London hit hard in $13.8 million payout

Record D&O settlement in Mattel case

By JOANNE GAMLIN

LOS ANGELES—Three directors' and officers' liability insurance carriers—Lloyd's and the London market, International Surplus Lines Insurance Co., and Unigard Insurance Group, Seattle—are supplying an astounding $13.8 million out of a total of $30 million in the out of court settlement of five consolidated class-action lawsuits against Mattel Inc., *Business Insurance* learned.

The proposed settlement, which must still be filed and approved by the court, would satisfy suits filed in 1973 and 1974 charging securities law violations.

Both the $13.8 million insurance carrier payout and the names of the three major D&O carriers involved in the settlement were confirmed by a Mattel Inc. spokesman.

The settlement is by far the largest in D&O insurance history. Until now, the largest known D&O settlement involved R. Hoe & Co. with a $3.3 million payout by the London market (*BI*, June 10, 1974). A $2.4 million D&O settlement was recently offered by insurers to close suits involving Penn Central. Lloyd's figured prominently in the arrangement (*BI*, Sept. 22).

The Mattel spokesman said the coverage involved in the record-breaking settlement covers a period from March, 1970, to June, 1973. Lloyd's and London companies provided D&O liability protection from March, 1970, to March, 1973, under a policy having a $5 million annual aggregate limit, he revealed.

However, for the three months from March, 1973, to June, 1973, the coverage was boosted to $10 million, with excess coverage supplied by International Surplus Lines Insurance Co. and by Unigard Insurance Group, he divulged.

Louis W. Biegler, president of Chicago-based L. W. Biegler Inc., said International Surplus Lines Insurance Co. is not paying "any cash" as part of the settlement, but he declined any further comment on the payments. The insurer has satisfied fully all of its contractual obligations, he noted. International Surplus Lines wrote D&O insurance for Mattel from March 14, 1973 through June 30, 1973, Mr. Biegler confirmed. Mr. Biegler is also president of International Surplus Lines Insurance Co. (ISLIC). Both companies are subsidiaries of Crum & Forster.

Unigard underwrote D&O coverage for Mattel from March 21, 1973 to March 13, 1974.

The announcement of the $30 million settlement was made at the same time that a 300-page report by a special counsel and a special auditor were made public. The report, required by a consent decree between Mattel and the Securities & Exchange Commission, portrayed the toy manufacturer, said to be the largest in the world, as a concern so intent on pushing up the value of its stock that it falsified its books during 1971 and 1972 fiscal years. What Mattel did, the report said, was to pick a profit goal and then work backwards with incorrect accounting techniques to reach that target.

Marsh & McLennan, Los Angeles, brokered the D&O policy in force during the period the violations involved in the settlement were charged, *Business Insurance* has learned. It has also been learned that only three short weeks ago, in mid-October, Mattel switched brokers on its D&O coverage from M&M to Johnson & Higgins, Los Angeles.

The $13.8 million insurance carrier payout breaks down as two separate components of the $30 million settlement, explained the Mattel spokesman. He said the components involving the insurance carriers are as follows:

- A $7 million cash contribution, including $6.7 million from the D&O insurance carriers and the rest from Mattel.
- An $8 million Mattel promissory note at a 10% interest rate. The notes are secured by contracts from the D&O insurance companies requiring that they provide $7.1 million of the principal.

The spokesman explained that the principal will be paid in two installments: $1 million to be paid one year after the effective date of the settlement, and $7 million on the date the insurance carriers provide the funds. The carriers must deliver the funds no later than four years after the effective date of the settlement. Mattel will pay the remainder and will take care

Continued on page 11





Insurers aren't so sure "you can tell it's swell, it's Mattel."

Week of November 17, 1975

business insurance

the national newsmagazine for buyers of employe, property and liability protection and financial services

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St. Paul Cos. to cancel ad review board cover

By RANCE CRAIN

SEATTLE—St. Paul Fire & Marine Insurance Cos. is cancelling liability coverage for local advertising review boards, effective Jan. 1, 1976.

The insurer will, however, continue to defend the Denver Advertising Review Board against a suit filed earlier this year challenging the legality of the review concept. Specifically, the suit asks damages for defamation, which triggered the coverage.

St. Paul will also continue to insure local Better Business Bureaus. The insurer underwrites coverage for the National Advertising Review Board, and will continue the national policy. Only local policies are affected.

Review boards, only in existence for a few years, are relatively scarce. Were it not for a spate of litigation, the field would have grown fast, as would the insurance covering the boards.

Howard Bell, president of the American Advertising Federation, told members of the AAF Western region meeting here that AAF is exploring the possibility of a master policy insured through the federation. But the coverage may not be as broad using that method, and may cost more, he added.

Mr. Bell urged local review boards to continue their activities, but cautioned that the ultimate self-regulatory step—appealing unresolved disputes to government agencies—should not be publicized. This would avoid libel charges.

Continued on page 2

More risk managers cut—Page 4

Eastern Airlines takes off for Belgium on a cargo program

By MARIE KRAKOWIECKI

NEW YORK—Eastern Airlines Inc. saved a cool half million dollars this year through a cargo insurance and loss control program arranged with Belgian underwriters, brokers, and a New York claims prevention specialist.

Eastern is not a freight carrier as such. But around 1970, it suffered a rash of high value losses from cargoes it typically stores in the bellies of passenger airplanes.

At the time, Eastern insured such cargo under a $2 million policy with Lloyd's of London. But when the losses came rolling in, aggravated by things like security problems, congestion, storage difficulties, bumpy in-flight conditions with temperature and atmospheric changes, London did not seem to care about loss prevention.

It just jacked up deductibles and premiums to levels Eastern found unacceptable. Between 1970 and 1973, the deductible doubled from $500 to $1,000. And the thefts continued, until the airline was suffering almost continuous losses.

To this day, Eastern has no idea what became of a $50,000 diamond tiara, or $60,000 worth of scrap gold that disappeared somewhere between San Juan and Boston.

But, according to Richard V. Parrett, Eastern's director of insurance and pensions, losses have been cut back dramatically since the London policy was dropped, and a program with J. Haenecour & Co. in Antwerp and the Pacific Employers Group in Brussels was initiated.

The Belgian firms were picked after Mr. Parrett combed the American marketplace in vain for an underwriter interested in setting up a long range program featuring the full time services of a loss control expert.

"In 1973 I literally went halfway around the world to find an underwriter with a reasonable premium who would get involved in the kind of program Eastern wanted. Although it was very, very unusual for an airline to say so, we told the underwriters we were willing to change our procedures completely. But no one would touch the risk," the director of insurance recalled.

Then, in August of 1973, he contacted the Belgian insurance brokerage firm, Henri Jean N.C. That firm's partner, Jean Marie Bioul, and account executive Daniel Vanderlinden not only managed to get the Belgian underwriters to take on the program at a reasonable cost to Eastern, but were instrumental in making arrangements for a full time loss control expert to work closely with Mr. Parrett.

The Henri Jean men got together with Louis Haenecour, the lead underwriter for the Haenecour firm, and worked out the details of hiring a New York claims prevention specialist, James Dunlop.

Mr. Dunlop is president of Ocean-Air Cargo Claims Inc. Like Louis Haenecour, his main experience was in the marine area rather than in airlines. But his thorough familiarity with tariff laws made him a natural for handling Easterns international shipping problems.

The program has been a success, Mr. Parrett is convinced. Although there are two underwriters, a broker and a claims prevention specialist involved, costs have been held down.

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FOCUS on CARGO
ocean/inland

This special issue provides an in-depth look at risks faced by myriad U.S. corporations involved in shipping goods worldwide. Stories on pages 13 through 42 contain analyses of transit exposures and their changing nature. Risk managers discuss retention of their routine losses, and the kinds of insurance being used to cover the big losses from damage and theft. In the Perspective section on pages 49, 50 and 52, three cargo insurance experts at the broker and underwriter level discuss the transit insurance market.

St. Paul . . .

Continued from page 1

There is going to have to be "much closer supervision" of local review board activities, Mr. Bell said. "Carriers are getting very nervous when they think there is no centralized control," he said. Premiums from all the local review board policies covered by St. Paul have not been enough to cover the cost of defending the Denver suit, he added.

He called upon those involved in local advertising review boards "to explore the possibility of obtaining insurance through local sources. This step may prove not only to be beneficial to you but the information gained, including possibility of a new insurance carrier, will be helpful to the entire federation."

In New York, Norman E. Gottlieb, general counsel for the Council of Better Business Bureaus, said the cancelled policies were individually written for each local review board, and provided first dollar coverage on an occurrence basis. They provided primary insurance, although there was excess coverage also available through St. Paul, Mr. Gottlieb told *Business Insurance*.

Mr. Gottlieb, who handles all insurance matters for BBB and the review boards, had been working on the insurance through a New York City broker, "who has looked in other markets and is unable to get the kind of coverage which we need."

Coverage is needed principally against defamations concerning reports put out by review boards that are critical of the advertising and selling practices of various entities, such as charges of misleading or fraudulent advertising or sales tactics. Mr. Gottlieb also requires that no claim settlement can be made without his organization's consent in writing.

"The reason for this is that we are exposed to suits from dishonest promoters who have no likelihood of any success, but who bring a large dollar claim against us in the hope of scaring us out of continuing to expose their deceptions," Mr. Gottlieb said. "They frequently would be willing to settle a multimillion dollar claim for $50 or $100" in order to cast aspersions on the advertising review board's credibility, he explained. ■

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NY Times faces strike battle over severance pay vs. pension rights

NEW YORK—The New York Times was faced with a strike last week, largely over the issue of pension benefits. The Newspaper Guild of New York, which has 2,100 representatives at the Times, threatened a walkout on November 11 if a settlement was not reached.

Critical negotiations were stalled over the Times' practice of denying pensions to employes who accepted severance pay. Although this provision coexisted with the basic pension plan which gave vested benefits to any worker age 45 with one year participation, the guild raised questions of the practice's compliace with the new federal pension law.

Under the Employe Retirement Income Security Act, (ERISA) an employe who accepted severance pay might have a vested pension right. Negotiators were trying to work out an arrangement where a person leaving the Times could get severance and pension pay.

The pension plan whose benefits were at the core of the delay in the labor settlement is called "The Guild-Times Pension Plan," and is run jointly by the paper and the union. It provides for normal retirement at age 65, with benefits computed on a formula that multiplies a fraction of average yearly salary by the number of years of service.

At press time, labor talks were still underway. One proposal was that an employe designated for layoff should have the option either of terminating employment with severance pay or being covered under provisions of the contract relating to automation.

Contracts for the guild and for eight newspaper craft unions had expired last March 30. Despite seven months negotiations, the only agreements that had been reached last week were tentative three-year wage settlements with the stereotypers and the newspaper deliverers.

Although the guild originally requested a 20% pay increase, final settlements were expected to follow the pattern established in the agreements with the stereotpers and deliverers, which would give increases of $25 a week the first year, $20 a week the second, and $20 a week the third.

The sensitive bargaining sessions, medicated by labor expert Theodore W. Kheel, were further complicated by guild hints that it might strike New York's largest daily paper, the Daily News, in addition to The New York Times, if demands were not met.

This all took place in the shadow of a six week strike by pressmen against another major paper in the East, the Washington Post. The Post continued publication during its strike, using nonunion help. Whether the Times would attempt something similar was uncertain—the paper remained without comment even to its own reporters.

Other guild proposals in the Times talks included an improved employe training program, increased vacation and holiday time, improved grievance procedures and a requirement that all the paper's employes under guild jurisdiction become dues paying union members. ■

Canada prohibits some benefit discrimination

TORONTO, ONTARIO—Effective Nov. 1, the Human Rights Code was amended to prohibit certain discriminatory benefit practices relating to age, sex and marital status. Most recommendations presented by the government-appointed task force were accepted as regulations.

Minor changes were made in regulations relating to disability and pregnancy provisions in benefit plans.

Although minimum age requirements for plan participants would still be allowed for disability and early retirement benefits, maximum ages for access to benefit plans would now be prohibited.

Higher employe contributions for older employes, a reduction in a schedule of life insurance benefits and restrictions on disability income benefits would be disallowed under the new regulations on age discrimination.

Group health and medical plans would be required to provide reimbursement for costs arising out of pregnancy. Differences in eligibility rules and benefit amounts for men and women; compulsory participation for male employes and voluntary participation for female employes; different retirement ages; provision of widow's benefits without similar provisions for widowers; and availability of dependents' coverage for male employes only are now considered discriminatory and are not legal.

Also prohibited is use of "head of household" or "primary breadwinner" criteria as a basis for determining benefit amounts or eligibility for family coverage as well as unequal benefits for single and married employes, under the new regulations. Common law spouse must be defined under any plan providing benefits to an employe's spouse. ■

Solution on HMO dual option ready

WASHINGTON—The House of Representatives approved amendments to the Health Maintenance Organization (HMO) Act of 1973 that should solve one of the major employer complaints about that law's "dual option" requirements.

The 1973 law required employers to offer a "qualified" HMO to their employes if as few as one employe lived in the geographical area served by that particular HMO, and that HMO solicited, the business.

Amendments approved 309-45 by the House this month (H.R. 9019) would require employers to offer the HMO option only when at least 25 of their employes live in the area served by the HMO.

Only those employers with 25 or more employes come under the dual option rules of the act.

Earlier this year, several major employers had protested providing an HMO option to smaller numbers of employes than 25 in any one location.

General Motors vp Robert F. Magill wrote the Health, Education, and Welfare (HEW) Department, which administers the law, that this feature of the law "was the single most serious problem raised by the act." (*Business Insurance*, April 7, 1975).

In other areas, the amendments approved by the House significantly alter the benefit package that must be offered by an HMO for it to be qualified by the federal government.

The net effect of the changes is to make the benefit package of a "qualified" HMO less expensive and more competitive with the costs of conventional health insurance. ■

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Vol. 9 No. 23—Business Insurance is published every other Monday at 740 Rush St., Chicago, Il. 60611. Controlled circulation postage paid at Brookfield, Wisconsin. Copyright 1975 by Crain Communications Inc.

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iWest Insurance Managers

Finsure insures the risks at Studebaker-Worthington Inc.

By MARIE KRAKOWIECKI

NEW YORK—Finserv, Finsure. The odd-sounding names will probably never be household words. But they are familiar ones to Studebaker-Worthington Inc. The financial services subsidiary and its insurance arm are responsible for consolidating insurance coverages for some 26 domestic Studebaker-Worthington subsidiaries.

Besides handling $17.5 million in insurance premium volumes for the subsidiaries, the Finsure Division of Finserv Corp. manages some self-insurance, provides loss prevention and safety counseling and administers retained portions of risk.

Finserv Corp., which is wholly-owned by Studebaker-Worthington, has seven subsidiaries of its own in leasing, financing, realty development and related areas.

When it proved successful, Studebaker-Worthington's top management decided it would be a good idea to set up a special insurance division to pull together the decentralized insurance programs of the parent company's subsidiaries. Thus the birth of the Finsure Division in 1973.

Frederic Weiss, who is president of both the Finserv Corp. and its Finsure Division, said Finsure was the brainchild not of a single person, but the whole corporate management, prompted by several outside broker consultants.

Before Finsure's formation, the Studebaker subsidiaries tackled insurance buying individually. Sometimes it worked and sometimes it didn't.

That changed with the advent of Finsure. Although the subsidiaries are still free to buy insurance on their own, most have opted to plug into the Finsure mass-merchandising mechanism to get cheaper coverages and counseling on loss prevention and safety as well.

Finsure is so sure of its success that it is considering taking steps to get itself licensed as an insurance company for outside parties, and is in the middle of establishing a Bermuda captive to handle international coverage for Studebaker-Worthington.

The division does not operate as a broker. Although the firms it uses are subject to change, it currently has Alexander & Alexander, Fred S. James and Armistead Miller Wallace handling the biggest portions of the Studebaker coverages.

Those brokers respectively handle the $4 million in casualty coverages written by the Insurance Co. of North America (INA); the $12.5 million in group life/health written mostly by The Travelers; and about $1.5 million in property written by the Kemper Insurance Group.

This October marks the 11th anniversary of the termination of a Studebaker pension plan, a termination that was one of the first to spark the pension reform movement that culminated in the 1974 Employes' Retirement Income Security Act (ERISA).

But although Finsure gets heavily involved in Studebaker-Worthington's group life/health programs, it has nothing directly to do with the Studebaker pension plan (which Mr. Weiss emphasizes is a safe plan under completely different top-level management than the one that terminated under the old Studebaker set-up in 1964).

Studebaker-Worthington has its own director of pensions, Andrew Yost, who works out of the firm's Mountainside, N.J. office, and who oversees both benefits and investments for the pooled $75 million Studebaker funds.

However, Mr. Yost and the Finserv/Finsure men keep a dialogue open, which has proven to be valuable in at least one area of insurance buying: fiduciary liability insurance.

Finsure was one of the first outfits to see that a corporation, in this case Studebaker-Worthington, bought the special cover that later became a must under ERISA.

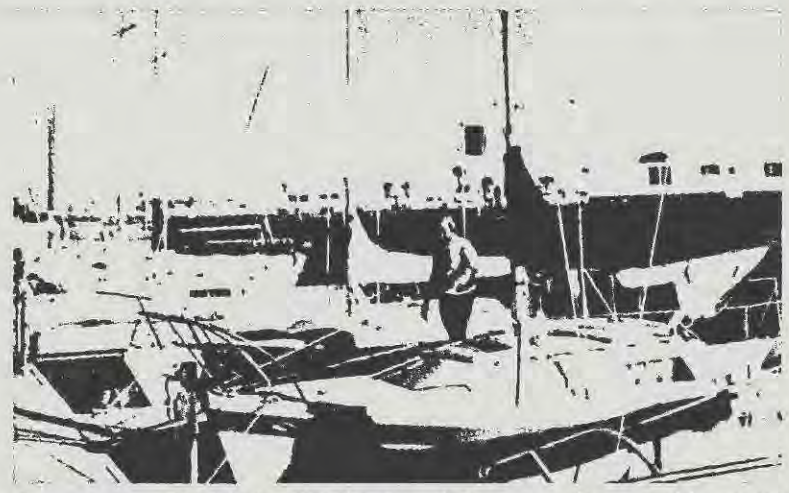
Finsure, prompted by Mr. Yost's updates on developments with the legislation, before it's passage, brought fiduciary liability insurance from the London market through Lloyd's U.S. correspondent, Professional Indemnity Agency Inc.

Mr. Weiss also sits on the committee which authorizes pension fund investment policies but that function is separate from his affiliation with Finserv and Finsure.

Economy is a major consideration at Finsure. Its aim is to get the broadest, cheapest insurance coverages possible. Along these ends, it uses a cash flow program when it buys casualty coverages from INA, in which it essentially pays for losses as they occur. It also keeps retentions as low as possible on its group health and life coverages.

Another way to hold down expenses is to hold down losses, and since premiums reflect losses, Finsure has launched a campaign to improve the safety and loss prevention aspects of its counseling to the Studebaker-Worthington subsidiaries.

Besides Paul Viscardi, who has taken over from Joseph Delin (now Pennsylvania's risk and insurance manager) as director of administration for Finsure, Mr. Dorgan's staff also includes Frank W. Haley. In July, Mr. Haley started in the new Finsure post of director of safety and loss prevention.



Onan Corp., a Studebaker-Worthington division, supplies portable power generating equipment for marine pleasure boats.

He's been on a virtual riding circuit, visiting the subsidaries to evaluate their problem areas and make recommendations. So far, he's pinponted a major subsidiary which should hire its own full-time safety expert and has been compiling a safety manual for all the companies.

"I'm trying to prompt our own people to be safety conscious, to build an in-house capability in that area, so we don't have to depend on advice from insurance companies alone," Mr. Haley said.

Finsure's annual earnings are not publicly disclosed. However, the company said the division's operations produced a substantial savings for the Studebaker-Worthington family in 1974, and are forecast to earn $150,000 for 1975.

"Part of our function was to stop Studebaker-Worthington's liability under retained portions of risk on an aggregate basis, and we have done that," Robert Dorgan said.

Among the many subsidiaries the Finsure Division of Finserv Corp. handles insurance for are the Onan Corp., an electrical generator maker which is one of Studebaker-Worthington's biggest money makers: STP Corp., whose "racer's edge" oil additive brought in $3.5 million in 1974 net income; Turbodyne Corp., a manufacturer of industrial gas turbines, steam turbines and generators; Pasco Inc., a 55% owned petroleum subsidiary which bought certain former Sinclair oil properties; and Worthington Pump Inc., among others.

Mr. Weiss and Mr. Dorgan both emphasized that the subsidiaries, which make Studebaker-Worthington the 150th largest of the Fortune 500 companies, are free to use Finsure or not.

"They can tell us to take our business elsewhere if we don't do the job. So at Finsure, we have to sell insurance on the grounds that they can do it better and cheaper through us than they could by themselves," Mr. Weiss said.

"We have to maintain ourselve on the basis of competitive excellence, or not at all." ■

New era for Studebaker pensions

THIS OCTOBER marked the 11th anniversary of an event the Studebaker-Worthington Inc. people would rather forget, even though their present management had no hand in it: the termination of 4,200 South Bend, Indiana workers' pension plans. Although workers eligible for full retirement at the time did get pensions, many long-service employes lost vested benefits, and their plight became a classic case in the fight for pension reform.

Since then, the old Studebaker empire is no more. The Employes' Retirement Income Security Act (ERISA) has passed. And the new management of what became Studebaker-Worthington knows where it came from and where it doesn't want to go. And it is very, very careful with retirement benefits.

Although the Finsure Division of the Finserv Corp. handles Studebaker-Worthington's group life/health benefits, retirement benefits are the business of Andrew Yost. He has been the company's director of pensions and benefits since 1972.

"The only thing that's not dead about the old Studebaker is that we're still paying their pensions," Mr. Yost said. He explained that Aetna Life & Casualty is still picking up a tab of about $2 million yearly for benefits of some older Studebaker retirees.

He explained that there is no operation today representative of the old Studebaker plant. After the company went out of auto making in 1964, the South Bend workforce scattered.

The management began to acquire a variety of businesses, not directly related to automotive production, even before the South Bend shutdown. Each of the Studebaker-Worthington subsidiaries now has its own benefits structure, fashioned after what is considered competitive in its industry.

There is a more liberal philosophy about pension benefits than the old, financially-troubled Studebaker could afford. The company has paid out about $18 million over the last seven years in amortizing a huge unfunded liability of a company it acquired, the now-defunct Alco Locomotive Co., Mr. Yost pointed out.

It would be a mistake to assume Studebaker-Worthington favors insured retirement benefits, even though Aetna Life & Casualty is still paying off old South Bend pensions. Although one subsidiary, Wagner Electric Corp., in Parsipanny, N.J. favors insured benefits and uses Equitable Life Assurance Society and Massachusetts Mutual Life, the rest of the subsidiaries are steering clear.

Studebaker-Worthington just terminated its last insured benefits program with Aetna, in fact. And it doesn't find the newer guaranteed interest plans touted by some as particularly attractive, either.

"We've looked at those plans," Andy Yost said. "And we know that some employes feel safe when their money is with an insurance company.

"Although the rates of return are attractive on the guaranteed plans, we just feel we can do a better job of it ourselves. We have greater flexibility."

Captive is first part of expansion at Finserv

NEW YORK—The Finserv Corp., a wholly-owned subsidiary of Studebaker-Worthington Inc., is in the final stages of getting up a captive insurance company in Bermuda, *Business Insurance* learned.

The new captive, which is expected to be ready within a matter of weeks, will be part of a three-part Finserv program to increase the scope of its insurance arm, the Finsure Division.

While Finserv is a financial service company, Finsure was set up within it for the sole purpose of consolidating the insurance programs for some 26 subsidiaries of Studebaker-Worthington.

It has done so well at that task, according to its president, Fredric Weiss, that it intends to move forward to become an independent writer of property and liability coverages for third parties, with possible later expansion into the group health field.

The actual licensing of Finsure as an underwriter will be the third part of the expansion program Mr. Weiss outlined. The captive will be first.

Finsure currently handles a premium volume of $17.5 million in insurance coverages for Studebaker-Worthington subsidiaries. Of that amount, $4 million is in casualty coverages, written primarily by the Insurance Co. of North America, and $1.5 million is in property coverages, written primarily by the Kemper Insurance Group.

When the new captive, Finsure-Bermuda Ltd., goes into full swing early next year, it will provide reinsurance capacity for Studebaker-Worthington's direct property/liability underwriters.

It is still too early to assess how the existing underwriters may react to the captive, or what amount of business will change hands because of its formation.

Robert H. Dorgan, executive vp of the Finsure Division is enthusiastic about the captive's potential cost savings to the entire Studebaker insurance program. He said that while it would initially stick to reinsurance, he thinks the captive will eventually get into some direct writing of property/liability coverages as well.

Up till this point, Finsure has only concentrated on insurance coverages for Studebaker's domestic operations. Once the captive is underway, however, Finsure intends to get into a comprehensive program for Studebaker's overseas holdings as well.

The captive offers attractive opportunities for setting up international insurance programs, he allowed, because of the tax advantages.

Besides starting a captive to reinsure domestic coverages, and planning a program of international insurance coverages for Studebaker and planning its own licensing as an insurer, Finsure is involved in self-insurance and loss prevention and administering retained portions of risks for their sister companies. ■

DANIEL E. SULLIVAN, national president of the Risk and Insurance Management Society, reacted to the latest news of risk management cutbacks with these comments:

"My own feeling is that the tighter the money, and the more marginal the profits of the corporation, the greater is the need within that company for proper control of risks. The company can't afford a loss, and must plan for loss and take all possible steps to reduce loss.

"In the short run, these companies (eliminating risk management departments) might save money. But in the long run it's going to come home to roost, and additional expenses must follow. I understand the desire to save money, but corporations cannot renege on their responsibilities to manage their own affairs. They cannot rely on suppliers of services to do so."

When a company relies on its broker to manage risks, Mr. Sullivan likens it "to a major supplier of a manufacturing company requesting that the supplier manage the marketing program of the (manufacturing) company. That's a management function and you can't delegate your responsibilities."

When companies eliminate internal risk management, "we're reverting to where we were 10 and 20 years ago," Mr. Sullivan worried. "While some companies have not yet seen the light, others are placing more responsibilities with risk managers. Insurance purchasing is only a small part of the risk manager's responsibilities," he added.

Three West Coast firms shutter their risk-insurance operations to cut cost

By JOANNE GAMLIN

LOS ANGELES—Two companies in Southern California have shuttered their risk management departments, *Business Insurance* learned.

In addition, a third company, Susquehanna Corp., is divesting itself of subsidiaries that account for almost half of its total revenue. In the process, it is letting go of most corporate staff, including the man who acted as treasurer-insurance manager. Susquehanna is a holding company.

Beverly Enterprises, Pasadena, a $75 million to $80 million firm in the nursing home business, appears to have concentrated its cutback efforts in the corporate insurance area. The company abolished the risk management department headed by Hank Andreucetti, and fired several other executives.

"The firm was too top-heavy," observed a former employe who left Beverly Enterprises early this year. He went on to state that he thought the dismissals were made with the idea that the announced merger of Beverly Enterprises with Hillhaven Inc., Tacoma, Wa., also a manager of nursing homes, would take place. But as such things go, merger talks collapsed in late October.

Reached at home, Mr. Andreucetti said he believes he is close to getting another risk management position with a large Southern California corporation.

Cyprus Mines, a much larger company with sales of $564 million last year, is the second company to wipe out its risk management department last month.

A. P. Prevost, who was manager of insurance there, is now the new manager of employe benefits for MCA Inc., Los Angeles. There, as noted elsewhere in this magazine, he reports to W. G. Vanden Bossche, director of insurance.

Uncontestably, economic woes were the paramount reason for the disappearahce of the risk management offices at all three companies. Susquehanna Corp., for instance, reported a net loss of $4 million for the first six months of 1975. By the same token, it might be pointed out that new heights of prosperity could be the reason why MCA Inc., which owns Universal Studios, was able to create a new insurance position. For the third quarter ended Sept. 30, MCA reported a 132% gain in net income.

Of course, the story at Beverly Enterprises and Cyprus Mines is a sadder tale. It is known, for instance, that in addition to seeking a merger partner, Beverly Enterprises sold much of its property, including four Texas hospitals, one in Florida and convalescent homes in Chicago and Vermont.

At Cyprus Mines, Jeffrey Paul, an assistant treasurer who has taken over risk management responsibilities, said he blames the severe recession and the declining price of metals—above all, copper—for the demise of Mr. Prevost's department. He further pointed out that a Peruvian mine, jointly owned by Cyprus Mines and Utah International, was recently expropriated. That act, he said, was a body blow to his concern, an international mining firm which is also in the business of manufacturing copper products.

As a result of all this, he indicated he has inherited risk management responsibilities. Nevertheless, Mr. Paul did give a hint that that department could be resurrected some time when the balance sheet improves.

George Barnes, the new vp of finance at Beverly Enterprises, revealed some of the uncertainties that stalk a non-insurance person facing with the job of buying corporate insurance.

He told this magazine he expects to rely heavily on the two brokers who serve his program during the next few months. He said Frank B. Hall has the company's property and nursing home malpractice coverage and that a local brokerage firm, John T. Boyle Co. Inc., Pasadena, has the hospital malpractice coverage.

For his part, John T. Boyle said he has had the Beverly Enterprises account since 1964, the year the company got started. He pointed out that without a risk manager he feels he is burdened with more fiduciary responsibility than he possessed in the past.

The treasurer-insurance manager at Susquehanna, meanwhile, said that along with looking for another job he is racing to preserve "the substantial cost advantages that pooling of the insurance programs of our various subsidiaries have lent us." Studebaker-Worthington, N. Y., is a majority stockholder in Susquehanna, and as a result the insurance program of the holding company's subsidiaries are pooled with those of that corporation. ■



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EMPLOYERS INSURANCE OF WAUSAU Wausau, Wisconsin

CNA leans toward claims-made for lawyers' plans

By ELISABETH M. WECHSLER

CHICAGO—CNA Insurance favors writing lawyer's errors and omissions coverage on a claims-made basis and will almost certainly implement this thinking when client bar association contacts come up for renewal next year.

"We haven't really decided," demurred Henry Nussbaum, senior program manager for CNA, "but we would attempt to influence the bar associations to go to claims-made basis when contracts expire in mid-1976 if they want to do business with us."

CNA writes claims-made errors and omissions for lawyers in one state only so far—Wisconsin—and it's clear the company plans to help the trend along in other states.

The only drawback, as Mr. Nussbaum explains it, is the "administrative aspect" of changing from an occurrence basis to claims-made. "A company that has written the coverage on an occurrence basis is literally on the hook," Mr. Nussbaum warned.

"CNA would still have to anticipate the losses from claims on an occurrence basis (that is, claims reported any time for actions that happened while the policy was in force). "We'd have to price claims-made on the basis of what our loss experience is now," Mr. Nussbaum said.

As a result, he does not think that CNA would be competitive initially in switching to claims-made, in which only claims reported during the policy period would be covered. "Lawyers may pay a higher rate at first for claims-made but they won't experience fluctuations in later years," he explained.

Mr. Nussbaum contrasts CNA's situation with that of a underwriter entering the errors and omissions field for the first time and writing coverage on a claims-made basis. "A new company doesn't expect to have many losses the first few years, so the insuror can price the policies low to start and then adjust them on the basis of loss experience."

Lawyer's errors and omissions coverage is written for state bar associations on a contractual basis, Mr. Nussbaum said. The change from occurrence to claims-made policies could not be implemented without the consent of the client association, he pointed out.

According to Mr. Nussbaum, all major domestic writers of errors and omissions traditionally wrote the coverage on an occurrence basis until "about two years ago." London has been writing claims-made coverage since the 1950s, he pointed out.

"The tail end of 1973 was the first time domestically that claims-made became (an alternative) policy," Mr. Nussbaum said. "First the non-admitted carriers wrote it on that basis and since then it's been taken up by some admitted carriers," he explained.

Mr. Nussbaum cited St. Paul, Hartford, Travelers and USF&G as the other major U.S. underwriters of errors and omissions coverage.

"The concept of claims-made is just as sound as an occurrence policy," he emphasized. "It's a more realistic accounting system because it transfers the bookkeeping from an indefinite time frame to a definite time frame."

Lawyer's errors and omissions coverage can be written to cover the 'tail"—that is, when a lawyer wants to retire or otherwise go out of business. As with medical malpractice coverage, the claims-made policy for lawyers is a sliding scale percentage of the premium base, he said. However, the big difference for lawyers' tail coverage is that the premium levels on which the rate is based are much more stable than they are for medical malpractice.

"The companies that are writing claims-made for lawyers are willing to make a one-time charge (for the tail coverage) rather than adjust the rate for each of the three years as they do for medical malpractice coverage," Mr. Nussbaum said.

Only a small percentage of lawyer's errors and omissions claims would be judged "on the same emotional level as doctor's claims," he believes, citing the two possibly comparable areas as personal injury claims and securities claims.

A typical personal injury claim for lawyers might be $3,000 to $10,000, he pointed out. Less than 2% are securities claims but when they occur, they can have values in "the hundreds of thousands of dollars." Most claims don't have the emotional, physical and dollar impact that medical malpractice claims have, he said.

While the average medical malpractice claim is about $35,000, Mr. Nussbaum said, the "typical lawyer's claim regardless of source is $11,000."

Lawyers' rate for errors and omissions coverage "can double and still cost only one day's billable time," Mr. Nussbaum said. Still, he said, any significant rate increase would be "like the trumpet sounding the alarm" as far as lawyers are concerned.

"At this stage, I'd say it'll be 10 years before lawyers reach the rate level that would be of concern in its dollar amount, if conditions stay the say," Mr. Nussbaum pointed out.

It would be "more appropriate to provide lawyer's errors and omissions on a claims-made basis to more accurately monitor the loss experience and factually establish more realistic rates," Mr. Nussbaum said. After four or five years, which he believes is a necessary time frame to establish rates on an actuarial basis for claims-made coverage, an insurance company can establish "a rate based on actual loss experience." ■

Costs rising

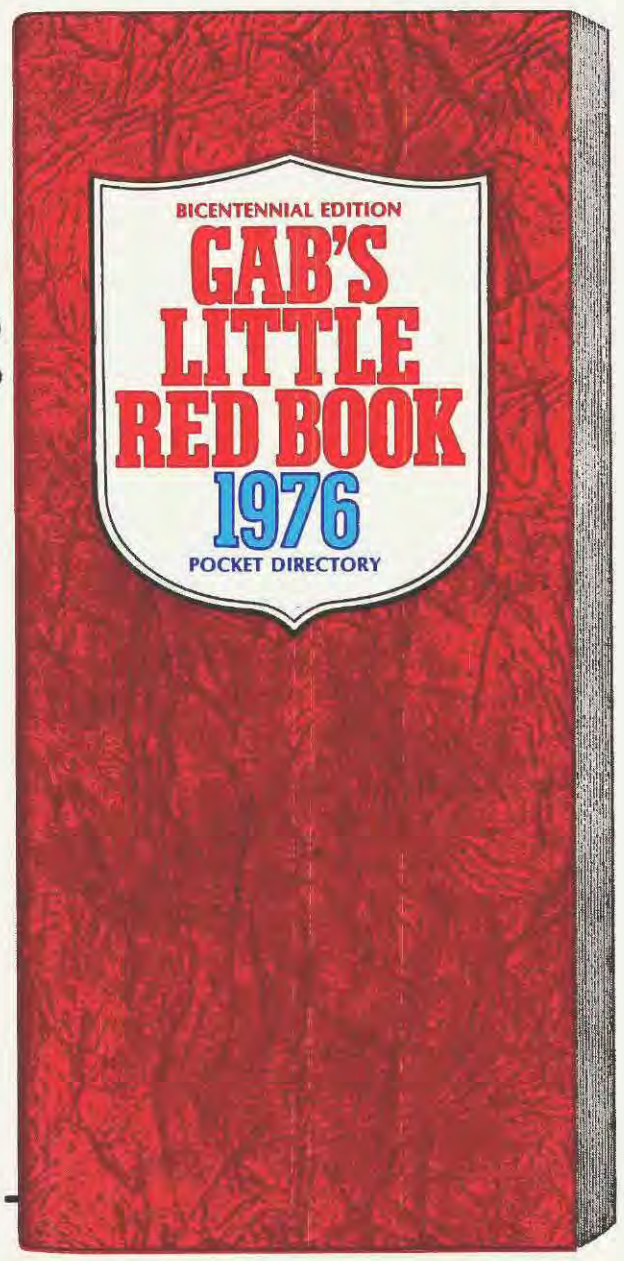
Employer costs for the federal government's Social Security and Medicare programs are going up in 1976, the fifth such annual increase in as many years.

The amount of employe salaries subject to the 11.7% combined Social Security and Medicare tax will increase to $15,300 in 1976, compared to a $14,100 ceiling this year. Ten years ago, in 1965, the ceiling was $4,800.

Employers, who pay one half of the tax, or 5.85%, will pay $895 in taxes for employes earning $15,300 or more. The maximum tax on employers this year was $824.

About 18 million workers—one out of five covered by Social Security and Medicare—will earn $15,300 or more next year, according to Social Security estimates.

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• **Administrative Aspects of Malpractice Control in Hospitals** are examined closely in a brochure from M & M Protection Consultants, a technical service of Marsh & McLennan. Emphasizing the total loss control approach, the booklet describes in detail the approach used by the M &M unit to organize a hospital's system for reducing the number of malpractice incidents. To receive a free copy, write to Ms. Teresa Gumilar, M & M Protection Consultants, 1221 Avenue of the Americas, New York, N.Y. 10020.

• **The HMO: Funding Mechanisms**, by Dan Maruna, is available from Protech Publications. Cost is $2.50. Use order number 3015.04. There is a 25% discount for *Business Insurance* subscribers. To order, write to Protech, 2182 Dupont Dr., Irvine, Ca. 92664.

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

• U.S. Government publications of interest: Two brochures from the National Institute of Law Enforcement and Criminal Justice provide standards to assist in the selection and procurement of security equipment. **Magnetic Switches for Burglar Alarms**, 20 pages, illustrated. Order number 127-000-00238-2. $.65. **Terms and Definitions for Intrusion Alarm Systems.** 16 pages, illustrated. Order number 027-000-00290-1. $.65. To order, write to the Public Documents Distribution Center, 5801 Tabor Ave., Philadelphia, Pa. 19120. Make checks payable to the Superintendent of Documents; do not send cash.

• **Your Employes. Do They Know All You're Doing for Them?** This brochure from Synerconsultants discusses current problems and solutions in communicating employe benefits. It focuses on a cafeteria approach to benefits communications, including computerized benefits booklets, statements, audio-visual presentations and monthly benefit reminders. For a free copy write to J. F. Swygert Jr., president, Synerconsultants Corp., 95 White Bridge Road, Nashville, Tn. 37205.

• **Bit-Facs** (book, insurance, tax fixed asset control system) is a system of fixed asset information for industrial, commercial and institutional users. Designed by American Valuation Consultants Inc., the system accommodates all requirements for accounting, tax (including ADR), insurance and maintenance information. For a descriptive brochure, write Davis R. Blaine, vp, American Valuation Consultants Inc., One North Broadway, Des Plaines, Il. 60016.

• The commercial credit insurance offered by American Credit Insurance Co. of New York is described in **Q&A.** The booklet lists the common questions that arise pertaining to American credit insurance and the answers. In effect, it is a description of the mechanics of the policy. For a free copy write Ms. L. I. Wright, American Credit Insurance Co., 300 St. Paul Place, Baltimore, Md. 21202.

• **House-T-Mater** is an "insurance to value program for residential property. It was developed to provide a means of determining the current replacement cost of dwellings of any age. For a free descriptive brochure from Automated Appraisal Systems, write Automated Appraisal Systems, P.O. Box 3015, West Glen Station, Peoria, Il. 61614.

• The National Fire Protection Assn. has collected a series of reprints from Fire Journal and Fire Technology dealing with **Fires in High-Rise Buildings.** The 120-page illustrated book gives case studies of several fires, as well as



technical articles on sprinkler systems and other safety features. Copies are $4.75. Use order number SPP-25. To order, write to the National Fire Protection Assn., Publications Sales Dept., 470 Atlantic Ave., Boston, Ma. 02210.

• Rimco Inc. is offering a booklet on **Claims Review and Service Analysis.** It details what Rimco looks for when making an audit of the claims function of an insurance company. Among the objectives of such an audit: To use in bidding insurance—compilation of loss data and analysis of claims—open and closed; verification of experience rating; verification of retro and dividend rating; avoid excess reserves being established by the carrier; obtain true loss picture; and determine if the insurer is properly handling claims. For a free copy, write to Rimco Inc., 10300 North Central Expressway, Suite 150, Dallas, Tx. 75231.

• The Ansul Co. is offering a brochure which describes the **Ansul R-101 Fire Control Systems** for restaurant hood and duct fire protection. For a free copy of the brochure write R. D. Evenson, manager, Marketing Communications, The Ansul Co., One Stanton St., Marinette, Wi. 54143.

• Aetna Life & Casualty has released **Aetna's Claim Status Report.** According to the company, the CSR assists insureds who are

interested in loss prevention to identify the source of accidents so they may take corrective action to eliminate claims thus reducing the costs which emanate from such occurrences. For a copy of the report write William F. Madison, Marketing Dept., Aetna Life & Casualty, 151 Farmington Ave., Hartford, Ct. 06115.

• AFIA Worldwide Insurance uncomplicates **Boiler and Machinery Insurance Overseas** in its booklet containing a description of basic conditions necessary in coverage abroad; the coverages available; a comparison of policies admitted, non-admitted and DIC, along with special factors relating to overseas insurance. The booklet also gives information required of the agent or broker. For a copy write Joseph B. Weimert, Vice President, AFIA Worldwide Insurance, 1700 Valley Rd., Wayne, N.J. 07470.

• Fire protection for electric generating plants is described in a brochure from "Automatic" Sprinkler Corp. **Special Hazard Fire Protection-Electric Generating Plants** covers both ordinary and special hazards associated with the turbine/generator, boiler, fuel supply, transformers and other vital plant systems. For a free copy write Manager of Marketing Services, "Automatic" Sprinkler Corp. of America, P.O. Box 180, Cleveland, Oh. 44147.

• The American Appraisal Co. is offering **Continuous Service . . . For Property Control and Current Values,** a description of its ongoing appraisal process. A reproduction of the Insurance Summary Report, which is produced after appraisal is made, is also included. For a free copy write E. J. Francione, American Appraisal Co. Inc., 525 E. Michigan St., Milwaukee, Wi. 53201.

• National Union Fire Insurance Co. is offering a brochure on fiduciary liability insurance called **You Asked for It.** Designed for attorneys and accountants who act as fiduciaries, a free copy is available by writing to Product Info, Corporate Communications, American International Cos., 102 Maiden Lane, New York, N.Y. 10005.

• **National Health Insurance Proposals** is an analysis of current legislation before the Congress prepared by specialists from academia and the fields of law and government. Published by the American Enterprise Institute for Public Policy Research, the analysis presents summaries of the bills and explanations of the proposals and issues. Copies are $2.00 each; write to the institute at 1150 17th St., N.W., Washington, D.C. 20036.

• American Insurance Assn. has released an employe-oriented pamphlet with on-the-job fire prevention tips, titled **No Work Till Further Notice Because of Fire.** It contains a number of dos and don'ts that includes the proper way to handle overheated machinery and oil-soaked rags. The pamphlet is available to *Business Insurance* readers in quantities of 100 for $2 or 1,000 for $15 from the American Insurance Assn., 85 John St., New York, N.Y. 10038.

• **Dependent Life** is a brochure published by Teledyne Life Insurance Co. which explains how employes can participate in this program on an employe-pay-all voluntary basis via payroll deduction, paying $3.50 monthly for $10,000 decreasing term insurance for a spouse with $2,000 level term on eligible children, with a no-cost conversion plan if the employe leaves the job. For a copy write Arthur Severe, Teledyne Life Insurance Co., 1901 Avenue of the Stars, Los Angeles, Ca. 90067.

• **The RADA Advantage in Terminal Funding,** published by Small, Parker, Ackerman, Blossom Inc., offers a description of the computerized market search made of group immediate annuity contracts to obtain the most favorable purchase rates at normal and early retirement for participants under profit sharing and pension plans. For a free copy, write Small, Parker, Ackerman, Blossom Inc., 1201 North St., Peoria, Il. 61606.

• Sta-Put Enterprises Inc., maker of **Sta-Put Wheel Chocks,** is offering a brochure on its OSHA-approved product. The chocks are designed also to meet Department of Transportation requirements. For a free copy write M.L. Vigilante, general manager, Sta-Put Enterprises Inc., 201 Willow St., Masspequa Park, N.Y. 11762.

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Info for Buyers issue

If you have not yet submitted data or literature for publication in Jan. 12, 1976 Info for Buyers Issue, please return the coupon below for forms and instructions. All material for publication must be in the hands of the editors no later than Dec. 1, 1975.

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THE ANNUAL INFO for Buyers issue of *Business Insurance* is scheduled for Jan. 12, 1976. In this issue, the editors provide hundreds of informative items about publications and pamphlets available from insurance companies, brokerage firms and service suppliers about topics of interest to risk and insurance managers and financial executives planning for contingencies.

The 1974 Info for Buyers issue carried over 200 items of information, which pulled an impressive 25,414 responses from readers requesting copies of the available brochures.

All material relating to planning, funding, controlling, monitoring or prevention of risks and losses must be in the hands of the magazine's editors no later than Dec. 1, 1975. Acceptable material for the Info issue include a variety of commercial property and liability categories, as well as employe benefits classifications. ■

Business Insurance book review

ESOPs fable: Not always happy ending

By RICHARD FRYE

DESPITE THE HEARTY endorsements of such luminaries as Louis O. Kelso and Senator Russell Long, (D-La.), Employe Stock Ownership Plans, called ESOPs, do have their detractors.

Among them is Triad Financial Reports, a Portland, Ore., financial publisher who has issued a report listing the shortcomings of ESOPs.

In six brief chapters, the $10, 30-page report, produced on typing paper in the multilith process, warns against the use of ESOPs.

The major danger of ESOPs is that they dilute the ownership of older stockholders, reduce their earnings, and can't possibly be expected to generate enough additional revenue to justify the tax advantage, according to the report.

This occurs whether the ESOP is converted from a profit-sharing plan, started as a new entity, or used as a vehicle to borrow money or for acquisitions. Each of these subjects is treated separately in a ESOP method to conventional chapter of the report, complete with charts which compare the borrowing, using a hypothetical company.

"Thus by purchasing through the ESOP, the company's cash position is better, but the position of the remaining previous owners, net income, earnings as a percent of equity, earnings per share and book value are all impaired, and market value of the stock would likely be impaired as a secondary effect," the report says in the chapter on new ESOPs.

In addition, the report faults ESOPs as giving ownership to workers because, ". . . the stock held by the ESOP on behalf of the participants affords them no control, since it is voted by a committee appointed by the board of directors."

Fluctuations in the stock market are more likely to have adverse effects on employe productivity than the gains that can be generated by the ownership element of the ESOP, the report says.

In the chapter on borrowing through an ESOP, the report enumerates the same criticisms of the ESOP as it does when discussing forming a new ESOP.

Using a hypothetical firm example, the report says, "At the outset of the loan period, the previous owners' position would thus have been reduced from one of 100% to one of 90.9% ownership.

"In summary," the chapter concludes, "the claim that you can borrow through an ESOP and repay the loan in tax-deductible dollars is true only in the narrowest literal sense."

An additional chapter raises nearly identical objections to the use of ESOPs to finance acquisitions. ■

Mr. Frye is associate editor of Pensions & Investments, this magazine's sister publication.

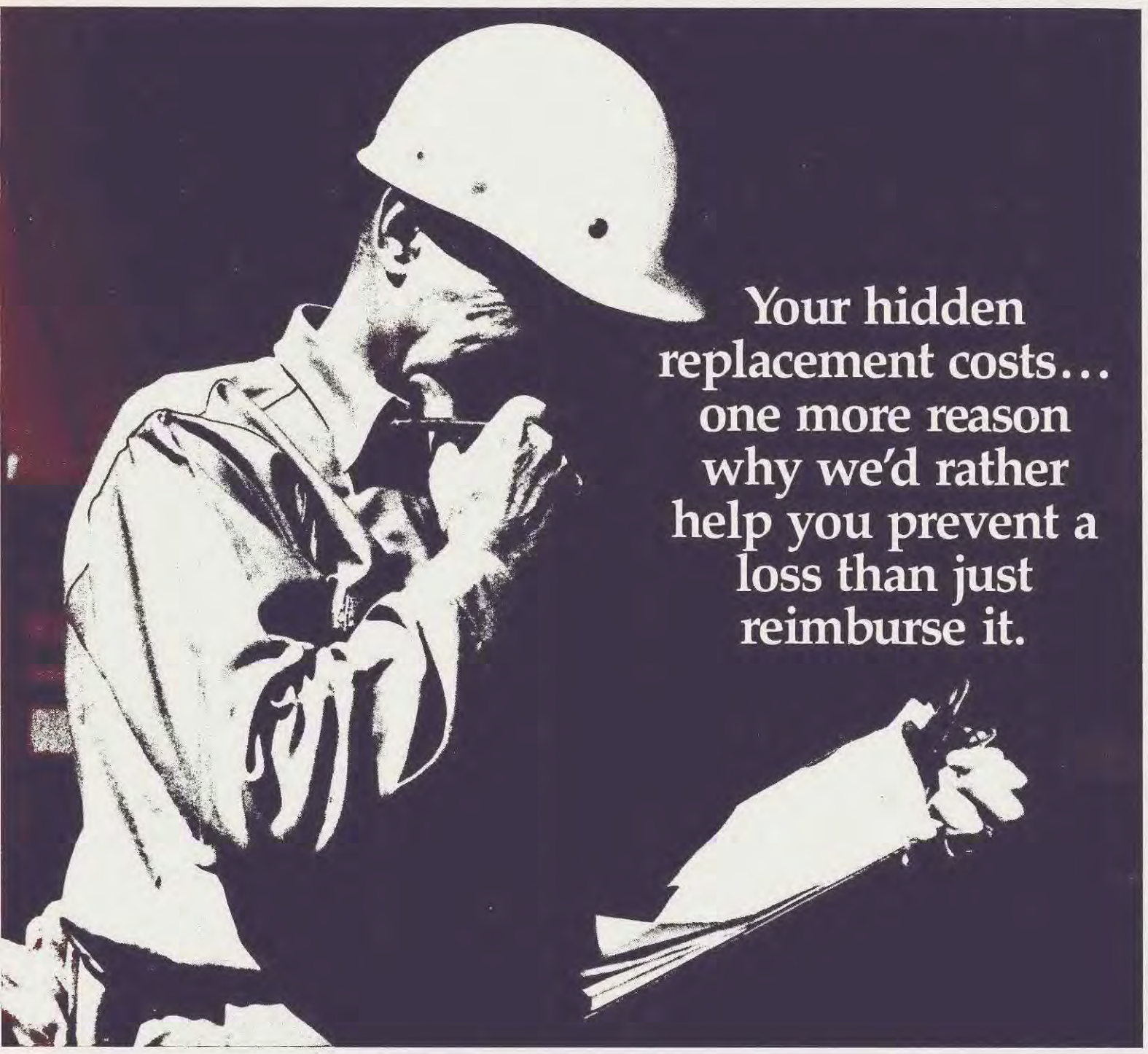
FAIR is broadened

FAIR plans in Massachusetts and Rhode Island now offer an insurance package that includes crime and liability coverage as well as the normal fire protection and that drew compliments from Acting Federal Insurance Administrator J. Robert Hunter this month.

He noted that 26 other states with FAIR plans serving customers who can't get insurance in the voluntary market offer only fire insurance.

The Federal Insurance Administration sells its own crime insurance policy, but Mr. Hunter urged its insureds in the two New England states to look at their local FAIR plan policies.

"The FAIR plan coverage is broader than crime insurance alone," Mr. Hunter told his ininsureds. "Besides, it's always better to comparison shop."



If your plant went up in flames tomorrow, you could be facing a much greater financial crisis than you realize.

Even if you have the most comprehensive replacement insurance program, there's still one cost not covered. You probably won't rebuild your plant the same way as the lost facility. This could mean an investment in excess of recoverable replacement costs.

The hard fact is that against today's economic background a company cannot afford a catastrophic loss which imposes severe and unrecoverable indirect losses.

That's why, before we provide insurance, we'll work closely with you to protect your business against the perils that cause so much unnecessary damage and loss. Our experts can show you how a loss prevention program helps you to protect yourself.

At Philadelphia Manufacturers, we talk more about "protection" than "insurance." For good reason. It's always better for your business to work to prevent a loss, than to simply insure against it and take your chances.

But today, it's more important than ever.

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Mattel D&O payout . . .

Continued from page 1
of the interest.

The Mattel spokesman refused to disclose how the payout by insurers is apportioned among them. But this magazine learned that the entire $6.7 million in cash is being paid by Lloyd's and London companies which subscribed to the policies. A. Lloyd's syndicate named Bland, Payne International is known to have been the lead underwriter on the policies, through Rodney Wace, an individual at Lloyd's.

Lloyd's and the London companies wrote a single D&O policy covering the period March 14, 1970 to March 13, 1973, giving coverage up to $5 million on an annual aggregate basis, confirmed Alfred J. Morgan Jr., attorney with New York-based Bigham, Englar, Jones & Houston, representing Lloyd's. Subsequently, he added, Lloyd's underwrote Mattel's D&O coverage for a reduced primary limit of $2 million March 14, 1973 to June 30, 1973, when the policy was cancelled.

The ISLIC policy up to $3 million was in excess of the Lloyd's cover, and Unigard wrote $5 million coverage excess of those policies. The $7.1 million contribution is being handled solely by excess carriers ISLIC and Unigard, sources said.

"Our position is that we cannot comment until we have been given direction from the U.S. District Court," a Unigard spokesman stated. Unigard became a Mattel D&O insurer through Allen, Miller & Associates, San Francisco.

The Mattel spokesman pointed out that the lawsuit filed by Mattel in 1973 against 23 insurance companies charging failure to pay $8 million of a total $10 million in payments due for business interruption losses is not yet settled. (*BI*, March 26, 1973.) The insurers involved in this suit have nothing to do with the companies involved in the $30 million settlement, he said.

The special counsel who helped write the 300-page report advocated that Mattel sue Arthur Andersen & Co., the firm's outside auditors between 1960 and 1974. Indeed, the report charged that the auditor "did not conduct" the 1971 and 1972 audits in accordance with accepted standards.

Mattel has confirmed that it intends to prosecute claims against Arthur Andersen & Co.

John Hennessy, senior partner at Arthur Andersen told this magazine when contacted in Chicago, that his firm "is covered by a substantial amount of insurance." The coverage has high deductibles, "which were of our choosing," he noted, adding that the insurance is primarily in London but includes some participation by American insurers.

The auditing firm has indicated that it intends to fight any Mattel lawsuit with a counterclaim against the toy company, its officers and directors "since they are responsible for the fraud perpetrated against Arthur Andersen."

The proposed settlement apparently provides that suits which were filed by ISLIC and Unigard some time ago to rescind their D&O policies would be discontinued. ISLIC and Unigard had contended they were entitled to the rescissions because they were not furnished with complete information about the Mattel D&O risks at the time of underwriting.

The settlement also proposes that as part of the discontinuance of the ISLIC and Unigard suits, Mattel will take on the burden of suing Marsh & McLennan, seeking recovery for the benefit of the two excess insurers. Any attempt by Mattel to recover against M&M would be based on allegations of nondisclosure or incomplete disclosure of pertinent information to the insurers at the time the Mattel D&O program was marketed.

Marsh & McLennan president, L. Patton Kline, responded that "this situation is the subject of pending litigation and under those circumstances I cannot comment on the merits of the case." The brokerage firm is being represented in Los Angeles by Alexander, Inman, Kravitz & Tanzer.

Lloyd's and the London markets do not plan any legal actions in the wake of this settlement.

The $30 million settlement which involved the three D&O carriers, has two other portions that do not call for any insurance company participation. They include:

- $10 million of Mattel 10% subordinated debentures.
- 10-year warrants for the purchase of 5 million shares of Mattel common stock at $4 per share. ■

Mattel case doesn't deter Dew on D&O

LESLIE R. DEW, senior deputy chairman of Lloyd's of London and a principal of the Merrett Group, fully intends to continue writing D&O liability insurance, despite whopping settlements by insurers who've provided the policies.

"Of course I do" intend to keep writing the business, Mr. Dew declared emphatically when contacted by phone at his office in London. He confirmed that total losses on business written in recent years will, indeed, be heavy. "If we settle out the larger cases on our books right now, we will have used up all the profit in this business," he stated, relating this comment to the latest Wyatt Co. D&O study projecting a 100% loss ratio for insurers in the field.

The Mattel settlement, if accepted as proposed, "would certainly make a hell of a hole in everybody's pocket," Mr. Dew pronounced. Although Mr. Dew's syndicate at Lloyd's is the leading D&O underwriter in the London market, he said he was not the lead on the Mattel policies written in 1970 through 1973. "I don't know much about this case. We've only got a tiny line (portion) of the coverage, and are not actively engaged in the claim," he explained.

Mr. Dew's willingness to keep writing D&O business is conditional, of course, on his ability to "carry what I believe are adequate premium rates. The indication," he added, "is that the tide is already turning" toward higher rates. "We've renewed some policies in this field plus written some new business at greatly increased rates.

"There has been a decided upturn in rates on the large risks," he said. "I would say 20% to 25% wouldn't be too far off."

Although some London underwriters have pulled back from the D&O market, "there is still a reasonable market for the coverage here," Mr. Dew characterized the environment. Placement of insurance up to, say, $10 million limits or so is still relatively easy, he explained, but this is a change from the days when insurers were "recklessly" writing $20 million-$25 million policies. ■

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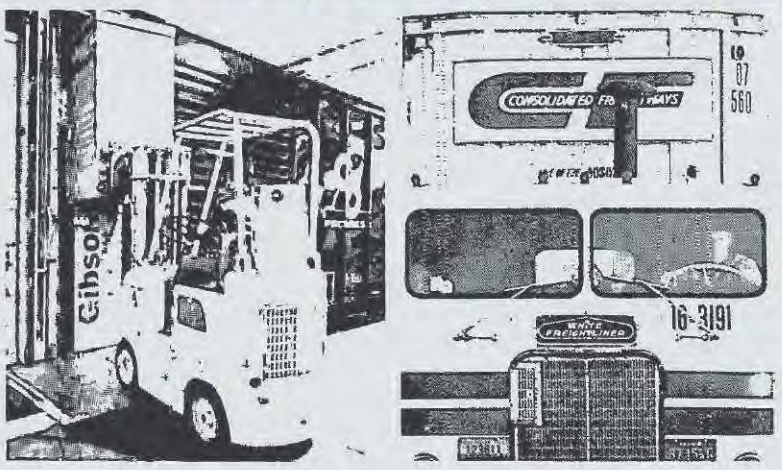
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AT UNITED, PREVENTION PAYS

Controls send freight cargo losses skidding

By SUSAN ALT

CHICAGO—For Waller Smith, cargo and transit risks point more to loss prevention than to insurance. And since 1962, all of his and INA's talents have been put to use preventing air freight cargo losses at United Air Lines Inc.

The record proves the effort worthwhile. Mr. Smith proudly illustrates with colorful anecdotes how bad the problem of cargo losses can be, particularly because airport thievery is now committed by networks of skilled professionals stealing "to order." Theft now accounts for 43% of all air freight cargo losses, compared to 27% from rough handling, 16% from delay, and the rest from miscellaneous causes. This is a radical shift from 1966, when losses were primarily due to rough handling (46%), followed by theft (20%), and delay (12%).

"So the emphasis is now on security," he declares.

Historically, freight cargo transit losses have been about 1.5% to 2% of revenues for the entire freight industry. But Mr. Smith displays graphic charts he prepared for United's top management which portray a record to be proud of: United's freight cargo transit losses in 1975 (fiscal year) were only 0.6% of air freight revenues.

Or, in the vernacular of the air freight industry, United's total air freight loss and damage was an extraordinary 60 cents per $100 cargo value carried.

And that, Mr. Smith is quick to add, pointing to his charts again, is the lowest loss figure since 1954 when the company recorded loss and damage of only 54 cents per $100 in cargo carried. Furthermore, it is down from over $1 per $100 last year.

"In 1953 we were better than anybody else in the industry, but by 1962 we were the worst in the industry" on loss and damage payouts, said Mr. Smith. In 10 years, the figure leaped nearly threefold to $1.46 per $100. "In 1962 we started the loss prevention program and by 1965 we were the best in the industry again."

In the 10 years from 1965 to 1975, United has been best or second-best in the domestic air freight industry each year with its low cargo loss results, Mr. Smith believes. (Flying Tiger, a specialist in air freight, is very adept at holding cargo losses in check and is United's "competitor" for first place in cargo loss prevention.)

For all the emphasis United puts on cargo risk control, the air freight operation and the effort spent on protecting cargoes is secondary to passenger-carrying operations and efforts to protect people. In terms of where United's airline revenues come from, people rank first, mail second, express third, and freight cargo at the bottom of the ladder. United, which will have about $2 billion revenues this year, derives only about $160 million from air freight.

On the other hand, though, United operates its own fleet of eight air freighters. And the 747s and DC10s in United's passenger fleet have increased tremendously the airline's freight capacity. Thus, the exposures to freight losses are not insignificant, and are getting larger, especially on a per shipment basis.

The growing exposures coupled with worsening losses in the '60s prompted Mr. Smith to begin working with INA on loss prevention for his cargo transit program. INA had been United's insurer for some years, and Mr. Smith commends the insurer for "putting together a United-trained team of cargo loss prevention experts second to none. We insist that our insurers allocate people to United who handle engineering projects for our regions. We do this in our other three safety and loss prevention programs, too," said Mr. Smith.

(In other words, FIA assigns personnel to work solely on United's fire protection engineering, and Hartford Accident & Indemnity assigns personnel to handle industrial safety and premises safety engineering services for United.)

The way this works is that INA assigns a United account executive to handle the total cargo account, including loss prevention engineering efforts. Under his are four engineers used almost exclusively by United.

The insurer benefits from this arrangement, too. The reason: It was when insured claims started going wild in the early 1960s, zooming from about $270,000 a year to some $400,000 a year in one 12-month period, when United and INA decided something had to be done.

"Today we're at about $1 million a year cargo losses, compared with about $1.6 million last year (1974) and about $1.5 million the year before," noted Mr. Smith.

Waller Smith credits United's top management with the improvement. About two years ago, he recalls, the company's general manager set very stringent safety standards and controls for the

Continued on page 14



Daytime movement of freight is a feature of United's cargo service.

TRUCKER PAYS OWN LOSSES

Calls $1 million retention a 'good move'

By JOANNE GAMLIN

PORTLAND, OR.—The Consolidated Freightways trucking group adopted a $1 million self-retention for casualty coverage in 1972. And John C. Miller, vp for insurance and claims for the corporation, thinks the move, unusual for the trucking industry, is one of the smartest his organization has ever made.

Mr. Miller said the change to a $1 million retention was made after Lloyd's, the long-time casualty underwriter for his company's truck lines unit, stepped forward three years ago with a dazzling premium increase.

Until that time, the coverage, which includes workers' compensation, cargo and third party liability and collision, had been insured with a much smaller policy from Lloyd's.

"But when London came forward with a huge premium hike in the policy's first layer which covered losses of $100,000 to $1 million, we decided to investigate other options," Mr. Miller told *Business Insurance*. His staff is housed with the accounting department here which serves both Consolidated Freightways, San Francisco, the parent holding company, and Consolidated Freightways, Menlo Park, the trucking line subsidiary.

Once presented with Lloyd's demands, the executive said his staff went to work setting up a hypothetical "worst" case in which the group's then-current three-year casualty loss experience, extending from 1969 to 1972, was doubled.

What the team discovered was the new premium requested by London was equivalent to a 100% increase in this factor—it was equal to 2½ times that factor.

So a decision was made to retain the first $1 million.

With that decision, Mr. Miller's group took on the characteristics of a small insurance company. The interest earned on the dollars retained can amount to as much as $500,000 annually, he noted. All in all, he said his group pays out approximately $25 million a year in losses.

"My only real insurance problem is to negotiate the excess policy," he went on, adding he believes that London had gotten hurt and was compelled to boost rates across the board.

The excess policy he negotiated with Lloyd's also boasts a peculiar twist, however. It contains an indemnification agreement stipulating that Consolidated Freightways do all the initial handling of loss claims in the excess area. "We do the whole thing," elaborated Mr. Miller. "My group administers and supervises all losses from the time they occur until the books on them are closed."

He said that it is for this reason that the 65 claims employes make it their job to maximize claims loss administration.

To do this, he said his group set up a casualty unit whose job it is to evaluate accidents within 30 minutes of their occurrence and to pay off claims within 24 hours or less. A second unit was formed to prevent claims in the first place. He said it attempts to temper the heavy cargo loss load with procedures for safe loading and unloading at terminals and docks.

Cargo liability spawns the most claims under the casualty policy: about 8,000 a month, Mr. Miller added that inflation has made its presence felt in the cargo liability area by kicking up the cost of meeting these claims.

Nevertheless, the dual efforts of speeding up claims handling and blocking their incidence in the first round has actually reduced losses in the casualty area, Mr. Miller reckons. He said he figures motor losses at 50 cents per $1,000 of revenue. Cargo losses are much higher; he said they run about 1.5% per $100.

The $1 million self-retention and the indemnification agreement for the excess levels are not secrets which are kept in the closet at Consolidated Freightways. Quite to the contrary, Mr. Miller indicated he never missed an opportunity to drive home the message that it is the company itself which foots the initial bill for any loss, large or small.

"Before we set up the $1 million retention our executives expressed the commonplace attitude that 'it's alright, the insurance company will pay'," he said. The hard fact that it is the company that pays has caused them to be more prudent and cautious, he believes.

Mr. Miller's staff, of course, is not confined to overseeing the $1 million self-retention in casualty, including workers' compensation which has been self-insured in 26 states for many years.

Their prime job is to administer the entire corporate insurance program, including employe benefits. The medical/dental aspects are also self-insured.

Now that the casualty program is operating smoothly, Mr. Miller has turned his attention these days to the products liability coverage for the tractors manufactured by the Freightliner Corp., another wholly-owned subsidiary of Consolidated Freightways.

Observing that he concurs with those who ominously forecast that this coverage will follow the course blazed by medical malpractice, Mr. Miller acknowledged that the policy, supplied by The Home Insurance Co., may have to be replaced with self-retention and Consolidated Freightways' first captive. ■

United Airlines . . .

Continued from page 13

prevention of losses. Everybody in the company was told performance would be judged by these standards. "INA also knew that they were going to be judged this way, and would have to work hard to keep our business," Mr. Smith added, "since they were being paid a rather handsome fee for loss prevention engineering." In short, results had to be visible.

United negotiates with INA on its fee, a combination payment for claims services, loss prevention engineering, and risk assumption cost. Mr. Smith declined to disclose the amount of the fee, but said that as a portion of cargo carried, it would amount to approximately 15 cents to 20 cents per $100 value of cargo.

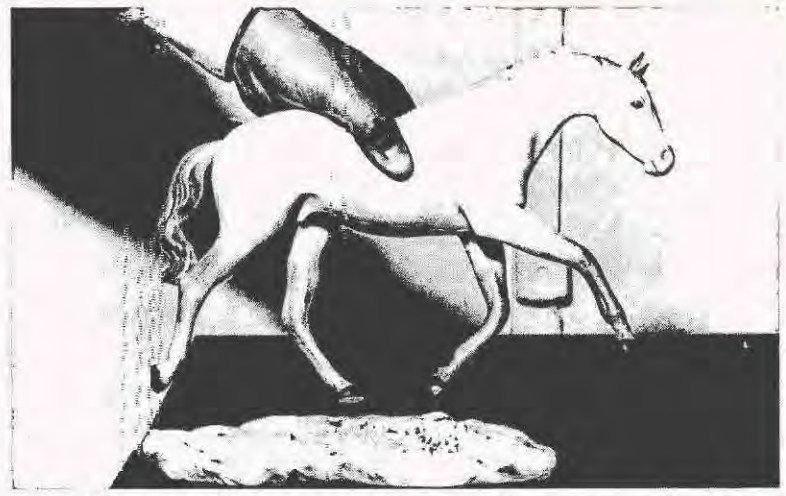
United self-insures nearly all of its transit exposure with a $2,500 per claim and blanket $25,000 per occurrence deductible. "About 99 and 44 one-hundredths percent of claims and at least 95% of the dollars lost are covered by the deductibles," said Mr. Smith.

A cargo transit policy then covers losses up to $4 million, and umbrella liability policies with Lloyd's and USAIG pick up over that. The top insured limit for cargo legal liability is a staggering $200 million.

United has never had a cargo claim big enough to get into the excess coverage, but as Mr. Smith explained, "it is a theoretical exposure that we have to consider." The biggest claim ever paid in the cargo realm was $60,000 for diamonds stolen somewhere between the Orient and New York. "We know they were on the plane when it landed in New York, but then they just evaporated," he recalls.

The biggest potential claim came when United was sued for $1.5 million for not delivering a race horse to Chicago's suburban Arlington Park race track on time. The filly missed a championship race. But United successfully defended itself: It was the owner's fault for not making proper loading arrangments for the horse in Denver, thereby causing the delay himself.

"Ever since 1965 there's been a lot of silver money moving around," related Mr. Smith. What can happen with silver coins is that cheaper alloy coins can be substituted for bags of silver coins en route. Or, in some cases if the money is going from Philadelphia to Las Vegas, an impersonator will pick up the coins at the airport on the other end. If, say, 10 bags of coins are involved, a shipment could be worth up to $100,000.



When this porcelain horse arrived separated from its base, United Airlines became the statue's proud owner, at a cost of $1,000.

But United has tightened up on methods of handling these valuable shipments. There will in most cases be required hand-to-hand person-to-person delivery along the way, with careful documentation at each transfer point, concluded by an immediate pick-up of goods at the receiving airport.

A person or company shipping goods by airline has three options under the airline's liability rules: Accept the first option of $500 or 50 cents per pound maximum airline liability for goods shipped (whichever is greater) depending on the weight shown on the airbill, in the absence of any other provisions.

Or a shipper can choose to pay 10 cents per $100 excess valuation in order to increase the airline's limit of liability to whatever value is declared up to about $1 million or more. But the shipper still must prove a loss and prove the value of the goods lost, in the event of a claim, of course.

Under the third option, shippers interest insurance can be purchased from United. This is basically a floater policy which provides compensation for loss or damage regardless of airline negligence. It costs anywhere from 25 cents to $2 per $1,000 value.

The third option is very seldom used, said Mr. Smith. The first option is used most commonly by commercial shippers, who figure they can purchase blanket insurance cheaper themselves. The third option is sometimes used by one-time and individual shippers, except for florists who use it extensively.

It is attractive to commercial florists because of the perishability of their goods. For florists, the cost of this coverage through the airline is lower than it would be in another market. "We subsidize this because it's cheaper to do it that way than to pay our share of the legal liability," said Mr. Smith.

United's cargoes include such delicate and diminutive objects as china statuary which present real problems for Mr. Smith. He tries to see that very valuable objects are hand-carried, but this effort sometimes falls short. When a porcelain statue of a horse recently went by air cross-country, it cost United $1,000 (the wholesale price) when the statue arrived separated from its base. "We pay this as if it's a total loss, because the salvage value on something like this is very low," Mr. Smith said. He noted another recent payment of $2,500 for a pair of porcelain ducks chipped in transit despite careful packaging and handling.

"I hate to tell you how many Boehm birds we buy each year," Mr. Smith bemoaned. "They are so delicate and fragile." The Boehm statues are produced in New Jersey and shipped to retail stores around the country, but not without some breakage en route. United "buys" three or four Boehm pieces each year, sometimes costing up to $3,500 wholesale for a single treeful of birds. ■

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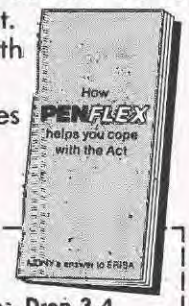
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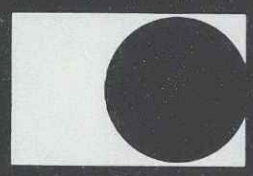
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United Airlines and INA keep flying close formation on cargo loss control

UNITED AIRLINES follows a basic three-step procedure for working with INA's loss prevention specialists, to plan, implement and control the United loss-cutting efforts.

Waller Smith, United's director of insurance, says his staff (which includes one person who functions as a loss prevention specialist) meets with INA twice a year, to mutually agree on priorities for the months ahead. At the meetings, objectives are set. This might include, for example agreeing to work on establishing a program to inspect all containers, and invest in more sealable containers of molded plastic. "That program involved an inspection responsibility for INA and a budget commitment on our part," explains Mr. Smith.

The second step is to make the requisite number of inspections at each station throughout the year, discussing local conditions, and problems with local managers and offering solutions to local difficulties which can be handled locally.

The third step in the United-INA plan involves INA recommendations to solve problems which for some reason can't be handled locally. Those recommendations are passed on to Mr. Smith, who then approaches the operating managers at United for approval of solutions and for budget commitments if spending is required.

INA engineers work closely with United's security department, part of the law division. United security people are not concerned with cargo damage, but "they're right in there when we're talking about theft losses," says Mr. Smith, who credits the United security people with being "really top flight."

United had a big hand in cutting cargo theft losses at Chicago's O'Hare International Airport, the world's busiest, where United often has millions of dollars of goods coming and going at any one time. INA's loss prevention engineers make four annual scheduled visits to United's facilities at O'Hare, says Mr. Smith. He describes the security situation at O'Hare as "beautiful" when compared to a well-known East Coast airport. "O'Hare is really not bad at all in terms of security or losses," despite some recent publicity to the contrary, he declares.

A visitor to United's O'Hare terminal encounters the tightest imaginable security. An armed guard is at the entrance gate, and tv surveillance cameras are everywhere, outside and in. The cargo lockup area of the terminal appears impregnable.

Mr. Smith estimates United has invested close to $1 million in security at O'Hare alone over the last 10 years. The dollars invested, of course, are allocated to various operating divisions; they are not part of the insurance department's budget per se. But they serve to keep United's risks insurable.

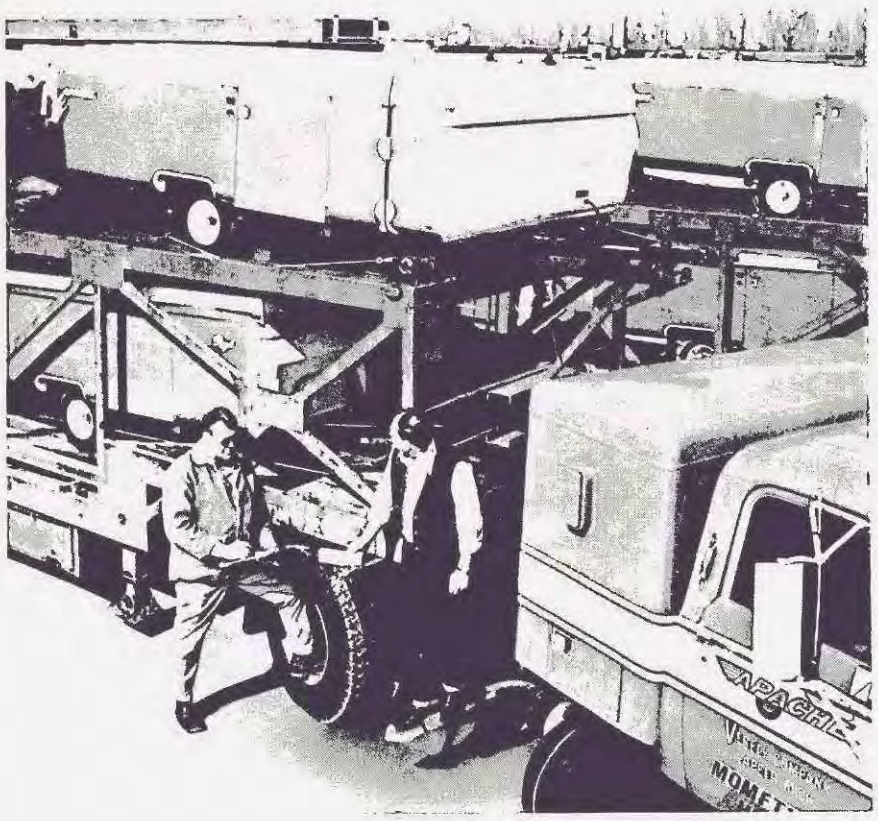
Mr. Smith can cite a "cost differential" for United of about $5 million in savings growing out of its effort on cargo security. But this figure would represent only the difference between historical cargo losses for the industry if United had had "average" losses, and the low losses actually recorded by United over the years as a result of loss prevention.

"And we haven't invested anywhere near $5 million in preventing those losses, so I could say we've made money on the deal," he notes. He much prefers, however, to relate United's efforts to the goodwill that's been generated for the company.

"When I say we reduced claims by 40% or $600,000 last year, what I'm really saying is that we had 6,000 United customers who were happy because their goods were delivered in proper condition.

"That's why we're the biggest. We've made money doing what's right," Mr. Smith believes. ■

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Home Insurance Companies

No movers compensate for total loss

LOS ANGELES—Families choosing mobility in this "nation of strangers" and the companies moving them face a nasty shock if there is a total loss, says Howard Hancock, president, Fire Underwriters Assn.

He pointed out that a shipper or family that moves has two choices—both mandated by the Interstate Commerce Commission—if he decides to insure his household goods against total loss.

The choice is to either insure his belongings at a release valuation rate of 60 cents a pound per article or at a higher, declared valuation rate of $1.25 a pound per article. However, if the damage is less than total, the shipper is reimbursed at 100% of the value of the lost item.

The problem is, said Mr. Hancock, that either way, the premium is sadly below what is realistically needed if the shipper is to have the funds to replace his destroyed goods in the 1975 marketplace.

"The moving industry has determined that the value of household goods is closer to $1.90 to $2.00 per pound per article," he continued.

While the shipper obviously confronts a bad surprise in the event of a total loss, the common carrier isn't much better off, Mr. Hancock contends. He said that movers hate such occurrences because of the unpleasant customer relations and bad images they spawn.

However, he noted that insurance companies also are uncomfortable with the inadequate rates. "The problem is that there are not enough premium dollars generated under the common carrier legal liability to pay for the full loss on individual items and to have money left over for the occasional total loss," he elaborated.

Mr. Hancock noted that the problem of inadequate coverage for the shipper is exacerbated by the fact that most people opt for the lower 60 cents a pound per article rate.

The Fire Underwriters Assn. is part of the Fire Insurance Exchange, which is a unit of the Farmers Insurance Group. ■

Corroon & Black buys

Corroon & Black Corp., New York, acquired Donkle's Insurance Agency Inc. in Ft. Atkinson, Wi. The agency will continue to operate under the Donkle name as a wholly owned subsidiary of Carney-Rutter-Roberts Co., which is a subsidiary of Corroon & Black.

"We were discussing ways to prevent losses and someone asked if our insurance company belongs to the Factory Mutual System."



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Eastern Airlines . . .

Continued from page 1

"The expense of the program, surprisingly, has not been that bad. For one thing, we're getting 50% participation by the foreign underwriters and by Henri Jean. It comes out of Henri Jean's commissions and out of the premiums Eastern pays the underwriters," Mr. Parrett said.

The insurance director explained that the policy, which has a $5 million limit, features an aggregate deductible of only $300,000.

Above the $5 million limit, excess hull and liability insurance is split among London, Associated Aviation Underwriters, United States Aircraft Insurance Group and the Continental Group.

"We felt that with a deductible that size, the underwriters have a vested interest in seeing that Eastern's losses do not exceed that amount. It was an incentive to them, and would help me to get what I wanted—an expert to come in and actually participate in the loss control program."

And with Mr. Dunlap's constant surveillance (he is on 24-hour call if any cargo problems arise), the number of claims has been steadily dropping.

Based on annualized figures Mr. Parrett had in late October, there was an 18.4% decrease in claims filed in 1975 for 1974 losses. That represents some $500,000 in savings for Eastern in 1974 over 1973, when the London insurance was in force, he said.

When Mr. Parrett got the green light from Henri Jean in 1973 and he knew the underwriters would come into the program, he got busy with his 15-member New York staff (there are also 15 in Miami) to completely revise Eastern's operating procedures for high value cargo control.

Richard Parrett's and Jim Dunlap's offices in New York are relatively close, with Eastern installed on Rockefeller Plaza and Ocean-Air Cargo Claims' office downtown on John Street. The two men can get together easily to confer on problems, and they've made themselves interchangably available to Eastern stations having cargo problems.

Under Mr. Parrett's new procedures, every shipment worth $25,000 and over has to be okayed for clearance before it is packed and shipped from any of Eastern's more than 100 departure points.

When a station receives a valuable shipment, like a cargo of gold and silver bars it handled recently, it has to call either Mr. Parrett or Mr. Dunlop immediately to describe the shipment and how it is packed.

If it is extremely valuable, the Eastern team will set up a security program, and dispatch guards to protect the cargo while it is loaded. Sometimes, Jim Dunlop will fly out immediately to inspect the situation first hand.



High-density cargo containers are loaded aboard an Eastern airplane.

He did this for a shipment of gold and silver bars, which was valued at $30,000, for instance. He found out from San Juan during the clearance call that the precious metals were wrapped in made-up wooden boxes tied with string and in cardboard cartons.

He ordered the bars put under immediate security in a warehouse, and then flew out right away to supervise the actual packaging of the materials into containers before he allowed them to be put in the plane.

If a loss does somehow occur, the Eastern people notify Mr. Dunlop directly, and he immediately sends a surveyor or goes himself to investigate the loss and make a report.

On all claims in excess of $1,000, Mr. Dunlop gets involved in the adjustment process as well. He pays particular attention to the air tariff laws and sees that they are followed to the letter. He also works closely with a staff of about five Eastern claims experts in Miami, Mr. Parrett said.

It's the immediate attention to detail under the new cargo program that Mr. Parrett finds the most worthwhile technique.

"My people are on call 24 hours a day. This weekend alone I got three calls at home, one of them at two in the morning," Mr. Parrett remarked in late October.

Mr. Dunlop, when contacted at his Ocean-Air office at about that same time, announced that he was about to fly to San Juan to investigate a claim that had just been called in to Eastern.

But the Eastern director of insurance doesn't mind the constant calls. "This is something we accept because it is extremely worthwhile," he said.

"On the high value cargoes we ship, like pharmaceutical equipment, electrical components, jewelry and other personal effects, these procedures have really cut back on serious losses.

"If other airlines would latch onto a system like this, maybe they could change their procedures and get better results, too. As far as money is concerned, airlines now probably spend more on insurance than any other industry."

Mr. Parrett noted that in mid-October when Eastern was in negotiation for policy renewals with both Pacific Employers Group and J. Haenecour & Co., all the American insurance companies that turned him down in 1973 were very anxious to bid on Eastern's new program.

This time, though, Mr. Parrett didn't need their help. At the end of October, Eastern succeeded in winning renewal contracts from the Belgian underwriters with whom Eastern began its improved cargo coverage program. ■

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1828 woodblock print "Namiura" by Hokusai

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When it comes to insurance, come to the leader.

Marsh & McLennan

Bekins' broker goes after moving-storage clients

By ELISABETH M. WECHSLER

LOS ANGELES—A captive insurance agency set up two years ago to service The Bekins Co. now derives about half its $3.5 million-plus annual premiums from brokering non-parent company risks.

James M. McElwee, vp of Adams, Clay Insurance Brokerage Co., said the firm, established as an offshoot of Bekins' risk management department, is aggressively seeking outside business in several forms. Like its parent holding company, the brokerage firm, is concentrating on moving and storage-related business.

It has received a nod from the General Services Administration (GSA) to begin offering insurance on goods moved by government civilian employes, representing a "considerable" market of at least 40,000 moves a year. The average premium charged civilian employes will be $55 for a declared value of up to $100,000 per shipment.

Mr. McElwee claims his firm's rates are 20% to 30% lower than those charged by van line companies to individual customers. He conservatively estimates initial net annual revenues of $200,000 when operations get underway next year. He emphasized that the GSA doesn't "endorse" the program; however, no other agency bid on the business because the broker presented the idea to the GSA.

Another package, offered for one year, provides insurance coverage direct to corporations who transfer personnel to other locales. The firm claims to charge 20% less than what other van line companies charge. Mr. McElwee views this market as having "the equivalent profit potential" as the government program.

Adams, Clay is broker of record for the American Assn. of Independent Warehousemen, which has a membership of some 500 moving and storage firms. Coverage is presently written for 150 members "at 20% to 30% lower premiums than those charged by the rest of the industry," Mr. McElwee claims.

Adams, Clay concentrates on local, intrastate companies because it believes "local insurance agents can't service this need as well." He estimates 55,000 claims will be processed this year for the association through the broker's seven district claims offices.

Mr. McElwee believes quick processing of claims is an effective cost control device and has considered making the Consumer Claims Agency subsidiary a separate profit center. An average of 18 days is required to process a claim at his agency, compared with an average of 42 days for the industry, he pointed out. Physically removing the claims handling function from brokerage considerations while it was still part of Bekins' risk management department was important to Mr. McElwee because he saw it "as a conflict of interest."

The components of the broker's business package for mover's and warehouseman's risks include workers' compensation, fire and extended coverage, auto liability and physical damage, comprehensive general liability and a business umbrella, he said.

But the coverage specifically tailored to moving and storage risks makes the package unique. This part of the policy covers insurance on goods in transit and in storage as well as legal liability

FOCUS on CARGO
ocean/inland

for uninsured goods in transit and in storage.

Statutory limits of liability vary from state to state and can range from 10 cents to 60 cents a pound for uninsured goods moved inside state lines. For interstate moves, the Interstate Commerce Commission sets movers' liability for uninsured goods at 60 cents per pound per item, and then only if the shipper specifically agrees to have the goods moved without declaring any value.

If the shipper doesn't specify either insured or uninsured, then the van line company automatically must insure the goods at $1.25 a pound to obtain the limits on the value, he explained.

Interstate van lines are usually self-insured, he said, in the sense that they generally buy excess coverage and pay claims direct below that amount, he said. They usually purchase a comprehensive insurance policy to cover physical damage, cargo damage and liability.

The 10 largest van line companies have deductibles ranging from $10,000 to $100,000 per occurrence, with an average deductible of $25,000, Mr. McElwee said.

The biggest underwriters for local moving and storage company risks are The Home Insurance, Fireman's Fund and Farmers Insurance Group.

Underwriters for interstate van lines do not comprise such a specialized list. The coverage is handled as a special account by many insurance companies, said a source polled by *Business Insurance*.

Transport Indemnity Co., based here, writes most of Bekins' coverage, Mr. McElwee pointed out.

"Any change in the insurance market for movers is reflected in the overall market," said M. Lavern Shrader, brokerage manager for Adams, Clay. "The insurers are making sure the risks they write are good and they're getting proper premiums. If an operation isn't run up to our standard, then we'll tell the client how to correct the problem," he added.

Adams, Clay provides information on the proper handling of furniture and on driver safety programs, Mr. Shrader said, but the firm does not engage in actual loss prevention or engineering consulting.

Insurance needs for The Bekins Co. include 65 owned offices and over 200 warehouses nationwide. Adams, Clay handles all insurance, self-insurance and loss prevention programs for the holding company, which is the fifth largest interstate mover in the world.

Only one Bekins subsidiary—Bekins Building Maintenance Co., which contracts janitorial services—is outside the moving and storage related field. ■

Brokers for British plan

Albert H. Wohlers & Co., Park Ridge, Il. completed negotiations in October to provide a new supplemental health plan for the National Union of Teachers, the 10th largest union in Great Britain. The plan, underwritten by the English subsidiary of CNA Insurance—Continental Casualty Co. Ltd. will cover 300,000 teachers



AOA still says Thank You to Agents

"Just last June, I joined the AOA team of aviation insurance underwriters and was astounded to find that these men and women of a company the size of AOA still doggedly held to the philosophy that they are the ones who are supposed to say 'Thank You.'

'Thank you, Agents, for the opportunity to serve you.

'Thank you for the opportunity to be sympathetic with your problems.

'Thank you for the opportunity to be responsive.

'Thank you for your business!'

"And they really mean it.

"It's rare to see a group of people so aware of the two way street, so willing to be leaned on to make the agency system work.

"Obviously, I'm very glad to be working with this professional group of underwriters who are aggressively sure of the way things ought to be in the aviation insurance field.

"Being on the inside looking out now, *I'm sure* this attitude is the key to the AOA success and is what keeps the organization healthy and constantly growing.

"Call me. Call for Tom Bradshaw at AOA on your next aviation coverage and give me the opportunity to say thank you for at least thinking of us."

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ditorial opinions

Worth emulating

THE LARGEST industrial employer in the nation, General Motors Corp., has gotten so riled over the soaring sts of group health insurance it is doing something about em.

General Motors called a special meeting of all its executives who hold public service positions in the health care eld last month after the company was socked with an increase of about 21% in the cost of its employe health insurance.

Effective October 1, the rate increase added about $108 illion to GM's costs, just to cover increased costs and utilition of services under existing benefits.

The rate increase prompted GM to call the meeting of its xecutives who also hold public service positions on hospital oards, Blue Cross-Blue Shield boards and hospital planing agencies across the nation. The message of the meeting, ccording to a GM executive (*Business Insurance*, Nov. 3), as to encourage these executives to become more active trying to keep the lid on the health care price spiral.

The move by this industrial giant is a commendable one. oo often in the health care field the payer has sat complacently by while the payee has stacked rate increase upon ate increase. General Motors, in a way, has gently told ome of its executives to get on the stick and do something bout it with the respective health boards they serve.

Dreadful inefficiencies still exist in the health delivery ystem. It is still not unusual to find two hospitals in the ame community, blocks apart, each installing identical 50,000 pieces of medical diagnostic equipment that will nly be used 50% of the time. Hospital planning boards are esponsible for this, and it is here that General Motors would ke to see the buck stop.

Commendable as it is, the GM move will only have maxium impact if it is emulated by other companies. Employe enefit management executives should get the GM message o their top level executives.

Credible evidence

THE RESULTS of the Wyatt Co.'s third annual survey of directors' and officers' (D&O) liability insurance are n and, alas, we see for the first time some credible statisical evidence that this line of insurance may be paying out n benefits (claims paid) what it is taking in in premiums.

According to the survey, "current loss frequency and severity will result in a 100% loss ratio at current premium evels." The ratio, Wyatt emphasizes, is not an historical ne, but a projection as to what current loss ratios will be. The survey did not have access to reserve figures.

Nonetheless, a 24% response to the questionnaire (1,700 J.S. and Canadian firms responding out of 7,178 queried) loes give the Wyatt organization its best statistical base to vork with to date.

The loss ratio projection is high, according to Wyatt's Warren G. Brockmeier, who conducted the survey, because premiums are "inadequate." However, he adds, some of the price undercutting on the line which had been occurring is now ceasing as these underwriters start moving premiums upward.

The survey, to be certain, is bound to give underwriters a new magazine of ammunition when they approach corporate insureds with premium increases. Some, of course, can take comfort in the fact that they've been paying higher than average premiums for D&O right along, so underwriters may hold the line on these at renewal time.

For the past several years, this magazine has called on underwriters to shed some light on this shadowy line of insurance, which has become all but a must for every public corporation to have in its property/casualty portfolio.

The industry has steadfastly refused, but may now turn to the Wyatt survey and smugly say to its insureds, "We told you so."

Can't really blame them for that, but, as Wyatt has, we would emphasize that the data does not provide an historical loss ratio, only a projection as to what they are now.

D&O has given underwriters some good years. Now they're going to have to play it a little closer to the vest.

A bright spot

LOOKING THROUGH this special emphasis issue on cargo insurance, it's nice to see there's one line of insurance these days where volatility seems to have been reduced to a bare minimum—if it exists at all.

Which is not to say cargo insurance is a pretty dull subject, for it is not. Rather, it's a place for risk management to really shine, and by several accounts in this issue it is indeed.

Take a couple of examples we've dug into for this issue:

Eastern Airlines, not a freight forwarder per se but a mover of people and things, has saved $500,000 by revamping its cargo insurance and loss control program. Belgian underwriters, brokers and a New York claims prevention specialist are involved in the program and it seems to be cutting deeply into those aggravating losses that air carriers seem to suffer regularly.

Then there's Emery Air Freight Corp., which has compiled a rather envious loss ratio by going beyond insurance to back up cargo shipments with a healthy staff of in-house service managers and trained security personnel, as well as a computer system that keeps track of everything the air freight company is called upon to move.

For Emery one interesting little loss control device, which must certainly have benefits in terms of keeping customers happy, is to continually be geared to getting cargo to its destination as quickly as possible. Things that hang around waiting to be delivered, says William Maxwell, Emery's manager of claims and insurance, are more vulnerable to all sorts of losses.

Then there's Consolidated Freightways, the trucking company. Consolidated has adopted a $1 million self-retention casualty program, which is unusual for the trucking industry. John C. Miller, vp for insurance and claims, thinks the move is one of the smartest the company ever made. As Mr. Miller points out, a $1 million deductible certainly makes a company more conscious of loss prevention. And a company with such a consciousness is bound to make its excess carriers rest a little easier.

letters

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

Not available in future

To the Editor: I cannot help but comment on the article appearing on page 39 of the September 22 issue of *Business Insurance* which liberally quotes Mr. Arthur Spiegelman of the American Insurance Assn. regarding loss prevention needs of the industry and how they will be satisfied. I congratulate Mr. Spiegelman for his comments and support his recommendations.

At the same time, I find it a bit unusual that at a time when a major representative of the insurance industry comments so strongly on the increased need for well trained loss prevention personnel, the facts show that the insurance industry is lessening its emphasis on training and acquisition of such people. Evidence of this is the fact that the insurance industry-sponsored scholarship program at Illinois Institute of Technology in Fire Protection & Safety Engineering was terminated three years ago. The last graduates under insurance industry sponsorship will leave IIT next May.

These people, who have made major contributions in loss prevention to the insurance industry, will likely not be available to this industry in the future.

Rolf Jensen, P.E.
President, Rolf Jensen & Assoc., Deerfield, Il.

Sprinkler contractors

To the Editor: In the August 25, 1975 issue of *Business Insurance* there was an article entitled "Fire Protection Services Fall Short On Quality." We were surprised to note that the most logical fire protection consultant was not even considered: the independent automatic sprinkler contractor.

As an automatic sprinkler contractor, we feel that no one, including the professional fire protection consulting firms, are as knowledgeable of new products, new methods and the actual cost of an installation as we are. This is the type of business we offer as a service to our customers even though the ultimate end is to install an automatic sprinkler and/or fire protection system. Secondly, this type of advice and assistance in designing fire protection services most times complements the engineering advice already advanced to risk managers by their own insurance company engineering staffs.

Any owner and/or contractor requiring information regarding cost of installation of different

Continued on page 24

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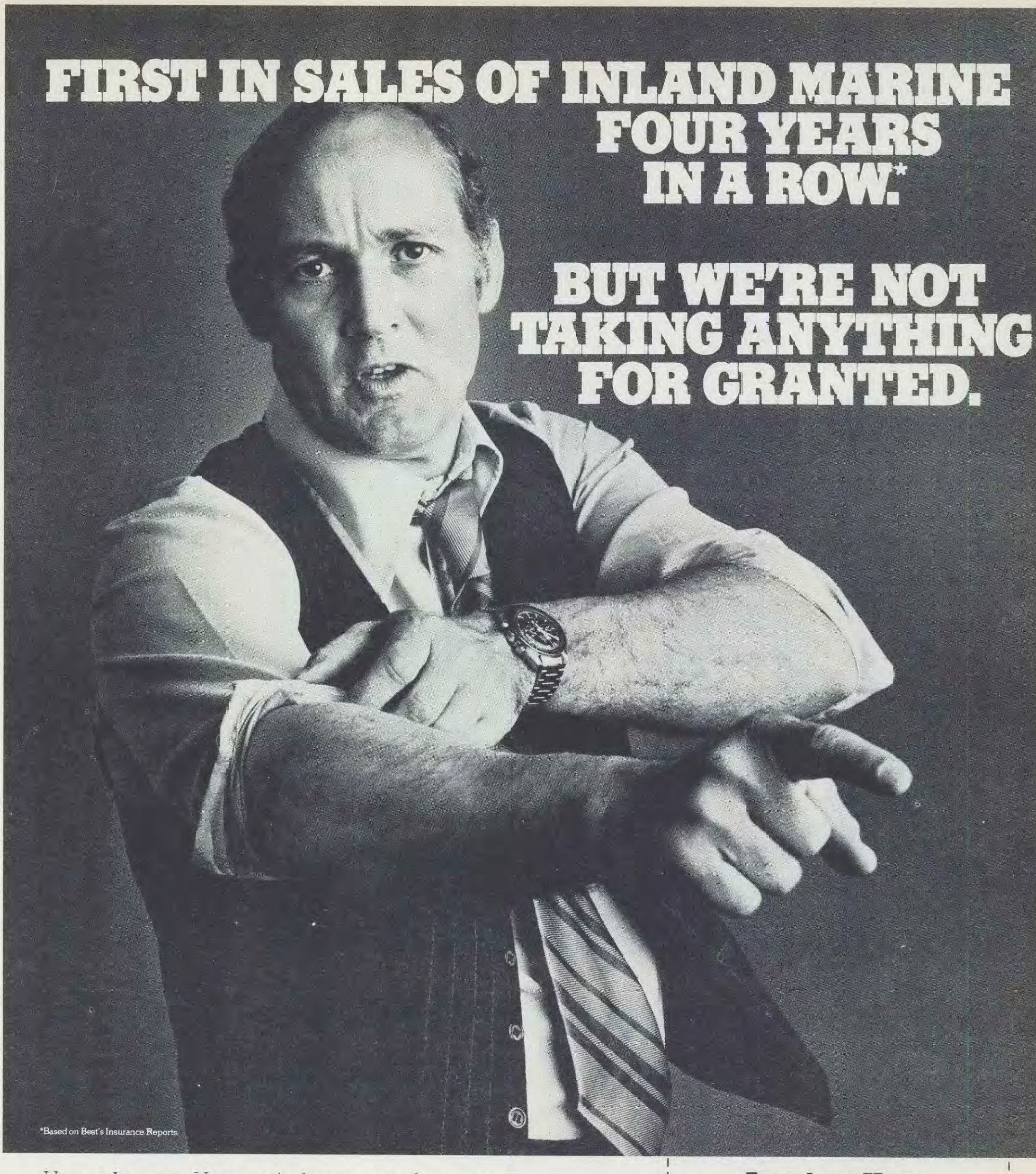
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Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Pensions & Investments, Industrial Marketing. KEITH E. CRAIN, *secretary-treasurer;* M. A. HARTENFIELD, *executive vice president;* D. J. CLEARY JR., *senior vice president;* ALFRED MALECKI, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, LOUIS F. DEMARCO, WILLIAM STRONG, ROBERT W. KRAFT, *vice presidents;* MERRILEE P. CRAIN, *assistant secretary;* JAMES M. FRANKLIN, *director of finance and administration.* Cable address: *CRAINCOM*

Published biweekly at 740 Rush St., Chicago, Il. 60611 (312-649-5200). Offices at 708 Third Ave., New York, N.Y. 10017 (212-986-5050); Suite 1253 National Press Building, Washington, D.C. 20004 (202-638-5300); 6404 Wilshire Blvd., Los Angeles, Ca. 90048 (213-651-3710). 50 cents a copy. $12 a year in U.S. Elsewhere $4 a year additional. WILLIAM STRONG, circulation director. ROGER DEGREGORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush St., Chicago, Il. 60611

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letters

Continued from page 22

types of fire protection and the ways to approach a solution of a hazard should call his local automatic sprinkler contractor for the most complete and up to date fire protection knowledge.

Shelton Fowler Jr.
President—Allsouth Sprinkler Co., Dalton, Ga.

Poor management

To the Editor: A number of articles appearing in various insurance publications use the present plight of insurance companies as the reason for allowing sizeable rate increases. True, some rate relief is needed but there is no reason to panic and allow those whose poor management got them into their dilemma to stick the general public across the board.

Not too long ago insurers refused to go along with regulators who insisted that investment income (realized on reserve funds which were actually the property of insurers and claimants in the guise of unearned premiums and claims reserves anyway) be used in rate computation. Now, the worm has turned, and they expect the policyholder to pay more to cover the losses they incurred gambling on Wall Street. No, no, a thousand times no we all say.

We also believe a blow should be struck against the insurer who stalls on claims, resists payment, and ends up paying more in a court of law because of their hard headed chiseling attitude. We suggest that all sizeable claims be examined by regulators. If any insurer could have settled a claim, let us say, for $50,000 but refused, and then paid $150,000 months or years later due to inflation, jury trends, etc. they be allowed to use only the first figure of $50,000 in computing their claim experience when applying for rate increases. This would eliminate slow claims payment and resistance to just and proper settlements.

We do not want to see any properly managed insurer penalized, but do ask that the incompetent, the haggler, the chiseler and all such black sheep be allowed to simmer in their own stew pot.

Justin S. Lencke
Marianna, Fl.

Dissenting view

To the Editor: Over the past several months, I have heard a number of insurance risk managers express views that sloppy reportage has become a *Business Insurance* characteristic rather than an exception. I am not yet sold on that viewpoint, but your October 20th issue has certainly given me a firm nudge in that direction.

Your story about Gulf's withdrawal from OIL is almost a classic study in inaccurate gathering of facts, expression of uninformed opinion, and failure to mention what is probably the single most important aspect of the subject matter of the story.

But your editorial advice to Fairchild's shareholders was the topper.

It is a wonder that you didn't suggest that your readers boycott Fairchild's products. Really! For a trade publication to suggest that a company's top management be challenged by its shareholders because they exercise their prerogative to make a judgment that differs from yours (and probably mine) is a bit much. Are you so certain that it is top management's performance that is at issue? Could it be that the insurance risk manager "profession" has failed in its responsibilities by an inability to prove itself to Fairchild's management and could it be that Fairchild can all too easily maintain that they are not negligent or remiss in hiring a ranking professional firm to help them with their insurance risk responsibilities?

William T. Howard Jr.
Director of Corporate Insurance, Forest Oil Corp., Bradford, Pa.

Editor's note: Mr. Howard says we neglected to inform readers what is probably the single most important aspect of Gulf's withdrawal from OIL, but then neglects to tell us what it is. The dozen or so persons familiar with the situation we interviewed for the story didn't either—so what is it?

On the Fairchild matter, editorial opinions expressed in this magazine are clearly labeled as such. We happen to be of the opinion that a company the size of Fairchild should have solid risk management (independent of brokerage) on the premises. Yes, we agree that the risk management "profession" can, and has, failed, but the ultimate responsibility belongs at the top management level of a company.

Need assistance

To the Editor: I am an avid and enthusiastic reader of your publications and find the contents thereof extremely interesting.

I have a specific problem and hope that you or your readers may be in a position to give me some assistance.

We are confronted with a claim involving a windstorm which caused the masonry of an 18-story apartment house to collapse onto a separate building used as the lobby for the apartment house. As a result of this unfortunate occurrence many tenants moved out even though their apartments were not directly damaged by the windstorm. Rental came to a complete halt because of the fact that the lobby and other services were not available. The entrance to the apartments had to be made through a subterranean garage. This is briefly the situation.

The problem arises from a difference of opinion between the insurance carrier and me. The insurance carrier has taken the position that the only apartments which would be involved in the loss of rental income would be those directly damaged by the windstorm. It is my contention that a comparison of the situation prior to the loss and after the loss should constitute the basis of an adjustment. Since the owners were unable to rent apartments while the building was in the damaged condition all of these factors should be taken into consideration in arriving at a settlement.

If you have any cases which would support either point of view I should appreciate hearing from you.

Elliot E. Cohen
Robert Hull & Co. Inc., New York, N.Y.

Earthquake maps

Techniques for reducing earthquake losses, developed for the San Francisco area, can be used in 38 other states facing various degrees of similar risk, according to a new report from the U.S. Geological Survey and the Housing and Urban Development Department. The report deals with the mapping of earthquake hazard areas. Another report, now in preparation, will present specific guidance for using the earthquake maps. The current report is available from the U.S. Geological Survey.



The bigger the risks, the rougher the game.

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And anyone who knows the corporate insurance business, knows there's more to risk management than insurance.

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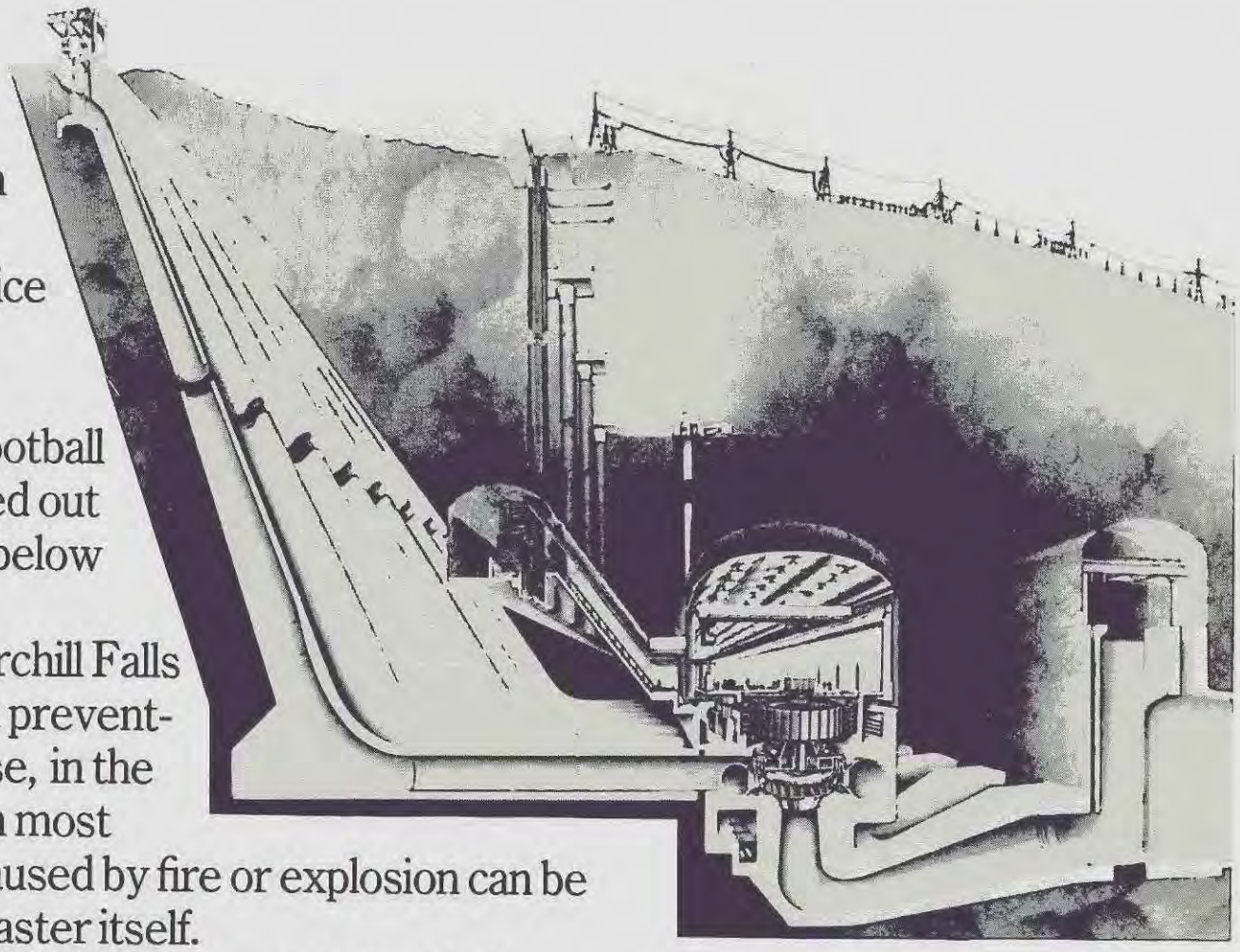
Ebasco's record is one of the best in the business. Over 65 years of experience in all areas of risk management from loss prevention to employee benefits. Serving industry, institutions and government on a world-wide scale.

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Needless to say, Churchill Falls is extremely concerned about preventing losses at the plant. Because, in the power business, more so than most other industries, downtime caused by fire or explosion can be more devastating than the disaster itself.

So it's of great interest to us, as one of their chief insurance companies, to know all the loss prevention measures Churchill Falls has engineered into their facility to keep the chances of disaster to the bare minimum.

Like placing the immense turbine generators and transformers in well-separated, reinforced concrete enclosures. Storing duplicates of all vital equipment and parts. And providing manual backups to automatic systems.

At Allendale, we've always believed strongly in the power of loss prevention. We put the thrust of our effort into preventing disasters from happening in the first place, rather than paying off losses after the fact.

Churchill Falls is a shining example of the loss prevention philosophy in practice. Today, the entire facility is completely protected in accordance with strict Factory Mutual Standards.

Of course, you don't have to be in the energy industry to be concerned about losses. We can help you, no matter what your business. Contact us. We'll be glad to show you the tremendous power of loss prevention.

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Allendale Insurance

Average truck hijacking $40,000 claims American Trucking Assn.

By ELISABETH M. WECHSLER

CHICAGO—"The average bank robbery is $6,000 or $7,000 but the average truck hijacking is $40,000," lamented Reginald C. G. Witt, executive director of the National Freight Claims Council of the American Trucking Assn. (ATA), Washington.

Mr. Witt's statistics typify the concerns of the ATA. He complains that the Privacy of Information Act, for example, prevents trucking firms from conducting thorough checks on prospective employes "so we're forced to hire thieves," he said.

"Almost any information about an applicant is difficult to obtain," Mr. Witt claimed. "Yet a person's economic condition is pertinent to whether he would steal if he had an opportunity. Banks can check to the grandmother's name but we can't check anything, even convictions for related crimes."

"I don't know of an industry today that's getting the same quality employe as it did 15 years ago," said Robert K. Nelson, associated with the brokerage firm of Insurance Administration Center, DesPlaines, Il.

According to Mr. Nelson, property and liability insurance for cargo in transit is the sticky area of trucking risks. Cargo insurance is "highly negotiable" and can range between 25 cents per $100 value and $1.50 per $100.

Motor truck cargo "is never easy to place, and the hotter the commodity, the more difficult it is," Mr. Nelson said. He views clothing, liquor and cigarettes as the most difficult types of cargo to insure.

Babaco Alarm Systems Inc., New York, which periodically publishes statistics on stolen truck cargoes, cites food as the "number one" loss. A sampling of more than 200 nationwide truck thefts for the first seven months of 1975 showed that "over 32% of the losses involved food," followed by textiles and clothing, 12%; liquor, tobacco and appliances, 5%.

A spokesman for Babaco noted that the list "is only the tip of the iceberg" on cargo thefts because the information is compiled as it is received from various sources and probably is not comprehensive.



Trucking firm's vehicles lined up at a regional warehouse complex.

The bulk of the truck theft losses occur between Boston and Baltimore, observed James J. McCormick, assistant vp-loss prevention, Liberty Mutual Insurance Co., Boston. Specifically, New York City and northern New Jersey are the highest crime areas, he said.

"Losses could occur to anyone who has an attractive commodity," Mr. McCormick pointed out, citing razor blades, clothing and liquor as prime targets. "When a commodity gets high priced or scarce, you'll have trouble with thefts," he noted.

He told of a special cargo risk valued at $1 million for which Liberty Mutual advised the policyholder to "keep it as quiet as possible, hire honest trucking employes, arrange for an escort, keep up radio contact and establish check points." Additional coverage was purchased for this unusual haul, though he declined to give details.

At Liberty Mutual, Mr. McCormick said the cargo problem reached a peak in the late 1960s when its loss ratio hit 100%. A loss prevention force of 630 people was formed and began calling on trucking firm policyholders. Liberty Mutual performed regular security checks and made recommendations for cutting down on cargo losses.

"We tried to improve security at the terminals and on the roads," he said, pointing to an "acceptable loss ratio in the 50% range" for the last three or four years.

"We feel we have reduced losses as a result of control measures," Mr. McCormick said. "It's possible to charge so much in premiums that an insurer can make a profit," he said, eschewing that approach to the problem.

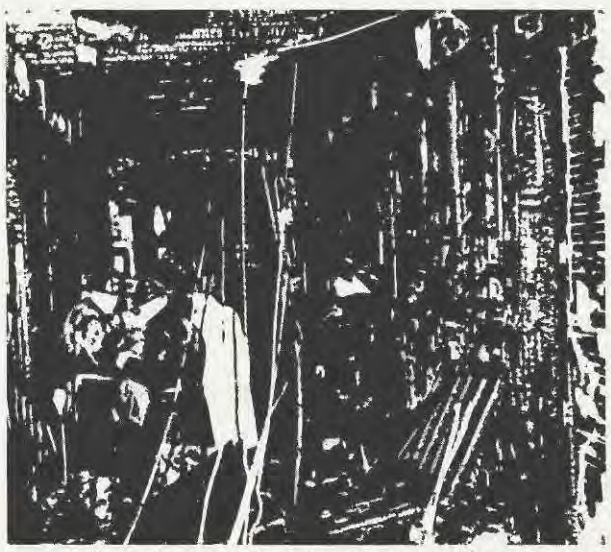
Liberty Mutual has not attempted to increase its book of trucker business which includes a package of workers' compensation, auto and cargo coverage. Mr. McCormick said his company insures 7,500 fleets ranging in size from five vehicles to 35,000 vehicles per policyholder.

"It's not a major line from a premium point of view," Mr. McCormick said of cargo risks. "Other lines are more profitable. No one is aggressively trying to sell cargo."

One way to cut down on the risk of theft and save as much as 50% on cargo insurance is to use trailers on railroads, called "piggy back" shipping, suggested William K. McCardell, assistant vp for U.S. Fidelity & Guaranty Co., Baltimore, and currently chairman of the Inland Marine Underwriters Assn. He said this solution had a more significant impact on inland marine cargo shipping practices than containerization which has greatly affected

Continued on page 28

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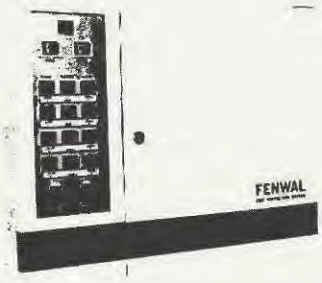
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Truck lines . . .

Continued from page 26
ocean shipping.

"There is less damage with rails and less risk of collision than on the roads," Mr. McCardell pointed out.

Reduced highway speeds have not had much effect on collisions involving trucks, according to William H. Rodda, editor of the Marine Insurance Handbook here. "Collision is still considered the major reason for loss. Theft is second.

"A general cargo mover is under more pressure to make good time," Mr. Rodda said. A mover also "has a predictable route which may mean more likelihood of theft."

Mr. Rodda believes inflation has increased the "severity" of cargo losses but does not think the frequency has increased. "The average dollar loss is probably twice what it was five years ago," he said. "A shipment worth $200 a year ago would now be worth $250 due to inflated cargo values, not because of an increase in hazards."

Trucking firms spent 1.05% of their revenues in 1974 for public liability and property damage in insurance, self-insurance and claims, according to the ATA, which gathers its statistics from trucking firms' filings with the Interstate Commerce Commission (ICC). The figure is down slightly from 1973 when common carriers spent 1.14% of revenues. The total amount spent by 2,711 carriers for public liability and property damage in 1974 was $207,649,000.

Common carriers paid 1.3% of revenues in 1974 for cargo loss and damage insurance and claims, down from 1.22% of revenues in 1973.

Fire, theft and collision coverage plus claims cost them 0.19% of revenues in 1974, down from 0.21% of revenues in 1973.

Workers' compensation costs computed for 3,464 carriers in 1973, the last year for which figures are available from ATA, totaled $146,718,000.

ATA's Mr. Witt is concerned about the ratio between net claims paid, after recovery and salvage, and gross revenues of trucking firms—1.15 in 1974. In spite of an improvement in 1973 because of "damage prevention and better packaging in shipping," last year recorded an upturn in small claims and a downturn for salvage business.

"Manufacturers are worried about their liability," Mr. Witt said. Trucking firms now get "an allowance" for any salvage they recover and are "asked to destroy the goods," a situation he blames on overzealous consumers and stiff product liability laws.

A shipment of cookies contaminated by oil fumes and worth $40,000 previously might have been sold for animal feed but now would be destroyed, Mr. Witt claimed. "The cookie maker would be reluctant to let this shipment out on the road because it would be afraid human beings might eat it."

For merchandise shipped across state lines, a carrier must have an ICC permit, Mr. McCardell explained. Under ICC regulations, carriers have a "very strong liability" for the safe delivery of the goods. "If the carrier can't deliver the cargo, it must pay for it," Mr. McCardell said.

The shipper's cost for insuring the cargo can be "as low as one cent per $100 of value and seldom is higher than 10 cents to 12 cents per $100 of value," he said. Total volume can lower the rate, he added.

The loss ratio or cargo is "in the 50% range now," Mr. McCardell said. He estimated it has gone up 10% in the last two or three years and predicts it will be up another 5% for 1975.

Mr. McCardell said an insurer probably wouldn't seek higher rates in advance for a particularly high-risk shipment though it might demand special precautions such as "an alarm system, painting the top of the trucks for easy identification from the air or planned routes with check points. After the first loss, an underwriter would raise the rate," he said firmly.

Smaller trucking firms are quoted cargo insurance based on the number of trucks in the fleet, the distance and radius traveled and the limit of liability, according to Mr. Rodda. The premium is usually $1 to $3 per $100 of liability limit, which is $5,000 for interstate shipments and can vary from state to state.

Big operators pay premiums based on their experience rating, Mr. Rodda said, and are billed according to their gross receipts each month. The gross receipts rate can range from 30 cents per $100 of gross receipts to $1.50 per $100 of gross receipts, he added. He pointed out that gross receipts rate is not a good measure for insurance exposure because it's not related to the value of the cargo," he believes.

Generally if a trucker's annual premiums are $300 to $500, it could be considered for a monthly reporting, or gross receipts, approach. "If the trucker has a good claims handling department, it might as well handle all the claims with its own people," Mr. Rodda advised.

Trucking firms commonly have insured limits of $50,000 per truck on interstate hauls, Mr. Rodda said. A deductible of $500 to $1,000 per loss is "fairly common" for these larger interstate carriers. "A trucker should be very sure his limit of liability reflects the value of his cargo," Mr. Rodda warned. "If his limits are not that high, he should split the load between two trucks.

"If the average load value is $10,000, then the insurer takes that into account when determining the rate," he said. The trucker and underwriter look over the operation together to determine the "maximum probable load value.

"Many trucking firms don't do anything about special high-value cargoes," he pointed out.

Focusing on another area of trucking risks, Mr. Nelson, broker with the Insurance Administration Center, observed that "underwriters have been very reluctant to entertain fleet coverage for carriers.

"Commercial auto has been a loss leader with loss and expense factors of over 100%," he said. "The liability for trucking firms is the whole ballgame."

This reluctance could change because of new ISO filings effective Oct. 1 that would establish rates based on the function of the driver and the truck, according to Chuck Curcuro, underwriting manager for Brokerage Resources.

The three classifications are: Service, or the transportation of employes or equipment to and from a jobsite; retail, in which the shipper and manufacturer are the same; and commercial or "other."

Rates for trucker's public liability "will increase," he predicts, "but it's a more precise and fair way of rating. The onus is going to be on the agent to get specific information about the function performed," he said. ■



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Union Carbide scores hazardous cargo rule

NEW YORK—Union Carbide Corp. says the government's proposed system for identifying hazardous materials in transportation and for providing emergency information is impractical and not safe enough.

It has released a 24-page report, "The Union Carbide Proposal," which makes persuasive arguments against the U.S. Department of Transportation's proposal to identify dangerous cargoes by a numerical code called the two-digit hazard information numbers.

The most significant feature of Union Carbide's report is a suggestion that the code numbers be replaced by easily recognizable symbols coupled with English language descriptions.

The idea is simple: in an emergency, a fireman or rescue worker would look at a symbol of a skull and crossbones and think "Poison," or look at a red diamond with flames and think "Flammable substance," faster than he could whip out a DOT decodifying manual—if there was even one available—to figure out what the two-digit number meant.

Union Carbide acknowledged in its proposal that using symbols and descriptions might give freight handlers and shippers more administrative and operating burdens than the numerical codes would, but it pointed out there would be less margin for error—and less liability in the process:

"The possibility of serious error in the application of erroneous labels would be substantially reduced," Union Carbide stated. "For example, if a shipping employe or typist inadvertently misplaced a single digit of the numerical indicator, a fireman responding to an accident might not learn that the product involved is poisonous as well as flammable. In the event that the fireman was seriously injured as a result of such human error, the shipper could be held liable for substantial damages."

The Union Carbide safety experts who put the proposal together had good reason to get involved with efficient handling of hazardous substances. In addition to making consumer products, the company is involved in chemicals, plastics, carbon products, electronics, gases and related products, and even some nuclear generating products.

Essentially the Union Carbide report suggests using the same type of emergency reference manual as proposed in DOT's Hazardous Information System. The important distinction is that reference to the appropriate manual page is not made numerically.

Instead, the key to the manual would be an alphabetical index with the same hazard designations as those which would appear in the shipping document or in the symbols obtained from the cargo's placard or labels.

While the Union Carbide proposal is not a radical departure from the proposed DOT system, it does provide for direct and immediate identification of all hazards in a package or shipment, including multiple hazards of "mixed lading" shipments, and removes the rescure worker's reliance on a manual which might not be available during an emergency.

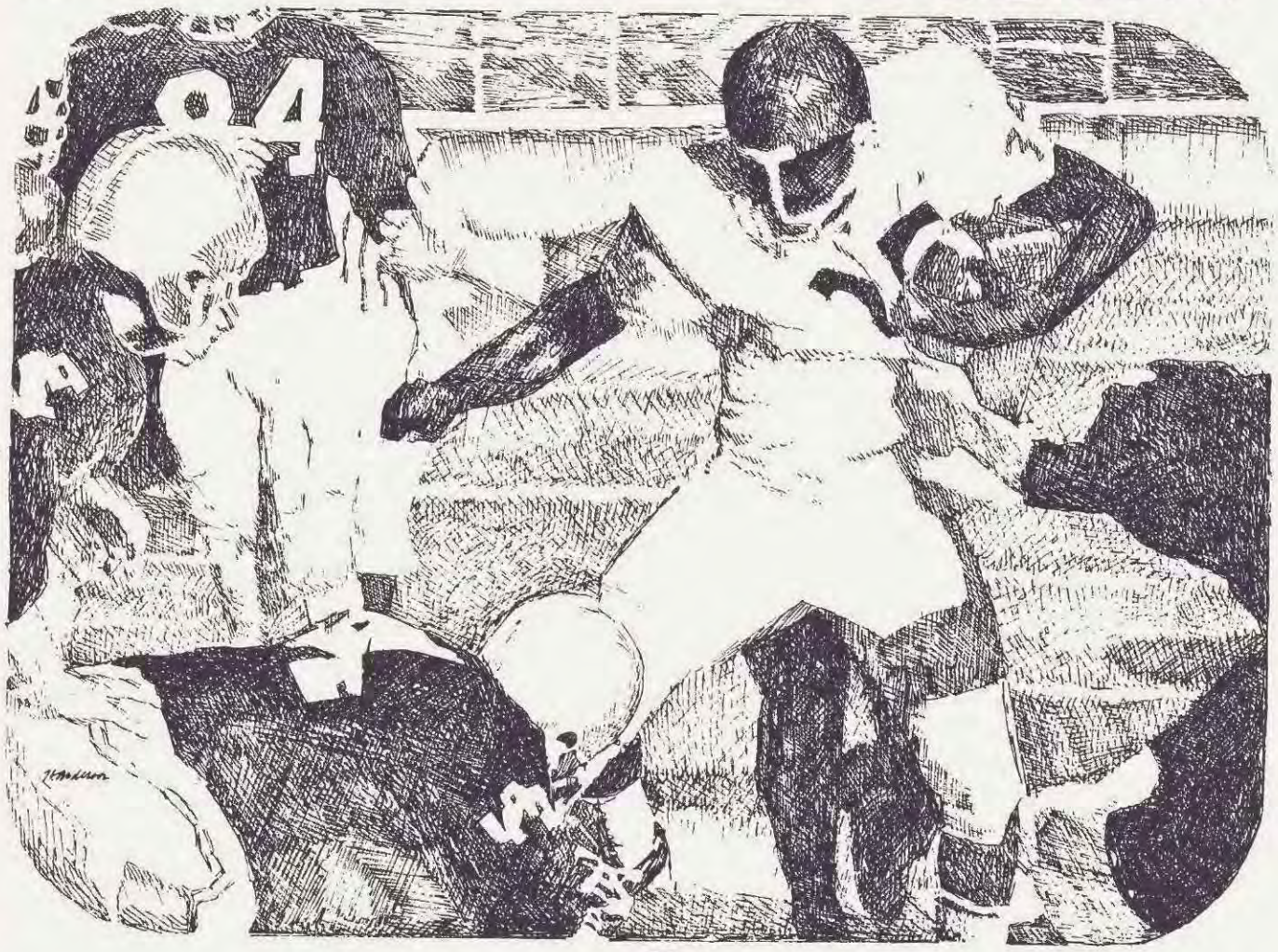
DOT introduced its system in 1972, but it received such widespread disagreement over its methods that the department's Hazardous Materials Regulations Board agreed to evaluate other proposals.

Among them is the Union Carbide Proposal, which is alternately called "Hazard Information in Transportation."

To provide an opportunity for public review and comment on alternate proposals, DOT terminated consideration of the basic element of the HI System, the use of two-digit numbers to identify hazardous substances during transportation.

It established a new docket, number HM-126, and requested comments on other proposals, specifically, Union Carbide's. The department set the final date for public comment on Docket HM-126 as Feb. 5, 1976. ■

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Waterways thick with traffic

River barges float calmly along as value of cargo, premiums escalate

By MARGARET LeROUX

ST. LOUIS—Accident frequency, a major concern for cargo transporters on the nation's inland waterways system, has been aggravated in recent months by increased value of shipments.

Whatever the cause—oil shortage, inflation or the large sale of wheat to the Soviet Union—the result is higher-than-ever cargo values on barges and higher-than-ever premiums being paid by barge lines for property and liability coverage.

Premium increases "anywhere from 25% to 100% for property and casualty coverage," according to an industry spokesman, are being effected by the nation's major river marine underwriters. Insurers are just coming out of a period of intense competition, he added.

During the past year the market has tightened considerably, say a number of industry sources who claim premiums are still insufficient to cover increasing costs of losses.

"Fifteen years ago if a barge sank and lost an entire load of cargo, the loss would have rarely exceeded $50,000," one industry spokesman told *Business Insurance*. "But today losses ranging from $300,000 to $350,000 occur with regularity."

Barges themselves today are valued at $150,000 to $200,000 while cargo values can range from $40,000 to $50,000 for coal to $1.5 million for chemicals and some ores.

Despite growing cargo values and increased potential for expensive losses, the majority of barge transporters maintain minimal deductibles and limits of coverage. "In my experience $25,000 is the maximum deductible for barge companies," a spokesman for a river marine insurer said. "$5,000 deductibles are more common."

The normal limit for coverage is $500,000 per barge and $3 million-$5 million for any one tow (15-25 barges), he added.

Some 1,849 barge line companies currently operate 4,064 towboats and tugs powering 22,117 barges, according to the American Waterways Operators Inc., national representative for the barge and towing industry. But there are very few spokesmen willing to openly discuss the industry's loss and claims problems.

"You just can't get the barge people together," a risk manager for one of the nation's leading barge transportation lines said. "They're very selfish about exposing their losses and claims."

"The market is bad enough without your putting any light on it," another insurance manager for a Pennsylvania-based barge company replied when asked to discuss river marine coverage.

The huge disparity among barge lines as to safety and loss control programs and the fierce competition the industry enjoys account for the reticence to discuss risk management programs, according to another barge risk manager.

Paul Boevingloh, insurance director for Valley Lines Co., a subsidiary of Chromalloy, maintains that having a tight handle on loss control is of utmost importance in barge transportation.

Valley Lines' property and casualty insurance programs are unique in the barge industry in a number of ways. The company assumes a $100,000 deductible, has a primary limit of $1 million in coverage, topped by a "$5 million to $10 million umbrella," Mr. Boevingloh said in an interview.

"In any accident, we have a man on the scene to investigate within 24 hours," he said. "We'd rather handle claims investigation ourselves; we know what to look for better than an insurance company." Fast investigation of an accident can mean savings upwards of $100,000 if cargo can be salvaged, he explained.

For example, if a shipment of corn gets wet because of an accident, it can be salvaged without any damage to the grain if it is dried out within one to two days, the insurance director said. "It may cost $3,000 to $4,000 to dry it, but you'll save a $100,000 shipment."

Assuming such a large deductible has meant further savings for Valley Lines, the second largest barge transportation company in the U.S. "When we went to a high deductible in the late '50s or early '60s," Mr. Boevingloh related, "we saved from $300,000 to $400,000 by handling those claims beneath the deductible ourselves."

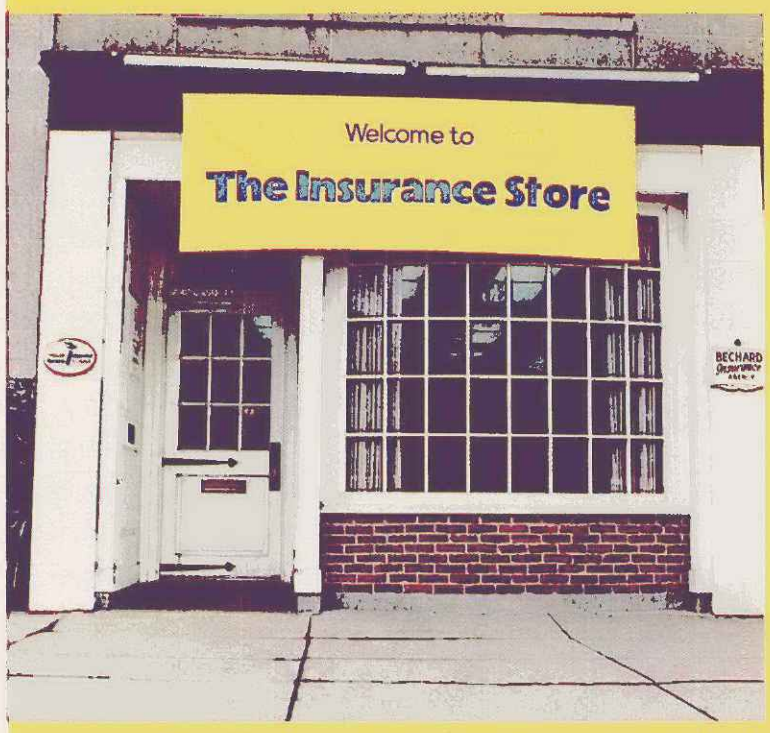


Large ammonic barges at Agrico Chemical's Louisiana facilities.

Valley Lines uses both U.S. river marine underwriters and Lloyd's of London to cover its 700 barges for property damage and liability.

Furthermore, the company has been known to exceed its deductible without filing a claim, the insurance director noted.

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He referred to an accident where a Valley Lines barge struck a 50-year-old grain dock on the Mississippi River. To repair the old dock would have cost upwards of $300,000, but instead the company agreed to replace the old dock with a new dock and in the process saved $100,000. "We paid it all," Mr. Boevingoh said. "After checking with Lloyd's, they agreed to let us go ahead."

By keeping claims frequency down in this manner, the insurance director explained, he's been able to keep premiums at a manageable level.

Another exposure which has, of late, made life miserable for barge companies, spokesman for that industry say, is litigation involving injured seamen—Jones Act cases.

Formally known as the Longshoremen's and Harbor Workers Compensation Act, the law provides for minimum and maximum limits of disability compensation and allowance for American seamen injured on the job. "The malpractice crisis has spilled over into Jones Act cases," according to one river marine insurer, "and the result's been a whole new can of worms being opened for us."

Mr. Boevingloh calls Jones Act cases his biggest problem exposure. In late October, Valley Lines paid out $10,000 in a lawsuit brought by a seaman who broke an arm on the job, he noted.

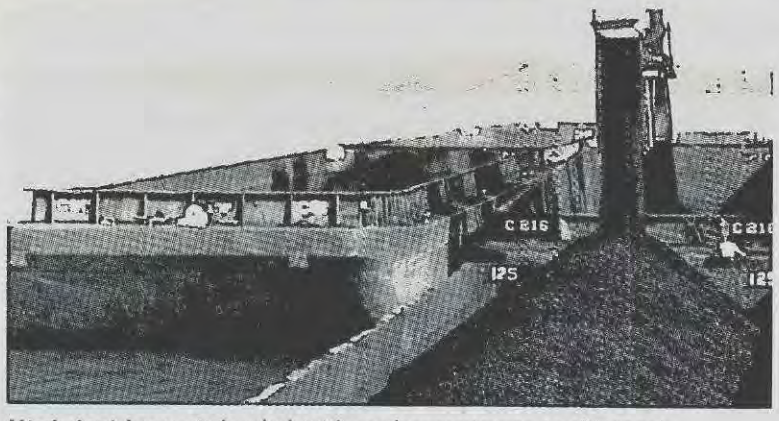
As with property/casualty exposures, Mr. Boevingloh said the most important thing is to act fast in an accident situation to keep costs under control.

"If a seaman is injured, we stop everything and get him to a hospital as soon as possible," he said, "and as fast as the seaman is at the hospital, so should one of our personnel be there."

To keep accidents at a minimum, a strict safety program was put into effect at Valley Lines. All seamen on watch are required to wear life preservers and if they're found without them, the captain or first mate will be fired, Mr. Boevingloh related.

"As a result, we haven't had any drownings because of no life preservers in 10 years," he said. "Before the life preserver rule was put into effect "we had one drowning a month," he estimated.

Another safety requirement that plays a major role in loss control, the insurance director feels, is licensing of all pilots, first mates and engineers hired by Valley Lines. ■



Mississippi barge is loaded with coal preparatory to shipment.

Elephantine cargo poses special risk control riddle

NEW YORK—Imagine importing from Italy a half million dollar machine weighing three tons, is six inches thick, eight feet in diameter and an unwieldy 50 to 60 feet long.

Needless to say, this white elephant took all the talents of an insurance and safety director to handle, because of the special plans that had to be laid for transport of this bulky object, and the special policy required to insure the unusual risk.

Furthermore, the best laid plans can go awry. And in the case of this machine, they did, true to the old axiom that if anything can go wrong, it will. As Roger Belliveau, director of insurance and safety for Witco Chemical Co. here relates the tale: Witco contracted to purchase the machine from an Italian supplier 15 to 19 months ago. This is a hydrogenation reactor, used to process "white oil," which is the kind of oil that goes into baby oils, cooking oils, and lotions of various sorts.

"It was finally delivered about a month ago, and came by ocean vesel into Baltimore harbor, where it was hoisted onto two flatbed railroad cars for shipment to the plant location in Pennsylvania. Near the plant, it was again transferred to a special truck with special dollies so it could negotiate the curves," says Mr. Belliveau.

"Well, we got the reactor to the plant, but not before it fell off the truck, of course," Mr. Belliveau moans. Because of all the rain along the East Coast at the time this machine was being moved, it rolled onto ground that was very soft indeed, making it all the harder for a team of special cranes to hoist this mammoth load back onto the truck bed. Complicating a difficult operation even more were an underground gas main and overhead high tension lines in exactly the location where the machine rested.

Mr. Belliveau says no one is sure yet if the reactor suffered any damage; that will take until about the first of the year to determine, when the machine becomes operational. "The reactor is so thick, we assume there is no damage," he says.

Harm to the unit would, in any case, be covered by the manuscripted insurance policy bought for this occasion by Mr. Belliveau, who also had some special problems with that end of the exposure. "It was hard to find an underwriter interested" in the coverage Witco needed for this particular transit risk, he said. Basically, he wanted a relatively low deductible, with a U&O (use and occupancy) policy limit of about $5 million to cover damage to the machine FOB the factory in Italy until it was fully and properly operating when installed.

"The biggest exposure was not damage to the unit, but rather the business interruption risk because of a $10 million plant here that might not be able to operate if the reactor is damaged in transit in any way," Mr. Belliveau relates. Furthermore, the ship was approaching the East Coast during the hurricane season.

He found a U.S. insurer willing to write the insurance he wanted, with a "pretty broad policy" on an all risk basis. The cost: In the low five figure range, he said. ■

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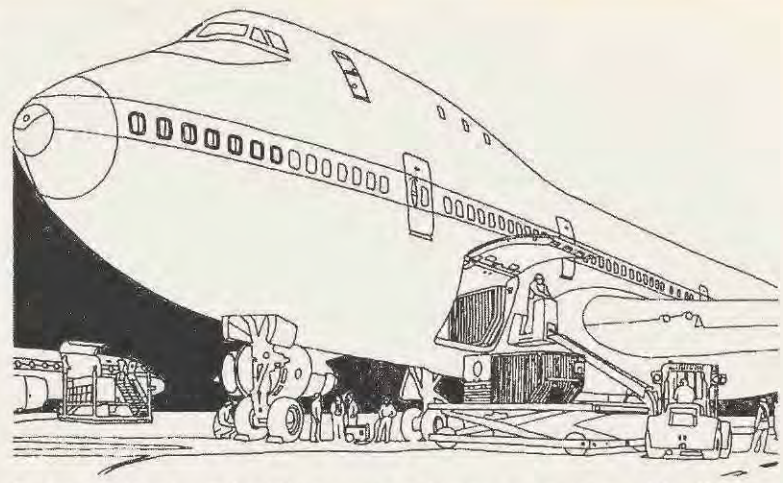
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Emery: Whisking cargoes to anxious recipients, with a minimum of losses



Emery carries about 4 million cargo packages a year, insured by INA.

WILTON, CT.—Emery Air Freight Corp. describes itself as devoted to "moving a shipment from point A to point B in the shortest possible time." The company moves about four million packages a year, ranging from a single envelope, whisked off by Emery bicycle delivery, to a 7,000-pound turbine engine.

But no matter what the cargo, Emery says it has the lowest loss ratio in the industry. On a claims-made basis, it gets only 25 claims for every 10,000 shipments.

Part of the success story is linked to the high-deductible cargo insurance program written by the Insurance Co. of North America and brokered through Marsh & McLennan. Part, but not all.

At this writing, Emery is in the middle of renewal negotiations with INA, and is accepting outside bids from other carriers as well. But because of its positive loss experience, the firm is also toying with the idea of going to a stop-loss figure sometime down the road.

"Under the present policy, we have a $5,000 deductible," William Maxwell, Emery's manager of claims and insurance, explained.

"Possibly we might go to a $2 million a year figure, absorbing all claims up to that point."

Mr. Maxwell gives high points to Emergy's in-house staff of service managers and trained security personnel and to the Emery Control (EMCON) computer system for the low loss ratio.

EMCON provides the informatin needed to control every shipment worldwide. It gives current reports on each shipment's declared value, weight, and point of destination. Mr. Maxwell can determine the status of any given shipment in moments by consulting the EMCON terminal.

Emery is the largest and farthest-reaching air freight forwarder in the world, and conducts its biggest share of business through Kennedy International Airport in New York, according to Mr. Maxwell. Kennedy is said to have more than its share of problems with "disappearing" cargoes, largely because of the sheer volume of shipments that pass through it every day.

But Mr. Maxwell, who has served on Kennedy's security council, said Emergy hasn't encountered any major cargo problems in Kennedy that it couldn't cope with, nor had it received any penalties from insurers because of its business at the bustling airport.

"A significant portion of our freight shipments—about 80%, I'd say—are delivered the next day," Mr. Maxwell said. "The faster you deliver something, the less chance there is that it wll get stolen."

Emery's claims and insurance manager remarked that over the five years since he has had high-deductible cargo coverage through INA, the most significant change—and challenge—in dealing with cargo risks is the nature of the shipments themselves.

"We're carrying more and more small consumer items like watches, apparel, furs, and machinery components. They're more subject to and are more attractive targets for pilfering," he said.

Emery is particularly sensitive to small package cargoes. It said domestic airline freight revenue totaled $1 billion last year, and 60% of those shipments were under 100 pounds. Shipments of 50 pounds and under, with time-sensitive delivery values, have lately been the object of much competition between Emery and other air cargo companies.

To meet the specific problems of consumer items and small packages, Mr. Maxwell said the firm uses a tremendous amount of containerization in packing them. Another technique Mr. Maxwell said has been very effective for cutting back on losses by assuring quick delivery is Emery's practice of running its own freight charter flights.

There are many places where airline lifts have been cut back, he explained. Instead of waiting the extra time for the commercial flights, and possibly increasing the chances for theft of the shipments, Emery has set up its own flights. In 1973 and through most of 1974, Emery found that the only way to provide its customers overnight service to the Eastern and Central areas of the U.S. was to charter four Electra airplanes to serve the triange running from Ohio to New England and to the South Central states.

The present $5,000 deductible INA policy has a $500,000 limit on any one conveyance at any one time. Above that, there is excess insurance coverage to $40 million spread among a number of carriers, with INA participating on one of the higher levels.

INA is involved only marginally in Emery's day-to-day security checks on cargo. "They inspect our facilities, but they do very little else. They don't, for instance, give us advice on packing shipments or anything like that. Everything we do like that is in-house," Mr. Maxwell said.

It is a system Mr. Maxwell seems to prefer. He noted INA has a long standing relationship with Emery and understands its needs.

Continued on page 35

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Shipping by air keeps losses to a minimum

PALO ALTO, CA.—Hewlett-Packard Co.'s large international cargo and marine liability policy has not encountered any major turbulence chiefly because the corporation has designed a smooth pattern for shipping by air.

The policy protects Hewlett-Packard products—mostly electronic equipment, small computers and high priced hand held calculators—from the time they leave the company's factories until they touch down at New York's Kennedy airport. They are housed in a company warehouse near the air terminal until they arrive at any of a myriad of destinations overseas, explained John J. Prendergast, insurance manager.

FOCUS on CARGO
ocean/inland

The policy from the Insurance Co. of North America (INA) boasts limits of from $1 million to $5 million, depending on the objects to be insured, he said. The deductible is $1,000.

Mr. Prendergast explained to *Business Insurance* that the routing from Hewlett-Packard's factories, most of which are in the Western part of the United States, to the New York warehouse and then on to distribution points overseas has been carefully worked out to keep cargo losses to a minimum. They have been kept low, he said, despite the fact that the consolidated air shipment from this country to say, Geneva, is repeated every night of the year.

Besides the fact that air transit is used for virtually all of Hewlett-Packard's shipping needs, the insurance executive pointed to one other factor which he believes is keeping marine and cargo losses low.

It is the fact that the containers used in air transit were designed by the corporation's own packaging engineers "to withstand considerable punishment," in the insurance manager's view. He also mentioned that the ratio of value to weight is high for Hewlett-Packard products as one of the reasons why the company opted for air and not sea transit. "Most marine cargo losses occur on the ocean," he remarked.

Mr. Prendergast went on to relate that at one time marine and cargo liability coverage was distributed among five different insurance carriers: Two in Europe, one in the United States, one in Japan an done in Australia. Today, the streamlined single policy from INA permits annual premium reporting, he pointed out, adding:

"We feel we were among the pioneers in the idea of worldwide bulk premium reporting for this kind of liability protection."

Hewlett-Packward has a different insurer for domestic marine and cargo liability coverage, which is Affiliated Insurance Co., Providence, R. I., a part of the Allendale (FM) group. Affiliated also insures part of Hewlett-Packard's property policy. ■

Emery . . .

Continued from page 34

Although he was in the process of looking at bids from other cargo insurers when he spoke to *Business Insurance* (the INA policy had a Nov. 1 renewal date), he had not found any more attractive market for the cargo coverage then.

As in 1971, when Emery's move to increase its deductible with INA from $2,500 to $5,000 was first reported (*BI*, Nov. 22, 1971), the freight forwarder has the same declared value insurance fee as required by the Civil Aeronautics Board. The CAB charge is 15¢ per $100 of value over the standardized 50¢ per pound carrier liability in the air freight mode.

In addition to covering jet aircraft, the shipment process for which Mr. Maxwell buys cargo insurance may involve cars, trucks, buses and bicycles, and as the system evolves, will also include ships, railroads and new transportation modes. ■

Independents hold 80% of 'small' market

FLAGSTAFF, AZ.—Independent agents held nearly an 80% share of the market in the small to medium sized commercial propertyerty field in 1972, but that foothold could shrink to 30% by 1985, according to Edward J. Noha, chairman and chief executive officer of the CNA Insurance group.

Speaking before the 41st annual convention of the Arizona Assn. of Independent Agents, Mr. Noha criticized dual marketing strategoes, in which independent agents also represent direct writing insurance companies. He advised his listeners to reduce the number of insurance companies they represent.

He also said independent agents should reduce the volume of business that is switched between underwriters during policy renewal time.

Making his remarks just after a very common policy-renewal time, October 1, and three months before the popular January 1 renewal time for many commercial insurance policies, Mr. Noha told the agents that switching business to another insurance company to gain a temporary advantage after a rate increase is "short-sighted and destructive."

Since most increases are part of an industry pattern, he said, switching only postpones the inevitable rise while it downgrades other significant factors such as service and quality. ■



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New methods to report shipments and values for heavy equipment

CHICAGO—Manufacturers of heavy equipment aren't making any major changes in the kinds of self-insurance and insurance they use to cover their transit cargo risks when they ship huge machines around the world.

But they are revising the methods they use to report shipments and values, and that alone is a very substantial procedural change.

According to a survey of four large manufacturers of capital equipment, the change is being negotiated with ocean marine and inland marine insurers to facilitate billing and premium payments. The manufacturers want less paperwork, less frequent billings and better cash flow, and they are achieving these goals.

The risk manager for one of the three leading Midwest-based farm equipment suppliers said his company has even gone to a once a year billing system, based on a annual consolidated shipment reporting form. The company self-insures to extremely high levels (up to $100,000 per loss), uses its captive insurer for everything from there up to $900,000, then reinsures its risks up to $3 million per shipment.

A minimum premium is deposited at the start of each year based on shipment projections and an adjustment is made at the end of the year based on reported shipments. An unusual feature of this firm's reporting system is that the yearend report includes only one figure representing the shipment amount in excess of the levels self-insured and insured in the captive.

Clark Equipment Co. in Buchanan, Mi. is presently reviewing its cargo transit program with an eye to a new reporting procedure and some rate changes. H. Jay Varner, manager of general insurance for Clark, said the company "probably will be considering going to a single rate instead of a rate per country."

Mr. Varner's open cargo insurance program presently has a very low deductible, however, and he doesn't see any "apparent advantage" to changing that with a higher retention. "I don't think deductibles are a key point in the open cargo program. Normally you include the cost of insurance in your product pricing, and the very small claims are easily absorbed," he believes.



Clark Equipment ships its materials handling equipment worldwide.

Furthermore, if the loss is the fault of a common carrier or someone else in the course of transit, then Clark and the cargo insurer routinely recover from the common carrier. Clark's open cargo insurance covers mainly surface shipments of equipment, and has limits which range to the $2 million area.

Another manufacturer of heavy equipment told *Business Insurance* that it is also trying to eliminate monthly billings, and wants the insurer to agree to an advance premium deposit with a regular audit of shipments, so that there would be only two premium transactions per year.

"In addition, there are some insurers who are offering a profit-sharing feature, in essence a discount on the following year's premium,, if losses under a cargo policy are very low and are held below an agreed minimum," said the risk manager for this maker of large machinery.

While this manufacturer is concerned mostly with U.S. surface shipments, another of the big machinery suppliers in the Midwest concentrates mainly on ocean marine risks and insurance, because the dollars involved in worldwide shipping of machines are so substantial. "Some of our reporting is done on a per shipment basis, for marine cargo, because we feel this gives us better control," says the risk manager. "Air freight shipments are reported to the insurer on a consolidated annual basis, however. We report just a single figure, and are billed then on an annual basis. There's no deposit premium or anything, just one payment."

This producer/shipper is concerned mainly about "total loss" type of risks for its overseas machinery shipments. Machine values often run to $100,000 and $200,000 for each machine shipped. ■



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Back pay for employes who walked off job

A federal court in Lincoln, Nebraska has ordered back pay with interest for five employes of a Boise, Idaho, firm who were fired after they walked off a job site because of hazardous working conditions.

The judgment was levied against Morrison-Knudsen Inc., Boise. The employes were unloading large pieces of rock from railroad hopper under gusty wind conditions.

The employes claimed they could not see, had difficulty breathing and were fearful of injury due to the poor visibility.

The Occupational Safety and Health Act protects workers from employer action if they refuse to perform work that subjects them to conditions that might cause serious injury or death.

Auto makers insure cars going overseas

DETROIT—Although the auto manufacturers are some of the biggest self-insurers in the country, there's one kind of automotive risk that's almost always insured: That's the risk of loss or damage to finished vehicles when they're shipped overseas to foreign dealers.

Ford Motor Co., for example, makes available a kind of blanket coverage for dealers overseas who have to show their local banks that they've purchased insurance covering those new cars the bank just financed. The dealers choosing to buy this insurance are then charged for the cost of insurance premiums.

They have the option, of course, of buying their own coverage for shipments of cars by ocean going vessels. But Ford's insurance experts calculate that the dealers get a better price and broader coverage by buying it through the supplier. The insurance, which is placed in the foreign markets, is competitively tested periodically, just like other Ford insurance programs.

Dealers can choose their deductible levels under the policy, or they can buy first dollar coverage. The ocean marine insurance can be written on an all risk basis, or it can be "free of particular average" or FPA, which means basically that the insurance will only cover total losses.

"These shipments to dealers don't generally involve thousands of cars or anything, so ordinarily the policy limits don't have to be that high," says a Detroiter familiar with these programs.

Ford also helps with dealers' transit risk management, too, by keeping in its computers statistics by individual dealer and by individual shipping line (common carrier). The statistics enable Ford and its dealers to see the volume (dollar value) of shipments during each year, premiums paid for insurance, incurred losses and sources of loss.

When a dealer's experience is out of line, Ford's risk management experts contact the local adjusting agent nearest the dealer to determine the reason for high losses. It might be that cargo handling at a port has deteriorated, or a general change in the patterns of loss causes. Or it might be that the contractor responsible for driving the cars from the foreign port where cars are offloaded to a dealer's place of business isn't hiring good drivers.

Sometimes, the automaker can suggest to the dealer who's having a loss problem that he can and should take on a different deductible and thereby avoid a premium increase.

The sources of loss which are watched closely when cars are shipped from the manufacturer to dealer organizations include theft of components, dings, scratches and dents. The loose parts of the autos disappear easily—hub cap thieves are busy from the time cars leave the factory.

The "driveaway" from the port of entry to a dealer's premises exposes the dealer to collision loss —a property and a liability risk package.

This combination of risks accounts for the very substantial number of auto dealers abroad buying coverage through the producer's program. ■

$850,000 award

A family was awarded $850,000 by a Seattle judge for medical malpractice during the circumcision operation for their son. The three-year-old child, now a girl, suffered severe burns in the genital area when he was five months old during the routine operation performed by a military doctor. Specialists subsequently advised changing the child's sex to female. Judge Walter McGovern, who would not release the names of those involved, noted the child has undergone eight surgical operations so far and faces several more as she matures. "The parent-child relationship is affected," he said. The parents were awarded $100,000, the child $750,000 and compensation was also ordered for the child's medical bills which exceed $30,000.

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'Battle against truck cargo loss requires action'

ONTARIO, CANADA—"Make your presence felt," is the most important directive a security manager in the trucking industry should follow, according to the head of a Canadian security association.

Colin Venning, head of Commercial Security Assn. Inc., an inhouse security officers group said in an interview with *Business Insurance*: "For too long security personnel have expected people from other departments to come to them. I never wait for other departments to come to me; I go to them.

"You have to know daily what's going on in all departments," Mr. Venning continued. For example, there should be a liason between security and sales.

If there are new accounts with high risk freight to move, security should be aware of it, he said.

Mr. Venning noted an example from his 18 years as security manager for Smith Transport Co. "Sales (personnel) had contracted a high value shipping order from a big clothing manufacturer," he related. "Our revenue for the entire year might have been enough to cover three cartons of the whole shipment."

In cases like this, he observed, security should be informed so that ways of protecting such a shipment can be put into action.

Mr. Venning advised security directors to keep up on the news. "Pay special attention to the financial columns," he said, "note things like increased taxes on items such as cigarets, then check to see what cigaret shipments are moving in the company and how they're being protected."

The security official emphasized the importance of unloading freight as soon as possible upon delivery. "Every second a load is sitting on the ground it is giving someone ideas," he said. "Sitting freight is a sitting duck."

When asked what type of freight is particularly vulnerable to theft, Mr. Venning replied, "If you'd asked me that question a few years ago, I'd have had a fast answer for you. Liquor and cigarets used to be prime targets, but with the economy the way it is today, they'll steal anything."

Daily contact with the OS&D (over, short and damage) department is essential, he went on. "They are the front line troops in the battle against losses."

He advised security managers to ask each day if any shortage of desirable or high value merchandise has occurred.

"The next day inquire if the shortage from the day before has been cleared and wait at night if necessary to question the employes involved," he directed.

Security managers should be aware of the date, time, commodity and location patterns of current shortages claims, Mr. Venning said.

Everyday theft from shipments is the security manager's biggest headache, Mr. Venning noted. Damaged freight due to carelessness and shoddiness is another problem.

"The best form of security is to have employes working with you, not against you," he explained. "When you have an 'us vs. them' situation, it makes for problems," according to Mr. Venning.

Security should play a role in employe relations, the official said. "Security should have its finger on the pulse of the company. If there is a serious issue that could lend itself to a labor problem, it may be averted if security alerts top management."

Though noting the importance of instilling an atmosphere of prevention and awareness of loss potential, Mr. Venning posed the question: Just how far do you go? "You don't want to work in a fortress mentality," he observed.

Security equipment, too, presents a problem of how far do you go, he continued. "If you're going to put in expensive equipment, you've got to analyze if it's really worth it to the company. You can spend $1 million to defend a $15,000 loss."

"Security has to give the company maximum protection at a minimum cost with the minimum amount of interference in day to day operations," he observed. "That sums up our function and our difficulties." ■

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Future dim for national health bill

PALM BEACH, FL.—It's doubtful that Congress will pass a national health insurance bill in 1976. At least that's the prediction of the Washington-based counsel to the Health Insurance Assn. of America.

Even the most liberal Congressmen "have come to recognize that . . . to increase the deficit from $8 million to $10 billion for national health insurance . . would be financially disastrous to the country," said Paul M. Hawkins, the attorney. He spoke to the annual meeting of the International Claim Assn. here.

Another reason for delaying action on national health insurance, Mr. Hawkins cites, is that President Ford, "recognizing the situation even earlier than Cangress, did not even send a proposal to the Hill this year."

The average person is concerned with more immediate problems, he believes, and Congress is picking up the message.

The threat of a Presidential veto of any major increase in spending by Congress over the budget deters other legislators from pressing for national health legislation next year.

Prospects for a total government financed and government controlled national health insurance plan have weakened, Mr. Hawkins pointed out.

"Any proposal must carefully balance the use of public funds and governmenetal authority with a generous application of the experience and proven capabilities of the present health systems," he said.

"Second, any proposal that calls for enormous new taxes at a time when new taxes are definitely not in style will fail," he said. "This country does not have unlimited resources. Congress is no longer stampeded into action by cries of crisis in our health care system . . ."

He instead encouraged efforts to improve health care delivery, calling those actions the "things that really count." ■

Electronics producers eye varied cargo cover

CHICAGO—Three of the midwest's largest electronics manufacturers have an eye on simplified reporting methods and more absorption of losses in cargo programs.

FOCUS on CARGO
ocean/inland

All three—Whirlpool Corp. and Zenith Radio Corp. in consumer electronics, and Motorola Inc., producing electronic components and communications equipment—handle their ocean marine coverage separately from inland cargo transit programs.

Of the three, Whirlpool has the largest deductible, retaining $25,000 of loss for any one claim and $250,000 of loss for any one occurrence in the inland cargo category. Jake Paschall Jr., corporate insurance manager, said he's had these deductible levels for six or seven years. "We're looking at them, but haven't made any decisions" whether to change the retentions, he added.

Zenith and Motorola both use a $5,000 deductible per shipment. And Motorola's Paul Van Zuiden, assistant to the directory of risk management, said that firm also uses an aggregate deductible of $5 million.

Motorola has had this retention level for a long time, and plans to review the inland cargo coverage in February of 1976. Mr. Van Zuiden believes it might be worthwhile to increase the retention "if there's meaningful savings, of, say, more than $10,000 in premium."

Motorola's exposures are unusual to the extent that there are very high values contained in very small spaces, particularly with shipments of semiconductors worldwide. The manufacturer uses a cargo transit policy which is part of its manufacturer's output insurance package, for shipments in the U.S. and Canada. That's currently with Lloyd's, with limits of $500,000 on cargo.

Motorola insures most outgoing goods, normally shipping CIF and billing customers for coverage.

The company made major revisions in its ocean marine coverage in 1974, saving a whopping $70,000 a year on the new policy, and achieving greatly simplified reporting. "We put the open cargo coverage out for competitive bid between two brokers," said Mr. Van Zuiden.

Motorola's now with American Marine Underwriters through Johnson & Higgins. Limits of liability under its policy covering international shipments is $2 million per vessel. "At times, the value of the shipment will exceed that, and we then arrange additional coverage," which has, for example, been needed four times this year, said Mr. Van Zuiden.

The name on Motorola's open cargo ocean policy is Allstate Insurance Co., he noted, because Allstate took Argonaut Insurance Co.'s place in the American Marine Underwriters pool, July 1.

Motorola's Mr. Van Zuiden gets a monthly shipment report from the company's locations around the world, and he forwards a consolidated monthly report to the insurer. He's then billed for premiums based on the consolidated statement. "Under the old arrangement we had to report each shipment, although there was still monthly billing. But in one situation, we found there was duplicate reporting to the broker and to us and we were being charged for both shipments," he explained.

Zenith handles its domestic shipments under an all-risk floater policy covering all Zenith locations, whose primary purpose is to cover the inventory at the locations. "We report values for those locations, on a quarterly basis, and the rate is then factored for the transit risk, said Alan Samuelson, manager of corporate insurance and payroll.

Zenith ships most goods FOB the plant, "so that minimizes our

Continued on page 40

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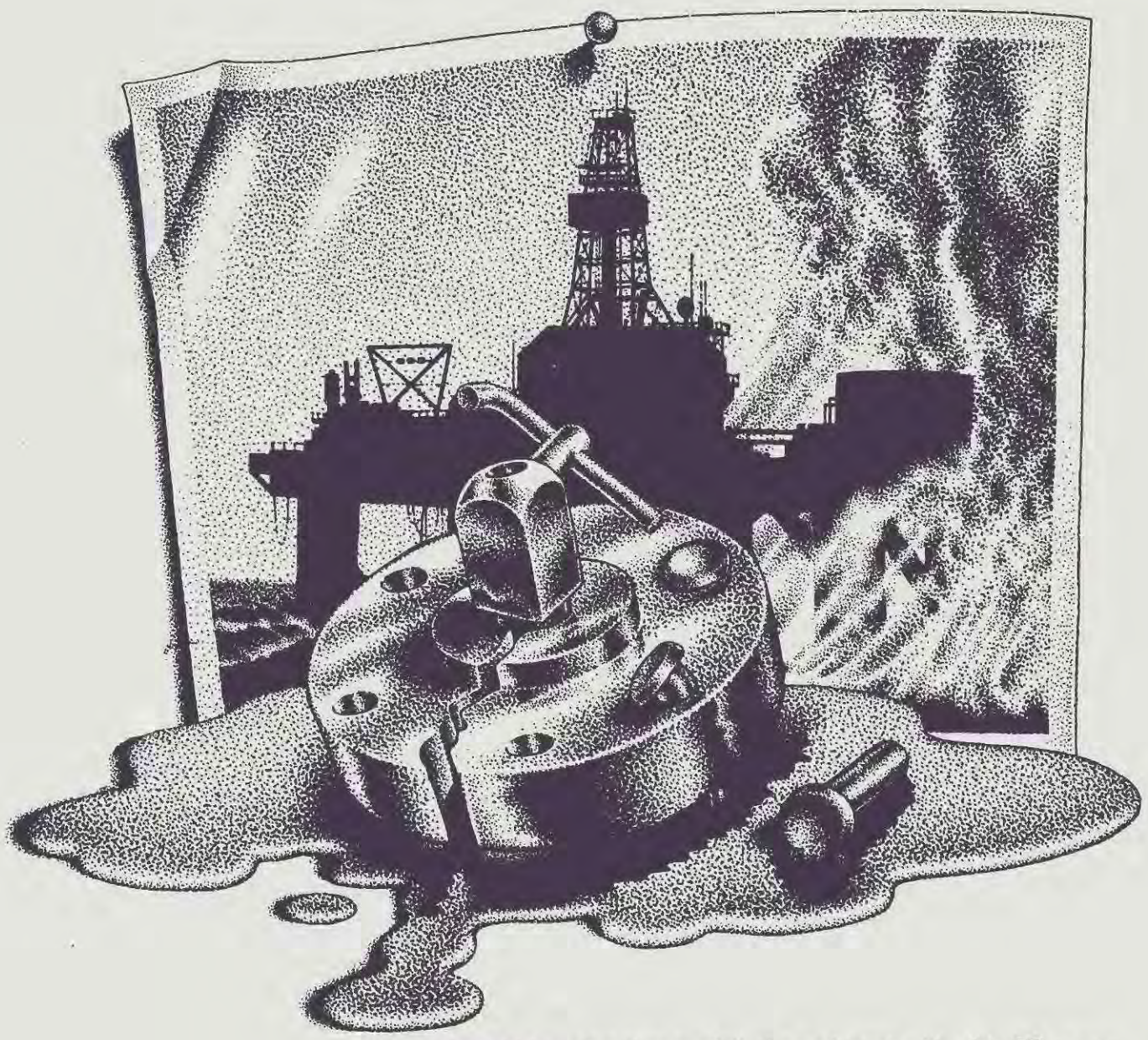
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Dealers omit deductibles, change insurance cover

Containers for overseas metals cargo cut losses

CHICAGO—Commercial metals exporters are using more restricted insurance policies written on a "free of particular average" basis, covering total losses but not weight shortages and some other kinds of partial losses, to cover their huge shipments of metals to overseas customers.

This is a change from the former practice, which was almost universal, of insuring metals shipments for all risks of loss, even the so-called shortages, using 0.5% to 2% deductible levels.

The reason for the change: Thefts in the 1960s and early 1970s became so bad that premium rates skyrocketed. At about the same time, containerized shipping gained popularity. Thus, theft losses from enclosed packages, namely the containers, were less of a possibility.

Bill Betcher, general traffic manager for Commercial Metals Co., Dallas, also pointed out the reason insurers no longer wanted to cover the risk of shortages. "Companies, like ours, that ship steel scrap don't insure for loss of weight (in cargoes), because it's very difficult to measure the loss of weight. So we do it FPA."

In the ocean marine business, the term free of particular average refers to an exclusion of partial losses under an ocean marine cargo policy, unless the partial losses are caused specifically by sinking, stranding, burning or collision of the ship.

But, Mr. Betcher noted, the shift to insuring FPA is not yet done for all shipments, to every country. "If you were going to ship to India, for example, on a break bulk cargo basis, the coverage would be all-risk, because of the risk of theft aboard the vessel or in port, and the risk of damage."

On these all-risk policies, there's generally a 1% (of total cargo) deductible used, said Mr. Betcher. For the scrap industry, at least, there's usually no deductible used with FPA policies. This practice of no deductible is also common when shippers use WPA policies. These "with particular average" policies are used to cover partial losses if they're caused by seawater as a result of rough weather.

Rates for ocean marine coverage have skidded steadily in the five years since coverage for shortages was excluded and containerized shipments became common, noted two ocean marine experts with Bleichroeder, Bing & Co. in New York. Andrew Rossmere, executive vp, and Hans Oppenheimer, vp, of the brokerage firm, noted that containers have reduced losses to such an extent that rates in the nonferrous scrap field have been cut by as much as half.

This category, including copper, aluminum and brass scrap, used to go overseas in bales and bundles and other assorted forms, insured on an all-risk basis with the deductibles. And the claims were "horrendous," in the brokers' words.

Metals shippers and their brokers have also pressed for simplification of clerical procedures, including reporting of shipments to insurers. Individual insurance certificates can't always be eliminated completely for the separate shipments because banks financing the sale or purchase of metals often require the documents. But the Bleichroeder, Bing brokers noted that in an industry like the steel industry, arrangements can often be made to tie right in with a shippers own computer system so insurance-related paperwork can be reduced.

For a small metals exporter, an average shipment might be in the area of $10,000 in value. But more large corporations are dealing in scrap now, and their average shipments would range to $100,000 value, scrap traders said.

Although shortages due to theft can be controlled by using sealed containers, this is still the biggest exposure scrap exporters face, and the most common cause of loss reported to insurers.

"This is where the metals trade gets sticky, because the difference in weight scales used in the U.S. and used abroad might mean the scrap wasn't there in the first place. If the shortage is due to theft while the scrap is on the vessel or while being unloaded, or while in port, the thefts are extremely difficult to trace," said a leading East Coast metals exporter.

"The thefts got so bad at one overseas port that the bales of scrap had to be sprayed with invisible paint, so thieves could be detected," said an insurance specialist familiar with metals shipping. "The problem can be fairly well eliminated with closed containers, but the scrap trade still commonly uses open-top containers," this person bemoaned. ■

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Electronics . . .

Continued from page 39

exposure in the transit area," he noted. The transit coverage, with its $5,000 deductible per shipment, doesn't get used very often because most losses come under that deductible. The coverage is with a direct writer.

Mr. Samuelson analyzes his transit exposures as damage from rough handling and loss from theft. "The problem in analyzing the risk is that we've had very little problem in this area, so we haven't spent much time on it."

The same is true of Whirlpool, said Mr. Paschall. "We have some small pilferage losses, they aren't a big deal for us." Whirlpool, too, ships primarily FOB shipping point, which shifts responsibility for insurance to the customer. "We help them file claims if necessary," he added.

Whirlpool's transit exposure is mainly on shipments between plants and warehouses, where the value of goods in one shipment—in a dozen rail cars—can be $200,000 or more. ■

Health care grant

A three-year, $590,803 grant from the W. K. Kellogg Foundation, Battle Creek, Mi., was awarded to the Center for Research in Ambulatory Health Care Administration. The grant will support a program to improve management of ambulatory care in group practices. The purpose of the overall program is to develop, conduct and coordinate educational activities for anyone interested in group practice administration, a spokesman said.

Benefits account for 55% of N.Y. payroll

NEW YORK—City employes' here will get $2.8 billion in fringe benefits and pensions this year, despite New York's fiscal crisis. According to the Office of Management and Budget, that represents some 55% of the $4.5 billion payroll. The comparable percentage of fringe benefits to payroll in the private employment sector is 20%.

Accordingly, budget experts here, particularly from the Crisis Committee of the City Club of New York, are urging that the city reduce its contributions to employe benefits. By increasing the contributions made by employes, they say, millions of dollars could be saved.

The current fringe benefit package includes health insurance, for which the city foots the entire cost; workers' compensation; uniform allowances, disability insurance; unemployment compensation; training programs; wards to city employes; and supplementary welfare benefits. In addition, all city employes get four weeks' vacation after their first year.

If the city would only pay half of health insurance costs, as private employers typically do, the city could save $70 million a year, according to the City Club.

The city also supports annuity funds for firemen and policemen and sanitation workers at a cost of more than $20 million a year. In an audit in 1973, Controller Arthur Levitt strongly suggested the annuities were illegal; but observers feel it will be difficult for the city to end them.

In the early 1960s, the city began an increased take-home pay plan for employes, under which the city made increased contributions to the pension plans instead of giving the workers a pay raise. At the time, the provision was considered a money-saver. However, it resulted in a pension system that is now virtually noncontributory.

Upon retirement, city workers not only get money from annuity funds if they are police, fire, or sanitation workers, but get half-pay pensions.

While they pay almost nothing to get the generous retirement benefits, it costs the city $170 million a year to support the increased take-home pay provisions. The city makes contributions for the first 20 years of employment, along with some employe contributions, and continues making payments during the period following, when employes make contributions only on a voluntary basis.

Budget experts who argue that the increased take-home pay provision should be eliminated, say that it would save the city an estimated $20 million to $25 million a year.

Other portions of the pension system are frozen under the state constitution. They could not be modified without an amendment to the constitution. That is the reason why the increased take-home pay provision is the one most favored for modification or elimination. ■

State vehicle rates up 10%

PROVIDENCE, R.I.—Liability and physical damage rates for Rhode Island commercial vehicles were increased 10%, October 29.

The overall rate hike was approved by Insurance Commissioner Peter F. Mullaney. It was the result of a decision he made following a hearing in July on commercial auto rate filing.

The Insurance Services Office, a rating organization, had pressed for a 13% overall increase for commercial vehicles in the state since last January.

Although the 10% increase announced by Commissioner Mullaney was less than the ISO sought, the commissioner said that further adjustments may be indicated, depending upon experience developed under a new commercial auto classification system for a period of at least a year. ■

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Discount stores found buying at good discounts, too

State probes fencing deals for stolen cargoes

By PAUL R. MERRION

CHICAGO—A state agency's probe into the theft, distribution and sale of untraceable cargo such as batteries or beauty products stopped what had amounted to $50,000 worth of pilferage from a Johnson & Johnson warehouse near here.

Agents for the Illinois Legislative Investigating Commission infiltrated several small suburban discount stores that acted as "fences" for the stolen goods and learned that the truck driver for

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Johnson & Johnson would sometimes leave the warehouse in Lemont with a few pallets in the truck instead of returning empty to the plant for another load.

On the return trip, he would sell the goods to a distributor or a discount store owner, who would sell the products in the store at a price well below fair market value.

Johnson & Johnson submitted a claim to INA Insurance Co. for the $50,000, according to Joseph Beemster, director of safety and security, and he expects that it will be paid because the company was able to prove that the untraceable goods had been stolen. "We really did our homework," he said.

Subsequent improvements in the security system have been made, he said, consisting of a sealed padlock on the trucks, television cameras in the warehouse and more security guards.

On Oct. 28, 1974, the Cook County Grand Jury indicated five members of the alleged warehouse theft ring dealing in goods valued at $5 million a year.

By more than coincidence, two of those arrested, Peter J. Gushi and James A. Maniatis, were also arrested in connection with the $4.3 million Purolater heist last fall.

An informant for the commission had infiltrated Mr. Gushi's Family Bargain Center in Worth, Il., a discount house actively engaged in fencing, according to the commission. While working there, he learned that Mr. Gushi, Pasquale Charles Marzano, Luigi Michael Di Fonzo and others were planning an enormous theft.

According to its 1674 report, the commission knew that it would be the largest cash theft in the history of the country; that it would occur on a Sunday night; and that the money would probably be transported to Grand Cayman Island in the British West Indies. The target and the exact date of the theft were not known, however.

This information led to the rapid breakthroughs in the case and subsequent arrests once the theft occurred.

Also arrested in the warehouse theft ring case were Delmar Lee Markham, owner of Johnnie's Discount House in Summit, Il., who is currently serving a three year federal sentence for theft in interstate shipment, Charles Soteras of Palos Heights, who got a one-year work release sentence and five years probation after pleading guilty, and Paul Knight of Stickney, who has fled the state while on bond.

These arrests were based on the sale of traveler's checks and wristwatches taken in armed robberies at the Bank of Commonwealth in Sterling Heights, Mi., and the Douglas Dunhill warehouse in Oak Forest. The robbery of the Dunhill warehouse netted about $1 million in jewelry and other goods.

Testimony at a commission hearing on fencing last September showed that the problem pervades the whole state. More hearings are expected next month, according to executive director Charles Siragusa. Five witnesses who pleaded the Fifth Amendment during the September hearings have been granted immunity, and they will face a year in jail for contempt of court if they again refuse to testify, said Mr. Siragusa. At least two are expected to cooperate for sure, he said.

Part of the purpose of the investigation is to recommend specific legislation to remedy the problem. Mr. Siragusa said there will be probably two suggestions. One would be to allow a manufacturer to collect triple damages from someone who is in illegal possession of its stolen goods after buying them from the original thief.

The problem with thefts of items like small batteries (Union Carbide was found to be a victim), beauty products, gallons of milk, etc., is that there are no serial numbers and so no way to trace them and prove theft. The other area of suggested legislation will "try to come up with some language to compensate for the difficulty of proving theft," Mr. Siragusa said. ■



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Best West'n forms agency as provider to motels

LA JOLLA, CA.—B-W Insurance agency, which will specialize in providing insurance protection to the members of the Best Western Assn., has been created under a joint venture formed by Best Western Motels Inc. and Western Continental Management Corp., a holding company based here.

The new agency should generate approximately $2 million in premiums in its first year of operation supplying insurance to the 1,711 Best Western Motels, estimated a spokesman for Western Continental Management Corp.

He told *Business Insurance* that his company believes that B-W Insurance agency will "penetrate 40% of the Best Western Motels group during its first two years of existence."

The impetus for the formation of the B-W agency, he said, were the difficulties that Western Continental Management noticed facing hotels and motels in search of insurance protection.

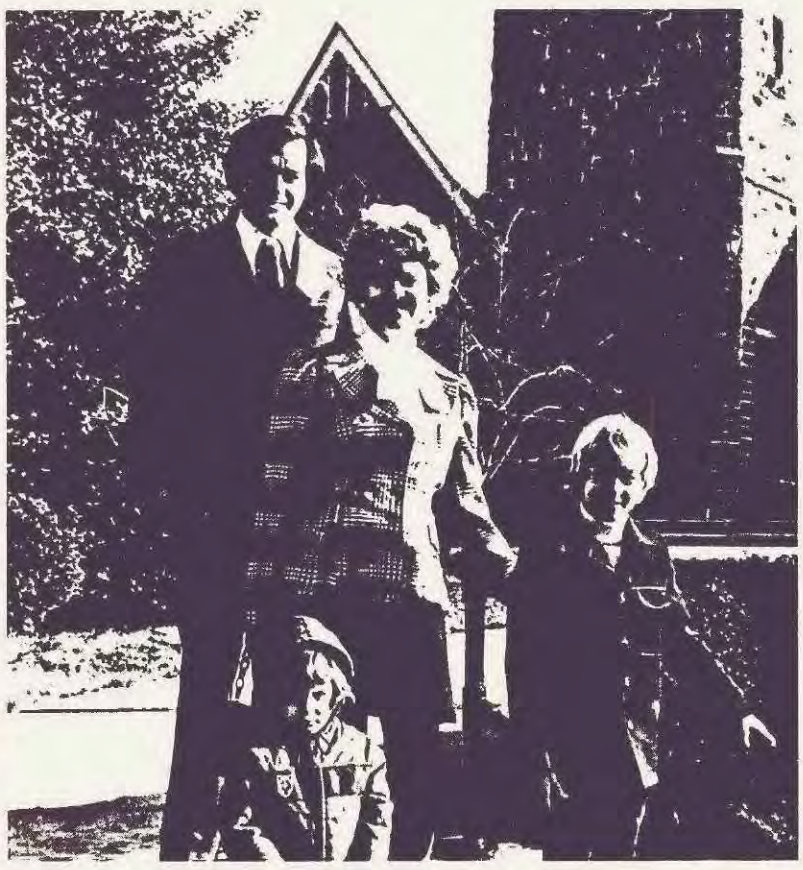
Thanks to inflation and other negative factors, he noted the lodging industry has had to contend with spiraling premiums, policy cancellations and even incomplete coverage.

"Allowing the 1,711 Best Western Motels to band together to secure coverage should resolve some of these headaches," he went on. For one thing, spread of risk allows each Best Western Motel to achieve increased insurability.

"We figured that a motel in a high risk tornado area could enjoy complete coverage at reasonable premium costs with membership in a program encompassing a large number of motels in lower risk locations," he explained.

The spokesman noted that the B-W Insurance Agency is patterned after the Van Buren Insurance Agency, Phoenix, which specializes in providing insurance for Ramada Inns Inc. hotels. ■

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Design mutual company to provide malpractice solution in Tennessee

NASHVILLE—A mutual insurance company, set up by the Tennessee Medical Assn. (TMA) and managed by Armistead Miller Wallace Inc., will begin providing medical malpractice coverage to doctors and their employes on Jan. 1, 1976.

A one-time assessment per doctor with an approximate range of $500 to $3,000 will be levied on any doctor in the state who wants to purchase insurance through this arrangement in order to build up a $4 million surplus fund as recommended by the state insurance commissioner. A doctor is not required to be a member of TMA to take advantage of the coverage, said Hadley Williams, assistant executive director of TMA.

Premium rates have not yet been established and will probably depend on a physician's risk classification by medical specialty, according to a spokesman for Armistead Miller Wallace (AMW). The brokerage firm will receive a flat management fee for its services which will be negotiated every year, the spokesman said.

The mutual company is designed to provide a more permanent solution to the problem of malpractice coverage in the state. A joint underwriting association, scheduled to remain in force until July, 1977, can be terminated at any time by the insurance commissioner "upon determination that coverage is available in the voluntary market," the spokesman explained. The joint underwriting association was set up as a temporary stop-gap measure.

Coverage for the mutual company will be provided on a modified claims made basis, which means it covers claims reported during the policy period and "for no additional charge gives full protection beyond inception and before the expiration date for physicians retirng, dying, or becoming disabled while the policy is in effect," the spokesman said.

Rates charged by the mutual company are expected to be "significantly lower than those of the joint underwriting association," the AMW spokesman said.

The coverage will not apply to emergency medical technicians or hospital employes "because they can get coverage in the private insurance market," the spokesman continued. In any case, coverage through the new mutual company will not be mandatory.

"Many doctors may still be covered by private carriers. If the current carrier decides to renew its policies, that's fine too," the AMW spokesman said. ■

FASB issues rule on loss reserving

The Financial Accounting Standards Board, Stamford, Ct., proposed that companies whose financial statements will be substantially affected by the new rules on accounting for contingencies, should go back and restate earnings and operations for as many prior years as possible. This amendment to the FASB statement No. 5, issued last March, would smooth out the transition for companies affected by these rules. The FASB had originally said the cumulative effect of the new accounting rules on reserving for future losses should be reflected in the single year in which the rules were applied.

Dutch insurer's correspondent

Poyle Associates Inc., Southfield, Mi., was named U.S. correspondent for Van Calcar Insurance Group, operating out of the Netherlands. The Van Calcar Insurance Group is managing broker for Dutch Mutual Insurance Co. and provides risk management, insurance brokerage and reinsurance services to its European clients.

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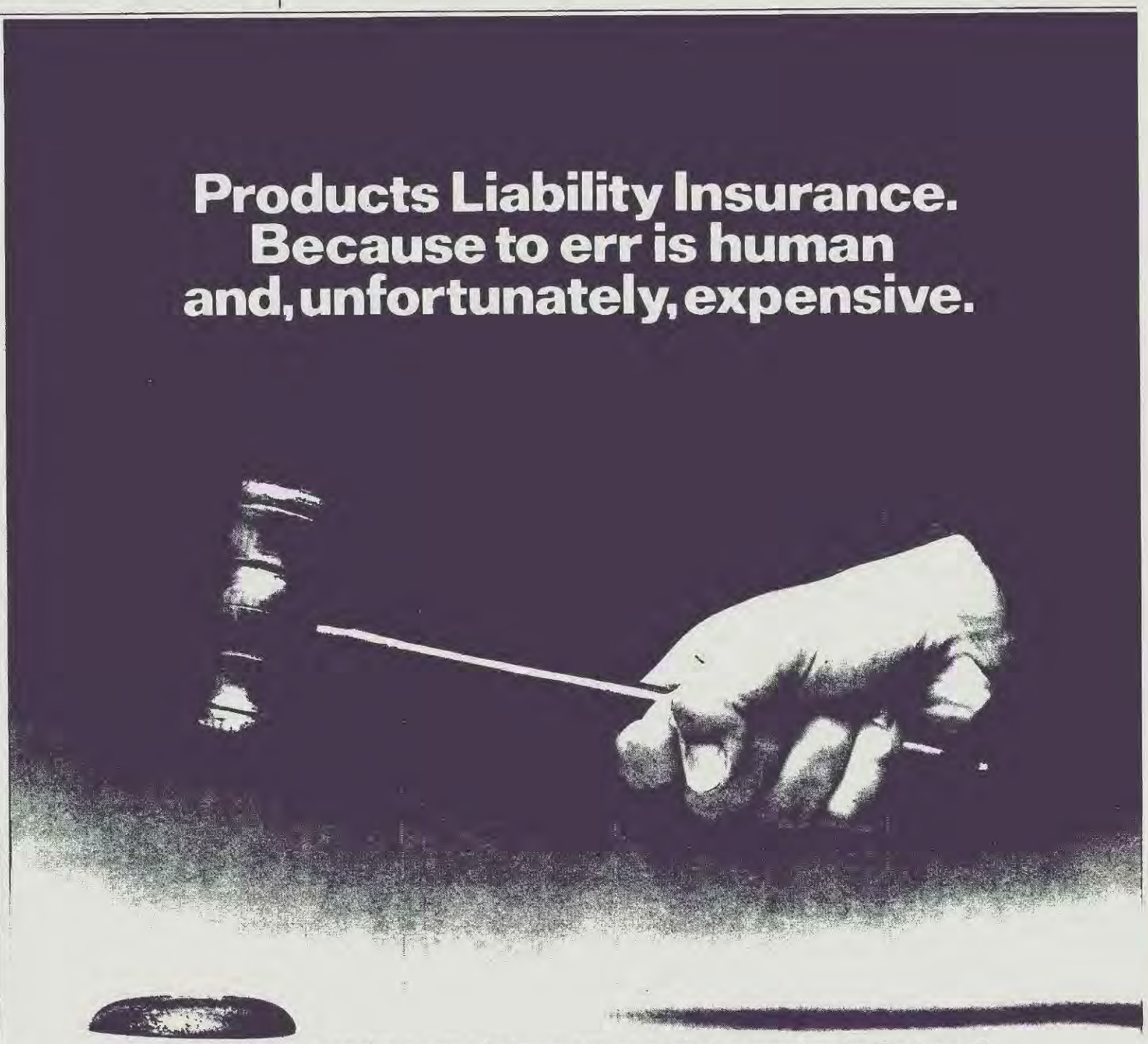
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Most fires can be extinguished with fast action

MILWAUKEE—The fire marshal at Miller Brewing Co., based here, believes that 90% of the fires which occur at the workplace could be put out "with instinctve action."

The first five minutes of a fire or until the fire department arrives is the most critical time, explained Roger W. Allen, Miller's fire marshal, whose efforts at the company since 1972 are credited with Miller Brewing winning first place in last year's National Fire Protection Assn. contest.

Mr. Allen boasts a 40-member volunteer fire brigade at a new container facility, 25 miles northwest of the main plant with 10 employes per shift and a total of four shifts. About 90 men and women belong to Miller's 65-acre brewery Milwaukee fire brigade.

Miller Brewing operates 24 hours a day, seven days a week, including holidays, so Mr. Allen believes it's important to have his trained fire personnel representing a variety of job levels stationed at all major locations. There are 63 buildings within the main facility.

"If it's an explosion I tell employes not to worry about it because it's too risky," Mr. Allen said.

He views the fire brigade's drills as a vehicle for corporate morale building as well as fulfilling a necessary function.

"We have a waiting list for volunteers," Mr. Allen proudly said. "We don't take anybody just because they walk in the door," explaining that there is a minimum physical requirement and a three-month training period, which also doubles as a new employe's normal probationary period.

"People think beer can't burn and you constantly must prove to them that it does," Mr. Allen said, referring to the combustible cardboard packaging used for beer stored at the plant; the wooden pallets on which cases of beer are placed; the vapors such as amonia, chlorine and carbon dioxide which are used in the brewing process; and the presence of grain dust "which can be as explosive as gun powder," he pointed out.

"There's not much you can do about the materials used or the method of storage," Mr. Allen continued. "Plastic materials would present even more hazardous risks of fire," he said.

Property insurance coverage for the wholly-owned subsidiary of Philip Morris Inc., New York, is handled by Factory Insurance Assn. but no figures were available to tie the costs of Miller's fire prevention program to premium savings, according to Paul Goldschmidt, insurance manager for Philip Morris. The main brewery facility was valued for property tax assessment in 1974 at $31 million, a spokesman said.

Mr. Allen estimated that his equipment replacement budget for the year is less than $10,000, which covers fire aid supplies, a vehicle to transport them in and fire extinguishers.

"We don't equip our brigade with fancy uniforms," Mr. Allen emphasized. "We fight fires in whatever we're wearing at the time." A ceremonial outfit consisting of a shirt, jacket and trousers for drills and demonstrations costs $25 per person, he said.

Miller brewing's fire safety office has received 31 fire and other emergency calls so far this year, Mr. Allen said. Fire was the reason in one-third of the calls while the other requests were for oxygen masks and first aid treatment.





Safe Brewing
Miller beer speeds along packing line at the brewery's Milwaukee facility (above) while a worker checks beer bottle caps as part of the firm's quality control program.

His philosophy on fire education and employe motivation is "constant communication." People become complacent, he said, because fire is the "farthest thing" from their minds. "We must have fire conscious people here. You can't scare employes into being motivated," he observed.

Mr. Allen believes the volunteer fire brigde is motived in part by the recognition it receives from its peer group and Miller's top management.

"The volunteers have the confidence that they can save someone's life or prevent an accident," he said.

Miller's original fire brigade was organized in 1915 and was revived to its current level of participation in 1943.

Advanced training for larger fires, especially those caused by flammable liquids, is received outside the company, Mr. Allen said. A manufacturer of fire fighting equipment holds a one-day school each year in the Milwaukee area which gives "those of us in industry an opportunity to learn about these types of fires," Mr. Allen explained.

The Milwaukee plant produces 7,000,000 barrels of beer a year and employes about 2,500 workers. A $250 million expansion to upgrade all Miller plants around the country is credited by Mr. Allen as offering opportunities to upgrade fire safety factors as well. ■

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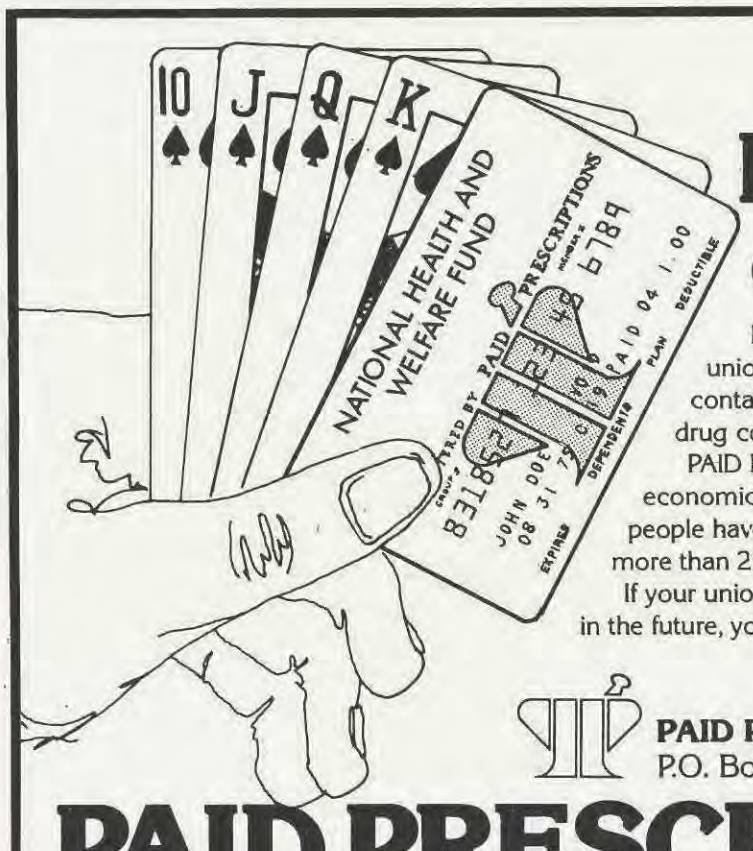
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FAA waives deadline for safety device

WASHINGTON—The airlines industry is getting more time in which to install a crash preventing device on board its 2,400 planes.

The Federal Aviation Administration (FAA) said it will waive its December 1 deadline and allow airlines up to six months longer to install ground proximity warning devices on board the aircraft.

The device produces both visual and aural warnings if an aircraft is on a flight path that will cause a crash. FAA officials hope it will cut down the frequency of approach and landing accidents that normally result in severe losses.

FAA said they will allow more time only to those airlines that show they cannot meet the December 1 deadline for reasons beyond their control.

Air transport industry officials have complained of equipment delivery delays. Despite this problem, the Air Transport Assn. said its member airlines have indicated that 75% of the total airline fleet will have the device in place by the December 1 deadline. ■

Reno jaunts pay off as a safety incentive

CASCADIA, OR.—"It's a tangible savings and we're glad to have it," declared a grateful Bert Wright, safety director of Tomco Industries Inc.

He was referring to the $18,750 which has been shaved from his company's premiums on its workers' compensation policy covering its 160 employes. The privately-held veneer, sawmill and stud mill operator pays about $135,000 annually in earned premiums on its workers' compensation policy from the State Accident Insurance Fund.

Concluding that that sum was a bit stiff in view of his company's "pretty good" safety record, Mr. Wright last year concocted a novel incentive aimed at upgrading the safety performance of his firm's work force and shrinking Tomco's workers' compensation premium load.

All expense-paid, three-day holidays to Reno's gambling casinos was his idea and it appears to have worked.

Mr. Wright told *Business Insurance* that the trip concept, which has been in effect since the beginning of the year, has met with solid employe acceptance, higher morale throughout the concern and—perhaps, best of all—the $18,750 drop in annual workers' compensation premium load.

He said that all Tomco's hourly wage employes are eligible to compete for the trips. These workers were first divided into competing teams of 10- to 15-members. Four times a year, the top man or woman in each accident-free team is awarded a Reno holiday. Should a team experience a lost-time accident or a major safety violation, however, it is disqualified for competition, said Mr. Wright.

After the first quarter, he continued, nine teams established safety records good enough to qualify a member for a chance at Reno's gambling machines. Five teams sent members south after the second quarter.

"That is, five couples—married—spent a weekend in Reno at Tomco's expense," reiterated Mr. Wright.

He was quick to observe that if an unattached man or woman should be named a team winner and want to go to Reno with a partner of the opposite sex, Tomco policy demands that the company pay the expenses of the team winner only.

Attendance records, participation in safety meetings plus personal safety practices are the criteria used by the supervisor of each team to select a person to go south.

So encouraged at the reception given the trip contest is Tomco, indicated Mr. Wright, that the company has decided to continue to send employes to Reno four times a year for the next 24 to 36 months.

That $18,750 cut in premiums or about 10% of the annual premium figure was all the incentive Tomco need to lock the Reno idea into its benefit program, Mr. Wright said. ■

Elect officers for university risk managers

SAN FRANCISCO—New officers for the University Risk Managers Assn. were elected at the group's annual meeting held here late last month.

George A. Reese Jr., Temple University, was named president; James D. McElveen, Louisiana State University, is vp; and Dale O. Anderson, University of Iowa, is secretary treasurer.

Two topics in which the association will be actively involved in the coming year are malpractice and directors' and officers' liability insurance, according to Mr. Reese.

Also planned are one-day insurance seminars for risk and insurance managers of universities in the Eastern and New England sections of the U.S. ■

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CARGO MARKETS ALIVE AND WELL

Insurers face altered risks but respond with greater capacity, new ratings and new reporting methods

By CHARLES N. SHEPHERD
Marine Cargo Department
Frank B. Hall Co. of New York Inc.

THERE HAS BEEN very little change in the physical composition of the American cargo insurance market in recent years. Some of the old line property and liability insurers whose writing of marine insurance was done through marine managers, such as Chubb, MOAC, McGee, and others, have set up their own marine underwriting departments, dealing with agents and brokers directly. There are some newcomers to marine insurance market who have established themselves as financially sound, and some of the leading marine underwriting companies of yesteryear have seen others replace them in the "pecking order" of volume written for the class.

The purchase of insurance companies by "conglomerates" or other financial entities still give rise to some feelings of concern that the "parent" company will exert non-underwriting pressures on the underwriting philosophy or capacity of the purchased companies, but these concerns have proven to be unwarranted—and were probably groundless from the very outset. Cargo underwriters today are involved with more unusual and sophisticated risks and are offering greater capacity, than ever before—and the end is nowhere in sight.

In spite of the declining capacity in the property and liability insurance market brought about by the depressed investment portfolios, lowered reserve funds, and rising claims volume, American brokers are enjoying unprecedented availability of capacity for cargo coverage. Not only are there more (marine) underwriters to talk to, but the old-line houses are capable in many cases of taking lines of as many millions, today, as the corresponding numbers of "hundreds of thousands" of only a few years ago.

With the advent of the super bulk carriers, full cargoes, sugar, petroleum products, and other bulk commodity shipments are running to the tens of millions—$30 to $40 million cargoes are no longer a rarity—and the American market has been able to absorb these without apparent strain.

The basic cargo forms are pretty much the same, today, as they were 25 years ago. Today, however, few shipments are insured against limited conditions or named perils. Even bulk commodities are now frequently under basic all-risks conditions with exclusions that are intended to eliminate what underwriters choose to term "normal trade losses"—losses that are so likely to occur that they cease to be fortuitous and border on the inevitable.

While the forms have remained somewhat unchanged, the manner of assessing premiums has been undergoing change. Historically underwriters have assessed a percentage of the amount of insurance, known as the rate, as the premium charge. This was done shipment-by-shipment with many open policies containing rate schedules covering several pages and each page frequently containing four to six columns of rates, covering a multiplicity of products, geographical voyages and coverages.

Today the trend is toward single worldwide rates for each major commodity and in some cases a single worldwide rate for all commodities. Instead of reporting individual shipments, the trend today is toward "bulk" reporting of insured values on a quarterly, semi-annual, or annual basis. In the latter instance, especially, the assured pays a deposit premium in one, three, or four installments and on the (policy) anniversary date, an adjustment is made based on actual values shipped during the policy period, against which is applied a single rate. This has eliminated a tremendous amount of administrative paper work on the part of assureds and underwriters.

The major American war risks underwriters for years resisted any change toward this "block" concept of reporting, but recently they have capitulated—as did their London counterparts about 10 years ago. (Note: One or two American underwriters have been offering war risks coverage on a "block" basis, for several years; but they were a very small minority.)

While the banking community continues under letters of credit to require the use of certificates or "special policies" as representing negotiable evidence of insurance, the cargo assured no longer needs to have special forms completed for shipments not involving letters of credit. Composite bill of lading forms which include reference to the insuring conditions, as well as the contract of carriage (for the shipment) are in common use.

Alternatively, forms are available that require no typing or writing, but merely provide evidence of insurance referring to the existence of an open cargo policy, with the policy number and the basic insuring conditions with claims settlement information, previously contained on certificates or special policies. The use of either of these forms will result in considerable saving in handling costs to the large shippers.

Containers, which have revolutionized the international transportation field have reduced and in many cases eliminated, small loss frequency for most shippers who can use door to door container service. There are still some underwriters who think container shipments should be subject to the same or higher rates as break-bulk cargoes. But for the most part, containerized cargoes enjoy a lower insurance cost because they have proven themselves to be better risks.

Of course, there are always enough incidents of leaky containers, hijackings, loading and unloading accidents to bring forth groans from underwriters where low(er) container rates are discussed. True, containerized cargo claims individually tend to be larger, dollarwise, but few can argue that compared to the mass of break-bulk, pilferage, non-delivery, and just plain damage claims, cargoes today are getting there faster and safer (in containers) than ever before.

Multimillion dollar shipments by steamer have also been followed by similarly valued international air shipments. The growing popularity among most major commercial airlines of cargo-carrying 747s with their 100-ton capacity—usually high valued, low density cargo—dictates the need for high aircraft limits also. We are seeing more instances in open cargo policies where the vessel limits and aircraft limits are equal, in the seven and eight digit figure range.

International air carriers are subject to the Warsaw Convention rules relative to their liability for cargoes carried. Unless specific values are declared (and higher freight rates paid, accordingly) the air carrier liability is limited to an amount equal to $9.07 per lb. of shipped weight, without regard to the actual value, measurement or packing of the shipment. So potential recovery for loss or damage from the air carrier may be minor, as compared to the monetary risk!

For years, the ocean carriers—whose liability is dictated by COGSA (Carriage of Goods by Sea Act)—at $500 per package or shipping unit, provided substantial recovery potential for cargo claims. The growing trend to consider containers as "shipping units," despite descriptive wording of the number of "packages" contained therein, etc., is rapidly reducing the recovery potential against responsible vessel operators. We are seeing vessel operators successfully limiting their liability to $500 on containers whose contents are valued at many thousands of dollars.

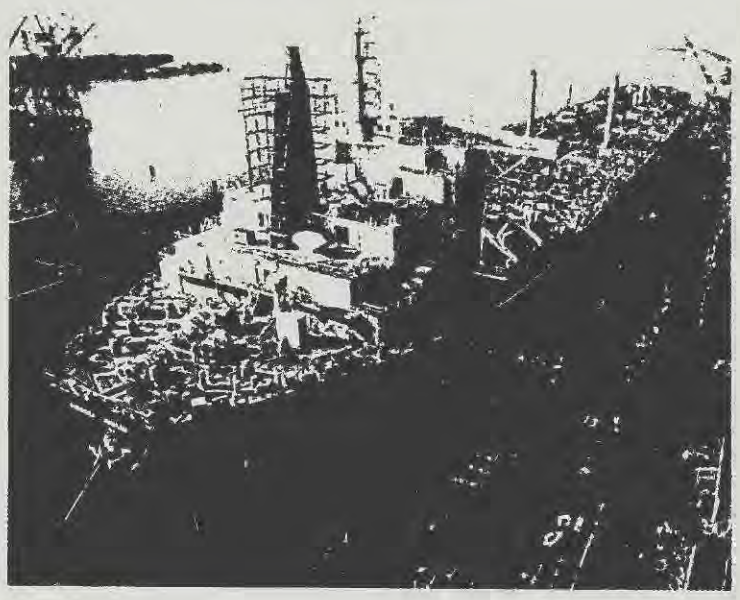
The reduced recovery potential against responsible ocean carriers and the growth in air cargo transit requires the risk manager to consider:

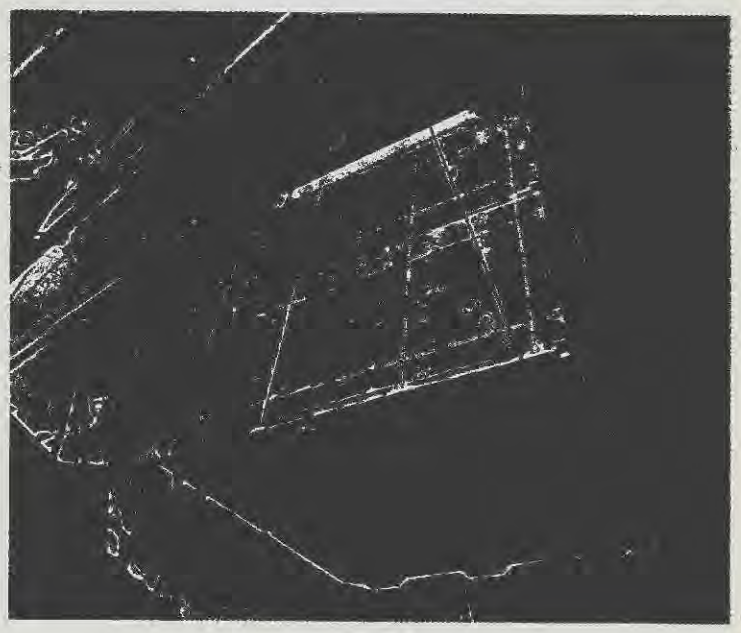
1) The probability of recovering substantial amounts from carriers is not as likely today as was the case when break-bulk steamer shipments were the norm.

2) If the cost of cargo insurance is based on the respective premium and loss ex-

Continued on following page







GOODS IN TRANSIT

Multimillion-dollar shipments are now commonplace by sea, air and rail. Shippers and common carriers have a wide variety of alternatives to protecting themselves against the financial impact of damage or theft of costly cargoes.

Cargo . . .

Continued from preceding page
perience, reduced subrogation or recovery from carriers by underwriters precludes substantial reduction of "net" paid losses, as has been the case in the past.

Whereas, in the past, recoveries against carriers represented subrogation benefits of upwards of 40% on an average book of claims, the figure today is likely to be under 25%. At the International Convention of Marine Insurance just a few years ago, when cargo representatives of various European countries were polled on the subject, it developed that subrogation recoveries (on their entire books of cargo business) were 10% to 20% for many of those reporting.

Another growing trend in ocean cargo insurance is the adoption of large deductibles. Underwriters try to maintain cargo accounts with loss ratios between 60% and 70%—in most cases competition dictates how successful they are in this respect. Therefore the underwriter seeks to obtain a premium volume that will pay him 30% to 40% more than the claims he pays. This means the assured is faced with the prospect of paying $1.30 to $1.40 for each $1.00 of claims he collects.

Cargo assureds, realizing this, are taking greater interest in absorbing as much of the claims dollar as practical—in keeping with corporate philosophy—since the absorbed claims dollars only "cost" 100 cents as compared to paid-claims dollars which may cost 130 to 140 cents.

Of course, when underwriters compute the premium and loss experience on cargo accounts, they give credit for any recoveries (subrogation) against paid losses. However, the use of containers, increased air transportation and other factors have been reducing the recoveries against various carriers of cargoes. (Frequently a substantial shipper, using his volume of freight, has more "clout" in recovering from liable carriers than insurance companies in their subrogation efforts.)

In considering any size deductible, however, the assured must recognize that although he can see to it that his product is efficiently packed and routed, once a shipment leaves the point of origin it is entrusted to the care of truckers, stevedores, ship operators, and others over whom he has no control. Thus, for a determination of how high a deductible he should absorb, the assured, like the underwriter, can only rely on past experience to determine what he can anticipate in gross losses. He must "gamble" on the experience getting no worse—or improving. He can rarely exercise control over his experience beyond the refinement of packaging and shipping procedures. He can, perhaps, anticipate a better recovery record—on losses under the deductible where he can go directly against the carrier—provided he deems it economically feasible to expend the effort to do so.

The growing trend toward "nationalization" of insurance by countries throughout the world can be a matter of concern to those who trade with such countries. The "nationalized" country usually insists that all exports and imports be insured by an insurance carrier domiciled within the country, frequently a government owned insurer, at that. The coverage provided is very often limited in nature (not all-risks) and the rates or premiums are rarely, if ever, competitive.

When the U.S. buyer must purchase on CIF (cost, insurance and freight) terms, with the (foreign) supplier providing the insurance and the U.S. seller must sell on C&F terms (cost & freight), with the foreign buyer providing the insurance, the assured should see that his ocean cargo policy provides coverage:

1) against the contingency that the foreign insurer can not, or will not, pay otherwise valid claims; and

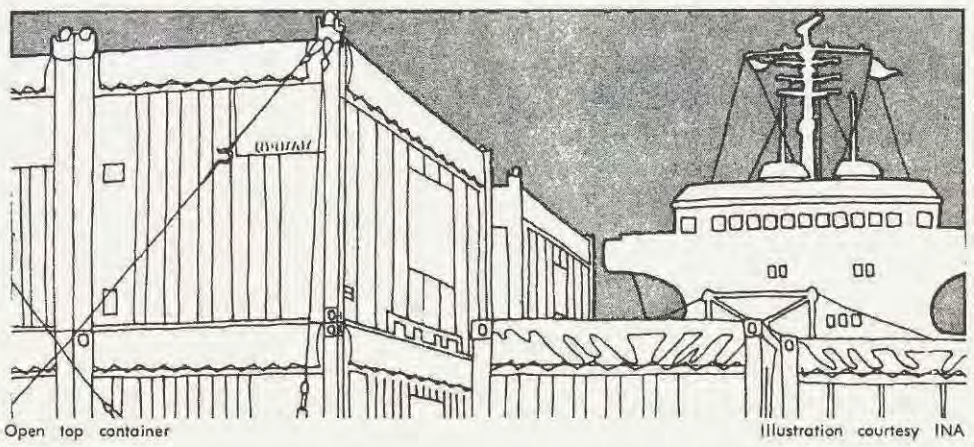
2) for the difference in conditions between the coverage provided by the foreign insurance and the conditions enjoyed under his own cargo policy.

This contingency and DIC coverage is usually provided by American underwriters at a fraction of the regular marine rates.

All things considered, today's risk manager has available a mature, financially sound, and competitive cargo insurance market that can provide all the coverage he may need—or as little as he may require, to complement his own retention of a portion of his risks. In meeting the demands of risk managers the cargo underwriting community is reaching a degree of sophistication never before realized by dealing with higher limits, deductibles (with or without buy-back features), captive company "reinsurance" schemes, "premium" versus "rate" concepts, and new methods of transportation. ■

CAN CARGO BE STOLEN FROM A SEALED BOX?

It can be, and is. Although the container is resealed, of course. It all makes for very sticky claims.



Open top container — Illustration courtesy INA

By DAVID J. BERNSTEIN
Assistant vp
Bleichroeder, Bing & Co. (Illinois) Inc.

WHEN CAN A LOSS on an insured shipment not be an insured loss? When it is a commercial loss. Sounds like a simple riddle and answer, but thanks to the growth of containerization this simple statement is becoming increasingly complex.

The great popularity of containers in international trade has altered the pattern of losses sustained by both shippers and consignees. Agreed that pilferage seems to have been greatly reduced and minor damage claims should certainly be minimized, but new problems in proving losses to the satisfaction of insurers have arisen which seem to be indigenous to container shipments.

One of the most annoying, to all parties, is the loss of merchandise from within a sealed container. In this instance the shipper stuffs, seals and delivers the container to the carrier. The ocean carrier issues a "shippers load and count" bill of lading (the carrier shows the number of cartons but by using the above wording, he says that he takes no responsibility for shortage from within the container). When the consignee finally receives the container and breaks the seal, he finds that there are fewer cartons than there should be.

The question which then has to be asked is: Where did the loss happen; how did it happen; and who is responsible for it happening? Just as we have many questions, so the answers become more numerous and complex. No party to the loss as yet to have been able to develop a systemized approach to this problem.

A shipper is intimately involved in the movement because he must always be concerned with customer goodwill as well as the possible expense of replacing missing products.

When a loss occurs, normally the sales or executive department will throw the problem into the lap of the insurance manager with the curt order, "do something"! The first step is to start at the source, the shipping department. While intermodal transportation has become more sophisticated, many shipping departments have not kept pace. The container has been a great help to many, but a container movement requires some thought and preparation with respect to its stuffing, sealing and shipping.

The insurance manager should meet with the head of traffic and devise a packing plan which not only would allow for maximization of the product carrying capacity, but would cut down on the use of dunnage and possible content movement which could lead to loss. A packing diagram or schematic also assures the shipper, and confirms to the consignee that the proper number of packages will be put into the container. Upon receipt, if the consignee finds that any portion of the shipment does not conform to the schematic, then he is alerted to a possible short shipment or a theft, and is eventually better able to demonstrate to the carrier and/or insurance company that a loss has actually occurred.

When sealing the container, the shipper should note the seal number on his documents which can then be checked on delivery against the seal still attached to the container. There are some shippers who take the attitude that they have no further concern with the shipment after it leaves their premises and they have fulfilled the terms of sale.

Wrong. What happens to shipments can greatly affect their business health. If the shipper sold the goods at terms requiring him to provide insurance, then any subsequent claim for short delivery if paid by the insurance company will directly affect the seller's loss statistics on his open policy. If he sells at terms where he is not required to insure, the shipper must be concerned that the buyer takes out proper insurance. On sales at sight draft or on open account, if the customer did not arrange for sufficient insurance, then the insurer could deny liability in the event of loss and the consignee might refuse to pay the invoice.

Shippers or exporters have problems, but even greater aggravation is experienced by consignees or importers. The exporter is far from the scene of loss. In most instances he is detached from any negotiations and mediation with carriers and insurers. However, the importer has the responsibility to prove the loss and must negotiate with all other parties involved. There are certain steps which the importer should take in order to provide a logical sequence of events to the insurance company so as to facilitate eventual settlement.

First and most important, when the importer takes delivery of the container, he should open it and note any irregularities on the trucker's receipt. A quick inspection could save a lot of questions later on. If the seal numbers don't match, then it should be saved and the discrepancy also noted on the delivery receipt. Photographs of the conditions inside the container at the time of opening would be most helpful and the importer should consider keeping a loaded camera on the premises.

If a loss is suspected, a surveyor should be called in. Therefore, the importer should contact his ocean marine insurance broker and arrange for a survey. This is one of the many instances where a broker with intimate knowledge of the ocean marine field can prove to be invaluable. The surveyor and the broker, having more experience with losses than the importer, can guide him and help to determine how the loss occurred while all the evidence is still fresh. If the importer has arranged through his broker his own insurance with a U.S. company, then his underwriter will choose and pay the surveyor. Otherwise the importer must follow the instructions on the supplier's insurance certificate. Most times the importer will pay for the survey on the supplier's certificate and must make it part of the claim.

Some insurers have developed the use of mathematical formulas to determine whether the stated number of cartons in a container could actually fit. In certain instances it was shown that the container just could not hold all the cartons claimed by the shipper to have been packed into it. This method is most useful when a container arrives in apparent sound condition, but upon counting, the importer finds cartons missing.

After all negotiations have run their course, if the claim is rejected by both the transportation carriers as well as the insurer, the only recourse is to go back and make claim against the shipper.

The importer should insist that correct seal numbers are to appear on all documents and if the shipment is of a particularly high value with many odd sized cartons, the use of an independent loading supervisor should be considered. This supervisor will then attest to the number of cartons packed as well as providing a schematic as previously discussed, which the importer can use for reference.

We are now led to the question: How can goods be missing from within a sealed container? Just as in many lines of business, technological advances are usually ahead of the human ability to handle them. There is quite often a time lag before support systems catch up to new methods.

Basically, the seals most widely used are simple metal bands which are slipped through the door handle of the container and the ends joined with a compressed piece of soft metal. On the band are embossed digits which form the seal number. This type of seal has been in use for many years in the domestic trade. Those who plan to steal have had quite some time to figure out how to open and reclose the seal and many times they carry complete resealing equipment with them.

The hinges on the container doors have also come in for special attention. It is possible, given enough time, for a thief to support the doors with a forklift and at the same time remove the hinges. The door can then be swung away and the contents removed at will. The most sophisticated perpetrators have been known to replace cartons with new ones filled with rocks or other heavy material so that the container weights coincide with the documents and therefore delay discovery of the loss.

The fact that thieves have the time as well as the advanced equipment to achieve their objectives should serve to alert all parties concerned to the fact that the integrity of the container cannot be considered as the final line of security. One of the most successful and least expensive methods employed by importers to thwart these losses is picking up the container promptly upon notification of its arrival at the pier. The longer the container waits at the pier, the more chance there is that it will be broken into.

Continued on page 52

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Container . . .

Continued from page 50

There are certain instances when a container will legally be opened prior to delivery. The master of a ship or any carrier can open the container if it is reasonably assumed, for example, that the contents are leaking or on fire. Most often, however, the container will be opened by customs officials. Ideally, the customs officer would open the container, inspect the contents and reseal on the spot. However, due to the large number of containers constantly moving through the vast container depots, the officers are forced to operate on an assembly line basis.

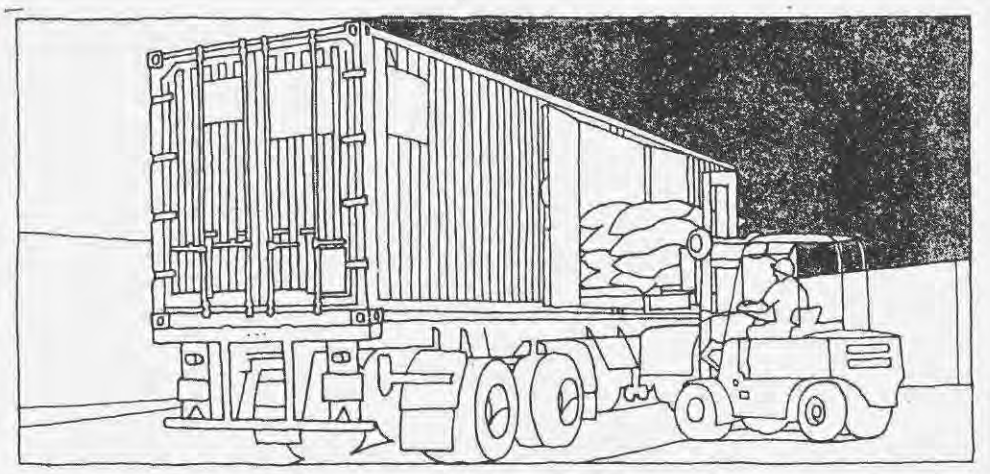
The containers are lined up in long rows and inspectors travel along these rows, opening containers and checking their contents. The inspector then leaves the container and another customs official follows behind, resealing and marking the new seal number on the pertinant documents.

At times however, there is a space between the two officers, and thieves have taken advantage of this personnel problem by moving in before the container is resealed. Once the container is closed again, the loss won't be discovered until the shipment reaches the consignee.

There are several insurers who have taken the approach that an unexplained shortage is strictly a commercial loss which must be settled between the shipper and the consignee. Unless definite proof can be supplied that the container was opened during transit they will not pay a claim.

The amount of premium dollar generated by an assured's total ocean marine policy as compared to the losses is very often in the back of an insurer's mind when questionable claims are considered. One leading underwriter, highly regarded in the industry, has indicated that where there is no proof of break-in he will usually offer 50% of the claim as settlement.

The facts still point to the need for more care in shipping as well as an effort by container manufacturers to make their boxes more secure. Although losses of staggering proportions are not expected, the claims that do occur are annoying and work insidiously by taking up the time and energy of many people whose expertise could better be directed towards larger and more pressing problems. ■



Side loading, fully enclosed container

Mr. Bernstein has been a specialist in the ocean marine field for 19 years. Recently relocated to Chicago from the New York office of Bleichroeder, Bing, he is a graduate of Pace University with a BBA in insurance.

Programs tailored to financial needs

SHIPPER'S OPTIONS IN PROTECTING CARGO

By GARRETT S. DITMARS
Assistant Vice President
Insurance Co. of North America

THE FOREIGN TRADERS of the ancient world had no options in arranging financial security against the risk of shipping cargoes on the high seas. Marine insurance as we know it today did not exist. The early Greeks and Phoenicians developed a system of financial protection through which they could borrow money at extremely high interest rates to finance their ventures. Their cargoes were pledged as security for these loans, which were repayable only if the goods arrived safely at their destinations.

This early system of financing international trade was a forerunner of modern marine insurance. The first insurance office was opened in the thirteenth century in Flanders, and the earliest known marine cargo policy covered certain named risks and closely resembles the basic perils clause found in most modern marine cargo policies. Since the thirteenth century marine insurance has grown into a many-faceted business, offering many forms of coverage.

Today's foreign trader is more fortunate than his ancient counterpart in that he has many options in arranging financial security against the risk of shipping cargoes. He can sell on terms of cash in advance or letter of credit and let the buyer worry about insurance on the cargo. (In today's competitive market, the seller who does not extend credit is not likely to sell much merchandise.) He can purchase a variety of insurance coverages, ranging from total loss only to all risks of loss or damage. He can arrange small deductibles to suit the financial needs of his company. He can extend his cargo insurance to cover his products at warehouses and distribution points long after the transit stage has been completed. Or if he has a captive company, he can arrange all or a portion of the risk in the captive.

Today's marine open cargo policies serve well the needs of the foreign trader. Despite opinions to the contrary, these policies are not complicated. Much of the language used in the policies may seem anntiquated, but it hs been understood for centuries throughout the world by those engaged in foreign trade.

Modern marine cargo insurance policies are tailored and priced to meet the assured's product and needs. They cover the products from point of shipment to final destination, including in-transit delays and deviations beyond the shipper's control. They offer automatic coverage on all shipments and even include those not reported to the company because of unintentional error. Depending on the nature of the product and the shipper or consignee's requirements, the perils insured range from basic marine hazards to all risks, including war risks.

The assured commonly issues his own special marine policy or certificate when evidence of insurance on the shipment is required by the consignee or banks financing the transaction. These can be made negotiable so that a loss may be adjusted and paid to the consignee without the assured becoming involved.

Today's risk manager should control his marine cargo insurance whenever his company's money is at risk. Even though goods are sold on FOB or similar terms of sale, terms of payment are a far more important consideration. Since credit is a major factor in modern foreign trade, the seller is often paid months after the goods leave his premises. To extend credit and then rely on an unknown insurance coverage is risky business: the other party may have forgotten to insure the shipment; he may have placed inadequate coverage in amount or in perils insured against; or he may have placed coverage with an unreliable insurer.

As American companies go multinational, the risk manager faces other complications. The insurance program for products shipped from the United States or Canada may be adequate, but now goods are also being shipped from other countries to all parts of the world. Marine insurance frequently is the last thing on the mind of a foreign sales director or plant manager.

All too often insurance is a detail that is handled locally, with no communication with the parent company. Thus the risk manager may be in a position of having little or no control over a number of foreign cargo policies issued by a number of insurers offering varying degrees of coverage. Yet he is equally likely to be held accountable if an uninsured shipment is lost or damaged.

One solution is to arrange a worldwide cargo policy that grants the same coverage in each country. This may not be easy, but it can be done. The risk manager should expect opposition from overseas managers, since they will be forced to cancel coverages placed with long-time associates.

In addition, a number of countries maintain protective insurance decrees which require that marine cargo coverage be placed only in that country. Some countries even mandate the insuring conditions, which may not be as broad as those contained in your policy. The underwriter will usually be able to arrange the required policies, either in his own company, if entered in that country, or through a friendly local company. Though these policies become primary insurance on shipments to or from a particular country, the underwriter can arrange that they be considered as underlying the worldwide cargo policy. In the event of a major claim not covered by the local policy, the risk manager can claim under the worldwide cargo policy.

Small and large deductibles are also available as options. On imports and interplant shipments, they create no problem since the loss is settled with the assured. Complications arise when deductibles apply to export shipments. The overseas buyer and his bank will usually require a special marine policy or certificate that covers the shipment in full.

Since the loss is generally settled overseas with the consignee, the deductible cannot be applied at that point. The risk manager can, however, arrange with his underwriter to be billed for losses paid which are in the deductible area.

Captive company arrangements also pose no problem if only imports and interplant shipments are involved. However, when dealing with exports, the overseas buyer and his banker will generally want the security of a major insurance carrier. Equally important is the need for an established overseas claim settling facility. The usual arrangement is that an underwriter will issue the policy, service the claims, and cede an agreed portion of the risk to the assured's captive company.

The premium for a marine open cargo policy is customarily developed from a schedule of rates, which vary by product shipped and country of destination, with the highest rates applying to the most hazardous destinations. Other rating options are available, particularly to the volume shipper. Some assureds ask for a single rate for convenience, and this can be arranged. A single rate has disadvantages in that it must be an average of the rates for all goods and all destinations. If his rate is charged to all customers, those in the desirable countries will notice a higher insurance charge on their invoices and will probably attempt to arrange marine insurance in their market at a lower price.



The inevitable result of such an arrangement is that only shipments to hazardous countries are insured by the seller, and a poor loss ratio develops for the underwriter. Rating plans based on gross sales or gross overseas sales are also available at times.

In the long run, the assured's cost for cargo insurance will depend on his premium and loss experience. The risk manager can play an important role in controlling and reducing his cargo premiums. The prudent exporter does not want claims, nor do his customers, and damaged merchandise creates none of the good will so necessary to repeat sales. Loss control, therefore, is an essential ingredient in the cost of marine insurance and in the success of the assured as a foreign trader. The risk manager should receive periodic reports from his underwriter as to the experience under his policy. Such reports should have sufficient detail so that poor results by product and by destination may be easily detected.

Armed with loss experience details, the risk manager can inaugurate a loss control program. The area most susceptible to improvement through loss control is the packaging of the product. Exporters too frequently pack merchandise sent overseas the same as domestic shipments. They forget the extra handling, delays in customs, possibility of open storage, and forces of wind and weather during a sea voyage.

Even goods shipped in door-to-door containers often require special protection. Containers stowed on deck are subject to violent motion during a storm and frequently are damaged during loading and unloading, allowing water to enter and damage the contents.

Patterns of theft and pilferage loss may also dictate stronger packing. Also, labels on outside packaging may advertise to the thief that the contents are desirable. Blind or coded markings should be used on overseas shipments. A theft pattern may also indicate that routing via a different port or steamship company may be desirable. Claim conscious or downright dishonest consignees can also be a problem. Patterns may develop only with certain customers, and these should be called to the attention of the foreign sales department. ■

Mr. Ditmars directs INA's underwriting of marine insurance in the U.S. and Canada. He has been a specialist in this field for nearly 20 years, in INA's headquarters ocean marine-transportation department since 1962. He graduated from the University of Pennsylvania Wharton School of Finance.

Washington Star 'adequately covered' for libel suit

By RICHARD L. GORDON

WASHINGTON—The Washington Star, one of about 1,500 daily newspapers insured for libel and slander with The Mutual Insurance Co. Ltd., Hamilton, Bermuda, has been named a defendant in a $15 million libel suit filed this month by Martin-Marietta Corp., Rockville, Md.

The mutual provides up to $3 million coverage for libel or slander, but only to members of the American Newspaper Publishers Assn. (ANPA). The coverage is also offered for magazines or broadcast properties owned by ANPA members. The mutual also provides strike insurance coverage for its members.

Also named as defendants in the suit were the Capitol Hill News Service and its bureau chief, Peter Gruenstein.

The Washington Star, published by the Evening Star Newspaper Co. is "adequately covered," according to Robert Nelson, senior vp-corporate affairs. Mr. Nelson said the Star "was not in a position to retract the story" and fully expects to win the case.

It is unclear what insurance coverage, if any, is in effect for Mr. Gruenstein or Capitol Hill News Service. William Dobrovir, attorney for Mr. Gruenstein and the News Service, said he didn't know if there is insurance and "hadn't discussed it yet." He was contacted three days after the suit was filed. Mr. Gruenstein declined to comment.

The Washington Star published a page one story under Mr. Gruenstein's byline, and copyrighted by the News Service, that told of a "stag party" financed by Martin-Marietta for Defense Department employes.

Martin-Marietta, 26th largest defense contractor in the nation, allegedly threw the party, complete with prostitutes, in a hunting lodge in Maryland.

The company said it had ceased leasing the hunting lodge before the party took place, and stated that no company employes or financing were involved.

Libel and slander insurance, offered either separately or rolled into larger errors and omissions policies, is available through the private insurance market, as well as the mutual, but on a limited basis.

The mutual itself operates a subsidiary, Potomac Insurance Co. Ltd., Hamilton, Bermuda, which offers libel and slander coverage to weekly newspapers that belong to the ANPA.

The coverage is also available through Lloyd's, Employers Reinsurance Corp., Kansas City, Mo.; and Fireman's Fund. Some other underwriters will also offer libel coverage, but only as part of a much larger blanket policy.

Among major daily newspapers that insure themselves against libel defense costs and awards, deductibles and coverage amounts vary, according to industry sources.

"Five million dollars is getting to be the magic number" for coverage limits, said an official at one libel insurance underwriter.

Libel awards of $1 million or more are "higher than typical," this official said. Another libel insurance underwriter noted that 70 cents of every libel claim dollar goes for defense costs.

The market is thin, but competition is apparently fairly stiff for daily newspaper business.

The mutual pointedly lets it be known that its policies cover defense costs and any punitive awards. "Other libel underwriters are now having to write it that way because we stuck it to them pretty hard," said a top official for the mutual. "We practically put Fireman's Fund out of the direct business of libel underwriting."

The toughest libel insurance risk is not the daily newspaper, however. "If it's newsworthy, they have a pretty good defense," said an insurance industry source.

Authors of controversial books pose the biggest risk. National magazines, a source said, would probably fall in between authors and daily newspapers on the risk spectrum. ■

Preliminary victory for federal no-fault

Backers of federal no-fault automobile insurance legislation won a modest victory last month in a House of Representatives still very cool to federal no-fault proposals.

The House Consumer Protection and Finance Subcommittee—at the preliminary level of the lawmaking process—voted five to four to approve a bill (H.R. 9650) which establishes federal standards for state no-fault auto insurance programs.

The bill now moves to the full House Interstate and Foreign Commerce Committee, where its future is still very uncertain.

A no-fault federal standards bill (S. 354) was approved by the Senate Commerce Committee last June. It is expected to be approved by the full Senate.

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Indexing required for portability provisions

CHICAGO—"Pensions and their portability provisions will be indexed or the private plan sector will fail in 10 to 15 years," predicted Kent Barker, managing director of Swiss International Services Inc.

"Either the private sector will meet its expected benefits or governments around the world will pick up the responsibility," he warned the employe benefits managers representing mostly large U.S. corporations who met at the Council on Employe Benefits here.

"Corporations will be forced to assume funding requirements imposed by government and government will become partners with private plans to keep them from failing," Mr. Barker continued. He believes governments in most countries want to keep the private pension sector viable because pension assets are "a major capital source."

Mr. Barker pointed out that "most plans overseas have become final-pay-based" and that indexing is becoming the norm in "most countries."

He cited Spain as an example of a country which "previously had few pension plans" and is now instituting liberal benefits. He told the audience he saw an agreement for workers in one industry which up until then had had no pension benefits and which soon will give retirees 100% of final pay with 20 years' service. "This is quite a big step," he noted.

Earlier and greater vesting was another trend Mr. Barker pointed out as part of the "retirement pressures" facing companies around the world to make their pensions "meaningful benefits."

His advice is to "either project earnings of a worker or index the benefits" which he believes must now also be applied to portability provisions. ■

Employers will stop writing malpractice in Pennsylvania

WAUSAU, WI.—Employers of Wausau announced it would stop writing medical malpractice coverage for hospitals and staff physicians in Pennsylvania effective Aug. 1, 1976. Meanwhile they will seek a 245% rate increase for existing policies.

The insurer still writes malpractice coverage in Alabama and Wisconsin as well as for the National Assn. of Residents and Interns throughout the country, according to Rheinhold Klein, senior vp. He warned that the company "is looking hard at each and every malpractice program.

"We are starting to conclude that malpractice as such is uninsurable," Mr. Klein told *Business Insurance*. In Pennsylania, the costs of doing business during the five-year period ending in 1974 were $18.6 million, while Employers took in $13 million in premiums from policyholders for 142 of the state's 300 community hospitals.

Mr. Klein emphasized that his company was concerned not only with the unfavorable loss ratio but with the limited premium base he sees as inevitable for professional errors and omissions coverage. He is worried about the concentration of risk in medical malpractice insurance—a problem he doesn't regard as serious for product liability coverage. "There's a broader base of risk," Mr. Klein explained.

The legislative answers so far "have not been adequate" for medical malpractice, he said. ■

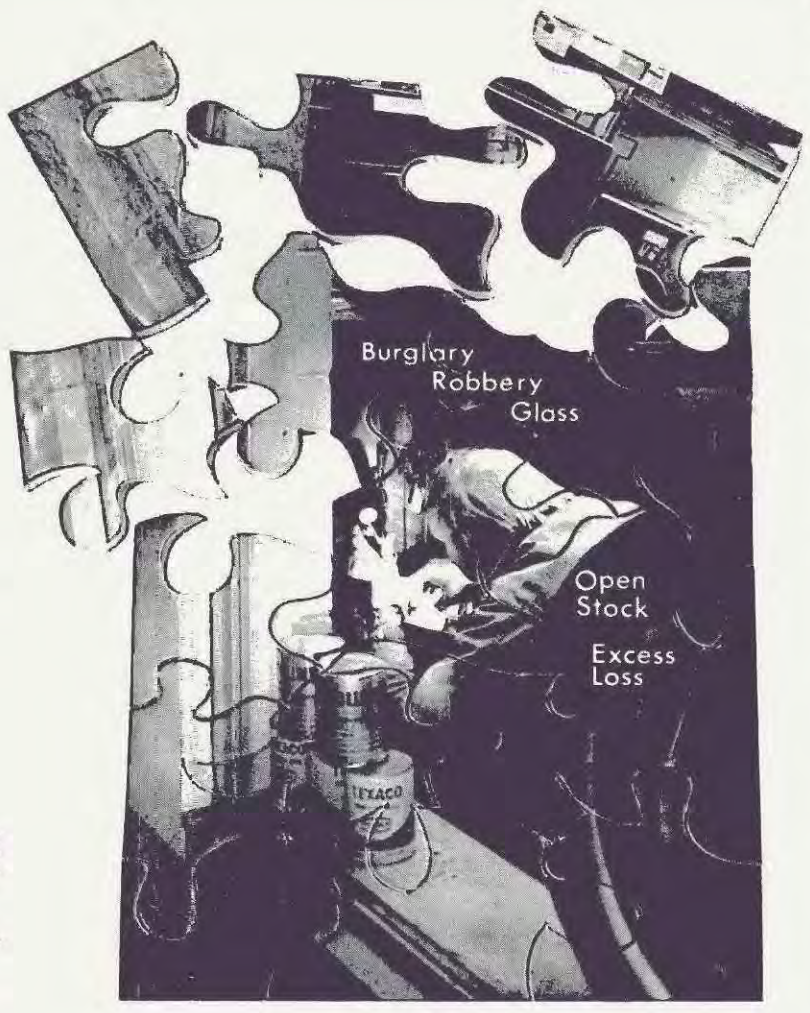
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LA broker gets FMC casualty plan

LOS ANGELES—Emett & Chandler, part of the Pinehurst Corp., has been selected to handle the general liability insurance, including workers' compensation, of FMC Corp., Chicago.

Gordon Clemons, insurance manager for FMC, told *Business Insurance* that the coverage had bveen with Liberty Mutual Insurance Co. on a direct basis for over 40 years.

He explained that most of FMC's liability coverage is handled by the corporation's captive insurer in Bermuda. He pointed out that the risk management group at Pinehurst had had a hand in setting up the captive in the spring of 1974 and that the Pinehurst unit in Bermuda which manages captives is used by FMC for the management of the captive, which Mr. Clemons described as a "small but viable insurance company."

The primary layer of the liability package is insured by the captive. The excess layers have been placed in the London market. ■

Risk retention requires good plan

RISK MANAGERS caught in the inflationary squeeze between tight cash and even tighter insurance markets often seek relief with a risk retention plan. All too often such a course of action is taken without sufficient planning, nor are risk retentions applied most effectively, according to risk management consultants.

In the current Risk Management Report a summary of techniques and procedures for successful utilization of risk retention plans as well as a case study of the Litton Industries self-insurance plans are offered by Thomas G. Briggin, vp, Risk Planning Group Inc., San Francisco.

With monetary gain the obvious appeal of risk retention plans, Mr. Briggin notes other advantages: timing of premium payment relative to the alternative losses and expenses, and the advantage of being able to better perform some of the services normally provided by insurers internationally or by a claims servicing agency.

Most corporations, governmental bodies and other organizations make their risk retention decisions based on sparse historical data, little awareness of the existing insurance markets, almost blind reliance on the savings relationship between retention of risk and insurance premiums, Mr. Briggin says.

Far too little emphasis is given to a thorough financial analysis of retention, he continues. "The setting of proper limits or loss retention is an embryonic art."

Among the most important elements to be considered in risk retention, Mr. Briggin notes, are:

- A large enough number of similar exposures to enable accurate prediction of losses from year to year;
- Exposures should have a distribution pattern which largely eliminates the danger of catastrophic loss;
- The finances of the firm should be adequate to meet losses as they occur.

Mr. Briggin describes techniques such as linear programming and simulation by which the risk manager can consider a situation under various and adverse conditions.

Whatever method is used, "The data generated should suggest the levels and madimum risk that the company should retain," he writes.

A summary of various forms of risk retention cited by Mr. Briggin includes: deductible clauses, retrospective rating plans, excess of loss agreements, captive insurance companies, cost stabilization plans and elimination of peril in insurance contracts.

"Success in the analysis and determination of proper levels of risk retention will be evidenced by the acceptance of a reasonable and realistic retention without sacrificing the long-term profit stability of the company," Mr. Briggin states.

The most important factor in risk retention is establishment of a maximum amount of loss which management considers prudent and practical, he continues. Loss retention possibilities should then be restricted to that limit.

Another important factor in risk retention is administrative costs, ranging from expensive captive arrangements to a simple deductible plan.

A company's cash position must also be considered; how fluid are the assets and borrowing capacity, and is there any other way of raising money quickly in the event of a loss?

A significant factor is a company's philosophy. "For a firm which has always purchased first dollar coverage, the first $10,000 loss for which there is no insurance is recovery can be a traumatic experience," he notes.

Whatever considerations are involved, Mr. Briggin stresses the importance of a policy in writing setting forth the risk retention philosophy of the company.

Besides a series of guidelines for risk assumption, the consultant summarizes a number of rules-of-thumb to employ in risk retention savings.

For governmental units he suggests some percentage of the annual budget, varying from one-tenth of 1% to 5% or more. A suggestion for financial institutions is a pre-tax, per-occurrence limit of $100 per million dollars of deposits.

Where can risk retention be successfully applied? Workers' compensation administration is one example used by Mr. Briggin.

If a company's financial resources can sustain the loss costs of the worst year of the past five, if it can accept a per claim retention of at least $50,000, and if the standard premium exceeds $85,000, then risk retention can be a viable alternative to insurance for workers' compensation plans, he believes.

In the liability area, if a loss frequency is quite low, the risk manager should carefully weigh retaining risks of that nature. Cash flow analysis becomes an important criterion as there is often a lag between the occurrence and payment of a loss. ■

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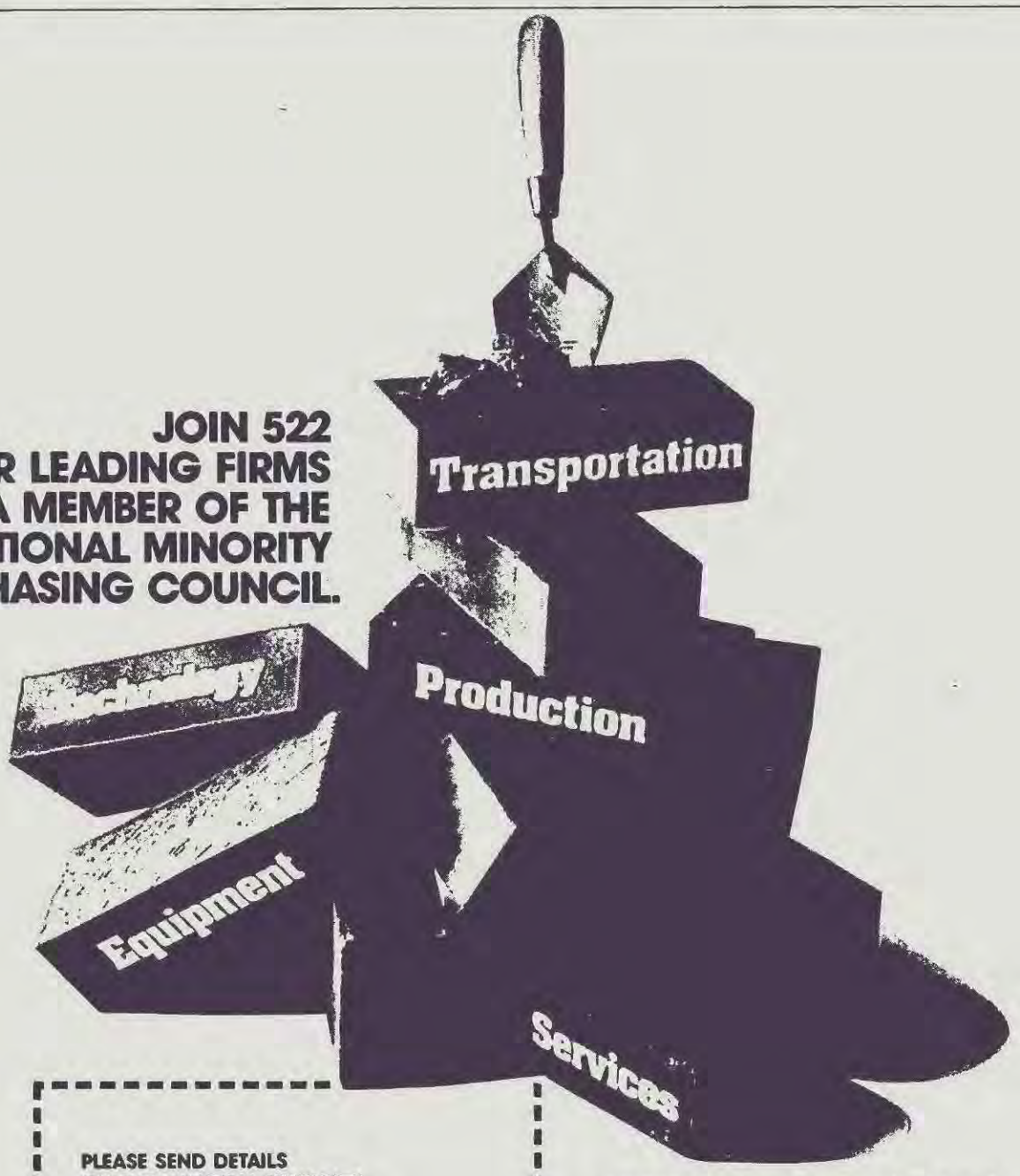
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Open the door to new approach for deferred compensation plans

By JOSEPH S. ROBINSON
Attorney-at-Law

THE TRADITIONAL unfunded deferred compensation plan has its place for highly paid employes. IRS made it clear back in 1960 that a naked promise to pay in the future, not backed up by notes or secured in any way, is not currently taxable to the employe. But if the employer deposits funds into an irrevocable trust for eventual withdrawal by the employe, the latter would be taxed as having constructively received the money at the time it was placed into the trust.

Such trust arrangement excludes the possibility of forfeitures of compensation . . . a necessary ingredient to tax deferral. Without forfeiture, the employe would have a vested right to a future economic benefit of definite value. (*Jacuzzi, 61 T. C. No. 28.*)

Suppose though, the deferred compensation is deposited in an irrevocable trust with the entire deal linked to the performance of consulting services. Will the irrevocable trust setup work under such circumstances? A recent case indicates that it may.

Mr. Harrison had been the president of the American Maritime Assn. Because of pressure from a member union of the association, he resigned his position as president on October 31, 1965. In return for a promise of payment of $50,000 in five annual installments, Mr. Harrison agreed to make himself available for consulting services for a period of five years. The entire $50,000, however, was placed into an irrevocable trust in which the association reserved no interest or control. According to the terms of both the trust instrument and the consulting agreement, the first $10,000 payment would be made on November 1, 1966. Mr. Harrison died April 4, 1966.

IRS assessed an income tax deficiency for 1965 in the amount of the $50,000 of deferred compensation which was deposited into the trust in that year. The Revenue Service argued that the sum placed in trust was severance pay (or compensation for past services) and that Mr. Harrison consequently was not required to furnish any additional services in order to establish his right to the money in trust.

The tax court rejected this contention because the evidence showed that the American Maritime Assn. never offered him the $50,000 without also requiring that he act as a consultant for the five-year period. In other words, the tax court found that the $50,000 placed in trust was compensation to be paid Mr. Harrison for his rendering future services and was not separation pay.

IRS further argued that the $50,000 was non-forfeitable because there were no conditions in the trust by means of which Mr. Harrison's rights to the money could be forfeited. Since the trust indenture referred to the employment contract between Harrison and the association as the reason for the creation of the trust, the tax court said that the trust instrument had to be construed in conjunction with the employment contract. The tax court felt that the two documents carried the implicit condition that the distributions to Mr. Harrison would be forfeited if he failed to perform as required.

What's the bottom line? It would appear that placing deferred compensation into an irrevocable trust will not necessarily trigger current taxation where the fund is subject to a continuing risk of forfeiture. (*Harrison,* 62 T.C. 524 acq IRB 1974-46,5)

* * *

The term "key man" is rapidly becoming a misnomer. That's because more and more women are taking on key managerial posts throughout the business community—in finance, advertising, publishing, insurance and the fashion industry, just to name a few. As a result, business balance sheets reflect a growing list of firms acquiring and owning life insurance on selected women executives to indemnify the company against the loss of a highly valued employe.

While there is no accurate count of the number of women who can be called key employes of the companies they work for, it is generally accepted that they are on the increase. The Department of Labor counted 6.3 million women as "professional and technical personnel, managers and administrators" last year. This is a 55% increase from ten years ago. It is from this group that women whose lives are insured for business reasons are largely drawn.

When a corporation owns insurance on the life of a key woman, it cannot deduct the premium so long as the firm is the beneficiary. But that's not as harsh as it may seem since the death benefits are income tax free to the business regardless of how many or how few premiums the company paid.

What happens when insurance on the life of a key person is no longer required? In that case, the corporation could:

- Retain the policies as an investment.
- Surrender the policies for their cash surrender value.
- Sell the policies to the key person to give her an insurance program she was either unwilling or unable to initiate as a younger woman. ■

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Blues announce 35% increase in Wisconsin

MILWAUKEE, WI.—Noting a loss of $13 million in the first eight months of this year, against a net surplus of $5.5 million in 1974, Wisconsin Blue Cross and Surgical Care Blue Shield announced an average increase of 35% in premium rates payable when contracts become due for renewal.

Rising costs of health care and increased use of medical facilities were cited as reasons for the higher rates.

Officials said the rate increases would affect 87% of the plans' customers in Wisconsin. The raise in rates will be as high as 50% for some subscribers, officials added. The rates will depend on the amount of claims that have been paid each group, they explained.

Nongroup subscribers and direct pay policyholders will not be affected by the increase, officials said. About 1.5 million Wisconsin residents are covered by the plans Employers pay most of the premiums.

Premiums will increase $2.85 per month, to $7.95, for the 116,000 Medicare Extended subscribers in Wisconsin, officials observed. It will be the first rate increase for the supplementary program for people on Medicare since 1968, they noted.

Leo E. Suycott, Blue Cross president, said hospital bills in the first half of this year have gone up an average 18%, X-ray, laboratory and medicine charges are up 21%, patient claims for hospital care rose 12% through August and outpatient claims climbed 15%.

Thomas H. Girard, Blue Shield's president, said basic benefits paid by the program in the second quarter of this year were 30% higher than the corresponding quarter in 1974. The total amount paid per health or medical claim was up 18%.

Blue Shield claims per contract year rose 12%, with such procedures as elective surgery and diagnoses increasing dramatically, Mr. Girard said.

"A significant side effect of the malpractice crisis has been the recognizable trend toward defensive medicine, a practice whereby physicians, faced with the constant threat of malpractice suits, may be persuaded as a precautionary measure to order additional diagnostic tests and procedures," he added. ■

May appeal $252,500 jury award

MIDLAND, MI.—Dow Chemical Co. may appeal a jury award of $252,500 to a 16-year-old boy who became mentally retarded after being inoculated against measles with a vaccine produced by the company, based here.

Dow was covered by insurance on a per occurrence basis for the incident which took place in April, 1967. "It was a retrospective rating program, a three-year policy," according to a Dow spokesman.

Marsh & McLennan Inc. brokered the product liability coverage through Fireman's Fund American Insurance Co., although the spokesman declined to give *Business Insurance* further details about the limits of its coverage.

"Deductibles were not a major factor at that time," the spokesman said, adding that he doesn't think this award will affect the cost of Dow's coverage in the future.

In an official statement Dow said it doesn't "believe the verdict in this case is justified" and warns of "the adverse effect that this decision may have on the immunization practices . . . in our country." ■

Hit bureaucrats for muddled methods on ERISA

WASHINGTON—The Labor Department seems to have a new pension reform problem—this time with its 15-member Advisory Council on Employe Welfare and Pension Benefit Plans.

A significant portion of its members have apparently tired of periodic day-and-a-half long talk sessions with the Labor Department and now want to study, not the pension reform law, but the advisory council.

The first to speak up for the "malcontents"—T. Rowe Price Associates President Donald E. Bowman—told Labor Department officials there was a "great deal of concern" over the "effectiveness" of the council.

He was quickly joined by Theodore D. Bower, special assistant to the vp-taxes, at Sears Roebuck and Co. "I don't think we're operating correctly," he complained.

On the labor side of the table, Bert Seidman, employe benefits specialist for the AFL-CIO joined in with comments that turned into one of the sharpest attacks on the Labor Department in the advisory council's short life time.

What angered Mr. Seidman was what he saw as the government's practically non-existent efforts to communicate its interpretations of the pension reform law to the public.

The case he cited was that of a typically obscure Labor Department document on the pension reform law, known as Interpretive Bulletin 75-8, also known as simply I.B. 75-8.

The document is a series of questions and answers on various matters concerning the fiduciary provisions of the law, including two questions in particular which stated that fiduciaries could delegate authority to others only if the plan documents allowed it.

The Labor Department published I.B. 75-8 last month in the Federal Register, a book-sized daily volume of dozens of documents issued by every conceivable government agency. The technical information services used by lawyers and other pension professionals were notified of its existence.

"I was frankly shocked to learn that nothing else was done to communicate this," said Mr. Seidman. "We have thousands of people out there who need to know," he explained.

The AFL-CIO decided the document was so important that they were carrying an item on it in their national weekly newspaper, the AFL-CIO News.

"You'd never get anything in the daily newspaper in this form," Mr. Seidman complained, tapping the fine print copy of I.B. 75-8 as it appeared in the Federal Register.

"Who can read this gobbledy gook?" burst out another council member, Murray W. Miller, general secretary-treasurer of the International Brotherhood of Teamsters.

"When you put out information, you should cut it out in the form you expect us to use it," Mr. Miller complained.

"I can't stress strongly enough that the responsibility (for communication) has to be recognized," Mr. Seidman said.

The man on the spot—James D. Hutchinson, the department's administrator of pension and welfare benefit programs—admitted the department was "in a bind."

"If you try too much generalize, you might mislead," Mr. Hutchinson. "It's a terribly difficult law. We do not expect a layman to fully understand all that we publish."

And he recommended that the confused . . . . consult their lawyers.

(Communications problems are not restricted to the world outside the Labor Department. Top Public information officials in the Labor Department have sometimes rejected the news releases drawn up, under the supervision of department attorneys, to accompany regulations. The reason: the releases weren't understandable.)

Six of the advisory council's members have formed a special group to study what's wrong with the advisory council although the "rub" has been plain for some time, judging from comments by members at various meetings.

That is that the council, for all its work, can only hope to influence. Labor Secretary John T. Dunlop made it clear from the outset that he would brook no interference with his department's authority to do what it felt it had to.

The members of the group seeking some more satisfying role for the council are Mr. Bowman; Mr. Seidman; Mr. Bower; Douglas B. Hunter, vp-group pension operations, Connecticut General Life Insurance Co.; Preston C. Bassett, vp and actuary, Towers, Perrin, Forster & Crosby Inc.; and John O. Parker, president and director, Putnam Advisory Services Inc.

The terms of five council members expire this month and the Labor Department said 40 nominations have been received for the openings.

Mr. Bowman, despite the apparent frustrations of his one year term, said he would to stay on the council for a full three year term. ■

Predict pension system that 'covers everybody'

BAL HARBOUR, FL.—A consultant predicted that because ERISA has been enacted, Congress will move on "to discover and attack the biggest problem—lack of coverage for half the private employes."

The U.S. is heading for a pension system, half of which will be prefunded employer and Individual Retirement Account (IRA)-type pensions and the other half provided by Social Security, believes E. Allen Arnold, a consulting actuary with The Wyatt Co., San Francisco. He spoke to the Society of Actuaries.

Mr. Arnold thinks that the nation "will ge able to support an aged, non-working population" for these reasons:

- Zero population growth will occur, thus avoiding an "insupportable pension burden."
- The trend in family structure —fewer children, more working wives and increase reliance upon childcare centers and schools—will have a "favorable" effect on financing pensions.
- Government's role in pensions will increase, which he calls "partly favorable and partly unfavorable."
- The U.S. economy will improve from its present state of decline while perhaps not an abundant one in the future, it "will be capable of supporting a pension system."

If Mr. Arnold's projections come true, he thinks "we would have a modest but adequate pension system covering everybody." His universal pension would consist of Social Security, prefunded group pensions and IRAs.

"An alternative future also consistent with my conjectures would rely entirely on Social Security for pensions," he said, recommending that the choice be made on "economic rather than political" grounds.

Except for IRAs, tax-sheltered devices for the self-employed and home ownership, individual savings would not be a factor, Mr. Arnold said, because all employers would be required to provide adequate pensions.

He predicts when Congress does begin investigating, "we can expect an even greater blitz of statistics and heart rending stories than when Congress discovered forfeitures and plan terminations." ■

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PBGC may lower the survivor benefits of terminated pensions

WASHINGTON—How much of a pension benefit will the Pension Benefit Guaranty Corp. (PBGC) pay to the participants of a terminated pension plan?

The answer to that question will tell employers how much of a benefit PBGC will hold them responsible for funding.

And the answer has been put forward—at least in proposal form—by PBGC officials this month. Some of the proposals may not be welcome to participants.

PBGC warned that under this plan it may "sharply reduce" the guaranteed benefits of a disabled retiree who begins receiving the benefit at an age under 65.

Likewise, the guaranteed benefit of a surviving spouse would be reduced greatly if the survivor were much younger than the deceased participant."

The reason for this is that PBGC has proposed reducing its maximum guaranteed benefit if it is taken below age 65.

And it has proposed lower maximum benefits for more expensive pension benefits such as joint and survivor annuities.

The pension reform law that established PBGC and the termination insurance program for private pension plans includes two alternative limits on guaranteed benefits.

The limits are the lesser of:

- the participant's highest average monthly salary for a consecutive five year period under the plan.
- or $750 a month, adjusted for periodic increases in the Social Security wage base.

PBGC officials said that the precise dollar figure, rather than the monthly average salary, is more likely to be the ceiling.

The dollar ceiling has been rising, however. For plans that terminated in 1974, the ceiling was $750 a month. For 1975, it jumped to $801 a month because of a Social Security wage base boost.

In 1976, the limit will jump again to $869 a month because the Social Securtiy wage base is moving up once more—to $15,300 from 1975's $14,100.

This dollar limit represents a single life annuity monthly benefit, however, and will not be applied to other more "expensive" benefit forms under this proposal. And it will be reduced for participants taking early retirement.

The sponsor of a terminated pension plan will be held responsible for no more than 65% of the maximum benefit if an employe elected retirement at age 60. "Responsible" is this case meaning that PBGC would only guarantee that amount.

The maximum benefit limits are the same for both men and women, although PBGC said it will concede that annuity benefits will cost more for women.

This will mean that women participants will have their full earned benefit guaranteed up to the dollar ceiling by PBGC and that the employer ultimately will be held responsible for providing the extra money to pay for it.

This is only a simplified outline of complicated rules, but the full proposed regulation can be obtained by writing the Office of Communications, PBGC, 2020 K St. N.W., Washington, D.C. 20006. PBGC will accept comments on the proposed rules until December 4.

This is but one of six regulations that PBGC says it will need to begin processing about 2,000 pension plan termination cases. Another proposed regulation—one on how the assets of a terminated pension plan will be allocated—was also issued this month.

Only one of this "Big Six" series of regulations has been finalized. That one describes just what "basic benefits" will be guaranteed by PBGC.

Still to come are regulations on how PBGC will value the assets held by a pension fund at its termination; on how to determine the cost of each participant's earned benefits as of termination; and on how to decide what an employer's "net worth" is. ■

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Hospitals face loss of malpractice coverage

TRENTON, N.J.—Thirty nine New Jersey hospitals face the loss of their malpractice insurance coverage because a change in policy was denied by the state insurance commissioner and the underwriter announced its intention to withdraw from the malpractice market as the hospital's policies expire.

St. Paul Fire & Marine Insurance Co., which insures 39 of New Jersey's 116 hospitals, filed a request to change the malpractice insurance policies from the occurrence basis on which they are currently written to a claims-made basis.

Late this summer the underwriter announced it was switching to claims-made malpractice forms for all the 1,300 hospitals it insures for malpractice *Business Insurance*, Aug. 11).

When St. Paul filed its claims-made policy request in New Jersey, the insurer proposed a reporting endorsement to cover claims filed after termination of the policy. The reporting endorsement was the basis of Commissioner James Sheeran's refusal of the request.

"St. Paul refused to commit itself to some formula by which the cost of the reporting endorsement could be determined," a spokesman for the state insurance department said.

"I suggested that the underwriter make the reporting endorsement 'X' percentage of the going rate," Philip Stern, actuary for property and liability for the state of New Jersey told *Business Insurance*, "at least to give policyholders some idea of what it will cost, but they refused."

St. Paul's action won't precipitate an immediate crisis in the state, as no hospitals are up for renewal of malpractice insurance policies until January and the underwriter said it would continue to carry policies already in effect until their expiration date.

A spokesman for the insurer said 1974 losses for physicians malpractice coverage in New Jersey totalled $313,927. No figures for hospital malpractice losses were available.

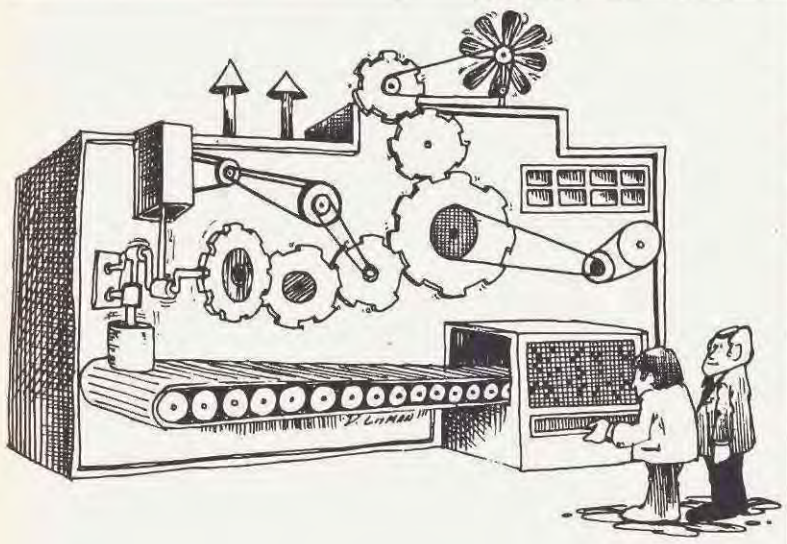
St. Paul writes malpractice insurance for 270 physicians and surgeons in New Jersey. Chubb & Son insurance group which covers the New Jersey Medical Society is the major underwriter of physicians liability in the state.

Representatives from the state hospital association and insurance department are currently meeting with the state assembly to urge passage of a bill to establish a reinsurance facility for medical liability coverage.

Though limits for the coverage have not been discussed, Mr. Stern proposes $1 million to $3 million because excess umbrella coverage above $3 million is readily available." ■

Tell legislators to retain private carriers

Government financing beyond paying health care costs for the poor, elderly and unemployed "would only result in solutions which are larger than the problems," testified William E. Ryan, president-designate of the National Assn. of Blue Shield Plans. Other problems can be solved through the regulatory process, he told a House Ways and Means sub committee. "The concept of a single, all-encompassing bill to redirect the health system . . . is an illusion." He recommended that employers be required to offer, and pay part of the premium for, a basic health program and catastrophic coverage with a specific level of benefits.



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Retirees favored in plan termination claims

WASHINGTON—The benefit claims of persons who retired, or could have retired, three years or more before the termination of a private pension plan would receive favored treatment under an incredibly complex set of rules proposed this month by the Pension Benefit Guaranty Corp. (PBGC).

These rules are designed to help PBGC determine who gets what from the assets in a plan once it terminates.

As they are now written, the preference given these "senior" retirees or employes eligible to retire could increase an employer's liability to PBGC in the event his pension plan is terminated.

The benefits provided by a terminated plan can roughly be broken up into three types:

- Benefits guaranteed by PBGC up to certain dollar limits.
- Benefits that would be guaranteed by PBGC but which exceed the dollar limits.
- Benefits not guaranteed by PBGC.

An employer, to escape any potential liability to PBGC, must have assets in the plan to pay all benefits guaranteed by PBGC up to the dollar limits established by the pension reform law.

If there isn't enough money to to pay these benefits, PBGC will pay the difference from its premium revenue and bill the plan sponsor for that amount.

The amount of a plan sponsor's potential liability for benefits can be as large as 30% of his net worth.

The rules proposed by PBGC, however, do not give top priority for using fund dollars to pay off the benefits that could arise in an employer's liability to PBGC.

First priority is given to any benefits derived from an employe's voluntary pension contributions. None of the benefits derived from these contributions receive the next highest priority for funding from plan assets, under the proposed rules. Some of these benefits may be guaranteed by PBGC, making the employer responsible for financing.

For the many plans that do not involve employe contributions, neither of these categories would apply.

It is the third priority category, the top priority for non-contributory plans, where senior employes and retirees get a break and where employers may be affected. Prior to ERISA, all retired employes' claims for benefits were lumped in this category.

PBGC, however, would make this a smaller group of claimants. It would only include participants who had retired at least three years before termination, or could have retired three years before termination.

This group will have a claim on assets to fund not only the benefits guaranteed by PBGC (up to the dollar limits) but also on plan assets to fund benefits that would not normally be paid by PBGC.

o the extent that this diverts assets from funding the PBGC guaranteed benefits of participants in lower priority categories, it raises the probability that there might not be enough money to fund all of the guaranteed benefits under the plan.

Such a shortfall will mean that the employer would be held liable to PBGC for the difference.

And there are quite a large number of participants in lower priority categories who would probably have rights to benefits guaranteed by PBGC.

These lower categories would include any and all participants who retired or could have retired less than three years before the plan termination date. It would also include all employes with vested rights to benefits (up to PBGC's dollar limits) but who were not yet eligible to retire.

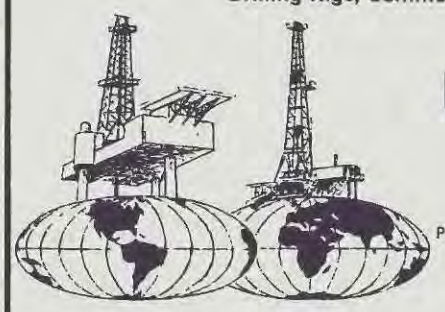
These extra benefits available to "senior" retirees or employes would include: Social Security supplements not normally guaranteed by PBGC, and any part of a PBGC-guaranteed benefit in excess of PBGC's dollar limits on what it could pay.

This explanation is a grossly simplified version of a grossly complicated proposal—so complicated in fact, that even PBGC officials are a little embarrassed by it.

PBGC's top officials are taking to the road this month to try and explain this and another important regulations to business and labor experts in 10 cities across the country.

The comment period on the rules is short—only 30 days ending December 4. A final, perhaps altered rule, won't be out until mid-January from PBGC's Board of Directors, headed by Labor Secretary John T. Dunlop. ■

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Says eligibility is area affected most by ERISA

WORCESTER, MA.—ERISA's biggest impact on insured employe benefit plans is in the areas of eligibility and vesting, according to Bruce Martin, vp, retirement and security plans for State Mutual Life Assurance Co. of America.

More than 100,000 individuals are covered under State Mutual's group pension plans.

In an interview on the occasion of the company's issuing its 20,000th group pension retired life certificate, Mr. Martin reflected on the pension reform law's impact on benefit administrators.

"Many plans will have to liberalize their eligibility requirements as a result of ERISA," Mr. Martin said, but only a minority of insured plans will have to change vesting requirements, he added.

Improvements in benefits or the introduction of new benefits by many employers will be delayed or modified because of their concern with meeting ERISA requirements, according to Mr. Martin.

"Most employers will live with the level of benefits they're offering now," he noted.

One variation on the normal pension plan which Mr. Martin predicts will become popular with employers is conversion of the plan to a joint survivorship settlement.

"In this way an individual can convert a lifetime annuity with some portion payable to the surviving spouse," he explained.

For example, an employe with a $5,000 lifetime pension could arrange to receive a lesser amount and upon death, the surviving spouse could receive up to two-thirds of the pension for the remainder of his or her life.

Such a plan would cost from $10,000 to $12,000 for a pension of $100 a month for a male retiring at age 65, Mr. Martin said, for female employes the cost would be slightly higher. ■

Pension reform expensive

WASHINGTON—More money to write pension reform regulations and variances, and to enforce them, has been requested by the Labor Department.

Congress has been asked to add $4.6 million to the $14.7 million the Labor Department says it needs for pension reform operations in the 15-month fiscal year ending next September 30.

In the enforcement area, the Labor Department has already allocated its spare manpower to begin a "review" of charges surrounding the $1.3 billion Teamsters' Central States pension fund.

It is now seeking to almost triple the size of the staff assigned to enforcement duties, including the formation of a special 20-member staff headquartered in Washington "to conduct investigations that are nationwide in scope and that require broad coordination with the staffs of the Internal Revenue Service and the Justice Department."

Fifty-four of the 150 new full-time employes the Labor Department wants would be assigned to help speed up the processing of exemption, variance and determination requests under the law.

The department has its own paperwork problems from the pension law. It wants to hire 70 extra part-time employes to handle the flood of new reports next year. ■

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HMOs apparently not pushing for members

By RICHARD L. GORDON

WASHINGTON—It should be a normal Thanksgiving for employe benefits managers even though final rules spelling out how and when dual-choice health insurance options must be offered to employes become effective about the same time as the turkey goes in the oven.

One reason is that the health maintenance organizations (HMOs) that stand to benefit from the federal decisions that were announced last month do not plan any big marketing push to mark the occasion.

The rules in question flesh out Section 1310 of the Health Maintenance Act of 1973. That law established a federal requirement that employers must give a federally "qualified" HMO a chance to market its prepaid services to employes as an alternative to conventual indemnity health insurance.

Section 1310 describes in detail just what ground rules must be followed by employers, unions, and HMOs in gaining access to the employe market. The final rules differ in some ways from proposed rules published last February.

One reason there will be few ripples to mark the effective dates of the rules is that, while there are many HMOs, there are presently only five federally "qualified" HMOs. Only these qualified HMOs must be considered by the employer under terms of the HMO law.

The five are the Sound Health Assn. in Tacoma, Wa.; North Communities Health Plan Inc., Evanston, Il.; Florida Health Care Plan Inc., Daytona Beach, Fl.; Piedmont Health Care Corp., Greenville, S.C.; and Portland Metro Health Inc., Portland, Or.

Officials at four of these HMOs indicated that they planned no major marketing effort to coincide with the federal rules that now guarantee them access to the employe benefit manager's office.

"We won't be using 1310 as a weapon," Paul Vogt, president of Portland Metro Health, told *Business Insurance*. "We would rather work with employers. With employers knowing that it (1310) is there, we won't need to use it as a club."

Mr. Vogt's Portland Metro Health won't be operational until January 1, 1976, but he said the organization was projecting 25,000 enrollees by the end of three years—and almost all of those are expected to come from employe groups.

Portland Metro Health, said Mr. Vogt, has already had around 100 preliminary interviews with employers in the Portland region that it serves.

Some HMO officials noted that while they do not expect Section 1310 to revolutionize their marketing to employers, the lack of final Section 1310 rules until this time has severely hampered their existing marketing efforts.

"Needless to say, the existence of a section without regulations has been quite a barrier," said Warren L. Dvorak, director of enrollment at Tacoma's Sound Health Assn. Employers, he explained, have been reluctant to commit themselves without the final rules available.

"We're going to continue to market (HMOs) the way we always have—on the merits of the plan," he said.

Sound Health has about 2,500 enrollees, with about 2,300 from employe groups including a Weyerhaeuser Co. unit and several local school districts.

"We will be reinterviewing with some of the major companies here," Mr. Dvorak said.

North Communities Health Plan will also let the November effective date of the rules slide by without fanfare. Officials said about 4,000 of the 5,000 present enrollees in the HMO come from 45 different area employers, including Illinois Bell Telephone and Northwestern University.

North Communities projects to have about 10,000 enrollees by next May 1, with nearly all of the increases expected to come from employe groups.

The Section 1310 rules themselves do not settle all the problems and uncertainties of the HMO program, but they did receive the blessing of employe benefits officials at General Motors and United States Steel during announcement ceremonies last month at the Department of Health, Education and Welfare.

Bert Seidman, the AFL-CIO's director of employe benefits research, was also on hand to give his blessing. Mr. Seidman's approval was important, since some of the loudest complaints about the earlier proposed Section 1310 rules came from labor.

What has satisfied labor's complaints is a rule that employers need only offer the option of a qualified HMO to the union that represents their workers in order to satisfy the requirements of the federal HMO law. That leaves the question of actually using the HMO up to the union and its members, and leaves the question of how the cost will be paid up to the collective bargaining process.

Some other major points of the rules are:.

- New, stiffer requirements that employers be supplied with extensive information about HMOs seeking to serve their employes—including financial data, ownership disclosure, and the identities of the health professionals providing care.
- Employer control over the promotional materials distributed to employes by the HMO, and employer control over the extent to which company facilities are used in promoting the HMO.
- A deadline requiring that an HMO request to cover bargaining unit employes be received at least 90 days before the expiration or renewal date of the contract. For non-bargaining employes, the deadline is 180 days before expiration of any employer-employe contract or health benefits contract.
- A decision that the HMO option need not be offered to retirees except at the discretion of the employer.

Employers are still up in the air about just when the HMO option must be offered however.

The Section 1310 rules could not change an existing requirement of the law itself that states that the HMO option must be provided at any location where there are as few as one employe.

No employer with less than 25 employes covered by the minimum wage rules of the Fair Labor Standards Act will be affected by any of the HMO rules. But under present language, an employer with 25 employes in 25 separate geographical locations might have to deal with 25 HMO's rather than one insurance company.

Employer supported legislation is pending in Congress that would require an employer to offer the HMO option only in locations where at least 25 employes work.

That legislation would also reduce the health benefits that HMO's must offer in order to be federally qualified. That is expected to bring the cost of HMO membership down and make it more competitive with conventional health insurance. ■

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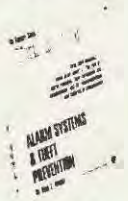
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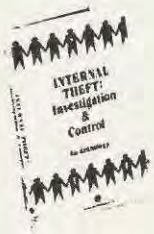
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–Single policy format (some contracts have been issued attempting to insure both the corporate obligation and the directors' and officers' obligations in one policy contract which poses serious problems of enforceability of the insurance contract in many states).
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dates for buyers

Nov. 17-18 and Dec. 3-4: Indiana University at South Bend is sponsoring a two-day seminar on employe stock ownership trusts (ESOTs). U.S. Senator Vance Hartke (D-In.), and Robert Podesta, chairman of The Chicago Corp., will be among the speakers. The meeting, titled "ESOT, It Works the South Bend Lathe Way," will devote one third of its time to general discussions of ESOTs and the other two thirds to the government assisted financing of the ESOT at South Bend Lathe. The meeting costs $295. Further information is available from Dr. James Ryan of the Indiana University South Bend Campus, 1835 Northside Blvd., South Bend, In. 46615.

Dec. 3: An IIA/CPCU Education Conference will be held in Albuquerque, N.M. The day-long meeting is for course leaders of IIA or CPCU classes, sponsors of these classes, education chairmen of CPCU chapters and education directors of insurance organizations. For further information, write to Field Service Dept., The Institutes, Providence and Sugartown Roads, Malvern, Pa. 19355.

Dec. 3-6: A Public Employes Conference, conducted by the International Foundation of Employe Benefit Plans, will explore problems facing the benefit plans covering some 15 million local, state and federal government workers in the United States. Topics include federal legislation, pros and cons of maintaining an "adequate" pension program, health insurance legislation, new health benefits, actuarial and investment considerations, benefit communications and the economic outlook. For more details, contact the foundation at P.O. Box 69, Brookfield, Wi. 53005.

Dec. 4: A symposium on the applications of transactional analysis to safety—I'm Safe, Your Safe—will be sponsored by the American Society of Safety Engineers (ASSE) and will be held in Washington, D.C. (also Dallas, **Dec. 9**, and San Francisco, **Dec. 11**). The fee is $100 for ASSE members and $125 for non-members. Instructor for all sessions is John P. Gausch, CSP, a consulting safety professional and president of ASSET Control Inc. He has extensive experience in the concepts of interpersonal relations. Those interested should contact L. Hoogerhyde, ASSE, 850 Busse Highway, Park Ridge, Il. 60068.

Dec. 9, New York; **Dec. 10**, Chicago; **Dec. 11**, Los Angeles: A Coast-to-coast opportunity for ERISA: Give and Take with top officials from Labor, IRS and PBGC will be presented by the Assn. of Private Pension and Welfare Plans. The focus will be on funding, the PBGC, employe stock ownership trusts, reporting and disclosure and fiduciary responsibility and investments. Conferees are asked to send in questions to the association's Washington office prior to the meetings. Attendance fee is $95 for APPWP members; $125 for non-members. Write to the association at 1028 Connecticut Ave., NW, Suite 909, Washington, D.C. 20036.

Dec. 15-19: A basic safety management course will be held in INA Corp.'s International Safety Academy in Macon, Ga. Designed for the newly appointed safety person or others who wish to learn the basics of loss control, the course includes sessions on environmental health and OSHA. Tuition is $360. Write to the academy at 1021 Georgia Ave., Macon, Ga. 31201, for more details.

Jan. 12-13: The Manufacturing Chemists Assn. will present a symposium in Philadelphia designed to help shippers in developing their knowledge of the safe handling of hazardous materials. (Also Houston, San Francisco and Chicago at later dates.) It will concentrate on the Department of Transportation's hazardous materials regulations and on making shippers more familiar with the techniques, alternatives and requirements necessary for compliance with them. The $40 pre-registration fee includes two luncheons and copies of all papers presented. Further information is available from: William H. Butterbaugh, Manufacturing Chemists Assn., 1825 Connecticut Ave., N.W., Washington, D.C. 20009.

Feels ERISA 'substantially improves' pension system

BAL HARBOUR, FL.—Following a short period of consolidation, private pension plans will continue to be liberalized, according to a consultant speaking at the annual meeting of the Society of Actuaries here.

"ERISA has created some temporary fears and uncertainties for plan sponsors, but I believe we will find that this legislation substantially improves and strengthens the system as a whole by removing the uncertainties and fears with which some plan participants have lived for years," said Claude Poulin, senior actuarial consultant in the Social Security department of the United Auto Workers.

Mr. Poulin believes pension plans will be amended in the following area:

- A lower normal retirement age and a lower age at which full benefits are payable.
- More widespread provision of early retirement supplements before Social Security benefits begin.
- Inclusion of disability benefits in pension plans partly because these benefits could be guaranteed by the Pension Benefit Guaranty Corp.
- Earlier vesting, such as after five years' service.
- The gradual disappearance of contributory plans and trend toward non-contributory plans.

"One of the advantages (of contributory plans) for an employer was that a terminating employe withdrawing his own contributions was also forfeiting the employer-paid portion of his pension," Mr. Poulin said. "Under-ERISA this will no longer be the case."

He predicts the rate of pension plan terminations "will fall "drastically" next year and stabilize at a level "of between 1,000 and 1,-500 terminations a year." He blames the "abnormally high" rate of this year's 3,000 terminations to "an initial over-reaction" to ERISA.

"The trend toward defining benefit plans will continue because they are the only ones capable of achieving the basic goal of a pension plan—to provide, in conjunction with Social Security, a determined amount of income upon retirement." ■

OPIC income up 18%

Overseas Private Investment Corp. (OPIC) increased its gross income for fiscal 1975 by 18% to $48.2 million. The government organization, which encourages investment in developing countries by providing political risk insurance, settled two major claims this year: ITT's disputed expropriation claim for $95 million and Reynolds Metals Co.'s claim for $10 million relating to its nationalized bauxite operation in Guyana. (The Anaconda Co.'s 1971 claim for $154 million involving property expropriation in Chile remains unsettled.)



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Northrop taps Troop, replaces Stanberry as insurance chief

Alan Troop, 34, is the new corporate insurance director for Northrop Corp., Los Angeles, effective December 1, *Business Insurance* learned. Mr. Troop, who will report to James Willson, senior vp of finance, replaces **Richard A. Stanberry** in the position. Mr. Stanberry indicated he will remain on the Northrop insurance staff, however. Mr. Troop formerly was corporate insurance manager for Occidental Petroleum Corp. from May, 1968 to August, 1971. Since that time, he has been a partner and president of Insurance Shoppe, an independent insurance agency located in San Diego. Mr. Troop explained that the agency, which has a premium volume of approximately $500,000, was recently sold to a "brand name brokerage firm." He said the reason for the sale was the unfavorable business climate in San Diego. Prior to joining Occidental Petroleum in 1968, Mr. Troop was an assistant risk manager for Getty Oil Co. While working for Occidental, he handled the insurance for the $12 million art collection of Dr. Armand Hammer, founder.

* * *

The University of California named **Stephen J. Deness,** 47, system-wide coordinator of insurance and risk management. Mr. Deness, formerly associate insurance and risk manager for the university where he worked with **Irwin D. Nicholas,** has been in charge of the U. of C. system of insurance and risk management for the entire campus. Mr. Nicholas is now vp of risk management for Fred S. James Co., San Francisco (*BI*, July 28). Mr. Deness works with Robert Dressler, associate system-wide coordinator for insurance and risk management.

* * *

United Air Lines Inc., Chicago, named **David Walker** manager of group insurance. He reports to Waller B. Smith, director of insurance, in his newly-created position. United's benefits department was reorganized to split pension responsibilities from group insurance. As manager of group insurance, Mr. Walker oversees programs for life, health, accident and long term disability insurance, with a staff of 50. The job previously was managed by **Gerard P. Howland,** who is now pension department manager. Mr. Walker formerly was manager of employe benefits at Borden Inc., Columbus, Oh. No replacement has been named for him there yet.

* * *

Alfred P. Prevost was hired as manager of employe benefits for MCA Inc., Los Angeles, an entertainment industry corporation which owns Universal Studios. In the newly-created position, Mr. Prevost takes over duties previously performed by **W. G. Vanden Bossche,** who is director of insurance. Mr. Prevost came to MCA from Cyprus Mines Corp., Los Angeles, where he was director of insurance. The position was abolished, according to Jeffrey Paul, assistant to the treasurer at Cyprus Mines, who has taken over the additional responsibilities of risk management.

* * *

Dart Industries Inc., Los Angeles, promoted **Wendell Fish** to the position of corporate group vp, employe services. Mr. Fish, 65, has directed the company's benefit programs for almost 25 years and will continue to be responsible for domestic and international programs. It is a newly-created position. He reports to the vp of corporate relations. Mr. Fish joined Dart in 1953 and was promoted to director of employe services in 1963.

* * *

Hal A. Sebastian was named director of benefits planning and administration for all of the New York-based W. R. Grace & Co.'s consumer service group divisions. In this newly-created position, he reports to the vp-administration. Formerly, Mr. Sebastian was manager, personnel and employe benefits at Cerro Corp., Chicago. **Stephen T. Bemis,** has taken over Mr. Sebastian's duties as benefits coordinator for Cerro Corp.

* * *

Northwest Industries Inc., Chicago, named **Marcia Lewis,** 30, manager employe benefits and personnel systems. She was promoted to the newly-created position from information systems specialist at Northwest Industries where she worked on a pensions processing project. Her responsibilities include domestic benefits planning and administration as well as some pensions work for international operations. Ms. Lewis has worked at Northwest since December, 1974, and spends about half her time on benefits.

* * *

Otis Elevator Co., New York, named **Leslie Schroeder,** 64, acting director of insurance to take over functions vacated by **Jesse Pagonis** (*BI*, Nov. 3) and **Peter Viscardi** (*BI*, Oct. 20). Mr. Schroeder took early retirement last year from Studebaker-Worthington Inc., New York, where he had worked for 38 years. Mr. Schroeder reports to Otis' treasurer and will assume the position at least until the current tender offer for Otis stock is completed.

* * *

Lorne W. Miller, 35, was appointed director of risk management for The Riley Co., a Chicago-based manufacturer of heavy equipment and instrumentation for utilities and industry. He replaces **Charles R. Free,** who died in August. Mr. Miller, who reports to the financial vp, is responsible for the complete risk management function including group insurance. He said he is also looking at loss prevention engineering as a new function that may be within his scope in the future. Previously, Mr. Miller was corporate supervisor of casualty insurance for U. S. Gypsum Co., Chicago. No replacement has been named for him there yet.

* * *

Booz, Allen & Hamilton, Chicago, named **Joanne Hines,** 28, insurance administrator to handle group insurance claims processing. She reports to the director of compensation and benefits and rejoined the management consulting firm in July after working there three years. She replaces **Marie Lepinski,** who went to the John Hancock Isurance Co., Chicago. Ms. Hines said the firm is still looking for a second person to perform a similar function.

* * *

Clifton & Co., a San Francisco-based insurance brokerage firm, named **H. Richard Hawley,** 47, vp for administration. He is responsible for all personnel functions including compensation and benefits. Mr. Hawley started October 1 in the newly-created position and reports directly to the president. Previously, he worked as executive vp for administration and finance at Cutter Laboratories Inc., which was acquired by Bayer AG, a German firm. His job at Cutter Laboratories was eliminated as a result of the acquisition.

* * *

Michael G. Haske, 30, left his position as insurance analyst at Walgreen Co., Deerfield, Il., to join The Wyatt Co., Chicago, as a consultant on Nov. 11. He was replaced by **Daniel T. Morris,** 25, at Walgreen's, who acted as understudy for Mr. Haske for three months from Walgreen's Denver operations. Mr. Morris is responsible for property and casualty risk management, major medical coverage and claims administration for the discount drug store chain.

* * *

Leo Burnett USA, an advertising agency based in Chicago, hired **Beth Keeve,** 22, as insurance controller on Nov. 3. Her function includes processing major medical claims and she reports to the director of employe relations. Ms. Keeve previously was assistant office manager at Chicken Unlimited Inc., Hinsdale, Il. She was replaced there by **Edith Polley,** 49, who was named insurance clerk. Ms. Polley handles workers' compensation claims, major medical and liability claims for franchises of the fast food chain. Ms. Keeve replaces **Vi Anderson,** who retired two months ago from Leo Burnett.

* * *

Schwinn Bicycle Co., Chicago, named **Sharon Emch,** 32, insurance clerk to process group insurance claims for hourly and salaried employes and to compute premium billings, on Oct. 27. She reports to the director of industrial relations and is scheduled to replace **Kathy Sieczko,** 26, who will become secretary to the director of manufacturing for Schwinn on Jan. 1. Ms. Emch came to Schwinn from the Chicago office of Metropolitan Life Insurance Co.

* * *

Schering-Plough Corp., Kenilworth, N.J., hired **Spencer J. Rankin,** 37, on Nov. 10 with the idea that he will eventually assume responsibility for its risk management department. **F. Allen Briggs Jr.,** currently director of risk management, has worked for the company 24 years and plans to retire in upcoming months. Mr. Rankin will learn the ropes from him in the meantime. The job includes responsibility for the pharmaceutical and cosmetics manufacturer's worldwide risk management program—property, casualty and employe benefits coverage. Mr. Rankin will report to the vp-general counsel when he takes over Mr. Briggs' duties. Mr. Rankin formerly was corporate risk manager at C. R. Bard Inc., Murray Hill, N.J., a manufacturer of health care products. No replacement has been named for Mr. Rankin yet.

* * *

Ralph J. DeStefano, 40, joined Schlumberger Ltd., New York, as risk and insurance manager to replace **Burton J. Carbino Jr.,** who went to Irving Trust Co. (*BI*, August 25). Mr. DeStefano reports to the treasurer and is responsible for the entire risk management function at Schlumberger. Formerly, he was risk and insurance manager at CIT Financial Corp., New York. His successor has not been named yet.

* * *

Graber Co., Middleton, Wi., a division of Consolidated Foods Corp., named **David Miller,** 36, director of employe relations. Mr. Miller comes to Graber from Wagner Castings Co., Decatur, Il., where he was manager of industrial relations. A replacement has not been named there yet. At Graber, Mr. Miller reports directly to the president and is responsible for employe benefit administration in conjunction with the parent company. Mr. Miller also expects to be involved in purchasing group insurance and in supervising matters concerning the company's profit sharing and pension plans. He replaces **Jerome W. Schwaiger,** now vp of Shades Inc., a division of Graber in Calistoga, Ca.

* * *

GATX's corporate insurance department hired **Barbara Krane** as insurance administrator and **Richard Z. Storm** as claims administrator in Chicago. It is not known whether they replace **Robert W. Eckhoff** and **Jack W. Barker,** who left GATX several weeks ago. Ms. Krane and Mr. Storm report to Arthur H. Melzer, corporate insurance manager, who declined to give information about their previous work experience. ■

Liability suits against lawyers up 10% a year

DETROIT—The number of lawyer's malpractice suits in Michigan is increasing at a 10% annual rate, State Bar officials reported in a survey of this situation.

With dollar awards in clients' suits against lawyers mounting, legal malpractice insurance premiums in Michigan are higher. The principal carrier for lawyer's professional liability insurance in the state is American Home Assurance Co., underwriter for policies in the group professional liability program sponsored by the State Bar Assn. An increase of 72% in premiums was negotiated by the State Bar with American Home, effective Aug. 19.

Other insurance companies reportedly have doubled the premiums charged lawyers for errors and omissions coverage.

The trend toward clients suing their lawyers is recognizable in Wayne County Circuit Court here. In the last quarter of 1974, 131 legal and medical malpractice cases were filed. In the first quarter of 1975, 172 cases were filed and in the second quarter there were 156 cases filed.

George E. Bushnell Jr., president of the State Bar Assn. and a Detroit attorney, noted that the increases in premiums are based on projected future claims as well as on present experience.

Michigan's Supreme Court in 1970 created a State Bar Grievance Board to handle lawyer disciplinary matters and in 1971 adopted a Code of Professional Responsibility that added negligence and malpractice to the unethical practices subject to action by the Grievance Board. ■

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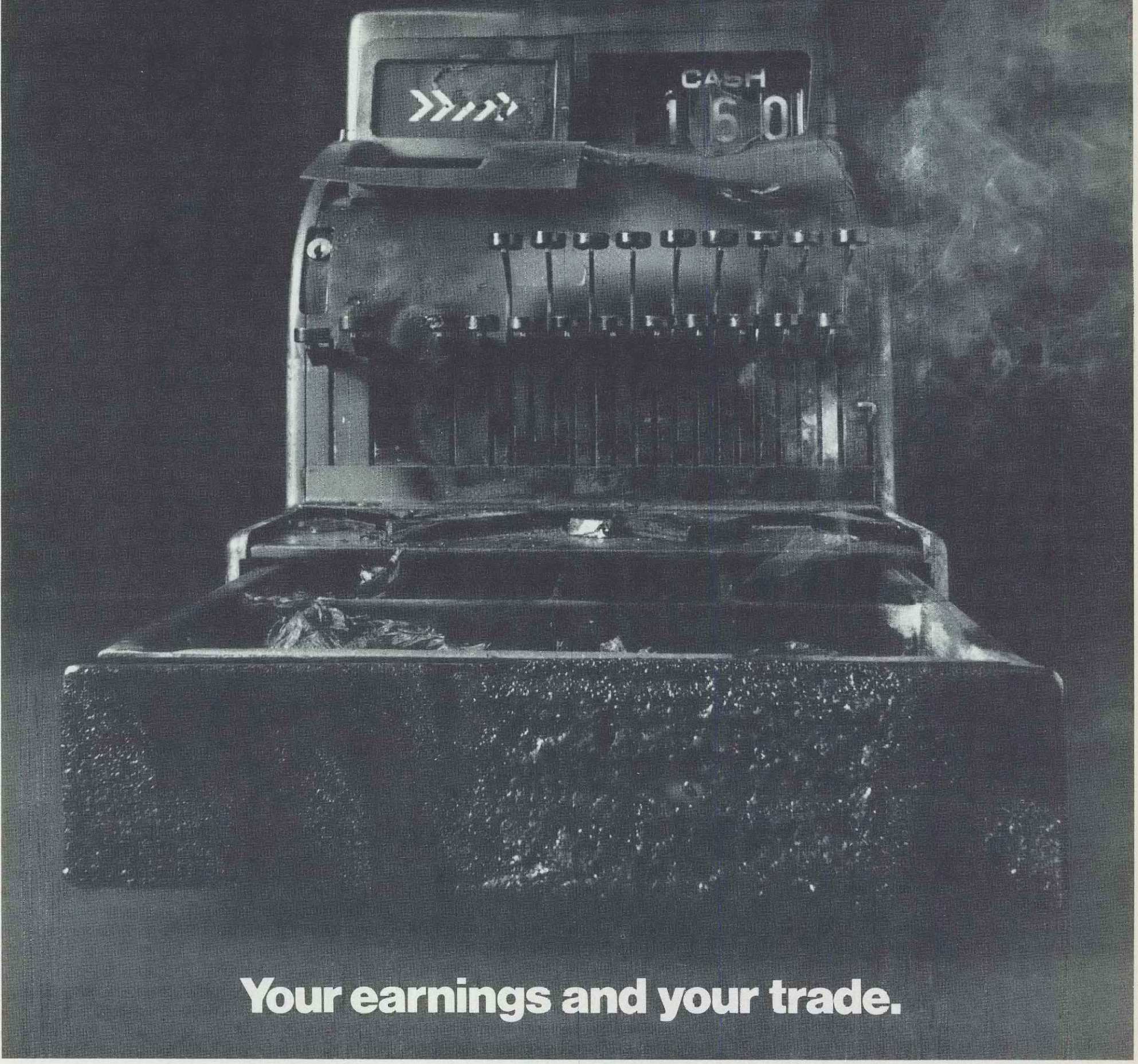
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