Transcript of the Proceedings of the Conference on Commercial Fishing Vessel Insurance and Safety

Ramada Inn
Rosslyn, Virginia
May 19-20, 1977

U.S. DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
National Marine Fisheries Service

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U.S. DEPARTMENT OF COMMERCE
Juanita M. Kreps, Secretary
National Oceanic and Atmospheric Administration
Richard A. Frank, Administrator
National Marine Fisheries Service
Robert W. Schoning, Director

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MAY 19-20, 1977
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FOREWORD

This is an edited transcript of the proceedings of an industry meeting on commercial fishing vessel insurance and safety. Industry participants reviewed and edited appropriate parts of the transcript with a view toward providing a clear record of their presentations.

One concept discussed was industry's formation of a National Council on Fishing Vessel Safety and Insurance. The Council would serve as a replacement organization for the Ad Hoc Group that was formed to address insurance and safety matters after the national conference on this subject in 1973. The Council would be established as a nonprofit organization of industry members.

The second subject covered was the organization and operations of insurance pools and clubs and group insurance programs. Presentations and discussion covered reviews of an educational manual on mutual insurance associations and of the history, operating experiences, and working procedures of insurance pools, clubs, and programs. An outstanding feature was the specific nature of the information provided by experienced managers of successfully operated industry insurance programs.

A resolution to form a National Council on Fishing Vessel Safety and Insurance was adopted, and a Steering Committee was organized to work toward that end. THE NATIONAL MARINE FISHERIES SERVICE (NMFS) was requested to continue providing the industry with valuable assistance on commercial fishing vessel safety and insurance matters. To that end NMFS prepared this transcript for publication and distribution.

AGENDA

COMMERCIAL FISHING VESSEL INSURANCE AND SAFETY MEETING

Ramada Inn
Rosslyn, Virginia

May 19 - 20, 1977

Chairman: August Felando, General Manager, American Tunaboat Association, San Diego, Calif.

May 19, 1977

10:00 OPENING REMARKS - Joseph W. Slavin, Assistant Director for Fisheries Development, NMFS

10:30 NATIONAL COUNCIL ON FISHING VESSEL INSURANCE SAFETY

Paul Poliak, Admiralty Attorney, Madden and Poliak, Seattle, Wash.

11:15 MUTUAL INSURANCE ASSOCIATIONS FOR COMMERCIAL FISHING VESSELS

Chris A. Theodore, Professor, Boston University

12:00 LUNCH

1:30 ORGANIZING AND OPERATING P&I POOLS AND CLUBS

The Neptune Mutual Association, New Bedford, Mass.	Leif Jacobsen President
United Trollers Fund, Seattle, Wash.	Harold S. Ongstad Manager
Shipowner's Claims Bureau, Inc., New York, N. Y.	John H. Cassedy

May 20, 1977

9:00	ORGANIZING AND OPERATING FISHERMEN'S HULL POOLS	
	Commercial Fishermen's, Inter-Insurance Exchange Seattle, Washington	Paul Anderson Manager
	Pacific Trollers Fund Bellingham, Wash.	Donald E. Reinhardt Manager
	Alaskan Fisheries Advisory Council, Kodiak, Alaska	Frank B. Bohannon Director
1:00	GROUP INSURANCE PROGRAMS IN U.S. FISHERIES	
	Point Judith Fishermen's Cooperative Association	Leonard Stasiukiewicz General Manager
	Southeastern Fisheries Association Group Insurance Program	G. Allan Heyn Harlan Incorporated of Florida
2:00	COMMITTEE REPORT	Paul Poliak
2:30	DISCUSSION	August Felando
3:00	ADJOURN	

PROCEEDINGS OF THE CONFERENCE ON COMMERCIAL FISHING VESSEL INSURANCE AND SAFETY
MAY 19 - MORNING SESSION

OPENING OF THE MEETING

August Felando: Chairman; General Manager, American Tunaboat Association, San Diego, Calif.

MR. FELANDO: Good morning. At the kind request of the National Marine Fisheries Service, I am pleased to chair this meeting. As you know, the first time we talked about insurance was in 1973. That was at a forum provided by the Fisheries Service. We all appreciate the arrangements the Service has made for this meeting.

I think it would be appropriate for us to remind each other of our names and affiliations since we might have participants here from the East and West Coasts as well as the Gulf. The most convenient way might be to just have each individual introduce himself.

(Introductions by each person)

The list of participants will be made available as soon as possible. I'm sure everyone heard the names, but would like to see the list in writing.

I think my job is to help this meeting move as quickly as possible, but I am reminded of the fact that for a turtle to move forward it has to stick out its neck. Of course, I am also reminded that a turtle moves rather slowly. I think it is true that safety and insurance are of great concern to all of us. This is best indicated by the participants who not only come from different geographical areas, but also represent a very good balance of all segments of the industry; the fishing industry and also the insurance industry, which personally I appreciate very much. And I know that the fellows from the National Marine Fisheries Service also appreciate this.

We have moved slowly since 1973. Probably that has been the wise thing to do. This session was called for a variety of reasons. Not only to be informative, but also, hopefully, to initiate some concrete action that would be of some long-term benefit.

I don't think it is necessary for me to repeat the problems the various segments of industry have with respect to protection and indemnity or hull and machinery insurance. I am reminded of an eloquent demonstration of the problem. I recently talked to one of the brokers and asked him, "Well, what was the percentage increase this year on P&I for vessels in the tuna fleet?" He said, "Oh, about 66-2/3 percent from last year."

I have read some of the background papers, and I am reminded of the fact that in southern California the purse seine technique, which helped us out in the early days on sardines and mackerel, and since, on tuna, was originally developed on the East Coast and then used by the salmon industry. It might sound surprising to you, but many of the advancements in our purse seining techniques have come from the Northwest. But now, it appears from the program that some of the new ideas, even in insurance, are coming to us from the Northwest. Of course this does not exclude some of the advancements or novel ideas that come to us from the New England area. Nevertheless, I am still trying to learn more, for we don't have the answers in southern California when it comes to insurance.

With these short remarks I would like first to introduce a good friend of ours, Joe Slavin. He has been associated with us on this problem for a long time. Joe has some opening remarks.

OPENING REMARKS

Joseph W. Slavin, Assistant Director for Fisheries Development, National Marine Fisheries Service

Thanks Augi. On behalf of the Fisheries Service, I'd like to welcome you all to this meeting.

I think the interest in the subject is evident by the size of the group here. The whole insurance and safety matter is a subject that has received some attention from Elliott Richardson, our former Secretary of Commerce. He was interested in this particular subject, because it involved a lot of institutional problems and ways of trying to solve some of these problems.

I think probably that one of the biggest problems coming down the pike is the problem of what I call productivity -- the ability of the industry to be efficient in the long run. I think the fishing industry, being small and being made up of many different segments, lends itself to being overregulated perhaps.

We first got into this insurance business in 1973, when we had the meeting in Washington. I think it is safe to say that at that time there really didn't exist a forum where some of the insurance people could talk generally to some of the vesselowners and some of the union people and some of the fishermen.

After that meeting we formed the Ad Hoc Group on Fishing Vessel Safety and Insurance, but, as Augi said, it took some time to get things underway. I think the important things that got established were dialog and a feeling of some trust that people had things that they could communicate to each other and try to develop a better system.

Some legislation was developed as a result of that earlier meeting: legislation which dealt with certain aspects of a voluntary safety program and a workmen's compensation program. And it ran into some problems. Generally it didn't get much support, but even that was interesting in that certain people had reservations about it rather than coming out greatly opposed to it. But then certain aspects of it did get support.

Now, the purpose of this meeting, as I understand it, is two-fold. Number one, it is to discuss new approaches that some of you people have been involved in, such as mutual insurance cooperatives. We can discuss these approaches with a view toward communicating some of the good points and some of the problem areas.

And the other purpose of the meeting, I think, is to discuss some way that this organization might exist and be operated by the different groups involved. Generally, I think you get better results if the government takes a role of trying to help as a sort of catalyst and lets the people in the business get together and work out their own problems.

We have had some success in that. Perhaps some growing problems. But we have the program of the Pacific Tuna Development Foundation that is pretty much run by the industry. They are calling the shots and putting their own program together. I would say that that program is better than some of the programs we get from the bureaucrats. They are a little more specific. We also have the Gulf and South Atlantic Fishery Development Foundation. I'm glad to see that Roger Anderson is here; he is the Executive Secretary of that Foundation. Then we have the New England Fishery Development Program, which was the pioneer of some of these programs. The New England people were able to get together and take a look at fishery development. So I think the subject that you should look at here is the formation of a national council on vessel safety and insurance and whether that would result in the cohesion of this group. To deal with insurance and safety in a positive manner, you can get together and form your own council and perhaps replace the Ad Hoc Group.

As far as the Fisheries Service is concerned, we are very interested in this. Gale Lyon, who's done all of the work, certainly, has put this meeting together. But now Gale will be moving to one of the regional councils. Jim Murdock will be available to help. So we are now prepared, Augi, to provide technical assistance. But we look to you people to get together in this forum and provide the leadership. Good luck during the meeting, and thank you.

MR. FELANDO: Thank you very much, Joe. You have indicated a little challenge to us, and I hope we can respond in a positive, constructive way.

Gentlemen, now I would like to proceed with our program. I would like to have this program as informal as possible. We all know each other. I think we all know what we want to do. We want to get information, and hopefully after that, try to make some decisions that will help all of us. Now, I would like to introduce Paul Poliak, who is well known to us. He is one of those lawyers in the Northwest who has been extremely helpful.

NATIONAL COUNCIL ON FISHING VESSEL
SAFETY AND INSURANCE

Paul M. Poliak, Attorney, Madden and Poliak
Seattle, Wash.

First of all, several comments from the head table interested me. One is that many of the new ideas are coming from the Pacific Northwest. I'll have to agree to that, and all the Northwesterners will have to agree to that. Then too, I notice that we have representatives of both union members and vessel owners with us today.

As Augi said, I'm an attorney from Seattle. We do primarily marine insurance in the Northwest. I'm a graduate of Kings Point Merchant Marine Academy and have an Alaska pilot's license. I have been involved with the fishing industry for a number of years, both as an attorney and as marine surveyor.

When I was called to participate in a possible formation of the national council on fishing vessel insurance and safety, I thought to myself, why? Can a useful purpose be served and can I be of any benefit to the organization, or is it simply another step towards more government regulations with the resulting additional cost to the industry?

Earlier I did serve on the Ad Hoc Group on safety and insurance. This convinced me that it was practical, and probably necessary, to come up with an organization of this type. The Ad Hoc Group's meetings, for the first time, brought various segments of the industry together from all over the Nation. Until then our industry operated in a fragmented manner. Each area, each fishery, each interest operated in its own sphere and promoted its own interests. Yet, there was not one industry-oriented group, speaking, acting, or protecting the fishing industry.

It was obvious that each fishing area had its own problems, unique to that particular area. In some areas all kinds of insurance markets were available and there was no problem, reasonably speaking, insofar as insurance was concerned. Other areas complained that they had problems and no insurance.

The insurance industry spokesmen said they were ready and available to serve the industry. They asked the fishing industry to tell the insurance market what they wanted; and, insofar as possible under the free enterprise competitive system, they were willing to serve the fishing industry.

During these meetings, some people leaned towards government--asking the government to step in, to provide insurance that they alleged was not available in any manner to the fishing vesselowners. Ultimately, it was fairly well decided by all members of the Ad Hoc Group that government wasn't the answer. More government regulation of the insurance business was not really in the interest of the owners, and, in fact, it would probably be detrimental.

One thing that stood out was that if the national industry body was in existence it might well benefit the industries' approach to safety. All parties agreed that the safer the operation, the greater the likelihood of lower insurance premiums and sufficient insurance markets available.

It was obvious that, other than the National Marine Fisheries Service, there was no organization to communicate to the industry nationwide on these subjects.

While in Europe last week, I talked to an IBM man who some years back was trying to market a radar type of collision prevention unit. He came to Washington, D.C., to find a national spokesman of an organization of some type in the fishing industry so that he could present this unit. He said he found none. He then went to a law firm in New York, but said that he didn't get any further in finding a simple manner to market his unit nationwide.

Likewise I was on the floor of Lloyds last week. The first thing they said was that they understand all sorts of things are happening in the fishing industry in America, particularly in marketing, as well as safety developments. They asked me how they could get on a mailing list or participate in the group in some way so they can protect their interests and at the same time serve the fishing industry of America.

So probably even more importantly, we must ask ourselves how can we get the American insurance market involved with the fishing industry in a concerted effort to promote safety and have a reasonable insurance market available.

How then can a national council be formed and serve all segments of the industry? The safety aspect, like motherhood, is always acceptable and less controversial. The insurance aspect, insofar as any proposal is concerned, should be used to assist the fishing industry and the underwriting industry, but should not be used to drive the private insurance sector out. Rather, it should encourage the fishing and underwriting interests to work together and provide a readily available insurance market and expertise in developing a safety program.

Any national council should have the widest representation. Its members should include the owners, operators, crew organizations, unions, underwriters, both individual companies, organizations speaking in behalf of its members, surveyors and/or their organizations, attorneys, both defense and plaintiff, and, perhaps as associate members, individuals from the National Marine Fisheries Service, the Coast Guard, and the Maritime Administration.

Let me list some of the functions that the National Council could carry out. It could be a central clearing house for the latest insurance and safety developments. It could formulate, so far as possible, safety programs such as boat construction standards, equipment standards, and minimum crew training that are acceptable to both vesselowners and unions. If such a program is developed by an industry oriented council it will go a long way, in one great step, to discourage further government regulations in the field. And it would also be a tool with which the industry can, in a knowledgeable manner, talk and communicate with the government agencies.

It can assist in developing a regional safety committee and be the organization keeping all regions advised on each particular region's developments.

It can keep the insurance market advised of the safety programs and obtain the insurance industry's--either individual companies or organizations--recommendations and views.

A reporting system can be developed. Statistics and summaries of accidents can be compiled and sent to various members of the council and the industry. With respect to this, the Coast Guard does have an accident reporting requirement, but it is not insurance-oriented, nor is it complete enough. Perhaps you may think a private organization, such as the Marine Index Bureau--either as a consultant or a vehicle for this--may be in order.

The council can be the conduit through which the industry and the Coast Guard can communicate since, traditionally, insofar as the field of marine safety, it is the Coast Guard to whom the industry has looked.

The council can be the watchdog and information center concerning any legislation affecting fishing boat safety and/or insurance. It can advise industry on insurance trends and markets, both for hull and P&I. By circulars or otherwise,it could educate the fishing vesselowners in developing tools, which will be discussed by other panel members, such as group or mass marketing of their insurance. But here I may add, my own personal view is that organizing pools and educating such groups should be done primarily with the cooperation and the involvement of the private underwriter sector in an open competitive market. To systematically discourage the private insurance sector, in my opinion, might be costly in the long run. Both serve a purpose, both should be represented, and both should exist side by side.

Such a national council should be organized. It should be a nonprofit, noncommercial association. Ultimately, it should be industry-sponsored, industry-operated, and industry-financed. We should initially call upon the National Marine Fisheries Service to act as temporary executive secretaries until such time as the council is fully organized and sponsored by all of the industry interests, including the owners, underwriters, crewmembers, and the related service community.

With the assistance of the National Marine Fisheries Service and members of the council, efforts should be made to obtain initial government funding for development of our council. Such funds, I have been told, may be available from a number of government agencies, if an industry-oriented plan is properly presented. We understand the Economic Development Administration, as well as agencies of the Department of Labor and the Department of Health, Education and Welfare may have funds available to us for training and for developing such a safety program.

Perhaps there are others who may have some way of assisting with funding for the initial organization of such a council. Such a council is not impractical nor is it something new. For instance, we have two folders here on the Transportation Institute's research education program. The Institute hopes to bring about a greater understanding in this country of the importance of marine transportation to national security and the overall economy. In pursuit of these and other objectives, it directly monitors legislative and governmental activities in proceedings that may affect the maritime industry of the nation.

The American Institute of Merchant Shipping (AIMS) is another industry-oriented group. Its structure is designed to cover in detail every field of government, nongovernment, and international activity affecting the U.S.-flag shipping fleet. That is a large order, but the records of the AIMS committee activities demonstrate how effectively the work can be carried on. Staff and members both maintain contact with public agencies and shipping industry organizations, domestic and international, across the spectrum of maritime affairs. AIMS' positions on broad matters of policy, as well as important technical issues, are generally developed from committee recommendations.

Many illustrations of government cooperation with the work of AIMS may be found on the tanker council and on supporting technical committees with the Coast Guard and other agencies in developing safety standards and antipollution measures.

I see no reason why we couldn't do what has been done elsewhere for the benefit of all concerned parties. Thank you.

MR. FELANDO: Thank you very much, Paul. I would like to point out that we already have some national organizations in the fishing industry such as the National Federation of Fishermen, the National Fisheries Institute, the National Shrimp Congress, and the National Fish Meal and Oil Association. All should be represented on this council. So, Paul, you are not talking about an all-purpose council, but a single-purpose council. Also, what would be required to obtain membership?

MR. POLIAK: Yes, we are talking about a council dealing specifically with safety and insurance problems. Certainly, these national organizations in existence today would be and should be members. Yes, by all means. Perhaps, we should get together and come up with a draft of bylaws for establishing this type of organization.

MR. BROWNING: Mr. Poliak brought up a very important point. If there are many associations that dicker for insurance in a group position, I would like to see the groups get together, perhaps under the proposed organization, and each participate in the other group's risk. I think it would cut our expenses tremendously and make the whole thing cheaper for all of us. I hope we will have the opportunity before this meeting is over to talk about these matters.

MR. FELANDO: Yes, Mr. Browning, that is a slightly different twist. It is a new idea that you're talking about. I think that the suggestion that Paul had, at least from what notes I could gather prior to this meeting, was that the council would be designed really as forum to examine different proposals and to transfer ideas, whether it be from the Northwest, the Gulf, or the East Coast.

Your suggestion is an extension beyond that, actually; it's action.

MR. BROWNING: I think it would work.

MR. FELANDO: Okay.

Anyway, I guess that would be one of the subjects that would be discussed by the council as conceived by Paul, is that correct, Paul?

MR. POLIAK: Correct.

MR. FELANDO: Are there any other questions or comments at this time?

(No response.)

MR. FELANDO: We now have the opportunity to think about the suggestion made by Paul with regards to establishing a national council or some other organization dealing specifically with fishing vessel insurance and safety.

I would like to move forward then and introduce Chris Theodore. I believe all of you have a copy of the manual: MUTUAL INSURANCE ASSOCIATIONS FOR COMMERCIAL FISHING VESSELS: A MANUAL.

MUTUAL INSURANCE ASSOCIATIONS FOR COMMERCIAL FISHING VESSELS

Chris A. Theodore: Professor of Management, Boston University

Within the time available, I would like to focus on three topics: First, make a few comments about Paul Poliak's concern that the potential growth of mutual insurance associations might drive commercial insurers out of the underwriting of fishing vessel; second, give you some idea of the field work and sources of information on the basis of which the manual was written; finally, present to you key organizational and operational aspects of mutual insurance associations.

1. Commercial insurers and mutual insurance associations

Concern about competition from insurance clubs should be viewed in terms of a potential market for hull and, especially, protection and indemnity insurance. The percentage of commercial fishing vessels carrying any kind of insurance appears to be very low. As many as one-half to two-thirds of the 87,000 fishing craft may not carry any insurance at all, or they may not carry adequate hull insurance. Protection and indemnity insurance is not likely to cover more than 25 to 30 percent of the total labor force engaged in commercial fishing. As of the latest government count, there are about 200 trade associations and 100 fishing cooperatives engaged in marketing and other types of activities. Even assuming considerable overlap, there are something like 200 local organizations in the fishing industry. Although these are very rough figures, they may give you some idea of the potential insurance market for either commercial insurance or insurance through mutual clubs.

Unlike other fields such as agriculture and banking, there is no legislated or government-sponsored insurance protection available to vesselowners. Only two types of insurers are available to the fishing industry. Vesselowners may carry insurance either through a commercial insurer or a mutual insurance association. We shall see later that the establishment and successful operation of a mutual insurance association require the presence of certain favorable conditions. These conditions are not likely to be present among most trade associations or fishing cooperatives to a degree necessary for a successful insurance club. There are limitations in the potential growth of mutual insurance associations. So each type of insurer may serve different segments of the fishing industry, different insurance needs, and different insurance risks. The important point is that we have failed to educate a great part of the fishing industry on the need for protection through insurance. There is plenty of room for the growth of both commercial insurers and insurance clubs. Both insurers are likely to benefit if they work together to serve a greater portion of the potential market. At the same time, they may better serve the entire fishing industry as well through fair competition and specialization in service.

2. Sources of information for the manual

I was commissioned by the Federal Government to study the existing insurance clubs and prepare a manual on the subject. The result is the monograph you have received this morning. Basically, field work involved personal interviews with managers of all eight insurance clubs that operate today in the United States. The contents of the manual are based, to a large degree, on the findings of the field work. In addition, I drew information from earlier studies done by others and myself, especially from my experience with the Japanese and Norwegian systems of mutual insurance associations or mutual aid societies, as they call them.

Of the eight on-going insurance clubs in the United States, five are hull and three are protection and indemnity associations. Some clubs are quite old; one in particular has been in operation for 30 years; some have been established in the last few years. Collectively, they underwrite about 1,500 vessels. Insurance coverage varies among hull as well as among protection and indemnity clubs. The most important common characteristic is that all clubs offer insurance protection at low cost. The net contribution rate for hull insurance is about 1 percent; that is, for $100,000 insurance coverage, the net cost of insurance protection to the vesselowner is about $1,000. There are no comparable figures for personal liability insurance because of great variations in the insurance coverage and other contract provisions among clubs. But I was told that in some instances, the cost is about $1,300 or less per vessel of six crewmembers.

3. Research findings

Now, let's go to my third point. Essentially, this is a summary of some important findings which the manual elaborates. After discussing the conditions, advantages, and limitations for organizing a club, I would like to concentrate on the administrative and actuarial aspects of such an organization.

a) Organizing an association

The important points that one should keep in mind in organizing an association are displayed in exhibit 1.

Exhibit 1

ORGANIZING A MUTUAL INSURANCE ASSOCIATION

A. Favorable factors

1. Experienced captain
2. Reliable crew
3. Cooperation from labor
4. Common fishing operations
5. A trade association or a fishing cooperative
6. Group insurance

B. Advantages

1. Low acquisition costs
2. Better than average risks
3. Reserves
4. Minimum overhead costs
5. Taxes
6. Nonmonetary benefits

C. Operational limitations

1. Small area
2. Partial protection
3. Membership problems
4. Legal difficulties

Most of you are well aware of the importance of the human element in fishing operations. So an experienced, reliable, and motivated captain and crew is one of the important characteristics of club membership. Many pools limit their membership to owner-captained vessels. Experience strongly suggests that vessels whose captain has a proprietory interest is likely to be, on the average, a better risk than otherwise might be the case. Willingness of organized labor to support the organization and operation of a club is another important factor, especially for personal liability associations. The chances of organizing and running a club may increase when member-vessel owners operate from the same port, own a similar type vessel, and fish in the same geographical area. Then the operation of a club is extremely simplified because the risks are homogeneous in several critical respects. The existance of a trade association or a fishing cooperative may become a promising base to start an insurance club. The prospective members may have a common background, know and trust one another, and pursue common interests. In fact, most existing insurance clubs have a trade association or a fishing cooperative as their parent organization. Group insurance should not be confused with an insurance club. In an association, the members act collectively as insurers of their own; in group insurance, a number of vesselowners sign a single contract with a commercial insurer. But group insurance is important because it takes much less effort than otherwise for vesselowners carrying group insurance to establish their own insurance club.

Under such favorable conditions, some of the advantages of insurance pools shown in exhibit 1 are quite obvious. There are no brokerage commissions or fees, annual inspection is simplified and frequently done by the club directors, procedures and paper work for handling claims are kept to a minimum. The result is low costs for acquiring and handling each insured vessel. Many of the facets mentioned earlier result in member vessels representing better than average risks. Equally important is the fact that after accumulation of necessary reserves, excess reserves are distributed to the members of the club, thus reducing insurance costs. Also, overhead costs may be kept to a minimum if an insurance pool shares the office, bookkeeping, and management services of a parent trade association or fishing cooperative. Tax advantages may be important as well as numerous. For example, some of the reserves may legitimately be classified as realized but undistributed claims, and the reserves of an unincorporated pool with owner-captained vessels are exempt from Federal taxation. No less important are nonmonetary benefits, such as pride in belonging to a pool, taking care of members who happen to be victims of a disaster, reducing the uncertainty related to insurance costs, and coping effectively with personal liability under the present as well as under any other legislative setup.

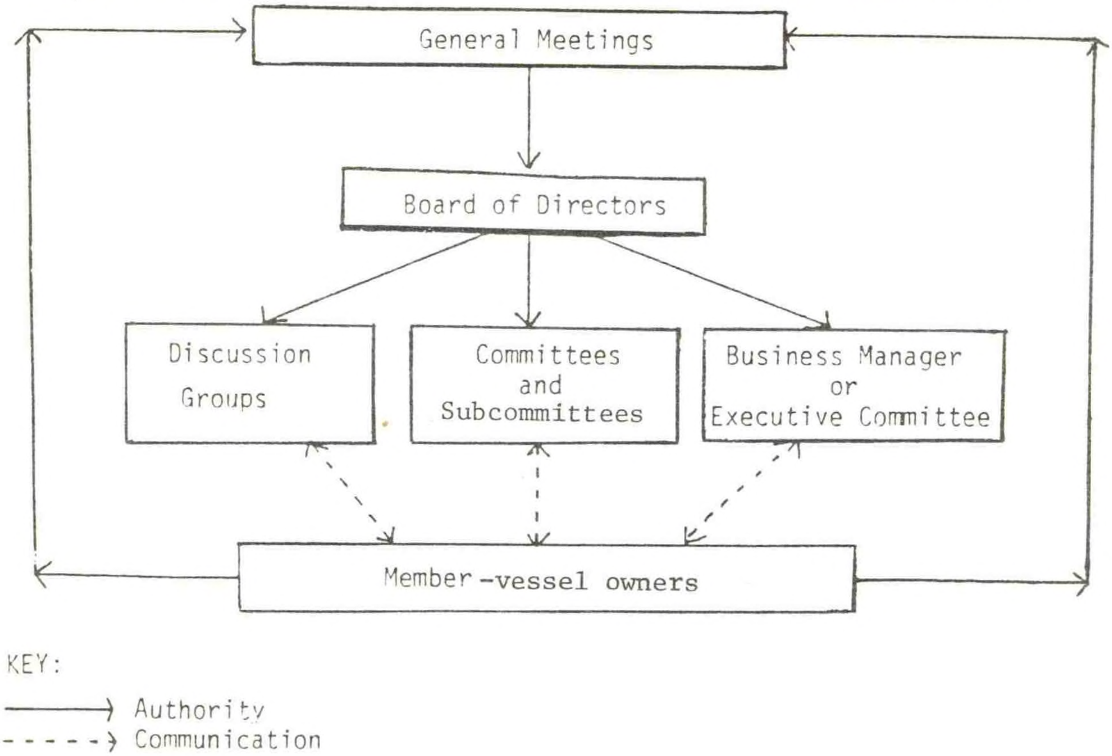
On the other hand, mutual insurance associations are not free of operational limitations. The risks of a pool are not geographically dispersed nor sufficiently diffentiated. These characteristics coupled with small volume do not permit the proper functioning of the law of averages. Limited financial resources and other factors do not allow a club to offer full insurance protection to its members. Membership problems, especially petty politics and lack of understanding the actuarial principles under which associations must operate, may be one of the worst enemies of running an insurance club successfully. Finally, some organizers may encounter legal difficulties because of existing laws and regulations in their home State. Most of the limitations can be overcome, at least partially.

b) Organizational structure of an association

What are the organizational components of a mutual insurance association?

Exhibit 2

A MUTUAL INSURANCE ASSOCIATION:
Organizational Components and Lines of Authority and Communication



These components together with the lines of authority and communication are diagrammed in exhibit 2 ; it is copied from figure 1 of the manual. You can see that the organizational setup of an association resembles that of a fishing cooperative. The member-vessel owners are the ultimate decision makers. In many respects, they are the legislative body of the organization. They have the power to form, manage, and dissolve the association. General meetings of the membership approve the initial bylaws as well as changes in such bylaws, the annual financial reports, and other important matters of general policy, including new membership.

During the time the membership is not holding a general meeting, the management of the association is delegated to an elected board of directors. The board is the executive branch of the association; it carries out the business of the association in accordance with the policies, rules, and procedures approved by the membership; it is authorized to make binding decisions on behalf of and to the best interest of the membership.

During periods between board meetings, authority rests with the chairman or president of the association whom the directors elect among themselves. He is the chief executive officer of the association vested with all the authority to carry on the day-to-day business of the association. Much of the work is delegated to a business manager or the executive committee as shown in exhibit 2.

The board may appoint a number of standing or ad hoc committees and subcomitties authorized to carry out specific tasks such as surveying vessels, evaluating new members, and handling claims. Also, the board may find it useful to organize the membership into small discussion groups. Such groups may perform valuable functions. For example, important issues may be aired out with each group before they are presented to a general meeting for a vote.

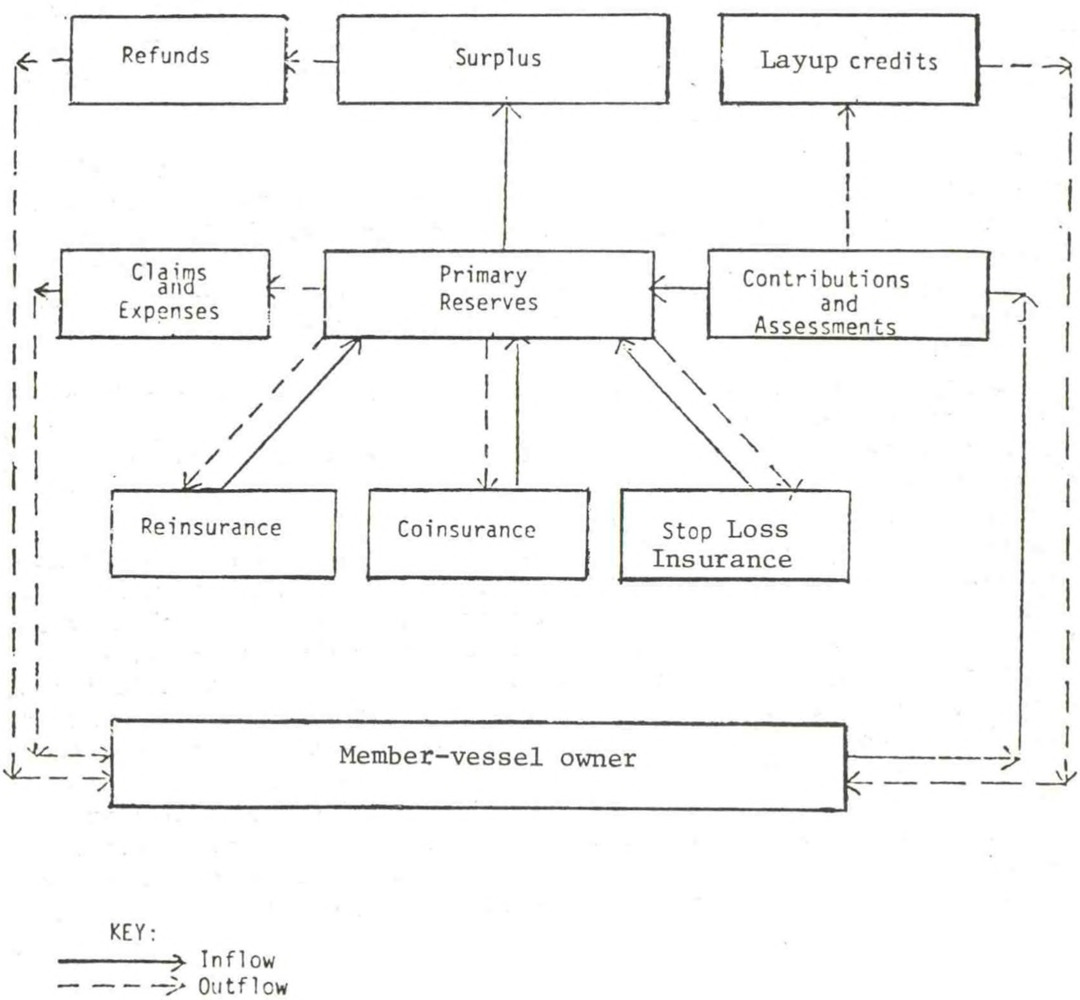
c) Some actuarial aspects

The actuarial components as well as the flow of funds of an association are shown in exhibit 3; it corresponds to figure 2 of the manual. Member-vessel owners

Exhibit 3

A MUTUAL INSURANCE ASSOCIATION:

Actuarial Components and Flow of Funds



receive insurance protection by paying annual contributions. For hull insurance, contributions are based on a percentage or rate per thousand dollars of insurance coverage. For personal liability insurance, contributions usually represent a fee per vessel or per crewmember, which varies with the extent of coverage provisions. In the event expenses during a given fiscal year exceed these contributions, members are assessed for additional sums. The magnitude of assessments or calls depends on the provisions specified in the bylaws. For unincorporated clubs, it may vary from no assessments, assessing only to the amount of the promissory note signed at the time a vessel owner is admitted to the club, or a sum usually representing twice the annual contribution of each member. For incorporated clubs, assessments are drawn from the legal reserves required by law. Some clubs provide for a nonrefundable registration or admission fee.

Contributions, assessments of any kind, and fees represent the primary reserves of an association. They are used to pay the claims, expenses, and layup credits, if any, to member-vessel owners in accordance with the provision of insurance contract. If contributions exceed claims, expenses and layup credits during a given fiscal year, such sums go to surplus. How an association may manage to accumulate a surplus at a stipulated retention level will be explained later. This level may represent 10 percent or more of the total insurance coverage or twice or most the total annual contributions. When this level is reached, refunds of the excess surplus are made to the members starting with the earliest year first. So net contributions are gross contributions plus assessments, if any, minus layup credits and refunds.

If claims, expenses, and layup credits during a given fiscal year exceed the primary reserves and there is no surplus or other insurance protection, the bylaws provide for suspension of payments. Outstanding claims are settled pro rata. But an association may manage to prevent suspension of payments. In fact, it may manage to protect its accumulated surplus and prevent assessments by purchasing insurance protection from commercial insurers.

This can be accomplished with reinsurance, coinsurance, or stop loss insurance (exhibit 3). With a reinsurance contract, an association limits its liability to the first X dollars per risk, and insures the remaining coverage above this amount with a commercial insurer. For example, an association may have a $100,000 maximum basic coverage per risk, retain the first $25,000, and reinsure the remaining $75,000. With a coinsurance contract, an association limits its liability to a percentage of the insurance coverage per risk. For example, a 75-percent coinsurance would limit the association's liability to 75 percent of any claim up to the maximum coverage of $100,000 per risk. A coinsurance provision may be part of the insurance contract an association has with its members; but also, it may be an insurance contract with a commercial user in lieu of a reinsurance contract. On the other hand, a stop loss insurance contract would enable an association to protect its accumulated surplus and prevent assessments. According to such a contract, a commercial insurer stands ready to reimburse the association up to a stipulated sum if claims and expenses during a year exceed the year's total contributions. This sum is usually equal to the gross annual contributions or the retained surplus.

d) Surplus accumulation

At this point, we are ready to go back to a question raised earlier, namely, the way by which an association may accumulate a surplus. Accumulation of a surplus depends, of course, on the profitability of an association. A simple illustration may make this point clear.

Suppose an association starts with 20 members. Maximum hull insurance coverage is \$10,000 per vessel. So the total insurance coverage the association may assume is \$2 million. The association has the policy of retaining a surplus level representing 10 percent of the total coverage. So the required surplus level is \$200,000 (=\$2,000,000 x .10). Assuming a 6-percent premium rate on the accepted total coverage, total annual contributions which the association receives from its members are \$120,000.

How profits, surplus levels, and basic coverage may be related can be effectively illustrated with a step-wise accumulation of surplus, as shown in Exhibit IV. (See table 1 in the manual.) For simplicity's sake, we may assume that each period represents a single insurance policy year.

Exhibit 4

Period	Basic insurance coverage		Contributions		Surplus accumulation
	Primary	Reinsured	Cost	Profit	
(1)	(2)	(3)	(4)	(5)	(6)
	-Dollars-				
First	500	1,500	70	50	50
Second	1,000	1,000	60	60	110
Third	1,500	500	50	70	180
Fourth	2,000	0	40	80	260

During the first year, the association insures the first \$25,000 of the \$100,000 basic coverage for each risk and reinsures the remaining \$75,000 with a commercial insurer. In other words, the association has purchased a contract from a reinsurer with a \$25,000 deductible. So the association assumes a total of \$500,000 (= \$25,000 x 20) primary coverage and reinsures the remaining \$1.5 million (= \$75,000 x 20) of basic coverage.

Assuming registration fees cover start-up costs, the cost of \$70,000 for the first year represents losses, expenses, and reinsurance premiums, leaving a profit of \$50,000. This sum is transferred to the surplus account. Since this surplus represents 10 percent of the assumed total coverage of \$500,000, the board of directors may increase the primary insurance coverage to \$50,000 per risk and reinsure the remaining \$500,000; so total primary and reinsured coverage is now $1 million each (Exhibit IV). At the end of the second policy year, the realized profit of $60,000 is transferred to the surplus account. Since the accumulated surplus of $110,000 represents more than 10 percent of the primary insurance coverage, the board may increase the primary insurance coverage to $75,000 per risk and reinsure the remaining $25,000. The cycle may be repeated until the desired surplus of $200,000 is accumulated. At the closing of the fourth policy year, the board may refund the excess surplus of $50,000, the surplus of the first period. So each member may receive a dividend of $2,500 (= $50,000 ÷ 20) on the average; the cost of insurance to each member would be $3,500 (gross contribution of $6,000 less dividend of $2,500 per $100,000 of insurance coverage) representing a 3.5-percent net contribution rate; and dividends may continue depending on the policy and the profitability of subsequent years. With some qualification, the same relationship between profits, coverage, and surplus applies to the personal liability association.

Of course, this is a simplified illustration of a central feature of the insurance mechanism. But it adequately demonstrates the route an association may follow during the developmental stage towards becoming a successfully run insurance club. The real world is far more complicated. For example, each period may not represent a single policy year. An association may choose to coinsure and also purchase stop loss insurance. The cycles of step-wise accumulation of surplus may be repeated by increasing the basic coverage, say, from $100,000 to $200,000.

Further decline of net contributions may occur for several reasons such as layup credits, earnings from the invested surplus reserves, reduction in legal and insurance consulting costs, and larger membership allowing a greater spread of overhead costs. These developments coupled with improvements in the financial and risk management practices through experience may explain to a large degree why some existing clubs are able to reduce the net contribution to 1 percent or less.

For more details on many points highlighted here, especially risk management, I strongly urge you to read the manual. Thank you very much for listening.

MR. FELANDO: As you can very well tell, Chris has opened the door for the concept of mutual insurance. Later on we will cover the actual pools that are involved. Right now I really want to open up the meeting to you.

MR. JOSEPH ALGINA: I notice with interest it has been said a couple of times that seven out of eight clubs are on the West Coast. I was wondering if you could tell us whether they are American clubs or British based and why the seven are on the West Coast?

DR. THEODORE: This is a very interesting question which occupied my mind when I did the field work. I can only speculate; but it seems that there may be several factors which may explain such an unusual concentration of insurance clubs on the West Coast. One is the background of the people who organized these pools. They have group cohesiveness sharing a common cultural background and being well aware of the advantages of mutual aid. Second, the State of Washington, to my best knowledge, is the only coastal State that allows the organization of unincorporated insurance clubs. Third, I was told in at least one instance that labor was very favorable toward operating insurance clubs. Perhaps, the managers of these pools from the West Coast may be able to give us some additional reasons. As far as I know, all these insurance pools are American. They are not connected with any British or other foreign interests.

MR. JAEGER: I'm Sid Jaeger from the North Pacific Fishing Vesselowners in Seattle, and I thoroughly enjoyed Chris' presentation and analyses of our pools. I had the privilege of being a director in one of these pools for 6 years so that I knew what was going on. But I hadn't seen as concise a report as Chris'. You know, I suppose we may echo the comment that they made about 20 years ago when Kinsey came out with his report on the sexual behavior of the human male. The comment was that he put into a book--it took 10 years to research--what every man on the street already knew.

(Laughter)

At least, we in Seattle intuitively knew what Chris was going to say. Over the years we have been refining our approaches in these pools. One of the important requisites for our pools, we think, especially in the hull insurance, is the nonidentification with trade associations. That is, an association of vessels which allies itself, for financial purposes, could exercise some influence in the pools if, let's say, the prerequisite for belonging to a pool was a membership in the association.

Now with respect to P&I, I will say that you have a more flexible arrangement than with hull insurance. In identifying the particular operator he usually has substantial control over the vessel when it comes to hull insurance. But this is not always the case under P&I where some of the practices that he incorporates in the vessel operations have some impact on the crew. In that case the law of averages operates more widely overall.

I thought that the separation of P&I and hull might be a worthwhile distinction to make.

MR. TARBELL: Allan Tarbell with Traveler's Insurance Company.

I think Chris had on his lavender-colored glasses today. I'd like to ask two quick questions. First, you have my promissory notes and if you have an adverse experience and you have to have a contribution, what happens if several members can't come up with their contribution? Does that go on the other person? My other concern is that you seem to be talking about very low numbers yet, today, if anyone cuts their foot or cuts a finger off, $100,000 wouldn't provide what they're after, which may be a half million dollars.

DR. THEODORE: As I have mentioned earlier, if the bylaws provide for a promissory note, the liability of each member is limited to the sum stated in the promissory note. As I interpret the provisions of the bylaws, members are not responsible for delinquent promissory notes. I imagine the association would have a legal claim similar to the claim a creditor may have on a delinquent account. Besides, the association's claim is further protected for the following reasons. First, the association may deduct the sum of the promissory note from the refund credits of a delinquent member. If the promissory notes are called prior to the accumulation of a surplus, the association's claim is protected with the special relationship that prevails among the membership. Don't forget, you have a cohesive group of vesselowners who know one another. Group pressure and moral suasion can be effective deterrents to delinquency. Under these circumstances, I strongly doubt that a member can afford to be delinquent for $500 or $1,000, the usual sum of a promissory note. Perhaps some managers of insurance pools may like to comment on this subject.

With respect to your second question, I agree with you that $100,000 coverage may be quite insufficient for personal liability protection. But the magnitude of the sum does not matter. We could very well increase it to any desirable level. The purpose of the illustration was to show you how an association may be able to accumulate a surplus at any specified level of coverage. However, it is quite true that financial and actuarial considerations place severe limits on the magnitude of the maximum coverage an association can reasonably assume. And this limit applies to hull, but especially to personal liability insurance because of the wide range of required coverage. To cope with the problem of insufficient coverage, an association may provide three levels of insurance protection: primary, reinsurance or coinsurance, and excess coverage. We have already illustrated the first two levels of insurance coverage. They represent the basic coverage in Exhibit IV. They may be sufficient for full protection if there are no wide differences in the required insurance amount among risks. This may be the case for most hull insurance associations which carry vessels of similar size. Excess coverage may be necessary for a hull insurance pool with a few vessels much larger than most insured vessels or for a personal liability pool with members who need protection above the $100,000 basic coverage level cited in the illustration. In fact, for a personal liability insurance we could have used a $250,000 to $400,000 range of basic coverage to illustrate the same step-wise accumulation of surplus. Above such basic coverage, whatever the sum may be, members of an insurance pool who need additional protection may purchase from commercial insurers the desired excess coverage, either directly or through their association.

MR. FELANDO: People are going around as consultants advising on management and self-insurance. Now, there are some companies in the fishing business that are involved in a self-insurance program. How does such a program differ from a mutual insurance program?

DR. THEODORE: A mutual insurance association involves a group of individuals. This explains the use of the terms "pool," "club," or "mutual aid society" to describe an association. On the other hand, self-insurance involves a single person, natural or legal, as the term implies. In both cases, a fund is put on reserve for paying losses arising from specified hazards. I have already pointed out that financial and actuarial reasons force a mutual insurance association to carry partial protection for its member vesselowners. For similar reasons, it may be financially undesirable and even unwise for a person, such as a fleet vesselowner, to be 100 percent self-insured unless the program involves a very large and highly diverse organization. A large city such as San Diego may be able to carry self-insurance for nearly all types of risks because, in addition to being a large and diverse organization, losses can be paid from current or accumulated tax revenues.

MR. McGINNIS: One of the things that has not been mentioned is the financial requirements of the banks in wanting a vessel fully insured by acceptable, responsibly owned insurance companies. A mutual plan has limited assets. I have seen many occasions where banks say,"That's fine, but you have to come up with some insurance in a recognized, admitted company." The question is how is this requirement to be dealt with by a mutual plan or a co-op plan that has limited assets?

MR. BROWNING: Could I answer that?

MR. FELANDO: Mr. Browning, I don't know whether Mr. McGinnis wanted Chris to answer that question or not.

DR. THEODORE: That is all right.

MR. BROWNING: I think I can answer some of these questions that come up and take Chris off the hot seat. First, with reference to Mr. Tarbell's question. Let's see if I can remember what the--

MR. FELANDO: Promissory notes.

MR. BROWNING: Yes, in the Neptune Club, the application form allows us to put the promissory notes in the bank and we can draw on these notes if and when we want or need such an assessment. I can tell you that in 6 years we have never made a draw. That is one plan which can be used.

Now, back to Herb McGinnis. For many years, we've used a plan that the banks like. We deposit our reserves with the banks where the contributions of the members come from. We leave the money right in our town, New Bedford, and we have the cooperation of four banks. Now our group started in Luxemburg for obvious reasons, which Chris mentioned: tax, ease of forming, and so on. It cost us almost nothing to form a company. The bank's practice of relying on the Commissioner in the State of Massachusetts for approval has been waived because Neptune is not under the Commissioner's jurisdiction. So the banks went with Neptune because they were concerned with repeated cancellations of insurance contracts from other insurers.

It costs \$300 or \$500 to join our club which, of course, builds our capital, but at the same time you get insurance. Now if we need an assessment, which in 6 years we haven't, it's a very simple thing because we've got 1,000 men in the group and if we need \$1,000 we just send out a call for \$1 a man. It's a very simple operation, but up to this time we've never used it. The banks want to see where our reinsurance is and how much we keep as primary insurance ourselves. We started with a \$15,000 primary insurance, but now the amount Neptune insures has been raised to \$50,000. We file this information with the banks so they know what it is at all times.

But if I may continue. Chris would have you believe that all fishermen are rich, have plenty of money. He mentions that many of the boats had no insurance on their hulls. Apparently they don't have mortgages, because if there is a mortgage, I'm sure that banks want insurance on it. So, I don't know how we get around that, Chris.

One of the advantages in our club is realized when you have an unusual circumstance that would not be covered by the policy, or there was an additional premium that had to come in because of the terms of the association, or a particular incident that occurred might be a hardship on the member. Then he has a ready ear. He can come before the board, and these are fishermen, and he can tell them the circumstances. I think you'll find that they generally listen to him and work something out. For example, the board may allow payment over a period of time or deal with the case in a manner similar to one we had in the last week or two. The member had five men aboard the boat, but had only declared and paid premiums on three men. Then at year end when he put his audit in, this showed he had five men. When he got the bill for the additional premium, he pointed out that the boat had been laid up since an accident in December. Our club year starts May 1st. I daresay that it appeared difficult to give him any relief. However, he had no income for 4 or 5 months. In this case, the board of directors of Neptune allowed him consideration. I'm only trying to say that one of the advantages, I believe, of having your own group is that you're telling your problems, when you have them, to your own type of people.

One more thing. When you consider limitations, these don't have to be limitations in your insurance coverage. Now, our club has the broadest P&I form that any company issues. We include pollution, war risks, and have a bank guarantee in the event the policy might be void because of the violation of the policy. All these things can be done because your own men are solving the problems that only a fisherman has.

MR. FELANDO: Thank you very much. Chris, do you have some comments?

DR. THEODORE: I am grateful to Mr. Browning for elaborating on the particular operational aspects of Neptune. Limitations of the insurance contract are discussed in the manual. Today my presentation was focused on operational limitations of growth and administrative, actuarial, and legal limitations.

There is one point that I would like to make with respect to Mr. McGinnis' question about the acceptance of mutual insurance associations by banks. From the foregoing comments it appears that banks consider associations as good a credit risk as they consider any other business.

MR. FELANDO: Mr. Heyn.

MR. HEYN: I have a quick question on what Herb McGinnis was asking. We are talking about securing insurance for hulls primarily rather than P&I, and we end up with breach of warranty requirements, et cetera, such as the National Marine Fisheries Service requires on their mortgages. While there are people here from the National Marine Fisheries Service, the question might be asked, "Would the National Marine Fisheries Service accept a club organization of this type to back one of their loans?"

MR. FELANDO: Jim Murdock, do you want to answer that question?

MR. MURDOCK: Yes, as the mortgagee, the National Marine Fisheries Service has accepted all the clubs. Also, with respect to Herb McGinnis'.question, when there was the $30,000 limitation on hull and P&I that a club had several years ago and we required say, $100,000 hull and $100,000 P&I, the additional required insurance was provided by an insurance company such as Traveler's or INA. It's as simple as that.

MR. FELANDO: Are there any other questions or comments? I have one question. There is one group that I haven't heard from: the traditional insurance brokers. What is the impact of the concept of mutual insurance or associations on the brokers? Is there any broker here who would like to comment on that?

MR. PASTELL: My name's Bob Pastell. I'm with Reed Shaw Stenhouse, Inc. in San Francisco. I would just like to comment that I don't think the mutual associations have any adverse impact on any brokerage operation, as has been stated here. The mutual insurance associations require reinsurance and I find through my years of experience that I have been able to work very well with mutual insurance associations and have enjoyed marketing their reinsurance for them. It is just another form of insurance to me.

MR. FELANDO: Thank you. Are there any other questions or comments?

Mr. Browning?

MR. BROWNING: With respect to the last question, there is a reference to the reinsurance broker on page 5 of this pamphlet. It appears that they say to the broker that because of these problems more money and time is needed to insure this fishing vessel. Therefore, the brokers would rather spend their time on a more profitable business. Maybe somebody could comment on that.

MR. FELANDO: Could you identify that pamphlet? I think most people have it. Please state the title so it will be in the record, Mr. Browning.

MR. BROWNING: "A Lower Cost Marine Insurance Plan Offered by an Insurance Company Owned by You, the Alaska Fisherman." This pamphlet was published by the Alaska Sea Grant Program.

DR. THEODORE: Augi, may I comment in reference to Mr. Browning's earlier remarks on hull insurance? It is true that banks require adequate insurance protection for granting a mortgage on a vessel. But this provision applies to probably no more than 15,000 out of 87,00 fishing craft that are large enough to require a mortgage with a bank. The remaining boats involve a small investment. Owners may finance their investment on a boat by mortgaging their home, by carrying a personal loan, or by other indirect financing methods. Arrangements such as these may explain why a large segment of the fishing fleet does not carry hull insurance.

MR. FELANDO: Are there any more questions? Any statements?

(No response.)

I think we are scheduled to recess now. I suggest we come back at 1:45. Thank you very much.

(Whereupon, at 12:15 p.m., the meeting was recessed, to reconvene at 1:45 p.m., this same day.)

MAY 19 - AFTERNOON SESSION

(1:45 p.m.)

MR. FELANDO: I notice that there were a number of individuals that came in during the program this morning, and I know that we didn't ask them to identify themselves as they came in, but I hope that they did register outside so that we will have their names on the record.

This morning we talked about the idea of a national council dealing with fishing vessel insurance and safety and then we introduced a concept of mutual insurance. The first idea was introduced by Paul Poliak. The second idea, the concept of mutual insurance and mutual insurance associations for fishing vessels, was introduced by Chris Theodore. Now this afternoon we are going to be more specific about those mutual associations that deal with P&I problems.

Our first speaker is Leif Jacobsen from New Bedford, and all of you know him. I am very pleased to know that Leif made a visit to the West Coast to talk to a number of our people there so I would like to introduce Leif Jacobsen, a vesselowner. He is quite an experienced man, particularly in this field.

Leif, go right ahead.

ORGANIZING AND OPERATING P&I POOLS AND CLUBS

Mr. Leif Jacobsen: President, the Neptune Mutual Association New Bedford, Mass.

My name is Leif Jacobsen. I live in Fairhaven, Mass. I am president of the Neptune Mutual Association, Limited. Most of the members of this club are from the New Bedford, Mass. area. We formed our association in Luxemburg in 1971. Last year we moved to Bermuda where we were incorporated by an act of the Bermuda Parliament.

Our purpose is to provide our members with the best possible protection at the lowest possible costs. Most of our directors and officers are vesselowner members except for our secretary. They all serve without pay and give freely of their time and talents.

We provide a standard form of P&I policy as well as all types of coverages needed by the members, except hull insurance.

In the administration of the club, we follow sound insurance principles and maintain proper loss reserves and contingency funds. All of these are kept in deposits in this country. Thus, we provide our members with insurance coverage that is secure and protected by quality reinsurance and by a guarantee fund provided by a group of our members to meet the requirements of Bermuda law. Finally, our members are protected by the fact that our association is mutual.

During the first 5 years of our operation we never had to made a call for additional premiums. We maintain an excellent relationship with our crews and enjoy the cooperation of a union. We pay maintenance promptly and, in most cases, we are able to work out a fair settlement without litigation. Like all insurers we have to contend with the rising cost of claims based on the substantially increased earnings of fishermen as well as the increased cost of insurance.

Inspections are made once a year. This includes rigging and deck equipment. All of our boats have inflatable liferafts, and some have survival suits. which we hope all will have in the near future. I believe the best way we can obtain lower premiums for our vessel is by having a better safety program and by educating our personnel in navigation and safety at sea.

Saving dollars is, of course, important, but saving lives is a must.

MR. FELANDO: Thank you very much, Leif. I understand that following his presentation Mr. Jacobsen wants some reactions and some questions.

(No response.)

I'd like to ask a question. What do you do with respect to claims control or, to phrase my question differently, how do you handle claims from the time that you hear of an accident to the time, let's say, you work out a settlement, or try to work out a settlement with a claimant? Do you have any special procedure that you have worked out in your pool?

MR. JACOBSEN: Not really, except that we do the best that we can to keep them happy.

MR. FELANDO: Do you employ an adjuster or do you employ an attorney?

MR. JACOBSEN: We have one adjuster.

MR. FELANDO: Do you also employ an attorney to handle the complaints?

MR. JACOBSEN: Yes. If you want to hear from our attorney, maybe he can explain this more fully. Mr. Doti.

MR. FELANDO: Mr. Doti, do you mind?

MR. DOTI: I would be glad to supplement Leif's remarks regarding claim handling.

It is a well-known fact that the only way to try to minimize your claims is to give them the closest possible attention from the minute you hear of them. We do have a good arrangement whereby accidents are reported, usually through the union. The men get their medical certificate to go to Public Health Service by contacting the union delegate, and at the same time we hear of the accident, either through that measure, or through the medical certificate being issued, or by the direct report of the captain of the vessel.

Our claims manager, Mr. Foley, who is here today, then immediately starts an investigation. We believe that is an absolute must in all good claim handling. To get the facts as soon as you can. To get statements from the crew. To visit the scene of the accident. To take photographs, if necessary, and, most of all, to contact the injured man. To let him know that you want to work with him, to pay him his maintenance as it becomes due, to see that he gets the medical care he needs and if he needs some special help because of some special financial problem, to help him out. And we do this.

As a result, we have a good relationship with the union as Mr. Jacobsen mentioned because they see that we treat their men fairly and they work with us. They don't have to hound us to pay maintenance, for example. At the same time we'll work with the man, and as soon as he reaches a point of maximum cure when his disability is determined, we'll try to work out a fair settlement. Usually settlements are based upon the man's lost earnings or his lost trips as the case may be and that's the base from which settlements are worked out. If he has a permanent injury of some sort, then there would be a further consideration added to work out a fair settlement and obtain a release.

We are, as everyone else, exposed to the occasional probability of a man retaining an attorney. It's the exception in New Bedford rather than the rule. But there are some very capable plaintiff firms, particularly in Boston; some also in New Bedford. When they do get a case we have to work with them and do our best to work out a settlement, possibly before the case goes too far. In that way, we would save expense. A very few cases go to trial.

I guess that might answer the claim handling question.

MR. FELANDO: Mr. Stolting?

MR. STOLTING: I have in mind that some segments of the industry are more hazardous than others. Do you find any difference between the operation of the draggers as compared to the scallopers? Or, actually, is the incidence of accidents higher or lower in either one of those segments?

MR. DOTI: I don't know what the statistics show. I can say that the cost of claims is higher on the scallopers because the earnings are higher. Invariably, that's the basis from which they are predicated.

Mr. Browning has kept excellent computerized records. Perhaps he could comment on that.

MR. BROWNING: I'm not sure that we keep records on that basis, Joe, but we do keep them by the number of crewmembers on the boat. Scallopers have more men, of course. In our case, the fewer the number of men, the better the record has been. Actually, the worst record we have is where there's six men on a boat, and those I think are basically the draggers.

May I add two things? First, every claim or illness is reported to the union head upon his arrival every morning. That is one of the things that helps our loss records, because we know about it without any delay. Secondly, Neptune has its own office right there where everybody can go in and collect on their claim and so on. And John Foley is in there.

MR. GOETZ: Jeff Goetz from U.S.P.& I. Agency.

MR. DOTI: Yes, Jeff?

MR. GOETZ: You indicated the accident report usually comes to the union and you pick them up from the union. The question is, "Do you find because of this procedure that a lot of referrals might be going to attorney?"

MR. DOTI: No, on the contrary. The situation in New Bedford is that I can say with absolute certainty that there is no reference of cases to attorneys from the union in New Bedford. I practiced law in insurance for -- I hate to say how many years, but 30 years, and that is not the usual situation in other ports. But in New Bedford we have an excellent, honest administration by the union.

MR. BURT: My name is John Burt, Secretary-Treasurer of the New Bedford Fishermen's Union.

In our contract with the vesselowners, we asked for a safety director and it went into our contract. Every morning he is down at the pier, and he asks the captains if there are illnesses or injuries. If there are, he writes them down. He also mails a postcard to the owner to make sure that he's well aware of what happened. As Mr. Doti just said, we've had a lawyer for 18 years and he's never received a case out of the union hall. We have him on retainer yet.

MR. ALGINA: Joseph Algina. I have been affiliated with the New Bedford fishermen's union. I can take pride and say that we originally set up the safety program with the safety director. To answer Mr. Goetz's question, if we referred them to a lawyer, the case experience and the money would't be so good. But we knew years ago that in order to have a good, stable port, especially regarding illness and injury, we had to work out a system.

Before we finally got a safety director and got the company to get off their dead butts, and that's what we did. Our men would go to two insurance companies that were in New Bedford, and they were told by the company lawyer, you go see a lawyer. Now this was lawyer to lawyer. So these guys were giving our people the runaround, and our guys were getting nothing. Sure some of the cases added up to big money, but they were damn few. Most of the time the guys were going hungry and starving, and we knew we had to do something, which we did.

We believe in the concepts of working relationships with the boatowners. That doesn't mean to say that we are in their pockets or they are in our pockets. We have had our fights and had strikes. But this is one place we can cooperate and work it out. And as I have said before, a good safety program has to be worked by both labor and management and we from that area believe in it.

MR. HEYN: I have a question for Mr. Doti, if I may.

In the southeastern area, we don't have unions, so to speak. We have a diversity of boatowners, and they have only two and three crewmembers. What we've heard from the owners down there is that they've been their own worst enemies and they're very interested in developing a program. We've been working on this very strongly for the last year. One of the main questions that comes to us each time from the boatowners and the fleetowners is the fact that the commercial insurance companies are making settlements rather than go to court and possibly incur an expense factor, knowing how much it costs to go through court procedures.

I'd like to know from any of the gentlemen whether they are following the same path as the companies were following. That is, trying to settle claims out of court whether they're valid or not. You know, the old automobile problem we've had over the years where people make claims and the company will make a gratuitous settlement or something?

MR. DOTI: Our claims approach is based upon the merit of the claim. We don't settle just to avoid litigation. We find that if you do that you are just going to encourage more claims and in the end it is false economy.

Now there is always a factor of economics in every settlement that you have to look at. Obviously, if it's a question of a few more dollars to avoid litigation, you are going to pay it. But you are not going to give away the store because you are afraid to litigate when you must; because you are in a small community and word gets around very fast. If you are an easy mark, they are going to take advantage of you. So you have to draw the line when it is indicated.

MR. FELANDO: Mr. Doti, can I ask one question? To what extent are vessel owners involved in the claim procedure, or are they at all involved?

MR. DOTI: The individual vesselowner is not involved in the decision. We might talk with him on occasion if there is something that should be discussed. We might get his views on a particular loss as to the mechanics of the accident or something of that nature, but he has no decision in the claim settlement. That is up to the manager of the club and eventually to the board of directors.

MR. FELANDO: Mr. Browning?

MR. BROWNING: I think one of the reasons for this is that this group has no deductible so that boatowners really don't have much concern with the settlement. I think that is a big factor.

MR. DOTI: This year we are offering an alternative to our members of either a deductible--a $1,000 deductible--or a no-deductible policy, as previously. But that is a good reason for not going to the owner as Mr. Browning as stated.

MR. FELANDO: Mr. Heyn, were you satisfied with the answer to your question?

MR. HEYN: I did have another question. One point by fishermen in our area brought up concerned the maintenance payment which in your area, I think, is $7 a day. In our area, it's $8 a day. It has developed in our area It seems that the maintenance payment of $56 week is not adequate for the crewmember who is injured and out of work to live on, and this drives him right down to the plaintiff's attorney's door to get some relief. Now, the government sets the amount that his evidentiary payment or maintenance payment should be. The question is -- has anybody tried offering the gentleman a livable amount of money on a weekly basis while he is out of work to keep him out of court or to keep the settlements down or the P&I level, such as the same amount which would be paid for the same injury under workmen's compensation, that is, 30 weeks of pay plus his loss of salary? However, in the maritime industry with P&I, he gets $56 a week, take it or leave it, and can go to court to sue the boatowners whether or not they made a gratuitous settlement or at least an out-of-pocket payment to provide the man into a decent livehood while he is injured.

MR. FELANDO: Mr. Doti, do you want to answer that?

MR. DOTI: I can answer for us. If it is a nonliability case, and there is no fault on the part of the vessel under any conception, we will stick strictly to the $7 a day maintenance. If there is a potential liability and the man says he can't live on $7 a day, we will increment that by an additional amount. It's a matter of practice. Most of the time in a potential liability case, we are paying about $100 a week, $7 a day plus another $51. That seems to be the point at which the man can live without being forced to go to an attorney. There have been cases where we had a serious injury, such as an amputated leg or something of that nature, a real permanent case, where we would go much higher in an advance in order to keep the man let's say, on a solid basis financially.

Occasionally, we have paid a bill that came due or did something else to help the man save his home, perhaps, or made a mortgage payment. All of that has to be done with an eye towards sound claims practice. And we find that in 19 out of 20 of those cases, it is appreciated, and the man never goes to an attorney, and makes a fair settlement later.

MR. FELANDO: I would like to ask a question unless there are some others. Are there any other questions right now to follow up on this point?

Mr. Jacobsen, could you describe what you went through to organize this association?

MR. JACOBSEN: Well I don't take credit for this all alone, because we were more or less united, a whole bunch of us. We were interested in this venture and we succeeded, but it was tough going for a while to get everybody convinced that it was a good thing for them. That's about all I can say.

MR. FELANDO: Could you tell us more or less about the mechanics of it. I'm curious why you went to Luxemburg and to Bermuda. Why you couldn't have done something in the States?

MR. JACOBSEN: Luxemburg is a French-speaking country. Communications were not too good, but it had the least requirements. However, they entered the Common Market and required that we put up a much higher guarantee than Bermuda, so as a practical matter we moved. Bermuda, I would say, is a much better place to be. Much more competent people.

MR. FELANDO: Why didn't you do something in Massachusetts or one of those States on the East Coast?

MR. JACOBSEN: I don't want to go into that.

(Laughter.)

MR. FELANDO: Are there any questions? Mr. Doti, did you want to say something?

MR. DOTI: I might want to add one thing. Leif said that when we formed the club we went to Luxemburg because it has the least requirements, the lowest requirements. We had a letter of credit behind us, and that's about all we had. At that time we couldn't have even afforded Bermuda. But after 5 years of operation in Luxemburg we got stronger and as Mr. Jacobsen said, in the meantime Luxemburg entered the Common Market and became party to a much higher requirement of capital, which would have been onerous. And it was time for us to move to Bermuda, which has a reasonable requirement. We went there; they treated us excellently; we met with a committee, a joint committee of the two Houses of Parliament. We were interviewed very intelligently, and they appraised our situation and eventually Parliament enacted our association into law. It has been an excellent jurisdiction.

MR. FELANDO: May I ask one more question? Why didn't you go for both P&I and hull?

MR. DOTI: Because we felt it was wise to start off slowly and safely. If we had started with hull, our exposure would have been too great for our limited assets. I think that in Professor Theodore's summary that I have read, that is one of the points that he makes; that you've got to start slowly and build up. And that is what we have been doing. We have the right to write hull insurance under our charter, but at the moment we are happy to be building up our P&I.

MR. FELANDO: Anybody have any more questions? Any statements?

(No response.)

Okay, then we will move on with the program. I would like Harold Ongstad to come forward and present his explanation of the United Trollers Fund.

Harold Ongstad: Manager, United Trollers Fund,
Seattle, Wash.

The United Trollers Fund is the same type of group as Neptune Mutual. However, we are not organized out of the country, but in Seattle, Wash. We have had a little more experience in the matter of time, but, as far as claims, we probably haven't had half the experience.

I would like to read the results of our experience for the last 14 years. We are very small so that the insurance companies don't have to worry about us. We have taken in $528,000 in 14 years. We have collected $99,835 in interest on that money. We have had $11,857 in claims, and we returned to our members, or will return to them, $505,000 out of the $528,000 that they have paid in. We have been charging too much money.

(Laughter.)

The question that is on most people's mind regarding insurance is why does it cost so much. Why do you have to pay so much for insurance? Well, there are two reasons: the loss ratio and the expense ratio. Since there are a lot of insurance people here, I'm not going to say much about the expense ratio. It runs about 40 to 45 percent. The loss ratio runs 55 percent. Why does the loss ratio run 55 percent? Recently Time Magazine had an article about a factory back East that employed thousands of people. This might not seem to have anything to do with marine insurance, but in this factory they have an accident policy that covered their employees on the job, and this policy kept going up, up, and up in price until it became unbearable for the company. They called in the insurance broker and asked him why their policy cost was going up and up and up. He brought out his graphs and his diagrams showing where the loss ratio within this particular factory was exactly following the premiums. So that is point number one. It is not the insurance company that is at fault.

Then they dismissed the broker and called in a team of experts to find out what was the matter with this factory. They said, "People are getting hurt here; they are suing us. Why?"

So the experts went over the factory and looked for deficiencies of every sort, but they could not find anything that was very striking. They found a few little things that they improved, but nothing that would make an awful lot of difference. So then they decided to examine it differently.

Now, this is the second point. It is not the physical property that causes the accidents. The boat, the car, or whatever.

Well, then they began to examine the people and they found a funny thing: 75 percent of the people who worked in this factory had never had an accident on-the-job, and 18 percent had had only one or two accidents, but of a minor nature. Little things. Band-aid jobs. Then they found a group of 7 percent of the workers who had had over 80 percent of the accidents and the ones of a more serious nature. So they began to examine these people and compared them to the people in the 75 percent group. They found the 7 percent had four problems in common. First, they had family problems. They were divorced people, they were separated, or they were just plain fighting with the old lady. Second, they had money problems. They were making as much money as the man on the next bench, but their use of that money was not as efficient. Third, they had drinking problems, and that is self-explanatory, and fourth, they had outright psychological problems such as feelings of guilt or desires to punish themselves which caused them to have accidents.

So the net result was that they had identified these people within this factory. When it came time to lay anybody off, they were the first ones to go. Then they also revised their hiring procedure so that they didn't hire this type of individual. Then their loss ratio came down, and naturally their insurance premiums came down.

So, what is the answer? Well, there's one answer that's immediately available to everybody and that's to go without insurance and a pool just goes one step further. That is, to go together to go without, but together. That is, pool your premiums.

Now what can you save by pooling premiums? You can do a great deal of selection, and this will cut your loss ratios from 55 to 60 percent to anywhere from 10 to 25 percent. You can have a policy of simplicity of operations, and this will cut your expense ratio from 40 or 45 percent to from 8 to 12 percent.

There are many other advantages to pooling and there are also side benefits such as a feeling of pride in an organization. When a fisherman is dealing with a pool, it's his own friends, his neighbors, his fishing partners, and so on that he's dealing with, and it's not like going after a big insurance company to get your money. In other words, there is an esprit de corps or a cooperative feeling among the fishermen. This applies generally to all pools.

Now let me say a few words on P&I. I think this is the most volatile and explosive type of insurance there is next to doctor's malpractice. I would not agree with the gentleman from Neptune. I think it is easier to start pools on hull than on P&I, which is something entirely different.

The only experience we had with P&I was with another pool, the Marine Safety Reserve, that was organized in Seattle about 25 years ago. It was started by a group of halibut fishermen, and for a long time they stuck pretty much with halibut boats, which are, 5-to-10 man boats. But then they had draggers and later on king crab fishing boats, which I think they have pretty much turned over to a regular insurance company.

The timing of the Marine Safety Reserve, I think, was kind of bad. They started at a time when the rates were very low. It is very difficult to change something once you have established it. And there is a great deal of difficulty to discriminate or to have different rates within a company. So once you have set the rates, it's hard to change. I guess this is one of the drawbacks of a pool.

I remember when I first started in this business in 1946, the halibut boats were paying about $125 for P&I for $100,000 coverage. Well in a few years, the cost was up to $300, and that is about the time that the Marine Safety Reserve started. They had a difficult time trying to keep up with the increases in premiums that should have been made. Because of this factor and competition, they have more or less phased it out.

Another factor involved was the average age of the fishermen. About 20 years ago the average age of a crewmember in the halibut fishery was about 65. Some of them were bachelors who were 65 years old and were looking for a nice little retirement.

But when we started United Trollers Fund, we learned a great deal from the Marine Safety Reserve. We could see some of the mistakes that they might have made, some of the improvements that we could make in variations of rates, and we made it a point that we were going to stick to trollers only.

A trolling boat is a great deal different than a halibut boat or a drag boat or a king crab boat. The crew's average age is probably 22 years. They are young, agile, sharp kids. Most of them go to college or high school. They are pretty light on their feet, and I guess they don't get hurt as much as the 65 year-olds.

We grew very slowly. We started out with the trollers in Seattle. We now operate in Seattle, California, Oregon, and Alaska. We have members in all four States. I would guess that when we started 75 to 80 percent of the trollers were not carrying any kind of P&I insurance at all. We started with about 50 boats that we got interested in this. It was very difficult to get them signed up. It took us a couple of months to do it working on docks up and down the coast. We went to see all kinds of people, and I always asked them if they ever had a liability claim or knew anybody who had anything of a serious nature, but none of them had. The only one that I had heard of was a troller that had been sued for $25,000 and they collected, I think, $11,000 or $12,000 from him. He had no insurance.

When we started, we started with only a $10,000 limit of liability. We charged a rate of $150 without crew and $300 with one crewmember. Most of these trollers only carried one crewmember and at the most two. About 25 percent of our members don't carry any crew at all. It is just the owner, and all he is protected for is just his public liability and property damage, oil spillage, and so on.

We did make a distinction between boats that trolled only in the summer and boats that fished crabs in the winter. We charge a high rate for boats that fish crab in the winter. If a troller switches to halibut fishing or drag fishing or something like that, we let him out of the pool.

At present, we have about 210 members and we have an income of about $70,000 to $80,000 per year. We have about $400,000 in assets, plus a $500 promissory note from each member. With 210 members, that is another $100,000 or so. The promissory note will probably never be called now. It was important in the beginning, because at the beginning we only took in $9,000 and we covered $10,000 in liability. The note was the rest of it, but we didn't have any claims.

For the first 5 years we had no claims--absolutely nothing. But as these things go, the same thing happened in the halibut fishery. They had no claims except small ones for a long time. But eventually it come to the point where they started to have them. Then about 1974 or 1975, after we had been insuring for $50,000 for a few years, we thought this wasn't enough. Besides that we were making so much money on our interest that we were paying 100 percent dividends. We had been doing it for 3 to 4 years, paying 100 percent dividends every year. This means we were existing on the interest income, but then the interest income became greater than the expenses -- I don't know how that happened --

(Laughter.)

MR. ONGSTAD: -- we had money left over, and the Government, the Internal Revenue, says that you cannot pay a dividend larger than 100 percent.

(Laughter.)

MR. ONGSTAD: For that reason we decided to buy this reinsurance policy for $50,000, which we paid for at no additional cost to the fisherman. He's still paying the same $300 that he was paying in the first year when he had $10,000 coverage.

I forget to mention we learned from the Marine Safety Reserve that there are these people, who are Johnny-come-latelys, who will wait to see if you make a success of something and then they'll come into it. So what we did, we made the basic limit of liability $10,000 for new members with increases to $15,000, $20,000, $25,000, $30,000, $40,000, and $50,000 during subsequent years.

If a member joins the pool today, he starts in at this original $10,000 rate and he has to go through the same procedure that the original members went through, which is only fair. But if he wishes to get his limit raised to the top, all he has to do is put in the same amount of money as everybody else has in the pool -- he buys back 6 years' dividends. So if he wants to join today it will cost him $300, plus he must buy back $900 worth of dividends if he wants the top limit. Well, this has been fine as long as we've been paying 100 percent dividend. He's just putting money in the bank. But now we've had a year when we'll probably pay no refund. That was 1975, and just a month ago we hit another one, which is going to be a little gasser too.

(Laughter.)

MR. ONGSTAD: So 1977 will probably be a blank year also. Now all we've got to do is keep our fingers crossed for the rest of the year and hope that we don't get a second one. If we get a second one, of course, then we've got to back into 1975 and take money out of there; and if that isn't enough, then, we've got to skip 1974, because there's nothing there, and go back to 1973, and so on.

The claim that just happened a month ago is our first living claim. We've had two death claims. The first one we got out of for $4,444. Now, it took a lawyer to figure that one out. Somebody else paid $5,555. The homeowners policy paid the other $5,555.

(Laughter.)

MR. ONGSTAD: If I was going to advise anybody about starting a pool, my best advice, I guess, would be tell you to consider what you are getting into first of all and get your rates and conditions set at the start because it's difficult to change anything once you've been operating a pool and people get used to it.

When you get up at an annual meeting and try to ask for a rate increase or something -- well, it's pretty hard. We did do it this year, and we got a $50 increase per crewmember because of the reinsurance. The cost of reinsurance has been going up each year. We pay more and more for that each year. It went up 15 percent last year. Incidentally, we paid claims of $11,857 in 14 years. We paid reinsurance costs of $19,113.

All I'm going to say about the legal part of this thing is that in our bylaws it says, "No member, director, business manager, agent, servant, or attorney of this organization shall be liable for any loss whatsoever suffered by any member and only the assessment of the $500 shall be levied for any purpose whatsoever on any of them. If the reserve created hereby does not suffice to provide for reimbursement of losses as provided by these bylaws, such unreimbursed losses shall be borne by the individual members sustaining such losses. No insurance business of any kind shall be done as such business is understood under the statutes of the State of Washington."

A lawyer could probably tear that to pieces, but a lawyer wrote it so it must be good.

(Laughter.)

MR. ONGSTAD: Well, that is about all I have. As far as the strength of a pool is concerned this seems to be the concern of many people. Does it provide indemnity? Indemnity involves the ability to pay and the willingness to pay. And I believe that all pools meet these qualifications. In the hull pools we have never refused to pay a refund. In other words, every year's contributions of money have been sufficient to take care of itself. And the same thing is true for the United Trollers Fund. Every year's contributions have been sufficient to take care of that year and still increase reserves. So we've got almost seven times -- well, the reserves are not quite that great. They keep growing each year, but we have five or six times our annual premiums in reserves.

I never knew on what basis you should judge an insurance company, or a pool, until the stock market slump of 1973-74. It came out in the Wall Street

Journal that the insurance industry wrote $4 of premiums for every $1 of policy holder's surplus last year. In other words, the decline in the stock market had brought down the surplus to such a level that they had only $1 in reserves for every $4 in premiums. We've got it exactly the other way around. We're doing something wrong.

(Laughter.)

MR. ONGSTAD: We've got $4 in reserves for every $1 in premiums. The industry, in general, had considered $1 to $2 of premiums per $1 of surplus as a prudent ratio. So, I think we're in pretty good shape. That is about all I have, Mr. Chairman.

MR. FELANDO: Thank you very much, Mr. Ongstad. Do you have any questions or statements?

VOICE: Harold, you said you dropped a troller when he became a dragger. How many of these have you dropped, and what does a droppee do for insurance after he has been dropped?

MR. ONGSTAD: Yes, this man says we drop people when they become draggers and asks how many of them have we dropped and what they do for insurance if they are dropped.

We dropped only a few -- four or five, maybe. They usually go to a private company and buy a policy. In that case, they have to buy $50,000 or so for their boat in hull insurance in order to get the liability insurance. Others who are completely in the hull pool are at quite a disadvantage because the insurance agents don't want them if they want only liability. So if they are in our hull pool for their whole policy on their hull, the insurance companies don't want them. But the Marine Safety Reserve is still operating, and they will take some of these people. So they get it through them. This hasn't become quite that great a problem.

Then we also, last year, dropped some trollers that changed. In Washington they are so hounded by the State fisheries commission and the national fisheries commission that they don't know from one day to the next whether they are going to be trolling, or halibut fishing, or dragging, or what. This is a recent problem.

This last year many boats started to go halibut fishing and the trollers are very afraid of this. They want to stick with trollers only. On halibut boats there are a lot of hooks flying. It's hard work and long hours, and people are inclined to get hurt. There were about five boats that went into halibut fishing this year on a small scale with one, two, and up to three crewmembers. So what we did was to buy a policy on the outside which covered these boats for only employer's liability while they are fishing halibut. We still cover the public liability and property damage or anything else that happens related to the P&I policy while they are trolling. But they get the halibut crew coverage on the outside through a group policy.

MR. FELANDO: Yes, Mr. Kirkup.

MR. KIRKUP: Do you have any comparison of your charges in a pool, with the charges for one who is dropped and has to take insurance on the outside?

MR. ONGSTAD: Well right now if a man is in the pool he's paying $350 for one crewmember and if he is dropped and outside he can get it probably for around $750 to $900.

Incidentally, when we started this pool the insurance companies were charging $500 for a troller with one crewmember. We decided on a rate of $300 because most trollers were just not carrying liability insurance. And still today there are trollers that do not carry it.

We started in April, and by July the insurance company came out with a new rate. It was $240, $60 cheaper than our rate, through the efforts of one or two agents in particular. They kept a little of this business for a while. However, within 3 or 4 years that company's rate, which they kept at $240 for 2 or 3 years, was again up to $400 or $500. Although they didn't have any claims in the 4- or 5-year period, they couldn't exist on a premium of $240.

The companies gave us competition in that they insisted on $100,000 coverage when we were giving $10,000, $15,000, and $20,000 coverage. Before that time you had a difficult time buying a P&I policy for more than the value of your boat. A lot of the trollers were valued at about $50,000 and down to $15,000 or $20,000. Then the insurance companies did an about-face. They said, you don't insure for the limit of your boat. You need $100,000 because the pool can't give you that and we can.

MR. FELANDO: Are there any other questions or comments?

(No response.)

Mr. Ongstad, I would like to ask a question. Of the two types of pools, hull and P&I, which is the easiest to run?

MR. ONGSTAD: Well, as I said, in 14 years we've had three serious claims. In the hull pool, the big one I run that's been in business for pretty near 50 years, we average about 1-1/2 total losses a year and about 15 to 20 partial losses a year, and they're getting more and more serious as time goes on. But with respect to difficulty to run, they're both about the same except for handling of claims and there are fewer claims in liability.

MR. FELANDO: Any other questions?

Mr. Heyn?

MR. HEYN: Yes, in running both pools, do you find that you have people entering your P&I fund and placing their hull insurance in the commercial market as it's a competitive commercial market on the hull insurance and the companies would rather give up the P&I?

MR. ONGSTAD: No, we don't find that with the trollers. Perhaps you would if you had a liability pool for king crab boats or something like that. But I think any insurance company would be happy to see us take the P&I. I don't think they really want it. But they do want the hull.

MR. HEYN: Do you require the hull when you write the P&I?

MR. ONGSTAD: No, we don't. Only in California. California boats must be a member of one of the hull pools in Seattle. The reason for that is that if they have been selected once to belong to a hull pool then we have that much less difficulty in selection and they're considered that much better a risk.

MR. ANDERSON: Bob Anderson, Middleboro, Mass. Do you have any limitations on age, tonnage, or lengths in your pool?

MR. ONGSTAD: No. He asked if we had any limitations on tonnage, length, age of boats. No, sir, we don't. We consider a good man in an old boat as good as a bad man in a brand new boat.

(Laughter.)

MR. ONGSTAD: We found this to be very true. In underwriting as we do, I, as manager, have nothing to say about who is going to get in the pool. It is all up to a board of five directors. I get the application for somebody and present it to the board. It only takes one or two members on the board to know if a man is a good man or not. If no one on the board knows him, they check on him with other people whom he fishes with and find out what kind of an operator he is.

I have to admit this is very easy on liability insurance. It shows by our loss ratio. It's not a very risky business.

MR. FELANDO: Mr. Oaksmith?

MR. OAKSMITH: Harold, if they don't carry hull insurance, do you have any type of deductible on your collision liability insurance?

MR. ONGSTAD: Yes, we insist on the value being put on their boat because we do cover excess running down liability. So if a man has a $30,000 boat he must state that the value is a certain amount and that is deductible if he does not carry hull insurance. If he carries hull insurance, of course, his hull insurance pays the first $30,000.

MR. FELANDO: Mr. Goldstein?

MR. GOLDSTEIN: The last speaker said something about the loss ratio being about 55 percent. If they were able to drop their premiums from $500 to $240 and still make a profit, that's a reduction of over 50 percent. Did that cause you to reevaluate what they said their loss ratio was in terms of showing them to have dropped their premiums below their loss ratio?

I take it that your loss ratio is nowhere near 55 percent.

MR. ONGSTAD: No.

MR. GOLDSTEIN: Okay. Do you have any figures to show what your loss ratio is?

MR. ONGSTAD: Well, we paid out $12,000 in 14 years.

MR. GOLDSTEIN: And what did you take in?

MR. ONGSTAD: $528,000. Our loss ratio is about 2 percent. Now, regarding those particular policies, I know the underwriter that cut their rate from $500 to $240. During the next 4 years, they did not pay one claim; neither did we. I did find out from them that they didn't pay one claim so they didn't have a 40 or 55 percent loss ratio. But then they did start to go up.

MR. GOLDSTEIN: Has it ever reached 50 percent as far as you know now?

MR. ONGSTAD: I don't know.

MR. ROSS: I am George Ross. I'd like to raise a question about P&I from a mortgagee's perspective. Based on what I've heard this morning and now this afternoon, is it fair, when you require P&I coverage on a vessel that you have a mortgage on, to discriminate in the amount of the coverage between a private insurer and one of the clubs or pools? For example, if there's a large vessel in New Bedford and the underwriter is going to be INA out of Philadelphia, is it fair to require $500,000 P&I coverage whereas if the carrier is going to be Neptune Mutual right there on the dock would it be fair to require only $300,000 P&I coverage?

MR. ONGSTAD: We don't deal with those limits. Our maximum limit is $100,000 from any troller, and we can provide an extra $100,000 coverage. That includes the National Marine Fisheries Service and the PCAs, but the banks don't ask for any P&I. I've tried to convince them that they should, but they don't.

Incidentally, there was a man from the National Marine Fisheries Service by the name of Peterson -- that goes back about 14 years ago. We were just in the process of starting the United Trollers Fund, and he was out to the office. I told him we were going to start a P&I pool and he said, "Oh, great, great." He said that at the present time we do not require P&I insurance from any troller who has a mortgage through the National Marine Fisheries Service because they cannot get it on the market at a price that is not back-breaking to the troller. So he said that if you start a liability pool--we'll give you a shot in the arm. We will require--

(Laughter.)

MR. ONGSTAD: -- now that you have something that is reasonable, we will require liability insurance. How much is your limit going to be? I said, "$10,000." And he said, "We'll require $10,000 liability."

(Laughter.)

MR. ONGSTAD: So he was a very understanding man. Very helpful. He did a great deal, and we got an awful lot of our first business from boats that got their mortgages through the National Marine Fisheries Service. And a great deal of them did in those days.

MR. FELANDO: Yes, you want to ask another question?

MR. ROSS: Could I ask perhaps Leif Jacobsen or Herb McGinnis from INA a question? It strikes me that one of the costs is in having a higher limit than perhaps is necessary. We consider a couple of rules of thumb at times. On occasion our Washington office has said that a rule of thumb for P&I is four to five times the amount of the mortgage. Well, for a new boat with a $500,000 mortgage, that's excessive coverage that isn't available -- $2-1/2 million. So, if we require, or get to the point where we are requiring, an amount of coverage that really isn't reasonable because of these adjustment procedures we could save the boatowners additional expense by lowering the limit that a lender has to feel comfortable with. This not only would apply to us, but I'm sure would apply to the banks and the PCAs.

MR. JACOBSEN: In New Bedford the banks require a maximum of $500,000 on most of the new boats and some of them have more than that. Some of them insure up to a million. Some insure for $600,000 or $700,000. It depends on the size and value of the boat.

MR. FELANDO: Is that hull or P&I?

MR. JACOBSEN: P&I.

MR. McGINNIS: I want to make it clear, since I have a lot to do with the establishment of the underwriting rules on commercial hulls, which all includes fish and boats and everything else, that we have an absolute rule in our underwriting staff that we will not recommend any amount of liability insurance to any vesselowner under any circumstances. He tells us what he wants. We, in turn, will provide the limit he wants up to $5 million without any trouble. I think there was something said that we insist upon $500,000 P&I on a $500,000 boat or $100,000 on a $100,000 boat. We'll write $5,000 on a million-dollar boat if that's what you want. But keep in mind we don't tell the vesselowner or the agent what to carry.

There are some accounts represented here--I'm not going to name them, who have insurance programs of up to $100 million for their P&I; that's a lot of money.

MR. FELANDO: Mr. Heyn?

MR. HEYN: I can understand what Herb is saying. He's in the business of providing it, not recommending it. I stand in a different position. We are sort of counseling on this situation. The PCA has set a limit on theirs of $100,000 or the value of the hull, as a minimum of what they want for P&I coverage. You've got a $200,000 boat, you should have at least $200,000 P&I

on there. The primary concern of the banks and the PCAs and the National Marine Fisheries Service is the fact that they stand in such a poor position to recoup their loss in the event that the vessel is tied up by a marshal's sale. Because they stand like number five in the line of the creditors that get there first. This is unlike your property insurance where the mortgagee gets his lien paid off first.

We don't recommend a high limit to an individual boatowner unless he has asked us if he should be protected. In other words, if you are talking about a man who is very wealthy and he is getting into the primary shrimping or, snapper fishing, or something of this nature and he wants to buy a $250,000 shrimp boat to play around with and he's got other assets and somebody's going to sue him and since we do get into an awful lot of suit action in the shrimp boat industry -- if he's got the assets, some lawyer's going to find out about them and he's going to go for them. If a man doesn't have the assets, there's not much sense of him spending a lot of money on liability insurance. He's not going to be protected anyhow.

We haven't been able to get a definitive ruling anywhere in the country as to whether you can limit your liability under the Admiralty law. The old Admiralty law says you can limit your liability when you're not the owner or when the owner is not operating the boat, or something of this nature.

When we have a fleet of boats we don't know for sure whether the whole fleet is subject to that same attachment. In some cases the suit action has gone above the value of the boat that was involved in the occurrence, and so therefore, we recommend higher P&I limits just to protect the corporate assets, whether they be individual corporations or whether they be common management or something of this nature.

So there's no real definite answer needed as to how much P&I a bank would require. It depends primarily on whom they're loaning the money to, but there's no way they should be carrying P&I for less than the value of the boat, at least market value.

MR. FELANDO: Mr. Murdock?

MR. MURDOCK: I would like to speak as the mortgagee, that is the Government's representative when we were the mortgagee. Each mortgagee will have its own policy, which is determined by his own organization. The National Marine Fisheries Service's policy was one of trying to be lenient toward fishermen while providing them with as many benefits as possible and still protecting the Goverment's interest so that we could continue the program. In handling mortgages for about $75 million we had no losses of any consequence. Our policy necessarily became more strict as years went by. Claims got larger. We increased the amount of P&I that we required. The point is that the policy keeps changing. You should work with policy makers such as bankers and their boards of directors with respect to what the limit will be.

MR. FELANDO: Any more questions or statements?

(No response.)

MR. FELANDO: I suggest we recess until 3:30, then we will come to our last speaker.

(Recess.)

MR. FELANDO: I guess we can proceed now with the last part of our program for today. We are very privileged to have Mr. John H. Cassedy, connected with The American Club and the Shipowners Claims Bureau, of New York City.

Mr. Cassedy, would you come forward and make your presentation?

John H. Cassedy: President, Shipowner's Claims Bureau, Inc.
New York, N.Y.

MR. CASSEDY: After listening to Mr. Ongstad's fantastic loss experiences, I am convinced I am in the wrong business.

First of all, I would like to thank you for the honor that you have accorded me by the invitation to participate in this Commercial Fishing Vessel Insurance and Safety Meeting.

Secondly, I'd like to admit that I thought I knew all there was to know about mutual insurance organizations until I heard Professor Theodore's interesting presentation this morning. It proves that we can all learn something new every day.

And, lastly, I must warn you at the outset that my knowledge of the fishing business is limited and I sincerely hope you won't hold that against me and treat me as an outsider.

I've been involved in almost every phase of marine insurance during my 25 working years. Twenty of those years were devoted to the practice of average adjusting, which for the most part involved the adjusting and handling of hull and general average claims for ocean-going commercial vessels. And for the last 5 years, I've been in the P&I business. It is in that capacity that of a practicing P&I underwriter and P&I claims specialist, that I address you today with the hope that my client's experiences, not only will be of interest to you, but also will give you food for thought that might be helpful in solving some of the problems you're facing at this time.

For the benefit of those of you in our audience this afternoon who are not too familiar with the enigma called protection and indemnity insurance and with sincere apologies to the others who may find my remarks elementary, I guess the best way to start is to assume little and begin at the beginning by explaining, briefly of course, what protection and indemnity insurance is and how the American P&I Club fits into the picture.

Most ocean-going commercial shipowners have two basic insurances. Hull insurance for the most part reimburses them for physical damage and total loss of their vessels. Yet 95 percent of their liabilities arise from the operations of their vessels such as loss of life, personal injury or illness to crew, longshoremen, passengers, or other parties, repatriation of crewmembers, fines and penalties, wreck removal, wash damage, cargo damage, oil pollution, damage to bridges, docks, buoys, cables, and other fixed removal property, wreck removal, quarantine expenses, and uncollectable cargoes proprotion of general average. They buy protection and indemnity insurance to protect themselves.

Some people have referred to this as a catchall insurance. Taken by itself the name "protection and indemnity" means little, if anything, to the man unfamiliar with shipping or with marine insurance. A more understandable name for this class of insurance would be "ship operator's liability insurance." But since protection and indemnity, or P&I as it's commonly called, is probably as old as the words "port and starboard," I'm afraid it would create more confusion and misunderstanding if the name were to be changed. Most of the P&I insurance written in the world is written through nonprofit mutual organizations called P&I clubs. And most of these P&I clubs are British. The remaining and very small percentage is written by commercial insurance companies who charge the shipowner a fixed premium for this type of coverage.

There is nothing mysterious about mutual clubs. A mutual club is nothing more than a group of owners, like yourselves, organizing together to protect each other against the liabilities they all face. If you will, it's like starting your own insurance company. They hire a professional organization to manage the club and elect from amongst themselves a board of directors to, among other things, set policy, pass on large claims, and to arrange for the investment of the club's reserves.

Generally speaking, they leave the details of underwriting, rate setting, and the settling and reimbursement of claims to the managers.

A common misconception about mutual clubs, and incidentally one of the problems the clubs continually wrestle to overcome, is that each member is paying the other member's claims and therefore the member with a good record is subsidizing the one with a horrendous record. This is simply not true because each member's ingoing premium is based on his own past loss record. It would only be coincidental if any two members of the same club had the same rate. It's fairly common, for example, for an American-flag owner in the general cargo trade to and from the United States to have an ingoing rate of say, $5.00 a gross ton and for one of his co-members who may be a foreign flag tanker owner who never touches an American port, to have a rate of $0.75 per gross ton. Both of them have identical protection. The differential, of course, lies in the fact that one owner is in a high P&I risk trade and the other is not. Therefore, the former must pay a rate commensurate to the amount he gets back from the club in normal losses.

The theory behind mutuality is that each member bears his own losses and the club as a whole shares the burden of the catastrophic losses and the cost of running the club. In general terms, it's P&I insurance at a little above cost. Even the catastrophic losses are not usually that great a burden because the club as a whole purchases reinsurance and thereby retains for its members to share only a small proportion of the huge loss.

The reinsurance premium is one of the expenses the members share proportionately. This brings me to another of the problems P&I clubs face today, reinsurance. The reinsurance bombershoot or excess underwriter, call them what you will, has been hit so badly with casualties of major proportions in the recent past that the cost of obtaining this necessary insurance has become a major problem for P&I clubs.

Ten years ago the cost of reinsurance played a small part in the clubs' and I daresay the commercial underwriters' rating calculations. Speaking for the American Club, I can tell you that after the cost of losses, it represents the most expensive ingredient in the rating formula. And I'm fairly certain that this is the case with the rest of the P&I insurers in the world.

I mentioned earlier the words, "ingoing premium." By that I mean the $5.00 a gross ton or the $0.75 a gross ton which an owner is quoted when he enters a club. Because a club is a nonprofit organization; in theory it's not supposed to make or lose money. This is where they differ from the commercial insurance company that charges a once-and-for-all fixed premium. If it develops in a couple of years that the total ingoing premium of the entire club, for a particular insurance year, was higher than the losses paid, plus the cost of running the club, then each member in that year usually gets a proportionate refund.

By the same token, if it develops that the ingoing premium was insufficient, then assessments or calls are usually made, also proportionately. It is these calls and assessments that have created wrong impressions in certain circles. If one considers that insuring in a mutual club is a cost-plus arrangement with no profit factor involved, then if assessments are made years later, it means that the ingoing premium was merely a downpayment on what the total premium should have been in the first instance.

Actually, if one analyzes it, it is more advantageous to an owner in that it enables him to defer over several years a debt he, under any other form of insurance, would have to pay all at once. Some clubs, for instance, have been criticized unjustly I believe because they have had a record of high calls -- some in excess of 100 percent. In my opinion, if the club strives and succeeds in the goal of mutuality, that is, over the years members end up with 100 percent premium loss expense ratio then the club with the 100 percent assessment allowed the owner to have full P&I coverage for 50 percent of the cost at the beginning of the policy year and then collected the other half over a period of years. The owner not only had the protection, but also had the use of his money.

I mentioned earlier that most P&I clubs are British. Before 1917 almost all American shipowners placed their P&I insurance in English clubs. In 1917, however, things were getting pretty hot between the British and the Germans and, as a result, the British Government insisted that all British clubs impose restrictions on their membership designed to prevent them from trading with Germany. Now, this was okay and understandable insofar as British shipowners were concerned. But since the United States was still at peace with Germany it was catastrophic for those American shipowners who were trading with Germany at the time. Obviously, this was an unsatisfactory state of affairs. So the American shipowners, with the help of my parent organization, Johnson and Higgins, the international insurance broker, set up their own mutual P&I club, and in 1917 an organization called the American Steamship Owners Mutual Protection and Indemnity Association, Incorporated was born.

The American Club, as it is commonly called, was then and is still the only P&I club in the United States for ocean-going commercial ships. My organization, Shipowner's Claims Bureau, is the club's manager. We get paid an annual management fee, and I negotiate the fee each year with the club's board of directors. This management represents about 60 percent of my income. The other 40 percent comes from the fees we earn by adjusting, negotiating, and settling P&I claims for foreign and American insurance companies and clubs and for owners who are self-insured or who are insured, but have high deductibles and do not have an experienced claims department.

For this management fee, our 50-man staff performs all of the day-to-day duties necessary to run this insurance facility. We do the rating, the underwriting, the collecting of premiums, adjusting and settling of losses, reimbursing the owners for their loss payments, investing the club's multimillion dollar portfolio, and keeping statistics. In short, we run the show for the owners.

The policy year begins and ends on February 20th, and each January and February we are visited by most of the American insurance brokers and these brokers furnish us with the loss statistics of their clients and request a quotation for P&I insurance. If any of these clients find our quotation attractive and decide to accept it, they automatically become members of the club, and if the fleet is a substantial one, its president, executive vice president, treasurer, or other executive officer may be eligible to sit on the board of directors.

Our quote, incidentally, includes a 5-percent commission for the broker. The American Club is incorporated in the State of New York. Consequently, it is subject to the many New York State Department of Insurance rules and regulations governing insurance companies. These regulations cover almost every phase of our business and are on the books, of course, for the protection of the policyholders.

There are restrictions, for example, on how much our surplus should be, how much of our reserves we can invest, and the securities in which we can invest those funds. There are rules concerning our reserves and even rules concerning the residences of the directors serving on the board. But as I mentioned before, they are for the safety and protection of the members of the club.

The American Club currently has 38 company members comprising some 5 million tons, or about 5,000 vessels of all sizes and shapes. The largest in its 60-year history. This year's premiums is in excess of $12 million.

The board of directors is elected each year at the annual meeting and for this, the 1977-78 policy year, the board is composed of 20 members most of whom are the presidents and chief executive officers of the various steamship companies that, in their own business, are fierce competitors.

The 5 million tons is divided about equally between dry cargo vessels and tankers, and this year we welcomed our first tugboat owner and our first freshwater owners, five owners operating on the Great Lakes. Although the club's board just recently agreed to quote on fleets of all flags, the present membership is all American-owned and controlled.

Now let me tell you a little about our limitations of liability and our reinsurance program. First of all, you should realize that each member chooses the deductible average he feels comfortable with. It really makes little difference to the club, because as I mentioned earlier his ingoing premium is based on his past loss record and this record reflects the deductible. An owner with a very high deductible, say, $100,000 or a quarter of a million dollars per accident would, in all probability, have few losses on his record and therefore would have a low ingoing premium. The reverse is probably true with the owner having a $500 per accident deductible.

The club offers an owner the choice of three limits: $5 million, $10 million, and $25 million. We can offer these amounts because we have a strong reinsurance program. The club retains the first $500,000 of every accident. Any claim exceeding $500,000 automatically becomes what we call an excess case, and our reinsurer picks up the excess of $500,000 on each accident after we've reimbursed the member.

Our reinsurance is led by one of the syndicates at Lloyds, and without this insurance we could not exist. We also have an annual aggregate deductible, but I won't go into that at this time.

What happens when an owner has a claim? Well, it's impossible to answer that question specifically because no two claims are the same and no two owners are the same unless you're in Mr. Ongstad's club where you only have two claims in 14 years.

(Laughter.)

MR. CASSEDY: So I'll give you a general idea of how a hypothetical personal injury case would be handled. A seaman slips on deck and injures his back, naturally. He's taken to the hospital. If the owner has a claims department, we would expect that he'd conduct a thorough investigation of the accident. Interviewing witnesses, checking with the Marine Index Bureau in New York, et cetera, for the purpose of determining liability. If it's determined that the vessel is liable then we would expect the owner to see to it that the seaman is taken care of properly while in the hospital and also during his recuperative period. He should be assured that he's going to be given all the benefits he's entitled to and that there's no need for him to deal with anyone but the owner.

The seaman should be made aware that by so doing he will get these benefits or settlement not 3 years later, but now and in full. Not net of his lawyer's one-third or even one-half contingency fee. When the time is appropriate, generally after he's back on his feet, negotiations should take place which we hope lead to a reasonable settlement for both sides.

If the settlement is over $20,000 or over the owner's deductible, if that's higher than $20,000, the settlement must be approved by the club's board of directors. Once it's approved, then the owner can pay the man and upon satisfactory proof of payment, such as signed releases, the owner is reimbursed by the club, less his deductible, of course. The reimbursement in the American Club usually occurs within a matter of days.

By the way, the reason for the owner paying the claim and then applying for reimbursement from the club is because our policy is one of indemnity. It's not a liability policy. By indemnity it's meant that before the club pays a nickel, the owner must be liable to pay and indeed does pay the claim. We never advance a claim payment. We may exchange checks with the owner, but we never advance payment.

Getting back to our hypothetical claim. If it turns out that the owner doesn't have a claims department, then he turns the entire claim over to us for handling or if it's in a port far out of New York or Miami where we have another office, it's handed over to one of the club's many approved correspondents, most of whom are law firms specializing in maritime cases.

As I mentioned before we have a staff of 50 people and are fully qualified to handle the task. In the 50 years that we've been in business, we've seen and handled every kind of P&I problem from simple cargo claims to rapes and murders on luxury passenger liners. We adjusted and settled all the claims arising out of the famous Andria Doria-Stockholm collision and perhaps at his and Bob Hart's cocktail party Bruno Augenti can tell you some interesting aspects of that case since after all was said and done he comes out as one of the unsung heroes in the smooth settlement of the huge case.

We've handled one of this country's largest oil pollution problems in which a $100-million class action suit was filed against the owner. At the present time we're heavily involved in the recent collision in the Mississippi River between the SS Frosta and a ferryboat in which 83 persons lost their lives. We're not lawyers and our service, incidentally, is available to anyone having a P&I claims problem.

After we or the correspondent come to the conclusion that the claim can be settled and if the owner agrees--that's very important--the case then goes to the board for approval if it's over $20,000. If it's under $20,000, my office has the power to authorize settlement. Once it's approved, the claim follows the same procedure as before. The owner pays and applies for reimbursement.

I talked about history, reinsurance, assessment, ingoing premium, and claims procedure. I haven't told you how we rate fleets. While I'm not at liberty to reveal all of the specific factors that go into the rating of a fleet being considered for membership in the American Club, I can give you a general idea, which I hope will be of some use to you.

Number one, we start with the prospective owner's 5-year loss record and come up with an average loss cost for his fleet. We then build that up by adding in all the expenses of the club, such as brokerage, my firm's management fee, the cost of reinsurance, perhaps an inflation factor, and any other fixed expenses. The total of all these items is the premium we quote. However, before offering this quotation we carefully check out the owner to make sure that he's the type of operator who would be a credit to the club. We investigate his operation, the age and conditions of his vessels, the size of his crews, his trade, his maintenance and safety program, and his financial position, and we review any and all other information available to make sure that the risk we're writing is a sound and fairly predictable one.

If we find there's no reason to decline to quote, then we give his insurance broker the quote mentioned earlier and if he accepts our quote and becomes a member, we then keep our fingers crossed and hope his losses for the next year do not exceed the average loss cost that we used as a starting point in determining his ingoing premium. If the losses do exceed the average loss cost, then that's where the mutuality concept comes into play. The rest of the members, if affected, share his above-normal average losses, and that really is what it's all about. The normal and expected losses he pays for himself. The catastrophic and unexpected losses are shared by all the members of the club.

If he remains a member of the club the next and succeeding years, and that, by the way, is the idea if a mutual club is to be successful -- continuity -- then his ingoing rate will be increased because the average loss cost has now risen and because his first year in the club produced losses higher than his prior 5-year average loss cost.

Well, I don't want to overstay my welcome, especially since all of you are chafing at the bit to partake of Marine Index Bureau's hospitality and rather than continue telling you more of the American Club story -- I could stay here all night -- let me conclude by saying that the problems you face today, the American Club faced 60 years ago and the founding members solved it then when all the odds were against them. No one gave them a chance.

Not only did they solve it 60 years ago; but they've been solving it ever since, also against insurmountable odds. It's worked for our members, because they wanted it to work and they made sacrifices to see that it did work. They remain loyal to the club when at times they could have gotten their P&I insurance cheaper somewhere else. They realized that it was really their own organization and they had a say in how it was run.

When they had cash flow problems, for instance, they decided to allow monthly premium payments. When they weren't totally satisfied with the published club-appointed correspondent, they decided to allow members to use their own correspondent provided he met certain professional standards. But most of all, they realized that in a mutual P&I club you must not look at the short-range picture.

The goal of a mutual organization is that over the years the members should wind up with a 100-percent premium loss expense ratio even though certain of those years may prove to be more expensive than what's available from the competition at the time.

I'm convinced that if you really want it to, a mutual insurance club will work for you also.

I hope my remarks have been of help to you. If there's anything else I can contribute today or in the future, I'd be most happy to do so.

I've got some American Club brochures here and you're welcome to take one if you like.

Thank you; and now how about a few questions.

(Applause.)

MR. FELANDO: Now, we are open up for questions or statements. Any questions or statements?

MR. SISSON: Don Sisson from Boston. Jack, has the American Club considered small crafts such as fishing vessels as members? I should say, the owners of fishing vessels as members?

MR. CASSEDY: We have not considered the owners of fishing vessels as members simply because no one has asked us to. It would be difficult for me to answer now what we would do if we were offered that select group. We did take tugboat owners this year for the first time, and we did take the Great Lakes owner, which a lot of people were frightened of years ago.

VOICE: Do you have the ore boats?

MR. CASSEDY: Yes, we've got the ore boats. Yes, that's right. That's another thing we've got to get used to: calling them "boats," because everything that we deal with is ships, but now that we've got five Great Lake owners we've got to call them "boats." So we've got to reeducate ourselves.

We've got American Steamships, Cleveland Cliffs, Oglebay Norton, Inland Steel, and National Gypsum Company, which came into the club this year from the Great Lakes.

MR. FELANDO: Any other questions?

MR. GOLDSTEIN: Who makes payment if one of the shipowners goes out of business between the time the claim is filed and the time the claim is to be paid?

MR. CASSEDY: That hasn't happened. I beg your pardon; it has happened. A similar question was asked this morning. If a claim is filed against a shipowner, and he goes out of business, then the club is not responsible legally, or otherwise, for the payment. So the plaintiff, the injured person, longshoreman, maybe, is another one of the creditors in the bankruptcy action. That is because it is an indemnity insurance company as opposed to being a liability insurance company.

MR. FELANDO: Mr. Poliak?

MR. POLIAK: The courts have ruled that a P&I policy truly is an indemnity policy, and should the owner go bankrupt, then the club would not have to respond -- or an underwriter, for that reason. If there is a vessel in question then, of course, he might have a priority lien and collect his judgment in that matter.

MR. CASSEDY: That is correct. There are a couple of exceptions to the general statement that I have made, and what Mr. Poliak just said, and that concerns the State of Louisiana, and I think Puerto Rico, where they have direct action statutes. That means simply that regardless of whether it is an indemnity or a liability policy, the plaintiff in those States can go directly against the insurance company. Now, I don't know whether it has been officially tested at the appellate level, but up to now the hope is, and it is a very slim one, that P&I clubs can avoid that type of liability, but I doubt that very much. In fact, the case that we are dealing with now, that ferryboat collision, that subject is definitely going to go through the courts and probably wind up in the Supreme Court sooner or later.

MR. FELANDO: Any additional questions?

MR. AUGENTI: It is not necessary for you to be the underwriters. In other words, you can be a service organization handling claims without being the underwriter.

MR. CASSEDY: That's correct. As I mentioned before by way of a little commercial. The management of American Club represents about 60 percent of our income. The other 40 percent is from the service that we make available to many groups for the handling and adjusting of claims.

We don't, even for a member in the club, automatically take over a claim if he can't do it. This is a mutual organization. The owners run it, not my office. If an owner feels that he prefers not to use our service, it's conceivable--although they've never done it and we like to believe we do a good job for them -- it's conceivable that they could retain somebody and that would become a part of the owner's claim for reimbursement.

MR. FELANDO: Any other questions?

(No response.)

MR. FELANDO: When you mention that you have U.S.-owned or controlled vessels in the American Club, are they all U.S.-flag vessels, or is it a combination of U.S.-flag vessels and foreign flag vessels?

MR. CASSEDY: Until 2 years ago the rule for membership in the American Club was that you had to be American owned or American controlled. One of the members for instance at that time, and still is, was Alcoa Steamship Company, which was a Liberian flag operation. But as far as the vessels asking for membership were concerned, if they were American controlled or American owned, regardless of flag, they would be acceptable to the club. In 1975, I guess it was, I recommended to the board of directors that they open the membership to flags and owners of all nations mainly because of the spread factor. We're a very small club, vis-a-vis the British clubs, and it was at that time that the board agreed that from now on the membership would be open to selected foreign owners.

As I mentioned in my prepared text, at present we have no members of that type. However, during this past renewal in February we were very, very close to a Brazilian owner and also a Far Eastern owner.

MR. FELANDO: Could you explain briefly how you handle the process of claims control using a hypothetical case of an individual who gets hurt going off a vessel in the Canal Zone, or Puerto Rico, or some place. What would you do in those faraway places?

MR. CASSEDY: I can give you a specific example. We had a very unfortunate accident with one of the owners in Saudia Arabia. A line parted, which is always a problem, and it amputated the man's leg immediately. He was bleeding profusely, of course, and in severe pain. The owner immediately sent him to a hospital in Saudia Arabia, which concerned everybody of course, because nobody knows what the medical ability is in countries like that. So what we did was immediately authorize, without even being asked by the owner, his insurance and claims' manager to fly over with his lawyer. They went to the hospital; they checked out the facilities to make sure that everything was satisfactory; they got in touch with the U.S. Government over there to confirm that he was getting the best emergency treatment possible. Then, when he was ready, we immediately had him flown back to the United States, to a facility near his home, which happened to be in Indiana where there was no U.S. Public Health Hospital. We brought him home immediately, and the cost of all that was paid as part of the settlement.

And while he was in the hospital, and even before he was in the hospital, the owner was in very close consultation with his mother and family -- he wasn't married. And this was all in a manner of trying to assure him and the family that he was getting the very best treatment wherever he was and that also he would be taken care of properly.

As it turned out the "control" that we were hoping to exercise didn't work because he retained an attorney and it wound up being a suit which was settled amicably between the owner's attorney and the plaintiff's attorney.

MR. FELANDO: Assuming that the owner does not have any claims department and you are moving in with your group to handle a case -- we're trying to get a better picture of how you would provide that service.

MR. CASSEDY: In a very serious emergency, we will send any of our 50 people anywhere in the world to sit there and work out the problems of the case. The oil spill that I told you about was in Maine and we had one of our people up there while it was happening, as a matter of fact. But, more importantly, is the fact that the American Club has a list of correspondents that we have chosen over the years all over the world who are familiar with P&I problems and who have the advantage in being on the scene. So whenever an accident or problem occurs anywhere in the world we have a correspondent in our book of correspondents that we Telex or telephone, if necessary, to immediately go and investigate and do whatever is possible and whatever is necessary.

If we find that the correspondent is not doing a good job on any particular case we immediately look for another one, and if he is not as experienced as some of our others we will send another correspondent from a close spot to supervise him.

MR. FELANDO: Mr. Oaksmith?

MR. OAKSMITH: Out of curiosity, what was the settlement for the leg?

MR. CASSEDY: I'd rather not answer that, but I can tell you that it was more than $12,000 or $4,000 for that loss of life claim that Mr. Ongstad --

(Laughter.)

MR. CASSEDY: -- it was quite a bit of money.

MR. FELANDO: Any more questions or statements?

MR. ONGSTAD: Are these representatives that you have to represent the owner all legally trained with degrees, law degrees?

MR. CASSEDY: No. I would say that in the United States at least, most of them are admiralty attorneys, such as Mr. Poliak's firm or some of the other firms throughout the United States. Overseas we find that most correspondents are people that are similar to Lloyds' agents. We don't use Lloyds' agents, but similar type people that operate in a dual or multicapacity such as agents to the vesselowner, or chartering brokers, or something like that. They are people who have local knowledge and who have a limited amount of claims experience. Generally speaking, your problem overseas is an immediate first-aid type of thing, whether it's cargo, pollution, personal injury, or what. It's getting to the scene, conducting the investigation, and then later on it's handled back at the owner's office or our office or the admiralty attorney's office. So generally speaking in the United States, they're lawyers although we have some in the United States who use the U.S. P&I gentlemen in the middle over there. His organization we use in New Orleans because we feel it's more economical to use a nonlawyer on an investigation in an early phase or in negotiations than it is to use a law firm.

And the interest in a mutual club, of course, is to keep the costs down. To keep everything within the club and to try and keep as much money in there, rather than giving it to somebody else on the outside.

MR. FELANDO: Any more questions?

MR. HEYN: One quick question. Have you found that by controlling these claims that you've been able to get better information on the plaintiffs' attorneys and been able to combat that better?

MR. CASSEDY: That gentleman down there with his hand to his chin is listening to this answer very carefully.

Yes, the fact of the matter is that in an organization like ours we're dealing with plaintiff's attorneys throughout the country every single day. We don't have one claim with an office in Philadelphia or one claim with an office in Houston or Dallas. We have many claims with them, and as a result our adjusters, who are not lawyers, are very, very close and familiar with these lawyers on the other side of the fence. And we think that's an advantage; number one, because the lawyer, if he's enthusiastic and wants to get a little bit more than he deserves, realizes that if he gets us on this case, he's going to see us again on maybe 10 more, so it turns out to be a very happy relationship. It's a necessary relationship, but we find that that's the case. We get a book, if you will, on all the plaintiff's attorneys throughout the country, and I'm sure they've got a book on us.

MR. LAWRENCE: Let's say a corporation had a fleet of vessels, is each vessel rated by its own experience, or does the corporation's total fleet experience go into the rating? Also, what were the limits of liability?

MR. CASSEDY: Let me answer the second question first. We offer $5 million or less, if an owner wants less than $5 million, but the general minimum amount is $5 million, $10 million, or $25 million.

Our competitors in London are now, insofar as American-flag owners are concerned, offering a $200 million limit, take it or leave it.

Now insofar as accepting or quoting on a fleet, we quote on the fleet basis and generally speaking we quote on his 5-year record. If it happens to be a brand new fleet that has no record, then the other facts that we look into are such matters as the people behind it, the claims department, the age of the ships, and so forth, that play such an important role. But generally we quote on a fleet basis rather than an individual ship basis.

MR. HEYN: And that would be true even if the individual ship was a separate corporate entity?

MR. CASSEDY: Yes. As a matter of fact, some of our members have maybe 20 ships and they're maybe 20 different corporations. That's why I said before, we only have 38 company members, but that can be subdivided by subsidiaries and so forth. We look at it from the point of view that no matter what he's doing for corporate reasons insofar as the mutuality concept is concerned, it's his ships, it's his crews, it's his training and safety programs that are involved and therefore we try to look at it from that angle.

MR. KIRKUP: Is there any reason why the fishing fleets have not come to your organization before this?

MR. CASSEDY: I can't answer that. I would say probably because they weren't aware that there was an American Club, for instance. Secondly, whatever broker they dealt with didn't apply for membership and in many cases I would guess, and again I plead ignorance on this, but I think in many cases the fishing boat owner gets his insurance directly rather than through a broker so that he would have limited experience as to what was available in the market.

MR. ANDERSON: Speaking for the broker, I don't think we knew you were available.

MR. FELANDO: I'd like to ask how closely you work with the Marine Index Bureau.

MR. CASSEDY: We work very closely with the Marine Index Bureau and we recommend that everyone of our members be subscribers, not only to the reporting service, but to the preemployment service that's offered. A lot of claims are settled at reasonable rates because of the statistics that we get from the Marine Index Bureau. In our business, it's an absolute must. The first thing you do is check what's going on with this guy's record. What kind of accidents has he had before that have been reported.

MR. FELANDO: Any more questions?

MR. BROWNING: Jack, would you forego the indemnity feature because most fishermen, in this country at least, expect the insurance company to pay the claim and not have to pay it out of their pocket and then collect later?

MR. CASSEDY: We would not, I'm sure, and I don't presume to speak for the board of directors, but I'm certain that we would not change the indemnity feature of the policy.

In this business everything is relative. A $10,000 claim is monumental for a small fishing vessel owner. But by the same token a million dollar claim which we've had many of, is very large for a marginal steamship operator even though he's one whose advertisements everybody has seen in the newspapers. A million dollars or a half-million dollars is an awful lot of money and he is generally in no position to lay out that kind of money and wait to be reimbursed. So what we usually do in that type of situation when the case is consummated and the settlement is arrived at, we, as the manager, tell the owner, all right, get ready to settle it. Let us know when you're going to pay the plaintiff's attorney or the plaintiffs themselves. Give us a couple of days' advance notice. Then when you give the check to the plaintiff's attorney and he gives you the release, you can come right into our office and we will give you the check for reimbursement. So that in effect there is no cash flow problem at all. That is what we do with the big claims. We don't do that with every single claim.

MR. BROWNING: One more question. What is you minimum deductible?

MR. CASSEDY: There is no minimum deductible, but we do like to have higher deductibles. We have a $150,000 dock damage claim that we have just approved recently in which the owner's deductible was $250. I think that might change next year.

(Laughter.)

MR. FELANDO: Are there any more questions?

(No response.)

MR. FELANDO: I have one more question. What has been your relationship with the unions that you have to deal with?

MR. CASSEDY: We really don't get involved with the unions. You have to remember that each owner in the mutual club has his labor negotiating team and they deal with all maritime unions. The new owners coming in from the Great Lakes, for instance, are dealing with the steel union. Most of their seamen are members of the steel union. So we really have no relationship. Until today's meeting, I don't think I ever met a union man other than my father-in-law --

(Laughter.)

MR. CASSEDY: --who isn't in the marine insurance business, and he is worse to deal with than a lot of the plaintiff's attorneys -- or better to deal with, I should say.

(Laughter.)

MR. FELANDO: Are there any more questions?

(No response.)

MR. FELANDO: Thank you very much, Mr. Cassedy.

(Applause.)

MR. FELANDO: Gentlemen, before we conclude this afternoon, I would like to exercise the power of the chairman to establish a committee. We have the necessity to come up with some committee report by tomorrow, and my thinking was that we could organize a commitee and have that committee meet before tomorrow's session and maybe during the noon session come up with a possible draft form of a report and then have it ready by the afternoon.

I am just going to read off some names and I would like to get some cooperation from you as to participating on this committee and if there would be some volunteers, I would be happy to acknowledge them. First, I will just ask if there are any volunteers.

(No response.)

MR. FELANDO: Just as I expected.

(Laughter.)

MR. FELANDO: John Burt. I'm wondering if John would be a member. Paul Poliak. Paul, would you mind being a member? Jack Bowland. Octavio Modesto. Bill Utz. Roger Anderson. There are a number of Andersons here. A fellow connected with the Gulf.

VOICE: He is not here.

MR. FELANDO: What about Don Reinhardt?

MR. REINHARDT: Yes.

MR. FELANDO: Is Lucy around?

(No response.)

MR. FELANDO: What about Sid Jaeger. Sid, can you help us out?

MR. JAEGER: Yes.

MR. FELANDO: Would anyone else like to volunteer? Leif, what about you, wouldn't you like to work with the committee?

MR. JACOBSEN: Okay.

MR. FELANDO: Okay, gentlemen, let's recess. If the fellows I named would remain for a minute,we will organize the committee.

(At 4:35 p.m., the meeting was adjourned, to reconvene at 9:00 a.m., May 20th.)

MAY 20 - MORNING SESSION

MR. FELANDO: Good morning. We would like to move forward now. My intent is to cover as much ground as possible. I think we can move expeditiously with respect to all of the speakers. But first I want to again thank Bruno Augenti. Thank you again for your hospitality.

The first speaker will be Paul Anderson. Paul, why don't you start this morning's program with your presentation?

I am very pleased to know Paul and to work with him.

Welcome, Paul. Go right ahead.

Paul Anderson: Agent, Commercial Fishermen's Inter-Insurance Exchange
Seattle, Wash.

Thank you for the introduction. I am Paul Anderson. I'm the agent in Seattle for the Commercial Fishermen's Inter-Insurance Exchange. I'm also the manager of the Seiner's Association in Washington. The Seiner's Association represents the salmon fishermen in the Washington area.

I would also like to express my appreciation for being asked to participate. I certainly appreciate the opportunity.

I have been asked to explain the Commercial Fishermen's Inter-Insurance Exchange. The Exchange was formed in the early 1940's by a group of fishermen on the West Coast. During the winter, they would fish for sardines in California. Then, in the summer they would fish for salmon in Washington. A lot of times they would use the same boats and travel back and forth. Some would have separate boats in each area.

About this time, many underwriters were becoming concerned because these particular vessels were getting quite old. They were built in the 1920's; some of them as early as 1915; a few more of them in 1930. Because some of the underwriters were inexperienced with the fishing industries and the type of vessels that were used, they were very concerned about the age.

Some of the underwriters were also concerned because there were many vessels, not in this particular fishery but in others, that were converting to diesel power. Yet, many of our vessels were still using gasoline and, of course, an underwriter would much rather insure a diesel vessel because it would be much safer. So they either raised the rates considerably on gasoline-powered vessels or they just dropped the coverage.

So a group of people got together and formed a reciprocal -- much of what we've been talking about here in the past couple of days -- and determined that if they kept their particular accident or claim rate down, they could either go as a group and get a better rate; or form their own reciprocal, which they did.

To start they had to have the funding. A group of between 10 and 20 people just laid out the capital to start the reciprocal to build up the reserves. At this time, and under the conditions of the fishery, that was quite a bit of money for these people to lay out, but they felt the necessity for having this thing was so great that they went ahead and did it anyway.

Incidentally, many of these people or their relatives are still involved with the Exchange.

Aside from solving the immediate problem, or trying to solve the immediate problem, the Exchange provided a very necessary service for not only the people that belong to the Exchange, but for, as many Exchange members feel, people that work outside of it.

As underwriters move in and out of the market, the rates tend to fluctuate greatly. Within the past couple of years, the rates have gone anywhere from 1-1/2 percent for hull insurance all the way up to 9 or 10 percent. By the actions of the Exchange and the way they worked their program, the rates have stayed fairly constant, varying by half a percent throughout the last 5 or 10 years. So, even though the market fluctuates, the Exchange provides the competition to bring that high rate ultimately down. And as underwriters back out of the business, the Exchange still provides a market for people that need the insurance.

At present, the Exchange has about 150 vessels and the number has been increasing lately. If a person wants to apply to the Exchange, he submits a written application. We send a surveyor down to look at the boat. He goes over the boat; talks to the skipper at great length to find out what kind of guy he is; finds out if he has a book of matches in his pocket; and sees if he wants to get rid of his boat later on, or whatever. Then the application is submitted to the Exchange board. The board is comprised of one or two fishermen from the local ports in the area. There is another board of fishermen in California that handles the same thing. The board reviews the application and either rejects it or accepts it.

I feel this board review during the application procedure is the most important point in the program. You have to have a group of fishermen that will put aside their conflicts with other groups of people, or the particular person that is applying, and look at his accident rate. Look at the type of person he is and accept him on that basis. And the board has to have the guts to reject applicants. Even though they may be quite well developed in the fishery, if they're reckless, they have to be turned down. And that's the only way that something like this would survive.

For a number of years we were using a well-known surveying association to do our survey work as part of the application procedure. But, fortunately for us, one of the people that was originally involved in the Exchange recently retired; he sold his vessel, but he still wanted to keep busy. It just so happened that this individual was employed at a shipyard in his younger days and was quite experienced with boat building and, also being a fisherman in this particular fishery, he knew the participants very well. So we put him to work as our condition and evaluation surveyor. Then we had a standard survey form drawn up for him to use. He goes through the vessel, as any other surveyor would. He also looks for things relating to the P&I claims which the Seiner's Association handles.

The major point in conducting a survey like this -- and comment was made yesterday somewhat to the contrary -- is that as an Exchange we hire the surveyor and pay for the survey and it is ours. We are very opposed to the idea of the vesselowner trying to influence the value of the boat or trying to influence the surveyor in his evaluation of the recommendations or anything the boat needs to have done to it.

This is also a very important point. You may want to keep it under consideration as you begin to form your own pools.

When we do have a claim, which we hope we won't, but it happens every now and again, we handle it like any other insurance company. The claim is submitted. We have a surveyor immediately dispatched to the scene to find out what the problem is and what the damage repairs look like.

The surveyor then proceeds through the repair work checking the invoices, et cetera, and if the coverage is deemed appropriate then we submit the check for the damage.

As far as the Exchange's underwriting and how we manage the reserves, the reinsurance and coinsurance, depending on the type of year that we had, claim-wise and premium-wise, we coinsure most of our insurance. This bounces around 80 or 90 percent, maybe down to 70 percent. As I said, depending on the year.

We also reinsure values over $100,000 and this depends on the finance conditions of the particular markets as they are at the time. It is not a hard and fast rule, but we feel that we have competent people that are capable of doing this and can keep our reserves up to a point that we feel is necessary.

This Exchange, while it has worked quite well, had some problems which I feel any program like this will have once it gets moving. One of the problems that we have faced, and it is something that we have sort of been scurrying around a little bit on -- maybe walking on eggshells at times -- is that the Exchange is very closely associated with the Seiner's Association. It is in the same office. I'm the manager of both, and although it would be best to keep the two associations separate, it doesn't work that way. When you get down to your application procedure, or sometimes in the claim process, personalities get involved. There are many conflicts that arise sometimes.

The best procedure if you are considering forming your own pool, if you have an existing organization already that deals with political matters, or lobbying work, or whatever you have to do in your particular area, is to form another completely separate association with a separate office and separate people. You will have a much better chance of trying to keep these conflicts at a minimum.

I would like to cite an example of how this can get rather involved or rather complicated. Recently, one of the Seiner's Association members purchased a boat from a local processor. He is a processor from Seattle, who cans quite a bit of salmon. This particular individual came over to apply for hull insurance so we sent our surveyor down to look at the boat. The boat was in such terrible shape that, for instance, the main deck beam in the hatch was supported by an old rotten 4 by 4 to keep the rotten beam from caving in. It was in incredibly bad shape. Therefore, we rejected the application.

A couple of days later I got a call from the processor who was the cannery operator for this particular fisherman. The processor proceeded to tell me that because this fellow was a Seiner's Association member I had to give him insurance. I very politely explained to him that it just did not work that way.

Well, as you probably know since most of you people here are in the fish business, there are no secrets in the fish business. A couple of days later I found out that this processor, because his own underwriter would not insure the guy because of the condition of the boat, tried to funnel him off to us.

(Laughter.)

MR. ANDERSON: Another problem -- it's not a problem but it kind of plagued the Exchange members that have been in it for quite a while -- as the market conditions go up and down, people tend to come and go in the Exchange. As I explained before, the idea of the Exchange is to provide a level market where the older boats can be insured. As the market drops, some of these people leave to find cheaper insurance elsewhere, but as the market goes back up again they want to come back. Now these people who have been in this thing for a long time have to ask the question, "Should we allow these people back?" They are sort of using us, in other words. There are other ways to get around this.

We can always raise the deductible, raise the premium, and things like that. But even so, being associated with the other association, Seiners Association, still causes problems. But it is just one of those things you have to live with; especially the way this was set up.

Another problem that we experienced, about 10 years ago, was that as we began to build up our reserves, the particular people that started the Exchange figured that maybe we could make this into a money-making proposition. So the agents were instructed to look for larger business. Get the larger boats; the newer boats, the better risks. Keeping in mind that the Exchange was built or started for these older vessels to provide them a market, maybe this wasn't such a good idea.

We started moving into the crab fishery. We started looking for larger, more expensive vessels. Our premium intake increased, but so did our claims at a greatly increased rate. It got to the point where we finally had to admit that this wasn't our business and we had to pull back. And now we are pretty much back into the business of just insuring the boats that we started to insure. So this is something else you might keep in mind. If you want to protect your own people, instead of going into the money-making business, stay with your own people.

I believe that the Exchange can continue to function the way it has been and will continue to provide a market for the older vessels, the vessels that participate in the local fishery in our area.

I again thank you for asking us to participate, and I appreciate it very much. Are there any questions?

(Applause.)

MR. FELANDO: Time for questions or comments by anyone.

MR. ANDERSON: Bob Anderson. I'm curious. You had the contract with the Bureau of Commercial Fisheries for several years to insure vessels having government mortgages, and I'm wondering what your experience was.

MR. P. ANDERSON: I have to admit that was before my time. I've only been here 2 or 3 years now. However, I believe that we get back into the situation where our people look at an older vessel and even though it is older, if it's been well kept, we feel that we can get back to the basis that the operator determines the claim, not so much the vessel.

It has been our experience that if you talk to an underwriter in London he thinks a boat that is 20 years old could possibly be twice as dangerous as a boat that's 10 years old and we don't necessarily believe that. I think because of that we were able to insure some of these vessels that couldn't get insurance elsewhere.

MR. FELANDO: Yes, go ahead.

MR. JAEGER: Sig Jaeger. Would you care to comment on the proportion of total losses to particular averages, that is, accidents? What has been the experience?

MR. ANDERSON: I would estimate that over the past couple of years it has been 50 percent. Then the other funds build up the reserve for, you know, going to expenses and so on. Our intention is to keep the thing level.

At the end of the year if we need an increased premium, we raise it; otherwise, we don't.

MR. JAEGER: Thank you.

MR. FELANDO: Yes, Mr. Browning?

MR. BROWNING: Would you elaborate on your term, "coinsurance" and how it applies?

MR. ANDERSON: Let's say we take a vessel that was insured for $50,000. We don't insure, ourselves, the entire amount. We actually insure 20 or 10 or maybe 30 percent of that amount.

MR. BROWNING: Who keeps the rest? Do you reinsure it?

MR. ANDERSON: Yes.

MR. BROWNING: The owner keeps nothing?

MR. ANDERSON: The owner keeps nothing. He has full insurance.

MR. HEYN: This is on the question of coinsurance since you have the reinsurer who is working on a percentage, let's say, 70 or 80 percent of your market.

Do you have any problem with a claim settlement as to who controls the claim settlement?

MR. ANDERSON: We haven't yet. I don't do the underwriting myself. This is handled in California, but I'm sure it is their understanding that the Exchange handles the claim procedures and the underwriter just takes it for face value. We haven't had any problems yet.

MR. FELANDO: Any further questions?

DR. LYON: Paul, could you comment on the legal arrangements between your members and the association? How are you organized?

MR. ANDERSON: The Exchange or Seiner's Association?

DR. LYON: The Exchange.

MR. ANDERSON: There are, as I mentioned, a group of people that funded it. A person that comes in to purchase a policy does not become an owner. He becomes, in a sense, a member. He does not necessarily have any vested interest in it.

DR. LYON: Are you incorporated?

MR. ANDERSON: I don't believe so. I can't answer that question.

MR. FELANDO: Can you expand on claims control? What participation, if any, you have in that?

MR. ANDERSON: Yes. When a claim comes in, or we hear of a claim, we have a surveyor survey it. He reviews the invoices of the repair work as it is done and goes from there. Concerning claims control to prevent future claims if the problems reoccur, we notify the members that you better take care of this or you better look at this. Check on it yourself. And if a vessel which applies has these certain problems that could lead to certain kinds of claims, we ask him to correct it.

MR. FELANDO: You talked about hull. What about P&I?

MR. ANDERSON: P&I is handled through the Seiner's Association and we just go to the open market and purchase insurance for the number of participants in the association.

I don't know if you'd like me to get into how that works.

MR. FELANDO: To what extent do you people handle claims at the Seiner's Association? I was trying to get a comparison of how you operate compared to how they're apparently operating in New Bedford.

MR. ANDERSON: I would like Mr. Poliak to answer that since he handles a lot of these matters.

MR. POLIAK: It just so happens that presently I do represent the P&I underwriters who have this particular account and it has been pretty much with respect to this account that our office is acting both as legal representatives and adjustors. If a claim occurs at 2:00 o'clock, Sunday afternoon or Sunday morning, the instructions are for them to call immediately, and one of our men goes there immediately and carries out the same procedures that have been discussed here over the years: obtain statements and pictures, immediately start maintenance payments, and keep control of the insured party. Make sure that he is taken care of and I doubt -- I've handled the account on behalf of about two or three different underwriters over the years -- and I doubt if more than five percent of the claims reach litigation where suits are filed. Not over five percent.

They have very good records, and I think it's because they know their membership. They keep control of the claims immediately when they have them and it's worked out very favorably.

MR. FELANDO: To what extent do the owners get involved in the settlement?

MR. POLIAK: Very little -- No, that is not quite true either, because when they knew the claimant, many times they would advise us to stay in the background and they could handle it themselves. Then, we evaluate it, or sometimes we decide whether we want to send a surveyor or an investigator to follow up on it. But we control it and, generally speaking, if the owner thinks that he can keep it under control, that he is a good friend of this particular man and makes sure that we take care of him, then we'll rely on that owner's judgment. In most cases we are right. Once in a while, of course, as in any other business you do err, but generally speaking there have been very good results.

And, insofar as marketing this association in the past few years, it has simply been mass marketing to the private sector; private insurance and marketed as a group gives them a certain bargaining power in doing so.

Mr. Anderson has been with them only about a year now so that's why I stepped up here.

MR. ANDERSON: Thank you.

MR. FELANDO: Mr. Heyn.

MR. HEYN: One question on hull. Are you in a pool arrangement with a call ability on the participators in a given year? Do you have the ability to go back and call on the hull participants in the event you fall short on your 20 percent?

MR. ANDERSON: No. It is not an assessable policy. Because of the buildup of the reserves it wasn't a requirement.

MR. FELANDO: Mr. Anderson, do you have a question?

MR. R. ANDERSON: I was curious -- you're buying P&I in the private sector without the benefit of hull insurance. Most domestic companies, by that I mean, American companies, will not touch P&I without the hull. My question is, are you going to the reinsurers of your hull book for P&I or are you going to someone else?

MR. ANDERSON: We don't necessarily go to the same reinsurers.

MR. FELANDO: In other words, the Seiner's Association works through a sort of competitive bidding for P&I?

MR. ANDERSON: That is correct.

MR. FELANDO: And then the hull matter is still taken up by the Commercial Fishermen's Inter-Insurance Exchange?

MR. ANDERSON: That is correct.

MR. FELANDO: So you don't have a combination, but you let each group work differently?

MR. ANDERSON: That is correct.

MR. FELANDO: Any other questions?

MR. JACOBSEN: I'd like to know if he charges a membership fee.

MR. ANDERSON: For the Exchange, no. For Seiner's Association, yes.

MR. FELANDO: Can I ask one more question, Paul? Do you have your own broker who goes out and gets the bids for the Seiner's Association on the P&I?

MR. ANDERSON: Yes, we do.

MR. FELANDO: Any other questions?

(No response)

Thank you very much, Paul.

We have another gentleman from the Northwest that I have had the pleasure of knowing for about 15 years at least. I don't know his full history, but I know that Don is highly respected in the industry, and it is my very deep pleasure to introduce a friend of mine, Don Reinhardt.

<u>Don Reinhardt: Manager, Pacific Trollers Fund</u>
<u>Bellingham, Wash.</u>

Thank you, Mr. Chairman. The pleasure is mine to be here, and I give my greetings to all the participants.

My name, for the record, is Don Reinhardt. My most usual position is general manager of the Halibut Producers Cooperative, which is an organization primarily of salmon trollers in the Northwest.

We have just under 500 members, and we also have the managing contract for the Pacific Trollers Fund. I act as manager and have an official title of assistant secretary for the signing of papers.

I plan to go into quite a bit of detail about our fund in the way of numbers because you might not get the information otherwise and it will give you, I think, a better perspective.

Our fund started under the umbrella of the Cooperative, and immediately I will come out with a counterstatement to what Paul earlier stated. He stated that he felt that his association, the Seiner's Association, should have been entirely separate from the Inter-Insurance Exchange. Our experience is just the opposite. Though we have almost 500 members in the Cooperative, we only have approximately 130 members in the Fund. Now to join or to apply to the Fund, you have to be a member of the Cooperative and a vesselowner, owner and operator. This is very important. We confine our membership to those who are going to operate their own boat.

Though the two organizations are entirely separate on paper, the same individuals wear different hats, because someone who may be on the board of the Cooperative could very possibly be on the board of the Pacific Trollers Fund.

There are five members on the Pacific Trollers Fund Board, and the board handles all important decisions relating to acceptance of applicants and to claims.

But the reason I state that I have an opposite opinion is that we've been able to operate so economically because of the close association of the two organizations. First of all, the members are apt to be acquainted with each other. They have a primary interest in marketing their fish together. And then they take this secondary interest, so the board knows each applicant that applies or has a direct input from other members.

We require an applicant to submit a reference, in writing, from three other members of the Fund. Now the only possible problem relating to applicants and the close association of the two groups is the matter of friendship or personality when this becomes a factor. Otherwise, the arrangement enables the Fund to operate without a different staff. We would require the same staff and have the same expenses to run the Cooperative whether or not we were managers for the Fund.

We have the Fund organized on a separate fiscal year so that we can do the account closing at a different time.

Our annual meetings are scheduled at the same time so we have them on the same day. In this way there is another saving in members' time and energy. Also, the Cooperative charges a nominal fee for the Fund. We charge 0.5

percent of the total assessed valuations. To relate it to numbers, a $10,000 vessel would be charged a $50 administrative fee by the Cooperative.

Now this brings us to another area where the two organizations work very well together, which you will see in the financial statements. As we accumulate the reserves, the Cooperative will borrow money from the Fund and use this money to make advances to our members on their fish deliveries.

That is a general background to explain why it was good in our case for the Fund to have originated within a captive group.

Now I'd like to respond to some of the points that Dr. Lyon suggested be covered in our remarks. We are a voluntary association, organized in 1959 within the State of Washington. We are not incorporated, though we do file a regular corporation tax return form 1120. On this form we pay income tax on the amount of money that we earn as our interest income. We do not pay tax on what goes into the reserves. Yesterday Harold Ongstad alluded to the Internal Revenue Service's ruling on that.

We began with 37 members. We met two or three times, thinking about getting started, but the opportunity just didn't seem right. So when the year went by, we met again and some of the leaders within the Cooperative thought the time still wasn't right but -- then one of the fellows said, "Heck, the time is never going to be right but let's just start." And that is what they did. Our first coverage was a maximum of $10,000 and we got through the first year without a claim.

Now, I'm not implying necessarily that this could happen in today's situation. Our fellows primarily did not have any insurance. Their vessels were primarily gas boats. The underwriters were not interested in that type of business and if they were, the rates were quite out of reason.

So the fellows figured well, if we have one loss we are out of business. I think we collected $12,000 in assessments the first year and had $10,000 liability per boat. As I say, we had no claims. I will go into a little detail a bit later on the historical sequence of that.

Risk management is another aspect that is highly important. We should stress and I want to say once again what's been said here earlier by others. We value the man. We have a couple of boats in our pool that I think were built as early as 1910. Our experience is that the accidents that we have had bear no relation to the age of the vessel. We cannot think of one claim, other than that of a fellow whose vessel sunk while sitting at the dock because a hose came off--I believe it was connected to his toilet. Now this is the only one that related to the condition of the vessel and I would think that's still more the man--that his hose was so rotten--he didn't check it out.

As I mentioned, we require three references with an application to the pool, which goes before the board of directors. Now, the ratio of acceptance has become increasingly smaller as we have progressed. As you can see, we have 137 members out of a potential of 500. They are either not very interested in our pool, or there are some other reasons why there aren't more members covered.

Now there are other pools in the area. You will hear of Mr. Ongstad's hull coverage group, and there are two other hull pools in the Seattle area so vesselowners have a good choice.

On claims procedures, ours is similar to what you heard earlier. As soon as we hear of an accident, if the member believes that the damages will be in excess of $1,000, then I am required by our regulations to bring in a surveyor. If it appears to be less than $1,000 we don't bother, we just have them get it fixed and pay the bill.

The member submits his claim to the board, and they are reviewed and paid practically immediately.

Our bylaws provide that we may have until the end of the year to pay, but we were organized for our members and we are not like the insurance companies who drag out their payment just so they can have use of the money. Present company excepted, of course.

(Laughter.)

MR. REINHARDT: Now, what are our underwriting considerations? Presently, we could pay off 23 percent of the amount of our total coverage. We have a present valuations in excess of $4 million, that is, $4,029,700. That is our present outstanding coverage. For that amount we charge the rate of 5 percent. This generates a premium of $201,000. Now just to round this off to show how I get the 23 percent, let me state it this way. We take $150,000 of the $200,000, which is our primary exposure. This money would be used first.

The next money that we would use is $330,000, which we have purchased in the form of excess coverage. Now the way we look at that is insuring our reserves or at least a very substantial part of our reserves.

Now for this excess coverage, we pay 26¢ per $100. This is the current rate and it has been in that area. You will see from our financial statement that for last year that amounted to some $9,000, if my memory's correct.

Okay. So we got the $150,000; we got $330,000 -- the next money that is exposed would be $50,000, which is the difference between our current assessment of some $200,000 minus the $150,000. So that's the third element.

And then the fourth element of exposure is our reserves. Presently our reserves are just over $400,000. So you add up the $150,000, the $330,000, the $50,000, and $400,000 and you get $930,000, which is 23 percent of $4 million.

Now from what I heard earlier that sounds pretty adequate and by our experience it would indicate that it is also low. I do not pretend to be an actuarian.

I said that our annual dues are 5 percent. We progressed to that rate. We have a couple of boats where the rate is 6 percent. They are gas boats. But throughout the years the gas engines have been replaced with diesel. So for practical purposes our rate is 5 percent. We originally started the same as the United Trollers Fund, Mr. Ongstad's pool, wherein the rate was -- well, ours wasn't quite the same. But our rate was 7 percent for a diesel boat, and we allowed a layup credit.

Finally, about 4 or 5 years ago we eliminated the layup credit and cut the assessment rate to 5 percent. I struggled for a long time to eliminate the layup because it was a lot of unnecessary bookeeping and our members are so similar in operation that there was no disparity or any inequality brought about by this. It simplified the operation of the Fund. Instead of raising the rate for management throughout the years, we've found ways to simplify the operation rather than raising the rate and we feel this is a much better way to go.

The key to our success has been being discriminating on who we let in the Fund. If you haven't gathered that already, that is the key to success. And it will be the key to success of any pool. And this, of course, is the one reason why insurance companies cannot operate at the same level of charges. Not only is their overhead exorbitant, but they don't have the select risk. So we have everything working in our favor.

I promised you I would give you some numbers so here they are. Just for our own information we prepare a little summary each year. I don't have it complete through the last year, but we can just call it, "operation summaries." We list the year and the number of members and the amount of coverage and the assessment and the claims paid and the amount of refund and the percentage of refund.

As I said, we started in 1959 and I have numbers for the years 1959 through 1975. We covered an average of $675,000 in coverage per year, and the average assessment was $77,237.

Now that assessment ranged from $12,000 as I said earlier to $161,000 in 1975. But the average is $77,237.

The average of claims paid per year is $14,754.

The refund was $1,037,000, and that's related to the assessment of $1,313,000. So the average refund was $61,000 per year, and the average assessment was $77,000 per year.

Well, I've rounded off the thousands there, so it makes a net average for claims of about $15,000 per year.

MR. KIRKUP: Would you give those figures once more please?

MR. REINHARDT: The average assessment is $77,000 and the average refund is $61,000, making the average claim $15,000, and you'll note there's $1,000 unaccounted for and $1,000 would be our expenses for the year. Our average expenses. This is all it cost the members for overhead. But bear in mind, of course, we had some interest income that offsets our office costs and reinsurance cost.

Now this gives us a refund percentage of 81.9 percent of the original assessment.

Those averages are for the years 1959 through 1975. Just to insert the year 1976 for comparison, we had 130 members last year. Our coverage was $3,927,000. Our assessment was $184,000. Our claims paid were $4,000 credit. In other words, a negative claim figure.

(Laughter.)

VOICE: How do you do that?

MR. REINHARDT: There's a secret to that. This is a recovery from prior years for a claim where a collision was involved. We assessed our ability to collect from the other party at zero, but we were successful in making a partial collection of settlement on sharing the loss so it resulted in a $4,000 negative claim.

Therefore, our refund for the year was 99.5 percent.

How does this relate to percentage of cost for amount of coverage? Well, it figures out to be 0.04 percent. In other words, less than 0.1 percent.

The commercial rates for many years were in the area of 5 to 6 percent, and sometimes they dropped down as low as 2 percent in some pool arrangements. But now they're easing back up again.

We send out to our members a statement of where we're at every year. I have in my hand an audit report --

(Indicating.)

MR. REINHARDT: -- it is very simple, very easy for the auditors to audit the Fund, because they never find anything wrong with it.

(Laughter.)

MR. REINHARDT: What I am trying to say is that the accounting has been set up in a very simple manner. It is easy to examine the assets. All of the liabilities, or potential liabilities, are disclosed in the minutes of the board so they have no problem.

What do we do with the money? Well, we get rid of it as simply as we can. Earlier I stated we loaned it to the Cooperative. Now we are allowed to do this in an amount up to three-quarters of our assets, but the Cooperative doesn't always need money either. I mean sometimes we borrow from the bank, sometimes we don't. In recent years we have been pretty self-sufficient.

At the end of 1976 we had $7,900 in the checking account. We had $1,000 in one savings and loan association, and $1,000 in another. We had $295,000 in a local mutual savings bank and $250,000 in a local trust and savings bank in the form of a certificate of deposit. That totaled $555,000.

Our current liabilities at that particular time were $69,000 to the membership for their membership fees paid in advance.

Now we end on a calendar year and we send out the statements in early December, and this is money that's already come in for the next year's assessment that we have deposited.

We had Federal income taxes payable of $1,000. We had accounts payable to the Halibut Producers Cooperative of $20,000. This was primarily the management fee, and we had other accounts payable, $1,300.

Our current liabilities, therefore, were just over $91,000. And the difference between that figure and our current assets was in members' reserves. And we go back 4 years and the reserve from 1973 was $75,000; and '74, was $90,000; '75, was $127,000; and '76, was $182,000. That added up to a reserve of some $475,000. Now this reserve is on a revolving basis. We pay it out only after it has been there for 4 years. There are no circumstances where we will pay out a reserve for any other reason.

If a member quits, he has to wait. He gets his refund in an orderly 4-year cycle. If he dies, the estate gets it in the same manner. We make no provisions for any early payment to the estate.

On the audit report I alluded to some of these figures earlier, but in 1976 our income from assessments was $184,000. Interest received was $31,000. The total income was $215,000. Our expenses, as I stated earlier, were quite low. We had the negative figure on the loss claims of $4,000. Stationery and supplies were $236. Management and clerical service, $19,638; professional services were $760, that's for audit and any legal services --

(Laughter.)

MR. REINHARDT: -- here is some money though that went out in circulation, fellows --

(Laughter.)

MR. REINHARDT: -- we paid $8,791 for excess coverage. This is the coverage I referred to earlier for which we paid $0.26 per $100. In case I didn't make it clear, this excess coverage is not per accident, but is on the overall situation of the fund. After we had claims where we actually paid out $150,000, then, the excess would pay the next $330,000.

Sundry expense, $2,274. Total expenses $27,640 before income taxes. Income taxes, $5,400. Net income after federal income taxes was $182,000, which amounted to 99-1/2 percent of the assessment. That money went into the reserve and will sit there for 4 years.

With the audit report we give details to each member on the reserve he had the year previous, on the decrease in the reserve when we paid out whatever he had 4 years prior, on the addition to the reserve that he participated in during the current year, and the new balance. This information is available for any member to look at.

In line with keeping everything simple, we don't furnish a complicated policy. All anyone gets to show that he is a member is this little card.

(Indicating.)

(Laughter.)

MR. REINHARDT: But it has my signature on it. That is the important thing. We have a lot of simple straightforward things in our bylaws, but we do refer to something which is quite horrendous and that's this American Hull Policy-Pacific. This is a standard form that appears in all hull insurance policies, but we don't give this to the members because that would just confuse them.

(Laughter.)

MR. REINHARDT: Anything else you would like to know?

(Applause.)

MR. FELANDO: Thank you, Don. Do you have any questions?

MR. ONGSTAD: Do you cover the inchmaree clause?

MR. REINHARDT: We do, yes.

MR. BROWNING: When you use the word "coinsurance", how do you mean it?

MR. REINHARDT: Coinsurance -- we use the term in cases where a member has a boat worth $50,000, which is the maximum amount of our coverage, and he only decides to cover $25,000 in the pool and not take any outside coverage, either with another pool or an insurance company. Then he becomes coinsured at the rate of 50 percent. So for any partial losses, he would share in them at the rate of 50 percent and for any total loss, we would just pay the sum of $25,000.

MR. BROWNING: I wonder -- Paul -- yours was not on that basis, is that right?

MR. ANDERSON: We also operate on that basis, if the members so desire such coverage.

MR. REINHARDT: We have no requirement that a member take any particular amount. If he has a $50,000 boat and he only wants to take $5,000 with us, he is free to do so. We do stipulate, and we are very particular, that he can't have more than $50,000 in coverage wherever he may get it. If he did, he would be in violation of the bylaws and his coverage would be null and void.

MR. BROWNING: I am assuming that some of your boats have mortgages?

MR. REINHARDT: Yes.

MR. BROWNING: I would like you to look at the bottom of page 101 of the draft of the Mutual Insurance Manual by Dr. Theodore. How do the banks view this authority of your board of directors? I'll read it. "The board is authorized to do the following in the event that losses exceed stop loss insurance and accumulated reserves. To notify all members that no claims arising more than 5 days after the notice will be accepted, suspend payment of all outstanding claims or after payment of all outstanding expenses, reimburse outstanding claims on prorata basis." Will the banks accept that?

MR. REINHARDT: They have.

MR. FELANDO: Any other questions?

DR. THEODORE: I would like to clarify in my mind--the excess coverage that you talked about collectively--am I to understand that if in a particular year you have collective losses in excess of the $150,000 of collected contributions, then your outside insurer who collects $9,000 in premiums represents a stop loss insurance. Is that correct? For which they are liable to pay you up to $330,000?

MR. REINHARDT: $330,000. That is correct.

DR. THEODORE: How about your excess losses?

MR. REINHARDT: As soon as we have paid out $150,000 then they would pay the next $330,000. Then the next $50,000 would come out of our current assessment, and the next $400,000 would come out of our reserves. And then after that, we're kaput.

(Laughter.)

MR. FELANDO: Mr. Heyn?

MR. HEYN: When you get into coinsurance and then run into the commercial market, how do you evaluate the boat? Assume a man bought a boat 5 or 10 years ago for $30,000 and the current market value is $55,000. You're not going to insure for $55,000. Are you going to throw a coinsurance penalty on him?

MR. REINHARDT: Here is how that works. We reevaluate our vessels every year. The board goes through the file on each vessel and puts an up-to-date evaluation on it, and we try to be as realistic as possible. In other words, we try not to evaluate it too low and we try not to put a ridiculous value on it. We try to put a value on it where it would sell readily according to our understanding of the current market conditions. But if we should slip up and you did have a situation where a boat was only valued by us say, at $40,000 and, in reality, he could sell it for $55,000; then if he had a total loss we would pay $40,000.

If he had a partial loss -- we already said he had $40,000 coverage, so we would pay 100 percent of any partial loss. So the $40,000 figure is the key figure -- not the $55,000. That doesn't even exist as far as we are concerned.

MR. HEYN: You went around the other way. I was thinking of the case in which you are insuring the boat now for more than the man has in it.

MR. REINHARDT: Oh.

MR. HEYN: Do you have any trouble with your membership if you are increasing the value of the boat?

MR. REINHARDT: We get some static. Yes, we do when we increase the value. I can recall an experience we had with one old time member who is about 80 years old and lives in Alaska. He had not been out for 15 years, and we raised the value of his boat from $35,000 to $50,000. He thought he'd been robbed, and he screamed to high heaven.

MR. HEYN: Going one step further, do you provide for arbitration or does the member have leeway to say, well, I'll go to $45,000 -- I'll agree to this. Or are you going to throw the coinsurance provision at him if he says, "That's as much as I think it's worth?"

MR. REINHARDT: If the member doesn't agree with the evaluation as set by the board he has the option of coming back and complaining to the board.

(Laughter.)

MR. REINHARDT: They may change or they may not. And if the member doesn't like it then he is free to go elsewhere.

MR. R. ANDERSON: I think the answer to that basically is that the hull policy contains a value at the time it is written.

MR. HEYN: A lot of companies say they want to keep it within 80 percent of value or 90 percent of value.

MR. REINHARDT: To make it a little clearer, let's assume he had as little as $5,000 coverage on a $50,000 boat. Now if we raise that value to $60,000, just as example, and he kept the $5,000 coverage, then he would be more than 90 percent coinsured, but, of course, he would have the option to increase his coverage all the way up to $50,000. He can't control how high we set the value, but he can control how much he wants to be coinsured. If we raise the value then he has the option of taking more coverage up to our maximum.

MR. FELANDO: Any more questions?

VOICE: Do you have to be a member of the Cooperative to be in this pool?

MR. REINHARDT: The answer is yes.

MR. FELANDO: Are all your members geographically located in one port or ports close together? How do you maintain some sort of claim control?

MR. REINHARDT: Our members either live in Washington or Alaska, but they're apt to fish anywhere on the Pacific Coast. We have limits that they can't go south of the Baja Peninsula (Mexico) or west of Unimak Passage.

MR. BROWNING: What do your members do for P&I?

MR. REINHARDT: They belong to Mr. Ongstad's pool. We offer no coverage in that area. We are not interested at all in trying to, but if his pool should quit business or not be available to our members for some reason, well then we would probably look at it.

MR. FELANDO: Mr. Murdock?

MR. MURDOCK: Why do you survey the vessel on an annual basis? Have your members considered having a survey every 2 or 3 years?

MR. REINHARDT: I did not mean to imply that every time we value the boat we had it surveyed. The survey, of course, is an ideal way to get a value, but our board is made up of experienced fishermen who are among the fleet at all times and are familiar with market values and they do it in that manner.

We have our own survey form that I did not mention, and we do require a survey that's at least as recent as 2 years when they join. We recommend this form, but we do not insist they use it. We have our own surveyor whom we relate to, but our members don't have to go to him. We like to have a relationship with a particular surveyor for claims purposes, and we try to steer any survey business to him that we can, but the member pays for his own survey contrary to what Paul Anderson's group does. We get a copy of the survey. If the member wants it back, we just take a copy of it and give it back to him. That is one of the expenses he has when applying to the pool We both feel that we are under no handicap that way by a survey or surveyor being prejudiced to the owner.

We think, generally speaking, we get a fair survey.

MR. FELANDO: Are there any other questions?

(No response.)

MR. FELANDO: Thank you very much Don.

MR. FELANDO: At this time, then I'd like to have Frank Bohannon of the University of Alaska Marine Advisory Service of Kodiak, Alaska, come forward. Frank, why don't you go right ahead.

Frank Bohannon: Director, Alaskan Fisheries Safety Advisory Council
Kodiak, Alaska

Thank you, Mr. Chairman. It is a pleasure to be here and present our program at this time.

I'd like to qualify my position. I'm a fisherman from Alaska. I've taken a 1-year assignment with the University of Alaska as the executive director of the Alaskan Fisheries Safety Advisory Council. I'm also president of the Alaska Shrimp Trawlers Association.

The Alaskan Fisheries Safety Advisory Council has 11 members who, over the last few years, have generally been fishermen. The Council receives guidance and funding from the University of Alaska. It was started in 1971 as a result of lots of accidents and casualties in the State.

Since 1971, quite a few people have put in a lot of time in the State and two of them are here at this time. Sig Jaeger and Bob Jacobsen were intimately involved in the program over the 6 years.

To date, $200,000 of Federal and State funds have been spent providing workshops and advisory services. Our program included demonstrating liferafts, survival suits, and cold weather survival in relation to abandon ship techniques in northern waters; emergency systems, such as CO_2 systems in the engineroom; and workshops on urethane and harbors of refuge. We provided visual aids and covered such matters as engine oil analysis, backup systems, and safer practices in rigging. We also provided educational training on attitudes for personnel on the vessels.

The objectives of this program were (1) to increase safety and reduce casualties, and (2) to develop a voluntary self-regulation program that would have a positive effect in reducing fishing accidents.

The impetus over the last 2 years has been to develop a program that would be in lieu of increasing Federal regulation through OSHA and the Coast Guard. The Coast Guard has encouraged us. We worked with them in Juneau, and we have felt historically that if industry implements a self-regulation program they can be co-partners as it's implemented.

We needed an incentive to implement our standards and we felt that insurance would be a good incentive, especially in the climate of rising rates. So we had three ways to go. Number one was to go to the general market with its rising rates. We felt that one was out. Number two was to form a pool, and because of high capitalization and the geography and diversification of the fisheries in Alaska, we felt that that wouldn't be practical. Number three, we decided that we would throw it out to the industry. We sent a letter to most of the major brokers that wrote insurance in the Alaska area and to the domestic underwriters generally. We received one positive reply from a brokerage firm in Seattle, and we developed a concept which we call AFSIP, the Alaska Fishemen's Safety Incentive Program.

During the last 3 months, we have had meetings throughout the State, a board for AFSIP, and generally set up our intermediate screening committee to provide insurance to the vessels.

We have also developed standards in construction, equipment, preventative maintenance, and training. We have identified the areas of P&I risk, and we have developed a standard checklist for vessels as they leave port.

We have attended meetings in London and with the insurance commissioner in Alaska, and generally work with the powers that be to insure that we have a successful program.

With me is Bob Pestell, who is with the insurance firm of Reed Shaw Stenhouse. I would like to have him go into greater detail on our insurance program. At this time I would like to introduce Bob Pestell. Mr. Pestell.

MR. PESTELL: Thank you very much, Frank.

Mr. Chairman, I am very pleased to be associated with the AFSIP program. Through the ideas generated by AFSIP we have been able to implement an insurance program with sound underwriting markets for the Alaska fishing vessel owners.

There is no doubt that the reason for the great interest shown in this is that the underwriters feel that for the first time a genuine effort is being made by the Alaska fishing industry to implement standards which will have the desired effect of reducing claims, both hull and P&I. It was arranged for AFSIP members to meet with underwriters directly, and to explain in detail the steps they intended to take to formulate and implement the safety standards.

With underwriters' support, it became necessary for a program to be designed to attract vesselowners to the plan and later provide improved benefits by the implementation of the safety standards.

Entry into the plan is available to any vesselowner licensed to fish in Alaska waters who is a member of AFSIP and whose vessel is valued in excess of $5,000.

The vesselowner must complete a comprehensive application form and subsequently be screened by the initial screening committee.

The owner and vessel must comply with the minimum AFSAC safety standards, and the owner must commit himself to comply with the full AFSAC safety standards within a realistic period of time.

Subject to approval by our underwriters, a hull rate reduction of 10 percent over their present rates is available for most vesselowners who have been loss-free during the expiring policy year. Other vessels are rated by the underwriters.

On implementation of the full AFSAC standards, underwriters will grant a further reduction in hull rates.

If AFSAC standards are not implemented within a reasonable period of time, or not maintained, the rates will be increased for that vesselowner or he will have to insure elsewhere.

The hull program can insure vessels up to a limit of $2 million.

Much of the success of the implementation of the program is due to the dedication and hard work of Captain Bohannon and others, which underwriters have been quick to recognize. They have stated that they are most enthusiastic about the steps taken to improve safety standards and are prepared to back the insurance program to the fullest on a long-term basis, provided the AFSAC standards continue to be maintained.

There will be a review of the program on a daily basis by underwriters. They also appreciate that on occasion they may be providing lower rates for vessels under this program than they themselves are otherwise doing, but this often happens in the insurance markets -- fishing vessels or otherwise -- when new ideas and schemes are formed.

A feature of the overall program is that eventually a reinsurance company will be formed, based in Bermuda, to quote a share up to 20 percent of the hull interest. Necessary safeguards to protect a loss position will be taken. After a 3-year period of operation, net profits will be used to further reduce rates for those vesselowners who have had a good loss record.

It is expected that this company will be a nonprofit organization, as is AFSIP.

Alongside the hull insurance program, we have developed a P&I contract to provide competitive P&I premium costs up to any reasonable limit based on the number of months the vessel has been operating and the fishery in which the vessel is engaged.

Again, the program is subject to the AFSAC standards being implemented and maintained. It is not the intention to use the reinsurance company to write P&I risks.

I think AFSIP would like to examine the possibility of the AFSIP insurance program assisting fishing pools or mutuals to increase their limits. This can be done in several ways, but it would have to be discussed with each pool manager individually.

In closing I would like to say that this insurance program is a fishermen's plan. Its future is very much in their hands. If the AFSAC standards improve safety and reduce losses, as I believe they will, this insurance program will be a success.

Thank you very much.

(Applause.)

MR. MODESTO: Frank, you mentioned survival suits as part of your safety program. Would you tell me how widespread that is and what motivates these people to get survival suits? How do you proceed on this?

MR. BOHANNON: Well, I don't know the date exactly, I think Bob Jacobsen knows it better than I do, but they developed them in 1972 or 73. Up until that time, if a vessel went down the man was lost. We figured 4 to 8 minutes in the water and that was about it. Since that time, there has been one survival suit developed that was an intermediate step, and today we have people that have stayed in the water 39 hours in the middle of winter and in 20-degree-below temperatures. Another was in the water 36 hours. When the helicopter picked them up they were just fine. In western Alaska, almost 100 percent of the vessels carry suits now. In southeastern Alaska, they are starting to put suits on a few boats on the lower coast.

MR. MODESTO: Would you repeat that? One hundred percent of the vessels have one suit per man?

MR. BOHANNON: In western Alaska, I would say between 90 and 100 percent are using it.

MR. JAEGER: Sig Jaeger, Northern Fishing Vessel Owners Association.

The survival suit started I think when the Crystal S sank near Dutch Harbor in 1974. That is where broadened interest in it was generated owing to the efforts of Mauri's brother, John Oaksmith. They had a survival suit on board.

We immediately started a program where we bought the survival suits for all of our member vessels on a bulk basis, 50 to 100 at a time. We had a lot of difficulties with the initial suits because they leaked in the armpits and the seams, and we required that the fellows test their own suits.

The objective of a suit is, of course, to conserve body heat, but there have been new developments in survival suits. I don't know if you have been reading the papers, but the Foremost sank recently in the Bering Sea and the six men aboard survived simply because they had the survival suits on board and jumped into them.

As far as our group is concerned, we have 100 percent now, and there have been many examples of people being saved by survival suits. Basically, we feel that the suit should be owned and furnished by the vessel itself and not by the individual, because when someone jumps overboard he is not going to be particular whether he grabs his own or somebody else's.

But the survival suit is a very important item in our area of operations where you have 30° and 32° water into which you have to jump.

I just wanted to give that thumbnail background. It's one of the very important considerations. We identified to AFSIP a lot of real problems with the liferaft; they are not a foolproof system, and the survival suit seems to be a step in that direction.

The Foremost fellows would not have survived if they hadn't had the survival suits because they were sitting there when a vessel came looking for them. The boat just disappeared, this vessel came to see where it disappeared and found these six fellows floating around.

MR. OAKSMITH: The Foremost capsized onto her liferaft so the liferaft was not launchable.

MR. JAEGER: That's right, the liferaft came up afterwards, but it went down then.

MR. ALGINA: You mentioned that you are going to allow the pools to be insured by you?

MR. PESTELL: Well, if AFSIP and the board of AFSIP would like that. It's their scheme and if that's what they want to do, then we will see that it can be done, but there's no reason why, as far as the insurance program is concerned, that if you have a \$100,000 vessel and the pool can only take \$50,000, the AFSIP program couldn't share it on a 50-50 basis.

MR. ALGINA: Has your company been insuring boats prior to this?

MR. PESTELL: Yes.

MR. ALGINA: In other words, they have an opportunity if they want to, or is this something new that you are offering?

MR. PESTELL: This is a new program.

MR. ALGINA: Prior to this they didn't have the opportunity?

MR. PESTELL: I'm not sure. They probably did under some other program.

MR. BOHANNON: Before Bob says anything, Sig said his group put survival suits on 100 percent of his vessels. I would like to say that Bob pretty much is the man responsible for spreading the use of survival suits down the Oregon, Washington, and California coast.

MR. ALGINA: Pardon me 1 second. I think Mr. Modesto wants to put them on the New Bedford boats.

MR. MODESTO: I didn't know you were a mindreader, Joe.

(Laughter.)

MR. JACOBSEN: Bob Jacobsen. I'm Marine Extension Agent with Oregon State University, and also the skipper of my own salmon and albacore boat.

In relation to the gentleman's question on survival suits, it was in 1974, shortly after the Crystal S sank in the Bering Sea that I had the operators of a couple of Newport-based king crab boats come to me and say, "We would like some survival suits. Can you get us a good deal on them?"

At that time, by ordering survival suits in volume, we could get a price break. So I checked around and got a good price. I think I had orders for about 16, and there was a price break at 25 so I went ahead and ordered 24, not being able to get any orders for the extra 8.

The fellow who I ordered them from brought them to Newport, the 16 along with the extra 8. We had talked it up among the local people, but there wasn't a lot of interest. At the time he brought them down there were a lot of people sitting around the restaurant at 7 o'clock in the morning. They said, "Lets go down to the boat basin and have a little demonstration on how these things are used".

So we took the extra eight suits down to the boat basin and had a couple of guys try them on and the local salmon-albacore-crab-shrimp fleet was so impressed with these survival suits that I immediately had orders for an extra 3 or 4 dozen at that time.

Since that time I would say that probably a good 35 or 40 percent of the boats have survival suits aboard. The fishermen's wives group in the Newport area has now taken over the responsibility for talking to their husbands about the importance of survival suits. As far as I am concerned, I've got a couple of them on my boat; they are a very, very important piece of survival gear, and I think before long we are going to see virtually all boats with these aboard.

Thank you.

MR. REINHARDT: I missed the point. Were they all one size? You are 6-6. Are there any 5 foot.

(Laughter.)

MR. JACOBSEN: The survival suits are basically one size. Now I do think they make a child's size. They also had a couple of demonstrations in the local swimming pool there in Newport.

We had a fellow who is 6-6 and weighs about 60 pounds more than I do, and another fellow who is 5-3 get into the same size suit. They both floated. These are dry suits, not wet suits. As Siz said, some of the early models did leak around the armpits and the zipper.

Basically, yes, the suits are the same size. There haven't been many problems with the fact that people are certainly of different statures, but all of them are basically able to get into the same size suit.

MR. FELANDO: How long do they last? What is the storage life?

MR. JACOBSEN: Sig, you might be able to answer that question better than I. I really don't know.

MR. JAEGER: We estimated 8 to 10 years. The new cloth that they are using has improved that. The Coast Guard at present is busy evaluating them, setting some standard for the suits.

Initally we bought close to 300 suits and about 30 percent of them were leakers, though we think that is remedied now.

MR. KIRKUP: How much do they cost?

MR. JAEGER: Well, when we bought them initially in groups, they were about $115 each. They are now over $200, about $250, but they have new improved zippers; they also have bladders that could be attached for extra flotation. But the consideration that they be nonleakers to conserve body heat and prevent hypothermia is an extremely important consideration, despite the salesmanship approach taken by the fellows. They will in any case float you.

There are also techniques for their use. I mean it's dangerous to jump headfirst into the water with those suits on because all the air in the suit would rush to the feet and they would have their feet sticking out, so again it isn't a foolproof system.

(Laughter.)

MR. OAKSMITH: I want to say one other thing. The Crystal S did sell a lot of survival suits, and you probably have seen pictures of my brother standing there with his drawers half down in some of the national publications.

But there are a number of important things about those survival suits, although there are some leakers and things like that. In fact, before they sailed I took the survival suits down to the boat and I insisted that everybody try theirs on. Nobody wanted to do it, but they did. Then they said, in addition to having the things, knowing how to use them and where to keep them is important too, so I suggested that they store them in the wheelhouse under the chart table rather than down in their bunks or some other place.

And sure enough, the boat capsized and the last place they could get to was the wheelhouse. The liferaft launched, but it was upside down, and they couldn't right the raft. It was a rather large raft. They said that in addition to surviving, abandoning ship in something that you know is going to sustain you makes it a much more orderly thing and whereas there can be accidents in getting off a boat, if you have some confidence that you can survive, it makes a big difference.

One other thing, as an aside. The men had two leakers and three that didn't leak, but they were all comfortable. In the ones that leaked, the water warmed just like it does in a wetsuit. The men got on the back of the raft after being in the water about 15 minutes before they decided to just get up in the bottom of the raft and sit. One of the guys that had one of the suits that didn't leak unzipped his pocket and got out cigarettes and they all had a smoke.

So they do work, but you have to instruct the crew on how to use them, where to store them, and have the crew try them out.

MR. FELANDO: Are there any more questions?

MR. BOHANNON: I would like to add one thing on the suits, Augie. We have lost two men who had survival suits since the day the Crystal S went down, as opposed to -- I don't know what the number is but it is considerably more than that. They went through 40-foot seas on Kyack Island and two of their shipmates survived. That's the record since '74.

MR. FELANDO: Can I ask one question, Frank? When do you look for the implementation of this program in Alaska?

MR. BOHANNON: The standards will be printed in the next 30 days. In fact, we are getting bids from the printers right now. We will be sending them out to everybody in the industry, probably all of the brokers, various groups, extension agents throughout the Nation, but within the next 30 days they should be in print. We've talked with the Coast Guard, and possibly we will have them implemented by November 1st.

MR. FELANDO: Are there any more questions or statements?

(No response.)

MR. FELANDO: Thank you very much, Frank.

(Applause.)

MR. FELANDO: We will now hear from Harold Ongstad, who will talk about the United Marine Fund, which is a hull pool operating in the Northwest.

ORGANIZING AND OPERATING FISHERMEN'S HULL POLLS

Harold Ongstad: United Marine Fund and United Reserve Fund Seattle, Wash.

I am Harold Ongstad with United Marine Fund and United Reserve Fund.

I would like to make one comment about survival suits. Before these survival suits came in, it was a common saying around Seattle that if you had two sons and one was sent to Vietnam and the other was sent to the Bering Sea to fish crab, you had a better chance of getting the one back from Vietnam. There were dozens and dozens of men lost at that time, and I think survival suits are a marvelous thing.

Another comment I would like to make, I would like to disagree with Don Reinhardt and agree with Mr. Anderson that a pool is better off being separate from any other organization. That's only my observation for the last few years, but what I was going to talk about was United Marine Fund, and I'm going to skip over this rather quickly.

United Marine Fund was organized in 1930. It will be 50 years old in a couple of years. It was organized by a group of halibut fishing vessel owners and my father. He was in business at that time, and there were about 25 or 30 boats that started the first year's operation.

The insurance companies then were charging rates from 8 to 10 percent for marine insurance. They had a deal where they charged 0.5 percent extra if you went to California, and 0.5 percent extra if you returned from California, which most of them did.

(Laughter.)

But the minute fishermen had their boats paid for, then they cancelled their insurance and did not carry any more insurance.

They had a great deal of difficulty in getting the United Marine Fund started, because there was a great deal of opposition to it. At that time the banks were not very anxious to lend money to fishing vessels, so most of the funding for fishing vessel mortgages was provided by the canneries and the fishhouses. Of course they had an interest in the boat. Generally, they had one person who worked within the cannery or the fishhouse who provided the insurance and they got a free clerk by giving him the insurance commissions.

The fishermen had difficulties, but they did get it started on a very small scale with $5,000 maximum coverage.

Of course, in 1930, a $5,000 boat was not too small a boat. At that time, you could build an Alaska limit-sized boat, a 50-foot boat, for $10,000. Today they are about $200,000 or $250,000.

One of the principles that the United Marine Fund started was that each man must carry 25 percent of the boat value as a personal risk. In other words, he participated in every claim. If he had a $20,000 boat, he could only insure it for $15,000 and he could not reinsure this on the outside. If he did, he was out.

This was later cut to 15 percent when the boats got more expensive and they started mortgaging through the National Marine Fisheries Service. The National Marine Fisheries Service required 100-percent coverage, which they had to go along with, and they felt that everybody should have the 100-percent coverage if the mortgaged boats were going to have the 100-percent coverage.

Well, in the 50 years, we've done very well. I don't have records and statistics going back that far, but if I did it would run into the millions and millions of dollars that the Fund has saved the commercial fishermen over almost 50 years.

Basically, the United Marine Fund is the same as the Pacific Trollers Fund, I think they more or less copied after us and other pools. All of the five pools in Seattle are basically the same type of operation, so Don Reinhardt has covered most everything.

The directors are very important to the pool. For many years they served without pay. There were five of them in the beginning, but now there are seven directors, who get a nominal fee of $20 per meeting. The United Marine Fund has about 12 to 15 meetings a year, including those for claims.

All of the investments and claim payments are done through the board of directors. They have the final say. They tell me where to put the money and how to put it. They are very conservative people.

Starting out, about 80 or 90 percent of the members were immigrants from the old country; Norway, Sweden, and Scandinavia, mostly Norwegian. Now we have a mixture of everything, including Scotsmen and Irishmen.

They have always been conservative and insisted that we invest money in banks only in the guaranteed limits, $40,000 in any one bank, so we are spread all over the City of Seattle. We get into every bank in Ballard and downtown and pretty much everywhere else. We even have to go out of town.

We were audited by the Internal Revenue Service several years ago, and they wanted to tax us on our profit. We fought this through Bogle and Gates law firm in Seattle. All five pools went together and fought it in Washington, D.C.

Back during the war, a lot of boats were lost, because the values were very high at that time. Suddenly the values went way down, and some insurance clubs in New York and England got a proposition into the Internal Revenue Code, Chapter 526, which exempts P&I funds from taxation except for the taxes on the interest that we make.

This was gone over very carefully. Internal Revenue didn't agree with that, but they finally came to the conclusion that it was true, so that's what we go by now, and I think we have that Shipowners' Fund to thank for that. I think they got that ruling into the Internal Revenue Code.

The United Marine Fund now has about 210 members. It's about the largest pool in Seattle, and we have about $1,4000,000 in assets. We take in about $600,000 net premiums after layup. It is very well reserved.

I would like to skip right into the United Reserve Fund. This is a more recent fund, and I think I have better statistics on that.

It was organized in 1968 in California by a group of about six men. I arranged for a meeting down there with some people that wanted insurance and I reserved a room a little bit smaller than this one, expecting a pretty good turnout. I got six people, and that's how we ended up with six directors. Ordinarily I would have wanted five. That's an easier number to handle.

We drew up the rates, regulations, and rules and then went out looking for people to get into this organization. When I think of the six directors, I recall that only two of them were carrying insurance at that time. The others had no insurance. They were taking their own risks. These people trust themselves and their operation. That's the ideal kind of a person that you want in a pool.

We started with 22 boats and grew at a pretty good rate. We now have about 110 members and will take in about $220,000 this year.

We have about $5,280,000 at risk. The values might be greater than that, but that is what we actually insure, and that is on 110 boats, so the average value, if you divide those two figures, is $48,000. The maximum coverage is $90,000. The annual income of the pool is $220,000, and the assets of the pool are between $600,000 and $650,000.

So if you were asked the number of the maximum-valued vessels that could be lost out of annual dues, it would amount to 2.4 $90,000-boats that could be lost. Out of total assets we could lose 7.7 boats.

It's not always the maximum-valued vessels that are lost. In fact, that doesn't usually happen. The average-valued vessel is more likely to be lost, and out of annual dues we could pay for 4.5 of those, and out of total receipts, we could pay for 14.5 average vessels.

Now, with respect to any disaster that could happen to this pool, and I think it's true in most pools, you have to consider that your risks are spread to a certain extent.

We have boats in Bodego Bay, which was the place we got started. We have maybe eight or ten boats there. We have boats in Oakland, San Francisco, Ft. Bragg, Eureka, Moss Landing, Moro Bay, San Diego, Crescent City, and Sacramento, Calif., and in Washington.

The reason we have some in Washington is that we cooperate with the other pools. United Marine Fund has a limit of $120,000 on any one vessel. United Reserve Fund has a maximum of $90,000 on any one vessel. So we can cover $210,000 on any one troller.

I did make a few charts here that might be of interest. This is the growth of the pool over the 10-year period. You can see we started very low with 22 boats and we went up very steeply and now we are starting to more or less level off. It seems characteristic of a pool that you will reach a point where you have gotten the market and you will just start to level off.

I think Don Reinhardt mentioned he had 130 members and he has had that number for a few years. United Marine Fund has 210. In 1957, they had 189, so you go up and down a little bit but basically you level off.

This second chart shows the interest income versus the total expenses of the pool. Between 5 and 6 years, depending on the rate of growth of the pool, the interest will get to the point where it pays all expense including commission and taxes, except, of course, claims.

Now in the United Marine Fund, which is much larger and has been in business a great deal longer, the interest not only takes care of expenses, but there is about $25,000 or $30,000 left over above all expenses, so we can pay $25,000 to $30,000 in claims and still pay 100-percent refunds.

In 1974, -- I don't know what happened in 1974, that was when the stock market went down -- we had a 100-percent dividend in every pool, United Marine Fund, United Trollers Fund, United Reserve Fund.

The United Marine Fund had $25,000 in claims, and they had 100-percent refund with $7,000 left over, and as I said before, we can't pay more than 100-percent refund so we had to apply that money into 1975, which was a worse year.

This chart might be a little more interesting. The bottom line represents the maximum coverage, and that's grown from $10,000 to $90,000. The second line represents the annual income , which has grown--we started out with a maximum coverage of $9,000 and we took in $6,000, so these lines kind of cross down here on the bottom. Actually, the annual income was less than the maximum coverage.

Fortunately, we had no accidents in the first 3 years, so the assets did accumulate.

The most important part, of course, is the difference between the annual income and the assets. That is your spread, your reserves. The annual income is around $200,000, and the assets are in excess of $600,000, so there's about $3 in reserve for every $1 in premiums.

This pool might be considered a little bit unusual, because we did grow at a rather fast rate. We started out with a $10,000 limit of liability, and these people had to go to their insurance companies and buy the excess insurance. If they had a $50,000 boat,they took $10,000 with us and then they bought $40,000 through an outside company on a value of $50,000, all participating insurance.

Some of them bought only the $10,000 and took the risk themselves.

Then the next year, we jumped to $20,000, and the next year we jumped to $35,000. These people were even more agressive in jumping ahead than I was. In fact, they taught me lessons. I was from the old school that saw the United Marine Fund get started with a $5,000 limit which went up $1,000 at a time, but today we have inflationary times so you have to move ahead quickly.

Valuations are all done by the directors. It has become a practice in the United Reserve Fund to review the values about every 2 years, but in 2 years quite a bit of inflation has accumulated and this does raise values pretty severely.

Last winter we took some boats that were valued at $70,000 and raised them to $100,000, and some of them that were $50,000 were raised to $80,000. Nobody seemed to object, so I guess we were doing it in the right way.

I have made some general observations regarding pools. Maybe I am repeating Don Reinhardt, but you can't repeat this too much. If you want to start a pool, the most important number one point is selection. That is the one word that is the key to a successful pool.

One director in the United Reserve Fund was instrumental in turning down two applicants who were his brothers. They were engaged in dragging, and the Fund decided in the very beginning that it did not want draggers. They wanted to keep it a strictly trollers' pool.

They do allow boats that fish crab in the wintertime, as quite a few trollers do, but they have to be basically trollers.

The second point, the directors are the cornerstones of the success of a pool. They must be able to turn down their own brothers, their neighbors, their friends, if they are poor risks.

Third, the cohesive nature of commercial fishing makes it particularly adaptable to pool insurance. Also, the large numbers that you are dealing with. For instance, with automobile insurance you would have 3,000 members. With a pool you can get by with 50 or 100 or 200 members, and still take in enough money so that you have a sound organization.

The first years of a pool are risky. The United Marine Fund and the United Reserve Fund started with very little funds and had no outside backing, they had no notes or assessment ability. They did not put in any assessment.

If you were going to start a pool today and you want to be a little bit conservative, it might be a good idea to put in an assessment. We did this with the United Trollers Fund because there was the exposure. With a hull pool you are dealing with specified numbers. You can limit yourself. But on liability insurance it's pretty broad.

Another point, a pool will grow in income with each increase in maximum coverage, only up to a certain point. Many vessels will become completely insured after a certain point. That is, when you start out with $10,000, you can get up to $35,000 and everybody will participate, but after you get past that point some boats are valued at less than $35,000. Therefore, they are fully insured then. They don't take the additional raises as you go.

We have a $90,000 limit of liability, and I don't think we have more than 9 boats insured for the full $90,000 out of 110.

Another point, the best source of growth is within the pool itself. If you have 100 boats, you can increase your annual income 10 percent by taking in 10 more boats, but you also increase your liability to claims by 10 percent.

If you are going to have a 10-percent loss ratio, you are going to have 10 boats out of 100, and you are going to have 1 more boat that's going to have 1 claim out of the 10.

But if you increase the values of all the boats, you grow without any increases in potential loss except that each claim might be a little bit bigger.

Now there are a few shortcomings of the pool, and if you are going to start a pool these are some things that you might consider.

I think Professor Theodore said this before, that nothing in the world has been done finally and correct, and we surely don't think that we are perfect. Anything can be improved or amended.

The number one shortcoming, is the single rate for all boats. I think it's one of the most important shortcoming found in all pools. This is an inequity. The rate should be based on the relationship between replacement value and market value.

The pool members who are fishermen and who set the values tend to go by market value and we do have boats that were built in 1911, '14, '18, '20. United Marine Fund particularly has most of the halibut schooners in Seattle, none of which were built after about 1934.

These are boats that were built with 2 1/2 inch planking and are 6 by 10, or something like that, but to buy lumber like that today, and have some of these modern-day carpenters put it together, is expensive.

It has been only in the last 15 years also that we have gotten a great number of steel boats into the pool. We have been mostly a wooden-boat pool.

For instance, for a king crab boat, a part of which we might insure up to $120,000, we charge a rate of 6 percent less layup credit. They don't lay up very much and they might end up with a rate of five percent. Well, they can go to an insurance company and get -- the lowest rate I have heard is 1.6 percent -- so he's paying a pretty good penalty to get into the pool.

On the other hand, some of these 1911 boats are boats that have not been kept up. Their market value is very low, so if they went through INA or one of those companies, they would be paying 10 or 12 or even 14 percent.

I think some of the old wooden boats in Frank Bohannon's area were paying 12 and 14 percent, and that's pretty bad.

There should be some variation between boats in the pool. After a pool is -- and this is another shortcoming of the pool -- after a pool has established a rate, it is awfully difficult to change it, because when you tell a man with an older boat that he should be paying a higher rate than brand new steel boats, he says, "Well, the steel boats are having all the claims, I didn't have a claim, so I'm doing the pool more good than the steel boat is, therefore, my rate should be the same as his." So it's very hard to change once you have been started.

The second point is valuations. This is one of the most difficult jobs of the directors in the pool.

Among the fishermen you have three types of people: those who would like to have their value as low as possible, those who would like it right in the middle, and those that want it as high as possible, and if you've got one boat down here who want it as high as possible, and if you've got one identical boats, if you move one up or one down, you're going to get into trouble. They are both going to cry at the directors.

Here is one other point. When you start a pool, you have got two kinds of people that get into a pool. Generally you get the very best kind of people, but there are variations. You have people who will take a boat, no matter how old it is, but they continually improve that boat. They keep it up to the latest specifications. They buy the wetsuits or the survival suits; they buy liferafts of every kind; and they buy all the latest equipment, radar, every new piece of equipment that comes out.

There are other people who buy only the bare minimum. They paint the bottom once a year, and they scrape the rust off their present equipment, and they operate on a bare maintenance basis.

There is -- I call it a tendency to hang onto good old Joe. He is a guy who's been in the pool for maybe 15 or 20 years, and his boat might not be up to specifications, but it's pretty hard to kick him out if he's had a clean, free record for 20 years, even though his boat is pretty much gone to pot.

This could be a point -- I don't say we have had all these problems, but to some degree we have.

I would like to mention another thing, the insurance agent's relationship. Many agents use the argument against pools that you have to tie up a large amount of money over a period of many years and you lose interest on that money over those years, so therefore your insurance is not as cheap as you think it is.

You are getting 75-percent refunds, 90-percent refunds, but still if you have a very expensive boat, such as a $120,000 boat and are paying five percent, you have $6,000 that you have paid in premiums and if you are getting 80 percent, you are going to get $4,800 back. Just suppose this happened for 4 years in a row. You have four times $4,800 invested in the pool.

The interest on that kind of money can run up to a pretty good sum. But as I mentioned before, when you pay this money it's tax deductible, that's an expense of operating your boat, and when you get it back, after you retire, you pay a lower rate of income tax on it because when you sell your boat you have 4 years of your excess reserves coming to you.

When you started out, you had no reserves. Your reserves built up, and when you get out of the pool, then you have got 4 more years coming to you. It's a nice little life insurance policy. In some cases with the bigger boats, you have $3,000, $4,000, or $5,000 coming to you for the next 4 years, to you or your widow, unfortunately.

(Laughter.)

That's one of the most pleasant things about being a pool manager, you are a widow's friend.

(Laughter.)

The United Reserve Fund, I think I quoted those figures, in 1968 -- we started in midyear -- we took in $5989 and we insured $10,000. Of that we had $4419 left over, for a 77-percent refund. The next year the refund was 88 percent the next year it was 91 percent, and in the fourth year we lost a $35,000 boat and we had about a 48-1/2-percent refund.

But we have an average return over 9 years of 83 percent, which is an average rate of 0.81 percent, 81 hundredth of 1 percent.

In 1976, the rate was 0.31 percent. That was a good year.

Any questions?

MR. FELANDO: First I would like to thank you very much, Harold.

(Applause.)

MR. JACOBSEN: You might indicate to the group why, when the interest was in California in the United Reserve Fund, you based the pool in Seattle instead of some California location.

MR. ONGSTAD: Well, the laws in the State of California make it very difficult to get a pool started there. It's my understanding that you have to come up with $100,000 to $400,000 guaranteed funds, which is rather difficult to do.

The fishermen down there agreed to base it in Seattle. One thing I forgot to mention is that in the 9-year history of the fund, we have had three total losses which totaled about $100,000, and I think we have had less than $14,000 in partial losses. We had two claims last year of $5,000 apiece, and we paid a 95-percent refund. Most of the other claims were less than $1,000 apiece, some as low as $235.

The climate in the State of Washington is very agreeable for pools.

Any other questions? Sig?

MR. JAEGER: Do you still have the ground rule that the director can't serve two consecutive terms? In other words, do you circulate the directorship among the members? What is the status of that?

MR. ONGSTAD: We still have that. There are seven directors and two go off each year, except 1 year three of them go off, and they cannot be reelected. They go off for 1 year.

We try to maintain a balance on the board. We have a couple of halibut boat owners, a drag boat owner, a couple of king crab boat owners, and we have trollers on the board of directors, so everybody is represented.

It's amazing, with a board of directors like that, you can take an application from somebody and sit down with these seven people and they can identify that person and they can say yes or no, we want him or we don't want him. It's a marvelous way of selection.

MR. FELANDO: Don?

MR. REINHARDT: You mentioned in your partial losses that some of them were as low as $200 or some such figure. I was just wondering if you operated as our pool does. On our member's, losses the deductible is the amount of the assessment the member has for that year. So if his assessment was $1,000, he would not make a claim for $200.

Are you saying in effect that his claim in this instance was maybe $1,200 and then you paid out $200?

MR. ONGSTAD: No, the claim was just $232, which, of course, he does pay himself. It comes right out of his dividend.

That's one point I don't think either one of us brought up. In a pool, you pay a certain premium and when it comes time to pay dividends, everybody gets a dividend except the person who has a claim.

If you pay in, for instance, $3,000 after layup, and you have a $3,000 claim, you do not participate in the refund. If you have a $20,000 claim when you paid in $3,000, you do not get a dividend for that year, but we do not go back into prior years, to your accumulated surplus. You just lose in that 1 particular year.

MR. FELANDO: Are there any more questions? Go ahead, Don.

MR. REINHARDT: Just to clarify it, you would say that a member, if he had the $200 claim, and he so wanted, he could make the claim and get reimbursed now for the $200, but 4 years hence he would not participate in the refund, at least to that extent. If he did participate in the refund, it would be $200 less than it would have been otherwise; this is what you are saying?

MR. ONGSTAD: Right.

MR. FELANDO: Mr. Browning.

MR. BROWNING: Speaking to the claims question, in this article attributed to you, you say the Fund reserves the right to pay claims occurring during the first season as follows: 50 percent within 30 days and the remainder when the season is over, and that's hard for us to understand on the East Coast.

MR. ONGSTAD: That paragraph should have been removed from the bylaws a long time ago because this was only during the first year of operation, and we, unlike the insurance companies, collect our premiums quarterly; we allow people to pay every 3 months.

So in the first year we got started, we would only take in one-fourth of the year's premium and if somebody had a $3,000 claim there wouldn't be enough money, so we just reserved our right to pay a part of it now and then pay the rest of it when the money came in.

Also in those first years, it was a possibility that there could have been three or four claims and at the end of the year we would have been broke, so we would take all the money we had and divide it proportionately among the people who had claims.

Another point, no pool that I know of has ever declined to pay a refund. For the United Marine Fund, the lowest refund they ever paid was about 40 percent.

Now you realize the interest is taking care of all the expenses, so your loss ratio could be 100 percent and you would still get by on the year's receipts, but no pool that I know of has ever refused or ever been unable to pay a refund.

Every year the receipts have always been enough to take care of all losses and expenses with the interest.

MR. FELANDO: Mr. Browning?

MR. BROWNING: Is all the money invested in just local banks, savings accounts?

MR. ONGSTAD: No, we have quite a bit of money in CD's. One year we had the bright idea of putting some money in mutual funds, which I didn't agree with at the time, but it was done. It's only a small percentage of our assets.

We put larger amounts of money in treasury notes and treasury bills, on short terms and on long terms. We also have approximately half of our money in tax-exempt municipals.

MR. FELANDO: For the record, I think the question that was asked by Mr. Browning made reference to a sentence on page 98 of the manual.

I thank you very much, Mr. Ongstad.

I would like to suggest that we have two more speakers on the program and it is noon. Unless there is some strong objection, I would like to move forward with these two speakers.

I think we can move forward with Mr. Leonard Stasiukiewicz, who is connected with the Point Judith Fishermen's Cooperative Association, Point Judith, R.I.

GROUP INSURANCE PROGRAMS IN U.S. FISHERIES

Leonard Stasiukiewicz: General Manager, Point Judith Fishermen's Cooperative Association, Point Judith, R.I.

MR. STASIUKIEWICZ: My name is Leonard Stasiukiewicz, and I'm the General Manager of Point Judith Fishermen's Co-op.

The group insurance program was started in 1954, and presently there are 41 documented boats in the program; also there are 13 co-op member vessels not included.

Samuel Snow of Medway Marine Corporation is the sole and exclusive broker for the program. The commercial insurer is the Home Insurance for the hull and the P&I and the excess is with American Motors Insurance Company.

The program does not include undocumented boats, such as small lobster boats.

The group insurance plan is made available only to members of the Point Judith Fishermen's Co-op. In the past, the member had to own at least 51 percent of the vessel in order to qualify, but presently any vessel that is captained by a member of the co-op can qualify.

In order to minimize the losses incurred and help sustain the low premium paid by the fishermen, the board of directors administers the fleet insurance plan with the insurance carrier, and they are very selective as to which boats will be accepted into the plan.

The following conditions must be met before a member and his vessel is accepted into the group insurance plan: One, recommended and approved by the board of directors; two, recommended and approved by Samuel Snow; three, vessel approved by surveyor; four, accepted by underwriters; five, written binder is received; and six, fish out of Point Judith, R.I., and be manned by a Point Judith crew.

All the arrangements for the payments of premiums are worked out with the broker. The boatowner would have to put down 20 percent at the inception of the policy, and then there is a note signed where the premiums are paid monthly at a local bank.

The procedures on the P&I for accidents: The insured files an accident report, one with the broker and with the co-op, and when a person is released from work the medical bills are totaled with the maintenance which, in this case, is $4 a day, plus in Rhode Island they have a temporary disability insurance because the fishermen are considered employees as far as the State of Rhode Island is concerned. That is approximately $85 a week, plus the co-op has a welfare fund where the fisherman would also get $11 a day, so he would, receive $190 a week if he were injured on the boat.

This release is signed by the injured person and mailed to the broker along with medical bills and total maintenance due the injured person. A check is then sent to the boatowner less the $100 deductible. The boatowner then pays the medical bills and the maintenance to the injured person.

When there are hull insurance accidents, usually the boatowner contacts the broker directly. Inspections are made by the surveyor at the inception of accepting a fisherman into the plan and then approximately every 2 years.

The hull coverages on the boats run from a low of $18,000 to $250,000, and the percentage varies with the amount insured and also whether it's a steel or a wooden boat.

The basic P&I is the value of the hull plus the limits which go up to $400,000. The hull insurance is a $500 deductible.

So, looking at a policy, you might think, well, each boat has a different percentage, but it basically starts off with the same percentage.

The first year the program started we had problems with a tremendous amount of losses because of a hurricane, but now it is working quite well for us.

MR. FELANDO: When was it started?

MR. STASIUKIEWICZ: 1954.

MR. FELANDO: Could you tell us to what extent you get involved as a General Manager or anyone else connected with your co-op is involved in claims control?

MR. STASIUKIEWICZ: The only time we would get involved is when there is a dispute between the broker and the insured. Jake Dykstra or I would arrange a meeting to discuss the claim.

MR. FELANDO: Could you tell us something about the rates?

MR. STASIUKIEWICZ: The first $50,000 is 5 percent, and if you have a steel hull it drops after the first $50,000 to 1.75 percent, and on a wooden hull it would drop down to 3 percent.

MR. FELANDO: Are there any other questions?

DR. LYON: I would like to get a little more information about your P&I program. Have you had any claims?

MR. STASIUKIEWICZ: Not too many, no. There are a couple of them that are pending at the present time. It hasn't been too bad. That is one of the reasons why, in the past, we have been quite fortunate. Most of the guys will try to keep a crew working out of the Point Judith area where they know each other. In some cases, they are related or very close friends and it does help to minimize the claims.

DR. LYON: Have you had any litigated cases?

MR. STASIUKIEWICZ: Yes.

MR. FELANDO: To what extent do you use the U.S. Public Health Service on P&I claims?

MR. STASIUKIEWICZ: What we try to do with the fishermen, if there is an injury, is to get them to go through the Public Health Service, and this also is a help in keeping the premiums down.

MR. FELANDO: Are there any other questions or comments?

(No response.)

MR. FELANDO: Thank you very much, Leonard.

(Applause.)

MR. FELANDO: I would like to go to the last speaker of the day, and that's Mr. Heyn who will talk about the group insurance program of the Southeastern Fisheries Association.

G. Allan Heyn: Southeastern Fisheries Association Group Insurance Jacksonville, Florida

MR. HEYN: First of all, my name is Al Heyn and I work for Harlan, which is an insurance brokerage house. We are the brokerage house that handles the Southeastern Fiseries Association insurance program, predominantly shrimpers, snapper boat operators, and packing houses, and we have just brought in a group under the charter boat operators.

I am here because Bob Jones was not able to make it, and he passed it on to Carey Brikell, who was unable to attend. So I am here and may be talking about something that is not predominantly my field, workmen's compensation. I primarily am here to gather information on how to set up a pool arrangement for the Southeastern area.

But I would like to express Bob Jones' appreciation for being invited to this group. It's been a very satisfactory workshop, I think.

Going to what we have functioning at this time, we have set up a self-insurance program, as compared to an individual's ability to do the same.

We are in the fourth year of this program for the Florida Fisheries Association, and despite the general undesirability of this class of workmen's compensation, specifically, longshoremen's and harbor worker's exposure, the program has been profitable for the last 3 years.

The specific and aggregate coverages that we are required to carry to backstop the self-insurance program have increased both in cost and deductible, or self-insured retention if you would, during the last 3 years. This is the same as what's happened with the pools as far as buying their reinsurance. There's no difference there.

As an example, the specific policy requires a $100,000 self-insured retention per loss as compared to $25,000 which we had 4 years ago.

are currently able to offer all of the members of the program a 10 percent discount on the going-in rate. Our program also has ability under the direction of the board of trustees to distribute funds not used for the payment of claims.

We have heard persistent rumors that the State of Georgia has either passed or is in the process of considering the same laws which allow similar self-insurance funds to operate, but in checking with the presidents of companies located there who are strongly involved with workmen's comp, they are not aware of this new situation.

If similar laws were to be passed in any of the southern States encompassed by the Southeastern Fisheries Association, we would naturally look into the possibility of providing a similar program for those States.

Currently in the State of Florida, approximately 40 percent of workmen's compensation is written through the assigned risk pool.

We feel that with the Southeastern Fisheries program we have an even higher percentage where members would unfortunately fall in this category because they are normally considered an undesirable class in the workmen's comp area.

In Florida, there is an 8-percent surcharge on the premiums just because you are in the pool. So if the standard market turns you down, you are charged 8 percent more just because they decline you.

Presently, the U.S. Department of Labor does not allow this type of grouping, so we are currently unable to include shipbuilders in the program because we can't cover longshoremen and harbor workers.

We feel that the workmen's compensation program has been instrumental in strengthening the Southeastern Fisheries Association, contrary to keeping the membership separate from the association, et cetera. In this respect, the association strengthened the program, and the program in turn has strengthened the association and has produced 15 or 20 new members for the association itself.

With the increased problems we are experiencing in voluntarily placing workmen's compensation coverage, we feel that this plan will play an increasingly important part in the overall Southeastern Fisheries Association program.

To get into some of the detail, the Southeastern Fisheries Association program is under the continuous supervision of the Florida Department of Commerce. They have a full-time office and staff for this type of insurance.

Initially you have to have at least 10 participating members, with total assets of at least $500,000. Those members must furnish financial statements to the Department of Commerce, and once the program is qualified, the statements are no longer required.

Participating members must derive at least 50 percent of their income from the commercial seafood industry. A plan administrator is appointed, who is currently Bob Jones.

The claims and statistical work must be performed by an organization that is approved by the Florida Department of Commerce. The administrator must be bonded. The plan must have an aggregate insurance policy in the amount of half a million dollars, and this policy is in excess of the claim fund, which is 75 percent of the discounted premiums.

They also required that the specific policy with limits of $1 million by provided and, as mentioned before, this policy initially was written with $25,000 self-insurance retention and we are now up to $100,000 self-insurance retention, and that is basically what we are into.

The administrator of the self-insurance fund collects the premium, the same as an insurance carrier would. This may be done annually, semi-annually, quarterly, or monthly, depending on the size of the premium. There is no interest charge for installments under this program.

The administrator pays:

1. 12 percent of the premium for claim handling, statistical work and and loss prevention activities.

2. The premium for the aggregate policy.

3. The premium for the specific policy.

4. The Florida Department of Commerce assessment for taxes.

The administrator of the fund invests the funds, and interest accrued goes to the account of the Fisheries Association. Use of this money is at the discretion of the trustees, with the approval of the Department of Commerce.

In the first 2 years of this program, the cost of the specific and aggregate policies were so low that the Association was able to receive 3 percent of the premium to be used by the administrator and trustees. In recent years, the cost of these policies has risen sharply and has eliminated the 3 percent.

The Association members who participate in this program are jointly and separately liable for the liabilities of the plan, if any. The State of Florida has never had a self-insurance plan that has exceeded its specific or aggregate limits. The rates used to develop premiums for this fund are those that are developed for identical risks in the State of Florida. The experience modification developed by the Florida Workmen's Compensation Bureau is also applied. This is the same modification that would be used regardless of whether the individual participant is a member of the SFA Program or is insured by standard insurance carriers.

This plan operated in 12-month terms. This program has a common expiration date for all participants. A full 12 months must elapse after the end of each policy year before the Board of Trustees may distribute unused claim funds. The Department of Commerce must approve any distribution of these funds.

MR. FELANDO: Any questions of Mr. Heyn? You did a good job. Allan, what specifically is your exposure?

MR. HEYN: We are talking about the workmen's compensation now. This predominontly is not going to apply to a boatowner much, because he's not liable under workmen's compensation, but we are primarily operating this at the seafood packing houses where you have oyster shuckers, crab pickers, shrimp headers and cleaners, and whatever else.

We can't, under the current situation, write boat builders or boat repair shops where they have a predominant U.S. longshoremen's exposure, and this is a very difficult area to get covered right now, but we have some plans in the background that will pretty well be able to take care of this in the next 6 months.

MR. FELANDO: Any other questions or statements?

MR. KIRKUP: How much lower is the rate than it would be through normal channels?

MR. HEYN: The going-in rate is 10 percent below the standard commercial market which is set by the State, whatever that would be.

In the end, given a good year, a reasonable year, there is a refund available, the unpaid claims reserve, which can be used either to carry forward to next year or be used as dividends to the members. The first year they declared a dividend of something like $20,000. The second year the dividends I think went back in to build up the loss reserve because of our increased retention from $25,000 to $100,000.

The third year, by the time it was there to give away, the reinsurers came in and said, oh, no, we want it, you know, so it was gone, but it kept the cost down because otherwise we would have had a problem keeping the 10 percent -- we orginally started with a 15-percent discount, but because of the cost of reinsurance we're not able to keep that.

There is 3 percent in the trustee's fund for retention for expenses. Not that -- the money derived off of this or the interest derived from the funds go to pay the salaries of the Southeastern Fisheries secretaries and so forth, so it helps to reduce the cost.

MR. FELANDO: Are there any other qyuestions?

MR. BROWNING: Let me add something to this. I'm not sure if Allan made it clear to you.

Self-insured workmen's comp claims are not allowed in many States, so you can't get your hopes up in doing something like this every place, particularly States where you have a State compensation plan, so I think Allan mentioned Georgia was going to do it, New Jersey allows it, but that's about all that I know of. Washington has its problems.

MR. MODESTO: May I remind you that we have the opportunity at this time to thank Gale Lyon and Dr. Theodore, because if it had not been for them we might not have come to this point.

(Applause.)

MR. FELANDO: I assume that that is a motion, and I will welcome a second from anyone.

VOICE: A second.

MR. FELANDO: Could we have a vote? All in favor, say aye.

VOICES: Aye.

MR. FELANDO: We will now hear our report from the chairman, Paul Poliak. This will conclude our meeting on Commercial Fishing Vessels and Insurance Safety.

COMMITTEE REPORT

MR. POLIAK: Thank you very much, Augie.

The Steering Committee met yesterday evening and again last night and this morning. The committee recommends the following resolutions to the conference.

1. The National Marine Fisheries Service should arrange to have an unabridged publication of the transcript of this conference.

    A. The transcript should contain an annotated bibliography of publications related to safety and insurance which arose from the ad hoc committee's efforts since 1973.

    B. Two free copies of the transcript should be mailed to each participant in this conference.

    C. Steps should be taken by NMFS to have the transcript on sale by the National Technical Information Service.

2. The manual on mutual insurance associations, with minor editorial changes, should be published by NMFS.

    A. Two free copies should be distributed to each participant of this conference.

    B. Steps should be taken by NMFS to have the above monograph on sale by the National Technical Information Service.

3. A national council on fishing vessel safety and insurance should be established as a nonprofit organization and a draft of bylaws and/or other appropriate documents necessary for forming the council should be prepared and an organizing meeting of the Steering Committee should be held as soon as possible.

4. That the following functions may be assumed by the said organization:

   A. Promote safety standards in fishing vessel construction, maintenance, and operation.

   B. Promote training programs on safety.

   C. Provide to the fishing industry and its related industries up-to-date information on safety developments.

   D. Create an information system for reporting, evaluating, and distributing statistics and analyses on safety and related topics.

   E. Provide technical assistance as may be appropriate in safety and insurance matters.

   F. Act as emissary in dealing with government agencies involved on matters of vessel insurance and safety.

   G. Monitor legislation affecting safety and insurance of commercial fishing vessels.

5. Seek funding from private as well as government sources for implementing any of the above functions.

6. NMFS should provide technical assistance until the council becomes financially self supporting.

MR. FELANDO: Very good, Paul. Are there any comments or discussion on the report?

(No response.)

Then I assume that committee report contained a resolution that was provided to me by Octavio Modesto and passed by the committee.

MR. POLIAK: Yes.

DISCUSSION

MR. FELANDO: As you all know by now, Gale is going to be leaving us, in fact Monday, for the Gulf, which will be an advantage to the Gulf people; both Gale and Chris, of course, have been the pillars that all of us have been relying on, so that will be a loss.

I want to wish you the best of luck.

I would like now to go back to the committee report. Are there any additions or corrections or any discussions on the report? If not, I would like to have a voice vote on it.

All in favor say aye.

VOICE: Aye.

MR. FELANDO: Opposed?

(No response.)

MR. FELANDO: Then the committee report is passed.

I would like to make it very clear as to who the Steering Committee members are. This information will be made a part of the minutes.

Mrs. Ongstad, we want to thank you for attending. We enjoyed having you with us.

Gentlemen, I want to thank you very much for allowing me to be the chairman of this meeting.

(Applause.)

(Whereupon, the meeting was concluded at 12:30 p.m.)

(At the request of Mr. Paul Poliak, the following is made a supplement to the Transcript:)

STEERING COMMITTEE MEMBERS

MR. POLIAK: The Steering Committee members as appointed by Mr. Felando are as follows:

1. John Burt.
2. Leif Jacobsen.
3. Sig Jaeger.
4. Octavio Modesto.
5. William Utz.
6. Guy Sovereign.
7. Paul Anderson.
8. August Felando.
9. Mauri Oaksmith
10. Don Reinhardt.
11. Bruno Augenti.
12. Lucy Sloan.
13. Herb McGinniss.
14. Allan Tarbell.
15. Chris A. Theodore, Consulting Director.
16. Paul Poliak, Chairman.

ANNOTATED BIBLIOGRAPHY OF PUBLICATIONS

ON SAFETY AND INSURANCE

RESULTING FROM THE EFFORTS

OF THE AD HOC GROUP ON COMMERCIAL FISHING

VESSEL INSURANCE

January 1973 through May 1975*

1. Gale H. Lyon and Chris A. Theodore (editors), Proceedings of the Conference on Commercial Fishing Vessel Insurance, January 9 and 10, 1973. National Marine Fisheries Service, September 1973. (Publication No. COM-73-11639, 217pp.)

This report is an edited version of the conference transcript. Participants included vesselowners, fishermen, marine surveyors, union officers, insurance brokers and underwriters, attorneys, representatives of trade associations and cooperatives, and experts on insurance and safety. Panel members presented papers on different aspects of vessel hull and personal liability insurance, including risk management. Presentations were followed by question-and-answer periods and discussions among conference participants.

Conference panels addressed the following topics:

1. Reports from the insured on the current vessel insurance situation.

2. Reports from the insurers on vessel insurance.

3. Vessel insurance market structure and determining premium rates.

4. Legal factors and litigation.

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* The National Marine Fisheries Service has placed these publications for sale with the National Technical Information Service (NTIS), United States Department of Commerce. To purchase these reports call (703) 557-4650 or write: NTIS, ATTN: Order Desk, 5282 Port Royal Road, Springfield, VA 22161.

5. Safety programs and practices.

6. Pooling risk and other institutional approaches.

7. Alternatives for government action in alleviating the insurance problem followed by views from leaders representing commercial fishing vesselowners, labor unions, and insurers.

2. Gale H. Lyon and Chris A. Theodore (editors), Summary report of the Ad Hoc Group on Commercial Fishing Vessel Insurance, January 1973-May 1975. National Marine Fisheries Service, June 1976. (Publication No. PB-262-829; 41 pp.)

The Ad Hoc Group, established following the 1973 conference on insurance, was composed of members with varied backgrounds and experience in commercial fishing and insurance. The report highlights the Group's activities, deliberations, findings, and reports. Major areas covered include background information, vessel safety, protection and indemnity insurance, alternative insurance systems, and draft legislation. Section I of the report summarizes the Group's accomplishments in identifying the basic issues affecting safety and insurance and in drafting a bill entitled, "Vessel Safety and Fishermen's Benefits Act of 1976." Title I of the draft bill provides for a vessel safety certification program, training programs on safety and health standards, regional and national safety advisory committees, and an information-reporting mechanism designed to evaluate the impact of safety on loss experience. Title II of the draft bill introduces a new system for personal liability of vesselowners with the following general features: benefits for injury, illness, or death are based on a pre-established schedule; litigation is effectively controlled but not entirely eliminated; vesselowners are liable for their employees regardless of fault; and the bill is designed to provide a stable and broad insurance market.

Section II provides background information including summaries of the findings of the 1950 and 1960 surveys on insurance problems and the recommendations of the 1973 conference on vessel safety, insurance and reinsurance, information systems, and legal issues.

Sections II, IV, and V summarize the Group's deliberations on vessel safety and liability insurance systems for commercial fishing vessels.

Section VI contains a copy of the Group's draft bill and some basic principles and concepts that are reflected in the bill.

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