those with favorable records; and (5) carriers have to suspend and renew coverages for contractors as the contract goes into effect and terminates.

**CONTRACTUAL LIABILITY** agreements may be found almost anywhere from the fine print on purchase orders to "not responsible for garments checked here" at many restaurants. Common law in liability cases provides no answer because of varying applications of the law by the courts.

Contractual liability, a coverage for the named insured's liability for bodily injury or property damage under written contract with another party, assumes someone else's legal liability which the insured contractually agrees to meet.

The contractor usually makes this agreement by signing a contract with a hold harmless clause that spells out the responsibility for any injuries and damages.

**A LIMITED FORM** hold harmless clause is an agreement to pay for the contractor's negligence of his subcontractors; intermediate form, an agreement to defend and pay where both parties in the contract are negligent in agreed upon amounts; and a broad form indemnifies the contractor even though the other party is solely responsible for a loss.

In the limited form, the contractor and his subcontractors (and their carriers) are liable if they are sued or incur expense because of s o m e t h i n g they should have done. In the broad form, the contractor agrees to pick up the bill for everything including damage in no way caused or contributed to by his employes and the subcontractor's employes.

Frank A. O'Shaughnessy, attorney in the insurance department of Container Corp. of America, recommended that risk managers review all company leases and contracts to check for liability exposures.

He also recommended that risk managers seek clarification of phrases such as standard fire insurance, extended coverage, full insurable value, replacement value and structure replacement that tend to appear in "boiler plate" agreements.

He outlined a handy check list, borrowed from the newspaper business, as a means to analyze contracts, easements or leases.

**THE LIST OF QUESTIONS** includes determining *who* are the parties, *what* is the contract, *where* will the contract be performed, *when* do the contract and responsibilities terminate and *how* do the requirements, including side agreements, effect the operation of the contract.

Warren C. Hargreaves, insurance manager for Fruin-Colnon Contracting Co., outlined the comparative costs of liability on a typical road construction contract in Illinois. He said a basic owner's protective policy on a $4,000,000 contract with $100,000 per occurrence and $300,000 bodily injury and $100,000 property damage limits would cost $2,200 annually. The cost of coverage on the same contract with a moderate hold harmless agreement would be $4,400 and with a sole negligence or broad hold harmless more than $8,000.

Mr. Hargreaves said that contractors pass the cost of coverage on to the owner and recommended that the contractor buy an owner's protective policy in the owner's name, thereby keeping any loss claims from showing up on the owner's or contractor's experience.

**DONALD J. GREENE,** attorney with LeBoeuf, Long & Leiby, reported on attempts in state legislatures to make hold harmless clauses, particularly in the broad form, contrary to public policy. He said California, Michigan and Tennessee have passed laws outlawing various hold harmless agreements. Similar bills have been vetoed by the governors of Colorado, Illinois, New Mexico and Oregon, he said, Massachusetts, Ohio, Oklahoma and Wisconsin are reviewing bills, and hold harmless bills have been defeated in 11 other states.

Russell A. Drake Jr., assistant insurance manager for Sears Roebuck & Co., pointed to several advantages to joint insureds or being named on the policy as an additional insured in joint shopping center operations. He said that it provided ease of claim handling with one set of attorneys, removed poor risks from blanket policies and saved premium dollars.

Walter T. Derk, assistant vp at Fred S. James & Co., recommended that owners take shelter for protective liability under their general comprehensive liability coverage in the interests of saving premium dollars. He said that the new liability policy wording provides almost identical coverage.




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*N. California ASIM*

# Premium feast, capacity famine called 'paradox' facing buyers

SAN FRANCISCO—Insurance buyers of the nation today face the paradox of a capacity famine amidst a feast of premiums.

Coincidentally, a trend is emerging in U. S. legislative chambers to "indemnify everyone for everything."

These were two observations by speakers at the fourth annual insurance day conference, sponsored by the Northern California Chapter of the American Society of Insurance Management.

George Sawyer, director of the insurance department of the California State Chamber of Commerce, commented on 1967 California legislative action concerning workmen's compensation, unemployment insurance, disability, casualty, health and general insurance.

**OF THE THREE BILLS** that Gov. Ronald Reagan vetoed, one would have provided that when two or more insurance policies insure the same loss and one of the policies covers a commercial business enterprise such as leasing cars, the policies might provide that coverage would be applicable as excess coverage.

The second bill the governor vetoed would have extended medical-hospital insurance to retired state employes. The third would have provided that aid benefits to the aged would not be considered as income.

"Some of the new laws," Mr. Sawyer explained, "not only require new liability limits but also change basic liability concepts."

Mr. Sawyer said that the legislature had failed to act on a bill that would have put the private carriers back into the disability insurance field.

"In unemployment compensation," Mr. Sawyer added, "there was what amounted to a standoff, except for reorganization of the Appeals Board and creation of an Advisory Council to the Governor."

Fred G. Dupuis, executive manager of the Independent Insurance Agents Assn. of California, said "much of this new legislation will result in increased premiums."

Mr. Dupuis said, "The trend seems to encompass an effort to indemnify everyone for everything." An example, Mr. Dupuis said, is product liability insurance that makes the manufacturer "responsible for his product and whatever risk the product itself might produce."

Another new California law creates an Automobile Accident Study Commission that will study automobile accidents, common law tort, liability systems, including related insurance, and motor vehicle and procedural laws.

Victor Slevin, general manager of the American Insurance Assn., said of the 320 measures introduced in the California legislatures last session considered by the AIA to be adverse to the insurance industry, "it is difficult to pinpoint those affecting the large insurance buyer. Most of the new laws involving insurance are for the general public and tend to reflect the pressures from the bigger cities."

**MANY LEADING** insurance executives, Mr. Slevin reported, "are beginning to believe the best alternative, and certainly the best approach to riot insurance, is government subsidy to insurance buyers where reinsurance is not available."

The "great challenge" facing the insurance industry, Mr. Slevin said, "is to provide the market with a product at a rate the market can pay. If the insurance industry cannot do this, then government undoubtedly will."

Joseph D. Thomas, chief assistant insurance commissioner of California, defined the "world insurance community" as "the whole mechanism of insurance in the free world, tied together by reinsurance and excess arrangements.

**"THE ELEMENTS OF** trust and faith form the fundamentals permitting an insurance community to exist. Inherent is a high degree of moral commitment on the part of all persons connected with substantial insurance transactions."

Currently, Mr. Thomas warned, "there is extreme pressure on these groups to partially retreat from their high moral commitment, with the pressure perhaps greatest on the man-

*Continued page 21*




**Joseph E. Thomas,** chief assistant insurance commissioner of California, told a Northern California American Society of Insurance Management Insurance Day about the capacity problem on the world insurance market.

**What would you give for a system that tells you when and where your insurance costs are out of line, in language you understand, in time to do something about it?**

# Premium feast

Continued from page 20

agers of the larger U.S. insurance companies.

"I do not believe management has yet receded from this high moral commitment. But the pressures remain and state insurance departments often are criticized for not forcing insurance management to yield to such pressures."

**THE INSURANCE** business, Mr. Thomas explained, is "particularly vulnerable" to governmental pre-emption. "If we ever supplant private enterprise with complete business by government, it will start with the insurance business."

"To some extent," Mr. Thomas continued, "the defense of the insurance business is the first line of defense for all business. It is so easy for government to launch itself into insurance! It needs only vaguely to pledge future tax collections to pay losses."

The insurance industry, Mr. Thomas admitted, "has not done a very good job of public relations. In some fields, practices have been downright bad and aggravated by a public-be-damned attitude."

**MR. THOMAS REVIEWED** several pressure areas being exerted on the insurance industry.

1. In automobile insurance, where there is a tight market and high rates, the method of compensating accident victims is not fair and reasonable. Another factor is overuse of highways during rush hours.

2. The industry is castigated for using reporting services on insurance applicants, infringing on rights of privacy.

3. In rebuilding the nation's slums, insurance company management is being asked to make heavy real estate investments.

4. Insurance firms are faced in most industrial states with proposed legislation to create compulsory assigned risk plans.

5. The industry is being asked to participate in government flood insurance schemes, but sponsors of such schemes have consistently refused to include other hard risks such as earthquake, tidal wave, tornado, volcanoes, which would make the scheme of benefit to other geographic areas.

## Form annuity unit

American Republic Insurance Co., Des Moines, Ia., has formed a wholly owned subsidiary to offer variable annuity individual and group contracts.

# Loss program pays for itself, carrier tells hotel, motel men

BOSTON—A sound loss prevention program can pay for itself many times over, a team of Consolidated Mutual Insurance Co. executives told an insurance workshop of the American Hotel and Motel Assn. here.

Daniel C. Rhodes, Consolidated assistant vp, said loss prevention is one of the few investments that will not only return its entire cost but also improve the quality of service and relations with hotel and motel guests.

"Management must inevitably realize that it can't afford to do without an organized loss prevention program," he said.

**THE MOST** terrifying accident facing guests is being trapped in a burning building, Mr. Rhodes stated. Consequently, loss prevention programs should emphasize measures to protect the hotel from fire, he said.

Mr. Rhodes suggested an accident prevention program of instruction for employes, operating rules for various jobs, thorough inspection of facilities and investigation of accidents.

Arthur W. Mehmel, assistant vp, said that in spite of an abundance of educational material available to hotel and motel owners and to their insurance advisers, many losses sustained by hotels are not covered by insurance.

**MR. MEHMEL** gave an example of a lawsuit against a number of hotels alleging—among other things—libel, slander and defamation of character. He said personal injury liability covers such suits, even if groundless, false or fraudulent.

"A careful review of the hazards faced by hotel and motel operators is a must, and it is dangerous to remain indifferent to various situations that can arise and may prove disastrous," Mr. Mehmel said.

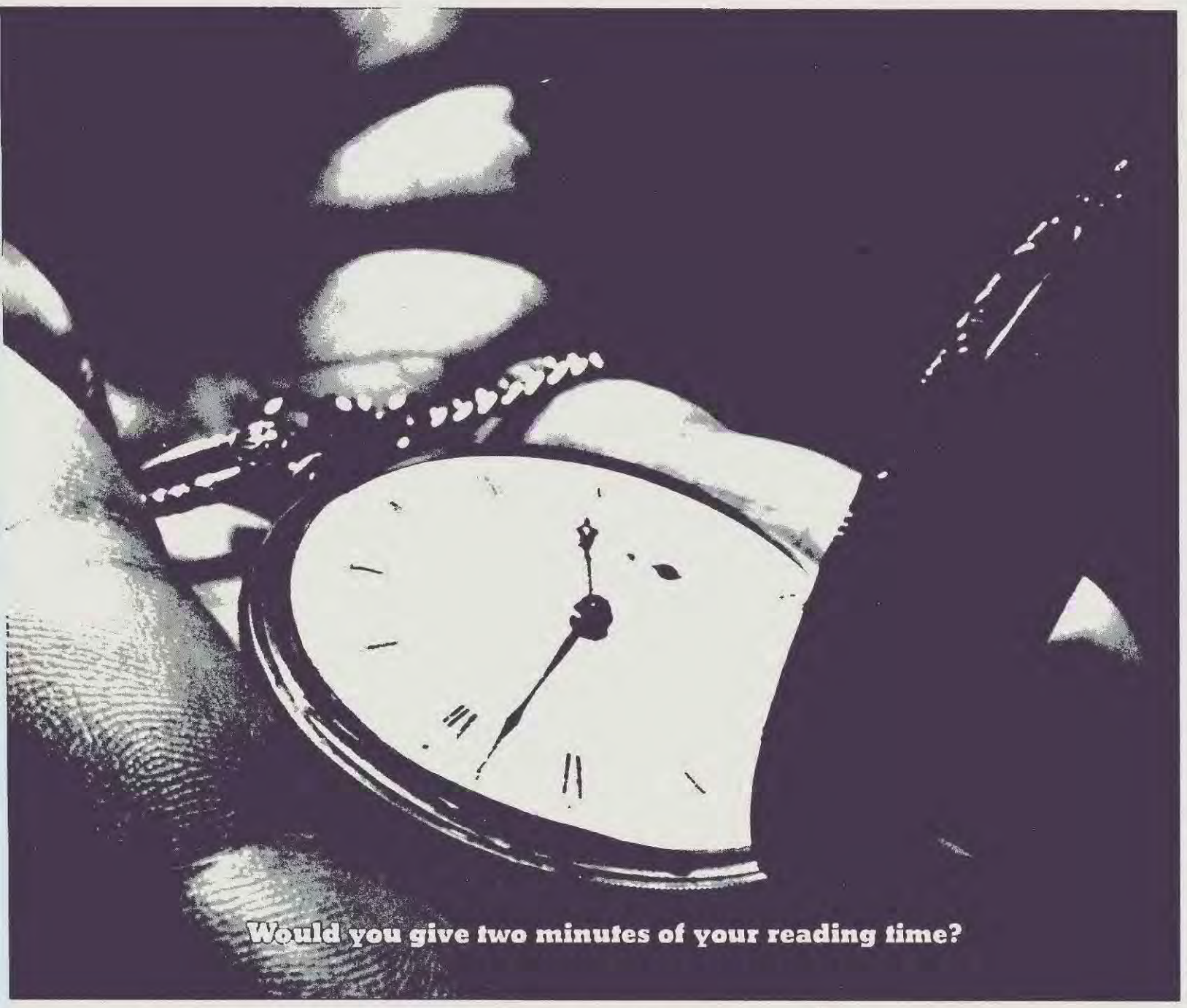
Herbert L. Grant, claims division vp, said in attempting to control losses, hotel management has "no choice but to become a partner with its insurance company for that purpose.

"The minor injury today can be presented as a serious infirmity tomorrow, and this can be avoided only by utilizing common sense and professional handling at all stages of the claim."

**THE NEED** for prompt action is twofold, the insurance executive advised. First, he said, reconstruct the facts before memories become stale and, second, try to settle the case before he gets an attorney.

He said, "A case is settled when there is a meeting of the minds between the claimant and the insurance carrier."

He emphasized that the insurance program cannot be on the periphery of hotel operations but must be an integral part of the hotel's day-to-day operation.


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# Hertz auto buy won't affect its insurance rate

NEW YORK—The purchase of 100,000 new vehicles for 1968 by Hertz Corp.—up 6,000 from the previous year—will not have any affect on its insurance rates.

A spokesman for the rent-a-car firm stated that new vehicle purchases are "routine" and changes in the rate structure are not reflected by the additions.

He noted that the company is always studying its insurance program to keep up-to-date but does not contemplate any revisions at this time.

Hertz, a unit of Radio Corp. of America, has a fleet of 132,000 vehicles, 25% of which are trucks.

## St. Clair shifts

Rex St. Clair, former head of workmen's compensation department, Dooly & Co., Portland, Ore., brokerage firm, has moved to the client service department.

# In focus



**"Symbols of desire for change,"** John D. Phelan, president of the American States Insurance Cos., Indianapolis, termed the Keeton-O'Connell auto accident compensation proposals. He addressed a joint meeting in Hong Kong of the Insurance Institute of Hong Kong and the Society of CPCU.



Wellman Fulton Gelbhaus Morey

**To help stimulate interest** in fire protection engineering, Marsh & McLennan has awarded two scholarships to students at the Illinois Institute of Technology. The first recipients of the award, which was presented by Richard T. Wellman, vp of the brokerage firm, and Albert A. Morey, chairman, were Roy George Gelbhaus, a senior, and Neil R. Fulton, an IIT freshman.



Livings Wilking Bridges Hankins

**Renewing old friendships** at the Council of Profit Sharing Industries annual conference are George E. Livings, treasurer of Texas Instruments; H. Richard Wilking, vp of the trust department, First National Bank of Chicago and treasurer of the council; Jack Bridges, senior vp of sales, First Investment Annuity, Philadelphia; and Hayden L. Hawkins, corporate benefits manager, Texas Instruments Inc.



**Enjoying a joke** at the AMA session on employe benefits cost control are speakers George C. Foust, vp of Towers, Perrin, Forster & Crosby; Gerald M. Flynn, administrator of Long Island Trainmen's welfare fund; Raymond P. Froehlich, employe benefits coordinator of Con-Gas Service Corp.; H. Edward Johnson, supervisor of plans & policies Procter & Gamble; and D. Bruce Sidebotham of General Tire & Rubber Co.



**Taking time out** at the ASAM conference in Atlanta, were F. A. Derfus, manager of claims and insurance, Florida Power & Light Co.; J. Robert Aiola senior insurance analyst. Coca-Cola Co., Atlanta; and Cal B. Rosenbaum, assistant to the senior vp of insurance and real estate, Wometco Enterprises.



**Questioned at a morning session** of the Atlanta meeting were R. Knight, Marsh & McLennan; John F. Benick, vp of marketing, Employers Mutual of Wausau; C. Dickson Oliver, vp, Liberty Mutual Insurance Co., Atlanta; Robert Rich, conference chairman and insurance manager of the Cotton Producers Assn., Atlanta; Charles G. Duncan, Jr., insurance program director, state of Georgia; and R. I. Israel, vp, Continental Insurance Group, Atlanta.

## london line

# U.K. insurers debate wider liability cover

By JOHN GASELEE

LONDON—Non-marine liability insurance was the chief topic at the annual conference of the Chartered Insurance Institute held here and attended by insurers (both the companies and Lloyd's), brokers and the major buyers of insurance.

A paper was presented to open the discussion by M. W. Payne, the underwriter and general manager of Sir William Garthwaite & Others, a leading syndicate of underwriters at Lloyd's.

Mentioning that many of the problems confronting the liability underwriter today are new, Mr. Payne said that premiums cannot be worked out on any actuarial basis, because there is no previous experience. He thought, however, that, provided an underwriter has a basic grounding of experience in these matters, the problems can usually be dealt with by instinct.

**"MISTAKES WILL BE** made," he continued, "and we have to profit from them by not making the same mistake too often. Most risks should be given a reasonable run; if, after this, there is still no improvement, then we may have to consider a revision of terms or cover, or both."

**LOOKING TO THE FUTURE,** Mr. Payne said he hoped that, before long, the stage would be reached where one policy document could be issued for all liability cover, instead of three or four. This would be a single rate umbrella policy covering every conceivable liability, including professional negligence. Before this stage was reached, Mr. Payne thought that the first step towards it should be a policy drafted in separate sections—which should be as wide and comprehensive as possible, to give insurers the experience they would need to rate the umbrella policy adequately.

**"IN YEARS TO** come," said Mr. Payne, "the insurer who can provide this cover will be in great demand—but it will not be cheap. Brokers must recognize the growing requirement in industry for such a policy, and must be prepared to support a reasonable rating structure, as cut-price competition will only see an early end to a promising new approach."

Mr. Payne also thought that, within the foreseeable future, insurers would have to provide unlimited indemnity for property damage claims as well as for personal injuries to third parties. He thought that the British market was now large enough to provide this, assuming that the professional reinsurance market would be co-operative.

Discussing the question of personal injury claims, Mr. Payne said that an important feature in management/labor relations and in public relations is the need for insurers to be able to adopt a flexible or humanitarian approach where genuine cases of extreme hardship are involved.

**IN A CASE WHERE** there is liability and thus a payment is going to be made eventually, but possibly subject to delay due to medical or other complications, Mr. Payne thought that on occasions an interim payment could be made to offset financial loss. But, he said, care must be taken that this does not result in protracting the settlement.

In fatal cases, where there is clear liability, Mr. Payne thought it good public relations for insurers to make careful inquiries as to the widow's circumstances and to ease her financial burden where this is warranted.

Although buyers of insurance want as wide cover as possible, Alan W. McOwan of the Prudential Insurance Co. of Great Britain was not keen on the idea of giving much wider liability cover so far as contractors' policies are concerned. He pointed out that, dependent on the whim of the architect or quantity surveyor, all sorts of odd risks might be stipulated, and the possibility of being asked to give automatic cover filled him with misgiving.

**EVEN IF ONLY** cover against subsidence, collapse, vibration and similar risks, was contemplated, Mr. McOwan did not like being committed automatically to writing such risks. He would prefer, he said, to write these risks on an individual offer and acceptance basis, reserving the right to survey if necessary. In this way he could negotiate from strength, fixing his rates and terms before he went on risk.

R. A. Parsons, of the Eagle Star, felt that the growing practice of placing public liability and product risks in layers, when high limits of indemnity were required, would not, in the long run, be in the best interests of either the insurers or the insured.

He took the view that these risks had been written as "loss leaders," and said he felt this was an undesirable practice, particularly at a time when insurers were faced with increasing awards of damages and higher legal costs.

S. C. Davies, a reinsurance man, dashed the hopes of buyers who may be hoping for unlimited property damage. He said that for many years before and after the war, unlimited indemnities were given. But most of the insurers kept only a few thousand pounds themselves. At present, the reinsurers refused to give unlimited indemnity.

Mr. Davies held the view that both the direct and the reinsurance markets could give a reasonable amount of cover, and he felt that unlimited cover was not required.

## Bank offers mortgage 'packages' for pensions

"Packages" of residential mortgages in amounts as low as $100,000 will be offered to pension funds and smaller insurance companies by the Royal Bank of Canada, Montreal. The packaged mortgages are being offered, the bank said, because such organizations don't usually have the assessment facilities and service organizations required to evaluate and process mortgages.


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# Standard Oil's training center has model tankers and wave makers



**A Standard Oil model tanker** maneuvers a bend in the simulated Suez Canal at the company's training center in Grenoble, France.

NEW YORK—Standard Oil Co. of New Jersey has opened a marine research and training center on a man-made lake in Grenoble, France, designed to reduce marine insurance disasters such as the Torrey Canyon. Facilities are complete with scale model tankers and wave-making machines.

The $700,000 training center will instruct tanker masters in the specialized handling of the larger vessels now being built.

The curriculum will also assist shipmasters in making the transition from smaller tankers by exposing them to both normal and emergency situations under carefully controlled conditions, the company said.

**"THIS IS PART** of Standard Oil's overall accident prevention program," William D. McGuiness, manager of the insurance division, told Business Insurance. "Our aim is to prevent huge disasters such as the Torrey Canyon."

Mr. McGuiness explained that once its own training requirements have been fulfilled, Standard Oil plans to make the Grenoble facilities available to the entire maritime industry.

Scale model tankers will be put through maneuvers on the lake, Mr. McGuiness said, "and although this may look like child's play, it's a serious business to the man at the controls."

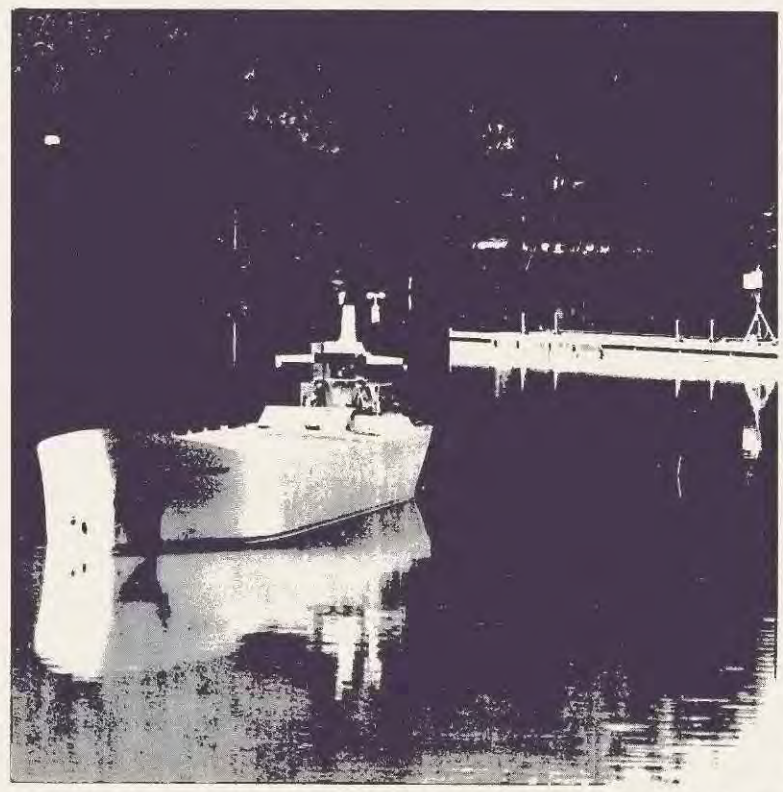
The lake has been converted into a "miniature sea" and is equipped with a wave-making machine which can generate the equivalent of 20-foot waves in the open sea. Other facilities include a bend in a simulated Suez Canal, conventional sea berths and piers. Navigational channels will be marked with lighted buoys to allow night exercises.

**EVERYTHING ABOUT** the models will be in exact proportion to the vessels they represent, Mr. McGuiness said. "For instance, the captain will be positioned so that his eyes are the same level as they would be if he were standing on the bridge of a full sized ship."

Moving oil by big tankers is the most economical way to do it, and the advantages increase proportionately as the ships get larger, Mr. McGuiness explained. "Unfortunately, so do the insurance problems, making it important to develop loss prevention methods."

The Grenoble center will train approximately 150 shipmasters and pilots each year. Accident prevention techniques, security and safety methods, emergency ship handling and other problems will be emphasized.

Eventually, the training facilities will be offered to other oil tanker operators. "Plans have also been made to make the center available to governments and other port authorities operating deep water ocean oil terminals," Mr. McGuiness stated.



**A scale-model replica** of a 191,000-ton tanker leaves a "deep sea" pier at Standard Oil's training center.

# U.S. companies promote rerun of drivers test

CHICAGO—More than 9,500 companies across the U.S. have cooperated with the National Safety Council to promote the National Drivers Test to be presented on CBS-TV on Tuesday, Dec. 5.

Companies, through various in-plant promotions, are encouraging employes to take the test, in some cases offering rewards to employes who turn in completed test forms.

The test will be a rerun of the one shown last May 23. Almost one-third of the new show's questions deal with winter driving.

**INDIVIDUAL COMPANY** promotions range from providing test forms to employes to group competition and showings, the council said. Reports of activities are made by member companies to the council.

Employes of International Paper Co., Corinth, N.Y., and the Corinth plant of Arrow Co., for example, will receive the test forms, followed by stories of the rerun in both plant newspapers.

Employes of both plants will receive a "treat" for turning in completed forms, a company spokesman said, and a grand prize will also be awarded.

Many companies distribute the test forms in payroll envelopes. The three laboratories of Monsanto Research Corp. in Miamisburg, O., Dayton, O., and Boston, will compete with results shown on the program and the comparison will be posted at all laboratories.

**NATIONAL DISPOSAL** Contractors, Barrington, Ill., will ask each of the company's 12 divisions to hold a special meeting with employes prior to the telecast.

In providing employes with test forms, some companies include extra forms for employe spouses and other family members. The Barksdale, Wis., Works of E. I. du Pont de Nemours & Co. mailed three forms to each employe. National Disposal sent out two forms to each employe's family.

The National Safety Council mailed out promotion material to more than 10,000 member companies. A council spokesman estimated that 95% of the companies pass out test forms or promote the test in some way and about 50% have in-plant competition, award prizes or hold group showings.


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# Ask workmen's comp rate hike

RALEIGH—Insurance industry spokesmen cited higher medical costs and increased compensation benefits as major reasons for proposing an 8.9 per cent hike in North Carolina's workmen's compensation rates.

At a hearing before insurance commissioner Ed Lanier, W. F. Laughlin, general manager of the Compensation Rating and Inspection Bureau, and William C. Aldrich, representing the National Council on Compensation Insurance, said the bureau's request was the direct result of those two factors.

The 1967 state general assembly hiked maximum weekly compensation benefits from $37.50 to $42 per week and the top compensation in any one case from $12,000 to $15,000. Also, the North Carolina Industrial commission adopted fee schedule increases effective Aug. 1.

Mr. Aldrich said the benefit and fee increase would ordinarily have required a 16.1 per cent rate increase but an "unusually favorable" loss experience here enabled the bureau to cut its rate increase request by half.

The bureau asked that new rates become effective Nov. 1 and apply to all present policies as well as new and renewed insurance contracts. Usually a rate increase based on company losses applies only to new and renewed policies.

Commissioner Lanier did not indicate when he will rule on the rate proposal.

# business insurance/perspective

# The variable annuity bandwagon—and how you can climb aboard

*by Elliott Beier, manager pension and profit sharing services Ohlman & Co., New York*



**Elliot Beier**

"There has been more interest in the variable annuity and more activity in that area in the past six months than there has been in the past ten years," says George E. Johnson. Mr. Johnson should know what he is talking about—he pioneered in the development of the variable annuity at a teachers' insurance group, was president of both Variable Annuity Life and Equity Annuity Life, and currently is a consultant to a number of major organizations planning to enter the variable annuity field.

The National Health & Welfare Retirement Assn., under the guidance of Mr. Johnson, recently set up a variable annuity retirement plan for participants. The National Health & Welfare Retirement Assn. is a nonprofit organization that provides life and health insurance coverage and pension plans to more than 3,000 member organizations in the hospital, health and welfare field.

**THE FOLLOWING RUNDOWN** indicates the surge of interest in this field:

- American Airlines, which has had a variable annuity plan for its pilots, recently extended coverage to all employes. Monsanto has set up a v.a. plan for its salaried employes.
- Prudential Insurance Co. offered a v.a. plan to all of its 53,000 employes —and 98% signed up.
- Equitable Life Assurance, Continental Assurance, State Mutual, John Hancock, and Paul Revere are offering variable annuity plans and other life insurance companies such as Aetna and Travelers are planning to do so.
- The Teachers Insurance and Annuity Assn. College Retirement Equities Fund (TIAA-CREF), which covers 175,000 participants from 1,500 educational institutions, just made a major revision in its fixed dollar annuity/variable annuity "mix." Formerly, participants in TIAA could have up to 50% of their retirement contribution put into CREF, a variable annuity fund investing in common stocks; the balance would go into TIAA's traditional fixed dollar annuity plan. Now participants can designate up to 75% to go into the CREF variable annuity plan.
- The New York City Teachers' Retirement System, effective January 1, 1968, will offer a variable annuity option for part of a teacher's retirement income. This may give impetus to many state and local government pension plans to set up variable annuity plans. Arthur Levitt, state controller and trustee of New York State Employes' Retirement System, has been a longtime advocate of the variable annuity and cost-of-living increases for pension plans but has not as yet succeeded in getting legislation passed.
- The Board of Pensions of the Lutheran Church in America has made an intensive study of the variable annuity and issued a report advocating its use in church pension plans. A number of church and synagogue pension funds have already set up variable annuity plans in recent years, and more will follow.

**EXPERIENCE HAS SHOWN** two main disadvantages in having only a fixed dollar retirement income:

- A long-term upward trend in the cost of living—inflation.
- A long-term upward trend in the general standard of living.

First, the number of dollars needed to buy the same goods and services has been increasing year after year. In the past ten years alone, the cost of living, as measured by the Department of Labor's Consumer Price Index, has increased by more than 20%. Thus, $1,000 of retirement income granted in 1967 will buy less than $833 worth of food, shelter, clothing and transportation today.

Secondly, dynamic changes in our economy (new products, improved products) create an upward trend in the general standard of living. Retired employes have difficulty maintaining their relative standard of living because they are unable to share in this increasing productivity. A fixed income which seems sufficient at the time of retirement often becomes inadequate in later years.

**STOCK PRICES HAVE,** over the years, kept pace with the cost of living. There are exceptions — periods when stock prices went down while the cost of living went up—but over the long term, stock prices have tended to change with changes in the cost and standard of living.

In general, the values of stock investments have over the long term gone up faster than the cost of living alone; they have allowed participation in the growth of the economy. Over the 35 year period, 1926-1960, the average rate of return on common stocks listed on the New York Stock Exchange was 9% a year (assuming dividends were reinvested). Over the same period the Consumer Price Index advanced an average of 2% a year.

While long-term investment results of diversified groups of common stocks have moved in the same direction as the cost of living, the short-term swings of common stock prices were usually greater, both up and down, than movements in consumer prices. Also, stock and consumer prices will occasionally move in opposite directions for brief periods. Thus, retirement payments based solely on a variable annuity might be sharply reduced during a temporary market downswing or during a period of recession.

**MANY RETIREMENT PLANS** combine the variable annuity with a fixed dollar pension to provide stability and avoid sharp swings in retirement income.

Example: Under the New York City Teachers' plan, only deductions from teachers' salaries (employe contributions) and a new supplemental 5% city pay increase may go into the variable annuity program. The pension that is paid for by the city's contributions (employer contributions) is paid in fixed dollar amounts, calculated at a percentage of final salary. Social Security provides the teacher with an additional foundation of fixed dollar payments.

If your company or organization is contemplating the setting up of a variable annuity plan, where do you turn for help?

**THE FIRST STEP IS TO** have a feasibility study made by an employe benefits and actuarial consultant, preferably one knowledgeable in the variable annuity area. Important decisions have to be made. Should the variable annuity be a new plan or tied in with the current retirement plan? Should the variable annuity plan be self-funded, insured or split-funded?

The following checklist may be an aid in your thinking. It was compiled by Donald S. Grubbs, Jr., Philadelphia actuary and employe benefit consultant. Mr. Grubbs is co-author with George E. Johnson of a forthcoming text and guidebook on variable annuities. "I have reservations," says Mr. Grubbs "about there being any simple checklist that can be devised for variable annuities. The questions are all too complex and the answer to one question determines the next question to ask. Nevertheless some of the basic questions to be asked are in the following list."

1. Should all employes be covered under a variable annuity plan?
2. Should variable annuities be optional or should all plan members be covered under variable annuities.
3. Should variable annuities buctuate with equity prices, with the cost of living, with wage levels, by some mathematical formula such as 2% annual increases or some combination of these?
4. Should the benefit formula be a unit credit formula with adjustments both before and after retirement or should it be a final pay formula with adjustments only after retirement?
5. What should be the benefit formula?
6. How should the plan be integrated with Social Security in light of the special problems of integrating variable annuity plans?
7. If a cost of living variable annuity is adopted, should there be any minimum and maximum adjustments to the benefit?
8. If an equity variable annuity plan with a unit benefit formula is adopted, how should past service benefits be funded and how should past service contributions be allocated?
9. If there is already an existing pension plan, what should be done about accrued pension benefits and accumulated assets?
10. If an equity variable annuity is adopted, should short term fluctuations be smoothed and if so how?
11. What sort of balance should there be between fixed and variable income, and should the balance be obtained by two separate plans or by one plan with balanced investments?
12. What, if any, benefits should be provided for vesting, disability, widows benefits upon death, and other fringe areas and to what extent should these be variable?
13. Should the plan be contributory and, if so, how are employe contributions affected by the variable feature?
14. What funding medium should be used? Should it be insured or trusteed and, if insured, which of the various types of annuity contracts can be used for this purpose?

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# AID program insures foreign investments

In 1965 the Chase Manhattan Bank found that it had a friend in Washington. When its branch bank in the Dominican Republic was partially destroyed during the insurrection there, it was covered by an insurance program of the Agency for International Development.

In 1958 and 1959 Fidel Castro expropriated almost all U. S. industry on his little island. How much did this cost AID's insurance programs? Not a cent, because no company thought it was necessary to protect itself in Cuba. The insurance was available, however, through AID for .5% of the investment.

Three insurance programs of the Agency for International Development have made the use of insurance an integral part of most companies' foreign expansion programs. Countries which were formerly taboo to large investments because of the high risk involved are now happy hunting for companies looking for high returns in foreign markets.

**THE LARGEST AND OLDEST** of AID's insurance plans is the specific risk investment guaranty program. It insures against all losses from currency inconvertibility, expropriation and damage from war, revolution or insurrection. It does not cover losses from currency devaluations, bad debts or other normal business risks.

During the 1967 fiscal year the program, which started in 1948 as part of the Marshall Plan, issued over $1 billion worth of insurance, boosting its total guaranties outstanding to over $3.7 billion. A total of 170 projects in 43 countries were insured during the year, about half of which were in Latin America. Coverage extended in fiscal 1968 is expected to exceed $2 billion.

Four claims totaling $66,367 were paid in fiscal 1967, including $26,340 to Chase Manhattan and $11,563 to the First National City Bank in New York. The latter claim was also for losses suffered in the Dominican uprising. Rheem Manufacturing (a wheat flour mill in the Philippines) and Pluswood Industries (a lumber processing plant in the Congo) collected the rest under their inconvertibility coverage.

**DURING THE PROGRAM'S** 19 years, it has paid a total of $334,193 in claims, and has recovered $291,099 of this, largely by reinvesting the inconvertible currency acquired under claims. Income from guaranty contracts has totaled $43,900,000 during the period, including $9,200,000 collected in fiscal 1967.

The program's largest guaranty was written early this year for $182,600,000 to Braden Copper Co., a subsidiary of Kennecott Copper, for a venture in Chile. Coverage against inconvertibility accounted for just under $100,000,000 and for expropriation, $84,600,000. No coverage was written against war, revolution or insurrection.

The largest previous guaranty was for $178,600,000 to International Telephone & Telegraph Sud America Telephone System for a venture in Chile. It consisted of $95,700,000 in inconvertibility coverage, $78,900,000 in expropriation coverage and $4,000,000 coverage against losses from war, revolution or insurrection.

Guaranties for as little as $1,000 have been written by the program.

**A SECOND AID INSURANCE** plan is the extended risk guaranty program. Its primary purpose is to make it easier to get loans for investments in the lesser developed countries. The program offers coverage of up to 75% on loans against all risks except fraud or misconduct of the investor.

Guaranties up to 50% on equity investments are available to "certain priority investment situations." Examples are projects which will contribute to improved food supplies or which will publish textbooks and other educational materials.

Since its beginning in 1961 the extended risk program has issued $60,000,000 in guaranties to 14 projects and has not yet had to pay a claim.

**The largest guaranty** under the program has been for $17,800,000 amounting to 75% of a $23,700,000 loan from six insurance companies to Ultrafertil S. A., a Brazilian fertilizer company controlled by Phillips Petroleum.

Phillips has a $15,500,000 (60%) equity investment in the company. COBRO-PAR, a Brazilian firm owns 30%, and the International Finance Corporation (part of the World Bank) owns 10%.

In addition to insurance company loans, the IFC loaned Ultrafertil $7,600,000 and AID loaned it another $14,800,000. The insurance companies involved are the New England Mutual Life, Connecticut General Life, Continental Assurance, Bankers Life (Iowa), Northwestern National Life and Southwestern Life.

**The second largest guaranty** under the extended risk program was for $17,300,000, 75% of a $23,000,000 loan by a group of insurance companies and three banks to Madras Fertilizers Ltd. in India. The insurance companies put up the $17,300,000 insured under the extended risk program and the Chemical Bank of New York, the Manufacturer's Hanover Bank and the First National Bank of Chicago loaned Madras the other $5,800,000. The banks' share is guaranteed under AID's specific risk program for political risks and by American Oil Company against business risks. American Oil is 49% owner of Madras via a $8,900,000 equity investment. The government of India owns the other 51%.

**A third AID insurance program,** guaranties for housing investments, provides insurance for certain types of low cost housing projects. Most of the guaranties under this program have been committed to Latin America, however; they are also currently available in Asia and Africa.

The Latin American program, previously fully committed, recently announced that it can insure another $35,000,000 in pilot demonstration projects in Panama, Peru, Venezuela, Jamaica and British Honduras. Pilot demonstrations are defined as projects which introduce new innovations in low cost housing. Applications will be limited to a maximum guaranty of $3,000,000 and a minimum of $1,000,000 with a sales price ceiling of $7,500 per house. Guaranties may cover up to 100% of the investment. Applications will be considered on the basis of the project's contribution to AID's efforts to assist the lesser developed countries in providing the best, lowest cost housing possible.

The Latin American housing program has committed $340,000,000 in guaranties since its beginning in 1961. Like the extended risk program it has yet to pay a claim. Guaranties on housing projects in Africa and Asia have been rather limited to date.

**The specific and extended risk** programs presently offer coverage in 78 countries. Cost of the specific risk program is .25% for convertibility coverage and .5% each for expropriation coverage and war, revolution or insurrection coverage. A combined policy for expropriation and war, revolution or insurrection is offered for .875% in a number of countries where both types of coverage are available.

Coverage under the extended risk program costs 1.75% of the portion of the investment covered by the guaranty. Insurance under the housing guaranties program runs between .5% and 2% per year of the monthly outstanding balance of the guarantied investment, depending on the availability and type of local guaranty.

# Sources of information on insurance

*by Charles F. Levinson*
*insurance manager*
*Port of New York Authority*

Long ago I learned that it was almost impossible to remember even one-tenth of all the technical knowledge on insurance that I need to help make a decision on either where or what to buy as well as how to evaluate what I have.

As a defense I have been forced to surround myself with books and manuals that I constantly refer to for guidance. Usage ranges from a check of some strange sounding company newly binding some part of our risk to a query on the advantages of "split dollar" life insurance. I quickly find out from "Best Insurance Reports" that the strange sounding carrier is a subsidiary of a very large group.

On the life insurance I find that "split dollar" coverage offers an excellent way to furnish deferred compensation to select executives.

**OVER A PERIOD** of years, I've accumulated a substantial number of books and publications. If I had to cut this down to as few as possible I would recommend these as among those essential and necessary:

**Best Insurance Reports**—Both fire-casualty edition and life editions for the current year.

**Insurance Almanac**—Published by the Weekly Underwriter, New York.

**Who's Who in Insurance**—Published by Weekly Underwriter.

**7. Life & Health Insurance Handbook**—by Davis Gregg. Published R. Irwin, Homewood, Illinois

**General Insurance Guide**—Published by Werbel Publishing Co., Greenlawn, New York

**Fire, Casualty and Surety**—The National Underwriter Company, Cincinnati.

**Risk Management**—Published by the American Management Association, New York.

**Guide to Workmen's Compensation Claims** by Neil Carter. Published by Roberts Publishing Co., New York.

The foregoing, of course, are only representative of many good books covering the same areas. Almost all of these books are basically reviews of coverages or situations as they were when the author or compositor gathered the material. We are in such an ever-changing business that it is quite possible that some of the information is no longer current because of market conditons or changes in forms. The only cure for this is to subscribe to several good weekly, biweekly or at least monthly publications that keep up with changes in the industry.

In addition, many business dailies such as the Journal of Commerce and the Wall Street Journal have insurance items.

Of course, while these tools are basic needs for doing a good risk management job, nothing can substitute for the help to be obtained through active participation in seminars and meetings of your own trade group and the various organizations such as the American Management Assn., the Society of Chartered Property and Casualty Underwriters, the Society of Chartered Life Underwriters and the American Society of Insurance Management. Probably more important than the content of formal meetings are the contacts obtained with people having problems similar to your own. Using your friend and their advice makes good business sense.

Examine whether you are living in a vacuum as a risk manager. Somewhere there is a new market, an exposure you didn't realize or a new way to package your present insurance. No matter how capable your broker or agent may be, you are only one of his accounts and in the final analysis the responsibility for evaluating the worth of your coverage when a loss occurs is yours. Make sure that all the sources of information for you are being consulted when a decision is made.

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# What to do about spiraling workmen's compensation costs

*by Carl J. Vogt*
*supervisor of workmen's compensation*
*General Tire & Rubber Company*



**Carl J. Vogt**

The cost of industry's legal obligation to provide workmen's compensation benefits to its work force has been the fastest rising cost in the benefit area.

It is generally accepted that where the average increase of wages is in the 5% bracket for the year of 1967, the cost of workmen's compensation benefits has risen 12% to 15%. This startling spurt can be attributed to the increased costs of hospital and medical attention, plus liberalized weekly benefits provided by legislation in 26 states and the broadening of coverage in nine states. As a result, many alert and money-conscious company controllers have delegated to a responsible member of management the job of controlling these costs. This control is considered necessary both where the employer has purchased insurance to cover its workmen's compensation risk and where the risk is self-insured.

A review of some of the cost control measures that have been effective should provide assistance to those businesses which find their costs exceeding those of their competition.

**THE FIRST IMPORTANT** control is the prevention of the accident which occasions the cost. Employers insuring their risk with an insurance company should utilize fully the services of the insurer's safety engineer. Remember that insurance companies have aided industry in developing safety techniques and that this service is part of the cost of your policy. Insist upon it.

After your company's operations have been examined by a safety engineer, his suggestions and recommendations cannot improve your safety record if they are not adopted and enforced by management at all levels. Self insurers must furnish this safety service to analyze their own potential problems and institute a safety program. This program must be kept before all the employes at all times. It must be kept fresh and interesting so that safety will become a habit. Employers have found that competition between departments or sections as to safety records prove rewarding.

The second cost control factor is the placing of the cost of industrial accidents squarely in the budget of the department where it arises. In order to accomplish this objective—making the cost of the accidents felt in dollars and cents at the source—a monthly or, at least, quarterly breakdown of these expenses has to be produced. These figures will not generally be volunteered by the self-insuring section or the insurance company, but they can be made available. The insurance company may be difficult to approach in this respect, but your agent or broker is in a position to arrange such matters. He can be a valuable aid in designing and arranging services which you need in your cost control program.

For self insurers, these costs can be obtained from the records which must be maintained when each item of expense is examined and a check issued in payment. These payments should be totaled monthly, as well as annually, and compared to prior experience for similar periods in prior years to furnish cost trends. It is well to keep these cost comparison figures in three-year groupings. In order to obtain the support of top management, they must be kept informed as to the costs. This can be done by means of capsule reports on a regular basis. If questions develop, the details and trends must then be available for adequate answers.

**MEDICAL CONTROL** must also be instituted. This requires a rigid system which is explained to, and known by, each employe. Every time an employe requests medical assistance through his immediate superior, he should be sent to a designated medical department. A record must be made in that department of the complaint, using the facts as related by the employe and nature of advice and treatment given. The record should be signed by the medical attendant whether a lay person with first-aid training, a registered nurse or a doctor. This medical record is one of the two basic documents which determine whether the employe has a non-industrial health problem or may be entitled to workmen's compensation. In the "emergency" situation, all attention will be concentrated on immediate first aid and necessity for follow-up medical attention. The employe should be seen as soon as possible by a trained investigator.

If the employe is seen and examined by a doctor initially, this doctor should furnish the employer with an adequate report, setting forth the history of the situation as given by the patient, prognosis, treatment and whether in his opinion there is a direct causal connection between the medical condition and an accident, if one is described. If the employe was not initially seen by a doctor and the condition warrants medical attention, or medical attention is requested, a doctor of the employer's choice should examine the injured employe. The very best medical attention is the least expensive in the long run.

In many states, the employe has free choice of physician. If he exercises this free choice, call his doctor and explain what appears to have occurred, requesting his cooperation in furnishing you a complete report. It is always in order to let the doctor know that if he submits a bill with his report, it will be placed in line for prompt remittance. This basic medical approach is essential, whether it is set up by an insurance company or by the management of the business which develops the loss. The importance of continued medical surveillance of the claimant who is not able to work cannot be overstressed. The man's progress should be studied and the periodic medical reports should always contain the doctor's opinion as to when the man will be able to return to work.

**INVESTIGATION INTO** the facts of an alleged accident must be conducted promptly by a man trained in investigative procedures. The investigator is usually called an "adjuster" when he works for an insurance company or a "safety investigator" when he is a member of the self-insured employer's staff. In either case, the job is the same. The most effective and accurate investigation is conducted within a few hours of the accident. When the investigator accompanies the employe to the site of the occurrence and the employe explains what occurred, there can be little doubt that the facts produced are correct. The exact position of materials and conditions of the immediate area can be noted. Further, his co-workers can be interviewed, leaving a minimum of loose ends. Having a trained investigator available and on call at all times enables the development of accurate facts. The entire investigation has to be set up as a system with regular forms to be completed and submitted at established time intervals after the reported incident.

The last step, and one of the most important, is the responsibility of complying with all of the requirements of the applicable workmen's compensation law. Management cannot escape its duty to see that the employe who is entitled to benefits is furnished the benefits of wage replacement and cost of medical services. Even if these benefits are paid by an insurance company, the business still cannot divest its legal responsibility of complying with the workmen's compensation law. There is also an obligation to prevent the payment of non-meritorious claims. Management should insist that it be provided with full information on the claims which are being handled by the carrier on behalf of the employer and should freely discuss the reserves which are set up against future payments—over-reserving is costly. Management should likewise insist on reviewing those claims which are being handled by its own workmen's compensation department so that they can be assured that the handling of the benefits is being conducted realistically and carefully.

In summation, constant review and control of all factors mentioned above by the management of a business through a single responsible member of the management team will keep your workmen's compensation program realistic despite today's escalating costs.

*Carl J. Vogt, supervisor of workmen's compensation for the General Tire & Rubber Company, Akron, Ohio, attended Ohio Wesleyan University and received an LL.B from Ohio Northern University of Law in 1948. Mr. Vogt joined the Continental Insurance Companies in 1948, as claims adjuster and became claims manager in Akron in 1949. He has been with General Tire & Rubber since 1964. Mr. Vogt is a member of the Akron Bar Association and past president of the Akron & Cleveland Claim Managers Council. He is also a member of workmen's compensation committees of the Ohio Chamber of Commerce and Ohio Manufacturers Association.*

# Earthquake insurance scheme in Japan

*by Kanezo Nishimura, president*
*The Japan Earthquake*
*Reinsurance Co. Ltd.*

As is well known, Japan is in the Circum Pacific Seismic Zone. The frequency of earthquakes is, therefore, very high. Earthquakes which can be felt total 1,300 a year. Those which cause considerable damage to buildings occur on an average of eight times in 10 years. A typical one was the "Great Kanto earthquake" of Sept. 1, 1923, which virtually demolished the Tokyo and Yokohama area.

In such an earthquake-prone country like Japan, the necessity of earthquake insurance was keenly realized when Japan introduced a modern insurance system. However, it took many years before earthquake insurance could come into effect.

**Earthquake losses** are sometimes heavy. If an earthquake as big as the Kanto earthquake should happen now in the Tokyo-Yokohama area, some $6 billion would be necessary to cover the losses on dwelling risks only. The assets of the Japanese nonlife insurance companies is at most about $1.7 billion, less than ⅓ of the probable loss. It is obviously far beyond the capacity of private companies to indemnify such losses.

Earthquakes occur irregularly, and are not subject to the law of averages. At present, it is almost impossible to forecast earthquakes with any accuracy. A national average loss ratio may be obtained if a sufficiently long period is taken as basis but it is impossible for the private insurance industry to build up a balance over such a long period of time. This is an important reason why it has been so long before earthquake insurance has come into existence.

In spite of such difficulties, the demand to earthquake insurance has never died. In August, 1952 the Marine and Fire Insurance Assn. started studying a scheme of earthquake insurance covering dwelling and contents and set up a Special Committee for Earthquake and Windstorm Insurances to examine the problem. The Fire and Marine Insurance Rating Assn. of Japan (fire and technical divisions), assisted. The most recent data on seismology was made available to them. The idea was to use an earthquake insurance scheme pool, including all

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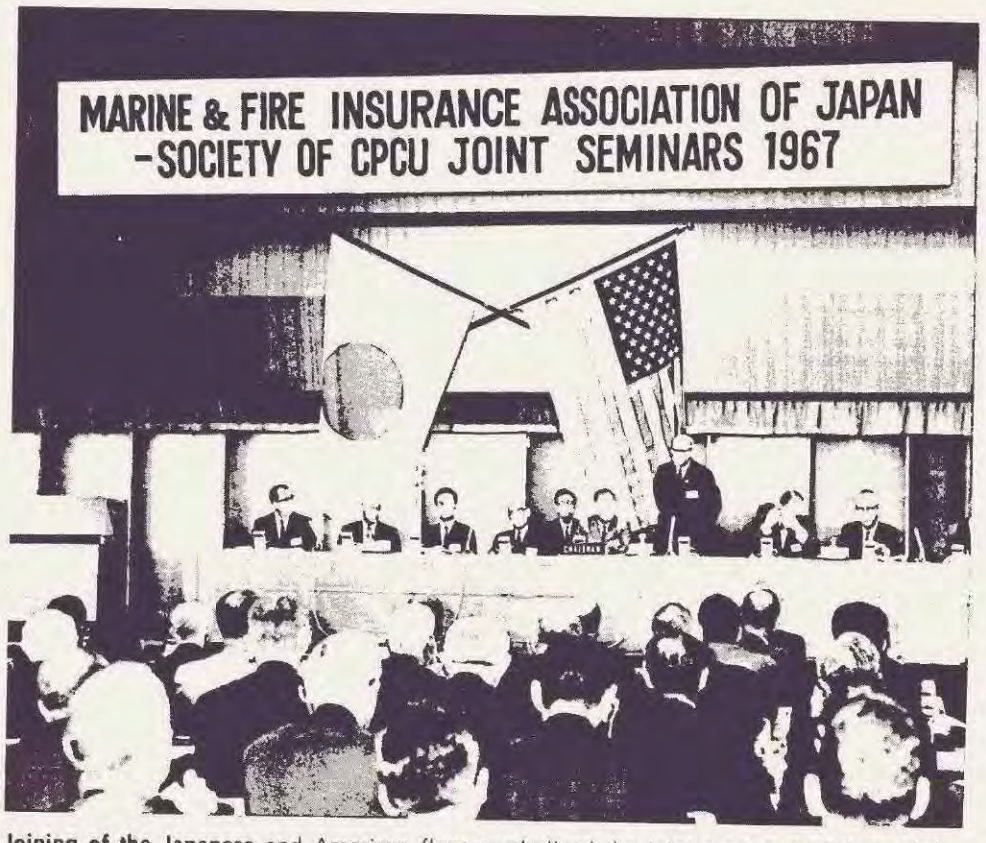
companies and government reinsurance. Nothing came of the study because of difficulties in obtaining government reinsurance.

The total amount insured at present is about $800,000,000 and the premium, $3,900,000. A large part is reinsured in overseas markets, mainly London. Actually, the London market is already more than full with the earthquake reinsurance business accepted from Japan.

The Niigata earthquake of June 16, 1964 provided a spring board for Japanese insurers for the protection of dwellings and contents. At that time, the general public became aware of the need for such a cover and the government pressed the matter. On July 9, 1964, the Marine and Fire Insurance Assn. of Japan officially decided to start earthquake insurance on such risks.

To insure a smooth handling of the reinsurance of such earthquake insurance, the Japan Earthquake Reinsurance Co. Ltd. with a capital of $2,800,000 was organized by all the Japanese nonlife insurance companies.

Earthquake insurance is automatically covered in conjunction with dwelling comprehensive insurance and shop comprehensive insurance. It can neither be insured as a separate and individual insurance, nor as an extended cover to policies other than dwelling and shop comprehensive. The limit of indemnity is either $2,500 on buildings and $1,670 on contents, or 30% of the amount insured under the dwelling or shop comprehensive policy, whichever is the smaller. Three hundred twenty destructive earthquakes from 1498 to 1964 were taken to study the basis of rating. Such items as frequency, building construction and ground were studied. As a result of such research, it was decided to establish a rather simple tariff system with only three classified areas throughout the country and two construction types.




**Joining of the Japanese** and American flags symbolized the joint seminar in Tokyo of the Marine & Fire Insurance Assn. of Japan and the Society of CPCU. John Adam Jr., president of Worcester Mutual Fire Insurance Co., Worcester, Mass., addresses the opening session.

The result for the first year (June 1, 1966-May 31, 1967) was: number of contracts, 5,000,000; premium, $14,000,000; amount insured, $4,500,000,000; and losses, nil.

**The entire risk written** by the direct underwriting companies is reinsured with The Japan Earthquake Reinsurance Co., Ltd. At this stage, the whole earthquake risk is borne by that company. The protection of such enormous amount of risk is effected on one hand by retrocession to the government under an excess loss cover system and, on the other by retrocession to the original direct underwriting companies under a first loss cover according to the shares of individual companies in the pool.

If the total claim for a single earthquake, falls between $28,000,000 and $140,000,000, then 50% of the excess of $28,000,000 will be recovered from the government.

If the claims fall between $140,000,000 and $840,000,000 then the total amount of the excess of $140,000,000 will be recovered from the government. No recovery can be made under government reinsurance if the loss falls below $28,000,000 or over $840,000,000.

**In view of the catastrophic** nature of earthquake insurance, in those years when no losses occur, the entire premium and profits on investments must be set aside as technical reserves. Therefore, whether or not a big earthquake loss occurs within say ten years of the start of the scheme could make a great difference to the amount of the technical reserves.

Fortunately, if no big earthquakes occur, and the technical reserves have accumulated to a considerable figure, then, following additional resolutions to be passed by the Diet, such items as partial damage cover, raising of the limit of indemnity, reduction of rates, will gradually be put into effect. Every possible streamlining of the earthquake insurance scheme is continuously under study by special committee set up by the Marine and Fire Insurance Assn. of Japan.

# Telling the benefit story

# *What's the fuss all about?*

*by Howard L. Peck*
*partner*
*Hewitt Associates*



**Howard L. Peck**

We're hearing a lot these days about the need for better communication with employes on the subject of their benefits. What's so special about benefits? Granted that we need to do a better job of communication on all aspects of the employer-employe relationship, can't benefits just take their place in line?

Perhaps we can put the problem in perspective by looking at it through the eyes of several people at the Hypothetical Manufacturing Company, Inc. Let's start in the executive suite.

**THE PRESIDENT:** "I'll tell you why I'm concerned about getting this story on benefits across to our people. We're simply not getting credit for all the money we're pouring into benefits. I looked at our figures the other day. In the ten years from 1955 to 1965, our wages per employe went up about 50% and our benefit costs about 83%. If this trend continues for another ten years, our pay figure will be up 128% for the 20-year period and our benefit costs, 236%. And, according to the U. S. Chamber, we're just about average.

"If it weren't for what our competitors do and what our union insists on, I'd take all that money out of benefits and put it in the paycheck. At least that way our people would see what they were getting and know what it was worth. As it is now, our people just don't have any idea how valuable these benefits are and we haven't done a very good job of helping them understand."

**THE PERSONNEL DIRECTOR:** "I'm afraid I've become a little cynical. Sometimes it seems to me that the more we tell them about their benefits, the better able they are to see where they think the program is deficient.

"Whatever you give them, it never seems to be enough. If the medical care plan pays 85% of the bill, they think it ought to pay 100%. If the sickness and accident benefits run for 26 weeks, they think they ought to run for 52. If the pension replaces 40% of pay, they figure it ought to replace 100%—before taxes.

"I suppose the real problem is that we haven't done a good job of letting people know why we have these benefits and what it is they're supposed to do. The employer and the employe see the benefits from different viewpoints. The company sees the medical care plan as something that's supposed to help the employe meet certain kinds of expenses. The employe figures that if it doesn't pay the entire bill it's a lousy plan. The question is, how do we get across the idea that these plans are designed to help him help himself and not necessarily to relieve him of all responsibility for his welfare and that of his family? This is what I mean when I say we need to do a better job of explaining the role of benefits, the concept behind them. And it is far from an easy job."

**THE GENERAL COUNSEL:** "We have to be extremely careful what we tell people. An inaccurate statement to an employe can get us into real trouble. I certainly don't want another Anheuser-Busch case on my hands. Everything that the employes are told should be cleared by the law department. I realize that under the Internal Revenue Code our qualified plans have to be communicated to the employes. But I think we should give them the legal document. Beyond that, the less communication, the less risk."

**THE MANAGER OF COMMUNICATION:** "This stuff is so complicated, I have a hell of a time trying to explain it. Sure, we have booklets and some audio-visual stuff, and I try to cover benefits in the employe paper now and then. But the insurance department tells me one thing and personnel tells me another, and the lawyers want to check everything I write. So it's a lot easier just to do a follow-up story on the company picnic."

**THE BENEFIT ADMINISTRATOR:** "Yes, communication is one of our real big problems. The way these guys come in here bellyaching about the way we handle their claims, you'd think nobody ever told them anything about the benefits program. I tell them to go look in the booklet. Of course, I have to admit the booklet doesn't cover everything. In fact, I could make a few very pointed suggestions about what that booklet says and about some of the things they tell people around here when they're hired. To be blunt about it, they make it awfully tough for us in this department.

"People don't get receipts for prescriptions and stuff and they forget to keep their bills because they say they don't understand what they have to have when they file a claim. Then they get sore at us when we won't pay without the necessary papers. Sometimes I think the company overcommunicates. For example, if they weren't always reminding people about their benefits, we wouldn't have so many nutty claims to handle."

**THE PRODUCTION WORKER:** "Benefits? That's insurance, and I don't understand that stuff. Did you ever try to read the fine print on one of them policies? You'd think we was all college graduates or something. And these booklets! If they can't write so maybe at least half of us could understand half of it, they might as well save the money they spend printing all that junk and put it in the pay rate. Besides these benefits ain't so much. They're always telling us what a great pension we got and what a great insurance plan. I know personally for a fact our benefits don't stack up with a lot of them. Like down where my brother-in-law works, he got a double hernia and he collected over $400. That's a real plan, man."

Any questions?

# Sea-Land, container firm, seeks lower marine insurance rates

ELIZABETH, N.J.—In the face of a general increase in marine cargo rates, Sea-Land Service Inc., an "integrated" truckship container operation, is seeking reduced rates because of its low loss ratio.

By using the concept of "integrated containerization," Sea-Land has proved that losses have been reduced, said Paul Johnson, the company's insurance manager. "Our loss-ratio record is lower than the world-wide average and we expect it to get even lower," he said. (Loss ratio is determined by dividing the cargo losses over five years by the total amount of cargo shipped.)

Sea-Land, which says it controls the largest fleet of container ships in the world, has more than 18,000 computer-controlled containers in service.

Of 765,000 containers shipped over a five-and-a-half-year period, Sea-Land has lost only 77 units. This includes the 57 containers lost by its ship, Summit, after she lost her rudder in heavy seas last April, Mr. Johnson said.

**THE SUMMIT CASE** was described by an insurance industry source as the first serious accident of its kind to a container ship. The accident was significant, he said, because it spotlights the potential hazards encountered in the operation of ships of this type.

Other sources pointed out that cargo handling damages, pilferage and breakage losses seem to be reduced through the use of containers, but containerization poses the danger of a much higher loss potential when a serious accident occurs. Container ships planned for the future may carry as many as 1,200 containers worth $6,000,000.

According to Mr. Johnson, the marine insurance industry has been suffering from low rates and serious disasters. However, he feels that a portion of the market, in reacting to the Summit loss, is overlooking the excellent performance of container ships during the past ten years.

"While it appears that newcomers to containerization, or poor operators, have provided grounds for downgrading the concept, underwriters should differentiate between services and quote appropriate rates," Mr. Johnson said.

**AT THE SAME** time, he noted that a spokesman for the Liverpool underwriters had issued a pessimistic report on the use of containers. G. N. Cushing, chairman of the Liverpool Underwriters Assn., warned underwriters that containers could turn out to be a "Pandora's box." Heavy seas, theft and improper packing were some of the dangers cited by Mr. Cushing.

Accepting the loss potential due to heavy seas, Mr. Johnson explained that losses to cargo due to weather have been a factor since the Phoenicians and will continue no matter what.

"No one can accurately estimate what a heavy sea can do," said Mr. Johnson. "Heavy seas have been known to turn a ship 360 degrees and upright it again."

**CRIME HAS ALSO** plagued shippers since the early days of navigation, said Mr. Johnson. He contended that crime syndicates will probably always find some way to make off with a payload of cargo.

"The automated container system is the best defense against crime that we have because the cargo is inside a container at all times and in protected yards," said Mr. Johnson.

A spot check of carriers and shippers found that containers sharply reduced pilferage and theft losses.

According to Frank McGrath, insurance manager for National Distillers, the reduction in claims for pilferage and breakage losses has been almost 100% by using containers to carry the company's liquor products.

While National Distillers has been using containers for less than a year, Mr. McGrath felt that pilferage and breakage loss reductions will probably lead to a substantially lower insurance rate once a loss-ratio factor is developed.

Robert Pitcher, insurance manager for American Export Lines, which is expanding its container operation, noted that more than 50% of all cargo losses in marine transport are from pilferage. "We expect cargo transport by containers to improve and possibly eliminate the dangers of pilferage," said Mr. Pitcher.

**REFERRING TO THE** packing of cargo in containers, Mr. Johnson said that certain commodities require the intelligent application of sound stowage, bracing, chocking and rust prevention, particularly of machinery.

In some instances, Mr. Johnson explained, the carrier must assume legal responsibility even if the shipper does the actual packing of the cargo. He noted that it depends on the type of loss and in many cases the courts are left to determine who is responsible.

**"IF A SHIPPER** packs a container improperly, causing it to be damaged at sea, then he should assume the responsibility," Mr. Johnson maintained.

Taking note of other perils leading to cargo losses or damage, such as improperly maintained containers, lack of systemized or automated procedures and faulty loading by shipper, forwarder or steamship company, Mr. Johnson felt that all container companies should have a program to prevent losses from these hazards.

He explained that Sea-Land has worked closely with Travelers Insurance Co. to develop safety programs and to train drivers, mechanics and terminal managers on safe trucking procedures. "We also maintain a staff of cargo and marine loss prevention personnel, as well as a staff of former FBI agents for security," he said.

**THE CONTAINER** business is still in its infancy, but most shippers agree the trend is toward greater safety and improved risks.

According to Carl McDowell, exec vp of the American Institute of Marine Underwriters, the container business was beset by huge losses when the concept was first introduced. Shipments were damaged in railroad handling, and shipside movement opened seams and punched holes in the containers. Many containers were dropped or stolen due to unguarded storage areas, said Mr. McDowell.

"While most of the problems encountered earlier have been solved," he said, "we've also learned that containerization is not a magic word that means rate reduction."




**An electric crane takes** a 35-foot sealed container on a waiting truck chassis, part of a one-on, one-off cycle that has improved the safety of dockside loading and unloading and helped lower Sea-Land's loss-ratio factor.

# Workmen's award denied for mishap at non-duty picnic

COLUMBIA — An employee may not be entitled to workmen's compensation benefits if he is involved in an accident during off duty hours while out of town on business, the South Carolina supreme court has ruled.

A National Cash Register employe in South Carolina was sent to Dayton, O., for several months' training and while there was killed in an auto accident while coming home from a non-company picnic. The Industrial Commission awarded the widow death benefits under the Workmen's Compensation Act, holding that the employe was in the course of his employment during the entire time he was away on the employer-sponsored training program.

The ruling was based on the assumption that "where an employe is sent to a distant place by his employer to perform duties in connection with his employment and sustains an injury after working hours, while engaged in reasonable activities in seeking to satisfy his physical needs, including relaxation and recreation, or while returning to his quarters after having engaged in reasonable activities, he is entitled to the protection of the act."

The state supreme court granted that there was authority to support this viewpoint, but held that its application to this case would extend workmen's compensation coverage beyond that required by any reasonable construction of the act.

There was no evidence showing that the accident was caused by the necessity of the employe being away from home, the court said, pointing out that the picnic was not known to the employer and took place during a time when the employer exercised no control over the employe's activities. Under an earlier ruling, "If the employe had sustained the fatal injuries while returning from such a picnic . . . where he was regularly employed, the accident would not have been compensable," the court pointed out, and "the present case cannot be soundly distinguished."

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# Business failure liabilities gained, but failures were down in '66

NEW YORK—Dollar liabilities for business failures increased to a record $1.38 billion in 1966—up 5% over 1965—although business failures decreased 3% in the year, according to the 1967 edition of "Insurance Facts."

The publication, published by the Insurance Information Institute, noted that the average liability per business failure increased from $97,800 in 1965 to $106,091 in 1966, although the failure rate per 10,000 businesses declined from 53 to 52. The total number of failures decreased from 13,514 to 13,061, the institute said.

The institute said "a sizeable percentage" of losses due to business failure could have been covered by credit insurance, which protects a manufacturer or wholesaler against the loss of a product that has been transferred to acustomer who has not yet paid for it.

The number of work fatalities per 100,000 workers remained about the same in 1966, going from 19.8 to 19.9, according to "Insurance Facts." The publication said there were 14,500 work fatalities in 1966, up 400,000 from the previous year. There were 2,200,000 injuries, up 100,000 from 1965; this figures out to 3,018 injuries per 100,000 workers (compared to 2,954 in 1965).

**THE AVERAGE** countrywide indemnity cost per work accident was $950 in 1966 and the average medical cost was $89 in the policy year 1963-64, the latest year for which complete statistics are available, the institute reported.

The booklet said that the total economic loss from accidents at work—which includes direct costs, such as wages lost and medical expenses, as well as indirect loss from damage to equipment and materials, production delays, time lost by other workers not involved in the accident and the administrative costs of insurance—reached $6 billion last year, up from $5.4 billion the previous year.

In terms of a constant 1957-59 dollar, the institute said, the cost of occupational accidents averaged about $72.78 per worker in 1966—down from $75.33 in 1942.

**FIRES CAUSED** damage of $1.5 billion in 1966, up from $1.45 billion the previous year, according to "Insurance Facts." Industrial fires in 1965 caused 14.5% of the damage total for that year, the report stated. Over 25% of all damage caused by fires in 1965 occurred in residences, with one- and two-family dwellings accounting for most of the damage.

Workmen's compensation insurance was one of several forms of business insurance listed in the "Insurance Facts" booklet. Workmen's comp premiums increased 15.1% in 1966 to $2.35 billion, up from $2 billion the previous year. "Increased volume has offset higher losses due to broader coverage, higher medical fee schedules, more liberal interpretation of statutes and higher hospital and medical costs," the booklet states.

In other types of business coverage, ocean marine hull and cargo insurance totaled about $300,000,000 in 1966, a record high and up from about $261,737,000 in 1965. Crop-hail insurance declined from $116,019,000 in 1965 to $107,000,000 in 1966.

**FIDELITY BONDS** totaled about $140,000,000 in 1966, up from $119,140,000 in 1965. The institute said that only about 15% to 20% of business firms bond their employes against fraud and embezzlement. Surety bond premiums, including contract, license and permit, court and fiduciary bonds, reached about $310,000,000 in 1966, up from $289,247,000 in 1965, the institute reported.

Boiler and machinery premiums hit $91,000,000 in 1966, up from $90,508,000 in 1965, according to "Insurance Facts." In 1966, the booklet said, there were 113 accidents involving boilers and machinery, each resulting in a loss of $50,000 or more. Twenty-two of these losses exceeded $250,000, and one was more than $1,500,000.

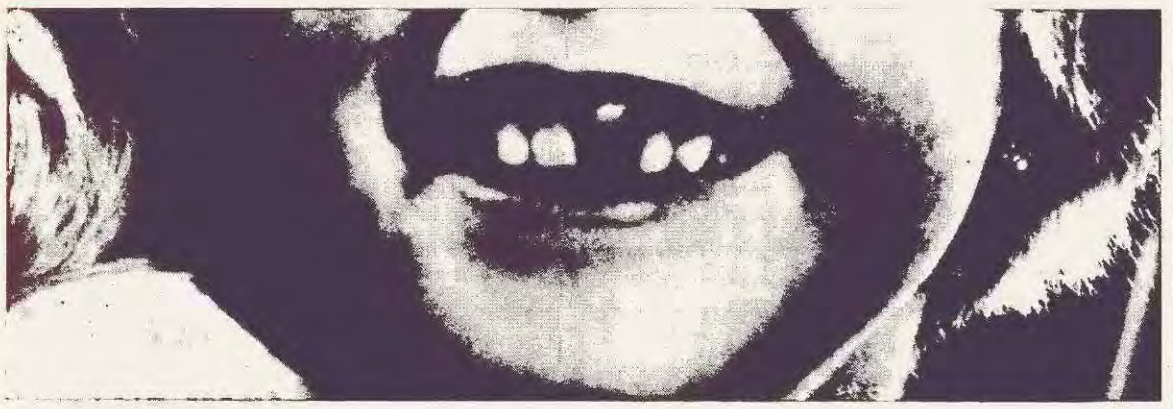
Commercial multiple peril insurance "packages" accounted for $650,000,000 in premiums in 1966, up from $508,993,424 in 1965—and $28,459,062 in 1957.

**THE INSTITUTE** reported that for all lines of property and liability insurance, premiums in 1966 reached $22 billion (including accident and health insurance written by property and liability firms), up from $20 billion in 1965. After three consecutive years of underwriting losses totaling about $1 billion, the property and liability business "edged narrowly into the black" on its underwriting operations in 1966, the institute reported. Losses and company operating expenses amounted to about $99 for each $100 taken in, the institute said.

"But despite modest gains in many lines, automobile insurance—the largest single segment—continued to show a heavy underwriting loss."

In 1966, catastrophes—generally any event that caused more than $1,000,000 in insured damages to fixed property—accounted for about $100,000,000 in insured losses. The total includes $58,000,000 for insured damage caused by a tornado that hit Topeka, Kansas.

Catastrophes in 1965 resulted in an overall insured loss of $870,000,000—including the record $715,000,000 loss from Hurricane Betsy and the $38,000,000 loss from the Watts riot.

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**Recipient of the Cristy** award, Joseph T. Gormally, Pennsalt Chemicals Corp., gets plaque from James Cristy, manager of finance of the Upjohn Co. Dr. Edwin S. Overman, president of the Insurance Institute of America, Dr. Harry J. Loman, IIA president emeritus, and A. Grant Whitney, president of the American Society of Insurance managers, look on.

# Gormally gets Cristy award

ATLANTA—The Insurance Institute of America honored Joseph T. Gormally, insurance manager of Pennsalt Chemicals Corp., Philadelphia, with the first presentation of its Cristy award at the IIA award luncheon held here.

The award was named for James Cristy, manager-finance of the Upjohn Co., Kalamazoo, Mich. Mr. Cristy served as education chairman of the American Society of Insurance Management during the development of the IIA program in risk management.

To qualify as a recipient, candidates must have a diploma in the IIA risk management program and must be engaged in the performance or supervision of the risk management function of a corporation or governmental unit.

Mr. Gormally received the highest average mark on the six examinations involved in the program in applying for the IIA diploma.

## Norris joins J & H

Warren G. Norris, formerly an assistant vp of New York Life Insurance Co., has joined Johnson & Higgins, New York, as a senior consultant in the employe benefits plan department.

# Unions alarmed at 'rocketing' medical costs, AMA group told

NEW YORK—Labor unions are alarmed at the "rocketing" costs of medical benefits, according to two welfare fund administrators speaking at the American Management Assn. meeting on employe benefits cost control here.

The "distressing" result of this cost spiral, according to Gerald M. Flynn, administrator of the Long Island Trainmen's Welfare Fund, is that before starting any negotiations, a commitment must be obtained "just to maintain current employe benefits at the same level." Mr. Flynn also felt that "fair and reasonable costs" as a method of claims control "just isn't working."

Marvin Zalk, administrator of a group of Teamster welfare, pension and dental funds, pointed out that medical expenses have increased more in 1966 "than in any other section of the economy" and that this trend will increase.

He warned delegates that "unless business and labor effectively achieve control of rising medical costs, we can look forward to the government filling in the void."

**BOTH OFFICIALS** felt that coordination of benefits in a family situation, "although difficult to explain," is an important factor in reducing costs. Paying twice for the same illness is a "disservice for the employer and beneficiary," Mr. Flynn pointed out.

At the Teamsters, duplication of bills for the same illness is reduced because records are kept of a spouse's employment, and in the event of a claim, the fund contacts the employer to see if coverage is provided.

Mr. Zalk noted that in the New York metropolitan area, daily room and board rates for a semi-private ward are now in the range of $58 a day. "Clearly, therefore," he said, "we don't want patients staying in the hospital longer than necessary." One method of controlling this expense, which the teamsters have found "very effective," is by checking with doctors to make sure patients are discharged from the hospital on the day indicated.

**ALTHOUGH LABOR** unions have come out heavily for "fair and reasonable costs," such a procedure might not achieve the best result after all, Mr. Flynn said. This provision, he indicated, has been "like giving the keys to Fort Knox" to some doctors.

A medical contract with scheduled benefits might be a better system, he continued, "providing, of course, that the schedule is adequate for the services performed" and is geared to rising living costs.

Whenever the trainmen's union feels overcharged, Mr. Flynn said, the doctors involved are approached for a reduction—even if this means using the medical grievance committee.

"However," he pointed out, "when we take the matter up with the insurance companies, they seem to agree with the doctors." As for hospital costs, "we can't get our foot in the door."

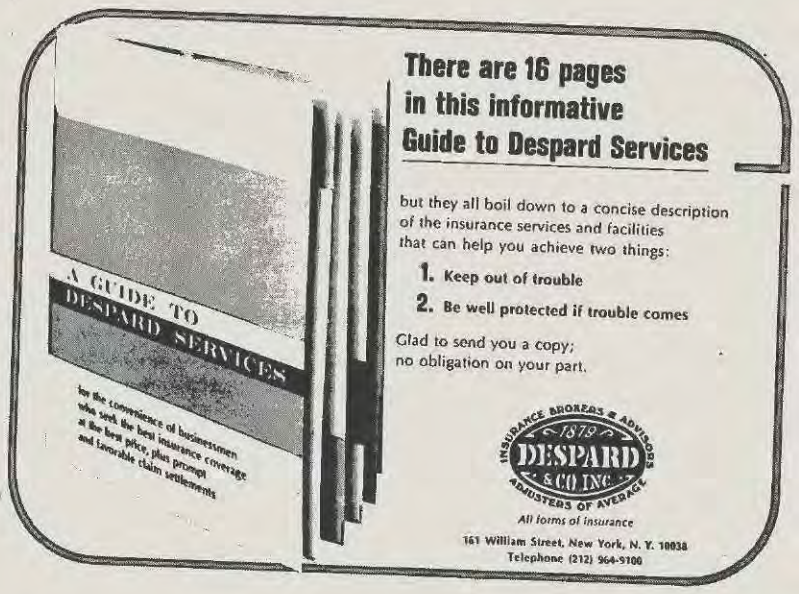
**THERE COMES** a point when fair and reasonable costs are no longer effective, Mr. Flynn continued.

An analysis by the Teamsters has shown three areas where cost control can be most effectively applied, Mr. Zalk said. These are (1) the over-utilization of hospital facilities; (2) the use of expensive drugs; and (3) laboratory tests and x-rays given without consulting the attending physician.

By focusing attention on these three points, the union has achieved a reduction of 6.8% in total hospital costs in the first seven months of this year, Mr. Zalk said.

"We make sure every union member knows what's in his contract," Mr. Flynn said, "by mailing an annual statement showing actual medical costs paid for himself and his dependents." Mr. Flynn also disclosed that all members must show their marriage and birth certificates, and personally register any changes in his office. "We don't mail forms," he said.

**MR. FLYNN ADVISED** his audience not to be under the illusion that union members don't know their benefits, "as some comptrollers suggest." A good employe benefits package is a normal part of doing business, and a poor one "will lower productivity," he said.


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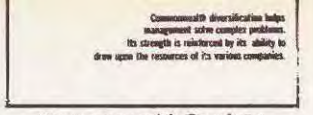
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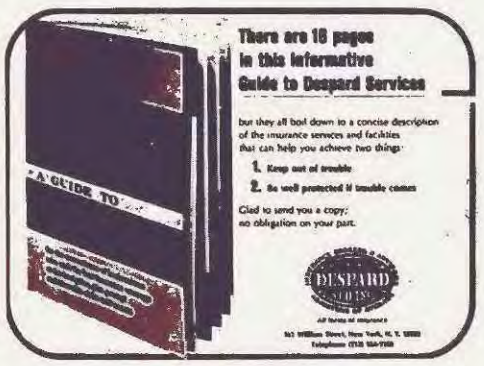

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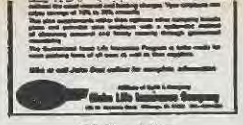

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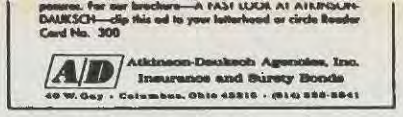

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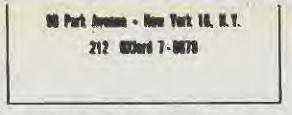

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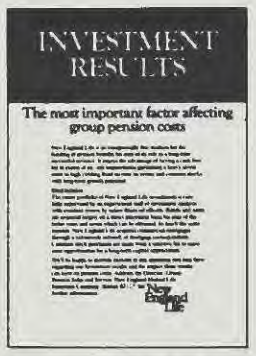

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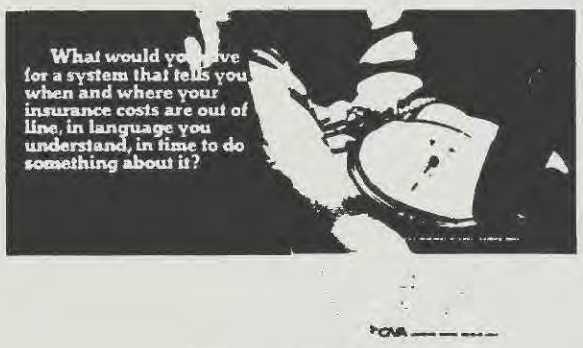

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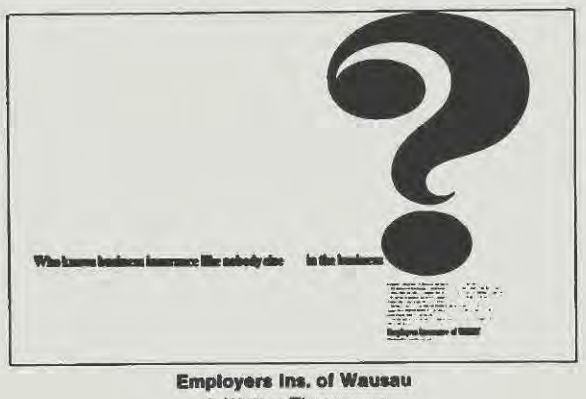

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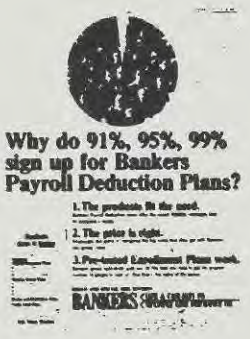

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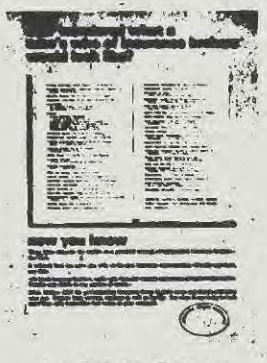
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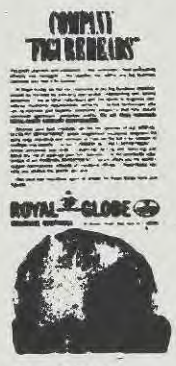
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## Blue Cross . . .

*Continued from page 1*

pending negotiations within the auto industry, Michigan Blue Cross-Blue Shield has been working for several months to prepare the way for what it hopes will be national accounts with all the auto makers.

**OFFICIALS OF** the Detroit-based plans are optimistic that they can guarantee the Michigan standard of benefits to auto company workers elsewhere in the country with little or no difficulty.

Ernest Miriani, executive on the Ford account for the Blue plans, offers this explanation: "Ten local Blue plans are responsible for 84% of Blue Cross business with GM, Ford and Chrysler. The Blue Shield plans cover 93% of the three companies' employes. We've been working closely with these key plans and see no problem."

Still, there are significant differences in benefit levels, the quality of administration and the type of programs run by the 76 Blue Cross and 75 Blue Shield plans. Melvin Glasser, director of the UAW's Social Security department here, estimates there are "15 to 20" local plans whose benefits for UAW members don't measure up to those provided in Michigan.

Michigan Blue Cross-Blue Shield concedes that the UAW estimate may be accurate, but cautions that the degree of difference in performance of the plans varies widely.

**A MAJOR HURDLE** to a national Blue Shield account with Ford was recently removed in New York state, where the plans had been barred from servicing national accounts which provide that doctors' "usual and customary" fees will be paid rather than fixed fees. The New York insurance department recently ruled that "usual and customary" fees are acceptable on national Blue Shield accounts when the employer is paying the full premium, Mr. Miriani said.

The "usual and customary" fee basis will be used in the Ford plan when it goes into effect next year.

The Ford account plan may run into a snag in areas where the company has only a handful of employes, Blue plan officials here say.

If the local plan will not underwrite the benefits package, for whatever reason, Michigan Blue Cross or Blue Shield, as the control plan, may underwrite and service the plan.

It also may underwrite the benefits, but pay the local plan a fee for servicing the account.

**A THIRD** alternative is to have another local plan in the same region of the country underwrite and service the Ford group.

As a "last resort," Michigan Blue plans might set up an office to service the small Ford group directly.

Michigan Blue plan officials say it's unlikely this last approach will be needed, but it is in the agreement to satisfy the union and auto company that benefits will be the same around the country.

Under some circumstances, local plan benefits may exceed those in Michigan under the Ford-UAW agreement, however. If a local plan had benefits superior to those in the Michigan plan prior to Sept. 1 of this year, the higher benefits will be continued under the national account.

**ON THE SURFACE,** the Ford "national account" seems inconsistent with the autonomous relationship of the Blue plans. Michigan Blue plan officials expect the Ford plan to get under way in fairly smooth fashion, however.

For one thing, it is suggested, all of the Blue groups are aware that commercial insurers have tried to lure corporate customers by offering the advantage of a uniform national program. The "national account," a relatively new concept for the Blue plans, provides a much needed defense against the insurers (for news of McGraw-Hill's new medical plan, see page 8).

Moreover, most Blue plans serve one or more national corporations that are or may someday be customers for a "national account." Hence, as prospective control organizations they are willing to cooperate with Michigan Blue Cross-Blue Shields.

The pressure for national account service is mounting, too. The UAW argues that 60% of all employed persons work for national corporations.

**MICHIGAN BLUE** Cross-Blue Shield is preparing an administrative annual that will provide specific standards for other plans servicing the account.

Control of the plan will be maintained by audits of local records to see that all plans are administering uniform benefits. In addition, administrators expect they will find out about any inequities quickly enough through "squawks" from Ford or the union.

Michigan Blue Cross-Blue Shield administers the Ford employe benefits plan on a "syndicate" basis at present. This has involved separate contracts between Michigan plans and other local plans to assure equal benefits. This system achieves equitable rating among the plans, but doesn't provide control over benefits.

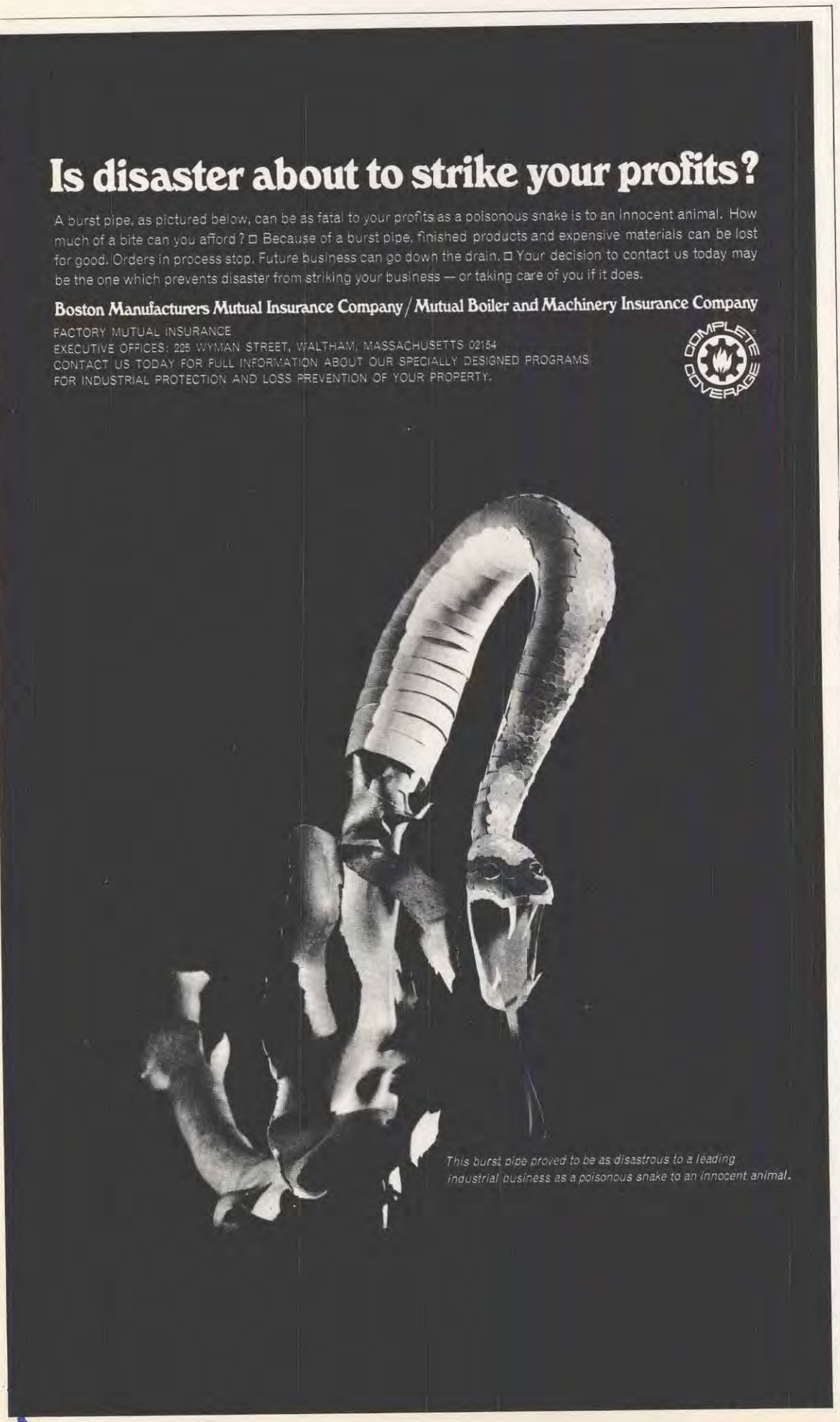

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## Mingay scores Torrey Canyon over reaction

NEW YORK—A threat by marine underwriters to triple insurance rates on ocean tankers was scored by John I. Mingay, vp of the marine department of Texaco Inc., as an "over reaction to a catastrophic, but truly unique accident—Torrey Canyon."

Speaking at the launching of the Swan Hunter—a 101,000 ton tanker—the oil company executive also announced plans for the construction of a 255,000 ton supertanker. He emphasized the safety factors in the new ships being constructed today which he felt insurance companies seem to overlook.

"It appears," said Mr. Mingay, "that the underwriters do not take into account that these larger ships are built to the highest standards and are equipped with the most modern and precise navigation equipment, manned by experienced and competent crews, in the service of operators with enviable loss records, and operated under substantially safe conditions."

He voiced confidence that underwriters would propose more "realistic" rates after they make a "closer appraisal."

## Fire research bill delayed by economy mood

WASHINGTON—The administration's Fire Research and Safety bill will not be sent to the House floor at this time for fear it would be defeated because of an economizing mood that prevails in Congress.

The bill, which has already passed the Senate, calls for authorization of a $10,000,000-plus, federally-financed, program to investigate causes of fires and to educate the public on fire prevention and control. In addition, the bill includes a provision for grants to state and local governments and other public and nonprofit institutions for work in this area.

The bill calls for additional sums to be authorized in each of the four years following fiscal 1967.

## Social Security bill seen easing integration rule

*Continued from page 1*

Raising the percentage will allow employers under integrated plans to justify a higher benefit formula on income above Social Security wage levels.

**THIS NARROWS** the gap between the amount currently being paid into retirement programs on income in excess of the Social Security base and the amount considered equitable by the Treasury.

In 1965 the Treasury proposed that the percentage that employers may pay in retirement benefits on wages in excess of the Social Security wage base be lowered from 37½% on wages over $4,800 to 24% over the new base of $6,600.

The business community screamed so loud and long that the proposal was withdrawn and a special committee named to study the problems and come up with a new proposal. Its recommendations will probably be released after the first of the year, if a Social Security increase is enacted.

### Dilworth joins Hansen & Rowland

W. Robert Dilworth, formerly aviation manager for Northwest Underwriters Agencies, has joined Hansen & Rowland, Portland broker, as an account executive.

# Sinclair adopts 'trend setting' package

NEW YORK—A "trend setting" all-risk liability policy covering automobile and public liability, workmen's compensation and employers' liability and protection and indemnity insurance has reduced premiums and made life easier for the insurance department of Sinclair Oil Corp.

The package policy, worked out by Edward Kettle, insurance manager for the oil company, and Marsh & McLennan, insurance broker, was distributed with written specifications to seven major insurance companies for quotations. The contract was eventually written with the Continental Insurance Co., New York, and the Marine Office of America, subject to a single retrospective rating plan.

Sinclair's retrospective rating plan, written with a 100% maximum premium, means they pay a specified amount and can expect a return premium if losses are kept down. If the loss experience should turn sour, the maximum premium has already been paid in the form of deposit, and therefore no adjusted additional premium will be required.

**ALREADY SINCLAIR'S** annual cost is $250,000 less than the prior annual cost of premium and self-insured losses, Mr. Kettle said.

"We are still somewhat of a self-insurer under the retrospective plan," said the insurance executive, "since the development of premium includes all losses subject to a stop-loss limit of $50,000 per occurrence. By keeping losses down we qualify for a premium refund.

"At the same time," he explained, "we don't run the risk of incurring additional premium costs beyond our maximum premium."

According to Mr. Kettle, the package policy will save Sinclair a minimum of 10% of prior costs the first year. "However," he said "we are hopeful that by implementing an energetic safety program the anual premium will be reduced as much as 40%."

The package policy has also lowered the insurance department's administrative costs. "We have been able to cut down substantially on many internal costs," said Mr. Kettle, "which include the closing of several outside claims centers and the liquidation of a captive insurance company which was established to handle workmen's compensation insurance in Texas."

**A WIDE VARIETY** of risks are included in Sinclair's package. "We have been able to combine protection and indemnity insurance with our other liability coverages subject to a single retro plan and this is somewhat unusual," stated Mr. Kettle. Sinclair's marine exposure comprises a fleet of ten tankers and a river fleet of approximately 51 barges and towboats.

Another innovation in Sinclair's insurance program is the recent assignment loss prevention and safety with the insurance department. According to Mr. Kettle, this is a relatively new trend.

"I feel very strongly that safety should be coordinated with the insurance department, especially with a retrospective rating plan where loss reduction can mean substantial premium savings."

**"UNDER THE NEW** safety and insurance arrangement," said the insurance executive, "we keep our safety representatives informed about accident costs in actual dollars. A safety man must learn to talk in dollars as well as accident ratios."

To keep the safety program in high gear Sinclair has a three-man loss prevention section headed by Edgar Germer, loss prevention supervisor. Each subsidiary has or will have a safety administrator specifically responsible for coordinating safety within his own company. The safety program is administered by the operating subsidiaries and coordinated by the home office insurance department.

Greater emphasis is also being placed on Sinclair's automobile safety program. "We use about 6,500 company cars, and this is one area where accident prevention requires substantial attention because of the spread," said Mr. Kettle.

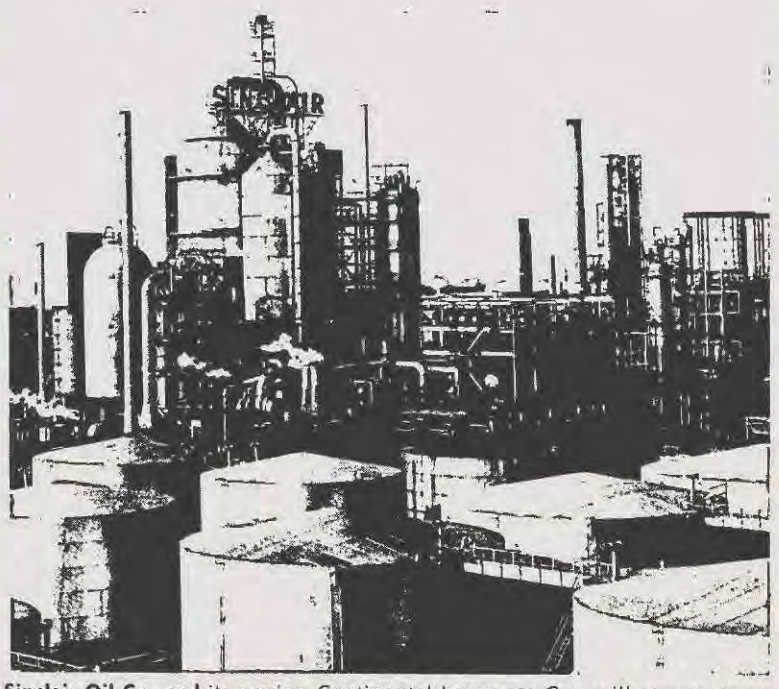
To bolster Sinclair's loss prevention program, E. L. Steiniger, chairman and chief executive officer of Sinclair, issued a statement to all corporate officers and department heads informing them of the company's efforts to provide and maintain safe working conditions through the insurance department.

**"IN ORDER TO** insure an effective accident prevention program and to improve the flow of accident data, the insurance department has been assigned the responsibility for coordinating the personal safety and property conservation activities of Sinclair Oil Corp. and its subsidiaries, both domestic and foreign," the directive stated.

As part of the package policy, Continental Insurance Co. will assist Sinclair in loss prevention activities. The carrier recently embarked on a safety tour of the company's installations. Its findings and recommendations will be submitted to the insurance department in addition to a complete quarterly loss analysis.

The U.S. P & I Agency (a division of Marine Office of America) will continue the marine safety activities.

"We have had excellent cooperation from Continental, the Marine Office of America and Marsh & McLennan in getting this program off the ground," said Mr. Kettle, "and we look forward to their continued assistance, which should be reflected in an improved accident record this year."



**Sinclair Oil Co. and** its carrier, Continental Insurance Co., will cooperate on a loss prevention campaign that includes a safety tour of the company.




**An all-risk liability** package policy that includes public liability coverage protects Sinclair Oil Co. at its service stations in the U.S. and Europe.

# Adopt 'total account concept,' Tooker urges New York ASIM

NEW YORK—The president of Travelers Insurance Cos. has advocated the "total account concept" of buying insurance, in which one broker and one company handle all coverage.

Without this system, according to Sterling T. Tooker, carriers offering all lines of insurance will become "supermarkets of the industry, competing on price and convenience, offering some service but catering primarily to the broadest high volume segment of the market."

Mr. Tooker told the New York chapter of the American Society of Insurance Management that if corporate insurance is "nothing more than a series of products we should preplan and prepackage coverages selecting only those that we can sell at a premium price, and leave it to you, as the corporate buyer, to shop the market, using your insurance broker as a comparison shopper."

**THIS VIEWPOINT** is not embraced by Travelers, Mr. Tooker said, although it once was. "It served its purpose and it has gone the way of good ideas whose time has ended. It is obsolete. And the corporate insurance manager who thinks of the market in these terms is going to find himself increasingly caught up in added work, added staff, and added costs. He is going to put himself and his corporation at a competitive disadvantage at a time when competition is at its keenest."

With the total account concept, all parties involved are interested in providing the buyer with complete coverage at the lowest possible cost, Mr. Tooker maintained. The broker and the insurer have a "vested interest," he said, "in keeping your account or having none of it."

**PERHAPS THE** "most significant" factors of the concept, Mr. Tooker told his listeners, are the freedom of the risk manager to concentrate on risk and the total program of his company and the teamwork of the manager, the broker and the insurer.

# New Florida rating law relieves tight market, says state official

BAL HARBOUR, FLA.—The tight property and casualty market in Florida has been relieved by the state's new insurance law, according to Broward Williams, Florida insurance commissioner.

The state on Oct. 1 changed its rate regulation law from one requiring "prior approval" by the commissioner of rate increases or decreases to a "file and use" law, allowing carriers to put a rate change into effect simply by filing it with the state.

Mr. Williams told the 22nd annual meeting of the National Assn. of Independent Insurers about results of a study of 27 insurance companies doing business in Florida. He reported that the poll showed a 25% reduction of rates in the non-standard market, a 15% increase in auto liability policies and no appreciable increase in the assigned risk market.

"The market is improving decisively. Facilities are becoming available where they were completely non-existent a year ago," Mr. Williams stated.

"Florida may very well be instrumental in setting the stage for a general review of rating concepts and rate regulation throughout the nation," he predicted.

## Hall presented award

Charles P. Hall Jr., associate professor of insurance at Temple University, has been presented the Norman A. Welch Memorial award of the National Assn. of Blue Shield Plans. The award is given annually for "the most scholarly and meritorious contribution to the literature of medical economics."

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# Seal says young widows deserve better pension plan treatment

MIAMI BEACH—A widow should "automatically" be entitled to a pension if her husband dies "in active service," delegates attending the National Foundation of Health, Welfare and Pension Plans were told by Hilary L. Seal, professor at Yale University and actuary with Meidinger and Seal, New Haven, Conn.

Mr. Seal proposed that an "easy formula" would be to give a widow half of the monthly pension that an employe had accrued at time of death.

The cost of such a pension plan would be moderate "in spite of rumors to the contrary," Mr. Seal contended. An AFL-CIO guide puts it at 9% of the cost of a plan without survivors' benefits, he said.

However, for the widow with children "whose needs my be greater," Mr. Seal suggested giving credits up to age 65, which would provide a better pension than would have accrued to a deceased younger employe.




Gindele Grose Klint Nickelson

**Foster Grose,** vp and secretary, Weaver & Grose, stresses that Medicare participants don't like deductibles and coinsurance at the National Foundation of Health, Welfare and Pension Plans. Listening are Howard W. Gindele, Blue Cross of Western Pennsylvania; Walter Klint, Continental Can Co.; and Howard Nickelsen, Social Security Administration.

**UNFORTUNATELY, HE** pointed out, this is not possible because Isidore Goodman, chief of the pension trust branch of the internal Revenue Service, has "gone on record" as saying that 50% pension to a widow based on what her husband would have accrued at age 65 "does not qualify" for tax deductions.

Sam Houston Huffman Jr., Los Angeles manager of the Wyatt Co., outlined the relative advantages of vesting and portability of pensions.

Mr. Huffman said he didn't like portability. Portability and vesting "serve the same ends," He contended, "But vesting is better. With portability, reciprocity is never even at both ends."

**JOHN GABEL,** exec vp of Retirement Plans Inc., Cleveland, pointed out that there is no difference between retiring because of age or because of forced disability. The difference is in need, he told delegates.

Disability benefits are often considered "collateral," Mr. Gabel continued because they are thought of as "incidental or subordinate." This is an "improper attitude," he said, because a younger disabled employe often has the greatest need of money.

Mr. Seal said a "major area of concern" nowadays is protecting the vesting and portability rights of the worker who quits his job.

He asked, "But what about the man who dies?" he asked. "Who protects his rights?" Mr. Seal said only one in three pension plans have death benefits and these are generally. "Very meager."

**IN ANY CASE,** high death benefits may not be the answer because a widow can receive only the first $5,000 tax free. The widow of an "inactive" or retired worker is usually cared for, since many plans have an option providing about half of her husband's pension, he said.

But if an active worker dies, the pension fund makes a profit and "everyone is satisfied," except the widow, he said.

The easiest formula, Mr. Seal maintained, would be to give a widow half of husband's accrued pension rights. Using an example of a pension that provides $5 a month per year of service, Mr. Seal pointed out that after 30 years this would amount to an accrued pension of $150 a month.

The widow would be given a pension of $75 a month for life, or until she remarries. If she remarries, the speaker continued, it would be a good idea to give her three years annuities in a lump sum and "close it out."

**FOR A YOUNGER** widow with children "whose needs may be greater," Mr. Seal proposed giving an additional 10% for every child under 18.

The big problem is the young man who dies at about age 30. As young deaths are far fewer these days, "why not recognize a real social responsibility" and give his widow a better pension, he asked.

Mr. Seal suggested giving age 65 credits to the widow in such a case, so that if a man dies at age 25, credit would be given for 40 years. At $5 per month per year of service this would amount to $200 and the widow would receive a pension of $100.

Mr. Huffman pointed out that since both vesting and portability function to preserve terminated and pension credits, a choice should be made between them on the basis of the relative advantages for both the plan and the employe.

**THE MAJOR** difference between the two, Mr. Huffman explained, is that portability involves an immediate cash benefit, whereas vesting may utilize a deferred pension credit and avoid the problems connected with the funded status of the plan.

This difference between immediate and deferred benefits can be important, Mr. Huffman continued, depending on the eligibility requirements for vesting and/or protability, the basis for the benefits and the future number of participants.

Portability may be advantageous for a terminated employe if the granted pension credits will be subject to increase by future benefit formula improvements in the new plan, stated Mr. Huffman.

Otherwise, he suggested leaving the benefits in the original plans since they could be provided for the same cost and with "fewer complications."

**TO CRITICS WHO** object to vesting because it may involve a retired employe "receiving checks from several sources," he suggested that this "hardship" is overplayed. He asked, "How many would object to signing two or three checks?"

If the funded status of a plan dictates protable benefits which are of less value than would be provided by vesting, portability may be disadvantageous for the terminated employe, he said.

For example, the Western States Teamsters plan provides that immediate cash vested benefits are limited to 30% of contributions. Vested, deferred pension rights, on the other hand, are based on both past service and the employe contribution record, he said.

In practice, Mr. Huffman concluded, few, if any Taft-Hartley plans will be fully funded, since periodic benefit formula improvements are normally funded by future increased contributions.

Though this procedure is both "practical and sound," Mr. Huffman said, it does result in continuous unfunded liabilities. For this reason, vesting may often be preferable to portability "both for the plan and the terminated employe."

# 5 Veterans Day air crash suits still pending

SALT LAKE CITY—Nov. 11, usually thought of as Veteran's Day, was also the date of an United Air Lines Boeing 717 crash two years ago.

The New York to San Francisco flight with 91 persons aboard fell 335 feet short of the runway, killing 43.

Five suits, filed by families of victims and one survivor, seeking a total of $3,200,000 are still pending in U. S. District Court here. A sixth suit has been settled out of court.

**THE SUITS** name Boeing and United, although United Aircraft Corp. and Gale C. Kehmeier, the pilot, are also listed as defendants in two suits.

Attorneys for Boeing and United will not reveal the amount of liability insurance their clients carry.

Among other items, the suits allege the airplane "was carelessly and negligently designed and constructed" and "was unable to perform in a safe manner."

**HOWEVER, THE** Civil Aeronautics Board in its report placed the blame for the crash on the pilot. The board said Mr. Kehmeier put the jet into a steep glide and failed to slow the plane's descent in time to avert the crash.

Mr. Kehmeier claims he "did not get a fair shake" at the CAB hearings. He said his immediate supervisor with the airline and his 727 instructor were not permitted to testify as to his competency at the hearings.

District Judge Willis W. Ritter has ordered that all the suits be consolidated and handled as one case. No trial date has yet been set by the court.

# GM:'We'll take our lumps' on '65 Chev recall

DETROIT—General Motors has revealed that no insurance is available to cover the recall of 1,143,000 1965 Chevrolets for repair work.

"We have to take our lumps on this one," said Thomas E. Groehn, director of news relations, "and I guess you can call us self-insured."

The cars are being recalled because of a possible defective component in the steering idler arm assembly.

Although the two-year warranty has expired on most of the 1965 Chevrolets, General Motors said it would make the repairs free of charge.

# Comp benefits no substitute

LITTLE ROCK, ARK.—The state Workmen's Compensation Commission has ruled that the workmen's compensation act is not a substitute for life insurance.

The commission said: "The mere fact of death itself is not sufficient to entitle the surviving dependents of a deceased employe to be paid compensation benefits by the employer or insurance carrier.

"An accidental injury or death must not only occur during the course of employment, but must arise out of the employment."

The commission ruled on the death of an employe of the Georgia-Pacific Corp. The commission said that the employe apparently died after a heart attack but that there was no proof that his work caused it.

The commission, in making its decision, upheld a decision by a referee.

# HEW hopes to test pay formulas at 'limited number' of hospitals

MIAMI BEACH—Health care carriers under Medicare should be held accountable for their efficiency, and "cost reducing innovations" should be rewarded, a government adviser told the annual meeting of the National Foundation of Health, Welfare and Pension Plans here.

As part of the efficiency program, pending Social Security legislation allows the Department of Health, Education and Welfare to reimburse "a limited number of institutions" that provide Medicare and Medicaid services on a basis other than reasonable costs, according to Howard Nickelson, professional relations staff adviser to the Bureau of Health Insurance of the Social Security Administration.

"Out of this experimental approach we look forward to developing reimbursement formulas that would stimulate more efficient methods of providing health services while maintaining quality of care," Mr. Nickelson explained.

He also maintained that "we must coordinate existing and planned health services to provide the highest level of health care attainable for everyone in the community. We simply cannot afford the questionable luxury of duplicating expensive, under-utilized equipment in neighboring hospitals," Mr. Nickelson stated.

**MEDICARE HAS** "generated ripples in health, welfare and insurance and has even rocked a couple of boats," he conceded, but he considered it "most significant" that the "world's largest health insurance program" was administered along traditional lines.

Other speakers at the Medicare seminar included Howard W. Gindele, vp of enrollment and public relations for Blue Cross of Western Pennsylvania, and Forster M. Grose, vp and secretary of Weaver and Grose, Pittsburgh.

Mr. Gindele would like to see the removal of deductibles and coinsurance as devices to limit costs. They have proved "more deluding than helpful" he maintained. The acceptance of complementary coverage programs by the elderly has shown a "very real desire" to have full service benefit coverage.

Two approaches that Blue Cross has found satisfactory in solving the problems involved in correlating benefit programs for active employes and those 65 or over were outlined by Mr. Gindele.

**ONE METHOD IS** to correlate Medicare part A benefits with a company's existing health care program. This allows the over-65 employe and his dependents to continue to receive the benefits of the company-sponsored plan, less any benefits he would be entitled to under Medicare.

Another method is to use Medicare as a base and then build up benefits by adding from a number of optional benefit items.

Mr. Gindele pointed out that in situations where the level of benefits for active employes falls short of Medicare standards, "it seems likely that pressures will develop for improvements," he said.

Mr. Gindele pointed out that Medicare is "a complex law" with a "complex benefit structure," administered under "complex regulations. The miracle is that it has worked so well so soon," he said;

Mr. Grose advised welfare plan trustees to analyze whether their retired members and dependents "gained or held even" when Medicare began.

Pointing out that the "partnership" between government and private enterprise has "accomplished a great deal," Mr. Nickelson said that there has been a 15 to 20% increase of inpatient hospital services by older people. This has resulted in less than a 5% increase in total hospital utilization, which is "within manageable limits," he said.

**MR. NICKELSON** said that 19,000,000 Americans are enrolled in part A of Medicare which provides hospital insurance benefits and 17,000,000 are enrolled in part B—the supplementary medical insurance program.

During the first year, he continued, "there were about 5,000,000 hospital admissions on which Medicare bills were submitted. Admissions for the first quarter of this fiscal year are running almost 10% higher than during the comparable period last year," Mr. Nickelson disclosed.

The extended care benefit, which began in last January, has had 303,000 admissions. This benefit, Mr. Nickelson reminded delegates, "is for the patient who is well enough to leave the hospital but not well enough to return home."

About four out of five extended care beds are in nursing homes, the Blue Cross executives said, and the rest are in other parts of hospitals, homes for the aging and rehabilitation institutions.

Mr. Nickelson admitted that "unfortunately" Medicare outpatient provisions are "most complex." Clearly a legislative remedy is required which he hoped would be provided in 1967 Social Security amendments.

**STRESSING THAT** many elderly persons "still do not understand the basics of Medicare, much less the details" Mr. Gindele said that he had been told that in certain areas of the country a fee was being charged for helping beneficiaries file part B claims.

The arrangement is said to be similar to helping people fill out income tax forms, Mr. Gindele continued, and "if this story is true" the situation is "most regrettable."

Mr. Gindele said that the "mere suggestion of such a possibility" emphasized the validity of Blue Cross's advice to the House ways and means committee that "Congress should move deliberately towards simplifications of medicare."




**Keep reciprocity agreements simple,** was the message of Emil Matyas, of Robison & Matyas. Waiting their turn at the rostrum are Donald B. Johnston, Plasterers and Cement Masons International Assn.; Frank Gould Jr., Mass Insurance Consultants and Administrators Inc., and moderator James Spearman, Wadham & May Co. The employe benefits men spoke at Miami Beach.

# Construction group's safety drive heads off rate hike in Washington

SEATTLE—An increase next year in some commercial construction insurance rates has been postponed by an intensive safety program launched by Seattle-area building contractors, according to Harold Petrie, director of the Washington State Department of Labor and Industries.

"This decision was taken because of the comprehensive program of accident prevention by the Seattle Northwest chapter of the Associated General Contractors of America," Mr. Petrie stated.

Since 1961 premiums paid by building contractors have increased from 7¢ per man-hour to 11.5¢, he noted.

**"THESE PREMIUM** raises have been necessary due to steady increases in insurance claims, disability pensions allowed and the frequency and severity of all types of accidents," the director pointed out.

Increased construction volume has increased the statistical chance of accidents. Since July, 1965, the state logged 70,000,000 man-hours in building construction, a 17% increase over the previous biennium.

Mr. Petrie praised the Associated General Contractors' safety program now under way in western Washington. It includes a safety training course for foremen and superintendents, a safety consulting service for contractors and accident prevention kits used on all jobs.

Richard Hainsworth, chairman of the group's accident prevention committee, said the safety course is being well attended by personnel from member firms.


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# Reinsurance squeeze causes policy cancellation

*Continued from page 3*
Mr. Franklin. "If the insurance companies cancel a policy when the catastrophe is imminent, you can rest assured the buyer will have difficulty obtaining coverage elsewhere, especially on short notice."

**MR. FRANKLIN NOTED** that in some states cancellation notices may be as short as five days, which aggravates the situation even more.

In the Philadelphia Housing Authority case, coverage was cancelled solely because of the race riots in other cities, according to William Churchman, vp of Parker & Co.

"The timing couldn't have been worse," said Mr. Churchman. "Ironically, there were very few ghetto losses for housing authority buildings in the U.S., and none here because of riots."

The insurer, Philadelphia-based Mutual Fire, said it had cancelled coverage with the housing authority when its "intermediaries" (reinsurance brokers) couldn't place the insurance because of the threat of riots.

**"THE INTERMEDIARIES** came back after we renewed the contract on August 1," said Gerard M. Mauer, vp of Mutual Fire, "and demanded we exclude riots from the policy. Because we were unable to obtain reinsurance elsewhere, we were forced to cancel."

Mr. Churchman said he reviewed the housing authority insurance program with Mutual Fire in July and a three-year contract was renewed on August 1 for $160,000.

"When we received the 30-day cancellation notice on August 2," said Mr. Churchman. "we went to 30 companies for coverage."

The housing authority contract was rewritten before the cancellation date with 12 participating companies at an annual premium of $108,000 ($324,000 for three years), Mr. Churchman said—a substantial increase from the original contract signed with Mutual Fire.

**"BEFORE ISSUING** the cancellation notice," the brokerage company executive noted, "Mutual Fire did offer to continue the housing authority coverage excluding riot and civil commotion."

Parker & Co. reported that Philadelphia Housing Authority's losses for fire, extended coverage and vandalism and malicious mischief for the 1964 to 1967 period were $94,284 with a premium of $102,217.

For the three-year period from 1961 to 1964 losses were $48,734 with a premium of $95,528, and from 1958 to 1961 losses were placed at $8,200 with a premium of $158,303.

**"IT IS REASONABLE** to assume," said Mr. Churchman, "that the premiums awarded Mutual Fire would support the loss figures. Thus it follows that the original bid of $160,000 for the 1967 to 1970 contract was not ridiculous, and the housing autority is a good risk."

Although Mr. Mauer agreed that housing authority projects are usually considered excellent fire risks. he said he had no choice but to cancel, and couldn't blame his reinsurers for wanting to "get out" of the housing authority coverage because of the tremendous loss potential from rioting.

"You can't expect individual companies or an industry to foot bills like those resulting from riots," said Mr. Mauer.

Participating companies in the housing authority's fire insurance program now include Travelers (20%), Fireman's Fund (15%), Royal Indemnity (10%), Insurance Co. of North America (10%), Home Insurance (10%), Security Mutual (7%), Chubb & Son (5%), Aetna (5%), National Union (5%), the Mutual Fire, Marine & Inland Insurance (5%), Hartford (4%) and Aetna Casualty & Surety (4%).

Across the Board rate hikes in London caused the insurance buyer of a major steel producer with an "excellent loss record" to transfer coverage to U.S. insurers.

"London wants to get even for catastrophic losses they incurred during the last three years," he said, "and they are not being selective in making rate increases."

Many other U.S. companies will also be unwilling to take unjustified rate increases from London, he predicted, and they will start buying in the U.S.

The steel company buyer pointed out that London made money from his risk for almost 20 years, yet raised rates without regard to his low loss ratio.

One solution is for buyers to find new markets, he said. For example, he noted that John L. Lewis hit the American public with continuous strikes. "The people found a new market in gas and oil," he said, "and never returned to coal. The same thing could happen to the London market."

An expanding re-insurance market here was cited by the buyer as making it easy to get his insurance coverage economically. "We found an American market that was sympathetic and renewed our entire property program at a price much lower than in London."

## New officers'..

*Continued from page 3*
fective products cause injury. The wholesaler can sue the manufacturer, while both can sue the supplier of component parts, Mr. Gudenas said.

New rulings dealing with liability for injuries caused by products have abandoned the right of privity—meaning that now the seller of a product is liable to any use, even the users who were not the actual buyer, Mr. Gudenas pointed out. He added that under earlier decisions only the buyer of a product had the right of action in a breach of implied word suit.

New interpretations of liability have not developed to regulate conduct but to place financial obligation, and the seller and manufacturer are in a better position to accept a loss than the consumer when he is injured by a defective product, he said.

Bob A. Hedges, professor of insurance and economics, Temple University, urged risk managers to determine how much loss their companies can absorb.

**HE ADVISED** risk managers to ask themselves "how can the firm's resources be used to improve risk management rather than to purchase insurance."

"Progress lies not in thinking of funding in insurance but to think of the relationship of liquidity to the bearing of risk and how to make money out of it," he said.

Other speakers were A. Grant Whitney, general manager of the Insurance department, Belk Stores Inc. and president of the national ASIM, and John L. Sybrandt, corporate vp, General Adjustment Bureau.

# 'Find better ways to communicate benefits,' brokers urge publishers

NEW YORK — Considering that 20 to 30% of payroll costs go to employe benefits, management should "find a better way to communicate their value," according to two brokerage company executives who teamed up at the annual meeting of the Magazine Publishers Assn. here.

Edwin Knetzger and Walter Clemens, vp's at Johnson & Higgins, also gave the magazine men a look at how far benefits programs are likely to be extended within the next few years.

Communications is in its infancy, according to Mr. Clemens, but a search is on for ways to reach employes more effectively.

**PERSONALIZED ANNUAL** statements itemizing benefits and sent to employes' homes were cited by Mr. Clemens as one way to emphasize the value of employe benefits.

"Some companies have gone too far in itemizing benefits," he said. With tongue in cheek he noted that listing the Christmas gift turkey as an addition to employe income is not reaching the core of the communications problem.

Suggestions made by the brokerage executives to bridge the communications gap included:

1. Periodic meetings using audio visual techniques.
2. Benefits information centers in plants.
3. Benefit telephones to answer inquiries.
4. Electronic computers to run off details of benefits.
5. Indirect participation on local radio and television sponsored by the corporation.

**TO MEET THE** added expense of communications, Mr. Clemens suggested that the cost be included in the corporation budget at about $5 per employe.

Speaking of future trends, Mr. Clemens stated that automobile and homeowner coverage included in benefits' packages "may be welcomed by most employes."

"Why not?" he asked. "We already work out his medical, retirement and death benefits, and we'll probably be planning his vacation before long."

As benefits increase, Mr. Clemens warned, companies will have to "gear up" administration —especially the insurance department, which will be placed in the personal claims business.

**"FOR EXAMPLE,"** he said, "if Johnny breaks a window in the neighbor's house, the insurance department would become the clearing house for the homeowners claims."

A trend toward more employe contributions to pay for increased benefits was noted by Mr. Clemens.

"I feel employes are willing to contribute," he said, "if they feel they are getting a benefit they could not buy elsewhere."

## 'Petty' bills . . .

*Continued from page 4*
ability payment of $19,000.

"Therefore," Mr. Hendrix emphasized, "while we improved the total benefit available, we built an important claims cost control factor into the plan."

**ANY PLAN WHICH** picks up 100% of petty medical charges will find—"human nature being what it is"—that costs will spiral upward, asserted Mr. Hendrix.

Coinsurance, deductibles, hospital limits and reasonable disability schedules help to keep an employe cost conscious. "We cannot isolate a man and his family from all medical expenses and still have sufficient incentives to keep costs in line."

In 1963, Mr. Hendrix said, he called together top group insurance personnel of both General Dynamics' major group carriers and the man responsible for claims costs in each division.

The company devised a claims control program, he said, based on two fundamentals: (1) It's good business to pay legitimate claims "promptly and with a smile," and (2) it's bad business to pay illegitimate claims, and this should be resisted to "all practical ends."

**MR. HENDRIX** told delegates that General Dynamics has speeded up its claims processing by paying legitimate claims promptly and has checked the rising costs brought about by illegitimate claims.

Prior to the claims control program, the company had been having rate increases of 5% to 6% a year in one benefit plan covering several divisions. With the beginning of stricter claims control, however, no increase was required in 1965 or 1966, and this year the company obtained a rate decrease.

While there has been a number of factors which have produced these favorable results, Mr. Hendrix said, "we believe that claims control has played a major role."


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AFCO ..... 7
*Doremus & Co.*

Alexander & Alexander Inc. ..... 9
*G & M Creative Services*

Allstate ..... 23
*Leo Burnett Co. Inc.*

American District Telegraph Co. ... 24
*Persons Advtg. Inc.*

American Life Insurance Co. ..... 37

Atkinson-Dauksch Agencies, Inc. .. 19
*Hameroff and Associates*

Bankers Life & Casualty Co. ..... 40
*Marshall John Advtg.*

Blue Shield ..... 15
*Buchen Advtg.*

Benefit Trust Life Insurance Company ..... 31
*Reincke, Meyer & Finn*

Boston Mfrs. Mutual Ins. Co. ..... 34
*Eddy-Rucker-Nickles Co.*

Business Insurance ..... 32-33

Cardox ..... 18
*Drew & Carr, Inc.*

Commonwealth Service Inc. ..... 35

Continental Nat'l. American Group ..... 20-21
*Post-Keyes-Gardner*

Crum & Forster ..... 14
*Clement & Bogue, Inc.*

Despard & Co. Inc. ..... 31
*Schuyler Hopper Co.*

Donnelly Brothers ..... 18
*Keyes Martin & Co.*

EBS Management Consults, Inc. ... 24
*Clement & Bogue, Inc.*

Fireman's Fund Ins. Co's. ..... 11
*Cunningham & Walsh Inc.*

A. W. Friedrich & Associates, Inc. .. 17

L. J. Goldstein & Co. Inc. ..... 35
*Frank Perrin Adv.*

Hagedorn & Company ..... 38

Herbert L. Jamison & Co. ..... 25

Marine Office of America ..... 12-13
*Marsteller, Inc.*

Marsh & McLennan ..... 5
*Doremus & Co.*

New England Mutual Life ..... 4
*BBD & O*

T. Rowe Price & Associates, Inc. ... 29
*VanSant Dugdale & Company, Inc.*

Provident Mutual Life Insurance Company ..... 30
*Grey & Rogers, Inc.*

Pryor Charting Company ..... 13
*Leo P. Bott*

Reliance Ins. Companies ..... 10
*Aitkin-Kynett*

Royal Globe Ins. ..... 19
*Clement & Bogue, Inc.*

Zurich American Insurance Co.'s ... 39
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