

Extend nuclear no-fault law without theft provision

WASHINGTON—Sen. Abraham Ribicoff (D-Ct.) has temporarily lost his attempt to make utilities operating nuclear power plants liable for damages caused by nuclear materials stolen from their facilities.

The Senate and House instead voted to extend the Price-Anderson nuclear no-fault insurance law until 1982, but without the Senator's controversial amendment.

The House had originally voted to extend the act, which expires in 1977, for 10 years, but agreed to the Senate's eight-year period in conference committee.

The bill now goes to the White House where President Ford is expected to sign it into law.

The Ribicoff amendment could be revived next year,

however, because the Atomic Energy Commission (AEC) agreed to study the issue and report back to Congress by next March 1.

Sen. John Pastore (D-R.I.), vice chairman of the joint committee on atomic energy, told the Senate, "The nuclear insurance pools expressed reservation about the feasibility of this provision, as did the AEC. Their opinion was that a detailed study was required."

Sen Ribicoff said he was "disappointed" that his amendment was dropped, noting that it would have become effective only in 1977.

"Right now," he said, "according to a study performed for the AEC by a team of outside consultants, safeguards

are 'entirely inadequate' to prevent the theft of plutonium and weapons grade uranium from the nuclear power industry, and the subsequent fashioning of terrorists' atomic bombs.

"The point is that if the public is to be protected from all potential consequences of nuclear power, it must be adequately protected from nuclear thefts as well as nuclear accidents.

"My amendment would have made the nuclear industry financially accountable, within the dollar limits set in Price-Anderson, for nuclear thefts as well as nuclear accidents," the Senator said.

Continued on page 6

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business insurance

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

in this issue

Debate on OSHA

Three top representatives of government, industry and labor differ widely on the best approach to OSHA enforcement. **Page 4.**

Shaves fire risks

Upgrading fire protection standards for Gillette's European facilities is going to cost over \$2 million. That's small compared with the risk of business interruption. **Page 26.**

PBGC needs help

The new Pension Benefit Guaranty Corp. still doesn't have a director and there is a backlog of claims from 200 terminated plans. **Page 34.**

Popular thrift plan

Union Pacific Corp.'s new thrift plan has already enrolled 83% of its salaried employes. The company contributes 50% of whatever an employe saves. **Page 44.**

Should have captives

At least one consultant believes that "every Fortune 500 company should have a captive insurance company." He explained why at a meeting of the Institute of Risk Management Consultants. **Page 58.**

Average D&O claim is \$566,500

CHICAGO—The average total cost for a directors' and officers' (D&O) liability claim is \$566,500 according to the second annual D&O survey conducted by the Wyatt Co., a consulting actuarial firm with offices here. This includes an average award of \$385,000 and defense costs of \$181,500, the recently released study stated.

The survey's results are based on information supplied by 1,321 corporations—100% more than participated last year—according to Warren G. Brockmeier, director of risk management services for Wyatt, who conducted the survey. Approximately 50% of all corporations with assets over \$1 billion completed the questionnaires.

SOME OF THE major conclusions of the survey are:

Stockholders' claims, contrary to prior opinion, do not account for a significant number of D&O claims. Government officials and previous owners of acquired companies filed almost as many claims, the study revealed.

Over 25 types of claims allegations were listed in the study; the most prevalent involved anti-trust violations, conflict-of-interest charges, irregularity in securities issue and misleading representations made in conjunction with corporate acquisitions.

A correlation exists between D&O claims and lack of corporate profitability, the study stated. A slight skewing of the sample in favor of problem-free companies

was statistically adjusted, according to the study.

The 7.1% susceptibility of participants experiencing a D&O claim is only slightly higher than the 6.8% figure of last year. Large companies displayed higher susceptibility for claims as did financial services companies and mining concerns.

Over 57% of all companies which participated in the survey carry D&O coverage, including 76% of all NYSE-listed companies, 80% of the Fortune 500 industrials and 89% of the largest utility companies. Nearly 37% of the companies surveyed said they had "insufficient need" for D&O coverage.

The most common coverage limit remains \$5 million, as discovered last year, according to 39% of the 763 participants who carry D&O insurance. Approximately 10%, however, are insured with limits of \$15 million or more, the study stated.

SEVENTEEN OF the companies participating in both the 1973 and 1974 Wyatt surveys received premium reductions of 30-40%. Mr. Brockmeier cited the "competitiveness of the marketplace today" as the reason for the reductions.

The annual insured loss ratio was 58.8% for companies participating in the survey. "A loss ra-

tio of up to 70% in this business would be considered reasonable," Mr. Brockmeier explained, "because of the investment income which insurance companies can earn during the long period between claim payment receipts and award payouts."

Fifty percent of the closed claims in 1974 involved no payment to the claimant, as compared with 61% of the closed claims in 1973, the study revealed.

The number of D&O's being insured is of significance only up to a total of 20 rating units, the study stated. Beyond that, it's not significant. Rating units are used to determine the basic premium,

Continued on page 2

'Support could have insured enactment'

Ford not in favor of federal no-fault

By RICHARD L. GORDON

WASHINGTON—President Ford believes in the concept of no-fault auto insurance but will not be in favor of a federal no-fault law, the White House told *Business Insurance* this month.

The President, a White House spokesman said, instead prefers that no-fault be handled at the state level, a position identical to that held by the Nixon administration.

The Ford administration's opinion of federal no-fault action had been sought by Rep. John Moss (D-Ca.), chairman of the House commerce and fi-

nance committee, and a chief backer of a federal no-fault bill.

The Senate passed its version of a federal no-fault bill last spring, but action in the House has been bottled up for the last several weeks. Action is unlikely until after the November election, and even then the chances for getting a bill through the House are not considered good.

The Ford administration's position against federal action on the matter is seen as further lessening of chances for a no-fault law this year.

Rep. Moss wrote the President last month that "your support could insure its enactment during the 93rd (the current) Congress." He said passage of the no-fault bill could save consumers \$1.5 billion a year.

Dual benefits for rail workers to continue

Railroad industry employes will receive between \$250 and \$300 million in improved retirement benefits before the system goes bankrupt in the early 1980s. Under bills passed last month by both the House and Senate, the federal government will pay for the controversial dual benefits, which cover both railroad and non-railroad service. The total Social Security benefit computed under this method is higher than if all employment service credits were lumped together. (See story on page 30.)

"THIS SAVING WOULD help lower the cost of living and thus serve to reduce the present rate of inflation," he said.

The Congressman noted that no-fault legislation failed to pass the California state legislature for the fourth consecutive year "and the prospects for no-fault legislation in most other states are not much better than they were in 1971, when President Nixon first took the position that enactment be left to the states."

The White House has not immediately replied to Rep. Moss's letter, but when told of the administration's position, Rep. Moss said, "I think the President's support would have been of assistance to the committee but it was not vital.

"I thought it was just proper to call to his attention the failure of the states to move with any significant programs," the Congressman told *Business Insurance*. "What he does is a matter for his own judgment and conscience."

Rep. Moss admitted, however, that "I'm not as

Continued on page 2



Federal no-fault . . .

Continued from page 1

optimistic as I was about passage. Donald P. McHugh, vp and general counsel, State Farm Mutual Insurance Co., said "We'd be extremely disappointed if this (the Ford position) has happened. We had high hopes that his administration would have supported this as a pro-consumer piece of legislation."

"I'm disappointed with the administration's approach," said Sol M. Edidin, of the Car and Truck Renting and Leasing Assn. (CATRALA).

"IT OVERLOOKS the fact that we tried to develop the state approach in the past and it didn't work out," he said.

"It seems unlikely that we will ever have a modern auto repair system on any kind of a uniform basis unless we have a federal law," according to Mr. Edidin.

An Allstate Insurance spokesman said, "We believe President Ford's endorsement of no-fault auto insurance plans to be entered voluntarily by the states is a wise decision and in the best interests of the American consumer."

"Allstate supports the concept of state-by-state enactment of no-fault auto insurance systems and opposes the mandating of a uniform federal system whether by the establishment of rigid standards with which the states must comply or by the enactment of a national no-fault bill," the spokesman said.

"Allstate has been a strong supporter of modified no-fault plans and over past years has been involved in developing and supporting programs to modernize and reform the automobile reparations systems in the various states."

Rep. Moss' subcommittee completed public hearings on no-fault last May, but no clean committee bill has been produced for consideration by the full House interstate and commerce committee or for presentation on the House floor.

A BILL sponsored by Rep. Moss would establish almost immediately a nationwide system for no-fault coverage of medical claims.

The Senate passed bill differs in that it establishes minimum benefit standards and requires states that do not have no-fault plans on Sept. 1, 1975 to immediately adopt the federal requirements.

States with no-fault plans by Sept. 1, 1975 will be given four years to bring them into compliance with the federal standards.

The Senate bill had two specific areas of interest for business buyers of insurance.

It will allow group health in-

surance underwriters to compete with auto insurance underwriters for the medical coverages specified under the bill, which means that unions, for example, would probably be interested in having this coverage under the company sponsored health insurance policy.

THE OTHER area is that Senate authors of the bill bent the no-fault principle enough to allow subrogation of claims in accidents involving heavy vehicles that are more likely to cause injuries than passenger cars.

This last item has prompted opposition from the trucking in-

dustry and from municipal transit authorities whose buses would be subject to subrogation.

While some business and insurance interests are involved in debate in these two areas, the major "hot" item in the bill remains the limitation on the right to sue for "pain and suffering" damages that is included in both the Senate and House versions of no-fault bills.

The no-fault bills under consideration in Congress do not extend to coverage of property damage. The Senate bill leaves that area to the discretion of the states.

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ASIM to increase dues from \$65 to 100 a year

NEW YORK—The American Society of Insurance Management's (ASIM) board of directors voted to increase membership dues \$35 per year, from \$65 to \$100 at a meeting here last week. According to one ASIM official the motion to raise the dues by that amount carried by about a three-to-one margin.

The increase, however, falls far short of a proposal by ASIM president William Altstaetter that dues be increased to \$200 a year. That proposal, which was made in a letter to ASIM's membership last month, drew sharp criticism and reaction from some members (*Business Insurance*, Sept. 30).

Many members expressed indignation at that time to *Business Insurance* over the proposal, calling it "exorbitant" and "unreasonable." Others reacted not so much to the increase as to the way it was proposed and the lack of justification in terms of disclosing financial data to the membership which would support such an increase.

D&O study . . .

Continued from page 1

with each officer or inside director counting as a unit or fraction thereof. For example, Mr. Brockmeier explained, 15 officers and 10 outside directors comprise the maximum number of rating units that would be considered significant.

Uncertainty apparently exists as to whether coverage was applicable in 30% of the situations where D&O insurance was in force, according to the study.

The Wyatt survey predicted that on average there might be five or six court decisions or settlements each year involving D&O liability claims on which awards would be made "in excess of \$1 million" and that every four years there could be a "decision to award \$10 million or more." The study acknowledged that its prediction was speculative, but it said that "nothing in past history seems to contradict this estimate."

GUIDE TO FEATURES

| | |
|------------------------------|----|
| Opinions | 16 |
| Info for Buyers | 22 |
| The Legal Brief | 38 |
| Benefit Tax Slants | 47 |
| Perspective | 49 |
| Dates for Buyers | 62 |

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Hospital admits liability; award is \$1.29 million

By ELISABETH M. WECHSLER

CHICAGO—A major hospital here, along with five doctors and a radiological technician as co-defendants, was hit with a \$1.29 million malpractice award in a recent circuit court ruling. It reportedly is the largest sum ever awarded for malpractice in Illinois.

All the defendants were insured. Some were covered by the Hartford Insurance Group and the others were covered by United States Fidelity & Guaranty Co., with excess coverage provided by the Insurance Co. of North America (INA).

Presbyterian-St. Luke's Hospital and its co-defendants "admitted liability and responsibility to the jury" at the outset of the trial for causing paralysis from the waist down to a female patient undergoing cobalt treatments for Hodgkins disease in 1969, according to Richard G. French, attorney for Hartford, who represented some of the defendants.

"UNDER ORDINARY circumstances in a malpractice suit, there is some basis for defense but in this case we had none," Mr. French said. "Our clients decided to be honest and admit their responsibilities," he said, adding that the trial was held to establish the amount of damages to be awarded the former patient who received one and a half times the cobalt dosage prescribed for her on Jan. 6, 1969.

The ruling may be appealed, Mr. French said, possibly on grounds of an "excessive settlement" or on grounds of alleged "errors in the trial." He explained that the so-called errors referred to testimony by a Northwestern University economist who calculated that Mrs. Janice Barzycki, 31, lost potential life earnings of \$238,000 due to her paralysis and that her husband, 33, would now have to pay someone else \$128,000 over the course of his life for household duties previously performed by his wife.

The economist's testimony was blamed by Mr. French for nudging the settlement up to a total of \$1,038,000 for Mrs. Barzycki of Wheeling, Ill. and \$260,000 for her husband, Thomas, for "loss of mate." Mr. French said a decision on whether or not to pursue an appeal would be made within 30 days.

"THIS IS THE first large malpractice verdict against the hospital," Mr. French said. But he added that the hospital is sued "not infrequently" because "25% of those who go into the emergency room for treatment consider Presbyterian-St. Luke's their family physician and holds them responsible for any medical problems they have."

Spokesmen for the hospital refused all comment on the verdict, pending a decision on whether to appeal the ruling. They were equally tight-lipped about what

effect, if any, the settlement will have on premium hikes.

According to one spokesman for Hartford who asked not to be named, Presbyterian-St. Luke's has had a good experience record up to now for all areas of insurance, including malpractice. But the source added that malpractice settlements in general are getting so high that he anticipates many insurance companies will refuse to underwrite this type of coverage in the future.

ANOTHER SOURCE at Hartford who also requested anonymity explained to *Business Insurance* that a large malpractice award does not automatically trigger an increase in premium costs. "An insurance company can never redeem the full value of a large settlement merely by future pre-

miums," the source said. "A large malpractice suit that's won is a freak accident anyway," he added.

Hartford likes to hold professional liability insurance to one-year contracts and rerate them each year, the source said. Mr. French said he thought Presbyterian-St. Luke's was covered by a three-year contract for malpractice.

Because the acts of malpractice in this case occurred in early 1969, the award may not affect future premium costs for the hospital, the Hartford source explained. The experience rating period generally extends back only three to five years, with the current year subtracted, he said.

Both sources at Hartford emphasized that numerous other criteria such as internal controls and

staffing would be evaluated before a decision was reached to increase the hospital's premiums. They would not comment on how soon the evaluation would take place for Presbyterian-St. Luke's.

Other co-defendants in the case besides the hospital were Drs. Frank Hendrickson, former head of the hospital's therapeutic radiology department, and George C. Hibbs, now of Seattle, Wa. Both doctors were covered by USF&G, with excess coverage by INA. Attorney Robert J. Klovstad represented these doctors.

THE HOSPITAL, as well as co-defendants Drs. George F. Hogan, James F. Chamblis Jr. and Howard P. Gerard, and the technician, Frances Youngworth, were covered by Hartford and represented in the litigation by Mr. French.

Attorney George F. Elsener represented Mrs. Barzycki, who has a six-year-old daughter, and called the Sept. 24 settlement "the largest in Illinois history for malpractice." The award was handed down by a jury in Judge Robert E. Cherry's courtroom.

Mr. Elsener said that two days after Mrs. Barzycki was prescribed the cobalt treatment in January, 1969, the cobalt machine's power was increased. Although prescriptions were subsequently altered for other patients, her prescription remained the same. As a result, she received one and a half times the proper dosage. The administrative error resulted in her paralysis as well as burns on her stomach and back. Mrs. Barzycki had 23 cobalt treatments from Feb. 11, 1969 to March 18, 1969.

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Officials call for emphasis on health, safety but can't agree on methods

By PAUL R. MERRION

CHICAGO—Three top representatives of government, industry and labor agreed on the need for more worker safety and health in speeches at the National Safety Congress held here Oct. 2.

But, as might be expected, they differed on the methods needed to achieve that goal.

Leading off the session on the value of the Occupational Safety and Health Administration (OSHA), asst. secretary of labor John H. Stender, head of OSHA for 18 months, said the route to improved worker safety and health lies in voluntary "cooperation and commitment" by employers and employees, although OSHA will not

hesitate to use its enforcement powers to gain compliance with the law.

Speaking next was R. Heath Larry, vice-chairman of the U.S. Steel Corp. board of directors, who cited his company's statistics to show that OSHA should concentrate more on employee safety education, training and motivation.

FIGURES FOR our steel operations showed that about 85% of all disabling injuries and illnesses were caused primarily by unsafe actions—not by unsafe conditions," Mr. Larry claimed. He said only about five percent of all injuries could be directly related to physical conditions, with the rest unattributable to either cause.

I. W. Abel, president of the United Steelworkers of America, AFL-CIO, followed with a call for more funds, more research on occupational disease, and less political interference with the act. He said OSHA has been hampered so far because "the administration's recommended budgets have been too modest, too meager for effective implementation of the law." More funds are needed to increase the amount of research done by OSHA and the National Institute for Occupational Safety and Health (NIOSH) because "additional health hazards are being introduced into the workplace every year," he argued. Effective research demands a strong nationwide program, claimed Mr. Abel,

rather than the trend toward decentralization that had been supported by the Nixon administration.

All three men expressed their views of what is wrong with OSHA. For Mr. Stender, the problem is a lack of commitment by employers and a lack of concern by employees. He said all employers that he has talked with agree on the need for occupational safety and health, but the sentiment is not always put into practice.

"WHY SHOULD OSHA have to investigate charges of discrimination against a few employers after their employees exercised their legal right, if not moral obligation, to file a complaint or ask correction of unsafe or unhealthy conditions?" the head of OSHA asked.

Mr. Stender also noted that dramatic improvements in accident records come about when employees make safety and health

"a very personal matter."

Mr. Larry expressed his industry's viewpoint that OSHA's value to date has been "more potential than real" because the law's administration has been focused on five percent of the problem—that is, unsafe physical conditions.

The U.S. Steel executive emphasized that while he didn't "for a moment defend the maintenance of an unsafe condition in an industrial plant," he believed that occupational injury and illness rates could be cut in half "if OSHA's major thrust were concentrated . . . on programs directed at unsafe actions." The area of motivation, education and training of people is "where we can get real value for the dollar expended."

MR. LARRY attacked OSHA standards: "We have seen more than we ought to have of standards directed at conditions—which either require the impossible, or require the possible in an impossible time frame, or require the unreasonable because there has not been an opportunity for adequate research. Unreasonable and unnecessary safety or health standards constitute a disservice to employees and employers alike, as well as to our national economy." He said OSHA and NIOSH should devote more research time to finding answers to industrial health problems, rather than developing standards "to which variances inevitably must be allowed because the impossible is being required."

Labor took the opposite tack in Mr. Abel's speech: "OSHA has never published an environmental standard that it has not been forced to publish, although it has the authority and the responsibility under the Act to do so on its own. The unfortunate result is that there are only three new standards on the books today." He called for more funding and staffing to facilitate the development of standards for new hazards.

Mr. Abel said also that OSHA's budget is inadequate to implement the law fully. The storage of funds has meant that "game wardens outnumber OSHA inspectors." OSHA's budget in fiscal 1973 was \$69.3 million, and in fiscal 1974 it was \$70.4 million, but the union leader claimed that "twice the amounts budgeted would still be too small."

MR. ABEL attacked also the tendency to make OSHA into a "political football." He cited a well-planned campaign to ban federal inspection in workplaces with fewer than 25 employees. The campaign, which succeeded in the House but was defeated in the Senate, was instituted in part by the National Assn. of Independent Businessmen, the U.S. Chamber of Commerce and the John Birch Society.

Despite these differences in their views of the problems OSHA faces and what should be done about it, the leaders of government, industry and labor all agreed on the need for cooperation. Mr. Larry and Mr. Abel both mentioned a \$2 million joint union-company research committee that was set up to study safety and health problems in steel plants, especially those problems involving the effects of working near coke ovens.

Mr. Stender summed up the OSHA viewpoint by saying that cooperation is the key to job safety and health. He pointed to job safety and health provisions in more collective bargaining agreements, and he indicated that more cooperation would mean that "the \$13.5 billion lost annually because of workplace hazards could be substantially reduced."

The National Safety Congress, sponsored by the National Safety Council, met in Chicago, Sept. 30 to Oct. 3.



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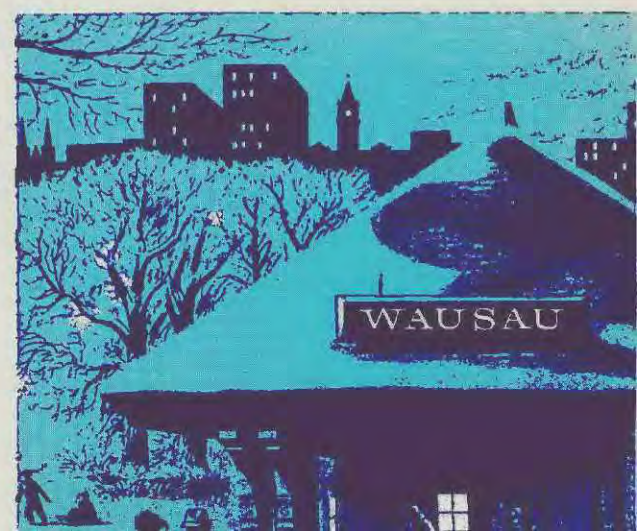
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Nuclear . . .

Continued from page 1

The two major nuclear insurance pools were split in their opinions of the amendment.

The attitude of the Nuclear Energy Liability Insurance Assn. (NELIA) would probably be," said Richard Schmalz of the Hartford Insurance Group, that "insurers would generally support the idea that the public should be protected against the financial consequences of extraordinary occurrences arising out of the theft of nuclear material."

Mr. Schmalz, in his letter to Sen. Ribicoff, said a serious question of "public policy" was raised by the question, however.

"Should private industry be held liable with fault for thefts which might require the marshalling of substantial private protective forces that might, even then, not be sufficient to guarantee safe passage?"

"INSURERS," said Mr. Schmalz, "would be inclined to feel that the government should be prepared to assume the major responsibility for affording the public protection against thefts, including indemnification from any resulting injury or damage."

He said that while NELIA members might find the amendment acceptable, "we cannot state positively that insurance would be available."

"Insurers would have to be satisfied as to the special precautions taken with respect to shipments of nuclear materials and might then find it necessary to attach special limitations on the amount of their liability and special conditions for coverage," according to Mr. Schmalz.

The Mutual Atomic Energy Liability Underwriters (MAELU) were opposed to the bill, according to Bert M. Thompson, general attorney, federal affairs, for the American Mutual Insurance Alliance.

Mr. Thompson said "detailed consideration by the insurance industry" would be needed before any such step could be taken.

EVEN WITHOUT the Ribicoff amendment, the new Price-Anderson bill is considered to be a significant step in the development of insurance for nuclear accidents.

The bill as passed projects an eventual phasing out of the federal government as a liability indemnitor of the early 1980's, very definitely a goal of the Congress.

It does not change the \$560 million liability limit established in 1957 for any one nuclear accident, but provides for a system of retroactive premium assessments designed to eventually increase the total cover to \$1 billion or more over the next several years.

The retroactive system works by making every nuclear plant liable for special premium bills ranging from \$2 million to \$5 million in the event of a nuclear accident involving extensive damage.

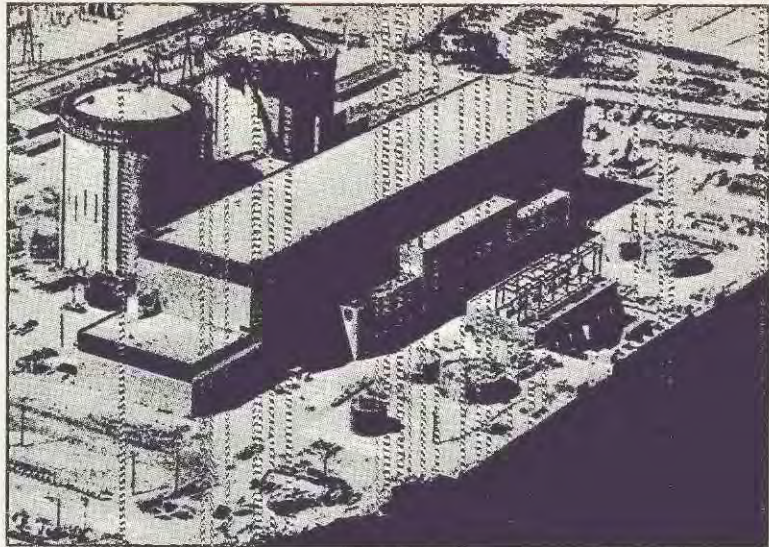
THERE ARE NOW 47 nuclear plants in operation. This back up pool of insurance coverage would increase as more plants come on line.

The private insurance pools also expect to significantly increase their available coverage for nuclear plants.

The private pools now write up to \$125 million in liability cover per plant, with the federal government picking up the remainder of the liability up to the \$560 million ceiling.

Private insurance officials said they hoped to be able to write the entire \$560 million in three to five years.

In debate earlier this summer,



The world's most powerful nuclear plant in Zion, Illinois.

the Senate turned down an amendment offered by Sen. Richard Schweiker (R-Pa.) allowing states

to independently raise the liability limits on nuclear plants operating in their area. ■

Civil threats may force nuclear liability moves

WASHINGTON—The threat of home-made atomic bombs, organized terrorism, and political blackmail may yet force Congress to take another look at the question of liability for damages caused by the theft of nuclear materials.

The federal government and private utilities currently share liability in the event of a nuclear reactor accident, but a study done for the Atomic Energy Commission this year indicates that the real problem may not have been touched yet.

"Potential harm to the public from the explosion of an illicitly made nuclear weapon is greater than that from any plausible power plant accident, including one which involves a core meltdown

and subsequent breach of containment," the AEC was told in the study.

This nightmarish possibility is still somewhat down the road, the AEC's report points out, because nearly all of the nuclear power plants now in operation or on the drawing boards use low-enriched uranium which cannot be made into a bomb.

HOWEVER, technological changes could lead to a wider use of plants fueled by highly enriched uranium or plutonium, the building blocks for atomic weapons.

Sen. Abraham Ribicoff (D-Cn.) told the Senate in a debate on nuclear insurance last month, "While

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there are not yet enormous quantities of weapons grade materials in the nuclear power industry, there are still one million pounds of plutonium and enriched uranium presently authorized by the AEC—about half of it of weapons grade.

"By 1980," the Senator said, "nuclear powerplants will be generating 66,000 pounds of plutonium each year, and by the year 2000 the annual output will reach 660,000 pounds—enough to produce thousands of crude but devastating atomic bombs or deadly dispersal devices."

The AEC report does little to ease worries in this area.

"IN RECENT years the factors which make safeguards a real, imminent and vital issue have changed rapidly for the worse," the report said.

"Terrorists groups have increased their professional skills, intelligence networks, finances, and

levels of armaments throughout the world. International terrorist organizations, particularly those of the Arabs, probably have the ability to infiltrate highly trained teams of 10 to 15 men into this country with detection.

"In addition, a number of strong groups in Latin America have graphically shown the ability of urban terrorist groups to operate with impunity for long periods of time," the report said.

While the potential nuclear thieves have become more sophisticated, the knowledge of what to do with their atomic stolen goods has also grown apace.

The AEC's study, in addition, points to "the widespread and increasing dissemination of precise and accurate instruction on how to make a nuclear weapon in your basement."

On top of that, said the report, "there is a slow but continuing movement of personnel into and out of the areas of weapons

design and manufacturing. These moves are sometimes forced and can create very strong resentments in the people involved."

The Patricia Hearst kidnapping, in addition to providing lurid newspaper headlines, should also give the nuclear industry cause for concern.

"These groups are likely to have available to them the sort of technical knowledge needed to use the now readily disseminated instructions for processing fissile materials and for building a nuclear weapon," the AEC report said.

"THEY ARE ALSO liable to be able to carry out reasonably sophisticated attacks on installations and transportation," according to the report.

"The seriousness of the problem demands a clear commitment by the AEC to bring the risk to the public from safeguards problems down to the level of public risk associated with the problem of nu-

clear power plants," the report went on to say.

Guard systems for plants and the transportation of nuclear materials are "inadequate," the report stated, and probably should be entirely handled by the federal government.

PRIVATE COMPANIES have neither the capability nor the desire to meet the sort of threats described in our document on diversion scenarios (which is classified), much less than those posed by maximum credible thefts," according to the report.

Instead, the report urged the formation of a government controlled nuclear protection and transportation service.

Presently used methods to prevent in-plant pilferage of nuclear materials are also inadequate, the report said, because in too many cases they do not provide information on inventory shortages quickly enough. ■

\$560 million liability limit is adequate study says

WASHINGTON—The present \$560-million liability limit on nuclear power plants is more than adequate, according to the first major study of nuclear reactor safety since 1957.

The melting of the reactor's radioactive core is considered to be the most serious accident that could befall a nuclear plant, according to the study, and the most likely property damage figure would be \$100,000, excluding damage to the plant itself.

The likelihood of the most common core accident occurring was put at one in 17,000 per plant per year, according to the report, supervised by Prof. Norman C. Rasmussen of the Massachusetts Institute of Technology.

Such an accident would cause no physical damage to property beyond the plant site but may contaminate the site with radioactivity.

AT HIGH LEVELS of contamination, people would have to be moved temporarily from their homes until the radioactivity either decayed away or was removed. The cost of this program is included in the \$100,000 estimate.

"The chance of an accident causing \$100 million damage would be about one in 50,000 per plant per year," the report said. "Such an accident would be expected on the average to occur once every five centuries for 100 operating reactors.

The report compares these property damage risks to the largest man-caused events—fires.

"In recent years there has been an average of three fires with damage in excess of \$10 million every year. About once every two years, there is a fire with damage in the \$50-million to \$100-million range," the report said.

"A comparison of the preceding costs shows that, although a severe reactor accident would be very costly, it would not be significantly larger than a number of serious accidents which our society deals with quite often, and the probability of such nuclear accidents is of course estimated to be much smaller than the other events."

Continued on page 8



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Continued from page 7

Using 1969 figures, the latest available, the report said the likelihood of a car fatality was 1 in 4,000 per individual; drowning, 1 in 30,000 per individual; air travel, one in 100,000 per individual; nuclear reactor accident, one in 300 million per individual.

IN THE EVENT of radiation leakage in a nuclear plant accident, and the report concedes that it is possible, that some fatalities might result within a few weeks of the leakage.

"Other people may be exposed to radiation levels which would produce observable effects which would require medical attention but from which they would recover completely," according to the report.

There are latent effects, how-

ever, which "can cause some increase in the incidence of cancer, genetic effects, and thyroid and gland illnesses in the exposed population," the report acknowledged.

"These effects would appear as an increase in these diseases over a 10 to 20 year period following the exposure. Such effects would be difficult to notice," the report said, "because the increase is usually small compared to the normal incidence rate of these diseases."

In the event of an accident rated at one in a million chance, damage of \$2 billion to \$3 billion might result. The latent health effects were estimated at 450 cancers, 12,000 cases of thyroid illness, and 450 cases involving genetic effects.

The most common type of accident expected, with its \$100,000 damage estimate, would probably produce about four latent cases of thyroid illnesses and no cancer or genetic effects.

THE EARLIER 1957 reactor safety study, which recommended the high liability limits included in the Price-Anderson nuclear insurance bill, was completed before any commercial power plants were operating.

The higher liability estimates in the earlier report, according to this latest document, were due to the earlier study's:

- overly high estimation of the number of people to be affected;
- assumption that 50% of the reactor's radioactivity could be released, which the new report says is an engineering impossibility;
- omission of any provisions for the evacuation of people from the accident area;
- and its failure to take into account that the radiation would be carried upward from the plant like smoke from a stack, and thus reducing radiation levels near the ground.

Pension and benefit plans go overseas

ENGLEWOOD CLIFFS, N.J.— Kwasha Lipton Inc., a U.S. firm of consulting actuaries and employee benefit specialists, and Noble Lowndes & Partners Ltd., the largest organization of employee benefit consultants in the United Kingdom, recently announced the establishment of a jointly operated service to assist multi-national companies in the design, evaluation and administration of pension and other employee benefit plans for their international operations.

The new service stresses the use of joint expertise to meet a parent company's need for consistent evaluation and accounting of the costs and liabilities of plans throughout its international operations and for maintenance of consistent benefit objectives, appropriately modified for local conditions and practices.

"U.S. multi-national companies are beginning to realize that the same concern about financial liability created by recent pension legislation in the U.S. is extending to their overseas pension plans. Local governments have the same interest in protecting employee benefits as the U.S. government," John Connors, president of Kwasha Lipton, said. Inflation, increased collective bargaining and expanding social benefits are the three immediate problems facing overseas plans, he added.

profile Percy E. Roberts

Percy E. Roberts, founder and senior partner of Roberts & Eastland, Baton Rouge, Louisiana, has headed that outstanding independent insurance agency for more than 51 years. During that time, Mr. Roberts has earned just about every accolade the insurance industry can bestow. But, in addition to being an outstanding insurance man, Percy Roberts is a great citizen as well.

His accomplishments are quite literally too numerous to mention: Past president, Baton Rouge Insurance Exchange • President, Citizens Savings and Loan Association • Organized the first cub scout den in Baton Rouge • Served on the

Rationing Board in World War II • Served twelve years in the State Legislature • Former Chairman, L.S.U. Board of Supervisors • Former President, L.S.U. Alumni Federation • Set up the organization which raised sufficient funds to build Baton Rouge General Hospital — and much, much more.

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Pan Am's rescue tied to ESOTs by senator

WASHINGTON—Pan American World Airways should be required to install an employee stock ownership trust (ESOT) as an employee benefit as part of any federal aid package to the company, Sen. Russell Long (D-La.) told the Senate this month.

The same requirement should be placed on Trans World Airlines if it receives any federal assistance, said Sen. Long, chairman of the Senate finance committee. Both airlines are having financial troubles with international air service mainly because of greatly increased fuel costs overseas.

An ESOT is basically a trust which buys company stock for its employees. The trust would be tax exempt and borrow the capital

needed to make substantial stock purchases.

The trust's loan would be paid off with annual, tax-exempt contributions from the sponsoring company. The stock would be held in the names of the employee and would be available for retirement income.

SEN. LONG said the finance committee, as part of a trade reform bill, has linked federal assistance for firms in areas "impacted" by increased imports to the establishment of ESOT plans for their employees.

"When the government is using its power to give special advantages to some group, even though they may be in distress, the government should require, as part of that consideration, that the beneficiaries of this government assistance include the employees of the affected company," Sen. Long said.

"I only regret that I had not thought of that approach in connection with the Lockheed loan," he told the Senate.

"If we are going to guarantee a loan to a company such as Lockheed, then why should not the fellows who get out there and work to make Lockheed a success day by day by the sweat of their brows share in some of the good fortune of saving that corporation and putting it on a sound financial basis."

The Senator reminded the Senate that they had on two previous occasions endorsed the ESOT concept—by providing for it in the recently passed pension reform law; and by requiring that ESOTs be studied as a possible financing device for the reorganization of the northeast railroad system. ■

New policy for failure to perform

NEW YORK—Product failure insurance, described by one industry source as "a new wrinkle on the failure to perform exclusion on a general liability policy," is being marketed for the first time by the John C. Weghorn Agency here.

"To our knowledge this type of insurance is not being offered by anyone else," Joseph Pettit, vp at Weghorn said.

He described the policy as covering the loss of the use of undamaged property due to the failure of a product to perform.

The policy includes a deductible, depending on the size of the insured's sales, Mr. Pettit said. For firms with \$20 million of more in sales, there is a \$100,000 deductible included, for companies with sales less than \$20 million the deductible is \$50,000.

The premium range was estimated "from \$25,000 to \$200,000 per year, Mr. Pettit noted; with policy limits up to \$10 million.

"We don't anticipate writing high exposure companies," he continued. The policy is geared to the medium line manufacturer with good loss experience.

The industry spokesman said the policy reflects the renewed interest in the exclusion area.

"Traditionally this area was considered a business risk; a fortuitous loss," he said, "but recently the Insurance Service Office has revised the exclusion area." ■



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Offer prepaid legal services plan

By ELISABETH M. WECHSLER

PORTLAND, OR.—Prepaid legal services are now available to middle and lower income groups in this state, resulting from an agreement signed recently between a non-profit subsidiary of the state bar assn. and Midwest Mutual, which will underwrite the program.

"This is the first statewide prepaid legal services program which is sponsored by the legal profession and underwritten by an insurance company," F. Jay Lutz, executive director of Prepaid Legal Insurance Inc., said.

The agreement, signed Oct. 3, provides various types of legal counseling and representation and will be offered on a non-voluntary basis to employers and unions as an employer-financed fringe benefit, Mr. Lutz explained. Unions would probably bargain for employers to pay the premiums, ranging between \$6.50 and \$7.50 per person, per month, he added. The program could be issued on a voluntary enrollment basis if 75% of the eligible employees enrolled, Mr. Lutz said.

TWO TYPES OF coverage are available, Mr. Lutz explained. The direct service coverage is provided by a panel of lawyers who have agreed to a maximum fee schedule. It will offer legal services to employees at no additional charge beyond the premium paid. The simple indemnity coverage (which offers similar legal services) allows a participant to go to any lawyer in Oregon and be reimbursed for services up to the maximum allowed. Because an employee might have to pay extra with this program, Mr. Lutz said, the latter program probably would not be as popular.

The following types of services will be available to a participant:

Name Social Security fund review group

WASHINGTON—A six-member panel to review the financial status of the Social Security trust funds has been appointed by the Senate finance committee.

The panel is to report their findings back to the committee next January.

Sen. Russell B. Long (D-La.), chairman of the committee, said the study was necessary because of reports that the system may require "additional long-range financing."

The panel consists of actuaries and economists including Meyer Melnikoff, senior vp and chief actuary of the Prudential Insurance Co., and Walter Shur, executive vp of the New York Life Insurance Co.

Toxic chemical hook-up

Hartford Insurance Group policyholders now have access to the insurer's computer service which collects data on the harmful effects of certain chemicals. "Tox-line," a computer information system, gathers information through a computer link-up between the insurance company's loss control department and the National Library of Medicine in Washington, D.C. The data bank stores information on the poisoning effects of a wide range of chemicals. Some include occupational chemicals, environmental pollutants, industrial products, agricultural products, drugs, and household chemicals.

non-business bankruptcy; divorce, separation or annulment; court adoption; insanity or infirmity proceedings; juvenile delinquency court proceedings; habeus corpus proceedings; either criminal or civil; defense of felony charges; defense of intoxicated driving charges; misdemeanor traffic charges which involve loss of license only; other misdemeanor charges, such as disturbing the peace; defense of civil actions except those involving an automobile; legal advice and negotiation; simple document preparation, such as a will; and a major trial benefit, in addition to civil defense and felony benefits.

To finance the program, bar members voted Sept. 12 to assess themselves \$14 each, Mr. Lutz said, adding that no lawyers were signed up yet. "We hope to get this program off the ground by early next year," he said.

WHAT MUST come first is approval from the state insurance department. "They know of the program and have raised no objections," Mr. Lutz said. Still, problems could arise because of a similar prepaid legal program, also underwritten by Midwest Mutual, in California now being investigated for possible anti-trust violations.

Mr. Lutz said he isn't worried, however. "We're well aware of the history of the California lawyers' service," he said. "I hope we've learned by their experience." Mr. Lutz previously was director of legal services for the California state bar.

The Oregon program plans to set maximum fees only, unlike the California program which set "suggested," or minimum, fees. Members of the bar assn. will indicate what maximum fees they think are reasonable by means of a mail survey to be conducted soon by an independent organization, Mr. Lutz said.

Another difference between the Oregon and California programs, Mr. Lutz explained, is that an open panel of lawyers will be used in Oregon. "Any lawyer in the state can join the panel if he or she accepts the fee schedule," he said.

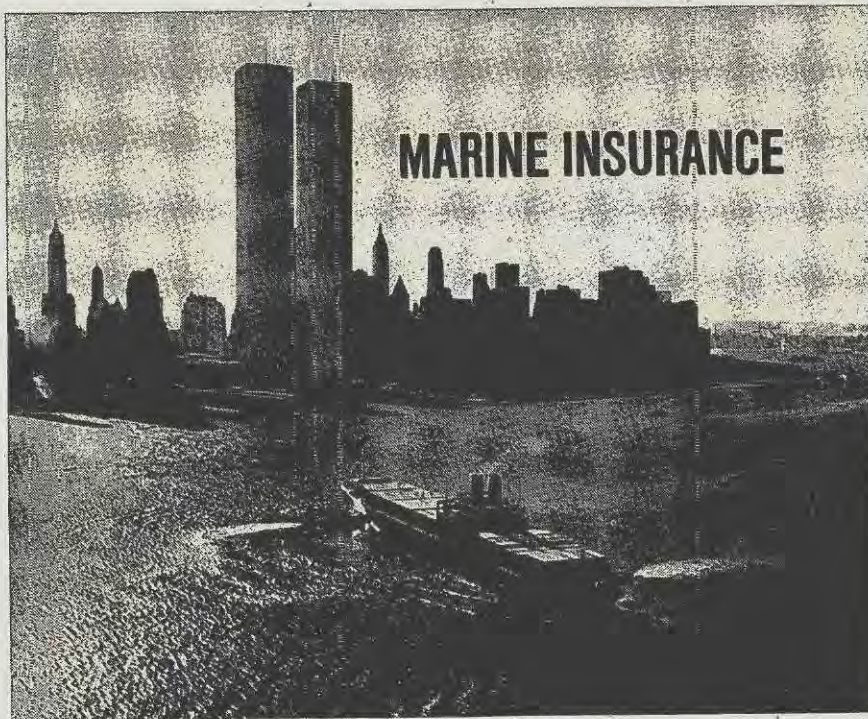
This service is being offered for

two reasons, Mr. Lutz said: People in middle and lower income brackets don't get enough legal service;

and if the state bar assn. doesn't do something, someone else will. He pointed to the "do-it-yourself divorce kits" and the like. "We don't want unlicensed people dispensing legal advice," he said.

Fred M. Hagen, president of

Midwest Mutual, headquartered in W. Des Moines, Ia., said, "We're happy to be the insurer for their program." He added that his company had competed with 20 other insurance companies to get the contract.



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Correspondents in All Other States

Overrule FCC decision for equal time

Court rules NBC documentary on private pension system was 'fair'

WASHINGTON—The 1972 National Broadcasting Corp. documentary on the private pension industry and its failings was "fair," a three judge U.S. appeals court panel ruled last month.

The judges overruled a Federal Communications Commission (FCC) decision that NBC should provide time for rebuttal of the charges presented in the documentary, "Pensions: The Broken Promise."

The court acknowledged that the program's "particular focus was the tragic cases of aging workers who were left, at the end of a life of labor, without pen-

sions, without time to develop new pension rights, and on occasion without viable income."

Legal proceedings were brought before the FCC by Accuracy in Media (AIM), a non-profit, educational organization that considers itself a watchdog over bias in televised news presentations.

AIM COMPLAINED to the FCC that "our investigation reveals that the NBC report gave the viewers a grotesquely distorted picture of the private pension system of the United States. "Nearly the entire program," AIM said, "was devoted to criti-

cism of private pension plans, giving the impression that failure and fraud are the rule . . . The reporter, Mr. (Edwin) Newman, said that NBC did not want to give the impression that there were no good private pension plans, but he did not discuss any good plans or show any satisfied pensioners."

AIM officials subsequently called the program a "one-sided, uninformative, emotion evoking propoganda pitch."

NBC, in its defense, told the FCC that "the program constituted a broad over-view of some of the problems involved in some

private pension plans. It did not attempt to discuss all private pension plans, nor did it urge the adoption of any specific legislative or other remedies.

"RATHER," SAID NBC, "it was designed to inform the public about some problems which have come to light in some pension plans which deserve a closer look."

The FCC, however, found that while NBC had presented some "pro-pensions" views, the "overwhelming weight" of the "anti-pensions" statements required further presentation of opposing views.

The court, however, disagreed with the FCC claim that the NBC documentary was a study "of the overall performance of the private pension system and the need for governmental regulation of all private pension plans."

It agreed instead with NBC that the program was "an expose of

abuses that appeared in the private pension industry and not a general report on the state of the industry."

The court's ruling ran to 100 pages and, in defense of their opinion supporting NBC, included Mr. Newman's final comments:

"This has been a depressing program to work on but we don't want to give the impressions that there are no good private pension plans. There are many good ones, and there are many people for whom the promise has become a reality. That should be said.

"Our own conclusion about any of this is that it is almost inconceivable that this enormous thing has grown up with so little understanding of it and with so little protection and such uneven results for those involved.

"THE SITUATION, as we've seen it, is deplorable."

The ruling also included a sampling of newspapers' reviews of the program, such as this favorable comment from the Chicago Tribune:

"Pension administrators may face some hard questions from employees when they get to work this morning. If so, NBC Reports will have done its job."

And there were not so favorable reviews, such as this one excerpted in the ruling from *Business Insurance*:

"The program was by no means objective; it could not have been . . . there was just not enough time to do it thoroughly. (Newman did) point out, however, that there were many good pension plans."

Judge Edward A. Tamm, who dissented from the majority opinion, objected to what he considered exemption of a television news program from fairness standards just because it was "investigative" reporting.

"The majority opinion fails to recognize that as a practical matter there is no real distinction between this type of so called investigative reporting and propoganda," Judge Tamm wrote in his dissension.

"THE INVESTIGATIVE reporter, regardless of his initial motivation, too often reaches a point where objectivity disappears and he becomes an ardent advocate for a particular position or viewpoint.

"Developing a feeling for what might or should be, rather than awareness of what is, he produces a manipulated and selected presentation which ignores all viewpoints and positions other than his own."

The decision is considered to be vitally important by broadcast journalists. NBC chairman Julian Goodman said it affirmed the First Amendment which "requires government and its agencies to respect the broadcasters journalistic discretion in news coverage."

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JOHN A. LINDQUIST, CPCU, Corporate Risk Manager, Anderson Clayton & Company. Listed in *Who's Who in Risk Management*, served as a Casualty Underwriter for Travelers Insurance Company and Corporate Insurance Manager for General Acceptance Corporation. Member of the American Society of Insurance Management.



GUYON SAUNDERS, President, Corporate Systems Corporation. A senior partner in Ordway-Saunders Company, Mr. Saunders has specialized in developing management systems for risk and insurance management programs and has had published a number of articles on the application of cost center management techniques to risk and insurance management.



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The debate goes on

WASHINGTON—The National Broadcasting Corp.'s controversial documentary, "Pensions: The Broken Promise," is to be given another critical look this month at the annual conference of the American Society of Pension Actuaries in Washington Oct. 27-30.

NBC has given the ASPA a tape of the program, first aired in September, 1972, and it will be the subject of a panel discussion and debate.

The conference will also stage extensive discussions on the new pension reform law.

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Primary metal industry paid most for employe benefits; 7.2% of payroll

WASHINGTON—The primary metal industry, at 7.2% of payroll, paid more than any other industry group for employe life and health insurance benefits in 1973, according to a benefits survey by the U.S. Chamber of Commerce.

Department stores, at 2% of payroll, were paying the least for these benefits, the survey reported.

The 35 employers in the primary metal group who took part in the survey spent, on average, \$725 for these benefits per employe in 1973.

The 13 department stores in the survey paid \$138 per employe for these benefits in 1973.

The total survey involved 742 companies in 14 manufacturing and six nonmanufacturing indus-

try classifications.

These were the extremes spent on these types of benefits, but the most frequently reported percentage of payroll cost across the entire sample was between 2% and 3.9%.

OTHER HIGH cost (on a percentage basis) insured benefits programs were reported in the transportation equipment and stone, clay, and glass products industry.

The 30 transportation equipment manufacturers reported average life and health insurance costs at 6.3% of payroll in 1973, or \$651 per employe.

The 19 firms in the stone, clay, and glass products group also reported an average cost of 6.3% of

payroll, but the per employe average cost was \$569 in 1973.

Health insurance payments were reported by 91% of the participating employers. All of the 12 rubber, leather, and plastic makers reported payments for health insurance. The low figure was 78% of the 50 employers reporting in the electrical machinery, equipment and supplies group.

It is expected that national health insurance, when a compromise measure is finally hammered out, will probably require all employers to offer and help pay for health benefits for their employes.

Life insurance payments were reported by 81% of the responding employers, with the highest group

being the public utilities, where 94% of the 119 firms reported paying for such benefits. The lowest group was the department stores, where 54% of the 13 employers reported such payments.

Payroll deductions from employes for these benefits were reported in 70% of the companies in the survey, including 61% of the manufacturing firms and 84% of the nonmanufacturing firms.

DEDUCTIONS were reported by 92% of the insurance companies, but by only half of the rubber, leather, and plastic product firms, according to the report.

Insurance deductions average 1% of payroll for all firms in the survey, but were 1.4% for those firms having deductions.

The study did not report the details of the benefit packages purchased for these sums of money, however.

In the pension area, 10% of the sample reported no payments by

the company for a pension plan, while 65 companies, slightly under 10%, paid 10% or more of payroll into a pension plan.

The average cost for pensions for those companies having pension plans was 5.7% of payroll, the survey reported.

By industry group, the petroleum industry reported the highest average pension cost, with an average 8% of payroll spent by the nine firms reporting. The figure includes payments into insured, uninsured trustee, and unfunded pension plans.

In terms of dollars, that meant the nine petroleum firms in the sample on average placed \$886 per employe into their pension plans in 1973.

The lowest average pension costs were reported in the department stores, where pensions averaged 3% of payroll for the 13 firms in the sample. That means a per employe pension expense for the average department store of \$178.

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EMPLOYEE PAYROLL deductions for private pension plans were reported by 20% of the companies, including 17% of the manufacturing firms and 24% of those in non-manufacturing.

Deductions were reported by 44% of the petroleum industry firms but by only 8% in the textile products and apparel industry.

Deductions average 1.5% of employe payroll where they were used.

Combined pension and insurance costs for 155 companies originally surveyed in 1953 had climbed to 13% of payroll (employer's costs only) in 1973 from 7.4% two decades earlier.

Copies of the complete survey are available at \$3 per single copy from the Chamber of Commerce of the United States, Washington, D.C. 20062.

Disability benefits paid to alcoholics

TORONTO—Alcoholics are receiving disability benefits from major insurance companies for lost work time due to alcoholism, according to a survey conducted for the National Institute of Alcoholism and Alcohol Abuse.

J. F. Follman, Jr. reported the survey's findings at the National Foundation of Employee Benefit Plans annual education conference.

The 17 major insurers surveyed "cover loss of income resulting from alcoholism provided the condition is medically recognized and placed under medical supervision," the consultant explained.

DISABILITY benefits "do not commence until the alcoholic has agreed to undergo treatment," Mr. Follman said, adding that benefits continue "only so long as the alcoholic continues treatment and rehabilitation. The purpose of this requirement is to encourage treatment." Mr. Follman saw this approach as a positive force in treating alcoholism.

It was reported that 60% to 80% of employed alcoholics respond favorably to treatment, therefore "the approach taken by insurance companies benefits the employer, fellow employes, and certainly the individual and his family," Mr. Follman said.

It wasn't until quite recently that alcoholics were given disability benefits for lost work time due to the disease. "But with the more recent acceptance of alcoholism as an illness over the past 15 years, the attitudes of insurance companies have been changing," he concluded.

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editorial opinions

A blot on aviation safety history

A YEAR AGO last week, *Business Insurance* reported that a National Transportation Safety Board official had told us the Federal Aviation Administration's "willful foot-dragging" on a safety recommendation first made by the board in 1966 may have contributed to an assortment of air disasters since then that claimed the lives of hundreds and countless aviation insurance dollars.

Then, in the last issue of this magazine we reported that the FAA has finally proposed a rule that would require big jets to carry what is called ground proximity warning devices, 16-pound computers costing about \$10,000 each designed to prevent what air safety experts call controlled flight into terrain, or crashes in which a mechanically sound aircraft crashes into ground or water.

The FAA proposal, however, would still not have the device on all aircraft much before late next year, and this has prompted the investigations subcommittee of the House interstate and foreign commerce committee to bluntly tell the FAA they want the device on board aircraft sooner than that.

The FAA's behavior in this matter, in the face of evidence that seems very convincing indeed, has been nothing short of abominable. The investigations subcommittee should dig into the matter thoroughly.

The list of aviation accidents that may have been prevented in recent years had ground proximity warning devices been required reads like a Who's Who of aviation disasters.

National Transportation Safety Board chairman John W. Reed told the House subcommittee the device might have prevented 15 air crashes since 1968 in involving 400 fatalities, among them a crash in 1971 that killed 75 persons in West Virginia, including the entire Marshall University football team. In addition to that, there are five crashes still under investigation, which killed a total of 179 persons, similar to crashes said to have been prevented by ground proximity warning devices. Among these is the Sept. 11 crash of an Eastern Airlines DC-9 jet in Charlotte, N.C. The plane crashed on what seemed like an otherwise routine approach to the Charlotte airport. (Ground proximity warning devices measure the distance between the aircraft's hull and the terrain on the craft's projected course. When a danger point is reached the ground proximity device warns the pilot to pull up.)

From a risk management standpoint, the case for ground proximity warning devices is brought home dramatically—in the sense of dollar signs, that is—by the crash of an Eastern Airlines L-1011 in the Everglades, Fl., in December 1972. One hundred persons died in that crash. Liability claims are still being litigated, but already it's estimated that settlements by Eastern's primary insurer, Associated Aviation Underwriters, and others have reached \$35 million (*Business Insurance*, Sept. 16).

A year ago, when the National Transportation Safety Board official we talked to for our story charged the FAA with "willful footdragging," we went to some aviation risk managers and aviation underwriters for some reaction. Surprisingly, we thought at the time, airline risk managers and

aviation underwriters were singularly unwilling to get involved in—or even investigate for themselves—the details surrounding the safety's board's charge.

One underwriter, for example, told this magazine the dispute was a "feud," was "ridiculous" and had its basis only in politics. "At present," he said, "there is no magic device available to prevent accidents. If there was we'd do something about it."

Then there was this from the risk manager for a major airline: "I don't think you'll find one risk manager for an airline who has any control over loss prevention in the flight area. It's a highly technical field, and we have to leave it to the flight boys. But believe me, if the insurance pools did know of a device that could prevent crashes, they'd be ramming it down our throats."

The circumstances surrounding the ground proximity warning device controversy is one of the biggest blots on aviation safety history and it deserves the attention of a Congressional investigation. It's a case of FAA inaction. Why? It's a case of timidity on the part of the National Transportation Safety Board for not taking the matter to the proper people. Why? It's a case of aviation underwriters—and, worse, airline risk managers who seemed to display an over-reverence for the "flight boys" in this particular situation—standing on the sidelines with their hands in their pockets. Why?

ASIM dues

THE RECENT FLAP over a proposed dues increase by American Society of Insurance Management's president, E. William Altstaetter, has been fun to watch. Not, mind you, because of the number of dollars involved, but because it shows there are some warm bodies out there paying attention. Bill Altstaetter should be chuckling to himself, and maybe he is.

It seems that the ASIM president put a letter in the mail to the membership proposing that dues be increased from \$65 a year to \$200. As one ASIM insider put it, the \$200 figure was "Bill's honest-to-God feeling of what dues 'ought to be.'"

Anyway, many ASIM members, perhaps looking at the trees instead of the forest jumped all over the proposal. After all, translated into a percentage increase it came to more than 200% and even in these days of double-digit inflation it's tough to sneak an increase of that much through, in spite of the fact it's probably long overdue.

We hope Bill Altstaetter doesn't take the indignity expressed by some ASIM members personally. He was seeking the substantial increase to fund some rather substantial goals ASIM has set for itself in the next five or so years. And when you set goals without first settling the matter of where funds will come from to finance them you ought to be prepared to take a little heat. If you're not, you won't get anything done. Will you?

letters

This column is a readers' forum. Letters are welcome. Address letters to the Editor of *Business Insurance*, 708 Third Ave., New York, N.Y. 10017.

Copy of a copy

To the Editor: Your issue of *Business Insurance* dated Sept. 10, 1973, contains an article on page one concerning ITT and the "Longuesne Fire." I was shown a photocopy of a photocopy of a photocopy etc.

To assist me in my position as a lecturer in building construction at Marleston Technical College (1) can I purchase a back copy of the original article, or (2) have your permission to reproduce portions of this article (if you can oblige me with a copy) when discussing the topic of automatic sprinkler installations. The copy which I have access to is so poor that any further copying will make it only more difficult to read.

The information extracted from the article would be used for educational purposes of this college.

Thanking you in anticipation.

D. R. Newbery
Henley Beach, South Australia

Editor's note: A copy is enroute, with our compliments; and, yes, you may feel free to reproduce it for educational purposes as long as *Business Insurance* is the attributed source.

Agent/Broker

To the Editor: We have been avid admirers and subscribers of *Business Insurance* for a number of years. We are also one of the larger independent brokerage firms on the West Coast.

We have become extremely interested in reviewing your Agent/Broker Profiles and have wondered why we have not been included. Possibly, the request for information was discarded here or misplaced. Nevertheless, we would very much be interested in becoming a part of your report. Our premium is in excess of \$20 million and we have several branch offices.

Please do what you can to put us on the list and forward the necessary request for information.

Richard P. Metcalfe
Exec. vp, Albert M. Bender Co.
Inc., San Francisco, Ca.

Editor's note: For several months prior to the annual Agent/Broker issue, we have information in *Business Insurance* about the prerequisites for listing, and how to obtain the necessary forms to fill out. Also, we will file any queries like yours, so that your name will be included in next year's mailing.

Continued on page 18

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letters

Who has no-fault?

To the Editor: Apparently confusion still reigns.

In your August 15, 1974 edition of *Business Insurance* on page 4, I read with interest that more than one half the countries population now has no-fault and that legislation has been passed in 23 states. There followed a list of the states involved indicating that 15 states had enacted no-fault legislation with some restrictions on the rights to sue, and eight states had passed no-fault legislation without restrictions on the right to sue.

I came across an article on page 12 of the same edition a few minutes later coming from Washington wherein the senior vp from the Aetna Life & Casualty

Company advised Congress that only 14 states had enacted some form of no-fault legislation and that every other state had rejected no-fault at least once, and others three or four times.

Perhaps because Chicago is the center of the nation such news from the outlying states travels faster and reaches that hub of commerce before it trickles through to that hub government in Washington.

Perhaps you should take it upon yourself to inform Congress of the news.

Donald R. Worgess

Worgess Agency Inc., Battle Creek, Mi.

Editor's note: Both stories were correct, to some degree. According to State Farm Insurance Cos., an objective observer, some 15 states now have passed laws which restrict the right to sue for noneconomic loss. They are

Ma., Fl., Ct., N.J., Mi., N.Y., Ut., Ks., Nv., Co., Hi., Ga., Ky., Mn. and most recently Pa. Eight others do not restrict suits for non-economic loss. Some people construe these as true no-fault laws, others don't. The states are De., Or., S.D., Va., Md., Ar., Tx., and S.C.

Court citations

To the Editor: In your *Business Insurance* issue dated August 19, 1974, on page 43, the article appears, entitled "Hold harmless forms pose biggest problem area".

In the next to last paragraph of this article, the following is stated: "Courts in a number of states, most recently Washington and Michigan, have held broad form (hold harmless) agreements unenforceable." I realize that the article originated in New York but I would appreciate very much if I could be furnished with

the court citations relating to the Washington and Michigan courts which rendered the decisions referred to above. Thank you in advance.

Ben C. Brostoff

General counsel, AAR Corp., Elk Grove Village, Ill.

Editor's note: We are not able to cite the actual court cases involved. Does one of our readers, a contractor perhaps, have information which would help us obtain the citations to answer this query?

Liability seminars

To the Editor: Your *Business Insurance* week of September 2, 1974 featured a product liability meeting, on Pages 42, 43 and 44.

The purpose of this letter is to find out more about the organization that schedules these meetings. Perhaps you can redirect

the inquiry appropriately.

1. What is the name of the group that sponsors the meetings? Do they have an address?

2. Can you report if there is a local chapter for Cleveland based personnel? Provide their address or contact references.

Russell W. Frank

Ferro Corp., Cleveland, Oh.

Editor's note: The Newark College of Engineering in Newark, N.J. sponsored the seminar on product liability. This was the fifth annual conference stressing prevention of liability. There is no local chapter in Cleveland. For more information on future product liability seminars at the college, you can contact Prof. John Mihalasky at 201-645-5341. The dates of the 1975 seminar are already set for Aug. 20 through 22.

Benefit studies

To the Editor: Your *Business Insurance* magazine is among the most informative and valuable publication in my library. I especially enjoy your analysis of the various fringe benefits made available by different employers.

I am currently evaluating our company's fringe benefit program and would appreciate any information you could provide in the form of:

1. A single list of fringe benefits generally made available by employers.

2. Any listing of fringe benefits ranked by percentage of employers using the fringe.

Although we are a small restaurant chain in the Midwest, we compete with industrial firms like General Motors for employees.

Obviously, we cannot provide the same benefit level available to General Motors employees, we still must be aware of the benefit level in order to evaluate its impact on our company.

A. R. DePoy

Treasurer, Bill Knapps' Michigan Inc., Battle Creek, Mi.

Editor's note: While we are aware of several such benefit comparison studies done by employe benefit planners and consultants, perhaps one of our readers who regularly uses analyses of this kind can provide some timely direction for Mr. DePoy.

Reprint permission

To the Editor: We would like your permission to reproduce the article entitled "It's good to offer aid to person in distress, but use 'reasonable care'" by William H. Rodda, published in your Aug. 5 edition of *Business Insurance*. We would like to reprint it in our employe publication, Hoofbeats, or as a separate mailing piece to our members.

You are to be congratulated for publishing this article and we look forward to bring the valuable information it contains to all owners and operators of Best Western Motels.

Best Western Motels is the world's largest network of individually owned and operated motels with over 1,250 properties in 900 cities in the United States, Canada and Mexico.

We feel we would be doing our motels a great service by making the article available to them.

India Nolen

Hoofbeats editor, Best Western Motels, Phoenix, Az.

Editor's note: Permission granted, as long as Business Insurance is credited.

Our Workmen's Comp must be pretty good. We insure a lot of our competition.

No kidding. We write the Workmen's Comp for some of the largest insurance companies in the United States. They know a good insurance program when they see one.

They know Commercial Union wrote the first policy of this type in America, way back in 1886, and that over the years, we've pioneered innovative plans and services to meet our customers' changing needs.

They know we offer a wide range of rating plans: guaranteed cost, participating, retention and retrospective. They know Commercial

Union has the experience, and the flexibility to write imaginative policies that keep costs down.

And let's face it. Keeping costs down is pretty important, even for some of the largest insurance companies in the country.

Our competitors know how much they save with Commercial Union, and they know how much they gain, too. They know they're getting one of the fastest claims services in the industry, which makes it very easy to file a claim. Plus one of the most rigorous loss prevention programs available anywhere.

Which makes it harder to have one in the first place.

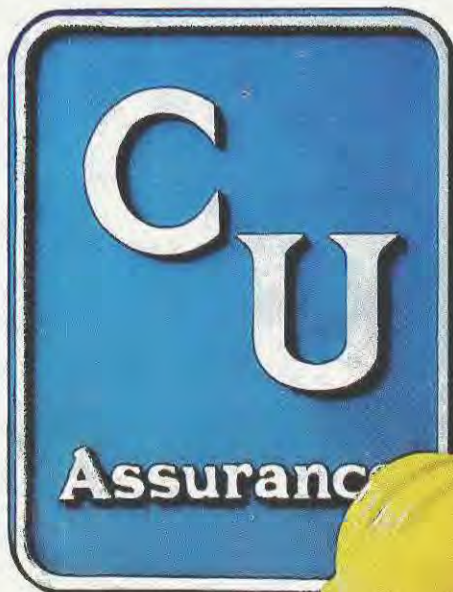
In short, we think we offer the best deal, and the best services, of any Workmen's Comp writer in the business. After all, we insure a lot of our competition. We're probably

insuring your competition, too. So maybe you ought to ask your Independent Agent about us.



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Initial costs for pension act are \$9.65 million

WASHINGTON—The Labor department told Congress last month it will need \$9.65 million for "start-up costs" of new programs in the department mandated by the Employee Retirement Income Security Act of 1974.

The appropriation would cover anticipated expenses for the current fiscal year which ends next June, but is considerably lower than the \$30 million Labor originally requested. The larger amount was cut by the White House Office of Management and Budget.

Full year appropriations for the fiscal year beginning next July could run as high as \$50 million or \$60 million, according to assistant Labor secretary Paul Fasser.

The appropriation is to pay for the hiring of 350 new employees in the Labor Management Services Administration, the Labor department agency which will have responsibility for most of the new department programs created by the pension reform bill.

SOME LABOR department officials predict that as many as 2,000 new employees, or more, might eventually be needed in the department as a result of pension reform.

"Regulations establishing the standards of reporting, disclosure and fund operations under which the administrators of employee benefit plans must operate will need to be developed and disseminated," Richard F. Schubert, Labor department undersecretary, said.

"This effort must be completed by Jan. 1, 1975, in order that these administrators may comply with the initial reporting date of April 1, 1975, for the receipt of plan de-

scriptions," he said.

"In addition, the department must be prepared by Jan. 1, 1975, to investigate complaints regarding the breaching of fiduciary standards on the part of plan administrators.

"At the same time, we must be prepared to deal with requests from plan administrators for exemption from or variances to aspects of the legislation," according to Mr. Schubert. "All our efforts will require massive informational efforts in order to maximize effectiveness."

The Labor department has primary responsibility for enforcement in the reporting fiduciary, and disclosure areas of the new law. ■

RISK MANAGEMENT SERVICES

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Home Insurance Companies

A CITY INVESTING COMPANY GROUP

INA offers a 'cash flow' supplement

PHILADELPHIA—A risk management and insurance evaluation service that INA is terming "cash flow insurance" is being offered to large and small clients.

Rather than offering any new type of coverage, the insurer is combining evaluation and appraisal services with available INA insurance policies.

"The name of the game today in American business is cash flow," said Richard Light, vp at INA. "For many years, the insurance industry has done an acceptable job in protecting the physical exposures of American business," continued Mr. Light. "But with today's inflationary climate and the sharp focus on cash flow, a business needs more than regular insurance protection."

INA PROPOSES to supplement regular insurance coverage with a number of consultation services, including:

- advisory services on new federal regulations;
- rehabilitation services;
- real property evaluation;
- cargo damage control;
- inventory certification;
- loss control service;
- salvage and appraisal facilities; and,
- claims service.

Rates for these services are "impossible to define," according to Mr. Light, since the services are tailored to suit each customer's individual needs. ■

info for buyers

To receive literature listed in Info for Buyers write directly to the name and address accompanying each item, mentioning that you saw the offering in *Business Insurance*. Readers are welcome to submit items for possible inclusion in the column. A sample of your literature should be sent to Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Il. 60611.

• **Risk Management Reports**, a series of objective, well-researched discussions of risk management topics, is published by *Business Insurance*, a Crain Communications publication, yet the reports are editorially independent of the magazine. There are six issues a year, and each concentrates on a special topic, such as risk management in Europe, product liability control and the risk management function in management. Subscription is \$60 per year. Write *Business Insur-*

ance, 740 N. Rush St., Chicago, Il. 60611. Checks should be made payable to Risk Management Reports.

• **Institutional Research Consultants** is offering a legal report entitled **The Current Trend of Charitable Immunity as It Relates to Tort Liability**. The report details the charitable immunity doctrine in the United States, including definition, history and current trends. The latest court decisions and legislative action are also covered. The price is \$5.00. Mail requests to 5725 Fremont Pike, Box 181, Stony Ridge, Oh. 43458.

• The 1974 edition of the *Business Insurance Directory of Commercial Insurance Agents and Brokers* is available. The directory contains information—including financial data—on leading insurance agents and brokers serving corporate consumers of insurance and employee benefit plans. In addition, editorial features analyze the agency and brokerage business. The single copy price is \$4.95; quantity orders (10 or more) are \$3.95 per copy. Write to Business Insurance Directory, 740 N. Rush St., Chicago, Il. 60611. Make checks payable to *Business Insurance*.

• A booklet entitled **How the Lloyd's Market Works** is the result of a seminar held at the NAIA 1974 midyear meeting in London. The article traces the placement from the American correspondent, to the Lloyd's broker and eventually the Lloyd's underwriter. Copies of the booklet can be obtained from Anthony C. Bova, CPCU, Senior vp-marketing, Wohlreich & Anderson, 55 John St. New York, N.Y. 10038.

• Commerce Clearing House Inc. is offering **New 1974 Pension Reform Highlights**, a simplified, capsule coverage of the major benefits and changes. Designed for widespread goodwill distribution, the booklet is 48 pages long and costs 50 cents per copy (minimum order of \$1.00). Write the CCH, 4025 W. Peterson Ave., Chicago, Il. 60646.

• **Catastrophe Protection for Banks** and other financial institutions is a magazine article reprint written by the president of Wohlreich & Anderson Ltd. He warns insurance managers not to rely on industry insurance guidelines alone. He provides and discusses a detailed coverages check-list suggested to supplement guidelines in determining catastrophe insurance needs for financial institutions. For a free copy write to Anthony Bova, Wohlreich & Anderson Ltd., 55 John St., New York, N.Y. 10038.

• **Protection for Your Computer Systems** details some of the potentials for losses due to failure to take essential steps to protect computer equipment and records. For a free copy write B. Gorrilly, Wackenhut Systems Corp., 3280 Ponce de Leon Blvd., Coral Gables, Fl. 33134.

• Royal-Globe Insurance has prepared a 64-page booklet entitled **Burglary Protection Devices**. It is profusely illustrated with lock and alarm system diagrams, and includes pointers on how to protect against burglary. Cost of the booklet is \$1. Requests should be mailed to Joseph Venturelli, Corporate Communications Department, Royal-Globe Insurance Companies, 150 Williams St., New York, New York 10038.

• The Property Loss Research Bureau has released a booklet

dealing with the various loss adjustment problems involving condominiums. The booklet sells for \$1.00 and is available by writing the bureau, 20 N. Wacker Dr., Chicago, Il. 60606.

• **Fire Protection Trends**, a bi-monthly newsletter published by the Sierra Group, a nationwide fire protection consulting engineering organization, contains news items concerning developments in the fire protection field. To be placed on the mailing list without charge, write Kenneth E. Berg, The Sierra Group, 145 Natoma St., San Francisco, Ca. 94105.

• An information packet on a concealed automatic sprinkler called **The Unspoiler** is being offered by the Star Sprinkler Corp. The sprinkler is designed in 16 color styles to match ceiling tiles. The packet includes engineering specifications and installation instructions. For a free copy, write Bob Worthington, vp of Sales, Star Sprinkler Corp., 4545 Tacony St., Philadelphia, Pa. 19004.

• National Loss Control Service Corp. has a brochure entitled **Toward a More Quiet Environment**. NATLSCO's noise and vibration consulting service is described along with examples of typical jobs and details of their complete sound laboratory. They



are not affiliated with manufacturers of noise control products and so their consultants are able to choose the best solution for each problem. To obtain a free copy of this brochure write National Loss Control Service Corp., Long Grove, Il. 60049.

• **Micro-Gen Equipment Corp.** is offering a free booklet outlining the capabilities of Micron Generation equipment for control of smoke odor and other undesirable odors. For free copies of the booklet write the company, 4418 Woodcock Dr., San Antonio, Tx. 78284.

• **Basic Drug Program**, released by Paid Prescription, describes how the program operates, some highlights of the program, Paid Prescription locations and utilization and cost control. For a copy write the company, Richard J. Wolpert, 875 Mahler Rd., Burlingame, Ca. 94010.

• **Insurance Tips for Not-so-Big Businesses**, released by Zurich-American Insurance Cos., offers suggestions that should lower your premiums. The brochure explains why and how they care about your costs and safety too. For a copy write Zurich-American, 111 W. Jackson Blvd., Chicago, Il. 60604.

• **Werbel's General Insurance Guide** is an encyclopedia of all forms of insurance other than life. It includes independent chapters for various types of property and casualty insurance. Approximately 2,400 pages are included in this updated publication. *Business*

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Insurance readers are offered a one-third discount, making the cost \$27.00 plus New York sales tax, if applicable. For a copy of the guide write V. Merkel, Circulation Department, Werbel Publishing Co., 595 Old Willets Path, Smithtown, New York 11787.

• The 1973 **Argus F.C.&S. Chart**, an annual statistical publication, is now being distributed by the National Underwriter Co. This year's chart has detailed exhibits of the financial and operating reports of 1,036 insurers of all types. Copies may be obtained for \$4.95 per copy from the company, 420 East Fourth St., Cincinnati, Oh. 45202.

• Unigard Insurance Group offers a free Occupational Safety and Health Administration record keeping service to policy holders. Triggered by routine claims, Unigard says they will make it unnecessary to complete OSHA form number 101 and they will advise on additional information requested. For more information on the record keeping service write Unigard, Charles G. Jones, Financial Center, 1215 Fourth Ave., Seattle, Wa. 98161.

• An 80-page catalog, including a 20-page OSHA reference section, has just been published by Seton Name Plate Corp. The four-color catalog illustrates and describes hundreds of accident prevention signs and tags which are offered to exactly meet OSHA requirements. A handy sign selection guide is furnished in chart form to help the reader quickly identify and select the proper signs and tags to meet OSHA obligations. For a free copy write Seton, Dept. NR4, New Haven, Ct. 06505.

• **Organizing for OSHA: A Management Challenge** focuses on developing a systematic managerial process aimed for OSHA compliance. The book, issued by Risk Treatment Services Co. Inc., includes a management information system, employe orientation, appraisal of conditions, decision-making tools, recordkeeping systems and an OSHA-oriented approach to purchasing, personnel training and product design. The cost of the book is \$7.50. For a copy write James O. Matschulat, Risk Treatment Services, 6 E. 43rd St., New York, N.Y. 10017.

• **Comprehensive Health Insurance**, underwritten at Lloyd's of London for the first time, has been released by Illinois R. B. Jones Inc. This is a descriptive brochure about a new accident and health plan. For a free copy write T. Cath, Illinois R. B. Jones, 175 W. Jackson Blvd., Chicago, Il. 60604.

• **Photographic Identification Services** details the need for a positive identification system and how the Wackenhut photo ID system is utilized by business, industry, institutions and the professions. For a free copy write J. C. Bachmann, Wackenhut Corp., 3280 Ponce de Leon Blvd., Coral Gables, Fl. 33134.

• The Aetna Life and Casualty Co. has made available a kit concerning the Occupational Safety and Health Act entitled **Obligation or Opportunity**. The kit includes an introductory booklet pertaining to OSHA in general and three individual booklets; Sources of information, Premises inspection guide, and How to avoid duplicate recording keeping. Write William F. Madison, Aetna Life and Casualty Co., 151 Farmington Ave., Hartford, Ct. 06115.

First legal plan with employer contributions

NEW YORK—After three years of extensive research into prepaid legal plans, Tolley International Corp. has instituted such a plan, the first of its kind under the Taft-Hartley Act, recently amended to permit employer contributions.

The 100,000 members of the Office & Professional Employees International Union, AFL-CIO, entitled to this new benefit at Tolley, have been asked to include in future demands, "the necessary employer contribution of \$50 to \$120 annually per member". This will allow the various locals throughout the states and Canada to participate in the trust fund set up for these legal services.

Objectives of the new prepaid legal plan include:

- improvement of the availability of legal services;
- development of the lawyer-client relationship in a non-crisis or non-litigation situation;
- improvement of the prospect of obtaining quality legal services at a reasonably low cost.

Corporation president, Russell M. Tolley, cited a dire need for legal services for middle income families earning between \$6,000 and \$18,000 a year.

"TO THIS group (and, indeed, to many families with incomes far higher) being named a defendant in a law suit or criminal charge would rank second only to major illness in terms of catastrophic effect," he said.

It was pointed out that members of this group "may realize they have a problem, but out of a fear of the cost of legal services decide not to take the matter to a lawyer."

Provisions of Tolley International's plan encourage preventive law, by encouraging the employe to consult counsel before the situation grows to catastrophic proportions.

THE COST NEED not overly concern the employe since it is financed through monthly employer contributions ranging from less than \$5 a month to \$10 per employe.

"This monthly payment has the effect of budgeting for the costs of relatively inexpensive, useful legal services, and, at the same time, provides insurance for major legal problems where substantial legal expenses may be involved," the benefit booklet pointed out.

The plan is divided into seven

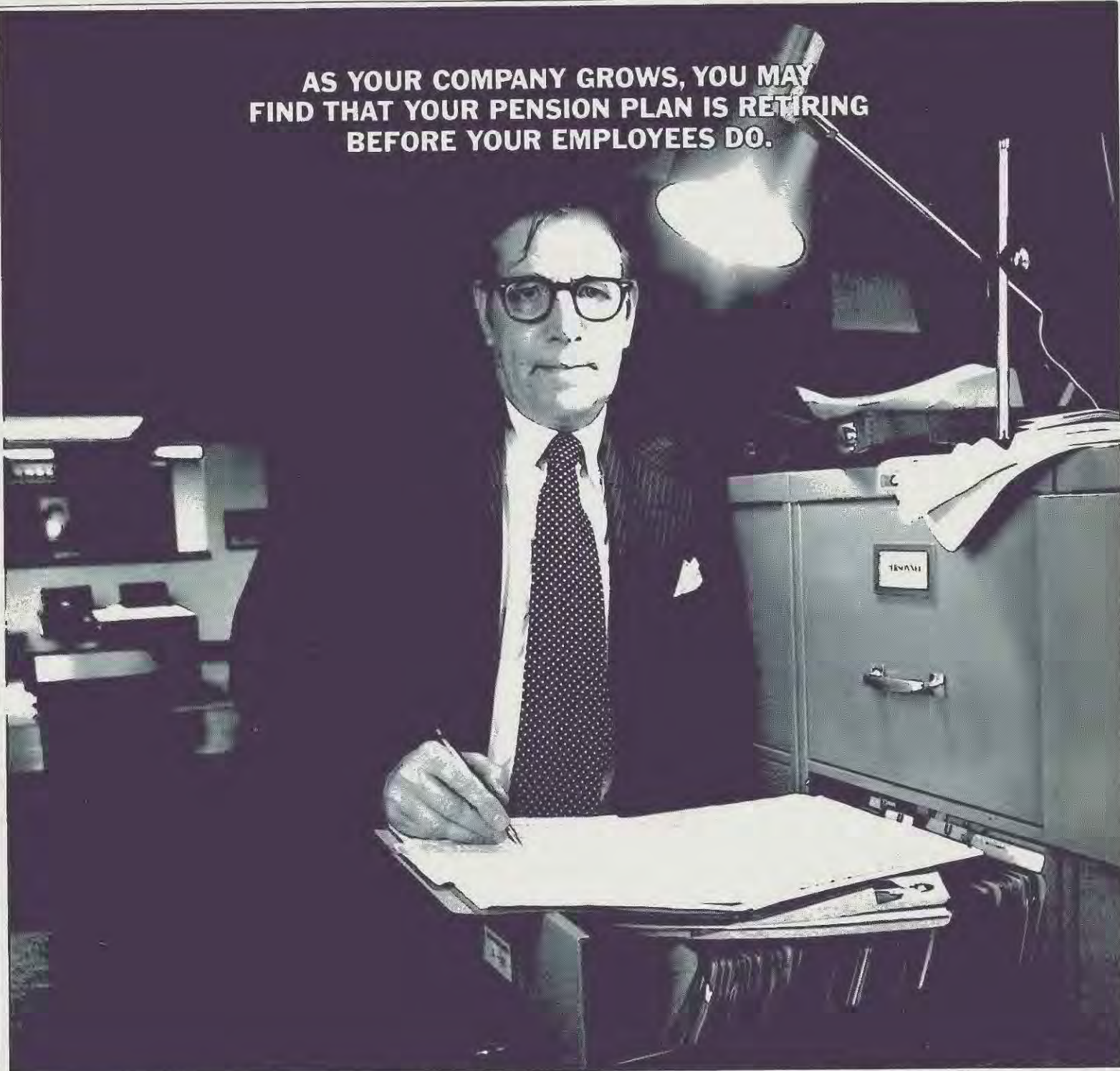
sections of coverage. The sections include:

- consultation, with a benefit limit of \$80 per calendar year;
- domestic relations, with a benefit limit of \$500 per year;
- real property transactions, with a limit of \$150 per year;
- economic matters, with a limit of \$450 per year;
- criminal matters, with a \$3,000 limit per year;
- defense of civil suits and administrative matters, with a limit of \$1,000 per year;
- representation of plaintiff or moving party with a \$200 limit subject to a \$50 deductible.

Each benefit section is broken down even further to cover the entire gamut of legal services.

Members of the group legal plan are free to choose their own lawyer, making this particular plan an open panel as opposed to a closed panel where members of the group must choose from specific attorneys.

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The whole idea being: to help your company pinpoint the right level for its pension costs, streamline its plan administration, and let you get the most out of your company's hard-earned money.

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Defend U.K. risk man against charge that he's a 'poor relation of ASIM'

LONDON—Risk managers in Britain are still intrigued by the *Business Insurance Risk Management Report No. 1* on Europe and the U.K. which got sharp attention earlier this year (*Business Insurance* June 10).

Insurance, a magazine published by the London Financial Times, commented at that time: "The overall picture drawn by the report is one of the U.K. and Europe being virtually ignorant of the principles of risk management, merely waiting for the U.S. experts to show them the way."

John R. Parkinson, chairman of the Assn. of Insurance Managers in Industry and Commerce, (AIMIC), defended his members' expertise when he reviewed their

approach to the subject recently.

He told *Business Insurance* in an exclusive interview: "I'd certainly defend the U.K. and European insurance/risk manager against any contention that he's a poor relation of his ASIM counterpart."

HIS MEMBERS' organization, AIMIC, is growing steadily in prestige, he feels.

To suggestions that risk managers in Western Europe might be behind their U.S. counterparts in their handling of insurance matters, Mr. Parkinson, who is group insurance manager for the big U.K. chemical group Albright and Wilson, said: "Certainly risk management has still a long way

to go in the U.K., but surely nobody is suggesting that it has reached its goal in America."

He went on to outline in detail how risk management is being studied in Britain.

"Firstly, I think it's important to define just what is covered by the words," he contended.

"The term 'risk management' was indeed imported from America some years ago, but that does not mean to imply that the principles of risk management were imported at the same time.

"Any good insurance manager has always been closely involved with fire insurance surveys, safety surveys and employers' liability claims investigations, fire prevention, security, decisions as

to self-assumption or self-insurance of risks, risk transfer and other aspects of risk management which were practiced long before we used the term to describe them.

"Really, the recent developments in the field have been towards sophistication of what has been going on in the UK and Europe, as well as America, for many years."

HE ARGUED further: "We've always in Britain considered this wide range of involvement as being part and parcel of the good insurance manager's job. It's for this reason that most of our members still use the title insurance manager, rather than risk manager. But this doesn't imply any lack of expertise.

"My association, that is AIMIC, now has over 400 members. Insurance or risk management is their prime responsibility. Considering the size of the two

countries, I think that compares very favorably with the 2,000 or so members of ASIM.

"Our bases of membership differ. Ours in Britain is on an individual basis, and our rules for membership are very rigid. Members are actually engaged in work of prime responsibility in insurance or risk management departments.

"I understand ASIM membership is corporate. I think I'm right in saying there are many individually nominated members of ASIM where insurance is not the prime function of the member.

"The philosophy of risk management is growing apace among British management."

AS FOR EUROPE, Mr. Parkinson asserted: "I'd certainly dispute the statement from some sources that insurance is considered a rather mysterious and complicated necessity by most Europeans, and the term risk management is almost unheard of.

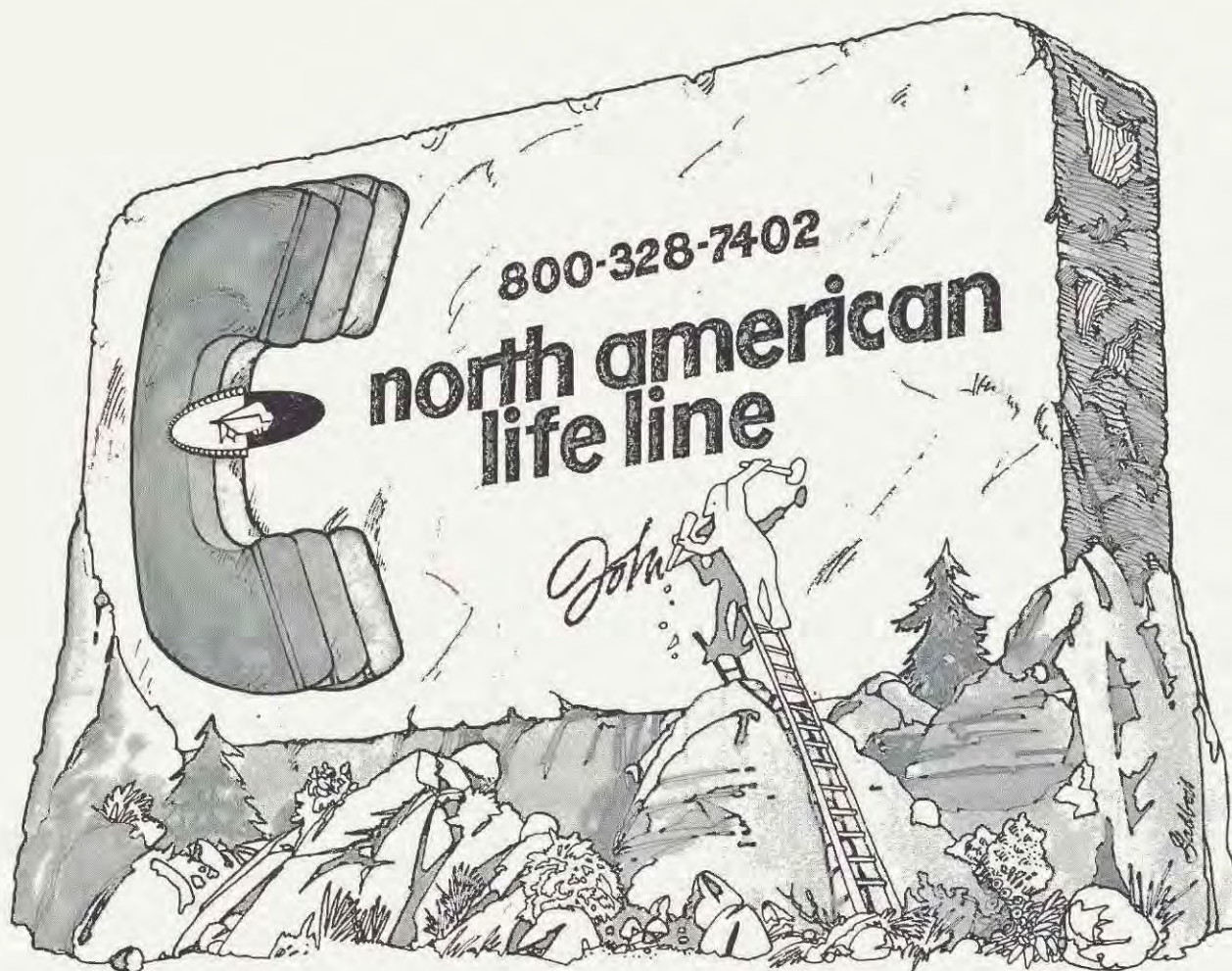
"My involvement with my counterparts in Europe certainly doesn't support this. It's a totally unfounded allegation. There's a high level of expertise. Organizations like AIMIC and ASIM have been formed in various European countries, and this wouldn't have happened if there hadn't been enough insurance/risk managers wanting to get together on their common problems."

He explained that AIMIC supports the idea of a European Federation of Insurance Buyers, in which other countries will participate. And, in fact, insurance buyers from several countries have met together since Britain joined the E.E.C. (European Economic Community).

With nine different national legislations in this common market, as it is styled, there is a need for European insurance buyers to speak with one voice on their views at times.

"But just put a dozen ASIM members, and a dozen European insurance/risk managers together round a table on specific problems, and you'll quickly find their expertise is high all around," Mr. Parkinson concluded. ■

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R.R. safety violators on increase

WASHINGTON—U.S. railroads paid nearly \$1 million in fines for safety violations in the fiscal year ending last June, the Federal Railroad Administration (FRA) has reported.

The total was \$944,372 based on 4,564 claims, an increase of \$89,264 over the previous fiscal year when 4,140 claims were settled, according to the FRA report.

The average claim settlement, based on these figures, was \$207.

"**WE ARE NOT** happy that the number of claims has increased during this past fiscal year," FRA administrator John W. Ingram said. "It is, unfortunately, another sign of the badly deteriorating plant and equipment of our railroads.

"Safe operating conditions must be maintained, however, and we are doing our best to help the railroads improve a pretty gloomy accident picture," he said.

FRA employs 185 inspectors whose primary assignment is to monitor the safety inspection forces employed by the railroads themselves.

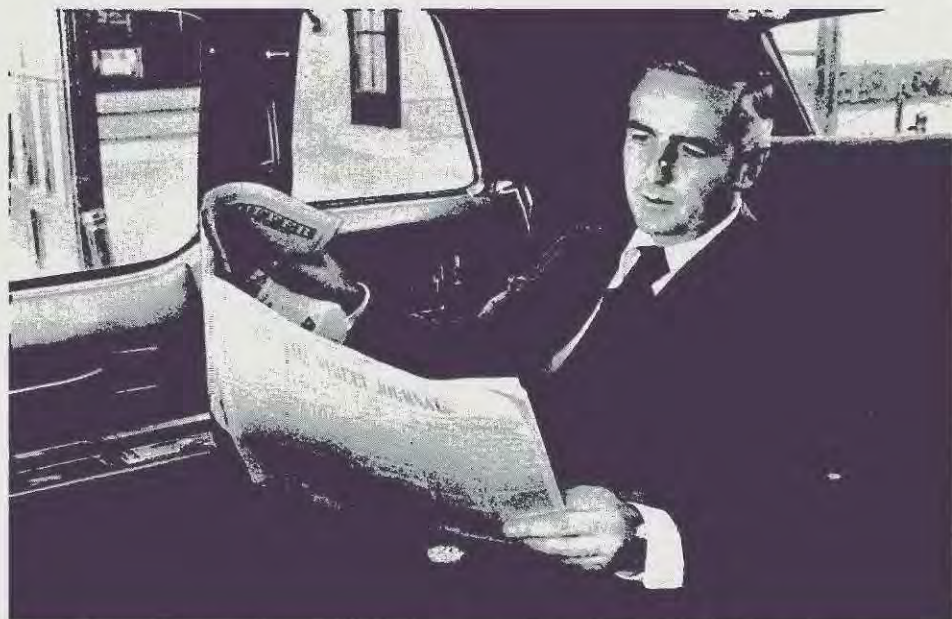
Railroads are exempted from coverage by the Occupational Safety and Health Administration (OSHA). ■

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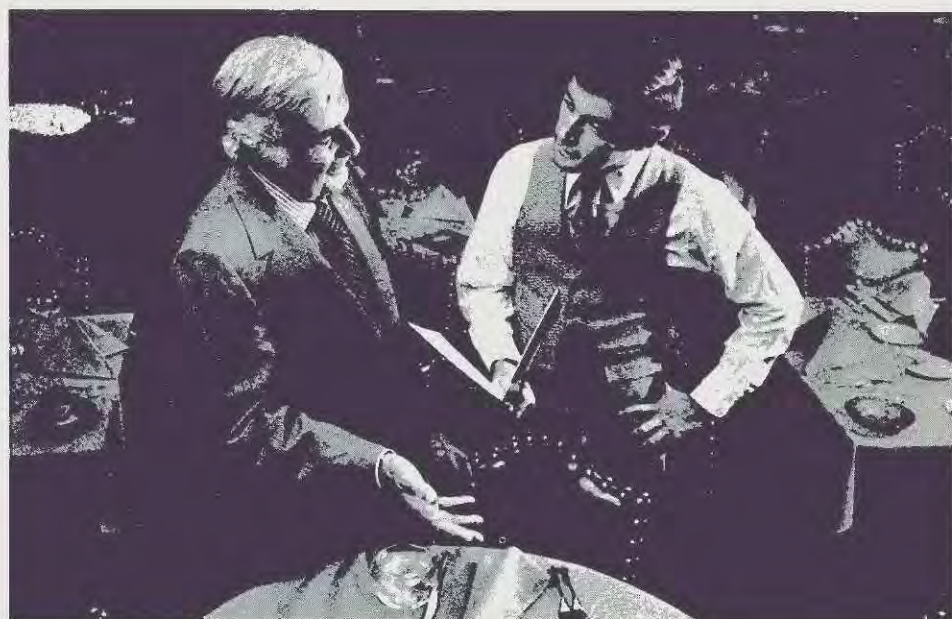
Assurance to cope with credit problems, cash flow, and business overhead expenses for the sole proprietor.



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Gillette seeks to shave fire risks from European production facilities

By MARGARET LeROUX

BOSTON, MA.—Upgrading the fire protection standards of Gillette's major European production facilities has been "our biggest project" in recent months, according to Bill Mather, corporate risk manager.

The goal of the \$2 to \$3 million project, Mr. Mather explained from his office high atop the Prudential Plaza, overlooking the greater Boston area, is to achieve HPR status for the plants. "We want to make sure our risks are as good as we can make them," he said.

Once the project is completed, (sometime this Fall, Mr. Mather estimated), the next item on the agenda is upgrading insurance on the facilities.

Gillette insures all its U.S. facilities against property damage with the U.S. Factory Insurance Assn. "We don't have a general policy for our European plants," Mr. Mather said, "in the past we've bought coverage on a country to country basis."

A REGIONAL policy underwritten by Switzerland General insures facilities in France, Great Britain and Germany against property damage.

The interrelationship among Gillette plants (For example, the West Berlin Trac II plant supplies all of Western Europe) means a greater exposure for property damage and business interruption.

"We're looking at a greater use of regional policies to reflect this exposure," Mr. Mather said, "The problem is to get the best combination of brokers and underwriters to put together coverage to reflect these factors."

Product liability is another important exposure for the company whose 850 products are sold in 200 countries. Gillette's total sales for the first six months of 1974 rose 22% to \$583,974,000 from \$480,359,000 for the same period in 1973. Total net sales for the year ended 1973 were \$1,064,427,000.

Before any product is put on the market, it undergoes thorough testing at the Gillette Medical Evaluation Laboratory in Rockville, Md. A consumer affairs department works with both public relations and legal personnel to develop and present company positions. The department handles all product-related consumer correspondence for the appliance, Paper Mate, personal care, safety razor and toiletries divisions. This amounts to approximately 100,000 letters a year.

"MOST COMPLAINTS are settled by refund or replacement," Mr. Mather said, "it's rare that we get to the point of going to court."

"We're willing to toe the mark if we're liable," he continued, "but we won't just write off a nuisance claim with a settlement."

Gillette's product liability insurance is written by Commercial Union and an arrangement with the underwriter "allows us to handle the case right up to the courtroom door, if necessary," Mr. Mather commented.

Commercial Union also writes Gillette's umbrella liability policy through Frank B. Hall brokers of Massachusetts, "in excess of whatever local limits are for the overseas facilities," Mr. Mather said. In the U.S. the underlying limit is \$100,000.

Occasionally a special liability

policy is needed, as was the case when a lion was used in a commercial for Tame cream rinse.

"I got to wondering what would happen if the lion attacked the model or damaged the studio," Mr. Mather recalled. He investigated and found there was no special coverage in the company's general liability policy for that particular situation.

Before a single roar was heard in the studio, a special \$3 million property damage and liability policy was signed with the Mt. Vernon Fire Insurance Co.

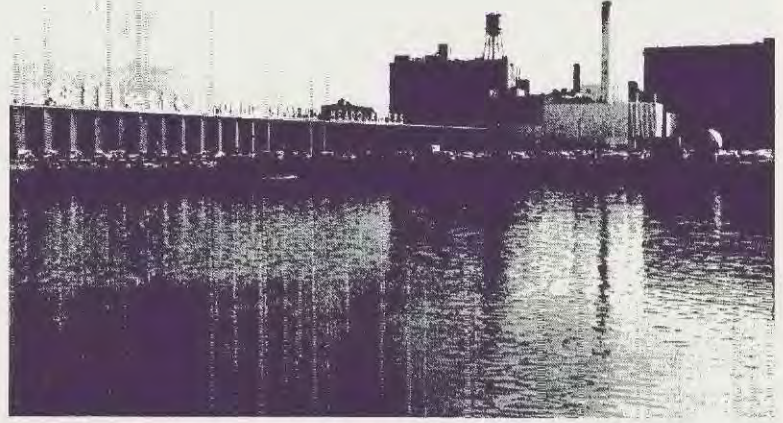
Sharing the premiums for the one-day policy were BDD&O, the advertising agency and Sunlight Pictures Corp., which filmed the commercial. The paid \$1,000 each.

It's been the policy of Gillette's insurance department to avoid the confinements of a package policy.

"For us, a package policy by nature tends to be more rigid than we like," Mr. Mather commented, "Whenever possible we try to adapt the policies to reflect our needs."

TWO SUCH adaptations Mr. Mather has effected include installment paying of premiums for the three-year domestic insurance policies. For domestic casualty insurance, Gillette has signed an agreement with Commercial Union to defer payment of monies used to establish reserves for claims not yet paid.

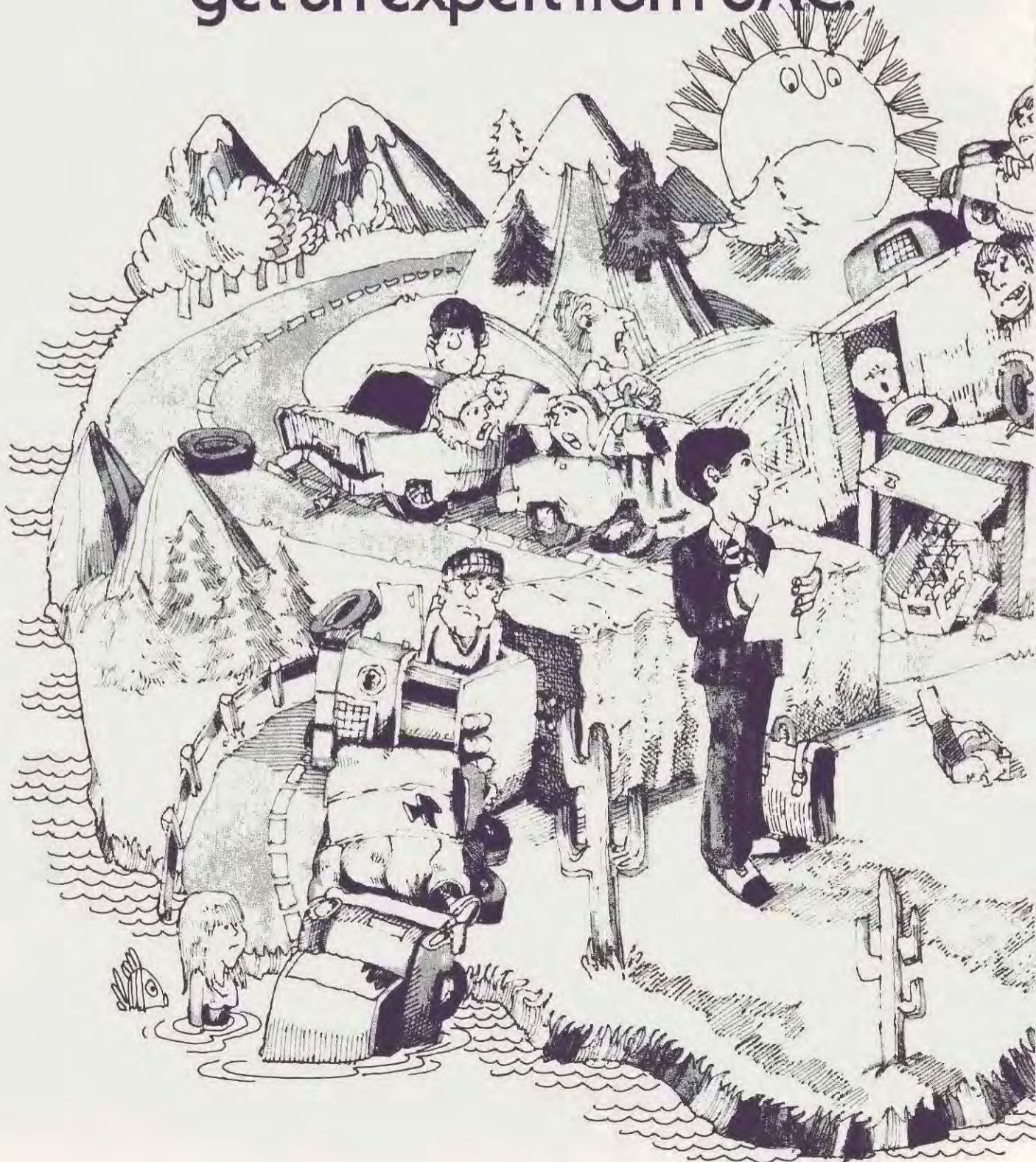
Mr. Mather explained: "If

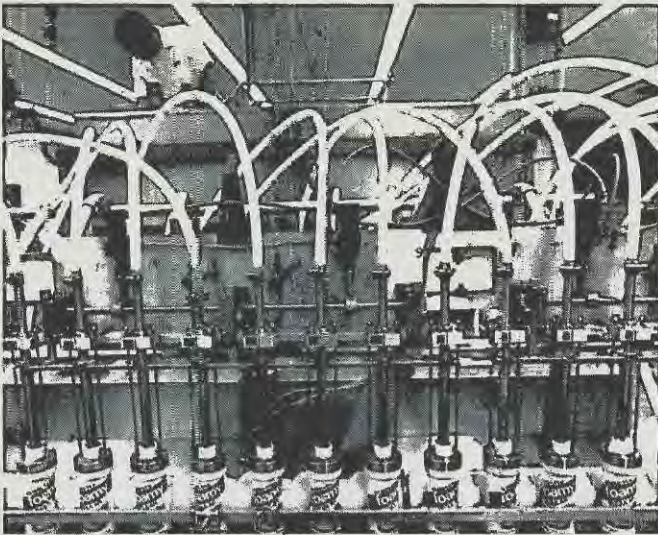


The safety razor division headquarters in South Easton, Ma.

there is a claim against us, we will reserve only 25% of the amount needed to cover it and supply the insurance company with a letter of credit for the balance."

Why settle for an ordinary adjuster when you can get an expert from UAC.





Filling cans with aerosol shave cream.



Assembling electric shavers.

Since the time involved in settling a claim is often considerable the company has the use of the

reserves while the claim is being settled. Though the company has con-

sidered self-insuring property and liability risks, "We've found we couldn't do the administrative

work any more efficiently than the insurance company is doing," Mr. Mather said.

Some areas, casualty and workmen's compensation coverage, for example, "involve a good relationship between us, the broker and the underwriter," Mr. Mather continued, "and we'd only change if we were unhappy with the service we're getting or if the price we're paying is way out of line with our own losses."

ANOTHER CASE in point is the company's boiler and machine insurance, written by Mutual Boiler.

"We just went through competitive bids for this insurance, something we hadn't done for eight or nine years," Mr. Mather said, "and there's no indication we'll change for another six years."

"It's not one of our big policies," he explained, "our exposures don't change radically, our ser-

vice requirements are adequate and claims level is minor." The company suffered only three or four minor losses of less than \$5,000 apiece in recent years, Mr. Mather said.

Other policies Gillette has include travel and accident with Continental Assurance and aircraft with the Associated Aviation Underwriters.

For policies with a minimum amount of service requirements, "the main thing that's important is price," Mr. Mather admitted, "and we tend to take advantage of the condition of the market."

Marine insurance is basically split with the major subsidiaries in Panama, England, France and the U.S.

Gillette's insurance department divides its risks into three areas: protection of assets, protection of earnings and protection against third-party liability. "We are fortunate in having a new company president whose first assignment with the company was involved with structuring the insurance department," Mr. Mather noted. Colman M. Mockler, Jr. was named president of the company this summer.

MR. MATHER came to Gillette in 1963 and worked in the employee benefits department until 1966 when he was named head of the corporate insurance department. The department was officially titled corporate risk management two and a half years ago.

Admitting, "It's impossible for me to know everything that's going on in the company," Mr. Mather compensates by "spending a certain portion of my time educating people to be aware of risk areas."

Another huge chunk of his time is spent hoppingscotch the globe to consult with managers of Gillette's international subsidiaries and one evening a week for the next few months you can find Mr. Mather in the classroom—he's teaching a course in risk management at the Insurance Institute at North Eastern University.

With all the activity, does the busy Gillette risk manager have much time for theorizing? "When asked to expound on the vast and deep theories of risk management," he quipped, "I like to quote our new company president: 'Whenever I get the urge to theorize, I go lie down till the urge passes.'"

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Assumptions to be formed by actuaries

CHICAGO—Employers will have no role in forming actuarial assumptions for pension plans under the new Employee Retirement Security Act, according to Richard Daskais.

In a speech before the benefit plan specialists conference here Mr. Daskais, of Daskais & Walls Inc., an actuarial consulting firm, said the actuary will have responsibility for all assumptions made. Under the new law, actuarial evaluations must be made every three years.

Mr. Daskais said actuaries must take into account interest rate increases and effects of inflation on salaries and wages; if those assumptions are not made, the actuary will have to qualify his evaluation to the actuarial assumption rate used to determine contributions.

The conference, which was sponsored by Charles Spenser & Assoc. Inc., was held at the Regency Hyatt hotel.

Standard laws may make oil spills insurable risk

NEW YORK—"Nations sharing a common marine environment must correlate their legislation to effectively control pollution," Francis A. Lewis, chairman of the International Union of Marine Insurance (IUMI) Pollution Risk Committee said, in delivering his report before the IUMI convention in Berlin last month.

There is "an emerging body of international law" to regulate oil-carrying vessels in international waters to make this a more insurable risk by lowering the incidence of costly spills.

Although there is "no convention or international law in international waters" currently, "there is a move towards standardization" he said. This was pointed out in an extensive report compiled by his committee on the subject of water pollution through oil spills and

other noxious substances.

Despite this upcoming trend towards standard legislation, there would be no change in insurance costs, Mr. Lewis told this magazine.

"**THERE ARE** emerging insurance markets," however, he contended. Pollution insurance is "just emerging as a special insurance. Traditionally, P&I underwriters handled this. Now that the spotlight is more on pollution control: P&I writers are looking at it" more seriously as a potential market.

"This is not a cheap proposition," Mr. Lewis contended. Underwriters charge exorbitant rates for the coverage because of the high risks involved in oil spills.

"Experience shows that spills cost a lot to clean up. The cost for a clean-up runs from \$8 a barrel to

\$1,500," depending on where the oil was spilled, what kind of oil it was and the temperature, Mr. Lewis explained.

The market is very competitive. There is no official rate schedule on marine insurance and "I doubt if there ever will be," Mr. Lewis surmised.

However, with international standardization, this may be a more insurable risk. "This thrust towards regional and standard legislation will bring with it more insurable risks than some of the 'no limit/absolute liabilities' regulations that now exist in some countries," the chairman explained in his report.

Largely, American states have highly exercised legislation over oil spills. Generally, the policy is "he who spills the oil regardless of cost, pays for it, having absolute

liability," it was noted.

International maximum liability runs as high as \$14 million.

The discontinuity in countries' policies is evident. Difficulties arise because of this when an oil spill occurs in international waters where only local laws presently apply.

"**NATIONAL** laws at variance with the convention will be changed to parallel it since departure from an internationally accepted norm can only impede the freer flow of trade that all of us seek," Mr. Lewis said.

No country has yet ratified the IMCO Pollution Convention, out of the 79 national representatives present at a meeting last year to discuss standard regulations. As of Sept. 1, however, Denmark, Egypt, Sweden and Switzerland

have been going through the legislative processes to enact the regulations.

All the regulations are specifically geared towards protecting the international marine environment from oil spills. For the first time, light refined oil products (under the regulations) are subject to the same regulations as heavier and crude petroleum products.

The IUMI Pollution Risk Committee report concluded that the "timely and appropriate awareness by our member organizations" of the ecological situation assures "that the insurance community will continue to fill its traditional role in a viable world commerce by underwriting the reasonable risks necessary to its conduct."

IN SUBMITTING this report to the IUMI, Mr. Lewis touched upon man's tragic role in oil spills. "In all reported polluting discharges of oil or hazardous substances, man-made or man-caused errors produced the overwhelming majority. Marine casualties (collisions and groundings)—while always more dramatic—cause an apparent mere 15% of the spills."

The report is based on the input of 31 IUMI's national member associations (the American Institute of Marine Underwriters is the U.S. member). It is divided into five sections: law, clean-up, convention status, general observations and conclusions. ■

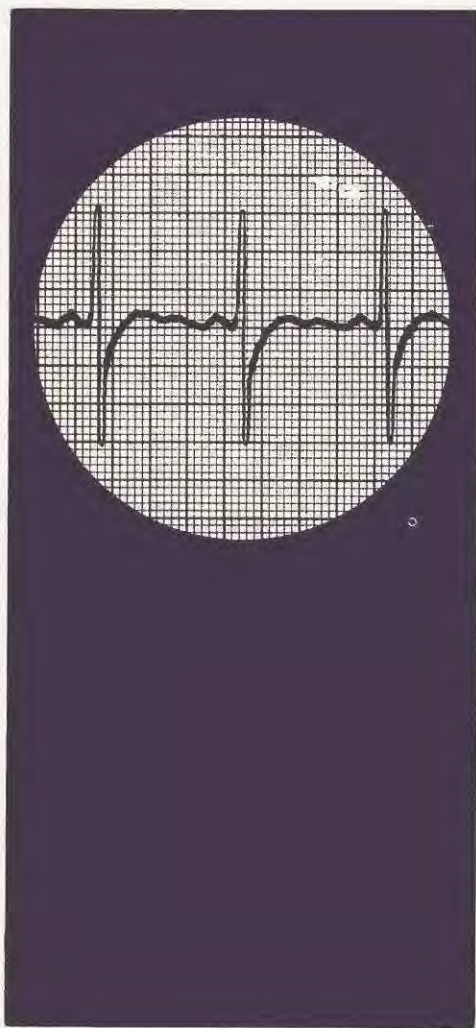
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Urge state to make no-fault mandatory

WINTHROP, WA.—Washington motorists are not rushing out to buy no-fault auto insurance. The Washington Assn. of Independent Mutual Insurance Agents thinks it knows why.

Part of the problem, they say, is that it is not mandatory for insurance companies to offer no-fault to policyholders. As a result, the public is confused and reluctant to buy the coverage. That is why the association is pushing the state insurance commissioner to make it mandatory for all insurers to participate in this program.

"Drivers have the right to reject the coverage if they choose to do so but many of them are denied the right when their insurer doesn't even offer the option. We think the insurance commissioner has to change the rules accordingly," said association president, Ed Thompson.

THE AGENTS are also asking for a standardization of personal injury benefits under the state's automobile personal injury protection plan. Currently, the plan provides minimum benefits of \$10,000 for bodily injury and \$10,000 in disability income. Some companies were noted to offer higher limits.

The more than 100 members of the agents' association attending the annual convention pledged to join the insurance industry's effort toward a three-way workmen's compensation program.

"Insurance companies have broad experience in workmen's compensation, which has been demonstrated in dozens of states across the country for many years. There is no reason why the benefits of that expertise should be denied to workers who are covered by the state fund here in Washington or by their employers who are self-insured," the president stressed. ■

Dallas city officials to get liability coverage

DALLAS—Professional liability insurance for 2,263 law enforcement officers and city officials was approved by the city council here Sept. 23. Covered under the professional liability protection are legal fees and damage awards that arise from negligent acts, errors and omissions while in the line of duty.

Asst. city attorney T. Alex Eastus said a rise in the number of lawsuits filed against policemen was the reason for seeking the insurance. City officials, such as the mayor, council members, the city manager and his three assistants are included because, according to Mr. Eastus, the chain of commands extends, technically, up to the city officials, and they could be named as co-defendants in a lawsuit.

THE POLICY has limits of \$100,000 per person and \$300,000 per incident. There is no aggregate limit per policy year.

Three bids were submitted for the contract. The highest was \$164,000, the middle one nearly \$95,000, and the lowest, submitted by Market Insurance Co. of Chicago, was \$74,252, according to Mr. Eastus. The policy is re-insured through Reserve Insurance Co. of Chicago.

Also included in the coverage are police reserves, park police, arson investigators, court and warrant officers, city security officers, the city attorney and police liaison attorneys.

Mr. Eastus said he expects more litigation in the future now that the city's policemen are insured. Texas law prohibits wage garnishing and most personal property is exempt from expropriation to pay legal damages. "As a practical matter, most policemen couldn't be sued for anything worthwhile," Mr. Eastus explained. Most suits filed were in "the nature of harassment," he said.

ALTHOUGH HE foresees more lawsuits, the asst. city attorney predicted that "half of it (the insurance coverage) will probably go towards legal fees." Most of the suits filed in the past were thrown out of court for having no legal basis, Mr. Eastus continued.

For Mr. Eastus, the main advantage of the insurance is that it removes him from a potential conflict of interest. As asst. city attorney, he was assigned to defend policemen when suits did arise. There was always the pos-

sibility, he said, that he would have to damage the city's reputation in order to defend his client. "For instance, maybe a guy would say that they never told him about something at the police academy. Using that defense would make the city look bad," he explained. The insurance company will provide counsel in the future.

The Dallas police force has "a pretty good internal affairs department—it's a pretty square police department," Mr. Eastus claimed. That was the reason he cited for the low premium on the policy. He predicted that "the primary worry to the insurance company will be the cost of litigation, not awards."

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Dress catches fire

A \$4 million damage suit was recently filed in a U.S. District Court in Spokane, Wa. by a Wauconda (Wa.) father and daughter against a Pennsylvania dress manufacturer, alleging the daughter's dress burst into flames when she passed by an electric heater. Cinderella Inc. and Rosenau Brothers Inc., its New York holding company, were sued for the 1970 accident. Milton Hanson seeks \$2 million for his daughter's injuries and a like amount for alleged negligence by the company. According to the suit, Mr. Hanson charges that the girl's cotton dress with nylon underskirt, bearing a Cinderella label, was made of a "highly combustible, inflammable or otherwise explosive material which would ignite in an intense flash fire when it came into contact with heat."

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Government to pick up tab for the failing railroad retirement system

WASHINGTON—Between \$250 million and \$300 million in improved retirement benefits will be parceled out to railroad industry employes as part of a comprehensive bill to reform the railroad retirement system before it goes bankrupt in the early 1980s.

The Senate passed the reform measure 86-1 last month after a similar bill glided through the House with a 343-10 plurality.

The crucial item in the reform bill, which made the increase in benefits possible, is the decision by Congress that the federal government will take over the burden of paying off "dual benefits" to railroad workers.

The dual benefits problem

stems from the fact that, for railroad workers alone, Social Security benefits are calculated twice—one for railroad service and once for non-railroad service.

The result is that the total Social Security benefit computed under this method is higher than it would be if all employment service credits would have been computed together.

THIS IS BECAUSE of front-loading Social Security benefit accrual formulas, which means that workers accrue benefits more rapidly in their first few years of service than later in their career.

Railroad workers, because of the separate benefit calculations, take advantage of this rapid bene-

fit accumulation twice.

Social Security has been insisting that the railroad retirement system pay for this excess benefit, or windfall benefit, causing a financial drain on the railroad system that has already amounted to about \$4 billion.

The Senate and the House have decided that it would be "inequitable" to cut off these windfall benefits to rail workers already receiving them or already vested in them.

The solution to the problem, was that the cost of continuing these benefits should be borne by the U.S. taxpayer, rather than the rail industry or the Social Security system, each with financial problems of its own.

The bill for this decision will amount to \$285 million a year through the next 25 years from the tax revenues of the nation.

This decision came despite the objections of the White House's Office of Management and Budget (OMB) which told the Senate that it would be highly "inequitable" for taxpayers to pay for benefits that would go to workers in only one industry.

OMB URGED that the Senate reject the federal subsidy idea.

Sen. William Hathaway (D-Me.), chairman of the Senate railroad retirement subcommittee, told the Senate however, that the dual benefit drain on the railroad retirement system was created by Congress, not by the railroad industry. It has been worsened, he said, by every increase in Social Security benefits approved by the Congress over the last several years.

"It seems only right that we

recognize the matter for what it is—a legislative error—and take the only steps available to us to correct it," Sen. Hathaway said.

In exchange for the increase in retirement benefits, however, Congress did receive some concessions from the railroad industry and its union leaders.

Dual benefits will no longer be paid to any rail workers not under both the Social Security or railroad retirement systems by Jan. 1, 1975.

The new railroad retirement system will more closely resemble the pension plans in use in private industry—with a separate, distinct Social Security benefit and a secondary retirement benefit financed entirely through railroad industry and worker contributions.

The system will still be as complicated as ever, perhaps even more complicated than before, some Congressmen admit. However, it's believed the immediate financial crisis has been solved.



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THE RETIREMENT benefits won by the railroad workers fall into three areas:

- Early retirees, at age 60 with 30 years service, will be able to receive supplemental annuities immediately rather than at age 65.

- The spouse of an early retiree could also receive a spouse's annuity at age 60 rather than age 65.

- Survivors' pensions, mostly for widows, would be increased to 130% of the comparable Social Security benefit from the present 110%.

"I should point out," Sen. Hathaway told the Senate, "that this last change, which is the most significant in terms of cost, follows an explicit recommendation of the Commission on Railroad Retirement (which studied the railroad system) and answers what is undoubtedly the number one criticism of the program by retirees themselves."

The Senate and House versions of the railroad retirement bill must still go to conference committee to work out some minor differences.

Despite White House objections to saddling the federal budget with what amounts to \$4.5 billion bill, it is considered unlikely that the Ford Administration will veto the measure in the face of the strong support for it in the Congress. ■

See largest underwriting losses ahead

EUGENE, OR.—Inflation is affecting rate adequacy and insurance company reserves, the president of the National Assn. of Insurance Agents (NAIA) told the Oregon Assn. of Insurance Agents here.

Gerard R. TeBockhorst said underwriting losses on property and casualty insurance this year will probably be some of the largest in the history of the insurance industry.

"The situation is aggravated by the effect that high interest rates and deflated stock values have had on reserves of insurance companies," the president of NAIA said.

Mr. TeBockhorst also reiterated NAIA's opposition to federal guidelines for no-fault auto insurance.

"What we are looking at ultimately is not federal guidelines but a federally administered auto insurance plan with the enormous and wasteful bureaucracy that enforcement would entail," he stated. ■

Debate continues over consultant license laws

CARMEL, CA.—Eleven states now have risk management and insurance consultant licensing laws, and officers of the association of such consultants believe it's only a matter of time before all the other states will pass similar laws.

At the meeting of the Institute of Risk Management Consultants here, Bernie Salwen of S. B. Ackerman Assoc. said most states, excluding California, perhaps, are considering such laws. Interest has been heightened as a result of recent passage of a model bill by the National Assn. of Insurance Commissioners.

"Our position is going to be that we'll support the act with some additions which we feel were intended in the model act anyway," said Mr. Salwen. "These would be with regard to reciprocity. We want reciprocity because we don't think there should be a requirement prohibiting it."

What this means is that IRMC wants the act to say that if a consultant is licensed in one state, he can be licensed in other states as a nonresident without re-taking exams and being licensed again. "In Massachusetts, for one, and in Georgia, you have to be a resident to be licensed. Technically, if you're not licensed, you can't do business in those states," Mr. Salwen noted.

NAIC'S MODEL bill covers agents, brokers and consultants, stating that its provisions include any and all areas of insurance consulting.

"We would hope that by our voting support for the model act, the states already having such licensing laws will change their laws," said Mr. Salwen. Of the eleven states having laws, close to half have passed the rules in the last three or four years, and four states passed laws just last year, he added.

States which have licensing laws for people engaged in insurance selling or consulting are Kentucky, Connecticut, Idaho, Georgia, Maine, Massachusetts, Michigan, Nebraska, New York and Vermont.

"If I were you, I wouldn't try to be licensed", said Gleeson Payne, California insurance commission-

er, in his address to the consultants. "The moment you create laws to prevent other people—unqualified people—from getting into your business, by setting up certification licenses and requiring exams, you create someone who can take your license away," said Mr. Payne.

"We don't feel we should be licensed since insurance is only a small segment of our business," responded George Betterley of Betterley Assoc. and recent past president of IRMC. "Most pressure for licensing has come from the producing side," he claimed. "But we are taking the position that if there's got to be a law, we would have to support the NAIC model bill." ■

October 1, 1974

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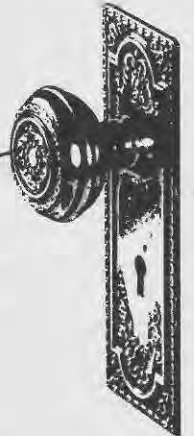
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Back pay for women

DETROIT—A federal court recently ruled that back pay amounting to millions of dollars be awarded to an estimated 100,000 Michigan women forced to take maternity leave without unemployment compensation. The class action suit, filed by the UAW against the Michigan Employment Security Commission (MESC), charged that denial of unemployment compensation to pregnant women forced to take leave was unconstitutional and a violation of the 1964 civil rights act.

Claims filed with MESC for back pay must be honored for dates beginning July 1, 1965, when the civil rights act took effect. While the ruling only benefits Michigan women at present, UAW attorneys said women in other states similarly denied unemployment compensation can use this ruling as a lever with their own commissions. If that fails, however, the UAW said it would consider bringing other class action suits.

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'No time to be bargain hunting'

Payne predicts bleak future for property, casualty underwriters

CARMEL, CA.—“This is no time to be bargain-hunting,” warned California’s insurance commissioner, speaking to risk management consultants here.

Gleeson Payne painted a very bleak picture of the financial strength of property/casualty underwriters in his address to those attending the second annual Institute of Risk Management Consultants.

His predictions included:

- severe tightening of the medical malpractice insurance market, and possibly the professional liability markets overall;

- soaring premiums and the possibility of serious unavailability of coverage in general liability areas where companies have suffered heavy losses, and can look forward to poor loss ratios because of inflation and other factors, such as errors and omissions insurance of all kinds, product liability, and completed operations coverage;

- the demise of some smaller, weaker and more adventuresome insurers due to insolvency;

- a deterioration of insurance company profits in the second half of this year, in almost every line of insurance except auto coverage;

- wholesale acquisitions of smaller property/casualty underwriters by life insurance companies.

“We are in a serious situation,” Mr. Payne said of the financial status of property and liability insurance companies as a whole. He noted that the first half of 1974 was worse for the property/casualty underwriters in terms of losses and declines in values of

Payne feels not everyone is entitled to self-insure

CARMEL, CA.—Gleeson Payne, insurance commissioner for this state, criticized other commissioners for regulating employer self-insurance of group benefits merely for tax reasons.

But, he predicted that if employers start moving heavily into self-insured group coverages, their corporations may encounter more “pressure” not to self-insure because states will be deprived of premium taxes on insurance of these benefits.

“I THINK self-insurance is being handled the wrong way,” he said. “I don’t believe I’m here to collect premium taxes on group self-insurance,” Mr. Payne declared, indicating that his interest was not in revenues for the state but in protection of the beneficiaries.

“I think there are a heck of a lot of people self-insuring group benefits who are really too small to self-insure. The public is going to be burned. As regulators we’ve got to see to it that some companies that are too small don’t get into this self-insurance if they can’t handle it.”

“If an employer proves he can handle catastrophes, and is taking steps to protect employe benefits, he’s okay, and is entitled to self-insure.”

investment portfolios than any whole year ever recorded by Best’s.

“WE’RE NOT worried about life insurance companies generally,” he went on to add. He foresees that life insurance companies will be the “only source of money in the country” by next year.

“I think a new dimension of business that you people (the risk managers and risk management consultants) are going to have to be concerned with in your work is the financial security of the firms you work with,” Mr. Payne advised.

“I think you’re really going to have a problem if you put a client into Quicksand Mutual and then it can’t pay claims.” This is no time to be bargain-hunting. California won’t be selling dividends, for sure. We’re going to get very, very tough on this matter of selling dividends,” Mr. Payne declared.

“Because of the tumultuousness of our current economic situation, a very large part of our present activities are focused on the financial aspects of the insurance business,” he noted.

Mr. Payne envisions that 1974 will be the “major turning point”



Gleeson Payne

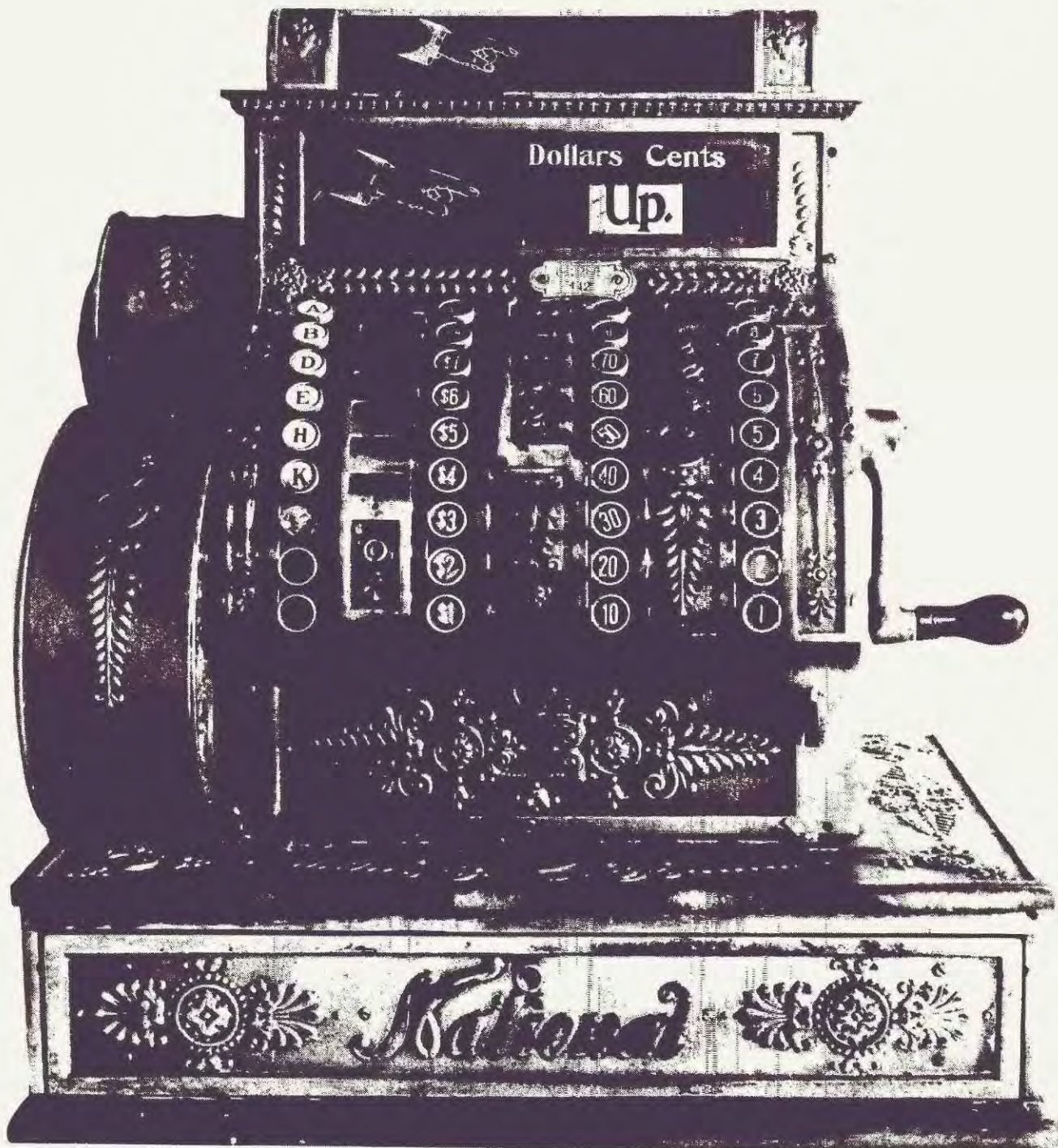
in the fortunes of the insurance industry, because of the simultaneous claims losses and poor in-

vestment results. “During the first six months of 1974, the aggregate policyholder surplus of casualty-property companies doing business in the state of California declined by over \$2.78 billion to approximately \$17 billion,” due in part to adverse underwriting results but largely attributed to drops in stock portfolio values, Mr. Payne said.

“IN A RECENT sampling of the 50 largest property-casualty insurance companies in the country, it was determined that the current market values of bonds (in the investment portfolios) were approximately one-third less than the value stated on the company’s books,” which would mean an aggregate effect of some \$12 billion-plus less in surplus if the valuation was changed to market values from amortized value.

“To the extent we are able to measure the casualty-property industry’s health in aggregates,

Pension business? Just “ring it up”...



there is precious little safety margin in the business to absorb further adversities," Mr. Payne warned.

A large number of smaller, weaker insurers not only have dangerous surplus-to-writing ratios, but are approaching the point where their statutory capital and surplus requirements may not be fulfilled, Mr. Payne went on to say.

"If we couple the adverse effects of inflation on the outstanding losses of the companies with worsening underwriting results and serious erosion of investment portfolio values, it is apparent there will be serious repercussions for many companies," Mr. Payne believes.

HE NOTED THAT the only bright spot in an otherwise bad underwriting picture in the first half of the year was the automobile insurance field, where loss ratios improved because of the fuel

shortage. But, he said the auto improvement in loss frequency appears to have reversed itself and does not expect second half, 1974, results to have even this small degree of relief from overall worsening tallies.

"**AS SURPLUS** to writing ratios increase, companies will be under great pressure to reduce their writings," Mr. Payne stated. This will inevitably lead to selective underwriting, restrictions of market, and concentration in those areas where profit potential is highest. Some smaller, weaker, more adventuresome insurers which typically pose a bothersome competitive threat to larger companies will fall by the wayside," he predicted in his remarks to the group.

This, in turn, may encourage larger underwriters to maintain higher premium prices and be more selective, which, in all probabilities, "could mean a serious

unavailability of coverage in some areas."

The weak spot, general liability insurance, is particularly bad, he said, in lines possessing problems of the "long tail." In all liability coverages where the emergence of claims is slow, thus multiplying the impact of inflation and making it difficult for actuaries to predict results, premium hikes will be greatest and markets will dry up, he noted.

Because medical malpractice is one of the very worst areas where this happens—where it takes about 20 years to pay all claims—Mr. Payne said he "can foresee that in the not too distant future there won't be any malpractice insurance available."

HE ALSO PREDICTED that as a partial solution to the growing malpractice loss problem, "We are going to have to have something in the malpractice area like the schedule of benefits used in

workmen's compensation."

Multi-line companies probably won't encounter difficulty because the life underwriting portion of the business will be used to support the property and casualty business, according to Mr. Payne.

He added that even the property/casualty state guarantee funds, like the one used in California, may not be able to bail out the insolvent companies. He predicted the state funds will be used to "come to the aid" of troubled firms, possibly with state commissioners requiring life companies to provide additional subsidies.

But state funds have a limit of \$5 million help for property-casualty companies, and "if the investment portfolio is off by a third, and then underwriting goes bad at the same time, even this \$5 million won't look like much," proffered Mr. Payne in conclusion. ■

Risk men respond to Payne's warning

CARMEL, CA.—Two risk management consultants attending a conference here responded to commissioner Gleeson Payne's warning about disappearing malpractice insurance markets with examples of solutions being tried in their home cities which are significantly affecting loss experience.

Peter D. Norman of Peter D. Norman Assoc. Ltd. in Toronto, Canada, said that six Canadian provinces have made errors and omissions insurance mandatory for all attorneys under a pooling arrangement. This is tending to lower E&O claims, and is also decreasing the number of actions by lawyers against other professionals, Mr. Norman said.

He also noted that class actions taken by attorneys on a contingent fee basis are not restricted in these provinces, which is expected to have a salutary effect on liability losses.

Rick Morrissey, risk manager for the University of Florida, told those attending the conference that Florida recently passed a law which restricts attorney's contingent fees in all insurance cases to a maximum of 25% of the total awards.

Pushing for insurance safeguards

NEW JERSEY—The New Jersey Assn. of Independent Insurance Agents is pushing the insurance commissioner to set up a study panel to prevent financially unsound insurance companies from doing business in the state.

"We are deeply concerned that the debacle of the bankrupt Gateway Insurance Co. and all the problems that it caused the insured consumer could happen again," said the president of the association, James A. Byrne.

Responsible insurance companies should have no qualms about disclosing financial data, Mr. Byrne added.

"We have asked the commissioner to consider a study group that would recommend legislation to minimize any similar Gateway situation," he continued. He commended commissioner Sheerans department for "unravelling the Gateway mess, but until stiffer legislative restrictions are imposed there is no way to tell when it could happen again."

Pressing for additional protection, Mr. Byrne added, "most segments of the economy are on the downcycle the insurance industry is no exception. There is a need for additional safeguards." ■

Cross to head ASIS

The American Society for Industrial Security (ASIS) selected Richard F. Cross, v.p. of the Bank of New York, to succeed Howard L. Mai as chairman of the board. Mr. Cross served as ASIS president this past year. Under Mr. Cross's presidency membership climbed to a new high and has continued upward. ASIS developed new chapters overseas and in the U.S., and held its first International Security Symposium in Brussels and Paris.

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Business piles up; PBGC still waiting for boss

WASHINGTON—As business piles up, the federal government's new Pension Benefit Guaranty Corp. is still waiting word on who will be its first permanent executive director.

The new agency, which reinsures pension benefits under the new pension reform law, already faces a backlog of claims for pension benefits from nearly 200 terminated pension plans.

And, PBGC officials admit, most of their key decisions on policy that will dictate just how the agency will operate in the future are being held up until the new boss is named.

"I've given up promising when it will happen, even to government people," one top Labor department aide told *Business Insurance*.

The field of candidates has been

narrowed down to three principle contenders, however, although their identities and even their backgrounds are being kept under wraps.

THE FINAL decision is to be made by the secretaries of Labor, Treasury, and Commerce, who make up PBGC's board of directors.

When the new man checks in for work, there is a better than even chance he may already have gray hair.

That's an opinion shared by several industry observers here as the Labor department conducts a manpower campaign under pressure to fill that and several other key slots in PBGC.

The reason for the gray hair hypothesis is because the federal government, when it comes to

headhunting for top managerial talent doesn't have particularly strong financial cards in its hand.

PBGC's executive director will probably have to be satisfied with a \$36,000 annual salary, not a great deal when compared to salaries in private industry.

Which makes it quite likely, according to an official at the National Assn. of Manufacturers, that PBGC will be run by an already retired businessman, or one taking early retirement for a service stint in Washington.

PBGC is having "a tough time," said the NAM official, because there just aren't that many people available in this field."

NAM has submitted, at labor's request, a few names of potential candidates for the job, taking them from among the ranks of pension administrators, and the

banking and insurance industries. The candidates were not identified by NAM, however.

NAM indicated that they leaned toward appointment of an insurance executive for the job. "You need someone who can organize and run an insurance company, a 'firm' manager with more than passing familiarity with pensions," the official said.

THE \$36,000 salary, while low, may not be completely out of line with the responsibilities of the job. "It's not an asset management job," according to an industry official. "They're not going to be responsible for pension fund assets, as they would have been under an earlier version of termination insurance considered in Congress."

At any rate, said some private

industry men, the term of office for the first executive director may well be short, possibly as little as two years, but enough time to get the PBGC on its feet and operating. The PBGC boss is then expected to retire or return to private business.

Should the older generation of executives pass the PBGC post by, it then becomes likely that PBGC may go to the other age extreme and come up with a younger man looking for Washington experience.

Another business spokesman here raised the question of how willing management people will be to participate in a new government agency whose purposes and authority may find obnoxious.

"IT WILL be darn hard to fill this spot because there is so much in the bill that management doesn't like," he said.

"I'm not sure that management is going to be all that cooperative," he said. That includes the insurance industry, said the business spokesman. "Remember, they wanted in on that business, too, and the government took it over."

Despite these problems, PBGC's board of directors, composed of the Labor, Treasury, and Commerce departments, is going to have to move soon on the appointments.

Perhaps even before the executive director is named, the board will be forced to move on naming an advisory committee to begin setting key policies. The corporation is accumulating a growing backlog of termination cases awaiting action.

THE PBGC board has already met once, in the White House Sept. 5, only three days after the bill was signed.

That meeting, *Business Insurance* was told, touched briefly on advisory committee appointments, the executive director's job and started the ball rolling on getting some start up operating cash from the Treasury, where PBGC has a \$100 million line of credit.

Decisions crucial to the pension funds affected by PBGC board meeting also are waiting in the wings for action.

For instance, there has been no decision as to whether future board meeting will be open to interested parties, whether agendas will be available in advance, and whether meetings will be held on some regular, predictable basis.

An AFL-CIO official told this magazine that while relations with the Ford White House are good, for the present, complications could result if sometimes strained links between Labor secretary Peter Brennan and the AFL-CIO don't improve.

THE TONE OF the Brennan-labor relationship could be set early when the secretary sets the two labor nominees for the seven-member PBGC advisory committee. The nominations must be approved by the President.

"Brennan has a habit of naming labor representatives without consulting the AFL-CIO," said an official for the big labor organization.

The AFL-CIO's favored approach is to ask that organization for representatives, which in this case probably would be a union leader and an AFL-CIO staffer. No such request has been received.

"Mr. Meany supports the decisions of the people he suggests," said the AFL-CIO official. "He feels under no obligation to do that for people chosen in some other manner."

Continued on page 35

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How risk managers view consultants

Seek consultants' help on variety of projects

CARMEL, CA.—Risk managers presently using consultants for periodic audits, special projects and studies often view the consultant as an extension of the risk management department, usually budget for consultants, and expect to use consultants more in the future.

These unscientific conclusions were drawn from comments of risk managers on a consumer panel at the second annual Institute of Risk Management Consultants conference here.

"I would think about half of the risk managers in ASIM (American Society of Insurance Management) don't have the direct authority to spend money for consultants' services, but the number who do have the authority is growing because of the budgeting function in the corporation," suggested Herb Cunningham, assistant controller and risk manager for Transamerica Corp., San Francisco.

His firm, a holding company which claims several large insurance company subsidiaries, has made "rather extensive use of consultants" to get the risk management work done, Mr. Cunningham said. This is partially attributable to Transamerica's small headquarters staff of only about 60 employees.

"I **ORIGINALLY** got the risk management department started after a consultant's survey of our company," Mr. Cunningham said. The major recommendation of that consultant—Warren, McVeigh, Griffin & Huntington—was that the company establish a risk management department.

Mr. Cunningham has used consultants for policy analysis, risk management program analysis, a safety study, and fire protection services.

Martin Seaney, manager of risk control for Crown Zellerbach, has used "and will continue to use" of risk management programs, and special projects. "I look to consultant for fresh views," he said, noting that since the first overall study Betterley Assoc. did

for Crown Zellerbach, the risk management department has grown substantially.

JOE BRIDGES, risk manager of Amfac Inc., Honolulu, used management programs, and has also used consultants for computer center fire protection surveys, and security problems on an "as needed" basis. He has a six-person risk management department.

Irv Nicholas, risk manager of the University of California, has a smaller staff and uses consultants "a great deal. They are part of our team," he said. The U. of C. just completed a performance audit of the entire risk management staff with consultants.

"When it comes to loss control activity, we will send the consultant in (to a subsidiary) to teach, but if the subsidiary wants to keep that \$100 deductible, we don't argue," said Mr. Cunningham of the way he and consultants work with Transamerica's belief in autonomy for operating subsidiaries. "We will use a consulting report to try to convince the subsidiary what should be done, but if they decide no, we don't argue," he said.

Mr. Seaney believes that evaluation of staff is the most important use of a consultant for an audit.

Mr. Nicholas of U. of C. said he intends to use consultants in the

future for self-insurance studies, program audit, and cost-of-insurance studies, areas "where the university will need help."

Three out of the four panelists said they have funds budgeted for use of consultants. Mr. Nicholas said the university does not have money allocated for consultants; the U. of C. operating budget includes only risk management administration and premium.

RISK MANAGERS were asked if there are disadvantages to using consultants. There were few replies, except a comment by Mr. Seaney that risk managers and consultants have to remember that if they have the same objec-

tive, there's room for discussion about the ways to get there. And Mr. Cunningham added that, in his view, "if a risk manager goes to ASIM meetings and only understands half of what's going on, he'd better be afraid to bring in a consultant."

Asked if there are any particular problems in risk management departments generally that might be resolved in the future by outside consultants, Mr. Seaney noted "I haven't felt I've had enough time to devote to long-range planning. I think risk managers might use consultants for such things as products liability surveys, captive subsidiary

Continued on page 36



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Continued from page 34

Personnel difficulties also extend down to the lower levels of new jobs created by the pension reform bill in both the Labor department and the Internal Revenue Service.

The Civil Service Commission is in the midst of a crash campaign to fund actuaries and systems accountants for both PBGC and IRS.

"Systems accountants are scarce and actuaries are already a 'shortage' category in the federal government," said a Civil Service official.

PBGC is an immediate need of an experienced actuary right now, with the government dangling about \$28,000 for pay. IRS needs up to 18 actuaries for its new responsibilities, but at salary rates that start as low as \$12,000 for trainees.

Actuaries, incidentally, already are among the top 10 paid professions in the country, according to the Bureau of Labor Statistics.

A personnel director for one of the leading pension consultants in the country said that even the \$36,000 for the top PBGC job was probably "considerably" under what an experienced actuary can earn in private industry. ■

D&O cover offered to mutual life companies

MILWAUKEE, WI.—MGIC Indemnity Corp. is now offering a directors' and officers' (D&O) liability coverage designed especially for management and board members of mutual life insurance companies, according to Dennis J. Layne, vp and chief operating officer. The coverage has been approved in all but 12 states so far, he added.

"OUR D&O coverage is unique in the sense that the risks are not as high for mutual life insurance companies, which are owned by policyholders, as they are for companies owned by stockholders," Mr. Layne explained. "Of course the types of lawsuits brought against directors and officers, it's

a fact that a large percentage of them are brought by stockholders."

Mutual life insurance companies have always paid the same rate for D&O liability coverage, even though this segment of the market is known to be less risky, Mr. Layne added.

Aside from close regulation of mutual life insurance companies, there are two reasons why there is less risk involved, Mr. Layne said: "Policyholders don't perceive themselves as owners (although they are); hence, they don't pay much attention to the company. Also, stockholders are more aware of losing the value of their investment as the price fluctuates and they tend to blame management

for this."

MGIC Indemnity will provide from \$1 million to \$10 million coverage under their D&O program, which includes legal costs, judgments and settlements. Directors and officers are protected against direct personal financial loss stemming from charges of alleged wrong acts while serving in their individual or collective capacities with the company, Mr. Layne explained.

MGIC INDEMNITY will also reimburse a mutual life insurance company for all losses it sustains in reimbursing individual directors and officers. The corporate reimbursement clause is limited to the obligations which the insured may assume under its charter or by-laws or according to statutory law, he added.

Coverage is available for either a one- or three-year term. Deductibles range from \$5,000 to \$20,000 or more, depending on the

coverage desired. For example, the minimum premium for a \$1 million policy for a small company would be \$2,500 to \$3,000 for three years, Mr. Layne explained. A large company with \$10 million coverage would pay \$100,000 premium for three years, Mr. Layne said.

MGIC Indemnity already has written D&O policies for two of the top ten mutual life insurance companies and for two small companies, Mr. Layne said. In the first year, he predicts that MGIC will write policies for 20% of the market.

In 1970, MGIC Indemnity entered the D&O liability field with a program for savings and loan associations.

Two years later they introduced a similar program for commercial banks. The D&O programs, which are now available in all 50 states, total \$1.3 billion and cover an estimated 20,000 management members and directors. ■

Consultants...

Continued from page 35

studies, foreign operations audits, and recommendations of alternatives to present methods of funding risks."

Mr. Bridges said he selects consultants on the basis of independence, reviews programs in light of the particular company's risk management concepts, reviews the quality of previous reports, and checks the consultant's reputation among people for whom the consultant has done work. He looks to the consultant to review the company's relationship to brokers, get independent feedback on risk management programs from throughout the corporation, and to review the competency of the risk management staff.

Mr. Cunningham said he would evaluate a consultant on the basis of past working relationship, survey techniques and submitted proposals coupled with negotiations and interviews, and also on the basis of the person he would be working with.

"YOU GET consultants because they are experts, superstars, in a certain field. If you work with a consultant who doesn't have the right knowledge, hire a different one," Mr. Cunningham advised.

Having a consultant come in "could have a negative short-term effect on the relationship with a broker, but it usually has a good positive long-term effect because if a broker knows he has a critic in the background, he will do a better job," Mr. Seaney offered.

A member of the audience questioned the handling of decisions about whether an associate consultant, or "subcontractor" in a sense, should be hired by consultants without a risk manager's knowledge or permission. An associate consultant is often hired in a certain geographic area or to work on a specific problem where a consultant needs help. "I think the decision-making on hiring a subcontractor in any line of risk management should be made by the risk manager. It could have substantial implications for the corporation," stated Peter Mullen, now vp for Fred. S. James in Los Angeles and until recently risk manager for City Investing Co.

MR. BRIDGES disagreed. "We're using the consultant as the outside coordinator. It is the same situation as with outside attorneys. There's a cascading effect. We expect consultants to use the subcontractors they need to get the specified results."

Mr. Cunningham felt strongly that the decision should be left up to the risk manager. "I think you have to go outside for somebody else if there's a need. But you have to go to the client first," he said, "to let him know, give him a choice of other sub-consultants, ask how he thinks the problem should be handled. But the worst thing would be to not let the risk manager know what is going on."

Risk managers apparently have not established any quantitative yardsticks for measuring the cost effectiveness of consultants versus adding internal staff. "In our particular case," said Mr. Nicholas of the U. of C. "we don't pay any commissions, because we're a public body. So all our insurance work is really considered on a fee basis. We spend about \$250,000 a year on risk management consulting, including the marketing or our insurance for a fee."

Mr. Cunningham added, "anybody who measures the cost of hiring a consultant merely in terms of comparing it to the cost of putting someone on the internal staff is making a mistake." ■

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the legal brief

Insurer not liable under group plan if employe fails notice requirements

THE SUPREME COURT of New Hampshire ruled that where the terms of a group life policy required annual notice of continued disability as a condition precedent for the payment of death benefits, failure to comply with the notice requirements relieved the insurer of liability.

In this case Mr. Morrisette was issued a group life insurance policy by Provident Life & Accident Insurance Company (Provident) while he was employed by Deering-Milliken, Inc. Mr. Morrisette became totally physically disabled on November 18, 1966, while still employed by Milliken and terminated his employment with the insured group. The policy provided that the insurance terminated when active employment was terminated. But the policy also provided that an employe prevented from continuing his employment because of total disability, who had not attained his 60th birthday, could have the company endorse the certificate acknowledging the existence of the disability, provided the employe proved total disability during his lifetime and within one year after terminating employment.

Mr. Morrisette complied with this provision and, accordingly, Provident acknowledged the disability and endorsed the policy. However, the policy also contained a provision requiring Mr. Morrisette to submit annually, within three months prior to the anniversary of the original endorsement, "due proof that total disability has continued without interruption from the termination of his active employment . . ."

According to the policy, no payment to the beneficiary of any amount of life insurance would be made if this provision were not complied with. Mr. Morrisette failed to comply with this provision and when, upon his death, his widow applied for benefits she was refused payment. She brought this suit to recover the death benefits. The trial court found in favor of Provident.

On appeal the supreme court held that an insurance company could legally impose compliance with such conditions. "These conditions," the court stated, "are reasonably required to permit the company to review such cases periodically because of actuarial and other considerations which are determinative of the premium to be charged for such policies." Since the conditions were clearly stated in the contract and there was no evidence that Mr. Morrisette suffered from insanity or mental capacity that might excuse his compliance, the court agreed with the trial court.

Justice Grimes dissented, stating that he would have ruled in favor of the widow because Provident was not prejudiced by the failure of notice of continued disability. Justice Grimes pointed out that this case did not deal with a waiver of premium and Provident's actuarial calculations, reserves or other interests were not in the "slightest degree" compromised by Mr. Morrisette's failure to file the annual report. Since Mr. Morrisette as the insured "had no opportunity to bargain freely as to the terms of the policy", Justice Grimes

thought it unfair to enforce these provisions strictly and unrealistically and allow Provident to forfeit the coverage even though it

The abstracts published in this column were prepared by Cases Unlimited Inc., Evanston, Ill.

was in no way prejudiced by the breach. Nor would Justice Grimes have allowed delay, in and of itself, to effect a forfeiture of coverage because he believed

that in the case "of the annual report requirement," delay did not weigh so heavily on, or automatically reflect prejudice to, the company as it did in the report of accident requirements. *Morrisette v. Provident Life & Accident Insurance Co.*, Supreme Court of New Hampshire, June 28, 1974, Lampron, J. 321 A.2d 585. (BI/01/Oct.-\$2)

IN AN ACTION by an apartment contractor against the Insurance Co. of North America

(INA), Northwestern Mutual Insurance Co. (Northwestern), and Safeco Insurance Co. of America (Safeco), the court of appeals of Washington has held that dry rot came within the definition of "accident" and "occurrence" as used in the contracts of insurance and that the insurers wrongfully refused to defend an action against the contractor for damages to the building. In addition, the court ruled that the damage from the dry rot, though continuing over a period of time, constituted a single injury for which INA, Northwestern and Safeco, whose policies covered only a portion of the period, were jointly and severally liable.

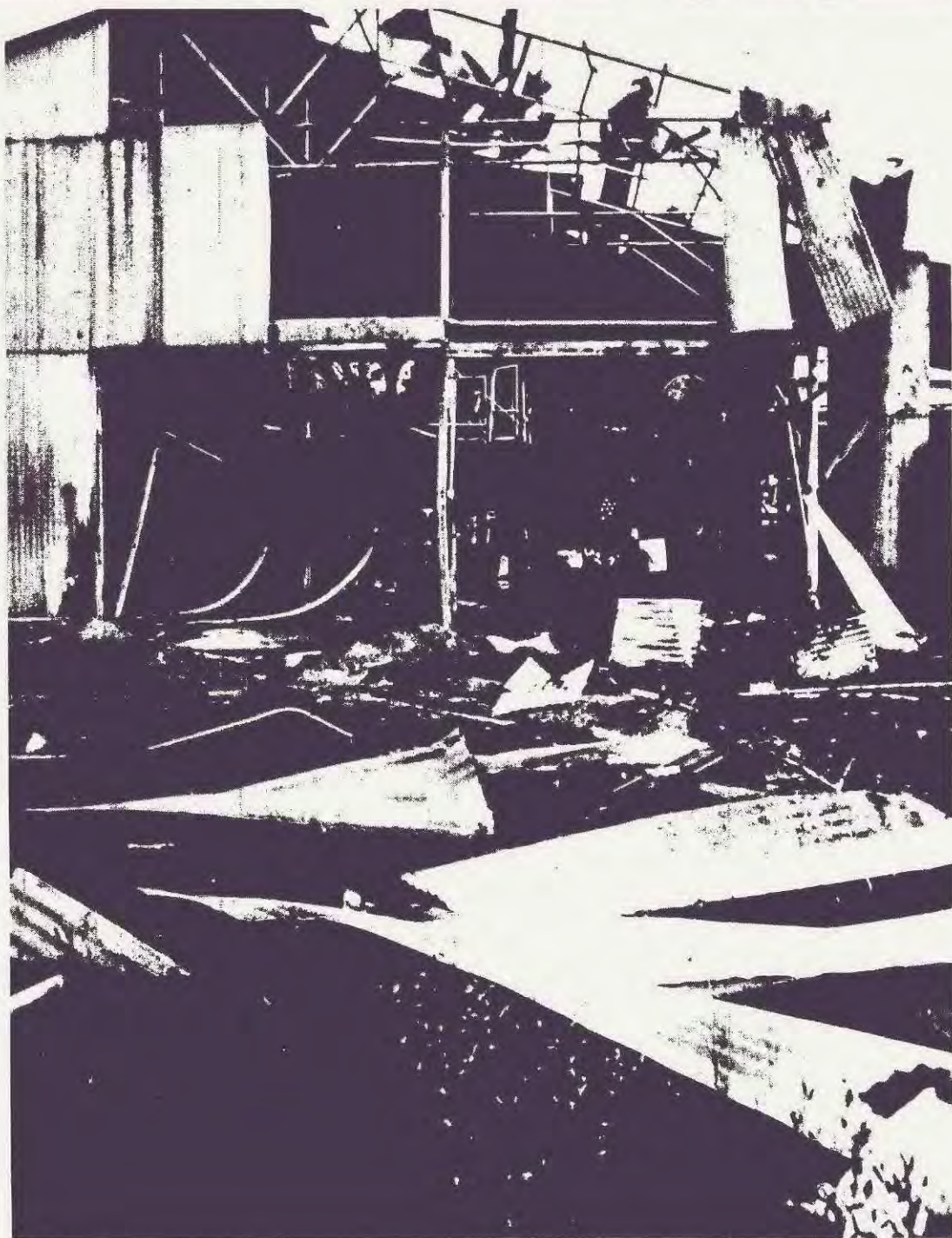
Gruol Construction Co. Inc. (Gruol) had built an apartment building in 1963, selling it that same year to Mr. Donovan. In 1968 Mr. Donovan sued Gruol for damages to the building caused by dry rot resulting when dirt was piled against the box sills of

the building by backfilling during construction. Gruol requested INA, Northwestern and Safeco to defend the suit and was refused by all. He then settled with Mr. Donovan and brought this action against all three insurers for breach of contract. The trial court held all insurers liable.

On appeal the initial question was whether the dry rot was an "accident" or "occurrence" under the provisions of the insurance contracts. In finding the insurers liable the court concluded that dry rot came within the accepted definition that an accident is "an undesigned and unforeseen occurrence of an afflictive or unfortunate character" and an occurrence is "any incident or events, especially one that happens without being designed or expected."

Also, the court held that an "accident" or "occurrence" may be a continuing condition or process noting that "a glacier

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moves slowly but inevitably." Finally, the court concluded that although language in the policies excluded recovery for replacement of the defective backfilling, coverage remained for damages resulting from the defective work. Consequently, the insurers were held responsible to Gruol for the \$15,200 damages Gruol was required to pay Mr. Donovan. *Gruol Construction Co., v. Insurance Co. of North America*, Court of Appeals of Washington, Division 1, July 15, 1974, Farris, J. 524 P.2d 427. b) (BI/02/Oct.-\$2)

ACCORDING TO the supreme court of Missouri an insurance company is not liable under a contractor's public liability policy where the accident occurred while the insured was neither engaged in the covered operations nor on the covered premises. Here C.R. Berry doing business as C.R. Berry Construction Co. (Berry) was engaged in the busi-

ness of constructing residences and associated garages. MFA Mutual Insurance Co. (MFA) issued to Berry a contractor's public liability policy limiting coverage to "Hazard A" defined as "Operations & Premises—The ownership, maintenance or use of premises, and all operations." The policy declaration sheet further particularized classifications and locations of operations and premises as "carpentry in the construction of detached private residences for occupancy by one to two families . . ."

Berry had completed construction of a home for the Hills family but left a radial saw on the premises. Several months after occupancy by the Hills they requested that the saw be removed. Berry complied, but while transporting the saw in the company truck and while on a public street, a Berry employe was injured when the arm of the saw shifted position while the truck

was turning a corner. The employe filed suit for recovery of \$200,000 damages and MFA brought this action to determine whether it was obligated to defend Berry under the contractor's policy. The trial court held that the policy provided coverage and that MFA was obligated to defend. The supreme court disagreed.

On appeal the injured employe contended that the movement of the saw constituted carpentry within the policy's meaning because Berry was moving it from a recently constructed residence to storage until needed in connection with future carpentry business. However, the court concluded that since the construction job had been completed sometime before, Berry was no longer engaged in carpentry at the site and therefore the employe was not engaged in carpentry at the time of the accident. Furthermore the court found that the accident did

not occur on premises as defined in the policy but on a public street. The court thought it clear that under the policy the coverage of carpentry operations was provided only with reference to those sites where the contractor was engaged in construction of the specified types of building, including "the ways immediately adjoining." *MFA Mutual Insurance Co. v. Berry*, Supreme Court of Missouri, July 22, 1974, Finch, J. 511 S.W.2d 807. (BI/03/Oct.-\$2)

A PROVISION OF Michigan's workmen's compensation act directing a reduction in workmen's compensation payments to employes over the age of 65 has been ruled constitutional by the court of appeals of Michigan. The court disagreed with the assertion that the provision was unconstitutional because it "arbitrarily, unreasonably and capriciously" discriminated among disabled em-

ployes solely on the basis of age.

While the court did not necessarily disagree with the view that the primary purpose of the act was to secure to an injured employe compensation through a charge upon the industry paid through the employer, it did not view this avowed purpose as meaning that benefits were to be paid solely as compensation for injury in the tort sense rather than as replacement for wage loss.

Viewed as compensation for wage loss, the court did not think it unreasonable to assume that the legislature found that upon attaining the age of 65, a worker's level of compensation often decreased as a result of retirement, reduction in work, or for any other reasons.

Consequently, the court believed that the use of age in the act to classify was reasonable. The legislature, the court pointed out, did not make age on the date of injury controlling for determining the amount of benefits, but rather made age controlling for determination of amount regardless of age on the date of injury. *Cruz v. Chevrolet Grey Iron Div. of Gen. Motors Corp.*, Court of Appeals of Michigan, May 29, 1974, Bronson, J. 220 N.W.2d 178 (BI/04/Oct.-\$2)

A BUILDER BROUGHT an action against Travelers Indemnity Co. after the insurer, on a policy containing a building-under-construction endorsement, denied coverage for items taken from a building under construction. The trial court ruled in favor of the builder and the insurer appealed. The district court of appeals of Florida agreed with the trial court, ruling that the policy provisions excluding coverage if a building has been vacant beyond a period of 30 consecutive days could not reasonably be applied to exclude coverage for loss of items taken from an apartment building which was under construction at the time of the burglary.

In the court's opinion, the special endorsement attached to the policy was for the express purpose of providing insurance for such loss while the subject buildings were under construction. The court also concluded that the property taken in this burglary such as range hoods, chandeliers, and fluorescent lights which were stored in packing cartons in an apartment, were covered as equipment and supplies incidental to the construction of the building and were not excluded by a policy provision excluding coverage for property which was not an integral part of the building.

"Like other contracts, contracts of insurance should receive a construction that is practical and reasonable as well as just," the court emphasized. "If one interpretation, viewed with the other provisions of the contract and its general object and scope, would lead to an absurd conclusion, that interpretation must be abandoned and one more consistent with reason and probability adopted." *Travelers Indemnity Co. v. Milgen Development Inc.*, District Court of Appeal of Florida, Third District, May 28, 1974, rehearing denied, August 15, 1974, per curiam, 297 So.2d 845 (BI/05/Oct.-\$2)

(Copies of the entire decisions described in this column may be obtained by writing to Business Insurance, attn. Managing Editor, 740 N. Rush St., Chicago, Ill. 60611. Please enclose a check for \$2.00 to cover the cost of each case you order, and specify the code number of the opinion, which is at the end of each brief.)

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INSPECTION AND INSURANCE

Fiduciary insurance draws 100 inquiries every week

CHICAGO—Fiduciary insurance is not a new idea, it only seems that way. "We're getting inquiries at a rate in excess of 100 a week on a national basis," said

Timothy N. Thoelecke, president of both the Planning Corp. and Great Lakes Agency, locally-based insurance brokers specializing in this type of coverage.



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His company, in affiliation with Professional Indemnity Agency (N.Y.), a subsidiary of Tolley International Corp., and Voigt, Walker & Co. Inc. (west coast), offers trustees' and fiduciaries' liability insurance coverage in limits from \$250,000 to \$10 million. Various deductibles are available, starting at \$1,000, Mr. Thoelecke explained. He would not comment on the cost of premiums, which cover a three-year period.

LLOYD'S OF London underwrites the coverage, a version of which has been offered to trustees since January, 1969. The policy was recently upgraded, Mr. Thoelecke said, to parallel requirements for trustees as defined by the new federal pension reform law, signed into law by President Ford on Labor Day.

The largest fund covered by the policy has more than 50,000 participants; the smallest fund has 15 participants, Mr.

Thoelecke said. He would not say how many policyholders his company has.

Highlights of the coverage, as described by Mr. Thoelecke, are:

- Anyone acting as trustee for a retirement plan is covered under this policy; this includes company employees, directors, or officers appointed as trustees.

- Self-insured and unilaterally-managed pension plans are covered as well as jointly-administered, i.e., Taft Hartley plans.

- The policy is offered on a "claims made" basis, meaning that a claim is covered only if it is reported during the policy period. If reported after the policy has expired, the claim is not covered. "This is standard procedure for this type of policy," Mr. Thoelecke said.

- Full coverage is provided for fund investments. Mr. Thoelecke gave the following example to illustrate: If a pension fund loses part of its asset value and an em-

ployee sues the fund trustee and wins, the award made under the policy would include this loss of investment income.

- The professional administrator of the plan, e.g., a bank, is covered at no additional charge.

- The cost of legal defense is covered "in addition to the limits of liability." This feature differs from most directors' and officers' liability coverage, Mr. Thoelecke explained, which usually stipulates that defense costs be "included within the limits of liability." For example, he continued, if a suit is brought against a plan with \$1 million liability coverage and legal costs are \$100,000, then only \$900,000 remains in the policy to cover any settlements made.

- No adjustments are made on the policy premium if either fund assets increases or if the number of employees covered by the plan increases.

- Any claim settlement requires the approval of the insured, meaning that the underwriter cannot make an independent settlement on any suit without the approval of the policyholder.

- The roles of fiduciary and trustee are separated under the policy. "Fiduciary" is a broader term which applies to anyone having responsibility for the pension plan, however indirect it may be.

FOR EXAMPLE, a company president who appoints the officer who appoints the trustee is technically a fiduciary of the fund, and he can be held liable as such. "Trustee" is more narrowly defined as the appointed individual or institution acting on behalf of someone else's fund, Mr. Thoelecke explained, adding that these were not intended to be taken as legal definitions of the terms.

As *Business Insurance* reported on Aug. 19, other major underwriters of fiduciary liability insurance are: Stewart, Smith Management Corp., the prominent surplus lines brokerage house which is managing underwriter on a package for Chicago-based CNA; Aetna Life and Casualty; and First State Insurance Co., Boston. The policies developed by the Professional Indemnity Agency are believed to be more comprehensive than those mentioned above, however.

The personal benefit statement.

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OUR COMPREHENSIVE MEDICAL-DENTAL PLAN COVERS YOU AND YOUR ELIGIBLE DEPENDENTS FOR THESE BENEFITS:

- Semi-Private Hospital Room And Board Charges 100%
- Hospital Services, Including But Not Limited To: Ambulance, Nursing Home Charges, Registered Nurse Services, Doctor's Fees, Medicines & Diagnosis, Abnormal Pregnancy Charges, And Dental Expenses.
- After The Payment Of \$75/Person/Calendar Year (Maximum Of \$225/Family/Year), Your Plan Pays 80% Of The First..... \$ 5,000
- And 100% Of Additional Covered Medical Expenses In Any Calendar Year. Maximum Lifetime Benefit Payable Is \$ 20,000 For You And For Each Covered Dependent.
- For Some Dental Work A 50% Rate Applies. Dental Maximum Is \$ 500/Person/Year.

DISABILITY INCOME FOR YOU:

SHORT-TERM DISABILITY
If You Are Unable To Work You Will Receive A Benefit Starting On The 1st Day Of Hospitalization Or The 8th Day Of Disability. Benefits Are Determined By The State In Which You Live.

LONG-TERM DISABILITY
After 6 Months Of Continuous Total Disability Which Prevents You From Working, You Are Eligible For A Monthly Benefit Equal To 66 2/3% Of Your Basic Monthly Earnings - Up To Age 65. Maximum Benefit Is \$ 1000/Mo. This Benefit Is Reduced By Payments From Workmen's Compensation, Social Security, Or Other Disability Plans. Your Benefit Would Be \$ 1300.

If You Are Totally Disabled, You Will Also Receive Benefit Payments From Our Retirement, Profit Sharing And Investment-Savings Plans.

Benefits for financial security

RETIREMENT PLAN:

If You Work To Your Normal Retirement Date, Your Estimated Monthly Lifetime Benefit (Excluding Future Salary Increases) Will Be..... \$ 610.

Under Current Social Security Laws, Your Estimated Monthly Benefit At Age 65..... \$ 500.

Your Spouse's Estimated Monthly Social Security Benefit At Age 65 Will Be..... \$ 250.

PROFIT SHARING PLAN:

Profit Sharing Plan Account Balance As Of 12/31/72..... \$ 4678.

Your Share Of 1973 Company Contributions..... \$ 269.

Your Share Of 1973 Investment Loss..... \$ (1716.)

Your Current Account Balance As Of 12/31/73..... \$ 7381.

At Retirement, You Will Request That Your Profit Sharing Plan Funds Be Paid To You In A Lump Sum Used To Provide You With A Monthly Lifetime Annuity. Your New Account Balance Would Provide A Monthly Retirement Benefit Of..... \$ 55.

INVESTMENT SAVINGS PLAN:

Statement Of Your Account

| | SAVINGS FUND EQUITY | COMPANY CONTRIBUTION ACCOUNT |
|---------------------------|---------------------|------------------------------|
| 12/31/72 BALANCE \$ | 1185. | 1144 |
| YOUR 1973 CONTRIBUTION \$ | 180 | 144. |
| 1973 GAIN/LOSS \$ | 10 | (39.) |
| 12/31/73 BALANCE \$ | 1375. | 1249. |

Your 12/31/73 Balance, If Converted To A Monthly Retirement Benefit, Would Provide..... \$ 113.

POSSIBLE TOTAL MONTHLY RETIREMENT INCOME FROM ALL SOURCES..... \$ 1178.

ANNUAL VALUE OF ALL YOUR EMPLOYEE BENEFITS:

The Benefits Shown Above Are Paid For Entirely Or In Part By The Company. Other Company-Paid Benefits Include Vacations And Holidays, Plus The Cost Of Workmen's Compensation And Unemployment Compensation.

Of The Total Estimated Cost Of All Of Your Benefits In 1973--
Your Share Of The Cost Was..... \$ 1842
The Company's Share Of The Cost Was..... \$ 4633.

NOTES: IF N.A. APPEARS IN ANY OF THE VALUES IT INDICATES YOU ARE NOT ELIGIBLE OR HAVE NOT ELECTED TO PARTICIPATE

Benefits for your family

DEATH BENEFITS PAYABLE TO YOUR FAMILY (AS OF 1-1-74):
(Be Sure To Keep Your Beneficiary Designation Up To Date.)

- Group Life Insurance..... \$ 42,500.
- Profit Sharing Plan..... \$ 3831.
- Investment-Savings Plan..... \$ 3910.
- Retirement Plan (With 20 Years Service)..... \$ 7,219.
- Social Security..... \$ 255.
- For Death Caused By An Accident..... \$ 28,800.
- Business Travel Policy..... \$ 50,000.

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If You Die From A Work-Related Injury, Death Benefits From Workmen's Compensation Would Be Paid.

More facts about your benefits

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out, personalized for each employee, that enumerates exactly what each is entitled to in your various benefit programs. A typical statement might include hospitalization, life insurance, disability, pension and profit-sharing information. Of course, this can be tailored to meet each company's specific needs. Or you may be interested in utilizing other media for your message: booklets, slides, filmstrips—you name it, Marsh & McLennan's Communications Services can do it. In fact, we're ready to do just about everything to help you spread the word. Because what's good for employee morale is good for your business.

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Approve 10% increase for work comp

HARRISBURG — Pennsylvania's insurance commissioner, William J. Sheppard, has approved a modified 10% rate increase for workmen's compensation insurance in that state, effective immediately.

"This filing reflects in part the increases in the weekly wage benefits that injured workers will be entitled to January 1, 1975," the commissioner said. "But, primarily, the overall increase is the result of adverse experience of the workmen's compensation insurance industry," he added.

The state compensation rating bureau, which represents all insurance companies writing workmen's compensation, originally asked for a 12.7% increase "which would have resulted in an additional \$31,700,000," the commissioner said. "I have instead cut their request back to just over a 10% increase which will result in an additional \$23,490,000." Mr. Sheppard added.

He pointed out that there are decreases as well as increases in this new rate schedule. The largest decrease cited was 17.5% and the highest increase, 38%.

Maintenance of Way Workers are seeking dental and eye programs

WASHINGTON, D.C.—Comprehensive dental and eye care plans top the list of benefits sought by the Brotherhood of Maintenance of Way Employees (BMWE) in their new contract, scheduled to go into effect Jan. 1, 1975.

The union represents 130,000 employes of all major U.S. and Canadian railroads whose responsibility it is to keep tracks and roadbeds in working condition.

The present contract, negotiated three years ago, expires December 31 and negotiations with the National Railway Labor Conference will begin in November, according to J. R. McGlaughlin, national legislative representative for the union.

BMWE along with 19 other railway labor organizations is provided with health insurance by the railroads. Travelers Insurance Co. is the primary underwriter, Mr. McGlaughlin said, and premiums are \$60 per month per employe.

"WE'RE HOPING to plow some new ground in the benefits area," Mr. McGlaughlin said of the new contract negotiations. Included among "provisions being sought" are:

- coverage of expenses incurred by a living donor of an organ or a tissue to the extent that such donor is not covered under any existing health insurance program;
- coverage for expenses incurred in elective surgery such as voluntary sterilization;
- increased miscellaneous hospital expenses allowances and include all intensive care expense under basic hospital coverage;
- elimination of special restrictions of psychiatric care.

In addition the BMWE is seeking a 35% wage increase over a period of two years. A 50 cent an hour increase would become effective Jan. 1, 1975 and 35.5 cents an hour plus 7.5% as of Jan. 1, 1976.

A two-cent-an-hour increase for each three-tenths of a point increase in the Consumer Price

New support for national health plan

WASHINGTON—Sen. James Abourezk (D-S.D.) and Govs. Patrick J. Lucey of Wisconsin and Philip W. Noel of Rhode Island, have joined the Committee for National Health Insurance, which supports a national health insurance plan similar to the Kennedy-Griffiths "health security" bill.

Other new members of the committee announced last month were Mayors Abraham D. Beame of New York City and Harvey I. Sloane of Louisville, Ky.

The committee is chaired by Leonard Woodcock, president of the United Auto Workers Union. ■

Named president

Francis J. O'Dorman Jr., a Harrisburg, Pa. attorney, was named president of the Pennsylvania Defense Institute, (PDI), at its annual convention. Organized in 1969, PDI is a non-profit corporation whose membership includes lawyers, insurance executives, self-insurers and independent adjusters.

Index between November 1974 and February 1975 is also being sought. The first adjustment would be paid April 1, 1975, with adjustments paid quarterly thereafter.

An amendment to the union's vacation agreement which adds an additional \$50 per week for each week of vacation due or taken is proposed in the new contract.

The health and welfare items were covered in an official notice served on all railroad managements in the U.S., Aug. 1.

A spokesman for the National Railway Labor Conference told

Business Insurance the unions' request for improved benefits was too wide in scope and not specific enough.

"A dental or eye care plan could cost anywhere from \$1 to \$40 a month, depending upon what it includes," the spokesman said, "but the unions haven't specified just what they want."

The spokesman noted he expected a premium rate increase, based on the removal of health care services from price controls adding he's adopted a "wait and see" attitude towards granting of increased benefits. ■



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Congressmen receive \$220,000 in contributions from doctor's group

WASHINGTON—Forty-two U.S. Representatives have received nearly \$220,000 in campaign contributions from medical professionals this year.

This flow of campaign dollars prompted the Health Security Action Council (HSAC) to issue a "broadside" report this month entitled, "Your Congressman May Be Dangerous to Your Health."

HSAC is an affiliate of the Committee for National Health Insurance, a liberal-labor group backing adoption Griffiths-Corman (Originally Kennedy-Griffiths) Health Security Act.

The health security bill, the most radical national health proposal before Congress, would do away with the private health insurance

industry as far as basic medical coverages are concerned. It would be replaced by a system of health insurance operated through Social Security.

The 42 Congressmen targeted by HSAC include 39 Republicans, and three Democrats "who have overwhelmingly voted with the American Medical Assn. and against legislation to reform personal health care services.

TWENTY-SIX of the 42 Congressmen are sponsors of American Medical Assn.'s Medicare national health bill, which would subsidize health costs through a system of tax credits.

HSAC said the AMA plan "would raise taxes to subsidize pri-

private companies in paying higher fees to doctors.

"Vast additional amounts are being contributed right now to Congressmen who support only the AMA positions on national health insurance and health care reforms, which is to say little insurance and no reforms," according to the HSAC report.

The bulk of the campaign contributions are funneled through the American Medical Political Action Committee (AMPAC), a separate organization from the AMA established as the doctors' political arm.

AMPAC officials told *Business Insurance* they had distributed about \$645,000 in campaign contributions so far this year, with

another \$200,000 to be donated in the remaining weeks before the November election.

The November balloting could be crucial for HSAC and the labor supporters of the Health Security Act approach to national health insurance.

Organized labor has backed off from pressuring for a national health insurance bill this year in hopes of having more support in the next Congress.

THE KEY struggles, which could still be fought this year, will be in the House ways and means committee, however, where the AMA has already been able to demonstrate its strength.

Rep. Wilbur Mills (D-Ar.) quickly found his ways and means committee seriously split when he attempted to put through a compromise national health proposal in August.

The Mills compromise would have required employers to offer

and employes to purchase a standardized medical benefits policy which would be underwritten by Blue Cross-Blue Shield and commercial health insurance companies.

The private insurers would only have been administrators for the second level of catastrophic benefits included in the national health package.

Two of the ways and means committee members received AMPAC contributions in 1974: Rep. Joel Broyhill (R-Va.), \$6,000; and Rep. Donald Brozman (R-Co.), \$3,125.

The other representatives receiving AMPAC campaign contributions were:

Edward Young (R-S.C.), \$5,000; James Abner (R-S.D.), \$5,000; La Mar Baker (R-Tn.), \$7,000; Dan Kuykendall (R-Tn.), \$5,200; Alan Steelman (R-Tx.), \$2,000; Robert Price (R-Tx.), \$5,100; Stanford Parris (R-Va.), \$5,300; William Wampler (R-Va.), \$3,000; Vernon Thomson (R-Wi.), \$4,250; Harold Froehlich (R-Wis.) \$5,000; John Jarman (D-Ok.), \$6,500; Robin Beard (R-Tn.), \$5,000; Robert Bauman (R-Md.), \$7,050; Marjorie Eolt (R-Md.), \$3,050; Garry Brown (R-Mi.), \$7,000; Robert Huber (R-Mi.), \$7,000; Gene Taylor (R-Mo.), \$5,500; Richard Shosp (R-Mt.), \$6,000; David Towell (R-Nv.), \$15,300; John Hunt (R-N.J.), \$3,000.

ALSO RECEIVING support were Charles Sandman (R-N.J.), \$1,000; William Whitehurst (R-Va.), \$3,000; Earl Ruth (R-N.C.), \$5,000; Samuel Devine (R-Oh.), \$8,100; John Dellenback (R-Or.), \$3,000; Albert Johnson (R-Pa.), \$2,000; John Hammerschmidt (R-Ar.), \$6,500; Donald Young (R-Ak.), \$10,100; Robert Lagomarsino (R-Ca.), \$5,300; Donald Brozman (R-Co.), \$3,125; John Davis (D-Ga.), \$2,000; Robert Hanrahan (R-Ill.) \$4,000; Samuel Young (R-Ill.), \$5,250; George O'Brien (R-Ill.), \$1,000; Earl Landgrebe (R-In.), \$5,000; Roger Zion (R-In.), \$3,000; David Dennis (R-In.), \$4,000; William Hudnut (R-In.) \$9,500; William Scherle (R-Ia.), \$6,000; M. O. Snyder (R-Ky.), \$2,000; John Rarick (D-La.), \$2,500. ■

AMPAC replies to statement

WASHINGTON—The chairman of the American Medical Political Action Committee (AMPAC) said this month that his organization's \$600,000 in Congressional 1974 campaign contributions is still only about one third the amount Common Cause identified as coming from "labor affiliated groups" in the 1972 campaign.

The comment was in reply to a statement detailing AMPAC contributions by the Health Security Action Council (HSAC).

Dr. W. J. Lewis, AMPAC chairman, said, "It is curious that the Health Security Action Council points its finger at 42 Congressmen. We are currently supporting 220 Congressional candidates, about half of whom are sympathetic to our (Medicare) proposal for national health insurance, while the half of the candidates are undeclared." ■

July fire losses up

Fire accounted for \$256 million in losses in the U.S. during July, 17.4% over the 1973 figure estimated by the Insurance Services Office. Estimates published by the ISO are based on individual company reports of insured losses.

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Malpractice insurance is 2nd highest in Ohio

COLUMBUS, OH.—Hospitals in this state have the second highest malpractice premiums in the United States, causing medical care costs to skyrocket this year, the state insurance department announced recently.

Public hearings are being held here to determine just how much effect rising medical malpractice rates and big court settlements are having on medical care.

These hearings, along with a series of fact-finding investigations regarding Blue Cross and hospital rates, will assist the state insurance department in establishing "a coordinated attack on the continuing problem of inflationary medical costs," Kenneth E. DeShetler, state insurance director, said.

Like many other states, Ohio only recently became acutely aware of what malpractice insurance has done to medical costs. A 1972-73 study by the Department of Health, Education and Welfare (HEW) said Ohio hospitals pay an average of \$66,000 a year for malpractice insurance—an average of \$165 a bed for a 400-bed hospital.

THE SAME report said Ohio physicians must pay an average of \$770 a year—the 17th highest in the nation—and seven times more than they paid in the mid-60's. Surgeon's premiums, the report said, were \$2,300 annually and also 17th in the nation. Ohio dentists pay about \$40 a year for malpractice insurance, which makes them 16th highest in the country.

A state insurance department's white paper, which contained proposed regulations for Blue Cross in Ohio, said the rate for hospitals in the state may be partly the result of the absence of a hospital license law. "In most states minimum safety standards are assured through a hospital license law," the report said. "Ohio has no such law."

Blus Cross does have a private accrediting agency in addition to such groups as the Joint Committee on Accreditation of Hospitals, the report said, but not all hospitals in Ohio use their services.

Dr. William Nick, associate professor of surgery at Ohio State University, who took part in the HEW study, pointed to another

apparent void in Ohio—the fact that the state has no central information gathering system to register the number or amount of lawsuits for negligence, how they are settled and the reasons for filing.

A California statute requires insurers to report any final settlement or judgment in a liability suit of more than \$3,000, Dr. Nick pointed out. He added that Alabama has a similar law.

Dr. Nick said "there would be some preventive aspect" if Ohio enacted such a law. The state insurance department would then have information on the cause of patient injuries and could establish an effective program for prevention. ■

RISK MANAGEMENT SERVICES

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List injuries under harbor workers act

WASHINGTON—A total of 133,000 injuries, including 140 deaths, were reported for the fiscal year ending last June under the Longshore and Harbor Workers Act.

The 1974 fiscal year was the first full year for this expanded program, which was enlarged to include shoreside workers as well as those who actually work aboard ship.

The expansion accounted for 63,000 of the injuries, according to the labor department. Shipboard injuries totaled 70,048.

The total on injuries reported in fiscal 1974 was 29,000 more than in fiscal 1973, when the expanded coverage was in effect for only the last seven months of the year. Deaths reported in fiscal 1973 totaled 91.

The Labor department said benefit payouts under the program are running about \$46 million a year. About 400,000 longshore and harbor workers are covered. ■

83.1% participate in Union Pacific's thrift plan

NEW YORK—More than 83.1% of the salaried employes of Union Pacific Corp. and three of its subsidiaries have enrolled in its thrift plan, which became effective Feb. 1. The average employe contributes 5.2% from each paycheck

which is matched by a 50% contribution by the company, according to Harvey Turner, director of public relations.

The cost of the plan to the holding company is estimated to be between \$1.2 and \$1.5 million

for this year, Abbot M. Reff, senior accountant for Union Pacific Corp., said.

The thrift plan was developed "primarily to fill out our employe benefit program," Lewis J. Ringler director of employe relations said. "Our benefit program is very good compared with others in the industry. We like to think of ourselves as ahead of the parade," he said.

With the addition of the thrift plan, Union Pacific Corp.'s total benefit program runs about 35% to 40% of the company's base payroll costs, Mr. Ringler said.

ANOTHER REASON for establishing the thrift plan was to help employes save and give them the opportunity to become stockholders in the company, Mr. Ringler said. Participants have a choice of three investment vehicles and can allocate the combined employe/company contribution in multiples of 25%: Fund A consists of company stock, Fund B is a diversified equity fund and Fund C is a fixed income fund. A participant may invest in two funds, splitting the sum either 50-50% or 25-75%.

Salaried employes are eligible to participate in the plan after completing one full year of service and may elect to contribute from 2% to 6% of base pay in 1% increments, Mr. Turner explained. The company concurrently contributes an amount equal to 50% of the employe contribution. Over 4,000 employes are eligible to participate in the plan.

According to the plan policy, Mr. Turner continued, an employe

must decide on Jan. 1 what percentage to deduct from each paycheck for the year and must also choose the investment vehicle(s) for the year.

The only exception, interjected Frederick H. Jakobs, manager of compensation and employe benefits for Union Pacific is for an employe who becomes eligible for the plan after Jan. 1.

Normal distributions of the plan are made on a two-year basis so as to meet a two-year holding requirement, Mr. Turner went on. The participant, if he or she chooses, may elect not to receive the normal distribution in which case it would be deferred until the employe leaves the company (by disability, retirement or death) or else may be made available under the withdrawal provisions of the plan.

THE WITHDRAWAL rules permit the participant to take out 100% of his or her own contributions. However, the participant then forfeits the value of the company's contribution for the most recent two-year period. If the participants contributions have been in the account less than two years, he or she is suspended from participation for three months. If the money is held more than two years, the suspension period is six months, Mr. Turner explained.

For money held more than two years, the participant is entitled to withdraw 50% of the value of the company's contributions that have been in his or her account for more than two years, as well as 50% of his or her own

contributions. The corresponding penalty, is suspension from participation for six months.

Along with Union Pacific Corp., three of its four subsidiaries have adopted the thrift plan, according to Mr. Ringler: Union Pacific Railroad, Upland Industries Corp. and Rocky Mountain Energy Co. The other subsidiary, Champlin Petroleum Co. did not adopt the plan because it has offered another type of thrift plan, common to the petroleum industry, for several years.

A committee of the company's board of directors, consisting of three outside directors, has responsibility for managing the plan. First National City Bank is trustee. ■

Merrill Lynch will acquire Family Life

NEW YORK—The boards of directors of Merrill Lynch & Co. Inc., the holding company for the largest stock brokerage firm in the U.S. and Family Life Insurance Co., Seattle, Wa. have approved a plan for the brokerage firm to acquire the insurance company. The plan was first announced in June.

Merrill Lynch, the first brokerage firm to enter the insurance market through acquisition since the New York Exchange allowed it members to sell all forms of insurance last March, will issue 3,419,000 shares of common stock for exchange on the basis of 1.61 shares of Merrill Lynch for each share of Family Life. The transaction is valued at \$26.9 million.

Family Life, ranking 212 among the 1,800 life insurance companies in the U.S. had a total \$2.3 billion in premium volume as of June, 1974. The company is licensed to do business in every state except New York, where an application to write insurance will be made in the future, a Merrill Lynch spokesman said.

Family Life stockholders will vote on the acquisition at the annual meeting Nov. 7, in Seattle and the merger should be concluded by mid-November, a Merrill Lynch spokesman said.

In a joint statement by Donald T. Regan, chairman, and George L. Shinn, president of Merrill Lynch, the officials said the firm plans to market insurance and combinations of insurance and investments.

"We foresee a growing demand by investors for insurance and new types of investments, especially in the present economic environment," the officials said. ■

AIG sets service division

Joseph C. Smetana Jr. was named president of AIG Risk Management Inc., headquartered in New York City. Mr. Smetana formerly directed risk management for the consulting firm of Booz, Allen and Hamilton Inc. AIG Risk Management, a wholly-owned subsidiary of American International Group Inc., was formed in August to provide risk management services to independent insurance agents, brokers and their customers on a worldwide basis. These services include specialized programs for engineering, claims administration and computer information systems in the management of self-insurance programs.

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Benefit tax slants

Social Security throws a wrench into deferred compensation plans

By JOSEPH S. ROBINSON
Attorney-at-law

HIGH BRACKET executives—those generally earning more than \$50,000—often shoot for ways to defer some of their salary or bonuses to retirement time when presumably income will be substantially reduced. In the past, the typical deferred compensation arrangement was an acceptable method to handle the matter. However, a ruling of the Social Security Administration handed down just last year now discourages this technique. The reason given is post-retirement deferred pay is considered "wages" and, as such, subject to Social Security tax. (SSR 73-30). This means that when an executive hangs up his work clothes at age 65, and draws down deferred pay, which was stored up for him over the years, he must still continue to pay \$772 in Social Security tax so long as he receives such payments, notwithstanding the fact that he is entitled to Social Security retirement benefits at the same time. What's more, deferred compensation when added to large pension benefits could put the retired executive in a higher tax bracket than if he simply took current pay increases each year. In the latter case, since there is a 50% tax ceiling on earned income, it often results in more after-tax income to take the money now, rather than wait and have to pay taxes on it (including Social Security) after retirement.

Take this example: Suppose an executive enjoys a \$100,000 salary. His maximum tax would be limited to \$42,060 because of the 50% ceiling on earned income. Assume further that his projected pension will run about \$52,000 per year. If the company arranges a deferred pay plan with the executive under which he will pick up an extra \$30,000 for a number of years after retirement, he will then be in a higher tax bracket than 50% inasmuch as payouts upon retirement are not considered earned income subject to the 50% ceiling. If instead, the executive took the \$30,000 in cash each year during his employment, he would save more than \$2,000 in taxes annually.

Then there's another angle. Suppose the executive dies and the deferred compensation becomes payable to his widow in a lump sum. She might have to pay a tax on the full amount in one year—which could cause a massive erosion of the principal amount. So taking everything into consideration, many corporate executives or their wives are actually losing after-tax dollars under deferred compensation setups.

A PENSION PLAN geared to varying employe contributions gets a nod of approval from I.R.S. provided the contributions, on behalf of each participant, are made in accordance with a stipulated formula that is not subject to the discretion of the employer. This ruling which is an about face of previous pronouncements on the subject by the revenue service came about this way.

The pension submitted to I.R.S. contained a defined benefit plan which called for a yearly pension equal to 50% of the aggregate amount of each participant's contribution. The plan also provided for employe contributions at the

rate of two percent of annual earnings with an option to contribute an additional one or two percent of such earnings at the employe's discretion. There was also the right of the participant either to change the rate of his voluntary contribution once a year or to discontinue his contributions. (Rev. Rul. 74-385).

STOCK OPTIONS can create a ticklish tax situation when another firm offers to buy up the assets of the company and then liquidates it. The problem arises because an employe must hold his shares at least three years if he

wants to avoid tax when exercising a qualified stock option. So when the company agrees to sell its assets and wind up before the three years are up, IRS wants ordinary income on the difference between the option price and market price at the time of sale because the stock is sold prematurely. (Rev. Rul. 74-267). However, the issue is still unsettled since an appeals court previously held otherwise. (Brown, U.S. Ct. of App. 9th Cir.)

What about stock options in community property states? For instance, suppose a husband (resident of California) exercised a

qualified stock option supplied by community property money. The stock received was a community asset owned equally by husband and wife. The wife died one year later and title to her stock vested in her estate.

IRS ruled that when optioned stock is a community asset, the wife is entitled to the benefit of the stock option rules, even though she is not the employe. Her death within the three year period does not trigger ordinary income. (Rev. Rul. 74-68).

MAKE-UP CONTRIBUTIONS for past service have been ruled partially deductible under the following circumstances.

ABC Corp. had a qualified money purchase pension plan with required annual contributions of 10% of participants' current salary. The company could suspend its contributions for one or more years with any missed payments to be made up in subse-

quent years. In 1972, ABC did not pay in anything to the plan but the following year both the current and past year's contributions were made at one time.

IRS. allowed the current year's contribution in full but for the previous year, only 10% of the maximum was all that could be deducted under the limitation contained in Section 404 (a) (1) (C) of the tax code (Rev. Rul. 74-350).

MINI-SABBATICALS are being worked out by more companies as an added benefit. Typically, an employe may be entitled to a three month extended vacation after each five years of service. The tax court has rewarded companies that pursue this plan with a nifty tax break by allowing them to annually accrue and deduct the cost of the sabbatical instead of waiting until the vacations are taken. (Latrobe Steel Co., 62 T.C. No. 51.)

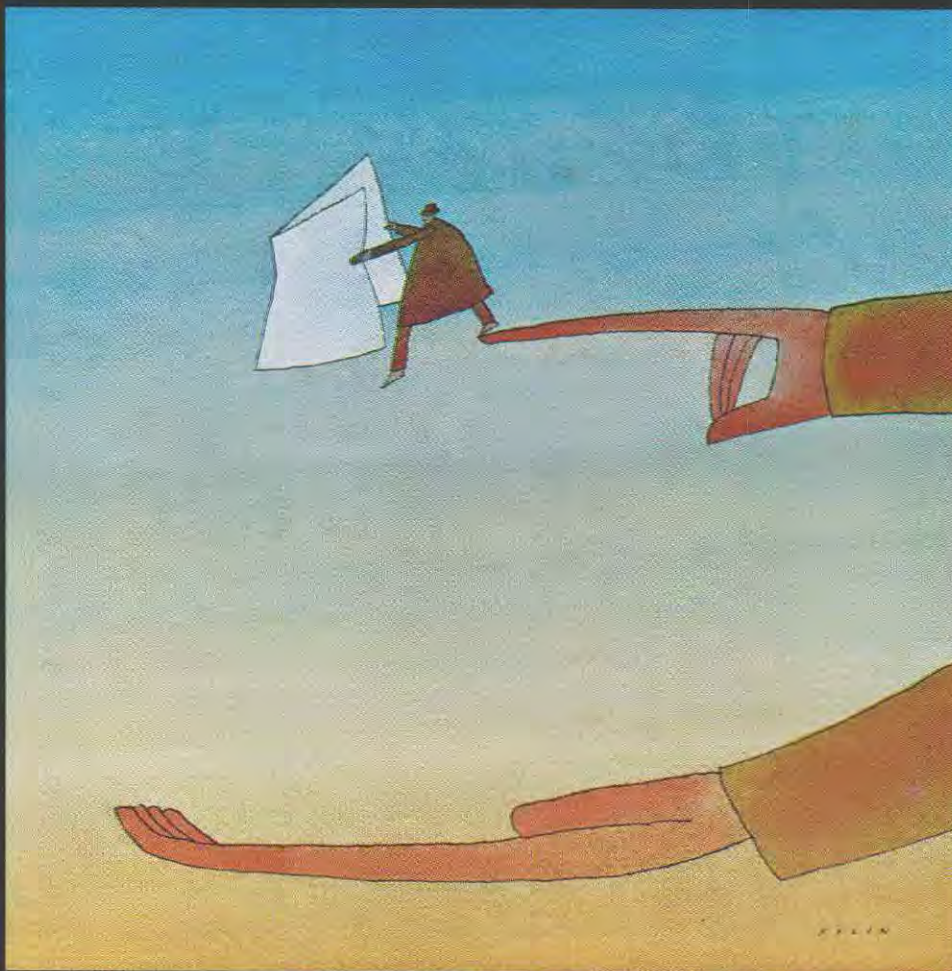
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business insurance

PERSPECTIVE

Does your business interruption policy cover new hazards?

By WILLIAM H. RODDA
President, Marine Insurance
Handbook Inc.
Chicago, Illinois

A FEW WEEKS AGO a hazardous chemical leaked from an industrial plant in a Chicago suburb. Homes and businesses were evacuated by order of public authority until the leak could be contained and the area cleared of gas. Losses from such an interruption of business are not covered by the usual business interruption insurance. New chances of loss have outstripped the customary coverage, and in many cases are specifically excluded.

Closing of a business is outside the coverage of the usual business interruption policy unless:

- there is an occurrence on the insured's premises described in the policy; and
- the occurrence is one that fits within the description the perils as listed in the policy.

There has been an increasing number of chemical leaks which affect businessmen at remote locations from the leak. Even the "all risks" type of business interruption policy is not broad enough in its description of perils to include a mere leak where no accident or occurrence can be defined. The other restricting feature of coverage is the requirement that there be physical damage to property on the insured's premises.

Let us take a look at an extension of

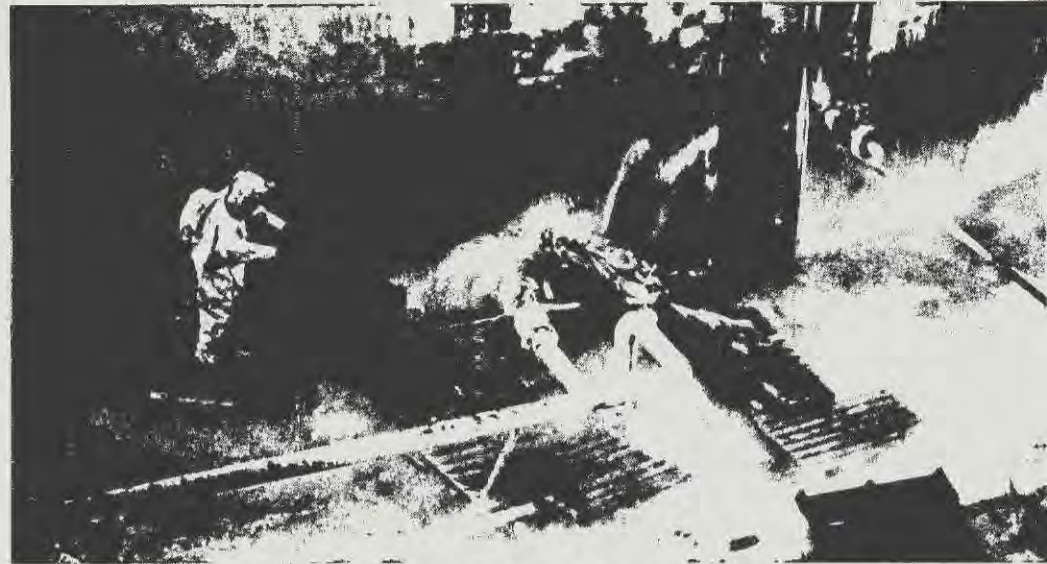
coverage that was added in recent years with the intent of covering the closing of a business because of an occurrence in the neighborhood. This provides coverage up to a two week period for a loss that results from closing by exercise of public authority "as a result of damage to or destruction of property adjacent to the premises described in this policy."

THE CLOSING has to be due to:

- denial of access by public authority;
- a peril described in the policy (There is no coverage for an incident involving a leak or other danger that was not described in the policy, even though the authorities prohibited anyone from entering the premises.);
- damage to or destruction of property adjacent to the insured's property.

The words "adjacent to" deserve some examination. Dictionary definitions of adjacent carry with them the idea of proximity. One says, "adjoining or in contact at some point or line." Another says, "contiguous, touching, or in close proximity without touching." This appears to rule out a situation where public authorities prohibit access to an insured's premises because of some happening a block away or a mile away.

Railroad wrecks have been occurring with increasing frequency. A wreck happens a mile or so down the track from the insured's plant. A tank car load of a dangerous chemical is punctured. There is no physical damage at the in-



Emergency workers make their way toward tank which is leaking toxic chemicals in Chicago. Business interruption insurance does not usually cover an incident of this type.

sured's premises nor within a mile of his place. There is no gas or other chemical at the insured's premises, but the authorities evacuate everybody within two miles of the wreck for fear that a wind change will endanger the people. The insured is out of business, but he has no business interruption coverage because there is no damage on his premises nor on premises adjacent to his.

RADIOACTIVE MATERIALS are being shipped with increasing frequency. An airplane crash or a railroad wreck might pose the threat of radioactive contamination. Hysteria tends to reign whenever there is a radioactive spill—which is understandable because nobody really knows the potential danger from some of these materials. Evacuation may be accomplished by public authority for miles around. It may take several days before decontamination can be accomplished.

Here is what a manufacturer or merchant needs in the way of business inter-

ruption coverage for events that may result in the closing of his place of business:

The Company shall be liable for the actual loss sustained by the insured resulting directly from an interruption of business during the length of time when, as a direct result of an occurrence, access to the described premises is specifically prohibited by public authority.

There is also the possibility that some occurrence down the street will physically prevent employes or customers from getting to the insured's premises. A bridge or highway may be washed out, or the streets may be blocked by debris from a fire or tornado. An insured whose business is susceptible to such a hazard would need protection for loss resulting from any interruption of business due to an occurrence, regardless of its distance from the insured's premises.

There may be some difficulty in negotiating coverage for any occurrence re-

Continued on following page

Risk control essential for data centers

"The Pentagon fire some years ago destroyed three computers . . . The hardware loss was approximately \$7 million the loss to the blank tape alone was \$300,000 . . . the indirect loss has been estimated in excess of \$20 million."



By ROBERT E. ABRAHAMSON
corporate insurance manager
Control Data Corp.
Minneapolis, Mn.

WITHIN RECENT YEARS electronic computers have become a vital element in our dynamic economy. All sizes of computers and computer networks are being utilized to solve an increasingly diverse range of problems, covering business, scientific and medical applications, involving the management of industrial, commercial, institutional and governmental enterprises.

Those smaller firms without the need of their own full-time computer now have access to use of computer time as their needs may dictate. The concept of operating large data centers and networks of data centers is growing rapidly.

Computer risk management involves the various aspects of loss prevention, safety, security and insurance as it applies to electronic data processing.

The important risk management aspects tie very closely to the basic belief and philosophy of sound financial management. This means heavy reliance on the computer, which brings with it various problems of another magnitude.

For computers, the insurance considera-

tions could be threefold: the first being property damage or fire insurance protection on the hardware or physical equipment itself, with similar coverage on the software or media and records; then, some form of business interruption or extra expense coverage, depending on the utilization of the computer. If the computer is being utilized as a data center in doing processing of data for others, there would be an errors and omissions exposure.

THE STANDARD fire and extended coverage policies do include coverage for manuscripts and records, but only at their blank value, plus cost to reproduce them. The valuable papers and records policy is not definite on its intent on coverage for EDP records; such as that on tapes, drums and disc storage drives. In the special data processing policy under the data media and record section there is all risk coverage specifically for active data processing media. The coverage is actually repair and replacement, in that it agrees to replace the lost, damaged or destroyed media and records with similar kind and quality. So an implied policy condition is duplication of records at a remote location (which in itself is your best insurance). Therefore, if there is no duplication, it negates the coverage.

The valuation of media is a difficult task. It includes a thorough analysis of the operation, programming and operation costs, estimates of back-up costs and any

other related costs. This is sometimes greater than the exposure to the computer system itself. The costs of programming are in part in a concentrated form on tape reels, punch cards and paper tape.

All risk business interruption coverage provides for recovery of the loss of income because of loss or damage to the equipment or active data processing media. This includes extra expense to do the work somewhere else until computer system operations can be restored and business begun again.

To minimize business interruption in the event of damage or disaster, arrangements should be made beforehand for the temporary use of another computer, either through the manufacturer or another user who has similar equipment.

THE PENTAGON FIRE some years ago destroyed three computers of the U. S. Air Force's statistical division. The hardware loss was approximately \$7 million while the loss to just the blank tape alone amounted to \$300,000. The documentation on the tape meant program time and processing which took years to accumulate, so the indirect loss has been estimated in excess of \$20 million.

Those firms who are acting in the capacity of a processor for other parties may have an errors and omissions exposure which they should consider. There generally is an exclusion in a general liability

Continued on following page

business insurance

PERSPECTIVE

Data center...

Continued from preceding page
policy for the errors and omissions type of loss.

The Minnesota legislature in early 1969 passed a bill which imposes on computer data center owners liabilities for errors and omissions unless negligence was not involved. Whether or not a particular state has passed a similar law, there is a distinct possibility that commercial EDP center operations still could be held liable if errors created injury or damage, if negligence was involved. In addition to computer manufacturers, some large banks, computer subsidiary operations of other manufacturing firms and also independent computer service companies perform in a data center capacity.

THE WORDING of the Dosland bill in Minnesota appears to strengthen any possible claimants position in that the commercial computer operator would be held responsible until he could prove complete non-negligence on his part.

Insurance to cover the errors and omissions exposure for the processing of financial records for others is difficult to obtain, is costly and normally contains high deductibles. Similar coverage for the processing of medical and scientific data is even a more difficult market.

Many firms are now leasing equipment directly from a computer manufacturer or an independent leasing company. Here, most contract provisions require the lessor, not the lessee, to insure the equipment. A typical risk of loss or damage clause reads as follows: "The lessee shall be relieved from all risks of physical loss or damage to the equipment, during periods of transportation, installation and possession of the lessee, except when loss or damage is due to nuclear reaction, nuclear radiation, or nuclear contamination."

Most manufacturers' leases also hold the lessee responsible for bodily injury or property damage arising out of the operation and use of the computer equipment. Any losses involving business interruption or errors and omissions in processing of work for others would normally be the responsibility of the lessee.

In a purchase or sales agreement it is important to note exactly when the risk of loss or damage transfers from the seller to the buyer. The transfer normally takes place when title transfers, however, it also could be upon delivery to a designated location, upon completion of installation or upon acceptance of the equipment by the customer. This should be spelled out in the contract. It is an important consideration, for it tells you when the seller's insurance coverage terminates and when the buyer is to provide coverage.

From the standpoint of exposure to fire loss, EDP equipment would have to be placed in the preferred risk category. The computer cabinet itself is essentially of non-combustible construction and all printed circuit cards used in the computer system are manufactured from flame-retarding materials. All other components are made of self-extinguishing materials and represent a minimal fire hazard.

IF LOSS OR damage were to occur, its origin would probably be in the environment surrounding the computer center or within the computer room, not in the computer hardware. Normal fire precautions should be observed in the computer room with an adequate supply of fire extinguishing equipment available near combustible items. Normally, magnetic tapes should be stored in a vault equipped with an automatic sprinkler system.

In the use of electronic equipment such as computers, there are some general misconceptions regarding the use of protective devices such as automatic sprinkler systems. As a rule if the building where the computer is housed is classified as being of fire resistive or non-combustible construction, sprinklers are not required.

If the building is not fire resistive then sprinklers are advisable. Recommendations for sprinklers, smoke detection systems and other type of protection require careful evaluation.

The computer user has to conform with local fire codes and he also has to consider recommendations of the computer manufacturer. If he insures his own equipment, he must consider recommendations of his insurance company's engineering department. If the equipment is leased and the lessor is providing the coverage, he may also have to consider the recommendations of the lessor's insurer.

When conditions are such that an automatic sprinkler system is necessary, a

"Today's sophisticated computer equipment represents probably the largest single dollar investment per square foot of area in our business. . . ."

flow indicator switch should be installed in the sprinkler's supply line. This switch should be interlocked with the emergency-off panel to insure that the computer equipment is de-energized when the sprinkler system operates.

Since loss prevention engineering is such an inexact science and in particular as it applies to computers, no universally accepted standards of what constitutes adequate protection have been established. However, the National Fire Protection Assn.'s bulletin no. 75 does detail minimum protection requirements. Factory Insurance Assn. and Factory Mutual have also considered fire protection for computers as a special subject.

Some people have hydrophobia when it comes to automatic sprinklers over computers, and this is even in excess of their fear of fire damage. In some respects this fear is well founded, for the corrosive action of water on the various electric components can do extensive damage, unless proper corrective action is taken. This

points out the necessity of having an emergency organization ready to cope with any problems that may arise.

Many readers will have heard of the student riot damage at Sir George Williams University in Montreal which a few years ago completely destroyed the computer center. This was a sophisticated EDP system which was declared a total loss. It was not only from fire damage, but also from the corrosive action of water, caused by indiscriminate use of water hoses by the student demonstrators.

My point here is that through proper security measures, even the vandalism and malicious mischief, sabotage or riot element are subject to a degree of control. Until recently, the primary efforts in protecting computer centers were directed toward the prevention of losses due to accidental fire. Today however, the computer user should seriously consider the protection of his equipment against inten-

tional damage caused by fire bombs or other methods of physical destruction. It is imperative that management take appropriate action to minimize these risks. If reasonable precautions are not taken and major damage does occur, financial loss may not only be limited to equipment damage and business interruption. If major uninsured damage should ensue, stockholders could conceivably sue management for not exercising prudent judgment in protecting their investment.

Some of the serious questions that management should consider are: One, if the computer center and all its contents were destroyed, could the company continue to transact its business without a major disruption in its daily affairs? Two, is the security and protection of the company's computer files comparable to that given to its journals, ledgers and other important records in pre-computer days? Three, has the company adequately protected its equipment, programs and files against sabotage, riot or vandalism?

Hazards...

Continued from preceding page

ardless of distance from the insured's premises. Present policies limit the coverage to a two week period for losses resulting from exercise of public authority. This probably would be adequate unless the occurrence to be covered would be something like the washing out of a bridge or highway. A longer period of time might also be considered if there were some likely danger of radioactive contamination.

INSURANCE COMPANIES may resist giving a coverage for any occurrence, without restriction as to the type of occurrence. Current policies usually require that damage to or destruction of property must occur and the interruption must result from such damage or destruction. There could be occurrences without any recognizable damage or destruction. A mere leak of a dangerous liquid or gas might happen without there being any damage or destruction. The principle is emphasized that an insured's loss from an interruption of business is just as expensive to him whether it results from a fire on his own premises or from a railroad wreck a mile away.

There are some contingent business interruption losses that have been recognized by insurance companies and for which coverage may be provided if the insured requests it. One is the loss from interruption of power due to the destruction of a power line to the insured's plant. Such coverage would apply specifically to the power line. It would not cover interruption of power due to the destruction of the generating plant or because of a black

out of power from other cause unless that contingency was specifically covered by the policy. An insured whose operations depend upon outside power might consider the need for a blanket coverage of any power loss. Such coverage ordinarily would have a deductible of several hours, or perhaps one day, in order to avoid loading the insurance with minor claims.

A possible omission on the part of an insured is lack of attention to the perils named in the business interruption policy. Sometimes this coverage follows that of the property coverage. The property coverage may exclude boiler and machinery loss and allow this to be covered in another policy. The business interruption policy should be checked to be sure that all perils likely to affect the premises are mentioned.

Is there a need for coverage against business interruption due to strikers? It is doubtful whether an insurance company would write business interruption insurance to cover an actual strike against the insured, but other strike losses can occur. A typical exclusion of the business interruption policy applies to "interference at the described premises by strikers or other persons with the rebuilding, repairing or replacing of the property or with the resumption or continuation of business." This would exclude losses from a secondary boycott that might be maintained by environmental enthusiasts, or other persons whose activities may or may not be legal.

Losses from riot and civil commotion generally are covered by the business interruption policy, but there can be a question if the riot is somewhat remote from the insured's premises, or if the occurrence is not considered to be an actual riot. Civil authorities may close down the

The importance of computer control is increasing because of the growing size and complexity of computer systems which makes errors more costly and difficult to detect; also because of the sophistication of hardware where original documents may exist only in the form of magnetic records within the computer, placed there directly from remote terminals; and finally because of management's increasing dependence on information generated by computers, not only for financial data, but also in such diverse areas as marketing analysis, production scheduling, engineering research and forecasting.

ONE OF THE primary considerations in the design of a computer center should be the location of the room. Too often, this room is a virtual showplace with large plate-glass windows, sometimes in a separate detached building, seemingly inviting disaster. Ideally, the computer room should be located within the interior of a building above ground level. Openings into the space should be minimized to limit personnel access and each opening should have an anteroom. The control of personnel in and out of a computer facility is absolutely essential.


The insertion of copper wire into a memory bank, the removal of a few punch cards from a program, or the passing of a magnet over magnetically recorded data are some methods which have been used to sabotage a computer system. The anteroom at each entrance should be equipped with protective devices to limit access and detect the presence of magnetic material. This should include a closed circuit TV system, monitored by a security guard.

Today's sophisticated computer equipment represents probably the largest single dollar investment per square foot of area in our businesses, but have we given it the proper consideration? Consider the chaos that could result from loss or damage to hardware and the data associated with it. Of extreme importance is storage of duplicate media at a remote site. Imagine a computer center's staff attempting to salvage damaged programs by doing re-punching, while transcribing from bits of charred, wet paper; and then the scramble to buy time from a local computer service that doesn't have the required capacity. Insurance coverage is important, but risk control has to come first. ■

insured's plant in order to prevent a riot. An insured may reasonably consider whether he should ask for a modification of the strike exclusion so that it would exclude losses only if the strike were against him. He may consider whether he should require coverage where he is an innocent bystander.

ANOTHER EXCLUSION that may be costly to an insured applies to "the suspension, lapse or cancellation of any lease, license or contract or order" unless the suspension, lapse or cancellation results from the actual suspension of business. That is, cancellation of a lease or license that results from the suspension of business is covered but a cancellation, lapse or suspension that results from physical damage to the premises is not covered. This provision may need to be modified if the insured's lease provides for cancellation in the event of fire or other damage. Cancellation of a lease, or of an order for goods, may be costly and an insured may need to negotiate for coverage of such loss.

The principle of the conventional business interruption policy is to cover loss from interruption of business that results from damage to the insured's premises. The only extension to this principle that is customarily a part of the coverage applies to loss because public authority prohibits entry to the insured's premises because of damage next door. Other contingent and consequential losses either are omitted from coverage or are specifically excluded. The businessman should use some imagination and try to determine whether other contingencies might close his operations. He can then negotiate with his insurance company to see what extensions of coverage may be secured for a reasonable price. ■



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Insurance departments can generate cash flow

CARMEL, CA.—Current economic woes—inflation and tight money, specifically—appear to be causing top corporate managers to think more about risk management as a cash management function within their companies, said consultant and risk managers attending the second annual Institute of Risk Management Consultants meeting here.

Joe E. Bridges, risk manager and director of corporate insurance for Honolulu-based Amfac Inc., told *Business Insurance* that he is changing insured values under policies "continually," as a result of inflation. "In the sugar industries, we are changing values every six months."

Mr. Bridges also noted that

Amfac now has about half of its total insurance dollars in its captive insurance company, which is helping improve cash flow. Workmen's compensation and liability were the most recent programs put into that captive, Mr. Bridges said. But he noted that this was done as part of a master plan for using the captive, rather than as any direct result of a need for cash flow. When Amfac set up its captive just over a year ago, the first thing put into it was directors and officers liability, followed by errors and omission coverage, property risks and mobile equipment.

"Tight money has had a direct effect on risk management by putting the focus on risk funding

and encouraging risk managers to look at various options available, and especially at plans which are more cash sensitive," according to George Betterley, of Boston-based Betterley Assoc.

"PEOPLE ARE going around bragging about using cash flow plans now, and in only a few situations has corporate belt-tightening caused some cutbacks in the size of risk management departments," Mr. Betterley added.

Rick Morrissey, risk manager for the University of Florida, and an independent consultant, is looking to health maintenance organizations as a source of "tremendous cash flow" for businesses. "They offer the advantages of other typical prepaid plans, and can offer a yield of about 9% on an annual basis, conservatively speaking," he believes. He is considering putting together "generic pools" of businesses to fund these HMOs.

Tell risk men to 'cut loose from insurance'

CARMEL, CA.—Risk management advisers have to "cut loose from insurance" and the insurance tradition and make intelligent use of alternate means of funding risks.

This call to action for risk management consultants, and risk managers, was issued by H. Felix Kloman, of Risk Planning Group, Darien, Ct., in his keynote address at the opening of the second annual Institute of Risk Management Consultants conference here.

"We're recognizing insurance for what it is: a highly expensive specialized pre-funded line of credit," Mr. Kloman asserted. "We have to recognize that in some cases insurance can be more of a disability than an asset.

We've allowed insurance as a tradition to get out of hand."

In his discussion of risk funding as one of the four major challenges he sees for the 1970s, Mr. Kloman expressed the view that "we're going to split off from insurance and cut the umbilical cord more than we have in the past."

THE OTHER challenges Mr. Kloman sees facing risk management are the new federal regulations, organizational challenges, socio-economic challenges and changes arising out of advances in technology, the "new sciences," to use Mr. Kloman's term.

"All of the new federal regulations pose new challenges to our organizations," he believes. "Should these be within the risk control responsibility of the risk manager?" he asked. Mr. Kloman specifically cited the Environmental Protection Act, the Occupational Safety & Health Act, the Equal Employment Opportunity Act and the Consumer Product Safety Act as posing the biggest challenges to corporations. The EPA alone, he noted, is accounting for some \$10.4 billion in corporate capital expenditures in 1974, a jump of 10.8% of total capital expenditures this year up from only 4% last year.

He also posed the question of whether the risk manager's job should be a training ground for future corporate executives. How long should risk managers be allowed to stay in one job, and how can the risk management job be structured around a human's capacity for work? "Whom should a risk manager report to?" he further wondered, citing alternative reporting options to finance operations, personnel or top corporate management.

Out of the organizational challenge comes a need to adapt to new communications requirements, Mr. Kloman added, "especially disclosure to stockholders. What events are material? And what is the responsibility of the risk manager to report material changes directly to auditors and, then, to the public?"

ONE VIEW OF these new communications requirements is contained in a recent Price Waterhouse & Co. memo to managers, which Mr. Kloman quoted: "With respect to non-accrual future losses, Price Waterhouse believes that the essence of informative disclosure involves risks rather than losses. We recommend that related disclosure consist of a brief description of unusual risks assumed by the reporting entity."

A future challenge allied to the organizational changes in corporations focuses on the need for new information input to aid the planning cycle, especially long-range forecasting, Mr. Kloman noted.

Risk management faces the challenge of new sciences which, in Mr. Kloman's view, is clearly the need to make use of more quantitative analytical tools of the trade. "But, this brings us back to the human element. We can't allow ourselves to be used by the sciences," he cautioned.

What's happening in the world will affect risk management in the future, Mr. Kloman said. He feels risk management is "on the threshold" of significant changes in society, changes including: population growth, pollution, high-density urbanization, lack of capital, political turmoil, and a changing pattern of industrial growth. ■

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Top weekly benefit of \$261 for longshoremen

WASHINGTON—A top weekly benefit of \$261 became effective Oct. 1 for the nearly one million workers whose workman's compensation coverage is provided through the Longshoremen's and Harbor Workers' Compensation

Act and related laws.

The act covers dock and shipyard workers, all private employees in the District of Columbia, workers under private contracts at overseas military bases, and employees of military post exchanges

and other nonappropriated agencies serving the armed forces.

The previous maximum benefit had been \$210.54 a week for on the job accidents or fatalities.

This latest increase reflects a continued upward trend of benefit levels under the law after the top benefit had stagnated at \$70 a week from 1961 to 1972. In 1973, it was raised to \$167 a week.

The maximum benefit is now based on the national weekly wage of certain groups of employees specified by the act. The \$210 benefit was based on 15% of a national average weekly wage of \$140.

THE NEW maximum benefit is based on 175% of the national average weekly wage of \$149. Beginning in October, 1975, increases will be based on 200% of the na-

tional average weekly wage.

The minimum compensation for disability is \$74.57 a week, or actual wages lost for any worker earning less than that amount a week.

WITHIN THE maximum and minimum, workers are paid two-thirds of their wages, subject to the \$261 maximum.

The benefit increases also include a 6.26% across-the-board boost for persons who were drawing benefits prior to Oct. 1.

The cost of this 6% boost is shared evenly by the federal

government and the employer, through its insurance company.

The new benefit levels are to be paid for entirely by the employer through regular insurance premiums. Labor department officials said they had no data on what the boosts might do to premiums for this coverage.

The 1974 cost of the retroactive benefit increases for persons already receiving payments was put at \$4.2 million for longshore and harbor workers, split evenly by insurance companies and self-insurers, on one side and the federal government.

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Advisory council will help with pension act

WASHINGTON—The labor department has set Oct. 24 as the deadline for accepting nominations for the 15-member Advisory Council on Employee Welfare and Pension Benefit Plans established by the pension reform law.

The advisory council is to meet at least four times a year and advise the Secretary of Labor on implementation policies for the new law.

The council will consist of three employe representatives, three members from the general public, and one each from the fields of insurance, corporate trust, actuarial counseling, investment management, investment counseling and accounting.

One employer member and one employe member are to represent

multi-employer plans. One of the public members is to represent persons receiving pensions.

INITIALLY, five members will be appointed to terms of one year, five to two-year terms, and five to three-year terms. Future terms will all be for three years.

According to the department, members shall be "persons qualified to appraise the programs" under the new law.

Nominations should be mailed to the Secretary of Labor, 14th Street and Constitution Av., NW, Washington, D.C. 20210.

Candidates must be identified by name, occupation or position, and the nomination should specify the field or group to be represented.

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Equestrians covered by group accident plan

NEW YORK—Horse lovers may feel a little safer under a new group accident plan designed specifically for them by the Rhulen Agency Inc., specialists in insurance for equestrian or horse-related events.

Underwriters are reluctant to write this coverage, according to the brokerage firm's vp, Peter Rhulen. "It's somewhat dangerous, a little bit on the risky side," he told *Business Insurance*.

"The new stable and academy group accident plan is available to horse clubs, equestrian centers, riding stables, horse shows or any other participant of horse-related activities," the vp said.

IT COVERS accidental death, dismemberment and medical reimbursement while involved in horse-related activities.

It includes "specified amounts for dismemberment and the principal sum as a death benefit," it was noted.

Basic limits of the policy are \$1,000 with a \$10 deductible. However, average limits purchased range from \$1,000 to \$3,000, according to the brokers. The highest limit seen so far was \$25,-

Ark starts new career on Amazon

CHICAGO—Getting an ark insured is no easy business, in case you haven't heard. That's right, an ark.

The Esperanca, Portuguese for "hope," is perhaps one of the most unorthodox vessels since Noah's time. The vessel just began a new career as a hospital ship operated by Franciscan missionaries traveling up and down the Amazon River.

Originally a two-deck ferryboat which carried passengers back and forth between the tamer waters of San Diego and Coronado, the 55-ton shallow draft vessel now operates a full-service medical clinic in northwest Brazil.

Because of treacherous waters, unpredictable weather and an abundance of animal life—not to mention Pygmies—most underwriters shied away from the Esperanca. And not without good reason: previous vessels used by the Franciscans, although smaller, now lie at the bottom of the river.

But Father Luke Tupper, a physician himself and the ship's guiding light, was undaunted. His order recently obtained a \$5,000,000 umbrella coverage policy through Leo B. Menner & Co., underwriting managers for foreign and domestic companies, based here.

Other coverage also provided by Menner includes a \$150,000 policy for hull; \$75,000 for equipment and fixtures; \$300,000 for general liability; and \$240,000 to cover malpractice suits. ■

Continental acquisition

The Continental Corp. parent holding company of the Continental Insurance Cos. has acquired a 19% interest in a Brazilian insurance company called Phoenix Brasileria. The Brazilian insurer writes all lines of insurance, except life. Just last year, the firm collected more than \$5 million in premiums. This move is just another step in Continental's expansion of its international operations.

000, Mr. Rhulen said.

The cost varies "by the type of risk that we're involved in. We have a rate schedule for each area," he added.

Under a student plan for a school, the cost could be as low as \$4.75 a year. Costs could go as high as \$100 a day for a race track, however, the vp said. A horse show average a cost of \$40 a day.

Some policies issued include Monticello Raceway, Minnesota Quarter Racing Horse Assn. and Mountain Valley Equestrian Center.

Common injuries cited for horse-related events included broken legs, smashed ribs and concussions. ■

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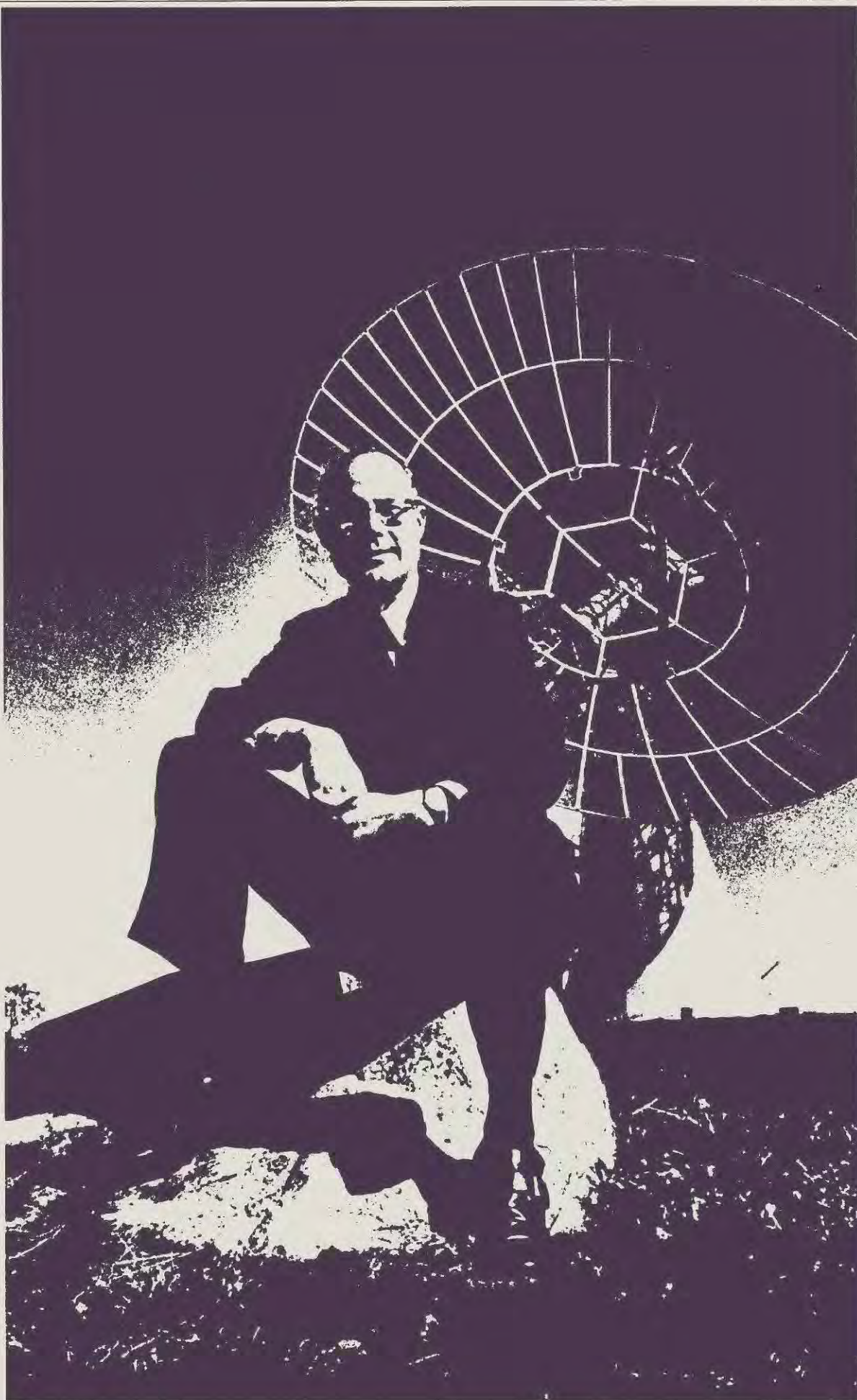
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Federal standard limits vinyl chloride exposure

WASHINGTON—Exposure levels of vinyl chloride, the cancer causing chemical, will have to be cut sharply by Jan. 1 and vinyl chloride workers equipped with respirators by 1976, according to the final federal standard an-

nounced this month.

The Society of the Plastics Industry, representing users of the chemical, immediately filed notice with the U.S. circuit court of appeals in New York City seeking a review of the standard on the

grounds it was not "technically feasible."

The Occupational Safety and Health Administration (OSHA) said that it wants worker exposure to vinyl chloride cut to one part per million over any eight hour period.

A somewhat higher exposure, five parts per million, would be allowed, but only for periods of 15 minutes or less.

THESE STANDARDS will become effective Jan. 1 when the present emergency vinyl chloride exposure limit of 50 parts per million will be eliminated.

Respirators will become mandatory for all workers exposed to vinyl chloride in quantities more than the one in five part limitations beginning on Jan. 1, 1976.

Prior to 1976, respirators will only be required when workers are exposed to concentrations of vinyl chloride greater than 25 parts per million.

The OSHA standard backs off from its original position, one supported by labor, that vinyl chloride exposures should be eliminated completely.

It is, however, still below the industry's position that a 10 part per million limit was the only feasible level that could be maintained.

The standard also specifies regular air monitoring, regular medical checkups for employees, and special regulated areas where vinyl chloride concentrations are high.

It also prohibits direct worker contact with liquid vinyl chloride and requires that signs be posted which warn that the chemical is a "cancer suspect" agent.

Nineteen deaths among vinyl chloride workers in this country and abroad have been attributed to a cancer of the liver linked to the chemical.

The first connection between vinyl chloride and cancer was

brought to the nation's attention last January when it was found that four workers at a B. F. Goodrich Co. plant in Louisville, Ky., died of angiosarcoma, a usually fatal form of liver cancer.

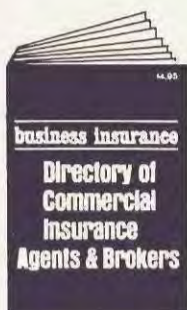
About 6,500 workers are employed in plants that make vinyl chloride and polyvinyl chloride, but another 350,000 workers are employed at plants which turn polyvinyl chloride into finished plastic products. Both groups of workers are covered by the new standard.

THE STANDARD established no deadline for perfecting engineering methods to cut exposure to allowable levels, but companies were required to have a plan for the reduction of these levels available for inspection.

"It isn't a question of economic reasons for not wanting to comply," said a spokesman for the Society of the Plastics Industry. "It just can't be done technically." ■

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Increased safety brings association workmen's compensation dividend

ORANGE COUNTY, CA.—Members of the Pacific Coast Metalcraft Assn. recently earned a 28.2% workmen's compensation dividend from SAFECO Corp. by increasing safety on the job. The insurance dividend is considered by SAFECO to be especially significant because the metalcraft industry traditionally has a high accident and loss record.

Machine and materials handling supervision were the safety precautions cited by Terry Moore, SAFECO compensation underwriter, as responsible for netting the association members, insured during the policy year, October

1972 to October 1973, its high dividend.

SAFECO assisted the 105-member association, which covered about 2,000 workers in 1972, by providing individual loss control services through safety inspections, recommendations for individual insureds and loss analysis on the year's accident record. The latter report listed the types of injuries that occurred and what SAFECO thought could be done to reduce them in the future.

"**THE ASSOCIATION** membership did an outstanding job of monitoring the safety standards our loss control experts set up,"

Everett Brookhart, manager of SAFECO's Fountain Valley division, said. "The group's accident frequency rate was substantially better than the state average."

Jack McCullough, association president, also gave credit to SAFECO's loss control experts. "We were delighted with their cooperation," he said. "They knew what they were doing and were generous with their advice and time."

The dividend was provided to each association member, regardless of individual loss ratio. Asked whether this factor might have deterred the group's motivation, Mr. Moore said that any member experiencing losses paid a correspondingly higher premium for its workmen's compensation coverage. ■

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Bad results spell crunch: Agents group

ATLANTA, GA.—"Unbelievably bad" underwriting results for the first six months of this year are making independent agents apprehensive about a foreseeable market crunch, William A. Stringfellow, executive vp of the National Assn. of Mutual Insurance Agents (NAMIA) declared here.

Speaking at the annual convention of the Society of CPCU, Mr. Stringfellow said NAMI members are concerned about the effect market restrictions will have on servicing of clients.

"If the severe reduction in the surplus of companies means restrictions in the market, let us hope that those restrictions will be applied fairly and equitably as possible," he told the group.

ALTHOUGH HE agreed with many that rate relief is needed because of inflation and tornadoes that struck in the south and mid-west earlier this year, Mr. Stringfellow urged that the negative actions of 10 years ago not be repeated. Some mistakes he cited included quotas, cancellations and withdrawals from territories.

He warned agents to "look with a great deal of care" at the one-company concept, urged by some industry leaders. ■

CPCU study predicts many changes for industry

CARMEL, CA.—Insurance companies polled by the National Society of Chartered Property & Casualty Underwriters predict substantial future changes in the industry, including:

- moving toward the concept of total financial services packages in both commercial and personal lines;
- increasing commercial insurance lines to \$30 billion by 1983, a

growth of about 66% from estimated commercial business of \$18 million this year;

- intense competition from other insurance companies and from new quarters: In the next 10 years, bank holding companies and other financial institutions will move into the insurance business;

- nationalized workmen's compensation regulations and national health insurance, both over the longer range;

- greater numbers of multinational corporations using self-insurance, which will depress the market for insurance products but expand the market for financial services and risk management;

- increased pressure by more enlightened consumers of insurance for greater benefits, better claims service, and tailored packages of coverage and service.

JUSTIN TIERNEY, vp of planning and development for Fireman's Fund Insurance Co. discussed these findings of the CPCU industry study before consultants and risk managers attending the second annual Institute of Risk Management Consultants here. Mr. Tierney said the full survey results will appear in the CPCU Annals next month. The study was conducted to assist insurance companies in their long-range planning for market changes. Fireman's Fund prepared the summary for distribution within CPCU, for further study by the organization's long-range planning committee.

The survey covered three time frames: the immediate (1974-75), the intermediate (1976-78) and the long-range (10 years out, namely 1979-1983), Mr. Tierney said.

Some 16 major underwriters participated in the study, along with nine industry associations and several brokers.

Underwriters foresaw continuing worldwide inflation, moderate or no growth in GNP, and varying degrees of fuel shortages. "As inflation continues, insurance companies will be called upon to protect their customers from savings erosion and inflation hedges will increase," the study noted.

THE INSURANCE industry sees one of its major problems as attracting and retaining capable man-power, the study revealed. Specifically, the study predicted a future decline in the number of new entrants into the work force, a subsequent increased demand for employees, improved and expanded EDP systems to handle work heretofore handled manually, and expanded employee benefits to attract what may become a much more competitive work force.

Insurance companies are, for the most part, assuming that the number of moonlighters will diminish because of future changes in attitudes toward work, so that companies using moonlighting employees will not have this resource available.

Companies polled see a restructuring of jobs in response to pressure for job enrichment and a desire to participate in the decision-making process by more better-educated adults, Mr. Tierney noted. This is manifested in all three time frames by increasing pressure for better employee benefits, broad health care, flexible time schedules and employee training and educational opportunities, the study showed.

As consumers of insurance become generally younger and more enlightened, the insurance industry expects to face new demands by consumers who view prompt claims services as a right, and demand a greater return of their premium dollar in benefits and easier access to insurance.

CONSUMERISM will manifest itself within the corporation, insurers expect, as group coverages become an assumed condition of employment. A bigger part of payrolls will be spent for fringe benefits and more insurance will be purchased within the corporate structure, insurers foresee. In this same vein, insurers see a move to more true group plans and mass marketed insurance lines to employees.

One of the most far-reaching developments in the legal picture insurers draw is the introduction of no-fault to the auto field. Some see an extension of no-fault to other fields, such as product liability, Mr. Tierney noted. "And if the general no-fault concept is applied to lines other than automobile, which may occur in the longer range, underwriting will have less of a role than it has presently," he pointed out.

Insurers, however, see OSHA, the Consumer Product Safety Act and general governmental pressure for safety reducing losses and improving property/liability experience.

Insurers generally are seen seeking new methods to capture insurance sales in specialty markets, with mass merchandising, true group plans, risk management and ancillary services all part of these methods.

Insurers described their short-term objectives as concentrating on commercial insurance markets which will become more important than in the past. Intermediate goals are to increase marketing to franchises and associations for both commercial and personal lines, and expand surplus and specialty lines. Long-

range objectives include entrance into foreign insurance markets, reinsurance markets and marketing commercial/personal policies

to a total corporate client in a total package, at the same time providing risk management services to these clients.

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Expert feels every Fortune 500 company should have a captive

CARMEL, CA.—“I believe every one of the Fortune 500 companies should have a captive insurance company. The question is not what the company should put into the captive. One hundred percent of everything should be put into a captive. The question is what should the corporation take out of the captive.”

This strong opinion comes from Joseph E. Destein Jr., president and co-founder of Anistics Inc., the risk management consulting division of Alexander & Alexander. Mr. Destein specializes in figuring out such things as how much of a total program should be “taken out” of a captive and reinsured, based on past experience and projected losses, with various risk control programs factored into the overall problem.

He does not use traditional methods to come up with this data. As an audience of about 50 people—risk management consultants, risk managers, a few underwriters and brokers—learned at the Institute of Risk Management Consultants here, Mr. Destein uses computers to build models which tell his clients what their costs and losses will be in different kinds of simulated situations.

MR. DESTAIN believes that how much risk a company takes out of its captive underwriter depends chiefly on what kind of people are available to manage the captive and handle investments. No company in the Fortune 500, at least, has to worry about whether it is big enough to use a captive, since, as he puts it “most of these companies are bigger than their underwriters, and certainly have the resources to underwrite their own risks.”

Much of this philosophy that every big firm should have a captive seems to be an outgrowth of what Mr. Destein calls a “key assumption,” that over a given period of time, a large corporation will pay virtually all of its own losses.

Recently, Mr. Destein took his ideas about captives and went one better. He is presently negotiating with a very large underwriter (unnamed) for a very large client(unnamed) to function virtually as a captive for the insured. The proposed setup, which Mr. Destein has dubbed “Reserve Asset Management,” (and cynically refers to as the RAM program) is something Mr. Destein sees as a “very viable alternative to captives.”

HERE IS THE way it is supposed to work: 100% of premiums for first-dollar coverage are paid to an underwriter, but are set up as an identified-by-name account which in theory becomes the insured's reserve account to be invested separately, among other things. From that fund the insured pays the insurer for administrative services, and to the extent that excess or catastrophic insurance is required, premiums are paid out of these assets. The insurance company is also paid a fee for managing the investments. The insurance company considers this money part of its assets, and it appears on the books as such.

Gains from investments accrue to the account and could reduce premiums in subsequent years as the reserved account grows. Mr. Destein proposes to work out an arrangement with

the insurer that the client will receive regular reports on specific investments and specific rates of return. He believes this will enable the insured to evaluate the insurance company as a money manager according to both the overall return on invested reserves, and the insurance company's ability to administer programs and buy catastrophic insurance on a competitive basis.

“**I WOULD THINK** that any company with a couple of million dollars in insurance reserves could try this” kind of scheme, said Mr. Destein.

This should end up costing the insured exactly the same amount as if it had its own captive, “ultimately, that is,” Mr. Destein is convinced. “At first the cost may be higher, until the insurance companies become fully aware of the true costs of administering such a program.”

Further, “premium payments will end up being smoothed out, which is the whole object of risk management—to provide stability to the funding of loss.” Although the return on investments would be realized by the insured, the reserved assets would not be distributed to the insured, Mr. Des-

tein said.

This program is part of a set of alternatives to funding risk, which includes what Mr. Destein calls “pseudo insurance.” Other alternatives he lists are direct expensing, reserving, use of captive, generic pooling, spread loss funding, equity funding, and insurance.

GENERIC POOLING, for companies involved in businesses with similar risks, may be used more in the future for employe benefits, says Mr. Destein. “That may be the way to deal with the new pension law,” he added, referring to a limitation of a captive's book of business to 5% of the parent company's risks in the area of group benefits.

“We are stuck on one word: Indirectly. But if benefits are written directly by a fronting insurance company, the contract is directly between employes and the insurance company. The fact that the primary carrier reinsures

part of the risk to the captive in no way diminishes that insurer's responsibility to the employe. So the problem is the interpretation of the one word,” Mr. Destein reasons.

Analytical methods can be applied to risk management when there is available data. Mr. Destein outlines the various techniques which can be used as data collection, multiple regression, data sampling, hypothesis testing, analysis of variance, cost analysis and statistical inference. When there is no data available the methods used then become Delphi analysis and hindsight forecasting.

An example of hindsight forecasting would include the recent situation Mr. Destein was involved in with a company owning offshore oil rigs. The firm was trying to forecast future losses to its rigs, but there was no historical data on losses to such platforms. The company had to

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assume that all the rigs had been in position for 100 years, then take weather data for the past 100 years and superimpose it on the rigs to estimate what losses would have occurred as a result of storms, etc. over the hundred-year period.

Only in the present period of tight money are companies recognizing the importance of having good data collection systems, it seems.

MR. DESTEIN says that despite the need for data, only "about five clients out of many" that Anistics works with have good data collection systems.

"The financial executive in most cases hires an insurance buyer, tells him to buy a certain amount of insurance at the best cost, and gives him a budget. Now when the price of money goes up to 12% or 13%, financial executives begin to look at the use of funds. Cash flow becomes the key

thing to cash management."

"Management in most companies has never pushed for elaborate data collection systems to record details of losses," Mr. Destein went on. "Now they see why there is this need for information, and loss data systems have a great future."

Detailed loss data is necessary to figure probabilities of loss, to establish self-insurance reserves, and as a basis for negotiating with underwriters, Mr. Destein said.

"All of our captive insurance companies are going to be using this same loss data coupled with computer simulations to negotiate reinsurance contracts," and also to establish loss levels to be reinsured, Mr. Destein said.

The importance of computer analysis is to show the financial managers "what his aggregate loss will be, with some level of confidence," Mr. Destein claims to be able to simulate different sit-

uations, from which he can extrapolate data on the most frequent losses and the amount of expected losses for virtually any risks. "This introduces a way to do loss control cost-to-benefit analysis in such a way that the financial manager can measure return on investment in terms of earnings," he added.

BUT HE IS quick to note that even when using his four types of simulation analysis—loss forecasting analysis, cost/benefit analysis, truncation analysis, and reserve funding analysis—"you have to balance the science with the art. You can have all the data in the world and it doesn't do any good without human interpretation."

And Mr. Destein, who says he refuses to work with risk managers—instead, he approaches top financial executives—admits "there is no substitute for a good risk manager with 10 years of experience."

Enumerate sources of possible future risks

CARMEL, CA.—The study of "alternative futures" must become more important to managers who are concerned about breaking out of "the mindset of the inevitable future," according to a leading specialist in forecasting future events.

Selwyn Enzer, a futures forecaster with the Institute of the Future in Menlo Park, Ca. told risk management consultants meeting here that he sees seven general areas which are possible future sources of risks. They are: automated highways; bio-genetics; electronic funds transfer; ocean mining; portable nuclear bombs; robotization; and weather modification and control.

In a speech to consultants and

risk managers attending the second annual conference of the Institute of Risk Management Consultants, Mr. Enzer said that these are risks he sees arising from new technologies.

He also sees additional risks growing out of expanded technological applications, such as: computer-assisted medical diagnostics; computer-controlled processes; computer storage of personal information; industrial espionage; nuclear power plants, and passive restraint systems in cars and buses.

MR. ENZER noted that in futures forecasting he is concerned with three main areas of activity. Exploratory forecasting, which he likens to "scanning the horizon" to identify trends; normative forecasting, which he describes as charting a course to reach a certain goal, like a ship's navigator; and technology assessment, which involves looking beyond the goal and predicting society's reactions to events.

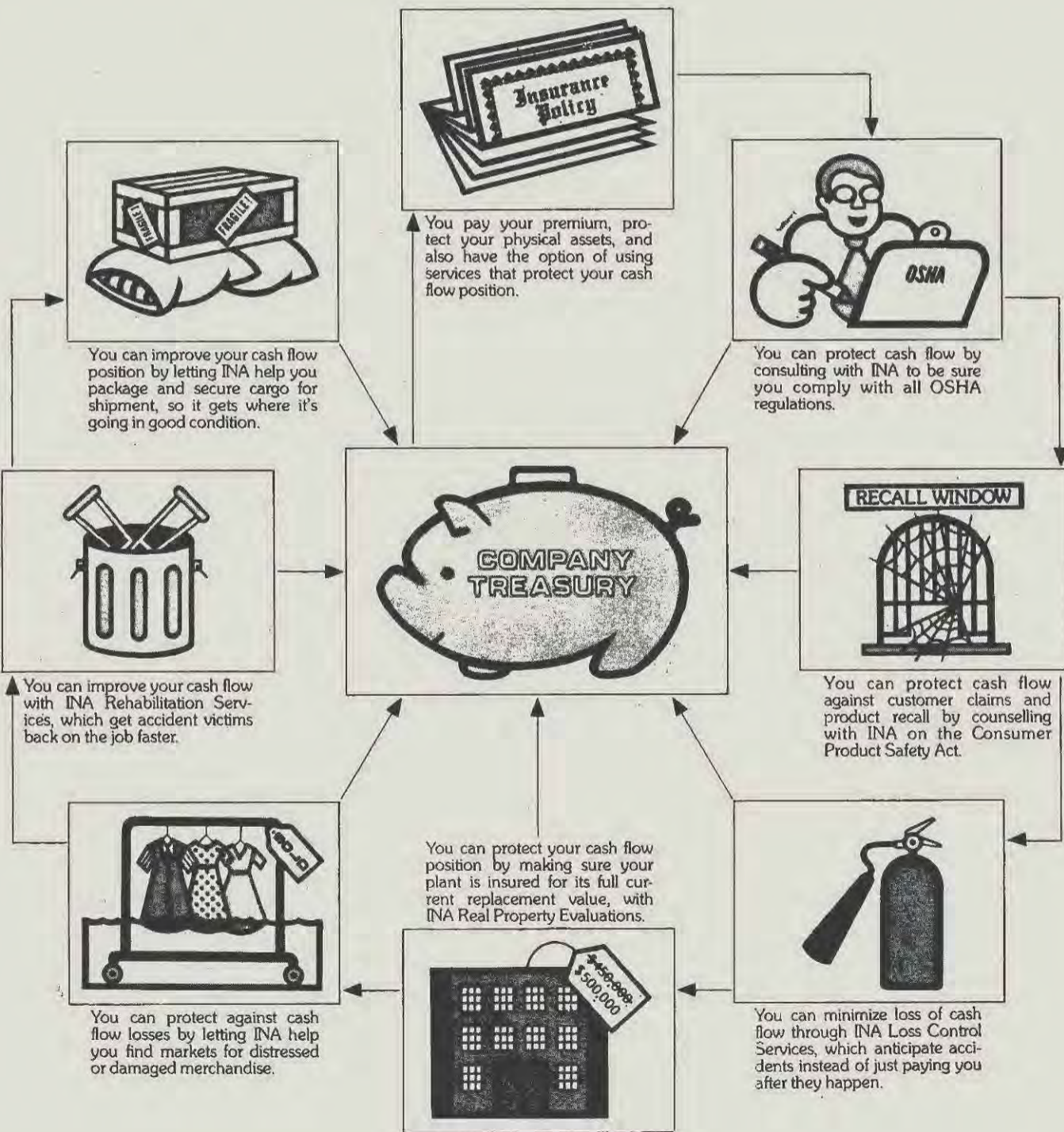
The Institute for the Future has done two studies identifying future risks and charting courses of action, Mr. Enzer noted. One was a study of future computer risks done for Skandia Insurance Co. of Sweden. The second was a recently-published assessment of the long-term consequences of no-fault automobile laws.

ANOTHER GENERAL area Mr. Enzer sees as creating new future risks for risk managers is the area of social change. He foresees that class action suits in general will increase, and he specifically sees problems arising over questions of environment and equal opportunity. The concept of contributory negligence will be applied, he predicted, possibly abetted by such things as mandatory use of seat belts. He foresees expanded use of strict liability under the law, especially in the area of product use.

Other risks emerging with changes in society may include invasion of privacy, no-fault insurance, officer liability for corporate criminal offenses, and truth-in-advertising liability.

Under "miscellaneous risks" Mr. Enzer includes expanded pension coverage, inflation, petroleum shortages, rolling blackouts, technological obsolescence and universal health care.

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MONTICELLO, N.Y.—The first purebred Chianina bull ever sold in the U.S. was recently insured by the Rhulen Agency, Inc., animal insurance specialists headquartered in Monticello, N.Y. The 2,915 lb. bull, named Fillippo, is covered for fertility and against mortality for \$175,000, according to Peter Rhulen, vp of the agency. Fillippo was calved April 10, 1970 at a farm near Sienna, Italy, and is one of the largest Chianina sires in North America. His size contributes to his genetic potential from both sides of his pedigree. The breed is known to gain weight rapidly and Fillippo is an easy calving sire. Total production of semen to date has produced a gross of more than \$1 million in Canada, Australia and the U.S. Fillippo was purchased by a syndicate at an auction.

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Federal employes are slighted, Usery says

CHICAGO—The past failure of federal agencies to adopt job safety and health standards enforced in private industry and the narrow scope of federal-sector collective bargaining have put the federal employe at a disadvantage in on-the-job safety and health protection, W. J. Usery Jr., national director of the federal mediation and conciliation service, said.

In a speech delivered Oct. 1 at the federal agency safety conference, Mr. Usery said the Occupational Safety and Health Administration's (OSHA) program to protect federal workers has been "a weak sister compared to the private sector program." Too often, federal agencies have not ob-

served OSHA's standards nor have they undertaken inspections to find and correct hazards, he added.

"Clearly a double standard has existed," Mr Usery said. "It's been a case of the federal government telling private industry: 'Do as I say, not as I do.'"

PRESIDENT FORD'S recent executive order strengthens the federal sector program, Mr. Usery said. He called the order a strong, positive stride in the right direction (which) opens the door to eventually giving federal employes full protection parity under the law."

He added that while private sector unions have been able to win safety and health concessions

at the bargaining table, federal employe unions have been handicapped. Many of the issues involved in securing major job safety and health improvements lie outside the present scope of federal-sector collective bargaining, he said, and federal labor unions lack many of the basic bargaining strengths enjoyed by private sector unions.

Mr. Usery suggested that figures showing a low job injury rate among federal workers are misleading because "more than half of the federal workforce is made up of white collar workers whose work is comparatively safe." He pointed out that private sector white collar workers in finance, insurance and real estate have an injury rate only half that of the overall federal injury rate.

Mr. Usery said the challenge for both labor and management is to seek ways of working together to improve working conditions for federal employes.

Risk management not evolving into its own as a distinct profession

CARMEL, CA.—Risk management is a little like the stock market: It could go up, down, or stay the same.

This sums up remarks made by Susan Alt, *Business Insurance* managing editor, at the recent meeting here of the Institute of Risk Management Consultants.

The risk management profession, while demonstrating some innovative approaches, isn't developing very rapidly as a distinct field, Ms. Alt observed. And, if risk managers don't stay on their toes, corporate belt-tightening could eliminate their positions altogether.

On the one hand, risk managers are becoming better educated in handling self-insurance problems for their companies. This could take business away from brokers and underwriters, she said.

AS AN EXAMPLE she cited that one risk manager indirectly developed a financing plan using deferred deposits while trying to supply his broker with information about his discounted cash flow needs. "The risk manager didn't know how to solve the problem either," she said, "but he had to learn."

"It's essential for risk managers to know more than their brokers and underwriters. Why? Because risk managers must tell them what they want done. Brokers and underwriters don't even understand many of the suggestions for financing premiums and packaging risks. If risk managers don't know more than they do, risk managers will get sold a bill of goods," Ms. Alt said. This, and other observations she gleaned from a mini-survey of what she termed the 10 best-and-brightest risk managers in the country.

Still, most top financial officers don't view risk management with what she called a "total management approach."

"Insurance, loss control, workmen's compensation administration, safety, security, benefits and group coverage are not only separated, but they report to different officers scattered through the corporation," she said. In addition, budgets "don't reflect any big changes in the view top executives have of risk management."

Ms. Alt was cautious about predicting future trends: "Risk managers are breaking away from insurance as the leading alternative in handling risk, but this appears to be a slow process taking place mainly when insurance . . . is unavailable at the right price."

IRONICALLY, "service is the big complaint risk managers have had of brokers," she said, "not price." She predicted that risk managers won't ever return to a "docile acceptance of standard policies, vague exclusions and unchallenged premium bids from their insurance carriers."

Other trends are developing, Ms. Alt said. Risk managers are getting involved in new areas of corporate operations. "Samsonite's risk manager coordinates the total corporate product safety committee."

Contradictions are appearing, however, she pointed out. "Corporate belt-tightening and tight money have possibly made some financial executives more cognizant of risk control as a cash management function," she said. "Others are conserving cash by eliminating the corporate risk managers altogether."

Ms. Alt explained that several of the risk managers she surveyed believed that vp's of risk management will move from staff to line positions in the future. "It may be a logical move," she said. "But I don't think we're going to see a vp of risk management telling a vp of operations within the next five years that he can't produce a product because the risks are unmanageable."

"In 10 years, the vp of risk management may well appear on organizational charts as the peer of line executives," Ms. Alt said. "For the time being, though, he hasn't come far enough."

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| | (THOUSANDS) | | | | | | | | | | | | | |
|---|-------------|----|----|----|-----|-----|-----|------|------|------|------|------|------|------|
| | 10 | 25 | 50 | 75 | 100 | 300 | 500 | 1000 | 3000 | 5000 | 5010 | 5050 | 5100 | 5300 |
| Auto B. I. Per Person | | | | | | | | | | | | | | |
| Auto B. I. Per Occurrence | | | | | | | | | | | | | | |
| Auto P. D. Per Occurrence | | | | | | | | | | | | | | |
| General Liability B. I. Per Occurrence | | | | | | | | | | | | | | |
| Aggregate Products B. I. | | | | | | | | | | | | | | |
| General Liability P. D. Per Occurrence | | | | | | | | | | | | | | |
| General Liability P.D. Aggregate | | | | | | | | | | | | | | |
| Personal Injury (e.g. Libel, Slander, etc.) | | | | | | | | | | | | | | |
| Blanket Contractual B. I. | | | | | | | | | | | | | | |
| Blanket Contractual P. D. | | | | | | | | | | | | | | |
| Advertising Liability | | | | | | | | | | | | | | |
| Care, Custody & Control | | | | | | | | | | | | | | |
| Aircraft (Non-owned) | | | | | | | | | | | | | | |
| Watercraft (Non-owned) | | | | | | | | | | | | | | |
| Malpractice (Incidental Medical) | | | | | | | | | | | | | | |
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Claim department rule is unfair to contractors

KEARNY, N.J.—Although he won a reclassification dispute with the state insurance department for a group of building contractors, a New Jersey insurance broker now claims the department is charging the contractors "discriminatory" premiums.

Insurance broker Joel Harrison represented the New Jersey Interior Systems Contracting Assn. in their successful effort to shift compensation premiums from one that included hazardous employments. The shift, effective Jan. 1, 1974, meant a savings of 70% for every \$100 of payroll for the association.

In reclassifying the interior system workers, the state insurance department ruled that only new and renewal policies could be written on the new rate and that policies could not be cancelled and rewritten to take advantage of the rate.

Rate charges become effective each July 1.

Mr. Harrison claims the department's ruling is discriminatory and has requested a public hearing on

Grant 11.1% rate increase to N.Y. HMO

NEW YORK—The Health Insurance Plan of Greater New York (HIP), a non-profit health service corporation, providing prepaid group health services to more than 750,000 people through 27 non-hospital-based medical groups throughout the greater New York area, has been granted a substantial rate increase for its community-rated subscribers under age 65.

The New York insurance department approved an overall 11.1% increase, effective Nov. 1, 1974. The increase was approved after a hearing was held on the health service corporation early last month.

The increase "will produce revenues sufficient to meet HIP's actual and projected cost increases between August 1, 1974 and July 31, 1975 and will permit continued restoration of HIP's statutory reserve," the insurance department said.

THE RATE increase is designed to meet increased costs for already existing services. It was not requested to provide for new health services.

"Over half of the increase will be used to pay for a 10% increase in the capitation fee which will pay for salary increases for doctors to partially cover the rising cost of living and a 12 to 15% increase in the cost of maintaining and administering the health service facilities of each medical group," it was noted by the state department.

The remainder of the 11.1% increase is designed to cover other increased costs, including:

- increases in malpractice insurance costs;
- an increase in the amount paid to doctors who practice full-time for H.I.P.;
- increased costs resulting from increased utilization of programs whose cost is shared by H.I.P. and doctors;
- increasing administrative costs; and,
- the replenishment of H.I.P.'s statutory reserve. ■

the matter.

Insurance commissioner James Sheeran told *Business Insurance* the hearing request was denied, based on an opinion by the state attorney general.

"What we are trying to achieve," Mr. Harrison said, "is simple equity for those employers whose outstanding policies expire through the balance of 1974."

HE CLAIMED this rule is unfair in that employers whose policies have renewal dates in November or December, 1974, are paying higher rates than those renewed in January 1974.

The policy of the insurance department is that rate revisions cannot be made on outstanding poli-

cies. "The procedure is a very logical one," Commissioner Sheeran said, "in accordance with the policy year . . . if it (the interior systems reclassification) had been handled in a different manner than the set procedure, it would have been discriminatory."

"**WE HAVE** an entirely different situation where people have been improperly classified for a long time," Mr. Harrison objected. The new classification was created because the interior systems people do not have the same exposures as those in the insulation group (the original classification), he added.

Mr. Harrison further claimed in the old classification the interior systems workers contributed a greater share of the overall premium than their own experience called for.

"It is just adding insult to injury to penalize them a little longer just to be consistent with

long-established practice," Mr. Harrison concluded.

Commissioner Sheeran described Mr. Harrison's dispute as "essen-

tially a dollars and cents issue: Mr. Harrison is just trying to put it into the more exotic setting of a discriminated charge." ■



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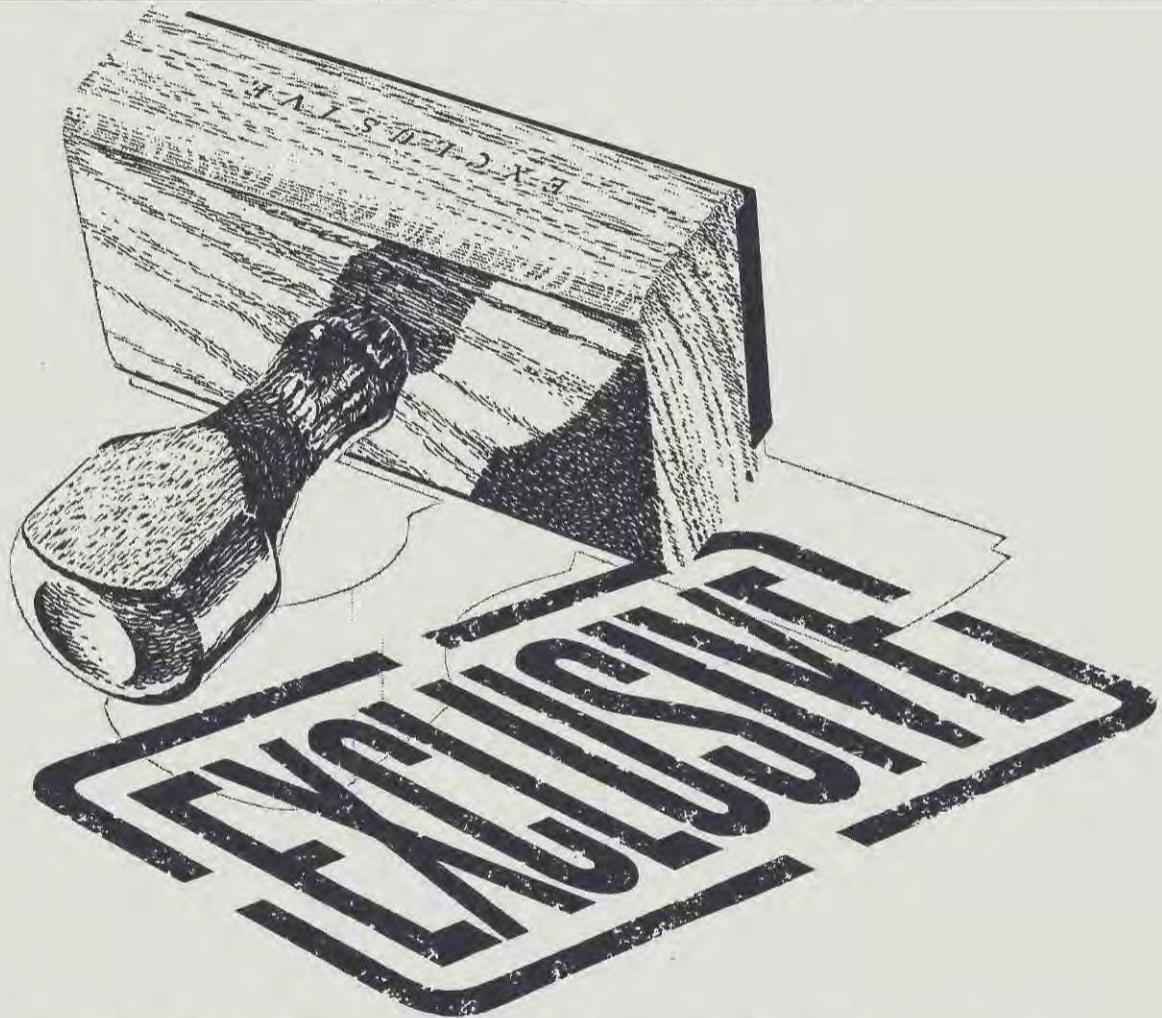
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Aetna policy protects condominium owners

HARTFORD—Gearing up to meet growing demands Aetna Life & Casualty Co. has begun offering a comprehensive property and liability policy for condominium associations and individual owners.

Although the program is barely one-month old, a number of policies have been written. The largest premium Aetna has seen so far for one large account was

\$42,000 for one year a spokesman told *Business Insurance*. The smallest was \$100.

Basic liability limits start at \$25,000 under a split policy as well as a single liability policy. Limits can accommodate the needs of the larger client, as well.

UNDER THE single policy, bodily injury and property coverage are included with basic limits of \$25,000 per occurrence.

A split policy has basic limits of \$25,000 with a \$50,000 aggregate limit for bodily injury and a limit of \$25,000 for property.

The new program, called "A New Horizon" provides associations with protection against both physical damage to buildings and liability arising out of the use of commonly owned grounds and facilities. Associations can also opt to protect against loss of rental income and liability claims on actions by the condominium's board of governors, according to the insurer.

The program has all ready been approved in more than 30 states. Several of the states have large condominium concentrations, including Florida, Connecticut, Georgia and Maryland.

Not many insurance companies are writing a separate condominium policy Aetna sources said. Most write it under a comprehensive business policy or multi-peril policy using endorsements. ■

Hull market is less than satisfactory

BERLIN—Shipping insurers in the U.S. are fighting such strong premium competition that they are unable to build up "reserve defenses" against future catastrophic losses.

This picture of the current state of their market emerged from the American Institute of Marine Underwriters when they presented their annual report to an international conference in Berlin.

Opening with the admission that conditions in the world's hull insurance market today are less than satisfactory, the report went on: "Unless there is a return to fundamentals, underwriting results will once again be heading into a trough. Over-capacity has developed out of the publicized need to support higher and higher values as ships of the new generation are planned and built.

"But severe competition is driving rates to submarginal levels, and the underwriting losses which must follow may then cause capacity to shrivel when it will be needed most," the annual report said.

Extreme competition among brokers because of excessive capacity and near-trivialous reinsurance arrangements are blamed for the existing weak situation of the market, together with high interest rates that tempt a quest for premium income so that it can be invested at inflated levels.

The American Institute also declared: "Most underwriters in our market are of the opinion that the return to underwriting fundamentals is not only essential, but cannot be long delayed without risking serious consequences." ■

dates for buyers

Oct. 20-23: Security World magazine will sponsor an international security conference at the New York Hilton Hotel. Loss-prevention workshops and a showcase of security products will be featured. Write the International Security Conference, 2638 S. La Cienga Blvd., Los Angeles, Ca. 90034.

Oct. 21-23: The American Management Assn. will hold its 37th annual insurance conference at the Palmer House in Chicago. This year's theme—trends in government legislation: the financial and social impact on the insurance and risk management community. Write the AMA, 135 W. 50th St., New York, N.Y. 10020.

Oct. 22: The first in a series of federal pension plan legislation briefing sessions will be held at the Regency Hyatt Hotel in Chicago, sponsored by Hay Assoc. and Huggins & Co. Inc. Sessions will also take place in Atlanta, Philadelphia and New York at later dates. Write Joseph A. Banik, Huggins & Co. Inc., 1401 Walnut St., Philadelphia, Pa. 19102.

Oct. 24-25: Profit Sharing Council of America will hold its annual conference at the Crown Center Hotel in Kansas City, Mo. Write the council, Suite 722, 20. N. Wacker Dr., Chicago, Il. 60606.

Oct. 27-30: A Caribbean insurance conference will be held in Kingston, Jamaica. Organized by persons in the insurance industry from the area, it will encompass all aspects of the industry, including general insurance, life, captives and insurance regulations. Write Conference Secretariat, c/o M.O.M., P.O. Box 183, Kingston 5, Jamaica.

Oct. 27-30: The Health Insurance Assn. of America will feature Caspar W. Weinberger, secretary of Health, Education and Welfare, at its 1974 insurance forum to be held at the Drake Hotel in Chicago. Mr. Weinberger is expected to discuss the latest developments in national health insurance. For more information contact Health Insurance Institute, 277 Park Ave., New York, N.Y. 10017.

Oct. 28-30: The Society of Actuaries will hold a meeting at the Marriott Hotel in New Orleans.

Nov. 7-8: The National Fire Protection Assn. traveling seminar on highrise fires will be in Dallas, Tx. John T. O'Hagan, New York City fire commissioner and chief of the department, will be one of the instructors. Write F. James Kauffman, NFPA, 470 Atlantic Ave., Boston, Ma. 02210.

Nov. 11: A film of a hearing before the Occupational Safety and Health Review Commission is the basis of an instructional seminar sponsored by the American Society of Safety Engineers to be held in Chicago (and in other cities at later dates). Participants will learn how to prepare for and participate in OSHRC hearings. Those interested should contact ASSE, 850 Busse Highway, Park Ridge, Il. 60068.

Nov. 14-15: A look at the Employee Retirement Income Security Act of 1974 is the theme of a conference to be held at the Shoreham-American Hotel in Washington, D.C., sponsored by the Assn. of Private Pension and Welfare Plans Inc. For more information write Ms. Vicki Dungan, Conference Coordinator, at the APPWP, Suite 909, 1029 Connecticut Ave., NW, Washington, D.C. 20036.

Nov. 18-20: The American Management Assn. will hold a session on the principles and practices of insurance buying at the Parker House in Boston. The course will cover the language, the market and the specific types of corporate insurance. Write the AMA, 135 W. 50th St., New York, N.Y. 10020.

Nov. 20-23: International Foundation of Employee Benefit Plans is sponsoring a public employees fringe benefit conference at the Fairmont Roosevelt Hotel in New Orleans. The purpose of the conference is to provide a forum for meaningful information and dialogue on all issues affecting public employees fringe benefits. Write the foundation, P.O. Box 69, Brookfield, Wi., 53005 (414-786-6700).

Nov. 24-26: The American Bankers Assn. is sponsoring a seminar and workshop on risk management in banking at the Sugar Loaf Conference Center of Temple University, Philadelphia, Pa. The seminar will be directed toward banks with deposits of \$100 million or less. For more information write Ed Armstrong, assistant director of the insurance and protection division, ABA, 1120 Connecticut Ave., N.W., Washington, D.C. 20036.



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