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Sec. Elliot Richardson of Health, Education, and Welfare told the House ways and means committee last week that the Administration wants health care to be financed chiefly by employers through private insurance companies. The plan, estimated to cost employers $7 billion annually, would include minimum standards for coverage and health insurance regulation. —Wide World photo

Insurers balk at federal regulatory rules in Nixon's health care reform proposals

WASHINGTON—Health insurers appeared reluctant to accept federal standards for the regulation of their industry proposed last week by Health, Education, and Welfare Sec. Elliot L. Richardson.

A spokesman for the Health Insurance Institute said that Sec. Richardson's proposal before the House ways and means committee is "not news because it's been in the Administration plan right along.

"But it's not our plan, of course, and we can't support federal regulation. But in the end it will be the Congress that will make that decision."

Sec. Richardson, testifying at hearings called by Rep. Wilbur D. Mills (D.-Ark.), committee chairman, proposed a compulsory health insurance program paid for by employers and employes and underwritten by private health insurance companies.

UNDER THE Administration plan, businesses would be required to carry comprehensive health insurance policies for employes. During the first two-and-a-half years of coverage the employer would pay 35% of the premium; after that time the employer-paid percentage would drop to 25%.

Federal regulatory standards would include:

- Annual independent audits of participating insurers.
- Creation of state mechanisms to protect against insolvencies.
- State authority to disapprove extraordinary rates filed under "file and use" rules.
- Disclosure of insurance administrative expenditures as a percentage of premiums under acacounting procedures to be proposed by the insurance industry.
- State insurance pools open to small employers, self-employed persons and those who are not employed but eligible for federally financed health programs.
- Requirements for complete information regarding benefits, exclusions, premium costs and delivery system changes.

A spokesman for HEW told *Business Insurance* that no decision has been made concerning the type of federal enforcement agency that might be set up to administer these standards. ■

What's your view?

SEC. ELLIOT Richardson was the first of 200 witnesses who are expected to testify on various proposals for reforming the health care system before the House ways and means committee. What proposal is selected by the committee and enacted by Congress will vitally affect the interests of U.S. businesses and the corporate risk managers and employe benefits administrators who handle health insurance and other coverages. Express your view on the nation's health care system by completing the questionnaire on page 44 of this issue of *Business Insurance*. Results of the survey will be reported in the special life/health issue to be published on Dec. 6.

Oil firm denies rumor captive will retrench

LOS ANGELES—Officials of the Signal Cos. have denied reports that the company is disbanding or seriously retrenching activities of its captive insurance brokerage firm, Risk Controls Inc.

Business Insurance has learned, however, that Signal's corporate insurance manager, Mr. Rex Pearson, resigned suddenly from the company a few weeks go. Mr. Pearson was also vp of Risk Controls Inc. and his departure apparently sparked persistant rumors in the brokerage and risk management fraternities here that a management tug-of-war at Signal would lead to the dissolution of the captive.

"There is absolutely no truth to it," Charles Porch, a Signal vp, told this magazine. "There has been no change in the concept nor the operation of Risk Controls. We are still actively seeking outside business in addition to the business already placed on Signal risks and we will continue to do so. Management," Mr. Porch added, "has complete confidence in Risk Controls and its future. In fact, we just recently opened an office in Union, N.J."

SIGNAL—or, more precisley, Mr. Pearson—had been bullish about the potential of Risk Controls when the company was formed in August, 1969, and placed its first policy Oct. 1 the same year. In an interview that appeared in *Business Insurance* June 8, 1970, Mr. Pearson said that the firm's premium volume from Oct. 1 to Dec. 31, 1969, was $2.9 million. He said he hoped the company would write premiums totaling $7.5 million its first full year of operation.

SOURCES HERE, however, say that the company's growth has not lived up to expectations due to the fact that "too many restraints and constraints" were placed on the captive by Signal's top management. As a result they say, the firm was not able to handle enough of its own business to make the venture worthwhile. (Under California law, a captive broker must derive 50% of its business from outside sources for the first five years and 66% thereafter.)

"As far as I know," one risk management source here said, "Risk Controls has not been able to pick up any big business. In theory, if you are going to use or intend to service your own account you've got to make the thing (captive) big enough so that it gives you the necessary clout in the marketplace.

"I think Rex (Mr. Pearson) wanted to build this into a going thing, a profit center but there was a basic difference of opinion with top management as to just what Risk Controls' goal should be," another source noted.

Mr. Porch denied the reports, although he said he has heard rumors and found them "somewhat amusing."

Mr. Pearson, who is believed to have relocated to Florida, could not be reached for comment. ■

Bailey signals U-turn in ASIM stand for no-fault concept in auto insurance

ST. LOUIS—James E. Bailey, legislative counsel for the American Society of Insurance Management, was quoted by the St. Louis Post-Dispatch as saying "the tort system has worked well for several hundred years and that no-fault insurance was not needed."

Mr. Bailey's statement runs counter to the position taken by national ASIM officers and presented to the Senate commerce committee by Mr. Bailey in May of this year. In his testimony, the ASIM legislative counsel then called for "intelligent integration of benefits under no-fault auto insurance" with coverages providing reimbursement for economic loss suffered.

The St. Louis newspaper article, based on an appearance made by Mr. Bailey before the St. Louis chapter of ASIM, said:

"DISCUSSING the disadvantages (of no-fault auto insurance) was James E. Bailey, counsel for the American Society of Insurance Management Inc., Washington. Bailey said that the tort system had worked well for several hundred years and that no-fault insurance was not needed."

The article also quoted the position of Albert L. Weiss, a St. Louis lawyer who is a member of the ASIM chapter. Mr. Weiss called for adoption of a limited no-fault auto insurance plan to eliminate delays in compensating victims and to cut legal costs.



James E. Bailey

"Bailey," the article went on, "described no-fault insurance as a plan to 'cast off liabilities to others, such as commercial fleet operators, in order to subsidize the insurance cost.'

"He said that only four states —Massachusetts, Illinois, Florida and Delaware—had adopted no-fault insurance plans, but he predicted a proliferation of bills backing no-fault in state legislatures next year."

The article then quoted Mr. Bailey as saying, "But unless an accommodation is found to satisfy the American Trial Lawyers Assn., there will be little progress."

MEMBERS of the St. Louis ASIM chapter told *Business Insurance* that Mr. Bailey's apparent departure from the stated position of the national ASIM came about because Mr. Bailey was participating in a "mock debate" with Mr. Weiss, each taking a side just to point up the issues involved in no-fault insurance.

They said, however, that the Post-Dispatch reporter did not stay for the "mock debate" but rather interviewed Mr. Bailey and Mr. Weiss prior to the meeting. It was during this interview that Mr. Bailey took a position against no-fault auto insurance. Mr. Weiss had a prepared statement, but Mr. Bailey's remarks were made off the cuff.

One ASIM member said, "There is a national ASIM position and then, I suppose, Mr. Bailey has feelings of his own as a lawyer about no-fault insurance. Maybe he was speaking for himself."

The Post-Dispatch, a highly respected newspaper with a circulation of about 326,000, carried

Continued on page 11

Propose work comp changes in Pennsylvania

HARRISBURG, Pa.—Some sweping changes in Pennsylvania's workmen's compensation laws are being considered by legislators here this fall and, barring any major changes in proposals now on the table, business and industry may find itself faced with increases of 50% or more when insuring employes.

As might be expected, the proposed changes have drawn a frontal attack from the state's chamber of commerce, which has put out a bulletin that, perhaps inaccurately states that changes could increase costs 100%.

A workmen's compensation specialist at the Philadelphia-based Insurance Co. of North America, on the other hand, told *Business Insurance* that the proposed changes in the law don't go far enough.

RISK MANAGERS in the state, meanwhile, are taking a wait-and-see attitude. A spokesman for the Delaware Valley chapter of the American Society of Insurance Management, to which many large Pennsylvania buyers of workmen's compensation coverage belong, told this magazine he would "try to generate some interest in the subject" within the chapter. The chapter is holding an annual conference in Philadelphia this week.

Similarly James E. Bailey, the ASIM national office's legislative counsel who is supposed to keep tabs on such changes, is also in a holding pattern. Said Mr. Bailey from Washington:

"We haven't gotten anything definitive on it yet but we will be looking into it. I do know that in the legislative process the best bill is a compromise bill and some of these changes proposed in the Pennsylvania law are very far out. We will take a very close look at them in the future."

The major changes proposed by senate bill 1048, which has the support of Democratic majorities in both houses as well as the Democratic administration, hit the following areas:

- For total disability, compensation would jump to two-thirds of the "statewide average weekly wage" as determined annually on the basis of employment covered by the Pennsylvania unemployment compensation law. The statewide average last year was $137.79 and it is expected to increase to about $140 for the fiscal year 1971-1972. Under the present system a similar statewide average is used. However, the maximum benefit allowed is $60 per week, thus the proposed changes would have the effect of increasing that amount 50% to about $90 a week in immediate years.
- For partial disability, the same statewide average would be used, but a $45-per-week ceiling has been upped to the same two-thirds average (again about $90) and the benefit period has been increased from 350 weeks to 500 weeks. This represents a rather substantial jump in awards, from a maximum of $15,750 for a 350-week partial disability to a new maximum award of $45,000 for a 500-week disability.
- The proposed changes also increase the awards in specific classes of injuries. For example, the loss of a hand now brings a maximum award of 175 weeks. This would be increased to 400 weeks. The loss of a forearm is now compensated for 195 weeks. The proposed bill increases this to 450 weeks.
- The senate bill also removes the limit on medical payments. Under the present law, medical payments are provided for one year unless it is determined that additional medical care would have the effect of eventually reducing the disability. However, knowledgeable workmen's compensation people in the state say that this provision will have little effect on rates since most employers now buy additional coverage to speed the rehabilitation process and limit the disability.
- S-1048 also makes a redefinition of terms, one of which some corporate workmen's compensation specialists say could give them future headaches. Under the present law, a compensable injury is defined throughout the law as an "accident." The senate bill changes this term to "injury" or "injuries." "This would obviously leave us with some gray areas that we don't have under the present law," one workmen's comp man said.

Continued on page 38

Ask changes in state workmen's comp

CHICAGO—Testimony in early hearings before the National Commission on State Workmen's Compensation Laws indicated that groups interested in the system favor its continued administration by the states. But there were strong calls for improvements in benefits and for uniform benefits to simplify administration.

The commission has held hearings here, in Washington and in Boston. Hearings are scheduled for Dallas on Nov. 29 and 30; in Atlanta, Jan. 10 and 11, and in Washington during the week of Jan. 24.

Sen. Jacob Javits (R.-N.Y.), sponsor of the provision in the Occupational Safety and Health Act that created the commission, suggested at the Washington hearing that the workmen's compensation system might be unconstitutional if benefit levels fall far below a reasonable percentage of workers' take-home pay. He said that workers are entitled to just compensation in return for giving up their common law remedies under workmen's compensation.

AT THE CHICAGO hearing, the system was strongly defended by John E. Linster, senior vp of Employers Insurance of Wausau.

"We believe," he said, "that it is most logical to build upon the time-tested strengths of the state workmen's compensation system . . . to close the existing gaps between concept and performance, and in this way to make a good system still better."

John Norris of the Indiana State AFL-CIO cited inadequacies of that state's workmen's compensation law. "The weakness of the reporting of accidents and occupational disease is one of the problems for workers under the law," he said. "Indiana law, as is the case with most state laws, does not cover the agricultural worker. These workers need the protection of the compensation law also. Their coverage should be mandatory."

A special plea for rehabilitation of injured workers was contained in the testimony of John Molin, of the Industrial Commission of Illinois.

Experienced advice was given the commission by Alan Tebb, general manager of the Workmen's Compensation Institute in California, where a general study of workmen's compensation was completed six years ago.

"We believe the commission's function should be to define the purpose and objectives of workmen's compensation," Mr. Tebb advised. "Necessarily this will include an examination of what it is and isn't. If you catalogue its weaknesses, there is a corollary responsibility to define its strengths."

Federal interference with state workmen's compensation laws was denounced by Ernest L. Keathley Jr., a spokesman for the Associated Industries of Missouri. Mr. Keathley asserted that under workmen's compensation "it was never intended that an employe should be paid his full salary or damages.

"If the people of a state wanted the benefits of their state workmen's compensation law to come up to a certain standard, there would be sufficient opportunity for them to force their legislators to do so. If the workmen's compensation law of that state does not reach a certain standard, it is because the people of that state do not want that standard." He told the commissioners that maximum wage replacement in Missouri is $70 per week and that medical treatment is required for only 180 days.

Richard C. Bjorklund, editor of *Business Insurance*, testified that the workmen's compensation system is being overridden by supplementary disability programs, undercut by workmen's compensation commissions' special awards and bypassed by conventional tort liability awards. He urged the commission to remove impediments to self-insurance. ■

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CPCU no-fault seminar was a four-round fight

By TERESA NORTON

HOUSTON—Round one of the no-fault auto insurance seminar held during the annual meeting of Chartered Property & Casualty Underwriters here began with William Hold, associate professor of insurance at the University of Texas, calling pure no-fault plans "ignore-fault" plans.

The need for a flexible, efficient and comprehensive system has been demonstrated, he said, but complete "ignorance" of fault does not fit in with the rising standards of consumerism today. Although a significant part of the auto insurance problem is economic he does not believe that lower premiums and more availability will necessarily follow no-fault implementation.

The government wants no-fault, he said, but it criticizes the insurance industry for its performance in other no-fault areas. "Fire insurance is no-fault," he told the CPCUs, "and we now have FAIR plans; health insurance is no fault and we are almost certain to have a national program soon."

A BALANCE between lower costs and adequate compensation, said Mr. Hold, can be achieved through:

- Mandatory inclusion of first-party benefits in all auto policies.
- Non-duplication of coverage and subtracting first-party benefits from tort awards.
- Removal of supports for pressing nuisance claims.

Four years of debate preceded the passage of Massachusetts' modified no-fault bill, said John G. Ryan, the state's new insurance commissioner, and it has proved "neither a hoax nor a flash in the pan but a workable system."

Round two continued when Mr. Ryan cited success figures for the plan: A study of 61 companies doing 96.4% of the business in the state shows that the average paid claim cost for the first six months of 1971 is 52% lower than that for the same time period in 1970.

The Massachusetts insurance department has been able to cut bodily injury premium rates 15% and, depending on the type of premium selected, residents can now save between 6% and 10%. There has been a total saving of $76 million in premium charges, according to the commissioner, and he added that "it is clear to us that we could have done even more."

THE DEPARTMENT is now working to see that motorists share in the "excess, unfair profits," he said.

One fact that is causing Mr. Ryan to think residents may not understand the bill completely is that the number of incurred claims is down 34%. "We expected more claims because more people are now allowed to collect."

Mr. Ryan told the CPCUs that there was still more to be done, however. There is presently a move for a no-fault property damage plan in the state legislature. He referred to it as a triple option plan that would allow:

- Insurance against all collision damage to the driver's car.
- Uninsured motorist's coverage on the basis of showing of fault in order to collect from the driver's own carrier.
- Giving up the right to recover on damage to the driver's own car under all circumstances.

RICHARD F. WALSH, deputy director, of the office of policy and plans development within the Department of Transportation, criticized Illinois' new plan in round three as not being a no-fault plan at all. But he added that "it was premature for the federal government to preempt the field when Massachusetts had already acted and other states were waiting in the wings with their own plans."

Now that DOT has joined with the Council of State Governments and the National Conference of Commissioners on Uniform State Laws to set up a model state law, he said that all states will have the opportunity to make their own input. No time limit will be imposed by the federal government on the states to reform laws, according to Mr. Walsh. "We're just looking for progress; but I estimate that it will be years, rather than months, before minimum standards are established."

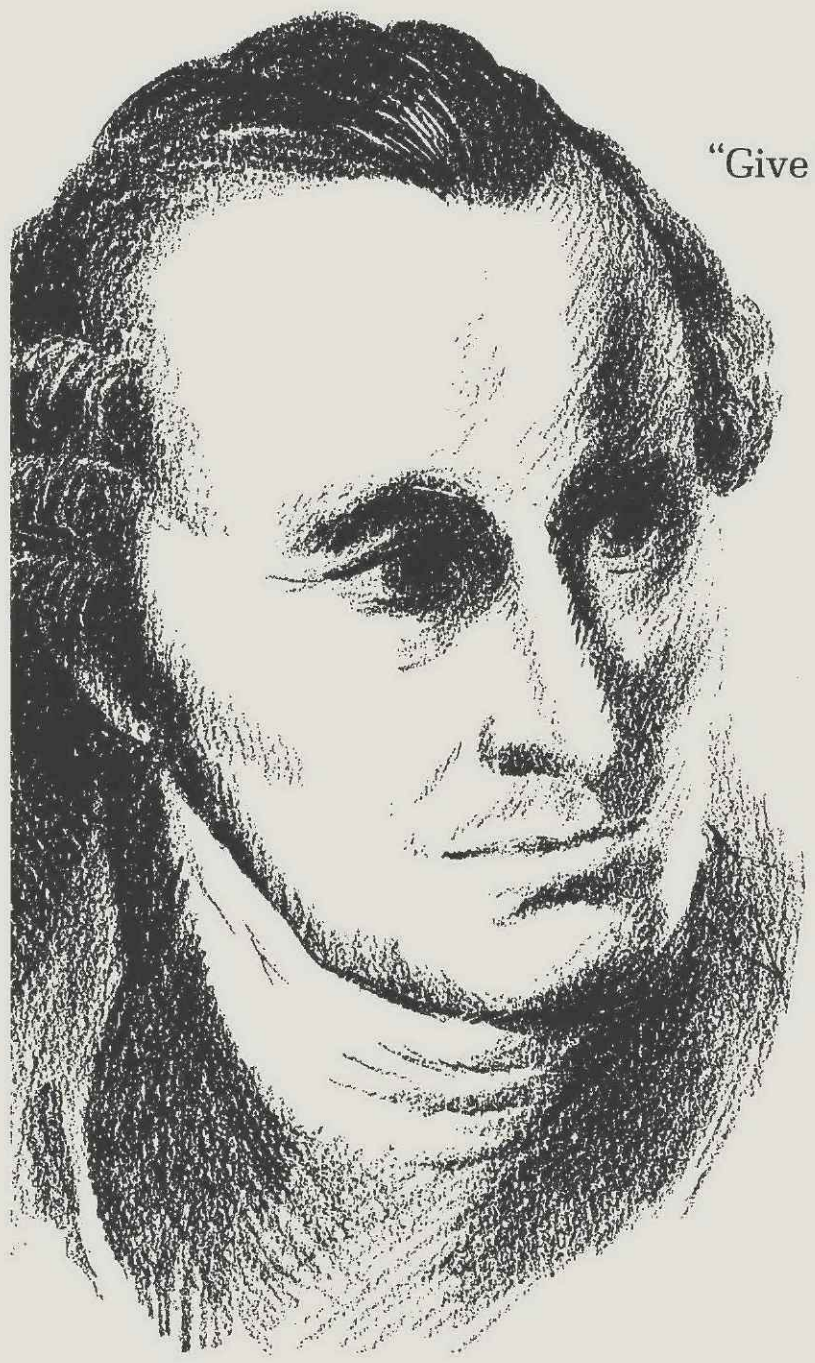
Round four was a little more of a fight when Dean Sharp, assistant counsel for the Senate subcommittee on antitrust and monopoly, entered the ring. He termed the no-fault plans in Illinois, Delaware and Oregon "charade plans" and pointed out that none of the five states that have made attempts at no-fault pays any attention to rehabilitation—"and that's what this should be all about.

"Maybe we shouldn't have a monolithic state/federal plan," he continued, "but we should have meaningful guidelines with teeth to enforce them. I can't see how we can have scientific experimentation among the states if we don't have any controls to determine how the experiments are going." A workable idea, he suggested, might be based on the unemployment compensation system, which the states administer but the federal government enforces.

"LET THE STATES handle their own problems," he urged, but you'll never, never get meaningful no-fault when the lawyers are involved—as a majority—in studying it."

Mr. Sharp explained to the CPCUs some of the consumer safeguards in the proposed national no-fault motor vehicle insurance act (S-945):

- Personal injury benefits paid by the policyholders' insurer without regard to fault would include all rehabilitative services.
- Lost earnings, up to $1,000 a month, would be reimbursed indefinitely and funeral expenses would be covered.
- Attorney fees, plus interest on the no-fault benefits, would be paid by the insurer if a court action is necessary on the part of the insured in order to collect.
- There would be total freedom from tort lawsuit, except in criminal conduct situations.
- Subrogation would not be permitted.
- Automobile insurance benefits would be secondary to any national health insurance benefits.
- Insurance could not be cancelled.
- States would continue to regulate rates.
- A uniform statistical plan would disclose policy prices and experience.
- No part of personal injury benefits could be applied as attorneys' fees. ■



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washington watch

Corporate cover, benefit programs are hottest topics on Capitol Hill

By JOHN REVETT

WASHINGTON — Legislation affecting corporate insurance and benefit programs will occupy much of Congress's time in coming weeks. In fact, such matters promise to be in the forefront of domestic considerations for months to come as presidential-year adrenaline starts to flow.

Here are the major proposals and some notes on where they stand.

National health insurance—Will the man whose name is on it be able to resist running? It will depend upon what kind of bill gets through Congress and who the man is. At present, Rep. Wilbur Mills (D.-Ark.) and his ways and means committee are going over about a dozen proposed measures. The bills range from the Kennedy-Griffiths all-the-way bill providing coverage for the entire population financed by general federal revenues and new payroll taxes on employers and employes, to an Administration-backed program under which policyholders and their employers would split coverage costs.

There is also an American Medical Assn.-backed Medicredit bill and a health care plan partly government-financed for lower income groups. This is supported by the Health Insurance Assn.

The committee hearings started last week and it is expected that they will last several weeks. The betting is that Mr. Mills will come up with a composite that will include elements yet to be introduced.

Pensions—Despite fears that the Senate labor committee had set up a witness list comprised of companies with weaknesses in their pension plans, the "other side," as a committee aide put it, has now had its say in the long-running debate on the need for pension plan reform.

Whether testimony from companies like Anaconda, Bank of America, F. W. Woolworth and Uniroyal will be able to steer the committee or its chairman, Sen. Harrison A. Williams (D.-N.J.), away from tough legislation may in the end be secondary to how the committee interprets labor's position.

The companies may be easy targets for thorny questions, but if big labor continues to indicate it fears loss of a bargaining issue and reduction of its pension control power, the outlook is for continued caution on the part of Congress toward pension reform.

On completion of its hearings, the Senate labor committee will return to an analysis of questionnaires that were sent out earlier this year to some 1,500 companies with private pension plans. The prospects for a committee vote? Possibly before the end of this year, probably not before next.

Product safety—Reaction to a far-reaching bill in the Senate commerce committee appears certain to result in more hearings next month.

Sponsored by Sens. Warren G. Magnuson (D.-Wash), commerce committee chairman, Hubert Humphrey (D.-Minn.), Frank E. Moss (D.-Utah), and Adlai E. Stevenson III (D.-Ill.), the measure would create an independent consumer safety agency that would take the Food & Drug Administration out of the Health, Education & Welfare Department and replace most safety laws for products with an omnibus consumer product safety law.

In addition, the agency would set product safety standards, a stipulation that hasn't set well with Underwriters' Laboratories, although, says the bill, "whenever possible the (agency's) commissioner would prescribe self-certification whereby the manufacturer or an independent laboratory would certify that the products met the standards."

The agency would also conduct compliance tests on products it decides are subject to product safety standards.

An Administration-backed bill is also under consideration. It differs from the Magnuson bill in that the consumer safety agency would be part of the HEW department. There is also a bit more control left with independent laboratories.

"Nothing in either bill says Underwriters' standards are federal standards," said a commerce staff member. "But the Administration bill leans toward it. Under the senators' bill, Underwriters could be asked to set a standard but it wouldn't necessarily be accepted."

The committee will give further consideration to the bill on Nov. 4. An announcement on more hearings is expected then.

No-fault motor vehicle insurance—Additional hearings to bring in the views of a variety of witnesses who didn't get into hearings this summer. The sessions are expected to give the committee a break, too, by bringing it back into a complex subject that some of its members have been finding troublesome in recent weeks.

After developing what appeared to be unqualified support for federal no-fault legislation from many quarters this summer, backers of the no-fault bill put forward by Sen. Philip A. Hart (D.-Mich) and Sen. Magnuson have met with a barrage of counterproposals and they feel the time is not quite right to attempt advancing the measure.

They contend, however, that a main argument for federal no-fault—the fact that only two states, Massachusetts and Florida, have enacted meaningful no-fault laws—has lost none of its strength and will eventually clear the way. A major question at this point: What will the effect be on the committee of wait-and-see pressure regarding the Administration's program for state-by-state adoption. Backers of this approach are stepping up their efforts to give states more time. ■

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Touchy Question #19

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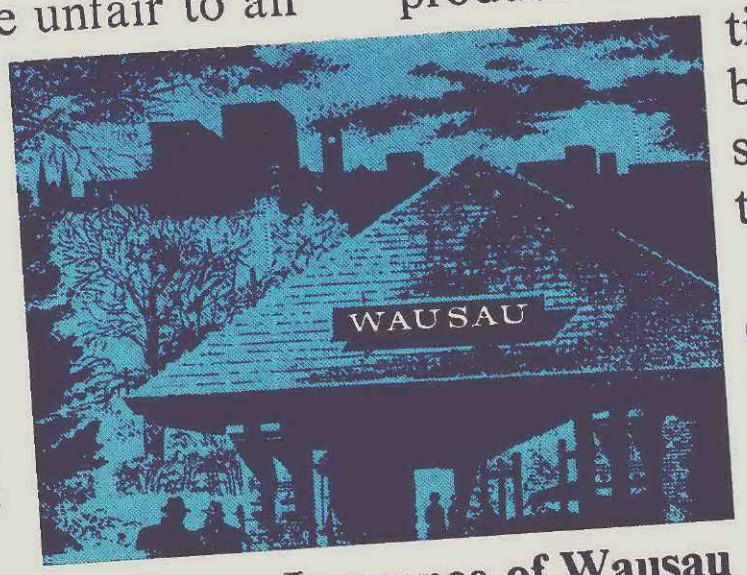
When its technicalities advance that purpose, certainly the insurance company should "take advantage" of them. To do otherwise would be unfair to all of its other policyholders, whose own rates and future insurance costs are largely determined by the number and size of the losses paid under all of the policies in force.

But the letter of the contract does not always serve its spirit. Sometimes an insurance policy coverage technicality, strictly applied, can operate not to advance fairness but to defeat it.

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British risk man here on six-week study tour

NEW YORK—Hugh E. R. Spencer is a British chap who plans to spend the next six weeks snooping over the shoulders of American risk managers. And while the job may be a bit out of character for the proper English gentlemanly way of doing things, Mr. Spencer feels it is entirely within character as far as risk management goes.

"After all," he said during an interview with *Business Insurance* a week or so ago, "a good risk manager has to be nosey. It's sort of like being a newspaperman."

Mr. Spencer is in this country on a Winston Churchill Memorial Trust Fellowship. It is the first fellowship ever given in risk management by the educational memorial to England's great statesman and while here Mr. Spencer will be studying American concepts of risk management by visiting U.S. corporations to ask questions about their risk practices and observe how it's all being done. Among the companies on his itinerary are Pfizer Inc., Brown & Root Inc., Humble Oil, Safeway Stores Inc., Bechtel Corp. and Standard Oil (N.J.) Co.

MR. SPENCER, who is 28 and bearded, was chosen from among 600 insurance applicants to tour this country. Each year, he explained, the Churchill Trust selects 10 categories of study and from each of those categories selects 10 fellows. Insurance was a subject this year and Mr. Spencer is the sole risk manager visiting these shores. The others, he said, are from the underwriting, actuarial, accounting, and claims end of the business.

"The fellowship is really awarded to people who can bring something back to Britain—something of use, of value. This is what I must do. My obligation to the trust is that I must disseminate—not confidential information, of course—the knowledge that comes from this trip," Mr. Spencer said, noting that this would likely be done through papers published in British insurance journals and theses to be made available to the risk management profession there.

Born in Scotland and with no formal university training ("I started at the very bottom," he said.), Mr. Spencer began his career with the Guardian Insurance Group and then moved to Alfred Blackmore Ltd., Lloyd's brokers that specialize in construction coverages. From there the young risk man joined the Richard Costain Ltd. construction company as a member of its insurance department staff. Shortly before his fellowhip was awarded he joined the risk management department at Esso Petroleum Ltd., the British affiliate of Standard Oil Co. (N.J.) and his job is being held for him while he is in the U.S.

His ultimate goal he said, is simply a career in risk management. "I think I have made the logical progression toward this career, from insurance company to broker to risk management. Risk management," he noted, perhaps giving a hint of liberal political views, "is not an anti-social thing. It's a very social concept. It is involved every day with the saving of lives, for example."

OF THE CONCEPT of risk management in Britain, Mr. Spencer had this to say:

"I think you could say it is in its infancy in the sense that risk managers over there are beginning to recognize the concept is of extreme value. We do, of course, suffer from a lack of immediate experience on which to draw. The purpose of my study is to visit various corporations in this country and discuss with risk managers how they go about it, observe their techniques and learn their philosophy.

"I think we need to learn how to finance risks in a manner that makes optimum discriminate use of various techniques, which would of course include the consideration of self-insurance in combination with insurance," he said, adding that this is not always easy to arrange in the British marketplace.

"Take, for example, the corporation that annually has $500,000 in losses. Well, it's easy for an underwriter to take the $500,000, add commissions, claims, handling expenses and the profit margin and say this is what the premium will be. But when you say to an underwriter, 'Okay, we'll self-insure the first $500,000. Now give us coverage above that,' he has nothing to go on. The position changes, of course, when you are insuring a highly competitive line."

MR. SPENCER, who is married and the father of a 15-month-old daughter, has received assistance while here from the American Society of Insurance Management's national headquarters. Ron Judd, ASIM's managing director, helped arrange an itinerary that takes Mr. Spencer from New York to Pittsburgh to Chicago in October and to Houston, San Francisco, Los Angeles, Toronto, Rochester and back to New York before leaving for home Nov. 20.

One of the things the risk man will be asking his counterparts here is the role of the risk manager in the corporate scheme of things.

"I think," he said, "the insurance manager in Britain enjoys the same informal lines of communication as they do here. As over here, he has access to top management without going through 20 layers of middle management."

Asked if the reverse of this wasn't true at times, Mr. Spencer said he was speaking of the more enlightened company. "I suppose," he added, "I'm speaking from my own experience. I haven't come across any insurance managers in Britain that have only line authority."

CITING an example that had been mentioned to him by an American risk man he visited the day before, he noted that the risk man had been made privy to some architectural plans of a new manufacturing plant before they were finalized. The risk man routinely examined them for the illogical little things that often complicate the job of protecting a corporation's property.

"He noticed that the fire hydrants had been placed right smack up against the building in the plans," he said. "Why, that would have to be an awfully brave fireman indeed who ap-

Continued on page 44



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Armco story: Captives are a new profit center

HAMILTON, Bermuda—Armco Steel Corp.'s two captive insurance companies earned their Middletown, Ohio, parent corporation $1 million in profits last year. Projected earnings this year are $1.8 million and, as of last month, the projections were "on target," according to Dan C. Boone, senior vp of finance.

Armco's fortunes from its captive insurance operations since putting one foot into the pond in 1953 and jumping in with both when the company set up an offshore captive here in 1969 were described to an American Management Assn. seminar on captives held last month.

Mr. Boone, noting that he was speaking as "the corporate head of a profit center—not an insurance technician," said that from 1953 to 1969 Armco operated a small captive insurance company (Bellefonte) principally to insure a small part of Armco's property and casualty exposures. However, he added, because of shrinking capacity at Lloyd's, a lack of capacity in the reinsurance market for Armco's large values and the increased use of substantial deductibles, the steel company decided to establish a second captive to insure foreign assets and broaden its operations to write non-Armco reinsurance risks.

PREMIUM VOLUME written and earned in 1969 was $600,000 and profits were about $100,000, Mr. Boone said. Bellefonte Insurance Co.'s investment portfolio was $1 million and capital was $1.3 million. Bellefonte's book of business at the time was heavily reinsured out to the London market.

"In 1967 and 1968, the Lloyd's market became very difficult and very expensive," the senior vp said. "Lloyd's began to experience some loss years and they became highly selective on coverage in addition to making substantial increases in premium. More importantly," he noted however, "we found a lack of capacity in the London market for the reinsurance we required on our large values.

"Armco was forced to obtain insurance for most of our plants on a direct basis with U.S. companies with substantial deductibles," Mr. Boone explained. "Bellefonte continued to provide low limit primary insurance to cover the deductibles on our direct placement. This made Bellefonte little more than a vehicle to formulize our self-insurance program and it became a question of whether it was worth maintaining a company for this purpose.

"Faced with this problem," Mr. Boone continued, "we initiated a study to determine our long range course of action (and) our study indicated a pure captive insuring only risks of its parent is of limited value since it is totally dependent on reinsurance to provide coverage in the high risk area where there is not sufficient spread of risk or frequency to produce credible experience on which to establish rates.

"TO MAKE A captive effective," the Armco executive asserted, "it should have a spread of risk beyond the parent, which can be accomplished by participating in non-parent insurance or reinsurance risks on a selective basis, thus in effect, exchanging a small number of high value risks for a large number of small value risks, attaining a spread of credible experience."

According to Mr. Boone, the study suggested three objectives:

- Expand Bellefonte Insurance Co. domestically by broadening underwriting to risks other than those of its parent and by participating in reinsurance business from selected domestic insurance companies. Bellefonte has been in existence since 1953 and is domiciled in Covington, Ky.
- Establish Bellefonte International Insurance Co. in Bermuda to handle Armco's foreign risks and participate in reinsurance business with selected overseas insurance companies.
- Form a new life insurance company or arrange a more satisfactory relationship with an existing life company to handle Armco's employe benefit plans.

THE FIRST TWO objectives have been reached, according to Mr. Boone, who passes much of the credit for their implementation to Armco's director of insurance, Robert Lee.

Mr. Lee, who attended the AMA sessions here, told *Business Insurance* that the company has taken no formal action on establishing a captive life insurance company to handle employe benefits, however.

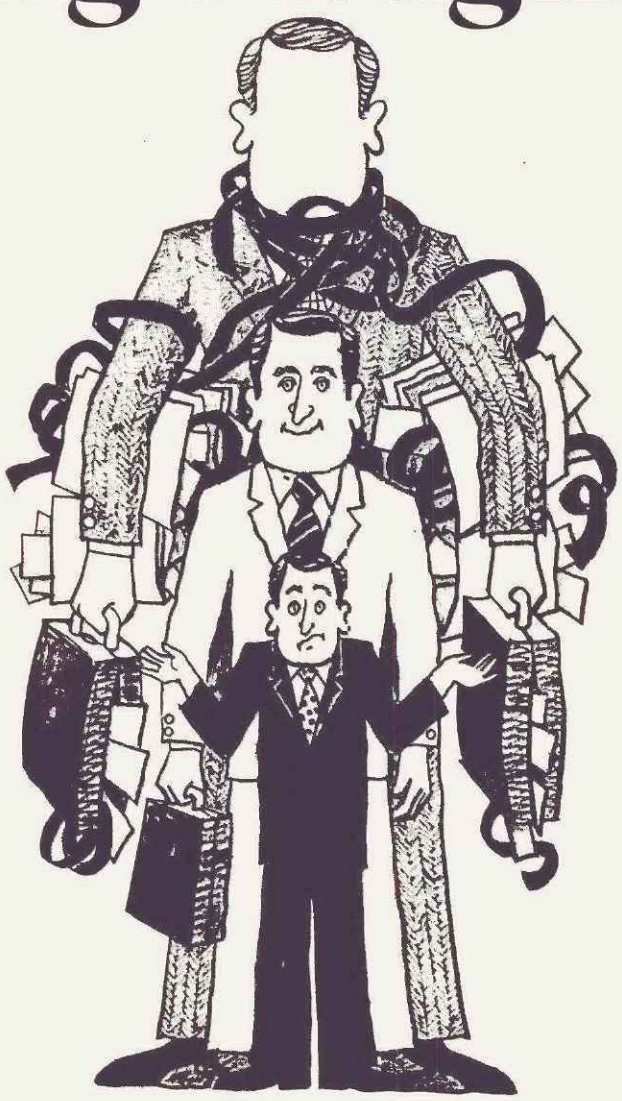
"It is still being considered, but we have deferred taking any action because of so many other things to get on the road. Of course, you can imagine that a company our size has rather substantial employe benefit premiums and our preliminary studies indicate that the life insurance business could bring us some benefits, but we have not reached any definite conclusions."

Mr. Lee, in turn, credits Mr. Boone and Armco's top management with much of the company's success in the captive arena. "The momentum for this all began in this department, but we did have the ear of top management. That's important. But you must still do your homework before going ahead with it. If you haven't it will likely be a failure."

LATE IN 1969, Armco's board of directors authorized the additional insurance capital of $15 million to be pumped into its do-

Continued on page 40

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U-turn . . .

Continued from page 1

no indication that Mr. Bailey was speaking for himself or that he was in a mock debate.

"I WAS CONFUSED myself at the beginning of the discussion," one member told this magazine, "because it wasn't until the end that they announced the debaters were taking positions for the sake of argument. Mr. Bailey said some things that rubbed me the wrong way before I realized it was a mock debate."

Ralph W. Haake, corporate insurance manager of Mallinckrodt Chemical Works, served as master of ceremonies during the debate. He said he didn't know whose idea it was for Mr. Bailey to take a position against no-fault "when he was actually in favor of it."

MR. BAILEY, who is paid $50,000 annually to represent ASIM on legislative matters, was contacted at an ASIM directors' meeting in Pittsburgh. He said, "I won't back away from anything I was quoted as saying. It's just too bad that the writer failed to say it was a mock debate and that I took the anti-no-fault side.

"There is a movement within ASIM to make an accommodation to the American Trial Lawyers Assn. by keeping the no-fault portion of reform proposals to a minimum and to give the lawyers what we want on death and dismemberment. You cannot realistically expect lawyers who control the legislatures to give away their bread and butter by adopting sweeping no-fault laws. They'll protect themselves.

"WHAT I said about the tort system is true. It has worked. And there are people in ASIM who think that maybe we ought to borrow the subrogation portion of the tort system to take care of the problem of allocating the losses between private and commercial vehicles. Our major concern with no-fault legislation is that it treat fairly the fleet operator.

"Right now I'm concerned with the proposal before the National Conference of Commissioners on Uniform State Laws. What they have before them doesn't meet insurance requirements and is opposed by insurance carriers, insurance commissioners and ASIM," Mr. Bailey said. ■

Oil rig fire cover told

NEW ORLEANS, La.—*Business Insurance* has learned the nature of Amoco Production Co.'s coverage for its share in the Gulf of Mexico offshire oil platform fire loss. The five-well platform is jointly owned by the Amoco Production Co. and Texaco Inc.

A spokesman for Amoco said that "a substantial part of Amoco's losses which may occur are covered by a policy with a $5 million deductible, written by Lloyd's of London, against all offshore operations on subsidiaries of Standard Oil Co. of Indiana," which Amoco is.

He also noted that "a minimal amount of oil is going into the water." ■

Captive of Boise Cascade insures in U.S., Canada only

BOISE, Idaho—Officials of Boise Cascade Corp. corrected an erroneous report in the Oct. 11 issue of *Business Insurance* concerning Clearfield Insurance Co. Ltd., a Boise Cascade captive domiciled in Bermuda.

The report said that Clearfield "insures overseas risks for the parent."

C. E. Carlson, insurance manager of Boise Cascade, said that Clearfield does not insure any overseas installations but confines its coverage to U.S. and Canadian properties of Boise Cascade.

"This way all of the funds of Clearfield come back to the domestic economy and are taxed," Mr. Carlson said.

Clearfield Insurance Co. Ltd. is one of at least eight captive insurance companies whose financial operations are being investigated by a federal grand jury for the southern district of New York.

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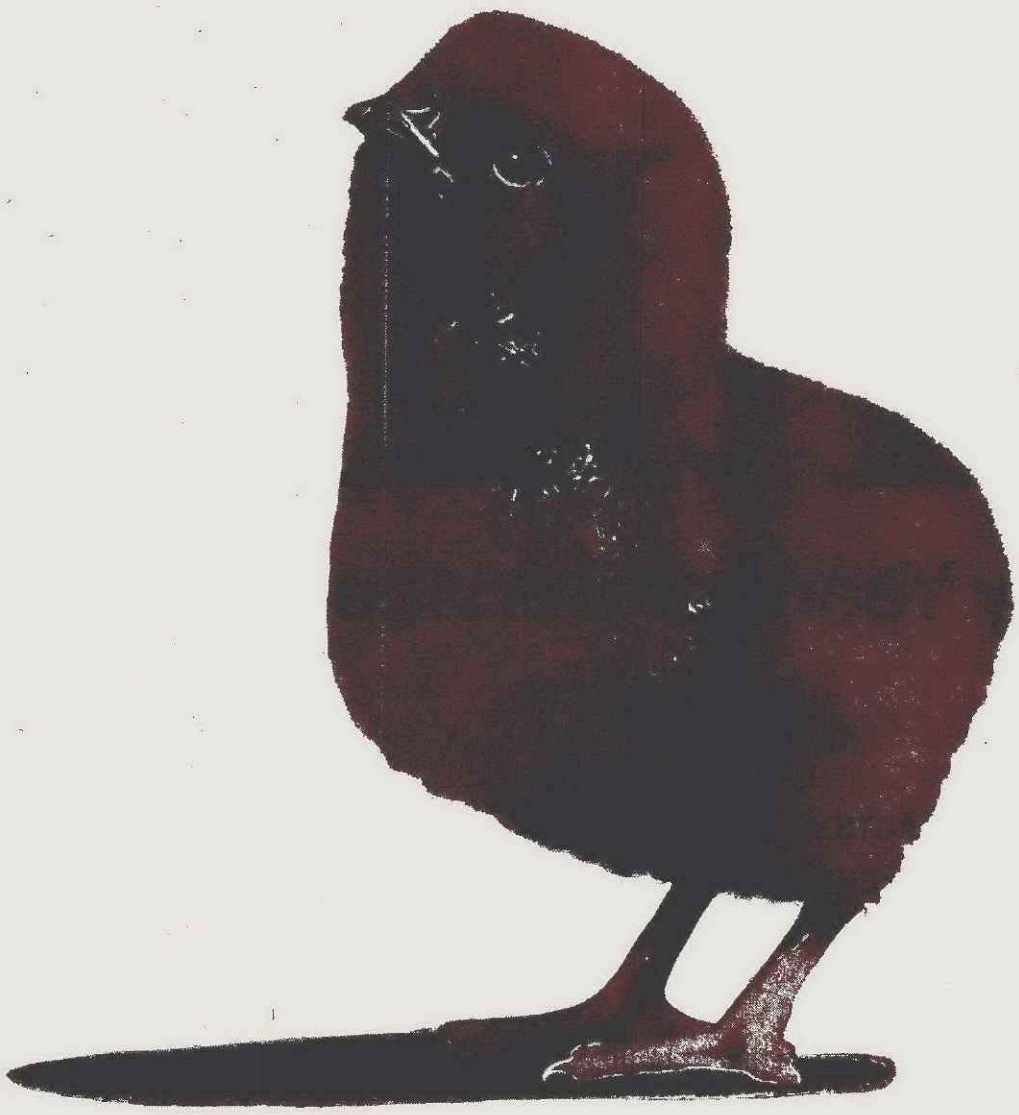
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info for buyers

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

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

• The National Safety Council has published a complete and comprehensive report on an occupational safety and health act briefing session, held in cooperation with the U.S. Bureau of Labor Statistics, covering the record keeping requirements of the new law. The book covers OSHA regulations in detail, with additional emphasis on a comparison of the old Z16.1 standard to new OSHA standards. A special question-and-answer section, alphabetically indexed, is of particular value. Copies of the publication can be ordered from the council, 425 N. Michigan Ave., Chicago, Ill. 60611, by referring to stock number 099.40. The price is $3 per copy, and payment should accompany any order of $5 or less. Lower prices are available to council members and federal government agencies.

• Bankers Security Life Insurance Society has just published a booklet entitled **Life Insurance and Estate Planning for the Corporate Executive.** The pamphlet emphasizes the importance of coordinating an executive's will and various fringe benefit plans, such as stock options, deferred compensation and qualified pension and profit sharing plans, in order to achieve maximum tax savings and family objectives. For a free copy write the Advanced Underwriting Department of the society at 1701 Pennsylvania Ave., N.W., Washington, D.C. 20006.

Super Info

The special 1972 Info for Buyers issue of *Business Insurance* will be published Jan. 3. Those wishing to submit material for publication in what promises to be the biggest Info issue ever will find a coupon on page 44. Mail it today to receive more information and convenient submission forms.

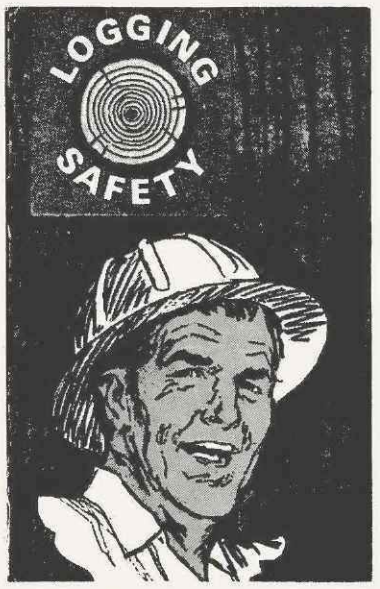
• **There's More to Benefit Communication than Plans and Provisions,** a reprint of an article published in the Journal of Commere, has been made available to *Business Insurance* readers by Benefacts Inc., a subsidiary of Alexander & Alexander. The pamphlet contains hints on employe benefit communications, stressing computerized annual statements and their pitfalls and the problems of matching plans. Copies are available from Benefacts Inc., 225 N. Charles St., Baltimore, Md. 21218.

• **Property Insurance . . . Need For Appraisal Service** is a brochure discussing the various reasons for the need of appraisal service in determining the proper property insurance cover. The brochure also describes the appraisal service offered by American Appraisal Co. For a free copy write the firm at 525 E. Michigan St., Milwaukee, Wis. 53201.

• **The Prototype Planner** is a monthly publication dealing with new developments and trends in the area of corporate master and prototype plans. For price information write Jack McKinley, Editor, The Prototype Planner, P. O. Box 171, Kew Gardens, N.Y. 11415.

• **Image 10-40** is a booklet describing a program of long term disability coverage for firms with from 10 to 40 eligible employes. The Combined Insurance Co. of America has made the publication available by writing Hal Laurence, Advertising & Sales Promotion, Combined Insurance Co. of America, 5050 N. Broadway, Chicago, Ill. 60640.

• The safety engineering department of Hewitt, Coleman & Associates, Inc., P.O. Box 3665, Greenville, S.C. 29608, has prepared an illustrated booklet on **Logging Safety.** The pamphlet offers numerous specific hints on



avoiding logging accidents and would make an excellent employe hand-out for those in the logging industry. For copies and more information write the company.

• Towers, Perrin, Forster & Crosby has released **Venture Management,** a comprehensive survey of the venture management operations in 36 large, United States industrial companies. Venture management is the formalization of a new corporate-level activity designed to generate new business for the large organization primarily through the use of internal resources. Diagrams are included. For a copy write Joseph A. Banik, Towers, Perrin, Forster & Crosby Inc., Three Penn Center, Philadelphia, Pa. 19102.

• The William J. Burns International Detective Agency Inc. has released **Detect, Report, Deter Fire-Burglary Automatically,** describing the company's central station alarm service which automatically signals fire, burglary or other trouble points for client companys. Devices for detection outlined in the foldout include manual fire alarm service, automatic waterflow alarm service, air temperature supervision and others. For a copy write Ashley W. Burner, Manager, Public Relations, The William J. Burns International Detective Agency Inc., 320 Old Briarcliff Rd., Briarcliff Manor, N.Y. 10510.

• The Pension Planning Company, Inc., 355 Lexington Ave., N.Y., N.Y. 10017 has made available an attractive brochure describing its **Payplus** Employe Statements, a plan designed to give each employe a detailed annual summary of all his fringe benefits. The brochure and sample statements can be obtained by writing Mr. James Kahn, President, the Pension Planning Company, Inc. at the above address.

• The Equity Funding Corporation of America offers four brochures describing its new series of business insurance packages incorporating the company's leverage concept which enables individuals to purchase insurance and mutual funds in a coordinated program. The pamphlets cover Equity's close corporation deferred compensation, key man and partnership programs. Copies may be obtained by writing Mr. Henry Gold, Equity Funding Corporation of America, 1900 Avenue of the Stars, Los Angeles, Cal. 90067.

• The 1971-1972 edition of the **Design Data—Fire Resistance Manual** is available from the Gypsum Association, 201 N. Wells St., Chicago, Ill. 60606. The publication contains extensive fire test data for 262 wall, ceiling, column, beam and roof deck assemblies using gypsum board or gypsum plaster, as well as considerable sound and structural data. Newly expanded to 100 pages, it provides detailed information for assemblies used in residential, commercial, industrial and institutional buildings, plus a detailed sketch of each assembly listed. Copies are available in bulk at 70 cents each from the association. Single copies may be obtained at no charge.

• **Organization of the Employe Benefit Function** is a foldout dealing with the results of a survey conducted by Towers, Perrin, Forster & Crosby to form the basis of a suggested organization geared to present trends and future needs in industry for professional administrative competence in the employe benefits field. The survey was conducted among 33 firms in the United States varying in industry affiliation, size, sales volume and management practices. Written by William A. Jaffe, a member of the firm, the report is a reprint from Pension and Welfare News. For a copy write the firm at Three Penn Center, Philadelphia, Pa. 19102.

• **Proprietary systems from Westinghouse** describes systems supplied by Westinghouse Electric Corp. for protection of plants and offices from breaches in security. Uses and actual examples of installation of the equipment is provided. Direct requests to Alan Zimmerman, Specialty Electronics Division, Westinghouse Electric Corp. 7800 Susquehanna St. Pittsburgh, Pa. 15221.

• **How the Stock Market Affects Your Savings Plan Account** and **How the Stock Market Affects Your Profit-sharing Account** are available from Hewitt Information Service, Inc., an affiliate of Hewitt Associates. The booklets are designed to clearly explain to employes what happens to profit sharing and savings and thrift plan funds. Samples and price information are available on request from Mrs. Retta Renich, Hewitt Information Service, Inc., Libertyville, Ill. 60048.

Urges insurers: Stop begging federal aid

WHITE SULPHUR SPRINGS, W. Va.—Insurance company executives and agents were told here earlier this month that they must stop going to the federal government for help in solving problems facing the industry.

Speaking to the annual joint meeting of the National Assn. of Casualty & Surety Executives and the National Assn. of Casualty & Surety Agents, California insurance commissioner Richards D. Barger declared:

"Many of you feel that some of the social problems in our country today are not capable of solution through your companies and the mechanism of insurance. This perhaps is true, but, before you as an industry abdicate your position in any segment of your business to the federal government, you should explore that process of abdication thoroughly."

Mr. Barger is current president of the National Assn. of Insurance Commissioners.

Noting that by the time a problem reaches the chief executive officer of an insurance company its seriousness and its insolubility are often magnified beyond their proper size, Commissioner Barger added:

"Consequently, with the problem amplified beyond its true perspective you then go to the federal government with one more example of a social problem that is insoluble by the private sector.

The attitude of the insurance industry in constantly going to the federal government for an answer to a problem only acts as a reaffirmation to many people that ultimately the complete solving mechanism must rest in the federal government. The transfer of the difficult problems will eventually lead to those remaining areas of your business which are and will continue to be, hopefully, relatively problem free."

THE CALIFORNIA regulator also urged the various segments of the property and casualty insurance business to end their divisiveness.

"Certain segments of your business," he told the group, "are in favor of the status quo. Other sectors of the business are in favor of limited changes in the system, and yet a third sector believes in a dramatic change in the system. However," he continued, "because of their inability to agree as to what is best for their collective survival in the automobile insurance business, these three points of view are so busy furthering their own lot at the expense of the others that none of them may end up in preserving that which they have.

"Because of their inability to arrive at a common understanding the federal government may provide a solution at their expense. This, I feel, will also prove to be true in the matter of national health insurance," he added.

"Yours may be the last generation of insurance executives who will have the opportunity to prove your worth. I would hate to see the insurance industry become the first victim of a changing philosophy that dramatically differs with the proposition that private enterprise is entitled to its place in the scheme of things in this country," he said. ■



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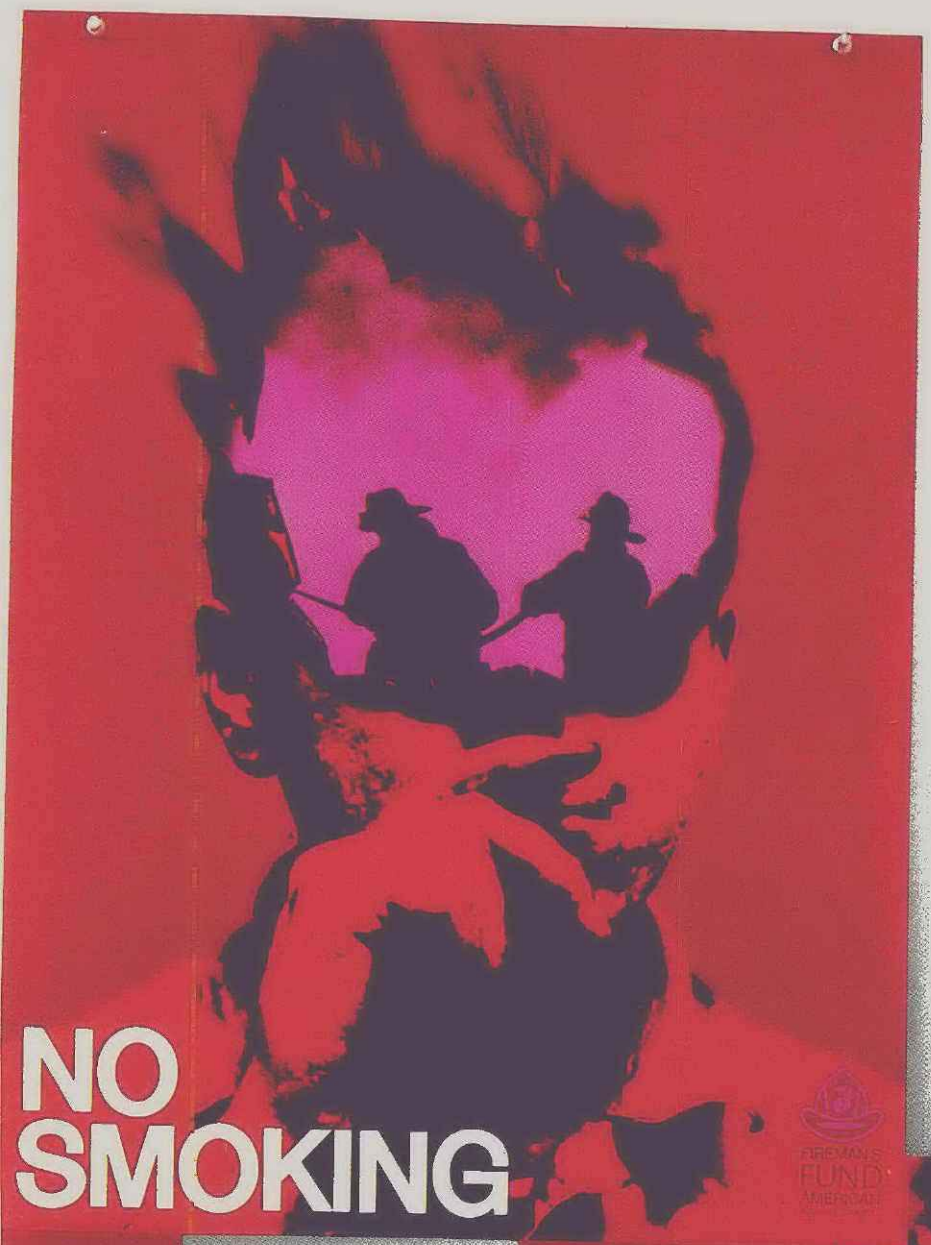
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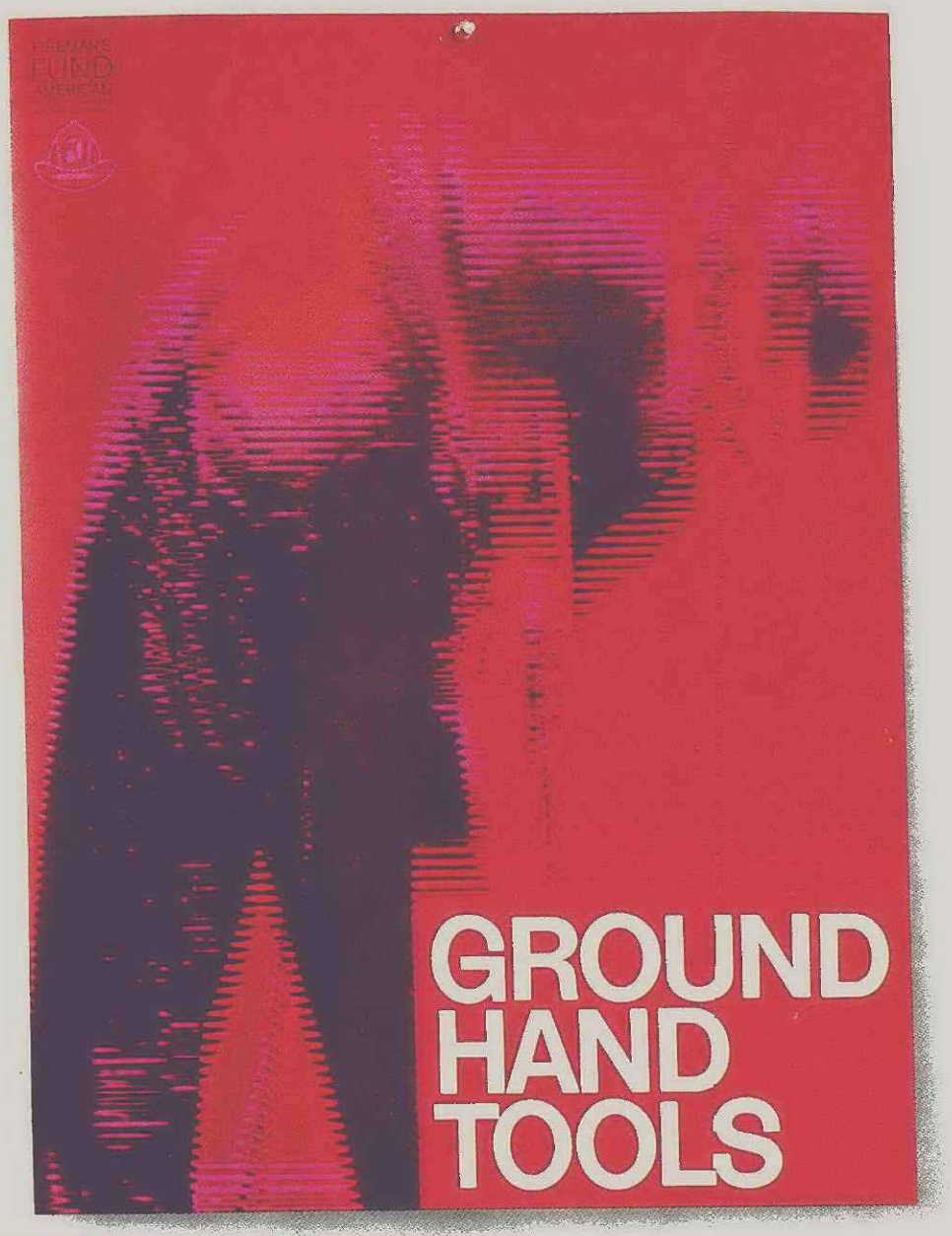
There. That nails the whole thing down.

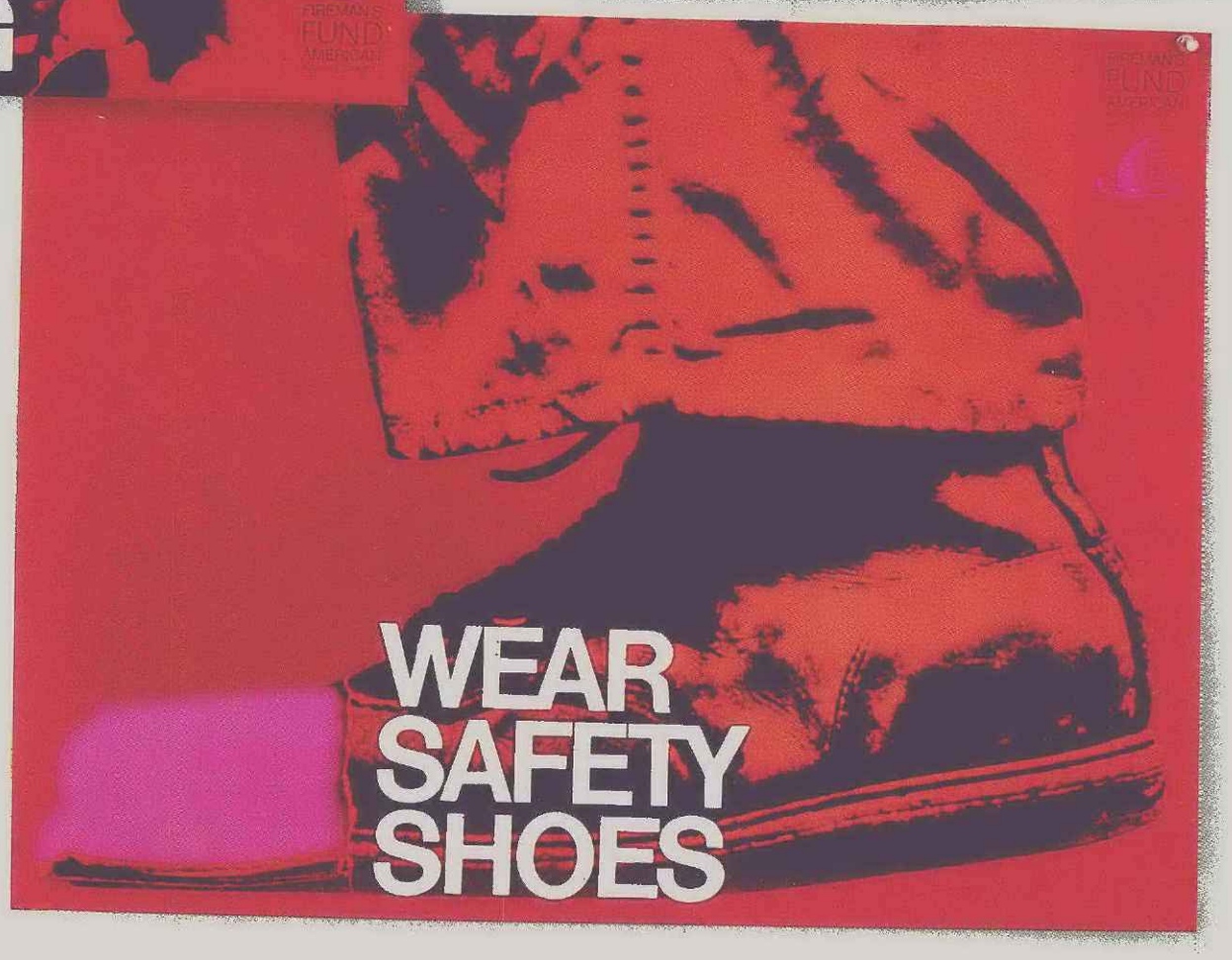
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Canadian college risk men facing same problems as U.S. counterparts

TORONTO—Canadian university insurance managers, like their U.S. counterparts, have had to face up to shrinking insurance markets, increased premiums and huge deductibles in the past 18 months and, according to reports published here, some of them are not taking too kindly to it.

Saying that insurers are overreacting to a few isolated campus incidents, several university risk men here have said that insurers are being unduly influenced by experiences at U.S. colleges. They further note that the statistical record of losses caused by campus unrest is not significant enough to justify the tightened and restricted insurance market.

Canadian insurers, on the other hand, think the opposite. The Canadian Underwriters Assn., which represents most major property and casualty underwriters doing business throughout the dominion, point to several incidents in the past year and a half that have cost them millions.

THE MOST costly of these was the destruction in February, 1969, of a computer at Sir George Williams University in Montreal when a small group of student radicals set off a bomb. That loss cost the university's insurer, the St. Paul Fire and Marine Insurance Co., $1.5 million (see related story on this page).

One of the more recent university losses was a $100,000 claim at St. Francis Xavier University in Antigonish, Nova Scotia. A library was destroyed in an April 5 bombing there. Other bomb damage has been caused at McGill University and Loyola College, both in Montreal.

While the university losses appear to be isolated and limited to only a handful of institutions, universities throughout Canada are sharing the loss experience.

The major fire insurance carriers, for example, have increased deductibles on losses caused from disturbances to $50,000 per incident. The deductible, not so affectionately known as the "bomb endorsement" among risk men, restricts claims payments for loss or damage from fire "caused by or resulting from riot, vandalism, malicious acts or explosion of a bomb." In addition, fire insurance premiums have been increased 10% across the board and insurance premiums for riot coverage, excluding fire damage, have been increased as much as 100%.

"THE UNIVERSITY of Toronto has not had an insurance loss due to student activities," said Charles Kennedy, insurance manager for that institution. Mr. Kennedy feels that moves by Canadian underwriters have unjustly penalized those universities that have not experienced student disturbances.

The property underwriting manager for Canada of the Royal Insurance Group of Toronto, Roy Elms, explains that the university loss radio has averaged about 80% during the past three years and reached as high as 140% in 1970.

"The use of deductibles encourages university officials to accept more responsibility in controlling losses at the source," Mr. Elms points out.

The university risk managers, on the other hand, have generally taken issue with the statistics provided by the insurance industry. They claim their records show that losses from fire, malicious mischief and riot during the past three years have not been that excessive.

BRIAN LUCAS, risk manager at McMaster University in Hamilton, insists that institutions like his have never been given a satisfactory explanation of how insurers are determining loss figures.

"For example," he said, "at McMaster our loss ratio for the five-year period ended Dec. 31, 1970, was less than 25%." McMaster, however, has still had to share in the increased insurance rates.

University properties here are usually underwritten on a subscription policy form with a number of companies participating in losses on a percentage basis.

Some universities have been able to negotiate a lower deductible and premium by seeking out as many as 25 participating companies on a policy.

For example, York University in Toronto has an insurance value on buildings of about $120 million. It was able to reduce its deductible to $10,000 in this fashion. The University of Toronto, with values in the neighborhood of $600 million is currently negotiating a policy that should reduce its deductible to $25,000. ■



St. Paul believes in old lightning adage

TORONTO—As one person put it here, St. Paul Fire and Marine Insurance Co. firmly believes in the old adage that lightning doesn't strike twice.

St. Paul insured the $1.5 million computer loss after a student radical bombing of the computer complex at George Williams University in Montreal in February, 1969. The company has since paid that claim and has also renewed the university's computer policy for a three-year term at no increase in premium (estimated at about $4.000 for the period).

St. Paul, moreover, has expanded its computer insurance lines to cover installations at three other Canadian colleges. Two of these are written without deductibles. One has a $1,000 deductible.

"If the computer is properly installed and certain regulations regarding security are followed, our experience with computer insurance has generally been quite acceptable," says Lawrence Deaville, St. Paul's general manager here.

"Provided the security is right, and in some cases provided the deductible is right, we cannot see ourselves being in a position where we would refuse to offer a market for most insurance risks on campuses," Mr. Deaville says of his company's computer underwriting operations.

Casualty groups elect

William R. Morpeth Jr., vp of the North American Reinsurance Corp., has been elected president of the National Assn. of Casualty & Surety Executives (NACSE) at the group's annual meeting in White Sulphur Springs, W. Va.

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New testing lab division aids product liability

WAYNE, N.J.—Associated Testing Laboratories Inc., a large independent test laboratory with headquarters here has announced the formation of a new division designed to provide consulting and educational services in the areas of product evaluation and liability prevention.

Albert F. Erdman, president of the company, said that a nationwide network of product technology specialists has been set up to give service at client facilities and in court. The division, called hazard evaluation and liability prevention, will also hold seminars, develop standard procedures, publish literature pertinent to product liability and evaluation and appraise warranties, advertising, labels and user instructions.

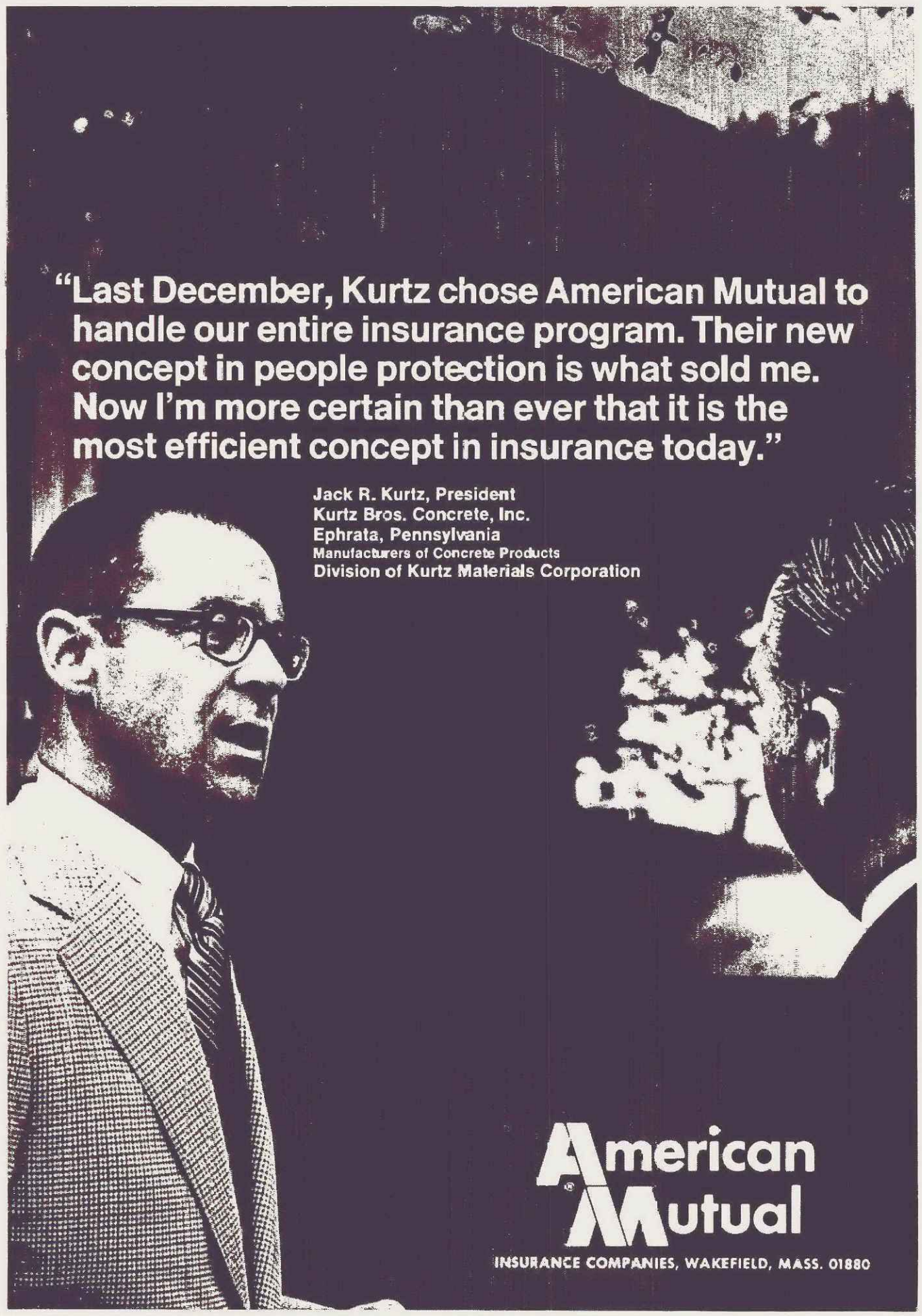
"The penalties for product failure are reaching unendurable levels in terms of pain, interrupted commerce and supplier cost," Mr. Erdman noted. "Business must know that this cannot be permitted to continue, whether or not Congress passes so-called consumer laws. Judicial action alone has already changed the environment of relative immunity once enjoyed by manufacturers and sellers to one of 'caveat vendor,' or let the seller beware."

POINTING OUT that the number of product liability suits reaching court had been growing yearly and that estimates showed that there would be 750,000 such cases in 1975, Mr. Erdman said, "There is an increasingly urgent social and economic need to minimize the potential for damage inherent in every product on the market. This applies not only to design and manufacture but even to labeling, instructions and advertising. If the size of court awards, in some cases running into millions of dollars, is evidence of this, judges and juries think so, too."

He felt that "the proliferation of technically complex products" made the threat of liability inevitable.

"But, thanks to the aerospace and military programs of recent years, we are also very much oriented to realiability and safety. We know things can be made to work. The concept of reliability is one of the great spinoffs of space and military programs," he concluded.

The new division is now serving manufacturers, insurers, retailers, trade associations and attorneys. ■



Air machine coverage problems

SAN FRANCISCO—The insurance buyer's problems in obtaining adequate coverage of industrial or business machinery were reviewed in detail during the first fall meeting here of the northern California chapter, American Society of Insurance Management.

"Because the hazards and the coverage are sometimes difficult to understand," Frank S. Cobe, insurance management of Boothe Cos., pointed out, "there is a tendency to neglect or even to avoid this coverage."

In essence, a three-man panel agreed, the insurance is "a device for gaining coverage on exclusions in fire policies covering explosions which result from steam boilers, mechanical breakdowns or electrical burnouts."

The panel added that "inasmuch as boiler and machinery insurance constitutes an optional pick-and-choose type of contract, deductibles should be utilized to fit the degree of loss capability of the company." ■

Ridgely elected

At the National Assn. of Casualty & Surety Agents meeting in White Sulphur Springs, W. Va., Chase Ridgely Jr., exec vp and secretary of J. Ramsey Barry & Co., was chosen president.

opinions

Stumbling into Phase II

FEW AMERICANS can seriously question the sincerity of President Nixon in his earnest attempt to turn the economy around by instituting a wage/price freeze. Nor can we quarrel with his objectives; slowing inflation and reducing unemployment are goals devoutly to be wished. What is wrong is that Mr. Nixon has failed since mid-August "to make things perfectly clear," as he often promises to do.

We know little more now about price guidelines for property-liability insurance than we did on the night of the President's momentous announcement. The Administration has made clear that insurers must hold the price line on personal lines insurance by applying the same rating principles that were used in the month preceding the wage/price freeze. Not long ago we learned that the Administration does not consider workmen's compensation benefits to be either wages or fringe benefits, and hence legislated increases in benefits were allowed to go into effect as were warranted workmen's compensation premium increases. Beyond this the Office of Emergency Preparedness and the Cost of Living Council have been scant help to insurers and corporate insureds who wonder about how the price freeze affects them. Administration officials have a chance to do better in Phase II, but to improve their performance they will have to gain a close rapport with the people on the firing line, the people who are sincerely trying to work out their relationship to the wage/price freeze to make a contribution toward stemming inflation and reducing unemployment. Part of the work of the price control board should be some serious discussion with corporate risk managers and insurance executives who understand clearly the special circumstances of pricing commercial insurance coverage as against personal lines policies.

Yet as Phase II looms, the most troublesome problem in understanding how the freeze affects insurance lies in the fringe benefit sector. The Administration has already made clear in private meetings with life and health insurers that it views uncontrolled employe benefits as "too big a loophoole." We said as much in an editorial in our last issue: "We do not advocate complete lack of restraint on fringe benefits beause that would invite employers to circumvent the wage freeze by unreasonably increasing fringe benefits that result in deferred compensation. But the Administration ought to recognize the anti-inflationary aspects of insured benefits by setting sensible, liberal guidelines that would permit continued growth of this vital form of employe compensation."

Now comes the word from Washington and the Administration that benefits, which were exempted from controls during World War II and the Korean conflict, must now be tightly controlled because we have a "different kind of inflation." Those who put down this rule argue that benefits add to the unit cost of any product or service and that they therefore add pressures to this "different kind of inflation."

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HOW LONG WILL YOU WORK BEFORE A DISABLING INJURY?

Automobile	337 years
Wholesale, retail trade	73 years
Construction	41 years
Air transport	21 years
Underground coal mining	14 years

Disabling injuries in 1970 ranged from a low of 1.48 per 1 million man-hours in the automobile industry to a high of 33.86 in underground coal mining. The average for all industries was 8.87, up from 8.08 in 1969. Figures in this chart are based on a 40-hour week. To find your injury chances divide the injury rate for your occupation or industry into 1 million hours to find how many hours you are likely to work before being injured. Then, divide that number by the number of hours you work per year.
Source: National Safety Council

We're still waiting for the Cost of Living Council or the Council of Economic Advisers to explain the difference between this inflationary period and those that have gone before. Presumably the difference, if any, dictates that the Administration's goal is to hold down capital expenditures while prohibiting increases in the prices of consumer goods. We conclude this because this is exactly the effect of putting a tight lid on benefits. Life insurers, as we pointed out in our last issue, put a vast amount of investment capital derived from the sale of employe benefit plans into corporate paper, mortgages and other investments that create jobs.

But if the Administration has us a bit confused, we are equally puzzled by the failure of those who sell and buy employe benefits programs. They have been strangely silent throughout the deep-freeze period from August to November, perhaps as part of their conservative duty to make any sacrifice to fight inflation. But there are stirrings, as evidenced by the lament of one life insurance association executive who said: "It's one thing to govern price, but it's something else altogether to say that somebody can't sell a product."

Treasury Sec. John Connally, who substitutes a confident air and a loud voice for knowledge of economics, keeps telling questioners that the Administration is seeking "a balance" between sacrifices of various groups and between stimulation of various facets of the economy. He resists the idea that tax reductions for the poor would lead to direct creation of jobs in consumer product industries, preferring instead to settle tax benefits on industries which are expected to use their tax savings to make capital improvements that would create jobs. Yet he does not apply the same logic to employe benefits.

And so we stumble into Phase II. We can only hope that the new wage/price control administrators will better understand the operations and economic impact of the insurance industry as it provides property-liability coverages and insured employe benefits programs.

Metamorphosis

SOME OF THE early testimony of employers' associations before the National Commission on State Workmen's Compensation Laws has leaned heavily on such words and phrases as "malingerers," "voluntary retirees" and "welfare cheats." These epithets apply, of course, to recipients of workmen's compensation benefits.

Most risk managers and workmen's compensation administrators for major corporations tell us that they believe the workmen's compensation system should allow injured employes to live in dignity during convalescence. If the workmen's compensation system fails to accomplish this aim, then it must be accomplished by supplemental payments from public welfare, Social Security or employer-paid occupational disability insurance. Under these circumstances, workmen's compensation is no longer an adequate exclusive remedy.

According to those who view injured workers darkly, the object of revising workmen's compensation laws is to block a giant horde of thieves from stealing their employers' money through excessive awards augmented by the evil Social Security system. A lawyer for Missouri manufacturers, for example, justified a 180-day cutoff on medical benefits because "it enables us to catch malingerers and get them off the workmen's compensation rolls." He hastened to assure the commission that employers "voluntarily" extend medical benefits if the cases warranted extension.

This strikes us as tying one's plans to fears rather than to hopes and aspirations. If the workmen's compensation system and its benefits are to be based on the notion that the injured employe is always (or even often) a cheat, then the commission's work will come to nothing.

We find it hard to understand that the employe who today is trusted with industrial processes and expensive equipment and given his employer's trust turns suddenly into a "welfare cheat" if he is injured on the job. There can be adequate safeguards in the workmen's compensation procedure against cheating without slandering employes and gearing the system down to our darkest fears about co-workers.

letters

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

'Courageous'

To the Editor: I have just read your editorial "Some straight talk" in your Sept. 27 issue. You have a lot of "moxie"—very forthright, very courageous. Congratulations.

William A. Gillen
President, Insurance Workers International Union, Washington, D.C.

For no-fault

To the Editor: Your Sept. 27 editorial on no-fault auto insurance was indeed much needed "straight talk." However, we do feel there was an implication, unintended no doubt, that insurers who once supported no-fault are now "backing away" from it. Far from it.

The St. Paul Cos. Inc. remains a vigorous advocate of total no-fault, as do a number of other insurers and the American Insurance Assn. whose members write 30% of the auto insurance business.

We also are concerned about the tendency by some to label as "no-fault" the type of bill you so correctly term "weak." The 1969 Minnesota so-called "reform" law and the ones enacted recently in Delaware, Illinois and Oregon are not even "limited" no-fault laws. How can any law be called "no-fault" when it still required operating completely under the tort liability system?

Recently, Carl B. Drake Jr., president of St. Paul Fire and Marine Insurance Co., asked our insurance law department to analyze these laws and their likely effect. The critique is attached. We thought you would find it of interest as background to our position and our honest concern over the situation.

A. Kent Shamblin
Assistant Director of Communications, St. Paul Cos. Inc., St. Paul, Minn.

Here is the critique written by Kernel Armbruster of the St. Paul Cos. insurance law department:

A number of articles have appeared recently in various publications which have included Minnesota and South Dakota in a list of seven states that are purported to have enacted "no-fault" insurance plans.

The particular article you referred me to states that "Minnesota was the first state to enact a no-fault plan in 1970." This can mean only the so-called "Minnesota plan" of the motor vehicle insurance committee of the Minnesota Bar Assn., which actually was enacted in the 1969 session. The legislation referred to requires insurers to *offer* supplemental first-party benefits which include $10,000 accidental death and dismemberment; indemnity of at least $60 per week for up to one year, and medical payments coverage of at least $2,000 for each injured person. The law enacted by South Dakota in 1971 was patterned after and is substantially similar to the so-called "Minnesota plan."

These are all merely first-party benefits which are added to an existing policy. Although it is mandatory that the companies offer the supplemental coverages in both Minnesota and South Da-

Continued on page 36

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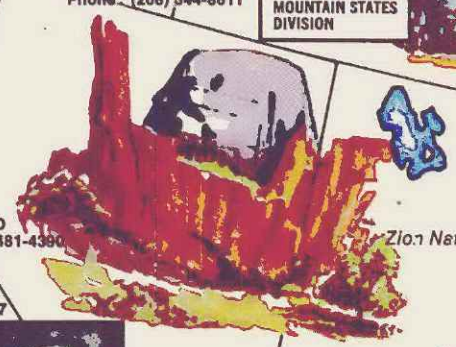
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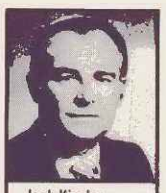
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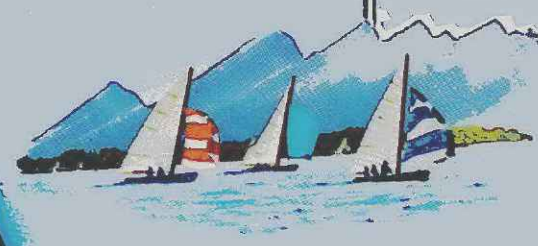
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Freeze snarls schools' search for liability cover

MIAMI—A South Florida school board which solicited 210 insurance companies or agents and received only two bids on insuring its employes has accepted the higher of the two.

The Dade county (Miami) school board decided to purchase liability insurance for its 20,000 teachers and other employes as soon as the wage-price freeze is lifted.

The board will pay $114,989 a year for the coverage from American Bankers Insurance Co. of Florida through its Miami insurance agent, Gene Beese. Under the policy, teachers not previously covered under a board policy will be insured against suits brought against them for actions they take in the line of duty.

Such things as suits against a teacher accused of striking and injuring a child, civil rights cases in which a principal is sued for suspending a student, or automobile accidents that occur while a teacher is transporting students to a school function will be covered.

A SINGLE board member, Mrs. Ethel Beckham, voted against accepting the policy. She agreed that the coverage is needed, but argued that the board should wait until the President's economic restrictions beyond November are clarified. Office of Emergency Preparedness (OEP) officials had explained to the board that the new insurance coverage is a fringe benefit that may not currently be purchased under the freeze.

Had it not been for confusion over the freeze, neither of the bids received a month ago would have been accepted by the board.

The board first decided three weeks ago to reject the two bids it had received—from Mr. Beese and Earl F. Casey, agent for National Indemnity Co.—because of the wide difference between the two. They concluded that Mr. Casey's bid failed to meet their specifications.

In contrast with Beese's $114,989 policy offer, Mr. Casey offered to provide the policy for $25,000 a year. Board members decided to readvertise. But Mr. Beese told the board—erroneously, it turned out later—that, because his insurance had been bid on before Aug. 15, the day the freeze began, it could be purchased during the freeze.

By the time the Office of Emergency Preparedness had clarified the matter, Mr. Casey had withdrawn, leaving Mr. Beese as the sole bidder. Mr Casey's bid was found by the school board's insurance department to be unacceptable because it did not include coverage for school employes driving their cars while on school business.

BOARD MEMBERS admitted to confusion over the insurance snafu.

"The history of insurance before this board is of profound dismay to me," complained member Ben Sheppard.

More angry than confused was Pat Tornillo, executive director for the Dade Classroom Teachers Association (CTA). Mr. Tornillo, saying he didn't want to see the board spend an unnecessary $90,000 since his teachers' group plans to ask for a raise on Dec. 1, threatened to complain to the Dade County grand jury and the state attorney's office if the National Indemnity Co. bid was discarded.

Either policy would have provided up to $50,000 coverage per occurrence.

But Mr. Casey said that his company wasn't interested in writing a policy in such a high-risk area as automobile liability.

HE EXPLAINED that if a school board employe drove some students to a school event and an accident occurred, his personal automobile insurance would cover him up to the limits of his policy. The automobile coverage for his professional liability, however, would provide $50,000 on top of the teacher's personal liability.

Worse, from an insurance company's standpoint, if the teacher had no personal coverage, the professional liability coverage would assume the first $50,000 worth of damage.

"That's why our premium is so much higher," Mr. Beese said, explaining that his company's policy included the auto coverage as specified by the school board. ■

Critical of Washington work comp

RICHLAND, Wash.—The Independent Insurance Agents and Brokers of Washington recently called upon the members of the state legislature to reconsider and to amend in special session in January, 1972, the workmen's compensation law they passed in 1971.

The organization said that while the law increases Washington's long schedule of benefits for injured workmen in the state, and also makes these benefits available to all employes regardless of occupation, it does not meet the high standards necessary for a "superior workmen's compensation" act.

Jack F. McDonald, Walla Walla, newly elected president of the group, charged that the workmen's compensation law will require the state to hire several hundred employes to perform services presently provided by private business and that this will result in a corresponding loss of jobs in private employment in the insurance industry.

THE ASSOCIATION unanimously approved the following points:

- The law as passed by the last legislature discriminates against the small employer by not permitting him a choice comparable to the large employer's opportunity to self-insure.
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Attorney sees insurance companies in a major shift from product liability

LOS ANGELES—Items:

• A 22-year-old woman underwent gall bladder surgery and was routinely given three bottles of dextrose saline solution. The third bottle had been cracked, and slipped by the manufacturer's quality control inspector. Fungus and bacteria entered the bottle and the contaminated solution led to the woman's death. A jury awarded $900,000 in compensatory damages to the husband and three children, plus $1 milion in punitive damages.

• $27.8 million was recently awarded for an accident allegedly caused by the absence of a baffle in a wing fuel tank of a small aircraft. More than $17 million was awarded in punitive damages, apparently because the jury believed there was prior notice or awareness of the defect but that the manufacturer did not adequately warn the users of the hazard nor attempt a retrofit program to correct the deficiency. Another suit has subsequently been filed for fraud and deceit, asking for $800 in repair costs for each of 15,000 purchasers and $100 million in punitive damages.

• In another design defect case, the injuries were fairly common but minor in severity. The insurer's claims adjustors routinely refused any compensation to avoid encouraging an avalanche of similar small claims. The manufacturer was reluctant to recall the product or warn of the defect. A $122.5 million class action suit has been filed on behalf of 500,000 purchasers.

With the above three examples as a backdrop, a Los Angeles attorney and engineer who specializes in product safety told a meeting of the Engineers Joint Management Conference that the insurance industry is beginning to refuse to shoulder management's responsibility and is shifting "much of the financial burden of catastrophic and major risks back onto the shoulders of the manufacturer and others who are in the stream of commerce."

"It may be expected," George A. Peters told the group, "that the insurance industry will respond and attempt to control their increasing product liability loss by . . . further increasing deductibles, shifting more of the legal costs directly to the insured, further expanding and defining excludable risks, narrowing the limits and shifting more and more excess coverage to others, generaly increasing premiums, providing for quick cancellation and avoidng unknown or high risks. All of this," he added, "operates to make insurance less available, and more costly for less and less coverage."

Mr. Peters, who has written a book on the subject, "Product Liability and Safety" (Coiner Publications, 3066 M St. N.W., Washington, D.C. 20007), also told the engineers that insurers will likely require that industrial enterprises have a "total safety program" in the future.

The program, he noted, would likely include a product and system safety function, an occupational workplace safety function, a regulatory compliance section and "a very specific, detailed and documented product liability avoidance and mitigation program that will be subject to periodic reviews by representatives of the carrier.

"GREAT EMPHASIS should be given to the presence within a manufacturing enterprise of those who have some minimum indicia of professional competence," he added, noting that these may include Professional Engineer certification, Certified Safety Professional designation or Quality Technician certification.

"Engineering management in these critical areas of safety cannot rest upon ignorance, incompetance, sophistry, cliches or inexperience common sense," he declared.

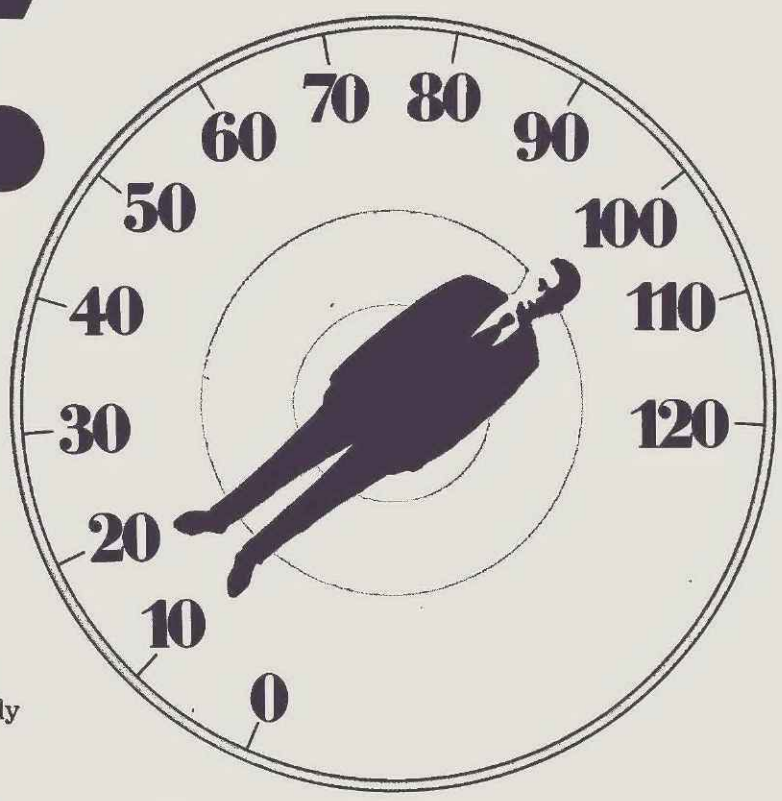
Mr. Peters also suggested that the insurance industry is going to have to face up and respond to product liability changes.

"Radical changes in the means used to determine insurability of a specific product manufactured by a particular company" must be made, he said. Mr. Peters noted also that professionalization of the claims evaluation and adjustment function should be increased and there should be developed a "very specific technology for dealing with product liability, based upon informed cost breakdown and research data, so that he public interest can be served by providing adequate risk coverage to deserving manufacturers."

THE ATTORNEY and engineer also told his audience that a "product liability avoidance manual" is a must for manufacturers these days.

Continued on page 29

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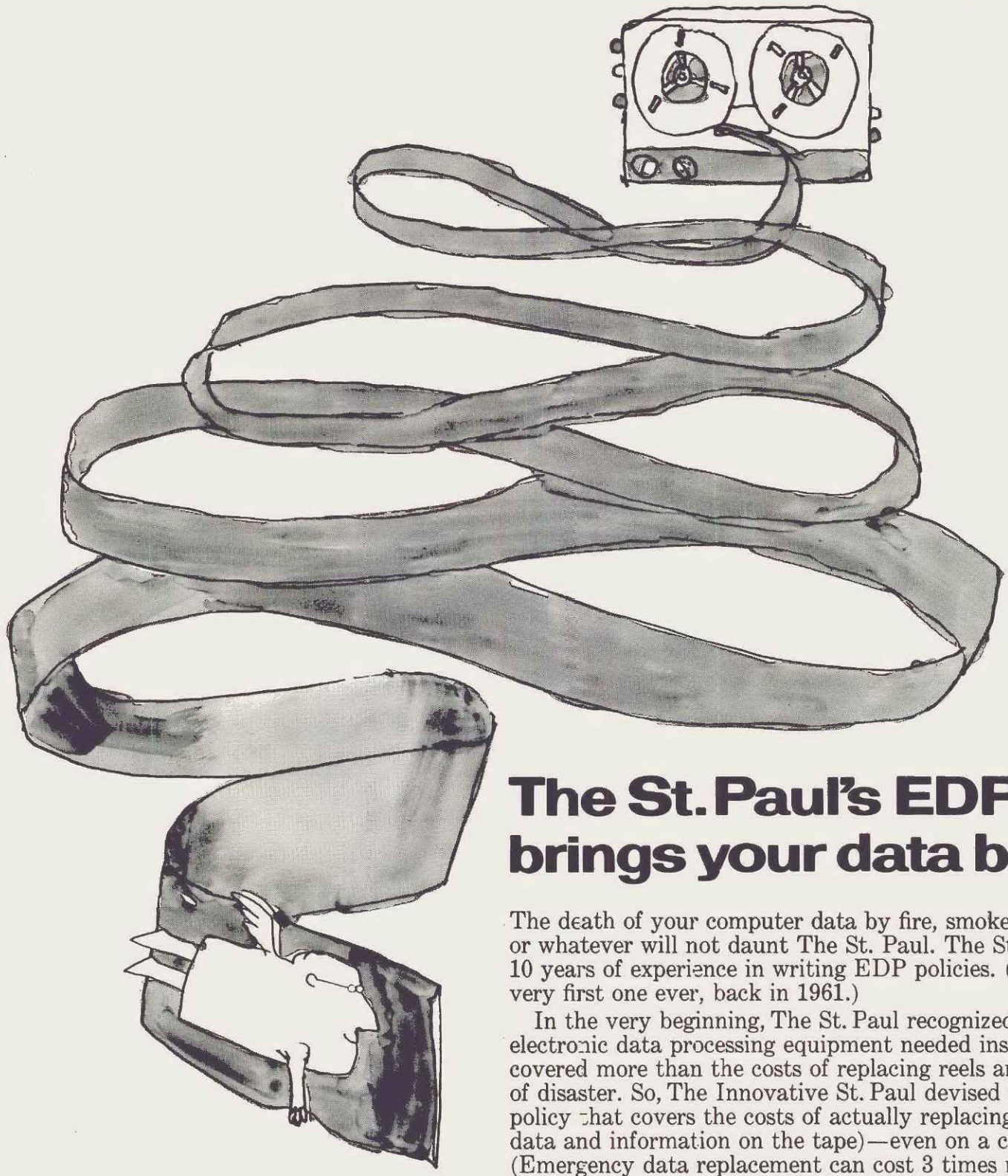
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Sen. Williams slams Administration for failure to enforce safety law

WASHINGTON, D.C.—The Nixon administration has been heavily criticized by chairman Harrison A. Williams of the Senate Labor Committee for what the senator called its failure to adequately implement a new federal job safety and health law which he helped write.

Addressing the AFL-CIO industrial union department convention, Sen. Williams said his panel may soon open "oversight hearings" into the matter.

"The administration has adopted the penny-pinching attitude that health and safety for workers is something that this great nation can barely afford," he said in what was his strongest attack to date on the way the Williams-Staggers Act is being enforced.

"THE ADMINISTRATION has failed to approach its objectives with vision and imagination," he continued. "I believe the time is not far off when the Senate Labor Committee will have to begin oversight hearings to determine, in a formal way, just how this law is being implemented."

Sen. Williams' charges were similar to those made by labor leaders. He said that President Nixon has failed to ask for enough funds to enforce the new law, has been unwilling to give workers and unions an important role in implementing the bill, and was attempting to turn administration and enforcement of the law over to the states, "whose past inadequacies provided the chief reason for passage of this act."

According to Sen. Williams, the Labor department is so anxious to involve the states that it is willing to approve plans based on vague promises that a state will at some time in the future have the authority and ability to fulfill its commitments.

He also accused the administration of being basically unsympathetic to the purposes for which Congress passed the law, which he described as workers' rights and participation. An example cited by the Senator was that of workers who had applied for jobs as government safety inspectors, but only a handful of whom were hired. "The administration seems to prefer people from management, or even government with no safety background," he said.

NOT ONLY IS the government hiring safety inspectors with no qualifications, but it is also hiring too few to do the job anyway, in Sen. Williams' view. "The Labor Department has asked for only enough funds ($24.9 million) to place 550 compliance officers in the field by next June 30," he noted. "With one inspector for every 7,200 establishments, you can see that a lot of inspection is never going to get done."

"We must never stop looking over the shoulders of those who are administering this act," he concluded.

The Senator did not set a date for the Labor committee's oversight hearings into the act's enforcement, but one of his aides said that with the current press of business they will probably not take place until late in this session of Congress or early in the next session. ■

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$3 million mercury suit is brought

HARTFORD—A $3.1 million damage suit has been brought in superior court here against a paint manufacturer and its distributor in an alleged mercury poisoning incident.

Peter Gaulton has filed the suit on behalf of his paralyzed two-year-old son who doctors think may have suffered mercury poisoning before birth when his pregnant mother painted his nursery and breathed vapors from a latex paint.

The suit asks $3.1 million from O'Brien Paint Corp. of South Bend, Ind., and Reno Paint and Wallpaper Co. Inc. of Hartford. The latter firm sold the "Green Liquid Velvet Latex."

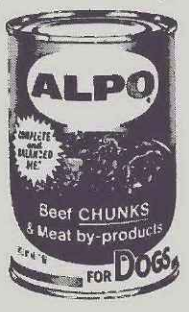
The suit alleges that Mrs. Gaulton purchased the paint June 10, 1969, and that her son was poisoned before his Sept. 3 birth. While the child's mind appears to be alert, he shows almost no muscular development and is almost totally paralyzed. Physicians say that medical evidence points to prenatal mercury poisoning and suggest that vapors from the wet latex paint were apparently the source of the mercury, which was added to the paint to kill fungus and prolong the product's shelf life. ■

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Insurance exec attacks regulators for failing to curb insolvencies

WHITE SULPHUR SPRINGS, W. Va.—In a wide-ranging speech here that touched on several aspects of the insurance industry, Lyman B. Brainerd, retiring president of the National Assn. of Casualty & Surety Executives (NACSE), charged that state regulatory authorities in some jurisdictions have failed in their responsibility to regulate for solvency.

Speaking before a joint meeting of NACSE and the National Assn. of Casualty & Surety Agents, Mr. Brainerd stated that insolvency laws in various states fail "to take into consideration the cause for insolvency."

Apparently there have been about 200 insolvencies of property-casualty companies over the last several years. Mr. Brainerd said that "no doubt every member company of this association has been called upon to make a payment out of its own funds to compensate for deficiencies which never should have been permitted to occur, and for which it is in no way responsible."

MR. BRAINERD said the causes of insolvency are fairly easily identified. "Apart from cases of outright fraud," he explained, "the typical case of insolvency appears to involve a company in business a relatively short time, which has an above-average premium growth rate, inadequate reserve, and irresponsible accounting procedures.

"Conditions leading to insolvency do not develop overnight. The danger signs are there well ahead of time and should become apparent to regulatory authorities in time to prevent disaster.

"It is generally accepted that the prime responsibility of insurance departments is to regulate for solvency. The record in recent years clearly indicates the need for stricter supervision on the part of some jurisdictions. Reimbursement is not the solution to dishonest or ineffective company management," he said.

Mr. Brainerd, who is with the Hartford Steam Boiler Inspection and Insurance Co., and who has been in the property and casualty business for 40 years, also attacked the spread of pools for substandard risks.

"I AM REFERRING," he said, "to the practice of primary companies sharing risks where no capacity problem exists but which fall into classifications considered undesirable. It is completely illogical to believe that pooling will improve the quality of risks they type.

"The mechanism of pooling adds substantially to underwriting expenses but the division of responsibility only serves to dilute the incentive for sound underwriting safeguards. In fact, this method of underwriting can only result in making unprofitable risks more unprofitable."

The speaker also questioned the value of mergers and affiliations in recent years in the property and casualty insurance business, saying that the process causes "dilution of the interest and skills of top management of insurance companies."

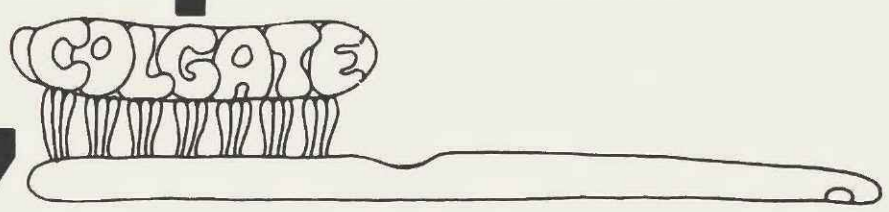
It was evident that Mr. Brainerd referred not only to the takeover of insurance companies by noninsurance corporations, but also to the diversion of property and casualty insurance companies into fields other than insurance.

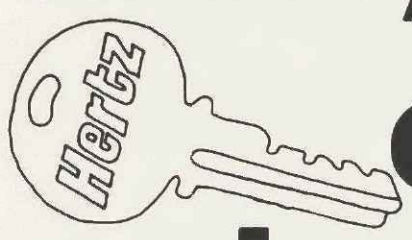
"OUR BUSINESS has capable leaders, men of experience and dedication, who have been in positions of responsibility through good times and bad. The industry needs their leadership qualities now more than ever before, and their effectiveness should not be diluted by participation in endeavors which are beyond the limits of their proven competency."

Having discussed insolvency regulations, substandard risk pools and mergers and affiliations, the outgoing NACSE president turned to his industry's recruiting methods. He said recruiting practices and training programs should be reexamined because when a college graduate comes to an insurer now, he "has already made up his mind where his business career is to take him."

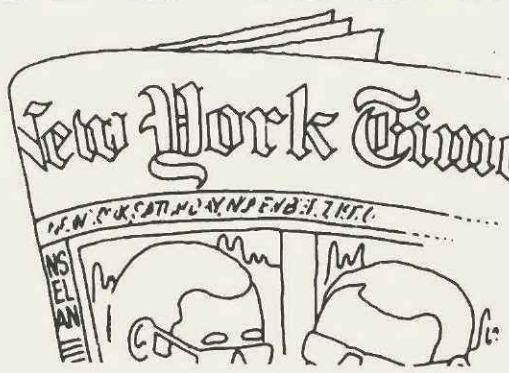
In his concluding remarks, Mr. Brainerd attacked that universal old favorite—taxes. He condemned government at all levels for the imposition of heavy additional taxes on his industry, and urged politicians "to devote as much effort in finding ways of reducing expenses as they are now giving to the spending side of the budget." He said that "current philosophies of taxation threaten the profitability of all corporations." ■

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Pilots ask for better comp laws

WASHINGTON, D.C.—Air Line Pilots Assn. president John J. O'Donnell has urged extension of federal workmen's compensation laws to cover airline flight-crew members.

Mr. O'Donnell's testimony was submitted to the National Commission on State Workmen's Compensation Laws. The commission, established under the Occupational Safety & Health Act of 1970, is investigating complaints on the inadequacies of workmen's compensation programs.

According to Mr. O'Donnell, airline crews "continually cross state lines in the pursuit of their livelihood, yet no federal law protects them or their families in the event of job-connected injury or death."

The Air Line Pilots' spokesman pointed to what has been a frequently cited deficiency—the ambiguities of present state compensation laws—which particularly affect his industry. It is possible for a Louisiana-based pilot, flying for an airline incorporated in Georgia, to be injured in Texas while on a Florida-to-California flight. Mr. O'Donnell said there are no federal guidelines in such a case for determining which state would be responsible for the pilot's disability claim.

Not only are there ambiguities in the present state laws, according to Mr. O'Donnell, but there are also inconsistencies between state and federal compensation coverages. His testimony cited the fact that in Texas the maximum disability payment is $47 a month, compared with benefits for federal employes that range as high as $429 a month. ■

Recommend central fund for schools

SAN FRANCISCO—Creation of a central fund to provide liability insurance coverage for California school districts has been recommended to a joint legislative budget committee and the office of legislative analyst Alan Post.

The report was prepared by Warren, McVeigh & Associates, San Francisco-based risk management consulting firm, in response to two legislative proposals, one introduced in the state senate on the feasibility of community college self-insurance and the other, an assembly bill, calling for a study of the feasibility of state participation in school insurance.

The Warren, McVeigh report suggests that school districts pay into such a centrally administered fund about 80% of what they now spend on insurance premiums. "By so doing," explained Donn P. McVeigh, "the school districts could procure equivalent coverage through a superior school insurance program.

"**IF THEY WERE** to contribute 100% of what they now pay in premiums," he added, "they could procure all-risk coverage, including such features as earthquake and flood protection, both of which are now virtually unavailable to schools."

The report adds the prediction that "adoption of this kind of legislation, requiring all school districts to protect themselves against these risks, would insure 100% participation in such a central fund."

Additional recommendations in the report are that the central fund be administered by the state insurance officer of the California department of general services. The program, according to Mr. McVeigh, could be started with an initial state appropriation of $1 million. This "could be repaid, plus adequate excess coverage until the fund had a chance to develop its own reserves."

For loss control purposes, each school district would assume a per-loss deductible approximating .1% of the district's annual budget. ■

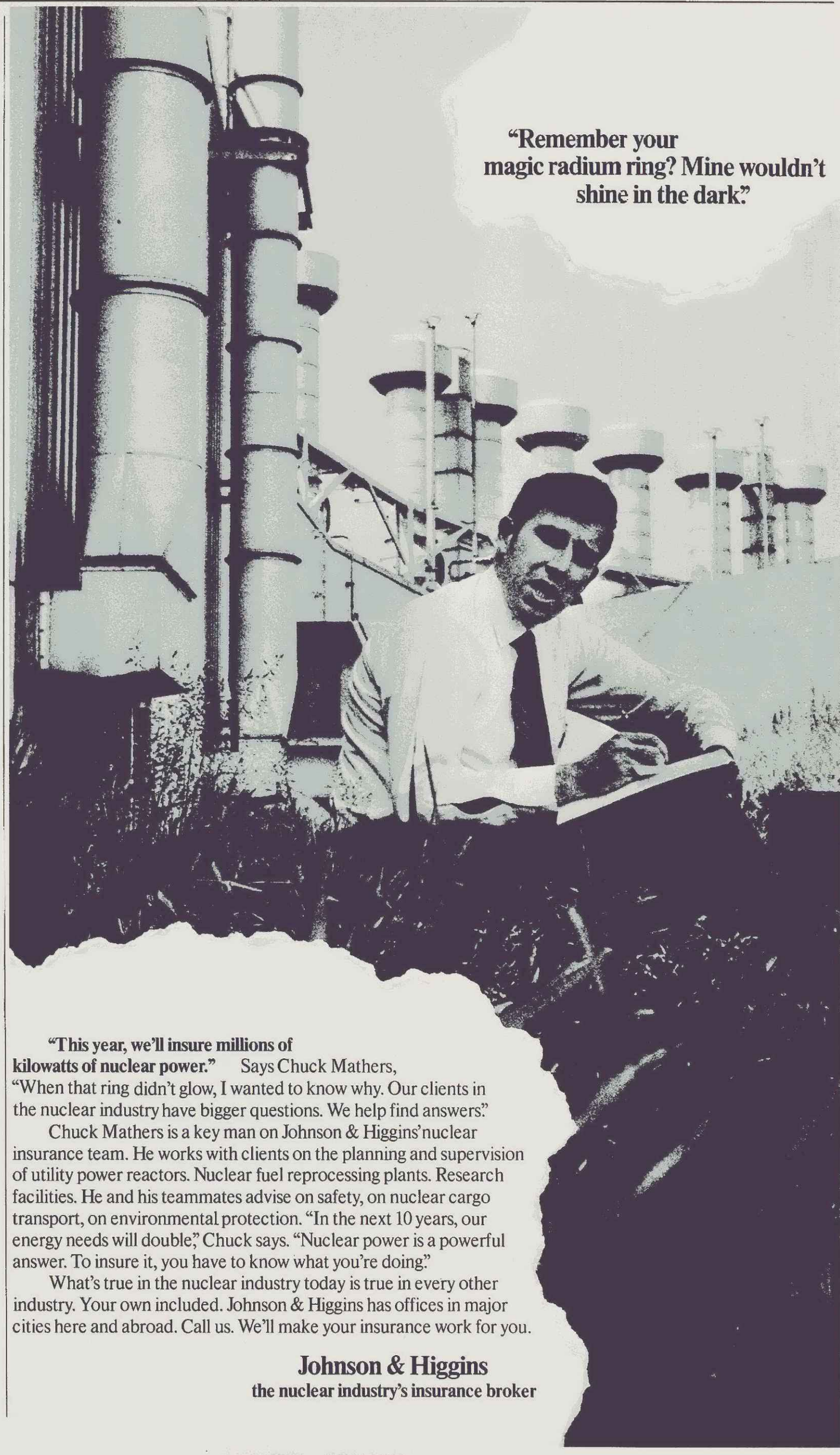
Attorney . . .

Continued from page 22

The typical manual, he said, should include procedures for warning of defects discovered after the product has left the hands of the manufacturer.

"In such a situation," he said, "the specific identity of the ultimate consumers may be unknown (as in the case of Bon Vivant soups, Sears blenders, or some makes of color television sets). A quick and effective warning of newly discovered hazards is necessary to prevent anyone else from getting needlessly hurt, to keep the number of claims down to a minimum and to satisfy insurance obligations to take reasonable precautions in preventing and reducing losses."

In addition, he noted, it is advisable to have legal proof that reasonable notice or warning was given (to forestall punitive damages in future lawsuits). A product liability manual should also cover such subjects as public statements by company personnel, paid warning advertisements, news releases, coordination with insurance carriers, product recall campaigns and warning mailings. ■



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THE TRAVELERS

The Travelers Insurance Companies
Hartford, Connecticut

business insurance/perspective

Record keeping to reduce the product liability risk

by Norman Hoffman,
Corporate Insurance Director,
National Industries Inc.,
Louisville, Ky.



Norman Hoffman

'Many insurance companies are affording product liability control evaluation information to their clients.'

FIFTY THOUSAND chickens are recalled by food processor.

A prominent soup company goes bankrupt following discovery of contaminated product.

Intravenous feeding bottles are withdrawn en masse.

Wherever one looks, in trade publications, daily newspapers, general magazines, books, and from the voices of the Establishment to the underground press, product liability is written in big letters. Consumerism is on the march.

A national magazine recently reported that "Life execs amused by Denenberg's consumer capers." Not so amused by consumer advocates have been the Campbell Soup Co., General Motors, Abbott Laboratories, Miami's Victoria Hospital, International Paper, Union Oil and numerous others who have been hit squarely in the pocketbook as a result of consumer complaints alleging defective products and pollution of the environment.

Insuring the potential loss is not the answer since insurance adds premium costs to existing costs and then, after losses are paid, transfers the loss expense to other insureds, frequently doing nothing to root out the underlying causes. Further, the exposures seem so catastrophic in nature that it is doubtful that adequate coverage can be secured and a reasonable premium charged so that the consumer may purchase it.

IF RISK TRANSFERENCE is not economically feasible, and since the risk cannot be completely eliminated and it is not one which either the consumer or the producer should be expected to assume, there seems only one other reasonable risk handling method to be utilized in these cases and that is to endeavor to reduce it.

Product risk reduction or "quality control" has long been a function of all manufacturing and processing operations. Now, in addition, industry is required, simultaneously, to incorporate legal defense mechanisms into its operating procedures. For example, it is expected to maintain detailed records of quality control of every ingredient in its product or processes, keep detailed records of product failures and claims and subsequent improvement in procedures, issue warnings to consumers of potential hazards, and specific instructions to consumers on hazards resulting from product misuse.

Its advertising must be scrutinized and it must endeavor to make its product virtually inaccessible to children or those who might be injured by it. A recent example of this was the advertising of a new razor blade in the comic pages of national newspapers; some newspapers, detecting a potential hazard, refused to carry the ad, others did carry the ad and at least one lawsuit has been filed alleging injury to an infant who is said to have been severely cut by a blade.

Many insurance companies are affording product liability control evaluation informtion to their clients. The Home Insurance Co., for example, suggests that a record should be kept at each manufacturing and processing location of the following items involved in producing the product:

- A full description of the process.
- Product controls.
  - A. Administration.
  - B. Design and development.
  - C. Quality control programs.
- Packaging.
- Labeling.
- Servicing programs.
- Warranties.
- Record keeping documenting quality control programs.
- Legal surveilance.
- Product recall procedures.
- Product claim history and action taken to prevent recurrences.

In many companies the introduction of new procedures, products or ingredients must now be reviewed by the legal and risk management departments.

AN INTERESTING, new and effective number of temperature measurement devices have been introduced by a company

Continued on following page

Recognize and understand the hold harmless clause

by William H. Rodda,
President,
Marine Insurance Handbook,
Inc.,
Chicago, Ill.



William H. Rodda

'One of the possible traps to the buyer or the owner is his belief that all of his liability is assumed.'

HOLD HARMLESS agreements may not be marked as such in a contract that is signed by a businessman. Many of these clauses are designated by some innocuous title with no indication of the serious implications. Leases of business premises have a clause called a "waiver of certain claims" or some similar name. Another favorite heading for the hold harmless clause is "indemnity provision." Most construction contracts have these provisions that are intended to make the contractor or subcontractor take over the owner's liability. It is not as generally recognized that purchase orders may have a clause that tries to unload the buyer's negligence onto the seller. The seller's liability for products may be extended greatly by such a provision.

A legitimate purpose of the hold harmless clause is to relieve the buyer of goods or the owner of a construction project from liability for negligence of the seller or the contractor. This purpose may be further extended to a situation in which there is a joint liability on the part of the owner and the contractor, but in which the liability is definitely connected to the project. Some hold harmless agreements go far beyond these reasonable concepts and try to relieve the owner or buyer from his own negligence for some act that has no relation to the contractor or the seller.

A hold harmless agreement establishes a contractual liability. Insurance policies generally have exclusions and limitations applying to contractual liability. Every contract or purchase order should be coordinated with insurance policy conditions to make certain that the insured is not left open to a liability that is excluded from the insurance coverage.

THIS DISCUSSION is not an interpretation of the legal aspects of hold harmless clauses. Some of the questions that are suggested should be submitted to counsel in connection with a particular contract. The questions that are considered are related to assumption of liability by the seller or contractor and whether the contractor or seller is able to deliver under the contract of liability that he assumes.

It might appear at first glance that a hold harmless agreement is all to the good to the buyer or the owner of a construction project. Isn't he always benefited when the seller agrees to assume his liability? One of the possible traps to the buyer or the owner is his belief that all of his liability is assumed. This could lead to an oversight on his part in the purchase of liability insurance or in the amendment of insurance coverage to fit a new exposure.

The buyer of merchandise for resale may believe that assumption of liability by his supplier would take care of any product liability claims. But an injured person is likely to sue everybody in sight including the merchant who is depending upon his supplier to defend him. The supplier's agreement may not extend to defense in court but may cover only the payment of judgments. The merchant must determine whether he needs his own insurance to cover his legal defense and whether his supplier's assets or insurance are sufficient to pay any judgment that might be rendered.

The owner of a construction project may rely upon his contractor to assume all liability in connection with the project. The owner has two questions to be considered. First, does the contractor's insurance cover all of the contingencies that could arise? Second, how good are the contractor's assets or how strong is his insurance company? The owner may find himself facing huge liabilities if the contractor's insurance does not cover the particular occurrence or if the insurance company or the contractor becomes insolvent. The hold harmless agreement by the contractor is no stronger than his insurance or his assets.

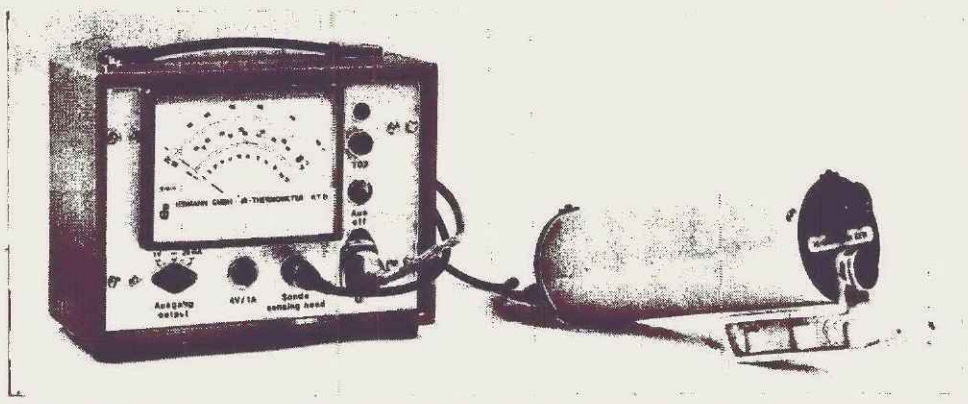
THE CONTRACTOR or seller who executes a hold harmless agreement in favor of a customer has the serious problems of determining whether he is giving away more than is necessary and whether he is covered by insurance for what he is giving away. Every contract or purchase order from a buyer should be examined to see if it contains a hold harmless agreement.

Continued on following page

Record . . .

Continued from preceding page
called Milletron, Inc. of Pittsburgh, Pennsylvania. These devices are used in such industries as steel, glass, textiles and most commonly, food. With respect to food, the system consists of three electronic components: a transistorized infra-red radiation thermometer which continually monitors temperature levels, an analog cassette recorder diagonal reproducer which permanently records all temperature levels for playback or scanning, and an isolation amplifier which assures the reliability of temperature data transmitted from the thermometer to the analog cassette. Each instrument relies on the other components to provide verified temperature recognition and recording. The system provides a permanent record of all production temperatures for later playback, scanning or even for transmission to computer equipment. The system is said to be low in cost, typically below $3,000 for a unit monitoring one operation.

While food processors have directed some of their technical efforts at maintaining reasonable accuracy of temperature levels during production, relatively little effort has been expended to automate the record keeping operation which is a necessary adjunct to the manufacturing process. Until now only the largest factors of the food industry were able to automate their record keeping function,



The optical thermometer on the right picks up infra-red heat waves of the target object and visually records the temperature on the thermometer on the left. The information can then be permanently recorded on a cassette.

largely through the linking of production instruments with a digital computer which permanently stored temperature data for future reference. In contrast, most small manufacturers were forced to rely on handwritten reports and memos noting at what temperature levels a given production run was made; such reports, subject to human failings, would seem not to be sufficient to comply with today's more stringent consumer and government demands.

The Milletron system, linking the analog cassette to the thermometer, provides management with a permanent record of temperatures so that, when necessary, temperature data may be played back over a chart recorder, an oscilloscope, an analog signal analyzer or converted from analog to digital for permanent storage by the computer. In this way even modest fluctuations may be studied and action taken to prevent recurrence.

THE SYSTEM is flexible so that it can, as required, methodically read temperatures of entire cans of product being cooked, or the sensor may be positioned to monitor a quarter-inch surface of a can where heat is a critical factor. It may be automated to continuously scan the food, liquid or solid, moving or stationary, at all levels of production, even where the temperature varies. Its records provide management with production information, quality control, and potential defense against claims.

Another company, The American Standards Testing Bureau, Inc., New York City, provides certification, consulting, research and development, sampling and testing services to industry and to insurance carriers in an effort to develop or improve safe production, processing, labeling and advertising techniques. It also provides claim and defense work in such specialties as retrieval and documentation of evidence, engineering and scientific studies, formulation of interrogatories, preparation for deposition of technical witnesses, cross-examination of experts and court testimony.

Additional product legislation on local, state and federal levels is inevitable. It is not a question of whether, but rather, when, where and to what degree. Under such circumstances, industry and purveyors are learning to live with the concepts of strict liability and *caveat vendor*. The corporate risk manager needs all the help he can get, to pass along to industry management, from consumer groups, state insurance departments, insurance companies, as well as quality control equipment manufacturers and suppliers and others. The temperature control system and the services described above are examples of such help provided by industry.

The challenge of profitability is now complicated by the awareness of increased risk. The horizon of the corporate risk manager broadens. ■

Recognize

Continued from preceding page
This includes service agencies, processors and suppliers and contractors.

Does the agreement give away more than is necessary for the seller or contractor to make his sale? An important question is whether the agreement makes the seller or contractor assume the buyer's or owner's liability for occurrences not connected with the project. A large corporation, and particularly one that is self-insured, may try to make all their suppliers and contractors assume complete liability. It may be unreasonable for a large corporation to ask a small contractor to assume their liability. The contractor's assets may be entirely inadequate for the risk, and insurance to cover the risk may be much more expensive than the contractor could afford. In fact, the contractor may have difficulty finding an insurance company that would insure him when he is assuming complete liability for a large corporation. The obvious answer is for the contractor to ask for a revision of the hold harmless agreement to cover only the negligence of the contractor and not the negligence of the large corporate owner. If such a revision is denied, then the contractor has to make a decision whether the value of the contract is worth the chances that he would have to take.

The hold harmless clause is such a part of modern business that liability insurance policies provide for limited coverage of these exposures. Liability insurance policies generally exclude "liability assumed by the insured under any contract or agreement except an incidental contract." An "incidental contract" is any written:

- Lease of premises.
- Easement agreement, except in connection with construction or demolition operations on or adjacent to a railroad.
- Undertaking to indemnify a municipality required by municipal ordinance, except in connection with work for the municipality.
- Sidetrack agreement.
- Elevator maintenance agreement.

These five contractual obligations occur so frequently that insurance companies assume their liabilities under usual policies. The lessee of space for his office, manufacturing or mercantile establishment may sign the usual lease without losing his insurance coverage for any liability that he assumes from the landlord. An easement agreement is similar to a lease for space because it grants a right of passage or some other right for limited use of the land. The owner customarily asks for an agreement under which the person seeking use of the land will assume any liability that arises because of his use.

THE PROVISION relating to a municipality is not quite as obvious. A typical situation would be the erection of a sign above the sidewalk or the installation of a driveway. Municipalities often require the installer of such a facility to assume any liability that might arise because of use of the facility. However, this exemption does not extend to any work that is done for the municipality.

Many industrial and mercantile businesses need a railroad sidetrack. Railroads will not install or service a sidetrack unless the customer assumes the liabilities that might arise from the presence and use of the sidetrack.

Elevator maintenance companies usually ask their customers to hold them harmless for any liability that might arise from the servicing of the elevators or escalators. In addition to this custom of the business, there is the possibility that an occurrence during elevator maintenance would be a joint responsibility of the service contractor and the owner of the premises. Insurance companies are willing to assume the liability for these service operations.

Many contractors, service operations and suppliers of goods find that this coverage of incidental contractual liability in their insurance policies is not enough to cover their exposures. A customary method of extending the contractual liability insurance coverage is to buy contractual liability (designated contracts only) coverage. This covers all sums that the insured "by reason of contractual liability assumed by him under a contract designated in the schedule for this insurance, shall become legally obligated to pay as damages because of bodily injury or property damage." Insurance companies want to examine the contracts that are covered, which is the reason for covering only those contracts that are designated in the schedule for the policy.

THE DEFINITION of contractual liability in the policy excludes any warranty of the fitness or quality of the insured's products or warranty that work performed will be done in a workmanlike manner. Thus product liability is excluded. It must be separately insured if this coverage is needed. Other exclusions apply to war risk, liquor liability and the business risk hazard. Property damage liability is excluded for property in the care, custody or control of the insured. Professional liability also is excluded. An architect, for example, would have to buy this separately.

Personal injury, as distinct from bodily injury, would be covered only when specifically covered and then for an additional premium.

The exclusion of product liability from the usual contractual liability policy emphasizes the need for coordination of the insurance with the hold harmless agreement that the insured may sign. The seller of goods may be asked to assume any product liability that there may be in the further sale of the goods. It is essential in such cases that the contractual liability insurance be extended to cover the product liability.

The ideal solution to the problem of the businessman would be a contractual liability insurance coverage on a blanket basis that would apply to any contract that he felt it advantageous to sign. Something approaching this has been written by some companies on a carefully selected basis. Such a broad form liability policy obligates the insurance company to pay on behalf of the insured all sums that the insured shall become obligated to pay because of bodily injury or property damage sustained by any person, irrespective of whether such damages are imposed by law or assumed by contract. Exclusions in such a policy usually apply to workmen's compensation risks, aircraft liability, certain marine risks, to property in the care, custody and control of the insured, and to certain product liability risks.

The contractor and the seller of goods should sign a hold harmless agreement only when circumstances make it advantageous—it should never be considered a routine matter. The hold harmless agreement should be limited to the signer's liability if possible, and generally would in no case extend beyond the joint liability of the signer and the beneficiary. ■

Risk management notes

Evaluating broker-prepared forms

prepared by Warren, McVeigh & Assoc., Risk Management Consultants, San Francisco and Los Angeles, Cal.

NEEDLESS to say, with any type of manuscript form, every clause should be carefully considered and negotiated with the underwriters. One type of "manuscript" form that all too often is not carefully evaluated by the insured is the broker-prepared form. If manuscript forms are defined as specially prepared forms other than insurance company standard forms, then the term includes broker-prepared forms. Many brokers, especially the larger ones, often issue their own forms, either pre-printed, or specially prepared for a particular policy.

The insured should carefully review and analyze these forms. One major area of concern should be what the form does not say. For example, if the broker-prepared form does not contain either a cancellation or valuation clause, then the basic policy to which it is attached applies. In the U.S. all standard fire policies contain a cancellation clause with a five-day advance notice provision. The IRB comprehensive general (auto) liability policy provides 10 days' advance notice. Minimum acceptable time should be 30 days.

The valuation clause on the standard fire policy is in the insuring agreement on the front and is not separately identified. It is, of course, actual cash value (depreciated value). Frequently, it is desirable to insure to complete replacement cost, invoice cost, selling price, or other more readily ascertainable figure.

This is not a criticism of brokers' forms, which are usually highly desirable and well conceived. It is simply a recommendation to all insureds to be certain they know what is included and what is not. ■

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letters

Continued from page 16

kota, the insured has the right to reject them. Access to the present liability system has not been affected.

The above first-party coverages have generally been available in substantially similar form for a number of years. The major effect of the law was to *require* the companies to make these coverages available. Because it should be obvious to anyone but laymen that the Minnesota and South Dakota plans are not "no-fault" plans within the same context as has been discussed generally, one might wonder what the purpose is of those who include these two states in any such list.

Following their assumed line of reasoning insurance policies providing coverage on homes, life, health and medical expenses and physical damage from auto accidents are all "no-fault" insurance plans. Thus, by their definition, all 50 states have "no-fault" auto insurance systems.

The other five states which are included in these expanded "no-fault" lists, and their distinguishing features (although simplified for the sake of brevity) are as follows:

Massachusetts—Under certain circumstances and below a certain dollar threshhold there is immunity from tort liability.

Florida—This law follows, somewhat, the same theory of reparations as does Massachusetts, but with a higher threshhold below which there is tort immunity.

Illinois—This law places limits on amounts that may be recovered for pain and suffering, but does preserve subrogation and tort liability from the first dollar.

Delaware—Provides for compulsory auto liability and compulsory (with provision for optional deductibles) coverage for first-party benefits. There is no limitation on the right to sue for general damages, but a person cannot include as damages any loss for which he has already been paid. Subrogation is expressly authorized.

Oregon—Auto insurance is not compulsory, but every policy sold must contain certain mandatory first-party benefits. This is similar to Minnesota and South Dakota, except that these two states permit a right of rejection. The law places no limits on general damages or access to the liability system.

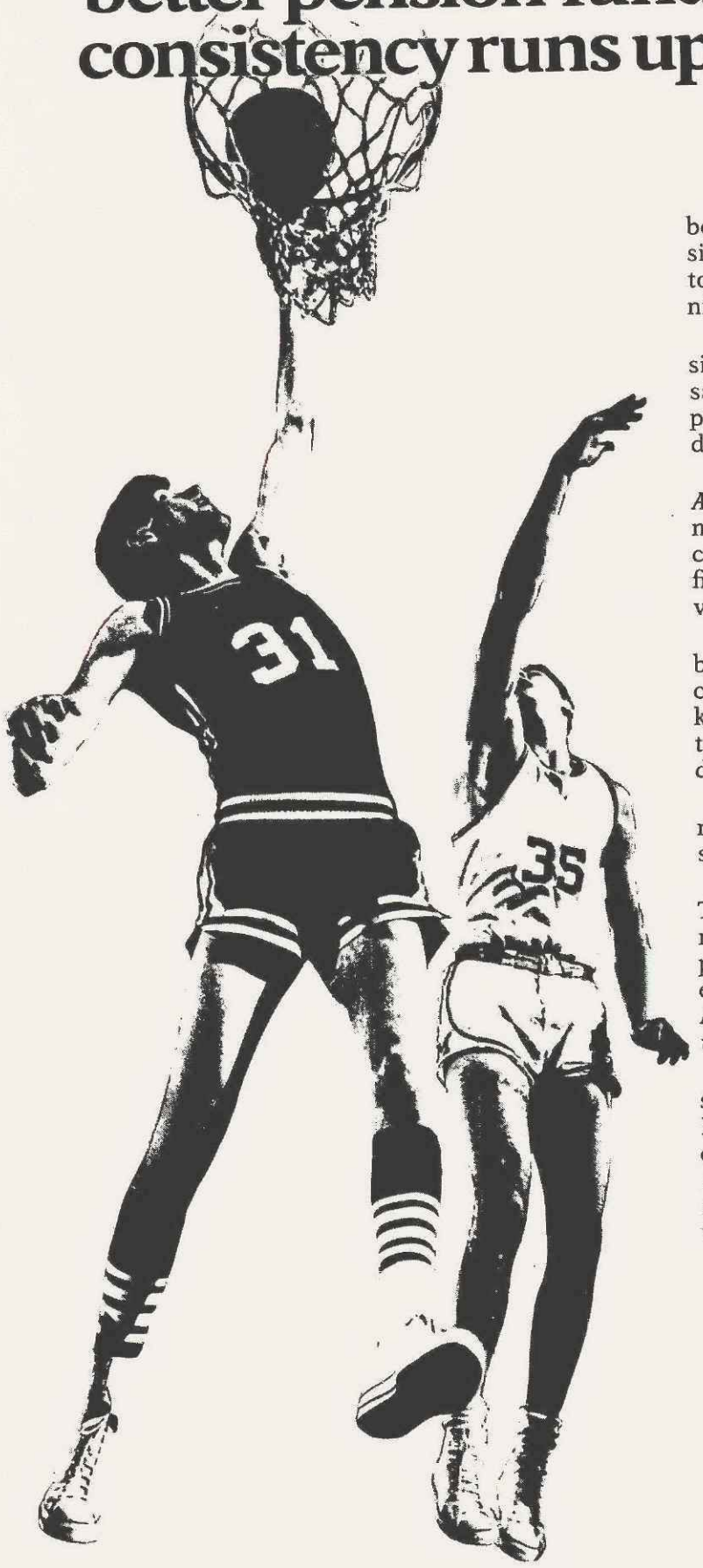
The surprising thing about now including Minnesota and South Dakota as "no-fault" states is that not even the respective state bar associations, at that time, attempted to call them no-fault plans.

In general, neither Minnesota, South Dakota or Oregon changed the law with respect to general damages or one's right of access to the liability system. Delaware and Illinois, while they do place some limits on general damages, do not deny one access to the liability system.

The Florida and Massachusetts laws, *in exchange* for providing for payment without regard to fault of benefits for certain economic loss, deny access to the liability system except above a certain threshhold or certain other conditions being met and, in this respect, are the only plans enacted thus far which should be labeled "no-fault" systems.

Editor's note: Mr. Armbruster's memo is a most cogent and straightforward analysis of the legislation so far adopted in the name of auto insurance reform. In Illinois and some other states that have adopted "reform" measures, the phrase "no-fault" has been distorted and misused by lawyers and some insurance companies that are unwilling to wring any substantial money out of the tort liability system. Mr. Shamblin makes an excellent point in citing the support given the no-fault principle by the American Insurance Assn. AIA had the fortitude to back the no-fault principle at the risk of losing some of its dues-paying member companies. The National Assn. of Independent Insurers, by contrast, put forth a "dual protection" plan that served as the model for the weak Illinois legislation that preserves subrogration and tort liability from the first dollar. The American Mutual Insurance Alliance doggedly continues to push "guaranteed benefits," a new phrase for the old concept of advance payments to accident victims.

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'Appreciative'

To the Editor: I wish to compliment you on the article in your Aug. 30 issue describing FCIA's export credit insurance program, ably written by Patrick A. Thomas.

The role of export credit insurance all too often is overlooked in the insurance press, and we are therefore very appreciative of the time and space given to FCIA by *Business Insurance*.

We would like to reprint excerpts from Mr. Thomas' article for distribution to our associates and clients, and I am requesting your permission to do so.

Again, my thanks for your continuing interest in FCIA.

Reginald J. Denton
President, Foreign Credit Insurance Assn., New York.

Editor's note: Permission granted.

Broker's health plan

To the Editor: I wish to thank you for the good spread and accurate reporting that you gave our national health insurance proposal in your Sept. 13 issue.

There is one slight correction that I want to make, only for your own information or in case your readers question you on the point. Your article implies that anyone not covered under an employer-employe registered private plan would be covered as a HCC participant. Our intention actually is to both permit and encourage the sale of personal, individual policies for those people who are not covered under an employer-employe group who do not choose to be covered under HCC and have the health and means to obtain private coverage. All such private policies, by class, would also have to meet the minimum HCC standards.

John H. McEown
Vice President, Johnson & Higgins, New York, N. Y.

Export claim paid

The Brazilian Reinsurance Institute has made payment of the first claim recognized in the country in the area of insurance for export credits. The beneficiary was the Campinas, S. Paulo firm of Tema Terra Maquinaria, S.A., which received a total of $100,000. In 1968-69 Tema Terra Maquinaria S.A. sold equipment to the Argentine firm Amyr S.A.I.C. with financing done through the Bank of Brazil. Since Amyr did not pay for the equipment and was found to be insolvent, Tema brought suit against the Argentine firm. The export insurance and the claim were made by the S. Paulo brokers, Cid Ferreira-Corretora de Seguros.

following the funds

National portability highlighted in carpenters' union pension agreement

WASHINGTON—The United Brotherhood of Carpenters and Joiners of America have launched the union's first national portable pension plan.

Maurice Hutcheson, union president, said that the new labor-management plan would allow union members to move freely from area to area around the nation and from construction to industrial employers without losing any pension rights. The union has two divisions—construction and industrial.

Mr. Hutcheson felt that the plan, which went into effect Sept. 22, would help stabilize the work force and would bolster the union's support of new technological developments.

THE PLAN WILL cover "an initial group of 500 to 1,000 carpenters," according to Vincent O'Hara of Martin E. Segal & Co., consultants and actuaries for the plan's board of trustees. "These national plans start small and slowly increase in the number of persons covered."

Mr. O'Hara pointed out that the new plan would be funded entirely by employer contributions but that the plan provided no set rate for contributions. "These contribution rates will range from 5% to whatever can be negotiated," he said.

Listed by Mr. Hutcheson as advantages for those members covered under the new plan, and not previously available, were: continuous portable coverage anywhere in the nation; greater investment opportunities because of the national scope of the plan; special benefits for industrial workers associated with individual contributions and earlier vesting of benefits than was available under most other plans.

In discussing some of the advantages, Mr. O'Hara said that, though this was the first portable plan on a national scale for the carpenters, many plans had been portable within certain geographical limits.

"THERE ARE TWO plans, really," he told *Business Insurance* after being asked about vesting requirements. "Vesting comes after 15 years in the construction plan and five years under the industrial plan."

He explained that the pattern of employment on the industrial side dictated the early vesting time. "An industrial carpenter will probably work in a shop, making a particular part. His job may require him to turn a lever with his foot all day. People don't stay at jobs like that forever. Your real journeyman carpenters will be construction carpenters."

The plan will be administered by M. A. Cornell & Co. of Wilmington, Del. A fund manager has not as yet been chosen. "There's no great press," Mr. O'Hara said. "It's a brand new plan."

WHEN THE fund was established, the union named its vp, William Sidell, as its trustee for the pension fund and management called on David Stirling Jr., chairman of the board of the Stirling Homex Corp., a modular housing firm.

Regarding the new pension plan, Mr. Stirling noted, "Its international scope, its provisions for early vesting and portability, and other special features will enable every employer to attract the best workers available and to provide greater security for present employes. This will facilitate expansion of construction and manufactured housing and enable us to better meet the housing needs of this country."

THE PENSION plan was also hailed as a weapon against the housing shortage by Sen. John Sparkman (D.-Ala.), chairman of the Senate committee on banking, housing and urban affairs. ■

Company fined

Oregon Insurance Commissioner Cornelius Bateson has fined Continental Fidelity Life Insurance Co. of Phoenix $4,000 for transacting business in Oregon without a certificate of authority. Mr. Bateson also revoked the license of David Henry Jouno, Portland, and Kenneth E. Johnson, Bend, for collecting premiums for insurance without providing cover.

ek'spēr-tēz' ....

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Propose . . .

Continued from page 2

MOST OUTSPOKEN against the proposed changes is the Pennsylvania chamber of commerce. Donald Gillis, assistant executive director of the chamber, said that a committee met last week to decide on the proper course of action.

"No, we haven't taken a formal position as yet but speaking informally I will say that we will raise hell about S-1048. It's perfectly obvious that we are going to have to oppose it. Our problem, though, is arousing businessmen. They usually take increased insurance costs without putting up much of a fight. But this one," he said of the bill, "is kind of hairy."

Pennsylvania's outspoken insurance commissioner, Herbert S. Denenberg, has not gotten himself or his department involved in this fight and it is not likely that he will.

"We've given some general thoughts and ideas to the subject," Commissioner Denenberg responded to a query, "but we have not been involved in the drafting of legislation.

"IT IS CLEAR that Pennsylvania has, without a doubt, the worst workmen's compensation law in the country of any large industrial state," he noted, "and it is good to see benefits move forward or inflation makes them obsolete." Mr. Denenberg, however, would not take any official position on just how benefits should be deduced—either from a percentage of the statewide average wage, as is being considered here, or from a percentage of an individual injured worker's take home pay, as more liberal workmen's compensation reformers are pushing for.

An official and firm position has been taken by the Insurance Co. of North America, however. Robert E. St. John, assistant vp in charge of the commercial workmen's compensation department for the Philadelphia-based insurer, made it clear in an interview that his company, as well as other workmen's compensation writers in the state, does not feel the proposed bill goes far enough in improving benefits for injured workers.

"The thing we have been pushing for as a compensation carrier is that state laws ought to get the benefit up to some realistic figure. Ninety dollars," he said of the benefit increase proposed by S-1048, "is two-thirds of a thing that is less than the average weekly wage in this state. What about the guy making $200, $300 or $400 a week? What happens to him?"

Mr. St. John pointed out that a bill now being considered by the U.S. Senate (S-2318) would amend the Federal Longshoreman and Harbor Workers Act and establish benefits on the basis of the injureds' average weekly wage, not the industry's average weekly wage.

"WE'RE ALSO concerned with the 15-man study commission appointed under the Occupational Safety & Health Act," the INA vp said of the National Workmen's Compensation Commission that has been holding hearings in recent weeks preliminary to a report scheduled to be on President Nixon's desk next summer.

"There are strong indications that some federal minimum standards will be set," he continued, indicating that the possibility does exist that such standards could be patterned after any eventual changes in the Longshoreman and Harbor Workers Act.

"Like it or not the federal government is looking into the state workmen's compensation system and will likely come up with some recommendations. If the states don't respond," he said, indicating that the proposed changes in Pennsylvania are not a generous enough response, "the federal government will."

Mr. St. John is not optomistic about the end result in his company's home state.

"S-1048 IS probably as much as they're ever going to pass," he said. "Tying benefits to a state average weekly wage is definitely a big step but it would be better to tie the system to the individual's average pay."

Mr. St. John also noted that there are other serious deficiencies in the Pennsylvania workmen's compensation law, which has not seen any major amendments since it was written in 1915, that are not even considered in the proposed legislation. For example, he noted, it does not even attack the numerical exemption problem, nor does it consider the question of bringing farmers and domestic employes under the law.

It is deficiencies such as these, Mr. St. John believes, that may eventually bring the federal government down upon the head of the state workmen's compensation system.

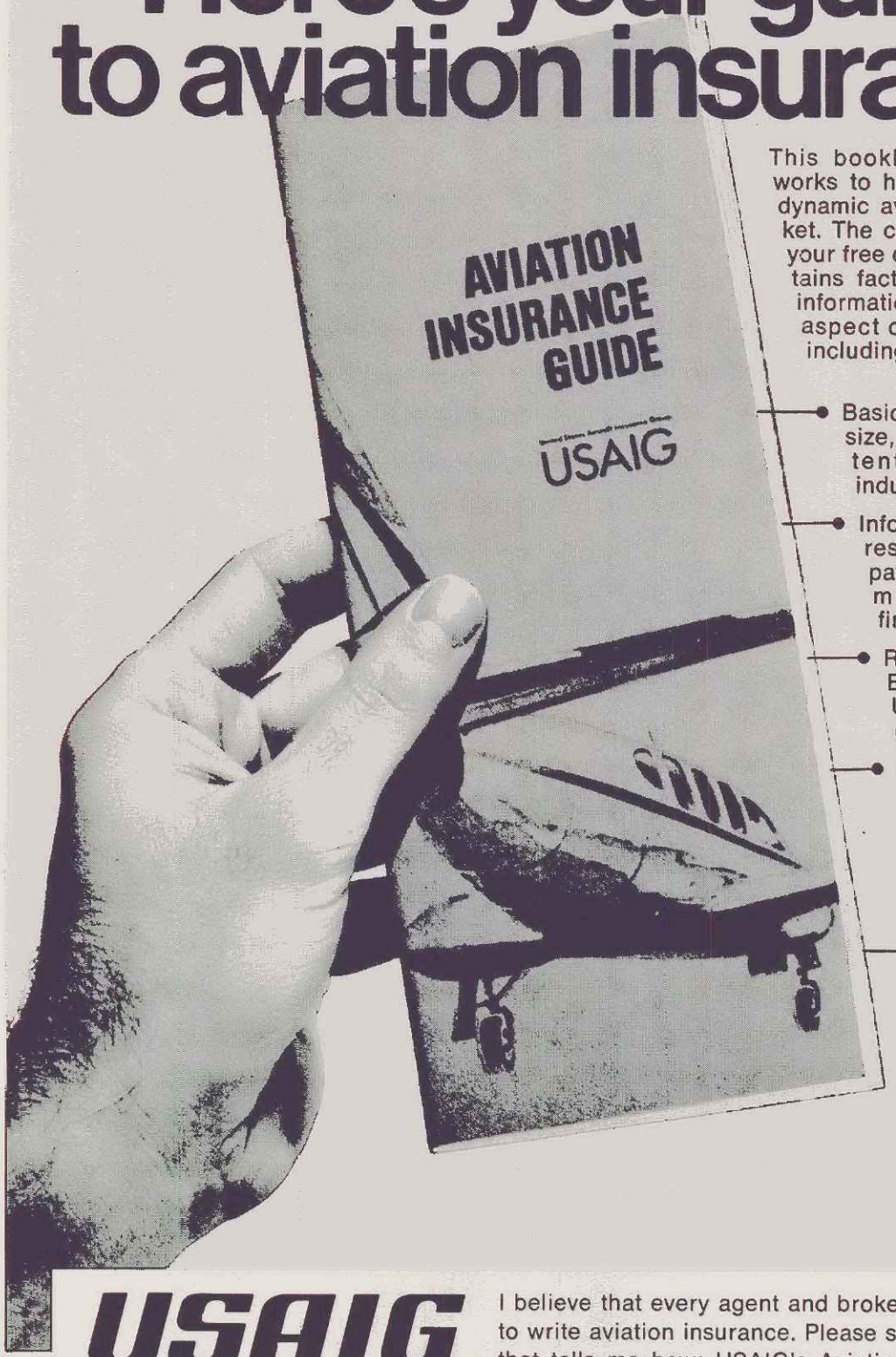
One might suspect that INA (and eight other insurers that have joined in a National Program to Improve State Workmen's Compensation) finds itself in hot water with clients when it advocates changes that will certainly bring business and industry increased workmen's compensation rates.

Mr. St. John said that this is not necessarily true, although he did criticize the Pennsylvania chamber of commerce for taking a "negative" attitude in this particular case. Workmen's compensation buyers, however, have raised little fuss in this issue.

"IF THEY did," he noted, "I would ask them if they had thought about what the alternative may be—have they thought about what might happen if the workmen's compensation system was made part of the Social Security system."

S-1048 is a companion bill to another package of proposals (S-900 to S-905) also being considered by the Pennsylvania legislature. These concern themselves with procedural reforms and administrative changes to the state's workmen's compensation system and are not expected to stir any major debates. ■

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Hartford has new mass auto plan

HARTFORD—Some 1,300 members of IBEW (International Brotherhood of Electrical Workers) local 1013 at Arrow-Hart Inc., Hartford electrical manufacturing firm, and 600 male clergy and lay employes of the Roman Catholic Archdiocese of Hartford are being offered reduced-rate auto insurance under a new mass merchandising plan by the Hartford Insurance Group.

Both plans are being sold through the Michael J. Keating Agency of Hartford.

The Hartford, fifth largest insuror of automobiles in the country, now has 13 Connecticut mass merchandising accounts covering 50,000 drivers eligible for participation. ■

Pollution: Where the legal climate leaves you

HOUSTON—What is the legal climate surrounding pollution today?

How has it affected underwriting?

What has the insurance industry done to help risk managers solve pollution problems and how much help do risk managers expect in the way of safety engineering and inspections?

These questions were proposed by Herbert W. Hoell, manager of the state filings department of Royal Globe Insurance Cos., New York, to a pollution risk panel at the annual meeting of the Society of Chartered Property & Casualty Underwriters here. He emphasized that while many large insureds have easily recognizable pollution exposures, smaller insureds may be polluting subtly —the problem applies to risks of all sizes.

SINCE THE EARLY 1900s the courts have changed their approach toward pollution cases, said Joseph P. Decaminada, corporate secretary and counsel for Atlantic Mutual Insurance Co. and Centennial Insurance Co., New York. Whereas industry was once more important to an area than the pollution it caused, he said, "Today we talk about property right, public trust and damage-to-health theories as opposed to damage and trespass theories."

Under the property right theory, Mr. Decaminada explained, the citizen owns the air, land and water and therefore need not show any damage before bringing suit against anyone who pollutes; under the public trust theory the U.S. government holds the land, air and water in trust and the public, as beneficiary, can bring suit; according to the National Administration for Pollution Control, anyone who sustains damage to health from pollution can bring an action against any polluter in the area in which he lives.

It is in this way, he pointed out, that a small firm that does a little pollution can get caught in a big suit.

One of the problems of bringing a legal action against a polluter was formerly the legal fee involved, Mr. Decaminada continued. Now that the public interest law firm, which does not handle private matters and operates through donations on a tax-free basis, has come on the scene, the individual can sue and incur no legal expense.

NO ANTI-POLLUTION bill ever fails in the legislature, he added, and besides the Refuse Act of 1899, Air Quality Act of 1967, Water Quality Improvement Act of 1970 and Clean Air Act of 1970, Sen. Philip Hart (D.-Mich) and Sen. George McGovern (D.-S.D.) have proposed that the individual bringing suit need not have sustained any damage and that he may bring the action against any polluter, anywhere.

With this as a legal basis, Mr. Decaminada asked: "Can industry say it isn't going to be caught?" Can insurers say their clients may not be caught?

Because of society's new attitude toward pollution Edward F. Doherty advised underwriters to closely examine laws concerning compensatory and punitive damage in all states where they have policyholders. Mr. Doherty, special risk underwriter for Kemper Insurance Group in New York, told the CPCUs that pollution from intentional disposal of waste into the environment, accidents and inability to see future damage leads not only to suits from the public sector but also to employe suits. Cumulatively, he concluded, such adverse publicity could be generated that any defense would be difficult.

"Underwriters must be prepared to offer special technical engineering services," said Mr. Doherty, but insureds must realize that a fee basis will be necessary to cover the increased staff costs of the insurer. "Let's accept the challenge of pollution by internal risk.

S. PETER LAW, corporate risk manager for Indian Head Inc., New York, told the panel there was some good news on the subject of pollution. The following figures represent money spent on solving the problem last year:

American Petroleum Institute	$560 million
American Iron & Steel Institute	385 million
Manufacturing Chemists' Assn.	280 million
Edison Electric Institute	200 million
American Paper Institute	143 million
National Coal Policy Conference	45 million
Federal government *(estimate for fiscal 1971 is $1.4 billion, and for fiscal 1972, more than $2 billion)*	896 million

The bad news, however, is that it will take $18 billion to bring existing facilities up to present pollution prevention standards, he continued, and the standards will only get tougher.

The demand for the solution is now but, unfortunately, noted Mr. Law, this interferes with the profit motive of business. In answer to the question "Where will the money come from?" he said that larger companies may be able to generate it on their own and some may be able to join into industry associations, but smaller businesses may go under.

He suggested that the government will have to offer attractive loans to smaller businesses to see them through and that banks and insruance companies may be able to act as financing agents to help those interested in "making a positive social response."

The social responsibility is shared, said Mr. Law; the risk manager looks to the insurance company for education and the company can provide a valuable survey system through regular inspections with engineers to quantify and determine exposures and police their enforcement. ■

$240 million ache

A conference of doctors and industrialists in Bath, England, was told that backache costs British industry $240 million a year in lost production. Some 18 million working days are lost each year by men and women with aching backs and sciatica and one in 10 of all workers in Britain—1.5 million in all—seek medical aid for bad backs. The conference decided to set up a back pain committee.

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Armco . . .

Continued from page 10

mestic captive. The offshore company was established on the island in December 1969 and capitalized with $5 million. At the same time Armco's domestic earnings projections for the first two years of operation—"for this new profit center," as Mr. Boone describes it—were $1 million in 1970 and $1.8 million in 1971. Projections held true in 1970 and are "on target" for 1971, the financial vp said.

"You'll remember," Mr. Boone told an extremely interested AMA audience, "I stated prior to expansion our earnings in 1969 were $100,000."

In 1969, the Armco man further explained, premiums written by the company's Kentucky-based captive were $200,000. With the formation of the offshore unit and expansion of the domestic captive in 1970 premiums jumped to $6.1 million and it is estimated that by the end of the year premiums will amount to $15 million. The objective for 1975 is $55 million. (The offshore unit's share breaks down as follows $1.5 million in premiums last year, $5 million estimated this year and $20 million projected by 1975.)

"It is important to recognize that insuring Armco's assets in our two insurance companies is a minor part of our premium volume." (About 10% of the estimated $15 million in premiums taken in by the captives this year is for insuring the parent's property and casualty exposures. This amount represents premiums for about 20% of Armco's property and casualty exposures, with the 80% balance going to the traditional insurance markets.)

"OUR MAJOR thrust is to spread our insurance risks as broadly as possible both in type of asset insured and geographic area. We intend to limit our exposure from our own operating plants," Mr. Boone said.

Both the domestic and offshore captives employ a total of eight employes at the moment. Mr. Boone noted, however, that the company intends to add a European manager and a few specialists in the near future but that "it will be some time before we exceed an organization of 15 personnel."

He also said that Armco has already noted at least five advantages to the broadened captive operation of the company. They are:

- It provides Armco improved insurance coverage at a lower cost;
- It develops an attractive return on the investment of reserves;
- It utilizes existing assets for capital requirements;
- It simplifies claim service and loss adjustments; and
- It gives the parent the use of large insurance reserves which would otherwise be paid to outside insurance carriers.

A SIXTH advantage, though one not directly enjoyed by the steel company, he noted, is that the captive companies are broadening the capacity of the insurance market worldwide by providing an additional market for large risks throughout the world.

Turning more specifically to the younger offshore captive, the Armco financial man said that original objectives in Bermuda were to write insurance on Armco's foreign property and casualty exposures, to operate a nonregulated insurance business and to participate in the non-U.S. reinsurance market.

"Our activities to date have been concentrated mainly on participation in the London and the European reinsurance markets," he said. "We also intend to expand our activities as rapidly as possible in coordination with a European insurance manager and an agency arrangement in London. Both," he added, "are in the process of being established.

"We are very bullish about opportunities in the international insurance business," he continued, "and we expect our Bermuda company to be a long term, solid business activity with excellent profit growth.

"At the present time we have not given the Armco foreign insurance programs a high priority in our Bermuda activities—there are profit opportunities in our captive business but we prefer to first establish a broad base of insurance operations prior to assuming the Armco risks. We use our insurance activities to assist with obtaining proper insurance coverage rather than attempt to directly insure our own assets."

ADMITTING THAT Armco "is still going to school in the insurance business," Mr. Boone said that the company nevertheless had learned a thing or two in the last three years and that it was happy to share them with other U.S. corporations that may be considering similar moves.

First, he urged, "do your homework before you charge into this business. We spent approximately one year developing our program and checking the various legal, tax and investment activities involved in a Bermuda company. We knew exactly what we wanted to do and how we were going to accomplish it before we started. Even so," he added, "we encountered certain tax and other restraints not originally anticipated. For example, we have had some difficulty getting a clear set of do's and don't's in our international investment activities."

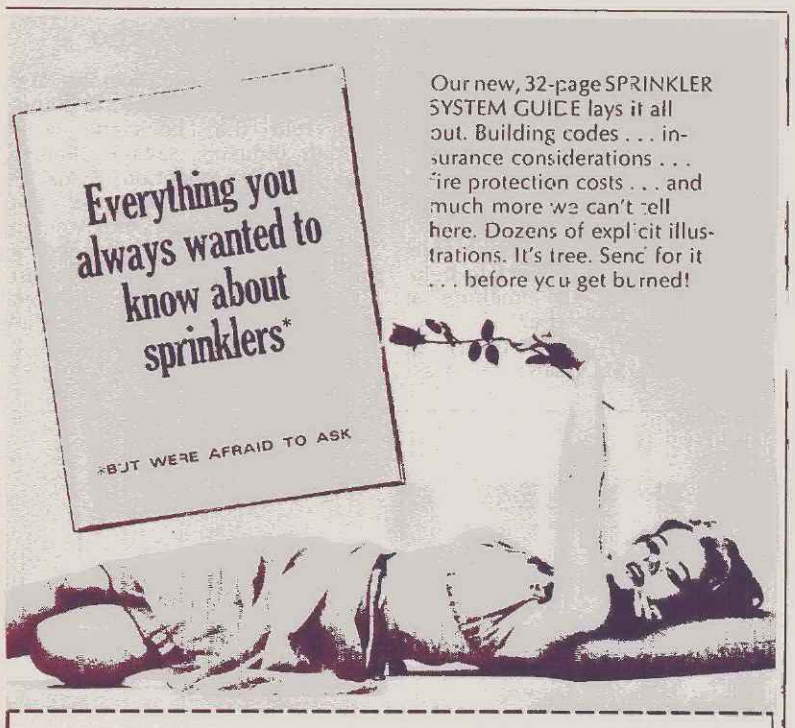
Another important consideration, Mr. Boone pointed out, is the selection of personnel. "Select the right people to run your business. Do not be satisfied with anything but the very best personnel and be certain you have real professionals in underwriting, reinsurance, accounting, tax, legal and investment activities."

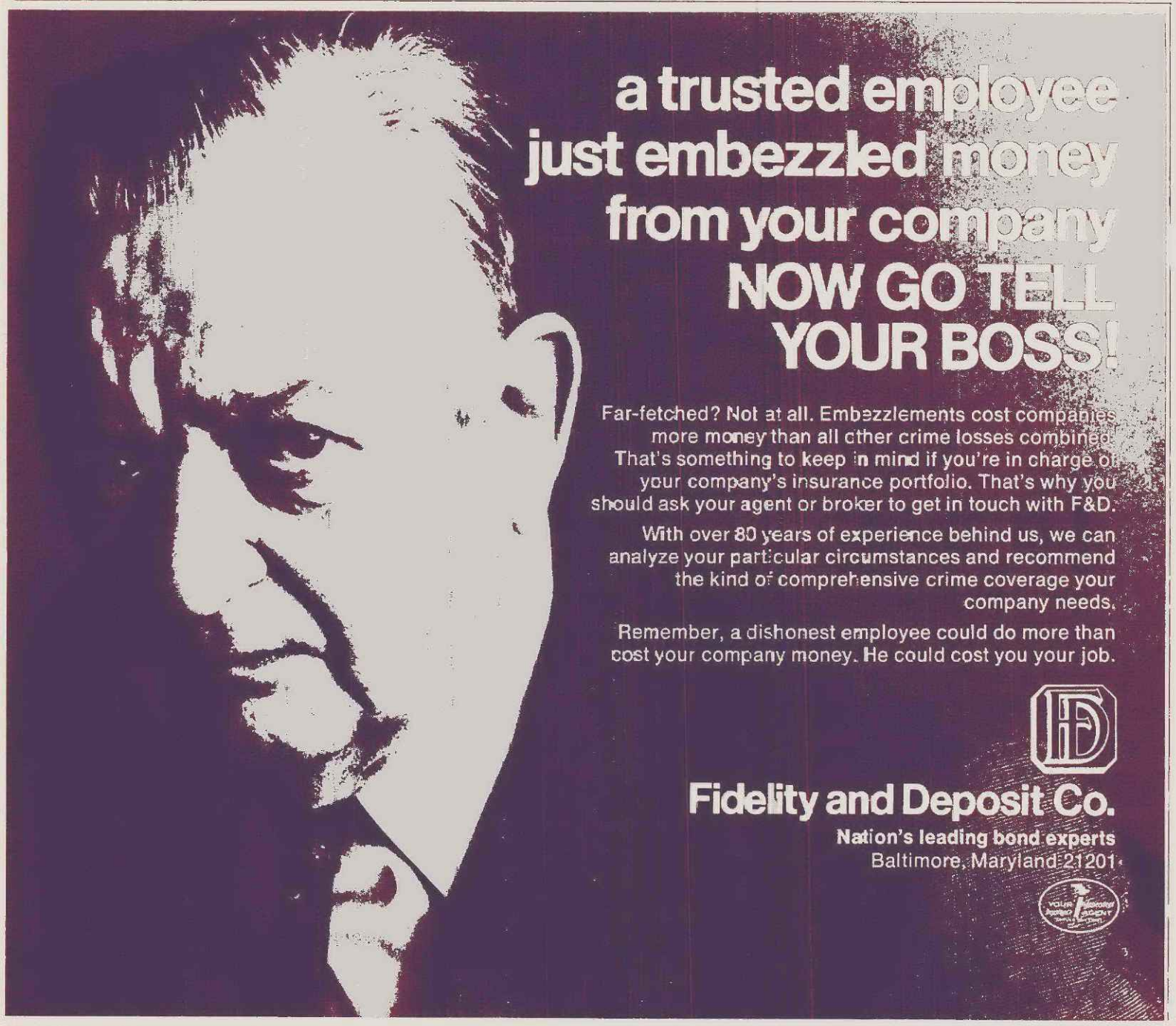
ANOTHER suggestion: "Establish a bona fide business in Bermuda. If operations justify it, I suggest you have your own staff. If not, employ a competent management firm. Make certain you aren't simply running a shell game. I think this can only lead to trouble for yourself and for other Bermuda companies. In my opinion, any tax shelter for U.S. tax purposes will be periodically studied and challenged."

In addition, Mr. Boone told the audience, "limit your loss exposures—particularly in the early years.

"In our company insurance as a profit center is a new business. Some of our directors and members of our executive committee are still skeptical about a steel company being in this business. We can't afford a bad year in our formative stage," he said, "and our insurance people operate accordingly.

"Insurance is a high risk business but we think it can be managed on a low risk basis," he added. "Time will tell, but we are confident about the future." ■





Deflated . . .

LONDON—Nightclub stripper Jennifer McMillan is claiming $10,000 damages against a London cosmetic surgeon who performed two operations to improve her bustline.

The surgeon, Dr. Philip Lebon, denies that he was negligent when he inserted special "fluid bags" in her breasts and rejects her claim that he promised they would improve her shape.

Risks of using certain types of medical "prostheses" in such bust-building operations were revealed in *Business Insurance*, April 12, in a report from the British Medical Defence Union.

McKeon keeps YMCA insurance plans fit

By PATRICK THOMAS

NEW YORK—Thomas Patrick McKeon, insurance manager for the YMCA of Greater New York, is a man in the unenviable position of having once almost bitten the hand that feeds him.

Mr. McKeon, you see, spent part of his career as an engineer for Consolidated Mutual Insurance Co., the firm which now writes the workmen's compensation, liability and vehicular coverage for the 26 branches of the New York Y. It was Mr. McKeon who surveyed the YMCA for Consolidated when the Y approached the insurer for coverage. It was also Mr. McKeon who advised against writing the insurance, referring to the YMCA as a bad risk.

"They didn't listen to me," he told *Business Insurance* with something resembling a sigh of relief. "It's a good thing."

AFTER MOVING from Consolidated to the Y in 1968, Mr. McKeon threw open the door to his office and anyone who wanted to talk insurance was welcome. And still is.

"One of my maxims is 'The first step toward wisdom is the admission of ignorance'," he smiled. "I was green when it came to employe benefits and I hadn't been a risk manager before so I talked to anyone who had anything to say. I'd fill out coupons and salesmen would come, brokers would call, anybody. I learned a great deal that way."

While Johnson & Higgins has done some insurance placing for the Y, Mr. McKeon said that he had no broker of record and emphasized that he would "deal with anyone."

The coverage that Johnson & Higgins did place was the YMCA member accident policy. Underwritten by the Continental Insurance Co., the policy covers any Y member injured while taking part in Y-sponsored activity. The policy covers YMCA's all over the country though the New York Y was one of the first to use it. The coverage has been in effect here since 1962.

"THE COST FOR the member accident insurance is 38 cents per year for $2,000 coverage," Mr. McKeon noted. "There are no exclusions. It covers everyone from someone in a sewing center to someone running the rapids on the Colorado River.

"When the New York Y first got the coverage in 1962," he continued, "it cost 65 cents for $1,000."

He pointed out that while the national YMCA was the focal point for activity, most decisions were made locally. Insurance has also been purchased at the local level.

"The various Y's had not been using their numbers as clout but they are now moving toward a clustering set-up," Mr. McKeon said. "Under that kind of operation, there will be no sacrifice of autonomy. As it stands now, the 17 major cities which comprise the YMCA Urban Group have loosely banded together and are the wedge or springboard for mass merchandising."

AS AN EXAMPLE of how the Y's across the nation are getting together, he told of a national minibike program used to combat drug abuse among young people.

"The program began when a Japanese employe of the YMCA talked to some representatives of Honda Motor Co.," he explained. "Honda then donated 10,000 minibikes to the national Y. Gratis. The bikes are used by young people who have had problems with drugs. This way they can speed without taking drugs. It works as a replacement.

"Interstate Insurance Co. of Chicago covers the mini-bike program. It costs $32.45 per year for each bike for $2,000 in liability and accidental injury coverage. The program is carried out in Y's nationwide. It is a supervised activity with three kids to a bike.

"No reflection on brokers," he grinned, "but the Y got this one by itself."

MR. MCKEON is a tall, solidly-built man with, as one might guess about someone associated with any YMCA, a propensity for playing handball. He is a product of the streets of New York ("I was a three-sewer stickball man") so he knows the problems of growing up in the city.

"The Y can no longer be considered a building," he said. "The Y has to branch out to the street. In our effort to do this, we use 16 vans we call Youth Mobiles. They are right down at the neighborhood level. Not only do the vans take the Y to the kids, they take the kids on excursions. You have to get these kids out of the enclaves."

He reported that the Youth Mobiles had created no coverage problems. "It's Block Program Insurance. It costs a dollar per person and is covered under the member accident policy."

The vans themselves, as well as other Y vehicles, are leased already insured. "We can lease insured vehicles for less than we can buy and insure them. We lease them for 44½ months. Under the contract, for $303 we get $1 million, $3 million in coverage from the leasor's insurers. The same coverage would cost $1,100 if we had to get it on our own. We get an immediate savings of $800 this way and after the 44½ month period we can purchase the vehicle for a dollar and it is still insured.

"THIS SET UP creates a situation where you really look at your vehicles from a safety standpoint," he said.

The 26 branch buildings and other "satellite" buildings are protected against fire by the Factory Mutual System. The Greater New York Y pays premiums totaling $24,000 to Factory Mutual for $23 million worth of first-dollar coverage.

The Y operates its own building program which takes care of construction, maintenance and repairs on Y properties. For example, the Y leased an old settlement house for 10 years and it cost $75,000 to repair and modernize the structure.

Another Y facility, the Clinton Youth Center, located in what used to be known as Hell's Kitchen, was once a courthouse. After months of work and "a helluva big workmen's compensation exposure because of pigeon dust," the facility now serves as a mul-

Continued on page 42

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YMCA . . .

Continued from page 41

ti-purpose community center.

"ONE OF OUR greatest clerical tasks is issuing certificates of insurance to organizations, such as churches, whose facilities we use," he noted, also pointing out that using facilities other than your own was a two-way street.

"The TRY (Training Resources for Youth) program, which trains kids for industrial occupations, uses our building in one area of the city but their experience has not hurt us because they supply their own insurance."

The Y has a $3 million limit on its liability coverage with Consolidated Mutual but has an umbrella policy carried by the Home Insurance Co. for $5 million more. The $8 million in liability insurance costs $50,000 a year in premiums, a figure which has not changed since the original policy was written in 1962.

The YMCA of Greater New York usually employs 1,500 persons but that number swells to "around 3,000 during the summer" because of camps and other warm weather activities. These employes are paid about $10 million a year.

MR. McKEON said that the Y's employe benefits are written by the Equitable Life Assurance Society of the United States. This is another area in which the various YMCA groups around the country are getting together.

"Our New York Y merged its group health plan with that of the Chicago Y and that made it possible for all the other Y's to join in," he reported.

The YMCA group health plan covers any hospital expense on a lifetime basis. "There is a $30,000 maximum per lifetime, which we hope to raise to $50,000, but $1,000 per year is added for each good year.

"The plan provides for a $100 deductible after which Equitable pays 80% of the bill. It costs $8.26 for the employe and $16.44 for additional family members. That totals $24.70 a month for the entire family to be covered. I'm afraid that may go up quite soon, too."

THE Y HAS NO single group life insurance plan because of commitments to retired employes and other considerations.

"The cost works out to $1.29 per $1,000 per month," Mr. McKeon said. "It's that high because we have some 200 people between the ages of 65 and 92 who are still insured."

The benefit is one and a half times salary up to a maximum of $50,000.

The total insurance bill for the YMCA of Greater New York totals $500,000. The total budget is an annual $17 million, the greatest percentage of that being payroll.

GROUP HEALTH and group life are the largest insurance expenses, running $130,000 and $126,000 respectively. Workmen's compensation is next on the list at $100,000.

"The total comes to $500,000 without peripheral covers," Mr. McKeon noted.

Some of those peripheral covers arise from other aspects of Mr. McKeon's job. He is also safety and security director for the Y, and having been a New York City fireman for 20 years, he is deeply interested in safety.

"Our experience has been very good due to the efforts of our safety committee. Committee action has its shortcomings but it solved the accident prevention problem around here. All accidents are investigated, the causes traced and suitable action is taken to rectify any hazardous situation."

MR. McKEON pointed out that "our worst exposure" is drowning in a YMCA-operated pool.

"My job as safety director is really to trigger memories. I try to make certain that everyone knows that accident prevention is part of everyone's job."

After a bit of friendly prodding, Mr. McKeon told *Business Insurance* that the Y's security problem was really no worse than anyone else's security problem but that it could be better.

"Petty thefts are definitely a problem," he said. "We have to worry about the quick snatch, the purloining of a typewriter that's not nailed down. It's an attitudinal problem for our employes. They just have to get it into their heads not to leave things lying around as lures for thieves."

Union Insurance Society of Canton Ltd. (a Hong Kong company) writes a personal articles floater for the Y but the policy carries a $250 deductible per loss. "The deductible is due to the frequency of losses," Mr. McKeon moaned.

"We also have a policy covering employe dishonesty, destruction and disappearance. It is also written by Union of Canton and carries a $50,000 single loss deductible," he said.

Thomas McKeon is a man who appears to believe in the words on a poster in his office: "Today is the first day of the rest of your life."

"We are always looking for other ways of doing things," he emphasized. "Insurance is part of the overall operation here, it's one of the items that is always considered when decisions are made.

"RIGHT NOW," he continued, "we are looking for ways to self-insure. We are at the stage where we are evaluating our losses and figuring what we can insure ourselves. Then we'll insure the excesses.

"We're a long way from a captive and I'm not convinced that a captive is the way to do things but I have an open mind." ■

Bramson fire covered

EVANSTON, Ill.—Insurance on Bramson Inc.'s main store, which was destroyed in a $1.2 million fire here Oct. 15, was placed by Marsh & McLennan Inc., according to David Bramson, president.

"The building was covered by fire insurance," he told *Business Insurance*, "which is split up among several carriers. Centennial Insurance Co., New York, has our business interruption and merchandise coverage.

Inventory lost was valued at $300,000, furniture and fixtures at more than $300,000 and the building itself at more than $600,000, he said.

Mr. Bramson said the store was not sprinklered and had only extinguishers. ■

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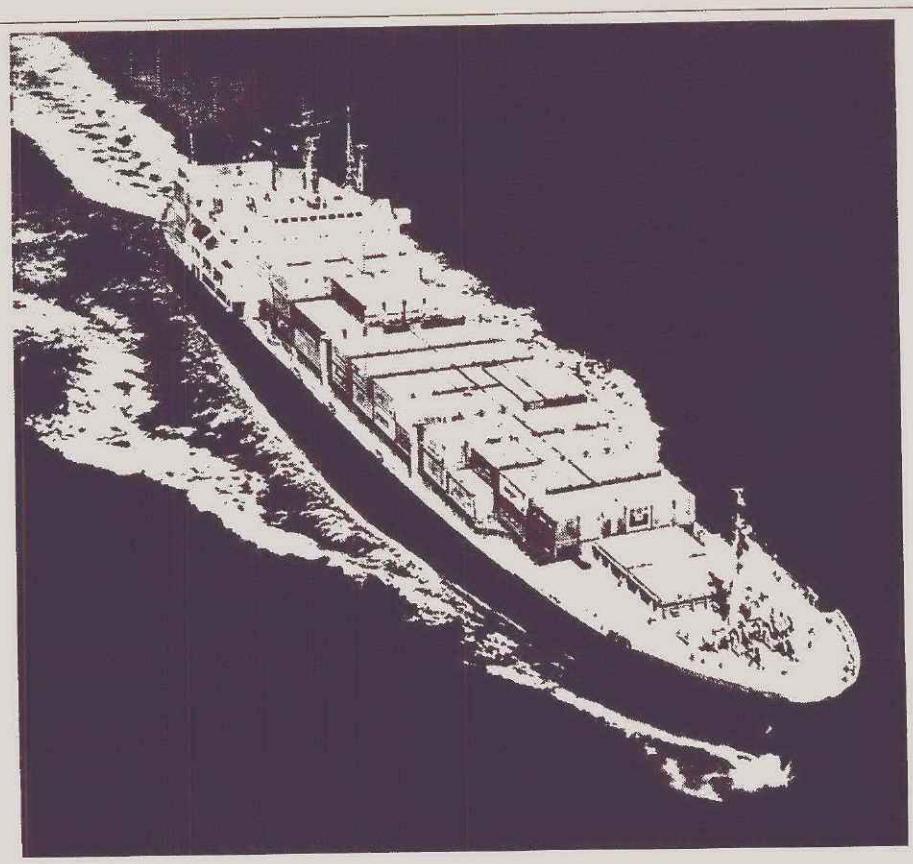
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Denenberg names risk and benefits people to special advisory group

HARRISBURG, Pa.—Herbert S. Denenberg, Pennsylvania's busy insurance commissioner who seems to get more national press than the governor who appointed him, has named a panel of 13 employe benefits and risk managers to help his department "mold regulations, evaluate legislation and police hospitals costs," among other things.

The move by Mr. Denenberg is the first attempt made by an insurance regulator to bring large corporate consumers of insurance close to the regulatory process.

"As with consumers in general," Mr. Denenberg said when he announced the appointments, "the buyer of insurance is too often not represented in the regulatory process and in general has too little say about the product he is purchasing. We hope to change that. We will now be dealing directly with some of the most knowledgeable men in their field. The services of these men, freely offered as a public service, will cost the taxpayer nothing as they labor to help this department better the insurance climate of Pennsylvania.

"I COULD NEVER hire such talent," he added, "and even if I could, the cost to the taxpayer would be difficult to justify."

Named to the insurance buyers advisory committee were:

Henry R. Rossell, insurance manager, Sun Oil Co., Philadelphia; Wallace B. Hofferth, insurance manager, Armstrong Cork Co., Lancaster; Ernest L. Whalon, insurance manager, International Utilities, Philadelphia; Kenneth B. Houston, insurance manager, AMP Inc., Harrisburg; Walter H. Powell, senior vp, First Pennsylvania Bank, Philadelphia; George Cullen, vp for personnel, Strawbridge and Clothier, Philadelphia.

William B. Tipton, Pennsylvania State Chamber of Commerce, Harrisburg; Walter H. Hutchinson, Yellow Cab Co., Philadelphia; James W. Townsend, corporate manager of benefit plans and trusts, the Budd Co., Philadelphia; Edwin C. McManus, director of personnel services, North American Rockwell, Pittsburgh; William C. Jones Jr., manager employe benefits, Aluminum Co. of America, Pittsburgh; Arthur W. Hurdock, director of corporate compensation and benefits, Scott Paper Co., Philadelphia, and Charles L. Fritz, manager of personnel and industrial relations, Philadelphia Electric Co.

MOST OF THE 13 are members of the Delaware Valley chapter, American Society of Insurance Management.

The appointments, according to Commissioner Denenberg, were made on the recommendation of Rodney F. Pyfer, a special assistant. Before joining the commissioner's staff, Mr. Pyfer was insurance manager at the University of Pennsylvania and a member of ASIM.

"By prudent use of the talents of these men, who will continue to work in their own profession, we can accomplish much more because they are on the firing line on a day-by-day basis. They know what the problems are and have good ideas for solving many of them. My office," Mr. Denenberg said, "will lend regulatory power to any good ideas developed after we have had an opportunity to evaluate them."

The committee met for the first time at mid-month. The reactions to their appointments, Mr. Denenberg, said, "has been terrific."

"WE HAD A fantastic exchange," Mr. Denenberg noted in a typically adjective-filled description. "We presented to them what we are up to and discussed where we should go from here.

"We've already appointed one committee, in fact. This group will consider the question of what kind of reports health insurers should give employers regarding claims and reserves, that sort of thing," he noted, adding that other committees will likely consider things like no-fault, surplus lines, rate regulation and what slant regulation should take for the corporate insurance buyer. "I'd say the biggest issue right now, though, is the whole health delivery system. Many on the committee have expressed the view that there is a need for reform but that the people who should be consulted about reforms, like themselves, just don't seem to be represented," he added.

Health care costs, hospital wastes and the efficiency of health insurers has been the subject of much of Mr. Denenberg's attention since he took over the Pennsylvania department less than a year ago. With this new committee it is likely to get even more.

"Many of the committee members are large buyers of Blue Cross insurance for their employes," the regulator noted. "I will ask for their help in developing an appropriate audit of Blue Cross spending and of hospital spending paid for by Blue Cross and I will enlist their aid in controlling improper admissions to hospitals and controlling situations where doctors and hospitals keep people in the hospital longer than necessary.

"THESE MEN deserve a say in these things because they pick up the tab and if the cost is unnecessarily high, it is money that belongs to the corporations themselves and to the employes and not to Blue Cross, doctors and hospitals.

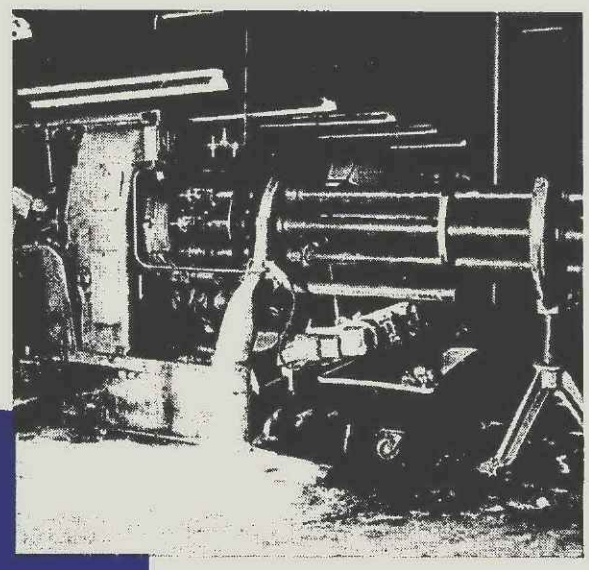
"In the past," Commissioner Denenberg continued, "these men have been cut out of the health care process except to pay the bill. With the weight of my office behind them, I hope we can rectify this situation and improve our health delivery system in the process."

Mr. Denenberg also said he is planning to appoint several other similar committees. They will include representatives of agents and brokers, safety engineers, loss adjustors and perhaps an advisory group of insurance company people. ■

Pennsylvania bills

A bill has been introduced in the Pennsylvania house of representatives that would authorize the state to buy group insurance policies for its employes. Such policies would include fire and liability protection that would be paid through payroll deduction. The senate, in the meantime, is considering a measure that would remove the existing top limit of $40,000 on group life insurance policies. The bill received immediate committee approval and is on the senate calendar.

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Corporate employe benefits administrators and risk managers do not need to listen to Congressional debates to be reminded that the nation's health care system is administratively cumbersome and financially costly. Many proposals have been offered that aim at making the system more effective and efficient, and now you can express your opinion. Fill out this questionnaire immediately and mail it to: Health Care Survey, Business Insurance, 740 Rush St., Chicago, Illinois 60611. Results will be published in the special life/health issue on Dec. 6. Be sure to complete the form with your name, title and company. This information will remain confidential, but it is needed to tally only the responses of corporate insurance consumers.

1. On reform of health care financing:

- ☐ I favor national health insurance financed by general tax revenues.
- ☐ I favor local health care corporations paid for by private health care system regulated by the states.
- ☐ I favor local health care corporations paid for by federal and private insurance funds.
- ☐ I favor expanding employer-paid private health insurance programs with special low-cost care for low-income families.
- ☐ I favor federal financng of private health insurance for the poor with tax credits for the more affluent.

2. Do you favor prompt legislative action by Congress to improve our method of financing health care?

- ☐ Yes.
- ☐ No.
- ☐ I favor action by state legislatures and insurance commissioners.

3. On reducing the cost of health care, I think the most important step or steps are:

- ☐ Group medical practice.
- ☐ Use of paramedical personnal.
- ☐ Expansion of medical school facilities.
- ☐ Elimination of duplicate hospital facilities.
- ☐ Prepaid medical care with periodic comprehensive physical examinations.

Other suggestions:

4. How could the health delivery system be improved to aid in the administration of employe benefits? (Attach a note if you wish.)

My name is _____ My title is _____

Company or organization _____

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Number of employes _____

Returns must be sent by November 25.

Labor to nationalize insurance—that is, if and when they're elected

LONDON—Vigorous Laborflate alarmingly.

party adherents forced active support to nationalize Britain's massive insurance industry at their 1971 convention in spite of efforts by party leaders to hold them back.

But there seems no cause to think that anything effective will be done immediately. The Conservative party government under Prime Minister Edward Heath is in office until 1975, and even if it is ousted then, it will take any Labor government intensive study before it can put the nation's biggest insurance companies into public ownership without affecting their economic set-up.

The scene was set at the convention, as forecast in *Business Insurance*, Sept. 27, by delegate Jo Richardson, from North Hammersmith, who claimed that insurance controlled $32 billion of Britain's national economic resources.

SHE DEMANDED: "How can a Labor government hope to plan and develop new industry when so much power is in so few hands?"

In line with Labor beliefs that nationalization is the answer to many business problems, she was acclaimed by many other delegates who recalled that Labor had backed public ownership of insurance firms in 1949, but had done nothing to achieve that objective since.

Major convention leaders, including several in power in the last Labor government, pressed her to reconsider, pointing out the huge amount that would have to be payed out to stockholders if government took over the insurance industry.

BUT AFTER heated debate, Ms. Richardson won, by a three-to-two majority, her point that nationalization of both banking and insurance in Britain should be a platform issue in the country's next election in 1975.

Undoubtedly one factor which affected the convention was the failure in recent years of several insurance companies which have specialized in the domestic business of insuring motorists, and left millions of citizens exposed to risk.

Auto cover, in order to pay damages to victims of road accidents, is compulsory throughout Britain, though it is left to private enterprise to provide the policies.

IN A BID for potential profits, insurance companies were led to a battle of premium-cutting which forced weaker companies to bankruptcy because they failed to spot the peril of rising repair and medical costs that caused claims to in-

British . . .

Continued from page 6

as the building was burning.

"Loss prevention," Mr. Spencer said, "is sound business management. If you install sprinklers, say, you must consider the effect these will have on the risk as a whole and not just on a possible reduction of premium. If you can get that philosophy over to top management and make it corporate policy you've done something."

That said, one could not help but think that this young chap from London has learned a thing or two already. ■

It seems if nationalization is achieved in Britain and there is a long way to go, it will probably center first on aspects of the insurance industry concerned with private individuals, such as accident liability, health insurance, auto cover and personal life insurance, rather than on any major aspect of British corporate insurance in world markets.

Lloyd's, in any case, was not mentioned by convention speakers; it seems its historic structure will stay intact.

THE LABOR party also rejected a bid to link up with a leading British finance house to move into the domestic auto-insurance field as it was felt this made nonsense of its policy of opposing private enterprise.

Party officials had favored the move as it would have earned them $250,000 in brokerage payments to meet administrative expenses at their political headquarters. However, there were objections from many Labor delegates, including some who already work in the insurance industry.

The whole issue of nationalization will now await further debate at Labor's 1972 fall convention, and will certainly be strongly opposed by Britain's insurance industry. ■

1972 Info for Buyers issue, the biggest ever

CHICAGO—The 1972 special Info for Buyers edition of *Business Insurance*, to be published Jan. 3, 1972, promises to be the biggest ever, offering hundreds of new items of interest to more than 55,000 corporate executives responsible for employe, property and liability insurance programs, pension investments, financial services and the safety and security of their corporations' employes and assets.

Last year's issue produced 28,000 requests for literature, with one Info for Buyers item receiving as many as 551 requisitions.

Categories for the 1972 issue include: commercial property-liability insurance, employe benefits (including financial services), pension and profit-sharing plans, Social Security, safety and workmen's compensation, security, foreign insurance and benefits, and general information.

INFO FOR BUYERS has proved to be the most popular *Business Insurance* feature over the past four years, every other Monday carrying a fresh supply of items to corporate risk executives around the world.

Insurance carriers, broker service organizations and others who have listed items in Info report that the response to their listings is tremendous.

Those wishing to submit material for the special Info issue should fill out the accompanying coupon on this page to receive more information and convenient submission forms, and mail it immediately. All material is due in our Chicago office by Dec. 1, 1971.

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Captive seminar: All the pitches were not curves

By STEPHEN GILKENSON

HAMILTON, Bermuda—In some ways being a risk manager attending the American Management Assn. seminar on captive insurance companies here was somewhat like being a newborn baby in a maternity ward just as 200 life insurance salesmen paraded through the door.

"The point is," one corporate risk manager attending said, "there are sometimes just too many salesmen at these things. Everybody's selling something."

The AMA meeting at the Princess Hotel had about 275 registrants. At most there were only 50 to 60 corporate risk or financial men there to look into or keep up on the captive situation in Bermuda. The balance of the registrants were either bankers, captive management company representatives or attorneys who make a handsome living in the game. And, of course, there were the usual insurance company executives who attend to be seen more than anything else.

NONE OF THIS is distressing, of course, for no pretenses are made at hiding the fact. More than once, for example, speakers from legal firms or management companies answered questions from the audience and then offhandedly remarked that if the answer was still not clear "you can stop by the office." A Marsh & McLennan man who heads that brokerage's captive management operation on the island even went so far as to describe the location of his office—in a building which has neither a name nor a number—in great detail.

Nonetheless, there were moments when risk men attending got seemingly straight information and advice without the carnival sales pitch flourishes.

J. Lancaster is vp and director of American International Reinsurance Co. Ltd., an offshore unit of the American Home Group that has been operating on the island since the late 1940s. The problems he has encountered in the last 21 years on the island, he said, are much the same as those facing a U.S. corporation considering a Bermuda captive.

While he did pass over the more obvious advantages for the Bermuda captive—the taxless climate and convenient location and communications for doing business throughout the world, to name some—Mr. Lancaster told a morning AMA session that the U.S. corporation considering the establishment of an internally managed company on the island may have difficulty obtaining local talent to staff it.

"THE LABOR market is difficult and has been for some time," he said. "There is more than full employment and good qualified secretarial, clerical and accounting help is hard to find and retain, expensive and often the quality is not good. It is almost impossible to hire locally qualified lawyers, accountants, underwriters, actuaries, statisticians, EDP men."

Noting that there are two solutions to this problem, Mr. Lancaster urged that the immigration department continue its past and present policy of allowing the importation of staff where absolutely necessary. "They are going to be subject to increasing political pressure in the future but they must have the courage to be unpopular," he said. The political pressures he mentioned refer to a minority political party that is gaining increased support from Bermuda's non-business community.

Pointing to a second solution, Mr. Lancaster declared that "all of us in the offshore fraternity must do a great deal more in the way of training programs at all levels. Some steps have been taken," he continued, "but there is urgent need for much more—individually and collectively. A reasonable sized pool of trained insurance personnel must be built up. At the moment there are too few people looking at too many jobs. The situation is not quite critical but it is at a serious point. This must be given priority attention and support if Bermuda is to continue to grow as an important insurance center."

Two other problems facing the U.S. company that considers an extensive captive operation on the island—as opposed to setting up a "file cabinet" captive that is run by a management company, attorneys and banks—are housing and schools. "Housing is scarce and expensive . . . schooling can also present some difficulties," he said. "Imported personnel should be given an accurate and fair description of local conditions—otherwise you will run into trouble and expense."

CONTINUING, the American International Reinsurance vp said:

"Bermuda has built an enviable reputation and compares favorably with other tax-free jurisdictions. Local government authorities and others have been vigilant and diligent in establishing and maintaining an atmosphere that emphasizes quality rather than quantity. Clearly those of us operating from these islands benefit from the establishment and maintenance of such high standards. The absence of insurance regulation makes it important that each company operating here function as its own policeman . . ."

Referring to insurance legislation that will be introduced shortly (*Business Insurance*, Oct.

Continued on page 46

Calls insurers long on words, short on action

HOUSTON—Robert E. Vanderbeek, president of the League Insurance Group said here that the American consumer has good reason to be cynical about insurance companies because the industry has, over the years, given the public "much rhetoric and little action.

"Rather than change the plans to meet consumer needs," he said of automobile insurance, "the industry has often changed the names of the plans to meet public relations needs."

Mr. Vanderbeek heads League Life Insurance Co., which has $3 billion in coverage and is Michigan's largest life company, and League General Insurance Co., which provides cover for approximately 70,000 autos owned by state credit union members.

LARGE segments of the industry are promoting reform proposals under the guise of no-fault insurance that are, in reality pseudo no-fault plans, he said. "Such plans do not meet the needs of our society. They must be rejected."

Group auto insurance, he told the annual meeting of the Society of Chartered Property & Casualty Underwriters, is another example of an area in which insurance rhetoric has been based on self-interest. "Despite the great publicity given to the development of group auto coverage, few companies are actively promoting true group plans," he said.

He also criticized the industry for failing to develop adequate programs to cover substandard risks.

The League insurance companies' consumer-oriented activities have included efforts to correlate the cost of repairability to auto insurance premiums; a study of the auto repair industry; a grant to the University of Michigan Law School to study recodification of insurance laws and the sponsorship of a national conference on urban insurance needs. ■

$ 400,000 verdict in Ford suit

BROOKLYN, N.Y.—A federal court has awarded $400,000 to the driver who suffered severe burns in an explosion of his 1967 Mustang.

The plaintiff, Mauricio Fortunato, 30, of Queens, testified that the explosion occurred when he pressed a dashboard cigarette lighter, causing him to lose control and crash into part of a bridge structure. The explosion, it was alleged, resulted when gas vapors that seeped into the passenger compartment made contact with the hot cigarette lighter.

The bottom of the trunk in the 1967 Mustang is also the top of the gasoline tank. An Army Corps of Engineers safety expert who testified for Mr. Fortunato said that should any hole develop in the common metal wall it would permit fuel vapor to escape directly into the car's interior and form a potentially dangerous mixture. Further testimony indicated that a pinhole had been found later in the gas tank of Mr. Fortunato's car.

Ford's attorney, George Conway, denied the car had been defective in any way and contended that the victim had been intoxicated. He argued that there had been no explosion, but that the driver's crash into the bridge burst the gas tank and caused the fire. ■

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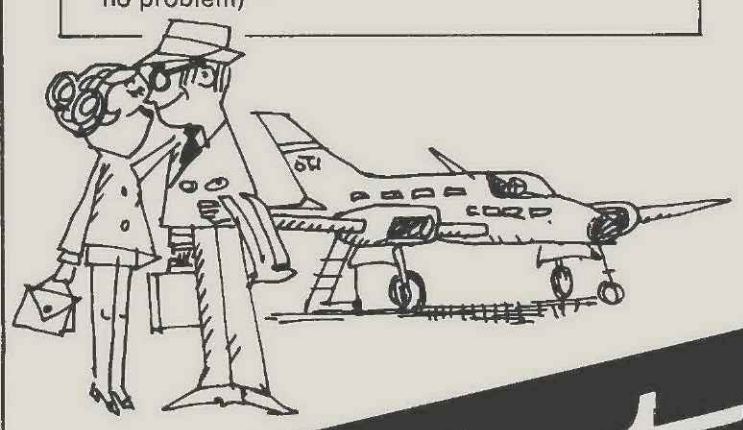
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Captive . . .

Continued from page 45

11), Mr. Lancaster said that he is certain it will be "sensible" and he understands it will "deal separately and specifically with exempted companies' business.

"This is important," he added, "because the activities and problems of exempted companies underwriting risks located outside of Bermuda are quite different from those of local companies transacting purely local business. My colleagues and I support this legislation and consider it necessary at this stage of Bermuda's development.

"WE HAVE had proof that one rotten apple did not destroy this particular barrel but two or three might and the new law should tighten things though I am sure it will not inhibit the entry of legitimate capital and honest, sound, well-organized companies."

The reference Mr. Lancaster made was obviously to Allen J. Lefferdink, operator of World Insurance Co. Ltd. here, who was "invited to leave the island" late in 1969 (*Business Insurance*, Dec. 8, 1969). The 'invitation" came after a disclosure that Mr. Lefferdink's company assumed liability coverage on a 80-boat Seattle, Wash., fishing fleet.

A Bermuda government official involved in the dissolution of Mr. Lefferdink's company told *Business Insurance* that Mr. Lefferdink is still persona non grata on the island and said that, as far as he knows, the insurance operator is still residing aboard his luxury yacht somewhere between Bermuda and Florida.

Turning his attention to Bermuda as a reinsurance marketplace, Mr. Lancaster told the AMA audience that there are about a dozen companies writing reinsurance here, excluding specialty captive companies that are in some instances adding additional reinsurance and insurance capacity to the world markets.

"THE TOTAL capacity is a matter of speculation, but I think we can realistically assume that on a first-class fire risk this market could write a line of between $5 million and $7 million on a automatic basis. Some of this undoubtedly would be retroceded but the primary market for sums of this size does exist.

"The present and continuing holiday from taxes on profits offers underwriters the opportunity to more rapidly build up reserves. It also creates a climate where imaginative use can be made of excess of loss covers on various specialized bases," he continued.

"It is important that we create a reputation as a responsible market," Mr. Lancaster said. "Just the fact that we are in Bermuda is a hurdle to overcome —for all offshore havens are subject to automatic scepticism. On the other hand don't think for a moment there is some magic to the Bermuda sites that can, by a wave of the wand, change bad business into good. We must be as hardheaded in our underwriting as anyone else anywhere else."

Pointing to the pitfalls facing captives and noting that he had worked with captives for about 13 years, Mr. Lancaster said:

"There is no doubt that they (captives) are here to stay, though I have seen a number fold their tents and take their insurance back to the traditional market. They should be considered as another tool available to the insurance manager—appropriate to some situations and completely inappropriate and possibly dangerous to others. Certainly captives must always supplement, not eliminate, regular markets." ■

dates for buyers

November 12, Continuing Education in Management, University Extension, University of California, Berkeley, intensive seminar on "Risk Management and Self-insurance," Extension Center, 55 Laguna St., San Francisco. For more information write Mina Sanchez, Continuing Education in Management, University Extension, University of California, Berkeley, Cal. 94720.

November 29-December 1, American Management Association seminar, "Modern Corporate Insurance Management," AMA headquarters, New York. For more information write the AMA, 135 West 50th St., New York, N.Y. 10020.

November 29-December 1, American Management Association seminar, "Managing Captive Insurance Companies," AMA headquarters, New York. For more information write the AMA, 135 West 50th St., New York, N.Y. 10020.

December 1-3, American Management Association seminar, "Self-insurance, Risk Retention and Use of Excess and Deductible Coverages," AMA headquarters, New York. For more information write the AMA, 135 West 50th St., New York, N.Y. 10020.

December 6-8, American Management Association seminar, "Developing a Modern Employe Benefit Package," Sheraton-Palace Hotel, San Franicsco. For more information write the AMA, 135 West 50th St., New York, N.Y. 10020.

December 8-10, American Management Association seminar. Modernizing the Pension Plan," Sheraton-Palace Hotel, San Francisco. For more information write the AMA, 135 West 50th St., New York, N.Y. 10020.

Maritime chairman claims shippers too lax on security

MONTREAL—The chairman of the U.S. Federal Maritime Commission, Helen Bentley, has accused shipping companies of being "relatively passive" when it comes to cargo security.

Speaking to the annual conference of the International Assn. of Port Police here, Ms. Bentley said that "in some firms, inspection and control procedures are non-existent."

"Corporate officials," she declared, "are often too far removed from the problem and consequently delegate this function to an individual, with little or no direct contact with or access to top management.

"Management," she continued, "must act to analyze conditions, develop and maintain programs to prevent this type of criminal activity at the source of the problem." ■

Alaska laborers get new benefits

SEATTLE—Blue Cross, Washington-Alaska Inc., has announced an agreement to provide its medical plan benefits to the Alaska Laborers' Construction Industry Health and Security Fund.

Under terms of the agreement, some 1,700 members will obtain benefits that include coverage for hospitalization, medical, dental and vision costs.

Participating laborers are members of the International Hod Carriers and Common Laborers' Union of America, Locals 1331, 341 and 942; Wood, Wire and Metal Lathers International Union Local 529 and Bricklayers, Masons and Plasterers International Union, Locals 1 and 2

Also included in the coverage is the Operative Plasters' and Cement Masons' International Assn., Locals 867 and 912. ■

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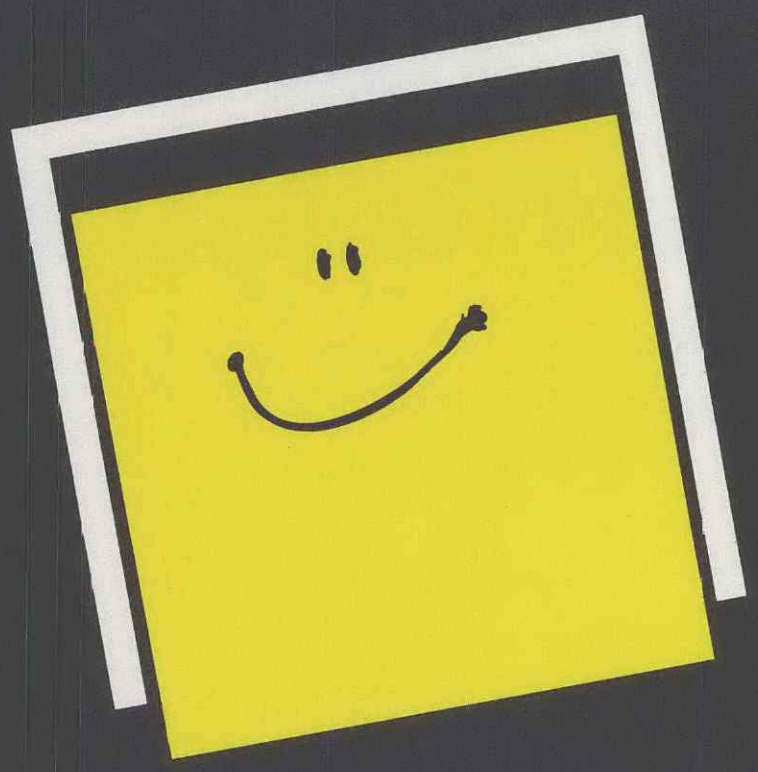
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Fifty years of experience has enabled us to develop three flexible plans which can be *custom tailored* to do the job.

• WHOLESALE: for like-occupation organizations, a specially designed term (non-par) plan. Discounts based on volume. Special underwriting.

• DIRECT MAIL SOLICITATION: individual term policies solicited by mail among members of organizations, such as alumni associations. Rates as low as $3.86 per $1,000 (male age 30, par plan) with options available.

• GROUP INSURANCE: A master contract is issued. Volume discounts. Group underwriting. Guaranteed issue.

Got a group insurance problem? We'll tailor-make the plan to cover it—Call us for a fitting!

Bankers Security

Leaders in Insurance for Better Living.

CONTACT YOUR NEAREST BANKERS GENERAL AGENT OR WRITE:

Bankers Security Life Insurance Society, Executive Office, 1701 Pennsylvania Avenue, N.W., Washington, D.C. 20006 ■ Home Office: New York City

What can you say to the outfit that shook-off, shook-out and shook-up the rules in business insurance?

"Shake"



Proving business insurance was ripe for fresh ideas and new approaches wasn't easy.

Some people were fixed in their ways. Others thought our ways were just too new.

But even then there were many who liked our pluck and signed up. They were nice enough to spread the word about us, and things started happening.

Now a lot of people are saying, "Glad to do business insurance with you."

We've become known as mavericks and boat rockers. Our people are recognized as hand-picked specialists who have brought some fair-size savings to company after company—big companies, small companies, and companies just the size of yours.

Fresh thinking has a place in business insurance after all. Isn't it time you call Allstate? We're in the book.

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