

# Private insurers and prepaid medical plans

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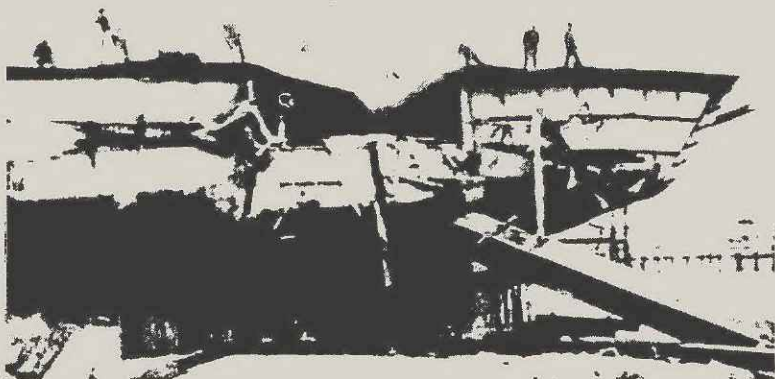
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Workmen survey twisted metal and shattered concrete at the site of bridge collapse in Melbourne, Australia, fatal to 31 workers. —Wide World photo

## Bridge cover: \$4 million

MELBOURNE, Australia—A 2,000-ton steel span joining the middle of the \$47 million bridge being built across the Yarra river here split in two Oct. 15 and plunged into the river, carrying some 31 workers to their deaths. Four are still missing and all but 12 of the 70 men atop the span were injured critically. The bridge contractor's all-risk cov-

erage with a limit of \$4 million is written by the Commercial Union group and reinsured in London, it has been learned.

Preliminary reports indicate that a 134-foot pre-stressed concrete pillar supporting the span in its middle disintegrated. However, one source who participated in rating the coverage ex-

Continued on page 2

## Says Wichita State liable for crash plane passengers

By TERESA NORTON

WICHITA—The operations behind the business facade that led to the Wichita State University plane crash are now coming to light. The term "facade" was first applied by a spokesman for the federal government and the questionable business and insurance practices that were hidden behind it are now under investigation by the National Transportation Safety Board.

The charter plane that crashed, killing 30 persons, including 13 members of the Wichita State University football team, was part of a pass-the-buck operation whose principals are the Jack Richards Aircraft Co., lessor of the plane, and Golden Eagle Aviation Co., which provided the crew. Both are based in Oklahoma City and have since had their licenses lifted by the Federal Aviation Ad-

ministration. Mr. Richards was also fined \$50,000.

Irving Ripps, FAA information specialist, told *Business Insurance* that "regulations, from a legal standpoint, make the operator of a plane responsible for the safety of the flight. When an airplane broker, such as Jack Richards, leases a plane to a group, such as Wichita State University, and the group contracts with pilots, such as Golden Eagle, to fly for them, then the group becomes responsible for the safety of the flight. And according to their contract the university had agreed to supply passenger liability insurance."

University officials have refused to return *Business Insurance* phone calls in reference to the school's liability insurance.

ACCORDING TO Pat Thomas of the supplementary services di-

vision of the Civil Aeronautics Board, Golden Eagle was registered as an air taxi cargo carrier and had met the requirement to file a copy of its insurance with the government. The company, however, was licensed to fly planes weighing no more than 12,500 pounds (the Martin 404 weighed 29,000 pounds empty) and only to haul cargo. They had appropriate insurance for such flights.

"The only time an insurance requirement for air taxi operations is made," Miss Thomas said, "is if the company has a special exemption from the board to fly larger planes. Then passenger liability of \$75,000 per person or \$75,000 times 75% of the seats in their largest craft is necessary. Property damage limits of \$100,000 must also be met and third-party liability of \$75,000 per non-

Continued on page 2

## B.I. Workshop becomes give-and-take session

By RANCE CRAIN, RICHARD BJORKLUND and STEPHEN GILKENSON

ATLANTA—It started on Sunday evening, Oct. 11, and didn't get over until Wednesday afternoon. In between participants at the first annual *Business Insurance* Management Idea Workshop listened, questioned, argued, challenged, confronted.

They often didn't agree with several speakers who brought with them the message that corporate executives in the '70s must help make their companies more socially responsible from the inside—or face untold liabilities from up-in-arms consumers from the outside.

They wouldn't let one speaker, the executive director of Campaign GM, off the podium for a half hour after his formal talk was over, and they quizzed him through the cocktail hour and right into dessert.

THEY HEARD about the high cost of medical care; minority worker loyalty; alcoholism; salary vs. hourly wages; captive insurance operations; payroll deduction plans; communicating benefits; computer safety; and union demands in the '70s.

When they checked out of the Regency Hyatt House in this city three-and-a-half days after they checked in, workshop participants hadn't had much time for sight-seeing.

Following is an account of some of the major sessions, and elsewhere in this issue are separate stories on workshop speakers—and reactions to what they had to say.

REUBEN B. Robertson III is an attorney on the staff of the Center for Study of Responsive Law in Washington, and that makes him a Nader's Raider. He is, in fact, one of Ralph Nader's chief raiders and in that capacity he made some grim evaluations and issued some ominous forecasts for risk managers at the first *Business Insurance* Management Idea Workshop.

Among the challenges he predicted for industry were increased consumer activism, creation of ombudsman positions in government to protect consumer interests, growth of the Consumers Union and related groups, and—most important—much more litigation in the consumer area with more class action suits as a result of Congressional action making class actions easier to file.

(For some direct advice from Mr. Robertson to corporate risk managers, see page 21.)

Among basic issues cited by Mr. Robertson was product safety, an issue brought into the open by the report of the National Commission on Product Safety, which concluded "the exposure of consumers to unreasonable consumer product hazards is excessive by any standard of measurement."

MR. ROBERTSON predicted, "You may expect a good deal of legislative action in the area of product safety in coming years. The safety panel itself drafted a bill designed to deal with some of these serious problems" though a commission empowered to establish mandatory safety standards, obtain court orders to prohibit marketing of unreasonably hazardous products, conduct hearings on consumer product safety hazards, and collect and analyze data on product injuries.

Mr. Robertson cited as another key issue the insensitivity of industry to the impact of technology.

"One thing is certain," Mr. Robertson warned workshop shoppers; "there is going to be more and more litigation against entrepreneurs who persist in contaminating the environment. In today's world it has simply become socially unacceptable to inject your waste products into other people's lives through water or atmospheric pollution.

"Among other things, you will see a revitalization of existing legal remedies such as the Refuse Act of 1899, the nuisance and trespass theories, as well as substantial tightening of federal and state standards and enforcement mechanisms."

While one workshop participant accused Nader's Raiders of opening a "Pandora's box" and another accused Mr. Robertson of establishing a "witch-hunt committee," an irate workshop member agreed with Mr. Robertson, saying: "It's god-darned disgusting that so often nowadays you buy something, find out it's defective and then you're told by the clerk that you've monkeyed it up. What has happened to our quality control?" he asked.

Challenged to account for "where Nader gets his money," Mr. Robertson said, "The Center for the Study of Responsive Law is funded thinly on \$95,000 a year, chiefly in foundation grants from the Carnegie Foundation and three or four others. Ralph Nader contributes some of his own funds, money he gets for making speeches and such. And we receive a certain limited sum from individual contributors."

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## IDEA WORKSHOP HIGHLIGHTS



Special Workshop section, pages 21-36  
Other highlights, pages 46, 49-52



# Air Force, Lockheed at odds over liability for C-5 destroyed in blast

MARIETTA, Ga.—The U.S. government and Lockheed-Georgia Co., builder of the \$23 million master model of the C-5 that was destroyed by explosion and fire, were at odds last week over where the financial liability for the loss should fall.

While decisions and determinations as to the cause of the loss appeared to be tied up in the bureaucracy of Washington, officials at the aircraft company were confident that the loss would ultimately be borne by the government.

"There is a technicality evolving over whether or not the plane had actually been delivered to the Air Force," a source at Lockheed's California headquarters said. "Our feeling is that

it had been delivered," he said, noting that money had changed hands. "It was then bailed back to Lockheed for the balance of the test program, which is to continue for several years."

**IF IT IS** determined that the plane had not been technically delivered to the Air Force, the craft would be insured under Lockheed's blanket "work and process" insurance policy, said the source. Thereafter the government assumes practically all risks under terms of the contract.

"Our ground and flight clause under the contract has the government assuming all risks unless losses result from 'managerial misconduct' or 'lack of good faith.' Even ordinary negligence

on the part of a workman would be assumed by the government," he told *Business Insurance*.

The plane, which is almost as long as a football field, was destroyed while it was undergoing a "fuel cell purging" at Dobbins Air Force Base near here. It had been test flighted the same day (Oct. 17) and had reportedly developed a leak in a fuel line. Officials speculated that the blast could have been touched off by a stray spark or static electricity. One flight-line mechanic was killed.

The cost of a C-5 has been under dispute for some time. Sen. William Proxmire (D.—Wis.) has criticized the government program to mass produce the huge transport planes and Congressional hearings have been held that each of the planes was costing about \$50 million.

"We would have insured them for considerably less than that—or about \$20 million," the Lockheed source noted. He pointed out that Lockheed has not insured the planes being produced under the government contract. "We have self-assumed the two risks mentioned in the government contract," he said, speaking of managerial misconduct and lack of good faith, and expressed doubt that such risks could or should be insured. ■

# Bridge . . .

*Continued from page 1*  
pressed skepticism that the pillar was the cause of the tragedy.

"Those pillars all were prestressed and tested afterwards," the source pointed out. "John Holland, the general contractor for the bridge's substructure and the bridge's approach, put those pillars under a good deal more weight than that steel span has and they held up. My guess is that a bolt slipped and sheared off with the rest following like dominoes. The falling steel would then have torn up the pillar as it fell into the river," he speculated.

**AN OFFICIAL** inquiry by the state government has been convened to determine the cause of the collapse. The question must be decided before it is determined just whose insurance coverage will apply. If it is found that the disintegration of the pillar from the weight of the steel span caused the toppling, then presumably the general contractor for the bridge's substructure (a \$6 million contract) would be held liable for the accident.

On the other hand, if a bolt did slip and shear at a weak point in the joint between the steel span and the concrete pillar then the insurance situation would be changed considerably.

According to one source, World Services, a Dutch contractor, had originally been awarded the contract for the construction of the steel span (an \$18 million contract). The firm's participation in the bridge's construction was superseded, however, by the Melbourne bureau of public works because the company had fallen nine months behind schedule, showing no signs of catching up the source explained.

World Services apparently had warned the bureau about a weakness in some shoring up in the steel area of the disintegrated pillar. If the on-site engineer gave the go-ahead on the attachment of the span to the pillar, says the source, then the public works' own contractor's all-risk insurer would have to pay up.

Still another insurance possibility was brought out by local newspapers, which took note of the fact that Freeman Fox & Partners, London, the architectural firm that drew up the original blueprints for the span, had also designed a bridge in Wales that collapsed last June, killing four people. If the government inquiry determines it was a design problem that led to the col-

lapse then presumably the design firm's errors and omissions coverage, written for them by Lloyd's, would be called into play.

Whatever the import of these liability questions, they will be decided by the results of the government inquiry. One source suggested that the major insurance problem would be one of liability. "It will only take between \$300,000 and \$400,000 to raise the bridge span and begin work again," he explained. The source also felt that workmen's compensation coverage would pay about the same. Victoria provides a death benefit under workmen's compensation of between \$10,000 and \$12,000. ■

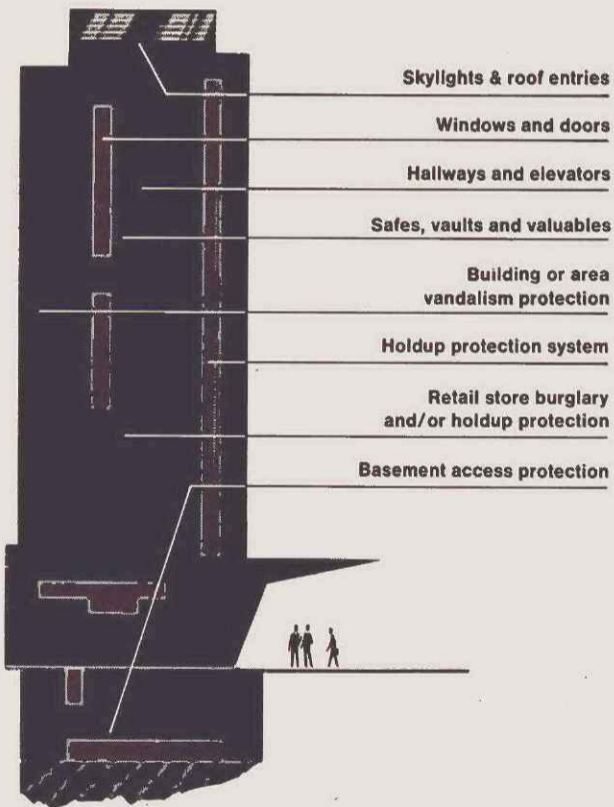
# Union gets auto cover

DAYTON, O.—Joe Shump, president of Local 801, International Union of Electrical Workers, said that Frigidaire's 14,000 union members will be offered automobile insurance at an average rate saving of nearly 20%.

Under a plan which Mr. Shump called "the best now available," Hartford Insurance Co. auto coverage will be made available to all credit union members on a voluntary basis.

Mr. Shump pointed out that Hartford can cancel under this plan only if the person insured loses his driver's license or fails to pay his premiums and that the policies will cost an average of 15 or 20% less than in the past. ■

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# Crash . . .

*Continued from page 1*  
passenger or \$300,000 per occurrence is required." She said that Golden Eagle had none of this insurance "that we know now."

FAA officials have said they warned both Wichita State and Tulsa University that Golden Eagle wasn't licensed to fly large charter flights. To date, the FAA has found no record of an airworthiness safety certificate for the 20-year-old plane that crashed. The certificates of 23 of Richards' known planes were revoked and six have now been reinstated.

Ed Slattery of the National Transportation Safety Board told *Business Insurance* that neither air company had yet appealed to the NTSB to get back their licenses "but this would be more likely to occur after the public hearing in Wichita." The hearing will determine the probable cause of the crash. ■

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# Benefits council is forum for health plan debate

By GEORGE LANGWORTH

NEW YORK—Proponents and enemies of the national health insurance proposals now coming before Congress slugged out another round at the Council on Employee Benefits here. All agreed that while people seem to be taking the subject more seriously these days, the fight to determine just what legislation and how much (if any) will be enacted will be a long one.

Apparently, many who formerly ignored such talk are waking to the fact that there is a serious deterioration in our health services, according to James Brindle, president of the Health Insurance Plan of Greater New York. There are several facts, he said, they keep tripping over. "For example, we spent 6.7% of our gross national product (which is threatening to reach the \$1 trillion mark this year) for our health care costs—more than anybody else, but we ranked 13th behind countries with lower infant mortality rates," he pointed out.

That doesn't really tell of our real problems, apparently, however. Mr. Brindle indicated that there seems to be a group of people who consistently receive poorer medical treatment and have consequently poorer health. "We found in a study of inner-city Detroit that maternal death happened seven times more frequently there than in the rest of the country. But, then, the life span of blacks anywhere in the U.S. is seven years shorter than for white people," he said.

**ALL THE BILLS** on the subject seek a universal health care coverage, Mr. Brindle said. So, now that everybody's at least agreed on that concept all that's necessary is to iron out the details.

But the various bills and their details, unfortunately, are quite at variance with one another. Sen. Paul R. Fannin (R.—Ariz.) introduced the Mediredit bill, sponsored by the American Medical Assn. earlier this year. It provides a financing scheme for whatever comprehensive plan a family or individual wishes to buy, so long as it includes basic hospital and doctor's benefits. There is no penalty for existing health conditions and the coverage is guaranteed renewable.

The benefits under the program are subject generally to cost sharing and limitations. Under the Mediredit scheme the same method of payment currently in use by the carrier or prepayment plan purchased by the policyholder would be continued. The bill proposes, chiefly, to amend the Internal Revenue Code to allow tax credit for health insurance premiums. An individual will get credit for a percentage of \$150 (individual's premium) while a family will get credit for a percentage of \$400 (family's premium). The percentage of the premium qualifying for tax credit decreases with a correspondingly higher level of income of both the family and the individual.

Rep. Martha Griffiths' (D.—Mich.) bill would provide, on the other hand, comprehensive health services, including those services of family doctors, specialists and psychiatrists, diagnostic and preventive procedures, all hospital services (both inpatient as well as outpatient care), ambulance, home health service, nursing homes, dental services for children under 16) and the poor, but not for other adults.

**THE VARIOUS** covered health services proposed under the Griffiths' bill would be paid for through physician and/or dentist groups contracting to receive a predetermined payment. The group association would then pay their members as they wished, including a fee for services. The bill outlines a plan for the negotiation of a budget with hospitals as well as predetermined allowances for nursing homes and home health services.

The Griffiths' bill also includes a cost incentive to improve. It provides for an additional payment of 5% of the total per person payment for conducting an evaluative review of the health services, any improvement in the efficiency of the delivery of services and a program of continuing

education. These improvements would be determined by a system of peer review. The general policy of the program prescribed by the Griffiths' bill would be set by a national health profession council that would also police the uses of the plan.

Sen Jacob Javits (R.—N.Y.) introduced a bill proposing a universal health coverage with benefits similar to those now provided by Medicare for those over 65. These would include maintenance drugs, an annual physical check-up, dental services, except orthodontia (braces), for children but not for adults. All prescription drugs other than for maintenance (such as insulin for diabetics for example) would be excluded from the coverage.

Benefits would cover eyeglasses

and hearing aids. Hospital costs as well as doctor and nursing home services would be subject to similar cost-sharing and limitations as are currently in force under Medicare.

**BLUE CROSS** and Blue Shield as well as insurance companies would be continued under the universal program proposed by the Javits' bill. They would operate under it in their current capacity for Medicare—paying reasonable costs to hospitals and institutions and reasonable charges for doctors until July 1, 1973. After that new methods hopefully to be developed in the interim would be employed.

This past August, Sen. Edward M. Kennedy (D.—Mass.) introduced a bill in Congress pat-

terned on the work done by the Committee for National Health Insurance's Health Security Plan, set up by the late Walter P. Reuther, president of the United Auto Workers. The bill calls for the entire range of services needed to maintain the health of the plan's participants. These include prevention and early detection of disease, care and treatment of illness as well as medical rehabilitation. The bill excludes any and all cut-off points, co-insurance provisions as well as deductibles and waiting periods.

There would be no restrictions on the plan's provided services except for four exceptions that are due to inadequacies in the nation's existing resources. These exceptions would be nursing

Continued on page 48

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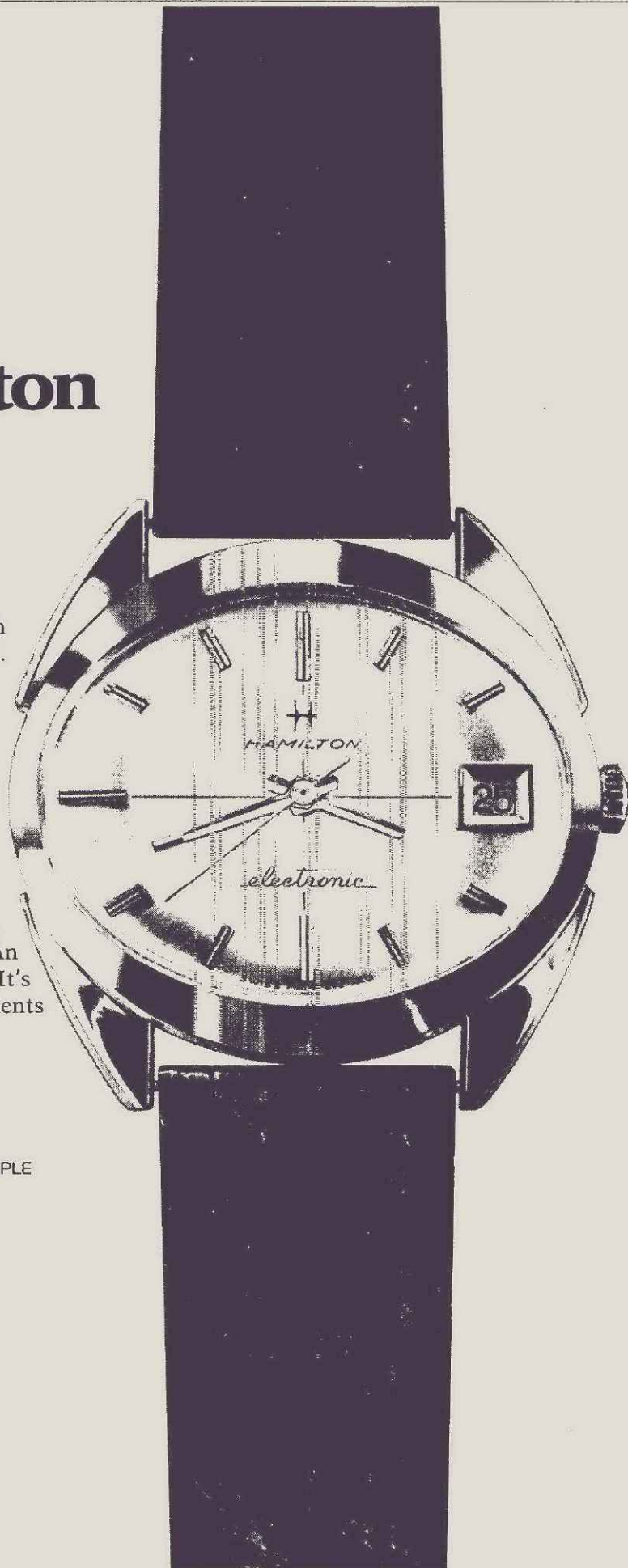
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## washington watch

# Federal program costs augur boost for national health insurance plan

WASHINGTON—Although the public will now know for certain until some time in November, experts here in Washington are predicting that the premiums on the Federal Employees Health Benefits Program, which covers some 8.2 million persons, will probably go up at least 15% in 1971.

This, they say, will serve to drive just one more nail in the coffin of the nation's current non-system of health care and bring us another step closer to

national health insurance.

Advocates of national health insurance have claimed for some time that one of their strongest selling points is "skyrocketing health care costs"—a term which has almost become a cliché in America today.

**THIS, THEY SAY** is true because only through such a national system can such cost increases be checked.

There are numerous indices of

health costs, most of which are subject to interpretive controversy. One which is difficult to argue with is health insurance premiums and these are quite literally skyrocketing out of reach of many Americans.

The federal government health insurance plans for its employees are considered to be industry bell-weather—that is, premiums on these plans generally pace those in industry and other parts of the private sector.

Next year's expected 15% premium increase comes right on the heels of a 12% jump in 1970. And, a report prepared for the government by the nation's leading actuarial consulting firm, Milliman & Robertson and made public early this year, predicts increases of between 10% and 35% every two years until 1976, probably averaging between 20% and 25% (*Business Insurance*, March 2).

**IN ADDITION** to rising health care costs, lobbyists for national health insurance cite the increasing stake that the government has in the nation's total health expenditures as a major argument for an entirely federal program.

This ever increasing federal interest places control over total costs more and more within the government's sphere of influence, they claim.

Here again the big boosts in

premiums on the federal employees' health insurance plans come into play. This will be even more pronounced after the first of the year because President Nixon has just signed a bill which will have the government paying about 40% of the total tab as of January 1, instead of the current 24%.

The federal program covers some 8.2 million persons, including employees' families. The total cost in 1970 will come to about \$958 million. Assuming a 15% increase in premiums in 1971, this will rise to \$1.1 billion.

**THE GOVERNMENT'S** share of the 1970 costs will be about \$232 million. Under the new law, and assuming a 15% premium rise, this will almost double to about \$450 million in 1971.

The Milliman & Robertson report based its predictions of drastically higher health insurance premiums on the feeling that "significantly higher payments for doctors' services are yet to come as well as higher hospital costs" related to higher wage averages, more expensive equipment and greater administration costs.

The Nixon Administration has opposed national health insurance as a solution to these problems. It hopes instead to control costs through a series of complicated administrative and legislative checks and balances on federal payments for health care under the government programs, primarily Medicare and Medicaid.

Two major proposals in this area are currently bouncing around Capitol Hill as part of various versions of the certain-to-be-passed bill updating Social Security and Medicare-Medicaid benefits.

**ONE WOULD FOSTER** the establishment of health maintenance organizations (HMOs) like the Kaiser plans in California by allowing Medicare beneficiaries the option of having their health care provided by such a plan.

Many experts feel that the HMO, which provides all health services to the individual for a fixed set-in-advance fee, is the only answer to the health care cost problem.

A second proposal would place strict control on doctor and hospital fees by establishing throughout the nation local Professional Standards Review Organizations to evaluate the performance of health care providers in federally-supported programs.

Because of its close ties to the American Medical Assn., the administration hasn't officially backed this second plan, but the Department of Health, Education and Welfare did help draft it and it is understood that the administration would find such a plan a much more acceptable means of contributing costs than national health insurance.

### Petty is CPCU head

H. D. Petty, manager of corporate planning services for UCC Financial Corp., Dallas, has been elected president of the southwest chapter of the Society of Chartered Property and Casualty Underwriters. His 1971 plans for the chapter include expansion of the internal and external communications and more effective membership involvement in the educational and producer recruitment programs. UCC Financial Corp., a subsidiary of University Computing Co., is a holding company for the Gulf Insurance group and Mr. Petty is involved in monitoring the insurers' operations.



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# Touchy Question #49

**When does the smart risk manager place his group insurance with a carrier that does NOT offer the lowest rate?**

Whenever another carrier can give him a superior program.

These are troubled times for administrators of employee security plans. In the past few years, group health insurance premiums have risen not only much faster, but much higher, than workmen's compensation insurance premiums (for instance), and there are no signs of a slowdown.

There are several reasons for this. Group accident and health insurance is still in the growing stages. Its protection extends beyond employees to their dependents, a minor factor in compensation exposures. New workmen's compensation benefits must be legislated; new group health benefits are negotiated in labor-management bargaining sessions every day in the week. And there's a sort of leapfrog relationship between health benefit boosts and pyramiding hospital-medical rates, with each used as an excuse for the other.

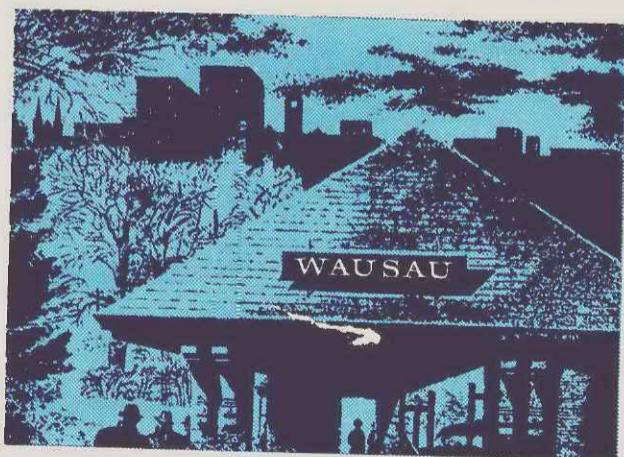
The problem is intensified by the fact that group insurance is written to a higher permissible loss ratio than any other major coverage. About 90c in every premium dollar

goes into losses and (with mutual carriers) dividends. The insurer must pay acquisition costs and expenses out of the other dime. This leaves little room for price-cutting, as a good many group carriers have learned to their cost.

As a good many risk managers have learned to *their* cost, when an insurance company can't live with its retentions and go-in rates and bails out, the policyholder gets hurt worse than the insurance company. The carrier can solve its problem by abandoning it. The risk manager can't do that. He has to start all over again with a new insurer—if he can find one.

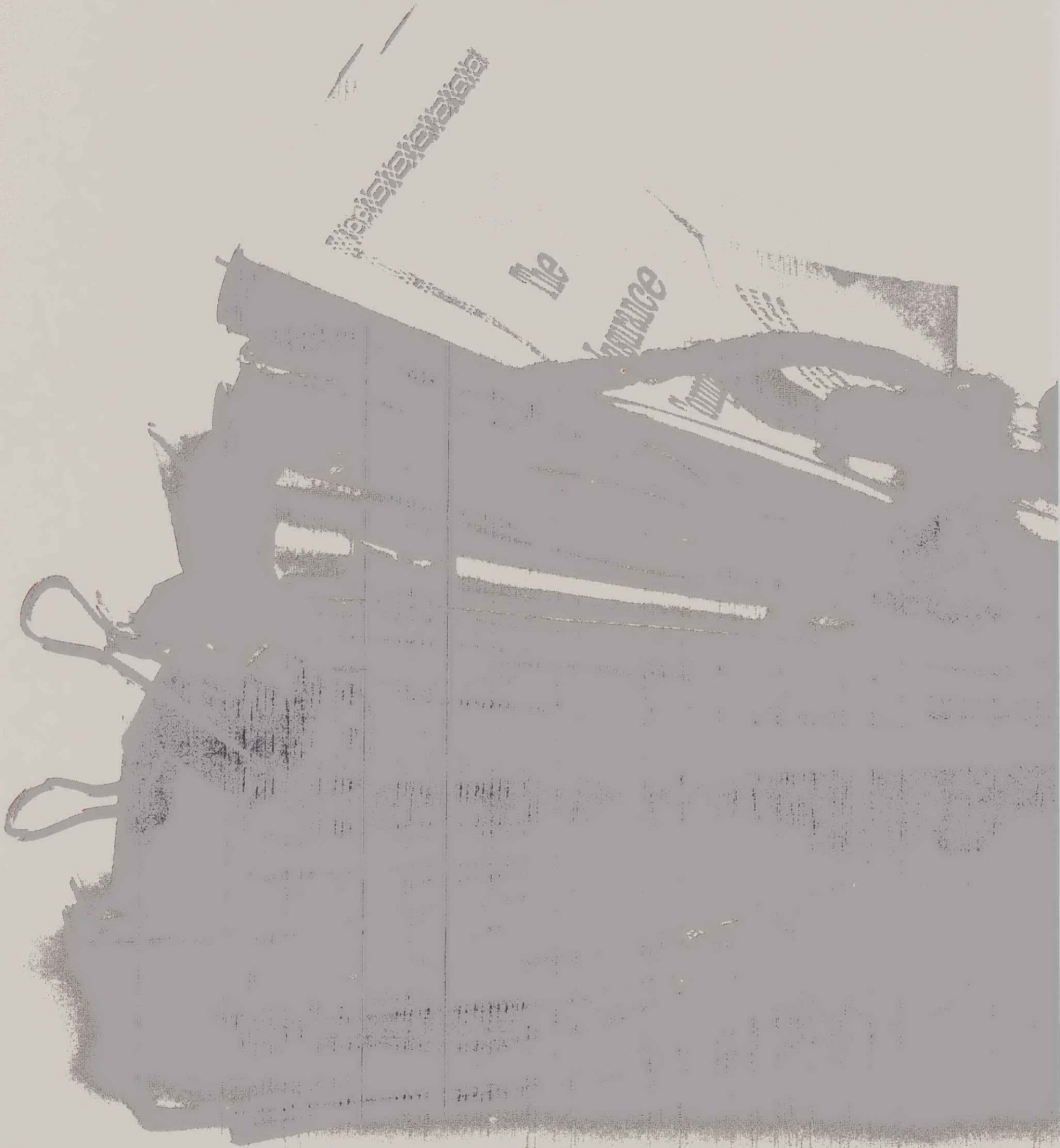
Retention and go-in rates are not a major consideration to any smart group insurance buyer. He's looking for a company ready, able, and eager to help him make his security program economically insurable and keep it that way.

It's a little bit like courtship. If the guy is prudent, he'll look beyond those dimples and ask himself "Can she cook? Can she sew? What does she look like in the mornings?" What he wants is not just a short, happy honeymoon, but a long, peaceful marriage.



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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 Cal-Western Securities Co., 2020 L St., Sacramento, Cal. 95814, has made available, free upon request, **What is a variable annuity?** The brochure defines variable annuity and describes Cal-Western's approach to it. A list of the firms' directors is included. Direct requests to Robert G. Sharp, vice president.

- **Proud and tall** is a film released through government sponsored state rehabilitation centers and the Employers of Wausau Co. the 13½ minute, 16mm, color film reveals some of the agonies a person goes through in the rehabilitation process. The story is about a worker who was blinded on the job and with help resumed a solid and useful place as a productive worker. The film is available on a loan basis from local government rehabilitation agencies and the Film Dept. of the Employers of Wausau Co., Wausau, Wis. 54401.

- The Small Business Administration has compiled an aid for **Preventing employe pilferage**. According to the aid, to prevent pilferage an owner-manager must recognize that some employes cannot be trusted and make all employes aware that he is taking steps to thwart dishonest personnel. Such steps include setting up a system of loss prevention, administering the system rigidly, and auditing it often to discourage dishonest employes who try to bypass the system. Copies are available free from field offices and the Washington headquarters of the Small Business Administration, Washington, D. C. 20416.

- A film about **What doesn't have to happen . . . in the crash** has been prepared by the Insurance Institute for Highway Safety, Watergate Office Bldg., Washington, D. C. 20037. The film is a 16 mm, color, 22 minute vehicle which lets the viewer see the crash the way highway loss reduction advocates see it. Slow motion shots range across a wide selection of recent car crash experiments to let you see how—and why—the metal gets twisted, and lives broken. It may be purchased from the Institute for \$195. This Kemper Insurance Group has arranged to show the film, free of charge, to groups which contact local Kemper Insurance Branch offices or write to Robert P. Palmer at Kemper, 4750 N. Sheridan Rd., Chicago, Ill. Kemper provides suggested press releases, introductory remarks and a feed-back report to supplement the film. When contacting a Kemper agent, keep more than one date in mind for the showing of the film.

- BF&M Management Ltd., Hamilton, Bermuda has made available

a booklet **About your own insurance company in Bermuda** describing the functions of the company, which was set up exclusively to manage 'captive' insurance companies on the Island. A copy may be obtained by writing Derek L. Dempster, Manager and Secretary, BF&M Management Ltd., P.O. Box 1007, Hamilton, Bermuda.

- Pacific Employers Insurance Co., an INA Corp. company, has prepared a booklet entitled **INA/PEG total loss control making safety pay**. This publication is offered free of charge. It describes a measuring stick for preparing a loss control profile to aid in the task of pointing out areas that need improvement, suggest new programs to correct the short comings and help the employer do away with potential loss producers in his plant. For a copy write the firm to the attention of the Public Relations Dept., 4050 Wilshire Blvd., Los Angeles, Cal. 90005.

- The Polaroid Corp. has made available a booklet describing their ID-2 Land Identification System which produces full color ID cards and badges on the spot. The subject's image and data are recorded simultaneously on one piece of film. The film is laminated with a sheet of clear plastic which is chemically bonded to the face. A photographically reproduced validating signature or seal overlaps the photo and data portions of the card, making it difficult to alter the subject photo. For more information or a copy of the booklet write the firm to the attention of Adrian E. Van Dorpe, Industrial Marketing Dept., Cambridge, Mass. 02139.

- The Swiss Life Insurance and Pension Co., General Guisan Quai 40, 8022 Zurich, Switzerland, publishes periodically the **Swiss Life News Letter** with current information on various aspects of European employe benefits. Anyone may be placed on the current mailing list, free of charge, by writing the firm.

- The National Fire Protection Assn. has released the following 1970 editions of previously published manuals: **Manual for fire protection for archives and record centers** (NFPA No. 232A-M-T), 32 pages, \$1; **Standard for the protection of records** (NFPA No. 232), 100 pages, \$1.50; and **Recommended practice for protection of library collections from fire**, (NFPA No. 910), 32 pages, 75¢ When ordering the publications, list the accompanying NFPA numbers for easy identification. Direct orders to the NFPA Publications Service Dept., 60 Batterymarch St., Boston, Mass.

- Business life insurance may be more efficiently purchased under a term insurance plan. The advantage depends largely on the firms opportunity cost of capital. **Buying whole life insurance and investing the difference as compared to term** illustrates numerous situations. The book may be obtained for \$5 from Dr. Stuart Schwarzschild, 78 Carlton Dr., N. E. Atlanta, Ga. 30303. Dr. Schwarzschild is a professor of insurance at the School of Business Administration, Georgia State University.

- The Chamber of Commerce of the U.S. has prepared and published a 1970 edition of **Analysis of workmen's compensation laws**. The analysis is a ready reference to the statutory provisions of the

laws of the 50 states, the District of Columbia, Guam and Puerto Rico and Canadian provinces. Fourteen charts are presented to aid employers, employees, insurance firms, agents and brokers in locating specific provisions of workmen's compensation laws. Orders up to 9 copies are \$1.50 each, 100 copies or more are 75¢ each. Direct orders to the Commerce at 1615 H Street N.W., Washington, D. C. 20006.

• **The modern concept in international group insurances** is a booklet published by Swiss Life Insurance and Pension Co. covering the background, problems, and possible solutions and special advantages for international group insurances and some facts concerning Swiss Life. The booklet may be ordered, free of charge from the firm at General Guisan Quai 40, 8022 Zurich, Switzerland.

• **Group life and pension plans for international companies** is a booklet published by the Swiss Life Insurance and Pension Co. concerning the problems with which a large firm employing a staff spread over several European countries must deal with when devising pension plans such as diversity of legislation, varied Social Security systems, and taxation changing from country to country. Free copies may be obtained by writing the firm at General Guisan Quai 40, 8022 Zurich, Switzerland.

• Towers, Perrin, Forster & Crosby, Inc., Three Penn Center, Philadelphia, Pa. 19102, has made available reprints of the following articles on employe benefits: "Are U.S. executives in Europe really overpaid?," by Arthur Bierwirth, TPC; "Retirement pension planning in Europe for local nationals" by Wolfgang Glage, reprinted from *Worldwide P&I Planning*; and "Planning benefits in Europe: The problem of consistency" by André E. De Montigny and Dieter Schmah, reprinted from the *Columbia Journal of World Business*. Copies may be obtained from the firm.

• **Community action . . . before the emergency** is a booklet published by Employers Insurance of Wausau describing the common errors of unpreparedness in communities. The booklet lists a number of national organizations that can provide valuable information, assistance and guidelines for evaluation and action in preparing a community for disaster. The firm also furnishes a free-loan film **Before the emergency** that won the safety film of the year award from the national committee on films for safety. Single copies of the booklet are free upon request. Direct requests to the Public Relations Dept. of Employers Insurance, Wausau, Wis. 54401.

• **Alexander International** is a booklet describing the professional service organization which provides advisory, actuarial, banking, investment, and administrative services in the international employe benefit field. A copy may be ordered by writing Alexander & Alexander Inc., 225 Broadway N. Y., N. Y. 10007.

• **The Zurich Group . . . experts in worldwide insurance** is a brochure aimed at boards and managers of international companies. The brochure describes the services of the Zurich Group, lists the addresses of head offices in 26 countries, and gives a brief history of the firm. Copies of the booklet may be received, free of charge, upon request by writing the firm at 111 W. Jackson Blvd., Chicago, Ill. 60604.

## Failed to pay benefits

WHITE RIVER JUNCTION, Vt.—State Line Trucking, owned by Stewart Rouse, has been charged by the U.S. Department of Labor with underpaying employes hauling mail under a contract the trucking company has with the federal government.

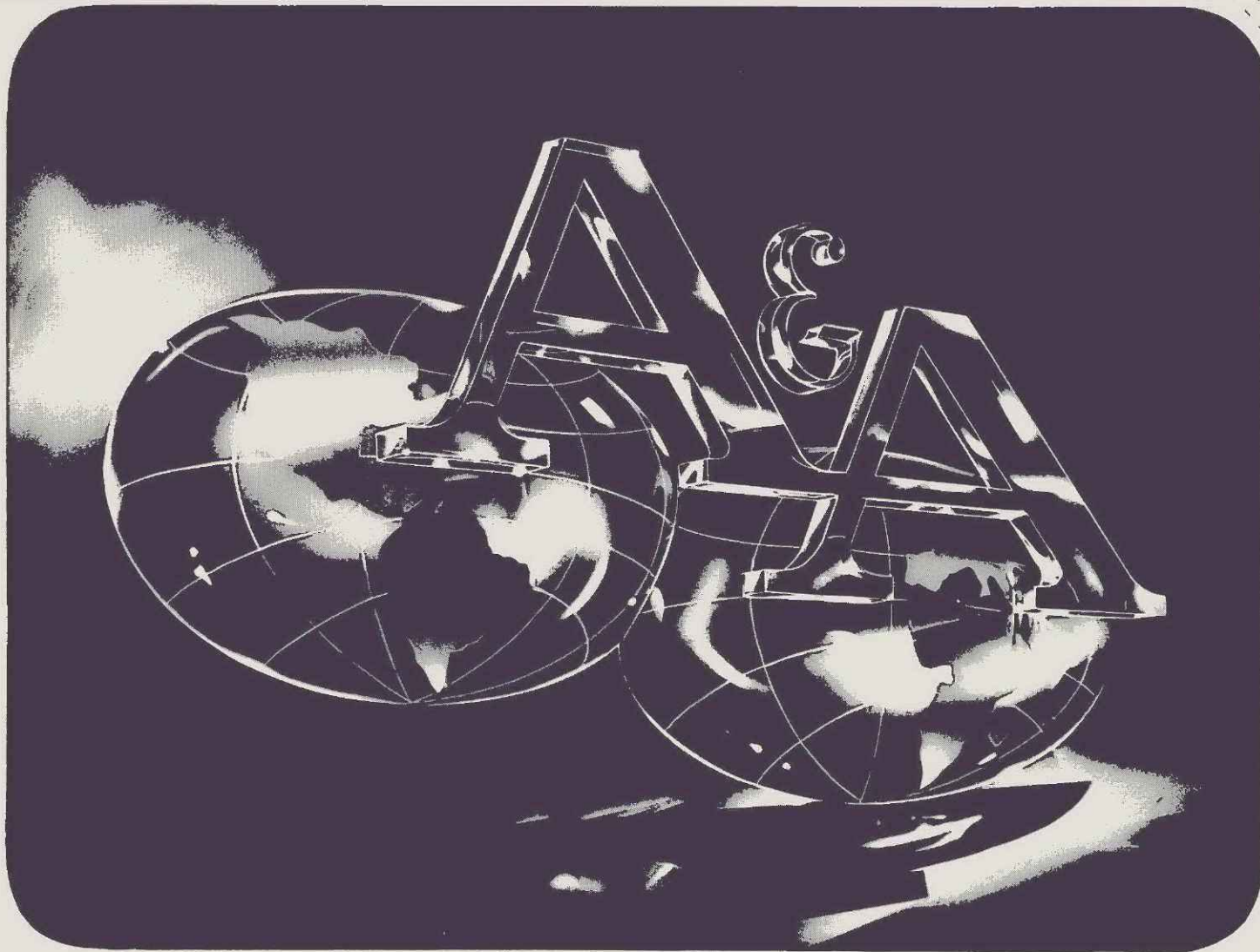
State Line has two mail hauling contracts totaling almost \$240,000.

A Labor Department spokesman said that State Line had failed to pay employes an estimated \$1,914 in required fringe benefits.

The spokesman added that the back sum would be collected by the government for distribution to its employes and would deny further government contracts for three years. ■

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# following the funds

## Lack of adequate U.S. regulation fosters scandals in fund operations

WASHINGTON—Although many complain about the scope and the direction of employee benefit fund regulation, scandals come to light from time to time that serve notice of the vast opportunities for fraud supplied by un-regulation. One Washington lawyer, in fact, likens same to "studying icebergs."

Funds with large sums of money can put quite a burden upon their beneficiaries and/or their contributors when the money is not appropriately put to work in a program of yield-bearing in-

vestments. This is most easily seen when the actuary's "rule of thumb" is applied to a fund.

Each percentile of increased yield can be translated into either a 20% reduction of costs or a 20% improvement of the existing benefit levels. Correspondingly, a drop of 1% in the performance of the money would cause the necessary contributions to keep the fund on its IRS-directed course to jump by 20%.

**ANOTHER** alternate course in the case of this loss of yield

would be to cut the benefits supplied by the fund by 20%. But, of course, this is not the more desirable alternative if the company wishes to keep the fund's tax exemption. Thus, it's left up to the company to take the cost hike on the chin.

More important than the eccentricities of money management performance, however, (fearful as some of them have apparently been in the last 12 months) are the myriad of new and different places, times and ways in which funds can be more

effectively managed. Usually, these revelations are turned up by a few enterprising fund officials looking for some hidden form of creative mismanagement with which to make their fortunes.

In 1965, the Labor-Management Reporting and Disclosure Act was amended to require surety companies writing "honesty" and "faithful discharge of duty" bonds for pension fund officials (trustees are required to be bonded by the disclosure act) to file a profit and loss statement annually with the federal government.

Labor management service administration officials admit that the 300 companies reporting currently are not quite all of those that write such bonds for pension funds. Still, their reports provide some record of these "new management areas." There were only six such frauds/losses reported in

1967 by bonding companies. In 1968 there were 65 of them. However, it appears that more companies reported to the government in the second year than in the first.

**TWO OF THE** more recent spectacular new fund management opportunities to surface in the recent months are those pointed up by litigation involving the United Mine Workers' welfare and retirement fund of 1950 (and the union's fund management program in general) as well as the federal employees' health plan fund of the National Assn. of the Blue Cross-Blue Shield.

The United Mine Workers' welfare and retirement fund was negotiated in 1946 between the bituminous coal industry and UMW's John L. Lewis. Contributions by the coal mine employers were then fixed at 40 cents per ton and have not been changed since, according to amendments to the original agreement.

Said Joseph A. Yablonsky, son of the murdered ex-candidate for the international UMW presidency, "Pension pay-outs in the UMW are the variable rather than the pension costs, unlike the case in other pension funds. If the number of pension applicants gets running too high in any one year, the fund simply cuts back on benefits."

Trustees for the plan include one union member (currently W. A. Boyle, UMW president), one "neutral trustee" (Josephine Roach, reportedly an old friend of Mr. Lewis, has always held this position) and one trustee actually appointed by the coal mine operators. The fund assets were placed under the custodial care of the National Bank of Washington, which also was expected to help out with the investment management.

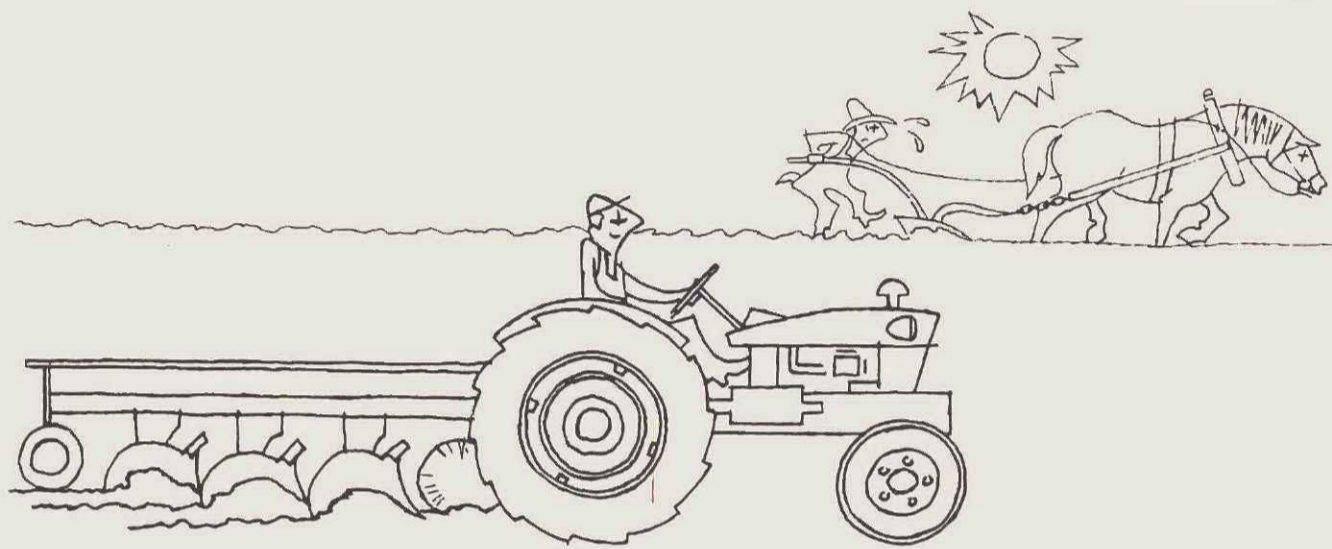
**APPARENTLY** this relationship was very friendly, at least from the bank's part: The union proceeded to invest its own revenues heavily in the bank's shares, as well as to give it a large piece of the pension fund assets for a low yield interest rate (some \$50 million according to the latest D-2 form available).

In addition, the pension fund also gave the bank three pieces of money at no cost. The comptroller general of the U.S. has just completed an actuarial study of the pension fund, which reported that the fund had for several years maintained a noninterest-bearing general purpose checking account (current balance: \$21.6 million), an administrative checking account (current balance slightly more than \$1 million) as well as a pension fund pay-out checking account containing more than \$3.5 million at no interest.

The current D-2 form describing the status of the UMW welfare and retirement fund asks the question whether any investments have been made with parties in interest with the fund. The fund trustees have answered "no." Under the current court precedents for the definition of "parties in interest" the bank's interesting situation does not qualify apparently.

Another interesting finding was the U.S. comptroller's statement that the last pension increase was "improvidentially granted." The last increase came during the pre-election contest between Mr. Yablonsky and Mr. Boyle. The incumbent Mr. Boyle raised the pension benefit some 30%, from \$115 to \$150 a month for all UMW pensioners. Subsequently it was determined that Mr. Boyle had garnered the votes

Continued on page 54



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# london line

## Container company says research supports lower rates for some ships

LONDON—Demands for container rates to be lowered by marine underwriters were made by a large British shipping firm engaged in the Australia run.

The firm, Overseas Containers, says arguments against lower premiums are based by the insurance market on the loss or damage of containerized cargo during transhipment in converted vessels. But it claims this approach should not be allowed to apply to the use of purpose-built container ships.

Research on 12 months' experience on the U. K. Australia run by Overseas Containers shows that general cargo claims are between 2.5% and 5% of what could have been expected from conventional shipments. The company says this calls for a general re-think on container insurance, especially when specially designed cellular container ships are used.

**INDUSTRIAL** accidents are costing Britain more than \$1.5 billion a year. So insurance companies are backing the corporate safety campaign slogan: "A good safety organization is a good financial proposition." They advise that 75% of all accidents concern a workman or female employe who has been at work for three months and acquired some skill in the job. A skilled operator with more than six months' experience is involved in 10% of the accidents.

**SURVEYORS** for Lloyd's non-marine underwriters are urging British business firms engaged in plant expansion to adopt the slogan: "Consult your insurance surveyors before you build."

Pointing out that fire losses have soared from \$250 million in 1968 to \$300 million last year, they are stressing the point: "Today there is a greater need than ever before for liaison between insurers and insureds. Much can be done in the early stages of a project if insurance surveyors are called into consultation at the drawingboard stage."

Lloyd's syndicates survey department makes 7,000 surveys every year, and has been in existence for 50 years. It usually operates in Britain, but sends its experts abroad at times. It takes the view that with modern rapid changes in industry, no risk should be left for more than three years without re-inspection.

**INDEMNITY** insurance for architects, lawyers, and accounts in London is facing premium hikes because liability payments are getting higher in many sections of their work. This is notable in the case of architects engaged in modern building requirements where "human errors" could be costly. Underwriters lost heavily on this class of business last year.

**STRONG HOPES** are now felt that TOVALOP, the tanker owners oil pollution voluntary agreement set-up, will reach its target of 80% membership well ahead of time. Registered tonnage with TOVALOP now totals more than 60 million tons.

When it started operations in

October last year, with 50% of the world tanker tonnage already subscribers, the declared aim was to obtain 80% membership by October, 1971. But the two-year plan has progressed so well that already 71% of potential members have joined, and there is good reason to believe that there will be the required 80% for its established success by the end of this year.

The agreement, administered by the International Tanker Owners Pollution Federation, provides

for compensation to governments up to \$10 million per incident per tanker for clean-up expenses in the event of an incident involving pollution.

The scheme was introduced after the big Torrey Canyon disaster off Britain in 1967, and was sponsored by British Petroleum, Gulf Oil, Mobil Oil, Shell International Petroleum, Standard Oil of California, Esso Transport Co., and Texaco. Japanese ships were slow in supporting the start of the scheme, but are apparently

changing their mind with world pollution rules getting stricter all the time.

Grounding of the tanker Arrow off Newfoundland earlier this year promises to be its first major claim. The Canadian government is expected to submit it for settlement under the TOVALOP plan in the near future.

\* \* \*

**PUBLIC DEBATE** will take place in London on Nov. 4 on world plans to change air carriers' liability pay-outs, which will be discussed by the International Civil Aviation Organization in Montreal next February.

The discussion is being organized by the Royal Aeronautical Society so that air travelers can express their views on the proposed rigorous changes. Viewpoints of air carriers and claimants will be presented by lawyers such as J. J. Kennelly and George

Lapham, of the U.S., and F. E. Mostyn and Peter Martin, of Britain.

The new proposals, if effective by ICAO decision, will impose strict liability on the air carrier up to \$100,000 per passenger, subject only to the defense of contributory negligence, rising by \$2,500 each year. But it will become impossible for claimants to break these limits if the Montreal conference amends existing international law.

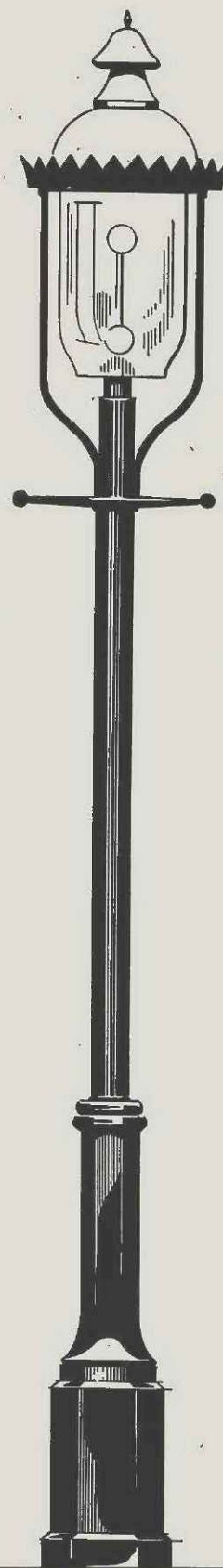
\* \* \*

**INSURERS** expect that the Scandinavian Airlines (SAS) system will get governmental protection for its hijacking risks if it cannot get insurance cover in the normal market at reasonable terms. This follows an announcement by Swedish Transport Minister Bengt Norling that the Swedish, Danish and Norwegian governments are ready to assume this responsibility.

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Giles on the law

# You could be liable for employee accident if he gets travel expense

By JOHN W. GILES  
Attorney at law

WASHINGTON—Do your employees receive "carfare" and travel time to and from the job? If they do, and they injure anyone in the course of their travel, you may be liable.

A Los Angeles policeman was standing on the center divider of a freeway inspecting a possible road hazard when he was struck by a car driven by the defendant's employe on his way home from a job site. The employe received "carfare and travel time" to and from the job.

The appellate court held that the defendant employer was liable. The court said that the losses caused by the torts of employes, which as a practical matter are certain to occur in the conduct of the employer's enterprise, are a required cost of doing business. Because the employer is engaged in a business which will on the basis of past experience involve harm to others through employes' torts he, rather than the innocent injured plaintiff should bear the losses. It is the employer who is better able to absorb them and to distribute them through prices, rates, or liability insurance, to

the public. Liability of the employer may not be avoided by relying on "the going and coming rule." Under this rule, an employe going to and from work is usually considered outside the scope of his employment. Here the employer and employe have made the travel time part of the working day by their contract, and as long as the employe is using the time for the purpose of returning home, the doctrine of respondent superior is applicable. (Cal. Sup. Ct.—*Hinnan v. Westinghouse Electric Co.*—7/30/70.)

**IF YOU OWN** race horses and

employ a freelance jockey, is he your employe for the purposes of workmen's compensation?

The owner arranged to have his horses trained and handled by the trainer for a certain fee plus a percentage of the winnings. Once the horse was turned over to the trainer he had complete control of it. Although the owner had the right to countermand the trainer's decisions and to make judgments affecting the horse and selection of the jockey, he never did so. When the services of a jockey were required, the trainer would hire a freelance jockey. The Monmouth Race Track does not directly employ any jockeys, but does maintain owners' trust accounts to pay jockeys on behalf of the owner. It retains the right to exclude certain jockeys from the track.

The jockey was killed and the widow seeks a determination that

her husband was simultaneously the employe of the owner, his trainer, and the race track, each of which carries workmen's compensation insurance.

The court said that the owner, if he had chosen to do so, could have exercised control over the jockey's ride; he had the right to hire and fire the jockey; and the jockey looked to him for payment through his owner's trust account. The right to exercise control and to hire and discharge is determinative, not the actual exercise of the rights. All the trainer's activities in connection with the jockey were solely as agent for the owner. Hence the widow is entitled to the compensation. (N. J. Super. Ct.—*Monmouth City—Biger v. Erwin*—1/23/70.)

\* \* \*

**IF YOU ARE** a seller of an automobile and you fail to comply with the state statute relating to signing over of document of title by you, do you remain the owner of the vehicle for purposes of liability arising out of an accident involving the vehicle at the time it was driven by an employe of the purchaser? Does the omnibus clause of your policy or any other clause in your policy provide coverage?

The Arizona court says "No." In the case the car was sold, the price paid, possession was delivered to the buyer, but the formalities of transferring title were not completed. An employe of the buyer picked up the car and while it was being driven by the employe he collided with a car in which the plaintiffs were driver and passenger, respectively. The plaintiffs obtained a \$50,000 judgment and sought to recover it from the insurers of the seller. The court pointed out, in denying the liability of the insurance company of the seller, that under Arizona law, ownership for all purposes passed to the buyer on the subsequent delivery of the car to the buyer. From that moment on, the seller was not the owner of the car and it had no interest therein. It had no dominion over the car in any respect, nor any control over who was driving it, or where. It was not being driven with either the express or implied authority of the seller, because with the transfer of ownership all authority over the vehicle and its operation ceased and the seller had no further rights in it. The insurance coverage given to the seller was predicated upon just such dominion, authority and rights with their concomitant obligations. The court refused to follow the California case of *Harbor Insurance Co. v. Paulson* (286 Pac. 2nd 870), which is contrary to the law in most states. (*Wallace v. Employers Casualty Co.*—418 Fed. 2nd 1323.)

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## Anti-fraud unit formed

CHICAGO—An investigative agency to combat frauds against auto and general liability insurers has been formed by 11 insurance companies.

The new facility, called the Casualty Insurance Fraud Assn., is headed by Donald B. Barker, vp of Lumbermens Mutual Casualty Co.

"We hope that this agency will enable us to punish those who accomplish frauds against insurers, particularly auto insurers," Mr. Barker told *Business Insurance*. "And we hope that the publicity it generates will act as a deterrent to those who may contemplate defrauding insurers."



# Nichols says it's shape up or ship out for the life insurance industry

CHICAGO—A warning to the insurance industry on what it has to do to survive the challenge of Naderism was delivered here at the Continental Assurance Co. life insurance conference.

"Naderism is a general dissatisfaction with the economy and the 'it can't be done' theory," said Archie J. Nichols, professor of economics and insurance at Butler University, "and people are tired of goods and services that don't work." People today, he continued, are concerned about business and politics not responding to the needs of the public.

If the life insurance industry isn't careful, Mr. Nichols said, bank holding companies are going to set it back several decades. Banks feel that people are entitled to the same expert financial service and counsel that they now give to the average corporation. "Why?" Mr. Nichols asked. "Because it is becoming harder and harder for the average American to deal with the maze of both legislative and regulatory fine print on matters concerning taxation, investment, insurance, saving and all the other problems of financial life."

**THE LIFE** insurance industry must decide, he said, if it wants to remain as it is and face a

declining market or move ahead into the field of financial management. "The industry must stand ready to use its resources for the present needs of its customers and not merely sit back and pay funds whenever fortuitous occurrences require payment."

Mr. Nichols favors the concept of the one-stop financial center where consumers could establish a continuous relationship. All financial and insurance services should be available, he said, along with assistance in areas of travel, education and leisure. He recommends that a financial preferential indicator be worked out through computer programming to meet the financial objective of

each individual through use of the multiple tools and techniques available in the market place.

"The tax-sheltered protective cover should be expanded to include all forms of long-term financial planning for lower and medium income families," he noted, saying that this should ease the burden of separating insurance and investment from insurance policies. The emphasis should be upon early accumulation of funds through compounding of savings in the investment stream and after a 20- to 30-year period the investment fund should be available to fund current higher level standards of living.

At this time, he said, the demand of life insurance per se should decrease, level off, or even disappear from the financial portfolio of many families in the later years of life. "Savings should be made to accumulate funds to be used in the middle of life and to be passed on to the

younger members."

"**THIS IS** diametrically opposed," the professor said, "to the insurance idea, which is accumulation for accumulation's sake."

Mr. Nichols also warned the life insurance industry to watch its investment practices. Concern with ecology is here to stay, he said, "and if you are investing in areas involved in pollution, people won't buy your stock."

In an aside on the property-liability industry he predicted the demise of the personal lines market upon the increased use of leasing arrangements by today's society. "A person will lease a car and the cost of his insurance will be part of the lease cost."

The industry will then find that it is dealing with large corporations and experienced risk managers, he said, and services will have to be much more prompt and thorough than they are now. ■

## Shipping bill proposed for all Canada

HALIFAX, Nova Scotia—A bill to control shipping in Canadian waters south of the 60th parallel should complement the Arctic waters pollution legislation passed during the last session of Parliament, R. R. MacGillivray, director of the transport department's marine regulations branch, said.

The Arctic legislation provides for safety standards in construction of ships and makes provision for liability for damage. Mr. MacGillivray hinted that legislation, to be introduced in the Commons during the next session, will extend many of these requirements to the rest of Canada.

Canada should consider what South Africa has done in requiring tankers to stay outside a 12-mile limit, he told the Heritage Tomorrow Conference of the Assn. of the Scientific, Engineering and Technological Community of Canada.

**THE GROUNDING** of the tanker Arrow in Nova Scotia's Chedabucto Bay last February and the subsequent oil pollution of the bay indicated the need for stringent regulations, he said. "The Arrow came up fully to recognized legal standards internationally," Mr. MacGillivray said. "It was equipped as well as the law required at present, but it seems clear to us that it was not well enough equipped, not well enough manned and the people weren't competent enough—it was a real old clunker."

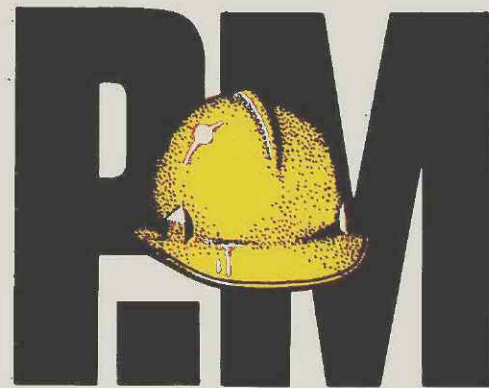
This emphasizes the need for additional requirements for the ship itself, the people operating it and for recovery of damages, he said. "The Arrow was owned by a Panamanian corporation, registered in Liberia and its owners had no assets in Canada against which one can proceed."

The Arctic bill requires ships to provide the government with proof of financial responsibility before they enter Canadian waters. ■

## A&A shifts executives

Alexander & Alexander Inc. has made top level management changes in two of its offices. George B. Clark, who has been in charge of the Dallas office of Alexander & Alexander of Texas Inc., has been moved to New York to take charge of that office. In another change, T. Dixon Holladay Jr., an assistant vp in Alexander & Alexander's Atlanta office, has been named a vp and put in charge of the broker's Pittsburgh office.

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# International investment insurance chances are believed to be very good

WASHINGTON—The World Bank is now in the process of negotiating a plan for an international program of insurance that would guarantee the investments of private industry in underdeveloped countries.

If the plan is successfully negotiated, and hopes are high that everything will go well, it will be submitted to nations as a treaty. If it is then ratified, the International Investment Insurance Agency will probably open for business some time next year, according to a source at the Treasury Department.

The plan is not a new one. The idea has been floating around for at least five years, but has not received a great deal of support

until recently. At a meeting of the World Bank in Copenhagen last month, Secretary of the Treasury David Kennedy said, "We urge early agreement to proceed with the International Investment Insurance Agency and I hope that it will have support from both investing countries and developing countries." President Nixon also called for its formation in his message to Congress on foreign aid.

Probably the foremost obstacle the plan will have to overcome is the reluctance of lesser developed nations to participate in sharing the risk. As the plan is to be set up, both investing and developing countries will be required to supply working capital in the

formation stages of the agency. Premium payments reserves will be used to settle most claims but if any claim exceeds those monies, nations will be called upon to fulfill the financial obligations entailed by the claim.

**SOME OF THE** poorer nations are resisting this point because it would mean, for instance, that Burma would have to pay part of the settlement if Guatemala seized an American fishing fleet and did not adequately compensate the company.

"It is mainly a matter of convincing the lesser developed nations," Michael Bradfield, assistant general counsel to the Treasury Department told *Business In-*

*surance*, "that if they are going to share in the profits, they must share in the risks. They must be convinced that their share will be relatively small and that there is little chance of loss."

The insurance would provide coverage against inconvertibility of earnings, expropriation and war or revolution. Because the agency is still in the development stages, many of the actual insurance aspects have not yet been settled but the agency would have the authority to grant 100% reimbursement. Such things as limits to policies and premium rates have not yet been worked out.

To be eligible to receive the insurance, a company must be sponsored by its government, which, in turn, must be a member of the World Bank. "In other words," Mr. Bradfield said, "the company must ask its government for help in getting the insurance coverage needed. This

insurance, by the way, should be relatively easy for American firms to purchase."

**MANY OF THE** more industrial nations, including the U. S., already have similar insurance programs of their own to aid in the promotion of investments in lesser developed countries. This plan, according to one source, would be preferable not only because it would reduce the chance of loss to the U. S. treasury in the event of a claim but because it would create a better political atmosphere.

The International Investment Insurance Agency, assuming it is accepted, will be a multi-national program with the World Bank as a sort of middleman. A situation like that "reduces the possibility of a bi-national confrontation brought about by an insurance claim," Mr. Bradfield pointed out.

Though the basic aim of the plan is to foster greater interest in overseas investing, Mr. Bradfield said that he did not foresee a great surge of investing. "The importance of this plan is that it will improve the climate for overseas private investment because it is multi-national," he said.

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### The Atlantic Companies

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## City accepts \$150,000 settlement

SAN FRANCISCO—The board of supervisors here this week unanimously agreed to accept \$150,000 from the Aetna Casualty & Surety Co. in settlement of a \$950,000 city law suit against former Assessor Russell L. Wolden.

After the former assessor had been convicted of taking bribes, as part of a widespread assessment scandal, the city and county of San Francisco sued him and the insurance company which had bonded him.

Deputy City Attorney George Baglin told the board the maximum recovery the city could expect "from even the most successful trial of the case" against Mr. Wolden and Aetna would have been \$250,000 or his \$50,000 a year bond for the five years before the suit was filed.

The statute of limitations would have prevented recovery for any of the prior years.

The city already has recovered some \$7 million in unpaid back taxes from business firms which benefitted from Mr. Wolden's actions and another \$3 million in back taxes still is in litigation.

From these recoveries the city has had to pay \$1.5 million of attorney fees and \$385,000 in accountant fees.

## Indian Day viewed as paid holiday

IRVING, N. Y.—Indian Day, Sept. 19, has been negotiated as a paid holiday by the furniture workers of the First Seneca Corp. here. The contract raises the number of paid holidays from 8 to 11.

The agreement also provides coverage in the union's pension program for the first time. Workers previously had been covered by the union's insurance fund. Both plans are employer financed.

Wages have been raised a total of 40 cents an hour in less than a year with a negotiated cost-of-living clause and additional increases.

The company is located on the First Seneca Indian reservation and the majority of workers are Seneca Indians.



## Flood cover for southern coast areas

NEW YORK—For the first time, flood insurance will be available to home owners and businessmen in coastal areas of Texas, Tennessee and Louisiana. The insurance is offered in accordance with the National Flood Insurance Act amendment of 1969 by 81 private agents and brokers in the National Flood Insurers Assn.

The act stipulates that communities must restrict the development of flood-prone areas and must also allow the U.S. Department of Housing and Urban Development to inspect areas and determine rates.

Under the new program, subsidized rates for small businesses are limited to \$30,000 per building and to \$5,000 per occupant for building contents. \$17,500 is the limit per one-family dwelling, with a maximum of \$30,000 on two, three or four-family dwellings. Insurance on contents is limited to \$5,000 per dwelling. People may also cover contents separately.

Insurance is available through local brokers. In Florida the Travelers Indemnity Co. will service Safety Harbor, Okaloosa County, Santa Rosa County, Punta Gorda and Venice. Aetna Life & Casualty will service Grand Isle, Louisiana, and the Home Insurance Co. will serve LaPorte, Nederland and Taylor Lake in Texas.

To encourage purchase of the insurance, the insurance act also specified that anyone eligible who does not obtain floor coverage, will not receive federal relief in case of a disaster. ■

## New group eligible for state benefit

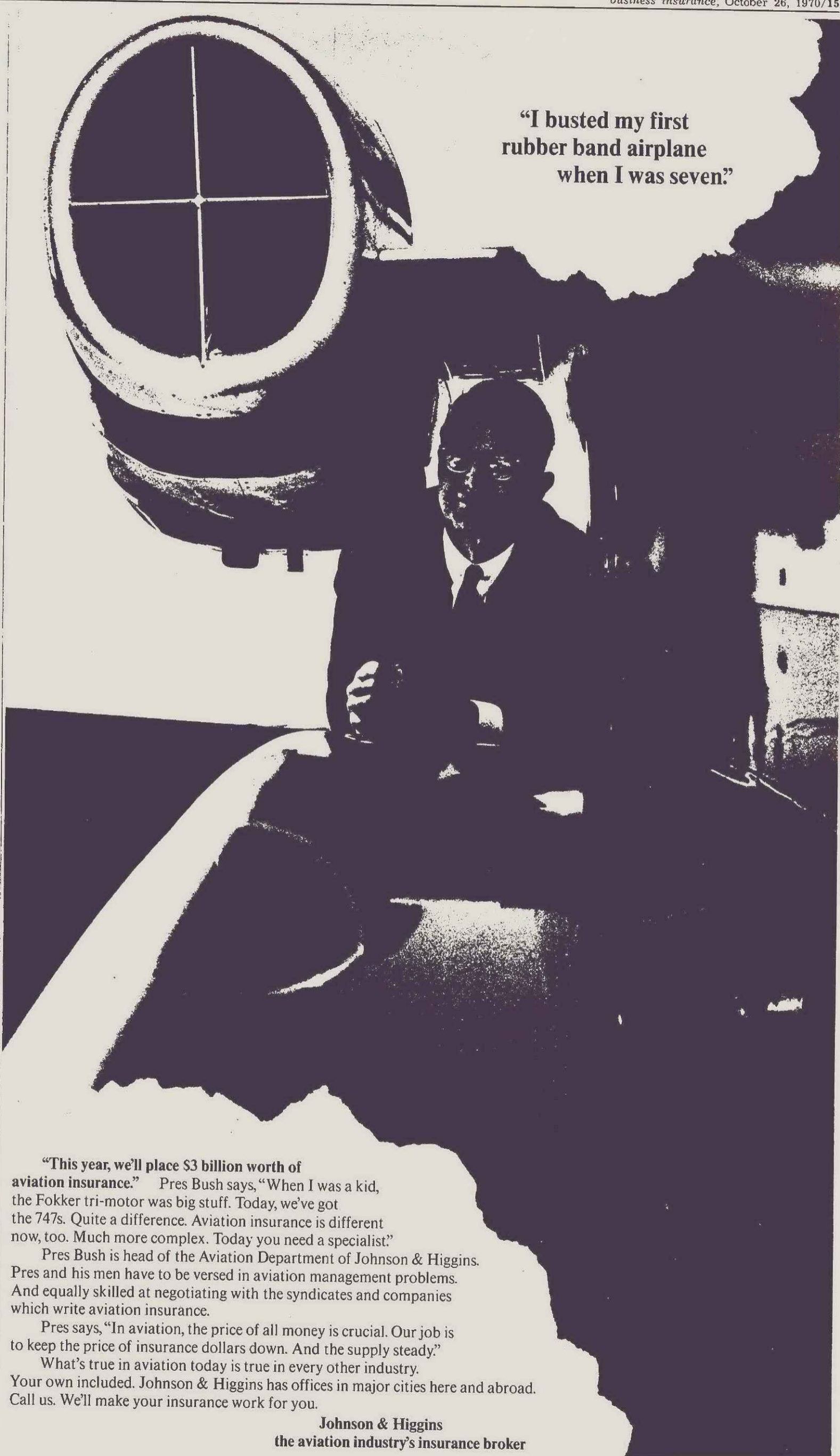
ALBANY, N. Y.—January of 1971 will see more than 400,000 employes of non-profit organizations become eligible for New York's unemployment insurance program, according to Gov. Rockefeller.

The newly covered workers will bring the total of employes covered by the state program to nearly six million. The new group is the largest brought into the program in its history.

The state legislature passed the law to extend coverage to such employes in 1965 but the program could not go into effect until Federal approval was granted. The Federal law was passed in July and will require all states to cover non-profit organization employes beginning in 1972. Gov. Rockefeller pointed out that New York could start its own program a year early but approval for the early start must be given by the U.S. secretary of labor.

The workers to be covered are employed by non-profit organizations operated for charitable, literary, religious, scientific or educational purposes exclusively. They must have quarterly payrolls reaching at least \$1,000.

Clergymen, sextons, dentists, physicians, teachers, professional level scientific researchers and professional personnel, other than teachers, in educational institutions will be excluded from the program. Of these, all except sextons and clergymen will be covered no later than Jan. 1, 1972. ■



**"I busted my first rubber band airplane when I was seven."**

**"This year, we'll place \$3 billion worth of aviation insurance."** Pres Bush says, "When I was a kid, the Fokker tri-motor was big stuff. Today, we've got the 747s. Quite a difference. Aviation insurance is different now, too. Much more complex. Today you need a specialist."

Pres Bush is head of the Aviation Department of Johnson & Higgins. Pres and his men have to be versed in aviation management problems. And equally skilled at negotiating with the syndicates and companies which write aviation insurance.

Pres says, "In aviation, the price of all money is crucial. Our job is to keep the price of insurance dollars down. And the supply steady."

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# opinions

## Risk managers' role

THAT THE ROLE of the risk manager is broadening is not a particularly new observation, of course, but the pace at which things are happening for this unique corporate executive offers a real challenge to those who are up to it.

This fact has been brought home several times in recent months. Capacity problems face the drug industry, for example. Markets have shrunk for those in the oil industry. Excedrin headaches galore have plagued those who have had to find the multi-million dollar limits necessitated by the jumbo jet.

But, apparently, problems are being solved. The drug industry, or at least many of the larger firms, have formed a study group that will raise some questions and, hopefully, answer a few. The oil industry is looking at a captive or pooling arrangement as a solution. The aviation industry has apparently found some relief from the federal government and more capacity in the conventional markets than the industry thought possible a year ago.

In all of this, however, it behooves risk managers never to lose sight of one important fact: The solutions that have been found to date, or those that are being sought right now, are solutions to yesterday's problems. What about tomorrow's?

In *Business Insurance's* last issue, the head of a special facility market was quoted as having said something to the effect that there may be no private insurance for huge risks by the year 2000 unless the insurance industry learns to live with the congested value problem. In noting that, Graves D. Hewitt, president of Cameron & Colby Co., Boston, said that an American Lloyd's might be one answer. Another possible answer Mr. Hewitt alluded to was that more and more insurance in the future might have to be thought of in terms of financing.

This latter idea intrigues us. And, although they may not be aware of it this very minute, the concept is apparently finding its way into the subconscious of some corporations.

One of the more sophisticated risk managers occupying an office in a New York-based corporation remarked the other day that in talking to at least two former risk managers who have recently been elevated to position of assistant treasurer he was becoming more and more aware of the fact that insurance and cash flow go hand in hand.

"We're getting to the point where we're trading dollars with insurance companies. Deductibles are getting larger all the time. They're not deductibles, really. They are retentions. Moreover," he added, "you can be in one heck of a fix if you have a few losses back to back. It can really hurt your company's cash flow."

For this reason, though not for this alone, it is more and more important that insurance management be brought into the financial area. "If the insurance manager is not actually in the financial department," he said, "he had better work damn close to it."

If the insurance industry cannot provide the capacity needed by the year 2000 then now is the time to begin thinking about other alternatives, and bounce them off a few skulls.

Perhaps, for example—though the insurance industry will certainly cringe at the thought—there is room for the banking industry to take up some of the slack.

Has the concept of self-insuring some risks and arranging a standby loan with a bank or group of banks been thoroughly explored, an idea

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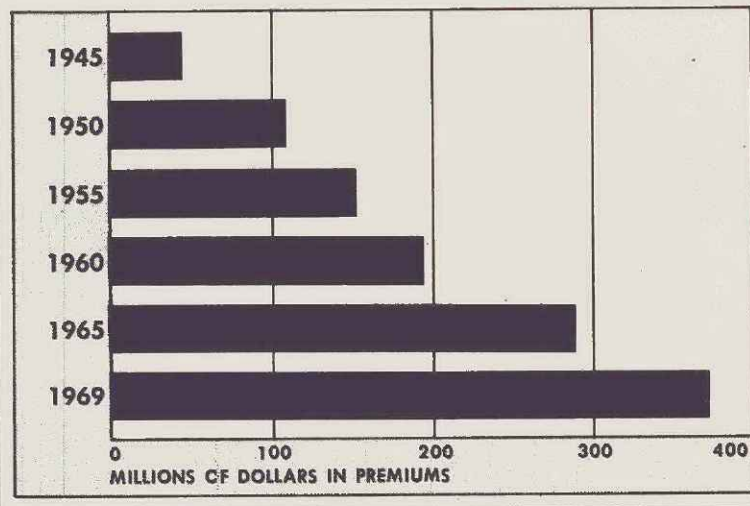
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Source: Insurance Information Institute

also alluded to by Mr. Hewitt, though not in positive terms from the standpoint of the risk manager?

At the present time, of course, standby loan charges (one-half of 1%) are not terribly attractive for such purposes. However, who is to say that they might not be so in the future.

To some the idea may sound far out. And perhaps it is. At least, that is, as far out as the year 2000.

## Super info for buyers

THE *BUSINESS INSURANCE* feature that has proved most popular with readers over the past three years is probably Info for Buyers, a column that every other Monday carries a fresh supply of items of interest to those responsible for risk management, employe benefits and financial services.

Insurance carriers, brokers, service organizations and others who have listed items in Info report to us that the response to their listings is tremendous. Some who have offered items have had to suspend listings for a time until they were able to print additional copies for *Business Insurance* readers.

This response to Info for Buyers is gratifying because we believed from the inception of this magazine that the Info feature would be an important meeting place for inventive sellers and sophisticated buyers, a place where worthwhile items could be offered and found for the improvement of corporate management.

On Jan. 4 we will publish our annual Info for Buyers special section, a giant offering of published and soon-to-be-published material on all aspects of property-liability insurance, employe benefits, financial services and the management of pension and profit-sharing funds.

Material for the section should be submitted by Dec. 1 to Richard C. Bjorklund, editor, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611.

*Business Insurance*, in part through Info for Buyers, has become the central marketplace for those who buy and sell insurance and services related to corporate management and employe administration. The Jan. 4 Info for Buyers issue will be the largest offering to date of worthwhile information for buyers.

## Three candles

THIS WEEK MARKS the third anniversary of the launching of *Business Insurance* into the field of insurance periodicals that many consider to be overcrowded. Some skeptics asked, "Who needs another insurance publication?"

Now, three years and 78 issues later, we can answer that those who needed another insurance publication were the 85,000 corporate executives, risk managers, employe benefits administrators, buyers of financial services and insurance executives who read this magazine every other Monday. Others who needed another insurance publication were the hundreds of advertisers who have found it to be the right way to reach sophisticated buyers of insurance and related services.

The past three years have not been easy, particularly because we took a fresh approach, an approach that demands that we report news independently and objectively.

But the nurturing of *Business Insurance* has not been so difficult because of the sturdy encouragement we have had from those in the risk management and personnel administration professions. Most of our sources have been cooperative, even though some had never before been interviewed by newsmen. And many in the insurance buying fraternity have come forward with worthwhile suggestions about the editorial content of this magazine.

As we enter our fourth year of publication, the editors of *Business Insurance* are keenly aware of their responsibilities to buyers of insurance and, significantly, to the entire insurance community, which increasingly relies upon us for vital information and coverage of news. We are proud to light three candles and we look forward to lighting many more, symbolically and editorially, for the benefit of insurance buyers and the insurance industry that serves them.

# letters

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

## A man for all problems

To the Editor: It was with great interest that I read your lead article by Richard Bjorklund on Phil Wilson and his associates published in the September 28th issue of *Business Insurance*.

Mr. Wilson was introduced to Schiff Terhune Inc. in 1969 as the "man who could solve the underwriting problems for the houseboat industry, and at discounted rates." Since we represent the largest manufacturers of pleasure craft, in addition to other smaller boat companies, we welcomed such an introduction.

Within weeks, investigation by our chief financial officer and our executive staff, disclosed many discrepancies in Mr. Wilson's proposals. Questionable financial stability coupled with these discrepancies, caused us to decide on an alternative licensed market which has been, fortunately, quite satisfactory.

It does amaze me, however, that other leading brokers, in their desire for markets, could so easily be led astray. Unless brokerage firms are prepared to be more selective in their choice of insurers for their clients, this might well be a call for the various state insurance departments, if not the federal government, to step more forcefully into the picture.

Andrew H. Marks

Vice President, Schiff Terhune Inc., New York, N. Y.

## Now, only the memory

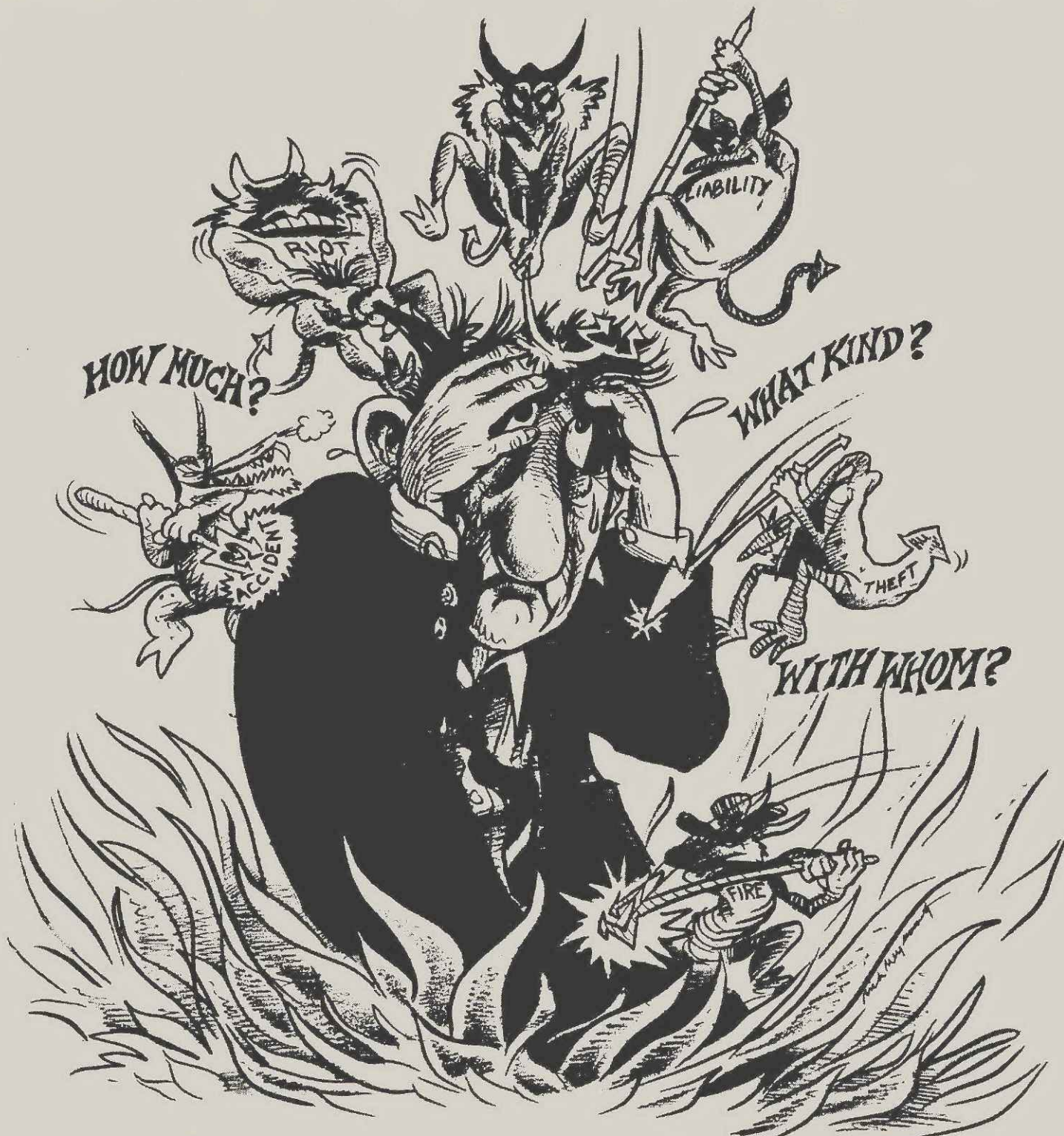
To the Editor: This letter is to give you details on a subject that may be of interest to your readers. The famous Wausau railroad station, pictured on our letterhead and advertising, like many others across the nation, is about to be placed in mothballs. On Oct. 7, 1970, it handled passengers for the final time. As a logo, however—it will live on—hopefully forever.

The logo was used first in January of 1954 when the "Wausau



Story" advertising campaign was launched. Even that was sort of an accident. Our company had intended to use a handsome old city hall in downtown Wausau as a symbol that would capture the essence of small-town America. Before we could turn an artist loose, however, wreckers had torn it down to make way for glistening shops. Casting about for inspiration, Everett McNear, the artist, did a rendering of the depot. And, it stuck! Actually, he used two depots. The Wausau skyline is as seen from the Northwestern depot, which closed some ten years ago and became Billy Moy's Chinese Restaurant. The actual depot building, though, is the Milwaukee Road facility, which will close this week.

It is with a distinct pang of regret that we witness its passing. This little old depot has done very well by Employers Insurance. Continued on page 18



# Insurance is hell.

Consolidated knows how you feel. We think insurance is hell, too. And there isn't very much we can say in an ad to make it any easier.

Mind-boggling questions like "Do I have the right kind? The wrong kind? Enough? Too much? Too little? Says who?" are going to be mind-bogglers no matter what we say.

But this much we can offer here in the way of reassurance:

We're the kind of insurance company who recognizes the fact that you and your business are unlike any other businessman and business in the world.

Which makes us one of the few insurance companies willing to stick up its nose at pre-fabricated insurance plans.

Because we customize your policy for your

business—and your business alone—you, your agent and our underwriters know that you're adequately covered. And, what's more, that you can afford to pay for it.

How can we go to these lengths without charging you an arm and a leg? Simple.

We don't throw away your premiums on fraudulent claims and jacked-up losses.

And we work harder than hell to prevent claims and losses.

Which is why insurance can be hell for an insurance company like us that works hard at doing it right.

But you know, after more than 40 years in the business, we just don't know how to do anything else.

Ask your agent and broker how we're doing.



**Consolidated Insurance Companies**  
 345 Adams Street, Brooklyn, New York 11201  
**When you need a company. Not just a policy.**

# letters

Continued from page 16

ance of Wausau. We intend to see that its memory, and the memory of other little old depots around the country, is a lively one.

**Roger Drayna**

Public Relations Specialist, Employers Insurance of Wausau, Wausau, Wis.

## The 'last word'?

To the Editor: In your Sept. 14, 1970, issue there is a letter from Alvin J. Sims of Boston, Mass. taking issue with E. V. Anderson's recent article on insurance vs. self-insurance (*Business Insurance*, July 20, 1970) of an employer's workmen's compensation obligations, which, in itself, was a reply to an earlier article by

David Warren of a California consulting firm. I don't suppose anyone will ever have the "last word" on this subject (and perhaps no one should) but as a mathematician whose daily work involves the pricing of compensation insurance purchased from professional underwriters, I feel impelled to write you.

Without the full contract and the details on the particular firm making the choice between a retrospective rating plan and "claim service with excess aggregate insurance," no final decision can be made on relative risks, benefits and costs. However, I think your readers will be interested in how a 25% basic premium figure may be derived and some of the defects in each choice.

For a \$100,000 risk, the calculated value under interstate retro plans for basic expense is 14.2% leaving 85.8% for converted losses (100% - 14.2%). Dividing this by the typical loss conversion

factor (1.145), we find  $85.8/1.14 = 74.93\%$  as a theoretical ratio of direct loss to total premium. In effect, then some self-insurance plans that cite a 25% expense and loss handling charge are collecting the total of "loss conversion dollars"—even if the firm has lower than expected losses!

They are also providing a limited (albeit substantial) excess policy while the standard workmen's compensation policy gives unlimited protection for all obligations under the compensation act. The caliber of claims handling, the protection of a limit per occurrence, and the lower catastrophe loading charge inherent in manual rates are other factors that need to be considered.

Obviously, a retro plan with the maximum premium equal to standard premium will have a minimum premium percentage greater than 25%. Thus, the self-insured can obtain lower costs if he can "beat" the retro minimum.

The almost totally unwarranted presumption is that he will do so. The presumption should be the reverse, i.e., that he will not be able to better the retro minimum. Since the standard premium for any risk should reflect the insured's own experience modification, the retrospective minimum then is selected low enough to provide all the room for improvement that the risk can reasonably be expected to show (and be high enough to realize savings on the insurance charge built into the retro plan).

**Richard T. Brewer**

Casualty Department, Johnson & Higgins, New York, N. Y.

## Pregnant or dead

To the Editor: In the Aug. 3 issue of *Business Insurance* the article entitled "New side effect of 'pill': Product liability market shrinks for drug industry" speaks about Dr. Harold Williams' book,

*Pregnant or Dead*, published in 1969.

Would you please tell me how I can obtain a copy of this book, i.e., the name and address of the publisher.

**Richard G. Ward**

Attorney, Sullivan, Sullivan, Ranger & Ward, Detroit, Mich.

*Editor's note: Pregnant or Dead? is available from New Perspective Publications, Box 2515, San Francisco, Cal. 94126. A paperback, the price is \$1.95.*

## Student rates for BI?

To the Editor: This term I am teaching Risk Management (INS 513) which is a required course for our risk management and insurance majors. Among the materials we require them to read is *Business Insurance*.

We anticipate an enrollment of 12 to 15 students this quarter. Do you have a student rate for your magazine that would apply?

**Marshall W. Reavis**

Department of Risk Management and Insurance, University of Georgia, Athens, Ga.

*Editor's Note: We do not have educational rates, as such, but we do have a bulk single copy plan in which we send the required number of copies every other week during the period specified, to your attention, for distribution in the classroom. These copies would be billed to you at 25 cents each per student, plus shipping charges if special shipping arrangements are necessary. This 25 cents per copy price is 20 cents off the regular single copy price.*

## Chevron is fined \$1 million

NEW ORLEANS—The Chevron Oil Co., a wholly-owned subsidiary of Standard Oil of California, has had to pay the federal government \$1 million in fines as a result of massive oil pollution in the Gulf of Mexico last February.

The fines were levied in a federal district court here after Chevron pleaded no contest to 500 of 900 counts in the case, which had been filed under the Outer Continental Shelf Lands Act of 1953. Fines of \$2,000 on each of the 500 counts were then imposed by Judge Alvin B. Rubin after Assistant U.S. Attorney Richard M. Olsen dropped the other 400 counts.

The oil company had been charged with failing to install and maintain storm chokes or other safety shutoff devices on 90 offshore oil wells in the Gulf near here. The Outer Continental Shelf Lands Act of 1953 requires that such devices be installed and provides for penalties of up to \$2,000 per day for each offense. Each day the wells spewed oil into the Gulf was counted as a separate offense.

Chevron is heavily self-insured for liability exposures. However, several knowledgeable sources queried pointed out that such fines would not normally be insurable items, even if the insurance industry hadn't moved recently to exclude such forms of pollution.

For Chevron, the case is not completely closed with payment of the fines. Still unsettled are several suits brought by shrimp and oyster fishermen, who claim the oil pollution has contributed to a loss of income for them. Potential damages from those suits are reported to amount to \$100 million. (*Business Insurance*, May 25).

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# speaking of safety

## Fire alarms may mean difference between . . .

By WILBUR CHARLES

FT. WAYNE, Ind.—What happens in the first three minutes of a fire is generally agreed to represent the difference between a minor inconvenience and a major catastrophe.

Nearly 12,000 fatalities from fire are reported in the United States every year. Many of these deaths could have been prevented if the buildings involved had been protected by efficiently engineered fire detection and alarm systems.

As plant investments increase and manufacturing processes become more sophisticated the need for sophisticated multi-function fire protection and monitoring systems become more acute. Fire alarm manufacturers have met this need with the development of pneumatic heat detectors and thermistor heat detectors.

• **Pneumatic heat detectors:** A circuit of .080" (2 mm tubing) running along the ceilings throughout the protected area is filled with air that is maintained at atmospheric pressure. The ends of this current of tubing terminate at a detector.

Heat expands the air in the tubing circuit. Sudden momentary surges of heat not caused by fires are cushioned by compensators to which the tubing is connected. These compensators have sufficient capacity to release surges of air gradually through breathers.

Fire causes an abnormal, continued rise in temperature that builds up pressure against the diaphragms, closing the contacts to actuate an alarm. The insulator tubes isolate the electrical circuit from the detecting tube system. Normally open electrical contacts are provided for connecting this detector into the warning and alarm system.

• **Thermistor heat detectors:** Another unique low cost device has been developed for monitoring overheating and/or fire in such equipment as pipe lines, cable trays, conveyors, stacks, cooling towers and other large surfaces or volumes over distances of 120 to 400 ft. long. These are thermistor heat detectors. It should be noted that these units can also be used to control the temperature in large enclosures.

These devices employ a continuous sensing element, utilizing a long length of thermistor as the sensing conductor, and will register temperature changes occurring anywhere along the sensing element. Thus, they monitor high temperatures caused by fire or any other kind of overheating.

This system signals a warning or controls temperature when either the overall temperature of the sensing element has changed or when an incremental segment of the element has reached an overtemperature sufficient to drop its resistance to the signal level.

A wide variety of options are available with this device, including a multichannel arrangement which provides a system that will meet the exact needs of any particular application.

Other versions of the thermistor principle include spot detectors that eliminate the thermal time lag inherent in conventional heat detectors. These units, however, do not cover as large areas as the fixed temperature or rate-of-rise detectors.

the best protection against smoldering and incipient fires. They are ideal for living quarters where fires tend to start in upholstered furniture, closets and the like, and they are a must for such spots as trash chutes and

waste storage. They should be installed in the path of normal air flow, with special attention to natural or man-made exhaust outlets. Two of the more popular types are ionization smoke detectors and photoelectric smoke de-

tectors.  
• **Ionization smoke detectors** are used in areas of (1) high combustibility or (2) high dollar value because they are far superior in response time to either the fixed temperature, rate-of-

rise or pneumatic devices, and (3) areas containing low-temperature-rise smoldering type material.

This fast detection of smoke or invisible gases is accomplished  
*Continued on page 44*

# GAB: The adaptables

One of the forbidden phrases at GAB is "Yes, but we've always done it that way." If there's a new and better method than the historical one, we give it a thorough checkout and then use it until an even better one comes along. If there's a new service that would help you cope with changing conditions we'll set it up. Even develop it further. Case in point: One of our most recent innovations is insurance premium auditing/inspection/loss control service.

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**The Ansul System** 

# IDEA WORKSHOP HIGHLIGHTS

## A Nader's Raider gives some very, very candid advice to risk managers

ATLANTA—Here is the text of the advice given to risk managers by Reuben B. Robertson III, attorney for the Center for Study of Responsive Law, Washington, D. C., at the Business Insurance Management Idea Workshop. His comments were part of a presentation titled "A Nader's Raider Looks at Your New Corporate Liabilities."



Reuben B. Robertson III

**S**O WHAT DOES ALL this (consumerism) mean to you? What should your response be? One thing it means is that the risk evaluation function must assume a much greater role in corporate decision making.

Many of the risks involved may create exposures of millions of dollars which are essentially un-insurable in the casualty market. I should think, for example, that placement of coverage against treble damage liability for "knowing and willful" violations of the proposed consumer product safety legislation would be virtually impossible. Protection against pollution claims may be equally unavailable. And there is no meaningful way to insure against the loss of having your plant shut

down by court injunction.

All of this means that, within the corporate structure, the risk manager must perform a novel and probably unpopular function. He must be able to predict areas of exposure and in effect fight the consumer's cause within the company. He should be a roving gadfly, a kind of internal ombudsman who reviews corporate activities—including advertising, product development and design, trade relations and participation in industry activities, quality control, marketing and post-sale grievance and redress mechanisms—to evaluate potential exposures and cut them off before they develop into actual liabilities.

As far as the whole consumer movement is concerned, corporations can elect to bury their heads in the sand and insist that the problems aren't there. Or they can take a hard, cold look at reality, recognize the validity of some or many of the complaints, and set about seriously doing something about them. The latter course will not be easy—it requires taking a much longer term look at the situation than the quarterly earnings reports, and conceding, even advocating, the necessity of some changes. In my view, the corporate management should see the consumer movement as an ally and should support it, even though it may hurt in some cases.

Corporate managers, of course, are consumers too; they drink from the same water supplies and often have the same problems with their cars, tv sets and airline reservations that other consumers do. But in a larger sense, legitimate and sensitive developments such as the product safety legislation and the consumer class action concept can help establish reasonable parameters for acceptable corporate conduct which the management of one or a few companies could never hope to do alone. These changes are needed if our system is to be viable and humane; they are necessary to its very survival.

## Upjohn to reach benefit savings goal 'easily'

ATLANTA—Upjohn International Inc. has revised its international insurance and benefit programs and resulting uniformity was known to have saved the company "at least \$40,000" in benefit plan purchases last year. Moreover, says Gordon L. Dolbee, who is responsible for insurance and benefits for the international drug firm, "Our original goal of \$1 million in savings in the next ten years will be easily reached."

Savings, however, are not being limited to reductions in employee benefit costs. The company is also enjoying at least \$80,000 in savings annually through the use of a combination of non-ad-

mitted and admitted property and casualty coverages.

In essence, Mr. Dolbee's firm has settled into a "multi-nation" approach to both benefits and property and liability insurance. Under the benefit program, the company is now participating in a group arrangement with Aetna Life & Casualty and an Italian insurance company, Assicurazioni Generali, whereby the purchase of all international benefit programs are treated as a single purchase for Upjohn. Similarly, property and casualty covers have been consolidated, with all coverages written in the form of a worldwide blanket policy of two layers,

Continued on page 30

## Should have negotiated with doctors: Machinists' leader

ATLANTA—William W. Winpisinger, general vp of the International Assn. of Machinists and Aerospace Workers, is not exactly straight out of the mold of the labor bosses of the past. But he does retain just enough of the earthy gruffness to make his presence felt when thrust into the midst of a group of business executives.

In private conversation Mr. Winpisinger is not above describing a few management people he has banged heads with over the years in highly descriptive and colorful epithets. And one suspects a few in management have reciprocated.

If an idea Mr. Winpisinger expressed at the Business Insurance Management Idea Workshop, here, the other evening persists, the medical profession may be the next subject of the labor man's barbs.

"WE SEEM TO have been negotiating with the wrong people," he declared when discussing new fringe benefits unions are likely to seek in the '70s. "We've been negotiating with employers when we should have been negotiating with doctors. As a result," he added, "protection we've tried to negotiate for our members has ended up as money in the doctor's pocket."

Mr. Winpisinger, or "Wimp" as



William W. Winpisinger

he enjoys being called, does not see any terribly revolutionary benefits to emerge during the '70s. Rather, he sees "improvements and refinements" in fringes that now exist. Moreover, he feels that the extent of those improvements will be limited only by political and economic developments as the decade unfolds.

"If the '70s are prosperous and times are good for working people, there will probably be a strong thrust in bargaining toward such benefits as matched savings, stock purchase plans and profit sharing," the labor chief asserted. "If, however, the '70s are marked by economic recession—the emphasis in bargaining will certainly shift to contract clauses that will help to stabilize employment and guarantee in-

come," he added.

Improvements and refinements may come in the following areas, among others, he said: shorter but more frequent periods of time off for employees to enjoy leisure time, such as three-day weekends; extended vacations for senior employees, perhaps in the form of sabbatical leaves; shorter work weeks, such as the four-day week, nine-hour day; "more realistic levels" of pension benefit payments, with cost-of-living adjustments in private plans; negotiated portability.

THE "30 AND OUT" concept that has played a role in United Auto Workers-General Motors negotiations is likely to be heard even more, Mr. Winpisinger declared. "Sooner or later retirement is going to be determined by the length of time a worker spends on the job and not just age," he said.

Dental care, eye care and reasonably priced drugs are other areas that are likely to be touched on in more and more labor-management talks, the IAMAW vp predicted.

Women in the work force will increase and this may lead to things like day care nurseries, maternity leave and post-pregnancy re-employment rights. Educational subsidies for both em-

Continued on page 22

## Delta aims for 85% participation in personal insurance benefit plan

ATLANTA—Delta Air Lines' "Delta plan for personal insurance," probably the biggest payroll deduction program going in the country, has attracted 45% employees to participate in the 3½ years since its start, according to W. E. Stephens, the airline's payroll manager. And in this city, where Delta is headquartered and has half of its 21,000 employees, participation is 55%.

But Delta is not altogether satisfied with the results, and the company is in the midst of a nationwide drive to sign up 85% of employees by December, 1971, Mr. Stephens told the first annual Business Insurance Management Idea Workshop here.

The big advantage of the personal lines plan—which includes auto and homeowners coverages, plus insurance on jewelry, fur, boats, fine arts, credit cards and most other personal items—is that employees have "the security of knowing that their claims will be settled fairly. We monitor the program to make sure they get a fair shake," Mr. Stephens stated.

For the first year of the program, Delta checked up on every claim submitted to the broker, Parker & Co., and the insurance company, Chubb & Son. Mr. Stephens said that only four complaints were received in the first 12 months of the plan.

EVEN NOW, the airline monitors claims every week by calling the Delta employee in a particular city involved in the biggest claims settlement of that week.

To make signing up as easy as possible, Delta tied Parker & Son's office here into Delta's nationwide telephone system. By picking up a red "hotline" phone, complete with a sticker declaring that "The Delta plan is ready when you are"—a takeoff on its



W. E. Stephens

national advertising campaign—and dialing extension 2811 from anywhere in the U.S., employees are connected with the Parker office.

Mr. Stephens said that "we have yet to find one employee who was adequately insured." Most employees, for example, carried only the amount of coverage required by the lender on their home. "If we do nothing else but to awaken employees to the fact that they must look into these items, the whole program will have been well worth the effort," Mr. Stephens told workshop par-

ticipants.

Delta was not overwhelmed by insurers eager to write the Delta plan, he said. This was probably because Delta required the insurer to continue writing coverages after the employee retired or died.

MR. STEPHENS believes Delta will be "signing on the front doorstep of an exciting new benefit" when "true" group payroll plans are finally allowed by most states. (Currently, only four states allow this concept, which involves setting premiums on the basis of the experience of the group buying the coverage, rather than the overall average.)

"We already have a program set up," Mr. Stephens said. "We know exactly what we're going to do."

"True" group programs, in his opinion "are not too far in the future."

In addition to handling the airline's personal lines plan, Chubb also writes Delta's commercial ground coverage (also through Parker & Co.), according to James R. Howell, assistant treasurer of Delta, who sat in on the presentation and fielded a few questions from Business Insurance workshop participants.

## Defends broker's role

ATLANTA—While there may be more moves by insurers to delve deeper into direct writing and while some firms in tightening their insurance department budget belts may be romanced by the thought of possible savings in circumventing broker commissions by going direct, the vp of insurance for a large New York-based diversified company believes direct writing is not all it's cracked up to be.

Joseph Gullo of D. H. Overmyer Co. aired the belief not so

much as an attack on direct underwriting but as a defense of the broker's role in the years to come. The broker of today, he told a Business Insurance Management Idea Workshop meeting, will very definitely have a role to play in risk management tomorrow. Moreover, he added, the broker—for most companies—is better equipped to serve risk management's needs and serve them from an objective viewpoint.

Continued on page 28

# Gamble's two captives are real 'profit centers'

ATLANTA—The captive insurance "profit centers" of Gamble-Skogmo Inc., Minneapolis-based retail merchandising conglomerate, have put together packages including everything from credit life insurance, group coverages and mutual funds to credit property insurance—"the most exciting program" offered to date.

This, in a nutshell, was the story from Louis E. Dolan, chairman and president of Gamble Alden Life Co., who gave the progress report to participants at the first annual Business Insurance Management Idea Workshop here.

Gamble's two insurance operations are the life company, which was started in 1961 and by the end of last year had \$707 million

of insurance in force, and Gamble Alden Agency, an all-lines insurance agency company.

MR. DOLAN pointed out that Gamble's mass merchandising operations, and other markets in many areas, give the two profit

## IDEA WORKSHOP HIGHLIGHTS

centers a steady stream of possible customers. In addition to its own almost 30,000 employees, Gambles has some 3,400 franchises in all lines of merchandising, each with its own roster of employees. Moreover, he said, Gamble's retail customers, numbering in the "many millions" annually, open the way for addi-

tional sales at the retail level.

"Also of significance," Mr. Dolan explained, is the fact that Gambles does "a huge amount of credit business, affording further opportunity in the credit life insurance field as a natural adjunct to what is presently more than \$250 million in outstanding customer receivables held in Gamble's captive finance companies."

Mr. Dolan said that the "amazing statistic" is that "consistently in excess of 92% of Gamble's retail customers" have purchased the credit life coverage.

In 1968 the life operation started handling the group life, health and accident program of its parent company, Gamble-Skogmo, and its numerous subsidiaries. And this year the unit offered

group plans to outside groups as well. "Thus far this year, more than \$1 million, or approximately 7.5% of Gamble Alden's life total premium income, will be derived from these unaffiliated sources," Mr. Dolan noted.

GAMBLE'S agency company serves as a broker in buying some of the firm's corporate property and liability insurance coverages, for which the company spends about \$2.5 million in premiums a year. Mr. Dolan said it's possible that the agency may serve as a vehicle for some self-insurance or as a loss pool in the property-liability lines.

The agency also markets, on a brokerage basis only, auto, homeowners, extended coverage and excess personal liability cover-

ages to Gamble employees on a payroll-deduction basis. All-risk coverages, on a package basis, are also offered to the 3,400 parent company franchisees.

But Mr. Dolan said that the marketing of mutual funds, through a dually licensed sales force, has been deferred "solely for cost reasons" until the economic picture improves.

Gambles, in Mr. Dolan's opinion, has "barely begun to scratch the surface" of the potential for its insurance profit centers. Within the past three months Gamble Alden Life, through an unaffiliated sales marketing organization, started offering its employees the services of a financial consultant, who arranges a payroll deduction package of cash value life coverage, term insurance and equities.

In a test market of this concept within a part of the parent company's employees about 70% of the eligible group signed up, Mr. Dolan revealed.

And late last year the agency tested, in a limited number of Gamble's retail outlets, credit property insurance coverage. The insurance protects credit customers' merchandise against all perils, except theft, while the unpaid balance remains. Gambles is now offering the coverage to all credit customers.

## Winpisinger

Continued from page 21

ployees and their dependents will be heard more. In the case of the latter, he cited the program now underway at Xerox Data Systems in Los Angeles, which is also in an IAM contract there, as an example.

Elaborating on trends he sees for organized labor in the area of medical care, Mr. Winpisinger used an example that unions will campaign against in this decade. "If the charge for an appendectomy in a certain area is \$300 and we negotiate a \$200 payment for this kind of operation, the doctors usually jack their fee up" by an amount at least equal to the previous spread, "thus leaving our members no better off than they were."

HE CONTINUED: "So, in the '70s the labor movement is going to launch an all-out campaign to get what every other civilized, advanced industrial nation in the world already has," he said speaking of a pre-paid national health system. "It may take a few years, just as Medicare did, but I am confident that we'll achieve a nationwide system of health care before 1980."

Asked by one executive in the audience if such a program would not, in fact, be socialized medicine, Mr. Winpisinger responded:

"In my most candid moments that's what I'll tell you we'll get. We'll just put a 'nice pre-paid medical plan' handle on it so we don't run any God-fearing anti-communists out of the country."

On portability of pensions, he also asserted: "I think somewhere down the line we'll come to a meeting of the minds on pensions." That, he believes, will be "absolute portability" and government might play a role in assuring that in this decade.

The UAW-GM strike is "very likely to go to the first of the year or even beyond," he said, adding that the demand for autos is "very soft" and that would indicate no pressure on either the union or management that would assure an early settlement.

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# Salaried workers: Not all peaches and cream

ATLANTA—So you want to switch all your workers to salaried status?

Before you do, listen to Richard R. Stackpole, corporate benefits manager of Texas Instruments Inc. in Dallas. Mr. Stackpole told a gathering of corporate executives at the first annual Business Insurance Management Idea Workshop here that, in effect, it's not all peaches and cream.

TI made the move in 1967, but he admitted that some managers

## IDEA WORKSHOP HIGHLIGHTS

and supervisors now consider the switchover a "mixed blessing." Mr. Stackpole said that top management "believes in" putting all workers more or less on the same status, "but some supervisors don't."

**ALONG WITH** giving them a salary and paying them for excused absences, supervisors must involve production workers in problem-solving and goal-setting activities. "Now all of a sudden supervisors must not only sit down and ask their opinions but also pay 'em when they're not there," Mr. Stackpole explained.

He pointed out that, what with various federal laws, the costliness of equalizing benefits and what he called some management "perquisites," it's not possible to treat all workers exactly alike. A move in that direction involves a series of compromises along the way, Mr. Stackpole emphasized.

For example, equalizing benefits as well as pay—while not hard to do—"forces some pretty painful decisions because it gets pretty costly," he said. TI gives all workers the same pension and profit-sharing plans, the same medical program and the same group life setup (although the life coverage graduates upward based on amount of service and grade).

Ditto for vacations, but here TI had to come up with one of those compromises. In 1965, two years prior to the switchover, the company changed its vacation plan to give three weeks off after five years for all workers, up from two weeks off.

**BUT TO HELP** pay the cost, TI cut back its vacation after one year from two weeks to one week. This, he said, was competitive enough for production workers but uncompetitive for management personnel. But this is the sort of stuff compromises are built on.

The most important factor in an "all salary" status, Mr. Stackpole said, is management philosophy. "If it's to mean anything, we come to a most difficult but interesting area: the construction of the job itself—labor vs. management attitudes, supervisor vs. supervised.

"Before a company goes into such a concept, it should examine its attitude toward its employees, the makeup of its workforce, whether it's union or nonunion, the quality of its supervision and the profitability of the company.

He added that if the company is unionized it would probably find it "very difficult" to switch.

TI, however, is nonunion, with some 60,000 workers worldwide, with 50,000 of them in the U.S. The company, Mr. Stackpole said, has no status symbols—no rugs on the floors of most managers' offices, no special parking privileges, informal dress. Everybody's

on a first-name basis.

**TI'S MANAGEMENT** philosophy is geared to generate these informal habits, Mr. Stackpole said. "We try to follow the philosophy in the job structure—we give workers the freedom to improve; in advancement opportunity (job openings are posted in the company paper); and we give employees a voice in goal setting and problem solving in their jobs.

In short, he said, TI provides "an ideal setting for an all-salary program."

Mr. Stackpole said the company concluded that if it expected the same amount of involvement from production workers as from

*Continued on page 34*

**CRAVENS, DARGAN**

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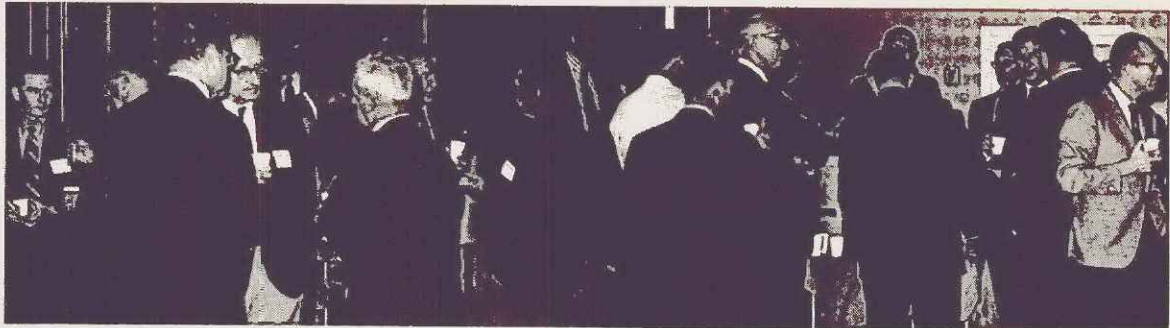
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# IDEA WORKSHOP HIGHLIGHTS



Coffee break at the *Business Insurance* workshop is another occasion for discussing problems of risk management and employe benefits administration. Participants in the conference, both faculty and enrollees, freely exchange ideas on a variety of problems.



Enjoying a cocktail hour at the workshop were, left to right, Gerald J. Mathews, personnel manager of Bunge Corp., New York; Pauline Rodwell, Regency Hyatt House, Atlanta; Craig D. Collings, assistant insurance manager, Hughes Aircraft Co., Los Angeles, and Patrick McDonough, manager of insurance and benefits, Howmet Corp., Greenwich, Conn.



*Business Insurance* Publisher Alfred Malecki opens the first session of the 3½-day workshop. The program was the first in an annual series of give-and-take discussion sessions for corporate executives.



Atlanta and other subjects are discussed by, left to right, Stephen H. Bridge, account executive for Fred S. James & Co., Los Angeles; Joyce Catrett, Regency Hyatt House, Atlanta; George Tilton, director of purchasing for Milchem Inc., Houston, and Richard Stackpole, corporate benefits manager, Texas Instruments Inc., Dallas.



Mr. and Mrs. James A. Meyer and Mr. and Mrs. A. M. "Steve" Marzano, left to right, meet at the *Business Insurance* Management Idea Workshop. Mr. Meyer is treasurer of the Buffalo Electric Co., Buffalo, N.Y. Mr. Marzano, a workshop faculty member, is director of marketing of Mosler Electronic Systems, Danbury, Conn.



Discussing the progress of the workshop are, left to right, James L. Irby, assistant vice president, First Union National Bank, Charlotte, N.C.; Patrick J. Higgins, sales manager, Compumedic Controls Corp., New York, and Gene M. Peterson, manager of employe benefits for Dana Corp., Toledo.



Views on the *Business Insurance* workshop from the vantages of broker, risk manager, carrier and editor are exchanged—in friendly fashion—by Jack K. Hollander, manager of the risk analysis department of E. H.

Crump Co., Memphis; Arthur Bostwick, insurance administrator of Sunbeam Corp., Chicago; Barbara Mock, CNA Financial Corp., Chicago, and Richard C. Bjorklund, editor of *Business Insurance*.



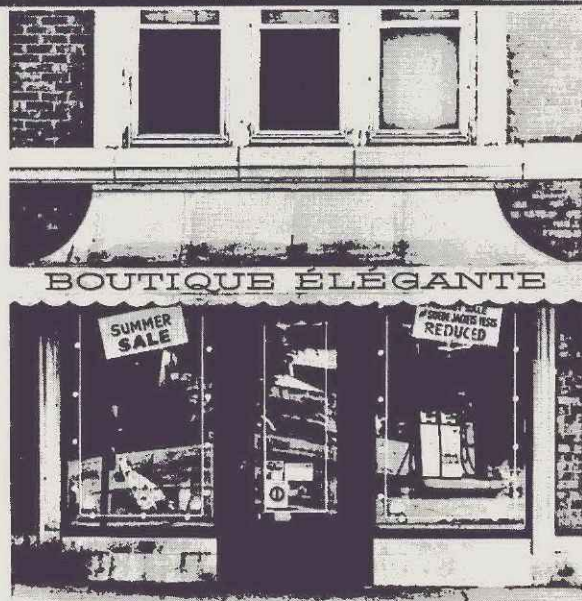
Advice to employe benefits administrators and risk managers was offered at the workshop by John B. Perkins, executive director of the Chicago Council on Alcoholism. Mr. Perkins cited, among other things, the need to include coverage for alcoholism treatment in conventional group health insurance policies. He sees a national trend to "treating ourselves chemically."



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## Calls early retirement both bane and boon

ATLANTA—"There is nothing magic about age 65. It is not the single point in time at which all employes transform from productive assets to superannuated liabilities."

That remark was made by Clyde K. Farris, assistant treasurer of the Coca-Cola Co., while speaking to the *Business Insurance* Management Idea Workshop session here. Mr. Farris was speaking about early retirement in the '70s, while questioning whether it may be considered a bane or boon of the future.

"It cannot categorically be considered either," the Coca-Cola executive said. Rather, it depends on the angle from which it is being viewed.

**HOWEVER**, he asserted, "It is my personal view based on recent news items that before employes in general are going to consider early retirement a real boon, employers must provide higher benefits at earlier ages and make provisions for, at least, cost-of-living increases after retirement.

"This is true because the employes in categories that do not

### IDEA WORKSHOP HIGHLIGHTS

want to retire are opposed to such retirement for many reasons—principally, they can't afford to retire. Employes in the categories that do want to retire early (or think they do) often find out later that they miscalculated their budget or did not take into consideration the effect of the rising cost of living and other inflationary aspects of our economy."

In questioning whether early retirement will be a bane or boon of the future, Mr. Farris said that the subject must be looked at from all angles—those of the employer and those of the employe.

From the employer's standpoint, according to the assistant treasurer, there are probably more reasons why early retirement might indeed be a bane to corporations today. The only positive effect for the employer, he said, is that early retirement "provides the vehicle to remove . . . the employes who are no longer satisfactorily performing their jobs." The removal that way, moreover, provides a degree of dignity for the employe.

**CITING THREE** reasons why early retirement might not be looked upon favorably by a company, Mr. Farris said that while an early retirement plan "serves the purpose of opening up positions for promoting younger employes," the large cost of maintaining a satisfactory retirement plan cannot be overlooked. "Further," the assistant treasurer added, "if the retirement plans are being funded on the basis of employes retiring at age 65, earlier retirements, which reduce the length of the funding period substantially, increase costs unless the early retirement reduction is a strict actuarial equivalent."

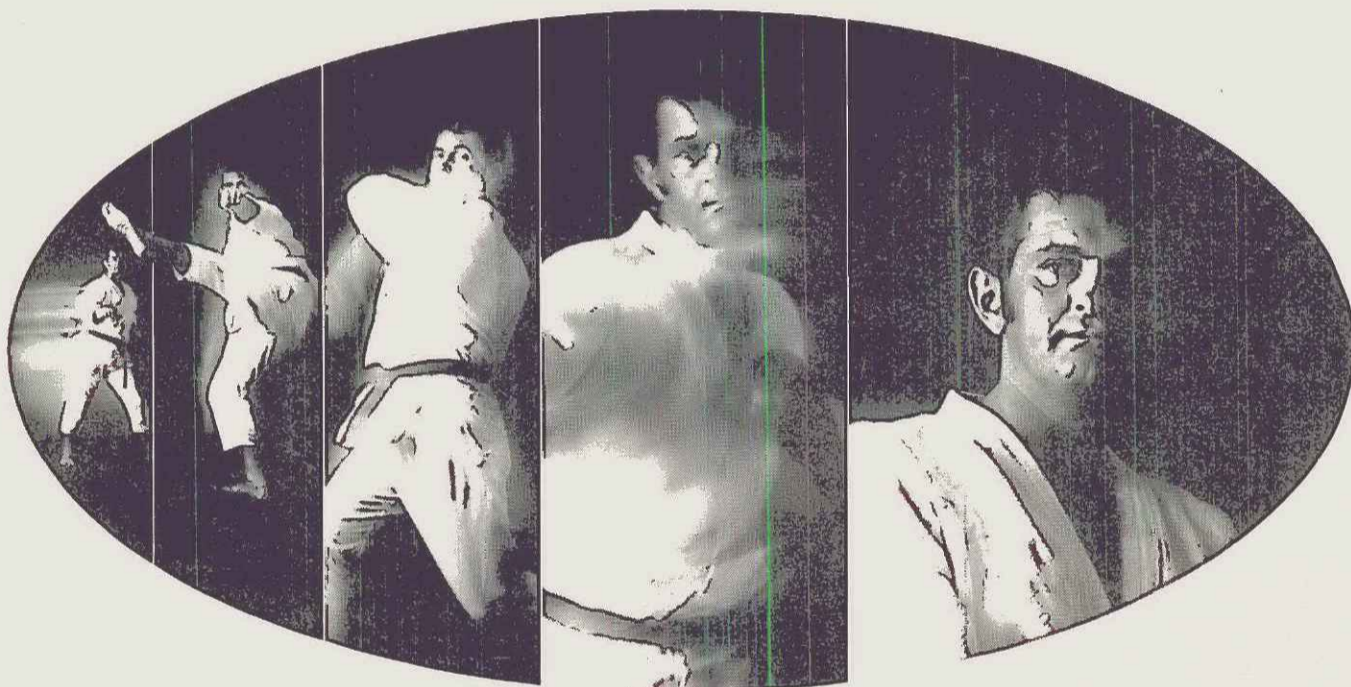
Another dilemma Mr. Farris called a bane to the employer concerns the adequacy of retirement benefits.

"Even normal retirement benefits often present the problem of adequacy because the benefit must necessarily be a medium somewhere between what the employe needs and what the employer can economically afford. Even after an age-65 retirement," he continued, "the erosion of benefits as a result of inflation causes employers to face the problem of supplementing or improving incomes to employes who have already retired.

"For example, if unreduced retirement benefits were to be provided under a typical retirement plan at age 60—or if the normal retirement age were lowered to age 60—the liability under the typical plan with respect to benefits accrued prior to age 60 would increase approximately 60%."

**A THIRD** reason cited by the Coca-Cola executive is that "regardless of what the employer  
*Continued on page 27*

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James A. Meyer, treasurer of Buffalo Electric Co., Buffalo, N. Y., asks one of many pointed questions directed at speakers and participants in the Business Insurance Management Idea Workshop. Free exchange of ideas marked the sessions held in the Regency Hyatt House in Atlanta.

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## Farris . . .

Continued from page 26 provides his retired employes . . . there will be the continued demand on the employer to provide additional benefits to meet continued inflation."

Mr. Farris did admit, however, that the cost bane to the employer "is not holding back the trends toward more liberalized eligibility requirements for early retirement and more generous benefits at these earlier retirement dates." He cited a recent study of 201 industrial retirement plans for the five-year period from 1965 to 1970. All of these, he said, do now permit early retirement at liberalized benefits.

Just as the employer might find early retirement a curse or a blessing, or both, the same also applies to the employe, Mr. Farris told the gathering. Generally, he said, there are four categories of employes that react differently to early retirement.

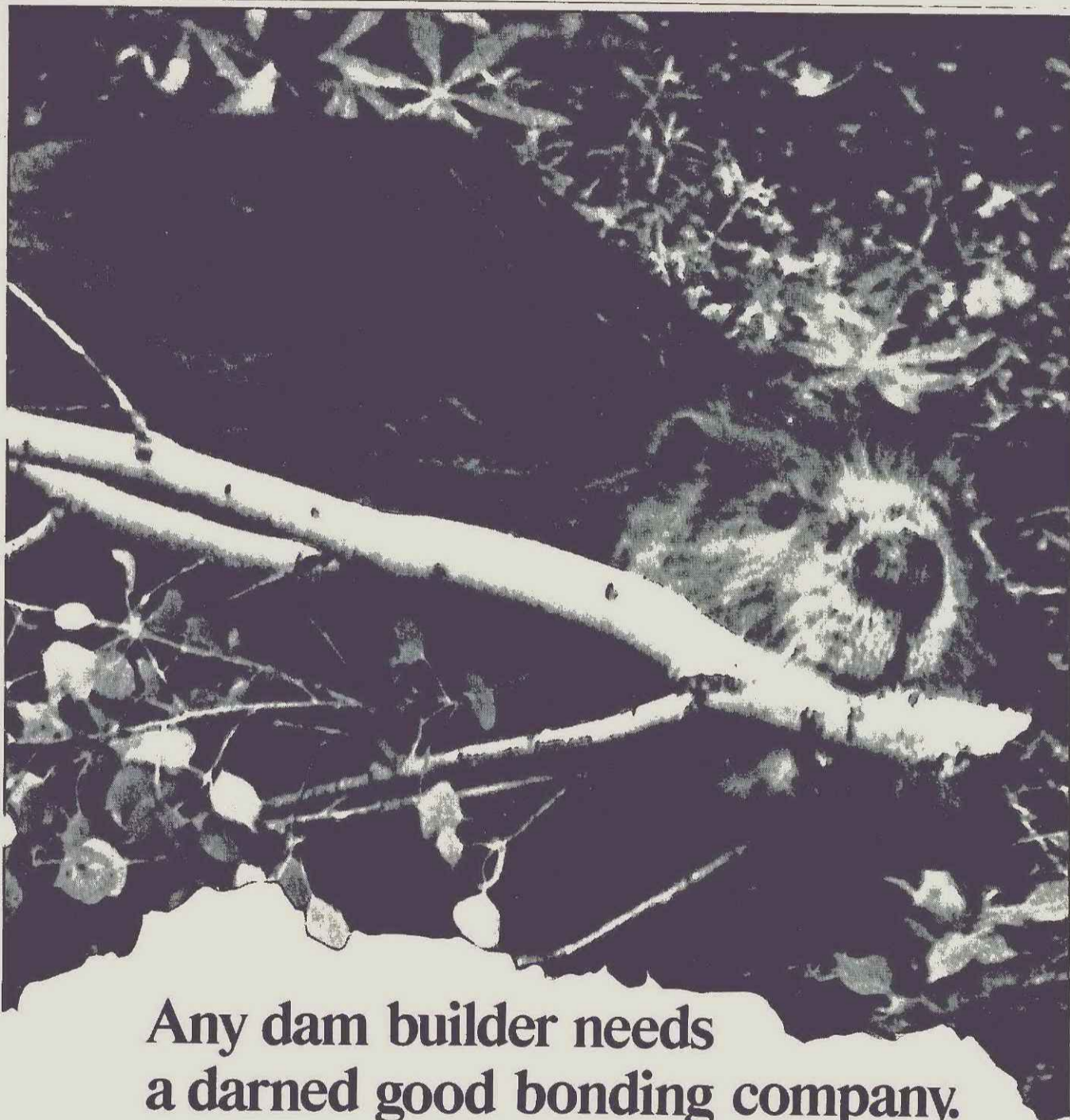
The first category, he said, is those employes who want to stay on the job and are doing a satisfactory job. In the second are those employes who don't want to retire but at the same time are not doing an adequate job. The third and fourth categories are those who "think they want to go fishing and play golf and think that they want to retire. Here, again," he said, "the third category employe is performing his job well, whereas, the fourth category employe is not."

CONTINUING, Mr. Farris noted: "Statistics will prove, however, that most employes prefer to stay on the job at least until normal retirement.

"The fact nevertheless remains that no matter how generous the pension, the man who retires probably takes a substantial cut in income," Mr. Farris declared. And this, he said, is despite the fact that many companies today have supplemental retirement plans.

At Coca-Cola, for example, employes may opt for a thrift plan in addition to the normal retirement program. Benefits under the latter program are based on 1% of Social Security benefit wage base, plus 1.5% of the excess, determined on the basis of the five highest salaried consecutive years in the last ten calendar years of employment. There is no Social Security offset applied, he said.

The thrift plan, on the other hand, is available to employes 25 years of age or older with two continuous years of service. The employe may contribute 2%, 3%, 4%, or 5% of salary, with the company matching contributions by 50%. ■



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## Gullo . . .

Continued from page 21

"My experience is that direct-writer account representatives lack the ability to make lateral moves in tight market situations and, understandably, are unable to check with other companies to see what is currently available. How," he said of the insurance man, "can he maintain a relationship with a direct writer and other companies or markets at the same time?"

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Joseph Gullo

only, he serves you. I don't like the odds," Mr. Gullo asserted.

Furthermore, the vp went on, "A direct-writing company may, as a matter of policy, bind or immobilize your method of writing insurance or, worse yet, lack experience in your particular

problem. A broker cannot only act as your buffer when negotiating with the insuring company, but will have a better pulse on the market."

In defending brokers in the face of recent criticism—and indeed some sentiment that brokers may be a thing of the past in years to come—Mr. Gullo did say

that "the '70s will breed a broker not bound to tradition. The willingness to accept markets traditionally taboo, such as direct writers, is imperative" for brokers to face up to

As for another controversial subject facing brokers in the '70s—commissions vs. fees—Mr. Gullo said that he agrees the fee basis is going to become more popular. And in some cases a fee

plus commission is not an unreasonable demand by brokers.

"**IF THE NATURE** of your business is such that you have many easy or difficult exposures, the method of broker compensation for services rendered has to be given closer scrutiny because these services may not be directly related to commission or fee income. The broker who does the best job and effectively assists in reducing insurance costs or exposures to loss, definitely is entitled to adequate compensation," he continued.

"In such instances, it is well to consider supplementing an inadequate commission income with a sufficient fee" if the broker is performing functions that are cutting the clients' costs, he said.

The Overmyer Co. pays annual premiums on property and liability risks "well in excess of \$1 million." Total values are in ex-

cess of \$180 million.

Using his own company as an example, Mr. Gullo said that were Overmyer to drop its broker and set up an inhouse risk management facility he estimates it would cost an additional \$82,000 annually in salaries and overhead for those who would have to be hired to fill functions now being performed by the broker.

"A broker, at today's commission rates on our property and liability premium, would realize considerably less than our estimated expenses," he said. ■

## Acquires mortgage, life companies

MILWAUKEE, Wis.—GL Enterprises Inc., the holding company here that owns General Life Insurance Corp. of Wisconsin, announced completion of the acquisition of two St. Paul, Minn., companies.

Bankers Mortgage Corp. and Continental Bankers Life Insurance Co. will be operated as subsidiaries of GL Enterprises, according to Wallace C. Berg, president. Theodore Glasrud will continue as president of the two Minnesota companies, Mr. Berg said. He added that Mr. Glasrud and Edward K. Thorson, a director of the two companies, would be added to the GL Enterprises board.

The offer for the two companies, made in August, called for the exchange of 1.35 shares of GL Enterprises common stock for each share of Bankers Mortgage common and one-half share of GL Enterprises common for each share of Continental Bankers Life common. At the time the offer was made, Bankers Mortgage owned 62% of the outstanding Continental Bankers Life common stock.

Bankers Mortgage is engaged in commercial and residential real estate development and construction as well as mortgage banking. It has extensive land holdings in the Twin Cities area, according to Mr. Berg.

Continental Bankers Life was incorporated as a stock insurance company in Minnesota in 1963. As of June 30 it had \$64 million of life insurance in force.

GL Enterprises was organized in 1969 as a financial services holding company and currently owns 98% of the outstanding stock of General Life Insurance Corp. of Wisconsin. ■

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### Contract negotiated after 100-day strike

WASHINGTON—Locals 189 and 794 settled a contract dispute with Metromedia Inc. and returned to work here and in New York City after a 100-day strike.

Metromedia Inc. has agreed to increase pension fund payments by \$5 a week per member, the medical insurance fund \$5 per week, to add an extra paid holiday, and to observe a no-layoff policy for the extent of the contract. The work week has been reduced from 40 hours to 37.5, next year to 36.25 hours and to 35 hours in 1972.

The television station technicians negotiated contracts providing the following wage increases: \$25 a week retroactive to the expiration date of the old pact, May 12; \$10 a week next May 12; and an additional \$30 a week in the final year of the contract.



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# Dolbee . . .

Continued from page 21  
a primary and an excess.

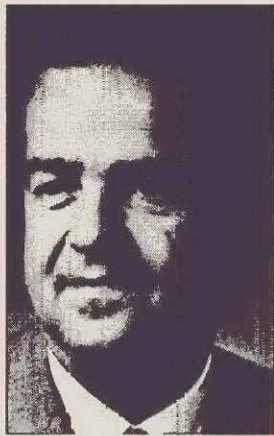
**LIMITS OF** the latter coverages, Mr. Dolbee disclosed to a Business Insurance Management Idea Workshop here, are hoped to eventually reach \$70 million. "We're almost there, but not quite," he said.

Upjohn International was established in 1952 and has since grown to a network of 30 subsidiaries employing 3,800 persons. Prior to 1967 benefit plans were developed and purchased by each subsidiary. And even more recently the company had handled its property-liability insurance in a variety of methods and through a number of brokers. And, Mr. Dolbee said, with the usual frustrations.

In deciding on a multi-nation

approach in the arrangement with Aetna and the Italian company, Upjohn also decided to eliminate international brokers wherever legally possible (in all countries but one, as it turned out). Earlier the drug firm had received a proposal from its broker, Marsh & McLennan, to coordinate the activities of a European insurance company and a Latin American company. This was rejected however.

When the decision to convert to a multi-nation approach was reached Upjohn started to convert benefit plans from local carriers to the new arrangement, proceeding cautiously, Mr. Dolbee said, because "we wanted to look at each of our plans thoroughly to determine if they should be improved or changed." While the process was slow, it was well worth it and, in fact, some cost reductions were effected in some areas and benefits



Gordon L. Dolbee

improved in others—without increasing costs. For example, the Upjohn executives said, one of the company's pension plans was changed from a 1.5% career average plan to a 1.75% final average plan, without increasing costs.

"This makes a nice proposal for your management," he said.

**LAST YEAR** was the first Upjohn had enough lives covered in its multi-nation arrangement to experience-rate the company's life insurance plans. "For that year . . . we were able to return to our subsidiaries 65 cents out of every dollar they had paid as premium. Little or none of this would have been available under our previous arrangement." In addition, Mr. Dolbee pointed out, under Upjohn's contract with insurers, the negotiated retention will continue to reduce through 1973. Total savings expected are—and may even surpass—\$1 million at the end of ten years.

Saying he is still surprised at the number of international companies that have not investigated the approach, Mr. Dolbee remarked, "Better methods may come along but at the present

time there appears everything to gain and nothing to lose in the multi-nation approach."

The property-liability situation Upjohn has had to face in recent years was equally frustrating and perhaps even more difficult to solve. With international property insurance premiums rising, coverage becoming more limited, contractual terminology impossible, and liability protection severely limited or sometimes nonexistent, Mr. Dolbee said that "often what you thought you had really did not exist."

## IDEA WORKSHOP HIGHLIGHTS

An example of this, the Upjohn man said, was in England where the company thought it had adequate product liability insurance only to find out coverage was effective only "where we had made the product incorrectly." Coverage did not apply to normal drug reactions that affected some humans and animals.

**PRIOR TO THE** revisions in the Upjohn International insurance program, the firm operated under the coverage of a worldwide excess plan carried by the parent company. However, after working on a plan for a year Upjohn International has now developed two levels of coverage, an upper level and primary level. The upper level of coverage is still a worldwide excess plan carried by the parent firm.

In the property area the plan has a \$100,000 deductible, with the company shooting for a limit of about \$70 million. "This has been designed, Mr. Dolbee said, "to cover losses above the local limits we purchased in the country and to take care of any major catastrophic losses," such as business interruption and mudslides.

Basically, Upjohn International has a blanket plan covering all operations throughout the world. American International Underwriters is the insurer and coverages include fire, extended coverage, vandalism, earthquakes and malicious mischief. A single rate has been negotiated and applied to every country in which the company can operate on a non-admitted basis, Mr. Dolbee said, noting that there are a number of countries that require that property insurance be purchased in that country.

"In these cases we have attempted to purchase the basic perils," he said, adding that this is not possible at all times. The first level coverage takes over where local coverage is not available. Through this first level blanket policy the company has also been able to obtain coverage for perils that are not available in countries in which Upjohn operates. These include fire following earthquake, fire following strike, riot and civil commotion, vandalism and, in some cases, earthquake and malicious mischief.

**"WE FIND THAT** by using this combination of non-admitted and admitted coverage, we are able to save \$80,000 to \$100,000 per year over what it would have cost us to purchase the insurance in each country of operation."

In the casualty field, Upjohn International is continuing to use the parent company's excess coverage. Here, however, there is a \$6 million deductible. Written by AIU as well, the contract terminology is the same as that used in the parent's U.S. contract and "covers every conceivable aspect of liability," Mr. Dolbee said.

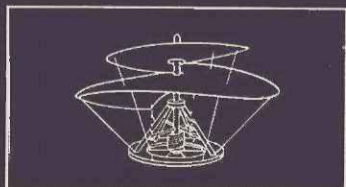
The firm's general liability cover, including product liability, has a \$1 million limit on the

Continued on page 36

# FLORENCE 1500 A.D.

Leonardo da Vinci, acknowledged by many as the most versatile genius of all time, combined his artistic talents with his knowledge of physics and mathematics to produce over 150 detailed drawings of flying machines . . . all forgotten for centuries, but recognized now as the earliest precursors of the science of aeronautical engineering.

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# Pooling should be last resort, INA man says

ATLANTA—Calling insurance funding or industrywide pooling arrangements "only one of the techniques of risk management" and "the last choice," an insurance company executive has called upon American business and industry to "first avoid, eliminate, control, or minimize the exposure to enterprise hazards" such as oil and other forms of environmental pollution.

In a speech before the *Business Insurance Management Idea Workshop* here, Harold R. Woodworth, secretary of underwriting in the reinsurance department of the Insurance Co. of North America, declared that "risk management techniques, and much of the disci-

## IDEA WORKSHOP HIGHLIGHTS

pline of quality control engineering, are directly applicable to the exposures involved for many of the same reasons that a company must awaken to the social pressures of consumerism. Both areas, to a degree," he said, "involve social responsibility."

Reiterating reasons the insurance industry moved within the past year to henceforth define most forms of environmental pollution as "uninsurable hazards," Mr. Woodworth asserted that "most people agree with the wisdom and need for us to avoid, eliminate, control and minimize, to the maximum extent possible, continued activities which lead to environmental pollution and contamination."

"FUNDING DAMAGE claims through a liability insurance contract will not contribute to the solution of this problem," the INA underwriter added.

Calling TOVALOP (Tanker Owners Voluntary Agreement Concerning Liability for Oil Pollution) an example of cooperative efforts by those with a common hazard to establish a fund to compensate governments for oil pollution clean-up costs, Mr. Woodworth noted however that this should be the last resort.

"In far too many cases," he said, "risk management concepts and legislative regulations are applied 'after the fact.' Human nature being what it is, it's very difficult for people to see hazards in their full perspective until a tragedy occurs," he added, noting that "killer smogs" and incidents like the Torrey Canyon's sinking and the Santa Barbara oil spill have awakened the world to the problems of pollution.

At the same time, however, Mr. Woodworth warned that there will be even less tolerance of pollution in the future.

"IF THERE ARE any businessmen who harbor a secret hope that this problem is going to go away, I hope they will free themselves of that fantasy quickly, for that hope is doomed" he said.

In addition, the INA executive noted, the world reinsurance market has also awakened to the fact that pollution is no longer an insurable item. "It's not the function of reinsurance companies to condone careless underwriting," he said.

Pollution control in the future should involve risk management on at least three levels, the INA man explained in a late afternoon talk with financial and risk managers here.

First, he said, "existing processes and procedures should be reviewed primarily for the 'distinctive hazards,' or those that can be identified and measured



Harold D. Woodworth

readily. Examples of these, he said, are smoke stack effluents and the handling of waste material, discrepant or scrap items.

A SECOND ITEM risk managers should also concern themselves with is public relations, he went on. "Capital investments

and control programs need publicity to demonstrate to the public the real efforts that industries are already making in this area." Public relations plans should also include specific policies and plans to be followed in the event of minor incidents, or even a disaster.

As a third involvement for risk management, Mr. Woodworth said that many of the principles of quality control have direct application to the problem. Assessment and planning, employee awareness and training in process control and safe operation, tolerance review vs. standards, maintenance of control devices and corrective action plans are a few of these, he said.

Noting that there can be no doubt that out of recent court actions against alleged polluters new concepts of tort liability will

emerge, the INA man added:

"These changing social demands and technological advances will

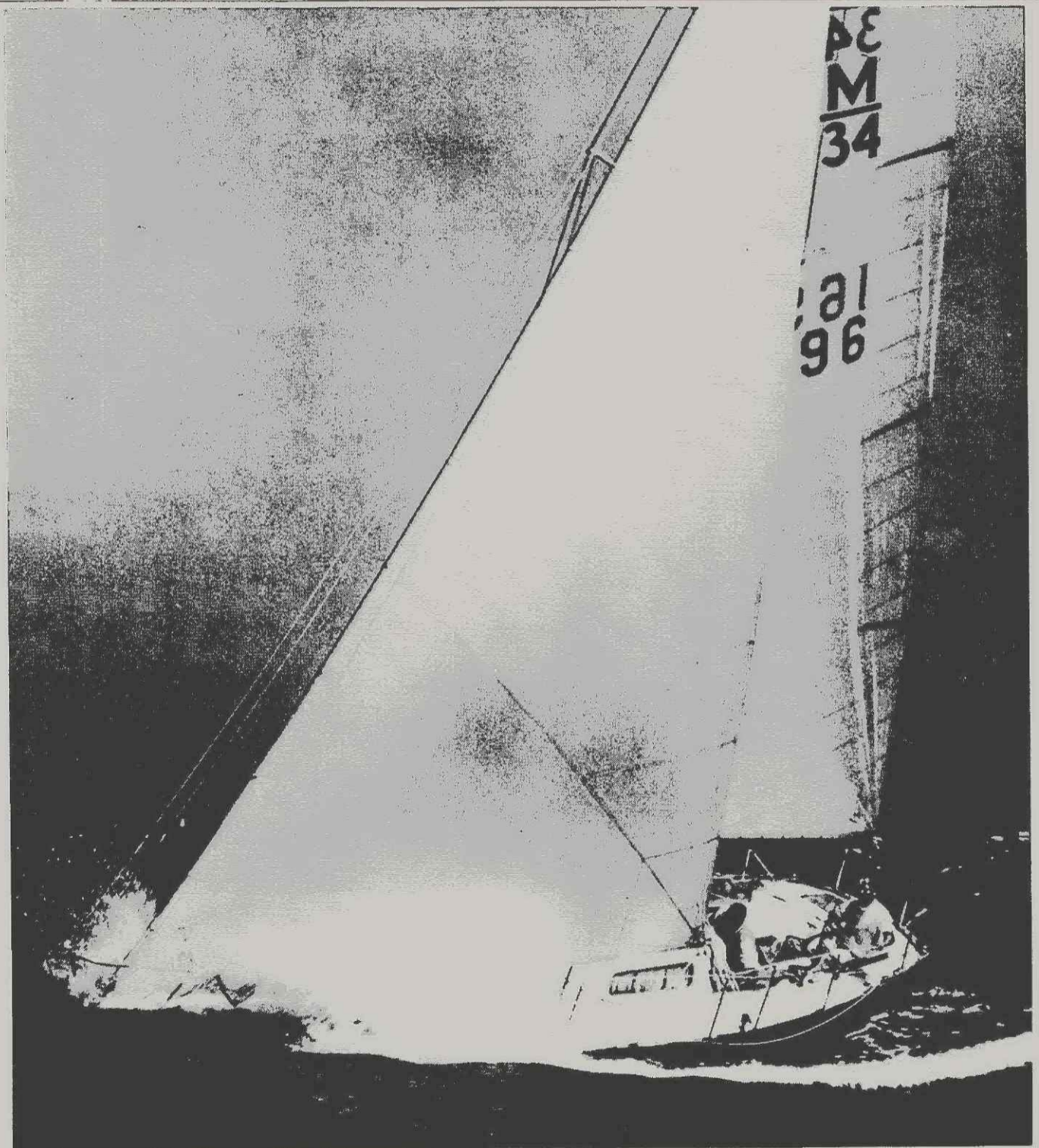
make your work and mine more demanding and difficult, but our efforts will be worthwhile." ■

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# Veneman plugs prepaid health plans to cut costs

ATLANTA—The new role of industry is one of "direct involvement" in the problems of health care and the application of "systems management" to their solution, John G. Veneman, undersecretary of the Department of Health, Education & Welfare, told the first annual Business Insurance Management Idea Workshop here.

Mr. Veneman plugged for the adoption of prepaid health plans as a means of getting the incentive "on the right end" so that the medical profession will have an inducement to hold down unnecessary treatment and services and to utilize preventive techniques.

But, he asked, "how many of you are still involved only in the financial end of health care? Has

your experience with services been limited solely to the standard once-a-year physical for top executives? Are the insurers among you involved only in claims adjustment and review?"

THE UNDERSECRETARY predicted that health care would be

## IDEA WORKSHOP HIGHLIGHTS

"one of the key domestic political issues next year." Mr. Veneman said the Administration next February will send to Congress "family health insurance plan" legislation, which will bring "a basic national standard of health protection to more than 20 million people in poor and near-poor families."

Mr. Veneman held out hope for current legislation that would give Medicare beneficiaries the option to receive medical care from a health maintenance organization (HMO). The groups, he explained, "guarantee to their members the actual provision, not merely the financing, of a wide range of hospital and physical services."

These group practice plans, Mr. Veneman told workshop participants, "provide incentives to the private sector to organize a fragmented system, which has perpetuated inefficiency and high cost."

"It puts the government in a different relationship with the health industry. If we can encourage most beneficiaries to accept the option, then we could



John G. Veneman

deal with a limited number of organizations instead of more

than 200,000 individual providers."

HMO SETUPS, Mr. Veneman asserted, "reward efficiency. Our current system frequently rewards excessiveness. HMO's also give providers incentives to keep us well, while a fragmented, unorganized system relies upon our illness for its livelihood."

The undersecretary, who has been the Administration's man-on-the-spot in Senate testimony against the Kennedy-Yarborough bill to create a national health insurance plan, said group practice plans are making progress. He pointed out that efforts are under way in Philadelphia to launch six different hospital-centered prepaid groups to serve 200,000 persons. He added that Westinghouse Electric Co. and other corporations are said to be conducting HMO feasibility studies.

Further, a large clinic in the Midwest is in the final stages of its plans to make available one-stop, one-payment service to a rural medical market "that covers a vast area," Mr. Veneman stated.

The undersecretary also contended that "it is time for the institutions and organizations of the medical community to respond to the challenge of the times." He called on medical schools to steer away from "irrelevant research projects," such as one application that recently was approved by the National Institute for Mental Health on the toilet training of exceptional and normal children.

"WHILE WE IN the government attempt to change our priorities, the medical colleges must do the same," Mr. Veneman said. "This may mean the funding of medical faculties directly, instead of through research or service channels," he disclosed.

He also encouraged the use of "a vast resource" of trained paramedical personnel leaving military service to help take some of the burden off doctors and nurses. But he said too often they are blocked "by regulations, restrictions or licensing laws that were designed to protect those already in the system."

There is "too much medical practice on the basis of greed rather than need," Mr. Veneman maintained. He said there are "too many people in nursing homes and other medical institutions who are not there for medical needs. We have to get incentives on the right end to get them out."

### Pensions raised

The minimum retirement pension in Czechoslovakia has been raised to an equivalent of \$70 a month. More than 500,000 of the 3.2 million pensioners in Czechoslovakia will benefit. The average monthly pension is equivalent to \$118.



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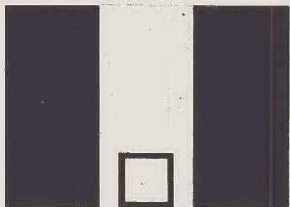
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# Busy corporate execs often courting fraud

ATLANTA—Corporate executives who say they're too busy to supervise insurance buyers are courting fraud in the opinion of Donald H. Trautlein, partner in the Price, Waterhouse & Co. accounting firm.

Mr. Trautlein, speaking to the Business Insurance Management Idea Workshop here, said that lack of review by senior management has been responsible for recently uncovered cases of embezzlement by buyers of insurance.

"No one person should have sole responsibility for making a buying decision," he said, "especially not for a service contract under which there is nothing tangible to inventory. It's the insurance buyer's job to do the technical work in determining

—an insurance department manual that sets forth policies and procedures for purchases.

• Logging insurance policies in a form that includes information on the carriers, expiration dates, premiums and coverages.

## IDEA WORKSHOP HIGHLIGHTS

• Obtaining a copy of all in-force insurance policies and understanding their terms and conditions.

• Confirming coverage directly with the insurance carrier in instances in which the policy has been obtained through a broker.

Continued on page 52



D. H. Trautlein

what to buy, when to buy and from whom to buy.

**"BUT IT IS** the financial executives responsibility to review the buyer's decision and to assure that the insurance dollar is properly spent and that it buys a dollar's worth of insurance."

Though he is an accountant, Mr. Trautlein advised workshop participants not to place reliance upon outside auditors to discover instances of insurance buying fraud. "The outside auditor," he pointed out, "is primarily interested in the general financial condition of the company; he is not auditing every transaction to uncover fraud. The cost of such an audit would be prohibitive.

One example of insurance buying fraud cited by Mr. Trautlein was the Crane Co. case in which an insurance buyer set up a dummy company in Antigua and channeled to it \$870,000 in premiums for bogus excess liability insurance policies. The company, according to Mr. Trautlein, was lucky because it not only recovered \$520,000 of the illegally paid premiums but also because it didn't need the coverage during the period it was without legitimate excess liability insurance.

Another instance involved the New York City Youth Service Agency where an insurance buyer schemed with a broker to overpay insurance premiums by \$34,000. The buyer allegedly got \$4,000 of the overpayment to buy an interest in a race horse.

Both cases were attributed by Mr. Trautlein to lack of supervision by financial managers.

**POSITIVE STEPS** recommended by the accountant to stop insurance buying frauds were:

• Knowing one's subordinates through pre-employment and periodic character checks, preferably checks conducted by outside experts.

• Knowing one's insurance broker by making inquiries within the insurance community and by personal contact.

• Having a clear, written statement of company policy regarding insurance purchases.

• Creating—in large companies

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Contact five or six local insurance companies to find a lead insurer for your coverage. The lead company will write a policy for, say, 20% of what you need. Then take the underwriting information from the lead company

and try to find enough other companies to complete the coverage.

Completion isn't always an easy job. It recently took 29 companies to cover one factory in Spain. And the other companies may require variances in terms and conditions in their share of your basic policy form.

When insured equipment breaks down, your problems may have just begun. You'll have to deal with machinery that may have been made in one country but is repaired in another, with payment for repairs coming from still another.

Each country has different laws and legal precedents—what is a recoverable loss in one country may not be in another.

In many countries loss settlements take months. And you can't adjust claims through any single source.

Claims paid by foreign companies are usually in their own local currency. To convert that money you have to work out an arrangement with a local bank. But chances are the currency isn't convertible anyway.

One more thing. When you finally return home, who's going to stay behind and be responsible for administering the risk?

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# Dynamic benefits at XDS eliminate the blahs

ATLANTA—"Some companies suffer from the benefit blahs. You know the type. The program in the dull gray wrapper. Medical coverage, life insurance, vacation, holidays—pretty run-of-the-mill stuff. We would be something less than honest if we didn't admit to being one of the guilty parties. But that was yesterday's benefit package at XDS."

XDS is Xerox Data Systems, a subsidiary of the Xerox Corp. The firm employs about 6,700 persons, most of them in the Los Angeles area.

Earlier this year XDS distributed to employees a booklet with the above words written in bold type on the front page. It was none too dramatic a way to describe the overhaul the company had made in its employe benefits package. (An earlier story ap-

peared in this magazine May 11.)

**THE OVERHAUL** included the addition of two rather revolutionary benefits—a college education tuition reimbursement benefit for the employe's dependent children and a round-trip economy class

## IDEA WORKSHOP HIGHLIGHTS

ticket to anywhere in the world for an employe and one other person after 10 years of service.

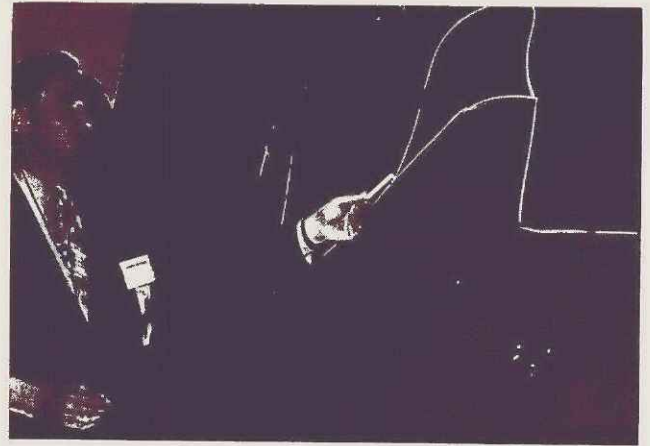
The program is now in full swing and, according to Charles S. Adoff, manager of industrial relations at XDS, preliminary estimates indicate the firm will be able to fund the entire new benefits package—including the two unique fringes—while staying

within the 20% of payroll range now being spent by U.S. business on benefits.

The education and vacation trip benefits are, of course, the two fringes that have been accepted most enthusiastically by those both inside and outside the XDS organization. However, Mr. Adoff emphasized that they were by no means the only two and that in designing the benefits package the firm kept one thing uppermost in its corporate mind.

"We kept in mind," Mr. Adoff said, "that every one of our employes have the same basic needs. They may be of different magnitude, but they are the same basic needs."

**THOSE NEEDS**, he explained, fell into six categories in addition to salary. They were: savings for



Charles S. Adoff

retirement, medical care, disability insurance, death benefit, edu-

cational expense needs and the employe's need for recreation.

Xerox Data Systems did of course have a benefit program in existence prior to the major overhaul. It included the usual medical, life, and long and short term disability plans. However, he said, something more was needed if the firm was to "meet the needs" of its employes, many of whom are computer component assemblers who live in deprived sections of Los Angeles.

Moreover, he added, XDS was looking for something that would "attract and retain employes," as well as a benefits program that was "oriented to family needs."

Under the new and improved package finally worked up, the

*Continued on page 52*

## Salaried . . .

*Continued from page 23*

supervisory personnel, it had to pay them in the same way. However, two factors—a high rate of turnover and high absenteeism—dictated that TI design the plan to keep costs down and to gradually build to full salary status through length of service.

Here's the way it works: After a year on the job, workers are given three days' absence per year with pay; from three to four years' of service they're given five days per year; after five years they're given five days per occasion.

Reasons for payment can be personal illness, illness in the family or urgent personal business—supervisors are given wide latitude to decide if the excuse is valid. TI is self-insured for the first five days of the absence but has bought disability insurance to cover 50% of base pay for the first 26 weeks for workers with less than five years service and 75% for workers with more than five years.

**MR. STACKPOLE** said that the insurance company acts as a watchdog and provides better control.

"Psychologically, it's not the same as a true salary," he admitted, "but after all the compromises if you close your eyes as to where the checks come from the workers are more or less on salary."

After three years TI still has "mixed feelings" among some managers as to improved productivity, absentee rates and attitudes toward jobs. "Overall, I believe it has been a plus," Mr. Stackpole said.

"We had a good public reaction, and a good employe reaction after an initial oversell in communications. Giving people something they should have had long ago can create a negative attitude. It's important to be careful not to create expectations that won't come true. I'm afraid we did."

"But that's another story," he concluded.

# How Equitable helps the people who keep teeth white, cars rented and readers well-informed

For over 50 years, Equitable has protected the employees of Colgate-Palmolive, the Hertz Corporation and The New York Times with group insurance.

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- Equitable offers a complete package of services: actuarial, ad-

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Equitable, the originator of group insurance, wrote its first group policy in 1911. Today, we have more than 22,000 in force. Our aim is to make sure they're still in force—50 years from now.

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**THE EQUITABLE**

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

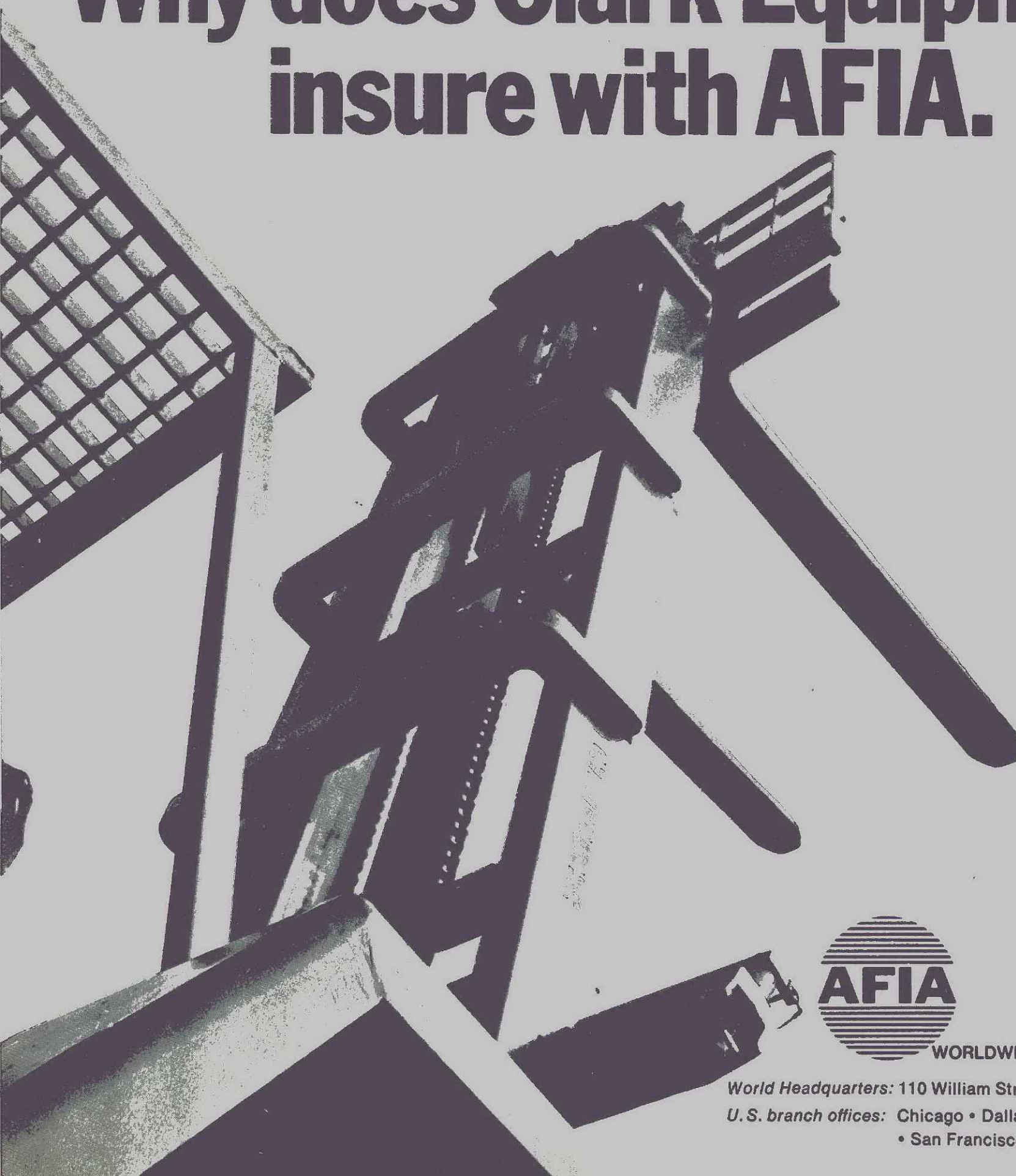
Some call it foresight. Others attribute it to production, marketing, service, experience, knowledge, or good management. Whatever the reasons, Clark utilized the same kind of know-how when examining its insurance requirements.

In particular, they wanted a foreign

insurance underwriter big enough to handle their business. One with offices spread throughout the globe. But most of all, an underwriter with experienced, knowledgeable people who wouldn't get lost in the insurance markets overseas.

They picked AFIA. Not for one reason. Not for the more than 225 offices abroad. Or the more than 3,000 employees. Or the more than 50 years of experience and service. But for all of these and more. Enough reasons to answer each of Clark's needs. Just as 87 of the top 100 companies in the United States with operations overseas did this year.

# Why does Clark Equipment insure with AFIA.



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# Round two of Campaign GM: Pressure on insurance companies

ATLANTA—Campaign GM, in round two of the drive to make General Motors more socially responsible, will put pressure on insurance companies to vote their giant blocks of GM stock "to mandate new priorities" for the giant auto firm.

Philip W. Moore III, executive director of the GM project, told a group of corporate insurance executives here that "we would expect insurance companies to consult with you not only on how to vote their General Motors stock, but also on the responsibilities of the insurance industry generally."

"And in the course of the campaign we expect that the current practices of the insurance industry in a broad range of is-



Philip W. Moore III

...sues will be re-examined. We enlist your help in this effort—to force insurance companies to re-examine their own practices," Mr. Moore stated at the first annual Business Insurance Manage-

ment Idea Workshop.

MR. MOORE revealed that campaign GM "has been studying the insurance industry and its property and liability coverages of universities and churches." He contended "the situation is so bad that one federal administrator has said that most private universities will be forced out of business. As the cost of insurance and deductibles rise, these universities cannot get loans, or grants, and there is an obvious market limitation on the tuition they can charge."

He said in Mississippi insurance has been canceled on 61 integrated schools. "These cancellations apparently stemmed from the Jackson State disorders. The

reasoning seems to be that integration creates a propensity for violence in Mississippi and therefore is an uninsurable risk.

"Other universities around the country have had similar experiences. Stanford University is reported to now have a \$500,000 deductible, which makes it virtually uncovered. And the University of Cincinnati's deductible

## IDEA WORKSHOP HIGHLIGHTS

has gone up from \$100,000 to \$250,000 and the premium has risen from \$33,000 to \$132,000—all in one year—despite the fact that there has not been a single claim arising out of student disorders. The insurance companies apparently adopt this posture because of the Kent State disorders, and apply it to all Ohio colleges," Mr. Moore stated.

"These new and quite arbi-

trary insurance practices are matters of great concern to university and church administrators. And I believe that they should be of great concern to the public at large. For what this means is that universities cannot integrate and churches cannot have community programs—all because of certain insurance practices.

"IF INSTEAD, the insurance companies took steps to alleviate the wrongs that increased the risks, their own social contribution would be immense. But under the current practice, insurance companies are permitted to hide behind a business facade to justify socially destructive insurance practices," Mr. Moore charged.

He said that Campaign GM (officially known as the Project on Corporate Responsibility) will approach the insurance companies as large institutional investors in General Motors and not as insurers. "And I expect that you will approach insurance companies as an insurer, not an investor. But I point to insurance companies here because it is a matter of common concern to all of you, and because the issues of responsibility that we raise with General Motors are issues that I think apply to all industries whose business decisions have a fundamental effect on our lives."

"I hope that in your future dealings with insurance companies you impress upon them the responsibility they have to make decisions that contribute to the long-range goals of the nation rather than the purely short-range goals of the company."

Judging from the questions put to Mr. Moore after his formal talk, Campaign GM won't be able to count on much support from corporate insurance executives. Workshop participants here berated him for taking an anti-business stance and a downright unfriendly attitude toward insurance companies, which they generally seemed to support.

Some questioners suggested that Project GM go after unions instead, and Mr. Moore indicated they would probably be next on his list.

One executive found about the only area of consensus between the audience and Mr. Moore when he said that "government has been a miserable failure and we're the only hope left." Mr. Moore replied: "I think this may be true."

## Dolbee . . .

Continued from page 30  
primary layer. Upjohn self-insures the layer between \$1 million and \$6 million, with the excess policy picking up everything over \$6 million up to the \$70 million limit Mr. Dolbee said he hopes the company will have shortly.

This, he said of the general liability cover, is also purchased on one rate throughout the world. Claims are handled by AIU on the spot and are paid in local currency.

The cost of this plan is about 10% below the cost to purchase it in country, Mr. Dolbee said, noting however that liability coverage is not available in many countries and where it is available terminology is unclear.

Wherever possible, premiums are being collected locally. "However, since much of it is on a non-admitted basis, payments will be paid in the U.S. and hopefully the expense prorated back to the countries of operation. I assume there will be some problems in this area, but feel they will be minor," he said.

**"No question! We employ lots of people in many different places. But this seems to be no problem for American Mutual — their local services are keyed to meet our special needs."**

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# Court rules underwriting pool must give full cover to ghetto firm

NEW YORK—The New York state supreme court has ruled that the state superintendent of insurance has the right to compel wary insurance companies to give extended coverage to businesses in depressed areas.

The significance of the ruling may well be that buyers of insurance who have had difficulty obtaining coverage for property in high risk neighborhoods, despite the fact that insurance pools have been created to give just such coverage, may now be able to obtain desired protection more easily. Though the case is still under appeal, one broker pointed out, "It is the first time the N. Y. Property Insurance Underwriting Assn. will be doing the job it was created to do."

The ruling, handed down by Justice Arnold Fein, ordered the New York Property Insurance Underwriting Assn. to grant \$400,000 worth of extended coverage to a Buy-Rite Discount center located in the notorious Bedford-Stuyvesant section.

**THE RULING** also upheld the provisions of an amendment to the state insurance law designed to protect businesses in ghetto areas and to increase the employment of ghetto residents by firms in their areas.

The Buy-Rite store was insured for \$400,000 and applied to the Underwriting Assn. to have that amount doubled. When the application was rejected by the association, Buy-Rite appealed to state insurance superintendent Richard Stewart through its broker, Calvin, Miller, Meyer & Sachs, Inc. The Buy-Rite chain has had no trouble insuring stores in other neighborhoods.

In hearing at the insurance department, a spokesman for the Underwriting Assn. testified that normal underwriting standards, such as construction of the building and susceptibility to fire, were taken into consideration before the underwriting committee reached its decision to reject the application. He also pointed out that discount stores are high on the list of undesirable risks because they are frequently crowded, have narrow aisles, have stock confined in a small area and use much floor space for display, adding to the congestion.

The president of Buy-Rite Discount Centers, Inc. testified that if insurance coverage was limited to \$400,000 for the store, his business operation "would be seriously and adversely affected." He also claimed that 85% of the store's employees were residents of the Bedford-Stuyvesant area.

**CHARLES POLANSKY**, speaking for the applicant, argued that the association had abused its discretionary powers in rejecting the application for more coverage because the association's own inspection report showed no specific dangerous conditions at that particular store. He also testified that the underwriting committee should transcend normal standards and consider sociological factors since the association was created for just such considerations.

In reaching his decision, the hearing officer stated, in part, "Underwriting standards to be used by the Underwriting Assn. should not be the 'normal' standards used in the open market but should be standards tailored to the types of risks which are not placeable through normal insurance channels, taking into consideration the commercial and social factors which necessitated

the creation of the Underwriting Assn. in the first instance. In short, I find that the Underwriting Assn's. decision to refuse placement of the additional contents coverage was arbitrary and should be overruled."

The Underwriting Assn. appealed to the state supreme court for a stay in Mr. Stewart's directive until they took it to the appellate division, stating that Mr. Stewart was forcing them to give

coverage on property that was "more than usually hazardous."

In handing down his decision, which also refused to postpone the directive, Justice Fein commented, "The interest of the people of the state is manifest. It should be unnecessary to belabor the point with respect to this or any other plan to correct social and economic conditions in distressed areas.

"AN ADEQUATE market for

fire and extended coverage insurance, the two lines essential to mortgage and mercantile financing, is necessary to attract private capital to central city areas, and also to keep businesses in such areas."

Justice Fein also felt that granting the stay "might very well deprive the people in distressed areas of employment and the opportunity to improve their own economic and social standing and their neighborhoods."

Mr. Polansky, of Calvin, Miller, Meyer & Sachs, Inc., told *Business Insurance* after the ruling was handed down that the reason the ruling was significant was that "for the first time, peo-

ple are looking at the sociological need for providing insurance in depressed areas. It is the first time the Underwriting Assn. will be doing its job."

When asked if he thought the ruling would force the underwriters to give coverage to many other businesses in ghetto areas, Mr. Polansky replied, "I think it will change their thinking. Even though the association is supposed to be nonpartisan, it isn't. It is a partnership of insurance companies who still think and act like insurance companies who are wary of insuring buildings in these areas."

The case will now go to the appellate division.



## Sony Video: The "Eye" of Hurricane Camille

In August 1969, Hurricane Camille whipped her 200 mile-per-hour winds through the Gulf Coast with nearly total destruction. She spawned 100 tornados, flooded lowlands with tides 20 feet above normal, and left 136 persons dead and 55 missing.

Covering the claims resulting from such a disaster would normally have required months of note-taking and interviewing by adjusters working 10-12 hours a day, seven days a week.

But Fireman's Fund American Insurance Companies' claims adjusters were able to make an immediate assessment and evaluation of damages through the use of Sony Video tape equipment. According to Thomas Rodgers, supervisor of Fireman's Fund's 25-man team of adjusters, "The video tape recording system provides more complete evidence than we have ever been able to acquire with still film and notes." And an executive in the company's San Francisco headquarters stated, "This is the closest thing to

being an eye witness. These tapes provide us with the immediate information needed to make decisions regarding large claims settlements."

Don't wait for disaster to strike before trying out Sony video products—get into the "eye" of the action now.

For complete details on how Fireman's Fund American has used their Sony equipment, not only for claims adjustment, but for training and total corporate communications, write for Application Bulletin 146.

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# speaking of security

## New safety benefit for female worker could increase employers' liability

CHICAGO—Sending working women home safely at night in taxicabs or limousines may be a step forward in personnel security, but at least one Chicago employer may have opened a new area of liability by providing safer journeys.

At Illinois Bell Telephone Co., where women are employed around the clock, a program has been designed to take night-shift telephone operators to and from work in taxicabs. Since the company picks up the transportation tab, a spokesman for the company was asked if this extends Illinois

Bell's liability for the welfare of the operators.

"We have a case in litigation at the moment on this very subject," he said. "Three of our operators were being taken home from work one night and one of them, Lucille A. Lasso, was injured in the cab. She filed suit before the Illinois Industrial Commission. The case has been completed," the spokesman said, "our brief has been filed and we are now awaiting the decision of the arbitrator."

**"OUR ATTORNEYS denied lia-**

bility," he continued, "and the company's point of view is that the transportation for night workers is an optional benefit and does not make us responsible for our female employees portal to portal."

Illinois Bell is self-insured for workmen's compensation coverage.

At Presbyterian-St. Luke's hospital evening nurses and volunteers are driven to and from public transportation stops by the Keeshin Charter Service Inc. A security spokesman for the hospital said that their contract with the charter service relieves them of liability for the women be-

cause Keeshin assumes liability for passengers under a self-insurance program.

"We have an excellent security system for protection of nurses and other women who work at Michael Reese," a source at the hospital said. "When the 11 p.m. shift comes on our own security cars park at the bus stop and watch over the women coming and going."

Three squad cars continuously patrol the Michael Reese area and, according to a nursing administrator, "the public is more than aware that the hospital security is very tight."

**STEVE STEFANSKY**, director of facilities and supportive services at Mt. Sinai hospital, described its transportation system as a benefit that not only provides safety for the nurses and volunteers but also a personal service. "The hospital owns an 11-passenger vehicle to take fe-

male employees into the loop. Student nurses and those living in residence halls use the car when they have shopping to do," Mr. Stefansky said, "and volunteers and other nurses use it to reach public transportation and commuter trains."

The car, driven by a hospital employe, makes nine runs from the hospital every day, from 8:40 a.m. to 10:30 p.m.

As to how this affects Mt. Sinai's liability for the women, Mr. Stefansky said, "No one is compelled by the hospital to take advantage of this benefit." He admitted, however, that since no legal precedent had been set the area of responsibility was still gray.

At Woodlawn hospital most of the nurses drive to and from work. Floodlights in the parking lot keep the area well lit all night and a guard house in the middle of the lot is manned 24 hours a day. For those employes who ride the bus a guard is always maintained near the stop while they wait.

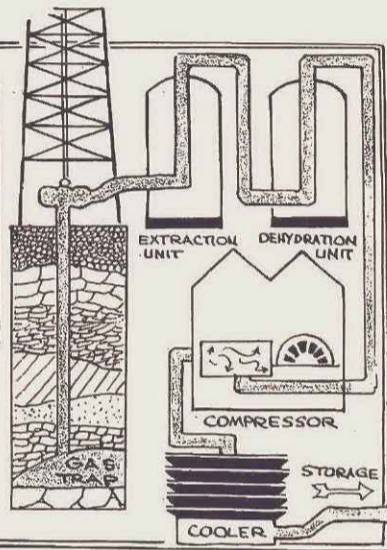
There is no parking lot for the employes at St. Francis X. Cabrini hospital but security guards walk nurses to their cars, which must be parked on the street, at night. "We have two of our own guards on duty per shift," said Yvonne Tschirky of the hospital's personnel department, "and during the 4 p.m. to midnight shift the police department has a man in our area almost constantly."

In view of the current women's liberation movement, perhaps this benefit will engender a backlash—men may now begin demanding free taxi rides and escorts to and from their cars.

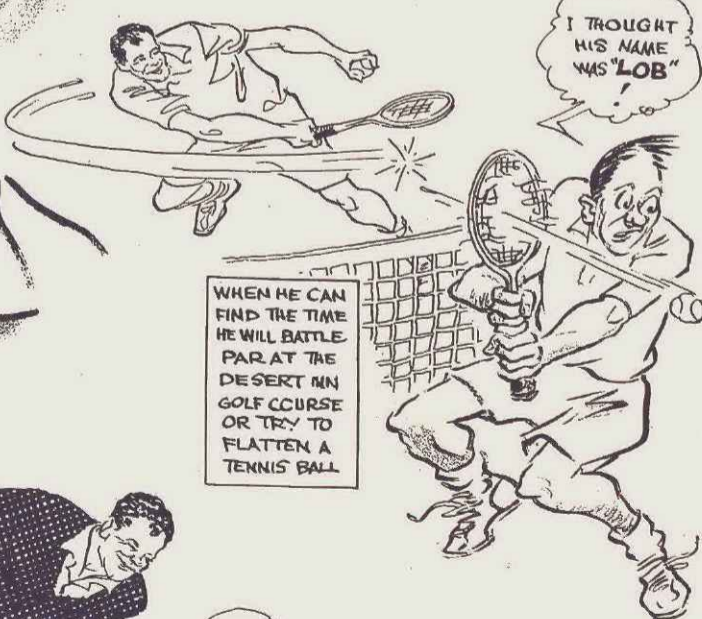
## HE SETS THE PACE AT SOUTHWEST GAS IN VEGAS



SOUTHWEST'S  
PREXY AND  
CHIEF EXEC,  
**WILLIAM  
LAUB,**  
SHOWS THE WAY  
AT LAS VEGAS  
IN THE NATURAL  
GAS INDUSTRY

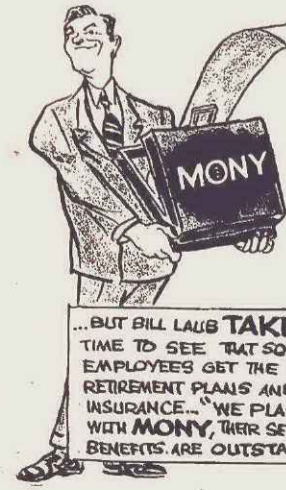


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MILES OF TRANSMISSION  
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FIND THE TIME  
HE WILL BATTLE  
PAR AT THE  
DESERT INN  
GOLF COURSE  
OR TRY TO  
FLATTEN A  
TENNIS BALL

THAT  
COVERS  
IT!



LIFE  
INSURANCE

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SURGICAL

MAJOR  
MEDICAL

...BUT BILL LAUB TAKES THE  
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EMPLOYEES GET THE BEST IN  
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## Lease cover to get try in Canada

BANFF, Alberta—Mortgage Insurance Co. of Canada is expected to introduce a lease guarantee insurance program for industrial and commercial property within the next few weeks.

R. J. Ryan of MICC told a meeting of the Canadian Assn. of Real Estate Boards that the program was designed to insure a continuing income to landlords, regardless of what happens to the tenant's business.

Under the plan, the tenant's credit status is raised so financing for the project will be better. At the same time, landlords will be able to provide better security for mortgage payments because they can assign the policy to the lender.

"THIS PLAN," according to Mr. Ryan, "should make it easier for owners to sell income properties and help developers in financing both commercial and industrial projects."

Eligible for the program's coverage will be leases on shopping center premises, warehouses, free-standing outlets and office buildings.

Coverage will be available for a minimum of five years and a maximum of 15 with premium rates ranging from 5% of the annual guaranteed rental for five year coverage to 4% for 10 years and 3.5% for the 15 year coverage.

Pointing out more advantages of the plan, Mr. Ryan said, "The lease guarantee policy will elevate the credit status of competent operators of small firms, thereby enabling them to compete with larger businesses for the more desirable locations and premises."

## Shell Oil Co. benefit: Expense-paid move to sunny Houston, Texas

HOUSTON—One of the more unique employee benefits offered this year by a major corporation may well have been an all-expense paid move from the crowded environs of New York City to the open expanses of Houston, Texas.

When Shell Oil Co. decided to move its entire operating headquarters, including the insurance department, to Houston it did not just lock up and send its employees home to the Bronx and Westchester County. The firm decided to transfer everybody. And at an expense estimated to be in the neighborhood of \$25 million.

Though corporate headquarters for Shell will remain in New York, the insurance department move was total. "Everyone in the department came to Houston," explained W.F. Reed, Shell's insurance manager, "except one fellow who retired."

The insurance department will still do business with its New York brokers, Alexander & Alexander Inc., and there are no problems expected in the foreseeable future, according to Mr. Reed. "With communications what they are today and air travel as easy as it is, we will conduct business as usual," he went on. He did admit, however, that he will have to make a few extra trips back to New York in the future.

**THE MOVE** from New York to Houston, a distance of about 1,600 miles, is almost completed and both equipment and operating headquarters personnel are being moved with comparative ease. The equipment is being moved in vans and trucks and people are receiving liberal moving benefits from the company.

When the plans for the move were first announced, Shell initiated an orientation program for all employees who wished to be transferred, a list including everyone from top executives to file clerks. The program explained the decision to move by pointing up some of Houston's advantages, such as the fact, according to the Department of Labor, that a family of four can live 22% more cheaply in Houston than they can in New York.

The company set up an exhibit which included maps, slides, photographs and literature pertaining to Houston and a model of the new Shell building there. Two-hour orientation meetings were held for small groups of transferees which explained the company's relocation policies and gave information regarding such things as moving and buying and selling houses.

Shell paid for a one-week house-hunting trip to Houston for any employee being transferred and covered commissions and closing costs involved in selling a house, as well as the same expenses incurred in buying one. The company also arranged for a housing brokerage agency to buy an employee's home in New York if he had not been able to sell it. This move gave the employee some equity for a downpayment on a Houston home. All moving costs were absorbed by the company. Each employee also received two-thirds of a month's salary to cover such expenses as carpeting, appliance installation, car registration and other moving incidentals.

A **RELOCATION** center was set

up in Houston to greet all arriving employees and give them information on housing and mortgage financing. One of Shell's financial department men was assigned to the center to guide employees to sources of money for mortgages.

Financial institutions in Houston were receptive to the Shell move.

In all, about 1,200 employees were transferred after about 700, who did not desire to be transferred, were either absorbed into corporate headquarters positions or resigned. ■

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# business insurance/perspective

## Risk managers— should you specialize?

by Bion H. Francis,  
manager of benefits planning,  
Colt Industries, New York, N. Y.



Bion H. Francis

**'Risk managers may develop and grow—but their growth tends to remain within their status as risk managers.'**

In some ways the risk manager must know more about the company than anyone else in it. There are many executives who know more about particular aspects of the company and its operations than does the risk manager, but there are few who have his broad knowledge of the company and its operations. This may reflect the fact that the risk manager is frequently the smallest unit that must deal with the entire company and its operations.

This would indicate that the position of risk manager is advantageous from the viewpoint of training executives. I do know some insurance managers who have risen to high positions within their company. But these seem to be exceptions. Risk managers may develop and grow—but their growth tends to remain within their status as risk managers.

**FIRST, LET'S LOOK** at the situation from the viewpoint of top management. If you talk with the top executives of a company, you find that they may have production problems, they may have financial problems, they may have sales problems—and in recent years they may feel they are acquiring social problems of a high order. But generally they don't have insurance problems.

Insurance? Yes, we have a man who takes care of that. As risk manager you

are the man. If they have confidence that you are doing a good job, they are usually happy to leave you alone to do that job. You are taking care of what otherwise would be one of their headaches.

You will note that in this there is no thought that you are receiving training that can prepare you for a higher position. In effect, management tends to look at the risk manager as a specialist. I remember reading that one principle to follow in arriving at a top corporate position is this: "Never be a specialist." Never!

You may say: "This is a fine time to tell me that. I am a risk manager—and therefore a specialist. What should I do about it?"

Probably the first thing you should do about it is to review yourself, your abilities and your desires. You have undoubtedly seen discussions of what you need to be a good risk manager—a knowledge of insurance companies and policies, a wide acquaintanceship in the insurance field, a background in engineering, law, accounting, mathematics, personnel, and corporate organization, an ability to deal with many men in many fields, and to coordinate their activities in that peculiar type of liaison activity that I sometimes think is the heart of risk management.

**I LOOK AT** those requirements and consider again the tendency of manage-

ment to regard the risk manager as a specialist. Perhaps, to be a specialist in this field you must be a generalist. This may throw additional light on the advantages of the risk manager's position in training executives.

But beyond these qualifications there are other things to consider. Ask yourself: "Do I want to be a specialist? Or do I want to be a generalist?" If you want to be a specialist, there is no problem. As a risk manager you have what I believe to be one of the most interesting jobs in the country as a specialist. It is a position of great responsibility that permits your own personal growth and development of a high order.

But suppose you want to be a generalist. You may feel that you have potential that goes beyond what you can achieve as a risk manager. How do you go about breaking out of your position as a specialist?

**FIRST, I repeat** that the position of risk manager has many advantages from the viewpoint of education and personal development. You should do your best to take advantage of this. As a risk manager there are occasions when you must deal with top management. When you do, consider top management and its problems and responsibilities. When you deal with management, do so as a generalist dealing with their problems, rather than as a specialist dealing with your own problems and technicalities.

Of course, as a generalist, you must always have an eye to a better position either in your company or in some other company. There will be hazards involved. But if you take the position that you intend to be a generalist, one of the things you must accept is a greater degree of job insecurity.

In all this there is a message for the company that is looking for a risk manager. What is the company looking for? A candidate for higher position? Or a man who will settle—as a specialist—into his harness as a risk manager? The answer to this question should depend what you are looking for—a generalist or a specialist.

To both of you—company and risk manager alike—I wish every success! ■

**SOMETIMES** think that the position of risk manager is one of the best positions in a company for training executives. The risk manager should be familiar with the plant layout and operations of a company, with the flow of materials through the production lines and out to customers as finished goods, and with the reverse flow of money from customers through the company to its suppliers, employees and others.

## If you ship by sea be sure to insure

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



William H. Rodda

**A MEMBER** of the United States Armed Forces, when returning to the U.S. from Europe, decided to ship his automobile back to America. He arranged for carriage by sea with one of the regular ocean carriers. Unfortunately, the ship was involved in a collision and sank, along with its entire cargo, including the automobile. The automobile owner was very much disappointed when he made claim against the carrier for the value of the car and was told that the ship operator had no liability and would not pay for the loss of the car.

Persons who are not familiar with ocean cargo practices may not know that the liability of carriers by sea differs greatly from the liability of carriers by land for cargo in their custody. The principle originated hundreds of years ago that ship owners and cargo owners are joint ventures in a hazardous undertaking. Where there is no lack of diligence on the part of the ship operator, the cargo owner cannot collect from the ship opera-

tor for loss of cargo. Ship owner and cargo owner take their own chances that the voyage will be successful.

This long-standing rule of maritime law has been reinforced by the Carriage of Goods by Sea Act enacted by Congress in 1936. Similar acts are in force in the principal maritime nations of the world. The carrier, the operator of the ship, has specified responsibilities and exemptions. It is not liable for loss of cargo if it can prove that due diligence was exercised as required.

**THE CARRIER** is bound before and at the beginning of the voyage to exercise due diligence to: make the ship seaworthy; properly man, equip and supply the ship; and to make the holds, refrigerating and cooling chambers, and all other parts of the ship in which goods are carried, fit and safe for their reception, carriage and preservation. The carrier is also required to properly and carefully load, handle, stow, carry, keep, care for, and discharge

the goods carried.

It is important to note that the requirements for equipping and preparation of the ship apply before and at the beginning of the voyage. Occurrences that affect the safety of the voyage and that happen after the voyage has started are not charged to the carrier if there is no privity on the part of the carrier. The burden of proof is on the carrier to show that it did exercise due diligence to prepare the ship for the voyage. This is reasonable because the carrier ordinarily would be the only one having knowledge of what measures were taken to prepare for a safe voyage.

This limitation of the liability of an ocean carrier is further delineated in the act by 17 exemptions. The carrier is not liable for loss resulting from any act, neglect, or default of the master, mariner, pilot or servants of the carrier in the navigation or management of the ship. This is quite different from many situa-

*Continued on following page*

# Shipping...

*Continued from preceding page*

tions on land in which a principal generally is responsible for acts of his agents or servants.

The carrier is further exempted from liability for loss by fire unless caused by fault or privity of the carrier; perils, dangers or accidents of the seas; act of God; act of war; act of the public enemy; seizure under legal process; quarantine regulation; act of omission of the shipper or owner of the goods; strikes or lockouts; riot or civil commotion; saving or attempting to save life or property at sea; inherent vice or quality of the goods; insufficient packing or marking of the goods; latent defects; and any other cause arising without the fault or privity of the carrier or his agents or servants.

**THIS LONG LIST** of exemptions for the carrier of goods by sea causes one to wonder just when a cargo owner could collect from the carrier for loss of goods at sea. The answer is, not very often. There may be rare circumstances in which a carrier has allowed a ship to sail without sufficient crew or provisions, or with some other defect, that would make the carrier liable. However, this is unusual. The shipper of goods by sea must carry insurance on his cargo to protect himself against the possibility of a loss at sea.

The usual cargo insurance policy covers against loss from fire and from perils of the seas. Policies are likely to exclude war risk, riots and civil commotion, contamination from other cargo, delay or loss of

market, and inherent vice, and theft and pilferage as distinct from "assailing thieves." Theft losses under an ocean marine insurance policy traditionally are those from theft by violence, or what would be considered burglary or robbery on land. It may be possible to secure insurance coverage for some of these excluded perils by special negotiation with the underwriters and for the payment of an extra premium.

Cargo policies are usually subject to a deductible under the designation of a warranty to be free from "particular average." The deductible and the amount

of the shipper; and inherent vice or the nature of the property. Referring to the serviceman who shipped his automobile from overseas, had he shipped the car overland by railroad, he could have collected for his loss. The railroad as a common carrier is responsible for almost anything that can happen to cargo in its custody, including a wreck.

An act of God is a natural occurrence such as a storm, or earthquake. An act of the public enemy is an act of a nation at war, not the act of an ordinary criminal.

The common carrier may be liable for loss due to one of the exempted causes if

**'The important principle to be followed by shippers is to find out what responsibility rests upon the carrier.'**

are subject to negotiation with the underwriters.

It is important that the coverage include a warehouse-to-warehouse clause when the goods are shipped from an inland location or are destined to an inland location. This clause provides continuous coverage from the time the goods leave the original point of shipment, even though inland, until final delivery at final destination. Presence of this clause in the policy prevents any gaps in the continuity of coverage.

**THE RESPONSIBILITY** of a common carrier by land is much greater than that of a carrier by sea. Common carriers by land in the U.S. are exempted only from liability for loss caused by: acts of God; acts of the public enemy; exercise of public authority; fault or neglect on the part

it was negligent in connection with the loss. A flood is an act of God, but a railroad might be negligent and therefore liable if it did not remove freight cars from the path of an impending flood.

An important privilege of common carriers on land is that of limiting the dollar amount of their liability. Express shipments, for example, are frequently limited to \$50 or 50 cents per pound unless a higher value is declared. Bills of lading for freight shipments by railroad, truck or airline usually have a limit by dollar amount or by a limit per pound. The shipper should always inquire what his limit of recovery is under the bill of lading.

**MOST COMMON** carriers by land provide for a full declaration of value, with full recovery to the shipper in case of loss.

An extra charge is made for this. The question to be determined by the shipper is whether to declare the full value and pay the extra charge or to accept the limited recovery from the carrier and buy his own insurance to cover the remaining difference.

The person or firm that has only occasional shipments would usually find it easier to declare the full value to the carrier and pay the extra charge. The person or firm that is shipping regularly and in large quantities usually will find that insurance from an insurance company will be cheaper than to pay the extra charges of the carrier.

**IT SHOULD** be pointed out that the U.S. post office is not a common carrier for parcel post. The post office has no liability for shipments unless there is government insurance. Here again the shipper has to decide whether he should buy government insurance on parcel post shipments or buy private insurance. The decision may be made on the basis of the frequency of shipments and whether private insurance is cheaper and less bothersome.

The important principle to be followed by shippers is to find out what responsibility rests upon the carrier. Is the carrier liable for cargo in its custody? If it is liable, are there limits on the dollar amount of liability? Then an intelligent decision can be made whether to declare the cargo for its full value and pay the extra charges or to buy insurance. In the case of shipments by sea, the decision usually will be to buy insurance. In the case of shipments by land, the decision usually can be made on the basis of the relative cost and the amount of trouble involved. ■

# Private insurers and prepaid medical plans

by John C. Jans, senior vice president, accident and health division, CNA Insurance, Chicago, Ill.



John C. Jans

medical clinic for the nominal charge of \$2, the program has encouraged preventative health care and early treatment.

The program was originated by Duane Dwyer, president of American Medical Services, an organization with contracts with clinics to provide comprehensive general and specialized medical care on a capitation prepayment basis. Mr. Dwyer also heads Lifetime Insurance Financial Equities Inc., a Los Angeles insurance agency, and has similar programs underway with other insurers.

**THE DUAL CHOICE** medical program is a variation of the Kaiser Steel system originated several years ago. Kaiser built its own hospitals, staffed them with salaried doctors and offered health care to its employees on a prepayment, per capita (capitation) basis. Kaiser's program was so successful it had to begin turning away outside groups and enterprising insurance agents and companies sought means of applying the Kaiser experience to traditional health care insurance.

Under the Dual Choice medical program, each employe group is offered a choice of two health plans, with the condition that at least half of the individuals choose the capitation plan, called Plan I. Under Plan I, a fixed annual fee for each individual is paid in advance to the clinic of his choice. The employer normally pays all or part of the fee, approximately \$10 a month for an individual and about \$35 for a family. The fee is paid monthly in advance for medical care, whether needed or not. American Medical Services pro-

vides clinic care through arrangements with more than 20 independent clinics in Los Angeles and surrounding communities.

The individual selecting Plan I chooses a clinic, usually the one most convenient, and receives a plastic identification card. He may then go to the clinic whenever he wishes for \$2 a visit, which may cover, for example, an entire physical examination.

There is no additional charge for injected medicines, refractions for glasses, X-ray examinations, lab tests, physiotherapy, or surgery. There is a \$90 fixed charge for obstetrical, including pre- and post-natal care, normal delivery and Caesarean section. Plan I also provides hospitalization coverage, underwritten by Continental Casualty Co. This offers 80% reimbursement for most hospital expenses to a maximum of \$7,500 and includes special benefits for travelers and for emergencies.

**PLAN II** is entirely underwritten by Continental Casualty and is the more traditional program, providing 80% reimbursement of covered professional services and hospital expenses, to a maximum of \$15,000.

Experience shows there are significantly less hospitalization expenses under Plan I. When a large percentage of a group choose Plan I, substantial discounts can be offered. The capitation plan seems clearly to benefit the subscribers.

Here's what Harold L. Sutton, the CNA insurance executive responsible for activities in connection with the plan says:

"We have been approaching health in-

surance from the wrong direction. This was the traditional approach used by Lloyd's of London when it insured sailing ships. There had to be a loss—say a sunken ship—before insurance applied. But in health care, so much should be preventative. In the past neglect has been a big contributor to poor health—neglect stemming from a fear of possibly large expenses. However, very few people will object to spending \$2 for whatever services they need from a modern and well-equipped clinic."

**WHEN AN INDIVIDUAL** enters a clinic, he presents his plastic card and his visit is recorded in much the same way as a gasoline purchase. The clinic forwards the slips to Union Bank, which handles the IBM processing, billing and payment to the clinic.

The doctor checks the treatment given on a form devised by Mr. Dwyer, which allow him to compare capitation payments with what would have been charged had the patient not been covered. This gives an effective cost control and can and does demonstrate to clinics that capitation benefits their incomes.

Smaller groups have moved faster than larger firms to take advantage of Dual Choice, Mr. Sutton said, but the program has been presented to many large companies and is being considered by several currently.

Most Dual Choice groups have subscribed in the last three months. Groups now in the program include Diamond Setters Guild, Pre-School Assn. of Southern California, Socoma Cos. Inc., Workmen's Circle Cultural Center, Ventura Musicians Union, Terrace Medi-Centers and Owner Operators. ■

John C. Jans is a senior vice president in charge of accident and health for Continental Casualty Co., a member of the CNA insurance group. He has been with the organization since 1946, when he started as a field supervisor. He is a graduate of Marquette University. He is a member of the board of directors of Valley Forge Life Insurance Co., a member company of the CNA group.

**C**AN A PRIVATE insurer play a role in medical delivery system with a prepayment, capitation approach? If a program now underway in California is any indication, the answer may be "yes."

The Dual Choice medical program introduced in California by the general group division of Continental Casualty Co. in cooperation with American Medical Services Inc., Aug. 1, 1969, is proving exceedingly promising. More than 3,500 individuals are now covered under the program, an effective and unusual combination of capitation, broker and insurance company. Because a subscriber can visit a



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## Reviews theory that tanks' sizes influenced risks in 3 explosions

LONDON—Technical experts report electrostatic discharge as a possible cause of the explosions to three large oil tankers last December, but are also probing theories that the actual size of their cargo tanks may have influenced the risk factor.

These opinions are contained in the official report of the International Chamber of Shipping on the incidents, released to *Business Insurance*.

Lord Geddes, chairman of the chamber's tanker committee, expects the findings to be reviewed by the maritime safety committee of the Intergovernmental Maritime Consultative Organization, as they include recommendations for future procedures in clearing tanks on "jumbo size" crude oil carriers.

**HE TOLD** *Business Insurance*: "The International Chamber of Shipping attaches the utmost importance to tanker safety. It is also important to continue with the intensive research that has gone on throughout the world shipping industry to find more clearly the conditions which prevail inside cargo tankers in these very large carriers.

"I believe that if the report's suggestions are adopted they should be of benefit in avoiding further explosions during tank washing operations."

But he emphasized that this is only an interim report, published after six months' intensive research into the explosions on the tankers *Marpessa* and *Macra*, both owned by Shell, and the *Kong Haakon VII*, on charter to British Petroleum.

Experts are pressing on with more research, and further reports will be issued when additional knowledge is available.

**MOST OF** the data in the re-

port is highly technical, but these are some of its conclusions:

The size of the tanks in these very large carriers involved certain changes in traditional design, and these, rather than the sheer size of the tanks, could have contributed to the casualties.

It cannot be stated with any degree of certainty that their size alone was a contributory factor, but investigations are by no means complete.

An electrostatic discharge remains as a distinct possibility as the cause of the ignitions, and in order to obtain more definite information, a detailed study of the whole process of static charge generation has been started.

**THIS TEST** program will take

many months, and even years, to complete but every effort is being made to assure the feedback of data to the tanker industry with the minimum of delay.

*Business Insurance* understands that although the main experimental work in this program will be undertaken by the oil industry, contact has been made with several specialist organizations outside the industry to enlist their aid as well.

One line of inquiry pursued by the research team was based on the feeling that mist produced by the breaking up of the water jets used for cleaning the tanks would carry electrostatic charges.

But the riddle of the triple explosions remains unsolved in this interim report.

## Bachelor fights leave for pregnant workers

OTTAWA—In what can only be described as a rap in the solar plexus to the forces of Women's Liberation a group of Canadian mining men recently attacked the government's proposal to pay unemployment insurance to women taking maternity leave as being discriminatory against the financial joys of bachelorhood.

E.R. Mather, an Ontario mining executive who felt that his marital status was his own business, asked a Commons labor committee hearing on a white paper on unemployment insurance, "Why should everyone take the responsibility for pregnancy? I think most of us would agree that pregnancy is more a matter of choice than ever before.

"If you pay benefits for pregnancy," Mr. Mather pointed out, "you're requiring other workers—bachelors, for example—to pay for insurance they're never going to need."

Mr. Mather voiced his opinion as the Ontario Mining Assn.'s labor relations committee presented a brief containing several objections to the white paper changes.

While the mining associations brief took issue with the opinions of other employer groups in supporting the government proposal to impose higher premiums on employers with high layoff patterns, it agreed with the majority of employer groups in saying that pregnancy, retirement and sickness benefits should be classified as welfare measures and should not be drawn from the unemployment insurance monies.

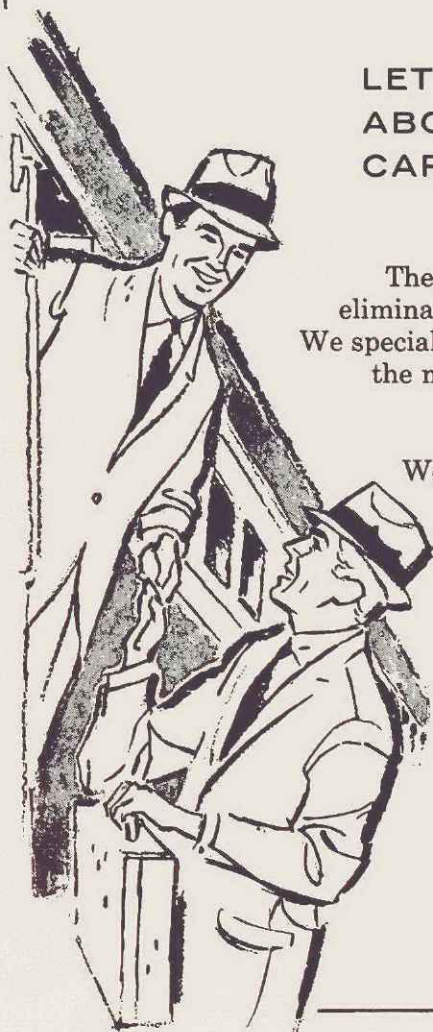
A spokesman for the group, in an attempt to assuage the bad air stirred up by the word "welfare," suggested that the payments be referred to as "health benefits." He also said that the benefits were a good thing but should be administered through the Department of Health and Welfare.

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## Fire alarms...

*Continued from page 19*  
through the use of a balanced circuit between an exposed and a sealed ionization chamber, each containing two electrically charged plates and a minute amount of radium 226. Alpha rays produced by the radium ionize the atmosphere in each chamber, causing a small electric current to flow between the charged plates. Under normal conditions, the flow of current between the plates in each chamber is equal, and a balanced state exists in the detector.

When a combustion product enters the exposed chamber, the effect is a decrease in current flow in this chamber, thereby creating an imbalance with the current flow in the sealed chamber. Electronic circuitry detects this imbalance and signals an alarm condition to the appropriate signal initiating circuitry.

**Photoelectric smoke detectors** can warn of fires before flames reach the danger level. By detecting the presence of smoke in the air, precious extra minutes can be gained which can mean the difference between life and death.

This device responds directly to visible smoke concentrations and is activated when smoke en-

ters a controlled porosity air filter, scattering light into the view of a photoconductive photoelectric cell. This triggers solid state circuitry which energizes an alarm relay. A normally energized trouble relay drops out in the event of power or circuit failure. A subdued red pilot light indicates normal operation.

More than 100,000 separate openings admit smoke but exclude dust and insects. This device employs a commonly used pilot lamp, operating on reduced voltage as the light source for the photocell, thus insuring long life and minimum maintenance. Two detectors are often operated in series to obtain greater coverage.

The photoelectric detector is recommended for use in areas where it is not practical to employ the ionization type detector due to high ambient concentration of combustion products (in garages, furnace rooms, welding areas, etc). Also it may be desirable to use the photoelectric detector in areas where the material expected to burn would quickly produce very dense visible smoke.

All detectors are usually designed to produce a trouble signal if the detector head is accidentally or purposefully removed from its mounting base. Many detectors include both heat sensors and smoke sensors in the same enclosure.

# Government negotiations on private insurers' '71 health care rates drag

NEW YORK—Insurers of the various federal employe health benefits programs have blamed asked-for increases in the multi-million dollar premium tab now under negotiation on rising costs of medical services and their delivery.

A research project devised to analyze past results and predict future trends in the cost of health care, entitled the Millerman & Robinson Report, estimated earlier this year that the cost of health services in the U.S. would increase about 25% during the next two years. The report indicated that this annual 12% "deterioration" was past recent experience and was expected to continue at this rate.

The premiums paid for these services to insurance carriers for the 8.2 million federal employes covered by health insurance are collected from withholdings from payroll checks (76.9% of the tab) as well as from contributions from the government (23.1%).

A CURSORY examination of the increase in premium volume paid to the insurance carriers over recent years indicates a rate of "deterioration" different from the estimates of rises in health costs in the Millerman & Robinson report. In calendar year 1968, for example, collected premiums and supplemental premiums paid to carriers from contingency reserves totaled \$671.1 million, rising to \$774.8 million for fiscal year 1969.

Following the results so far in calendar year 1970, the Civil Service Commission (CSC) estimates that it will have paid some \$958 million to insurance carriers covering 38 different health plans. These increases show little sign of improvement in the future. Two additional health benefit plans are scheduled to go into effect—Jan. 1 next year, bringing the total in operation to 40.

Currently, an unmarried individual enrolled under the Blue Cross-Blue Shield federal employes health plan (it's the largest with some 1.6 million enrollees) pays \$5.57 bi-weekly for the low-option plan. The federal government contributes another \$1.68 every other week. The Blue Cross-Blue Shield high-option plan (self as well as family) costs the worker \$13.59 bi-weekly, with the government contributing \$4.10—during the same period.

Negotiations are now underway between the various insurance carriers and the federal government over new rates for the coming year. (Rates are structured on a calendar year basis.) Reports from inside the CSC indicate that several carriers are asking as much as a 20% hike in premiums for calendar year 1971. Although none of the carriers underwriting federal employes' health insurance plans surveyed by *Business Insurance* would admit to asking for such high premium increases, all of them explained several reasons for the rate increase.

**THE RATE-MAKING** procedure between the government and carriers is somewhat different from that between carriers and most employers.

"The carrier brings in his proposal," said Gordon Brown, an actuary in the bureau of retirement, insurance and occupational health under the Civil Service Commission, "then the federal government comes up with its

own. We carry our own actuarial staff for that. In general, the differences between the two proposals, if any, are then negotiated in some compromise," he explained.

These negotiations between the carriers and the federal government have been going on for an unusually long time this year, everyone agrees. Andrew E. Ruddock, director of the Bureau of Retirement, Insurance and Occupational Health, declined to reveal what his own estimates were for the premium increase for calendar year 1971. "We feel that we will have the negotiations completed by the end of the month (October), however," he added.

"One of the biggest factors contributing to our premium needs is the 'open season,' each year," Norton W. Chellgren, associate actuary of the group division for Aetna Life Insurance Co., said. He explained that the term referred to a period granted to federal employes each year during which they could change to any health benefit insurance plan they wished from one in which they were currently enrolled.

Aetna is the chief underwriter for a large federal employe health benefit program called the "Government-wide Indemnity Plan."

"PRIOR TO the last open season," Mr. Chellgren pointed out,

"we had about 540,000 enrolled. Now we have about 470,000," he added. Aside from the diminished premium base caused by the defection of a large number of plan members, there is also another problem.

"After the end of the open season, if you gain a number of new enrollees, you have little idea as to what the medical quality of these new risks will be in the coming year," Mr. Chellgren explained. He indicated that the insurance carrier had to "stay loose" in the event there were extreme changes in the primary estimates.

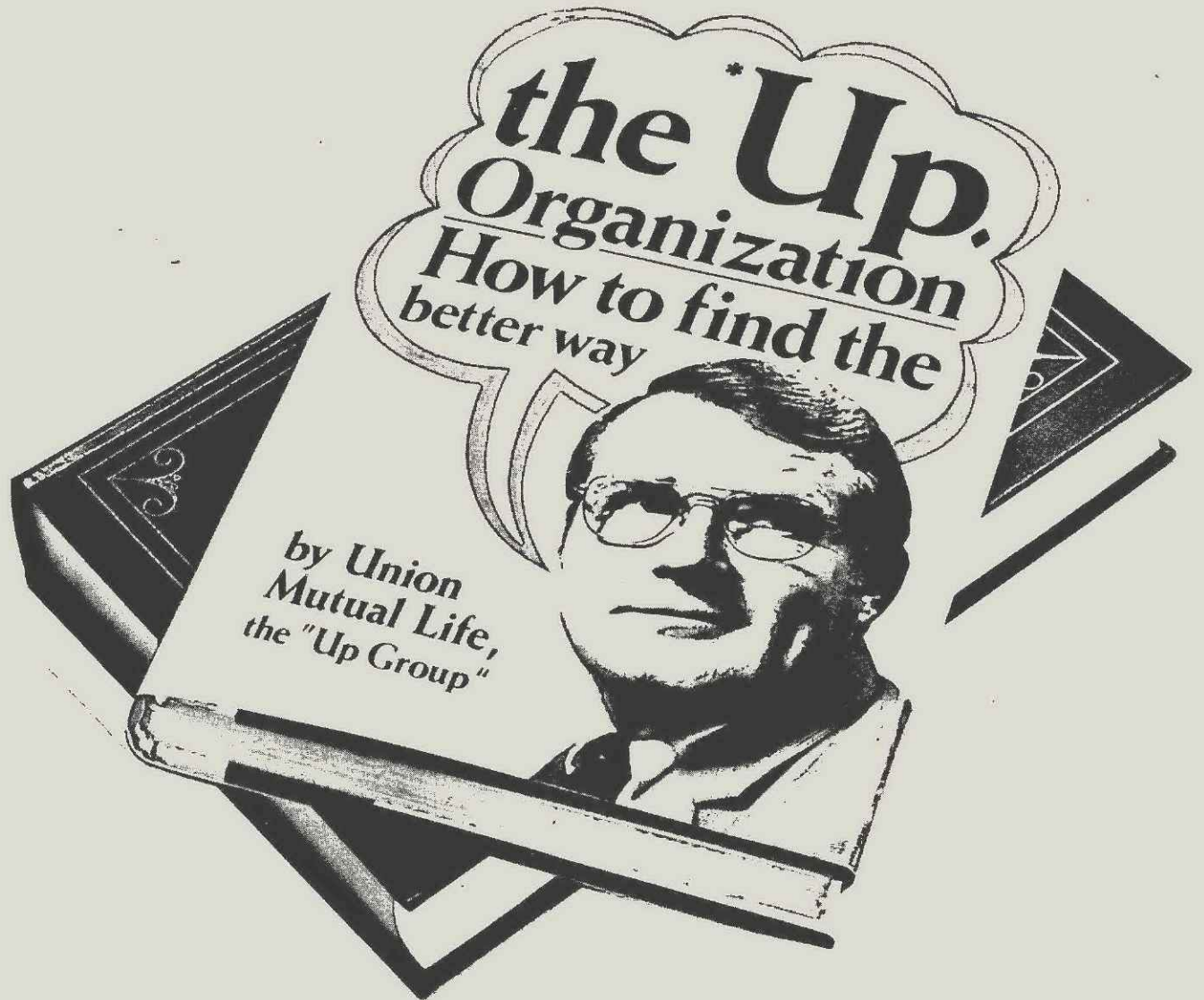
Inevitably, these changes cost money when they appear, he said. "In 1968 we had to ask for a 30% increase," Mr. Chellgren stated, "Our medical costs simply overran our expectations."

"Well, some increase is necessary on January 1," said Elmer Rasmussen, vp for group insurance at Continental Casualty Co.

in response to an inquiry as to how much of an increase his company was asking the government for 1971. Continental Casualty received \$1.25 million in premium volume for its health plan covering U.S. postmasters. "There are a lot of factors you have to take into consideration. Inflation, hikes in hospital and medical costs—all of these things have to be figured in," he said, declining to venture a figure on what next year's rates will be.

**MR. RUDDOCK**, director of the government bureau of retirement, ventured an explanation of the rates' "seemingly extreme fluctuations:"

"Our contracts with the carriers are experience-rated. The premiums depend on the particular plan's experience along with an estimate based on this experience of what will be required for the next year."



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\*Our thanks to Mr. Townsend and his "Up the Organization"

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# Workshop participants evaluate Atlanta session

## IDEA WORKSHOP HIGHLIGHTS



**Jack Hollander, Manager, Risk Analysis Department, E. H. Crump Co., Memphis, Tenn.:** "I found the workshop very useful because I learned how corporate risk managers are thinking these days, what the future holds for them and what they plan for the future. The combination of programs and simplification of things for the employe is an extremely interesting subject these days."



**A. Walter Lukens Jr., Corporate Insurance Manager, Teleflex Inc., North Wales, Pa.:** "I thought the workshop was excellent, really. The speakers were good and the subjects interesting. Representation by speakers from some small companies might be appropriate in the future, but overall the ones that were there were good. The idea of having some faculty members speak on social issues made us all think.

Let's face it, while we might not agree with everything they said, you have to think about these things."



**Lawrence J. Salerno, Corporate Insurance Manager, Mack Trucks Inc., Allentown, Pa.:** "From my point of view I would rather have seen more subjects on pure risk management. I am not too interested in the consumer issues when I come to a business workshop. I had a tough time restraining myself from getting up to rebut them a couple of times. But I did get a lot of value out of talking to people who have the

same responsibilities as myself. I would like to see shorter hours in the future, though."

compact arrangement of the program as well. In every session you felt your time was well spent."



**H. R. Rossell, Manager, Insurance Department, Sun Oil Co., Philadelphia:** "The workshop took the broad spectrum route. There's no question about that. A couple of times I toyed with the idea that it might not be appealing to me, but I found it of general interest in the end."



**Craig D. Collings, Assistant Insurance Manager, Hughes Aircraft Co., Los Angeles:** "In general the conference was good—enlightened. A lot of the material has been helpful. Some, of course, was not. I'm in aerospace and we have some rather unique programs, but overall many of the presentations seemed to have a financial bearing on my job. I would like to see a bit more time allowed in the schedule for interchange among participants earlier in the day."



**B. G. Collins, Employment Manager, Chatham Manufacturing, Elkin, N. C.:** "It was a real fine workshop. One of the most comprehensive I have ever attended, in fact. There was an excellent faculty and I was impressed with the knowledge of the people who spoke. There was very little hedging done by any of them. I was especially interested in hearing and sharing ideas with other workshop participants, as well as the faculty,

## New company will write title insurance on airplanes

**SAN FRANCISCO**—A new insurance company, Aircraft Title Insurance Corp., has been established here to write title insurance on airplanes.

"This coverage is long overdue," explained Matthew E. Kelly, a director and chairman of the executive committee of the new company. "You would be amazed," he said, "at the airplane ownership problems that

arise almost constantly."

The new firm will provide service to banks, lending institutions, dealers and buyers of aircraft.

**ACCORDING** to Mr. Kelly, the company is "the natural outgrowth" of the former Insured Aircraft Title Service Inc., which was founded in 1963 and has searched and reported on more than \$5 billion worth of aircraft titles. The new firm will make it possible to insure lenders of the title to their security just as do land title companies.

The new firm received its insurance charter from Joe B. Hunt, Oklahoma state insurance commissioner. The company will do business internationally. It was chartered in Oklahoma because the Federal Aviation Administration Aircraft Registry is based in Tulsa. This Registry performs the same function as U.S. county court houses because, under federal law, all documents affecting title or interest in aircraft or their engines must be registered.

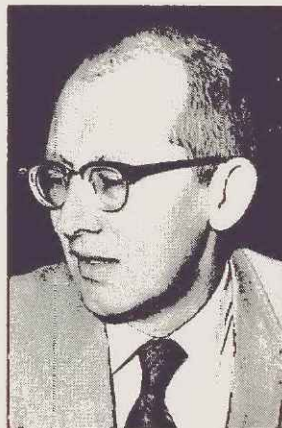
Mr. Kelly said an average of about 5,000 transactions a month are recorded at the aircraft registry in Tulsa.

William Hunt will be president of the new company and San Franciscans David A. Dixon and John J. Ford III will be on the board of directors along with Mr. Kelly.

The company is capitalized at the required \$400,000 and will self-insure up to \$25,000. Mr. Kelly has arranged to reinsure with Lloyd's of London.

### Crime 'profits'

Security experts estimate that Britain's criminals made a profit of \$150 million last year from bank robberies, pay snatches, truck hijackings, and factory thefts.



**John F. Wilke, Secretary-Treasurer, Wigwam Mills Inc., Sheboygan, Wis.:** "My general reaction is that it was very well planned and very well run. The subjects were broad enough and I was very impressed with all the speakers. They were the tops in their fields. I was also happy that there were some very intelligent questions asked by the participants in question and answer periods. That, of course, is half the battle in workshops. I liked the

### Riot prescription: Lock doors, pray

**SAN FRANCISCO**—The proper prescription for a riot during a druggist's business hours was presented here to 250 delegates to the 11th annual Pharmacy Management Conference at the Jack Tar Hotel.

The conference, sponsored by the Northern California Pharmaceutical Assn., heard from Berkeley druggist Jack Foley, whose Rexall Owl drugstore at 2312 Telegraph Ave. has been in almost the direct center of University of California off-campus disturbances.

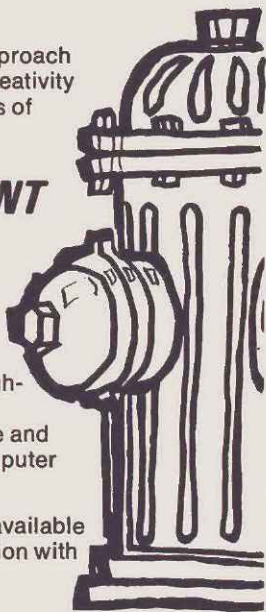
"The drug store owner's safest course in a riot," Mr. Foley declared, "is to simply lock the doors, close any vents that might let in tear gas, and say a little prayer."

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# Union chief advocates variability, portability

NEW YORK—With the reminder that he was speaking for his own union, and not all unions, Thomas E. Boyle, president of the International Chemical Workers Union, told a meeting of the Council on Employee Benefits that the concepts of variable benefits and portability would be stronger and more to be reckoned with in future negotiations.

Mr. Boyle, addressing the 24th annual conference of the council, told members that variable benefits should, and probably will, become an important feature in collective bargaining sessions.

"The United Auto Workers strike going on right now is a prime example," Mr. Boyle said. "Older workers want a 30-and-out retirement benefit and there will be no settlement without it. The younger workers, less concerned with retirement, want an immediate pay increase and there will be no settlement without that provision. Variable benefits bargaining could easily satisfy both groups."

**HE RECOGNIZED** the fact that variable benefits are considered an "administrative nightmare" by many persons involved in benefits programs, but he questioned some of the fears expressed against the concept. In answer to several questions from the floor, Mr. Boyle pointed out, "For one thing comprehensive major medical plans do not cover all of the employees' needs. The trade-off concept is necessary to induce young people into the work force. If the plan includes \$400 special surgery and only \$200 maternity, a 22-year old worker who just got married couldn't care less. However, if he could trade special surgery for maternity benefits, he might be more easily brought into the work force."

He said, "I think employees are capable of making their own choices toward the type of benefits they want and need. Today's worker is much more educated and sophisticated than was his predecessor."

Mr. Boyle's union recently passed two resolutions regarding the portability aspect of pension plans, as well as their funding. The resolutions read, in part:

- "The ICWU supports the passage of federal legislation that would make it mandatory for all employers to maintain pension plans for their employees with benefits adequate to insure a decent retirement for their employees."

- "The ICWU supports passage of federal legislation requiring the vesting and portability of private pension plan benefits to the end that, like Social Security benefits, they will not be lost as a result of changing jobs."

- "The ICWU supports federal legislation that would regulate the investment of private pension funds and insure the members of the plan against mismanagement of their pension monies."

- "The ICWU supports passage of federal legislation that would insure the full funding of terminated plans without the loss of benefits to the members of the plans."

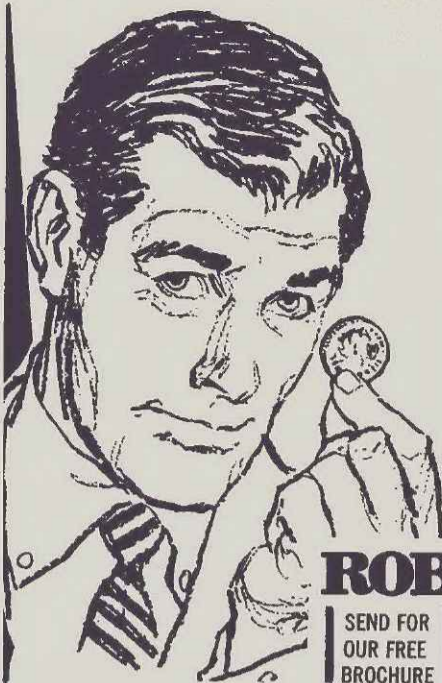
**MR. BOYLE** told the members of the council that since he considered pensions as deferred wages or, in effect, savings accounts for the employees, he felt that the portability aspect was of high importance. "Surely, the portability feature is important," he said. "An employee should be

able to take his earned benefits with him if he changes jobs."

He said that both portability and variable benefits would be negotiated in the future in collective bargaining sessions. That was important because "collective bargaining is the key factor in employee benefits. Group life is now universal in collective bargaining sessions and other benefits, such as dental and automobile insurance, are on the way," he said.

"Granted," he went on, "variable benefits may not work. But they should be worked at."

Regarding other areas in the benefits field, Mr. Boyle said, "Occupational health and safety should be part of the job, not part of the benefit program." ■



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## Health plan...

Continued from page 3

home and other custodial care, psychiatric care, dental care and certain medicines as well as medical appliances.

The Kennedy bill stipulates that providers of the health services will be paid directly by the health security program. Hospitals and other institutions will be paid on the basis of approved prospective budgets. Independent practitioners (doctors, dentists, podiatrists and optometrists) may be paid by their choice of several methods including a fee for service, per capita retainers, or a combination of methods. Comprehensive health service organizations (like group practice plans) may be paid by a per capita retainer or by a combination of payments to hospitals.

**SUCH INDEPENDENT** providers as pathology laboratories, radiology services, pharmacies and providers of medical appliances would be paid by methods specifically adapted to their special needs and characteristics under the proposed bill.

A board controlling the funding of the various segments of the Kennedy bill's program would estimate in advance the total amount needed to pay for services, for program development and for administration, making the necessary allocations. These allocations would be sub-divided among various categories of services. This scheme would handle the traditional cost-control problems in the system by rechanneling expenditures now being made so that existing funds may be used more efficiently.

In addition the bill's program would establish national standards more exacting than Medi-

care for participating individual and institutional providers. Independent practitioners must meet license and continuing education requirements. Hospitals would have to establish utilization review and affiliation arrangements.

"The most important thing about the Griffith and Kennedy bills," said Mr. Brindle, "is that they provide for incentives and disincentives to guide the steady improvement of health care services." One of the specific provisions he mentioned was the plan to provide substantial extra compensation to medical personnel willing to work in disadvantaged areas.

**"WE ARE NOT** merely concerned with financing," Mr. Brindle said, apparently taking a swat at the Medicare scheme. "Our health care delivery systems must become much more

efficient and effective if they are to meet our needs," he pointed out.

Another speaker expressed a more moderate view. Skeptical at not seeing any co-payments or deductible provisions spelled out in any of the proposed legislative measures, John McCabe, president of Michigan Blue Shield indicated a hesitancy about radically changing the present health delivery systems, even though they are noticeably ailing.

He warned his listeners that the debate over just what to do about health care in the U.S. is only getting started. "There are three things you'll have to watch out for," he pointed out. "First of all, most of the arguments that you will hear will be along political lines and probably for political reasons. You can also expect the sudden emergence within a short time of a whole slew of experts on all subjects concerning health care. And don't forget the pressures of an aroused consumerism—this will be brought to bear on the matter, too," he said.

Mr. McCabe stated that he felt any national health insurance system "should have some intermix between the public and private sector. We have to have this only in order for it to work," he said. "We need heavy increases in all categories of the manpower supporting our medical care delivery systems. Our current logistics system won't be sufficient to handle the problems in the future.

**"WE MUST USE** our intelligence in coming up with a technique of transaction," he said, in an apparent slap at former government efforts in Medicare and Medicaid. "The government has a history of developing a crisis-making technique to handle a crisis," he explained. He noted that the U.S. has "no collar" on cost increases. "Sweden, for example, has seen its health care costs rise much faster than those of the U.S. (Sweden has a universal health care coverage system administered by the government.) The treatise that the government's intervention will help to contain health costs is simply not realistic," Mr. McCabe said.

Such a program will obviously create more demand for services since it will put adequate health care within reach of many more people. "Every extension of health coverage has traditionally activated the health awareness of the individual," Mr. McCabe pointed out. In order to satisfy these needs great care in shifting out the necessary priorities must be taken, he said. "Don't be over-sold that this national health insurance gambit these bills propose will be a panacea. There is simply no master stroke to solve this problem," he said.

The cost of health care in the U.S. has reached \$70 billion, Mr. McCabe noted and is destined by 1975 to account for \$100 billion and employ nearly five million people. Reiterating his private-public sector combination approach, Mr. McCabe warned again of the great deal of obfuscation of the whole area the public must face. "We have to say 'yes' to dealing with the issues, and at the same time say 'no' to someone else's ideas," he indicated, adding that practicality might be needed to temper the fever of the idealism in order to realize its necessary goals.

Also at the Council on Employee Benefits' colloquy on health insurance was Daniel W. Pettengill, vp of the group division of Aetna Insurance Co. Late last year, Mr. Pettengill made a proposal for the possible solution of the health care crisis in the U.S.

before the House ways and means committee in Washington. In it he asked that the government foot the bill for those who currently cannot afford adequate health service today.

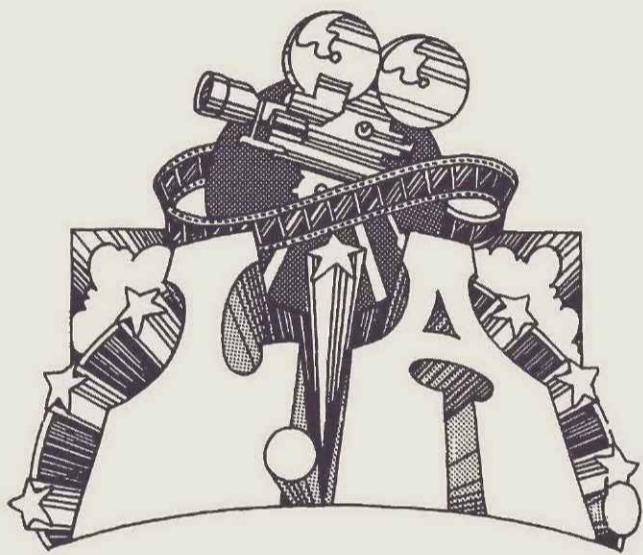
**THESE** "beneficiaries" would include the poor, near poor and uninsurables on a voluntary basis through private insurance company pools subsidized by the government. This process is similar to the assigned risk pool concept currently being underwritten by the federal government to take care of previously "redlined" businesses such as ghetto merchants and the like.

Mr. Pettengill began his talk by making clear what he felt were the limits of government's responsibilities in the area. "They must recognize the problem, study it and encourage the private citizenry to solve the problem, entering the action only after the private sector has indicated it will not or cannot do the job," he said.

He charged that Medicare, a current specimen of government medical insurance, was not administered nearly as efficiently as the majority of commercial insurance plans are. He emphasized two principles that must be followed in any really effective campaign to improve the health care dilemma: planning for health expenditures on a local level and the widespread creation of and reliance upon ambulatory outpatient care centers.

"We only have so many dollars to go around. We must introduce a much greater degree of conscious decisions," he said, citing the apparently ill-advised popularity of the heart transplant (each with the copious price of \$100,000) in the face of its lack of success as compared to the variety of other pressing needs for the money within the same field.

Mr. Pettengill called for the development of an Administration-level council of health policy advisors much similar to the current President's council on economic policy. Such a group, he said, would help to provide the executive guidance needed in such a large problem area on a regular basis.



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### Car dealers to pay for excess premiums

**SAN FRANCISCO**—A rather well known northern California new car dealer, who understandably wishes to remain nameless, recently suffered through the trauma of an audit by the Internal Revenue Service that resulted in a plaintive warning to dealers accustomed to providing group insurance coverage.

It seems that in instances in which the auto dealership provides such coverage and pays the premium, the dealer must report as taxable income all premiums paid on his behalf by the dealership on all group life amounts in excess of \$50,000.

In other words, premiums on the first \$50,000 of group life insurance are not considered taxable income to the dealer or the key employee covered. Premiums on amounts over \$50,000 are and the amount of the premium must be computed from rate tables supplied by the IRS, based on the dealer's attained age.

So, warns the audited dealer, "be careful where you have several group life programs overlapping."

# 'Social concern self-insures the future:' Smith

ATLANTA—American business has been urged to self-insure its own future by raising priority levels of social concern and by reaching for higher levels of social responsibility.

A no-premium insurance program for future growth and stability of business was offered to



Herbert D. Smith

participants in the first *Business Insurance Management Idea Workshop* by Herbert D. Smith, vp for public affairs of Uniroyal Inc.

Mr. Smith challenged the notion that business is not a social institution, saying, "I believe that the business community is better equipped to accept its social challenges than any segment of the society, but it cannot solve all of its problems by itself." He called for joint action by government, the public, labor and institutions of other kinds.

"BUSINESS NOW has two options," Mr. Smith declared; "it

can stand on the sidelines and continue to act in its traditional way and probably add another chapter to an embarrassingly long list of causes on which it has failed to act, or business can become an integral part of the most exciting and potentially fruitful period in its history."

Among the issues that Mr. Smith believes need attention from industry are war and peace, inflation, the state of the economy, the university crisis, the environment, consumer protection, law and order, the urban crisis, minority problems, drug abuse and the preservation of the profit incentive.

Mr. Smith attributed the depth of our problems in part to a lack of communications between the business community and students. Many young people, he said, believe that business and "The Establishment" make reforms only when threatened with outright violence. "The Establishment," on the other hand, seems at a loss to understand what the dissent is all about and is dismayed that students express little, if any, appreciation for the general affluence of our society.

"I do believe," Mr. Smith continued, "that business must take more initiative in the communication of facts; it must become less defensive and more creative and more positive. In the final analysis, I believe business communicates by the way it treats the public in the marketplace, by the causes that it supports and by those that it opposes." He suggested quality products and services as the best way for business to communicate with the public.

MR. SMITH, a confessed optimist, sees signs that business has already embarked on a course of not only keeping abreast of and

## IDEA WORKSHOP HIGHLIGHTS

responding to change but also anticipating it and to building into its future technology an increasing degree of understanding of its impact on human society.

This course of action he termed "industry's best insurance policy for the seventies."

He cited the publication by his company of a policy statement entitled "Uniroyal—A Company Committed," which states affirmatively the company's commit-

ment to working for participation in free enterprise by minority peoples, environmental control programs, consumer protection policies, educational support policies and other social issues.

Uniroyal's chief executive, he said, has made the decision to commit company funds to such programs, including minority entrepreneurship in urban areas, a program Mr. Smith described.

Among cities in which Uniroyal fosters minority-owned dealerships are Atlanta, Cleveland and Los Angeles.

Mr. Smith said that while there has been no argument in his company's management about the program, there is no measure of what the long-range reaction will be from stockholders and stock brokers.

IN ANSWER TO a question about the social involvement of small- and medium-sized companies, Mr. Smith said that they are in a better position than large corporations to move rapidly and effectively. He said there is more social concern among small, community-oriented companies than among giant corporations.

Yet, he said, large corporations must meet difficult social problems often at considerable expense. He cited a recent \$5 million expenditure for pollution control at a Uniroyal chemical operation. "Pollution control costs money," he said, "and it doesn't contribute to the return on investment. But if we don't set our sights in this way, we are counting disaster."

## Ad man gives guide to benefits communication

ATLANTA—"I'm not so sure," the advertising man was saying "that the benefits of Alka Seltzer aren't better known to your employes than the details of your new pension plan."

Al Ries, president of Ries, Cappiello Colwell, a New York advertising firm, was telling risk management and employe benefit executives at the first *Business Insurance Management Idea Workshop* how to use Madison Avenue techniques to motivate and communicate with employes.

And, as one workshop participant observed after Mr. Ries sat down: "Well he practices what he preaches and there's no doubt he communicated."

Madison Avenue techniques, as the ad agency prexy described them, number ten. A line or two about each follows:

- **Simplify:** Keep kids in mind, Mr. Ries said, quoting a favorite of Col. Harlan Sanders, the fried chicken magnate—"Keep it simple, stupid." Illustrating what he meant with an example, Mr. Ries noted that the 48-page booklet describing his firm's group insurance plan and furnished by the Travelers Insurance Co. has many thousands of words more than the Declaration of Independence. One paragraph in the book—a single sentence of 145 words, in fact—"simply tells us we can't collect twice," he said.

- **Compare:** Compare your company's benefits with those offered by others. "Unless you spell out advantages, your employes might not necessarily assume you have a better plan. They're likely to assume the reverse."

- **Symbolize:** Whenever possible use symbols in communicating benefits. He called the Travelers' "little red umbrella" a good example of this.

- **Visualize:** A picture of a nurse, for example, registers much more quickly with employes than does n-u-r-s-e.

- **Animate:** "Many of you have probably thought of an employe benefit movie—until you got the production costs. You can get a video recorder and play back unit for less than \$2,000 today and make your own," Mr. Ries said.

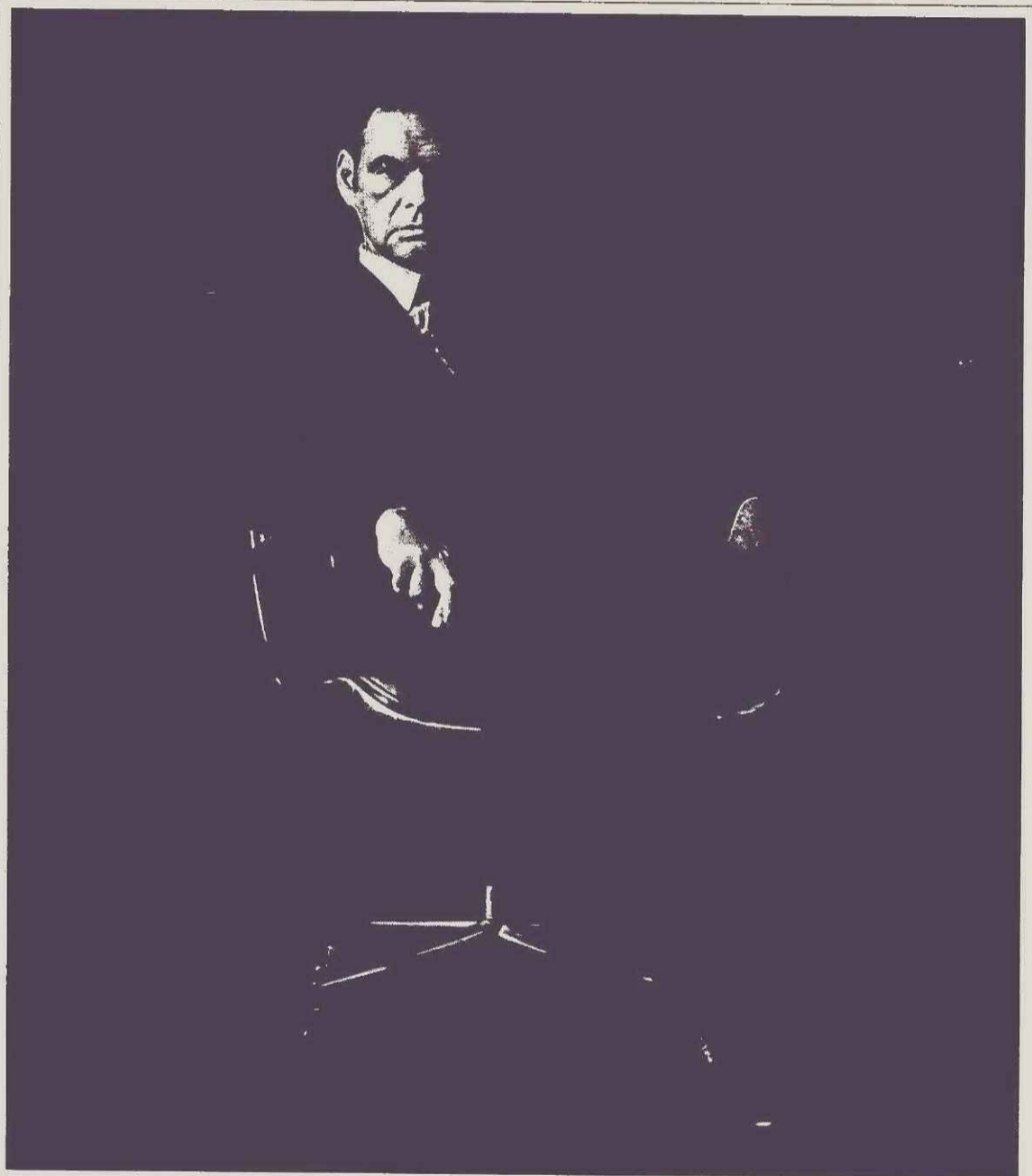
- **Dramatize:** "Billions of dollars are being spent on fringe benefits. This deserves a little show biz," he said. For instance, a flag on a new employe benefit booklet saying something like "benefits increased 32%!" is much more likely to draw the employe into that booklet.

- **Personalize:** "Your own name is probably the most musical sound you've ever heard in your life," the ad man said. Personalize communications to your employes.

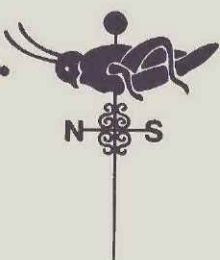
- **Commemorate:** Five-year pins, ten-year pins, 20- and 25-year parties are great, but they come at the wrong time in a person's life, he said. Why not something when the employe has been there a year? "Give him a Cadillac, or motor scooter or bike," he chuckled.

- **Publicize:** "When you have an advantage, then that device has publicity potential," he said.

- **Research:** "Communications is a two-way street. Receive as well as send; listen as well as talk."



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# IDEA WORKSHOP HIGHLIGHTS

Continued from page 1

**A KEY SENATE** judiciary committee aide, Dean E. Sharp, told corporate insurance buyers they should be in the "front lines" in the battle for auto insurance and occupational safety reforms.

Mr. Sharp is assistant counsel to the judiciary committee's anti-trust and monopoly subcommittee which, under the direction of Sen. Philip A. Hart (D.-Mich.), completed a sweeping inquiry into auto insurance earlier this year. Sen. Hart has since introduced legislation proposing a no-fault auto insurance law and Mr. Sharp has had an influential hand in the drafting of that proposal.

"As corporate insurance buyers, you are sophisticated consumers of insurance. Because your knowledge of insurance and risk matters is considerably more than the average man-on-the-street, you are uniquely equipped to lead the way in challenging the present methods and systems of securing against loss from working and automobile accidents."

In calling the corporate insurance buyer the most sophisticated of insurance consumers, how-



Dean E. Sharp

ever, Mr. Sharp also declared that such buyers have been "conspicuous by their silence" in recent pushes for needed reforms. Moreover, he asked, "Why is this? Is it disinterest? Is it financially more rewarding for the corporation not to question the present way of doing things? Is it that the thought of change raises the fear of the unknown? Or, is it that the corporate buyer feels the present way of securing against loss from working and auto accidents is adequate?"

Mr. Sharp noted that by Sen. Hart's own admission, the legislation proposed over a month ago by the Michigan Democrat does not provide "all the answers." However, he asserted, it is "more fair and more humane than the present system."

The Hart measure would change the present manner in which auto victims are, or are not, compensated for injuries and economic losses in two principal ways, Mr. Sharp explained.

First, each U.S. auto owner would have to have a specified policy of insurance that could not be denied him nor, once issued, could not be cancelled or refused for renewal as long as he is a licensed driver and pays his premium. The second change would provide that an injured person would look to the insurance coverage on his own vehicle to pay his losses. Injured pedestrians would recover from the insurer of the car that struck them.

\* \* \*

**MERGERS** and acquisitions can provide complicated insurance problems for a corporation's insurance department, but the problems that arise if coverages are not wrapped into a single corporate insurance package can be even more complicated.

This is the feeling of William D. Smith, formerly vp of insurance for Gulf & Western, and now a vp of ECCO General Agency, Houston. ECCO has taken over the entire risk manage-



William D. Smith

ment function for Gulf & Western, after the conglomerate decided it would be far less costly to have its insurance buying and risk management functions performed by an outside firm.

Mr. Smith, who had been on the "surviving" side of many mergers and acquisitions while at G&W, told risk managers that there are many good reasons for insurance to be wrapped into single blanket coverages when a company acquires a new firm. Not the least of these, he said, is the "buying power" such a move creates.

One important point to consider when buying a new company the vp said, is to first look at its casualty program and determine if it is presently being insured under a retrospective rating program. "You don't want to have to pay off losses three years old after you've bought a new company," he said, noting that he had found himself in that situation once with G&W. That, he added, is one reason the risk manager should be consulted on acquisitions and one of the "first ones in" after the decision has been made to buy a new firm.

Even more preferable, the vp noted, is consulting the risk manager as negotiations are proceeding with a prospective acquisition.

The G&W decision to go the outside risk management route was one based on economic considerations. High costs for overhead in New York, where the G&W insurance department was located, as well as many duplications in efforts between insurance department personnel and brokerage people, were cited by the vp.

The new set-up, Mr. Smith said in answer to a question, is expected to save G&W "well over \$350,000 a year." This was indeed an envied bit of news to risk managers sitting in the audience; most of whom have also been told to shave their insurance department budgets this year, although they haven't been able to manage that large a slice.

\* \* \*

**JOSEPH F. JOHNSTON** Jr., partner of Tufo, Johnston & Zucconi, New York Law firm, described officers and directors liability coverage as mostly "negligence" insurance. "Is it worth the cost? That's up to the guy paying the premiums," Mr. Johnston commented. "I would perhaps sleep a little better knowing I was covered; however," he added, the coverage "is quite difficult to obtain at a reasonable cost."

Mr. Johnston stated that the exclusions to the D&O policy are "quite badly drafted and nobody knows how they will be interpreted by the courts." Although there have been a few settlements, the coverage has yet to be tested by the courts, he stated.

"There's no doubt now about the validity of the coverage," Mr. Johnston noted, "and there's no doubt of the validity of a corporation paying 100% of the premiums."

He noted "a number of exclusions" in the policy, all involving the officer or director gaining a

Continued on page 51

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Our new interest guarantees on Deposit Administration Group Annuities will be a pleasant surprise to a lot of people.

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### How to Submit Literature for Business Insurance's Annual Info for Buyers Issue

The Info for Buyers issue contains brief descriptions of hundreds of items of literature available free, or at a charge, from various sources to readers of Business Insurance. If you are interested in submitting your data or literature for publication in the January 4, 1971 Info for Buyers issue, please return the coupon below for forms and instructions. All material for publication must be in the hands of the editors no later than December 1, 1970. Items wanted deal with subjects such as insurance policies, loss prevention systems, financial services, safety/security, pension investments and pension plan innovations and related subjects of interest to corporate buyers and agent/brokers.

Editor, **Business Insurance**,  
740 Rush Street, Chicago, Ill. 60611

Please rush forms and instructions for submitting data for publication in your January 4, 1971 Info for Buyers Issue. I understand that there is no obligation on your part to publish the items submitted, nor is there any cost or obligation to my firm, if published.

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# IDEA WORKSHOP HIGHLIGHTS

Continued from page 50

profit or advantage to which he is not legally entitled. Excluded, he added, are "virtually any type of conflict of interest or breach of loyalty." He said these exclusions were "a very large gap" in the coverage.

Mr. Johnston also pointed out that the policy excluded "acts of dishonesty," but he said that "no one knows quite what 'dishonest' means. There are indications that insurers interpret this provision rather broadly." The policy would probably respond, he acknowledged, where ordinary negligence was involved.

"COMPUTER equipment represents probably the largest single dollar investment per square foot of area in your business," Robert E. Abrahamson, corporate insurance manager for Control Data Corp., Minneapolis, said. Risk managers, he added, should brace for the computer age with appropriate risk controls on these investments.

"The use of computers in the manufacturing process with subsequent business interruption potential has prompted some property insurers to re-survey their assured's exposures to indirect property damage losses.

"Depending on the nature of the risk it is conceivable that insurance carriers may, in the foreseeable future, be recommending a 'back-up' computer at a remote location in the event of loss or damage to the main computer system," Mr. Abrahamson said. "Prudent internal risk management may also dictate this redundancy."

The more obvious potential computer losses being cited today are those caused by sabotage—be it political in nature or by grudge. However, there are less sophisticated threats to be remembered as well, Mr. Abrahamson told his audience. Water damage is one of these. Sprinkler heads in computer centers should be equipped with back-up devices that prevent extensive water damage, for instance.

Mr. Abrahamson cited one of the less esoteric hints risk managers should keep in mind, should they be faced with water damage. It seems that a computer operation had part of a roof blown off in a windstorm recently. Torrential rains followed.

"The manager sent all the female employees home to get their hair dryers," he said, adding that while some damage did ensue it was limited considerably by the enterprising manager's quick action.

ONE BIT of alarming news (the pun is intended) to come out of one of the sessions was to hear a security man say, "The (security) industry is lagging because we've been allowed to lag."

A. M. Marzano, an executive with Mosler Electronics Systems, candidly admitted the security profession's shortcomings and even declared, "There is nothing I know of today that would prevent a group of Weathermen, let's say, from entering your plant at 2 a.m."

Mr. Marzano said he feels the insurance industry should bring more pressure to bear on his industry. For example, he cited, insurers are still using alarm system standards set by Underwriters Laboratories many years ago



Joseph H. Johnston

and therefore the industry has not encouraged the development or wider application of more sophisticated systems.

At the same time, however, Mr. Marzano did discuss and describe in slides some of the more sophisticated devices now being used by his firm and other security firms. These included card identification systems for data processing centers and other vulnerable locations, sprinkler check systems that prevent unnecessary water damage when sprinklers go off for some reason other than a fire and elaborate closed circuit television systems now in use in some of the nation's larger financial institutions.

"But," the Mosler executive said, "no alarm system is undefeatable. We're pushing and other companies are pushing," he added, noting that the security industry is constantly battling to stay just a little more sophisticated than thieves.

CHALLENGES involved in effectively communicating employe

benefits were outlined for the Business Insurance Management Idea Workshop by Howard Peck, partner in Hewitt Associates and a contributing editor of this magazine.

He described benefits communication as "a hard job with a big payoff" because benefits communication makes the difference on whether a benefit plan is worth it.

Benefits, he conceded, are hard to understand and he likened them to the keel on a boat, something that gives stability but cannot be seen.

Mr. Peck termed benefits "potential dissatisfiers," things that are taken for granted by employees who tend to center their thoughts on shortcomings in their company's plans.

Effective employe benefits communication, he said, involves the elements of planned, orderly and continuous explanations; recognizing various audiences and needs; use of appropriate media and methods, and listening carefully to employees to learn what their misunderstandings are.

Employe benefit communication is complicated, he said, when there are language problems among the workers, when the company has outlying or isolated locations, when the backgrounds of workers differ widely and when a company is sold or acquired, throwing together diverse benefits programs.

Mr. Peck strongly emphasized that benefits communication must be continuous to be effective. "You are talking to a parade when you communicate benefits," he said, "because many companies have a turnover of as much as 40% in personnel in, say, four years." Continuous communication is necessary, he added, because memories are short and employees' viewpoints change.

## 50,000 containers recorded by Lloyd's

Fifty thousand containers are now recorded by Lloyd's Register as being in use throughout the world. Orders for ships to carry them are on an increasing scale. Containers are now being built under the Register's certificates in 13 different countries.



Acting as "dean of men" for the workshop, Business Insurance Editor Richard Bjorklund also moderated a panel on pension fund investments. The panel discussion will appear as a future Following the Funds column.

'But ... what is it?'

ATLANTA—Howard Peck, in his presentation on benefits communication to the Management Idea Workshop, told of the time Hewitt Associates prepared an elaborate presentation on a stock purchase plan.

The presentation included such things as information on the percentage of wages an employe could apply to the plan, the expected return from the plan and its advantages to employees. A visual presentation supplemented the communicator's talk.

When the presentation ended, a woman employe raised her hand and asked, "What is stock?"



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twice the great service and twice the fun that great meetings are made of. Plus fabulous food in the Rib Room and great Creole cuisine in Begue's. Live and lively jazz in Economy Hall, great drinks and sounds to match in the Touche Lounge. An Oyster Bar named Desire and elegant nightcaps in the Esplanade Lounge. It's all yours. Because it's all ours. And it's all in the family.

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# IDEA WORKSHOP HIGHLIGHTS

Continued from page 34

XDS benefits program shapes up as follows:

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### Providing for retirement:

The company now has both a retirement income plan and an investment plan. Under the retirement income program, employees with 20 years of service at age 65 receive 30% of the average of the five highest consecutive years' salary. This is in addition to Social Security, and is reduced proportionately for employees with fewer than 20 years' service. Employees are included in the plan from date of hiring.

There is an early retirement feature (age 55 with 10 years of service) with the normal benefit reduced actuarially. Moreover, there is a disability retirement feature (at any age with 10 years of service). Employees may also take an option at age 55 and name a beneficiary in the event of death prior to normal retirement, again at an actuarially reduced figure. Employees also receive proportionately reduced benefits at age 65 if they terminate service before that with 10 years of service at XDS.

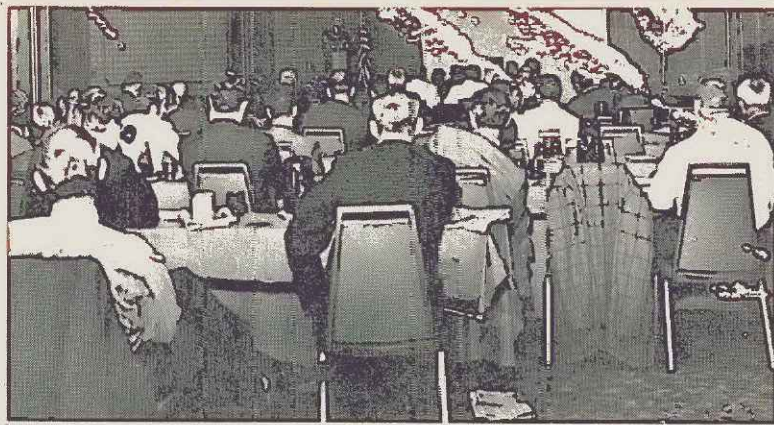
Under the investment savings plan, employees may contribute from 1% to 4% of base pay, with XDS matching contributions at the rate of 25% during the first

five years of participation, 50% during next five, 75% during the next 10 years and 100% after 20 years.

All employees are eligible to participate from date of hiring. Employees who withdraw from the plan prior to three years receive their contributions plus 3% interest compounded annually. After three years employees receive all contributions plus 30% of the company contributions. Employees receive an additional 10% for each year thereafter up to 10 years when they are fully vested.

The unique feature to the investment plan, Mr. Adoff told the group attending a morning session here, is that the company will guarantee all employees that their contributions will be at least as large as if they had invested contributions at a rate of 10% interest compounded annually. "This is the very worst they can do," he said.

• **Medical insurance:** The company has a semi-private hospital plan. Major medical pays 80% of all costs after a \$100 deductible. Medical payments increase to 90% after the first \$5,000 of expenses and to 100% after \$10,000 has been paid. There is no limit beyond that. In addition, the company also continues to pay the cost of the medical plan for dependent coverage for two years if an employee is permanently disabled. The same applies for dependents if the XDS breadwinner dies.



In a shirt-sleeve session at the Business Insurance workshop, risk managers prepare to fire some brass-tacks questions at Joseph F. Johnston Jr., partner, Tufo Johnston & Zuccotti, N.Y., who spoke on directors and officers liability.

• **Disability insurance:** Hourly employees receive four hours per month of service, without a maximum limit; salaried non-exempt employees receive six hours per month with no maximum; salaried exempt employees receive four weeks' pay, after which the long-term disability portion kicks in for those employees who elect to subscribe to the plan for 31% of base salary (or 31 cents per week per \$100 in salary).

• **Life insurance:** Completely funded by the company, employees receive one times salary with a double indemnity feature. Employees with dependents automatically receive a benefit equal to two years' base salary in addition.

• **Educational reimbursement:** Employees with 10 years' service receive up to \$1,000 annually for four years for each child attending an accredited college. Employees with three years, receive 30% up to a maximum of \$1,000. Ten percent is added for each additional year above the three.

• **Vacation trip:** XDS buys a round-trip economy class ticket via air to anywhere in the world for an employee and one other person after 10 years of service. This has been made even more attractive, Mr. Adoff said, through an arrangement with a travel agency that will offer vacations to such places as Tahiti with all expenses paid for two weeks.

The latter two benefits, Mr. Adoff noted, are also being offered to several hundred members of the International Assn. of Machinists who work for Xerox Data Systems.

"We were between contracts with the IAM when we offered the benefit to our other non-union employees so we offered to reopen negotiations with the union," he said, admitting that there was some suspicion on the part of union leaders at first but that the membership appeared to be more "enamored" with the educational and travel benefit than they were with a general wage increase. The union members, he said, have greeted the benefits favorably. However, he does concede that they will probably become "negotiable" items in contracts from here on out.

The educational and travel expenses are being funded by Xerox Data Systems on a year-to-year basis out of yearly expenses. Estimates are that about 12% of the company's employees will be cashing in on them each year, allowing for normal turnover.

As for tax treatments of the benefits, Mr. Adoff said the educational program may "possibly" receive favorable treatment from the Internal Revenue Service. XDS has asked IRS for a ruling, though the government agency has not yet acted on the plan.

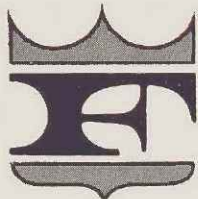
In the case of the air trip, however, it is "clearly" taxable as ordinary income for the employees.

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## Trautlein . . .

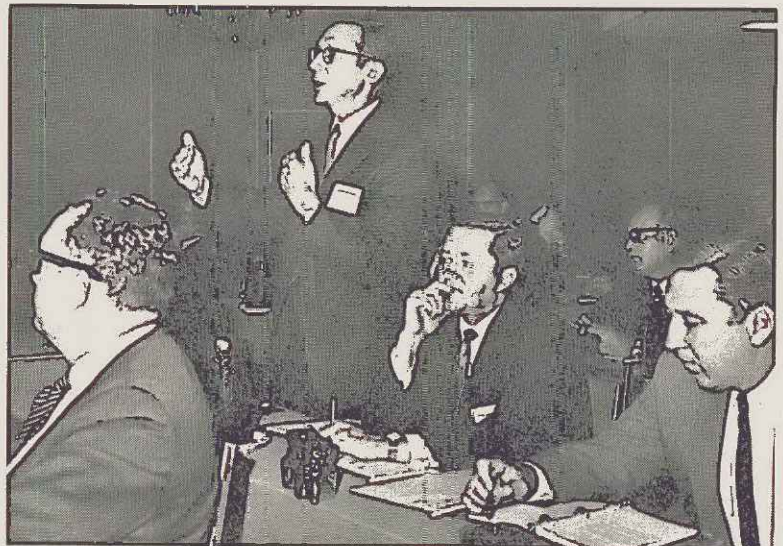
Continued from page 33

- Separating the payment process from the buying function.
- Watching carefully for sharp increases in insurance expenditures covering essentially the same amount of property and the same liabilities.
- Being wary of the insurance buyer who is "too busy to take a vacation."

• Reviewing regularly, with the help of an outside expert, the company's entire insurance program

• Obtaining fidelity bond coverage on insurance buyers to assure protection if all else fails.

Mr. Trautlein recommended that financial executives maintain a "questioning attitude" toward insurance buyers and buying and he cautioned against the natural human instinct to completely trust subordinates.



An explanation of a complicated point at the Business Insurance Management Idea Workshop is offered by G. H. Suter, director of client services, Ebasco Services Inc. Sessions at the Regency Hyatt House in Atlanta included a number of comments and questions from the floor by workshop participants.

# Supertanker blasts put market in chaos

SAN FRANCISCO—"The catastrophic explosions in supertankers during the last year, for causes which have not yet been established," Hans Chr. Bugge declared, "make it impossible to say whether an adequate premium level has now been reached for large vessels." Mr. Bugge of Oslo, Norway, retiring president of the International Union of Marine Insurance, addressed the delegates of the IUMI's annual convention here.

Mr. Bugge added that more than 60 supertankers are in operation now and more than 200 others are under construction or on order.

"Their combined value," he said, "will be so great that an adequate premium level may lead to catastrophic results. The present upward trend in hull insurance rates will continue. Over the long period the rates for big and small ships have been far too low."

G. N. CUSHING, Liverpool Underwriters' Assn., substantiated Mr. Bugge's contention, documenting a "three fold increase in the average annual ship tonnage totally lost" during the last 20 years.

Total ship tonnage losses promise to set a record in 1970. By the end of July, total losses for the year have already reached 552,010 gross tons, compared with 459,943 tons in the same 1969 period.

Out of 819,740 gross tons of shipping totally lost in 1969, Mr. Cushing reported, 244,395 gross tons, almost 30% of the total, were accounted for by the loss of only six ships.

Partial losses also have increased but the rate of incident increase generally, Mr. Cushing said, has remained proportionate to the volume of world tonnage afloat and in the last few years the increase in incidents has been less than proportionate to world

tonnage. At the same time, however, cost of partial loss damage to underwriters has increased.

R. A. MURPHY, chairman of the Union's Container Committee, recommended "education of policyholders on container selection and stowage; an inspection service to detect enroute damage to containers; and establishment of container repair services."

Mr. Murphy added that information on container cargo losses is now being collated by insurance markets in Great Britain, Holland, France, Germany, Italy, Japan, Greece and the U. S.

American underwriters will soon issue a series of reports, the first of which will show the number of claims paid on container cargo, and the dollar value of the claims, segregated as to cause of loss.

The second report, according to Mr. Murphy, will reveal the number and dollar value of claims, segregated according to steamship lines, container stowage and cause of loss.

THE FINAL REPORT will show number of claims paid, dollar value, segregated by voyage and bill of lading date and the extent of transit within the container.

In another report, by N. Kihlbom, Sweden, chairman of the Nuclear Information Committee, it was disclosed that nuclear powered ships and ships carrying nuclear cargos "have maintained perfect safety records" as far as insuring their atomic materials is concerned.

Virtually no claims for nuclear damage have been filed against marine insurers during the last year.

Mr. Kihlbom, however, warned that international regulations in this area "have proved difficult to interpret and apply. . . and certain parts of the regulations are in danger of becoming obso-

lete."

AN UPDATED and completely revised set of regulations is now being prepared by the International Atomic Energy Agency and will be in force before the Union's 1971 conference.

Mr. Kihlbom added "efforts are being made to resolve a conflict between maritime and nuclear conventions which the insurers believe places an unfair liability burden on shipowners while relieving the operators of the ships from their share of liability."

Current maritime law provides that an owner of a vessel carrying nuclear materials may be held liable for damage arising out of a nuclear incident cause, for example, by a collision.

"In certain circumstances," Mr. Kihlbom pointed out, "the owner's liability would be unlimited, whereas his recourse under nuclear law against the operator will always be limited."

A DRAFT convention now being proposed would make operators liable for nuclear damage for which they are responsible.

Operators of nuclear powered ships now have to arrange for bilateral agreements between their governments and the governments of nations where ports of call are situated.

"This is a difficult and time consuming task," Mr. Kihlbom's report said, "and may, to some extent, explain why the world's first nuclear merchant ship, the N S Savannah, is now laid up." ■

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## Mance predicts rise in American business

LONDON—Henry S. Mance, Lloyd's chairman, forecast a rise in American insurance business after returning to Britain from his goodwill tour of the U.S.

He declared: "America is becoming more and more insurance minded, particularly in the property-liability field. This is partly because industrial enterprises are growing all the time, but its own market is not expanding as rapidly as it ought to if it is to keep pace with requirements."

"The mass of American business is in the field of domestic insurance, where companies find it difficult to write profitably.

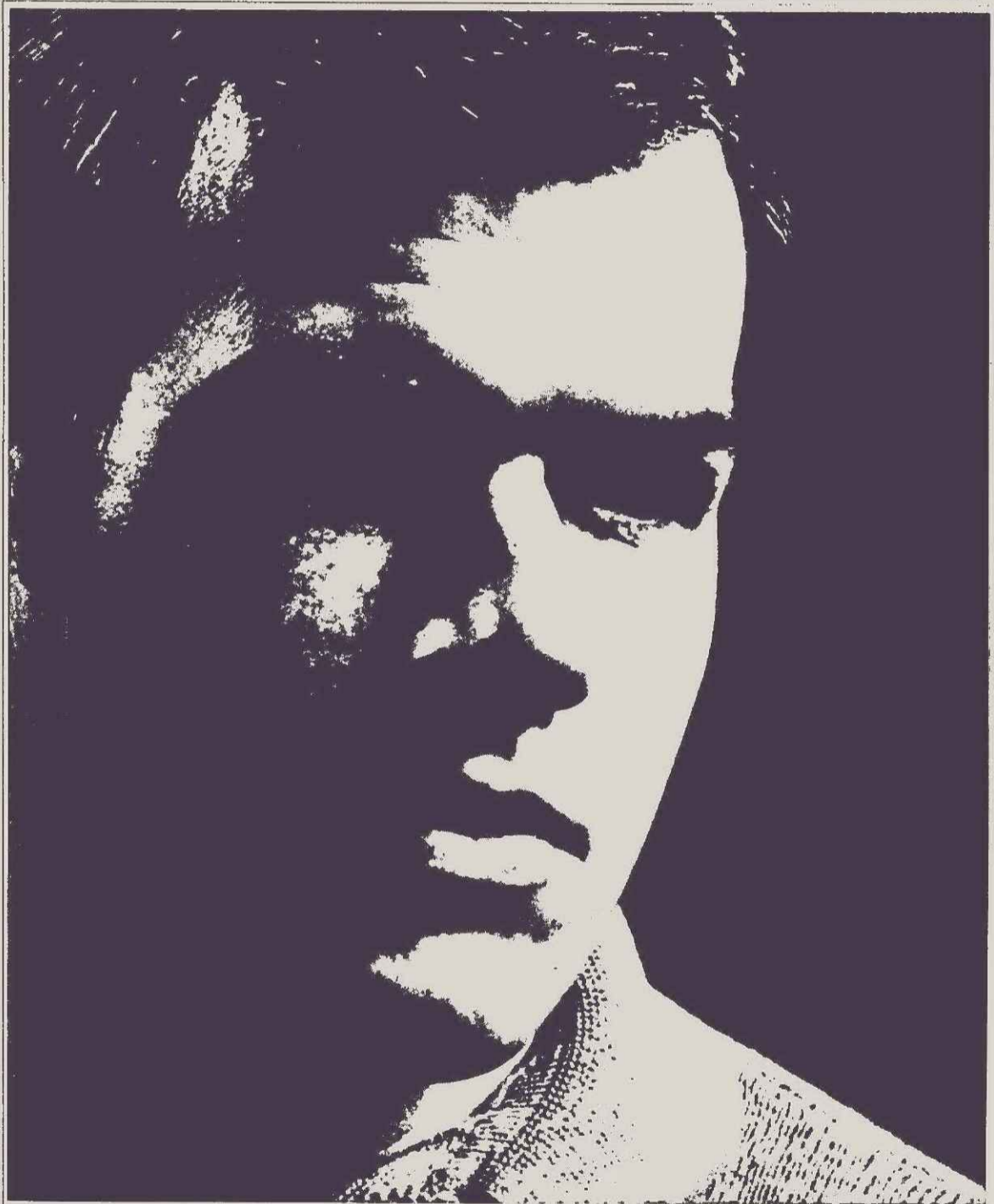
"MANY INDUSTRIAL enterprises are now so big that either they cannot get all their cover in

their home market, or they want specialist policies of the type available in the British market.

"There is a tremendous potential increase in American insurance business, and Lloyd's may well write a bigger proportion."

He pointed out that risk managers in the U.S. had asked him during his tour why they could not deal direct with Lloyd's underwriters, instead of having to go through brokers.

He explained: "People everywhere are trying to cut out the middle man. But brokers are extremely good ambassadors of their clients and enable business to be placed at the market rate. I feel that without a good broker, clients might find it hard to place business." ■



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## dates for buyers

NOV. 9-11, Insurance and benefits in the environment of the 70s, American Management Assn., Drake Hotel, Chicago, Ill.

NOV. 16-18, Alcoholism as a management problem, and Drugs as a management problem, American Management Assn., at the New York headquarters 135 W. 50th St., New York City.

NOV. 17-19, 1970 Fall Conference, National Fire Protection Assn., Sheraton-Nashville Motor Hotel, Nashville, Tenn. Additional information is available from NFPA 60 Batterymarch St., Boston, Mass.

DEC. 4-9, 16th Annual Educational Conference, National Foundation of Health, Welfare & Pension Plans, Inc., Hilton Hawaiian Village & Iikai Hotels, Honolulu, Hawaii.

# Liability problems may lead to compromise in hijack settlements

LONDON—Efforts to settle claims for the two American jet aircraft hijacked by guerillas are nearing completion at Lloyd's.

But difficult principles of liability are involved, so it is expected that some compromise will have to be reached between trans-Atlantic underwriters.

War risk underwriters have been studying claims for more than \$23 million submitted for the blown-up Pan AM 747 and

TWA 707, based on war risk cover believed to have been taken out at Lloyd's for about 57% of the Pan Am plane (\$14.5 million out of its total value of \$24.5 million), and all of the TWA jet (\$8.5 million).

**BOTH AIRLINERS** are also insured in the U.S. market under all-risk policies, which it was thought might be deemed to cover hijacking as well, since it is felt in London that there was apparently no specific exclusion of this risk. Confusion began when the wording of the various policies was scrutinized more closely to define their interpretation in the sudden situation of the Middle East trouble-spots.

In an effort to settle priorities, Roy Merrett, leading Lloyd's underwriter, has been in touch with American underwriters to find the exact terms of their policies with Pan Am and TWA.

For if U.S. underwriters can attribute the Middle East guerilla hijacking to an act of war, then responsibility for meeting the claims might have to be borne by Lloyd's as a war risk. However, because American all-risk policies have apparently not excluded hijacking in the past, perhaps because they have mostly occurred in different circumstances to the drastic destruction of the two blown-up jets, it is felt that U.S. underwriters ought to meet

part of the tremendous pay-outs currently involved.

So there are suggestions of a 50-50 pay-out by each side, though nothing official has been announced.

**MEANWHILE** more than 100 lawyers are attending a convention called by the British government in London to examine air piracy on behalf of the International Civil Aviation Organization of the United Nations.

Their aim is to prepare a draft agreement on acts of sabotage.

Frederick Cornfield, government aviation spokesman who welcomed the delegates, said:

"No country or area of the world can regard itself as immune from air piracy. Acts of hijacking and sabotage have grown apace in the past ten years and represent a serious threat to freedom of air communications."

## Added benefit

Women employes of Eastman Kodak Co., Rochester, N.Y., may take up to one year's leave of absence without pay to have a baby or to adopt a child. Formerly women lost their jobs when they became pregnant. Women who have worked for a year before taking leave, according to Kodak, will be credited with service while absent when company benefits are calculated.



Russell F. Gooley of Raytheon Co., Lexington, Mass., unwinds after a fast-paced day of discussions at the Business Insurance workshop with Joyce Catrett of the Atlanta Regency Hyatt House and Arthur "Bud" Cook Jr., of Ringling Brothers-Barnum & Bailey Combined Shows, Washington, D. C.

## Funds . . .

Continued from page 10  
of an amazing 93% of the UMW pensioners.

**INTERESTINGLY** enough, a majority of two of the three trustees is needed in order to change pension benefits. Mrs. Roach, the "neutral" trustee, voted against the increase. The coal mine operators' George Judy, the record shows, voted for it, as did Mr. Boyle. A suit brought by a group of dissidents within the union against the union, the bank and the fund's trustees charges collusion between the two who voted for the increase.

Mr. Boyle defended his move before the Senate labor subcommittee earlier this year as not being prejudicial to the fund's solvency. He claimed he intended to negotiate an increase in the coal mine operators' contributory formula.

As one of the litigants' lawyers replied, "It'd better be a damned big one." The financial report issued by the UMW retirement and welfare fund at the end of August admitted the fund paid out a total of \$196.9 million this past year while only taking in \$166.7 million. It was only the second deficit in the history of the fund, and the largest.

The U.S. comptroller, in his report, stated flatly that the fund would become insolvent by June 30, 1975, at the current level of benefits and rate of funding.

Said a lawyer fighting the case:

"**COLLUSION** seems to be implicit in this pension increase vote of the trustees. The coal mine operators' trustees could not have agreed to such a huge increase in the benefits provided by a pay-as-you-go pension plan without it being clearly understood that the operators would have to substantially increase royalty payments to support them."

An interesting postscript to this observation is that Mr. Judy, the "company" trustee who voted with Mr. Boyle in favor of the pension increase, was summarily "dis-elected" by the coal mine operators after casting his ballot. A W. A. Davis was elected to serve in his place.

The \$150 million reserve of the UMW pension fund covers some 104,770 active union members as well as 68,380 retired employes. By contrast, there is a somewhat different ratio between the amount of money and the number of beneficiaries in the retirement fund

for the staff employes of the union itself: In 1967, said Mr. Yablonsky, reading from the D-2 form, "There was \$16 million in reserve for payment of benefits for 358 active staff employes and 90 former employes already retired."

Another interesting fact is that this staff employes' pension fund does not cover three of the staff employes. The international president, vp and secretary-treasurer have a full, final-salary retirement benefit under a separate pension program for which they are the only beneficiaries entitled Pension Plan Only for Resident Officers of the International Union." The assets reserved for these three recipients' future retirement benefits were \$1.7 million in 1966.

**MR. YABLONSKY** has charged (and according to another source the charge will be a part of the plaintiff's case against the union scheduled for trial next February) that the officers' plan was submitted to IRS for tax-exemption and filing only after an original staff employes' plan providing for one benefit formula for the staffers and a full-salary benefit for the officers was rejected by the IRS as discriminatory.

Mr. Yablonsky contends that the IRS failed to take note that by extracting the three international officers' plan and funding it separately under another tax-exempt plan the union willfully violated the IRS regulations against discrimination in benefits formulas between different employes.

The other case involves a surprising revelation brought out during hearings of the intergovernmental relations subcommittee. The government accounting office had discovered, in its audit of the \$100 million-plus employe health benefit plan fund handled by Blue Cross-Blue Shield that an average of \$10 million had been maintained in interest-bearing general accounts prior to the payout of the money for accounts owed.

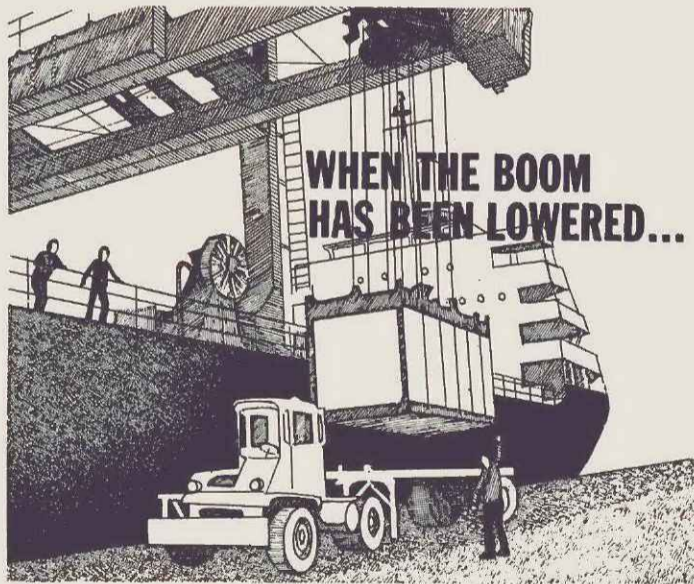
The fund was apparently thereby deprived of an average of 10% of its earning potential. Testimony by Blue Cross-Blue Shield officials indicates that one of the people responsible for helping to decide on the size of this noninterest account was Douglas R. Smith, treasurer of Group Hospitalization Inc. (dispenser and custodian of funds) and president of National Savings Trust Co., one holder of the fund.

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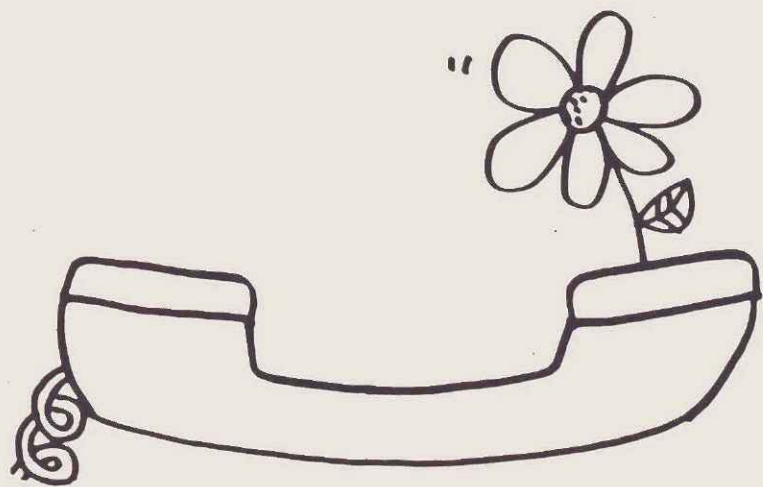
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