

Oil companies must 'buy back' terrorist cover

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The largest of three canning operations of the Port Clyde Packing Co. burned to the ground here late last month, resulting in a loss to the company of \$1.5 million. Only five months earlier the company had allowed its fire insurance policy, written by Maine Cannery Mutual Insurance Co., a Brunswick-based specialty line company, to lapse. "The company decided that the premiums we had to pay were just too high," explained John Jackson, office manager. Liability, boiler and workmen's compensation for the other Port Clyde Packing Co. plants are written by Employers Fire Insurance Co. of Boston. American Universal Insurance Co. handles the hull coverage for the work boats the company also operates. Mr. Jackson explained that the two other plants (one in Blue Hill, Me. and the other in Yarmouth, Me.) are both of concrete construction and "fireproof." The Port Clyde plant, largest of the three was constructed totally of wood, he said. —Wide World photo

Directors & officers coverage tested in two key court cases

By STEPHEN GILKENSON

NEW YORK—While no one is proclaiming it as such at this date, some who have been pounding seminar roundtables and extolling the virtue of directors and officers liability insurance for several years might like to think their ideas, and a few chickens, have finally come home to roost.

Reasons for the elation, if it can indeed be called that, are two business world developments that are in various stages of litigation or settlement.

The first involves Mill Factors Corp. Directors and officers of the insolvent commercial finance company had suits of about \$5 million pending against them. These suits will be settled for \$1 million under a tentative agreement reached between claimants and the directors and officers' insurers (*Business Insurance*, Sept. 28). Mill Factors executives were insured for D&O liability in the London market, largely at Lloyd's

Co., Montreal.

THE STANDARD D&O insurance policy is written in two forms. One insures the directors and officers themselves. The other insures the corporation as it indemnifies its officers and directors for suits brought against them.

Under some state corporation laws—New York, for example—companies are prohibited from indemnifying officers in any case in which the director or officer has violated his duty to the corporation. Violations include acts that are dishonest or cases in which directors and officers acted negligently in management.

While there have been no allegations that management acted dishonestly—i.e. were unjustly

enriched, took short-swing profits or self-dealt—in the Mill Factors failure, it is believed that the insurer's attorneys admit that management was negligent in handling the company's affairs. Thus, the settlement likely comes under the strict directors and officers policy form, most experts agree.

If the tentative settlement between Mill Factors directors and officers' insurers and claimants does come off, it would be "the first big one," according to one D&O underwriter who is not involved in this claim. He emphasized that it would be the first large "settlement," and noted that there have been cases in which defense expenses (also

Continued on page 2

Mance doubts a U.S. Lloyd's could function

NEW YORK—Henry S. Mance, 57, is a slight man who walks with the aid of a cane. However, whatever he lacks in physical stature, he more than makes up for in presence.

Perhaps it is the awesomeness of his office as chairman of Lloyd's of London. For there is indeed an aura surrounding any man who occupies that chair. One suspects that far larger men cower in front of that man, if only out of respect for the office he holds.

But Mr. Mance, as they say on the other side, carries it off magnificently.

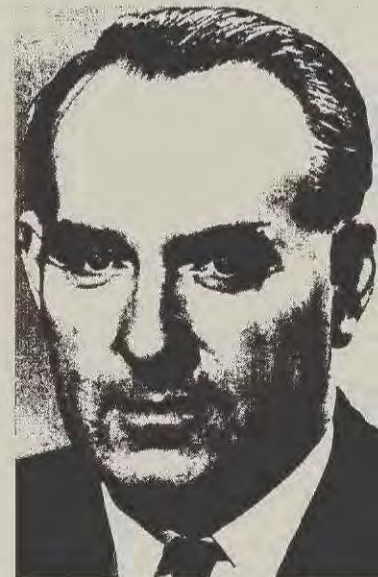
Such was the case the other day when he greeted a visitor to his suite on the 11th floor of the Pierre Hotel here at 8:30 in the morning. He had just finished what looked to be a hearty breakfast and was already busy in conference with two of Lloyd's New York attorneys.

HE WAS extremely cordial—even in the face of yet another press interview—and did manage to put a stranger at ease.

Members of the press corps tend to rate people they interview. One method used is a sliding scale, from ten on down to one. There are very few nines, even fewer tens. Far more fall between four and seven. Many more fall below the four mark. That latter group is reserved for those that choke up completely when faced with someone with pencil and paper in hand.

Suffice it to say that Mr. Mance falls somewhere in the middle range. He is not in the least intimidated by the press. However, he is aware that everything he says is for the record, and chooses his words accordingly. Anything he's not completely certain of he begs off, saying he does not know the details.

In his chat with *Business Insurance* the other morning, Mr.



Henry S. Mance, chairman of Lloyd's of London, talked about a number of key insurance questions during his American visit. See articles on Mr. Mance's visit and Lloyd's on pages 35, 36, 49, 51 and 57. For another opinion on an American Lloyd's, see page 14.

Mance did make the following assertions:

• He said he wanted to clear up any "wrong impressions" that might have been created by comments attributed to him during

Continued on page 38

Rockies crash: Who's liable for 30 deaths?

By TERESA NORTON

WICHITA—Questions about who bears liability were raised in the wake of a tragic plane crash in the Colorado Rockies that took the lives of 30 persons, including 13 members of the Wichita State University football team.

The victims, the football players, their coach, athletic director and some fans, were on the way to a game in Logan, Utah.

The Federal Aviation Administration at first announced that Golden Eagle Aviation Co., Oklahoma City charter firm that furnished the crew for the flight, did not have certification to fly planes the size of the Martin 404 that crashed. Don Kasporeck, from Golden Eagle, told *Business Insurance* that the FAA had withdrawn the statement. Both the pilot and co-pilot were licensed to fly planes of that size, he said.

THE MARTIN 404 was leased by the university from the Jack Richards Aircraft Co., also of Oklahoma City. Richards had received the papers to the craft from Fairchild-Hiller Corp. one day prior to the flight. A second plane, carrying other team members, was seized by the FAA when it landed safely in Logan,

Utah, on the grounds that it had been "involved in various violations of the FAA regulations." Both planes were about 20 years old.

University officials declined to comment on travel-accident coverages for the players and coaches or the school's liability coverage.

An airline insurance source said he "wouldn't be at all surprised if the liability coverage on the crashed plane had huge loopholes." The smaller the air company, he added, the more stringent the exclusions in the coverage.

"You have to start off," he said "with the fact that the Martin 404 didn't have much value. I doubt if it would even bring \$50,000 on today's market. And it hadn't been used for three years. Also, the lease papers had been obtained from the owner only one day before the flight. It looks as if everyone concerned was so hungry that they cut corners."

WICHITA STATE University officials, he pointed out, may face liability claims in case it is found that they didn't use reasonable care in selecting the team's air carrier.

Continued on page 2

THE SECOND case involves the financially troubled Penn Central railroad. Numerous former and present Penn Central directors and officers have been named in stockholder derivative suits and more are likely to be introduced in the months ahead. While no one will confirm it as certain, some are speculating that D&O coverage might pay in instances in which mismanagement is alleged and proved as the cause of the railroad's financial collapse. Penn Central also has D&O coverage.

In a related development, Lybrand, Ross Brothers & Montgomery, the large public accounting firm, has also reached a tentative agreement to pay \$4.95 million in claims arising out of its role in the Mill Factors collapse. Lybrand certified Mill Factor's books when in fact the company was insolvent. Lybrand is fully insured for the settlement under a professional liability policy spread among several world insurers, said its broker, Corroon & Black Corp.

While persons close to the Mill Factors case refuse to discuss the tentative settlement in detail, claiming fiduciary responsibility to their client, some facts have been confirmed by *Business Insurance*.

Mill Factors directors and officers did have a D&O policy in effect at the time of the collapse of the once reputable commercial finance company. Limits of the policy, written largely at Lloyd's, were \$5 million. The originating broker on the policy was Frenkel & Co., Inc., New York. The London broker was J. H. Minet &

Policyholders' suit links insolvent Prudence and union pension fund

CHICAGO—Operations of an insolvent Illinois insurance company have been linked to loan practices of the pension fund of the international barbers' union, now under investigation by federal officials.

Allegations of scheming between the company and the pension fund are contained in a suit asking recovery of \$4 million on behalf of policyholders of Prudence Mutual Casualty Insurance Co. from officials of the pension fund of the Journeymen Barbers, Hairdressers, Cosmeticians and Proprietors International Union.

Among other defendants are Lamont DuPont Copeland Jr., son of the chairman of E. I. DuPont DeNemours & Co.; executives of Prudence; officers of the union; Thomas Shaheen, financial adviser to the fund, and F. Lee Bailey, Mr. Shaheen's trustee.

Steven L. Bashwiner, an attorney acting for the Illinois attorney general's office in the matter, said there is a question of

whether the arrangement between the company and the pension fund was designed to defraud the fund or the insurance company.

"THE SCHEME worked very simply," he said, "because it involved the taking of questionable second mortgages by the pension fund on the advice of Mr. Shaheen and the issuance of surety bonds by Prudence which the insurance company then tried to protect itself by making payments on the first mortgages."

Attorneys for Prudence policyholders, which include several Chicago cab companies that bought group fleet liability insurance from the defunct firm, allege that kickbacks and money mismanagement were part of the scheme that resulted in losses to policyholders when the company went into liquidation in October, 1969. The involvency was the 33rd in the past decade in Illinois, which leads the nation in

insurance company insolvencies.

Another Illinois insurer, Freedom Insurance Co., went insolvent early this year under the management of the same persons who operated Prudence. Freedom was chartered in the closing hours of the administration of former Illinois Insurance Director John F. Bolton Jr.

The suit, filed by Mr. Bashwiner and Don H. Reuben, asks that \$4 million be paid to Illinois Insurance Director James Baylor for distribution to policyholders of the defunct Prudence Mutual.

MR. BASHWINER told *Business Insurance* that the losses involved in the scheme far exceed \$4 million. "We have alleged in our counterclaim seven bond and surety transactions that were made with no security, many of them with substantial amounts involved," he said.

According to Mr. Bashwiner, Mr. Shaheen was chief executive officer of Columbia Finance Corp. which shared the same premises with the Winthrop-Lawrence Corp., a company owned in part by Mr. Copeland.

Prudence Mutual Casualty Insurance Co. insured chiefly high-risk drivers and properties in low-income areas and also wrote accident and health insurance.

The barbers' union, located in Indianapolis Ind., is under federal investigation for its role in the scheming alleged in the \$4 million Illinois suit filed in Cook county circuit court.

Mr. Bailey, a prominent criminal attorney, is involved in the suit as trustee of the property of Mr. Shaheen.

Holding off on air insurance consortium

NEW YORK—The announcement last week that the airline-supported insurance consortium will not begin writing airline risks Jan. 1, as planned, confirms what some aviation insurance people have been saying for months. That is, insurance capacity has been made available in the world markets for a price airlines are willing to pay, and there is no need for the industry to get into the insurance business at this point.

Air Transport Insurance Ltd. and Air Transport Guarantee Ltd., the primary and excess companies, were to have operated as a combine. However, in August it was decided the excess company was not needed at present and would therefore be held on standby (*Business Insurance*, Aug. 17). Last week's development means both companies will be held on standby.

"We're proceeding on a fire extinguisher basis," Clarence Pell, who directs the consortium's operations here, told *Business Insurance*. "We will be ready to go when and if needed."

In the meantime, both companies will continue to be supported financially by the two air trade associations—the International Air Transport Assn. and the Air Transport Assn.—that have spent more than \$2 million since 1966 to study the need for such a venture and set it up.

plan to sell the company's remaining assets to James Talcott Inc. Talcott, one of the nation's leading commercial finance companies, has agreed to purchase Mill Factors.

At present, however, one of the Mill creditors has balked in giving its approval to the plan. The holdout is the Worcester County (Mass.) National Bank, which as a trustee for a number of charitable accounts it administers had purchased \$1.3 million of Mill Factors' commercial paper before the company was declared un-

sound. The bank stands to lose about \$400,000 under the tentative settlement.

In the case of the Penn Central financial problems, speculation is abounding in New York that subsequent stockholder suits might also be payable under D&O terms. The railroad has D&O coverage in the London market, and although precise limits could not be determined they are believed to be in excess of the Mill Factors policy. The broker on the policy is Stewart, Smith & Co. Inc.

Crash . . .

Continued from page 1

The National Football League, as one might expect, has a sophisticated disaster plan and provides full coverage for both players and clubs in the event of tragedy such as that involving Wichita State.

Players are protected by travel and accident coverage provided by the clubs. The amount of protection varies not only from club to club, but from player to player, as some players have such protection negotiated in their contracts. The players also have life insurance coverage.

If a tragedy were to strike a club, the league would use its disaster plan, which provides for the replacing of lost players to a decimated team. The plan is good only for common accidents. NFL teams, however, always travel together on one plane. Basically the plan provides that if a team were to lose more than 15 players from its 40-man roster, its season could be suspended and it would be treated virtually like a new franchise when player draft time rolled around.

D & O . . .

Continued from page 1

payable under D&O terms) in the six-figure range have been paid. "The cost of defense and other legal expenses can be enormous in D&O cases," he said.

THE EVENTUAL settlement in the Mill-Lybrand case hinges upon the full acceptance by all creditors of Mill in a complex

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CNA quits AIA over no-fault, regulation

CHICAGO—Member companies of the CNA insurance group resigned from the American Insurance Assn. because of their opposition to AIA stands on no-fault auto insurance and dual insurance regulation by states and the federal government.

George McDonnell, CNA's executive vp, said, "We decided to resign from AIA because we continually find ourselves in fundamental conflict with the association's approach to problems of our industry." Mr. McDonnell specifically cited AIA's support of a no-fault insurance plan in New York and elsewhere and the association's support of a federal insolvency fund.

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Stockholder suits question president's earnings

WASHINGTON—Is there a legal limit to how much a publicly-owned corporation can pay its chief executive officer?

Technically, of course, the answer is yes. But, as a practical matter, the question is seldom raised, no matter how much the salary.

At Perfect Film & Chemical—parent corporation of the now-defunct Saturday Evening Post—the question, however, has been raised in the form of a number of stockholder derivative suits alleging that the firm's \$125,000-a-year, fat-with-fringe-benefits contract with its President Sheldon Feinberg represents "corporate waste" and resulted from "a conspiracy" between Mr. Feinberg and the company's prior management.

The Perfect Film board of directors has "authorized the rescission" of Mr. Feinberg's employment agreement "to take effect upon court approval of a proposed settlement (based, in part, upon such rescission) of the derivative actions."

THE BOARD HAS appointed a special committee, consisting entirely of directors who are not corporate employees, to negotiate the terms of a new agreement with Mr. Feinberg.

Mr. Feinberg joined Perfect Film in June, 1969, replacing the controversial Martin Ackerman—the man who buried the Saturday Evening Post and then left the company in a whirl of publicity and lawsuits. Mr. Feinberg had attended Rutgers law school with Mr. Ackerman. Prior to joining Perfect Film, Mr. Feinberg had been a director and financial vice president of Revlon Inc.

There is little doubt that Mr. Feinberg's contract with Perfect Film is a fat one. In addition to the \$125,000 a year annual salary he receives as president and chief executive officer of the firm, Mr. Feinberg's contract calls for him to receive:

- Deferred compensation at the rate of \$25,000 per year to be paid to him or his estate on Jan. 1 of each of the first three years following termination of his employment.

- A death benefit (if he dies while with the company) equal to three times his salary payable to his estate in five equal installments on Jan. 1 of each of the first five years following his death.

- An annual disability payment, payable if his employment is terminated because of a disability, equal to 50% of his base salary to be paid for two years or until his death, whichever occurs first, if disability is caused by illness, or until he attains age 65 or dies, if disability is caused by accident.

- An annual retirement pension, payable when he reaches 65, equal to 2.5% of his average base annual salary during his last five years of employment multiplied by his total number of years service to the company (counting periods for which he receives a disability payment as years of service).

War-risk rates

Promptly upon the outbreak of civil war in Jordan, war risk rates for shippers to the Middle East were hiked by London underwriters. They doubled them in many cases, according to an announcement by the Institute of London Underwriters to *Business Insurance*.

Also, when Mr. Feinberg entered into the agreement at the end of June 1969, the company loaned him \$770,000 on a 4% note. The funds were to be used to buy 55,000 shares of the firm's stock from the company at \$14 a share. The day prior to this transaction, Perfect Film was trading on the New York Stock Exchange at \$21 a share.

The stock is currently trading at about \$9 a share.

UNDER THIS STOCK purchase agreement, Mr. Feinberg

would have had to immediately resell the shares to the company—at the lessor of \$14 a share or market value—if he left the firm within one year. If he left within the second year, half would have had to be resold to the company.

The agreement also provided that Mr. Feinberg could dispose of the shares only within a prescribed timetable—one-sixth after the first year; another one-third after the second and another one-third after the third; and the final one-sixth after the

fourth.

The entire Feinberg employment agreement was approved by the company's stockholders at the company's annual meeting in September, 1969.

At the time the agreement was being submitted to stockholders for approval, Perfect Film said it was contemplating purchasing insurance to fund its obligations to Mr. Feinberg.

Perfect Film said it had been advised that such insurance was available and—"assuming Mr.

Feinberg's insurability"—could be obtained for about \$18,500 a year.

The company said that it had been advised by Coloney & Company Inc., independent management consultants, that if the obligations to Mr. Feinberg were funded, the compensation and other employment benefits provided for in the employment agreement "are fair and reasonable to the company and its stockholders."

Mr. Feinberg received a base salary of \$77,650 at Revlon. ■

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washington watch

Administration's attack on national health plan galvanizes proponents

WASHINGTON—The Nixon Administration's scathing attack against national health insurance before Sen. Yarborough's (D. Tex.) labor and public welfare committee late last month may actually have served to speed Congressional action on such a proposal by causing its supporters to unite behind a single plan.

Most observers have felt that such a coalition would be necessary to get meaningful action going in Congress, but hardly anyone expected such a union to

develop so soon.

Anything can happen between now and the opening of the 92nd Congress but reports indicate that AFL-CIO President George Meany may now be ready to place his considerable lobbying clout behind the highly liberal proposal made by the Committee of One Hundred for national health insurance, founded by former United Auto Workers President Walter Reuther.

AMONG THE supporters of

the committee's government-handled-all-health-insurance approach are Democratic Senators Yarborough, Kennedy, Magnuson and Muskie.

Also, Sen. Javits of New York—a leading liberal in the Republican camp—is now expected to come around to the committee's way of thinking, abandoning his own proposal that relies heavily on private insurance, especially group coverage, to carry much of the nation's health insurance load.

In any case, the Administration's firm stand against national health insurance virtually assures that it will be a live political issue in the upcoming elections—thus giving the matter the kind of broad national publicity that its supporters have wanted but hadn't really hoped to get so soon.

Undersecretary of Health, Education and Welfare John Veneman carried the ball for the Administration before the Yarborough committee, charging that national health insurance, as envisioned by Senators Yarborough, Kennedy and the Reuther Committee, would cost the federal government \$77 billion in its first year of operation. "This is equal to about half the total present general revenues of the federal government and would be equivalent to a federal health tax of more than \$1,000 per year for every household in the U.S.," he said.

MR. VENEMAN questioned whether it is necessary to drastically abandon the "existing mechanisms in our health care system," pointing out that most of the progress made to date toward meeting the nation's health needs has been through the "continuous growth of voluntary health insurance." Between 1940 and 1968, he pointed out, the number of persons of all ages with hospital coverage rose from 12 million to about 175 million. At the end of 1968, almost four fifths of the population under age 65 had some form of private health insurance. Insurance for surgical costs was provided for 77% of this population, and insurance for in-hospital physician visits for 68%, he continued.

• The role of the government is to do what the private sector cannot do, "to provide protection to those who cannot otherwise acquire it, either because their medical risks are too great or their ability to pay too limited," Mr. Veneman said.

Keeping this in mind, he continued, the Administration is developing a program called the Family Health Insurance plan, under which more than 20 million needy people will be eligible for the first time for a basic national standard of health protection.

Mr. Veneman did not further detail the proposal, which he said would be submitted to Congress early next year.

BUT, IT IS generally felt that the plan will closely resemble the program advanced by the American Medical Assn. as their answer to national health insurance. The AMA proposal would leave the current medical care delivery system intact, but would have the government assure that all persons had access to health care by a system of tax credits for health insurance.

Persons under a certain income level would be issued "purchase certificates" with which to buy private health insurance.

The Administration went all out to prevent the Yarborough hearings from establishing a case for national health insurance even to the point of having minority leader Sen. Scott (R.—Pa.) make the highly unusual move of opposing unanimous consent to the sitting of the committee while the Senate was in session.

The Administration's efforts to play down the hearings were taken by many to indicate that the AMA, which strongly supported Mr. Nixon in the presidential race, is still a powerful influence in the White House.

The AMA refused to testify at the hearings, claiming in a tersely worded telegram that the hearings would serve no legislative purpose.



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Gulf Oil uses 'skim clean' method

LONDON—Gulf Oil Corp. has found a new way to prevent explosions and fires when supertankers are cleaning their tanks, according to claims at a press conference here.

P. B. Binsted, a Gulf executive, said the system is called "skim clean." It prevents any build-up of explosive mixtures during cleaning by a three-stage method for dealing with gaseous hydrocarbons.

He claimed the procedure has proved highly successful during tests, and will be used in all Gulf tankers from now on.

Touchy Question #78

Is the “security program” you maintain for your employees a highly dangerous “insecurity program” for you?

Security or retirement programs are “owned” by the employees for whose benefit they are maintained. The firm is in a sense their trustee, responsible for the quality and continuing health of the program.

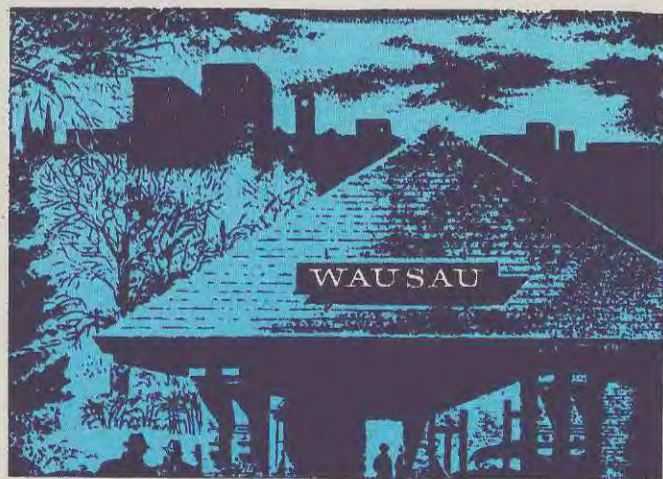
If you read the papers, you know that an employee benefits program can go off like a bomb in the hands of the employer. One nationally-known corporation was recently stung for over \$70,000 for giving an employee what turned out to be mistaken advice about which of several options to exercise. And in the wake of its discontinuance of a magazine, an

old established American publisher is currently confronted by half a dozen lawsuits alleging that the security plan has been mishandled.

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not spending your money. We're saving it.

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But at Consolidated loss control also means waste control...the kind of waste that can result when an insurance company isn't prudent about paying claims, for instance.

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info for buyers

Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance*.

Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

• The size and shape of the medical care dollar has been released by the U. S. Department of Health, Education, and Welfare. The 1969 edition contains 15 charts presenting the background facts relating to the medical care dollar: who pays; what and how much is bought; for whom it is spent, and how and why it has grown. Medical care outlays include those spent for health services and supplies, such as hospital care, physicians' service, drugs, and those for medical-facilities, construction and research. Single copies are 40¢. Direct orders to the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

• Titan Employee Benefit Consultants is a brochure describing the services and facilities of the Titan company. Some of the services covered are: administrative and actuarial; study and appraisal of existing plans; new plan design and installation; employe communications; appraisal of insurance proposals; plan analysis in mergers and acquisitions; and executive management services. Direct requests to the firm at 529 Fifth Ave., New York, N. Y. 10017.

• Responsibility for loss or damage to any given shipment is set by the terms of sale. If you ship by water is a booklet offered, free of charge, by the Fireman's Fund American Insurance Cos. The booklet contains commonly used sale terms which will help you determine the point at which you assume the risk for the safety of the goods, defines total loss, particular average, and general average. Direct orders to the Public Relations Department, P. O. Box 3395, San Francisco, Cal. 94120.

• The National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110, has released the following updated publications: **Safety standard for hospital laboratories**, No. 56C, 24 pgs., 75¢; **Standard for essential electrical systems for hospitals**, No. 76A, 36 pgs., 75¢; **Standard for hyperbaric facilities**, No. 56D, 52 pgs., \$1; and **Standard for nonflammable medical gas systems**, No. 56F, 28 pgs., 75¢. All publications are 1970 editions.

• Plant movement, transfer, and relocation allowances, bulletin No. 1425-10, is part of the major collective bargaining agreements series published by the U. S. Department of Labor. This report is concerned with management's and labor's solutions to three important collective bargaining issues: the protection afforded employes displaced by plant shutdowns and plant movements; the rights and options of workers in transfers between plants or companies that are party to a common agreement; and the factors governing

payment of relocation allowances when these are available to employes. Single copies are \$1.25 from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

• The 1970 edition of **Accident facts** has been released by the National Safety Council, 424 N. Michigan Ave., Chicago, Ill. 60611. The publication contains information and statistics on work, motor-vehicle, public, home, farm, and school accidents. Also included is an index with references to subjects of interest discussed in earlier editions of *Accident facts* that the reader may want to refer to. Single copies are \$2.40, orders of 2 to 9 copies are \$1.95 each. Specify stock no. 021. 70 when ordering.

• The U.S. Department of Labor has released **Rigging cargo gear**. The bulletin is part of the safety in industry series offered by the government. The publication contains suggested safe practices in rigging and using cargo handling gear accompanied by diagrams. The revised 1969 edition may be obtained for 25¢ per copy by writing to the attention of the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• Two aspects of benefit planning for international companies has been published by Swiss Life Insurance and Pension Co., for the purpose of drawing attention to certain basic concepts and to enunciate a few generalised rules of pension plan administration in Western Europe. Free copies may be ordered from the firm at General Guisan Quai 40, 8022 Zurich, Switzerland.

• An introduction to **Deferred Compensation Administrators Inc.**, is a booklet offered free of charge by the company describing its services. Some of their services include: studies and reports on existing employe benefit plans, negotiations for union pension plans, comprehensive insurance reports, employe communications, deferred compensation for key executives, and pre-retirement counseling. For a copy write the firm at 1624 Cargill Building, Northstar Center, Minneapolis, Minn. 55402.

• The legal liability of manufacturers of aircraft and aircraft components is a summary of law presented by the United States Aircraft Insurance Group. The booklet covers the following: increasing scope of liability; sources of liability; aircraft design, fabrication and testing; armed services; components; aircraft repair; the importance of defense; the influence of non-aviation cases; the negligent claimant; second hand aircraft; safety features; liability limitation; uniform commercial code; warranties; strict liability; damages; and USAIG claim services. The booklet may be ordered, free of charge, from the Public Relations Department, United States Aviation Underwriters, Inc., 110 William St., N.Y., N.Y. 10038.

• Zurich Insurance Co. offers two booklets, free of charge, describing their firm and listing their international locations. The **Zurich Group . . . a world of security** lists the firms service centers and provides a brief description of the company and history. **International list of addresses** lists their various addresses in cities throughout 26

countries of the free world. The addresses in the booklet are printed in German, French, English, Italian and Spanish. For copies of either booklet write the firm at 111 W. Jackson Blvd., Chicago, Ill. 60604.

• The United States Aircraft Insurance Group has prepared a summary of the law concerning the **Legal liability of owners and operators of airports**. The booklet covers aircraft accidents, fueling, hangarkeepers, maintenance and service, loading stand, rescue, automobile parking lots, elevators and escalators, police and security, slip and fall, special events, tenants and contractors, vehicles, indemnity, and liability to surrounding property owners. Copies of the booklet may be obtained, free of charge, from the Public Relations Department, United States Aviation Underwriters, Inc., 110 William St., N.Y., N.Y., 10038.

• The CORDE Anti-Theft Machine Lock has been introduced by Componentry Research and Development Enterprises Inc., 14-56 Bell Blvd., Bayside N.Y. 11360. The locking unit is made to fit most calculators, typewriters and office equipment. When secured, a machine may be swiveled 360 degrees so it can be used from any position on a desk or stand. Information and descriptive literature may be obtained by writing the firm.

• The problems of total remuneration in the European economic community and United Kingdom has been released by Towers, Perrin, Forster & Crosby, Inc. The report covers wages, salaries, benefits, and other forms of employe remuneration in the six Common Market countries and the U.K. Also included in the report is an expanded executive remuneration section. The report may be obtained free of charge from the firm at Three Penn Center, Philadelphia, Pa.

• A publication describing the services of its firm has been released by Marshall and Stevens Inc., national appraisal consultants. Among the services described are: acquisitions; condemnation; eminent domain proceedings; estate and inheritance tax; financial feasibility studies; housing market forecasts; insurance placement; mergers; liquidation (of assets); revision service; taxation; and utility assets. For more information or a copy of the booklet, write the firm at 1645 Beverly Boulevard, Los Angeles, Cal. 90026.

• The International Division of Alexander & Alexander has published **Are your company's assets abroad as safe as those at home?** describing the services of the division in placing, writing, and understanding foreign insurance contracts and foreign employe benefits for local nationals abroad and expatriate and third-country (international) employes. For a copy of the pamphlet or more information write the firm at 225 Broadway, N.Y., N.Y. 10007.

• The National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110, has released **Recommendations for evaluating fire protection at a new facility** (NFPA NO. 5A-T). The 1970 edition is designed to alert management to the fire protection factors that should be considered when acquiring or renovating an existing facility and when planning a new one. The pamphlet may be ordered for \$1 from the association.

Coca-Cola migrants get equal benefits

ORLANDO, Fla.—A new series of improved benefits for Coca-Cola's migrant fruit-pickers, announced subsequent to criticism of the company's benefit program for such employes, have been developed in conjunction with the Travelers Insurance Co.

The new benefits, in addition to an average wage increase of 23% across the board (an extra \$17 per week for most workers), include eligibility on a par with other Coca-Cola workers for health insurance, life insurance, retirement and thrift benefits, as well as vacation, holiday and severance pay benefits comparable to those of employes in other Coca-Cola operations.

As the result of this revision in benefits for the migrant fruit-pickers, they will now be eligible for \$5,000 of life insurance paid

for by the company, with the option to increase the amount with payroll deduction contributions to the premium. In addition, they will also be eligible for company-financed permanent and total disability coverage with the life insurance premium being paid in full so that the principle amount of the employe's total amount of coverage up to a maximum of \$20,000 is paid to him in a fixed number of installments. Should the employe die prior to receiving the entire benefit, the balance will be paid to his beneficiaries.

THE MIGRANT workers will also have an accidental death and dismemberment benefit that will pay a maximum of \$5,000 compensation for all losses from any one accident. Group hospital, surgical, diagnostic laboratory,

X-ray, and maternity benefits are coupled with a major medical insurance plan and have also gone into effect for the migrant workers, at company expense. For an additional employe contribution all dependents can also be included under this coverage. Maximum payment under the major medical coverage is \$20,000 per person.

The migrant workers will also be eligible for the company's voluntary thrift plan. Under this plan, Coca-Cola contributes 50¢ for each \$1 contributed by the employe. The employe has discretion over whether the investment of his and the company's contributions will be made in Coca-Cola stock or in government bonds. The maximum employe contribution is 5% of total wages. The trustee for the Coca-

Cola thrift plan is the Trust Co. of Georgia in Atlanta.

The employes' retirement plan, for which the migrant workers are now eligible, is a modified final-average pay plan, designed to supplement the employe's Social Security benefit. The minimum benefit under the plan at age 65 (including Social Security benefits) is \$5 per month for each year of continuous service at retirement up to a maximum of 40 years of service. The retirement plan includes an early retirement option that allows a benefit equal to 80% of the normal amount if the employe elects to retire at age 62. The plan also allows retirement after 20 continuous years of employment at age 55 with a 61% benefit.

In addition, there is an option—*Continued on page 52*

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Denies reports HEW officials are in disagreement over health scheme

WASHINGTON—The Department of Health, Education and Welfare has denied reports that some high-level department officials might actually favor bipartisan legislation (introduced in August by 15 Senators) that would set up a national health scheme.

"The department's position is Mr. (John G.) Veneman's position," an aide to the HEW undersecretary told *Business Insurance*. The aide also denied reports that Mr. Veneman privately favors a national health insurance system.

Mr. Veneman testified at hearings begun late last month on Senate bill 4323. The legislation is

sponsored by a group of Senators headed by Edward M. Kennedy (D.-Mass.) and Ralph W. Yarborough (D.-Tex.) The hearings are the first held by Congress on a national health measure in 20 years.

The speculation that there might actually be some disagreement over a national health insurance concept among top level HEW officials was apparently fanned by a confidential memo circulated within the department.

THE 4½-PAGE memo, said to be a critique of the bipartisan bill, was written by Dr. Vernon H. Wilson, chief of the Health Services and Mental Health Ad-

ministration, an arm of HEW. It was sent originally to Dr. Roger C. Egeberg, assistant secretary for health and scientific affairs in HEW.

"In summary," the memo said, "the health security program is a well-conceived, thoughtfully prepared, comprehensive and integrated approach to solving many of the nation's health care delivery problems. Most of the principles embodied in the proposal are worthy of support. In fact," the memo added, "many of them parallel proposals which we have been engaged in formulating during the past several weeks."

The aide to Mr. Veneman, however, denied that the depart-

ment might eventually support the measure.

"Dr. Wilson's memo," she said, "was his personal reaction to the long-range possibilities of a health care system, without discussing any of the implications that might make such a measure unfeasible."

IN TESTIMONY before the Senate committee on labor and public welfare, which is expected to resume hearings in January, Mr. Veneman declared that "this bill . . . in our opinion is not a proper or workable approach to the solution of the health problems of this nation."

Mr. Veneman pointed out that actuarial estimates from the Social Security Administration "indicate that the total expenditures under this bill in the year 1974 (its first year of operation) would come to \$77 billion." Moreover, he added, under provisions of the measure it would be

financed completely from general revenues, which would be equal to about half the total present general revenues of the federal government and equivalent to a federal health tax of more than \$1,000 per year for every household in the U.S.

The figures used by Mr. Veneman have been vigorously disputed by those in favor of the measure. Sen. Yarborough, for example, accused the Administration of using the \$77 billion figure for "shock value" in trying to drum up opposition to the proposal.

Likewise, Leonard Woodcock, president of the United Automobile Workers and chairman of the Committee for National Health Insurance, charged that the Nixon Administration was playing a "shabby trick" on backers of the bill.

WHILE HE has indicated that the Administration will not, under any circumstances, support the health measure as it is now written, Mr. Veneman has emphasized that HEW has not closed its mind to change.

"There are those," he asserted at last month's hearings, "who insist that the present system is sound and should be left alone. Others demand that we throw out the baby with the bath water and replace our pluralistic health enterprise with some monolithic scheme in which the federal government controls everything."

"I think both points of view are wrong. The deep troubles of the health care enterprise have been nurtured by many factors, not the least of which is past failure to plan and prepare for the soaring demand that observant people knew was coming," he went on. "But I do not believe that past neglect means that we now have to start over and pursue some course of action that would be entirely alien to our basic traditions."

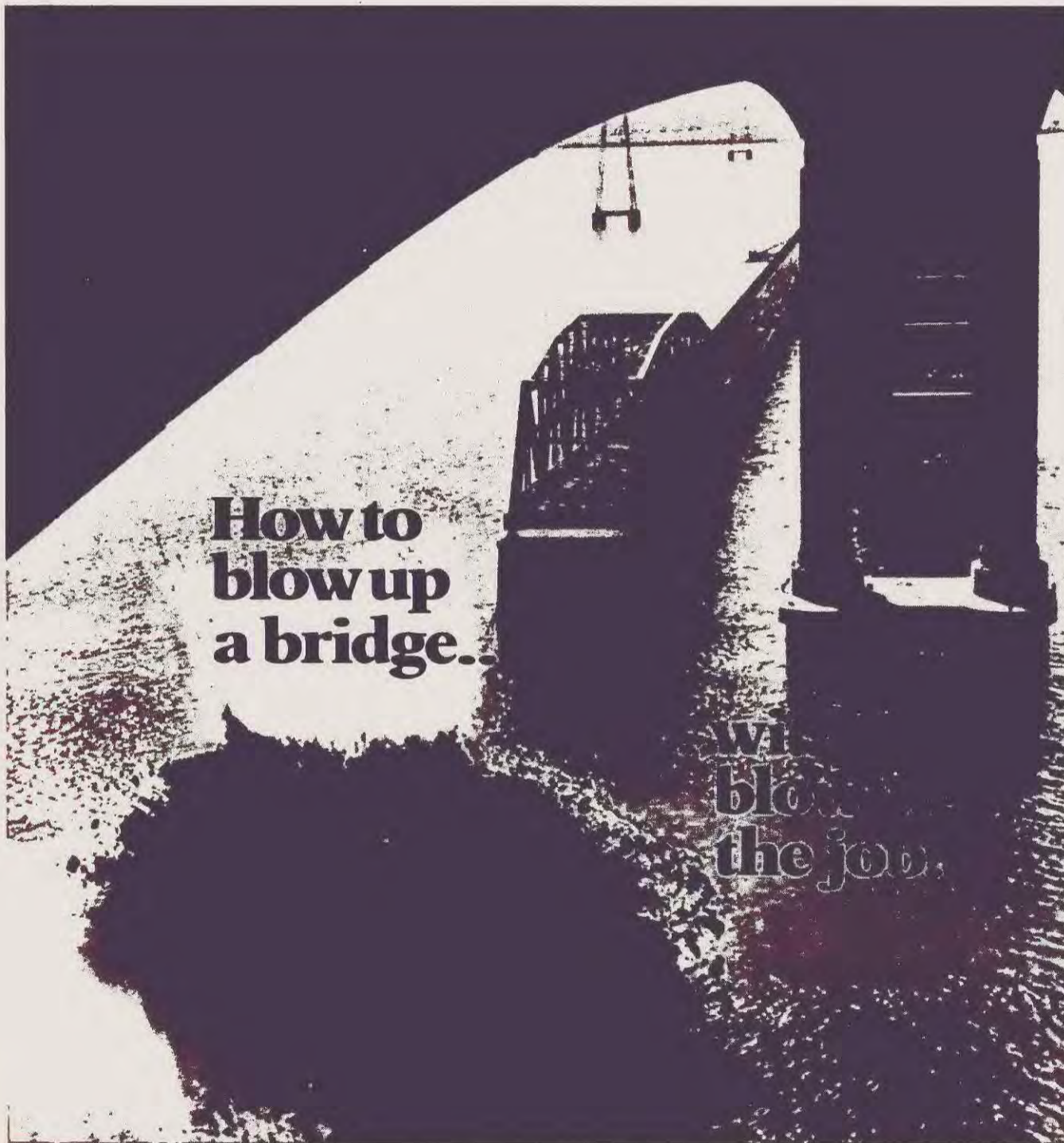
Terming the Senate bill an utter and total break with the past, Mr. Veneman disputed what he called three assumptions of the measure. One, he said, is that the serious problems with health care delivery can be cured by total federal domination of the system. The second is that such a measure would "fill the gaps" in the present system by forcing everyone into a single system. Third, he added, he cannot subscribe to the assumption that doctors, hospitals and other providers of care will "work willingly" when all payments are made by the federal government according to fixed schedules of fees.

The HEW undersecretary told the Senate hearings that he believes the federal government can be an important influence in reforming the present health care system without actually stepping in and taking it over.

"Government," he said, "is currently purchasing more than 36% of the total output of the health care system. This figure indicates that the use of its purchasing power is probably the government's primary source of leverage to initiate changes in the organization and delivery of health care. As government becomes more involved in financing," he added, "it also has a greater responsibility to remedy the defects in the system." ■

Taxes withheld

The New York treasury department has indicated that beginning in 1971, pensioners may have their taxes withheld from their monthly retirement annuities by the payer of the pension, as authorized under the 1969 tax reform act.



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a bridge...

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london line

He ain't nothin' but a hound dog, but he can smell hidden bombs

LONDON—Hound dogs trained to sniff out secret bombs are the latest weapon Scotland Yard plans to use in its fight against aircraft saboteurs.

But canine experts have actually advised them to try a German breed called Weimaraner in the first stage of the tests, which has government backing because of the way other police dogs have successfully tracked down drug addicts, by the smell of cannabis. So a Weimaraner puppy called Hans, twelve months old, is being put through his paces at the police dog handling school near London. It is hoped he can be trained to distinguish the pungent smell of nitroglycerine, or gelignite, in airport loading areas.

The trick is to get the puppy to spot the difference between this smell, and other smells, such as fuel oils, that permeate airports. If the tests succeed, airport authorities will introduce a special dog-patrol to make a "sniff check" on passengers or cargoes in case they are hiding ordinary bombs. Air transport authorities will be told of the outcome of the tests so that insurers can be kept informed.

HULL INSURANCE for six Universe-type tankers of 325,000 tons has been cut by the London market, according to Gulf Oil sources here.

John May, vp of Gulf Oil, Eastern Hemisphere, reports that they are still paying a higher premium than last year because of the explosions on three other companies' tankers last December. But in the case of Gulf, there had been a reduction because the maneuverability of their own jumbo tankers had turned out to be much better than expected. They have twin engines, screws and rudders.

Mr. May claimed that premiums for Gulf's big tankers had been less than their competitors had been paying for smaller tankers, as extra steel in their construction was a factor taken into account by the insurance market.

DETAILS OF the growing insurance work of the Salvage Assn., of London are reflected in a survey it has produced for worldwide use.

It has extended its activities to a wide field of non-marine matters, such as nuclear power and other technological developments. But it still specializes in marine and cargo casualties and carried out 25,000 surveys last year. It has now established a technical information department to aid underwriters, and keeps up-to-date records of unusual risks, such as mammoth tankers.

So it has set out the range of its activities in a booklet produced by Denzil Stuart Associates, of 71 Fleet St., London, and available from its head office in Lloyd's Buildings, as well.

A BRITISH government scheme to speed-up the eradication of

Hill named president

George C. Hill III of Schroeter-White-Johnson has been elected president of the northern California chapter of the Society of Chartered Property and Casualty Underwriters.

brucellosis from cattle herds has created a demand for an insurance policy that will provide indemnity in the place of government compensation for farmers who may get incentive payments.

Various Lloyd's brokers have joined to offer such a scheme, which will be underwritten at Lloyd's, while a number of insurance companies are also ready to provide cover. Cattle that react to brucellosis in accredited herds have to be slaughtered, but their

owners can retain their salvage value. The proposed insurance will provide cover equal to the difference between slaughter values and the value of the cattle immediately before they are tested.

LLOYD'S and the Excess Insurance Co. have introduced new cover for substandard fire business, effective Oct. 1. Special risks, such as firework factories, old-fashioned places of entertainment, woodworking plants, and plastic

manufacturers, will be considered at terms to be agreed. Premises without fire alarms and sprinklers will also be included. Lloyd's will write 85% of the business in the underwriting room, and Excess will take the balance.

BRITISH COURTS have ordered a suspected bank robber to repay \$200,000 stolen in a hold-up outside London seven years ago. But they accept that he might be innocent of the crime, though he is serving 15 years in a penitentiary, so they have agreed he can appeal his case to a superior court. The cash was claimed by the Royal Insurance Co., for the bank, after the money was stolen. The convicted man, William Stuppel, pleaded that he never touched the money. But under a new British law, criminal convictions are always upheld by courts in civil lawsuits unless there is enough evidence to justify an appeal.

BRITAIN IS hoping to save \$25 million on its public health services by making auto users pay through their insurance companies for any hospitalization caused through highway accidents. The plan is causing controversy, because some insurance companies point out that free hospital facilities are available for drug addicts and other civilians who carry no insurance.

Higher premiums will have to be paid by motorists if the scheme gets public approval, as insurance companies lost more than \$40 million on auto underwriting last year, and cannot carry any extra costs, with inflated repair charges already causing problems, unless their rates go up.

But a new code of safety factors, like that operating in the U.S., may be adopted by British auto designers, in liaison with other European plants, in a bid to cut down highway fatalities.

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■ The large judgments of the past few years make impressive headlines and dramatically spotlight the inadequacy of most liability coverage. If a high liability claim would wipe you out, you are a prospect for our Personal Excess Policy. This program provides broad catastrophe coverage of \$1,000,000 or more in excess of regular liability limits at prices so low that no one with assets worth protecting can afford to be without it. To keep pace with today's exposures requires constant updating of coverage. Let us give you further information.



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speaking of safety

Flammable floor covers face more stringent tests after fire tragedy

WASHINGTON—Stricter tests of flammability for floor coverings have apparently won out over the objections of the carpeting industry. The Department of Commerce originally designated the "pill test" as the federal flammability yardstick in the Flammable Fabrics Act passed last April.

However, the Social Security Administration has gone a step further in its proposal to require the use of either the Steiner Tunnel Test or the Underwriters Laboratories' newly developed chamber test to determine flammabil-

ity of floor coverings in extended in-patient care facilities seeking to qualify for Medicare.

The SSA's new regulations (which go into effect at the beginning of October) have capped a controversy that started from an ongoing skirmish of product claim and counter-claim between the asphalt tile and carpet industries. It culminated in a full-fledged Congressional investigation of the traditional "incident" that turned a struggling marketing battle into a national product safety "cause celebre."

The dispute over just what

kind of test to use to determine the rate at which flames spread across a given type of floor covering has raged for some time. The question dates back to a marketing angle dreamed up, according to one source in the carpeting industry, to jar loose a portion of the asphalt tile industry's business.

"We introduced safety into the picture as a marketing issue some time ago," the source pointed out somewhat ruefully. "Because tile tends to be slippery under hard-soled shoes or when wet, we presented the excellent

traction afforded by carpet, by contrast, in our marketing campaign. Since then, the issue of safety has been the subject of open warfare, especially since the fire," he added.

THE "FIRE" the carpet industry source referred to was the booster that catapulted the whole issue out of the marketing director's hands and onto nationwide television. In January of this year, a bed-ridden patient in a nursing home in Marietta, Ohio, dropped a cigaret into a trash pail beside the bed. The resultant fire that flashed through the building caused the deaths of 31 of the 46 patients under care there.

"What made this particular fire so significant," said a spokesman in the Social Security Administration, "was that the Harmar House Convalescent and Retirement Home was a completely modern, fire resistant

one-story building. Those 32 deaths were made all the more flagrant by the fact that the majority (28) were killed by asphyxiation, according to the firemen who fought the blaze. And the main thing contributing to these deaths was a thick billowing smoke that poured off the blazing rubber backing of the carpeting in the in-patient care quarters," she said.

A Congressional hearing happened to be going on at the time, and Sen. Frank E. Moss (D., Utah) did not hesitate to conduct a thorough investigation of the incident before his sub-committee on long-term health care before a network television audience. To demonstrate the allegedly inadequate safety requirements for carpeting used for such environments, Sen. Moss attempted to light a sample piece of the same type of carpet used in the fatal in-patient care area within the burned-out nursing home.

To the amazement of apparently no one at the hearings, the carpet, which had passed the "pill test" (then the "Interim" test for flame-spread rates approved in the past by the Commerce Dept.) burst cheerfully into flame and proceeded to burn up completely in his hand.

THE Commerce Department had just proposed to make the "pill test" the first federal standard on flame spread characteristics of floor coverings. This test was originally developed by the General Services Administration. Supposedly, it is meant to be roughly equivalent to dropping a burning match or cigaret on the piece of test floor covering. A pill of methenamine about the same size as a tablet of aspirin is ignited and placed in the middle of the test square of floor covering cut to measure nine inches on each side.

Reaching nearly 1800°F. (hotter than either the match or the cigaret), the pill burns for about 1½ minutes. In order to pass this test the charred area on the test piece around the pill may not extend more than three

Continued on page 50

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Dan River expects no products claims

DANVILLE, Va.—Dan River Mills, manufacturer of the carpeting blamed for the asphyxiation deaths of 28 bed-ridden patients in the Marietta, Ohio, nursing home fire early this year has not had any product liability claims resulting from the incident, according to the company's insurance manager, Elliot Hickson.

"We have a blanket policy that covers the liability of all our products," Mr. Hickson said, adding that as of the middle of September there had been no litigation brought against the company resulting from the Harmar House fire in Ohio. Dan River Mills was the manufacturer of the Marathon carpeting, whose flammable rubber backing was said to have produced a great volume of thick smoke that caused the asphyxiations.

Mr. Hickson indicated that such product liability litigation was not expected. The company discontinued the manufacture of the Marathon carpeting in 1966. In addition, both prior to the fire as well as afterwards company as well as outside authorities demonstrated that the carpeting had passed the existing flame-spread test approved by the Dept. of Commerce—the "pill test"—successfully.

There's more than one reason. Just as there's more than one reason why Clark's international operations have grown to the point where investment overseas is over \$65 million and sales of Clark trademarked products outside the United States and Canada are more than a quarter of a billion dollars.

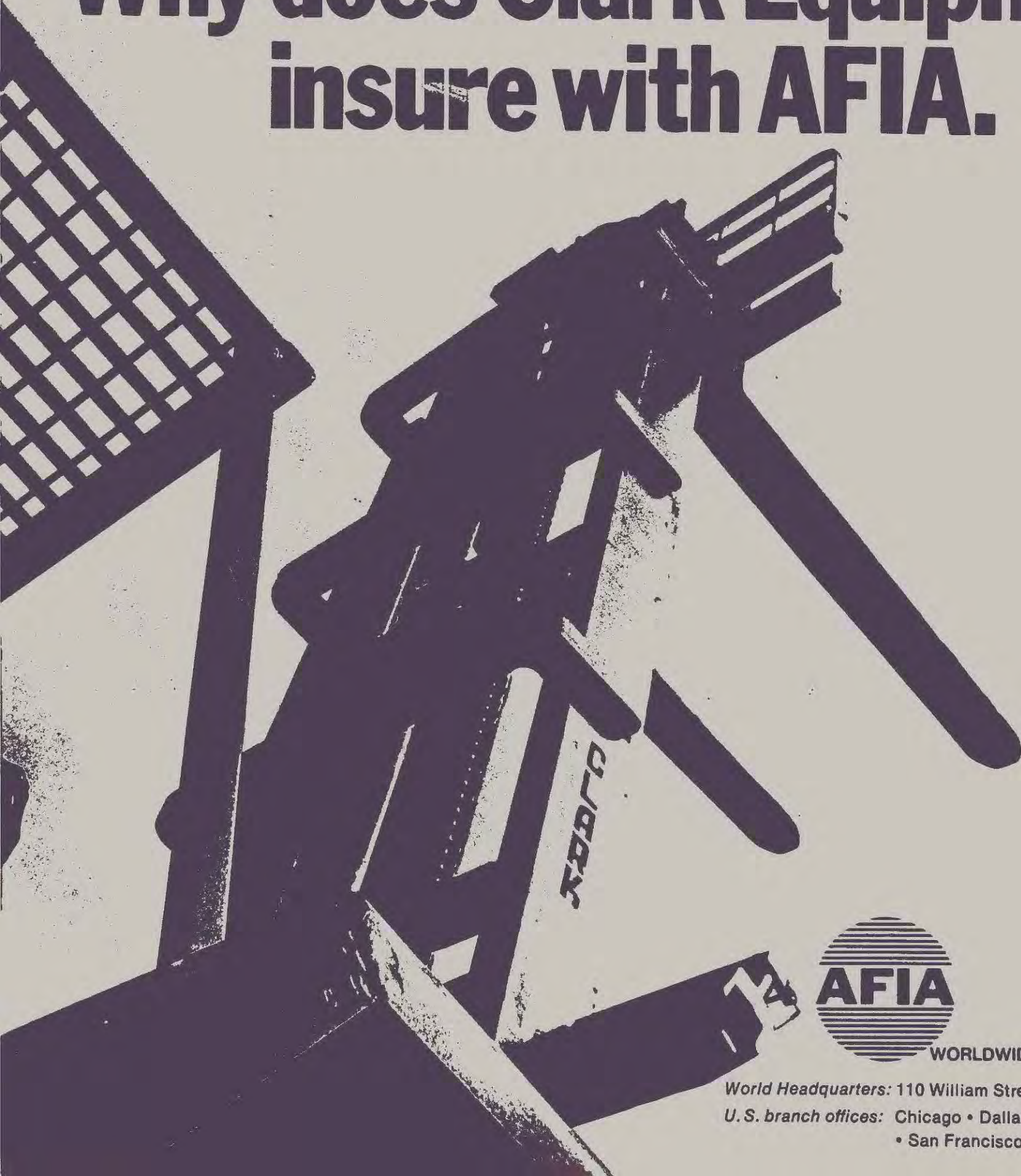
Some call it foresight. Others attribute it to production, marketing, service, experience, knowledge, or good management. Whatever the reasons, Clark utilized the same kind of know-how when examining its insurance requirements.

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American Lloyd's called answer

Insurance for huge risks may disappear by 2000

NEW YORK—The head of a Boston-based special facility market has said that there may be no private insurance available at the turn of the century unless the insurance industry learns to live with the congested value problem.

Graves D. Hewitt, president of the Cameron & Colby Co., made the remark at an American Management Assn. seminar here earlier this month.

Mr. Hewitt did, however, say that there are ways to remedy the problem and cited as one constructive move for the creation of expanded insurance capacity the study announced last June by 14 major insurers for the formation of an American style

Lloyd's. This approach, he said, could involve the creation of a fresh and strong facultative reinsurance market as a vehicle for supporting special risks as well as all underwriters of existing pools, such as the Factory Insurance Assn.

"MANY OF THE pools on surplus line carriers," Mr. Hewitt declared, "find themselves in a position where they can maintain their present book of business but cannot look forward to an extension thereof to a meaningful degree. The extra dimension of having a new facultative market dedicated to the support of special risks requiring tailored

forms and judgment ratings could bring a prompt end to the so-called capacity strain."

Noting that the skillful and sophisticated engineering and risk separation efforts by both managements and underwriters will have to be improved upon in the future, Mr. Hewitt also declared that "a new era of pricing and marketing will have to be entered" in handling the huge risks that have become commonplace in this century.

"The need for a fresh approach to pricing is illustrated by a theory propounded by Dr. John S. McGuinness who likens the lifetime of a building to that of a human and makes the recom-

mendation that a fund should be built up out of insurance premiums over a period of 50 years with a substantial bonus being payable at maturity in the event of there being no claim," the Cameron & Colby president said.

Mr. Hewitt also endorsed remarks made some time ago by an associate, Ellis H. Carson, who pointed out that there had been several major losses in recent years of unprecedented size and that in the absence of prior loss experience the underwriters had been without any traditional data upon which to calculate appropriate premium charges. "He went on to point out that to reduce this to an absurd conclu-

sion, if there had been no prior loss experience should not the insurance have been given away? In other words," Mr. Hewitt said, "he was drawing the point that too much attention has been given to basing rates solely on what is known in the trade as the burning cost."

In an earlier talk before casualty insurance agents and companies, Mr. Carson had declared:

"TO RECTIFY the price-capacity situation . . . we need some measure other than a non-existent burning cost upon which to erect a sound premium basis which will induce underwriters to provide the required coverage for risks having a major loss potential. It is my submission that we need to adopt the role of financiers and think in terms of the cost of money. In this context, an insurance policy is analogous to a contingent demand note.

"With this concept in mind," Mr. Carson had said, "I will take the instance of a warehouse facility in the New England area which was recently destroyed by fire."

Mr. Carson was referring to a fire that destroyed a Stop & Shop supermarket chain warehouse in Boston last year (*Business Insurance*, Aug. 18, 1969).

"The resultant insurance loss was in the neighborhood of \$20 million. The insurance was placed in layers.

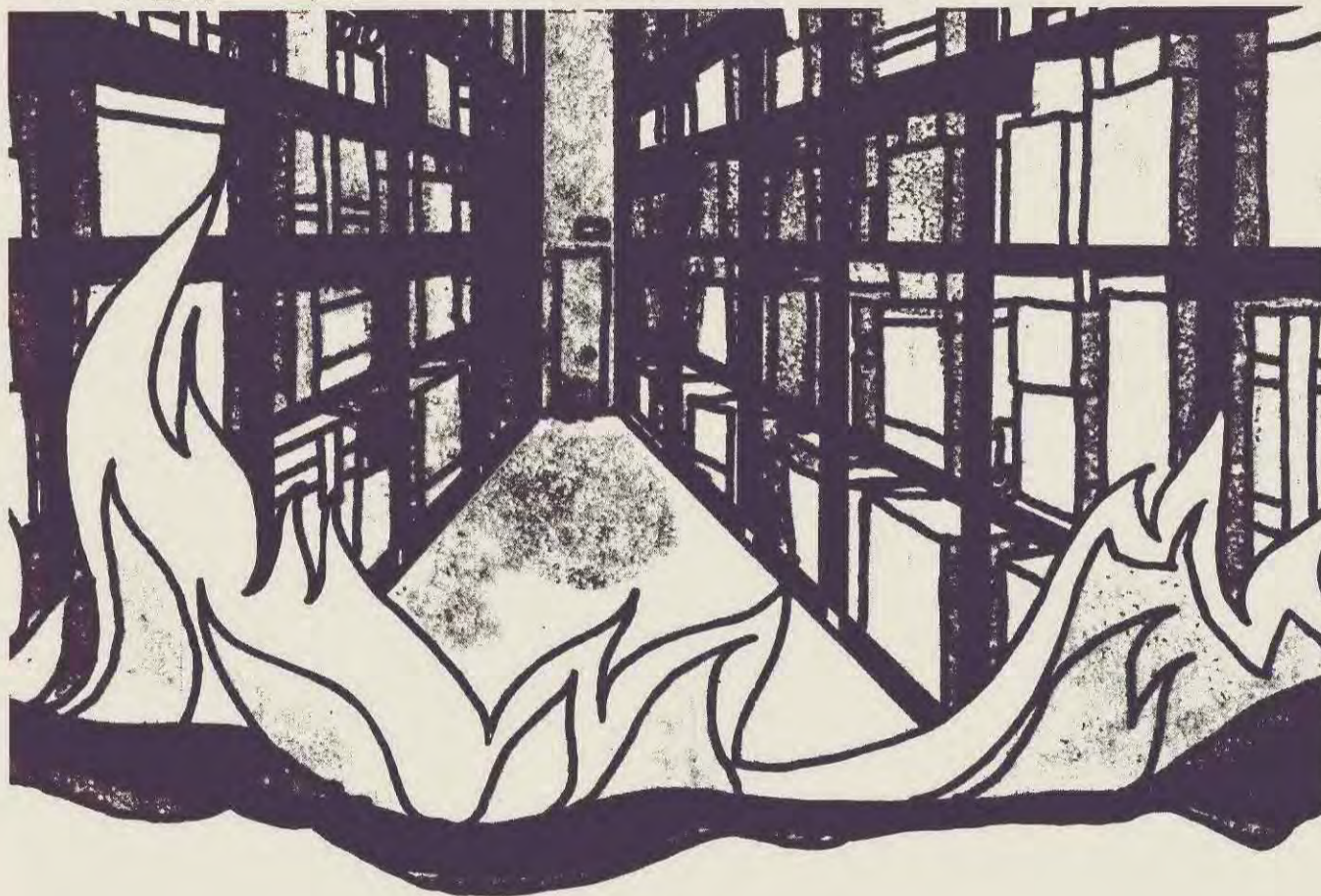
"ASSUMING that the first \$5 million of coverage should continue to be priced on the basis of normal rate-making procedures," Mr. Carson said, "what would be a proper charge for the \$15 million excess of \$5 million? If he were to make provision in the financial market, he would need to secure a standby commitment from a group of banks for this amount. The current standby charge would be one-half of 1%, or a total of \$75,000 per annum. This considerably exceeds the insurance premium that was actually charged.

"In the event of loss, the owner would need to borrow to spread the impact, and he would then have to decide over what period of time he would pay back the loan. Such amortization would be for no less a period than five years and maybe as much as seven. Paying back the loan in monthly installments over a five year period, assuming a rate of interest of 5%, would attract interest charges totaling just under \$2 million. The interest on a seven year amortization would be \$2.8 million. These figures," Mr. Carson said, "give you some idea of the cost of assumption of fortuitous risk entirely independently of usual underwriting considerations.

"Values at risk under today's conditions, or limits of liability, are so huge in certain major industries that the making of a book, in the old-fashioned sense of this phrase, is simply not practical. In other words," the Cameron & Colby man declared, "it is not feasible for the losses of these few major industries to be laid upon the shoulders of many. Therefore, financing such as I have just suggested has become an immediate necessity."

Noting that Mr. Carson's assessments of the situation "illustrate dramatically" that there are ways of developing new markets and pricing methods, Mr. Hewitt

Continued on page 48



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Last of 4 convicted in life insurance-loan web

NEW YORK—A federal jury here has convicted the last member of a quartet that allegedly conspired to use fraudulent life insurance policies from a bankrupt insurance company as collateral for a series of bank loans in six different states.

Satiris G. Fassoulis, an officer of the AIC Corp., a New York-based real estate investment company, had been charged with one conspiracy count and 12 counts of mail fraud. Mr. Fassoulis allegedly acted in concert with Jimmie J. Ryan, president of the bankrupt Community National Life Insurance Co. (based in Tulsa, Okla.), and two other AIC officers, Lionel M. Reifler and Sanford Rafsky. The other three defendants had previously pleaded guilty to the charges and have testified as government witnesses against Mr. Fassoulis.

Mr. Fassoulis was said to have used life insurance policies covering the lives of himself, Mr. Reifler and Mr. Rafsky as collateral for some \$713,000 in loans in New York, Connecticut, Pennsylvania, New Jersey, Ohio and Michigan. The policies had been issued by the insurance company (which dealt in individual life insurance coverage exclusively) in return for stock of Tintair Inc., a manufacturer of hair col-

oring products of faded fame.

The government noted that Mr. Fassoulis and his confederates had allegedly neglected to inform his prospective lenders of secretly agreeing to restrictions on the cash surrender value of the three policies. During the trial the government demonstrated, for example, how Mr. Fassoulis and company bilked the Cleveland Trust Co. of \$300,000 by declaring that the policies in question had been obtained in a real estate deal and were, in effect, quite cashable.

Judge Harold R. Tyler Jr. deferred sentencing of Mr. Fassoulis until July 31. He has not yet prescribed a date for the other three defendants.

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Jobless pay jumps higher in Washington

RICHLAND, Wash.—Weekly unemployment compensation benefits paid in Washington in July averaged \$58 compared with \$34 a year ago, according to Gov. Dan Evans who reported this week that \$18 million in unemployment insurance was paid during the month, as against \$2 million in the same period last year.

Gov. Evans was asked by Rep. Brock Adams (D.-Wash.) to call a special session of the state legislature to change the unemployment compensation law "so that it will conform with federal programs."

Under federal law, Rep. Adams told a convention of the Washington State Labor Council, funds become available to the states after Oct. 15 if the states match their unemployment compensation on a 50-50 basis.

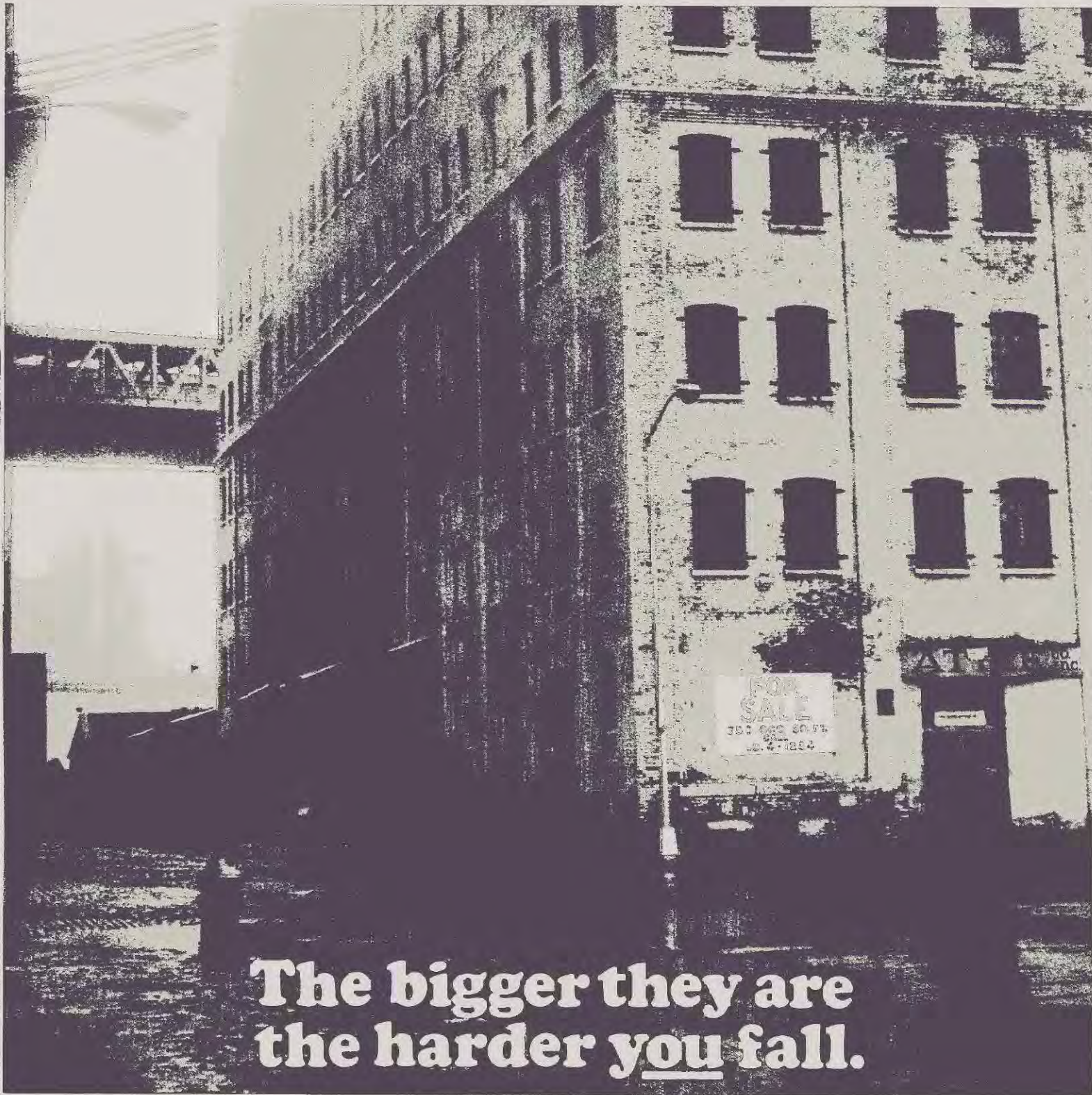
"If the Washington law were changed," Rep. Adams said, "the state would become eligible for \$5.7 million in federal funds. Nearly 60,000 workers will run out of their unemployment insurance by the end of 1970."

Wilson gets ass't. post

SAN FRANCISCO—Di Giorgio Corp. here has named John C. Wilson assistant insurance manager. Mr. Wilson moves from Memorial Hospital, Long Beach, where he was an insurance coordinator.

Mr. Wilson will administer and coordinate the workmen's compensation and loss prevention programs for Di Giorgio and its operating companies.

Mr. Wilson was for a time workmen's compensation coordinator for the Space Division of North American Rockwell Corp., Downey, Calif.



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opinions

Frankpledge?

WHILE THE NATION debates the report of the Presidential commission on campus unrest, the insurance industry and the risk management fraternity are looking anxiously ahead to possible losses from student disorders. Colleges and universities, once favored risks, have piled up substantial property losses in recent years as social unrest has turned to violence.

One of the more innovative answers to the problem of paying for campus losses was advanced last month for the University of Wisconsin. Under the plan, each student would deposit \$100 per semester as a "frankpledge," a kind of surety bond for the good behavior of his fellow students. At the end of each semester most of the money would be returned if there were no property losses from campus disorders. Ten dollars of the frankpledge would be retained in a general insurance fund covering all higher education facilities in the state.

The University of Wisconsin, with some 32,000 enrollees, would thus have a semesterly kitty of \$3.2 million out of which it could pay for property damage done by its students. This amount would be sufficient to meet the cost of even such a large loss as the \$2.7 million blast at the Army Mathematics Research Center in August.

Following that blast it was learned that the Wisconsin state fire insurance fund had only slightly more than \$2 million, an amount insufficient to cover the losses of the giant blast. It was revealed that since 1960 the state legislature has dipped into the fund for more than \$11.5 million that was applied to general state expenses.

Depleting state insurance funds for general revenue purposes has become a pattern in states that have such funds or have tried them and abandoned them. In fact, state funds—intended to be a form of self-insurance—have become no insurance at all because revenue-minded legislators hungrily eye any surpluses that build up.

Prudent risk managers are quick to realize the economies of self-insurance in appropriate instances. Often self-insurance costs far less than commercial insurance policies. However, the concept of self-insurance is defeated if, as in Wisconsin, the self-insurer robs himself of security by depleting surpluses for other purposes.

Thus Wisconsin university officials have had to turn to other solutions, including the novel idea of a frankpledge, to meet the growing costs of campus unrest. We believe that neither the state fire insurance fund nor the frankpledge is the answer to paying for campus damage.

The fund concept is impossible to defend against the raiding of legislatures. And the frankpledge, it seems to us, is an unnecessary increase in the cost of gaining a college education.

Some make the argument that the vast majority of students go to college with the sincere purpose of gaining an education. Only a small number of students, goes the argument, are interested in creating campus disorders. This assertion is obviously true and it is this proposition that makes the frankpledge unfair.

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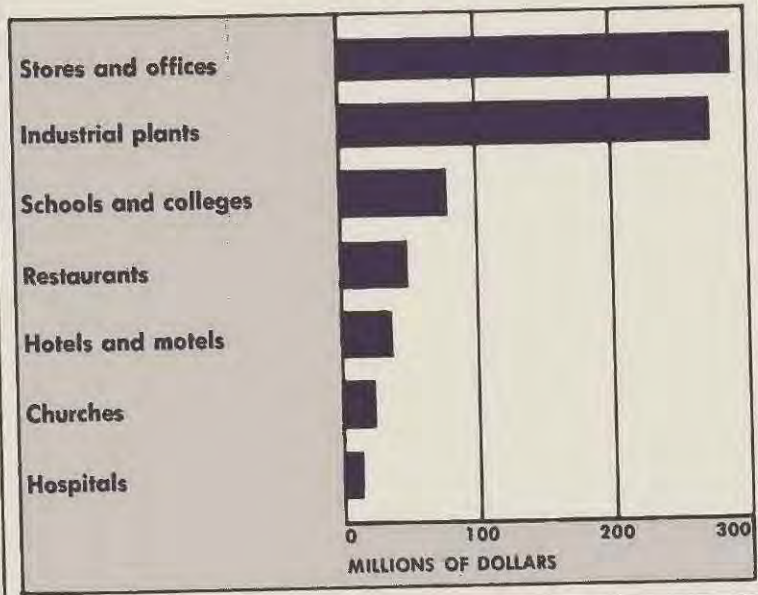
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FIRE LOSSES, 1969



Fire losses in 1969 totaled \$2.4 billion, up 8.5% from the previous year. The number of fires during the year was 2.4 million, an increase of only 2.6%. Despite the increases, the National Fire Protection Assn. reports that the nation is making "small but significant headway against the fire loss problem." Though property available to burn has increased greatly over the past decade, the number of fires per thousand population has risen only slightly from 11.8 in 1960 to 12.0 in 1969.

Source: National Fire Protection Assn.

It is unfair primarily because the campus unrest today is not the responsibility of the university communities themselves. The campus unrest is another manifestation of things that are seriously wrong in our society. The small percentage of students who cause disorders should not be considered the responsibility of their classmates alone but rather the responsibility of the entire society that created the conditions the demonstrators protest.

Most states and their institutions of higher education have turned to the property-liability insurance industry to insure their facilities. Indeed, the industry introduced about a decade ago the public and institutional property plan under which colleges, universities and similar institutions could get broad form coverage at minimal rates.

While the insurance industry has been forced to increase its campus insurance rates during the recent years of disorder, there is still capacity to insure campus properties at reasonable rates. Campus risk managers, who have their own professional association, have kept the lines of communication open to retain an understanding with insurers. There has been no panic by insurers or insured over recent campus losses; rather there has been a renewed determination to find insurance capacity while seeking new ways to afford greater campus security.

We see nothing wrong with self-insurance funds, but in the case of state fire insurance funds it has been repeatedly demonstrated that they are not left intact. In these circumstances it is gratifying that commercial property insurers are capable of underwriting necessary coverages for institutions of higher education.

Some heartening news

THERE WAS SOME heartening news from Canada last month regarding the hospital cost spiral. Projections indicate that hospital costs this year will rise only 10%, a considerable improvement over annual rises of 12% to 15.7% experienced each year since 1966.

In Canada, as in other areas that have succeeded in slowing the hospital-cost spiral, innovations in hospital management have been chiefly responsible for holding the line. Among the methods used in the federal-provincial program in Canada are group purchasing, more advantageous bed use and innovations in personnel deployment.

Next year the Canadian program of cost control aims at holding the cost rise to a range between 6% and 9%, depending upon provincial cost differences.

Pressures on hospitals to control costs have been met with some protests by hospital administrators. One hospital spokesman said that allegations of inefficiencies in hospital management were "mythical." And others have warned that the cost-control program will prevent some hospitals from meeting rising wages and other costs.

It seems to us that broad hospital cost control programs like the one undertaken in Canada are very worthwhile and ought to be encouraged by employe benefits administrators who must struggle to meet the cost of health insurance. Hospitals in many localities grew up like Topsy. With some sponsored by churches, others by municipalities and still others by associations of doctors, the hospitals of the U. S. and Canada are notoriously unplanned with overlaps and consequent inefficiencies.

We can sympathize with conscientious hospital administrators who protest that they are doing their work efficiently. Unfortunately, many of the extra costs of hospital care are not within the control of individual hospital administrators. The causes go deeper, down to the matter of hodgepodge hospital location and other factors that administrators cannot clear up in their day-to-day work. It's time for more overall reviews of hospitals and their management on the style of the resultful Canadian program.

Letters

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

War risk coverage

To the Editor: As insurance manager of the Offshore Co., I am vitally interested in the war risk insurance on our offshore drilling rigs which are operating worldwide.

In the Sept. 14 issue of *Business Insurance* the article entitled "Lloyd's, U. S. government share hull coverage on bombed 747," you stated "the standard war risk policy written in London, for example, specifies that coverage ceases 24 hours after 'one of the five major powers' becomes engaged in a war."

Unless Lloyd's have recently changed their standard policy on war risk, the policy states that termination is automatic upon the outbreak of war between the five major powers, United Kingdom, United States, France, Russia and China.

We have now felt the repercussions of the bombed hijacked planes in that Lloyd's have now tendered notice of cancellation on all operations worldwide unless the company accepts an exclusion to the effect that Lloyd's will not pay for any claim that results from terrorist activities.

Ron L. Guidry

Insurance Manager, The Offshore Co., Houston, Tex.

Editor's note: Under the war risk policies for airlines in effect earlier this year, coverages ceased 24 hours after the outbreak of war by one of the major world powers. This, presumably, was because of the nature of the industry—the fact that planes were mobile and able to get away from the action within that time. However, under newly written forms in the London market coverage ceases "automatically" and immediately after outbreak of war. However, in case of planes in the air at the time, coverage continues until the craft makes its next landing.

In appreciation

To the Editor: It's not often we run into an editor like yourself who is so cooperative in publishing safety materials that the council has to offer, hence it gives me considerable pleasure to express the council's appreciation for your assistance over the years. *Business Insurance* is always a spritely and entertaining item. I read it and I find it most interesting.

Best wishes for your continued success. We hope that we will continue to deserve your cooperation.

John D. Lawlor

Executive Vice President, National Safety Council, Chicago, Ill.

Splendid article

To the Editor: Thank you for the recent article "Photo company aims for 2.5 minute emergency building evacuation time," about our procedure for fire evacuation, which appeared in the August 31 issue of *Business Insurance*.

We feel that this plan is important to every company, no matter how large or how small. Most vital of all, is the saving of human lives.

Our employes have given us their full cooperation during these fire drills. They fully rea-

Continued on page 18

Our newest piece of fire fighting equipment.

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Pollution claims may take years to settle

OTTAWA, Ont.—It could be years before all the damage claims arising from the sinking of the tanker Arrow and the subsequent pollution of Nova Scotia's Chedubucto Bay are settled.

Federal sources say the legal jungle has scarcely been entered yet. Formal claims are unlikely to be made until late this year when the full inquiry into the grounding is complete.

In the meantime, the federal government has paid virtually all of the estimated \$3 million clean-up operation. Imperial Oil Ltd., which chartered the Arrow, paid out \$500,000 for cleaning up oil in the first week after the Feb. 4 grounding, but it has since asked the government to refund

this.

An inquiry conducted by Justice G. L. Hart of the Nova Scotia supreme court, has attributed the grounding to "improper navigation" by the tanker's captain, George Anastassopoulos.

BUT SOURCES here say it could be difficult for the government to recover damages from owners, depending on the corporate structure of the firms involved.

While the ship was owned by Sunstone Marine S. A., of Panama, it was managed by Olympic Maritime S. A., of Monte Carlo, and it was under charter to Imperial Oil Ltd. The Sunstone firm is believed to be one of a series of interlocking companies, and sources here say it may have limited assets.

After Justice Hart concludes his investigation into the pollution aspect of the accident, the federal government is expected to launch action in an attempt to recover some of the cost of cleaning up the mess.

The ship carried 3.8 million gallons of bunker oil when it went aground and about 1.3 million gallons were recovered. The clean-up operations were completed some time ago. ■



Some people have some funny notions about us.

So you think that because we're in Bermuda, we spend our time playing tennis. If you have to reach us, we'll be out sailing. Or maybe that it's all a tax dodge for us.

We think it's good business to be here. And business is good—consolidated assets of the Airco group have reached \$800,000,000. Our reinsurance capacity has also increased significantly.

And we're hardly new to the reinsurance business. It took a long time to become a major reinsurer for companies

in over 80 countries. We gained a great deal of experience in that time. And now our facilities and services are soundly established throughout the world.

So we could just sit back and wait for primary insurers to come to us for reinsurance. But we don't.

We originate many sales ourselves. Then we contact local American International companies in countries where the ceding companies are located.

In other words, we're not resting on our laurels. The more insurance

companies that we can reinsure, the better. The better for us, the better for you.

You can benefit from our specialized knowledge and our stability.

We write fire and casualty, life, employee benefits, aviation and other lines. We can write surplus or quota share business along with excess of loss covers.

That's just part of what's better for you. What's better for us is that one day, very soon, we won't hear funny little stories about ourselves.



American International Reinsurance Company, Inc.
Pitts Bay Road, Hamilton, Bermuda

letters

Continued from page 16

lize, and appreciate, their company is so concerned about their welfare, that time is taken during working hours to instruct them about what to do if such a tragedy were to happen.

Too, we think that our plan is workable by many companies, and consequently, we like to share these plans. Perhaps it will stimulate other companies to put such a procedure into work.

Miss Teresa Norton did a splendid job of reporting. She was an interested observer during the drill she witnessed, and comprehended the procedure quickly. We enjoy having her visit us.

Again, our thanks for the outstanding article.

William S. Meyer
President, Williams & Meyer Co., Chicago, Ill.

Misleading statement

To the Editor: A statement in the "Ralph Nader award points out need for personal injury endorsements" article in your August 31 issue, that personal injury coverage is now "such a new form that . . . it just hasn't been sold well enough" is mildly amazing to us. To our knowledge this coverage has been in common use for 30 years or more, and we should suppose it has been considered an essential in most corporate insurance portfolios for as many or more years.

Certainly, as the general public becomes more litigious, this kind of suit, not only by members of the public, but by employes, increases in frequency and perhaps in severity.

We are sure that the sophisticated readers of *Business Insurance* would not be misled by the statement quoted above, but we feel some notice should be taken of it.

Roy E. Houtz
President, Insurance Audit and Inspection Co., Indianapolis, Ind.



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NOTE: This is *not* primary insurance. Only if you've already got \$50,000 or so of liability insurance are you ready for the Top Brass big time. (All the nitty-gritty details are in a brochure we'll send you if you're interested.)

A final note to poor people who may never be sued for a million. So your take home pay is less than \$25,000 a year.

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following the funds

Pension foundation hears status of pending government legislation

By GEORGE LANGWORTH

NEW YORK—"Oh, I don't think they'll pass a fiduciary act in Congress this year," a pension and welfare fund administrator was saying the other day. He leaned back in his chair, frowned and added, "But I guess it's only a matter of time."

There has been considerable delay in both houses of Congress about actually passing firm legislation regulating private pension funds. A growing number of arguments, both pro and con, have

been the major source of the hang-ups. Moreover, fund administrators and their consulting gurus are somewhat skeptical of Congress' competence to regulate pension funds, no matter how far above any reproach the legislators' intentions are.

Strangely enough, their doubt and dismay deepen only after reading the latest rendition delivered eagerly to the floor of one house or the other.

ON THE OTHER hand, congressmen look with their own

brand of alarm as the facts on the latest pension fraud come to light: At mid-1969, a general audit showed that the United Mine Workers welfare and retirement fund had some \$28 million in a general checking account at the National Bank of Washington drawing no interest.

So, after a series of legislative attempts dating back to the Taft-Hartley Act of 1947, the legislators reason angrily, there is still relatively little protection afforded the retirement benefits of the employee from unscrupu-

lous acts by persons who have access to and control of pension funds.

Perhaps one of the chief sources of congressional ire is the statistic brought out in hearings before Sen. Harrison Williams' labor subcommittee earlier this year. Only one in ten of those originally enrolled in a pension benefits program ever actually receive a retirement benefit resulting from their participation, the hearings were told.

"But this isn't really a meaningful piece of information in many cases," a union pension and welfare fund administrator complained the other day during a break at the regional meeting of the National Foundation of Health, Welfare & Pension Plans Inc. held here.

"**MY UNION**, for example, has a very high turnover of membership. Young men join the union in order to take a lucrative job

for that interim period prior to being called up for military service. New people get in while old ones get out of the industry. The result of this is that more than 50% of those enrolled in the pension plan withdraw from it after no more than a year or less of participation. Now, just what kind of vesting provisions can you create to take care of these people?" he asked.

The union plan administrator also raised another interesting question: "The definition of the private pension plan as we know it may be held in question by these various pieces of legislation now pending that seek to liberalize the minimum vesting provisions of private pension plans.

"The very thing that supports the sizeable benefits," he pointed out, "that pension plans do provide today is the liberal turnover and mortality rate assumptions. Take the larger part of either of these away and the fund's costs will be extremely accelerated. In many cases, it would probably spell the demise of the pension plan—the employers supporting it simply couldn't afford the greatly increased costs," he said.

One of the administrator's peers sitting nearby added another reservation. He indicated that he supported the disclosure of all pertinent information concerning the pension fund, such as the annual reports on the level of the fund assets, how well the fund performed, what management fees were paid as well as how the money was broken down into different investment categories.

"**WHAT BOTHERS** me," he said, "is the provision of Congressman (Harry S.) Dent's bill, H.R. 1046, that would require the disclosure of every single trade made by the pension fund money managers to the plan's beneficiaries. In a sense, this could cause an awful lot of trouble within a union," he declared.

The plan administrator of a New York City clothing workers' union retirement plan told of an old demagogue's political trick of declaring a purge of his incumbent rival for power because of his "dastardly failure during his last term to change the color of the sky." He explained that just as the money manager has to have room to make an individual investment decision, he must also be allowed to complete his job.

"Every fund portfolio has those stocks with whose dealings the fund has taken its lumps," he said. "There just never are any exceptions to this. On the other hand, there are also those stocks in which the portfolio has made its gains. The net performance of the fund is the overall difference between these gains and losses. But, you know, we have an awful time communicating the barest rudiments of how a pension plan works to its beneficiaries. All they pay attention to is what their retirement pension is each month they retire.

"I can just see someone picking up the latest group of not-so-successful trades one of the fund's money managers has made and starting a huge mismanagement scandal behind a mob of angry members who think they see a serious threat to that monthly check at the end of their 30 years," he said ruefully.

THOSE ATTENDING the foundation's meeting also heard those on both sides of the question alternately championing and attacking the several bills now pending in both the House and the Senate.

Solomon G. Lippman, general counsel to the general subcommittee on labor attempted to

Continued on page 32

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James adds 4 brokers; is on lookout for more

CHICAGO—Fred. S. James & Co. Inc. has signed agreements to acquire four insurance brokerage firms whose annual commissions and fees total approximately \$2 million. The acquisitions will bring the national insurance broker's rate of income to nearly \$21 million.

The transactions call for an exchange of about 105,000 shares of James' common stock, which is traded over the counter.

The brokerages involved are Kuhn-Hansen and Co., Tucson, (which will become part of a newly organized subsidiary, Fred. S. James & Co. of Arizona); Bulger Cameron & Vander Velde, Los Angeles; R. P. J. Inc., San Francisco; and Fries, Ellithorpe,

Eaton, Baird & Sweet, Fresno.

The Los Angeles and San Francisco firms will be consolidated with James' general offices in those cities. The R. P. J. offices in Chicago and New York have already merged with James offices there and R. P. J.'s Atlanta office will continue as a service office for James.

The broker now has general offices in 14 major U. S. cities. "Meanwhile," said Thomas J. Ryan, exec vp, "our investigations continue for other expansion possibilities."

James reported 1969 earnings of \$987,000, or \$1.08 per share, on total income of \$13.2 million and recently raised its quarterly dividend, by five cents a share, to 12.5 cents.

Salerno tells of Mack's progress

ALLENTOWN, Pa.—Lawrence J. Salerno, the new corporate insurance manager at Mack Trucks Inc., says the people at his company "have really come around to the idea of risk management."

"The idea was new with my arrival here about a year ago," he said, "and so far I've received excellent cooperation from all the manufacturing facilities as well as the administration."

An emphasis on corporate risk analysis at Mack, he told *Business*



Lawrence J. Salerno

Insurance, has resulted in an improvement in property conservation and workmen's compensation areas and the effect of corporate safety program has also picked up. Mack has a separate safety director but all workmen's compensation reports eventually find their way to Mr. Salerno, who adds his own comments and sees that the carrier's recommendations are followed. The Travelers Indemnity Co. writes Mack's workmen's compensation coverage.

When asked if the good results that followed the emphasis on risk management techniques would lead to any changes in his company's insurance program, Mr. Salerno said that larger deductibles on the fire and extended coverage policies were being contemplated. "We already have quite large deductibles in other areas," he said, "and I'm pushing for this. I think I have a lot of people on my side."

The company's fire and extended coverage is written by Factory Insurance Assn., on a three-year basis, and comes up for renewal in August, 1971.

Mr. Salerno was formerly administrator of corporate insurance at Mack and spent six years in insurance work before joining the company.

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GM-UAW seek agreement on '30 and out' plan

DETROIT—When General Motors and the United Auto Workers eventually patch up their differences, the settlement could turn out to be one of the most significant in modern labor history.

Right now, the differences appear to be monumental, with hard negotiations still off in the distance. The side gap between the two sides, and the strong stands taken in the early stages of bargaining, point to a prolonged strike—some labor observers see a stalemate lasting well beyond Christmas.

The key issue, as in most labor disputes is money. For openers, the union wants an increase of 61.5 cents an hour for the first year of the contract; GM has offered a basic increase of 36 cents—48 cents for the first year or

about 3%. GM estimates the UAW demands at \$2.65 an hour in wages and fringe benefits, including rollup.

BUT ONE UAW demand stands out above all the rest for its dramatic appeal and its potential significance to U. S. industry. The union wants a company-paid pension of \$500 a month for any auto worker after 30 years' service, regardless of age. The UAW's rationale behind this revolutionary proposal is simple and direct: No man should have to put in more than 30 years of monotonous drudgery in an automobile factory. The UAW believes that the auto companies can afford the plan, and that the members deserve it.

The union has not estimated

what the "30 and out" plan would cost GM, except to comment that it would cost a lot less than the auto companies say it would. GM, on the other hand, says it is impossible to estimate the cost since there is no way of knowing how many workers would take advantage of the early retirement option.

But one significant fact emerges: GM already has accepted the principle of "30 and out." Only the details remain to be worked out in the long weeks of hard bargaining that lie ahead.

UAW asked for a flat \$500 a month pension, paid by GM, when a worker has put in 30 years of labor on the line, regardless of that worker's age. Conceivably, this could mean that a man could retire with full

monthly benefits when he is only 47 or 48.

THE GM counterproposal, made Sept. 11, just three days before the strike deadline, offered retirement at any age for any employe with 30 years or more of service. At retirement age of 58 the benefit would be \$500 a month, and the pension would be reduced by 8% for each year of age under 58.

In other words, GM and the UAW have agreed to the principle of retirement after 30 years' service, regardless of age. But GM thinks that a man younger than 58 should not get as big a pension as a man 58 or older. And, just as GM and the union will have to reach a give-and-take settlement on the basic

hourly wage increase, they will reach a negotiated settlement on the amount of the monthly pension.

One thing that bothers GM is the possibility that the UAW version of "30 and out" would clear out large numbers of valued, experienced skilled employes in the first year of the plan. The corporation said that it would be "undesirable both for individual employes and the nation's economy to provide a large economic incentive to healthy, experienced or highly-skilled employes to leave the work force at ages substantially under age 60."

Putting it another way, GM suspects that there are not enough men in the company's apprenticeship programs to replace a sudden exodus of skilled trades employes such as tool and die makers.

GM ESTIMATED it has approximately 17,000 hourly employes with 30 or more years of service; about one-third of these are skilled. Another 24,000 have between 25 and 30 years of service with the company and about one-fourth of these are skilled workers. GM proposed that its version of "30 and out" become effective Jan. 1, 1972.

UAW, in its demands, asked for escalated benefits for past retirees, but GM made no mention of past retirees in its counterproposal.

The corporation's hourly-rate employe pension trust fund, valued at cost, amounted to over \$1.6 billion at the beginning of 1970. GM contributed more than \$202 million to the trust fund during 1969.

UAW THREW another new goal into the hopper this year that probably will be bargained off in exchange for some other more valued consideration. The union asked for a company-paid dental care plan amounting to 6 cents an hour. None of the auto companies mentioned the dental care in their offers to the union.

UAW wants GM to pick up the tab for all future rate increases in hospital-surgical-medical-drug coverage. GM balked at first, then offered to pay for the increases through September, 1971. GM said it paid nearly \$230 million in 1969 for hospital-surgical-medical protection for hourly-rated employes, retirees, and their families.

GM estimated the rate increases during 1970 cost an additional \$45 million, and the prescription drug plan, which went into effect Oct. 1, 1969, cost another \$17 million. New premiums for the contract year beginning Oct. 1, 1970, will add another \$76 million to the company's annual contribution, GM estimates.

UAW wants the employe's share of the prescription drug plan reduced from \$2.00 for each item to \$1.00; GM wants to leave it as it is. UAW also has asked for increased survivor income benefits, sickness and accident income increases, and extension of the drug plan to retired employes.

Blue Cross-Blue Shield carries the bulk of the GM hospital-surgical-medical-drug coverage. Metropolitan Life Insurance Co. picks up the coverage under the national accounts plan mainly in Illinois, Delaware, Texas, Ohio (except Cleveland), and St. Louis. Metropolitan also carries all of the GM insurance program for life, survivors, sickness and accident and extended disability benefits. ■



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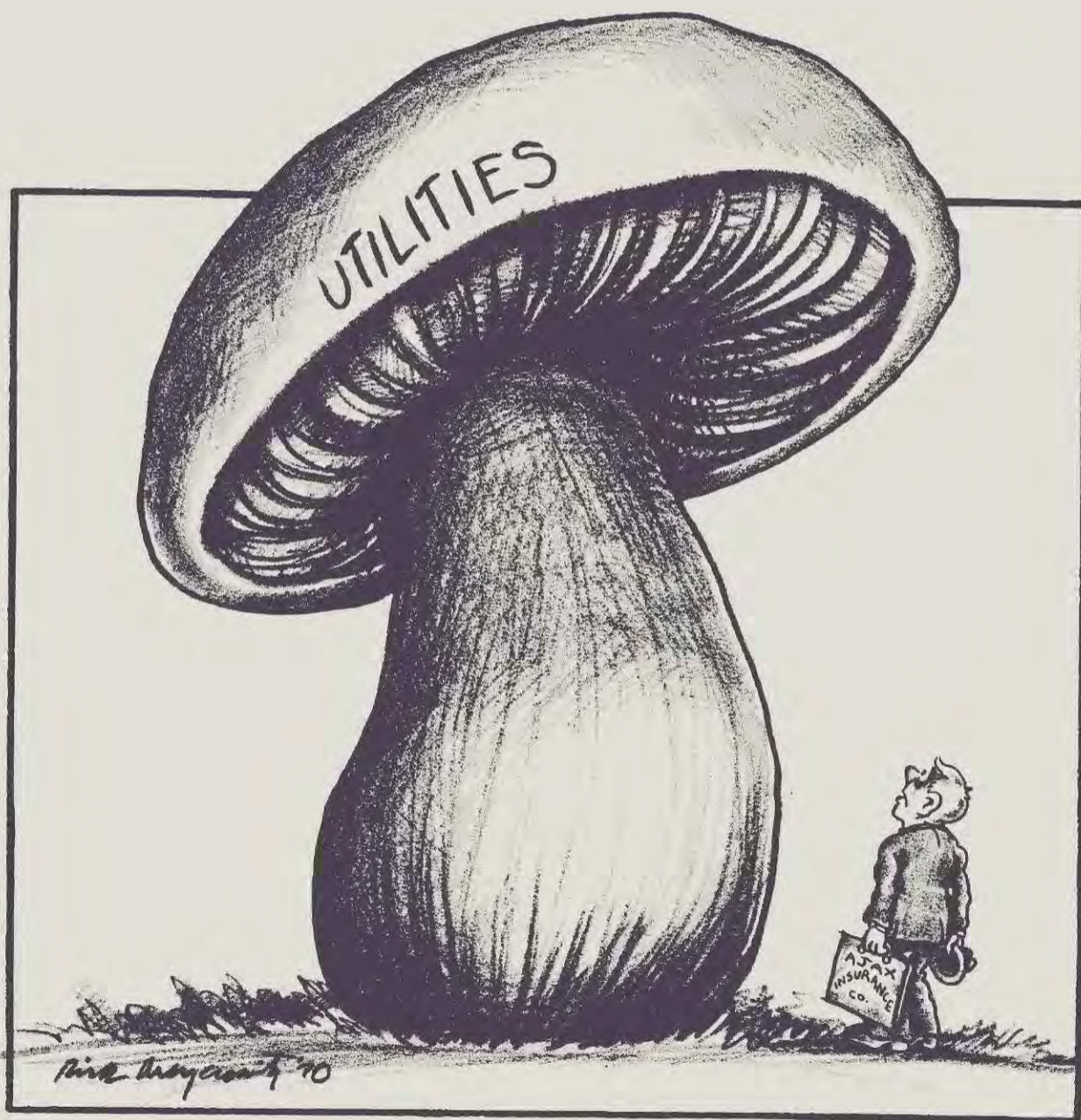
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Bill with employe strike clause is likely to face tough opposition

WASHINGTON—The non-Administration version of the Occupational Safety and Health Bill reported out of the House rules committee late last month is likely to face resistance on a number of fronts. And perhaps one of the most contested of its provisions is the bill's creation of the employe's right to "absent himself" from areas in which known toxic substances, labeled as such by the Department of Health, Education and Welfare, are being used without proper protective equipment.

This provision, as much because of its intent as actual wording, has been attacked by some interests as creating the right to strike at the employer's expense. "Within 60 days of the determination by the Secretary of HEW of potential toxicity of any substances, an employer shall not require any employe to be exposed to substance designated above in toxic or greater concentrations . . . (otherwise) such exposed employe may absent himself from such risk of harm for the period necessary to avoid such danger without loss of regular compensation for such period."

The U. S. Chamber of Commerce, earlier this summer, declared: "If the job safety bill becomes law, strikes at full pay with the employer footing the bill—even when no safety standards are violated—will be permitted . . . by the provision requiring employers to keep paying employes who strike when they believe their employer has failed to give them necessary safety equipment or sufficient information about 'potentially toxic substances.'"

"THE SPRIT of that provision of the bill is pretty justified, we feel," said a staff member of the select subcommittee on labor. "Each year some 600 new substances are introduced into the nation's work places. Some of these may not be dangerous but others sometimes don't reveal their danger to the workers until it is too late. If we're going to have a workable solution to counteract the situation, it has to be fast-acting and self-enforc-

ing," he said.

The staff source indicated that the two-step process provided by Rep. Dominick V. Daniels' (D-N. J.) safety bill fulfilled this need. "The bill provides that workers or their employers could submit unknown substances to the Department of Health, Education and Welfare to officially determine whether they are toxic.

"If, and only if, HEW had positively identified a substance as toxic would the employes have a right to adequate safety information about it as well as a right to the necessary equipment to protect themselves from the toxicity of these substances. In order to guarantee these rights the bill stipulates that an employe may not

be forced to work without these safeguards. Since there is also a real danger that the employe may be economically coerced into exposing himself to this danger in order to keep his job, the employe is further absolved from loss of pay during that period when he absents himself to avoid the danger," the source explained.

He also pointed out that nothing in the bill deterred the employe from reassigning the employe to another, less dangerous work site. Also the danger can't be deliberately caused by the employe, he said.

Zeroing in on this provision's apparent similarity to a "right to strike" clause, the U. S. Chamber of Commerce charged further

that "there is no limit to how long employes may continue to strike at their employer's expense, and there is no method for determining whether the strike was right or wrong to begin with."

THE SUBCOMMITTEE spokesman denied that Rep. Daniels' occupational safety bill gives the employe the right to strike. He explained that the bill ensures only the employe's right to absent himself from an immediate area of danger where an employer has failed to provide the safeguards as provided in the bill. Once the employer ends his violation, so ends the employe's right to avoid the site of that violation. He pointed out that the National Labor Relations Act "already grants employes the right not to be forced to work where a violation of law by the employer continues."

The debate over the bill rages

in the face of two little-publicized precedents: Two unions have won comprehensive and well-funded occupation health and safety research and protection programs from their industries.

As reported in this magazine earlier, the United Rubber Workers won a \$1 million annual contribution from the rubber industry to carry out an ongoing program of research into the toxicity of substances used in the manufacture of rubber and its related products. A continuously operating reporting system (to both labor and management) will link all plants in the industry into the integrated safety effort.

A similar program has been included in the newest contracts negotiated between the International Union of Oil, Chemical and Atomic Workers and their respective industries. Generally,

Continued on page 26

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Oil companies' Mid-East sites get protection of their host governments

NEW YORK—Risk managers of oil companies operating in the Middle East were secure but wary about their corporate properties in the wake of skyjacking and plane bombings by Arab guerrillas who might have been expected to make similar moves against other business interests.

"What you've got to remember," one international oil company risk manager told *Business Insurance*, "is that we're 50-50 partners with the governments of Iran, Iraq and Egypt. Government troops protect our installations there because of their monetary interest."

Another said, "We're more concerned that some move against our properties would be made by

the Israelis in some kind of retaliatory move after raids or such."

While sources in New York were extremely reluctant to divulge specific precautions taken as a result of the threats, sentiment did abound that security measures are being tightened up. Most people close to such moves, however, point out that the oil industry is in generally better and more secure shape than the aviation industry. Moreover, they note that they are receiving invaluable assistance from the governments of the countries in which they operate.

"I DON'T THINK anyone is going to say just what they are

doing to tighten security at this point," said one oil company insurance manager. "But I can assure you there have been steps taken to improve security."

The source also noted that oil companies were receiving the unsolicited cooperation of local governments in the Middle East.

"I know of one certain Mid-East country that has told the oil companies, 'You tell us what you want in the way of security and we'll get it for you.' Of course," he added, "there is every reason to believe they would react this way since they have so much at stake. Without oil revenues many of them couldn't exist."

Another oil company risk manager reacted similarly.

"We have the normal physical security systems we have had for years; perimeter fences and gate controls, for example. It's simply a standing situation that is geared to good loss control, which reflects in our insurance rates and risk exposures," he said.

Many of those questioned did point out, however, that the oil industry security people did have every reason to feel more secure than their brothers in the air. Said one:

"Practically anyone can purchase an airline ticket and, with a passport, fly into a country. But I'd like to see the president of this company," he said of his employer, "attempt to get through the gates and onto one of our oil fields without the proper credentials."

However, he did not say what might happen if the president of that company were kidnapped and held to gain entry. ■

File suit against U.S. for Viet death

NEW HAVEN, Conn.—A Danbury, Conn., couple, whose son was killed in Vietnam, filed suit against the U. S. government in U. S. district court here for \$500,000 in compensatory and punitive damages.

Mr. and Mrs. Russell J. Rotko charged that the death of their 22-year-old son, Russell Jr., in 1968 was the result of an undeclared and unconstitutional war and was also the result of negligence on the part of the U. S. military.

The son had been wounded previously in Vietnam and they claimed that he was returned to duty too soon for his multiple shrapnel wounds of the right arm and left leg to heal.

THE COURT action contends that the war in Vietnam is a violation of the U. S. Constitution, the United Nations Charter, the South East Asia Treaty Organization agreement and the Army Field Manual, which stipulates how soon a wounded man may be returned to action.

The Rotko couple filed a claim with the U. S. Army for the wrongful death of their son last November, but were turned down within a month.

The case has now been presented to U. S. district court, naming the U. S. government and six military officers and statesmen as defendants.

Atty. Samuel Gruber of Stamford, representing the Rotko couple, said he expects the U. S. attorneys to file a series of motions to dismiss the case, which will have to be argued before it is tried. ■

Burden's manager

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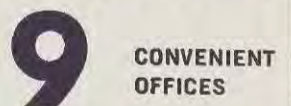
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New DOT war risk program covers \$3.2 billion in international aircraft

WASHINGTON—The federal government is to date insuring \$3.2 billion worth of aircraft hulls under the war risk insurance program begun Sept. 21, according to the Department of Transportation. Premiums generated amount to slightly more than \$6 million.

Seven U.S. airlines flying planes internationally have bought policies. Those carriers, the number of aircraft insured and their total values are as follows:

PanAmerican World Airways: Twenty-one Boeing 747s and 173 other jet aircraft, for a total of \$1.5 billions.

Trans World Airlines: Ten 747s and 64 conventional size aircraft, for a total of \$773 million in

coverage

Northwest Orient Airlines: Eight 747s and 36 other jet aircraft for a total of \$373 million.

Seaboard World Airlines: Fourteen jets valued at \$144 million.

Flying Tiger Airlines: Sixteen planes valued at \$187.8 million.

Overseas National Airlines: Four planes valued at \$45 million.

National Airlines: Two planes valued at \$10 million.

THE DEPARTMENT of Transportation, which is in the process of setting up a new department to handle the government insurance program, is charging 20 cents per \$100 of valuation for the coverage. As reported in *Business Insurance* Sept. 28, the

airlines had been faced with huge increases in war risk rates after several planes were destroyed by Palestinian commandoes in the Middle East early last month.

Total premiums generated by the seven airlines now in the program, the Transportation Department official said, are slightly in excess of \$5 million for the first year of operation.

This figure, as has been pointed out by some aviation insurance experts, is not actuarially sound when one considers the fact that the loss of one craft could put the program into the red. However, the Secretary of Transportation, under a contractual agreement signed by the air-

lines participating, has the power to increase rates as much as four times (or up to 80 cents per \$100 of coverage) if a loss exceeds the fund.

"The department is preparing to go to Congress and seek a revolving fund into which premiums can be put and losses paid out," the Transportation official said.

IT WAS ALSO disclosed that Pan American has yet to be paid \$9.6 million under the insurance program for the loss of a 747 blown up on a Cairo runway Sept. 6. As reported earlier in this magazine (Sept. 14), that plane was insured 60% for war risk in London, with the U.S. government assuming the remaining 40%. The department, the source explained, may hold up payment until London insurers make their move. London has indicated it may force the issue into the courts. The same is true

of a TWA 707 blown up Sept. 12. That airline had full war risk coverage in London.

It had been reported earlier that Braniff International had also begun buying war risk coverage from the government. However, this is not true, the Transportation Department official said, noting that Braniff was conspicuous by its absence in the program. The airline has several South American routes.

A Braniff source told *Business Insurance* that the airline was "still weighing" the possibility of joining the program. At present, however, Braniff does not have war risk covers for planes on commercial routes. It does have coverage for flights chartered by the federal government to fly military personnel in and out of Southeast Asia.

"We will definitely have to get it once our 747s come along," the Braniff source explained. "But we have reached no decision to get it for other aircraft." Braniff will get its first jumbo the first of the year and will put them into service shortly thereafter. ■



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Strike clause...

Continued from page 24

the larger firms in most industries have undertaken similar programs in an attempt to increase the safety of the work procedures and work sites of their employees. While there seems to be little disagreement among these larger firms about the need for a full-scale safety program involving normative standards, smaller firms look on the proposed new federal law as but another serious drain on their already precarious resources.

MEANWHILE, the Daniels' bill was reported out to the floor of the House late last month by the House rules committee, where it had been tied up in hearings for the last two months. This committee succeeded in blocking a similar bill from reaching the House floor in 1968. Supporters of Rep. Daniels' bill indicated privately that they expect tough opposition from some key Republican figures.

Rep. Daniels' bill gives the Secretary of Labor authority to set (through the national consensus method traditionally used in formulating other kinds of nationwide standards), keep watch on and enforce health and safety standards for workers in firms engaged in interstate commerce. Republicans, on the other hand, want an independent five-man board to set the standards. While the Secretary of Labor would retain the authority to handle inspections to determine whether the safety standards were being adhered to under the Republican plan, the courts or another independent labor panel would be expected to enforce the law.

The Daniels' bill has a Senate counterpart in Sen. Harrison Williams' (D. N. J.) bill in the Senate. Republican procedural maneuverings in the Senate have also tied up this version, delaying its introduction before the full Senate for open debate.

One union spokesman indicated that the Republicans' delay tactics were an attempt to force the legislators to pass what he termed "the weaker bill." ■

Named associate

Bruce W. Butler has been named associate actuary, group life, accident and health actuarial division, Travelers Insurance Cos., Hartford. He joined the firm in 1962.



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INA profits improve, but premiums are up for some commercial buyers

PHILADELPHIA—Charles K. Cox, president of the Insurance Co. of North America, is a man in his early 50s who looks the picture of good health. This past summer he was charged with the responsibility of improving INA's profit picture. It's a job for a healthy man.

The program emanated, he frankly admits, as a result of complaints from stockholders who were not terribly happy with dividend checks.

Under the circumstances, one might expect that Charles Cox has a few more wrinkles in his face than he did in June. He does have some in his forehead and around his eyes, but they look like they may have come from

squinting at golf balls as they left the tee and headed into the bright sun down the fairway. He wears his wrinkles well, in other words.

Profit Corps, as the summer program at INA was called, was a general tightening of the belt by the insurance company. Several key people from the home office in Philadelphia spent most of the summer out in the field. In service offices and agencies around the country, they reviewed risks and what they were getting for them in premium and recommended ways to shave expenses.

WHILE NOT an unqualified success ("There is still much more to be done," Mr. Cox says),



Charles H. Cox

the program has gotten the company moving in the right direction.

And although stockholders may

enjoy their postmen more in the quarters ahead, the INA Profit Corps program has not endeared itself to everyone.

Several large commercial insureds, for example, are now paying more for coverage than they were in June as a result of the overhaul. One company in Denver, the INA president cited as an example, was paying \$173,000 a year for a general liability policy. It is now paying \$500,000 a year. Another INA insured this one a products liability account in Pittsburgh, was paying \$5,000 in premium for its exposures. It now pays \$30,000. "We found that some of our insureds were getting cheap insurance," Mr. Cox said of this particular phase of the program.

Nevertheless, the INA executive minimizes the significance of the two examples.

"OBVIOUSLY, we couldn't raise our prices if the industry

wasn't raising its as well," he said. "Other companies are doing it as well. Moreover," he added, "buyers are just as aware of the developing trend of price increases and the need for them as I am. Maybe more so. And," he added, "they are willing to pay for it."

While prices for commercial coverages, and practically everything else, are indeed rising, most insurance companies raise them quietly—or as quietly as an outraged public will let them. INA, however, chose to do things with a little more fanfare than the rest.

When the success of Profit Corps was assured, for instance, the company decided to do something a little offbeat, if only to prove that top management had been serious about the program and would continue to be serious about INA's profit picture.

On a Friday and Saturday last month the company chartered a Pan American 707. Mr. Cox, several other INA execs and some of the firm's leading producers boarded the flight for a whirlwind tour of some of INA's more profitable regional centers. On Friday there were touch-downs in Washington, D.C.; Birmingham, Ala.; Des Moines, Ia.; and Seattle, Wash. After stopping overnight in Seattle, the flight—Profit Corps One, as INA's public relations men dubbed it—returned to Philadelphia via Chicago. At each of the stops, Mr. Cox welcomed local INA personnel and agents on board, thanked them for their efforts and told them to keep up the good work.

THE FLIGHT took on the aura—for a staid insurance industry, at least—of some of the more crazily-conceived junkets that the motion picture industry has for years used to promote new flicks. And, as such, it was not without its moments.

There was some grumbling from INA employees and agents, for example, to the effect that the trip was one heck of a way to spend the profits of the summer. INA executives, however, note that it cost the company slightly more than it will get in new premiums from the Pittsburgh products liability account. That, they say, was a paltry sum to pay for an appropriate celebration of a successful corporate profit program.

Then there were a few uncomfortable moments on the ground in Birmingham when the plane's air conditioning unit went on the fritz. Sitting in an aluminum tube under the hot Alabama sun caused more than one to remark that they now knew what it was like on the Amman desert.

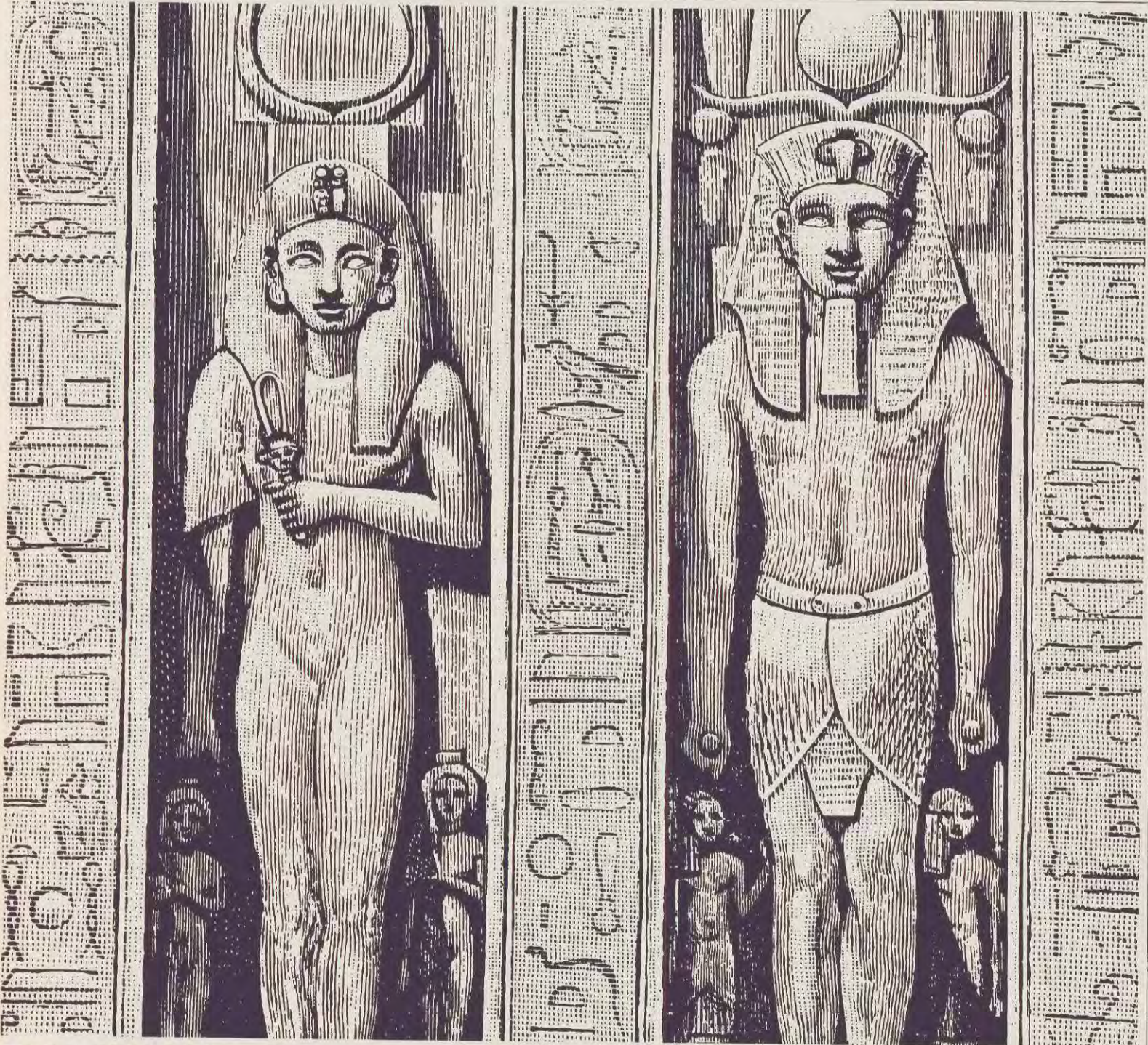
Sitting in the forward end of the Boeing 707 as it made its way over the rocky northwest enroute to Chicago on the second day of the trip, Mr. Cox looked remarkably fit. Most of the others on the flight either snoozed or watched "Jenny," a movie about a war-time dance hall girl.

MR. COX, who has been president of INA since mid 1968, after coming up through the underwriting ranks, talked of some of the problems the industry faces as it moves into the '70s.

"The cost of insurance—every kind that I can think of—has gone up sharply in the past few years," he began. "And it is still going up."

"Inflation has affected us very badly. Medical costs. Labor costs. Lawyers' fees. These costs have probably gone up more than those in other segments of the economy," he went on, noting that he doubts, for example, if the cost of food has gone up as rapidly as has the cost of medical care.

Continued on page 40



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INSURANCE THAT STARTS WITH YOU. **UTICA** MUTUAL

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ALSO GRAPHIC ARTS MUTUAL

Seek state unit control of health, accident rates

LITTLE ROCK, Ark.—Acting Arkansas Insurance Commissioner Ernest J. W. Fennell said recently that the Arkansas legislature should give "serious consideration" to allowing the state insurance department to regulate health and accident insurance policies and rates.

Mr. Fennell and Harley Shank, the department's actuary for health and accident insurance, said that increases of up to 400% in individual policies had been made in the last 24 months. The two men cited numerous companies that allegedly had made the increases.

Arkansas companies also have complained in recent months that the inflationary cost of hospitalization insurance has been a constant worry in their employee-benefit programs.

At present, state law doesn't require that insurance companies file rate increases with the state

insurance department. Most do, however, because it is required in other states, Mr. Fennell said. Some companies also include supporting evidence that the increase is needed.

The acting commissioner said the department needs supporting legislation to tighten its control over these increases to see if they are justified. The next session of the Arkansas general assembly begins in January 1971.

Mr. Shank said that the 12 companies that took in over \$500,000 in premiums for individual health and accident insurance in Arkansas in 1968 earned about \$13.62 million and paid out about \$6.96 million for an average ratio of 51%.

Opposes government benefit plans

MONTREAL—A consulting actuary told the Canadian Conference of the National Foundation of Health, Welfare and Pension Plans Inc. that government welfare plans tend to turn into massive establishments that do not meet the needs of citizens.

C. W. Hartog, president of Cornelis W. Hartog Ltd., Toronto, asserted late last month that, "our experience with the universal government plans—proves that large plans tend to become power structures which are exploited for purposes other than those strictly required to meet the needs of members."

"Too much emphasis on the provision of identical coverage by means of large area-wide or nationwide plans," he went on, "would therefore seem to inhibit a healthy growth in fringe benefits."

Mr. Hartog told the third annual conference of foundation members that a network of interlocking plans is preferable "in a manner which preserves the identity of individual funds and their ability to deal with the needs of members at the grass roots level."

Also speaking to Canadian members of the foundation, which is an educational organization for administrators and trustees of fringe benefits based in Elmgrove, Wis., was George Becignuel, director of industrial relations for the Toronto Construction Assn.

Mr. Becignuel said he opposes the practice of a single individual as administrator as well as consultant to a fund. Employees and employers together, he suggested, should appoint and direct fund auditors. "The auditors' report should be made available to all participants in the fund," he said, noting that auditors should particularly watch for irregularities including embezzlements and other losses.

Brimigion forms firm

Samuel P. Brimigion Jr., has formed Brimigion Associates, Inc., Oakland, Cal. The firm will specialize in designing pension plans and life and health insurance plans for groups and individuals. It will be affiliated with Union Mutual Life Insurance Co., Portland, Me.

Pepsico, we want your insurance business.



In New York: were Benecict & Benecict

Who says, "Accidents can be controlled?"

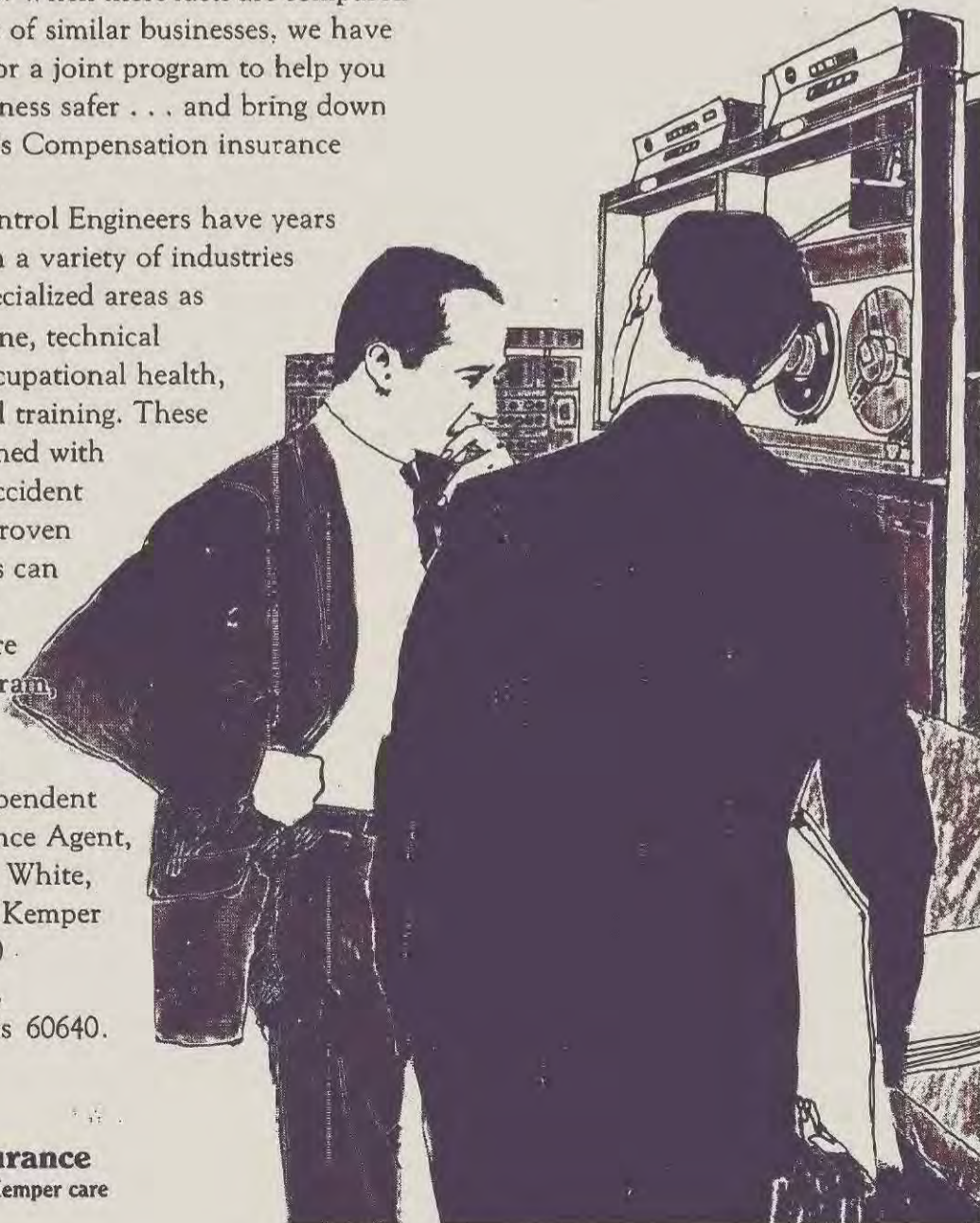
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That's why our Loss Control Engineers use computer data in analyzing accident potential. This helps policyholders reduce the severity and frequency of accidents.

Computerized accident control, from Kemper Insurance, is one way to help you reduce the amount you pay for Workmen's Compensation insurance. Our computers help pin down the exact locations and causes of accidents in your plant. They tell you what those accidents are costing you, too. When these facts are compared with experience of similar businesses, we have a sound basis for a joint program to help you make your business safer . . . and bring down your Workmen's Compensation insurance premium.

Our Loss Control Engineers have years of experience in a variety of industries and in such specialized areas as industrial hygiene, technical engineering, occupational health, and educational training. These services, combined with computerized accident control, have proven that "Accidents can be controlled."

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compensation trends

Beyond the fringe there's a ghost story for some U. S. executives

By JOSEPH S. ROBINSON

NEW YORK—You would have to read the fine print of an annual report to unravel some of the current noncash compensation packages now being offered executives. A number of corporate giants including General Motors, Gulf Oil, Pittsburgh Plate Glass and International Paper lump these goodies with other items in the footnotes. But if you dig, you'll see that management has come up with a little-known type of compensation known as "shadow," or "phantom" stock—among other off-beat fringes.

For example, last year Bethlehem Steel's chairman, E. F. Martin drew down almost six figures in "phantom" dividends. Not too far behind were Lammont Copeland, chairman of DuPont, and Birny Mason Jr., chief executive of Union Carbide.

Why the switch? The depressed stock market is one reason; the Tax Reform Act is another. Here's just one typical example that illustrates how the stock market decline made conventional stock option plans less attractive as part of an executive pay package:

Charles became vp of an electronics company five years ago when its stock was selling at \$40 per share. At the time Charles received options to pick up 5,000 shares of stock at the then market price of \$40. He bought 2,000 shares, mostly with borrowed money. In the course of time the market started to sink and today Charles' stock is worth \$20,000 less than when he bought it. In addition to taking a paper loss, Charles continues to pay interest on his loan. And his remaining options are now worthless.

THE TAX ADVANTAGE of options was somewhat reduced several years ago when a change in the tax law extended the capital-gains holding period requirement from six months to three years. This meant that executives increased the risk of a market down-turn while waiting out the new holding period.

The 1969 Tax Reform Act has added more salt to the wound of stock compensation plans. It is now possible to pay up to 35% on gains. There is no longer the 25% ceiling. What's more, stock options suffer an even greater penalty under the new provision that defines the appreciation on optioned stock as "tax preference income" and adds a 10% surtax on the already higher capital-gains tax.

The result of the tax clamp-down on these favorite incentive plans is that it simply spawned the development of new varieties of noncash payment.

Phantom stock is one esoteric device that caught on. This is imaginary stock. Instead of getting real shares, the executive receives make-believe stock units entitling him to both dividend payments and the rewards of capital growth.

BASICALLY, these "ghost" stock plans work something like this:

The employer establishes a plan under which a number of "units of participation" are set aside for employees. These units are each equivalent in value to the value of

a share of stock of the employer corporation. The units are book-keeping entries, not actual stock. The employer then allocates part or all of such units among its key employees, setting up on its books a separate account for each employee.

As the years pass, stock dividends increase the number of units of participation; cash dividends are recorded in the em-

ployee's account as equivalency dollars and are accumulated until there are enough equivalency dollars to theoretically purchase a share of stock at its then value. At this time, the cash dividend account is debited and the employee is credited with another unit of participation in his account. When the employee retires or terminates his service after a

"vesting period," he is paid in cash the difference between the market value of the employee's stock when the units of participation were allocated to him and the market value of said stock at date of retirement or vested termination.

The income is taxed as ordinary income, but income averaging would mitigate against horrendous tax consequences, or the payments could be spread out over a number of years to reduce the overall tax rate.

A VARIATION on the ghost stock theme is being played out by one NYSE company. This firm offers its executives the choice of qualified stock options or an alternate deferred stock deal described as follows:

The company gives an executive a qualified stock option to buy 1,000 shares of its stock during a five-year period. The option price is the quoted price at the time of the grant. Let's say it was \$20 per share. Assume the price per share doubles over the next five years—to \$40 per share.

Under the alternate plan, the company will give Mr. Executive shares of stock equal to 150% of its value at the time of the original grant times the number of optioned shares not picked up during the five-year period. In other words, if Mr. Executive didn't exercise any of his options, he can now receive in stock 150% of the difference between \$20 and \$40 per share—\$30 times 1,000 shares, or \$30,000.

Continued on page 31

Soon you'll be able to play anyone's video tape on anyone's video tape recorder.

Until now, you could only play your own 1/2" video tapes on your own video tape recorder. Because every different manufacturer had his own way of transferring the electronic impulses to tape.

Panasonic was instrumental in getting the VTR manufacturers to agree on one standard. The high fidelity "full-field recording" technique Panasonic perfected. Making all 1/2" video tapes compatible with every 1/2" video tape recorder. Just like 33 1/3 rpm records are with every phonograph.

We think the new standard will do as much for your communications, training films, field reports, quality control and surveillance needs as

standardization in phonograph records did for music.

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And the new standard makes Panasonic VTR a good investment. Because the new standard is a

decision, not an experiment. So you don't have to worry about obsolescence. Your tapes will be as playable years from now as they are today. And your video tape recorder will be, too. Especially if you get a Panasonic.

We're ahead of our competition in VTR. Because we've been working on the new standard a long time. And because we make everything we make. All by ourselves. From parts to finish.



Legal trend to protection of bystanders is continuing to influence courts' decisions

By JOHN W. GILES

Attorney at law

WASHINGTON—More states are now protecting mere bystanders from allegedly defective manufactured products—and a recent California case illustrates the reasoning behind the trend.

In that case the driver of an automobile and the occupants of another car with which it had collided brought suit against the manufacturer of the first automobile and the dealer who had

sold it. The action was brought for strict liability in tort for injuries and wrongful death allegedly caused by an automobile defect resulting in the purchaser-driver's loss of control. The loss of control had resulted from the driveshaft becoming disconnected and being gouged into the roadway, causing the car to fishtail into the path of another car.

In the opinion, the court said that the doctrine of strict liability in tort is available in an action

for personal injuries by a bystander against the manufacturer and the retailer of a defective product; the doctrine may not be restricted on a theory of privity of contract; the doctrine may not be limited so as to be inapplicable to third persons who are bystanders (as distinguished from purchasers or users of the defective chattel), on the theory that no representation of safety is made to the bystander; and since an automobile with a defectively

constructed drive shaft constitutes a substantial hazard on the highway, not only to the driver and passenger of the car, but also to pedestrians and other drivers, public policy requires that where the driver or passenger of another car is injured due to such defect and without any fault of his own, he may recover under the doctrine. A nonsuit here should not have been granted. (*Elmore v. American Motors Corp.*—451 Pac. 2nd 84.)

This same philosophy has been adopted by Connecticut in a case in which the plaintiff's decedent, while playing golf, had allegedly been run over and killed by an automobile manufactured by the defendant, because of the failure of the transmission of the parked automobile to lock in "park." (*Mitchell v. Miller*—214 At. 2nd 694.) Texas also thinks the same way in *Darryl v. Ford Motor Company*—440 S.W. 2nd 630.

* * *

IF YOU KNOW that an employe had committed theft by breaking into a gas station and stealing tires and money, is that likely to defeat your theft insurance policy—if this same employe, in the course of 18 months' employment, steals \$17,486.20 from you.

The U.S. Court of Appeals says that your claim under these circumstances will not be paid. The policy contained a valid exclusion clause of prior fraud or dishonesty. In this case, the branch manager doing the hiring had full authority to hire this dishonest employe and his act bound the insured. The exclusionary clause distinctly stated that the coverage of the policy will not apply to any employe, from and after the time that the insured or any partner or officer thereof not in collusion with such employe, shall have knowledge or information that such employe has committed any fraudulent or dishonest act in the service of the insured or otherwise, whether such act be committed before or after the date of employment by the insured.

This case emphasizes the great danger of employing anyone where there is knowledge on the part of the hirer, of previous defalcations or dishonest acts. While you may want to give someone "another chance," you may be giving him another chance to rob you and defeat your claim under your theft policy.

The court here defines a fraudulent act as follows: An intentional perversion of the truth for the purpose of inducing another in reliance upon it, to part with some valuable thing belonging to him or to surrender a legal right; a false representation of a matter of fact, whether by words or by conduct, by false or misleading allegations, or by concealment of that which should have been disclosed, which deceives and is intended to deceive another so that he shall act upon it to his legal injury.

The court also quotes Judge Cardozo's definition of dishonesty. "Dishonesty, unlike embezzlement or larceny, is not a term of art. Even so, the measure of its meaning is not a standard of perfection; but an infirmity of purpose so opprobrious or furtive as to be fairly characterized as dishonest in the common speech of men." (*Ritchie Grocer Co. v. Aetna Casualty & Surety Co.* U. S. Court of Appeals 8th Circ. May 12, 1970.)

Continued on page 34

Here's why it'll play better on ours.

But don't get the idea that all video tape recorders will be alike just because they can play each other's tapes. There's more to VTR than the new standard. And while we helped the industry develop the new standard, we didn't give all our secrets away. So we can give you special features that won't be standard with our competitors for some time to come.

For instance, our NV-3020SD not only has the new standard. It also has editing and slow motion. For less than \$1000!

But that's not the only thing. You also get a whole laboratory full of Panasonic innovations. Like our exclusive Hot Pressed Ferrite recording heads. That give you twice the recording life of ordinary heads. And just about as much improvement in fidelity.

And a drum head that's made of one piece of metal. And a precision-milled tape path. So the tape can't stray. And a manual override that lets you adjust the lightness and darkness. In case you and the camera don't see eye to eye. And audio dubbing, tracking control, a digital counter, even a dust cover. And countless other niceties.

Even the capability to play back on a conventional television set. Through an optional and inexpensive RF modulator.

If you think the NV-3020SD sounds beautiful, wait till you see our basic black and white model, NV-3020. With some very unbasic things like the new standard, automatic tape shutoff, automatic dubbing and stop action.

Or our color and black and

white model. The NV-3020C. Which not only has the new standard. But is also the only color 1/2" VTR directly recording and playing back NTSC color signals. (Previously available only in high-priced 1" VTR.) Then there's our portable VTR, the NV-3080. You can take it on business junkets or field investigations and not feel burdened. Because the complete outfit, camera (WV-8080) and all, weighs less than any other portable. And also costs less.

Whichever Panasonic 3000 series VTR you get, the tapes you make won't become obsolete. And neither will the machines. Because the new standard is it.

You may be able to play anyone's video tape on anyone's video tape recorder. But if you have any choice in the matter, there's only one kind of video tape recorder to get. Ours.

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() Please send facts plus a list of the leading users of Panasonic CCTV-VTR.
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PANASONIC
just slightly ahead of our time.



Ghost story ...

Continued from page 30

The company comes out ahead since it now obtains a \$30,000 deduction as compensation paid to the executive—something it couldn't get under the qualified stock option arrangement. The executive can convert the stock to cash and avoid market fluctuations. In other words, he will not have to wait the customary three-year holding period to receive capital gains treatment. In effect, what this plan boils down to is a new kind of cash awarded in the future for present salaried-rich executives. ■

Funds . . .

Continued from page 20

point up the favorable aspects of the pension fund regulatory legislation. He outlined a history of attempts on the part of Congress to guard the nation's labor force from the hazards of involuntary termination of their retirement and welfare benefit plans.

He pointed out that the Taft-Hartley Act of 1947 established the requirement of a separate pension trust, jointly administered by both management trustees as well as representatives from the labor force. Mr. Lippman explained that the traditional theory has been that the "primary responsibility for policing these plans should rest with their participants. It was always believed in the past that disclosure of the plan was all that was required, hence the passage of the

Welfare Pension Plans Disclosure Act in 1959.

"Experience has since demonstrated," he said, "that this assumption of the law was incorrect and subsequently the Disclosure law has proven woefully inadequate."

MR. LIPPMAN stressed the fact that Congress was concerned with "making the pension system work as a meaningful supplement to Social Security."

He said that the most crucial areas for change remained vesting, adequate funding methods and appropriate insurance of the plan. "because it is here rather than in the area of fiduciary controls that the private pension system breaks down." In apparent opposition to most of the philosophy guiding the construction of private retirement benefit plans at present, Mr. Lippman warned that private pensions

must be structured to minimize forfeitures rather than to build a system predicated on forfeitures of many so that the few may obtain pensions.

Mr. Lippman did, however, hold up a few "plums" to the light. He pointed out that the proposed legislation now before Congress for evaluation does not ask for any required minimum retirement benefits and the pending bills do not even require that a private pension plan be established. And what is more, he noted, none of the present bills asks for the establishment of portability of retirement benefits.

In outlining the provisions that are contained in the proposed legislation, Mr. Lippman explained that the bills before the House attempted to expand the common law concept of fiduciaries to embrace not only trustees but any person who has authority over the investment and dis-

bursement of funds or over the determination of practices, procedures or participants in the establishment of policy. But, then, it was exceeded, such extension of the fiduciary responsibilities has always been a matter of course for the vast majority of retirement plan trustees.

He explained that the House bills also aimed to expand the concept of the common law prudent man standard

"THE STANDARD proposed is the judgment of a prudent man, acting in like capacity who is familiar with such matters, in the conduct of an enterprise of like character and like aims," he said. What this means in terms of just how much risk the prudent man reasonably assume in a given investment was not discussed, however.

These bills before the House

also propose to forbid certain specified transactions such as leases or doing business with any "party in interest," this last term being defined in the language of the legislation with "very broad" terms, he said. This provision would apparently have a salutary effect in preventing unions, for example, from putting pension funds in noninterest-bearing accounts so that the friendly recipient bank (which just happens to be owned by the union and the union's officials) can't make vast profits on the funds without sharing it with the beneficiaries of the fund.

Mr. Lippman pointed out that "vesting is the key to the proposed legislation. Present plans, both those that are unilateral as well as those developed through negotiation, emphasize security of the long-term employee. No concern over the mobile employee, terminated employee, employee on long layoff or employee who is the victim of economic and technological changes or mergers is evident in these plans' structure. Public policy requires that these employees should be protected if the private pension system is to become a meaningful supplement to Social Security," he explained.

Mr. Lippman discussed the merits of Congressman Dent's ten-year vesting provision (a feature of H.R. 1045). "Studies indicate that the costs of vesting for a vast majority of plans are not unduly burdensome," he said. "The average increase would be between 3% and 6% of current contributions. Many plans would have no significant increase, since there are many plans that already have 15 years' employment as a condition of vesting and there are a number of significant plans with a ten-year, or less, requirement," he said.

THE GENERAL counsel expressed a warning about things to come, as well. "Early vesting is a necessary condition toward eventual adoption of a system of portability. This is the ultimate objective. Private pensions should some day be as universal in their operation as Social Security," he said.

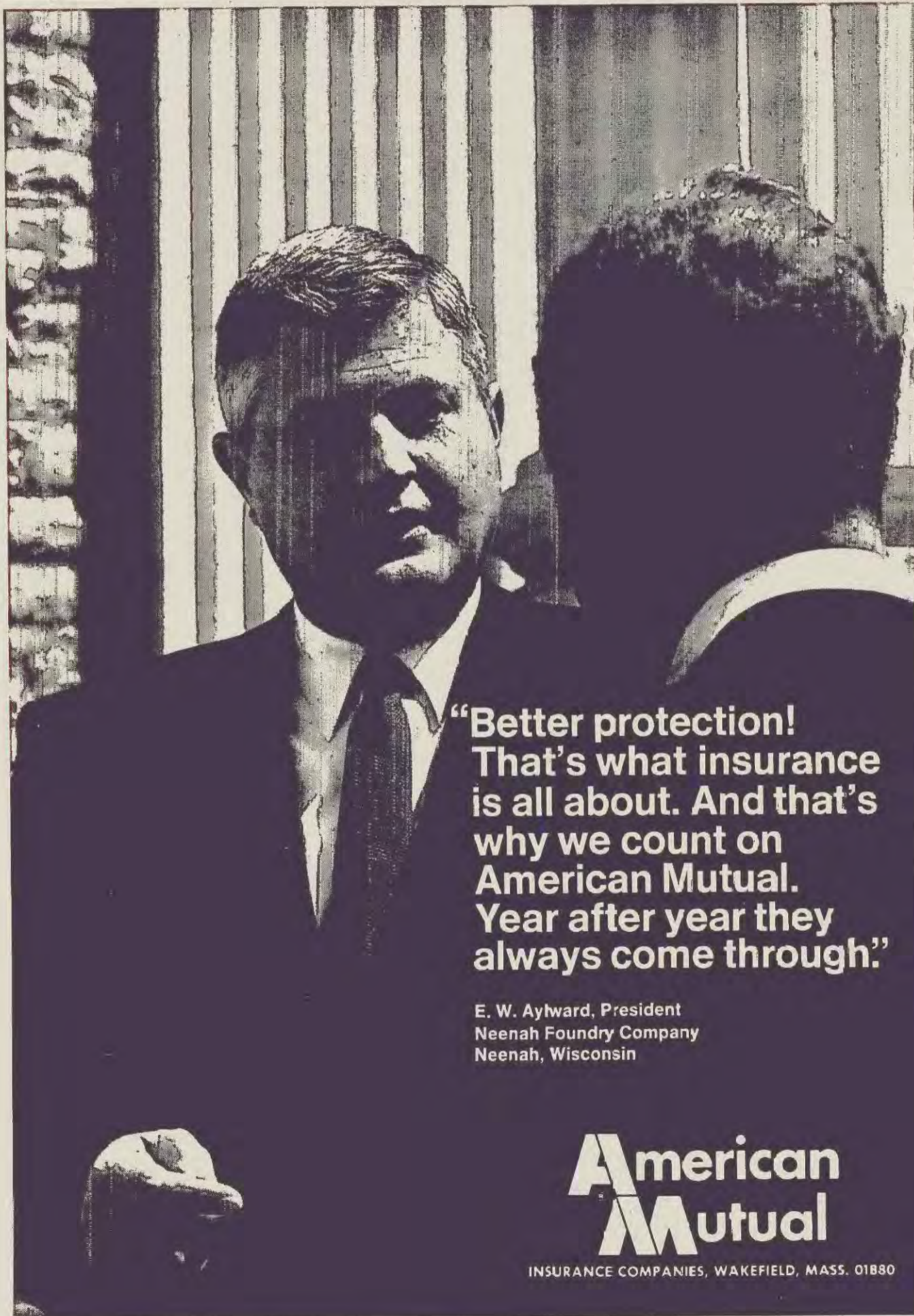
Prior to the onslaught of the day's sales presentations attendees of the meeting heard another speaker whose attitude concerning the proposed pension fund regulatory legislation was somewhat different. "Most of us today realize that to turn an area over to government creates conflict, vested and selfish interests, and complicates decisions," said William N. Bret Jr., a director of A. S. Hansen Inc. in the prominent actuarial firm's Dallas offices.

Mr. Bret proceeded to wade into the pension fund regulation bills, holding up a number of what he apparently felt were glaring inconsistencies. He pointed out that two of the House bills (H.R. 16462 and H.R. 1046) "establish a federal fiduciary system based mainly on the prudent man rule, although the prudent man rule is already established under the Uniform Trust Acts now in effect in most states." He questioned the need for a duplication of this regulation.

Mr. Bret also expressed concern over these proposed bills' disclosure requirements. "Both bills have clearly ignored . . . the present reporting, communication, investigative and prohibited transaction provision of the Internal Revenue code sections, rules, and regulations," he said.

HE EXPLAINED that the bills' required publication of the description of the plan, an annual financial report, and communication

Continued on page 34



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is all about. And that's
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American Mutual.
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And that time delay can be critical.

If the operator misses the first two series of signals, he could easily interpret the third as just "trouble in the system".

Honeywell has ended all that!

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- An alarm (or trouble) light goes on instantly.
- An alarm bell rings (or a trouble buzzer buzzes).
- A graphic map with pilot lights pinpoints the exact location of the alarm.

• And an alpha numerical printer displays the signal while it prints it all out... type, condition, location, time, date. *In English!*

No punched tape. No human interpretation. No delays.

All indicators work together... give you *immediate* recognition of the problem and its condition, so your operator can take instant corrective action.

Thinks for itself.

This Decimal Code System tells you whether a signal is an alarm, trouble in the system, abnormal

condition, or return to normal operating conditions.

Does it on any of *six* types of signals. Fire, waterflow, security, guard patrol, emergency, supervisory.

What's more, the printer automatically gives *first* priority to fire or waterflow if two or more signals come in simultaneously!

It's a 2-wire central transmission system.

It monitors an entire building, or a multi-building complex... from *one* central location.

Does it on just *2 wires* from the control center. And reaches building-to-building via leased telephone lines.

Centralizes existing local systems.

Honeywell's Decimal Code System can be tied into existing life safety systems, so that *all* alarm information is brought to one central location... allowing your personnel to take immediate action to save your property while saving lives.

And, if you like, you can add another receiver to monitor intrusion alarms, boiler failure signals, and other emergency alarms!

Gives Class A protection.

There you have it... the complete Decimal Code System that meets stringent requirements of the National Fire Protection Association Standard 72D for Class A proprietary systems.

Instant signal identity. Central monitoring. Lower installed cost. And the *reach* to go most anywhere you want it to go... on just *two wires!*

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Giles . . .

Continued from page 31

MUST A LANDLORD protect a tenant against foreseeable crime?

In the District of Columbia, the tenant sustained serious injuries when she was criminally assaulted and robbed by an intruder in a common hallway of the landlord's apartment house. The building contained 585 individual apartment units, had no doorman at the entrance and no guards at the two side entrances. In addition, the desk in the lobby was left unattended most of the time.

However, in 1959, when the tenant moved into the building, the entrances were guarded 24 hours a day, with the exception of a side entrance which was locked at 9:00 p.m. Also, at least one employe at all times manned the desk in the lobby from which all persons using the elevators

could be observed. The tenant contended that the landlord had a duty to protect residents from reasonably foreseeable criminal acts committed by third persons entering the premises. The court said that the modern urban landlord-tenant relationship is analogous to the innkeeper-guest relationship.

The court found that the duty of protecting a tenant arises, first, from the logic of the situation itself, since the landlord is the only one in a position to take the necessary acts of protection required. Secondly, there is implied in the contract between the landlord and tenant, an obligation on the landlord to provide these protective measures that are within his reasonable capacity. In the circumstances presented, it appears that the protective measures in effect in 1959 when the tenant first signed her lease are an adequate measure of what

protective measures lie within the landlord's "reasonable capacity." Thirdly, in reaching back for commonlaw precedents, the most analogous relationship to that of the modern day urban apartment dweller is not that of landlord and tenant, but that of innkeeper and guest. (C.A.D.C. *Kline v. 1500 Massachusetts Ave. Apartment Corp.*—8/6/70.)

IS TOTAL or permanent disability within the coverage of an insurance policy issued to a physical laborer or workman different from the disability of any ordinary person? The answer is "no."

A recent case in Louisiana discusses the question. A service station operator whose back had been injured in an automobile accident sought total disability benefits under a group accident insurance policy issued to him as a principal marketer for his oil

company. The insurer contended that the plaintiff was not totally disabled, either in fact or within the policy provision defining total disability as the "complete inability to perform any and every duty pertaining to any and every occupation or employment." Judgment was for the plaintiff. On appeal the court said the term "total disability" as used in the policy means the complete inability of a participant to perform any and every duty pertaining to any and every occupation or employment.

In construing similar language of insurance contracts, a uniform rule has been adopted to the effect that total disability as contemplated by an accident insurance policy does not mean, as its literal construction would require, a state of absolute helplessness but contemplates inability to do substantially all the essential acts necessary to the prosecution of the insured's business or occu-

pation in substantially his usual or customary manner. Here the court said the conclusion is inescapable that plaintiff is unable to perform a number of substantial and material acts necessary to the carrying on of his business in the usual and customary manner, where strenuous physical labor is required and he is therefore totally disabled within the policy definition of its term. (*Scalia v. Travellers Ins. Co.*—210 So. 2nd 373.)

FOR OUR money, this is a very close one. An airplane crashed and killed its prospective buyer and two passengers. The prospective buyer, who had been trying out the plane, had agreed with the consulting engineer firm which owned the plane to pay \$15 per hour to cover the plane's actual operating expenses.

When the consulting engineering firm sought to recover under its airplane insurance policy, the insurer denied coverage because the policy provided that it did not apply "while the aircraft is used for any purpose for which the named insured directly or indirectly makes a charge to others." The trial court said that the coverage was not affected by the exclusion and entered judgment for the insured.

The appellate court said that there was testimony that the usual out-of-pocket flight operations for the plane involved would be nearly \$15, while the fair rental value would be higher. The court said that the word "charge" means the price demanded for the plane's use. Accordingly the court found that the payment to cover the cost of fuel used while flying an airplane to try it out before purchase constituted reimbursement for the expense of using the aircraft rather than a charge for its use. Therefore, the exclusion did not apply and the judgment of the trial court was affirmed. (*Fidelity & Casualty Co. of New York v. Marion L. Crist & Assoc.*—Arkansas Supreme Court—6/15/70.)

Funds . . .

Continued from page 32

tion to employes were "exact duplications" of a section of the Internal Revenue regulations and a portion of Internal Revenue Ruling 69-421.

Mr. Bret contended that the appropriate responsibility for the regulation of employe benefit plans' vesting and funding rests with the Internal Revenue Service, rather than with any further legislation. Sections 401 and 404 of the Internal Revenue code "have established vesting rules for profit sharing . . . which prohibit plan discrimination in favor of the higher-paid employes. They could easily do so for pension plans without further legislation," he said.

In addition Mr. Bret quoted Herbert Ferster, legal counsel for the clothing industry in its relationships with the Amalgamated Clothing Workers of America, on his views concerning required vesting and the multi-employer-union retirement plan.

Said Mr. Bret: "Mr. Ferster stated emphatically that pending legislation should not require multi-employer-union plans to vest fully, fund, or reinsure. He advised that the provision for vesting would entail an increase of 44% in cost, 35% increase for funding, or a total of 79%. In addition, the vested liability insurance provisions of H.R. 1045 would cost the clothing industry pension fund \$400,000 per year. The Javits bill (H.R. 16462) would be nearer to \$2 million." ■



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Lloyd's loss to Arabs set near \$20 million

HOUSTON—Lloyd's of London chairman Henry S. Mance put a \$20 million price tag on his group's losses for coverage of the four aircraft seized by Arab guerrillas.

But Mr. Mance noted this estimate "is at worst. It could be less."

There is some uncertainty as to what type of coverage will pay the claims for the Pan American Boeing 747, Trans World Airlines Boeing 707 and a Swissair DC-8.

"The BOAC VC-10 loss was paid," Mr. Mance said, because the wording in the policy clearly spelled out coverage of the loss. "There is less certainty about the others," he added. "While there is a question as to which type of policy will cover the losses, Mr. Mance pointed out, whichever type it is, however, they will be settled." This may include government participation, he added.

"I BELIEVE insurance rates for war risk and hijacking will go up," said the chairman. "I am not sure about ordinary aviation coverage."

Mr. Mance said discussions are now being held with brokers as to increased rates, which he called inevitable. "The policies had a notice clause for rate revision and we should have an answer very quickly." He said he was unable to estimate what kind of increases would be made.

Referring to some industry rumors of a fivefold hike in the cost of covering these perils, Mr. Mance said: "I don't know, but they might be of that nature."

Is the price of an airline ticket likely to increase because of these talks about premium hikes? "Not necessarily," he said. "Only 5% of airline costs are for insurance. And that could go up a bit without affecting the ticket price."

CONCERNING a possible airline industry self-insurance program, Mr. Mance said while the industry could provide its own insurance, "they need not do so inasmuch as ample coverage is available through present channels."

"I don't think the airlines will form their own company," he added.

The chairman said he doubted the airline's would follow the oil industry in this regard. "The oil group is a little different. I still think the majority of aviation risks can be covered. Also, the oil industry has a lot of money. The airlines don't have very much."

Mr. Mance said Lloyd's members report some losses suffered by the oil and gas industry during Hurricane Celia, which struck the Gulf of Mexico near Corpus Christi, Tex. But the damage was nothing like the nature of Hurricane Betsy, which did serious damage and produced claims on Lloyd's of \$100 million, he said.

THERE WAS a substantial increase in catastrophe rates from Betsy, which struck in 1965. But Mr. Mance said he doubted further adjustments in these categories would be necessary due to Hurricane Celia.

When asked by *Business Insurance* what the biggest problem Lloyd's faces is, Mr. Mance quickly replied: "Making a profit."

He said after losses for the past three years, "all indications are that we are now moving into a position of profit."

The Lloyd's chief said that when the results for 1968 are determined early next year, he felt a profit would be declared. How much? "Any profit would be good," said the chairman. ■

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Comp pay available for cures by faith

SACRAMENTO—Gov. Ronald Reagan has signed into law the so-called Christian Science Bill which now becomes Chapter 1250 of the State Labor Code, to permit payment of compensation medical dollars to practitioners of religious organizations who believe in cures by faith.

Payments may be made only where employer and employe are in agreement.

Pollution is seen as next world insurance problem

SAN FRANCISCO—Pollution, rather than hijacking, and government-imposed restrictions on commerce and industry intended to control the environment may create the next major problem for the world's insurance industry, according to the head of Lloyd's.

"Hijacking of aircraft," explains Henry S. Mance, Lloyd's chairman, "undoubtedly is a passing risk, but the environment is with us always and governments throughout the world are becoming increasingly concerned with how to save the environment."

Mr. Mance was here, from London, to attend the Fairmont Hotel convention of the International Union of Marine Insurers as well as to "learn everything I can about the U.S. insurance

market and perhaps explain how Lloyd's works."

In the face of soaring risk potential, Mr. Mance was as calm and cool and "unworried" as the British tradition would have it.

"Hijacking of international aircraft carrying passengers," Mr. Mance said, "naturally is a worrisome . . . and costly . . . matter. The recent loss of the four planes destroyed by the Palestinian guerillas probably cost Lloyd's in the neighborhood of \$20 million.

"HOWEVER, until hijacking becomes as normal a part of life as night and day, it remains an insurable risk and I doubt whether any underwriter will stop providing such protection."

Mr. Mance said the recent im-

position by London underwriters of the cancellation clause was "only a temporary measure, to provide time for a review of the war risk rates."

"Insuring airplanes," he continued, "is the same as any other insurance. One simply needs the proper rate. Continued hijacking might change the concept of the risk and insurability and this, in turn, might increase rates beyond the ability of the carriers to pay for the insurance."

Mr. Mance added the comment, "it is not the insurers' job to tell airlines how to protect their planes. However, it is possible some underwriters might impose certain restrictions before issuing a policy."

IT WAS IN this latter area that Mr. Mance emphasized his con-

viction that "pollution has become a world issue and may create major problems for the insurance industry.

"Government restrictions on commerce and business," he said, "with the laudable intent of improving the environment could create absolutely uninsurable risks if the penalties for polluting are set too high."

In answer to a question which pointed out that workmen's compensation carriers impose requirements, such as safety conditions, Mr. Mance said it is "entirely possible" that in the future insurance and its availability might well be the stimulus to commerce and business to eliminate pollution.

Of the \$750 million in premiums the U.S. sends annually to

Lloyd's, the state of California alone, according to Mr. Mance and Jack Creswell, a nonmarine underwriter and also member of the Committee of Lloyd's, accounts for approximately \$30 million in surplus line premiums and an additional \$40 to \$50 million of reinsurance.

Thus a new California law now awaiting the signature of Gov. Ronald Reagan establishing stiff requirements relative to manufacturers' warranties, according to Mr. Mance, "represents a world trend and could easily have a substantial effect on future insurance rates in product liability."

QUESTIONED about soaring risk potential, Mr. Mance cheerfully responded, "the future does not scare me one bit. We may possibly have to hone our underwriting skills and be more certain of spreading risks worldwide.

"However," he continued, "you should always remember that the insurance industry of the world grew big and great and actually thrives on new kinds of risks and new hazards. In reality, Lloyd's invented the 'package policy' for unusual perils and we will continue to accept anything considered insurable."

The world's insurance capacity, he added, "increases when the insurance business is profitable. Pure underwriting perhaps has been running at a loss in recent years, but this is being corrected and there is no shortage of capacity.

"The new 747 aircraft, for example, has been covered easily," Mr. Mance said, "and I remain absolutely convinced there is no need at all for the proposed air carrier insurance pool or captive company. The market exists to meet all of their insurance needs."

Perhaps as a salute to his "host" state, Mr. Mance added that California earthquake insurance rates have not risen and that "this remains a profitable business for all involved in it." ■

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Fund stock purchases on decline

WASHINGTON—Private, non-insured pension funds followed a continuing decline in common stock purchases last quarter, according to the Securities and Exchange Commission.

The funds dropped from a first quarter 1970 buying rate of 24.8% of gross purchases for common stocks to 21.4% for the quarter ending this past June. Common stock buying activity on the part of pension funds is governed both by the attractiveness of prices as well as the timing of corporate contributions to the fund. Both of these factors are seasonal in the nature of their trends.

Other institutional investors also decreased the volume of their common purchases during the second quarter of this year. Open-end investment companies were down to \$3.43 billion from \$6.3 billion during the same quarter in 1969. Their first quarter 1970 buying totaled \$4.48 billion. Life insurance companies were down to \$830 million from \$930 million they spent on common stocks during the same period of 1969. Property and liability insurance companies were down to \$535 million from \$715 million during the same period a year ago. ■

Fear \$200 million insured loss from 'worst' California brush fires

SAN FRANCISCO—Insurers in California may suffer losses reaching or exceeding the \$200 million mark as a result of a series of late September brush fires described as "the worst in the state's history."

The loss of insured property started with an estimated \$3 million damage from Berkeley's worst fire since 1923.

Losses began to reach for the sky when a series of southern California brush fires destroyed some 2,010 structures and caused more than 10,000 residents to flee from the uncontrolled flames.

THE HUGE FIRE storm, driven by so-called Santa Ana winds, raged over 30 miles of mountain canyons reaching almost to the Mexican border as well as a 35-mile swath around the populous San Fernando Valley.

At least five persons were killed when a U.S. Forest Service helicopter fighting a fire in the Angeles National Forest crashed in a burned out area. There were ten other fire-related deaths.

In all, more than 60 separate brush fires in four days destroyed in excess of 600 structures in southern California, killed eight persons and burned more than 400,000 acres.

IN BERKELEY, after the fire had been contained, police barricaded the area to prevent looting of the ruins. Three persons were arrested for looting while the flames still raged.

The fire began as a small grass blaze on the eastern slope of the hills. As the day progressed, however, ashes fell in the downtown district of Oakland, six miles from

the center of the blaze.

Utility company workers struggled with falling electric wires and damaged gas lines. Household-ers fought with garden hoses, hoes and shovels until forced to abandon their homes.

Oakland Fire Chief James Sweeney Jr. called for all the outside assistance possible. Off-duty firemen in Oakland and Berkeley returned and eventually the firelines were manned by 400 firemen from seven different fire departments, including that of San Francisco.

THE STATE Division of Forestry sent in World War II bomber planes loaded with "Fire-Trol" to bomb the leaping

flames with the fire retardant. Altogether 11 bombers and two reconnaissance planes were used along with police helicopters.

Hundreds of civilian volunteers joined the fire fighting, including bearded "hippies" and U. of C. students, who swung aboard fire engines and fought side by side with the firemen.

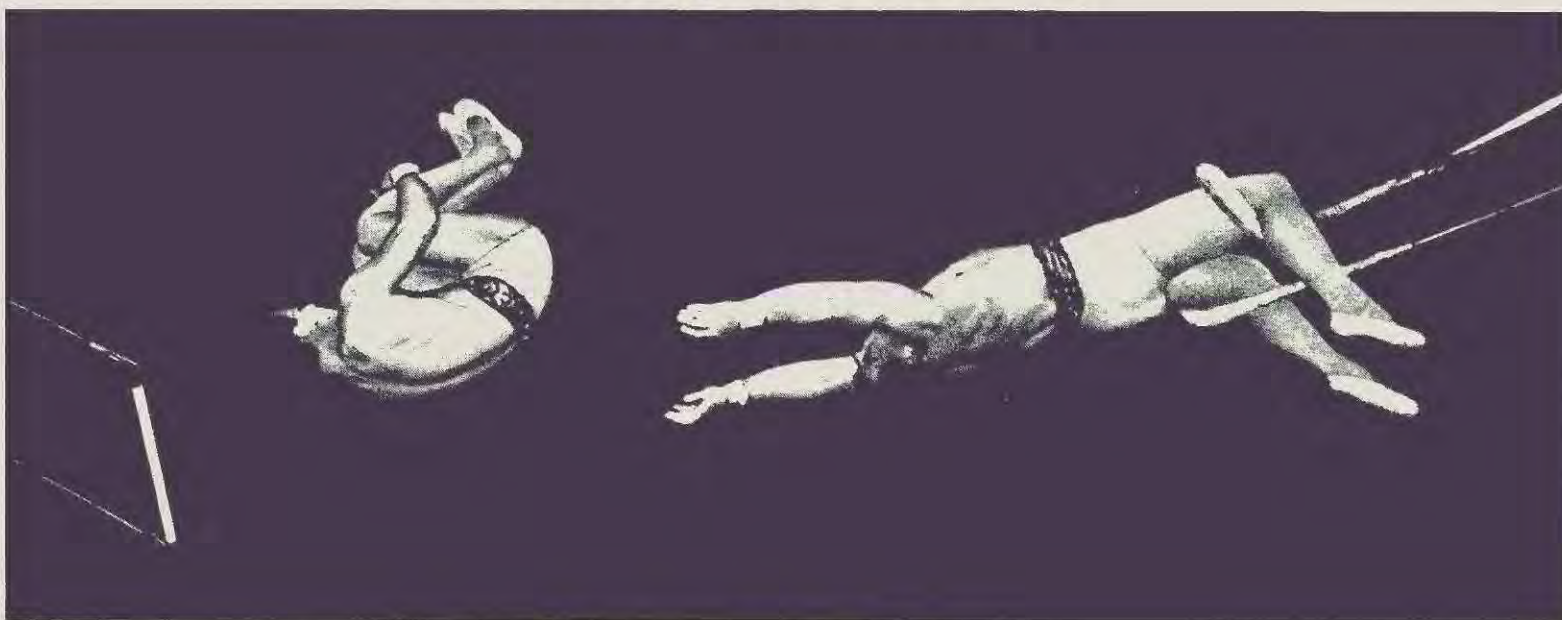
At one time the fire moved within less than a mile of the historic Claremont Hotel, whose owner Murray Lehr opened the doors to feed and shelter refugees from the fire.

Fred Twilliger, state division of forestry, tallied 83 fire trucks and seven bulldozers in use. The bombing planes dropped 6,000 gallons of chemicals on the fire. ■



Safety standards at Strombecker Corp., Chicago manufacturer of toys, have been increased "not because we've had any problems of our own, but because of other people's problems in this era of consumerism," said Richard Shure of the company's sales department. Model cars are tested to determine whether their electric power plants are operating properly. Product liability coverage, placed through Associated Agencies Inc., Chicago, is written by the Federal Insurance Co.

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Develops package for optometrists

HARTFORD—Aetna Life & Casualty has developed a special liability insurance package for the 15,000-member American Optometric Assn. The plan includes premises liability, professional liability and SCOPE, an Aetna personal umbrella liability policy. Policy limits are \$1 million.

The new Aetna package is similar to one developed recently by the Hartford Insurance Group for medical doctors in the Los Angeles area in that both fall into the category of commercial mass marketing. The Aetna plan, however, is nationwide in scope.

W. P. Lind, an Aetna assistant vp, told *Business Insurance* that the company now writes "30% to 40%" of professional liability coverages for U.S. optometrists.

"This is the most important line," Mr. Lind said, "and we feel it is to both our benefit and to the doctors' benefit that all lines be available from one company in one package." The company is also offering, as an optional coverage, physicians and surgeons equipment insurance under the package.

According to Mr. Lind, the package will not save members of the American Optometric Assn. any substantial sums in the immediate future. "That's further in the future," he said. "Our primary concern at the moment is assuring optometrists of an insurance market, so the same things don't happen to them that have happened in some of the other medical lines." ■

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Mance . . .

Continued from page 1

his visit here regarding whether or not Lloyd's will pay claims for the two U.S. airliners blown up by Arab guerillas last month. He did not say Lloyd's would "deny" payment under war-risk policies in effect at the time, although he did emphasize that if underwriters decide the claims are not covered under policy terms the courts may have to answer the question.

• He does not believe insurance pools or "captives" can do the insurance job for industries now considering them or planning them.

• He does not believe an "American Lloyd's" would work in this country. At least not in the sense that it has worked in London.

• Capacity has indeed shrunk for some forms of coverage, particularly for things like banker's blanket bonds and products liability coverage. And bigger insureds are likely to find themselves assuming even higher deductibles in the future.

MR. MANCE, who had been in the U.S.—his first visit, oddly—precisely one month and was returning to London two days hence, said he was favorably impressed with things as he saw them here.

"This country," he said, as if he had expected the worst before his arrival, "is full of optimism. The people I've met are not at all depressed about the future. Of course, inflation seems to be a serious problem, but it looks as if this Administration has a firm hand." During his visit here, he emphasized, he has met "three

sets" of people and thus feels he has gotten a well-rounded picture. The three were producers or brokers, bankers and other financial, industrial and commercial leaders and insureds.

As far as the insureds are concerned, Mr. Mance said he has encountered "remarkably few real problems. Very few people have complained about the service we offer in London," he declared.

Mr. Mance had obviously not been in touch with any airline people on his trip, for there were some very real grumbings going on among industry people as to how the London insurance market handled itself after last month's losses in the Middle East.

AVIATION people on this side of the Atlantic, at least, feel that there is no question Lloyd's and other British insurers should

honor the claims for the destroyed Pan Am 747 and TWA 707 under war-risk policies written in that market.

"I don't want to give the impression that we have declined payment," Mr. Mance said. "Papers have been submitted to London and are being looked at by the underwriters. Of course, you must remember that each airline has a different policy form. Policy language differs for each.

"If there is any uncertainty on the part of the underwriters, then you can only settle this by getting someone to arbitrate or have the question decided in the courts. We always like to get a claim paid quickly if it is going to be paid," he said.

Asked about the so-called "capacity" problem, Mr. Mance admitted that "it's patchy." He added that this is particularly true in the area of products lia-

bility and banker's blanket bonds.

"**THERE IS** still a market for Lloyd's but it may not be as big a market as it was in the immediate past," he said, adding that he is optimistic that overall capacity will increase in the years ahead.

While he has not been here specifically on a "recruiting" mission, the Lloyd's chairman did say he was encouraged at the response he has had from some people in this country who might be potential new "names" for the Lloyd's roster. (Lloyd's syndicates are made up of "names" or persons who pledge their personal wealth for underwriting purposes and share in profits and losses.)

Mr. Mance, who was named an underwriting member at Lloyd's in 1939 and chairman 30 years later, said that he does not believe industry pools or captives are the answer to the problem of insuring huge risks.

"As an industry gets bigger and begins working together," he said, "it is likely to think it can arrange insurance itself.

"**THE TEST** as to whether this can be done," he went on, "is if there is a chance the risk might face a catastrophic loss. If one such loss did occur it would mean a number of companies would share substantially. The kind of insurance where a pool works best is where you have a lot of little risks.

"You have to remember," the chairman continued, "that is pool is not just all the easy business of putting money in a kitty. The pool is an expensive thing to service," noting that in London a buyer gets not only insurance, but service as well.

Mr. Mance said his position on the airline captive remains substantially unchanged from those he has taken earlier. He still feels it is "unnecessary at the moment" and indicated he was still not convinced it would get off the ground. (While formally incorporated in Bermuda, Air Transport Insurance SA., after several revisions in structure, will be held on a standby basis.

As for the suggestions about recently that an American Lloyd's be formed to generate new capacity, Mr. Mance said he is not at all sure this could be done.

"**YOU'VE GOT** to realize," he said, "that any market is very difficult to generate initially. Lloyd's is built on a long history of tradition and the fact that it hasn't developed anywhere else is an indication that to do so would be difficult.

"The basis of Lloyd's strength is that individual decisions can be made very quickly and I doubt American insurance companies—with their various decision-making processes—could do business as well or as quickly." He also agreed that for American companies to form something like Lloyd's would be like "milking one market to start up another." ■



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Warns purchasers of strike insurance

SAN FRANCISCO—In an action unusual for his office, California Insurance Commissioner Richards D. Barger has cautioned members and employees of the automobile industry that they "may be solicited to purchase strike insurance" by the Trans Continental Casualty Insurance Co. Ltd., of Nassau, Bahamas. The firm is not certified to operate in the state.

Deal with 'social risks,' Chicago ASIM advised

CHICAGO—Insurance managers, because of their experience in analyzing risks, are well qualified to deal with the broad problem of social risks, David J. Christensen, director of community relations for CNA Financial Corp., told the American Society of Insurance Management's Chicago chapter at its first fall meeting.

"The same kind of know-how needed to manage risks in the insurance field is desperately needed to cope with current social risks," Mr. Christensen said. He cited some types of knowledge needed: An appreciation of the laws of probability; experience in minimizing risks; and an awareness of the value of loss prevention programs.

Mr. Christensen said that laws of probability indicate a mounting potential for disaster resulting from water and air pollution and other inner-city problems. "To solve these problems, we should be asking the same types of questions that insurance managers ask. One key question is what is the total cost and liability to our country if present trends continue. We must be more pragmatic in analyzing the situation."

Mr. Christensen discussed some steps ASIM members might take towards solving today's social problems. They include:

- Divert a percentage of your purchasing power to black insurance agents, and get to know

- Form a special committee to examine the insurance problems of the inner city. He suggested that there are a number of very stable organizations and institutions in such areas, that should be encouraged to stay in those areas. "In addition to your own expertise, you can call on the influence of your company and the insurance carriers you do business with," he said.

- Get to know the territory by going into ghetto areas and talking with the businessmen who operate there.

- Use your own experience, training and judgement to help find solutions to the problems as you get to know them. ■

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UAW asks Senate pension aid

DETROIT—United Auto Workers President Leonard Woodcock has accused the U.S. Senate of misplacing its values.

He appealed to the Senate for full support of an amendment, calling for government reinsurance of private pension plans.

The amendment offered will be by Sen. Vance Hartke (D-Ind.) to a Senate bill to protect Wall Street speculators against losses due to brokerage failures.

In a letter sent to all U.S. Senators, Mr. Woodcock pointed out the long-standing need for protection of promised pensions. He said that the UAW did not deny that those well-heeled enough to speculate on Wall Street needed help "but they certainly need help less than the poor, the unemployed and millions of aging Americans for whom retirement brings a severe slash in income that frequently means ending their days in poverty."

SEN. HARTKE'S measure would protect pension rights of workers whose plants close before their pension programs are fully funded. These rights can be guaranteed for a small insurance premium cost spread universally over all privately negotiated pension plans, without cost to taxpayers, according to the UAW president.

In an earlier letter to Congressmen Mr. Woodcock noted that between 1955 and 1965 more than 4,000 pension plans were terminated and thousands of workers were deprived of their pension rights. He cited a 1970 plant closing that left two 52-year-old employees, each with 37 years of service, with no pension benefits because their plan was 11 years away from full funding. ■

INA...

Continued from page 28

"There are other factors as well. Some of the coverages we write—burglary and crime, for instance—have been affected by the rise in crime in this country. Another factor has to be the changing public attitude—the attitude of one person to another or one corporation to another. The concept of negligence has been gradually whittled away," he said. He used medical malpractice as an example.

"I MAY BE off in these figures, but the idea is correct and that is that ten years ago one out of 100 doctors was sued for malpractice in the Los Angeles area. Last year ten out of 100 were sued." Moreover, he added, the same trend has developed for manufacturers faced with mounting products liability

claims.

Mr. Cox sees no easy solution to the problem, although he did assert that manufacturers are going to have to strive to improve and make their products more reliable. "I don't see the American public changing its attitude," he declared.

"The courts really aren't to blame," the INA prexy went on. "The only fault I find there is that they (the courts) are so overburdened there are great delays in litigation. But I don't blame the courts for some of the sizeable awards that have been handed down. I do resent some of the tactics of trial lawyers, however; why, there are even handbooks being circulated on how to attack a particular case and lawyers have become pretty liberal in how to go about getting an award for themselves as well as the client."

On no-fault auto insurance,

Mr. Cox said INA has long supported some form of legislation that would improve the present system and "get money into the hands of the injured parties more quickly." However, he said, "the Massachusetts thing is an abortion, a monster. We weren't unhappy with the Massachusetts bill when it was first introduced, but by the time it was passed it had been mutilated."

MR. COX SAID that as far as no-fault auto insurance is concerned INA "is interested in any reasonable plan or an experiment; with one that offers a possible solution to the problem. I would like to see one state at least try such a plan," he said noting however that the Massachusetts plan that goes into effect Jan. 1 would not qualify in his judgment. While he does not like some things in New York's proposed no-fault plan, he said he

would be willing to see it tried.

Beyond that, Mr. Cox sees far broader challenges ahead for the industry in which he does have executive influence.

"I guess I would say the biggest challenge for us is to find solutions to providing insurance where there is a demand for it and finding those solutions in the private sector so that we are able to preserve private enterprise.

"Government intervention is a very real threat unless we are able to solve these problems—some of them very quickly. There are quite a few government plans already, of course, and more are to come, I'm afraid. But, quite honestly, I must say that if we won't insure some things—property in the Gulf of Mexico and in ghettos, for example—then we can hardly blame the government for stepping in."

ON FEDERAL regulation of

the industry, Mr. Cox commented: "Federal regulation isn't going to happen in this Administration. I'm quite sure it won't. I really think it is inevitable at some point, though."

On pollution: "We woke up late in life, like everyone else," he said of recent moves by the insurance industry to exclude pollution liability coverages and thereby encourage industry to attack the problem directly. INA was the first insurance company to make the move and of this Mr. Cox remarked, "I'm not particularly anxious to be known as a leader in a retreat."

On the capacity problem: "We can't expect that London's capacity is going to grow materially. Therefore, the American market has to find additional capacity." He is certain, he said, American companies would be willing to assume more risk if they were more profitable and he sees hope in the suggestion that an American Lloyd's be formed.

Of brokers and agents: "It is increasingly important that they become more professional, more sophisticated and more diversified." He sees a move toward more direct writing by the industry. Brokers and the bigger agents will survive, he said, but those agents "who say they don't want to be bothered with mass merchandising or other new products because the insurance business is already too complicated" are not likely to survive. ■

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British fund investments drop in '69

LONDON—Private pension funds invested \$20.4 million in public or government securities in 1969, according to a report issued by the Board of Trade Journal.

Significantly, the figure represents a complete turnaround from pension fund investments in 1968, when the funds—divested themselves of \$19.9 million in public securities.

The Journal also noted that investment in common shares by British pension funds was \$199.2 million last year, or slightly less than half what it was in 1968. Investment in debentures, however, were \$196.8 million in 1969, more than two and a half times that for the previous year. In addition, for the first time since 1964 there was a small net investment (\$7.2 million) in preferred shares by the funds.

The overall investment in company securities in 1968 was put at \$403.2 million, which represents 60.6% of the total net investment. This figure compares with 66.6% in 1968.

The net investments in property trust units was put at \$50.4 million, 18% below the level of 1968. Investment in land, real property and ground rents, however, was 11% higher at \$168 million.

The total net investment of private pension funds analyzed by the Journal (exclusive of funds held by cooperating societies) was put at \$544.8 million, a drop of nearly \$14.4 million from 1968. ■

New safety manager

Midland Insurance Co. has named R. Q. Butler national fleet safety manager. Mr. Butler has a 22 year background in safety engineering and claims adjustment. Prior to joining Midland he served as director of safety for Ryder System, Inc.



Conn. Blue Cross and dental service merge

HARTFORD—A merger between Connecticut Dental Service Inc. and Blue Cross will make dental insurance on a group basis available on a wide scale in this state, according to Blue Cross officials.

The merger, which became effective, will bring the pre-paid dental plan set up on a non-profit basis in 1962 by the Connecticut State Dental Society into the Blue Cross fold.

It is believed that Blue Cross will now expand and promote the dental services, which have been limited mostly to children's dental care since the dental society formed the program in 1962. For the first time, group dental care will be offered to Blue Cross accounts with 25 or more employe members.

COVERAGES. Blue Cross officials said, will include diagnostic services, fillings, removal of teeth, repairs to full and partial dentures, general surgery, periodontal disease and root canal therapy.

Pop festival promoters to post bond

ATLANTA, Ga.—In what one member called an effort to put "a stop to this damn drug bash," the Georgia Board of Health has called on the state legislature to require the promoters of mass pop festivals to post surety bonds prior to the affairs.

The board also wants the legislation drawn in a way that will require the promoters to prevent "indecent exposure and acts" among the youthful festival spectators.

The request for legislation, approved at a recent board meeting, grows out of a widely publicized festival at the tiny mid-Georgia town of Byron, where 250,000 youngsters gathered to hear hard rock sounds.

WHEN THINGS quieted down following the July festival, leaving Byron and much of Georgia all a-twitter about naked swimming and corresponding activity, state officials were outraged.

A shocked legislator, who visited the festival as a member of a special investigating committee, reported seeing one couple happily making love in a path "at midday and the girl was smoking a cigaret."

But the health board, more concerned about reports of widespread drug abuse and complaints from Byron residents that the festival left tons of trash in a field, wants promoters bonded to provide emergency health care and clean-up crews.

The legislation, members of the board pointed out, must be drawn in a manner that will not include other "mass gatherings" such as football games, political barbecues and revivals.

The resolution was referred to health and welfare committees of the state general assembly. ■

Group appointment

James R. McGann has been named assistant secretary, life, accident a group division, claim department, Travelers Insurance Cos., Hartford. He joined the company in 1963 at Peoria, Ill.

Under the terms of the merger, Blue Cross will continue to conduct two school programs serviced by Connecticut Dental in recent years. Those include dental care for about 100 children in Windham, Conn., and a program for non-welfare, low-income families in the Middletown, Conn., area. The former is sponsored by the Office of Equal Opportunity and the latter by the State Department of Health.

A Connecticut Blue Cross official told *Business Insurance*, "The future of group dental plans is upon us if you've been looking at recent union-management labor contracts. We're just trying to keep up with the time." ■

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Workers are paid more now—in 'invisible' benefits

WASHINGTON—How many times have you heard workers complaining that they are not being paid enough? Probably a minimum of twice a day if you spend any time at all in taverns or luncheonettes.

But the fact is, according to the Chamber of Commerce of the United States, that American workers are being paid more now than ever before but some of them just do not realize it. The "invisible" wage is being paid out in employe benefits.

The chamber, after surveying 1,115 manufacturing and non-manufacturing companies, found that workers are receiving, on the average, about 98¢ in benefits for every hour they spend on the job. That works out to an impressive \$2,052 annually, about 27.9% of payroll.

The benefits paid run the gamut from Social Security and workmen's compensation to voluntary benefits such as bonuses, paid sick leave and profit sharing.

Almost all of the companies reported paying benefits for all kinds of insurance, including life, accident, sickness and hospitalization. At the same time, about 86% of the responding companies reported paying for pension programs.

For the most part, nonmanufacturing firms paid a higher average amount for employe benefits than did manufacturing companies. Nonmanufacturing companies paid an average of \$2,181 in benefits while manufacturers paid an average of \$1,965.

However, the petroleum industry, in the manufacturing category, paid the highest amount—\$2,938. The highest amount of benefits paid by nonmanufacturing firms was contributed by public utility companies, which paid out \$2,551.

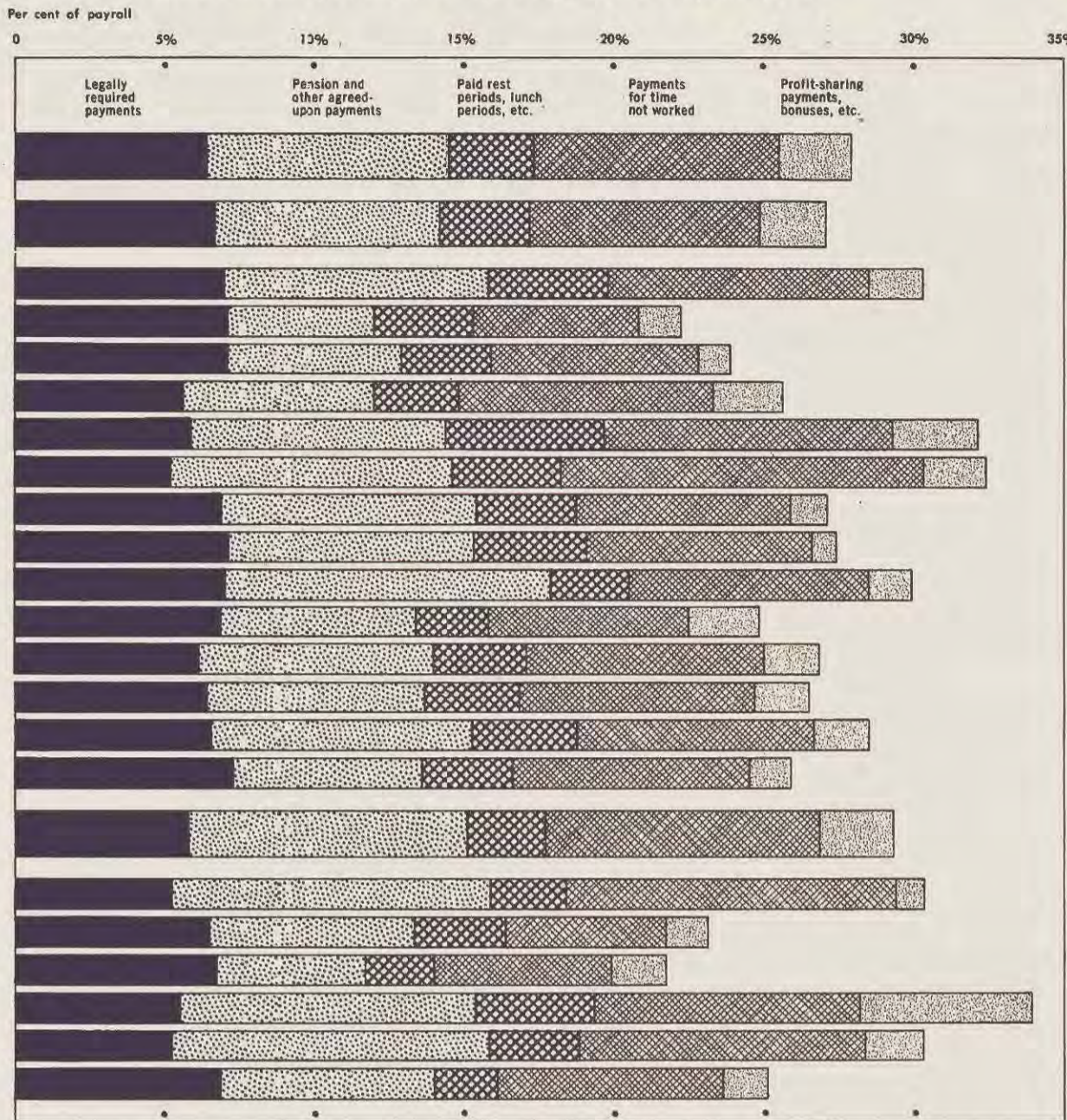
The single most expensive benefit comes from Washington. Social Security programs cost both the employer and the employe more than any other item, including paid vacations.

Other findings of the survey included:

- A wide variation in industry payments (wholesale and retail

Industry group	Per cent of payroll
Total, all industries	27.9
Total, all manufacturing	27.0
Manufacture of:	
Food, beverages & tobacco	30.3
Textile products & apparel	22.2
Pulp, paper, lumber & furniture	23.9
Printing & publishing	25.6
Chemicals & allied products	32.2
Petroleum industry	32.4
Rubber, leather & plastic products	27.1
Stone, clay & glass products	27.4
Primary metal industries	29.9
Fabricated metal products	24.6
Machinery (excluding electrical)	26.8
Electrical machinery, equipment & supplies	26.5
Transportation equipment	28.5
Instrument & miscellaneous manufacturing industries	25.9
Total, all nonmanufacturing	29.3
Public utilities (electric, gas, water, telephone, etc.)	30.3
Department stores	23.1
Trade (wholesale & other retail)	21.7
Banks, finance & trust companies	33.9
Insurance companies	30.3
Miscellaneous industries (mining, transportation, research, warehousing, etc.)	25.1

Employee Benefits as Per Cent of Payroll, by Industry Groups, 1115 Companies, 1969



trade firms paid 21.7% while banks, finance and trust companies paid 33.9%.

- Larger firms paid higher benefits than smaller ones.

- Highest payments were made in the northeast, with east, north central, western and southeastern

states following.

In 1949, 146 identical companies were paying for benefits amounting to \$547 per employe per year. Twenty years later they had raised the average annual benefit payment to \$2,498, a 357% increase.

The Chamber of Commerce statistics on percent of payroll spent on employe benefits closely parallel those revealed in a Canadian survey released Sept. 1.

In a study of 115 Canadian companies with a total of 366,637 employes, Thorne Group Ltd.,

management consultants, learned that total cumulative employe benefit costs represented 27.91% of payroll or an average of 99.63 cents per hour in 1969.

Of the five major benefit categories delved into during the survey the Thorne Group learned that vacation pay was the most costly, followed closely by welfare and pension programs. Other large expenditures came in rest period pay and statutory holiday pay.

The overall figures compare with 25.17%, or 80.44 cents per hour, paid in 1967.

Anchors do damage

SAN FRANCISCO—The insurance pay off rate for accidents to workers on the Bay Area Rapid Transit system may be among the lowest in the world, but dragging anchors are raising hob with physical properties.

Ships that drag anchors near the Port of Oakland have caused major damage to the bay-bottom electric cables that protect BART's trans-bay tube from electrolytic corrosion. The anchor-dragging damage bill to date is \$345,829.

The BART staff has been working with the port and the Coast Guard to tighten enforcement of regulations against ships dropping anchors along the route of the tube. The tube itself is safe from damage but the electrical cables are not immune. The cathodic protection system was installed by Lockheed Shipbuilding of Seattle at a cost of \$440,356.

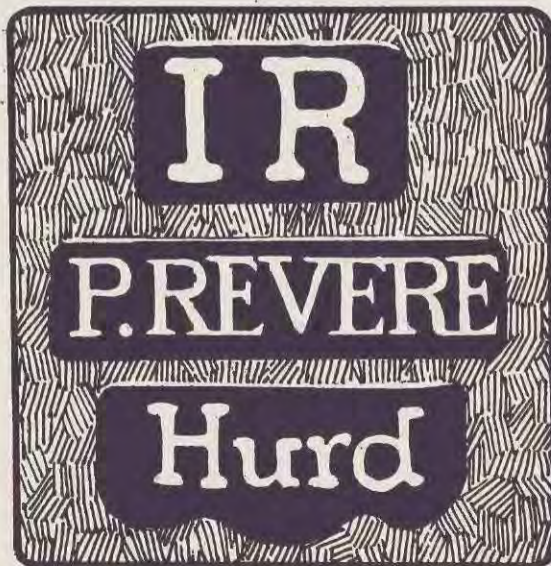
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Dividing Wisconsin insurance fund pie: Not enough pieces to go around

MADISON, Wis.—The state insurance fund, depleted by several million dollars over the last few years, was used as a political football at a recent meeting of the state building commission when Democratic members of the commission accused the Republican administration of manipulating the insurance fund.

The state has been balancing its budget over the last few years with money from the insurance fund, according to State Sen. Fred Risser (D., Madison). State Rep. Herbert Grover (D., Shawano) agreed with Mr. Risser, saying that the state was making a laughing stock out of its insurance fund.

The fund contained several million dollars until a few years ago. The last two legislatures have dipped into the fund to finance programs, including a 1967 grant to the Milwaukee public school system.

WHEN THE FUND drops below \$2 million—the latest figures show it had \$2,528,635 as of Jan. 1—state agencies may be required to replenish the fund by paying premiums into it. The present amount of money “proves the folly of trying to balance the executive budgets with the insurance fund,” Mr. Risser said.

The political harangue was touched off by a routine matter of authorizing \$1.12 million in repairs for Sterling Hall and 15 other University of Wisconsin buildings damaged by a bomb. The expenditure was authorized without specifying whether or not the

insurance fund would be tapped.

Eugene R. McPhee, state universities system director, asked the building commission if it intended to tap the insurance fund for the U.W. bomb damage after administration officials earlier this summer short-changed his office. Mr. McPhee pointed out that his office agreed to settle a \$1.3 million claim for fire damage at Whitewater State University last winter for \$260,000 from the state fire fund.

He said the administration urged him to settle the Whitewater claim for less money so state agencies would not have to start paying premiums into the fund.

U.W. OFFICIALS told the commission that the bill for repairing Sterling Hall would be \$650,000. The rest of the money will be for repairs to other buildings, they said. The \$1.12 million authorized is for building repairs only, and does not include the cost of replacing contents.

The total loss has been estimated at just under \$3 million.

The commission also appropriated \$183,550 for secret security systems in state buildings. The systems reportedly were recommended by a team of experts from the U.S. Secret Service.

Earlier this month the state board on government operations authorized \$150,000 for security measures at the state capitol, the governor's mansion and state offices buildings. But that wasn't enough to do the recommended job, the commission was told.

The security measures are partly the result of the Aug. 24 bombing, in which a physicist working late at night on his research papers, was killed.

Wayne F. McGown, secretary of administration for the state, refused to disclose details of the security systems, which reportedly involve such equipment as closed-circuit tv and electronic detection devices. He said secrecy was vital for successful operation of the systems.

Fire rates excessive?

HOUSTON—Each person and business firm here is forced to pay excessive rates on fire insurance, state legislative candidate Bill Blyth told a service club meeting here.

“These higher rates for Houston are the fault of the state board of insurance,” Mr. Blyth said. The key rate was set for Houston in 1937 and has remained unchanged since then, he added.

“Despite the fact that Houston has one of the nation's best fire departments and has spent millions of dollars on new equipment, new stations and more men, the rate is still not changed,” he said.

Mr. Blyth said the key rate in Dallas is 13 cents; San Antonio, nine cents, and in El Paso, nine cents, while the rate in Houston is 22 cents.

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business insurance / perspective

Pools: Why they exist; what they offer

by Charles F. Levinson,
insurance manager,
The Port of New York Authority,
New York, N. Y.



Charles F. Levinson

'Most shrewd underwriters dislike pools since their participation is usually a certain set percentage.'

POOLING IS the basic plan behind all insurance. Theoretically insurance is the spreading of risk among many to eliminate the impact of a catastrophe on a few.

As can be imagined, our industry has many pooling arrangements—some forced on the industry, such as the Fair plans and the assigned risk pools. However, most pools are of a voluntary nature and were usually formed at some time in the past because of just the same type of capacity problem we face now or a certain type of coverage that needed special

handling. The basic theory of most pools is that specialized engineering and safety work by well-trained members of their own organization can improve a risk to the point where the premium at least equals losses and expenses.

Most shrewd underwriters dislike pools since their participation is usually a certain set percentage that they would like to increase on the better risk and decrease on the less desirable.

ALMOST ALL pools have felt the impact of restricted underwriting by the

member companies and have become more selective. In addition, the cost of reinsurance and the restrictions placed on their treaties have made them offer less capacity.

Since there are innumerable small pools mostly local in their area serviced, I will restrict my comments to either those of nationwide scope or some specialized area of coverage.

Roughly, the voluntary pools fall into the following general categories; property damage, aviation, marine, foreign, nuclear, specialized industries and intercompany reinsurance.

Among pool facilities for property damage are:

- **Factory Mutual Group:** Granddaddy of all others (founded in 1835), this really began the modern day concept of pooling. Organized by owners of mills to fight high premium costs and the lack of prevention service, the system rapidly developed customers and employees to service the exposures. Today—FM still says that its job is to prevent losses, not to pay claims. Over the years, by amalgamation, the number of individual companies have shrunk to four mutual companies and two stock companies which they own. Engineering inspectors and claims adjusters are all salaried people. Factory mutuals are presently earning premiums of over \$100 million. One unusual feature of their premium is that they ask for a deposit of

Continued on following page

Master or individually tailored retirement plan

by Robert Dyer,
vice president,
Certified Portfolios Inc.,
Newport Beach, Cal.

IN THE PROCESS of establishing a retirement plan for your corporation? One of the decisions you'll have to make is whether to have someone (probably your lawyer) design an individual plan for you, or use a master plan such as those offered by numerous financial organizations, and by several firms specializing in the development and administration of profit-sharing/retirement plans.

In order to make your decision you need to know and fully understand the basic differences between an individually tailored plan and a master plan. To start with, if you go the individually tailored route, the plan will have to be formulated from scratch by your attorney. It will cost more initially, and after it is written, must be reviewed if it is to be qualified by the Internal Revenue service before it goes into effect.

Also, once the plan is in effect, unless you have the type of trust administration that provides for complete investment flexibility, you may not be able to purchase and sell your investments within the trust as you'd like to. The type of investments you can make within the trust may also be severely limited.

A MASTER PLAN, on the other hand, is a complete document within itself. All of the legal writing and technicalities have already been accomplished by legal and financial experts to present you with a

basic, IRS-approved format with a variety of options which you and your attorney select by simply checking the boxes in front of the options you want included in your plan. For example, let's say you want your employees to work for one, two or three years before they are eligible to participate in the plan. You simply check the waiting period you want. Whatever options you select then become a permanent part of your plan by means of a "joinder," which spells out the options you choose.

In addition to being already qualified by IRS, a master plan may save you even more money, since you also receive the benefits of in-house actuarial services, which not only includes computing the contributions you'll have to make to fund your program, but also keeping track of all purchases and sales and providing you with regular accountings on the status of your account.

Depending upon whose master plan you adopt, another potential major advantage of this type service is the fact that you (or your retirement plan investment committee) control your own investments. You can buy or sell stocks, bonds, insurance, real estate, or a variety of other acceptable investments within the trust at any time you choose.

Exactly how many master plans are available? At last count, IRS had approved more than 700 master plans. And, there are approximately 400 different organizations offering master plans. Included among them are banks, mutual funds, insurance companies, and the retirement service organizations.

HOW MUCH DOES a master plan cost?

Usually a lot less than an individually tailored plan, because most of the legal paperwork has already been accomplished. A retirement service organization charges a nominal amount for a corporate retirement. A charge that varies with the number of persons in the plan.

Charges cover all liaison and paperwork with the client, his accountant and his attorney. Based on information supplied by them (ages, incomes, years of service of eligible employees, plus the options they have selected), retirement service organizations actuarialize the information and develop the complete plan proposal for their consideration. Once the plan is adopted, the organization also acts as administrators for the trust.

In considering the adoption of a master plan, some of the questions that should be asked of the organization being considered to design the plan are:

- Does the plan provide for a choice of retirement plans within the master? Some plans do not and may limit you to strictly profit-sharing. Others may offer you a choice between profit-sharing and a money purchase plan, while still others may not allow you to integrate Social Security benefits with plan benefits.

- Is the plan flexible? Variable master plans, for example, offer many options and are highly flexible, while standard master plans are usually rigid, spelling out exactly what you can and can't do within your retirement plan. Some standard master plans require immediate and full vesting of all employees, which tends to discourage long-term employees since anyone who terminates gets all of the money contributed to

the plan on his behalf immediately. Standard plans may also limit restrictions you may want to impose regarding which of your employees are to be covered by the plan.

- Who will be named trustee? Banks, associations, and insurance companies are usually named as trustees for retirement programs. If you use a standard plan, other than those offered by certain mutual funds, chances are a bank will become the trustee. This, of course, means that as trustee the bank usually has complete investment authority for the retirement fund assets. Master plans too can be subject to this limitation. However, a refinement of the master plan, called "prototype," enables the corporation to select its own trustee. It may be a bank, or individuals who can be officers of the corporation. You can even have yourself named trustee and collect the trustee's fee, with you making all investment decisions.

- What limitations do you have on investments in a master plan? This depends on whose master plan you select. With mutual funds, banks, and insurance companies, your fund is usually tied to the assets sold by the sponsoring organization. A master plan offered by a mutual fund, for example, will frequently require that a large share of fund assets be invested in its shares. In our opinion, this greatly limits investment flexibility for the participants in the plan. We firmly believe that the sponsoring organization should have no assets to sell, so that, in effect, it is nothing more than a service organization, which records the transactions made by the fund participants, and has absolutely no axe to grind regarding purchases within the trust. We could care less whether they buy stocks, bonds, insurance, real estate or anything within the terms of the trust.

To summarize, if you are looking for maximum investment flexibility for your retirement funds, the master plans offered by most mutual funds and insurance companies won't do the trick. Individually tailored plans can be constructed to do the job, but are more expensive to install and maintain than a master plan that doesn't limit your investments to any specific type of asset.

Pools . . .

Continued from preceding page

approximately eight times their annual charge for insurance. Therefore, the cost of their holding your money must be included in your estimate of premium costs.

● **Factory Insurance Assn.:** Organized in 1890, it was an answer to the threat of an expanding Factory Mutual System and as an aid to the local stock company agent and broker. It began with 12 stock fire insurance companies and its membership has fluctuated from time to time. Company consolidations and purchases has reduced active members to some 48. Participation varies from .5% to a maximum of 7% for carriers. While the FM almost always deals direct with the insured, FIA coverage must be purchased through brokers or agents. Often in ordinary times, the two giant pools were matched against each other or in the case of giant risks—they shared the risk.

● **Improved Risk Mutuals:** This is an organization of 16 large mutual carriers pooled together to write the medium-sized risk for property damage. Offering engineering and reduced rate plans, they offer a market to those risks that do not qualify for FM or FIA coverage.

● **Building Owners Federation of Mutual Insurance Cos.:** Again this is a group of mutual companies who offer to public and institutional property, risk office building special multiple peril coverage at reduced rates through local agents. Among risk aviation pools, we find two giants:

● **U.S. Aviation Underwriters:** Some 60 stock carriers writing almost all classes of aviation exposure.

● **Associated Aviation Underwriters:** Thirty-one companies writing a general line of aviation business.

Then we find the following smaller pools:

● **Aviation Office of America:** Specializes in light planes—business aircraft.

● **American Aviation Underwriters:** Writes all classes.

Marine and inland marine pools include:

● **American Hull Syndicate:** A pool with a capacity of more than \$10 million

American exporters get guarantees against political and commercial credit risks.

Among nuclear risk pool carriers, we have an example of all segments of our business working together. There are two property damage pools and two liability pools, for a combined limit of \$82 million in liability coverage with nearly 300 carriers participating.

● **Nuclear Energy Liability Insurance Assn.:** A pool which includes all major stock carriers.

● **Mutual Atomic Energy Reinsurance Pool:** Its mutual counterpart.

'Pooling needs further expansion in all directions—more of it and greater activity where it presently exists.'

per hull, it insures about 3,000 ships among its 78 insurance participants.

● **Marine Office—Appleton & Cox:** Writes marine and inland marine coverage for its various member companies.

● **Mutual Inland Marine Underwriters of New England:** Ten carriers forming a pool for inland marine business only.

● **Tugboat Underwriters Syndicate:** Writes physical damage on tug hulls only.

Foreign coverage carriers, which offer the insured the advantage of paying premiums and receiving loss payments in American dollars include:

● **American International Underwriters:** Twelve American carriers writing all coverages world-wide.

● **AFIA:** Ten American carriers writing all coverage world-wide except in Western hemisphere.

● **Foreign Credit Insurance Assn.:**

● **Nuclear Energy Liability Insurance Assn.:** The stock company portion of the liability pool.

● **Mutual Atomic Energy Liability Underwriters:** The mutual carrier portion.

Specialized industry pools are special pools for certain types of high-hazard industries that need high technical engineering services because of their special problems. Their names are almost self-explanatory.

● **Railroad Insurance Underwriters.**

● **Assn of Mill and Elevator Mutual Insurance Cos. (Also known as Mill Mutuals—eight companies).**

● **Associated Lumber Mutuals:** Five companies writing woodworking and lumber risks.

● **Cotton Insurance Assn.:** Writes cotton in bales on syndicate basis.

● **Cotton Fire and Marine Underwrit-**

ers: Eight stock companies writing cotton and soybean processing and warehouse operations.

● **Food Industries Federation of Mutual Insurance Cos.:** Covers food processing plants.

● **Crop Insurance Group:** Writes for growing crops.

● **Rain and Hail Insurance Bureau:** Handles crop insurance for seven companies.

Experience has been generally poor in the area, witness the collapse of the Simmons oil pool in the past few years.

Inter Company Reinsurance Pools, that help increase capacity to buyer, include:

● **Excess Casualty Reinsurance Assn.:** Fifteen carriers write almost all lines.

● **American Cargo War Risk Reinsurance Assn.:** Ocean marine association for reinsurance.

● **S.I.R.—Selected Insurance Risk Plan:** Reinsurance pool that writes special multiple peril form on public and institutional property and office buildings. Twenty-four mutual carriers in pool.

● **Southern Reinsurance Exchange:** Association for pooling reinsurance needs.

● **Workmen's Compensation Reinsurance Bureau:** Covers excess workmen's compensation over \$100,000 per risk.

● **Furriers Customers Reinsurance Syndicate.**

● **Mutual Reinsurance Bureau:** Ten carriers giving pooled reinsurance treaties.

The pooling idea goes on and on in its application to furnishing capacity. It needs further expansion in all directions—more of it and greater activity where it presently exists. The nuclear pools expose themselves to \$166 million subject to one loss with only token help from Lloyd's. Why can't this capacity be harnessed to our present capacity problems? ■

Dear Gerry

Saving on fire coverage

by Gerald W. Wilson,
analyst of corporate insurance,
New York, N. Y.



Gerald W. Wilson

DEAR GERRY: How can I save money on my fire insurance?

ANSWER: First of all you should recognize two things: Fire insurance is one of your best bargains, and the installation of fire protection appliances should not be entirely justified by commensurate savings in insurance premiums. As fire insurance does not cover all the consequences of a fire, the premium saving should not be the only reason for adoption of fire protection measures.

The most obvious way to save is to obtain all the rate credits you can by type of construction, occupancy and compliance with warranties. Establishment of

your facilities in protected areas makes a considerable difference in fire insurance rates. The fire rating of your town or city is of some interest. Coordination with and support of your local fire and water departments could be of some particular importance to your company. If you use a designer for your plant or are leasing under today's leasing practices, be sure that the building was designed by someone who has some regard for fire resistant materials, segregation of hazards and recognizes that sprinklers are not just for the front lawn. When you deal with the budgeters for the construction or occupancy, be sure that they consider the life of the building and not the term of the lease or their budget period when assaying the economies of purchasing fire protection and choice of construction.

In my opinion the credits granted for various deductible levels are not commensurate with the losses assumed. This should not however prevent assumption of loss levels by your company if the losses are charged to the operations involved and thusly make their managers more loss conscious.

DEAR GERRY: Why is there so much difficulty in getting values from an accounting system?

ANSWER: You are primarily interested in building values from cost information. Those elements you need are often not retrievable from most industrial or financial accounting systems. Such things as cost of capital may not be included in data from conventional accounting systems. Considerable reorganization or re-statement of accounting records seems to be required to arrive at values for risk

management analysis purposes. Management suffers from the same problem when attempting to derive operational costs. One should avoid the pitfalls of becoming too sophisticated in cost requirements. At the risk of running afoul of my own warning, here are four guidelines for the data you would want from any accounting system:

● Cost should be realistic; accountants tend to look at the system as various places to assign charges. In arriving at cost one should be certain that accountants have not allocated the cost to an area not in scrutiny such as to a subsidiary company or allocated down stream.

● Use only out-of-pocket costs—overhead cost allocations are often inappropriate. Indirect costs usually are reflected in this manner—also the term of costs may be compressed or expanded.

● It is better to use defined costs—even if they are approximated—than to use less defined costs—even if they are more precise. In short, avoid including irrelevant costs.

● Differentiate (where costs are used as projections) ranges as determined by alternatives. The behavior of fixed costs for various levels of activities is not readily ascertained—even by experts.

Most property values are constructed by arriving at a calendar date valuation and then applying increase or decrease factors reflecting changes in market or replacement costs (index numbers).

Business interruption values are usually obtained directly from accounting records. Using the turnover form however, requires enumeration of certain continuing expenses that must be stated in advance to be covered by this insurance.

DEAR GERRY: What do you consider the most difficult type of insurance to handle?

ANSWER: Automobile, for the simple reason that there are more pesky claim adjustments to be handled and the premium calculations can be sometimes most cumbersome. In addition, no matter how packaged with other coverages it usually destroys the loss experience and makes your premium negotiations difficult. What claimants consider their rights and prerogatives usually are far from the realities of the system. Assumption of automobile physical loss or damage for company vehicles is one of the hardest things to sell to your management. Since there are some states with very strict insurance and license requirements, you can get bogged down in a great amount of paper work which if not handled in time can mean much aggravation and delay.

DEAR GERRY: What is the systems approach to an insurance program?

ANSWER: The systems approach refers to the administrative process. That is, the flow of data and information is all within a defined area or unit. Administration of this unit is codified as to procedures and limits and boundaries of each subunit or component within the system is defined and allocated. Simply put, who does what and when is defined. Any changes or deviations are analyzed and any new actions or functions assigned. This sounds elemental but, recognition and handling of changes by the system is what receives the attention. It is the modern way of "ruling by exception" once you know how things are supposed to be done. It is an attempt to eliminate haphazard performance by allocating in advance those obligations and duties required from each administrative unit and seeing to it that performance is maintained. Evaluation and questions must precede decisions and action. In short, it is a way of recognizing the squeaky wheels before they grind the program to a halt. ■

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Huge risks . . .

Continued from page 14

said that the recent idea of forming an American Lloyd's was one of these.

"THE CONCEPT contemplates a central facility operating as a loose federation," he said of the study now underway by a capacity study group drawn from major U.S. carriers (*Business Insurance*, June 22, 1970). "Expert underwriters would be expected to congregate either in one large room or building or in one concentrated area in a major center such as New York City.

"The study committee has recognized that any such facility would only supplement present company or pool underwriting capacity and could not be expected to replace them," Mr. Hewitt as-

serted. "The facility would be intended to write broad coverages, high limits, hazardous, complex or unique risks—the kind of special risks that today are either partially or wholly supported by surplus line markets.

"Unlike underwriting pools such as the Factory Insurance Assn., the 'American Insurance Market' would be expected to operate on a basis where each company could choose its share of each risk rather than take a predetermined and fixed percentage. And, unlike pool operations, the new facility would contemplate that each underwriter would be free to determine his own rate and conditions.

"These factors," the Cameron & Colby president went on, "lead to the conclusion that the new facility, if formed, might not be as useful as its proponents would like it to be. While the United States insurance industry

has an abundance of talent, it does not currently operate on a basis where individual underwriters are acknowledged by their competitors to the extent that their competitors would follow them blindly. The great power of Lloyd's as a market lay in the fact that there were lead underwriters who were recognized and respected and whose name on a placing slip virtually guaranteed that the risk involved could be completely placed. In recent times," he added, "Lloyd's has become a less facile market and certainly one of the things that has contributed to the change is the fact that the lead underwriter system has deteriorated."

HOWEVER, Mr. Hewitt pointed out that serious legal problems may hamper the formation of an American Lloyd's of the kind proposed.

Noting that the insurance industry study group is aware of these, he said two alternatives to such a facility are also being looked at.

One, he said, would be to expand the support of those pools already in existence and that the advantage of this approach would be that underwriting structures already exist through which the kind of business involved could be handled efficiently.

The other alternative would be to make the new facility a facultative reinsurance market, opening it not only to pools but to all underwriters of special risks. Such an approach, Mr. Hewitt said, would not radically change present operating practices in the insurance marketplace and would offer "prompt and uncomplicated support of the greatest cross section of underwriting markets. This approach," he added, "offers the most practical method of accomplishing the mission.

requires very experienced talent. The preponderance of such talent undoubtedly resides in existing pools and surplus line markets," he went on, adding, "These underwriting activities handle only such business whereas in other organizations, such business constitutes only a minor part of the whole operation." Mr. Hewitt also urged that it would seem reasonable and proper that a strong facultative reinsurance market also offer its capacity to Lloyd's, which is desperately in need of new capacity.

Mr. Hewitt did point out, however, that before the special risks problem could be attacked, such an American Lloyd's concept must solve the dilemma in the auto classification, which those making up the industry study group "are heavily committed to."

"The answer, therefore, to restoring and maintaining an adequate market for special risks, appears to depend on the wholehearted involvement of the kinds of companies that make up the capacity study group."

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Merchants Mutual Insurance Company
Michigan Millers Mutual Insurance Company
Michigan Mutual Liability Company
The Millers Mutual Insurance Company
Northwestern Mutual Insurance Company
Pennsylvania Lumbermens Mutual Insurance Co.
Pennsylvania Millers Mutual Insurance Company
Utica Mutual Insurance Company

Here's a cow story that's not so sacred

LONDON—Elba, a golden Guernsey cow that was used as a negotiable instrument on which a five pound note was written, was insured for her trip to the bank for \$60,000 by underwriters at Lloyd's. And thereby hangs part of a tale that cost more to insure than the British tender conveyed.

People have been writing checks on strange objects for years, of course, but the most recent case here was something of a joke on a joke.

The occasion marked 60 years of humorous contributions to the British satirical magazine, *Punch*. It was presented to Sir Alan Herbert, who created a regular character in the magazine, one Albert Haddock. Haddock, in one of Sir Alan's contributions in 1930, had been responsible for a similar joke when he presented a five pound note on a cow to Inland Revenue as a protest at paying his income tax.

The cow, which was duly signed, on the lower left haunch, by the editor and chairman of *Punch*, was led into the bank, followed by an attendant carrying a small yellow pail. The attendant was overheard to murmur to an official, "Do not stand too close behind in case she lifts her tail." However, after Sir Alan had accepted the five pound note, he commented, "Its bank manners are irreproachable."

Elba was insured for the trip for \$60,000 in case she ran amuck and caused injury. She was also insured for \$360 in case of injury to herself. So a five pound cow is a rather expensive way to pay the bill, nor would every bank accept a check written on a cow.

The *Punch* officials had originally approached Coutt's, Sir Alan's own bank, but the bank declined to allow the scheme. It explained it had a large number of Indian customers, who might be offended.

Holy cow, you might say.

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Mance calls U.S. marine market enterprising

SAN FRANCISCO—A silver "Jolly Boat," marking the 105th anniversary of the American marine insurance market, was presented here this week to the American Institute of Marine Underwriters.

Given by the British Marine Underwriters, the unusual piece of plate, a facsimile model of the original Jolly Boat in the Nelson collection at Lloyd's, was presented by Harry S. Mance, Lloyd's chairman, to Dale E. Taylor, president of the institute.

During the presentation luncheon at the Fairmont Hotel prior to opening of the annual conference of the International Union of Marine Insurance, Mr. Mance told Mr. Taylor the history of the Jolly Boat.

The original was ordered by Admiral Nelson as a gift for his Navigational Officer, Captain Atkinson. It was made by famous Georgian silversmith John Eames.

THE JOLLY BOAT carries two fine cut-glass decanters and the old British naval tradition was to send the boat out, decanters charged with port and sherry, in a clockwise direction around the dinner table.

When the boat finally came to a stop, the officer before whom it rested paid for the liquor consumed. Hence, Mr. Mance explained, the "present day expression of 'pushing the boat out.'"

Mr. Mance commented, "your market has always been enterprising and full of ideas. In particular, your insistence on freedom and loss prevention has contributed much to world insurance thinking in these matters."

"Now," he added, "we are all faced with problems of growth and expansion to meet the challenge of ever growing values at risk. Your own hull syndicate capacity has steadily increased since its foundation in 1918 and your own market capacity has been growing at the rate of 5% to 5.5% a year for the past 15 years."

MR. MANCE SAID he is convinced that "it is essential that the free insurance markets of the world be able to absorb the biggest risks which industry and commerce wish to insure."

He qualified this by pointing out that "this is not the same as saying that we should absorb the fantastic liabilities which governments are now tending to foist upon us, whether these be in the realm of third-party liability, atomics or pollution."

Mr. Mance combined attendance at the conference here with a visit to Los Angeles, Houston, New Orleans, Washington and New York.

"What I am attempting to do," he said in San Francisco here, "is to find out at first hand the American insurance community's views on the Lloyd's market. Of course, I also want to explain Lloyd's present attitude to American business placed with us in London."

In Los Angeles as well as here, he met with members of the Surplus Line Assn. of California, many of whose members handle insurance business intended for Lloyd's.

EARLIER THIS week Lloyd's reported a 1967 loss equivalent to \$3.8 million, compared with the \$44.6 million deficit of 1966 and the \$92.6 million loss of 1965. Premium income for 1967 was \$1.44 billion compared to \$1.27 billion in 1966.

"More selective underwriting and increased business efficien-

cy," Mr. Mance said, "could move the 6,000 members of Lloyd's into the black in 1968, although 1969 losses probably will be high."

Mr. Mance pointed out that Lloyd's has just enlarged its membership by admitting "men and women of any nationality . . . American citizens being among the first to be admitted."

"Would-be members," he explained, "must show evidence of assets of at least \$180,000. On election they must lodge substantial deposits with the committee as security" for their underwriting liabilities.

The amount of premium income American members may accept is governed by the size of

the deposits. About half of all Lloyd's premium income each year comes from the U.S.

LLOYD'S SHARES in many U.S. risks, such as oil rigs in the Gulf, the now under construction San Francisco rapid transit system and many American insurance companies reinsure with Lloyd's.

A trust fund, which now amounts to \$800 million, is maintained in the U.S. by Lloyd's, from which claims in this country are paid.

The conference delegates, including Mr. Mance and his associates, broke into "committee" meetings to review the world-

Continued on page 52



A model of their original Jolly Boat was presented by Lloyd's to the American Institute of Marine Underwriters on their 105th anniversary. Present were: Richard Powell, chairman, Liverpool Underwriters Assn.; Henry Mance, chairman, Lloyd's; Dale E. Taylor, president of the marine institute; S. J. Charlton, chairman, Institute of London Underwriters; Henry Chester, chairman, Lloyd's Underwriters Assn.

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After the operation will you talk more of the scar . . . or the bills? Seems like the more modern medicine speeds recovery from sickness or an accident—the quicker your pocketbook becomes disabled. But now there is a financial cure from Continental Assurance, of CNA/insurance, expanded benefits on individual health insurance. □ More hospitalization cash to supplement your present group or individual coverage. Comprehensive plans (all-in-one

protection for room, doctor, medicine, etc.) provide more dollars, too. And we've invented a new \$25,000 major medical. □ Then for bills that don't stop when income does, disability income pays up to \$2,000 a month. That's spending cash for food, mortgage and clothes. A business overhead expense plan to pay the bills at the office, too. Ask your independent agent for a health insurance check-up and about us—his No. 1 choice among 1800 life insurance companies.

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(But No. 1 with insurance pros)



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Flammable

Continued from page 12

inches from the pill in any direction. If the sample piece of floor covering is charred beyond this distance, the floor covering is classified as highly flammable and it's continued manufacture is discouraged.

The carpet blamed for the 28 asphyxiation deaths in the Harmar House had passed this flame test with flying colors, however. According to testimony at the hearing, the carpet in question had charred no more than 3/8ths of an inch from the pill and was thus classified as fire-resistant. Others testifying before Sen. Moss' committee went a step further in pointing out several shortcomings of the test.

But, if the pill test took a less than thorough look (according to some people at the flame spread

characteristics of floor covering, other tests were criticized in their own right. One test called the Steiner Tunnel Test (among other names) was prescribed by the Department of Health, Education and Welfare as a pre-requisite test for floor coverings going into nursing homes and hospitals receiving funds under the Hill-Burton Act.

APPARENTLY, the use of the Steiner Tunnel to measure how fast and virulently carpet burns was a stopgap measure in itself. Several sources freely admitted that the test was originally developed to test the flame spread characteristics of other building materials—specifically ceiling materials.

Said Calvin H. Yuill, manager of the Fire Research Section of the Southwest Research Institute, in the Steiner Tunnel test "with the test specimen held face downward on top of the furnace chamber the test may be consider-

ably more severe than normal usage of floor coverings warrants."

The problem he referred to apparently was that flames point upward and the highest intensity of the flame is usually above its topmost visible part. To subject a carpet to a flame as if it were a ceiling covering would seem, at first glance, not to be the best duplication of the fire hazard to which a floor is subjected. And, of course, it's easy to understand why the carpet industry readily subscribes to this thesis in the face of the number of problems various carpets have had in passing this test.

However, there is some dispute about the accuracy of this observation. "The position orientation of a material (whether it is upside down or right side up) is a secondary consideration," explained G. Torr Costino, an engineering group leader in the fire protection department of Underwriters'

Laboratories. "The Marietta fire caused great pressure to be placed on the government to adopt this as an overall standard," he explained.

THIS PRESSURE resulted in a great deal of confusion and misunderstanding concerning the adequacy of flame spread tests and just what they were able to measure. HEW in general and the Social Security Administration specifically had to figure out some way of living up to their responsibility to make sure that bedridden in-patients in hospitals and nursing homes supported in any way by Federal funds were not subjected to a dangerous fire hazard of the type indicated by the Harmar House tragedy.

This "responsibility" proved to be something of a dilemma, however. "The pill test," Mr. Costino explained, "is supposed to determine whether a material will or won't burn, period. It doesn't take into account the effect of the draft on its burning or the effect of a heightened or lessened intensity of fire on its burning. It was being used as a stopgap measure, a means for a manufacturer to rule out products for their particularly high flammability."

He admitted that the HEW regulation making it mandatory that floor coverings must not exceed a rating of 75 in the Steiner Tunnel test under the Hill-Burton Act is a "severe limitation." In Canada, where they evaluate the flammability characteristics of the entire environment as one integrated entity, (including the walls, the furniture, the ceiling as well as the floor) they use the tunnel test at a much higher level—200."

In order to try to solve the misunderstanding of flame spread testing by the public (and Congress) as well as the poorly developed regulation of the area, HEW commissioned Underwriters' Laboratories to develop a more sophisticated test for floor coverings that, hopefully, would prove more satisfactory to all interests concerned—including infirmed patients.

IN THE chamber test the floor

covering is put on the floor of a tunnel. Also, it continues to gauge the effect of draft and intensity of flame on the floor covering as does the Steiner but, with perhaps a more sophisticated evaluation of the sample's flammability as a result. "UL's chamber test is more sophisticated because it allows for the selection of a variety of levels of performance of materials," Mr. Costino, who was chiefly responsible for the test's development, remarked.

"We still shouldn't be testing any material that fails the pill test," he added patiently.

What has finally happened, then, is that the Social Security Administration has indicated it will accept the successful test results of either the Steiner Tunnel test or the new Chamber test (probably the more lenient but more accurate of the two) as qualification for use in Medicare-qualified extended care facilities.

State orders refund

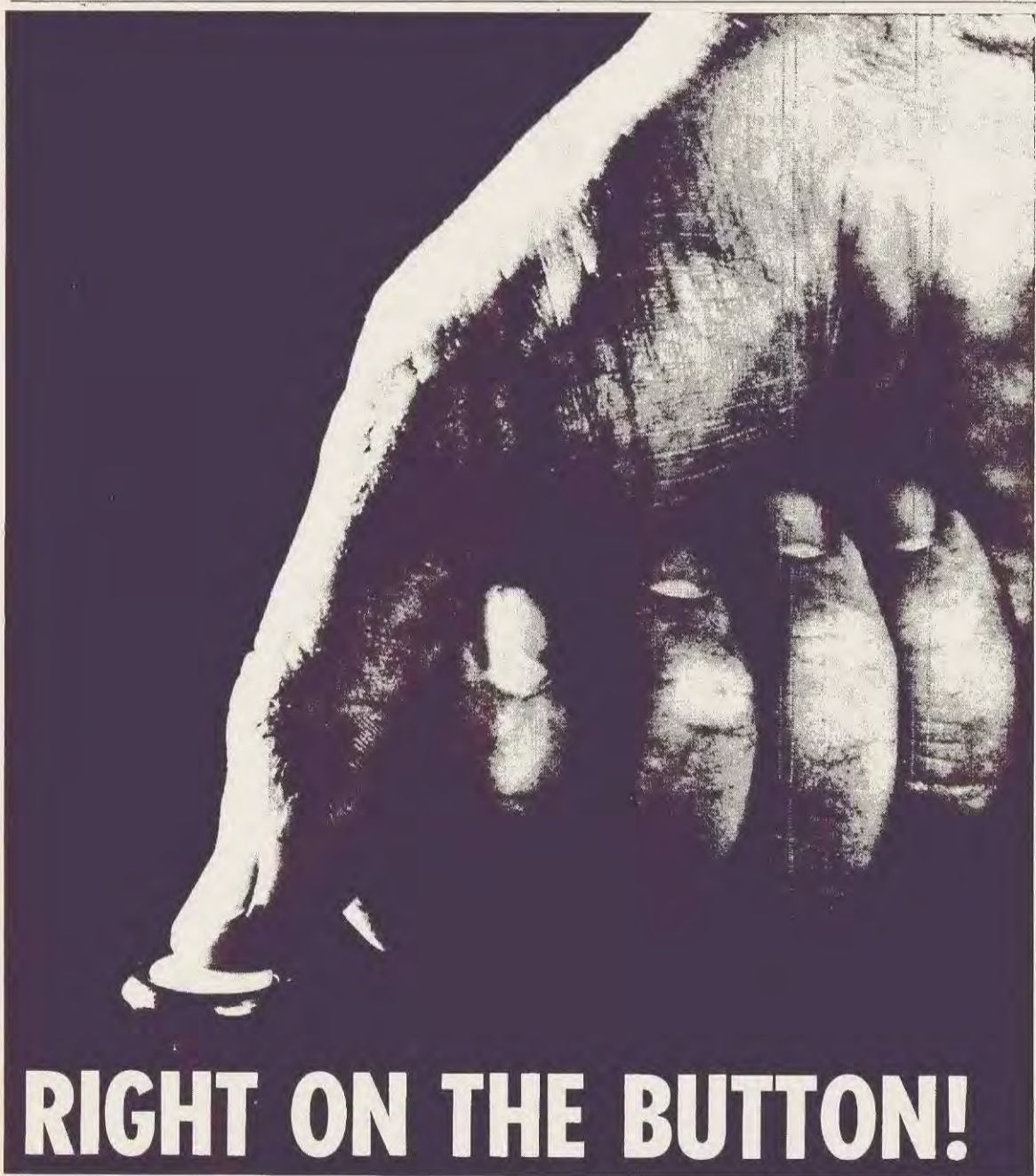
HOUSTON—The state board of insurance has ordered insurance companies to refund about \$57,000 paid by school districts and 16 counties for coverage they did not want.

The state board said the local governmental bodies were illegally required to purchase property damage liability insurance as a prerequisite for buying bodily injury liability insurance.

Under state law, government units are not liable for property damage claims.

State Sen. Oscar Mauzy of Dallas has charged that the extra payments amounted to "tribute" extracted by the insurance companies.

Insurance board officials directed the firms involved to refund the property damage premiums to each governmental district that requests such funds.



RIGHT ON THE BUTTON!

The "cat is out of the bag!" If there could have been any doubt as to what *practices and services* of insurance companies are held "most important" by agents, the answer in a recent survey is now crystal clear:

CLAIMS HANDLING PROMPTNESS IS THE "NAME OF THE GAME!"

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foremost is *Promptness in Handling Claims*—a service equally important to policyholders and claimants. Of course, home and branch office claims departments of *Pacific Indemnity Company* have long been recognized as "most important" in the transaction of our business with producers and insureds. "Sooner begun, sooner done" motivates PI claims service.

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Lloyd's asks oil firms to buy back terrorist cover

NEW YORK—Lloyd's of London has put the oil industry on notice that it will no longer cover property damage or liability arising from any "political or terrorist" acts, *Business Insurance* has learned. However, coverage will be made available on a "buy-back" basis, or as an endorsement to existing policies for additional premium. Premiums are expected to be steep.

The move, though not completely unexpected, will undoubtedly have wide ramifications.

Some oil sources go so far as to say that it may be the final burr under the saddle of an industry that has been proceeding cautiously toward setting up a captive insurance company. (*Business Insurance*, June 22.) Formal application papers for incorporation of such a company have been filed in Bermuda by at least eight American oil companies and, while it has not had overwhelming support from all oil companies in recent months, the new Lloyd's announcement may spark renewed interest.

THE EXCLUSION, which had not even been received by some oil companies last week, reads:

"Notwithstanding anything to the contrary in this insurance there shall be no liability for any claim caused by, resulting from or incurred directly or indirectly as a consequence of any act of political or terrorist purposes of any person or persons whether or not agents or sovereign power and whether the loss, damage or expense resulting therefrom is accidental or intentional."

In communicating the exclusion to oil industry insureds, Lloyd's said that all existing policies would be "canceled in 30 days" unless the exclusion was accepted.

Although oil company risk managers were not reacting with outright shock last week, there was some righteous indignation expressed at the move.

"I WAS AWARE this was in the wind," said one, "but I'm a little surprised that they've come up with the broadest possible wording in the exclusion. Why, this means that they could beg out of a claim even if a disgruntled employe decides to 'terrorize' his employer and blow up one of his refineries. That's the way I read it, anyway."

Another oil company risk manager reacted similarly. Asked if he could jot the exclusion down over the phone because he had not even heard from his broker, he scanned it for a moment and commented:

"I'll say it's broad. I suppose

that if the Weathermen, the SDS (Students for a Democratic Society), the John Birch Society or even a few members of the Fifth Ward Republican or Democratic Party Club decided to terrorize one of our risk exposures we would be uninsured," he said.

Asked what their companies are likely to do about the development, several oil industry people expressed the same feeling as one when he said, "What can we do about it? We'll have to take it or leave it. I suppose we'll all have to accept the exclusion, but I'm not sure about buying back coverage. That will depend on the price. However, for the moment I suspect there is nothing else to do but pay the price or leave a gaping hole in our insurance program."

THE NEW EXCLUSION is the third to hit the oil industry this year. Several months ago losses or damages "arising from named windstorms and/or hurricanes" were excluded under standard policy forms covering risks in the Gulf of Mexico. Then, early this summer, Lloyd's followed the lead of U. S. insurers in excluding pollution liability. In this case, however, the exclusion was absolute.

It is believed that in setting rates for the endorsement to cover political or terrorists acts, Lloyd's may use the same tack taken when it offered endorsements for named windstorms or hurricanes in the gulf of Mexico.

Prior to that move Lloyd's had been covering offshore oil rigs under all-risk-policies for \$1.50 per \$100 of valuation. In excluding named storms, however, underwriters reduced premiums by a few cents per \$100 of coverage and then offered an endorsement for \$2.50 per \$100 of coverage. In effect, oil companies found themselves overnight paying almost \$4 per \$100 for the same coverage they had been getting for \$1.50 the day before.

Compounding the insurance dilemma facing oil companies in recent months is the fact that the industry-supported Oil Insurance Assn. (OIA) has also begun to put the squeeze on.

ONE OIL INDUSTRY source explained that several weeks ago the association notified its insureds that it would now only assume risks of \$40 million on catastrophic losses. There had been on maximum limit prior to that, he said. He also complained that the OIA has not reduced premiums as a result of the cut-back. The reason given to him for the move, the source said, was that the OIA "just can't get the reinsurance it needs in the London market."

FRED GORHAM, general manager of OIA, told *Business Insurance* that they have "never told anyone that it's a lack of reinsurance capacity. It's a matter of cost, first of all, and the fact that primary insurers say that they will not sit there with an open top for losses."

Mr. Gorham explained that OIA's new loss limit applies to one loss at one location. If two plants were located side by side, for example, the loss limit would be \$80 million. "We are faced with growing loss exposures," he explained, "and the new limit of \$40 million at one location is necessary."

Early last month formal incorporation papers were filed in Bermuda by Atlantic Richfield, Cities Service, Gulf Oil, Standard of California, Marathon Oil, Signal Oil, Union Oil and Phillips Petroleum. Target date for initial operation is Jan. 1, 1971, although some oil insurance people still question the possibility of that.

Under the proposed set-up, described in detail in the June 22 issue of this magazine and substantially unchanged now, the pool would cover (1) all physical property, domestic as well as offshore; (2) oil pollution clean-up costs; (3) costs of controlling runaway wells, and (4) direct damage to offshore drilling platforms, including wind damage.

The pool would not cover business interruption losses, however, and this is known to bother some oil companies that are as yet undecided in their support of the scheme. Moreover, companies would have to assume deducti-

bles that range from \$1 million per occurrence for smaller companies to \$10 million per loss for the larger firms. This would undoubtedly be favorable to oil companies if they were assured of coverage for this primary layer in the conventional market

but, as one skeptic put it last week, "the OIA or other markets are not going to be happy to write the primary layer of coverage and the business interruption without having the benefit of the premium all the way up the line."

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D-10

Lloyd's 'explores' Australian unit

SAN FRANCISCO—Lloyd's of London disclosed here it is considering establishment of an underwriting facility in Australia. Chairman Henry Mance and Jack Creswell, member of the Lloyd's committee, said "the committee is exploring all aspects of the Australia proposal and such a direct operation seems entirely possible."

Both Mr. Mance and Mr. Creswell made it clear that such an Australian facility would not mean establishment of branch Lloyd's offices elsewhere in the world.

Coca-Cola . . .

Continued from page 9

al retirement benefit to which Coca-Cola employees are entitled. It consists of a modified retirement agreement whereby the employe elects to accept a slight reduction in his own eventual benefit for the privilege of providing either a joint or survivor retirement income benefit for his spouse and/or dependents.

THERE IS SOME question as to the applicability of these benefits to the actual needs of these newly-recognized employees of Coca-Cola. Unlike the relatively affluent, reasonably secure employe for which these benefits were originally intended, the migrant fruit-picker is encased in a monotonous cycle of poverty. To illustrate this, a "white-paper" expose of migrant employees of two Coca-Cola subsidiaries—

minute Maid and Snow Crop—was shown on network television.

The program revealed the conditions under which migrant workers employed by Coca-Cola at the two subsidiaries lived and worked, are similar to those under attack in California by Cesar Chavez' United Farm Workers Organizing Committee.

The television film featured interviews with workers who admitted supporting families of eight people on a salary of \$55 per week, before tax deductions. The workers interviewed revealed that they were obliged by their economic circumstances to accept whatever work was made available by the dictates of the company's needs. They were shown on the porches of their inadequate houses, known in the south as "shotgun shanties." The child of one migrant fruit-picker knew enough of his and his family's plight to represent himself as a "bum." The one thing missing

from the film was any sense of hope that these conditions could ever be surmounted.

Testifying before the subcommittee on migratory labor of the Senate committee on labor and public welfare after the documentary was shown, J. Paul Austin, president of Coca-Cola, acknowledged that "the problem of the migratory worker in America is an enormously complicated one.

"**IT IS**, first and foremost," he said, "a human problem of severe psychological isolation. It is an economic problem involving health, education, citizenship and family structure. The migrant worker has problems of malnutrition, physical handicap and mental health, and most significantly, he suffers from a profound sense of futility."

Acting on his view of the situation, Mr. Austin has supplemented the more conventional employe benefits program to

which the migrant workers have been granted with a pilot training program, a new form of pay arrangement, more transportation and additional as well as better housing.

The pilot training program was designed to give the migrant worker—whose employment is now primarily seasonal—the opportunity to become a full-time employe. Under the new program, the trainee will work at a combination of hourly and incentive rates rather than piece-work rates currently prevailing in the business. About 50 workers are expected to participate in the new program beginning this fall, according to a company spokesman.

In addition, the source pointed out that Coca-Cola has purchased 25 new buses equipped with toilets that will be used to transport the fruit-pickers to and from the citrus groves. Also, Coca-Cola has acquired a 40-acre tract of land upon which the company

intends to build 100 new homes that will be offered to the workers at what the company termed "modest" prices.

The Coca-Cola executive told of other plans to build, equip and man a social service center that will have medical facilities as well as child-care centers. Three of these centers will be completed by harvest season, he said. In addition, the company plans to provide a range of recreational facilities, including basketball and volleyball courts and a baseball diamond.

Coca-Cola's revamping of its approach to the problem of adequate compensation for the migrant farm workers it employs has several things in common with the similar drive being spearheaded by Cesar Chavez' union activities.

The California grape-pickers were placed on a combination hourly and incentive rate pay scale quite similar to that proposed by Coca-Cola for its orange harvesters. The UFWOC has established an economic development fund that will be used by the union to provide its people with a wide range of social services—similar to Coca-Cola's objectives.

Marine . . .

Continued from page 49

wide problem of en route loss to cargo shipments and remedies different nations apply to limit such losses.

Ocean marine insurance representatives from 31 countries came here for the conference.

Leaders of the cargo loss prevention committee said, "New methods of cargo packaging, protection and handling . . . such as use of plastic bags, crush resistant boxes and special glues . . . are helping reduce both damage and theft and thus are diminishing the volume of claims against insurers.

"**SEVERAL OF** major world ports," they added, "are now re-examining their security measures and are making substantial adjustments to reduce theft. Improvements have been notable in both the United Arab Republic and in the Netherlands."

Inadequate supervision of cargo loading and unloading was cited as a major cause of shipment damage and that theft is particularly heavy in air cargo shipment with freight handling facilities at air terminals "suffering from a lack of tight security measures."

A prime example of this, according to the committee report, was the high incidence recently of fur shipment thefts at Kennedy Airport in New York.

"Closer regulation of delivery operations and avoidance of prolonged storage at airports," the report concluded, "are two major methods of reducing theft losses."

LAST YEAR, according to the American Institute of Marine Underwriters, the number of claims involving preventable air cargo losses rose by 65% and the dollar value of claims climbed by 98%.

Theft and pilferage accounted for more than \$2.3 million in air cargo losses uncovered by the Institute's survey.

The report praised the German Air Cargo Bureau for opening "exemplary" loss prevention freight facilities at JFK; a British European Airways program for improved staff identification; and the inauguration of an "up-to-date" organization for reception and safety of valuables at Zurich Airport.

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Predicts stronger employe voice in structure of future benefits programs

DALLAS—A look ahead at employe benefits, circa 1980, in terms of economic forces which will shape them, likely themes underlying future development of benefits and how these benefits may be provided, was projected by Nathaniel T. Baird, partner, Hewitt Associates, Dayton, O.

In an address to the first Southwest Conference of the American Society of Insurance Management, he outlined the following broad changes a decade away: better programming to meet individual needs; new fields of benefits (scholarship, day care, group auto and homeowners); greater governmental regulation; increasing portion of compensation dollars reserved for security; getting away from patterned benefit plans and permitting the employe more involvement in determining his compensation package.

Discussing the economic factors influencing future employe benefits, Mr. Baird cited inflation; new growth industries; a younger, better educated and more highly paid work force; increase of white collar and decrease of blue collar workers and expansion of government involvement. "Benefit programs are undoubtedly going to be affected not only in amounts, but also in their basic structure," he declared.

POINTING OUT that it is erroneous to assume that relative stability will apply to the cost of living, he said "even with all the efforts of the present administration, we are still experiencing a rate of inflation in the neighborhood of 5%. An average rate of 3% for the entire decade of the '70s does not seem an unreasonable assumption." He predicted that wage rates will increase not only to reflect the effects of inflation, but also to reflect the increase of productivity.

"Hopefully, a 3% inflation rate can be matched by a 3% productivity rate, producing average compensation gains of about 6% annually. Of course, in terms of where there is a shortage of per-

sonnel, substantially higher levels of compensation gains can be expected," he said. "The structure of compensation may also be altered considerably. One of the keynotes will be increased flexibility for individuals to choose how portions of their compensation will be received."

He said that one dimension of the vast change taking place in the composition of the work force is the sharp shift in age distribution. A decade ago, only 40% of the work force was under 35 years of age. Today 44% are in that group. By 1980, 48% will be under 35.

As for changes in the type of employment, a decade ago 36% of all jobs were of the blue collar variety. Today it is 35%, and by 1980 this will be down to 33%. "A corresponding increase is occurring with respect to employment in the service industries. What people want from employe benefits may also shift," he observed. Noting that it is expected that the work force will have attained a higher educational level, he questioned whether employes "will be turned on by the same system of rewards and punishments that have applied in the past."

HE SAID THAT in some respects, the younger person is a disrupting influence—harder to attract into jobs we have for him, less loyal to his employer and not willing to give obedience to his union leader. "His view of employe benefit plans differs from that of his father."

"Benefit programs must increase at least as fast as compensation increases. They will change to an even greater extent as new ideas are developed with respect to the types of hazards against which protection should be provided and the extent to which full pay should be replaced," Mr. Baird stated.

"If you choose to remember only one thing of what I say, let it be this: The benefit manager who plans ahead for employe benefits in the '70s on the assump-

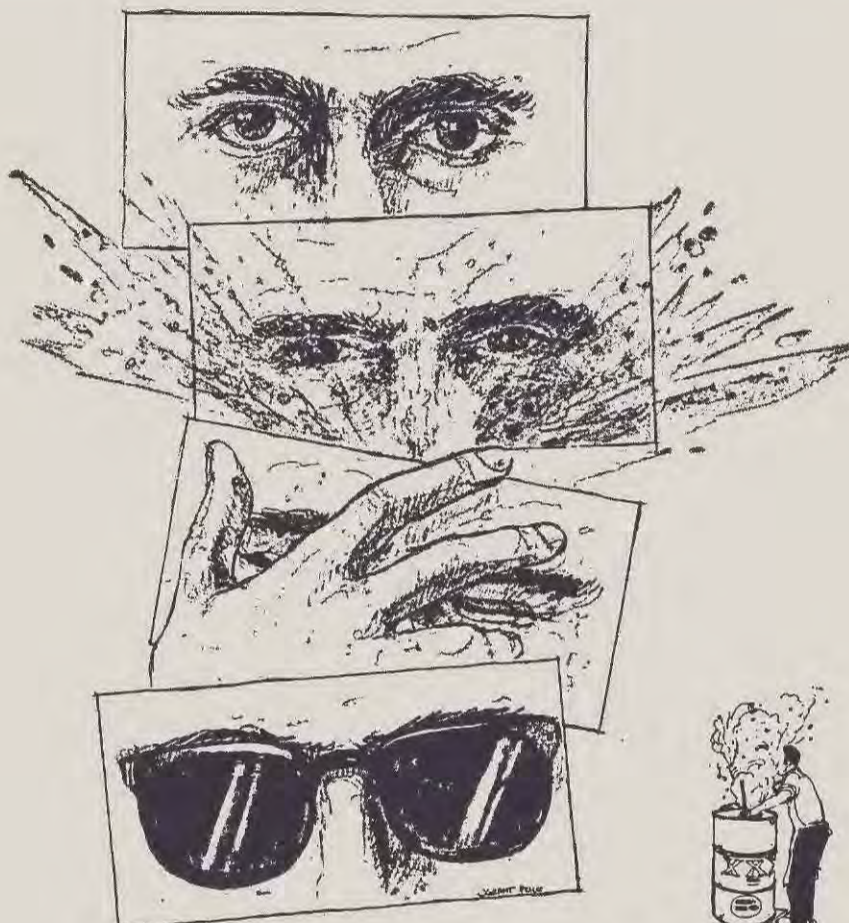
tion of continuance of present patterns is going to fall woefully short of doing his job well, and may endanger his employer's ability to maintain an effective program," he warned.

Explaining that his crystal ball is somewhat clouded as to specifics, the speaker offered "maintenance of value" as one of the main themes guiding the development of the '70s benefit program. It goes beyond guaranteeing a stated dollar or percentage level of protection benefits to protect the individual against the hazards of old age, death disability and un-

employment. "This means maintenance of a living standard and guarantees of inflation protection for the entire period between retirement and death. It may mean provision of a large portion of the worker's lost pay check in event of death prior to retirement," he said.

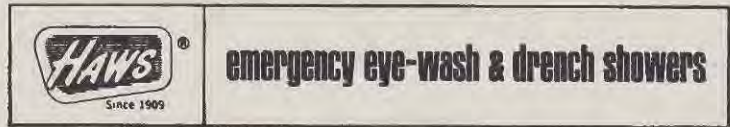
COMMENTING on the increasing momentum of Social Security benefits, he said that such primary benefits could be figured to replace about 30% to 35% of the worker's pay just prior to retirement. He foresees "no tendency to slacken the rate of private retirement plans" and predicts "within a decade we will attain a position where net spendable income will be replaced for persons who have hourly rated and clerical jobs. In fact, we may not be too far away

from that level now." Mr. Baird said that deferred profit sharing as a method of funding for basic retirement income may face tough sledding in the years ahead. "Because it involves a predetermined income, rather than a fixed benefit, profit sharing will tend to work best where continuity and stability prevail. But it is harder for such a program to adjust to major change than a type of plan in which the benefit is fixed and changes affecting all the past service can be accomplished with an amendment that affects benefits immediately, but gives a long time to fund them. I'm not suggesting that deferred profit-sharing programs will disappear, but they will be supplemental to basic fixed-benefit systems, which can meet directly companies' needs for fixed benefits."



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Pharmaceuticals form liability council

NEW YORK—More than 20 of the larger pharmaceutical companies have formed a products liability insurance council and have hired a leading consulting firm to study and seek a solution to the products liability pinch drug firms face.

The council is heavily weighted by the giant drug houses—Johnson & Johnson, G. D. Searle & Co., Charles Pfizer & Co. Inc., the Upjohn Co. and Warner-Lambert Pharmaceutical Co. among them. John Kiefer Jr., insurance manager of Johnson & Johnson, is chairman. Ebasco Services Inc. has been commissioned to do the study and a formal report is expected to be issued by the end of the year.

According to Mr. Kiefer, the objectives of the council are threefold:

- To pinpoint major problem areas in products liability for drug firms and completely evaluate each.
- To foster a better relationship with the insurance industry and encourage a joint effort to-

wards a workable solution to the present lack of capacity and high premium costs facing pharmaceutical companies.

• To actively search, analyze and evaluate all alternatives to commercial insurance, one of these being the possibility of a combination of insurance and self-insurance funding.

Interestingly enough, the council does not have the formal backing of the muscular Pharmaceutical Manufacturers Assn., the industry-supported trade association. The reason for this, according to industry sources, is because the products liability problem is not yet broad enough in scope. All drug companies are not yet faced with the problem.

AS ONE DRUG firm insurance manager put it last week, "The truth of the matter is that all drug houses are not faced with the capacity problem. Some companies can get the limits they need and get them for a reasonable price. That is one of the reasons the council was formed. We'd like to know why these companies can get the insurance they need reasonably when we can't."

It is known that at least 23 drug firms are participating in the study. Mr. Kiefer and William A. D. Hare, director of client services for Ebasco who is heading the team of consultants working on the study, refused to disclose their names. It was learned from others, however, that the list includes "the 20 largest drug firms," those mentioned earlier among them.

Mr. Kiefer was willing to speak for his own firm, nevertheless.

Essentially, he said, the uppermost reason for the formation of the council centers around the fact that some firms "are not able to get the limits of liability they want." In addition, he said, rates have gone "sky high" and premiums are becoming a real burden on drug company expense ledgers.

"WE ALSO KNOW that limits of liability are varying from company. Some firms are able to get more coverage than others. Why the limits vary we don't know. This is one of the things we hope to find out," Mr. Kiefer said.

Mr. Hare told *Business Insurance* that, based on preliminary findings of the study, the problem seems to be most acute for those firms that have "broad exposures," and especially so for those companies manufacturing an oral contraceptive.

One of the main thrusts of the Ebasco study, Mr. Hare pointed out, will be an attempt to establish a better relationship with products liability underwriters.

"I really don't believe underwriters are completely aware of what is going on in the drug industry when they evaluate a risk," Mr. Hare said. "And when you don't know about something, or are not completely sure of it, it is just as easy to say 'no' on a risk as it is to say 'yes.'"

"We hope that through joint action, individual action and collective action we can find more coverage in the existing markets," he added.

ANOTHER SOLUTION to part of the problem that will be considered in the Ebasco study is the possibility of participating drug firms setting up some kind of self-insurance fund, according to Mr. Hare.

However, he indicated that the

concept might be limited to a fund that would replace or supplement primary layer of insurance. Drug firms, for example, have been faced with higher deductibles in coverages that have been renewed in recent months.

According to sources, it is unlikely that a drug company insurance pool would be formed for all products liability coverages. They point out, for instance, that the huge layers of excess coverage needed by pharmaceutical firms would make this economically unfeasible. One loss of catastrophic proportions could wipe such a pool in its early years.

Asked if he expects any reluctance on the part of insurance companies that will be asked to cooperate in the study, Mr. Hare commented:

"NO, I DON'T really anticipate any. We are not fighting them. We're hoping to sit down with them and help work out a mutual solution to the problem. I don't see why they wouldn't cooperate with us."

It is known, however, that insurance companies are less than sympathetic in their dealings with drug company risk managers and brokers seeking coverages.

This was pointed out in an article in this magazine Aug. 3.

Said a spokesman for the Travelers Insurance Co., which writes enormous amounts of products liability but at present won't touch the pharmaceutical market:

"WE JUST DON'T write pharmaceutical products liability. The effects of drugs might show ten or 20 years from now. Drug firms have always been a problem for insurers."

Others point out that one of the biggest problems facing insurance companies is in getting

huge reinsurance layers of coverage for drug products liability they write. The largest market for this has been Lloyd's but the London market, ever since thalidomide and the introduction of the first "Pill" suits, has become increasingly reluctant to extend itself and in many cases has withdrawn capacity from the U.S. pharmaceutical industry.

THE PROBLEM, moreover, is not one limited to drug firms that produce oral contraceptives.

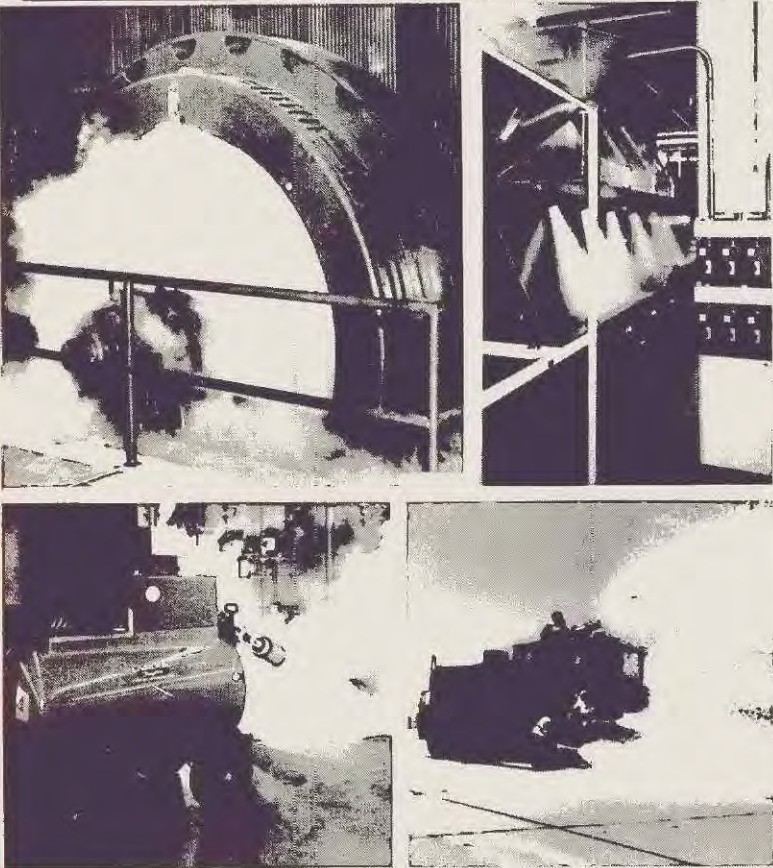
Johnson & Johnson, for example, does not manufacture an oral contraceptive and its problems are said to be just as acute as those that do.

One industry source, however, said that any company that has a rash of claims outstanding on its products liability cover is confronted with the problem. In Johnson & Johnson's case, he explained, one reason could be the fact that the company now has "a slew of" products liability claims outstanding against it for an appetite suppressant it marketed in West Germany with many alleged side effects for the persons that used it. The Continental Insurance Cos. write Johnson & Johnson's products liability and the insurer has reportedly set aside "huge" to "monumental" reserves for claims against the pharmaceutical firm.

Asked to comment on this, Mr. Kiefer would say only that the cases "lie dormant" at the moment and that it looks to him as if the company "might not have to pay a dime."

Named manager

Roland E. Nelson has been named manager of the life, health and financial services department at the Canadian head office (Toronto) of Travelers Insurance Cos., Hartford.



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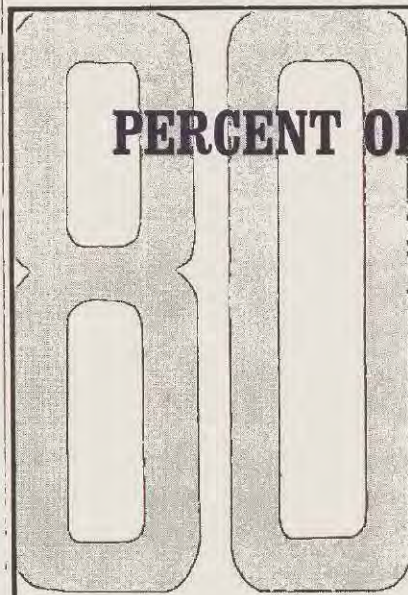
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Malpractice insurance premiums 'skyrocketing,' hearings are told

By PATRICIA ROSENFELD

NEW YORK—"The medical malpractice problem has reached crisis proportion, with tremendously high court verdicts resulting in skyrocketing insurance premiums," according to State Sen. Norman F. Lent of New York, chairman of the New York state senate committee on health.

Mr. Lent headed a two-day public hearing late last month to consider the problems associated with claims for acts of medical malpractice and the possible alternatives to the traditional court tort system.

Malpractice is loosely defined as the deviation from normally accepted medical practice, or negligence. The immediate effect of more frequent malpractice claims against physicians and hospitals and their insurers is twofold. Court judgments of millions of dollars are passed on directly to patients, taxpayers and the government in the rising costs of health care. The second effect is that doctors are more apt to practice defensive medicine to protect themselves from suit-conscious patients, with the cost of that directly evident to patients in the form of high medical bills for tests, consultations and referrals.

MR. LENT'S committee has

Malpractice increases affecting patient care

ATLANTA, Ga.—Although medical malpractice insurance is costing Georgia doctors twice as much this year as it did last year, the state's physicians are counting their blessings.

In other states, premium increases have been even greater. Utah doctors, for example, have weathered a 1,400% rise in professional liability premiums during the past few years.

The Georgia surgeon who paid \$290 for his malpractice coverage last year is paying \$571 this year, an increase of 96%. If he moves to Miami, he can expect to lay out \$1,203. In Los Angeles, the annual rate is more than \$3,000 for the risk category that includes surgeons. Policies typically cover claims to \$100,000 by individual patients and to \$300,000 for multiple claims from a single incident.

"THE SITUATION," noted the American Medical Assn., recently, "is having profound effects on the quantity, quality and cost of patient care in many areas."

Still, the AMA maintains that "there is no conclusive evidence that the situation has reached epidemic proportions."

"It's a national problem," said Edwin Smith, executive director of the Medical Assn. of Georgia. He pointed out that malpractice insurance costs have increased in every state in the nation in the past three years with some states experiencing annual rate hikes.

And while medical association officials in every part of the country are studying the problem in efforts to isolate the causes and develop solutions, a new group coverage program in Los Angeles is attracting more and more attention.

"WE ARE RECEIVING inquiries from all over the country," said Dr. Ralph Milliken, presi-

dent of the 9,800-member Los Angeles County Medical Assn. The LACMA group program opened July 1.

The "master group policy" is negotiated by a broker with the Hartford Insurance Group and has brought about an overall reduction of 22% in premiums.

Dr. Milliken pointed out during 1968 and 1969 premiums increased by more than 400% and the coverage "was costing some doctors such a tremendous amount that if they were getting on toward retirement or were ill and unable to carry a full practice, they sometimes had to quit or move."

Young physicians were avoiding Los Angeles, he said, because "they had to pay \$3,000 or \$4,000 before they even opened their practice."

THE THREAT OF A malpractice claim lurks ominously in the

practice of almost every modern doctor. He is wary of the patient and the patient's lawyer. As Mary C. McLaughlin, health commissioner for New York City, testified: "Physicians are beginning to view each patient as a potential malpractice claimant and, as a result, practice defensive medicine."

SEVERAL witnesses concurred with this view. Doctors practice defensive medicine, particularly in high- or medium-risk areas, often meaning many X-rays and other tests for the patients and consultations on diagnoses, and conservative treatment as a precaution for themselves against their patients.

The malpractice crisis has reached such proportions, according to Eli B. Bernzweig, special assistant for malpractice research and prevention, U.S.

Department of Health, Education and Welfare, that many insurers are finding malpractice coverage extremely unprofitable and unattractive. A delay factor of an average of five years in the settling of claims—due to the complexity and frequent inaccessibility of evidence and witnesses—makes it difficult for insurers to even evaluate their underwriting position and set proper rates.

Fewer insurance companies are at all willing to undertake the high risk involved in providing such protection. "We view the situation with grave alarm," stated Mr. Bernzweig at the hearing, "for there is a dwindling availability of malpractice insurers." Mr. Bernzweig, who has researched the malpractice issue for more than a year, believes that the current insurance mechanism cannot really meet the demands of a reparation system.

Whether caused by overstressed health care systems, deteriorated medical practices, or lack of communication and understanding as to condition, treatment and cure, the malprac-

tion situation, according to several of the witnesses, could be greatly aided by remedial legislation as well as improved training and updating of the skills of health professionals and paramedical personnel, particularly in high-risk areas of medical treatment.

Three possible systems of compensation other than court-found fault were discussed at the hearing: A no-fault system, compulsory arbitration, and fixed indemnities.

Under a no-fault system, every patient would be at least partially compensated for all late complications arising from medical treatment, through his own or the hospital's coverage. With compulsory arbitration, malpractice claims would go before a screening panel of doctors and lawyers to determine whether malpractice took place or not. A system of fixed indemnities would work similarly to a workmen's compensation system, with certain injuries and incapacities receiving predetermined payments.

Continued on page 56



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Tavern keepers angrily protest dram shop insurance prices and practices

CHICAGO—Angry tavern keepers in Illinois want a dram of relief from the Illinois insurance department and the state legislature. Specifically, they want lower premiums for so-called dram shop insurance, and they want it to be available throughout the state.

Dram shop insurance, which protects tavern keepers and owners in cases in which they are liable for damages caused by intoxicated patrons, is required by statute in Illinois and 21 other states, although liability is severely limited in some states. In Colorado, Delaware, Oregon, Washington, Rhode Island and Wisconsin, for instance, liability is

held only if the liquor sale is made to a habitual drunkard. Liability is held if the sale is made to a minor in Alabama, Georgia, North Carolina and Wisconsin and if the consumer is intoxicated in Ohio and Oregon. Six states have limited liability under common law.

Approximately 300 tavern owners in Illinois were left without coverage as of Sept. 8 when Fidelity General Insurance Co. was placed in the temporary receivership of James Baylor, Illinois director of insurance. The action was the result of Dealers National Insurance Co., Fidelity's principal reinsurer, being placed in temporary receivership in Texas.

The Illinois Retail Licensed Beverage Assn., through its president, Bert Nickerson of East Moline, wrote Mr. Baylor asking him to review the mechanics of the dram shop insurance industry, including brokers, agents, premiums and coverage. The association, made up of 5,000 tavern owners throughout the state, is also trying to change the liability apportionment in the Dram Shop Act and, to this end, met with the insurance department and some insurance companies on Sept. 16.

ILLINOIS LAW places equal liability on each tavern owner, leaser or renter who is the whole or partial cause of serving or giving liquor to a person who causes personal injury to another, or loss of support to a third

party. The personal injury damage limit is \$15,000 and the loss of support limit is \$20,000.

"At the meeting with the companies and the insurance department," Mr. Nickerson told *Business Insurance*, "they told us that ours was a legislative problem and we would only get relief through legislation. So we are walking softly and carrying a big stick."

Changes sought by the association would make only the last tavern to serve an individual liable for suit. "This change got through the House in the last session of the legislature," said Mr. Nickerson, "but was killed by one vote in a Senate committee."

According to George Ulrich, the group's exec secretary, this would make the law stricter on the tavern keeper. But since only one owner would be responsible in a suit, overall premium rates for insurance should be less.

IN REQUESTING the changes in issuing dram shop insurance Mr. Nickerson contended that the companies set the premium scale that they want and that in some cases they have more than tripled existing premiums to renew policies. Dram shop coverage in Illinois is written by Lloyd's of London (through correspondents), Continental Casualty Co., Illinois Casualty Co., and Western Casualty & Surety Co. According to an association spokesman Harbor Insurance Co. is contemplating writing dram shop coverage and Western Casualty is not writing any new business.

"We want to get some relief," said Dominic Palmere of Franklin Park, the organization's exec vp. "In some parts of the state you can't get this insurance and members have had to close their businesses." According to Mr. Ulrich, 300 establishments have shut their doors.

"Amending the Dram Shop Act to place all the blame on the final tavern to serve a person," said Allen J. Carey, vp of Brown & Hawley Inc., "would not necessarily lower premium rates, in my opinion as an underwriter. Right now several tavern keepers' insurers may bear the cost of a suit, but the amendment would put the entire cost on one insurer."

Brown & Hawley, an agent for Continental Casualty Co., has tendered quotes on more than 50% of the inquiries that have come in since Fidelity General went into receivership. "As a practical matter," Mr. Carey said, "we are generally unable to service risks past the middle of Illinois, though."

He also noted that since Illinois no-prior-approval law went into effect "we haven't varied our rates."

An insurance agency spokesman said, "We have to raise rates to stay in business—we have to at least break even. The dram shop market has never made money, the only way to get ahead was through investment, and 1969 was a disastrous year."

Defendants' fees were cited by several sources as one of the prime reasons for increased premiums. "It used to be that the dram shop carrier would bring the auto carrier in on a suit, but now the auto carriers have reversed this and are going out of their way to bring drunken driving into the picture," one liquor insurance expert told *Business Insurance*.

Radio recall self-insured

FRANKLIN PARK, ILL.—Motorola Inc., which is recalling 1,500 of its digital clock radios, is self-insured for the costs. The radios are being called back through local distributors because they may present a shock hazard.

In the event of a consumer product liability suit, said Ray Dempsey, director of corporate insurance, Motorola would be covered under its comprehensive general liability policy. "But we're very optimistic about getting all the radios back," he added. Motorola's CGL coverage is written by Zurich Insurance Co.

To bring the recall to the attention of consumers the company sent press releases to newspapers throughout the country and to the wire services; they do not anticipate the need to go to advertisements, as Sears, Roebuck & Co. did in a recent electric blender recall.

Motorola's service department is tracing the 1971 model AM-FM radios, which have model number TC70GU printed on the bottom, through distributors. Their press release urged owners to return the sets to the stores that sold them for inspection. All the radios in question are black.

Malpractice...

Continued from page 55

the Los Angeles plan in part.

The Medical Assn. of Georgia endorses a policy carried by the St. Paul Insurance Cos. and association actuaries review company finances under a total disclosure clause. The company, which is not included in Insurance Rating Bureau figures for Georgia, "has bent over backward to cooperate with us," Mr. Smith said. More than 90% of the state's doctors buy the endorsed policy.

In Utah, the picture is so dismal that state medical association officials warn that the career judgments of medical students is being colored by it.

Despite large premium increases there, insurers have refused to write coverage for general practitioners who do occasional surgery unless they join established groups already covered.

SINCE PHYSICIANS who perform occasional surgery are usually in small towns and rural areas where there are no established medical firms, these areas are being deprived of medical services, according to an article in the *American Medical News* by John H. Snow, general counsel of the Utah State Medical Assn.

There are several reasons, in-

dustrial spokesmen say, for the spiraling rate increases. They include:

- The increased use of experimental drugs and surgery.
- Judicial doctrines such as "res ipsa loquitur" ("the thing speaks for itself," meaning that if a sponge is found in a patient after a surgeon sewed him up, no further proof of negligence is necessary) are making courtroom defenses less efficient.
- An increased number of suits.
- A diminishing personal relationship between doctors and their patients, a trend that evidently corresponds to the increased role of specialists and medical referrals.
- The tendency of plaintiff attorneys to specialize in this type of suit.
- Increased court costs.

IN AN ARTICLE entitled, "Liability—MDs are Running Scared," the AMA's *American Medical News* warned recently that the threat of malpractice litigation "is having a dramatic effect on the practice of medicine in the United States."

The article notes that some doctors are becoming "super cautious" in an effort to protect themselves from suits.

"Instead of resulting in better medicine, however," the article states, "the specter of malpractice has forced physicians into a defensive posture."

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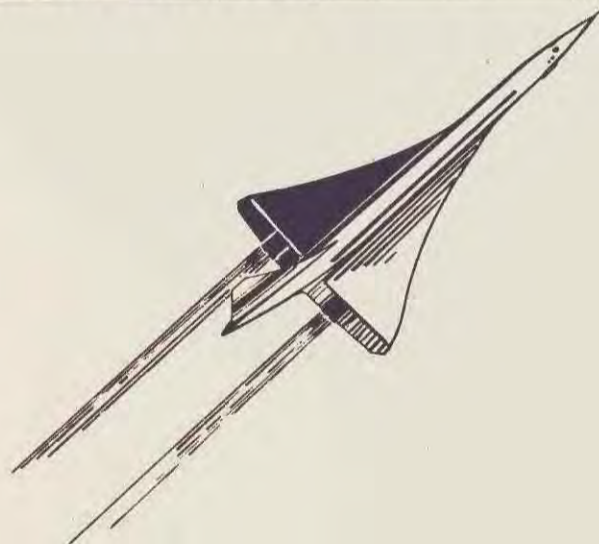
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Info for buyers special issue coming on Jan. 4 with hundreds of items

CHICAGO—Hundreds of items of information useful to corporate executives responsible for risk management, employee benefits, financial services and pension investments will appear in the annual Info for Buyers issue of *Business Insurance* to be published on Jan. 4, 1971.

A special service to readers, Info for Buyers has become one of the most popular features of this magazine over the past three years. The special Info for Buyers issue, published annually, contains the most recent literature and other items offered by property-liability and life insurers, safety organizations, brokers, mutual funds and other financial services.

Those who wish to offer published and soon-to-be-published material in the special Jan. 4 issue will find a coupon on page 58 to be used to order forms to submit data for the Info for Buyers issue.

ers issue. Among the classifications to appear in the issue will be general education; commercial property-liability insurance; financial services including payroll plans for personal insurance coverages as well as investment and savings plans, group insurance; pension profit-sharing plans and Social Security; safety; marine insurance; workmen's compensation; pension investments; security, and foreign insurance.

FOR THIS SPECIAL Info for Buyers issue, *Business Insurance* has arranged to have the A. C. Nielsen inquiry service receive all requests for material. Readers will be able to request items from the issue by filling in a reader-service card which will expedite their receipt of Info for Buyers material.

Info for Buyers is read by more than 55,000 corporate executives responsible for employe,

property and liability programs, pension investments, financial services and the safety and security of their corporations' employees and assets. In addition to this major group of readers, *Business Insurance* is read every other week by more than 26,000 insurance agents and brokers serving commercial clients; 2,600 insurance company executives; 668 bankers, investors and financial advisors; 1,015 actuaries, attorneys, consultants, adjusters and appraisers, and 714 association, union, government and education executives.

Info for Buyers material of interest to any or all of these groups should be sent by Dec. 1 to Richard C. Bjorklund, editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

Material should be sent as early as possible to permit proper classification and appropriate listings.

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Rodda: Don't ship through O'Hare

CHICAGO—William H. Rodda, president of the Marine Insurance Handbook here and a Perspective contributor for *Business Insurance*, is now advising his clients to avoid shipping through Chicago's O'Hare airport.

Mr. Rodda, who advises insurance companies on the safest shipping routes for goods they are insuring, said that the difficulties of safeguarding merchandise at O'Hare and other large airports have resulted in higher insurance premiums and costs to consumers. Physical size plus the high cost of security systems and the politics of competing security forces, he said, have led to the theft problem.

"If a company wants to ship an item from San Francisco to Terre Haute, Ind.," he explained, "I would advise them to put the item on a flight stopping in St. Louis rather than at O'Hare." He

also advises direct flights, whenever possible, to avoid the additional risk of theft during transfer.

He said the problem in Chicago is much the same as at Kennedy International in New York and Los Angeles International but that Kennedy had improved in the last year, following a widely-publicized theft scandal.

The security problem at airports, he said, is complicated by delays in discovering and reporting thefts. Closer cooperation between city police and airport security men, common at smaller airports, would help the situation at O'Hare but Mr. Rodda added that he doubted that such a system could materialize.

Airlines hesitate to disclose information on specific incidents of theft because of possible damage to their images. Some airlines are better security risks than others,

the insurance consultant said, and security on a single airline sometimes varies from airport to airport.

Jumbo jet mistake cost London \$16.5 million

LONDON—Aviation experts believe that the Pan American 747 jumbo jet blown up at Cairo airport last month may have been snatched by mistake.

Exclusive sources have informed *Business Insurance* that this theory is being reliably studied by London insurance circles, who are thought to have secret information suggesting that the prime target was a Boeing 707 in the guerrillas' minds.

This error, if the information is genuine, proved to be one of the costliest mistakes that the insurance market has ever been compelled to face.

FOR THE CLAIMS' pay-out on the 747 will be in the region of \$24.5 million, no matter how they are finally settled, compared with around \$8 million if it had been a 707 type.

Support is lent to the theory because the Pan Am 747 had to land at Cairo, and not the so-called Dawson's Field in the desert, where the commandos took the three other aircraft they captured.

These were the TWA 707, a Swissair DC8 worth about \$6 million, and a BOAC VC10 worth around \$8.5 million. Hostages

seized on all these three aircraft were the prime bargaining factor in the hi-jackers mind in the world political arena, although in the end they chose to destroy the seized aircraft in a blazing gesture.

But in the case of the Pan Am 747, the 155 passengers on board were evacuated at Cairo Airport before the plane was ripped by a catastrophic explosion and destroyed.

INFORMED sources are now asking: Would it not have been a more likely pattern for the hi-jackers to have taken all the aircraft and passengers to the desert airstrip if they could?

Only long-term investigation, and contacts with underground intelligence sources in the Arab movement, will ever be able to confirm whether this theory is true.

But it is thought worthy of genuine consideration that, in the turmoil of revolutionary activities, there could have been an operational mistake in choosing which plane to hi-jack. So leading to an unwitting blunder over the Pan Am plane which ended in a costly error for the insurance market, even though passengers fared better when the plane landed at Cairo.

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Marine writers told of U.N. work to set strict shipowner liability for oil spills

SAN FRANCISCO—Delegates from 33 member associations from 31 nations attending the annual conference here of the International Union of Marine Insurance were told a United Nations agency now is working to establish the principle of strict liability of shipowners, not dependent upon fault, in instances of oil pollution damage caused by ships.

The International Union, organized in 1946 as successor to the International Transport Insurance group founded in 1874, now has headquarters in Switzerland, with 40 associations of underwriters as members, including South Korea which has just joined.

A. H. Chester, of London, vice chairman of the executive committee of the union, asserted during an interview that the three "chief causes of concern to the insurance world" are continued casualties to large tankers, continued increase in the cost of building and repairing ships, and

problems rising from the use of containers.

THE UNITED Nations agency at work in the first area of concern is IMCO, the Inter-Governmental Maritime Consultative Organization, which has extended consultative status to the Union.

P. G. L. Case of England, IUMI liaison officer to IMCO, reported on a Brussels conference "held to define the problems of oil pollution in the sea and to combat these problems with standards which center on increasing the responsibility of shipowners."

The standards include de-emphasis of fault in oil discharges as well as increasing the shipowner's limit of liability to \$132 per ton of the vessel's tonnage, or nearly twice the limit for most property damage caused by ships.

The standards also would require ships carrying more than 2,000 tons of oil to possess a certificate of satisfactory insurance or

financial security.

INDIVIDUAL reports by 21 national marine insurance delegations indicate that inflation "and uncertainties raised by technological innovations and development of relatively untested new ship designs" have radically increased risks for ship insurers.

L. A. Locke, London Institute of Underwriters, presented the recommendations which call for increased premiums, expansion of deductible clauses and limiting the conditions of insurance, as well as greater specialized training of crews and increased use of automated equipment.

"Maritime insurance profit margins are lean or non-existent," Mr. Locke reported, "and ship premium rates have failed to keep pace with increasing hazards to shipping and rising costs."

The Egyptian Insurance Federation was the only national group to claim a significant drop in ship repair costs. The Japanese expect costs to rise 7% in 1970. Germany reported a rise of 14.6% last year. Italy, a rise of 25.63% from June of 1969 to last June; an increase of 50% for Holland since 1965 and a 55% jump in Norway since 1965.

DEVELOPMENT of supertankers, container ships and LASH vessels also had made premium rating a difficult task, the insurers reported. They assert radical changes in hull design leave few precedents on which to calculate risks and establish premium rates.

The London market alone, they were told, experienced serious setbacks with five large ships during the past year and is revising its guidelines for supertankers and bulk carriers.

The American Institute of Marine Underwriters reported it had "escaped the worst" of the series of severe tanker losses but had "felt the impact of major partial

DOT cover 'vital'

LONDON—Lloyd's reaction to the announcement, reported from Washington, that the U.S. government will aid airlines' war risk insurance because of current high rates, is that this is an unavoidable step in the current situation.

There is no change in the Lloyd's tradition that its members are always prepared to underwrite any risk demanded of them, but naturally they are entitled to fix premium rates that are compatible with the risks involved.

If governments wish to back up their own major airlines insurance risks, it is quite understandable. But until the federal government stepped in, there was virtually only the Swiss government which to some extent had aided its own airline's insurance.

Normal war-risk insurance is still being carried by Lloyd's for most airlines.

LLOYD'S HAS only suffered from a very small degree through the civil war in Jordan, as distinct from the surprise hijackings which hit aviation insurers so badly.

This is because there are few really high-value buildings or industrial complexes in Amman or other Jordanian towns which have been affected by the internal fighting, even though obviously there has been damage to some hotels and similar places.

Insurance for them is believed to be largely borne through local firms, although there may be some reinsurance in the Lloyd's or other markets.

But the Institute of London Underwriters has hiked basic war risk premiums on air cargo to many world destinations in the last month.

losses" during the last year.

Ake Thorstenson, Sweden, chairman of the Cargo Committee, indicated palletization still is a favored handling method in spite of instances of handling damage and pilferage.

DELEGATES also agreed that, the world over, the insurer still retains the right to take over and dispose of goods for which he has paid a total loss, in spite of trademark problems.

In some instances, because of trademark, disposal is left to the insured or the underwriter agrees to a restricted sale.

The insurers also universally favored standardization of export and import documents to reduce confusion and they predicted that documentation in the future "may well be fully computerized" thus making obsolete traditional shipping documents. ■

Paper garments banned in hospitals

OAKLAND, Cal.—Insurance companies and hospitals note.

The Alameda County Fire Chiefs Assn. here has ordered all of the county hospitals to discontinue using paper garments and paper bedding.

Robert Hannon, chief of the Piedmont Fire Dept., said an association survey "discloses the paper materials are highly flammable and are dangerous in hospitals."

A number of hospitals throughout the U.S. have started using paper surgical gowns, masks, bedsheets, pillow cases and other items.

dates for buyers

OCT. 18-21, Public employes fringe benefits conference, National Foundation of Health, Welfare, and Pension plans, Regency Hyatt House, Atlanta, Ga.

OCT. 20, Thirtieth Annual Insurance Conference, Delaware Valley Chapter, American Society of Insurance Management, Sheraton Hotel, Philadelphia, Pa.

OCT. 21-23, Annual meeting and seminar, Chartered Property and Casualty Underwriters, Century Plaza Hotel, Los Angeles, Cal.

OCT. 22-23, CQPSI 23rd annual conference, Council of Profit Sharing Industries, Sheraton-Blackstone Hotel, Chicago, Ill. For more information write CQPSI at 20 N. Wacker Dr., Chicago.

NOV. 16-18, Alcoholism as a management problem, and Drugs as a management problem, American Management Assn., at the New York headquarters, 135 W. 50th St.

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Radicals brighten Stanford campus

PALO ALTO, Cal.—Stanford University, which has graduated many a top flight electrical engineer, has since its founding in 1885 been a target for critics of its low light level which after nightfall, provides an almost gas-lit mood.

University authorities over the years have insisted on retaining the low voltage lights in the belief the dimness contributed to the cloistered intimacy Stanford sought to cultivate.

Higher insurance rates and insistence by insurance carriers, however, has ended the dimness—victim of the student radical and his penchant for heaving rocks through windows and escaping in the darkness.

Last year, vandals did an estimated \$580,000 worth of property damage at Stanford, including nearly \$100,000 in broken windows.

And so workmen swarmed over the campus to install \$100,000 worth of high intensity flood lights which will bathe the 20 major University buildings in a night time blaze of illumination.

How to Submit Literature for Business Insurance's Annual Info for Buyers Issue

If you have not yet submitted data or literature for publication in the **January 4, 1971 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 **December 1, 1970**

Editor, **Business Insurance**,
740 Rush Street, Chicago, Ill. 60611

Please rush forms and instructions for submitting data for publication in your January 4, 1971 Info for Buyers Issue. I understand that there is no obligation on your part to publish the items submitted, nor is there any cost or obligation to my firm, if published.

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Oil industry has means to lessen oil spill pollution: Shell's Haxby

DALLAS—L. P. Haxby, Shell Oil Co., New York, brought some good news about the problem of oil spills to the American Society of Insurance Management annual southwest meeting here.

Referring to the "bad press" the industry has had since 1967 when the Torrey Canyon rammaged a submerged shoal off the coast of Cornwall and subsequent blowouts near Santa Barbara and the Gulf Coast, Mr. Haxby, manager of Shell's environmental conservation department, said there have been developments to ameliorate the problem.

However, before outlining government and industry responses to the problem, he noted that the oil industry's record is "not so bad," considering the fact that more than 4,000 tankers throughout the world carry more than 600 million tons of crude oil per year. In the three years prior to the Torrey Canyon incident, a total of 329 maritime tanker accidents occurred, resulting in spillage in 39 cases. Some 8,000 wells have been drilled in federal offshore waters. While there have been a few dozen blowouts, most were gas wells, which did not pollute the water.

THE U. S. NOW consumes 550 million gallons of petroleum liquids daily, and this figure will increase to 770 million gallons by 1980. He pointed out that society demands no spillage, and the oil industry is striving toward this.

Discussing some of the provisions of section 11 of the Water Quality Improvement Act, he said that when a vessel or facility has a spill, those in charge must notify the federal government immediately. Failure to do so is punishable by fine or imprisonment, or both. A civil penalty of up to \$10,000 can be imposed on owners or operators of facilities or vessels which discharge oil knowingly in violation of the law. The President is empowered to arrange for the removal of any discharge of oil, unless he determines that the removal will be performed properly by the owner or operator. A federal revolving fund of \$35 million is established to finance clean up of oil spills.

The law also imposes a liability for clean up of \$14 million or \$100 per gross registered ton of vessel size, whichever is less, and up to \$8 million for spills from oil rigs. In addition, tankers must show potential liability. In cases of willful negligence or misconduct, liability for clean up is unlimited.

At the international level, a United Nations organization composed of maritime countries has agreed to help prevent oil pollution by ships and provide adequate compensation when an oil spill does occur. Discharge of oil residues is prohibited within 50 miles of any coast, and discharging washings containing more than 100 parts oil in a million parts of water would be prohibited anywhere at sea.

AN OLD FEDERAL law has been resurrected to fight pollution. The 1899 Refuse Act provides that half of the maximum fine of \$2,500 for each incident or day of violation must be paid to persons who give information leading to a conviction, and if the government does not sue, the informer can bring a suit to collect his reward.

On the subject of industry response, Mr. Haxby pointed out that the American Petroleum Institute in 1966 established a com-

mittee for air and water conservation to provide guidance. In 1967 a supplemental program was established in which API members support 54 harbor cooperatives to contain and cleanup oil spills.

An API subcommittee on oil spills was established in 1969 with approximately \$1.2 million to fund its work through 1970. It is expected that it will continue on the same level of funding through 1971, with most of the money being used for research and development of new methods of cleanup.

The speaker reported that the maritime transportation segment of the oil industry has come to grips with oil spill problems

through TOVALOP—Tanker Owners Volunteer Liability Plan. Through this voluntary internal indemnity plan, tanker owners accept responsibility to reimburse the government for costs incurred in cleaning up negligent oil spills. It provides up to \$10 million per vessel per incident or \$100 per gross registered ton of capacity, whichever is smaller. More than 90% of the free world's tanker tonnage is enrolled in the plan.

IN JUNE, the API liability and indemnification task force submitted a plan for spills from nontanker sources. "The London insurance market has ceased issuing insurance covering off-

shore operators and is only covering land operations and facilities under certain very limited conditions. The U. S. insurance market was found to be just as—if not more—inhabitable to our problem," Mr. Haxby declared.

"What our task force has proposed is an industry-owned insurance company designed to meet the liability provisions of the Water Quality Improvement Act of 1970. We hope some form of new pollution insurance can be implemented by Jan. 1, 1971."

The speaker also discussed Shell's Seadragon project, utilizing a total system to collect, remove and store oil from spills; spill-treating agents such as dispersants, absorbents and combustion materials; equipment testing; training of personnel in prevention and equipment handling and a wild life rehabilitation center focusing on the cleaning of oil from birds.

Eye injury suit filed

HOUSTON—A housewife here has filed a \$35,000 suit for an eye injury allegedly caused by "an unreasonably dangerous" mascara.

Mrs. Bobaline A. Kay, 55, filed the federal court suit against W. T. Grant Co. in whose downtown store she claims she purchased the Isis Mascara kit.

Her attorney said Mrs. Kay scratched her left eye with the tip of the mascara brush and got mascara in the cut, causing infection, medical and hospital bills, the suit states. She asks damage from the store because of the implied warranty that the product is safe for human use.

A Grant's official said this is the first known complaint on the mascara kit.

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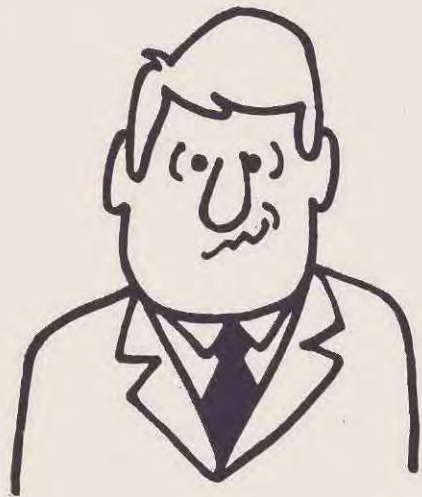
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