ASIM looks at risk management in the 70s

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April 27, 1970

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A 408-car parking structure at Clarkson Hospital in Omaha, Neb., collapsed earlier this month, damaging 48 cars and the structure itself extensively. The garage is insured under a general property insurance policy written on hospital buildings by Factory Insurance Assn. Damage, according to an FIA spokesman, will amount to "about $200,000." The FIA currently has engineers on the scene to determine the cause of the collapse. Subrogation against the architect or builder may result if it is determined either was at fault in design or construction. Aetna Life & Casualty Co. insures the hospital for general liability and casualty, but the Hartford-based insurer is not involved in the claim, according to an Aetna man in Omaha.

Late news

Proposed law would up nuclear liability

HAMILTON, Ont.—McMaster University warns it may have to halt or curtail nuclear research if new nuclear insurance legislation is passed in Ontario. Under a proposed Nuclear Liability Act, operators of nuclear reactors would be required to carry insurance of up to $75 million. McMaster now carries $500,000 of insurance for public liability and property damage claims that might arise from a nuclear accident. According to a university spokesman, the institution has paid premiums of $18,000 a year for 12 years without a claim.

Black builder vainly seeks bond he needs

If you're white, well awright. If you're brown, stick aroun'.
If you're black, step back. Step back, step back, step back.

By SUSAN TRAUSCH

NEW YORK—In Harlem black contractors struggling to start a business work on a shoestring and hope it'll all hold together until they get that big job. But when they have a major bid accepted they run smack into the unswerving demands of the insurance community, which is very fussy about who gets performance bonds on construction projects.

The performance bond is required in the construction industry as protection for those hiring the contractor. If the job falls through, the bonding company must pay, and so the surety industry is very careful not to invest in shoestrings.

"But where does that leave us? How do we get started?" asks Wesely Yearwood, executive vp of Blackwood Construction Corp., a six-year-old Harlem firm. Mr. Yearwood says that his company has contacted eight insurance companies in an effort to get a $250,000 bond needed before he can start construction on a Harlem day care center, but he can get no support and no bond.

"WE AREN'T asking for a hand-out," Mr. Yearwood told *Business Insurance*. "We just want a chance to set a track record. We've proved ourselves on smaller projects. We were chosen to do a tennis court at Columbia University and an education center for the Bronx. In those biddings we were competing against bonded contractors, but still we were picked. Obviously people have confidence in us as builders. But insurance companies just want to talk liquid assets. We've got $35,000. They say it's not enough."

He said that the day care center and the Bronx Board of Education were considering waiving the bonds.

Continued on page 2

Senate antitrust unit launches probe of premium investments by national insurance brokers

By RICHARD BJORKLUND

WASHINGTON—A potentially explosive inquiry into the premium investment practices of major national agent-brokers has been started by the Senate antitrust and monopoly subcommittee investigating auto insurance.

Sen. Philip A. Hart (D.-Mich.), subcommittee chairman, sent questionnaires to property-liability insurance companies and state insurance departments asking about their requirements regarding the "fiduciary" responsibility of brokers who hold premiums for periods of 15 to 90 days.

Another pointed inquiry from Sen. Hart went out early this month to the five largest brokerage firms: Marsh & McLennan Inc., Johnson & Higgins, Alexander & Alexander Inc., Frank B. Hall & Co. Inc. and Fred S. James & Co.

The broker inquiries, designed to gather information, asked:

- Whether they collected premium income in 14 major states.
- How many days they were allowed to remit premiums.
- Whether premium income is invested in bank accounts, Treasury bills, certificates of deposit or other commercial paper.
- What the disposition of premium investment income earned for the years from 1967 to 1969 was, including figures on what investment income funds were remitted to carriers or retained.
- What was total after-tax income for the same years and do these figures include retained interest on premiums?
- What agreements do you have with regard to withdrawal and retention of premium investment income with carriers?
- Whether exceptions were made to requirements of insurance companies or state insurance departments in certain instances regarding income from investments of premiums.

The letter of inquiry went out to the top five brokerage houses early this month. At last report only two—Frank B. Hall and Johnson & Higgins—had indicated that they are developing material for the subcommittee.

EARLIER INQUIRIES to state insurance departments and insurance carriers established that the practice of investing collected but unremitted premiums is contractually and legally not permitted in most cases.

Of 45 carriers queried, 38 said that they do not permit agents or brokers to invest premiums collected in their behalf. Three said they did permit investment, and four indicated that the question was not applicable. Fifteen companies that were queried said they conduct periodic examina-

Continued on page 38

Here are brokers involved in inquiry

WASHINGTON—Five brokerage houses queried by Sen. Philip A. Hart regarding their practices in investing premiums collected but unremitted are the largest in the country. According to figures recently published by Best's, here is their estimated 1969 commission income:

Marsh & McLennan Inc.	$127.3 million
Johnson & Higgins	37.0 million
Alexander & Alexander Inc.	34.5 million
Frank B. Hall & Co. Inc.	14.0 million
Fred S. James & Co.	13.0 million

Investigate Freedom's financial ties

CHICAGO—The financial affairs of two high-risk auto insurance companies are under investigation here by the Illinois department of insurance and the state's attorney's office. One of the firms is also being investigated by the Federal Bureau of Investigation.

The state is attempting to determine if there was a tie-in between Prudence Mutual Casualty Co., Chicago, which went into liquidation Feb. 2, and Freedom Insurance Co., Chicago, which went into liquidation on Mar. 31. Both companies were headed by Norman Howard. The state is considering revocation of the licenses of the officers of Freedom, an all-black firm.

The Illinois state's attorney's office has also subpoenaed the records of Responsibility Security Underwriters Inc., Jefferson City, Mo., in connection with the case.

Continued on page 38

L.A. doctors get first group malpractice plan

LOS ANGELES—The Los Angeles County Medical Assn. this week signed a new medical malpractice contract with the Hartford to furnish full coverage beginning July 1.

The coverage will be provided through Johnson & Higgins.

The basic policy, *Busiess Insurance* has learned, will provide a standard $100,000 of coverage for each doctor named on the master policy. In addition, the Hartford will write excess layers of $1 million, $3 million or $5 million on an individual basis for doctors who desire the extra coverage. Most, of course, do require excess coverage in some form. It is expected that the 10,000 member doctors in the Los Angeles area will generate premiums of about $20 million for the Hartford in the first year of the contract.

The policy is the first such group cover ever worked out for a medical association and, if successful, the concept may revolutionize the insurance market for other groups, such as architects and lawyers, who have been faced with insurance dilemmas when attempting to obtain professional liability coverage.

Medical malpractice coverage, particularly in southern California, has been the subject of a state-wide survey now known as "the Linder Report" dealing with high rates, antitrust suits, and a rash of legislative investigations. The study was conducted for the California Medical Assn.

HIGHLIGHTS of the new Hartford arrangement will include a provision for retroactive sharing of profits as well as for special claims handling procedures.

The rating program takes into account income the Hartford will derive by investing the premiums and it sets up reserves to pay anticipated claims. The investment income feature consists of

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Black bond

Continued from page 1

Summing up the attitude of insurance men, a spokesman at Travelers said, "I can understand the problem. It's very common. But I think people like to point the finger at the surety and bonding industry without really understanding our point of view. Business is business and you can't back someone without assets and money behind him. The industry has standards and these standards have to be met whether a person is black, white or green."

In the middle, trying to bridge the hundred-odd city blocks, the emotions and the years separating W. 125th from the insurance industry down town, are the social organizations, urban development people and small business groups. Several spokesmen for these agencies contacted said that Blackwood had been trying since 1968 to get a bond, but refused to get its books in order to present a financial statement to the bonding companies.

"IT ALL BOILS down to a lack of understanding of each others' problems," said Charles Carmen of Carmen Inc., a firm that places contractors with bonding companies. "Many minority contractors just don't want to conform to the sophisticated financial standards required today. But there's a lack of education on the other side too. Insurance underwriters are pretty ironclad and won't support anything unless they are 200% sure of it. We're trying to get them to be a little less stringent. Both sides have to bend."

According to a *Business Insurance* survey of large and small black contractors, insurance companies and urban organizations, the bending is slow, but it is starting. Contractors and government people often mentioned the Travelers, Aetna and the Hartford as being most sympathetic to the problems.

"Often we need a little more than sympathy," said Joseph Conrad, who works with the Office of Minority Enterprises in Washington. "But the Small Business Administration is encouraged by some insurance companies' attitudes. The door is opening. We realize we're new and the conservative financial establishment isn't going to greet us with open arms. Also, when we ask for bondings, we're hitting their golden goose. That's about the most profitable part of the insurance industry. The going will be slow, but at least its happening.

Donald Harned, a Travelers man in charge of that company's minority business help program in New York said he has worked with the Contractor's Accreditation and Control Board on about 50 black and Puerto Rican firms. The board is a city agency that attempts to arrange bonds for minority businessmen.

"WE TRY TO bend over backwards to help," he said. "But when there's no money or experience, there isn't much we can do."

Sal Capatosto, the New York bonding manager for the Hartford, said he has several black contractors on the books, the most recent being a $52,000 bond for a demolition project and a $3,500 construction bond.

"Of course there are more whites than blacks on the books," he said, "But it's not a matter of race prejudice, it's a matter of money. The market is tight right now for anybody small."

Tim Bigelow, an Aetna spokesman, agreed.

"IT'S ROUGH," he said. "There's the small guy, usually in a bad area of town, trying to make a go of it and insurance companies are down on him. But you have to remember that everybody started out small and had to work up through the system."

Arnold Braithwaith, who is chief administrator for New York's Contractor Accreditation and Control Board, sees that struggle up through the system everyday.

"Minority firms are in a purgatory right now, but it's the necessary purgatory that all young organizations go through."

Mr. Braithwaith's organization was formed last May and has been able to get ten black contractors bonded, although it has counseled many more. The board, part of the Manpower and Career Development Agency, is supported by the Economic Development Assn., the Ford Foundation, and Urban Coalition. Its primary work is getting minority contractors in shape for presentation to bonding companies.

"I SIT DOWN with them and go over step by step what's needed to get their operations going technically and financially," said Selby Donavan, executive director of the board. A native of the West Indies, Mr. Donavan has had seven years experience in insurance and four in the demolition business. "We'll give them a short-term loan if they need it, provide job supervision, go with them to the bank and to the bonding companies and explain it all to the money men."

He said the board works mainly with Travelers, Hartford, Aetna, CNA, Maryland Fidelity and a few other smaller fidelity companies.

According to Mr. Braithwaith, insurance companies are often shocked at ghetto contractors' bookkeeping.

"Actually there isn't much bookkeeping," he said. "Let's be honest about this. A lot of minority contractors get finances from the loan sharks and if you start keeping neat records about the loan sharks you wind up in the bottom of the river. So, there's a guy who's been working in not-so-ethical practices for the last 15 or 20 years and now he's ready to get into the big money, but nobody will touch him."

HE ALSO POINTED out that insurance companies, a little too conscious of the horror stories, are overly suspicious of well-qualified contractors.

"When we finally have gone through all the work of getting a guy in shape and directing him to proper channels, we run into the bonding men who go over every line and every figure searching for loopholes," he said. "And when they find the slightest crimp, they use it against us."

He noted that in one Brownsville building project, a misunderstood rumor scared off the bonding people.

"The contractor was approved by the top three bonding men in the business and we planned to have supervisors from the department on the job. Everything was set," he explained. "Then all of a sudden—bang. The bonding company disappeared, dropped the contract and we didn't hear from them for months. We couldn't even get them to talk to us about it." Finally, he said, they explained that they had heard local Brownsville people would be working on the job, and were afraid of unprofessional work.

"BUT WE ALWAYS use local people when we can," Mr. Braithwaith said. "That's the whole reason for creating ghetto jobs. We had the same contractor, the same supervision, but that one point ruined it. What got me was the fact that they didn't even call to find out how the Brownsville people would be used or why. They just ran."

The bond was arranged through another company, he noted.

"I think the insurance community is basically sincere in its efforts to help," said James Brooks of New York's Urban Coalition, which sponsors the "Give A Damn" ghetto campaign. "Of necessity they have to be hard-nosed. But I wonder sometimes, when Urban Coalition has backed a project, put thousands of dollars into it and offered to pay the bonding company if the project falls through, and still we can't get a bond for the contractor. Why?"

Malcolm Corrin, director of the Interracial Council for Business Opportunity, said he runs into the same problem.

"EVEN WHEN WE guarantee portions of bonds, we still get no support from insurance companies," he said. "The last time we got a bond, a stockholder we knew who is very wealthy, was able to pressure the president of the bonding company into giving one to us. As far as cooperation from insurance companies goes, I haven't seen any evidence of it. I think the answer will have to come from the government."

William King, owner of Hannibal Construction, a medium-sized New York firm, owned by blacks, agreed.

"True, I think insurance companies should be more willing to listen to minority problems, but when you come right down to it, this whole thing should be solved by the government, not insurance companies. I think a system should be set up whereby the Federal, state and city governments would each pay a part of backing money needed for a construction project."

But the Federal government, however, is having its own problems now with minority contract bonding. Through the Small Business Administration it has arranged for black contractors to do considerable government construction work. One such project is at Wright Patterson Air Force Base in Dayton, O. Six black contractors were given maintenance and rehabilitation work on the base, but the deal ran into a snag when bonding companies would not back the projects.

"THE GOVERNMENT cannot simply finance the programs themselves," said Paul Gill, who works with the Small Business Administration in Washington. "They have their own Miller Act to contend with, which states that any government construction project over $2,000 must be bonded by a surety company."

The Miller Act was adopted in 1935 in an effort to protect workers who simply were not paid if a contractor ran out of finances.

A bill sponsored by Sen. Birch Bayh, which will come before Congress soon, proposes raising the $2,000 ceiling to $20,000 because of inflation since 1936.

Mr. Gill also suggested a possible pool of many insurance companies to form a reinsurance company to help support the ghetto businessman. ■

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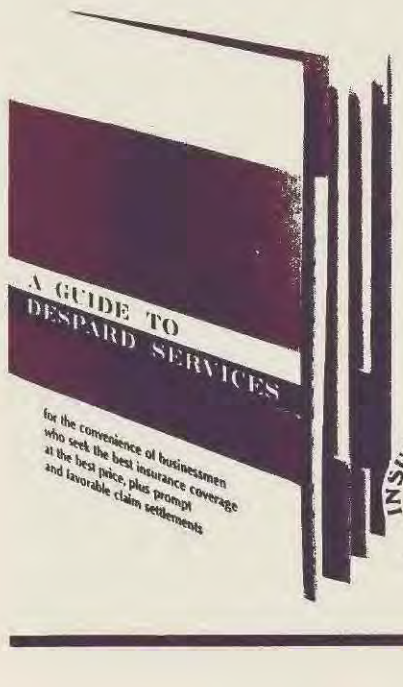
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Rollyn Storey takes over; ASIM sets 70s goals

MIAMI BEACH—The American Society of Insurance Management is actively considering expansion of its role into the field of employe benefits and is studying a change of name to conform with broadened concepts of risk management.

These points emerged from a press conference held by ASIM officers at the close of the group's annual conference at the Americana Hotel in Bal Harbour.

Rollyn Storey, ASIM's new president, said that he has reappointed the Delware Valley chapter to present an advance planning report to the next ASIM conference in San Francisco, Feb. 22-26, 1971.

"As indicated in the closing paragraph of this year's advance planning committee report, the subject next in line for study is an expansion of our efforts into the employe benefits field," Mr. Storey said. He indicated that ASIM demonstrated its interest in this field at this year's conference by placing on the program a labor Social Security specialist from the AFL-CIO.

Some ASIM leaders pointed out at the conference that employe benefit administration has not been given sufficient attention by the Council of Employe Benefits or the American Management Assn. at their seminars.



Rollyn L. Storey, new ASIM president

ON THE SUBJECT of an ASIM name change, Mr. Storey said "there has been some call for this, but it would require changes in ASIM's constitution and by-laws." A committee has studied the subject, he said, and it may be brought up again.

Other points made at the press conference included:

• ASIM will continue to support open competition laws that have come under criticism in several states, including California. "We are in favor of open competition," Mr. Storey said, "and the availability of insurance to purchasers."

• James E. Bailey, ASIM's legislative coordinator, will continue to support state post-assessment funds as the best answer to the insolvency problem. While ASIM has taken no position on Federal regulation of insurance, it strongly opposed adoption of legislation creating a Federal Insurance Guaranty Corp.

• ASIM has organized a committee that will attempt to promote an understanding of risk management concepts on the part of corporate management. It will seek to sell to management the concept of what a true risk manager does.

• New ASIM officers termed as "the most embryonic of all" the suggestion that they cooperate with other consumer groups in studying insurance legislation and regulation. One ASIM spokesman said, "We are interested in the little guy as well as the big guy, but it is hard to pin down those groups in local areas that speak for consumers."

Mr. Storey told *Business Insurance* he looks forward to a year of "consolidating a position," rather than innovating new trends.

"I hope to build on the projects already started," said the 44-year-old director of insurance and safety at the SCM Corp. in New York. "I want to see ASIM strengthen and develop as an organization."

In a printed statement prepared for ASIM members he noted that he hoped for increased emphasis on employe benefits improved communications with the legislative committee, more participation in insurance education programs and a closer working with local chapters.

"I WANT to be available," he said. "I want to be available to the ASIM national office, to the legislative office in Washington, to the national officers and committee chairmen, and to the local chapters. Insofar as my work allows, I will visit some chapters to see the members where they live and work."

Mr. Storey has served ASIM as national treasurer, vp for education, and first vp. He has held similar positions in the Cleveland chapter.

Mr. Storey has bachelor's and master's degrees in business administration and a law degree from the University of Michigan. He became a member of the Ohio bar in 1951, was named a Chartered Property and Casualty Underwriter in 1955 and graduated from the Insurance Institute of America's program in risk management in 1966.

"I GUESS you'd say my hobby is being a student," he said, when asked his outside interests.

Mr. Storey is currently taking a correspondence course in management studies at the Insurance Institute of America. He also has taught institute courses himself and has conducted CPCU classes.

The new ASIM prexy lives with his wife and three children in White Plains, New York. He is replacing outgoing ASIM president William S. Mortimer, insurance director of Norton Simon Inc., Fullerton, Calif. ■

Berges says 'New Left' program must be met by 'renewal' of business

MIAMI BEACH—A Time magazine executive warned risk managers attending the annual conference of the American Society of Insurance Management that charges of the New Left "cannot be ignored" and urged businessmen to seek "self-renewal."

Marshall Berges, assistant to the publisher of Time and the magazine's special correspondent on economic trends, said, "New Left charges are being voiced both by radicals who aim to overturn society, and by those who merely hope to improve it.

"The two groups," he went on, "use the same language and often seem equally bitter. But there are important differences. The hard core of the New Left is made up of Marxists, nihilists and anarchists. Those who know them best believe there is little hope of winning them over by reason, sweetness and light.

"BUT THE SECOND and much larger group includes conscientious young people who are disturbed over society as they see it, and who want to make improvements within the law. And I believe it is possible to communicate with them."

Mr. Berges added: "The New Left ideology is dangerous because it couches its appeals in idealistic terms. It sounds noble, professes to fight injustice, and demands lives of fulfillment for all human beings—a goal that it is totally incapable of delivering. It gains its support by relating to the legitimate aspirations of sincere young Americans. The challenge to business is to be no less effective in *relating* its message to those concerns. The challenge to businessmen is to recognize *legitimate* grievances and to recapture "the revolution" from those who know only how to destroy."

Mr. Berges began his ASIM talk by reminding the risk managers that the New Left philosophy represents "an attack against all our American institutions," and that "it involves the insurance industry."

He continued, "The outbreak of explosions in recent weeks, at a variety of Establishment targets—corporate offices, police stations, draft induction centers—underscores a new mood among frustrated radicals. It appears to have been intensified by the outcome of the trial of the Chicago Seven as well as various pending Black Panther trials."

THE PUBLISHING executive delivered this charge to the business community:

"First: The main conflict between the young and their elders is a contest between the subjectivity of youth and the objectivity of the elders.

"Second: That means—by definition—the elders are part of the problem.

"Third: The solution to the problem must involve elders.

"Fourth: To be involved usefully we must grow—and our growth will help us to renew our organizations, skillfully and carefully.

"Fifth: The process of growth will make it possible for us to lead and teach the young more about their own part of the problem.

"Importantly, by growing, you will be able to *initiate* change rather than react to it. You will be able to determine in advance those areas where you must stand firm. And not least importantly, having been one of the explorers in your organization, you will have earned the respect of those who have to live with your decisions," he concluded. ■



William S. Mortimer, director of insurance for Norton Simon Inc., and past ASIM president, addresses the annual conference of the American Society of Insurance Management in Miami Beach, Fla.

Diversification to mark insurance service during the 70s: Sammet

MIAMI BEACH—An insurance executive told the American Society of Insurance Management conference here that diversification will be the keynote of insurance company operations during the coming decade. And he separated the astute risk manager from the current wave of consumerism sweeping the country.

Jacque W. Sammet, president of Continental Casualty Co., said, "I subscribe to the theory that the more astute the consumer, the better the simple market mechanism will work to meet his economic needs.

"Certainly, that seems to be the case in the insurance industry. It would be wrong to say that the corporate insurance market has no problems—far from it. But it does seem to me that the problems we face are more tractable in this area than in any other.

"And a good part of the reason is that in corporate insurance we are dealing increasingly with insurance buyers with a professional attitude toward the management of risk."

MR. SAMMET continued: "Professionalism on the part of the buyer disciplines the insurance industry—and this is good for it. But the demands are in the realm of the possible. They are posed by men with an understanding of the basic mechanisms of insurance, men who know that you can't insure a ship whose crew has announced plans to blow it up—who understand that insurance capacity will be strained for a petrochemical plant designed so that a fire of possibly disastrous proportions is a sure thing at some point in time.

"As buyers and sellers, we are, in one sense, competitors. We have some interests that clash. But we have a broader interest in maintaining the framework in which we work out our economic relations to one another."

Taking up the theme that diversification will characterize the insurance industry in the 70s, Mr. Sammet said, "what's happening in insurance is that the business we are in has been better defined: We deal in financial and related services, investment, credit, financing via mechanisms ranging from mortgages to leases, real estate, because it's a prime investment medium.

"Insurance is a means of protecting against dollar losses—and it gets us into such related services as engineering to provide a prudent evaluation of the potential economic loss control—the active steps that we can take to prevent economic loss in a particular situation."

Mr. Sammet asked, "Now, what does this mean to the insurance buyer? What effects will this have on such questions as insurance capacity in the decade ahead?

"THERE IS, I know, a fear that the utilization of so-called 'surplus' surplus in the diversification of insurance-based financial services companies has had a detrimental effect on insurance capacity. I think this view ignores one vital factor. What is surplus 'surplus'? Because there was no economically viable way of putting it to work in the insurance marketplace, its use there would not produce the return that that given amount of capital could earn elsewhere under current market conditions."

Turning to the relationship between insurance company diversification and the corporate buyer, Mr. Sammet said, "Matching and complementing our own redefinition of the business we are in is the redefinition of the corporate insurance buyer—his transformation into a risk manager and employe benefits specialist who

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washington watch

Nader names names in hard-hitting report on air pollution bad guys

WASHINGTON—A massive, hard-hitting Nader report on air pollution has either already caused a sensation in the business community, or will in just a few days—naming names, both companies and individuals, of those whom Nader and his raiders feel are responsible for deplorable lack of progress in cleaning up the environment.

State and local officials who administer air pollution regulations are strongly criticized by the report for being too cozy with industry. And many trade associations are indicted for aiding and abetting this relationship.

As might be expected, the auto industry is the main focal point for the report's attention. The report is very pessimistic that the U.S. will enjoy clean air anytime soon, unless Detroit changes its entire attitude toward environmental quality.

AT THIS POINT the report gets down to the nitty gritty, going behind the scenes and again naming names in a case history narrative relating how good intentions to control exhaust emission and develop a standard are sometimes subverted by special interests.

If you have trouble getting a copy of the report, have patience, it will almost certainly show up eventually as an exhibit to a consumer class action suit somewhere and the clerk will send you a copy for 25¢ a page. The report is 300 pages long.

Industries across the nation are bracing themselves for waves—not just one wave—of class action suits dealing with pollution. Such a threat was highlighted at a workshop on law and pollution sponsored by the Manufacturing Chemists Assn. in New York, Mar. 25.

Industry has every reason to be concerned and to be rallying its legal forces. Evidence is everywhere that consumerists will very soon be turning en mass to the courts.

SIXTY ATTORNEYS recently founded a non-profit National Resources Defense Council in Princeton, N.J., to assist litigants in fighting selected environmental cases to establish legal precedents.

Consumerist Senators Hart (D., Mich.), McGovern (D., S.D.) and Udall (D., Ariz.) are stepping up their support for a bill that would make it easier for citizens to sue the Federal government on environmental issues by removing the defense of "sovereign immunity."

The House Committee on Government Operations has issued a report reminding the public that individuals who find industrial refuse being discharged into a navigable waterway without a Corps of Engineers permit may inform the appropriate U.S. attorney, whose job it is to "vigorously prosecute all offenders." The report stemmed from a little known provision of the 1899 Refuse Act.

What are insurance firms doing about all this action? It is difficult to generalize, but Insurance Co. of North America reportedly has announced it no longer will insure companies under general liability for the consequence of air or water pollution.

AND, WHAT IS government doing? As usual no one is happy with the government's role—everyone agrees that its action is either too much or too little.

In truth, the Nixon Administration appears to be taking a very hard line against polluters. A few examples will illustrate.

Interior Sec. Hickel recently recommended to the Justice Department that it convene a grand jury to investigate "many serious violations" of offshore oil drilling and production regulations in the Gulf of Mexico.

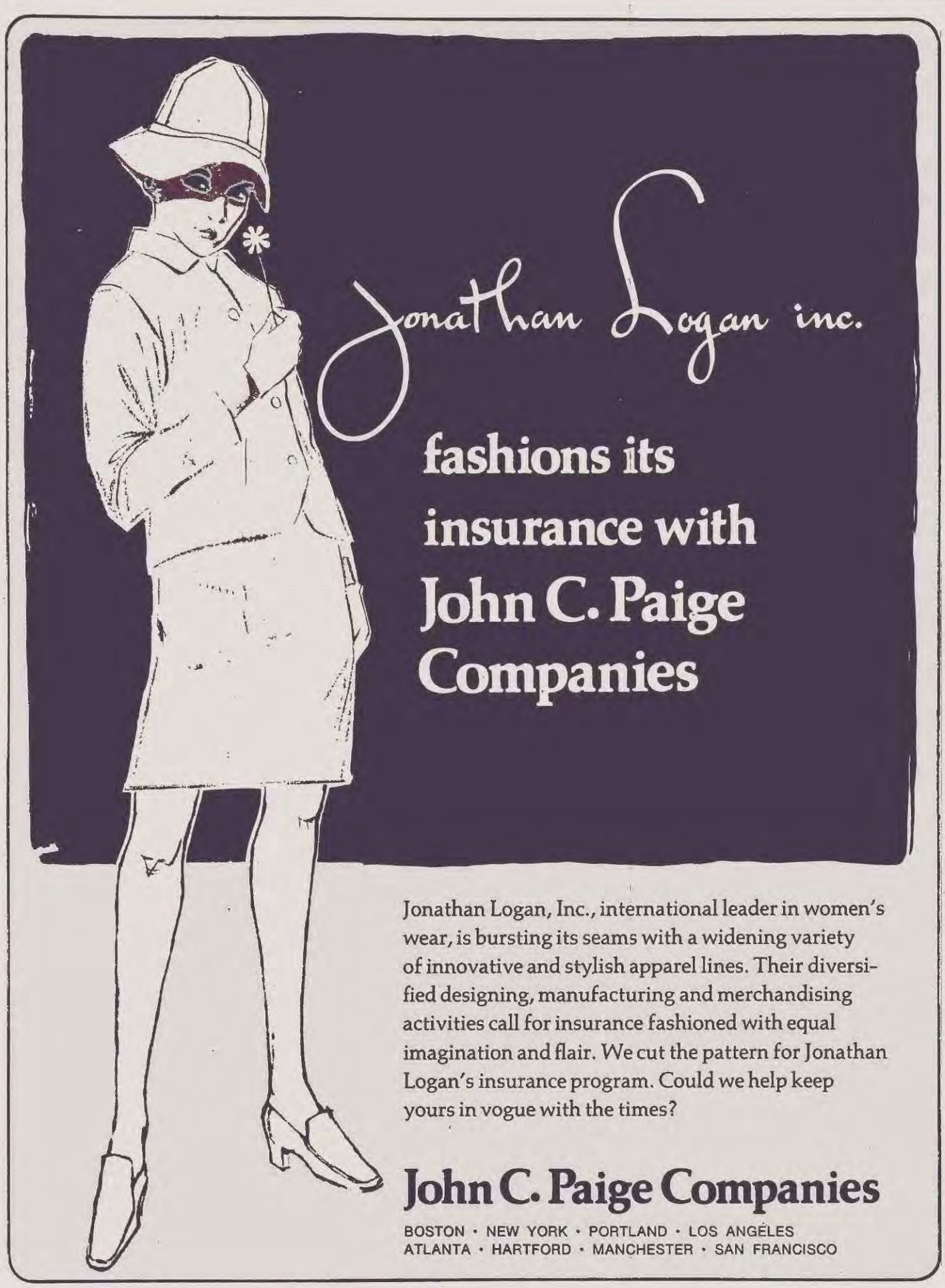
The recommendation particularly cites the Block 41 Federal oil lease off the coast of Louisiana operated by the Chevron Oil Co., but also "assumes that other lessees have similarly failed to comply with the regulations."

IN A MEMORANDUM to Att. Gen. John Mitchell, Sec. Hickel said: "Based on our review of the evidence now available to use, I believe violations were knowingly and willfully committed. I believe criminal proceedings against Chevron are warranted and recommend that they be instituted."

Among the questions raised by this type of hard-line government approach is: What does this do to present insurance coverage and to vulnerability to class action suits?

In another development, the Justice Department has filed suit against Florida Power & Light Co. as a result of that firm's refusal to stop digging a canal to carry heated water into Card Sound and Biscayne Bay south of Miami.

And, President Nixon recently signed a bill that made offshore and onshore oil facilities operators absolutely liable for cleaning up oil spills up to $100 a ton or $14 million, whichever is less. If the spill is determined to have been willful or the result of negligence and it is so proven with the owner's knowledge, then no limit to the cleanup liability will prevail. ■



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End file-and-use: Unruh

SACRAMENTO—Legislation has just been introduced here by Assemblyman Jess Unruh, a Democratic candidate for governor, which would give the California insurance commissioner the power to approve or reject proposed insurance rate increases.

"This measure," Mr. Unruh declared, "will give Californians more protection from unjustified insurance rate hikes.

"Recently announced increases in insurance rates, he said, "make it clear that Californians are not receiving the protection they deserve from state government." ■

Touchy Question #144

Are exclusions in your insurance policy just escape hatches for your insurance company?

The policy exclusions are customer benefits.

Insurance enables a number of persons or entities, all exposed to a common definable peril, to share the losses of the few who (as it turns out) sustain them.

The more precisely the peril can be defined, the more equitably the losses can be shared and the more economically the policy can be written and serviced. The exclusions are an indispensable part of the definition. The declarations say what the peril *is*. The exclusions say what it is *not*. They are an assurance, to you, that your premiums will be used to pay only the same kind of losses that you yourself are insuring against.

Because exclusions are so continuously argued (they go to court every day of the week all over the country) many people think they *create* arguments. Not at all. They are there not to create argument, but to resolve it. When lawyers refer to policy exclusions, they do so in order to determine the policy intent.

To attempt fair distribution of insurance policy benefits in the absence of full and explicit written exclusions would be like trying to play tennis without baselines and a net. There has to be some way of calling a ball too low or too high or out.

The exclusions *are* benefits. The only source of revenue your insurance company has is your premiums. If it makes an improper payment, it makes it with your money. The purpose of the exclusions is to protect you from such misuse of your money. They are working not for your insurance company, but for *you*.



Employers Insurance of Wausau

We think insurance ought to work for a living.

Keen risk managers can block product liability suits, says Cox

MIAMI BEACH—The present trend toward consumerism is forcing top corporate executives to take a new look at the authority and responsibility of the risk manager, Charles K. Cox, president of Insurance Co. of North America told the annual conference of the American Society of Insurance Management.

"It is too late to be concerned about product liability after a claim has been filed," he said. "Now the risk manager must be involved with the product from the stage of research and development to the point of sale to the ultimate customer—and even beyond that, to the provision of service and the handling of complaints."

He said the arrows pointing the way to the new responsibilities of risk managers are: the press, which is "reflecting the public mood of frustration and annoyance" with consumer products; increasing sophistication of plaintiffs' lawyers in selection, preparation and presentation of cases; the courts, which are enforcing the doctrines of strict liability and accountability; the proliferation of consumer protective associations; and the increasing number of statutes at all levels of government that are enacted to win consumer votes by tightening requirements for product safety.

MANY PRODUCT liability cases, he told ASIMers, are based on the arguments that the manufacturer knew, cared, and did nothing about safety. A successful defense must refute these arguments by proving that rigid quality controls were in effect at every stage of manufacture and distribution and that adequate warnings were provided the ultimate user. Use beyond the safe limits of the product must not be suggested by advertising materials and inventory and distribution controls must be established so that suspected defective products can be quickly traced and recalled, he said.

Each of these areas of control should fall within the realm of duties of the risk manager, he asserted.

Mr. Cox pointed out that the risk manager can minimize the impact of losses that do occur by working with his insurance company to see that advance payments to claimants and rehabilitation programs are made available.

ALL THE STEPS necessary to prevent product liability cases 'are expensive (when) considered only by themselves," Mr. Cox said; "but over the long pull, they are much less expensive than the tremendous number of claims that have been inundating manufacturers . . ."

"In short," he concluded, "although general liability insurance will cost more because of the product safety problem, manufacturers and merchants will continue to be able to buy insurance protection against product liability. That statement cannot be made about certain other areas of exposure that have been covered by general liability insurance in the past."

Parttime worker earns higher comp

SAN FRANCISCO—The California supreme court this week reversed a Workman's Compensation Appeals Board decision, to rule that computation of earning capacity for purposes of permanent disability awards "may take into account wages received after the injury" as well as earnings prior to the accident.

The court case involved a woman employe of California Packing Corp. who had been employed seasonally for 20 years until she injured her hand in an accident.

Due to the seasonal nature of her employment, her earnings had been sufficient to produce only the minimum permanent disability benefits after she had been given a disability rating of 15% due to the injury.

AFTER THE accident, the injured woman found fulltime employment in a hospital at wages of $81.90 a week.

The WCAB referee had approved an award based on earning capacity which included this post injury employment.

The Board, however, reduced this to the minimum, contending the law requires consideration of only earnings prior to injury.

The supreme court reversed this decision, with a dissenting opinion by Chief Justice Traynor.

Insurance companies contend the decision "could open the door" for any seasonal or parttime worker injured "to seek full employment after the injury just for the sake of increasing his benefit at the higher rate." ■

Medi-Cal redefined by Barger

SAN FRANCISCO—Medi-Cal insurance benefits in California have been placed in a new category, "the last dollar source," by State Insurance Commissioner Richards D. Barger.

Mr. Barger distributed to all carriers a warning that "a private insurance carrier may not withhold benefits otherwise due a beneficiary on the basis that such person is also eligible for Medi-Cal."

Basis of Mr. Barger's bulletin is a section of the state welfare and institutions code. which provides that: "The benefits available under this chapter shall not duplicate those provided under other Federal or state laws or under other contractual or legal entitlements of the person or persons receiving them."

IN 1968, Mr. Barger pointed out, the insurance and the government codes were amended to provide that disability insurance and health care service plans "may not provide an exception for other coverage where such other coverage is Medi-Cal (California Medical Assistance Program)."

The amendment concluded that "such plans shall not be subject to reduction if the individual insured is entitled to Medi-Cal benefits."

"As a result," he said, "benefits available to Medi-Cal recipients under all private health and accident insurance plans, including automobile accident policies must be exhausted before the Medi-Cal benefits will be authorized." ■



Unions settle some trucker contracts; more remain

WASHINGTON—Two negotiated contracts signed by labor unions and the trucking industry will provide up to $10-a-week increases in employer-contributed benefit costs.

The International Brotherhood of Teamsters' contract negotiated with the Trucking Employers, Inc. (TEI) here calls for a $4-per-man-a-week-increase in employer contributions to the health/welfare and pension funds. The second contract, won from one of the six negotiating truckers associations by the Chicago Truck Drivers Union, calls for a $10 increase in employer contributions per man per week to the health/welfare and pension funds. Both are to be spread over three-year periods.

However, the contracts have not completely settled things in the trucking industry. Some 32,000 teamsters are still out of work in what was termed a "defensive shut-down-by TEI. In addition, dissident members in Chicago are still on strike. They seek an even higher settlement than that won by the Chicago Truck Drivers Union.

THE CHICAGO Truck Drivers Union contract will cover the union's 11,500 members for a three-year period. According to a spokesman for the Chicago-based union, the employer benefits contributions increases will take place in six steps over the life of the contract.

On Anril 1 under the new contract employers increased their contributions to the health and welfare fund, currently $12 per man per week, by $1. Another $1 will be added in October of this year. For the remaining two years of the contract, the employer contributions will be increased $2 in April and $2 in October. The union will decide whether to allocate the increase in contributions toward the pension or health and welfare funds at a later date, the spokesman added.

In addition to the health, welfare and benefits increase, the Chicago Truck Drivers Union contract called for a $1.65-an-hour increase in wages that averaged $4 an hour under the old contract. The wage increase also includes a cost of living escalator, according to the union spokesman.

Current benefits under the independent Chicago union's health and welfare plan include a free choice by the employe as to the doctor and hospital patronized. The plan covers the first $500 in hospital costs in full, wage loss compensation, a long-term disability plan, and a maximum of $5,000 of life insurance. A Chicago independent union member receives $250 of life insurance for each year of union membership until he reaches the maximum.

The Chicago Truck Drivers Union health and welfare plan does not include dental, vision or drug plans. However, the union's spokesman told *Business Insurance* that the membership has expressed continued interest in dental and vision care plans. While these are eyed as the next step in the health and welfare plan and are under discussion, no definite plans have been drafted as yet, he said.

THE MAJOR push for improvement in union pensions will be centered on removing age in favor of purely service requirements for retirement, the spokesman noted. Currently, the Chicago independent allows retirement at 65 (also an early retirement at age 62 with an actuarial reduction in benefits) with 20 years of service. The union plans to require 20-years membership as the sole prerequisite for retirement.

In addition, plans call for an increase in monthly pension benfits from the $175 at present to $200. The Chicago Truck Drivers Union pension fund is administered jointly by an equal number of union, employer and public trustees. Currently the pension plan allows neither vesting nor a lump-sum distribution. The fund is supported solely by employer contributions, which are now $6 per man per week.

In Washington, the "tentative agreement" signed by the Trucking Employers Inc. and acting teamsters head William Fitzsimmons calls for a total benefits increase of $4 per man per week. However, wildcat strikes in Cleveland and Akron, O., Richfield, Va., Los Angeles and St. Louis held up the finalization of the contract.

The Teamsters-TEI contract increased employer contributions to the health/welfare and pension funds $1 per man per week as of Apr. 1. Another $1 will be added in July 1972.

The normal retirement age for teamsters is 57, with 20 years of service. On retirement, the employe receives $300 a month for the first five years. At age 62 the pension benefits are integrated with Social Security and the benefits go down to $110 per month.

The Teamster pension benefits also provide that survivors receive pension benefits of the employe if he dies either before or after retirement age. ■

"It's amazing how getting hit by a truck can turn a plain old cow into a prize bull."

A true story about Al Fiore, Claims Management
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Imagine for one moment the world of Al Fiore. On an island somewhere in the Atlantic, a satellite tracking station is being built. A construction worker shouts to the driver of a 2-ton truck, "Okay, Joe, back it up 10 feet." An old cow is grazing placidly behind Joe and his truck. 9 feet behind Joe and his truck. Joe backs up. There's a loud crash. In the distance, you can hear a farmer shouting, "My prize bull! My prize bull! You've hit my prize bull!"

Another case to be settled by Al Fiore and his Claims Department. "It's amazing," says Al, "how getting hit by a truck can turn an old cow into a prize bull."

But Al Fiore's world isn't always made up of cows who turn into bulls. Al's world is sometimes made up of people. People who need help. It's a world where a plane from abroad will land 2 A.M. at the airport. As the plane rolls to a stop, a badly burned engineer, a workmen's compensation case, is taken off in a stretcher. An ambulance is waiting to take the man to a hospital for immediate treatment. As the man is carefully lifted into the ambulance, a man sits next to the stretcher and whispers, "Hello, I'm Al Fiore of AIU. I'll see to it that you're settled in the hospital just as soon as possible."

Now, there's nothing in the employees' manual at AIU that says a claims man must meet a plane at 2 o'clock in the morning and follow up to see that the patient is well taken care of. But there is something in Al Fiore and people like him at AIU that says it must be done. And they're proud to do it.

Al Fiore is an important part of AIU's worldwide claims service, a service that's second to none.

For more information and a brochure on how Al and all the other members of AIU can help you with your overseas insurance, have your broker call the AIU office nearest you, or write AIU, Dept. 34,102 Maiden Lane, N.Y., N.Y. 10005.



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info for buyers

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

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

• The Fidelity Appraisal Co. has released two booklets describing the measures an insured should take in order to fully understand and benefit from his insurance policy in case of loss. The booklets answer such questions as: is the insured liable to be adjudged a co-insurer; how can total insurable value be ascertained; how does the reduced rate clause operate; and how is a fire settlement negotiated? **Ashes are not Evidence** pertains to appraisals of industrial, commercial, and municipal properties. **Ashes are not Evidence . . . and how I learned that the hard way** pertains to appraisals of residence furnishings, household effects, and objects of art. For free copies of the booklets write the firm at 2405 N. Maryland Ave., Milwaukee, Wis.

• What a person does before, during and immediately after an earthquake strikes may mean the difference between life and death. **Earthquake Safety Rules** offers guidelines to follow in such a crisis. Single copies are 10¢ and quantity orders of 100 are $5.50 from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 20402.

• A guide to excess and surplus lines insurance, the **Excess And Surplus Lines Manual**, has been published by Insurors Press, 2417 E. 56th St., Indianapolis, Ind. 46220. The manual has three general sections: general information regarding excess and surplus lines theory, practice and mechanics; an analysis of individual insurance areas within excess and surplus lines of insurance; and excess and surplus lines laws, consent to rate regulations, and FAIR Plan regulations for each state. Costs for the manual are $100 for the initial annual service (including updating and the monthly Excess Express which presents a general review of covers not specifically analyzed in the manual but which have become available in the excess and surplus lines market) and $75 per year thereafter. A brochure containing additional information on the manual is free upon request from Insurors Press.

• **New Techniques, New Information, Better Communication, for Greater Product Safety—Summary of a National Symposium** contains the recommendations of a cross-section of 100 business and industrial leaders for achieving greater product safety, and for minimizing the possibility of unjustified losses. Design, value engineering; purchasing, manufacturing; quality control; marketing, advertising; products service; legal; and insurance were the seven fields represented in the two day meeting. Single copies of the booklet may be obtained free by writing Mike Biancardi, Director of Product Safety, Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401. Employers Insurance was the host of the symposium.

• **Chimneys, Fireplaces and Venting Systems** (No. 211), is a 36 page pamphlet released by the National Fire Protection Assn. The booklet deals with the safe installation and use of chimneys, fireplaces and venting systems in residential, commercial, and industrial applications. A copy can be obtained from the NFPA, 60 Batterymarch St., Boston, Mass. 02110 for $1.

• Employe benefit plans and other institutional investors can receive **Portfolio Planning News** without charge. This pamphlet explains the most effective methods of selecting investment advisers, both banks and counsel firms. For more information write Portfolio Planning, Inc., 200 Park Ave. Suite 303 East, New York, N.Y. 10017.

• Advanced Devices Laboratory, Inc., has prepared a brochure on its Microwave Intruder Detector, a one-piece, solid-state microwave radio transmitter and receiver. The brochure compares this type of system with other detection systems and carries a few installation diagrams for department stores, banks, etc. For the brochure write the firm to the attention of Charles Handley, 316 Mathew Street, Santa Clara, Cal. 95050.

• **More Effective Employe Benefits Communications** is a brochure released by Halltech Associates, describing how their reports are vital to the success of an employe benefits program. The brochure outlines their role in helping employes to understand and to be aware of their benefits program and its specific meaning to them. The booklet is available by writing Mr. Edward McCaffrey at Halltech Associates, 176 Broadway, New York, N.Y. 10038.

• AFIA has released the latest edition of **AFIA Guide Latin America.** The publication covers 14 Latin American countries and summary information for 11 islands and their respective insurance requirements. A copy can be obtained by writing AFIA at 110 William Street, New York, N.Y. 10038.

• **The Trustees Handbook** is designed as a basic guide for trustees and administrators of jointly managed employe benefit funds established under the Taft-Hartley Act of 1947. Some of the topics discussed in 14 separate chapters are: trustee responsibility and liability, investment fundamentals, methods of providing health and welfare benefits, collection of delinquencies, communication of employe benefits, and investment of pension funds. A pocket insert is provided for updated supplementary material. The book may be obtained from the National Foundation of Health Welfare and Pension Plans, Inc., 910 Elm Grove Rd., P. O. Box 898, Elm Grove, Wis. 53122, for $6 per single copy for members, and $7.50 per copy for non-members.

• **What Every Lawyer and Accountant Should Know About Business Life Insurance** is a 24 page booklet offered free from Provident Mutual Life Insurance Company, P. O. Box 7379, Philadelphia, Pa. 19101. The booklet covers estate valuation problems, long periods of litigation, conflicting interests, permissible investments, defective agreements, the value of keyman insurance, life underwriters and trust officers, and many other interesting categories. The booklet can be obtained by writing the company.

• Electric Wastebasket Corp., 145 West 45th St., New York, New York 10036, has released a revised 8-page folder **Record Retention Timetable.** The folder opens into a chart which lists the government authorities and the specified time the law demands for the retention of over 165 office records. The folder also includes information covering the legal disposal of important records. The folder is available free when requested on business letterhead from the company.

• How much life insurance do you need? Bankers Security Life Insurance Society, 1701 Pennsylvania Avenue, N. W., Washington, D. C. 20006, offers a computerized Family Financial Planner questionnaire service. The answers are fed to a computer and a print-out showing how much insurance is needed in response to the questionnaire is returned to the reader. Copies of the brochure may be obtained free of cost from the Agency Department of the firm.

• A 70 page illustrated book covering safety precautions to be taken during hurricanes, tornadoes, earthquakes, floods, storms, nuclear attack, civil riots, and even what to do if your airplane is hijacked, is available for $1.25 per copy, including postage and handling. Lower prices are offered when ordering in quantity. **Timely Tips When Disaster Strikes** also includes matters of insurance coverage against disaster, and insurance procedures thereafter and deals with proper medical preparation for prolonged emergencies. Copies can be ordered from Howard Warren Publishers, P. O. Box 6112, Cherry Creek Station, Denver Colo. 80206.

• **Supervisory Responsibility For Safety** is an 8 page booklet offered by the U.S. Printing Office for 10¢. The booklet offers hints on how the supervisor can maintain safe work conditions and promote safe work methods. For a copy write the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C. 20402.

• The National Fire Protection Assn., offers a 100 page pamphlet for $1.75 dealing with the general requirements, inside hazards, exterior storage tanks, spray foam systems, monitor and hose systems of **Foam Extinguishing Systems.** The booklet can be ordered from the association at 60 Batterymarch St., Boston, Mass. 02110.

• The U.S. Government Printing Office, Washington, D. C. 20402, is offering a 29 page booklet dealing with employe drinking problems and programs for handling these problems. **The Key Step** defines alcoholism and its stages and lists a directory of some sources of rehabilitative assistance and information excluding Federal Health Units and local chapters of Alcoholics Anonymous. The booklet can be purchased for 25¢ from the Superintendent of Documents.

Giles on the law

An action or inaction could make employer liable for a group claim

By JOHN W. GILES
Attorney at law

WASHINGTON—In the general field of group insurance, the employer is normally neither an insurer nor a guarantor of payment. However, the employer may have a liability imposed upon him, either by reason of his action or his failure to act, if the employe has been adversely affected thereby.

For example, he may be liable for failure to perform contractual obligations to furnish group insurance or to pay premiums. The government is deeply involved in the Servicemen's Group Life Insurance Program, maintaining significant control over the program to insure that the particular needs and requirements of the uniformed services are met. The government's duty in this case, if any, arises from its status as record keeper for its far-flung and transitory uniformed servicemen, and, in that capacity, its handling of forms for designation and changes of beneficiaries and in its participating in the handling of claims.

A recent case in U. S. court of appeals holds that the undertaking of the Federal government to supply Servicemen's Group Life Insurance Act insurer with data, identifying the order of beneficiary precedence, renders the Federal government amenable to a recent action brought by the widow of a serviceman. The widow alleged that the government erroneously communicated to the insurer that the serviceman's bigamous wife was the true beneficiary, despite the fact that the military records reflected both women as wife but did not note any divorce from the first-named wife. The Court said that an undertaking by the government to supply data identifying those who occupy the order of precedence, on which identity the insurer is to rely, is wholly consistent with the function of an employer under a group insurance program and more particularly of the armed services as an employer, as custodian of information vital to the serviceman and his family. If there is such an undertaking, the government may be sued. (U. S. Court of Appeals—5th Circuit. *Shannon* v. *United States* - 10/7/69.)

* * *

WHAT DO YOU have to show in order to recover from a manufacturer of hair coloring for alleged scalp injuries?

In Texas, while that state recognizes the doctrine of strict liability as applied to a manufacturer, a recent case held that when the hair-coloring user was

Continued on page 14



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compensation trends

Martin Marietta sets newstock option plan for its key employes

By JOSEPH S. ROBINSON

NEW YORK—As an incentive to officers and other key employes, companies have for years offered stock option plans. Those "in the know" have come to realize that the growth of the corporation is largely dependent upon its ability to attract and retain men of outstanding caliber. They also are aware that stock options motivate a key employe to maximum effort in behalf of the business.

In line with this thinking, Martin Marietta Corp. is sponsoring a new stock option plan in which it will set aside up to 500,000 shares. This amount represents roughly 2% of the outstanding shares of common stock.

The plan provides that no option shall run for more than five years from the date granted and that it is not transferable by the optionee other than by will or the laws of descent and distribution.

THE PLAN ALSO provides that Martin Marietta may assume employe stock options (or substitute new options) in connection with certain mergers, consolidations and other corporate acquisitions and reorganizations, at prices within the applicable limits contained in the tax rules.

No option may be exercised until the employe has remained in Martin Marietta's employ for at least one year from the date the option is granted. After that, the option may be exercised in three installments, the first of which shall commence one year from the date the option is granted. Each succeeding installment becomes exercisable one year from the date the previous installment became exercisable.

Current rules of the Federal Reserve make ordinary financing sources difficult for those employes who wish to pick up stock under stock option plans. Reason: Such financing must comply with the margin requirement, which is 80% at the present time. Consequently, Martin Marietta will offer financing assistance to employes in the form of direct loans.

The idea is to enable optionees to exercise their options in a timely manner. Under the loan arrangement Martin Marietta may accept promisory notes of employes. Such notes are payable not later than five years after the date when the option was exercised. The notes will be secured by pledging the shares and will bear reasonable interest rates.

THE TAX considerations in a nutshell are: The grant of an option under the 1970 plan under present provisions of the Internal Revenue Code will have no immediate tax consequence to the corporation or to the optionee. However, under the Tax Reform Act of 1969 the optionee, upon exercise of the option, may be subject to the 10% minimum tax imposed on "Items of Tax Preference" which includes the amount by which the fair market value of the shares at time of exercise exceeds the option price.

In computing the amount subject to the minimum tax, the act allows an exclusion of $30,000 and a deduction for income taxes for the taxable year imposed by the Internal Revenue Code.

"Items of Tax Preference" also includes an amount equal to one-half of the amount by which the net long-term capital gain exceeds the net short-term capital loss for the taxable year.

If the shares acquired are disposed of within a three-year period, the optionee will realize taxable ordinary income for federal income tax purposes in the year of disposition in an amount equal to the difference between the purchase price and either the fair market value of the shares on the date of exercise, or the selling price, whichever is lesser, and the corporation will be entitled to a corresponding deduction for federal income tax purposes.

In addition, the optionee will realize a capital gain on such disposition to the extent (if any) that the proceeds of such disposition exceed the fair market value of the shares on the date of exercise.

If the shares so acquired are held for at least three years, the optionee will realize taxable capital gain or loss to the extent that the proceeds of such disposition exceed or are less than the purchase price, and the corporation will not be entitled to any deduction for federal income tax purposes. ■

Is there a medical benefit plan for ailing profits?

Medical benefit plans have a way of getting out of hand. Even as the costs of medical care keep climbing, employers are pressured to add a little more coverage here, an extra wrinkle there.

You may not even be overdoing it. You may need every bit of the employee coverage you now have. But without close professional attention, your medical plan can easily become a drag on your P & L Statement.

Before things go wrong, let Johnson & Higgins review your entire program. Your problem may be a lack of coordinated planning and effective control. Our staff of experienced consultants and medical plan specialists will make a professional examination of what you're spending, and how you're spending it. Help you eliminate overlapping coverages and install tight controls. Help you reshape your medical and other benefit plans to give you only the precise coverage you need, and at the most reasonable cost.

Our approach as insurance brokers and employee benefit consultants has one aim – protecting your profits.

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Coal mine fatalities drop in '69

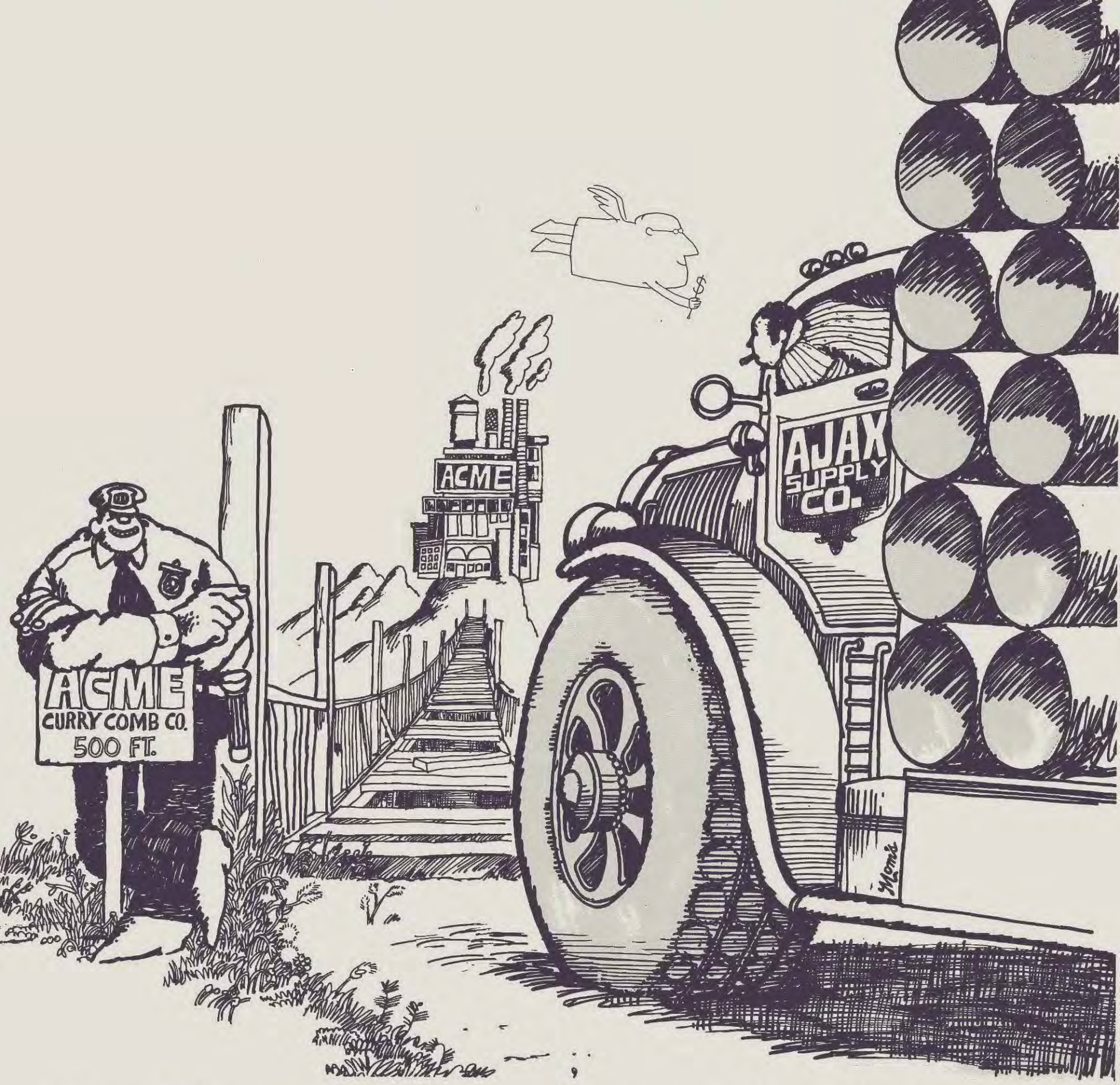
WASHINGTON—Fatality experience at coal mines in the U.S. during 1969 was better than in any other year in the statistical history of the industry, according to a study released by the U.S. Bureau of Mines.

The improved fatality record resulted entirely from the more favorable experience at bituminous-coal and lignite mines, which more than offset the sharply worsened record at anthracite mines, it said.

There were 203 work fatalities in the nation's coal mining industry in 1969. These deaths occurred at frequency rates of 0.86 per million man-hours of worktime and 0.36 per million tons of coal mined. Fatality experience for the previous year was 311 deaths at frequency rates of 1.33 per million man-hours and 0.56 per million tons.

In 1968, two major disasters claimed 87 lives, nine in one and 78 in the second, while no major disaster occurred in 1969.

The 1969 data established new record lows for the total number and the frequency rates of fatal injuries in the statistical history of coal mining. The previous low records were 222 fatalities in 1967, 0.90 fatal injuries per million man-hours in 1950 and 1953, and 0.40 fatal injuries per million tons in 1967. ■



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Even if your factory *isn't* perched on the edge of Grizzle Gulch, you may have problems with stuff coming and going. Or problems with storage. Or salesmen losing samples, blueprints, or models. Or trouble with about 25 other awful things we'd rather not put you in a purple funk over.

Anyway, that's when you need our Manufacturer's Output Policy. It covers your output, and just about everything you need to have an output — from raw materials to finished stock, to machinery and dies and furniture and on and on. If you have our policy, you don't have to worry about things like coverage gaps or duplication. It's an all-risk, continuous plan. And that's nice because you don't ever have to worry about coverage expiring.

You don't have to worry about a deposit premium, either. You just "pay-as-you-go," based on your monthly (or quarterly) total value reports.

The Manufacturer's Output Policy even protects the value of things in your possession that don't belong to you. (It isn't that we don't think you're responsible, but it's better to be safe than sued.)

If a flexible Manufacturer's Output Policy sounds better to you than having a whole bunch of smaller, more restrictive policies to cover unusual losses, why don't you get in touch with a friendly, quiet St. Paul agent? He can help you cross bridges before you come to them.

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opinions

Paying for insolvencies

A PERCEPTIVE READER was bothered by an editorial in the last issue of *Business Insurance* that discussed the Magnuson bill to establish a Federal Insurance Guaranty Corp. to protect policyholders and claimants in instances of insurance company insolvencies. The editorial pointed out that Sen. Magnuson's bill has been a goad to the states to establish mechanisms for making assessments against solvent insurers to pay claims left unsatisfied by insolvencies in the industry.

"I find this hard to swallow," said the reader's note. "The fellow who doesn't go broke pays the bills of the fellow who does?"

Yes, good reader, that is the way a Federal or state insolvency fund works. Assessments against going companies pay losses of those companies that fail, a system not calculated to make sense to the hard-headed businessman.

But the insurance industry, through uninsured motorist coverage and through the new post-assessment insolvency plans in the states, has accepted responsibility for the public's losses in insurance failures. In part, of course, the industry has accepted this responsibility because of legislative pressure and what one executive termed "the new social order."

There are, however, some good reasons why the insurance industry wants to satisfy claims against insolvent companies. One obvious reason is that unsatisfied claims, whatever their cause, cast doubt upon the integrity of the entire insurance mechanism. Word about unpaid claims has a way of getting around, and the insurance industry is highly sensitive about being bad-mouthed by disappointed customers.

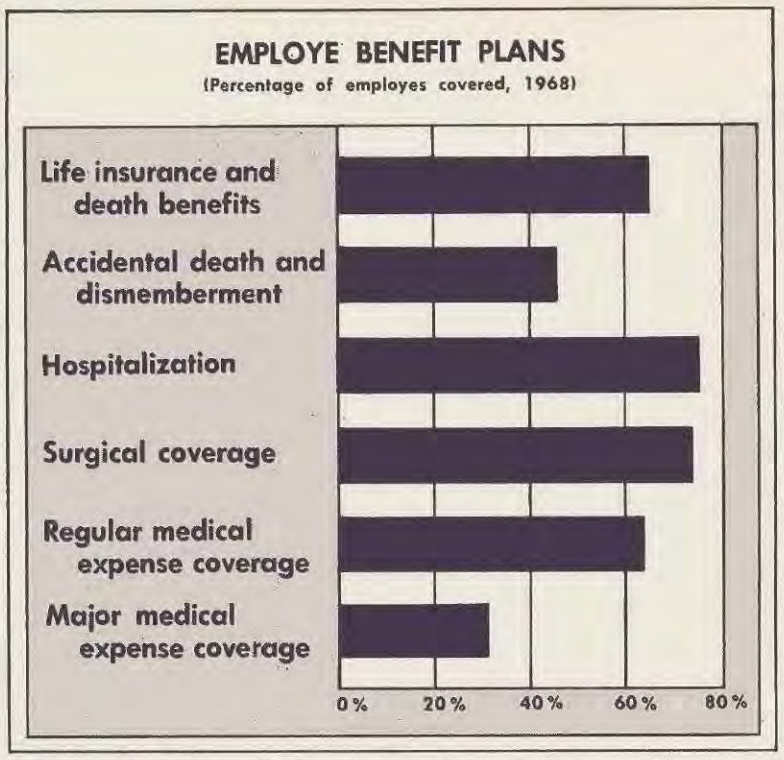
Another reason for the insurance industry's meeting the claims of insolvent companies is that most insurers favor the present state system of insurance regulation. By meeting the losses of insolvent companies, solvent insurers protect not only their own reputations but the reputations of state insurance commissioners and their examiners.

There are reasons, too, for corporate financial executives and risk managers to be concerned about insurance company insolvencies. Though failures most often hit high-risk auto insurance companies that chiefly write personal lines, there is no assurance that an unsatisfied judgment will not fall upon the operator of a commercial fleet vehicle.

In Illinois, for example, more than 20 high-risk auto insurance company failures in the past decade have meant that there have been a significant number of uninsured motorists using the state's roads in recent years. There is a need in Illinois and in some other states for knowledgeable risk managers to get involved in checking on the operations of insurance departments. It is not enough for the American Society of Insurance Management to oppose the Federal Insurance Guaranty Corp.; it must also actively work for effective state insurance regulation.

It is important for insurers and their customers to recognize that any plan to pay the losses of insolvent insurers is really a matter of closing the barn door after the horses are gone. What is sorely needed is effective insurance regulation in every state to make certain that every company—and especially those in the high-risk auto field—is soundly managed and financially stable.

As our reader suggests, there is obtuse logic and some injustice in any plan that takes money from properly managed companies to pay the losses of those companies that go broke. Yet there are good reasons for insurers to protect the integrity and reputation of their industry. We can only urge that those who are concerned about insolvencies support efforts to tighten regulatory procedures to cut the number of failures and the tragic impact that insolvencies have on the public.



This bar chart shows the percentage of employes covered for major employe benefits among employed wage and salary workers. The figures indicate that the areas that may advance are major medical expense coverage and coverage for accidental death and dismemberment.

Source: Social Security Administration

Faith in people

IT'S TIME again to call attention to an example of enlightened philanthropy by an insurance company.

This laudable example is the funding of a mobile school of business to teach management skills to Chicago black entrepreneurs. The CNA Foundation, a unit founded by CNA Financial Corp., has granted $12,000 to the experimental project to bring new expertise to some of Chicago's 1,500 black businessmen.

About one-third of the city's black businessmen are located in the decaying Lawndale area where the CNA Foundation experiment will take place. If the program is successful, foundation officials say, it will be expanded to help establish a stronger economic base in the inner city.

We believe that projects of this kind are especially laudable because they rest upon faith in the capacities of people in deprived areas. In this instance there is also the element of enlightened self-interest on the part of a major property-liability insurer that stands to benefit by stablizing and then improving conditions in deteriorating areas of our cities.

One excellent way to improve conditions in the ghetto is to sharpen the abilities of black businessmen who frequently double as the civic leaders of their communities. It seems to us that this approach helps to counterbalance the heavy emphasis that has been placed on urban renewal and public aid programs in ghetto areas. By helping black businessmen to help themselves, the CNA Foundation is placing its faith in people and in our economic system.

There might be a lesson here, too, for the insurance industry, which —with some notable exceptions—has been reluctant to institute wide-ranging minority hiring programs. There are tremendous human resources in the deprived areas of our cities, resources that could work to the financial benefit of insurers willing to make outlays of cash and patience to train able people to work in the insurance business.

Joe B. Hunt runs again

WHILE WE'RE on the subject of philanthropy, we thought we might pass along the announcement from Joe B. Hunt that he is seeking his fifth term as Oklahoma's insurance commissioner.

"I DON'T WANT YOUR MONEY," Joe B. declared, "I WANT YOUR VOTES.

"If you desire to contribute, send your money (it is tax deductible) to the Jane Brooks Oral School for the Deaf, Seventh at Colorado Ave., Chickasha, Okla. 73018.

"I'm a director and those deserving children need and will appreciate your help."

Though we've disagreed editorially with Commissioner Hunt over his views on insurance regulation, we think that his announcement for reelection has a certain poignancy. We wish Joe B. Hunt's favorite philanthropy luck in the coming election.

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District managers: New York—CHARLES A. HORVATH, THOMAS J. O'MARA
Chicago—ROBERT L. NIESSE
Los Angeles—DENNIS KOCH
Southern representative—WILLIAM B. CARR, 2500 N. E. 48 Lane, Fort Lauderdale, Fla. 33308
Assistants: BERNICE STELTER, MARCY GARESCHER

Published by Crain Communications Inc., Chicago, publisher of Advertising Age, Industrial Marketing, Advertising & Sales Promotion, Marketing Insights.
G. D. CRAIN, JR., *chairman* S. R. BERNSTEIN, *president*
M. A. HARTENFELD, *executive vice-president;* RANCE CRAIN, KEITH CRAIN, J. J. GRAHAM, J. V. O'GARA, S. E. COHEN, D. J. CLEARY, JR., *vice-presidents.*
G. R. CRAIN, *secretary and treasurer.* J. H. TERRY, *assistant secretary and assistant treasurer.* Cable address: *CRAINCOM*

Published at 740 Rush St., Chicago 60611 (337-5200). Offices at 630 Third Ave., New York 10017 (YU 6-5050); National Press Bldg., Washington, D. C. 20004 (RE 7-7659); 1018 Fisher Bldg., Detroit 48202 (TR 2-7211); 6404 Wilshire Blvd., Los Angeles 90048 (OLive 1-3710); San Francisco (GR 4-8532); Fort Lauderdale (771-8242)
45 cents a copy, $10 a year in U.S., Canada and Pan America. Elsewhere $4 a year extra. WILLIAM STRONG, circulation director. ROGER DIGREGORIO, subscription manager. Four weeks' notice required for change of address. Address all subscription correspondence to subscription manager, Business Insurance, 740 Rush Street, Chicago, Illinois 60611.

BPA Member of Business Publications Audit of Circulation ABP

letters

'Tremendous service'

To the Editor: The writer has noticed with considerable interest the article in the Mar. 30, 1970, issue of *Business Insurance* regarding James E. Bailey, legislative coordinator of the American Society of Insurance Management Inc. We also noted your editorial on page 12 of the same issue.

We quite concur with your editorial and with the suggestion as recommended by a committee of ASIM regarding Mr. Bailey. As a member of the Chicago chapter of ASIM the writer has been intrigued for some time by the hiring of Mr. Bailey and the subsequent sudden increase in the budget of ASIM for the legislative coordinator and his staff.

However, far more important than the money involved was the specter of lobbying hovering over ASIM, in the writer's opinion, because of Mr. Bailey's background. The last thing that ASIM needs is any identity with lobbying and this has been and is the writer's position with reference to the legislative coordinator program of ASIM.

The writer feels that you should be highly commended for your editorial, and we believe that you are doing the American Society of Insurance Management a tremendous service in bringing this to light.

P. B. Gehrke
Insurance Manager, Joslyn Mfg. and Supply Co., Chicago, Ill.

Hemophilia cover

To the Editor: One of our employes has a 17-year-old son who has hemophilia. Under our group insurance policy, our major medical insurance covers claims up to $12,500 per illness. This young boy has now used up approximately $10,500 and is going at the rate of $500 to $600 per month in claims. It will therefore not be long before the $12,500 limit has been reached.

I have been unable to find any type of insurance coverage that might be offered on a private basis to this family to cover this particular illness. It is my hope that you might possibly have some information as to foundations or private insurance carriers, who could offer some insurance coverage or some type of relief to the family at the time our coverage is used up.

I am sure that this is somewhat of an unusual request, but any information that you can supply us with would be most appreciated.

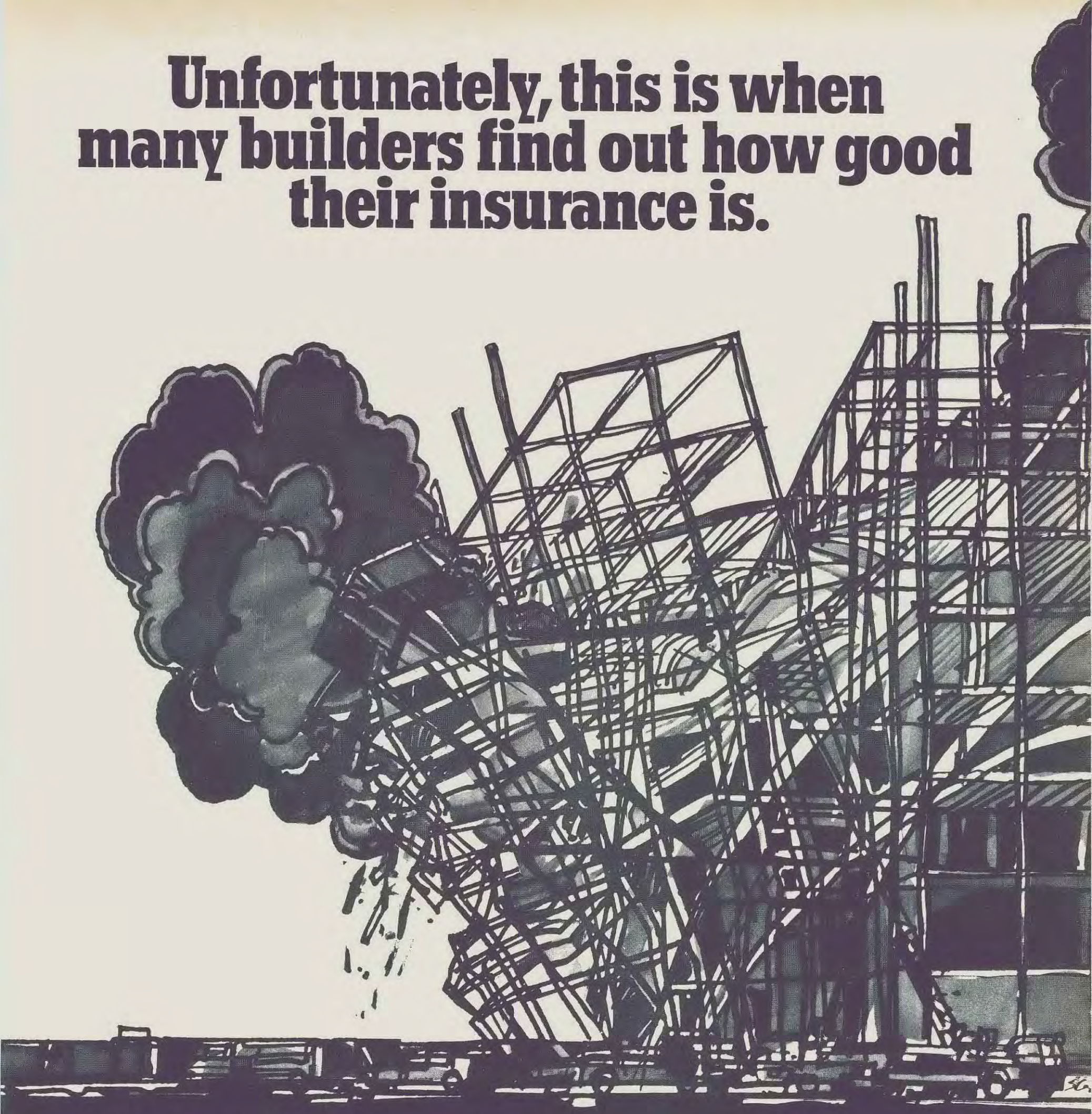
We receive *Business Insurance Magazine* and feel that it is most worthwhile and has been very helpful to us in all aspects of our company's insurance coverage.

Robert E. Bohan
Personnel Dir., Kentucky Finance Co. Inc., Lexington, Ky.

Editors Note: Business Insurance *contacted Nathan Smith of the Chicago chapter of the National Hemophilia Foundation and obtained the name of the president of the Kentuckiana chapter: Herbert J. Schlaughenhoupt Jr., 2021 Janlyn Rd., Jeffersontown, Ky. 40029. Mr. Smith suggested the best course of action would be to work through the local chapter. He also will make available, upon request, information on how to recruit blood donors and how to run a blood drive to defray the cost of the patient's treatment. Write him in care of the Chicago chapter at 141 W. Jackson Blvd. Room #1127, Chicago, Ill. 60604*

Continued on page 14

Unfortunately, this is when many builders find out how good their insurance is.



You've probably taken out the kind of insurance we're talking about. The kind that's meant to protect you in case an earthquake or a windstorm or a flood or an explosion or a fire or collapse should occur while you're putting up a building.

Even though these are all things that probably won't happen, you're smart to be covered.

What's not so smart is if you haven't taken a few minutes lately to study or review that coverage.

We have a Builders Risk policy we think you should at least look into. Now.

Because of our experience with every kind of insurance for builders and contractors, we're able to understand your special requirements.

The basic policy, that's one consideration. But maybe your particular situation requires extra coverage. Such as an equipment or installation floater. Or perhaps there's a good reason your subcontractors should be covered in your policy, too.

Talk to your insurance agent or broker about American Home's Builders Risk insurance. Now is the time to make sure you have what you think you have.

American Home Assurance Company
102 Maiden Lane, New York, N.Y.10005

Giles . . .

Continued from page 9

allergic or hypersensitive to hair coloring or a component thereof, but failed to show that she was part of an appreciable class of persons to whom harm by use of hair coloring could reasonably be foreseen by a hair-coloring manufacturer, the user did not establish that the manufacturer owed any duty to warn her of the dangerous effects of using the product. Therefore, the user was not entitled to recover damages from the manufacturer for her scalp injuries.

The court commented that mere proof of injury from the product itself furnishes no rational basis for inferring that the product was defective for its intended use. The Texas court follows the rule enunciated by the supreme court of Washington in *Estorg* v. *Bailey Drug Co.* (378 Pac. 2nd 298). In that case the court said it was reasonable to require a plaintiff, seeking to establish a breach of warranty, when confronted with the defense of allergy or hypersensitivity, that such plaintiff produce substantial evidence that will support findings that: (1) the product involved contains a harmful ingredient; (2) such ingredient is harmful to a reasonably foreseen and appreciable class or number of potential users of the product; and (3) plaintiff has been innocently injured in the use of the product in the manner and for the purpose intended. The Texas court said that the manufacturer owed no duty to the plaintiff to warn her of the dangerous effects of using the hair coloring, because there was no evidence that she belonged to an appreciable class or number of potential users of the product the manufacturer could reasonably have foreseen would have received injuries by the use of the product.

The court went on to say that the plaintiff was not aware of any allergy or hypersensitivity prior to her use of the hair color and there is no evidence that any warnings to her in advertisements would have been in any wise effective. This case is contrary to the holding in *Wright* v. *Carter Products* (244 Fed. 2nd 53). (*Albe-to-Culver Company* v. *Lucille Morgan* - Sept. 4, 1969 - 444 S. W. 2nd 770.)

* * *

IF ANY OF your farm buildings are damaged by a tornado, you probably have a four-fold obligation under your policy. That is: (1) to give immediate written notice to the company; (2) to protect the property from further damage; (3) to separate the damaged and undamaged property; and (4) to put the property in the best possible order. At least this is what one farmer was informed by the Illinois appellate court.

The court held that the insurer was not liable on a tornado insurance policy when the insured's corn crib was damaged by a tornado, collapsing three weeks later. The insured failed to give immediate written notice of the damage, failed to protect the property from further damage and to put the property in the best possible order, as required by the insurance contract. The jury had rendered a verdict of $3,500 for this farmer, but the appellate court, as a matter of law, set aside the verdict. The alleged damage was $7,342. The farmer received nothing because he just would not abide by the terms of the policy.

The word "notice" in the minds of an insured should be equivalent to and always mean "immediate notice." Time and money could be saved by every insured, not just farmers. (*Downing* v. *Rockford District Mutual Tornado Insurance Co.* - Illinois Appellate Court - Second District - Sept. 11 1969.) ■

Damages at Newsday may exceed $500,000

GARDEN CITY, L.I., N.Y.—The Newsday plant fire, which smouldered for 51 hours from Apr. 4 to Apr. 6, caused damage of more than $500,000 to the Long Island newspaper and was covered by fire and extra-expense insurance.

A Newsday spokesman said approximately 3,500 tons of newsprint, valued at $500,000, were lost and that warehouse damage amounted to several hundred thousand dollars. He added that exact figures have not yet been determined. The paper did resume normal publication Apr. 8 after losing about 70% of its advertising during the four-day setback. He said the paper was fully insured and that advertising loss would be covered by an extra-expense policy.

"Extra-expense insurance is quite common in the newspaper industry," said a spokesman for the New York Times. "It covers the additional costs of trying to produce when a disaster hits. The limit is set by the paper itself and there's no problem getting it."

HE NOTED that fire insurance was also easy to get and that it was based on an average of the amount of newsprint in a plant at the end of the month.

"The big problem for newspapers is newsprint," he said. "It's impossible to buy water damage insurance and once newsprint gets wet, as it did at Newsday, that's it. It's useless because the paper starts to swell and you can't even unroll it. Newsprint damage is usually covered under a difference-of-conditions clause in the fire policy."

A spokesman at Fireman's Fund said in general the printing industry was considered a good insurance risk.

"There's no limit on fire coverage for newspapers," he said. "Sure there's a lot of paper around the plants, but it's almost always in use and people working there are highly skilled and careful." ■

letters

Continued from page 12

The special risk department of Continental Assurance Co. has published brochures on its outrider hospital-surgical plan, which made coverage available for hemophiliacs last December. Write to the company in care of Miss Ellen McCarthy, Insurance Exchange Brokerage Agency, 175 W. Jackson Blvd., Suite #920, Chicago, Ill. 60604.

BI subscriptions

To the Editor: We are a trade association of 150 members. One of our members called our attention to *Business Insurance* as being one of the industry's most informative magazines.

I note that *Business Insurance* is available on a no-charge basis to some companies and wondered if we would qualify.

We keep all the better-known insurance publications here in the office for the convenience of our members. Frequently, when a noteworthy article appears, the attention of the members is directed to it in our bulletin.

(Mrs.) D. M. Heimerdinger
Office Mngr., Louisville Board of Independent Insurance Agents, Louisville, Ky.

Editor's Note: Subscription requirements are detailed on the order card that appears in every issue of Business Insurance. *The card states: "If you are a corporate executive involved in buying decisions that affect employe benefits, risk management, safety, security, pension investments and financial services you can receive* B I *on a 'no charge' basis . . . ."*

Pension book

To the Editor: In your Mar. 30 issue of *Business Insurance* there was a reference on page 27 to a book entitled *Pension Funds: Measuring Investment Performance*, by Dr. Peter O. Dietz.

We would appreciate knowing the publisher of this book and where we might purchase a copy

H. Edward Reeber
J. Weingarten, Inc., Houston, Tex.

Editor's Note: Dr. Dietz' book on pension fund performance measurement can be obtained for $6.95 by writing MacMillan Co., Order Dept., Front & Brown Sts., Riverside, N. J. 08075.

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D-4

The ROYAL ORLEANS

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☐ Please send me some literature about the Royal Sonesta Hotel. Isn't it the new one on Bourbon Street? With a great creole restaurant? And oyster bar? And all that jazz?

ROYAL SONESTA HOTEL

☐ Please send me information about both hotels. Aren't they HCA sister hotels? Two blocks apart?

Mr. Ronald E. Couget, Director of Marketing
Royal Sonesta Hotel, 300 Bourbon Street,
New Orleans, La. 70140

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HCA HOTELS

Easing of Lloyd's premium limits to bring $250 million more capacity

LONDON—Lloyd's of London plans to increase its capacity by $250 million through easing premium limits. But insurance experts in London believe this can only be done through more realistic ratings on many types of policies so as to give normal profits to its members.

The plan is to build up an efficient underwriters' market of independent competing syndicates which will be of a size to command world attention. In a review of the 200-year-old structure of Lloyd's, a seven-man committee headed by Lord Cromer has been probing ways of achieving this aim and of getting more people to join it.

Their report, now released to *Business Insurance*, promises new rules that will encourage enterprising insurance men to link up with the historic syndicates that make up Lloyd's.

PROMINENT among the changes are plans to simplify premium limits, to make concessions on outward reinsurance, and to make it easier to gain entry to Lloyd's by means of a lower credit-rating test. The scheme will give the British insurance market a new look, but unless losses faced in recent years are turned into profits, there will be natural reluctance to take advantage of it. So everything depends on the vigor with which underwriters react to it, and on the financial outcome of the 1967 account period, which closes this year, so that there is a return to profitability.

The Cromer committee is asking the British government to make special tax concessions to Lloyd's because of its financial importance to the nation.

It states: "In view of the high reputation that Lloyd's enjoys, particularly in the U. S., and the amount of insurance business it brings to Britain, there is a strong case for a more liberal tax attitude to its members."

Among changes in Lloyd's structure recommended by the Cromer committee are:

THE ENTRANCE test for membership should be simplified, so that candidates will, in the future, have to show they are worth $120,000, instead of $180,000 as in the past, though foreign entrants might have to hike their credit-rating by another $60,000. This is separate from the actual minimum cash-bond of $36,000 that members put down before writing business.

Premium limits will be eased so that many Lloyd's men will be able to carry risks up to ten times their premium income deposit, instead of seven times as of now, though the figure might be less in some cases.

Outward reinsurance will be facilitated by allowing up to 33% to be deductible in outward reinsurance or retrocession when calculating premium limits.

Demarcation lines between marine and other markets will be eased so as to enable more use to be made of spare capacity in one market for risks normally placed in another market. So if a broker covers 80% in his normal market for a risk, he will be free to place the other 20% in another market.

SPECIAL PLANS to start a catastrophe fund, for events that arise at irregular and unforeseen intervals, will be made.

The Cromer committee, however, insists that Lloyd's should keep its time-honored rule of unlimited liability, so that its reputation for honoring all policies throughout the world will be firmly maintained.

It declares: "If all the members agree to take advantage of the concessions that are now recommended, and instruct their agents accordingly, it will mean that Lloyd's underwriters will be able to increase their capacity by a further $250 million of premium income."

It would hike its capacity from $1.5 billion to $1.75 billion. ■

L.I.R.R. men seek better pension plan

NEW YORK—Long Island Rail Road workers who are members of the United Transportation Union have begun a push for pension benefits equal to those recently won here by members of the Transit Authority, operators of the city's bus and subway system.

The Transit Authority employes may now retire at age 50 at half their top pay after 20 years of service. In addition, effective July 1, the Transit Authority will pay all pension fund contributions.

Members of the Long Island Rail Road workers union, on the other hand, are now covered by the railroad retirement fund, as are those workers on all national rail systems. Workers pay up to $68 a month for lesser benefits, a spokesman for the United Transportation Union said. Under the program a Long Island trainman must work to age 65 and have 30 years of service before he can retire at half pay. ■

Stall Quebec medicare bill

MONTREAL—A covering bill on a proposed government medicare program made a brief appearance in the legislature here late last month, but was killed by an election call.

However, observers feel that the bill does provide a skeletal outline of what such a law might look like when one is enacted by the Quebec lawmakers.

The scheme, when announced by the government a year ago, will be financed by payroll deductions.

The covering bill that was killed specifically called for employes to pay 0.8% of wages up to a maximum of $125 per year providing they are earning $4,000 or more as a married person or $2,000 a year as a single person. The employer's contribution would be 0.8% of payroll, without limit.

In other words, the deductions would also include an employer contribution for employes earning less than $4,000 and $2,000, and on salaries over $15,625, the point at which the $125 maximum for employes cuts in. However, it has not been announced what contributions, if any, will be required of bonuses, casual wages and other compensation. ■

R. B. Jones names vp

Dewey Drennen has been elected vp of R. B. Jones Inc., Chicago. Mr. Drennen was formerly manager of the commercial insurance department for the firm in Kansas City.

"The inflation fighter"

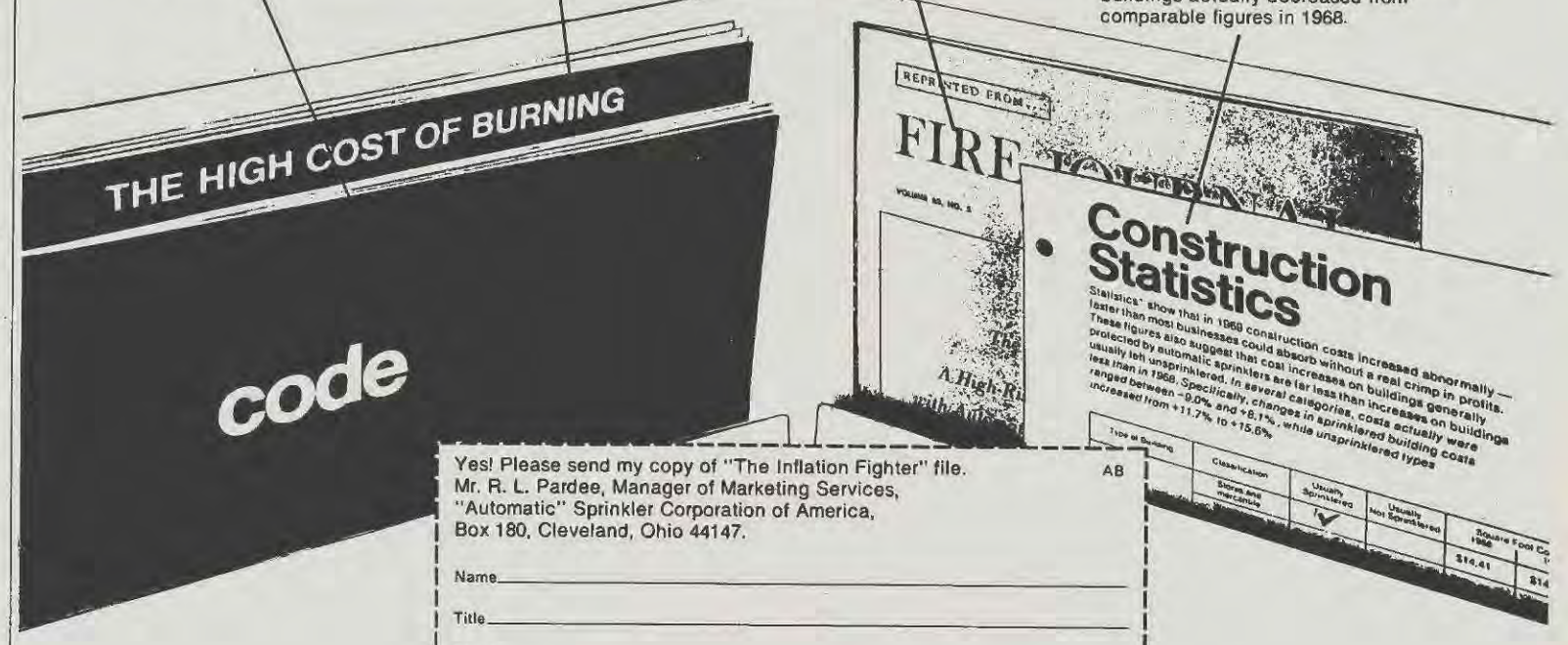
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Bombed Buffalo building insured for $1.4 million

BUFFALO, N.Y.—The Lafayette Building here is a 10-story office building, at the northeast corner of Lafayette Square, a showplace in its heyday. Today, it has been condemned and Public Service Mutual Insurance Co. is facing a $1.4 million loss. Why? Somebody declared war on the building.

On Dec. 24 the campaign began. A fire believed to have been caused by a defective electrical fixture burned out a few files and other papers on one floor. Not too much interest was aroused until Feb. 3, when another, considerably larger fire was discovered and extinguished. This time accelerants (typically gasoline or alcohol) were found and investigators had their first thoughts that something was amiss.

On Mar. 4 everyone's uneasy suspicions were confirmed by another fire, also believed to be caused by persons unknown. The culprits were again careless about leaving their "weapons" behind. Apparently at this point the group with a grudge finally discovered that the "enemy" building was fireproof because on Mar. 18 they spent the evening piling dynamite charges at five different points on the third floor and the basement.

THE BOMBS, placed at critical points near the steel grided structure of the building, "unhinged one floor from the rest" said Joseph Bergna, assistant secretary of New York City-headquartered Public Service Mutual Insurance Co. Building inspectors and representatives of the insurance company's branch office in Rochester came to survey the damage. "One of the inspectors fell and was seriously injured while in the building," Mr. Bergna told *Business Insurance*. The building was subsequently condemned.

The insurance company had been one of the first to become suspicious. Public Service Mutual, because of the curious nature of the several fires, made it known that 20 days after the receipt of a registered letter by the owner the $1.4 million policy on the building would lapse. The Aaron Freedman Agency, who services the policy, received its copy of the expiration notice on Mar. 2, placing the deadline at Mar. 22. The building was bombed on Mar. 18.

On hearing of the planned cancellation the coverage for its building, Frank J. Bona, president of the 50 State Realty Corp. applied to the New York Property Insurance Underwriting Assn. a high-risk insurance pool. There is no record of action taken by the association on his application to date.

Detective A. Vingo, Buffalo police department investigator assigned to the case, pointed out that a car seen leaving the building shortly before the explosion was traced to the "underworld." "Frankly, I don't think this one (the bombing) will ever be solved," he said, noting that once such a lead was traced to the netherworld the investigators usually discovered a "brick wall." In commenting on the chances of a successful investigation, Robert Perrigo, director of the Buffalo police crime laboratory said, "Our chances are pretty slim."

Meanwhile, Public Service Mutual, the insuror, is still in the game. "We have to depend on the law enforcement agency in cases like this because they're the experts in the human factors," Mr. Bergna explained. He made it clear, however, than in cases involving such a large loss ($1.4 million in this instance) the company was loath to give in so easily.

He recalled one case in which the company spent some $30,000 attempting to prove arson in a $50,000 fire loss, only to lose the litigation on appeal. "It was an expensive tab for our peace of mind," he said. ■

Mass-buying plan wins acceptance

OLYMPIA—Washington State Insurance Commissioner Karl V. Herrmann has approved a mass-merchandising system for unions and other groups in the state to buy automobile and homeowners' insurance for their members.

He said he had approved the system, after a full hearing, as permissible under the state insurance laws. The state insurance department had ruled earlier that the system discriminated against persons who were not in a position to take advantage of the plan.

At least two Seattle unions have taken steps to obtain the mass-purchased insurance for their members. One union spokesman said a saving of 15% to 40% could be expected under such a plan.

The Lockheed Shipbuilding & Construction Co., which testified in favor of the plan at the hearing, has mass insurance for employes in other states.

Local 131, Brotherhood of Carpenters & Joiners, has instigated a plan for its 2,500 members. Later it may be extended to 20,000 carpenters in the state, it was reported. Local 353, Retail and Wholesale Delivery Driver Salesmen's Union, a Teamster affiliate, also has negotiated a plan.

The Standard National Insurance Co. of the Travelers Group appealed the department's ruling to Commissioner Herrmann. ■

Lower cost health plan discussed

SAN FRANCISCO—Kaiser health plan officials have begun a series of meetings here with union and consumer group representatives, hoping to lower cost and raise quality of pre-paid health care.

Labor Council Secretary George Johns and David Williams, Secretary of the Council for Health Plan Alternatives, described the meetings as "the first step in long range programs now being developed by the Council."

Kaiser spokesmen agreed with the idea "as a general way of improving communications" but did not support union complaints over a recent 7.5% hike in Kaiser rates, effective April 1.

The latest jump brings to 35.7% the overall increase in the Kaiser rates during the past three years.

Kaiser justified the increases on the basis of "the pressures of inflation, higher wages and other constantly rising costs." ■



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following the funds

Chase Manhattan sponsors 'game' to evaluate investment performance

By GEORGE R. LANGWORTH

NEW YORK—Chase Manhattan Bank, which has placed "model" or "paper" portfolios with 36 brokerage firms here, has turned a new page in the search for higher, more effective money management performance.

Chase has assigned phantom blocks of money totaling $4 billion to the 36 brokerage firms. Essentially, the large N.Y. bank is attempting to do two things with its expensive little game: evaluate the quality of Wall Street research, and obtain the best, most up-to-date research information available on the street.

The portfolio construction assignment "game" has been limited by Chase to a set of guidelines designed to ensure that the investment decisions used by each firm to develop its paper portfolio will apply to Chase's real trust and pension accounts.

THE PARTICIPATING "contestants" will be compensated for running the model portfolios in real dollars, however. Commissions of $3,000 a month each for the first seven months will be given the brokers, who will work with equal phantom sums.

After this initial period, the firms' compensation will be scaled upwards for higher performance. During the second six months the top-performing 18 firms will receive $6,000 in commissions per month, while the remaining 18 will continue to receive $3,000 per month. After one year, the three firms with the highest performance (to be evaluated qualitatively as well as quantitatively by Chase) will get $15,000 in commissions each month. The next six firms coming in on the performance scale will get $10,000 and the succeeding nine firms will get $9,000 while the rest will get $3,000.

Each make-believe "transaction" made by a brokerage firm in the management of its Chase model portfolio will be phoned into a special team Chase has set up. The phoned notification will be followed by a confirmation in writing, accompanied by the brokerage firm portfolio manager's reasons for making the decision along with a brief background of information on the base of which he made the "transaction."

The competition in the management of Chase's model portfolios will apparently force the brokerage firms to place their money where their mouths are. As a member of the trust department of a large Pennsylvania banking concern told *Business Insurance:* "This paper portfolio scheme is an attempt to get the answer to the question we've all been asking: How do you judge the quality of Wall Street research? You get a lot of subjective opinions from the street, but by monitoring the daily transactions in these paper portfolios you can get a very specific, concrete idea of where the analysts' sympathies really lie."

THE PENNSYLVANIA source thinks that the problem of monitoring the daily results of these paper portfolio transactions may be the scheme's biggest drawback. "You would have to set up an entirely separate team just to read and evaluate the results," he explained. "In addition, you have to remember that once you set up these portfolios you have to contend with two bodies of investment information instead of one, since the portfolios' input must be added to the input of your own investment research department. The sheer volume tremendously complicates the actual investment decision, not to mention the communications problems the guys making these decisions already have."

Another bank contacted by *Business Insurance* underscored the importance of these communications problems. "We feel we have to deal with people—and by that I mean individuals not just firms—who are available, receptive and want to do business with us," a spokesman at the bank said. "There is quite a turnover of investment research analysts on Wall Street, as you probably know, and when we find a good one we like to keep track of him.

"I feel that the paper portfolio may tend to de-emphasize the advantages of the kind of one-to-one relationship we like to maintain with analysts. For instance, there may be individuals who turn up good investment ideas in a brokerage company whose overall performance record on a paper portfolio might be poor. Now, just how would the portfolio help you to isolate these people so that you could get the benefit of their good advice?"

"Sure I think it's good to get a track record of these firms' performance results, but it might just as well backfire on you," the spokesman continued. "Last year's winner may not perform so well in this year's market. If you've bought him based on his past performance record and he doesn't live up to it, you're in the soup. I do think that this paper portfolio idea is interesting and, of course, we'll all be watching it. But, personally, I don't think it'll work very well; in the next couple of years I expect Chase Manhattan to either drop it or have it greatly altered."

FOR ALL THE reservations about the practicality of the paper portfolio scheme, several sources contacted by *Business Insurance* found a great deal of merit in it.

Said Dr. Randall S. Robinson, research director for the Bank Administration Institute: "This idea is in the tradition of the current movement of changing the fixed management fee (now typically a percentage of the principle to be invested) to a fee based on the money manager's level of performance. I think it will definitely promote more professionalism and is a healthy influence on the industry."

Dr. Robinson explained that "evaluating investment information as well as the money manager has, in the past, been a subjective problem. This paper portfolio device will increase the reliance upon a money manager's performance as the major criterion for his selection."

Earlier, a large Chicago-based

Continued on page 28

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Panel points out risk managers 'unique position'

MIAMI BEACH—Risk managers meeting here during the American Society of Insurance Management's annual conference were told the other afternoon that they shouldn't consider their jobs a dead-end. Perhaps they needn't have been.

It was a balmy day outside the Americana Hotel. Temperature was in the low 80s. White caps broke gently over the bluish-green Atlantic that spreads out from the beach at this comfortable and affluent resort community. And here they were, several hundred risk or insurance managers who had been flown south from all over the country and Canada at company expense, being told that they needn't consider their jobs a dead-end.

"Whither the Risk Manager?" was the subject of a panel discussion presided over by three men who came up the risk manager route and now hold key executive positions with major companies. They were William Smith, vp of insurance for Gulf & Western Inc., James Mahoney, vp with Airco Industrial Gases Inc., and Miles Chenault, president of Midland Insurance Co.

"THE INSURANCE manager for any company is in a unique position," Mr. Smith told the gathering. "He probably knows more about the total operation of a company than anyone else," he said, explaining that very few things go on in a corporation that do not in some way affect risk management. This, he added, includes everything from new products to advertising campaigns.

The Gulf & Western vp joined the huge conglomerate eight years ago after having worked previously for the Bank of the Southwest in Houston, Reed, Roller Bit. Co. and Retail Credit Co. He said that when he joined Gulf & Western the company was growing at the rate of a new acquisition every six weeks. This presented a variety of insurance problems and he was handed the full responsibility for same, Mr. Smith said.

"It was a small and young company at the time and everyone from the president on down to the public relations department had handled the insurance buying at one time or another. When I came along they were glad to get rid of the problem," he said.

Under Mr. Smith Gulf & Western's insurance department has since standardized policies at all the firm's subsidiaries. "When an acquisition is made, I am usually the first one on the scene after the deal is closed. We do romance a company for a certain period of time but things are eventually standardized," he said.

INSURANCE managers' problems ("You listen to self-pity at all your ASIM chapter meetings.") are largely created by himself, Mr. Smith told conference attendees. "Many company managements don't know what our objectives are," the vp said, noting that it was the risk manager's job to communicate effectively with his executives. "Do we, by our own verbal garbage, create an aura around ourselves? Are we clear? Are we concise? Are we authoritative? Do we communicate our problems to our managements?" he asked.

The question, he went on, is one of attitude. "I firmly believe," the vp declared, "that there is a place in a corporation for a vp of insurance. The thing is," he said, quoting Will Rogers, "you have to know what you're doing; you have to love what you're doing and you have to believe in what you're doing."

Mr. Smith's feelings were seconded somewhat by James Mahoney. Mr. Mahoney, who joined Airco in 1958 as assistant insurance manager, moved up the ladder to insurance manager, earned a law degree and has since been named to a vp position on the management level. Prior to going with Airco he was assistant insurance manager and later insurance manager at Bigelow-Sanford Carpet Co.

Mr. Mahoney cautioned the risk managers against becoming specialists—"unless you want to spend your life as a specialist." The vp said that there are many ways risk managers can make their positions dead-end jobs. Among them, he noted, was impressing on management that you are too valuable in your present position to move into another. "Avoid the 'indispensible man' tag," he said. "If management thinks they would have difficulty replacing you then they might not think of it."

Also, he added, "Develop a capacity to do other things and do not set prescribed limits on the job." He noted that it is important that a risk manager be a manager first and a manager of risks second. "I think we have more insurance managers than managers who manage insurance departments. Some people are too busy being specialists. They do not spend enough time managing."

CONCLUDING the session, Mr. Chenault told the group that before deciding "whither the risk manager" a man should determine whether insurance management is all he wants in life. The demands on a man's time and energy are much greater when he steps out of the ranks of insurance management and attempts to climb the corporate ladder, he said.

Mr. Chenault, who doesn't look terribly weary from the ordeal, began his career as a claims adjuster for Iowa Kemper Mutual Insurance Co. In 1959 he joined Ryder System Inc. as director of insurance and was later with Luby Leasing System & Luby Chevrolet Cos. in a similar position.

He is now president of Midland Insurance Co. of New York, of Midland Casualty Insurance Co. of Chicago and of PAT Claims Service Inc. of N.Y. ■

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Premium taxes rise

Insurance company taxes collected in Oregon since Mar. 1 total $10.860 million, according to State Insurance Commissioner Cornelius C. Bateson. Total collections in 1969 were $9.723 million. The sums represent taxes on gross premiums for all non-Oregon insurance companies on insurance written in the state during 1969. Nearly $500 million worth of insurance premiums were written by such companies last year.

Labor official speaks to ASIM conference

Sees no great thrust for drug, dental plans

By STEPHEN GILKENSON

MIAMI BEACH—The assistant director of the AFL-CIO department that formulates union health, welfare and pension plan policy has said here that "significant progress" in negotiating benefit improvements can be expected in three broad areas in the near future.

However, the labor official said, he does not expect that those areas will include fringes such as dental, vision and drug plans because most such plans are going the same inefficient route that medical and surgical benefits have gone. Nor, he said, does he foresee any major expansion in the area of profit sharing, simply because such plans are "unprofitable" for union members.

The three areas Richard E. Shoemaker does see expansion in are: (1) those dealing with job and income security; (2) those dealing with benefits that provide savings through group purchase, such as mass-marketed insurance plans; and (3) those yielding additional leisure for the employe.

MR. SHOEMAKER made his predictions before the annual conference of the American Society of Insurance Management. He was the first major union spokesman ever to speak before an ASIM conference.

In a speech that covered a wide range of benefit subjects, Mr. Shoemaker noted that union negotiators are likely to press hard for a variety of new and improved benefits in the future. Cited among them were fringe benefits that tend to spread work while maintaining employment levels, early retirement with better pensions, increased supplemental unemployment benefits, escalator clauses for both wages and pensions, more social use of things like company-union pension plans, job training and more child day care centers for working mothers.

In addition, the AFL-CIO official said, another benefit that might be provided through collective bargaining is that of a legal aid service for employes. Under such a scheme, Mr. Shoemaker suggested that perhaps corporations might set up a group practice of lawyers, either on the company payroll or by retainer, to provide free legal advice for employes.

At the same time, the union man said he does not believe there will be "the rapid expansion in dental, vision and drug benefits that many benefit consultants anticipate."

"IN GENERAL," Mr. Shoemaker declared, "these new health coverages are following the same patterns as were developed for hospital, surgical and medical benefits. That is," he said, they are being paid for by "third parties who assume no responsibility for the cost or quality of the services purchased. We have become disenchanted with Blue Cross, Blue Shield and insurance company administration of health benefits. For the most part they have been content to receive our negotiated dollars and sign blank checks for the providers to fill in," he declared.

In the area of profit sharing, the AFL-CIO official told conference attendees he expects no major drive by unions for such plans. Unions, he said, have basically opposed such plans ("because of their unfortunate experience during the 1920s and 1930s"). Employers have also generally resisted such programs, he noted. "As a result, I do not anticipate that profit sharing will be the wave of the 1970s."

Elaborating on the areas in which he does expect significant gains by labor, Mr. Shoemaker said that job and income security programs will vary from annual wage guarantees to reduction in working hours.

"In the years ahead," he said, "salaries will replace wages for a number of jobs that are currently considered hourly rated jobs. In other cases, the distinction between salaried and nonsalaried positions will blur, as hourly rated employes are guaranteed a certain number of hours per year." He cited recent programs negotiated by longshoremen in Atlantic and Gulf ports whose contracts now provide up to 2,080 hours of pay or work per year. Another approach to the problem by unions, he said, might be that which is now common to the steel, auto, aluminum, rubber and glass industries. Those plans establish a type of annual guarantee through extension of supplemental unemployment benefit plans.

ANOTHER AREA to receive increased attention of labor in the '70s, Mr. Shoemaker said, is that of subcontracting limitations. "Restrictions," the AFL-CIO official asserted, "will be sought on contracting out jobs, either domestically or abroad, to

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Broker may be 'dying breed' if he can't meet challenges of the future

MIAMI BEACH—An assistant vp of Alexander & Alexander told members of the American Society of Insurance Management who met here that the broker may be a dying breed unless he shapes up and meets the challenges of the future.

Felix Kloman told the ASIM members that brokers must continually ask themselves if they are fulfilling an important and necessary function, if they are needed and if they will be here in 10 years. "Frankly," he said, "the signs are not all that encouraging." The vp also predicted that many of the smaller brokerage houses will have been absorbed into larger firms by 1980.

Mr. Kloman said that there are three major challenges facing the brokerage business today and that each of them must be accepted and responded to if brokers are to continue to play an important part in the economy. First, he said, the industry must attract and hold on to new, young and more brainy blood. In addition, brokers must decide once and for all the nature of the brokerage business. "Are we selling a service or a product? How are we to be paid and by whom?" he asked. Thirdly, since insurance management has evolved into a function of financial management, the broker should diversify into broader services.

ELABORATING on each of the challenges facing the industry, Mr. Kloman noted that attracting and retaining good business talent is a key problem.

"Just recently," Mr. Kloman said, "the College of Insurance prepared a questionnaire for local high school students in which each was asked to rank ten colleges in order of preference. In the tabulation of the returns," he said, "the College of Insurance ranked number 10. This profoundly disturbing result was further compounded by the fact that the other nine colleges were absolutely fictional—none actually exist."

However, the Alexander & Alexander consultant told the group, the problem is not one of merely changing an image, or lack of image. It will also "require a more realistic approach to continuing professional education programs for all employes." "How many of us are actually leading the development of 'risk management', rather than following the lead of others?" he asked.

Later, moving on to the second challenge facing the brokerage community, Mr. Kloman said that brokers must soon make a change in the commission system under which they are now compensated.

"IF THE BROKER professional is to be truly effective, then perhaps he and his office should be divorced from many of the related non-insurance details currently part of the brokerage function," he declared. "To make him truly objective, and to support his credibility with his client, his compensation should be independent of the sale of insurance," he said, adding that it makes little sense for the brokerage industry to act as a "collection agency" for the insurance companies.

He also noted that direct billing would increase the cash flow, citing the fact that it now takes an average of 30 days for a broker to process and remit an invoice to an insurance company. "One major carrier had written premiums of $1.25 billion in 1969." he said. "A 30 day reduction in the float time, assuming an interest rate of 5%, would mean increased earnings of $6.250 million" for the insurance company.

The third challenge, and one to which the brokerage fraternity has given the strongest response, said the vp, is that of diversification.

"If we as brokers do not offer diversified financial services to our clients, others will. No longer is our competition just each other and the direct writers. The competition is now banks, insurance companies, accounting firms, and investment houses, all of whom are, invading our tradition domain," he said. ■



Wis. union gets vision care benefit

MILWAUKEE—A new prepaid vision plan included in a union local's contract here has set the stage for eventual inclusion in the contracts more than 500,000 members of the International Hotel, Motel, Restaurant Employes and Bartenders Union, according to a union official.

"Our plan was negotiated with all the hotels and restaurants here in Milwaukee," Phil L. Valley Sr., business manager for Hotel and Restaurant Employes Local 122 told *Business Insurance*. "It will cover between 2,500 and 3,000 members once all the contracts are signed," he said.

The international office of the union does not conduct contract negotiations. Each union local has jurisdiction over its own contracts. Mr. Valley explained, however, that information on his own union local's plan is being sent to all of the member locals across the country. "We'll probably be getting calls soon on how we set it up," he remarked.

THE VISION care plan was written through the Vision Institute of America, (VIA) a service organization of both ophthalmologists and optometrists, which offers the coverage nationwide on a state-by-state basis.

The employers agreed to contribute 1¢ per hour, per employe for the benefit. This will provide total vision care coverage for the employe himself, Mr. Valley pointed out, noting that the VIA coverage for the employe's entire family would cost from 2¢ to 2.25¢ per hour in contributions.

"The employe has to come here to the union office for an authorization slip," explained Mr. Valley. "Then, he can take it to any eye doctor or lab on a large list of affiliates of the VIA plan. He then signs the bill and sends it to the service organization, which in turn pays the bill directly."

The VIA vision care plan covers the full cost of both eye examinations, glasses and, in some instances, contact lenses, he said. ■

Inaccurate reporting of accidents charged

WASHINGTON—Charges of inaccurate and deceptive work accident reporting by industry made by labor representatives were turned up in a recent field hearing conducted by Sen. Harrison Williams of New Jersey, chairman of the Senate labor subcommittee.

"The 1969 job safety statistics were 14,300 workers killed and another 2.2 million injured," testified George Almeida, manager of International Assn. of Machinists District 47 in Newark, N. J. "If there were adequate national reporting of occupational deaths, illnesses and injuries, the present picture, shocking though it is now, would probably be twice as bad," he asserted.

Mr. Almeida's testimony was backed up by a panel of steelworkers from Carteret, N. J., who declared, "You have guys with crutches or with their arms in slings being brought to work so that your lost-time report is not a true picture of the accident rate." One member of the panel stated that union safety representatives were rarely informed of a scheduled state inspection. Witnesses also told of companies receiving safety awards for millions of accident-free work hours while dozens of employes were nursing injuries.

AN OIL WORKERS shop steward from Rahway, N. J., called the safety committee at his plant "a joke," explaining that "they have no authority to shut anything down. They can only make recommendations. The recommendations are carried on the books for months and months and months. The slogan in the plan is 'safety comes first, after production and profits.' "

"I don't believe that these allegations are true on an industry-wide basis," remarked Elgin Sallee, safety director for the American Can Co., when confronted with the subcommittee reports. "Sure, there are a few slip-ups, but they are unintentional and are also in a very small minority."

Mr. Sallee explained that there was some dispute about whether some workers' deaths were industry-related however the placing of the cause is carried out under the workmen's compensation rules. "These rules are pretty fair, I think. They are a practical formula for classification of work-related injuries and death and provide a standard format for industry to go by." Mr. Sallee conceded, however, that there are deficiencies in a lot of state laws and in several areas.

"It's necessary for me to admit that while these kinds of arguments are factually wrong they do result in eventual safety," he noted. "The way Ralph Nader operates may make a lot of us including myself angry, for example. However, he does get a lot of publicity about safety and consequently a lot more people become interested in the problem. Safety prevention, is therefore, often more emphasized than it was before Mr. Nader brought the arguments to light." ■

Travelers settling oil cloud pollution claims

PASADENA, Tex.—Irate auto and homeowners, here whose property was covered by an industrial oil cloud released from Crown Central Petroleum Co., are being placated by Travelers Insurance Co., which writes Crown Central's general liability policy.

The auto claims—about 2,000 of them—began when owners said their vehicles were discolored by the oil cloud. Travelers moved a mobile adjusting unit from St. Louis into the area and set up shop in a 5,000-car parking lot at Pasadena Memorial Stadium.

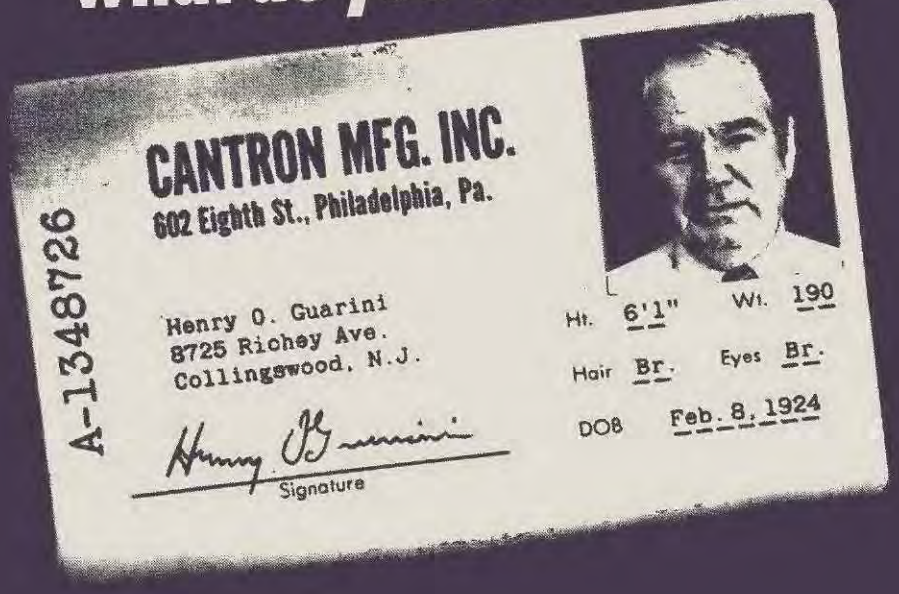
The claims, according to Travelers spokesmen, are being settled for an average of $25-$45 per vehicle. Claims from homeowners who say their homes were spotted by the cloud have not yet been processed.

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Rubber workers seek dental care improvements and new drug plan

AKRON, O.—More than 77,000 rubber workers looked for either sizeable increases in pension, life insurance and dental care benefits (not to mention wages) or a strike as the contract deadline approached last week. United Rubber Workers Union is also seeking a new company-paid prescription drug plan.

"It's still early for us to spell out our demands in the negotiations at this stage," a spokesman for the union here told *Business Insurance* shortly before the contract with the "Big Four" manufacturers (Goodyear, Firestone, Uniroyal and Goodrich) was due to expire.

Currently the rubber workers' pension benefits, paid out of a company trusteed and administered fund, are $5.50 per month, per year of service, the spokesman said, pointing out that the fund was supported entirely by employer contributions.

"WE ARE SEEKING an increase not only in the dollar amount per month for each year of service, but we would also like to have a cost-of-living escalator for the benefits. This would help to defray the erosion of our pension benefits caused by inflation," he explained.

In the previous contract, negotiated three years ago, the union succeeded in obtaining a $1.50 per month, per year increase in the workers' pension benefits. "We are seeking these pension increases not only for future retirees but for those who have already retired as well," the spokesman added.

There is a mandatory retirement age of 65 enforced now within the rubber industry. Under the present contract, employes can retire at age 62 without any reduction of pension benefits and as early as age 55 with a .25% reduction for each year of his early retirement under age 62.

"We want the retirement age to be based on the number of years a worker has been employed in the rubber industry, regardless of how old he is," the spokesman said. "We want the minimum service required for retirement to be 25 years."

THE RUBBER workers feel that they have an excellent array of medical benefits under their present contract. Said the union's spokesman: "Our hospitalization and surgical plan allows for a full schedule of coverage for the employe and all of his dependents. It will pay for up to 730 days of semi-private room hospital care. It also includes maternity benefits and a limited dental plan.

"We want to improve the dental plan to encompass all dental care," he noted, pointing out that all of the rubber workers' medical benefits are fully financed by the companies. "We are also seeking a prescription drug plan with coverage in line with the rest of our medical benefits—full coverage for the employe and all of his dependents," he explained.

All of the medical benefits under the current union contract are maintained in force after the employe's retirement. In addition, these benefits are continued for the retired employe's dependents after his death, the spokesman said.

The life insurance coverage for each employe under the current contract is $7,500. The union spokesman said that the union was asking for a sizeable increase in this amount but declined to name a figure.

The current average hourly wage for union workers in the rubber industry is $4.25 an hour. "Obviously we are going for more money," he remarked, adding that the union was asking for a cost-of-living escalator to be incorporated in the wage agreement, something they have never had or asked for before. ■

Gas station owner sues tv company

ALBANY, N.Y.—A service station operator near here is suing a broadcasting corporation for defamation because of a "special events" television broadcast that depicted alleged difficulty in getting an auto inspected.

Richard Catalano, owner of Catalano's Gulf Service Station in Colonie, is seeking $150,000 from Capital Cities Broadcasting Corp., owners of WTEN, Channel 10, which broadcast the report.

According to the suit the alleged defamation took place in Dec. 1968 when hidden cameras and microphones were used to tape conversations with employes at the service station. Mr. Catalano charges that they were used without his consent or knowledge and that his civil rights were violated.

A FEMALE reporter for Channel 10 was used for the special report. She allegedly approached attendants with a microphone hidden in her handbag while the cameras whirred in a mobile unit parked nearby and asked them to inspect her car. The attendants told her they could not do it immediately because the two garage stalls were occupied.

According to Mr. Catalano, he first saw the report while watching the Channel 10 news in his home. The service station owner alleges that some of the conversation between the attendants and the reporter was deleted from the tape shown on the news program and that the final report defamed him and his enterprise.

WTEN, answering the suit, says that the program was "fair comment" and has asked Supreme Court Justice T. Paul Kane to dismiss the complaint. ■

Up retiree benefits

MERIDEN, Conn.—International Silver Co. has notified all retirees of an extra retirement payment amounting to 20% of their annual pension, payable July 1.

This payment applies to all retired employes who were on an hourly basis and who retired prior to June 30, 1970.

It will also be paid to pensioned employes of the Meriden Rolling Mill, Times Wire and Cable Co. and Eyelet Specialty Co., subsidiaries. Special payments of a similar nature will also be made to all former salaried employes who are presently covered by the company's annuity plan. ■



Up in Northern Canada, where the roads end and the endless snow begins, the Hudson's Bay Company still serves the native Eskimos and Indians. Until recently, the only way to ship them even the proverbial refrigerator was by dog sled.

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Proposes 'tax' for products liability assessed against manufacturers

NEW YORK—Bess Myerson Grant, New York City's lovely commissioner of consumer affairs, has proposed that manufacturers be assessed a "product safety tax" that would be applied to a system designed to compensate accident victims when product safety is a factor in a claim.

Mrs. Grant made the proposal at an American Management Assn. briefing on product liability held here earlier this month. Immediate reaction to the proposal from several insurance buyers who are faced with soaring products liability insurance costs was that it could be a viable alternative to the problem. However, all suggested that such a system is easier said than done.

The New York commissioner's proposal contained four points which, she said, represented "a rational basis for a system to assure product safety."

ACCIDENT VICTIMS, she said, would be compensated from a common fund. "It could be either a governmental entity, a public corporation or a consortium of private insurance companies," Mrs. Grant observed.

Net economic losses sustained from an accident should be insured for all citizens at a minimum compulsory coverage. She did not say what the minimum should be, but noted that insurance to cover losses beyond this minimum would be up to the individual.

Fund contributions would in part come from substantial "fines and fees levied against individual consumers who violate rules of safe behavior," she said.

However, the commissioner of consumer affairs noted, the main source of revenue for the system "should come directly from a tax on manufacturers."

ELABORATING on the last point, Mrs. Grant told the AMA briefing that "the amount of such contributions should be made to depend on the safety record of their (the manufacturers') products. As the number and severity of accidents associated with a company's product go down, its tax contribution would go down.

"It seems to me," Mrs. Grant added, "that under such a system dangerous products would produce lower profits; they would require higher prices; they would make for fewer sales" and thus would help make manufacturers even more aware of product safety.

Mrs. Grant indicated that some sort of "statistical bank" might be needed in implementing such a system.

Commenting on the proposal, one insurance buyer told *Business Insurance:*

"SURE, THE IDEA sounds great—on paper. But so does no-fault auto insurance.

"I suppose insurance companies—even though loss ratios in products liability are high—would fight it to the hilt. I doubt if they would be willing to take their hand out of the bean pot, even though the beans aren't worth anything," he said. ■

Labor goals...

Continued from page 19

workers not enjoying equal pay and benefits. The development of conglomerate and international firms highlights the urgency of this issue," he said.

Other areas touched on by the AFL-CIO spokesman included:

• *Mass-marketed insurance:* Significant progress can be expected in the '70s. Unions have already moved into the auto insurance area and homeowners' insurance also lends itself to the application of group insurance principles, he said.

• *More leisure time:* The major industrial unions will likely press for the fringe benefit "that tends to spread work while maintaining employment levels." Longer vacations, more holidays, extended vacations or sabbaticals at periodic intervals are likely, he said.

• *Early retirement and pension protection:* "Employe turnover, plant shutdowns, mergers and bankruptcy all take their toll in denying workers anticipated retirement benfits. Unions representing workers in manufacturing industries will, I anticipate, press for greater assurance of future pension benefits through such devices as portable pensions, early vesting provisions and, quite possibly, some governmental program that would guarantee workers entitlement to their earned pensions in the event of bankruptcy of their employer," Mr. Shoemaker noted.

• *Health benefits:* "To put it bluntly, unions have been negotiating benefits for doctors and hospitals to a greater extent than for their members. . . . There will be, in the '70s, a strong thrust by unions to develop more rational forms of organization to deliver health services, namely, comprehensive, group practice prepayment plans. (We will) transfer our energies and resources from the collective bargaining front to the legislative front insofar as health benefits are concerned. We expect Congress to enact a national health insurance law very early in the '70s and quite likely by 1972.

• *Housing problems:* "In order to overcome our massive housing shortages caused by the need for substantial influxes of new money, unions will demand that pension, life insurance, profit sharing and similar funds be used for expanded housing for those employes in whose names these funds are held. Some insurance and pension funds under union administration have already been used for housing purposes," Mr. Shoemaker said, "but the bulk of such funds are under unilateral management control in so-called union-management trusteeship. Unions in the future will be looking not only toward the level of benefits that are provided by these funds, but also towards the use of such funds for social purposes," he declared.

• *Day care centers:* "A few union contracts call for such child care centers, and the Taft-Hartley Act was amended in 1969 to allow for the negotiation of trust arrangements for such centers. Cooperative child care and nursery schools have also developed in various parts of the country. A beginning has been made in providing public child care centers to allow 'welfare' mothers with minor children to enter the labor force. All four of these approaches are likely to continue in the decade ahead," the AFL-CIO official said. ■



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london line

Fear merchant ships may be the next targets of world hijacking operations

LONDON—Fears that merchant ships might be the next victims of world hijacking operations have been expressed in the British Parliament. Rear-Admiral Morgan Miles, who was elected to Parliament after serving in the Royal Navy, said that merchant ships might need protection by armed vessels if ever this unusual situation arose.

He warned the government's defense representatives: "The hijacking of ships in similar circumstances to the hijacking of airliners is something that can occur all too easily. Who would have thought five years ago that giant airliners would be hijacked every week or two?"

Then he suggested that the peace-time role of the Royal Navy, with the help of aircraft carriers, ought to include the provision of sea and air surveillance for the British merchant fleet.

The risks that cargo vessels run in the world's sea-lanes were also stressed by other Members of Parliament, but government spokesmen claimed that it would be impossible to use defense resources to protect every British merchant ship all over the high seas.

While these risks were being debated in Parliament, airline pilots suggested in London that traffic should be banned into countries that did not take positive action to stop sabotage and hijacking of planes. But they hinted that strike threats might apply if this autumn's world conference on air safety made no effective progress.

* * *

COMPETITION with American insurers will be heightened if Britain joins the big European economic community known as the Common Market. The Wilson Government, which wants to link up more with Europe, has tried to silence its critics by forecasting that many sections of the nation will benefit.

According to its latest Whitehall economic report, links between Britain and Europe would help to remove restrictions placed by various countries on the use of their rivals' insurance facilities.

The report adds: "If Europe set up a Common Market for insurance among its member countries, the City of London could offer a wide range of financial and commercial services unrivalled outside the U.S. This would include not only its insurance services, but also banking, shipping, merchanting, commodity markets and portfolio management."

Efforts to get Britain to join the European Common Market will begin again in July.

* * *

P. J. BROCKLEHURST, of C. Brocklehurst and Son, chartered loss adjusters, marine and aviation surveyors, London, has announced that he has entered into partnership with M. G. D. Belben, of Martyn Belben and Co. (International) Inc., international loss adjusters, New York. They will establish an international loss adjusting and surveying organization on a world-wide basis to be known as Brocklehurst, Belben and Co.

* * *

TESTS WITH A combination of sand and a special chemical in fighting oil pollution have been highly successful in the North Sea, according to a report from the Shell group. It stresses that the experiments are still in their early stages, and are not meant to combat all oil spills.

But in the recent tests, watched by American and European government representatives, there was 95% success claimed in dealing with 100 tons of crude oil experimentally discharged off the Dutch coast.

The system aims at sinking oil slicks by the combined sand and chemical mixture.

It is reported that the American Cabot Corp. has also been using a scheme to burn oil slicks by chemical means and found it worked well after a collision off the Swedish coast.

* * *

FEARS OF A set-back in world marine underwriting business in 1970 if premium rates fail to get back to profitable levels have been set out by G. D. Taylor, retiring chairman of the Institute of London Underwriters, in a warning to his fellowmembers.

He deplores "breakaway moves" to get risks completed at terms below the agreed market rates, and fears capacity problems will spread to the marine field unless there are substantial underwriting profits shortly.

Mr. Taylor, who declared underwriters were still living on 1962 hull rates despite years of inflation, said he thought an increase of at least 25% was needed to catch up with lost ground, and though much had been done in the past year this figure has not yet been reached.

HE WENT ON: "It is vital we maintain market discipline. Nobody would like to see a collapse of the joint hull agreement, yet there are some people in the market who are prepared to 'rock the boat' when they feel like it. It is very damaging to our image overseas to be in disarray.

"To those who are offered renewals on terms not in accordance with the joint hull formula, I say 'Rufuse to write a line'. No one in these days is premium hungry, and it would be salutary if a breakaway risk failed to get completed.

"If underwriters fail to restore their business to a profitable level in 1970, cushioned against catastrophe and inflation, then market capacity might be affected by a wholesale withdrawal of underwriters, at present writing representative world-wide portfolios, from large sections of their business.

"This would, of course, have a dramatic effect on market capacity, but it is a very real possibility." ■

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Reject Sentry's new reorganization proposal

MADISON, Wis.—A petition to convert Hardware Dealers Mutual Fire Insurance Co., an affiliate of the Sentry Insurance Group at Stevens Point, Wis., into a stock company under a modified reorganization plan was rejected here today by Stanley C. Du Rose Jr., state insurance commissioner.

Mr. Du Rose, in a 31-page report, said state law did not permit conversion of a mutual insurance company into a noninsurance corporation "which, in effect, was what the reorganization plan proposed."

His decision stemmed from public hearings in December and February on a petition by Hardware Dealers management to convert the firm into a stock company that would be owned by Sentry Corp., a holding company for the Sentry organization.

THE ORIGINAL plan, announced last year, was dropped by management after a furor created by Bernard L. Webb, a Hardware Dealers policyholder and former Sentry employe who now teaches at Georgia State University.

Sentry management replaced the original plan with a reorganization schedule calling for the distribution of the appraised $24 million equity of Hardware Dealers in common stock to all of the 341,000 policyholders.

The original proposal provided for the issuance of 400,000 shares of common stock at $50 a share and three million shares of preferred stock at $10 a share. Mr. Webb charged the original plan would give management a windfall of $10 million or more.

In rejecting the modified plan, Mr. Du Rose made these findings:

ALTHOUGH the stated reason for reorganization—more capital was needed for company growth—was valid, the record disclosed no plan for the provision of additional capital.

The record did not show that diversification of investments by Sentry would be beneficial for Hardware Dealers.

The transfer of assets (more than $27 million on Dec. 31, 1968) from a sister company, Hardware Mutual Casualty Co., to Hardware Dealers endangered the interest of policyholders because the assets were turned over at less value.

It would be more appropriate to reorganize both companies (Hardware Dealers and Hardware Mutual) rather than just Hardware Dealers. The plan called for Hardware Mutual to remain a mutual company.

THE MODIFIED plan provided for authorization to issue 15 million shares of common stock at $5 a share. Some 4.8 million shares, valued at $24 million, would be issued in the conversion.

John W. Joanis, president of the Sentry organization, expressed disappointment over Mr. Du Rose's ruling.

"Quite frankly, I was surprised that the petition was denied on the narrow, technical point of law relied on by the commissioner," he said. Mr. Joanis said management would comply with Mr. Du Rose's findings and probably would not take the case to the Dane County circuit court here, which would be a legal recourse.

Mr. Du Rose ordered Hardware Dealers to file a satisfactory plan within 60 days for the orderly reversal of the transfer of assets back to Hardware Mutual.

"ALTHOUGH the record in this proceeding does not establish any intentional wrongdoing by the directors sitting on the interlocking boards, the reversal of the substance of the transaction is imperative to undo a part of the reorganization that was prematurely and therefore improperly made," the insurance commissioner's report said.

Mr. Du Rose devoted some of his strongest criticism to partial reorganizations of insurance companies.

"Management that operates both a mutual and a stock company engaged in the same business is vulnerable to charges of conflict of interest in its attempt to operate a stock insurance company and a holding company complex in the interest of profit for stockholders while, on the other hand, operating a mutual casualty insurance company in the interest of policyholders . . . These are inconsistent purposes and there is no question but that loyalties would tend toward one side of the complex at the expense ot the other . . . ." he said. ■

Ploeser, Watts merges

Ploeser, Watts & Co., St. Louis, Mo., an insurance agency, has merged with Harlan Inc., Houston, Tex., a national insurance agency and brokerage firm, and will operate as a division of Harlan.

Goetsch promoted

Clifford A. Goetsch has been named division head of the group division for the United States Life Insurance Co., New York City. He will be responsible for the direct operating management of the division.

How to select a MONEY MANAGER



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A&A joins the ranks of one-stop financial services brokerages

NEW YORK—Alexander & Alexander Inc. has joined several other large insurance brokers in the one-stop shopping financial services supermarketing concept. A new subsidiary, Alexander & Alexander Securities Corp., will soon begin marketing a new line of equity/insurance products and financial services.

A&A will compete in the financial services field with such firms as Johnson & Higgins (J&H Equity Corp. formed in 1968) and Marsh & McLennan (Marsh & McLennan Securities Corp. formed in 1968).

Slated to begin operation in five to six weeks, the new A&A securities subsidiary will make available a wide array of mutual fund/life insurance packaged plans, variable annuities and tax-sheltered investment programs (prototype plans) on a group basis, said Frank Guterl, who will coordinate sales for the new company.

"WE WILL also offer services to corporate executives, such as assistance to them and their attorneys and/or tax consultants in financial planning and estate planning analysis," he explained. Mr. Guterl added that Alexander & Alexander's new subsidiary will extend the usefulness of its actuarial studies (currently servicing some 4,000 pension and profit-sharing plans), using it as a basis for advising funds on their money managers and investment programs.

Alexander & Alexander Securities Corp. will be marketing shares of existing mutual funds under a payroll deduction plar.. The disability/life coverage and mutual fund package will be offered in multiples of $5, redeemable at any time at current net asset value. Maximum contributions will be limited by the size of the employe's salary with bigger multiples being made available to higher-salaried employes, Mr. Guterl pointed out.

In order to fulfill its financial role, Alexander & Alexander Securities Corp. became a registered securities broker/dealer and a member of the National Association of Securities Dealers (NASD). Complying with SEC regulations, the company has applied for licensing in 35 states under the so-called "Blue-Sky" laws regulating the broker/dealership of securities in those states.

THE SIX-week marketing delay from the company's inception was attributed to the completion and approval of these state licenses. In addition, Mr. Guterl noted that the new company, in using Alexander & Alexander, Inc.'s existing national sales force, must retrain those A&A salesmen slated to become licensed registered representatives of the new company. "Selling equity products such as we plan involves a totally different approach than does insurance. Besides, such sales are regulated closely by the NASD as well as the Securities and Exchange Commission," he said.

F. Graham Main, who joined A&A a year ago to form the new subsidiary, has been named A&A Securities Corp.'s president and chief executive officer. ■



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Compromise in Baldwin dam case

LOS ANGELES—One of California's longest running court battles involving insurance has finally been resolved in superior court here, some six years and three months after the Baldwin Hills dam broke.

Aside from loss of life, breakage of the dam destroyed or damaged scores of homes and business establishments on Dec. 14, 1963. All told, some $13 million was involved.

The washed out home owners had no insurance to cover floods. The Los Angeles Department of Water and Power contended oil drilling in the area had weakened the dam, causing it to burst. The oil companies denied liability.

THREE WEEKS AFTER the torrent of water poured down the canyon from the broken dam, the various insurance companies which were involved with policies outstanding, began to pay claims, without waiting for court resolution of "who was to blame."

The more than $13 million paid out was paid because the insurance carriers provided liability insurance for the Los Angeles Department of Water and Power.

This week, six years later, the Los Angeles Superior Courts approved a compromise in which the oil companies and the city department agreed to pay.

The oil companies agreed to pay about $3 million for the losses of individuals, plus the cost of the dam itself.

SINCE THE insurance companies had already paid out $3 million they will get this sum back from the oil companies and the remaining $10 million will be listed as a regular liability loss paid in behalf of the city department.

An insurance industry spokesman pointed out "The irony of the whole affair . . . is that the insurance companies, by paying claims in advance, lost the use of $13 million for six years . . . and $3 million of this ended up being an interest free loan by the insurance companies to the oil companies!" ■

Masterson named to benefits post

NEW YORK—Thomas J. Masterson has been named insurance manager for International Paper Co. He has been with International since 1968 and was previously employe benefits manager at Westvaco, a paper company in W. Va.

He will be in charge of employe benefits, excluding pensions, for International's 34,000 workers. The bulk of the company's insurance is written with Metropolitan Life and provides long-term disability, group life, accident and health coverage.

Commenting on his new appointment, Mr. Masterson said he would like to see more company-paid contributions to insurance plans. He noted that changes in this area would come through union negotiations because most of International's employes are in labor organizations.

Mr. Masterson is a graduate of the U.S. Military Academy and he was formerly with Metropolitan where he handled the International Paper account for the insurance company. ■

Cristy predicts broad scope for risk management practice in the future

MIAMI BEACH—"Risk management is not likely to become a profession, but within the next few years, if we can agree what it is, it may become a valid discipline."

The speaker was James Cristy, pension fund administrator for the Upjohn Co. Mr. Cristy spoke before a session of the American Society of Insurance Management conference here, where he predicted that in the next 10 years risk management will become broader in scope, more precise in its practice and better appreciated by top management.

"Risk management is handicapped today," Mr. Cristy declared, "because of the narrow field we selected for it, because we have failed to support our opinions with numbers, and because we have not shown we can help management solve those problems to which it gives top priority.

"WE HAVE come a long way in the past ten years," he went on, "but we have some strange hang-ups that we must resolve before we should expect to command the attention we think we deserve."

Risk managers, Mr. Cristy told the meeting, are in close agreement on the objectives of their jobs: "namely, to stabilize the cost of risk short-term and minimize the cost of risk long-term." But he added, "we do not agree on what constitutes a job well done. A few people have been designated risk managers by their employers, but there is no academic agreement as to what distinguishes a risk manager from an insurance manager."

The Upjohn executive called on ASIM "for a concerted effort to reach a generally acceptable definition. I would recommend," he said, "a joint project of ASIM and the American Risk and Insurance Assn. to define risk management, pinpoint those particular responsibilities that should characterize a risk manager and set basic criteria for good performance. I think the need for a consensus is urgent," he said.

Mr. Cristy told the group that there are factors at work "that will force risk management to broaden its scope whether it is ready or not." Shrinking vitality in the insurance industry is forcing risk managers into new fields, he noted, borrowing an idea expressed earlier by Edward P. Lalley, of Kraftco.



James Cristy

CORPORATE decentralization is yet another factor that will change risk management. "Decentralization brings increased use of corporate staff and forces delegation of many activities formerly centralized. Decentralization may be traumatic for managers who cannot adjust to staff positions," Mr. Cristy theorized, "but it offers risk managers a chance to expand into business risk."

Noting that his second prediction for risk management is that it will become more precise, Mr. Cristy declared that it must if the activity is to emerge as a discipline. Referring to the belief that the most important and most neglected function of risk management is the measurement of losses, the Upjohn pension administrator asserted: "Risk managers should pull together the best loss numbers they can find for their own companies and make these part of the data bank for the information systems within their corporations.

"Not long ago," Mr. Cristy went on, citing an example, "a risk manager rubbed elbows with a director of engineering over the omission of automatic fire protection from a low budget but combustible production facility. The risk manager thought he could see a staggering cost of risk in the uninsured consequences of an insured loss. But without the support of a systematic analysis of the consequences of alternative management decisions, he could not disturb the complacency of the engineer. The risk manager ultimately won this battle, but he has yet to win the war," Mr. Cristy said.

"Up to now we have seen few signs of a systematic approach toward a quantified discipline. I can only conclude insurance managers have not been forced to be more precise. The mystique of insurance may have discouraged competition as much as it has delayed understanding by those outside the insurance de-

Continued on page 29

Common law wife obtains death comp

SAN FRANCISCO—A decision that a woman must have been "legally married" to obtain a widow's workmen's compensation insurance benefit was rejected here this week by the California Appeals Court.

The Appeals Court reversed a Workmen's Compensation Appeals Board ruling that a woman, "not validly married" should not be entitled to benefits for a surviving widow under the compensation act on "the assumption that she was the widow of the deceased employe."

"Logically," the Appeals Court decision declared, "there does not seem to be any good reason why a putative spouse who believes that she is married and who lives with the putative husband, taking care of his household and of him just as a legal wife would do, should not receive the same death benefits as a legal wife would."

The Appeals Court also asserted that the theory of California's Workmen's Compensation insurance act "is to be liberally construed."

"This theory," the Court said, "is that the dependents of an employe killed through some hazard of his employment shall be compensated for the loss of the support they were receiving from him at the time of his death." ■



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Boasts only 1 injury in 1.4 million man-hours

NEW YORK—U.S. Steel, whose divisions won 17 awards in the National Safety Council's 1969 annual safety contest, claims a phenomenally low disabling injury rate of one injury for every 830 man-years worked.

The mammoth manufacturer's rate of injuries is equivalent to one injury for every 1.4 million man-hours worked. The national average for all manufacturing industries in the U.S. in the last year reported (1967) by the Bureau of Labor Statistics is 14 injuries per million man-hours worked.

U.S. Steel originated the slogan "Safety First," a phrase long popular among industrial safety campaigns, according to a U.S. Steel spokesman.

APPARENTLY U.S. Steel takes its slogan seriously.

Said E. H. Gott, the company's exec vp for production in a recent meeting of his associates, "Safety is our responsibility in management. Without question, it is our number-one responsibility, taking precedence over everything else."

U.S. Steel uses a standardized safety program in all of its various operations, the spokesman told *Business Insurance*. The program is based upon a job safety analysis similar to that used by Westinghouse Corp. and other firms.

UNDER job safety analysis, each operation is broken down into its basic steps and each step is scrutinized for safety hazards.

The job step is either revised or adequate protective equipment is prescribed for the step to ensure adequate prevention of possible hazards. The resultant safe job procedure is used by the company job trainer to instruct the employe, step by step, in the approved method of doing the job.

A continuing audit is made by supervisors to ensure that each employe has full comprehension of the proper procedures as well as to see that he continues to follow them. In addition, the spokesman noted that these periodic safety observations (made for a week on each selected group of employes) are entered on each employe's record.

The employe at U.S. Steel undergoes periodic medical examinations to ensure his ability to maintain his alertness and ability to avoid potential safety hazards which might appear in the course of his work. ■



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Class suit says banks kept insureds' refunds

SAN FRANCISCO—Two major insurance companies, the California Bankers Assn., three big San Francisco banks and a number of unnamed state and Federal banks are defendants in a class suit filed in superior court this week charging the banks with having retained insurance premium refunds legally belonging to insured borrowers.

The suit, filed by attorney Neri Ramos for all persons whose loans are covered by bank-arranged death-disability insurance, seeks distribution of the premium refunds and $200,000 damages. The money involved is estimated as "in the millions of dollars."

Among the defendants are Bank of America, Crocker Citizens National Bank and Wells Fargo Bank, all of which have headquarters here, as well as West Coast Life Insurance Co. and Prudential Life Insurance Co. of America.

THE GROUP creditor insurance involved in the suit provides full payment of a loan if the borrower should die or become disabled.

The suit alleges that the insurance experience has been favorable and that up to one-third of the annual premium has been returned to the banks.

Miss Ramos, the attorney, said Bank of America "receives as much as $12 million a year in such refunds.

"State and Federal laws," she added, "forbid banks from engaging in the insurance business and state law specifically requires that such insurance premium refunds be passed on to the insured."

The suit contends that the insurance companies involved "agree to let the banks keep the premium refund as one of the incentives to do business with them. Individual premiums are relatively small and only a class action covering all of the insured borrowers makes a suit feasible." ■

U.K. foreign premium told

LONDON—Insurance chiefs estimate that Britain got $2.5 billion in premium income from world sources for major insurance accounts in 1969.

This announcement on behalf of its members has been made by the British Insurance Assn., which stated:

"Underwriting results from the United States are unlikely to show any overall improvement compared with 1968. Inflation, which has persisted there, has led to an increase in the cost of claims. Riot losses were much lighter, but storm losses heavier, largely because of Hurricane Camille."

Worldwide results of British companies for fire, accident and motor business are expected to be similar to 1968, which produced an overall underwriting loss of $32 million. But last year was a good year for investment income, helped by rising interest rates in most major markets, so the overall trading position will be brighter. ■

Funds . . .

Continued from page 17

insurance company allocated paper portfolios ranging from $2 million to $140 million to several money managers.

"THE PAPER portfolio is a good idea," said the company's investment research director, "and it's been of use here, primarily because of our distance from Wall Street."

"And, of course, we like to get the brokerage firms in competition with one another," he continued. "Too often the investment industry has not been evaluated on its ability to perform; the paper portfolio does just this."

He explained that the insurance company was not currently pushing its paper portfolio scheme. "Lately we've been very still, not very active in the market."

Few investors have the volume of brokerage commissions to start such a race as does Chase Manhattan ($2.5 million annually). Asked whether the paper portfolio scheme was applicable on a smaller scale, the research director replied, "First of all, anybody who is in the position of recommending stock can manage a paper portfolio. Also, it's imperative that all the managers who agree to manage a portfolio for the investor must know what his objectives are. But smaller investors must really do their homework on the few brokers they are able to choose. I think that $50,000 per year in brokerage fees is the minimum amount needed to set up a paper portfolio."

ASIDE FROM merely measuring the performance of the competing firms, the paper portfolio race can also be used to test the investor's various investment philosophies or sets of objectives. If the investor can afford to spend the money (as does International Telephone & Telegraph in its pension investments) he can get a very clear idea of what to expect from his various investment alternatives before actually committing his portfolio.

The insurance company research director declined to predict just how popular or widespread the paper portfolio would become. However, he did hint at what some of the long-term effects on the market might be.

"If *everybody* does it, the paper portfolio might lose its effectiveness. It could very well reach the saturation point. There just aren't that many good, competent analysts around, you know. Also, timing is the all-important thing in running these paper portfolios. You have to have the paper portfolio manager's ideas as fast as possible so that you can act on them if you choose. If a firm is running umpteen model portfolios, its ability to provide information swiftly to its clients might be seriously impaired."

He noted that the paper portfolio definitely will improve the priority assigned to performance. "But what is more important, performance will probably be adjudged more on a long-term basis because of this. The mutual funds have taught us that one year's record is simply not enough to determine the performance of the next year. In 1968 and 1969 performance evaluation took on the tendency to be short-term in nature. The paper portfolio will help people realize the importance of spending a much longer time scrutinizing a money manager's performance before they truly have an accurate picture of just how well he does perform." ■

Cargo reinsurance decries proposed hike

NEW YORK—Cargo insurance should be based on a vessel's operation and safety standards, not on its age, according to the Cargo Reinsurance Assn. (CRA), which is fighting the British market's proposal to hike rates on over age ships.

Institute of London Underwriters, Lloyds Underwriters Assn. and the Liverpool Underwriters Assn. wish to place a surcharge on all vessels more than 20 years old, and since approximately 230 U. S. trade ships are converted World War II battle crafts, the penalty would hit 75% of the American fleet, according to the CRA.

In letters to the U. S. Maritime Administration, the three British companies, and its own members, the Cargo Reinsurance Assn. has declared the increase unnecessary.

"OTHERS MAY take their rating stand on the side of age, but we are taking ours on the side of structural integrity and the American merchant marine," said CRA chairman Thomas M. Torrey. "We are satisfied that the vast majority of 20-year-old ships qualify under these standards and that no insurance surcharge is called for. Accordingly, we plan no rate increase on such vessels."

He said that reinsurance rates for 1971 will be the same as for 1970, based on cargo carried, and he feels that the policy will encourage exporters and importers to place insurance in the domestic market.

"In short," Mr. Torrey said, "this reflects support of the American flag for reasons of both patriotism and sound practice."

British insurers began pushing for the surcharge four years ago, but were stopped by an inspection of converted U. S. battle ships, which proved to be safe. They wished to impose higher rates again at the beginning of March, but held off when cargo owners asked for a month's delay.

Andrew E. Gibson, maritime administrator, has now asked for at least a three-, and hopefully a ten-year delay in the penalty surcharge. ■

Sues Standard as a matter of conscience

SAN FRANCISCO—Standard Oil Co. of California has been sued for $1 million by Robert D. Clark, Lafayette paraffin salesman, who charges that his conscience would not permit him to break the law for his employer of 23 years.

Mr. Clark's suit in superior court here claims his resignation in January, 1969, was "involuntary and caused by Standard's insistence on using a price list considered illegal and discriminatory." Mr. Clark, 58, claims he was deprived of his $14,000 salary for seven years, as well as retirement, life insurance and stock benefits, totalling $266,000.

World's rarest stamp insured for $500,000

SAN FRANCISCO—The $280,000 paid for the world's rarest stamp, at a New York auction recently, was considered "a steal" by some experts who only two weeks earlier had estimated the stamp's value in the $500,000 range for insurance purposes.

That was the sum of insurance written on the fabled one cent 1856 British Guiana issue while the stamp was on display at an international exhibition in New York prior to the auction.

Fireman's Fund American Insurance Companies here provided $200,000 of the coverage. The balance was placed with Lloyd's of London.

EXPERIENCED collectors had estimated bidding for the 1856 magenta would end between $500,000 and $600,000 and the insurance was written accordingly.

The winning bid of $280,000 by an 8-man syndicate from Wilkes Barre, Pa., was the highest price ever paid for a single stamp.

The insurance provided coverage from the time the stamp left the premises of Robert A. Siegel Auction Galleries Inc., while in transit to the Americana Hotel, at the exhibition and until returned to the galleries.

A provision of the policy required that the stamp be guarded by two armed guards on a 24 hour basis and that it be kept at all times in a bullet-proof and shatter-proof case. ■

Cristy . . .

Continued from page 27
partment," he continued.

HE ADDED, "But when risk control techniques are applied effectively to business risks, the awe of insurance complexity will fade. And when statistical decision theory is used in hazard risk decisions, the old immunity will vanish," he said.

Top management's recognition of the importance of risk management depends largely on whether the field broadens in scope and becomes more precise, said Mr. Cristy.

"Obviously," he continued, "top managers realize the vital importance of conserving earning power and assets. But the manager's job, and his constant concern, is to make profit. If he is confident someone in the treasury department has arranged sound insurance in case of loss, is he wrong to concentrate on his central mission—corporate earnings? When you cut the cost of risk by 25%, he is interested of course, but if that amounts to 1% of pretax earnings, do you expect him to nominate you to the board of directors?

"If and when the risk manager makes a meaningful contribution outside the field of pure or static risk, he will be a more important part of the management team, and when he bases his counsel on the systematic use of quantified discipline, his counsel will be respected."

However, Mr. Cristy emphasized, the basic problem remains, and that is: "How can risk management be understood and recognized outside our ranks if we lack understanding and agreement within the ranks? If and when we understand the nature of risk management we shall find answers to questions that stop us today, and we can convey the message to understanding managers," he said. ■

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Risk management thrives in Florida's sunshine

MIAMI BEACH—Conventions—and a gathering of members of the American Society of Insurance Management here the other week can hardly be called an exception—tend to come and go rather quickly. Most often they are a state of mind. While they're in progress everyone is very much aware of what is going on. Several days after the fact, however, most of the events have faded into a blur. And very seldom is anything said at any of them that sends the typical conventioner home very fired up.

Memorable moments did occur, however, and some outside the Grand Ballroom of the Americana Hotel where the scheduled sessions were held. To wit, a few of them compiled by *Business Insurance* staffers on hand to report the proceedings:

* * *

ASIMers attending were given plastic name badges upon which was printed the schedule of sessions and titles of speeches in addition to the attendees name. Overheard at one of the hotel's bars one evening was an attractive young female—presumably a vacationer staying at the hotel—who was enjoying a drink with a conventioner.

The young lady picked up the gent's badge and began reading through the schedule of events.

"Really," she said somewhat ruefully, "do you guys honestly learn anything when you come to these things? Listen to this one," she said, referring to the title of a speech by a leading insurance company executive: "'Will the Insurance Industry Meet Needs?' What do you expect him to say, 'No'?" Her benefactor at the bar laughed and offered her another Canadian Club on the rocks.

* * *



The Gaslight Club trave ing troupe entertained ASIM members at "Chicago Night," which is sponsored by CNA at each annual meeting.

TWO EXECUTIVES with one of the large Hartford-based insurance companies were observed while riding in an airport limo from Miami International Airport to the Americana for the convention. Both had just gotten off an airplane so naturally the conversation turned to insurance and aircraft.

One exec was telling the other about a recent junket the company had had to Las Vegas for more than 100 of its top life insurance agents from the East.

"We put a hundred of our top life producers on the same plane and brought them home," he said, shaking his head at the possibility of an air tragedy. "If that plane had gone down. . . ." He didn't finish the sentence.

Asked if the company had taken out any special insurance coverage on the agents, the executive replied that it had but had "layed most of it off with Mutual of Omaha." If the plane had gone down and the company had lost most of its top agents, presumably Mutual of Omaha would have shared in the burden. "I guess that was the thinking," the insurance company executive said.

* * *

CNA HAS established a reputation of sorts for itself by holding what they call "Chicago Night" for ASIMers and others attending the conference. The tradition (some CNA execs get noticably uncomfortable when it is referred to as that) began when the ASIM fest was held in Chicago three years ago. They held another in New York last year and moved on to Miami this time around.

Essentially, "Chicago Night" is an abundance of food, liquid refreshment and music. The latter is provided by the Gaslight Gang, a troupe of leggy young women and stripe-shirted young men flown in from Chicago especially for the occasion.

Around the Americana pool the next day several ASIM members were commenting on the elaborateness of the previous evening. About 1,200 persons had been entertained.

One of them, noting that he held a small portion of CNA stock, said he understood the evening had cost CNA $30 a head, or a total of $36,000. He suggested it would be an interesting question to bring up at the next CNA annual meeting. However, he did not appear to be in a rush to get to a phone and call his stock broker.

* * *

THE NIGHT after the CNA bash, Johnson & Higgins had a Miami luau out by the hotel pool. Although it was originally planned as a medium-sized gathering for J&H clients and others, the invitation was later extended to all ASIM members attending the conference.

The response was overwhelming. Very early in the evening it was obvious that the event was going to be oversubscribed. A very agile hotel staff set up places for what was variously described as 150-250 extra bodies and some sort of miracle was wrought in the kitchen.

During a tour around the pool several insurance buyers remarked about the calmness of the Johnson & Higgins staff, although a couple appeared to be nervously clutching their cocktail glasses as the evening dragged on far longer than humane. No one wanted to leave and some who did returned. ■

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Say title law would reduce insurance costs for companies with auto fleets

NEW YORK—A major drive for the enactment of an automobile title law has begun here. If made law, such legislation would in effect give a "birth certificate" to every motor vehicle in the state and, proponents say, dramatically reduce outrageous losses by enabling police to trace stolen vehicles and recover them for owners and their insurers.

"Although auto fleets for large or even small companies are not particularly hard hit," a spokesman involved in the drive told *Business Insurance*, "there is no reason that risk managers shouldn't get behind the law. They've got to win in the long run if a title law is enacted."

New York is one of eight states that are presently without a title law. The others are Alabama, Maine, Massachusetts, Rhode Island, Vermont, Kentucky and Minnesota. As a result, it is relatively easy to steal a vehicle in any one of them and resell it there or elsewhere without police being able to trace the theft.

"THERE'S NO question about it," Edward P. Lalley, insurance manager at Kraftco Corp., said, "it would greatly enhance recoveries."

Mr. Lalley is chairman of an American Society of Insurance Management committee made up of risk managers at companies that operate motor vehicle fleets. In the past the committee has taken vigorous positions on other proposed legislation that would affect fleet insureds, such as no-fault auto insurance plans.

Asked if the committee planned to take a position on the proposed title law, Mr. Lalley commented: "It's a good point. Something should be done."

It is believed that auto fleets in general are not terribly hard hit by thefts of vehicles that are never recovered. However, Mr. Lalley noted that his company operates a fleet of 8,000 cars, and that "the law of averages says you're going to lose some of those in the course of a year. Of course," he added, "the rates on comphrehensive coverage (fire and theft) are completely out of line with the exposure we (fleet managers) have. A title law might have the eventual effect of reducing those rates."

THE MAJOR IMPETUS behind the drive for a title law is the National Automobile Theft Bureau. The bureau is firmly backing two bills that have been introduced in the state senate and assembly here.

The theft bureau, which is headed by Michael J. Murphy, former New York City police commissioner, has compiled a rather convincing set of statistics bearing out the fact that it is easy to steal a car and then dispose of it in New York.

In 1969, the bureau reports, New York had 134,052 auto thefts, an increase of 30% over 1968. Only 68,350 (50%) of these cars were recoverd. The national recovery average was 86%. The dollar loss of cars not recovered in New York State in 1969 was more than $65 million, the bureau says.

Mr. Murphy urges insurance managers, even those responsible for a fleet of three cars, to write to Gov. Rockefeller or the chairman of the motor vehicle committee in the New York state senate (John D. Caemmerer) and make their feelings known.

"I don't have any statistics on stolen fleet cars, but I do know that the rental people are very hard hit. But," he added, "there's no doubt that a title law would affect insurance costs on fleet vehicles in the long run."

Rates for comprehensive insurance, the NATB president points out, average $77 in Newark, $72 in Chicago and $71 in Los Angeles —all areas with title laws. By contrast, rates for the same coverage in non-title law areas such as the Bronx and Brooklyn are much higher, $230 and $271 repectively. ■

Nixon bill would 'beef up' benefits

WASHINGTON—The Nixon Administration has finally sent to Capitol Hill its promised legislation to beef-up the benefits provided by the Longshoremen's and Harbor Workers' Compensation Act. And, as expected, the draft bill contains—besides the hike in benefits—two highly controversial proposals.

First, it would—to the chagrin of management and the insurance industry—shift the cost of administering the act from the Federal government to the carriers and the self-insurers by means of assessments.

Second, it would—in a move hailed by management—reinstate the exclusive liability principle of the act, which has been eroded by the courts.

THIS EROSION started in 1946 when the courts held that a shipowner owes an absolute warranty for seaworthiness to Longshoremen Act employes. This ruling led to employes suing the shipowner for damages, after having collected compensation benefits for the injury from their employer.

In most instances, when the longshoreman has recovered from the shipowner, the shipowner has turned around and recovered from the longshoreman's employer. Thus, the employer has been winding up paying not only compensation benefits but also the recovery the longshoreman makes against the shipowner.

THE NIXON' bill would boost minimum compensation payments under the Act from $18 to $35 a week and maximum payments from $70 to $119. It would raise the limit on total payments for total or partial disability from $24,000 to $40,800.

Other changes in benefits include increasing death benefits, liberalizing the statute of limitations, eliminating the waiting period for payment of compensation, and expanding the definition of disfigurement.

Also, the bill would change the definition of "eligible child" to include "student" in order to permit children who are surviving dependents to continue to receive benefits after reaching 18 years of age as long as they are in student status. ■



Chapter 1 · **In the Case of Producers Cotton Oil Company,** oil fields are actually fields of cotton and safflower. And each plant holds a pool of valuable oil in its seeds.

The company, headquartered in Fresno, operates 70 cotton gins and 3 oil-seed mills in California and Arizona. Producers also farms some 115,000 acres.

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Integrating the roles of grower, processor, and merchandiser of agricultural commodities, Producers typifies the modern agribusiness.

Chapter 2 · **Tracking down the uses of cotton** reveals a list of products ranging from clothing to cattle feed. Cellulose to salad oil. Cottonseeds provide an abundant source of edible oils for the finish food trade. Other by-products go into the manufacturing of synthetic fabrics, plastics, and into furniture trade.

Producers found that the seasonal start-stop of ginning, farming, and milling operations, plus turnover of crews, created a high loss risk. Their search for a workmen's compensation carrier with strong safety engineering services led them to Norman Booth of Booth Insurance Agency in Fresno. Together with Argonaut experts, they came up with a comp program geared to Producers' mode of operation.

Chapter 3 · **The footwork for engineering** a safe plant takes place before peak seasonal production. A Producers safety team and Argonaut safety engineers inspect for potential hazards. Safeguards are checked and warning signs posted. During production, crews attend weekly safety meetings and on-coming shifts receive 5-minute safety talks.

The results? L. D. Bowers, Safety Director of Producers Cotton Oil Company, knows the facts: "Argonaut has helped us achieve an excellent safety record and reduce our net insurance costs. They've always given us 'number one' claims and safety engineering service. You can't ask for more than that."

Epilogue

If your eye is fixed on sizable workmen's compensation accounts, keep these facts in mind: Argonaut is a workmen's comp specialist. We have experienced underwriters, safety engineers, and claims men trained to handle specific industries. And we back up every policy with expert service.

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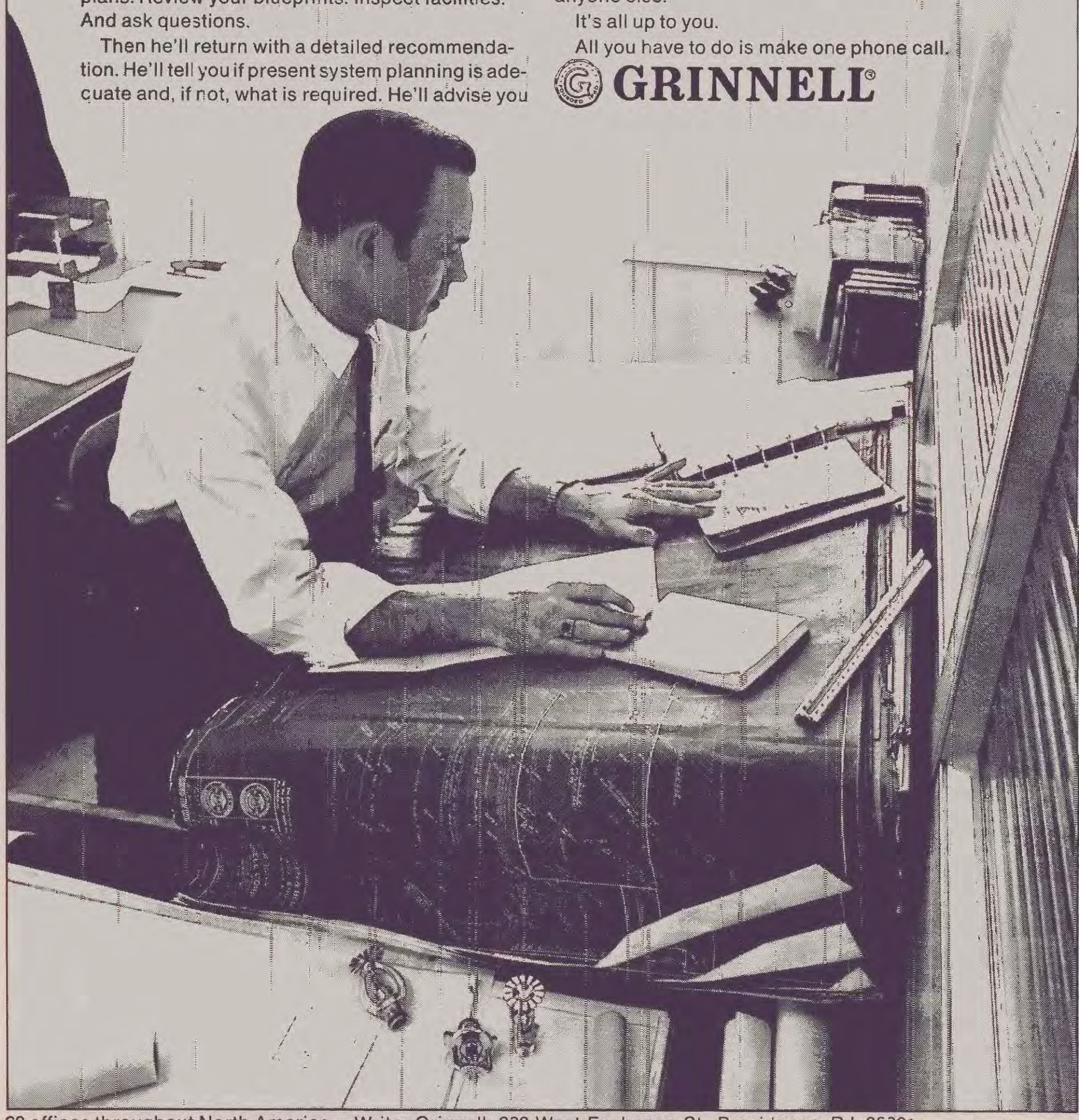
Then he'll return with a detailed recommendation. He'll tell you if present system planning is adequate and, if not, what is required. He'll advise you on any needs for special systems to counter special hazards. He'll point out the best way to capitalize on local building codes. And he'll spell out costs.

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business insurance/perspective

Incentive bonus plans—do they make it?

by Dr. N. B. Winstanley,
manager of personnel planning,
Business Products Group, Xerox Corp.,
Rochester, N. Y.



N. B. Winstanley

ALTHOUGH it may be heretical—perhaps even downright un-American—the time is ripe to take a good look at so-called "incentive" bonus plans. There is more than a growing suspicion that they are impractical, too theoretical, or both—a doubt many firms might wish to examine, for millions of dollars, thousands of executives, and hundreds of companies across the U.S. are involved.

Perhaps the phrase "incentive bonus" is misunderstood. To most, it means a bonus that generates extra effort, extra results; i.e., results noticeably different from the individual's typical productivity. In this context, my experience and some research has finally led me to conclude one rarely sees much incentive in incentive bonuses.

While it is true that such plans do allow executive compensation costs to rise and fall marginally with profits, this is hardly incentive as we usually understand it or read it in proxy statements. This is not to deny that for some executives money could be an effective incentive; money, however, is not a universal motivator, nor is it well-managed in the typical company bonus plan. Beyond a perceived point of dollar equity readily available in salaries, I submit that management bonuses provide little or no incentive for truly extra effort.

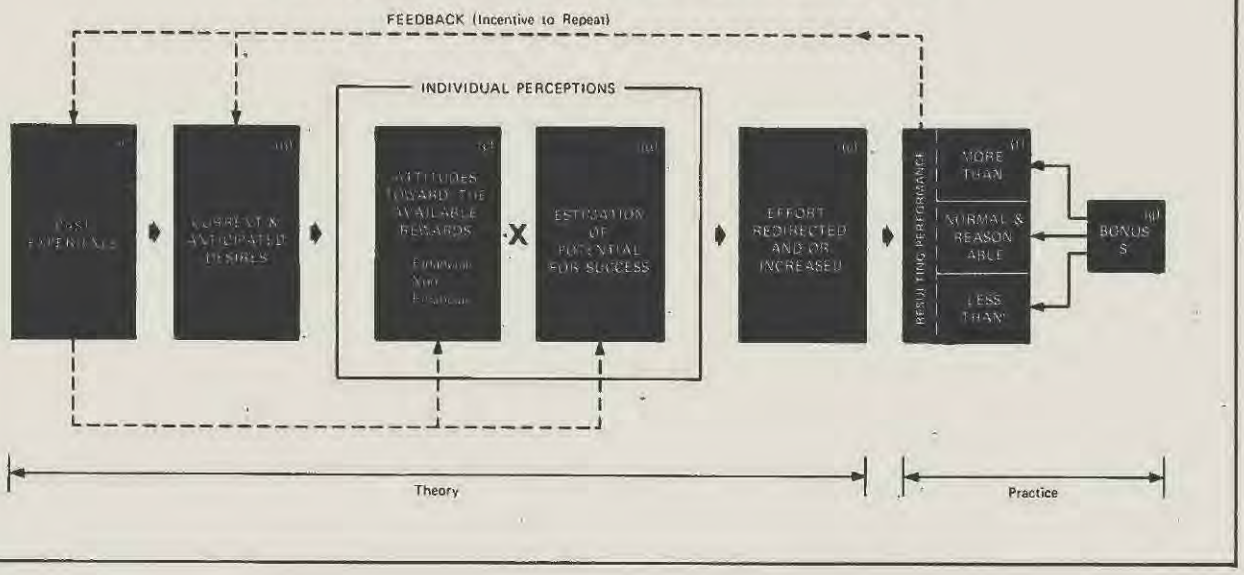
FROM A PRACTICAL point of view, there are a number of different reasons why most programs quickly become ineffective. The various errors I find that can be made in the distribution of the bonus fund too often result in nothing but an additional administrative burden and headache to the organization. For example:

• *When almost all of those eligible get a bonus*—Rewarding lesser performances than the group's average encourages repetition of undesirable behavior. Furthermore, the status effect, so important to motivation within the bonus group, vanishes when almost everyone, regardless of performance, gets an award. Varying the amounts of these awards doesn't help either; secrecy over such matters completely masks any discrimination that might have been made to give more or less status.

• *When ineffective amounts are awarded*—A commonly accepted principle of incentive is that awards should not be less than 20% of salary. Unfortunately, and contrary to popular thinking, many manager-level awards are 10% of salary or less. Too many top-executive bonuses are 1% or less. This produces little lasting feeling of recognition or incentive to repeat a good year's work—particularly aft-

continued on following page

Exhibit 1
INCENTIVE BONUSES: THEORY AND PRACTICE



Bonuses can be a bridge between owner, manager

by Frederic W. Cook,
consultant,
Towers, Perrin, Forster & Crosby Inc.,
New York, N. Y.

WHY DO MANY business organizations have so-called incentive plans for their management employes? What is the purpose of these plans and how well do they work? What assumptions are made implicitly in designing these plans? Are these valid assumptions?

First, we should clarify what we mean by a management incentive plan. In the typical case an organization sets aside each year a pool of money, usually derived as a percent of profits above a certain "threshold" minimum return on stockholder equity or assets. This pool may then be allocated among the units of the organization, sometimes according to how well each unit (say an operating division) performed. The bonus eventually determined for each eligible employe usually varies by his relative contribution and is paid in cash or stock. Eligibility for bonuses is usually limited to management employes, a number that may vary from .1% of the total workforce to a fairly large number of exempt employes.

The article by Dr. Winstanley calls into question the effectiveness of management incentive plans. The article indicates that if these plans are supposed to provide incentive for increased individual effort and productivity then the majority are failures for a variety of widespread design and administrative reason. The conclusion is that if these errors cannot be corrected, the time, effort and expense would be better spent on more effective administration of base salaries.

THE AUTHOR raises some valid and telling points. The mistakes cited occur in one or multiple ways in many plans. The conclusion, however, to abandon management incentive plans is not, in my opinion, well-founded.

The value or effectiveness of any device is determined by measuring it against what it is supposed to achieve. This brings us back to the basic question—what is the purpose of a management incentive plan? If the purpose of these plans is to spur a company's executives on to greater effort, then I agree that they are failures. I do not believe the nature of the management task or the caliber of people attracted to it is compatible with the notion of increased effort through monetary incentives.

What then is the purpose of a management incentive plan? To throw some light on this question, we checked the plan texts of 12 randomly selected companies to find the reasons publicly stated by them for the plans. What we found is shown in the following box. Some common themes that run through these examples are (1) to help attract and retain capable personnel and (2) to orient management per-

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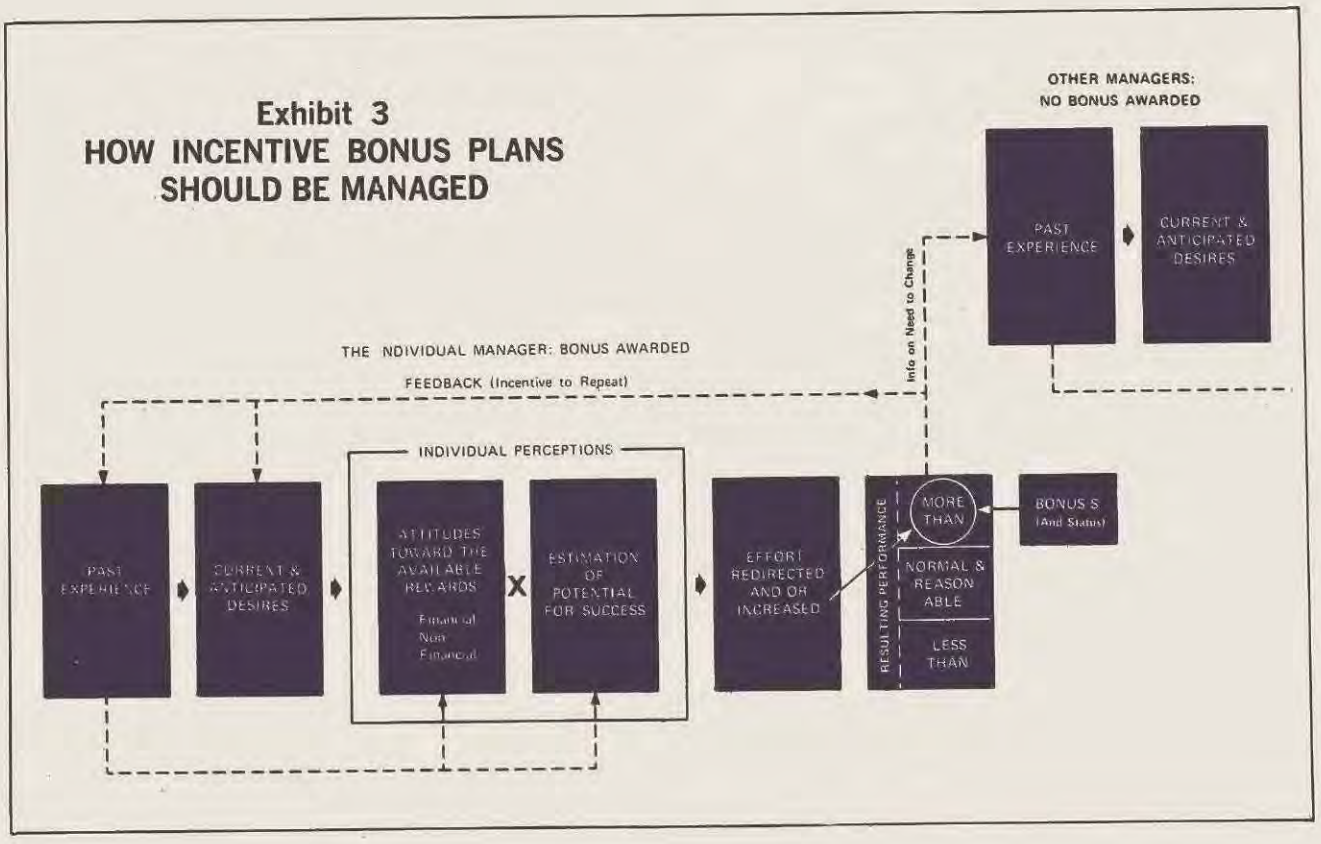
Winstanley

Exhibit 2
THE MANAGEMENT OF NON-MONETARY MOTIVATION

SOURCES OF MOTIVATION[1]	SOME OF THE METHODS EMPLOYED[2]
Opportunity for PROMOTION	Early identification of talent. Preparatory training/development.
Authentic PARTICIPATION	Orient and train executive and manager supervision in: - Goal Setting Program - Periodic progress reviews
Meaningful and Challenging RESPONSIBILITY	Real delegation (including provision for some error and differences in method).
ACHIEVEMENT	Assistance through: - Skills Training - Selective and gradient assignments
RECOGNITION	Training executive and manager supervision in appraisal and "feedback" methods.
Feeling of ACCOMPLISHMENT	[Results from recognition.]
Feeling of GROWTH	Skills Training Management Development Outside Courses and Seminars Career Progression Reviews

Notes: (1) Prerequisites are, of course, equitable compensation and a "committed" management. (2) These methods are not discrete; they interact and overlap and must be part of an overall management "system."

Exhibit 3
HOW INCENTIVE BONUS PLANS SHOULD BE MANAGED



continued from preceding page
er taxes. Results are even worse when such awards are deferred, leading some managers to call the plan a system of "industrial peonage."

• *When bonuses are used to make up appraised, awards not being well related to individual differences in performance*—A prerequisite to any financial motivation is a clearly perceived relationship between quality of performance and magnitude of reward. (Performance appraisal methods themselves are fallible measuring instruments for several reasons, including limitations in the technology itself and their use by untrained raters. It is also true that some companies use no systematic appraisal at all as a basis for bonus awards.) Unfortunately, the magnitude of awards depends more on the level of responsibility than on performance. This situation amounts to nothing more than a modified form of profit sharing wherein the best performers within a given level of responsibility can be the most dissatisfied. The bonus population therefore reacts better to other, non-financial sources of motivation.

• *When the timing of awards is scheduled and annualized*—The reaction is more to a schedule than to the bonus dollars or to performance level. The bonus is "expected," not earned. Bonuses awarded in January are forgotten in February.

• *When bonuses are used to make up base salary deficiencies*—A common attitude here is: "It is my due." It is certainly not regarded as extra compensation for good performance. No additional effort is put forth.

• *When bonus schedules are expressed as a percent of base salary*—Such schedules can magnify any existing salary inequities. Dollar differences in total compensation are increased with inappropriate awards. Resentment, not incentive, follows when inadequate attention has been given

continued on page 36

Cook

Plan texts

". . . to provide greater incentive for employes to exert their best efforts on behalf of the company; to attract and retain persons of outstanding competence; to further the identity of interests of such employes with . . . stockholders. . ."

". . . to promote the interests of stockholders of the corporation . . ."

". . . to provide incentive and new aid to employes who contribute to the success of the enterprise . . . through making them participtants in that success."

". . . to attract and retain outstanding line and staff personnel . . . to motivate them to maximum personal achievement in pursuit of its basic corporate objectives . . ."

". . . to provide for awards to selected salaried employes . . . affording to them a means of participation in (the success of the company) and an incentive to contribute further to that success."

". . . (to provide) increased incentives for key employes to promote even more the success and well-being of the company."

". . . to give . . . an additional incentive to project and advance the best interests of the (company)."

". . . to aid the corporation in improving its overall performance and profits through attracting, retaining and motivating personnel of superior caliber."

". . . to give employes compensation for outstanding services and as an incentive to further efforts on behalf of the company."

". . . to reward those executives who are in a position to contribute materially to the success of the company."

". . . to make assets and to make the key management group aware of all the factors involved in the profitability of the business."

". . . to provide a total compensation package that includes a variable incentive portion directed toward rewarding outstanding individual performance."

continued from preceding page
formance more closely to overall company objectives.

We next asked some top executives, anonymously, to give us what they felt was the basic purpose of their management incentive plans. Their replies are shown in the next box. This helps clarify the matter a little, but I do not think we still have the real answer.

ONE OBVIOUS reason that a company adopts a plan is that many of its competitors have them. A recent survey of the top 100 industrial companies listed in Fortune revealed that 80 of the 100 have formal management incentive plans. Following one's competition is not really as bad as it sounds at first. The competition for talented executives is intense and many talented people have a strong desire for incentive compensation—or more specifically, a desire to have their performance measured and their compensation directly related thereto. A company's competition may offer a high direct compensation package (salary and bonus). If the company is to match or exceed this level in base salaries alone, the fixed costs might be prohibitively expensive. A properly constructed incentive plan allows a company to pay above-average compensation to its top performers when such payment is *justified* by exceptional profits.

In my opinion, however, the basic purpose of management incentive plans is related to the structure of the management job. It is well known that in most companies ownership and control are separated. Professional managers are in a very real sense employes. Through a management incentive plan, a company can bridge this gap between owners and management by making one portion of management compensation dependent on the success (or failure) of the business. Thus, the purpose of the plan is to encourage management to act like owners. This is both an economic incentive and a communication mechanism.

Through the structure of the plan, a company communicates to its key employes what it regards as important goals or measures of success. For example, if a company structures a management incentive plan that relates the amount of award to net earning per share, it is thereby telling its management that it regards earnings per share as a crucial measure of success. The existence of the plan may not make anyone work any harder, for that is a physical impossibility for many executives, but it may make them work more effectively by focusing their attention on what the company regards as significant.

Most management incentive plans focus attention on short-term profit performance. This is an important consideration, for if too much stress is placed on the future, at the expense of the present, there may be no future. However, an over emphasis on short-term results could also be detrimental. This is why a management incentive plan often is balanced with a stock-related compensation plan (e.g., an option plan), which has a long-term orientation.

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Executive comments

". . . to reward extraordinary performance in an extraordinary way."

"What we are trying to do is to hold the carrot out in front of the people who manage and run this business to work harder, longer, better, more effectively and their incentive is based on the results that they get."

"To reward people for performance."

You know what you pay for insurance. Now find out what it costs.

You have numbers, plenty of numbers, on how much you pay for what insurance.

But you probably don't remember anything except the final dollars and cents figure. Because most likely, that's the only number you can really use.

With good reason, too. For insurance premiums have traditionally been reported to you in the language of insurance.

But now a company will tell you how much your insurance costs in the language you understand best. The language of your cost analysis procedures.

That company is CNA.

We now offer you an Industrial Risk Information System (IRIS). To break down insurance costs any way you want.

By line. Location. Policy. Year. Or any profit center method unique to your business.

That way you'll know when and where your insurance costs are out of line. In time to do something about it.

So talk to your CNA agent. Or write to us.

Just ask about IRIS. A full explanation won't cost a thing.

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Winstanley

continued from page 34

to equitable base salary administration.

• *When bonus pools are tied to group performance, awards being made largely on the basis of level, rather than individual performance*—Since individual performance differs significantly in any organization and level, such a plan is a modified profit-sharing plan, not one designed to motivate the individual. Such plans satisfy, but don't motivate—particularly on the lower levels. Group incentives might be feasible when the critical operating factor is a very high degree of cooperation between individuals in the group. However, this mode does not represent reality in many organizations.

• *When awards are poorly related to time-spans of completion*—A well-established principle in motivating future performance is to tie the reward fairly closely to completion of a critical assignment. Since executive time-spans commonly range anywhere from two months to two years, awards made on an annual basis are out of phase with real life and theory. Weakened ties to actual behavior result.

• *When secrecy prevails and few in the bonus-eligible group really know how awards are determined*—Suspicion of arbitrary decisions often results, together with the development of negative attitudes toward the bonus plan itself. Since little is known of the relationship between actual awards and performance, little incentive results. Furthermore, when managers do not receive any clues about how the plan is administered their behavior is not influenced by anything inherent in the plan itself; other environmental considerations are of greater influence in the direction and quality of performance.

• *When inconsistent award practices exist within and between organizations*—This situation, common in large companies, is a predictable source of tension between supervisor and subordinate, and it can disrupt relations between organizational units.

It is fair to conclude that under these conditions bonuses are certainly questionable both as motivators and satisfiers. And when companies have as many as three or four of these errors in the administration of their incentive programs, the interaction of those conditions is devastating.

SOME THEORETICAL QUESTIONS—Behavioral science research and theory provide little support, I find, for some of the claims made for incentive bonus schemes. In fact, they seem to indicate the odds are against much success with bonus plans—particularly in today's forms. Exhibit I, a simplified model of current motivation theory, holding ability constant and applied to a typical bonus situation, may clarify this situation. It demonstrates the fact that practice is contrary to theory, and that the theory itself provides inadequate justification for assuming bonuses are uniformly and sufficiently attractive to make the attendant adminstrative burden worthwhile.

Frames (a) through (d) show how an individual manager "values" a potential bonus situation. His perception is formed by his past experience (a) and current needs or desires (b). Therefore, a bonus is attractive only to the extent he had developed a positive attitude toward bonus awards (c) and the expectation that he can do the job without too much discomfort and will be equitably rewarded (d). When these conditions exist, extra effort (e) will result.

If either his attitude toward the bonus or his expectance of success is indifferent or negative, the individual is not motivated and no extra effort results. Obviously this behavioral system is controlled by the perceptions of the executive; he is not necessarily motivated by imposition of a bonus in his work environment.

Inherent in this mode, frame (c), is the notion of *choice*. The executive may choose and be motivated by non-financial rewards related to accomplishments of less importance to the organization. Since executives differ in their perceptions of the desirability of various rewards and in their expectance of success, one may appropriately conclude that supplemental incentive compensation systems activate only a fraction of the eligible population for which they are designed. Despite this, in practice almost everyone gets a bonus (f) and (g).

IN PSYCHOLOGICAL terms, all kinds of behavior have been reinforced, including performance that was "less than normal and reasonable." The "feedback" is one of no need for improvement. Perceptions of future incentive situations are shaped accordingly; those given awards despite indifferent performance will fail to see that extra effort on their part is necessary for extra compensation. Incidentally, this performance group combined with the "normal" group probably includes two-thirds to three-fourths of bonus-eligible groups. Millions of dollars are thus spent throughout U.S. industry to motivate a majority of executives and managers to keep right on performing as they are. *In effect, the bonus plan is doing no more than the typical salary-increase plan.* For many of these people—i.e., those with equitable salaries, and those more interested in non-financial rewards—financial return is the least effective source of motivation.

'Millions of dollars are thus spent to motivate . . . executives and managers to keep right on performing as they are.'

Nevertheless, the bonus gives them a dollar payoff rather than a more meaningful reward. Assuming a limited bonus fund, bonus payments to these executives and to those whose performance is marginal decrease the amounts that might otherwise have been available to reward "more than reasonable" performance in highly stimulating, after-tax dollars.

Management's return on investment under all of these conditions I find appallingly low. It certainly would not be acceptable in other functional areas of the business. It continues, however, because bonus systems are tangible and fit most executives' stereotypes. Because of a cultural lag between the campus and the company, management is not sufficiently aware of the concepts and complexities inherent in the balance between financial and nonfinancial motivation. Over-emphasis of dollar incentives has resulted in inadequate use of other and more potent —according to the behavioral scientists—sources of managerial motivation.

Executives also assume that these incentive systems are self-maintaining, and need of little adjustment from year to year —or from situation to situation—because of the implicit assumption that bonuses have a constant and universal appeal. One rarely finds follow-up studies to see just how effective a plan is or training on the executive level in performance appraisal and feedback to facilitate the incentive purposes of the program.

REMEDIAL ACTION: Several alternatives might be suggested, given this dismal picture:

• *Eliminate bonuses*—The first, and probably the most realistic alternative, is to base the company financial reward structure on excellent salary administration. Once a competitive and equitable salary system is installed, any extra (bonus) dollars can be invested in more potent motivators; i.e., in the so-called intrinsic or job-related sources of motivation such as promotion, participation, responsibility. (Exhibit II briefly describes these and outlines how they may be utilized.) It is particularly important to note that this approach is more effective on upper-management levels than on lower levels of supervision.

More potent sources of motivation are inherent in a system of management that tries to mesh as best it can the needs of the organization with the desires and unique talents of its managers. Judicious and balanced use of monetary and nonmonetary rewards is one of the tools used to facilitate such management systems. Obviously, this means considerable work. If it is to be at all effective, it will require time, staff and money—money that otherwise might have been spent on incentive bonuses. However, this mode is more efficient than annual bonuses based on questionable measurements of group and individual performance.

• *Offer extra compensation for extraordinary performance*—If elimination of bonuses proves too difficult to carry out, and if top management or the board of directors absolutely have an incentive bonus plan, then a second alternative is to change to a true plan of *extra* compensation of *extraordinary* performance. Awards should be made only to the very highest performance levels immediately on completion of unusual accomplishments, not regulated by scheduled or annual bonus awards dates. Actual participation would rarely, if ever exceed 1% to 20% of the eligible population in any moving 12-month period. Incidentally, since this level is one of the extremes of performance, it is much more easily identified and validly categorized. A more acceptable appraisal system results.

'The best bet, if we are to be . . . pragmatic . . . , is to forget bonuses and concentrate first on salary administration.'

A program of this nature rewards only the best and provides non-threatening cues to those who are really interested in bonuses but have not participated, indicating that extra effort and accomplishment pay off. (This, of course, is a critical prerequisite to an incentive climate.) Additionally, such a reward system is much higher in status motivation, costs less and has a significantly higher return on the dollars invested. Exhibit III is a behavioral model of how this alternative works.

• *Combining alternatives*—One could use some combination of the two alternatives previously described, i.e., bonuses restricted only to outstanding performers and much greater emphasis on the non-financial sources of motivation. Unfortunately, the management of a total reward program of this nature—truly the management of motivation—is impractical for a majority of companies. They lack either the willingness (beliefs and attitudes) or the resources (staff and budget) to make it feasible. Within ten or fifteen years, however, significant changes in the knowledge and beliefs of our future managers, as well as changes in the climate and structure of the company, will make improvement possible. In the meantime, and under the conditions we find today, the most practical alternative for the majority of companies with bonus plans is elimination of bonuses and concentration on the best in salary administration—itself no simple task.

If, then, we are to believe the behavioral scientists, the odds are against bonuses. In most companies as we know them today, bonuses probably will not produce much extra effort or incentive for increments of improvement. If these findings are not acceptable, then a studied look at the practical aspects of how bonus plans are designed and administered will be more convincing. Common sense will indicate there can be little or no incentive for extra effort.

The best bet, if we are to be as pragmatic in this end of the business as we are in others, is to forget bonuses and concentrate first on salary administration. Do well in meeting the highly important need for equitable salaries and then focus on the more potent sources of motivation found in the non-financial areas. Clearly, this should lead to a much improved management of men and money on the most decisive and critical level in the company. ■

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Cook

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IN SUMMARY, a management incentive plan can have a variety of purposes:

• To help attract and hold talented management (the two concepts, often stated together, are really different and have different implications for plan design);

• To provide a flexible means of matching or beating competitive compensation levels;

• To encourage a proprietary interest in management;

• To help communicate the company's goals and standards to management;

• To focus attention on short-term results;

• To provide a means of rewarding exceptional performance without adding to fixed costs.

How effective is a management incentive plan in accomplishing these objectives? There is no sure way of knowing because we are dealing with a complex environment in which cause-and-effect relationships cannot readily be isolated. Therefore we must rely on the judgment of the individuals responsible for implementing these plans. It appears from the rate these plans are being adopted and extended that most boards of directors do believe the plans are beneficial, that they do fulfill a purpose, and that they are in the best interests of the stockholders.

This is not meant to gloss over the administrative problems and errors that hurt a plan's effectiveness. Rather than abandon management incentive plans, however, these problems should be confronted and corrected as far as possible. Effective salary administration is highly important but it is not a substitute for an effectively designed and administered management incentive plan. ■

Malpractice

Continued from page 1

providing the policyholders with credit of 4% for use of their funds in reserve accounts.

According to industry people, this is the first time investment credit has been given by an insurance company on a casualty account. The practice is not uncommon on large employe benefit policies written by an underwritter on a corporation, but it is practically unheard of on a casualty cover, they say.

Officials of California's insurance commission indicate the new contract will represent a saving of approximately 25% in the cost of the medical malpractice coverage for southern California doctors.

THE DEAL between the Hartford and the Los Angeles County Medical Assn. (LACMA) was worked out by Johnson & Higgins of California. After being approached by LACMA the California broker conducted a year-long study and came up with a model policy. Bids were sought from 10 large insurance companies. Three submitted formal bids—Travelers, CNA and the Hartford—and association doctors found the Hartford proposal most favorable.

The contract between the medical group and the Connecticut-based insurance company will go into effect Jul. 1, although there is a possibility the start may be delayed if details cannot be worked out in time. Malpractice insurance will at first be available to 7,500 doctors in the Greater Los Angeles area but will later be extended to 2,500 additional physicians is sprawling Los Angeles County.

The Hartford, it was learned, will issue a master policy to the LACMA, guaranteed renewable for five years, with premium rates guaranteed from Jul. 1, 1970, to Dec. 31, 1971. For the period Jan. 1, 1972, to Dec. 31, 1972, any possible rate increase would be limited to a maximum of 10%.

A number of anti-trust suits are now pending, alleging a "conspiracy" within the insurance industry to "create a tight market" in the medical malpractice insurance field "to enable the imposition of higher rates and monopoly practices."

THE LINDER report is a 47-page study of professional liability coverage in California prepared by consulting actuary Joseph Linder of A. S. Hansen Inc., New York. It was commissioned by the Council of the California Medical Assn. following medical malpractice insurance rate increases of 109% last fall, in southern California, on top of a 1968 increase of 97%.

The largest market for malpractice of insurance in recent years in southern California has been Pacific Indemnity, a member of the INA family. In northern California, where the problem is also acute, American Mutual Liability is the largest underwriter of malpractice.

With recent increases, malpractice rates average about $2,500 annually per doctor. However, some physicians are paying as much as $4,000 for the coverage.

The report endorses the northern California program as operated by American Mutual Liability but is critical of the southern California program of Nettleship-Pacific Indemnity. "... we found the actuarial methodology employed to be quite unusual," the report observed of the situation in southern California. "In fact," it added, "we have never encountered anything even remotely similar in the malpractice field." It also asserts that an earlier proposal to establish a new physician-surgeon-owned captive company to provide medical malpractice coverage "is not feasible because it would require initial minimum capitalization of $15 million."

Another objection to such a program is that "reliable reinsurance carriers would be difficult to locate" and that it "would be equally difficult to obtain management personnel or staff personnel."

The Linder report is now being distributed in California with a seven-page memorandum by William K. Scheuber, executive secretary of the Alameda-Contracosta Medical Assn. The Scheuber memorandum is titled "Practical Ways in Which County Medical Associations May Participate in Solving Professional Liability Problems."

"While American Mutual Liability will remain on the risk in northern California," Mr. Scheuber reports, "we have been unable to obtain assurance that Pacific Indemnity will continue on the southern California malpractice risk after Oct. 1."

THE RESPONSE to the Hartford-LACMA plan, according to a Johnson & Higgins man, "is going to be overwhelming. No question about that. I shudder to think of the potential here," he said when asked if the same concept might be applied by other medical associations around the country and other groups that need professional liability protection. The American Medical Assn., he said, recently sent a man from its Chicago headquarters to study the Los Angeles plan.

The LACMA is said to be especially happy about the investment credit agreement worked out with the Hartford. In a recent communication with association members, Dr. Ralph M. Milliken president of LACMA, noted several other features of the agreement with the Hartford. They are:

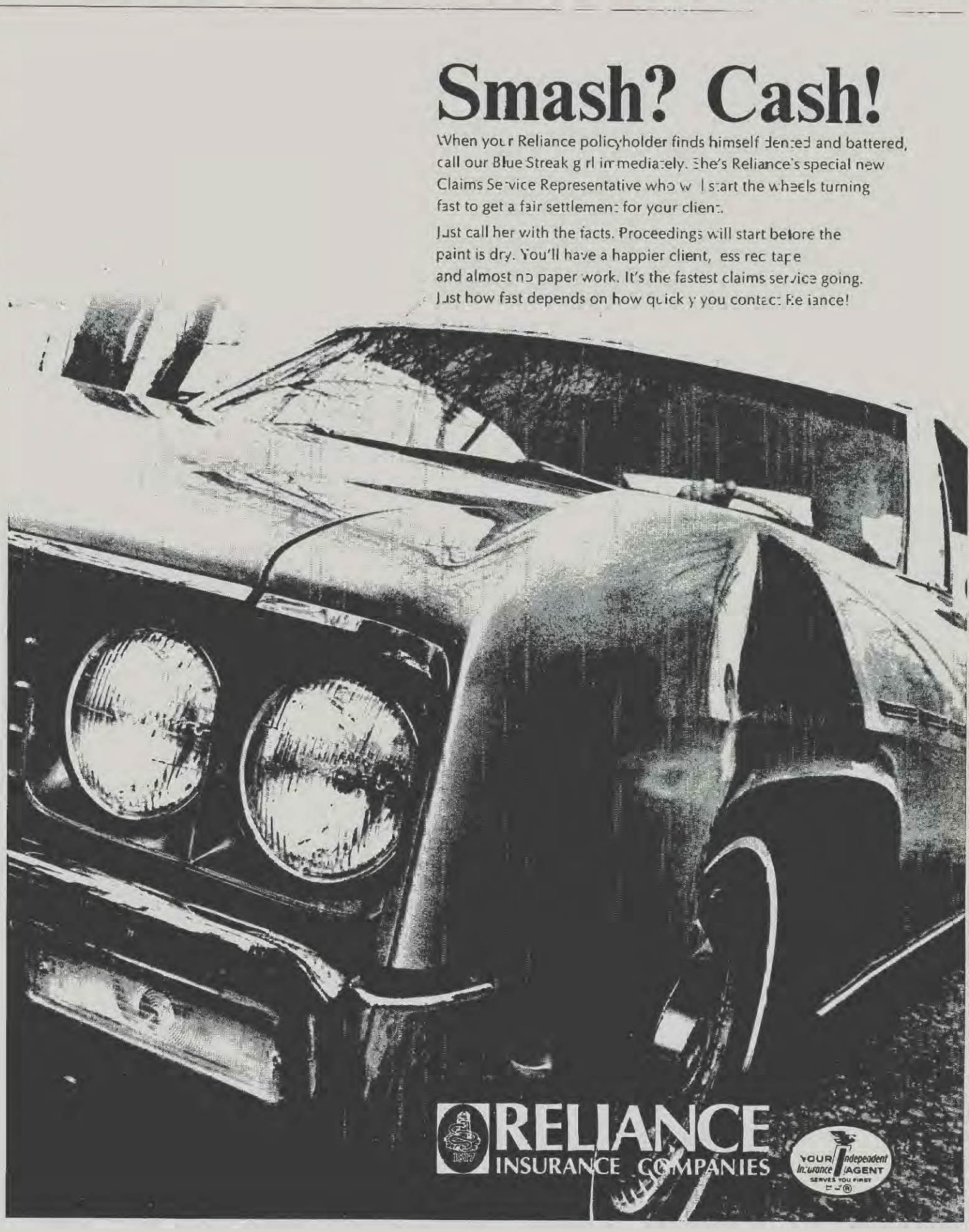
• *Full LACMA involvement.* "LACMA members and staff, through an organization of 'peer review' committees," Dr. Milliken wrote, "will be fully involved in determining, together with Johnson & Higgins and the insurance carrier, professional liability exposures. LACMA will also be fully involved in establishing standards, jointly with the carrier and broker, in handling the problem of substandard risks or special ratings."

• *Full financial disclosure:* "Regular reports of claims, reserves and all other pertinent activity under the plan will be reviewed with LACMA. Periodic reports will be issued to all LACMA members concerning financial operations of the plan."

• *Lower administrative costs:* "Administrative costs under the plan, i.e., expenses, underwriting profit taxes, etc., are highly competitive," the letter said. "Together with the investment income credit on claim reserves held, it is estimated that 91% to 96% of every experience-rated premium dollar will ultimately be available for direct claims and direct claims expense."

• *Legislative relief efforts:* "Cooperative efforts between the new insurer, our broker, and LACMA will, hopefully, result in some relief in the legislative area with respect to changes we have long been seeking. Further details will be announced as this program develops."

• *Greater loss prevention effort:* "With greater LACMA involvement and control of the plan, together with potential financial advantages for so doing, we anticipate there will be more effective loss prevention efforts to control claims dollars spent and the costs involved in processing and defending such claims," Dr. Milliken told members ■



Freedom . . .

Continued from page 1

The company was registered Sept. 9, 1966, by Ralph Jacobson, Affton, Mo. The chief examiner for Missouri's department of insurance told *Business Insurance* that Mr. Jacobson, a former broker, had been on the "ineligible list" in the state for several years. The general counsel of that state's insurance department is now in possession of an ancilliary receivership on Prudence Mutual.

AN UNTANGLED chronology of events revealed that Prudence Mutual was under investigation by former Illinois Insurance Director John F. Bolton at the same time that he licensed Freedom, the second high-risk company to Mr. Howard on Jan. 14, 1969. By October of that year Prudence had been placed in rehabilitation under Mr. Howard, who had been named a special deputy by the new insurance director, James Baylor. A state's attorney's investigator described this move as "quite unusual."

Illinois State's Atty. Edward V. Hanrahan said it is suspected that funds from the defunct Prudence Mutual were used to establish Freedom. Mr. Baylor and his top assistant, William S. Gibson, have been called to testify on the matter.

A question has arisen as to whether or not Freedom, at any time during its existence, met the state insurance code requirement of $600,000 unencumbered capitalization to go into business. Between Dec. 31, 1968, and Jan. 21, 1969, a check for $100,000 was twice deposited by Mr. Howard in Freedom's account at the Independence Bank of Chicago, and twice bounced.

Also during that time a check for $500,000 from Mr. Jacobson's Missouri company was credited to Freedom's account and bounced. Vincent Vaccarello, chief deputy state insurance director in Illinois, told *Business Insurance* that the department had received a standard audit confirming from the bank that the money was on deposit and had no debts against it. He said that this was normal procedure when chartering a new insurance company and that an audit does not verify the credit of the person or firm that issues the check.

Former Insurance Director Bolton was unavailable for comment.

IN NOVEMBER of 1969 Mr. Howard resigned as president of Freedom at the request of the insurance department. When asked the justification for naming Mr. Howard a rehabilitator one month and asking him to resign as president of Freedom the next, Mr. Vacarrello said that the department had retained an attorney to determine whether or not anyone in Prudence was operating in the wrong. By Nov. 1 they had sufficient information that they "felt there was the possibility of Mr. Howard's culpability" in the matter.

State's Atty. Hanrahan said a surprise audit of Freedom's books showed a deficit of nearly $250,000 He also said the investigation began several months ago after a civil suit was filed by George Barrett, whose law firm represented Prudence Mutual in personal injury cases, charging that $87,000 in that company's funds had been transferred to Freedom. His suit named the insurance department and Mr. Baylor as co-defendants.

Mr. Barrett also sued Prudence Mutual for $160,000 in legal fees he said was owed him.

The insurance director later filed a countersuit naming Mr. Howard and State Rep. Issac Sims (D.-Chicago), vp of Freedom, as responsible for diverting the $87,000 from Prudence Mutual to Freedom. ■

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Brokers . . .

Continued from page 1

tions with respect to the handling of agents' and brokers' premium balances.

Of 33 states that replied to Sen. Hart's inquiry, all said that they have statutes, regulations or rulings governing the handling of insurance premiums by agents and brokers. Ten of these states said that they make periodic examinations with respect to the handling of premium balances by agents and brokers.

Dean Sharp, counsel to Sen. Hart's subcommitee, told *Business Insurance* that the look into premium investment practices of major brokers was prompted chiefly by complaints of small agents and brokers that they were subject to disciplinary action by state insurance departments while the "giants" were not being examined with such scrutiny.

SOME SPOKESMEN for small brokers and agents have suggested that the difference in policing by state insurance departments and insurance carriers constitutes an unfair trade practice that amounts to price discrimination between "giant" brokerage houses and small agents and brokers.

One insurance brokerage officer not connected with the five major firms scoffed at the Senate inquiry, saying, "It would be exceedingly stupid not to invest the premium income we have as a 'float.' In fact, the investment of this income provides better service for our company's clients at a time when brokerage commissions are very lean."

The brokerage spokesman said that insurance carriers are "cracking down sharply" on the amount of time they will permit brokers to retain funds. "The 90-day terms are hard to come by these days," he said, "and anyway it is a ridiculous idea to maintain $3 million, say, in a checking account when the money can be invested profitably in stable items like certificates of deposit."

Several insurance brokers contacted by *Business Insurance* pointed to the code of ethics of the National Assn. of Insurance Brokers, which says: "It is the responsibility of the insurance broker to handle the funds of others in conformity with his fiduciary responsibilities."

RULES OF STATES and countries, an NAIB spokesman said, govern the operations of brokers, who are, he said, responsible for maintaining capital adequate for the conduct of business.

Most brokerage houses, the spokesman said, maintain premium trusts or premium accounts to meet their obligations.

Clifford Cherry, financial officer of Marsh & McLennan, the nation's largest brokerage firm, told *Business Insurance* that his firm complies with diverse state laws regulating the investment of premiums collected and unremitted.

"It is our policy to segregate company monies from monies due insurers," he said, adding that the company-brokerage relationship is one of contractual agreement.

OBSERVERS OF the Hart subcommittee's actions suggested that there could be various issues pertinent to the inquiry.

One of these is the effectiveness of state insurance regulation, a pet subject of Sen. Hart's subcommittee study. What, an observer asked, are the states doing to equally enforce their state prohibition against the investment of premium income by brokers and agents?

Another question raised by the inquiry is whether mutual insurance company funds might be involved in the collection of premiums for auto fleets. If such premiums are involved, observers contend, it could mean that brokers are using funds that properly belong to mutual insurance company policyholders. Similarly, the investment of stock insurance company premiums by brokers could mean a diminution of profits for stockholders.

Also at issue is the alleged discrimination between "giant" brokers, whose operations are seldom examined, and small agents and brokers.

One risk manager suggested that the inquiry vitally affects what he called "sophisticated buyers of insurance" who pay substantial premium dollars for fleet auto insurance coverage. "If brokers make substantial money on investing premium income, we perhaps ought to consider placing our business on a direct basis. After all, our company's premiums are what they're using," he said. ■

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Canada to require hazardous labels

OTTAWA—New warning labels on poisonous, flammable, explosive and corrosive chemical products in everyday household use will be required in Canada, regardless of whether the products are made domestically or imported, effective June 1, 1971.

The new requirements, announced by Consumer & Corporate Affairs Minister Ronald Basford, were introduced as regulations under Canada's Hazardous Products Act, passed last year. Manufacturers will be required to use a uniform set of symbols that will show type and degree of hazard and to publish warning statements, in both English and French, along with basic first aid information.

"Mounting evidence in poison control centers and hospital emergency wards indicates the need for this measure, the toughest to be introduced in any country in the world," according to Mr. Basford.

PRODUCTS COVERED under the new regulations, the first to be published under the act, include bleaches, polishes, sanitizers, glues and cleaners.

Every type of aerosol will be required to carry an "explosive" warning—including such products as shaving creams, deodorants and hair sprays.



Here is a table of labels for dangerous items that will be required next year in Canada.

Explaining the symbols, Mr. Basford said the octagon around a skull and crossbones symbol would mean, "Danger, poison—it can kill you." A diamond would mean, "Warning, poison—it can make you very ill and can injure you." The same symbol within a triangle shape would mean, "Caution, poison—it can make you very ill."

A furniture polish spray sold in an aerosol container would carry three symbols—poison-danger, flammable-warning and explosive-caution.

THE PRINCIPAL panel on the container would state, in English and French: "Danger, flammable; spray harmful or fatal if inhaled; container may explode if heated."

The side panel would state, in both languages, the following:

"Warning: Keep away from open flame or spark. Use only under well ventilated conditions. Contents under pressure. Do not place in hot water or near radiators, stoves or other sources of heat. Do not puncture or incinerate container or store at temperatures above 120°F.

"First aid treatment: Contains petroleum naphtha. If swallowed, do not induce vomiting. Call physician immediately. If patient is unconscious, give him air." ■

City riot liability argued in Milwaukee

MILWAUKEE, Wis.—Attorneys for the city of Milwaukee and three insurance companies have been arguing the merits of another test case concerning the city's liability for damages caused by the July, 1967, racial rioting here.

Circuit Judge Robert W. Landry, who was overruled by the state supreme court in an earlier test case, took the most recent issue under advisement. He did not indicate when he would reach a decision.

Attny. Kenneth M. Kenney, representing the insurance companies, filed a motion to amend the complaint by the three firms. The amendment would allow the companies to collect from the city on a $752 claim that they paid to Eloise Evans School of Cosmetology. The school was damaged in the 1967 rioting.

THE THREE FIRMS are American Insurance Co., Newark, N.J., Fidelity & Casualty Co., Chicago, and Hartford Fire Insurance Co., Hartford, Conn.

The motion for amendment was a maneuver to skirt the Jan. 9 ruling by the state supreme court that nullified a subrogation doctrine. The court found that the doctrine did not apply because there was no proof that the city had caused the riot.

Judge Landry had refused to dismiss an insurance claim against the city, saying the mob riot law imposed absolute liability on the city to pay for riot damage. But the upper court, in overruling Judge Landry, said that the liability of the city was "aimed at compensating unfortunate citizens" rather than insurance companies.

The new test case is an attempt to distinguish between the subrogation doctrine no longer applicable and situations whereby policyholders, in writing, give insurance companies the right to recover damages.

Thomas E. Hayes, an assistant city attorney, objected to the motion for an amendment, saying it amounted to a new action against the city and should be barred by a six-month statute of limitation. ■

Conn. General to mass market in home state

HARTFORD—Connecticut General Insurance Corp. plans to merchandise a wide line of insurance programs in its home state.

Envisoned are savings of 18% on automobile insurance and 10% on homeowner policies.

Connecticut General's decision came as the deadline quietly passed for any last-minute decision that might have come from State Insurance Commissioner William R. Cotter in a state superior court ruling that recently cleared the way for such mass merchandising.

MR. COTTER attempted to block an earlier mass merchandising plan submitted by the Travelers Insurance Cos., also of Hartford, contending that the Travelers approach would violate a new state law regulating mass merchandising of automobile insurance, home insurance and other lines for groups, such as factory or office workers, professionals and other interests.

The state superior court handed down a ruling that appears to nullify the severely restrictive curbs imposed on mass merchandising by the new law.

The CG programs, developed especially for the new marketing approach, will be underwritten by Century Indemnity Co., an affiliate of CG's subsidiary, Aetna Insurance Co.

Robert E. Hyatt, second vp for special marketing, told *Business Insurance* that in addition to economies, policyholders will enjoy the convenience of automatic payroll deduction.

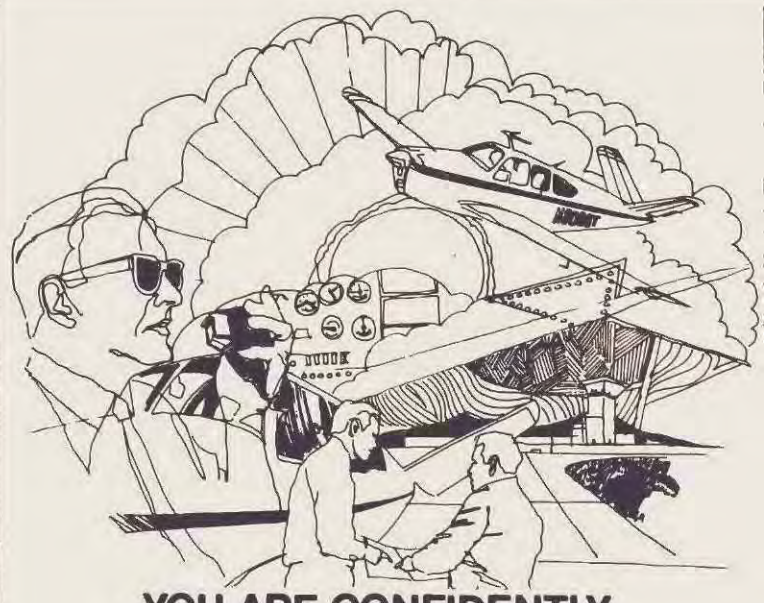
OTHER CASUALTY and property plans being offered are all risk policies on such special possessions as jewelry, furs and cameras, pleasure boats, and a "top cover" policy providing liability protection of $1 million or more beyond liability insurance provided in basic policies.

Under the CG-Aetna program, automobile insurance will be the primary part of a program adopted by a Connecticut employer, the latter to choose to add to auto coverage any of the other insurance plans offered. In turn, an employe will be free to select any of the available coverages he desires.

Special individual counseling services will be made available.

The automobile plan, according to Mr. Hyatt, is a full-fledged family policy with continuation of coverage guaranteed for five years for a licensed driver without regard to age, number of accidents, or number of "moving" traffic violations. Each policy is to be individually underwritten.

"This," he said, "will allow us to reward good drivers with the lowest rates. About 80% of the drivers we expect to insure through this method will qualify for premium savings." ■



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Barge safety rules restrict moves of hazardous materials carriers

WASHINGTON—The Coast Guard has published extensive new safety rules for barges that carry extremely hazardous materials on the nation's rivers, often right through the center of large cities, like St. Louis.

The new regulations cover the barge transportation of 81 hazardous commodities that are highly toxic, strongly corrosive or likely to react explosively with other materials. They become effective June 1.

In issuing the regulations, Transportation Secretary John Volpe recalled a few years ago a barge loaded with deadly chlorine gas sank in the Mississippi River near Natchez. The barge was not built to withstand damage and had it been heavily damaged and leaked chlorine gas it could have killed as many as 25,000 people in a 30-mile radius.

FOLLOWING the Natchez incident, the Coast Guard enacted regulations for barge transportation of chlorine and several other extremely hazardous chemicals. The new rules strengthen and consolidate these regulations; while expanding the scope to 81 additional commodities.

Democratic Congresswoman Leonor Sullivan has been trying for eight years to get legislation through Congress to require that tugboat operators obtain licenses to operate the vessels.

In one of her recent speeches on the subject she charged that close to a million tons of cargo officially classified as "hazardous"—explosives, inflammable or poisonous—pass right through her home city of St. Louis every month on the Mississippi. And, evidence shows that many pilots who operate the tugs pushing these loads are sadly unqualified and the tugs and barges are themselves poorly maintained, she charged.

While Rep. Sullivan was able to get hearings called on the issue recently, nothing further has been scheduled by the committee.

THE NEW COAST Guard regulations cover tows which typically consist of 40 or more barges lashed together and pushed by a single boat. As many as 12 different types of hazardous materials are often transported together in one of these tows.

The regulations detail the minimum construction standards required for barges used to transport each specific product. Standards for vents, electrical systems, piping, gauging devices, valves and transfer equipment are included. Separation criteria for incompatible products are specified and additional special requirements have been established for products whose peculiar qualities cannot be covered with the general regulations.

Typical of the materials covered by the new regulations is acrylonitrile, a liquid widely used in making synthetic fibers. Acrylonitrile previously was regulated only as a moderately flammable substance and the only warning sign required was one indicating flammability. It could be transported by virtually any barge.

The new regulations take into account acrylonitrile's other dangerous qualities. It is severly toxic, can be absorbed through the skin and can even penetrate leather shoes and gloves. When heated, it may produce poisonous cyandie gas or explode, or do both. It can also react explosively if brought into contact with certain other chemicals.

THE NEW RULES require barges transporting acrylonitrile to be double-skinned. Cargo tanks must be separated from the external hull plating by at least three feet along the sides and at least 15 inches on the bottom.

Acrylontrile will react with copper, so no copper or copper alloy can be used in the barge construction. Barges must be bouyant and stable enough to remain afloat if a compartment or subdivision becomes flooded.

Warning signs identifying all hazards of the material must be posted. Cargo information cards describing emergency procedures in the event of fire, spill or exposure are also required. ■

Hartford adds six to mass plan

HARTFORD—The Hartford Insurance Group has added six new mass-merchandised auto insurance accounts to its role in Michigan with the addition of five United Auto Workers locals and a postal workers credit union.

The Hartford entered the mass-merchandising field last year when it offered coverage to 26,000 members of UAW Local 599 at a Buick plant in Flint, Mich. Later it wrote coverage for the 1,200-member Michigan State Troopers Assn. In addition, the company has written other plans in California, Colorado and Louisiana.

The recently acquired accounts will offer mass-merchandised auto coverage to an additional 60,000 Michigan residents. They are employed at two UAW locals in Flint, two locals in Lansing, one in Grand Blanc and members of the Postal Employes Credit Union in Flint. Four of the accounts were written through the Lake Agency in Flint and the remaining two through the Shinberg Agency in Lansing. ■

Insurance aid office planned

RICHMOND, Cal.—A consumer movement has been launched here, by Mary Johnson, of the Wright Institute, to create a new Insurance Aid Office "to keep consumers up to date on insurance activities."

The plan, hopefully, would involve Federal funding assistance.

"Such an office is vitally needed," Mrs. Johnson said, "to familiarize the public with the operations of such insurance activities as The Fair Plan and The Assigned Risk Plan.

"Additionally, such an office, familiar with the problems of obtaining Federal loans for home improvements, might do much toward getting homes into a condition where they would be insurable.

"We also are hoping," Mrs. Johnson continued, "to be able to work out some kind of a brokerage arrangement so that adequate attention could be given to the insurance problems of people in the lower economic ranges." ■

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financial briefs

Indiana Insurance Co., Indianapolis, Ind., reported adjusted earnings were $1,494,205, or $2.49 per share, in 1969 compared to $1,414,734, or $2.36 per share, in 1968. On a statutory basis operating earnings in 1969 were $2.27 per share as compared to $2.23; realized investment losses of 16¢ per share compared with similar losses of 02¢, and net earnings of $2.11 per share compared with $2.21.

* * *

Interstate Insurance Group, Chicago, reported a 1969 increase in statutory net income of 160.2%, including net realized gain on investments, from $844,132 in 1968 to $2,196,397. Combined loss and expense ratio declined to 92.8% from 104.4%.

CNA Financial Corp., Chicago, reported 1969 net income of $68,149,765, compared to $61,-139,371 in 1968. Realized gains on investments, which are included in net income and are net of Federal income taxes, amounted to $19,578,292 in 1969 compared with $3,408,908 in 1968.

* * *

Mutual of New York reported 1969 life insurance sales reached $1.845 billion. Individual life insurance accounted for $1.662 billion and group life sales, $184 million. Total life insurance protection in force equaled $14.7 billion.

* * *

Inter-Ocean Insurance Co., Cincinnati, O., reported a 24% net profit increase in 1969 over 1968. Total annualized premiums for 1969 reached $20,898,169.

* * *

United Republic Life Insurance Co., Harrisburg, Pa., reported a 1969 net profit of $987,878 with admitted assets climbing from $3,720,546 to $7,020,062. Insurance in force was $107,721,120 and premium income reached $7,-362,959.

* * *

Fred S. James & Co., Chicago, reported a gross income of $13,-230,340, for 1969, an 11% increase over the previous year's $11,894,894. Net income for 1969 totaled $986,984, a 55% increase over restated earnings in 1968.

* * *

American Reserve Corp., financial services holding firm, Chicago, reported insurance premiums written during 1969 equaled $54,138,326. Underwriting profit before Federal income taxes totaled $1,432,438. Net income after Federal income taxes reached $2,-831,836 for 1969.

* * *

American Heritage Life Investment Corp., Jacksonville, Fla., 1969 life insurance in force totaled $1,344,700,068 a 12.4% increase of the 1968 total of $1,-196,418,272. New life individual insurance written equaled $175,-584,719. Total assets reached $50,930,278. Net earnings, after Federal income taxes, fell 22.1% from the 1968 total of $1,555,776 to $1,212,002.

* * *

The AVEMCO Group, an aviation insurance, finance and investment banking firm, reported a consolidated net profit increase from $417,320 in 1968 to $818,601 in 1969. Net earnings per share increased from 17¢ the previous year to 34¢ in 1969 ■

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'Friendly suit' may not turn out quite that way

NEW YORK—A controversy between the state attorney general's office here and the New Hampshire Insurance Co. over a $10,000 bond issue to a now bankrupt computer programmers' school will be settled in court.

The surety bond, which was issued to the school by the New Hampshire Insurance Co., was intended as a means by which students could reclaim their tuition in the event the school closed or went bankrupt.

"The insurance company has failed to pay the bond," according to a spokesman for the attorney general's office, "after repeated requests to do so by this office. The attorney general doesn't have to sue, he can demand it and get it outside of court. The bond was requested and it wasn't paid."

ATTY. GEN. Louis Lefkowitz was quoted as saying, "I am particularly concerned with this situation because the people being taken advantage of are those who can least afford it. Students attending such a school are trying to better themselves, often working during the day at low-paying jobs, and studying at night." According to a spokesman for the insurance company, a large percentage of the computer school's students were Puerto Rican or black.

"This whole thing is ridiculous and it has gotten out of hand," said Morton Hartmann, attorney for the New Hampshire Insurance Co., based here. "I had been talking with a member of the attorney general's office and I thought we had worked out a mutually agreeable method of taking care of this. The claims against the school were in excess of the $10,000 bond, over $20,000. In addition, there are probably other unknown claimants who haven't come forward as yet."

In order to ensure fair treatment for all the claimants, Mr. Hartmann told *Business Insurance*, he and the attorney general's office agreed that the state would bring a "friendly suit and New Hampshire Insurance would consent to it.

A "freindly suit" is one in which both parties agree to the action beforehand. The suit was to specify that the money would be paid to a court referee who would "pro-rate the claimants' shares."

THE SUIT was to be used in lieu of other methods of paying out claims in order to save the student claimants trouble and the cost of legal counsel, according to Mr. Hartmann.

When contacted, the attorney general's office here denied any knowledge of the agreement to which Mr. Hartmann referred. ■

5¢ mistake costs bank $145,000

ATLANTA, GA.—A Citizens & Southern National Bank dividends disbursement agent made a mathematical error and issued a 5-cent-per-share overpayment to all holders of stock in Magic Chef Inc. The bank has no insurance against such an error, but officials are not worried about the $145,-000 mistake.

"We sent a letter to all stockholders with 500 shares or more and asked them to return the extra money, and that's just what they're doing," said Robert Clayton, press information officer for the bank. "The money's been pouring back in. That's southern people for you."

It's a good thing they are, for he noted that no legal action could be taken against the stockholders who received a 20-cent-per-share dividend instead of the 15 cents they were supposed to get. Also, Harold Vogel, the bank's insurance manager, said there is no coverage for this kind of error.

"We have errors and ommissions insurance for real estate and mortgage loans, but not for stock overpayments," Mr. Vogel said. "If we had to reimburse Magic Chef, it would come out of our own general funds."

He said these mistakes rarely happen and, in fact, had never happened to Citizens & Southern because of the bank's system of checking and rechecking before a stock payment is made.

"This time we goofed," he said. ■

Sammet . . .

Continued from page 3

needs new kinds of products and new kinds of help.

"The widespread use of retrospective rating plans for primary coverages is one sign of this. This is being carried a step further. Special insurance company services for risk managers who wish aid in administering self-insurance programs, including engineering, claim payment and loss control, will become more common in the next decade.

"These programs will not eliminate, in most cases, the need for coverages at a higher level to provide pure insurance against catastrophic losses—but they will provide insurance company know-how to aid in handling routine losses.

"THE INSURANCE organism must be further adapted to the needs of the corporate risk manager in helping him do his job better within his corporation. The management of risk is an area with great potential for improving the profitability of any firm.

"It is going to become the task of insurance companies, agents and brokers to help risk managers get this point across to their top management. One of the best ways of doing this is through providing better, more detailed information to risk managers on the whys and wherefores of their costs stemming from accidents." ■

Stentz promoted

Lee M. Stentz has been named president and chief executive officer of Southern Marine & Aviation Underwriters Inc., New Orleans, La. Mr. Stentz succeeds L. K. Giffin who has been elected chairman of the board.

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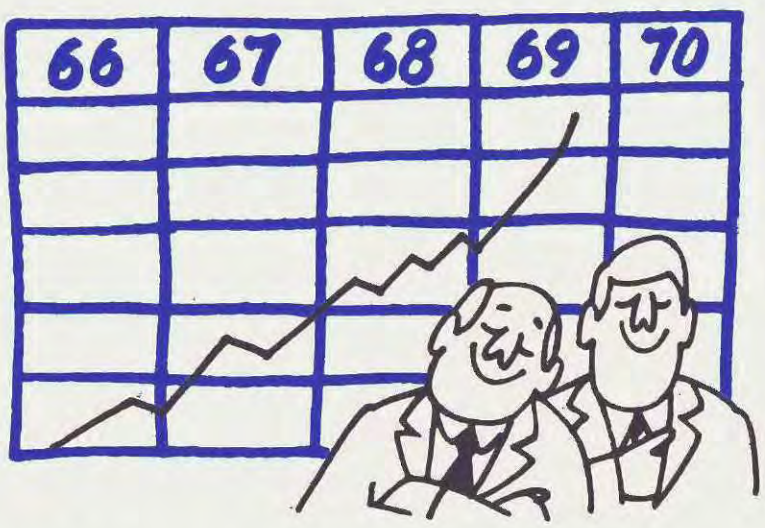
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