

Another solution to the 747 problem: A wrap-up

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see page 19

Mortimer on ASIM... page 6

Burglary cover... 16

N.Y. buyers earn more... 23

Upjohn benefits... 30

business insurance

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April 28, 1969

Business girds for ravages of river floods

MINNEAPOLIS — Before spring flood waters had a chance to overrun the northern lands, massive protective measures were taken by businesses against the reoccurrence of 1965 record-setting flood damages.

Latest damage estimates for Minnesota, the western half of Wisconsin, eastern North Dakota, and a portion of Iowa were \$109.4 million. This involved damage to urban areas, \$24.3 million; transportation, \$29.0 million; agriculture, \$40.1 million; and flood fighting installations, \$16 million.

Insurance managers in the area agreed that the best flood insurance lies in the precautions and safety measures taken to prevent damage. For most of the companies that have locations in the flood area the cost of buying flood insurance for these locations is prohibitive.

They contended that it's more feasible to put the money into building protection to prevent damage rather than into premiums for insurance to cover extensive damage.

AT RED OWL Stores Inc., an executive praised the work done by the local weather bureau in keeping the areas well posted as to the flood situation. Back in February the meteorologist for the area was making constant reports as to what might be expected.

"He did a terrific job predicting who was going to be hit and

Continued on page 26

Jet builders set June meet

SAN FRANCISCO—the Aircraft Builders Council, meeting here to discuss product liability on Boeing 747 jumbo jets, has scheduled a follow-up meeting June 3 in Los Angeles to explore several alternatives that were brought up.

A spokesman for the group did not want to spell out what these alternatives were. He did say that the problems were presented to those attending and that they were to discuss the results meeting with their respective managements.

In a prepared report on the meeting the council said:

"A major aircraft builder, aircraft component suppliers, leading aviation brokers, foreign and domestic, underwriters representing a segment of the insurance industry and leading underwriters from both Lloyd's of

Continued on page 26



A Churchill Downs Co.-Jockey Guild medical and accidental death policy cover such riders as Bob Ussery, who here rides Dancer's Image into last year's winner's circle in the Kentucky Derby.

Wide World photo

Derby jockeys, horses run with full coverage

LOUISVILLE, Ky.—Most of the horses running in this year's Kentucky Derby, May 3, will be housed in special sprinklered barns.

In addition, Churchill Downs Inc. will have special security guards with a general firewatch responsibility assigned to these "Derby" barns, according to Kenneth Coyte, secretary-treasurer of the firm that runs the famed horse racing plant.

"The owners have the final say where their horses will be, but we like to have all the horses that run in the Derby to be in these special barns. However, some owners with a string of say 30 animals, prefer to keep them all together," Mr. Coyle said.

THE OWNERS and trainers have the responsibility for fire and other security measures, Mr. Coyte pointed out. They hire their own guards for in and around their stalls.

Churchill Downs has six sprinklered barns out of its total of 40.

Mr. Coyte estimated that the average barn would cost \$50,000 to \$60,000 to construct, plus an additional \$10,000 to sprinkler.

The Churchill Downs' fire an extended coverage policy, which covers all the barns plus the main grandstand, costs about \$30,000 annually, he said, with a \$5,000 disappearing deductible on the barns. In addition, the firm has a general liability policy to cover spectators.

THE COMPANY also contributes to the Jockey Guild for accidental death, disability and medical benefit coverage based on the number of jockeys and exercise boys on hand each day.

The coverage includes a \$5,000 death benefit for jockeys, \$2,500 for exercise boys; \$500 funeral expenses for jockeys, \$250 for exercise boys; salary compensation, \$50 per week for 104 weeks for jockeys, 52 weeks at \$12.50 for exercise boys; and medical benefits of \$5,000 for jockeys and \$1,000 for exercise boys.

List 'missing' securities valued at \$50 million; surety writers wary

NEW YORK—A shudder went through Wall Street last week but a change in the stock market wasn't the cause. The cashier's division of the Assn. of Stock Exchange Firms made public its third annual report of lost securities totaling \$50 million.

Some of the biggest included 10,600 shares of IBM worth about \$3.5 million reported lost by E. F. Hutton and Co. and a \$1.3 million loss reported by J. C. Bradford and Co., a New York Stock Exchange member with headquarters in Nashville, Tenn.

Losses of U.S. Treasury bills and notes made out to the bearer totaled more than \$5.3 million, including \$969,000 reported by Dean Witter and Co, according to the report.

JAMES P. NEWELL, president of the cashier group, told *Business Insurance* that between 60% and 70% of the losses are eventually accounted for either through arrest and recovery or because they had been misplaced and are finally found. However, unaccounted for losses still add up to \$15 to \$20 million.

For example, since the report was made, E. F. Hutton has revised the estimate of the number of lost IBM shares to 4,900, of which 900 have been negotiated. A Hutton spokesman said it was doubtful if any more shares could be negotiated.

Experts point out that because of back office jams, Wall Street is probably missing many securities it doesn't even know about.

The cashier group also makes daily loss reports that are circulated among the securities industry. For example, earlier this month Fireman's Fund reported

\$342,000 of missing U.S. Treasury bills. The annual report totals up the daily losses still outstanding at year end.

MR. NEWELL reported that the New York police department made an arrest last week that may eventually lead to the arrest of an entire ring. Some insiders contend that the Mafia has infiltrated back office operations.

The cashier group report caps off what has probably been the worst year on record for bond and security losses.

Insurance companies writing stock broker blanket bonds are doing so "sparingly," according to one underwriter. In addition, last August members of the Surety Assn. of America announced premium hikes that averaged about 20%.

The Insurance Co. of North America and the Federal Insurance Co., which together write about half the brokers' blanket bonds, have quit the surety group and are writing a less encompassing form.

THE SURETY GROUP, The College of Insurance and the NYSE have begun independent in-depth studies of the problem. The NYSE requires bond coverage for its members.

Earlier this month, the Bradford firm was awarded \$380,000 from American Casualty Co., part of CNA insurance, for what has become known as the St. Valentine's Day loss. These trading losses were discovered Feb. 14, 1966.

A Bradford registered representative in Knoxville, Tenn., defrauded investors by promising

Continued on page 26

Late news

Say rulings needed on directors cover

WASHINGTON—Insurance experts told *Business Insurance* that additional court rulings are needed to clarify the extent of coverage under officers and directors as well as securities liability policies involving violations of Securities and Exchange Commission regulations. Their expressions followed a Supreme Court refusal to hear a case in which there were alleged violations of such regulations by two directors of a Texas fuel sulphur company.

Consumer joins FAIR group; study started

CHICAGO—An attorney with the University of Chicago's Mandel legal aid clinic, considered a consumer advocate, has been asked by the Illinois director of insurance to join the governing committee of this state's FAIR plan, *Business Insurance* has learned. The appointment came a few days before a congressional subcommittee met here to probe this state's FAIR plan rating practices. *Business Insurance* has also learned that a study group is being formed to investigate all fire insurance rates in this state.

(Mailing label here)

New ruling on old Lucky Strike cancer case

NEW ORLEANS — The U.S. fifth circuit court of appeals has reversed its earlier ruling that the American Tobacco Co. was "absolutely liable" for the death of a lung cancer victim.

The court voted eight to three in the reversal. The \$1.5 million suit was filed in 1957 by Edwin M. Green, a Miami contractor who died of cancer in 1958. Meanwhile, Mr. Green's estate has requested leave to file a petition for rehearing before the court. The motion is now before the court.

Reversing the earlier ruling, the jurors agreed that Mr. Green's cancer was caused by smoking Lucky Strike cigarettes at the rate of three packages a day for 30 years. But they held that American Tobacco Co. was not liable since it could not have

known Mr. Green would develop cancer.

With differing opinions, the case has been ruled on by the Florida court system, appeals court and the U.S. Supreme Court.

In 1964, the U.S. Supreme Court refused to upset an appeals court decision that said the case would have to go back for a new trial because Florida's "implied warranty" law holds the manufacturer responsible even if he has no foresight of the problem.

This, in effect, cleared the way to determine whether Lucky Strikes "were reasonably fit for the use of the general public."

A REGULAR three-judge appellate panel of the fifth circuit, on Jan. 25, 1968, said that under Florida law, American Tobacco

was liable for Mr. Green's death. It was this decision that was reversed by the full court, which met *en banc* at the request of the company.

Judge James P. Coleman wrote that the full court was "about to hold that he who sells for profit a product which caused the ultimate of all dreads, death itself, can wiggle out of it by conniving a lay jury in a swearing match among super scientists that such a product may be reasonably safe for personal consumption by the general public."

He continued, "American Tobacco Co. sold a product intended to be smoked. It contained an ingredient which caused cancer and death. The evidence showed that there was no way then, and there is none now, to foretell the identity of

the person upon whom the fatal consequences will be visited.

"If one plays Russian roulette with a revolver containing ten chambers but loaded with one bullet, there may be only one chance in ten that he will be shot. I doubt, however, that this court would hold that the practice raises a jury issue as to its reasonable fitness for common use by the public."

At the time the suit was filed, tobacco companies were not yet required to label cigarets as potentially harmful. The original suit maintained Mr. Green had been assured in advertisements that Lucky Strikes were safe and would leave no ill effects. No one can foretell exactly which smoker will be stricken by lung cancer, the dissent added, but it is certain some of them will be. ■

Name change can affect insurance

NEW YORK—Now that National Dairy Products Corp. has become Kraftco Corp., insurance manager Edward P. Lalley is faced with the problem of notifying the insurers that underwrite the company's "couple of hundred" policies of the change.

Mr. Lalley will be doing more than just going through the motions when he asks for such a "rider" to the policies. He told *Business Insurance* that it cost one company \$2,800 several years ago when one of its divisions was improperly identified as the named insured on a policy instead of the parent corporation.

Because of the discrepancy, the company collected \$2,800 less (the price of going into court and straightening the situation out) on a damage award.

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Moon shot insurance now ready

HOUSTON—Now that it is midway between completion of the Apollo 9 space shot and preparation for Apollo 10's trip to the moon, a local insurance firm is attempting to keep up with the times.

Bill Cornelson, a partner in the insurance firm of Bill Vawter & Co., is submitting an insurance coverage plan to the Texas Insurance Commission for approval on travel to the moon. Mr. Cornelson already has a schedule of rates worked out, and considering the distance and types of trip the premiums seem quite reasonable.

For instance, you can get a 90-day, \$25,000 death-and-dismemberment, plus \$2,500 medical expenses policy for \$43.50.

And of course, being a realist, Mr. Cornelson also has a rate schedule covering loss or damage to baggage: \$9.25 for \$500 coverage for 90 days.

"We all know it is a matter of just a few years," he said, "until you will go to a launch pad on the outskirts of Houston and fly into outer space." ■

GUIDE TO FEATURES

Washington Watch	4
Info for Buyers	8-9
Benefit Tax Slants	10
Editorials	12
Perspective	19-20
London Line	24
Giles on the Law	25

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Cotter bill won't affect fleets, state aide says

CHICAGO—The Cotter auto insurance proposal, now before the Connecticut legislature, would not affect insurance for fleet operations.

Gerald T. Wholey, chief of license and claims division, said that under the plan, insurance for fleet operations would function as it does now. Mr. Wholey made these remarks after a speech delivered to the National Assn. of Independent Insurers, in which he explained Connecticut Insurance Commissioner William R. Cotter's plan to reform auto insurance.

"The intent of the package is to furnish broader protection to the Connecticut public while at the same time stabilizing insurance rates," Mr. Wholey said. The proposal would provide what he called "quick, automatic payments for basic economic loss and also preserve the right of recovery under the fault system."

IN THE CASE of a fleet-personal passenger auto accident, in which the fleet driver was at fault, the driver of the personal passenger auto would collect his first-party claim from his insurance company, which would then subrogate against the fleet operation, Mr. Wholey told *Business Insurance*.

If the driver of the personal passenger auto is at fault in the same type of accident, the driver of the fleet vehicle would not collect immediately. Liability would be settled by tort law procedures, as it is now.

However, Mr. Wholey said, the driver of the fleet vehicle could collect under workmen's compensation if he were injured—as is now the case.

Outlining the proposal, Mr. Wholey said that two of the most controversial points involve the standard measuring of damages for pain and suffering and the regulation of attorneys' contingent fees.

Damages for pain and suffering would be determined by three factors, the Connecticut insurance official explained.

"IF THE hospital and medical bills total less than \$500, the state would allow up to 50% of that amount for additional general damages (pain and suffering, inconvenience). When the total bills are in excess of \$500, the state would allow up to 100% additional," Mr. Wholey said.

Amounts in excess of these limitations could be awarded in cases of death, dismemberment, disfigurement or permanent impairment, or when clear-cut medical testimony demonstrated that such limitations would not be just compensation for the actual pain and suffering.

The Connecticut American Trial Lawyers Assn. and various medical groups oppose this part of the plan, Mr. Wholey said.

The second controversial point is a recommendation made by a legislative interim committee that attorneys' contingent fees be reduced from 33 1/3% to 25%. Mr. Wholey said that lawyer groups in general oppose this recommendation.

THE OTHER points of the auto insurance reform package include:

- The inclusion in every private passenger auto liability policy of at least \$2,000 medical payments and 52 weeks of disability benefits.

- Creation of a mandatory small claims arbitration system for cases under \$3,000.

- Adoption of comparative negligence law.

- Adoption of advance payment measures in every meritorious case of all out-of-pocket expenses of the claimant as they accrue, and adoption of immediate settlement of property damage liability claims separately from bodily injury liability claims from the same accident.

- Enactment of a competitive rate law, such as California now has.

- Definition of damages recoverable for loss of income in liability cases that would take income tax savings into account. ■

Government-run plan cost 7% more in 1968

REGINA, Sask. — Saskatchewan's government-run hospital insurance plan cost \$67,896,380 in 1968, up 7% from the previous year, according to an annual report to the legislature.

The report of the Saskatchewan Hospital Services Plan did not spell out effects of utilization fees for health services, implemented last April as amendments to the province's compulsory pre-paid medical care insurance.

Outside the legislature, health minister Gordon Grant said patient days in hospitals in Saskatchewan in 1968 declined to 1,363,095 from 1,427,444 in the previous year.

The number of patient days had increased regularly "until the last year or so."

Group cover programs draw mixed opinions

HARTFORD—The state legislative insurance committee has approved a proposed measure that would authorize "mass market" group property and liability insurance—including automobile policies—despite objections voiced by some spokesmen for the industry.

Representatives for Aetna Life & Casualty Insurance Co. and the Travelers Insurance Cos. contended that the bill (House Bill 8616) would not only be "unenforceable" but that it would destroy other group policies in the property and liability field written by the companies.

Support, however, was strong from spokesmen for mutual and stock insurance company agents.

Bernard McMahon, representing the mutual agents in Connecticut, remarked that the measure would be a protection-oriented gesture providing safeguards for the individual insurance buyer and the group mass merchandising buyer.

Despite the fact that he was "not convinced" mass marketing of group property and liability insurance is necessarily in the best public interest, David E. Ashton, Connecticut Assn. of Independent Insurance Agents spokesman, told the hearing he favored approval since it offered "reasonable guidelines" that would tend in some measure to minimize the possible ill effects

Continued on page 4

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washington watch

Nixon's inflation war could mean speed-up in employe benefit outlays

WASHINGTON — President Nixon recently released the first details of his much-talked-about war on inflation. Close analysis reveals that it could have a paradoxical effect on employe benefits.

Rather than slowing down the rapid growth of employe benefits layouts, as one might expect from a program designed to put the skids on the economy, the anti-inflation campaign in a couple instances uses increases in

these areas to obtain, or justify, desired results in others.

With interest rates at almost unbelievably high levels, the Federal government is left with only two basic weapons for fighting inflation—cutting back on its own spending or raising taxes.

FOR ALL PRACTICAL purposes, the first of these is similar to germ warfare; it can't, or at least won't, be used. The reason lies somewhere between the

legendary influence of the so-called military-industrial complex and an imbedded paranoia among many of our legislators concerning our defense needs.

Use of the second weapon—increased taxes—requires facing almost as formidable a foe in the form of Ways and Means Committee Chairman Wilbur Mills (D., Ark.). Rep. Mills has made it quite clear that before his all-important tax-writing committee will consider any Administra-

tion inflation-fighting tax proposals—including an extension of all parts of the surtax—President Nixon will have to show good faith by fighting inflation in other ways, principally by severely cutting the budget.

President Nixon's first good-faith move was to abandon all Federal pressure for keeping LBJ's much-cherished, long-sought-after full-employment status for the nation. And, to prove his determination to pursue a policy of higher unemployment, Mr. Nixon cut back on budget requests for LBJ's concentrated employment plan, an 82-city urban job-finding effort.

Convincing anyone, especially labor, that increased unemployment is desirable, for any reason, is difficult, and here an increase in benefits comes into play. While he did not draw any direct correlation, it is clear the President's promise to ask Congress for improvements in unemploy-

ment insurance is designed to appease labor somewhat by getting business to help subsidize the higher unemployment rate.

PARENTHETICALLY, observers are also predicting a much stronger Administration occupational health and safety proposal than had previously been expected. This, they point out, would also help assuage labor's injured feelings. And, it would not really hurt the Administration's standing with the business community since chances are good that Congress will pass a strong safety bill anyway, with or without White House support.

The most blatant proposal to hike a specific worker benefit tax to help gain a general tax increase is President Nixon's proposed use of the Social Security program to boost, at least on paper, the projected budget surplus.

Of the \$5.8 billion budget surplus projected by the Administration for fiscal 1970, \$1.1 billion would come from hiking Social Security taxes by 10% while increasing benefits by only 7%.

This plan is of interest only for what it says about President Nixon, because it has almost no chance of being adopted.

AS A RUSE FOR bringing the budget further into the black, it is much too transparent. There is an excessive surplus developing in the Social Security trust fund. And sentiment on Capitol Hill is growing against increasing payroll taxes to fatten trust funds from which the government then borrows to cover its so-called "operating budget deficit."

Rep. Mills has called for a \$10 billion budget surplus. And he specifically said it should be achieved by a further cut in non-trust fund outlays.

This is not to say that there will not be a hike in Social Security taxes, because there almost certainly will be, most observers believe. But the increase will find its way to the beneficiaries, they feel. Congressmen will find it difficult to increase Social Security only 7% after giving themselves 41% pay raises, it is pointed out.

Group cover...

Continued from page 3
"of this radical approach to the sale of insurance."

The bill specifies that no policies can be sold under its provisions unless there are 1,000 or more members, or 80% participation.

Joseph Bober of the Connecticut State Labor Council observed that this provision would "effectively deny" participation by most Connecticut working people, since only the largest concerns would be eligible.

THE PROPOSED guidelines are not in the public interest, George Katz, Aetna Life & Casualty, contended. "It is actually a prohibitory bill. Less than 25% of employed persons in the state would be eligible to join such a plan since they do not work for large concerns.

"The guidelines are ambiguous to a point where the law would be unenforceable. It would prohibit small groups from joining. It would enable national brokers to gain an advantage."

The bill, rather than opening new mass marketing areas, actually would serve to "stifle" existing mass marketing plans, it was claimed by Charles Resony of the Travelers. "I don't believe that we could write a policy under this bill," he told the committee.



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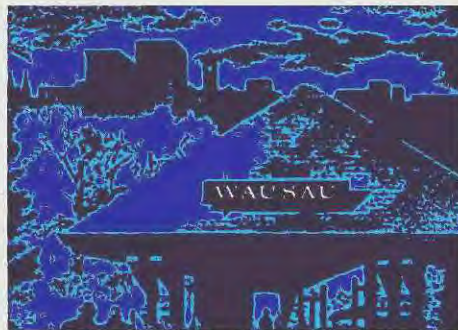
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Mortimer cites ASIM's progress; O'Brien scores no-fault programs

CHICAGO—William S. Mortimer, president of the American Society of Insurance Management, told the Chicago ASIM chapter that the national organization is making strides in its effort to become an "active force" for corporate insurance buyers and insurance consumers generally.

Mr. Mortimer, who is director of insurance for Norton Simon Inc., Fullerton, Cal., cited two examples of ASIM advances:

- Designation of a committee of five risk managers concerned with fleet operations to consult with the staff of the Department of Transportation's study of auto insurance.

- Formation of a joint committee of risk managers and employe benefits administrators to study the control of medical costs which drive up the premiums for both liability insurance and employe benefits protection.

"ASIM is now in an evolutionary stage after several years of being a sleeping giant," Mr. Mortimer asserted. He said the organization will move ahead by pressing programs for increased membership, wider educational activities and greater income to support the national ASIM effort.

"WE HAVE TREMENDOUS potential to solve some of the

fundamental problems that plague risk managers today," Mr. Mortimer continued, "and these problems include the inability of some companies to buy the insurance at all and the inability of others to fill the lines of coverage that are vital to their security."

In regard to ASIM's educational activities, Mr. Mortimer cited the growing number of ASIM seminars in various parts of the country. He suggested to the Chicago chapter that it join with chapters in Minnesota and Wisconsin to conduct a workshop session on problems common to risk managers in the Middle West.

Mr. Mortimer also asked the

Chicago ASIM members to participate in a search for research subjects to be suggested to 25 colleges and universities that now grant master's degrees in insurance.

Edmund J. O'Brien, general counsel of the Kemper Insurance Group, urged Chicago ASIM members to oppose auto compensation reform measures that would abandon the present tort liability system. Mr. O'Brien questioned whether no-fault proposals would either reduce costs or relieve court congestion, the claimed advantages of no-fault plans.

"NO-FAULT proposals by the American Insurance Assn. and Professors Keeton and O'Connell would change basic social institutions," Mr. O'Brien asserted, "and I believe we should solve our problems within the framework of the present system."

He attacked as "inept" a public opinion survey by the American Insurance Assn. which purportedly proved that the American public would prefer giving up some rights under the tort liability system in favor of more rapid, assured recoveries for auto accident injuries and damage.

"We should not excuse negligent driving," Mr. O'Brien stated, "but rather we should be seeking, in the present social situation, ways to increase individual responsibility in the face of erosion of individuality through government paternalism."

Objectives of the auto victim compensation system, Mr. O'Brien said, should be to pay more people, pay them quickly and pay them equitably. "What we should be after is to rehumanize our legal system," Mr. O'Brien concluded.

Ford's buyer of insurance is Middelboe

DETROIT—Ulrik Middelboe, 39, has been named manager of corporate insurance for Ford Motor Co., a little more than a year after being named head of the auto maker's foreign cover.

He succeeds Roy Jacobus, who retired. No replacement for Mr. Middelboe in the foreign slot has been named.

Mr. Middelboe came to the U.S. after having been manager of insurance for Ford of Europe and prior to that manager of insurance for Ford of Britain.

R. A. Cover, who had been in charge of overseas insurance, was transferred last year to Bermuda to manage Trans-Global, the company's captive. Last August Ford hired Paul W. Crowley Jr. as supervisor of domestic insurance.

Mr. Middelboe will oversee Ford's North American and overseas insurance, including both property and liability insurance coverage and insurance programs involving the company's dealers in North America.

He joined Ford in 1962 as a finance analyst with Ford of Britain. He came to the U.S. in Feb. 1968. He was born in Denmark in 1929 and lived in Kenya, where his parents have a ranch, until 1962. He has a BA in economics from St. John's College, Cambridge.

NATB agent linked to auto theft operation

SAN FRANCISCO—The National Automobile Theft Bureau has announced the arrest of a Los Angeles special agent for the bureau in connection with an auto theft operation in Southern California.

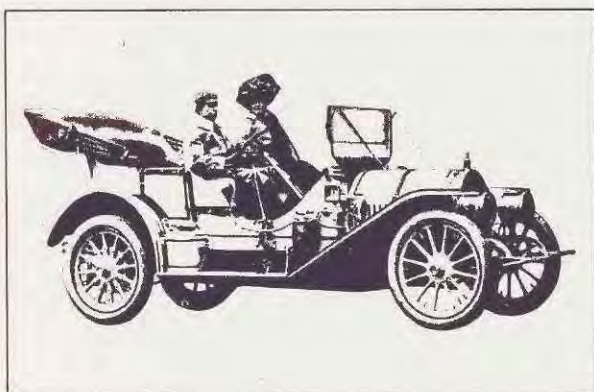
E. J. Halm, Pacific Coast manager of the bureau, reported the unidentified agent had been "terminated from our organization."

"Since the case is still under investigation," Mr. Halm added, "this man's guilt or innocence is still to be determined. The NATB is cooperating with the interested law enforcement agencies."

"This is particularly shocking," Mr. Halm added, "because NATB agents have maintained fine records ever since our organization was founded in Chicago in 1912."



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State welcomes fidelity bond test

HARTFORD—The chairman of the state legislative insurance committee would welcome a court test on whether or not the state comptroller or the state insurance purchasing board has the power to buy fidelity bonds.

Rep. Raymond C. Lyddy, Bridgeport Democrat, said he believes that both the board and the comptroller have the power to buy the bonds, used as security for activities of state employes.

The issue was raised by Rep. Stewart B. McKinney, Fairfield Republican and house minority leader, in testimony before Mr. Lyddy's committee.

MR. MCKINNEY charged that a recent opinion by State Atty. Gen. Robert K. Killian "emasculates the intent of the general

assembly in 1963."

That opinion, Mr. McKinney continued, overrules a 1963 opinion that fidelity bonds as well as fire insurance and other coverages could no longer be purchased by the state comptroller.

The issue is reminiscent of a 1963 investigation and exposure of existence of a slush fund for dispensing of insurance commissions as political patronage.

At that time, the state legislature set up the purchasing board to remove purchase of state insurance from political influence.

ACCORDING to officials in the attorney general's office, however, remaining on the books was a law permitting fidelity bonds to be purchased by the comptroller.

Mr. McKinney was the only

person to speak for or against his proposed measure to "make it crystal clear that the purchase of fidelity bonds by the state is within the jurisdiction of the state comptroller."

Later Mr. Lyddy remarked: "As I understand it, both the comptroller and insurance purchasing board have the power to purchase fidelity bonds."

He said he believes that the purchasing board was set up to study what insurance the state needs rather than to do the actual purchasing.

"If the general assembly had intended to abrogate the power of the comptroller to buy fidelity bonds," he continued, "it would have abolished section 4-20 k (the remaining law that allows the comptroller to buy fidelity bonds)."

info for buyers

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

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

• A concise, 12-page glossary of reinsurance terms is free from J. H. Lea & Co. Inc., 111 W. Jackson Blvd., Chicago, Ill. 60604.

• **How 325 Companies Control Their Group Insurance and Pension Costs** is a survey of current policies and practices which representative companies are using to increase the effectiveness of their group insurance and related employe benefits. Emphasis is placed on cost reduction techniques. The survey may be examined on an approval basis and is priced at \$39.50 per copy. Write: Dartnell Corp., 4660 Ravenswood Ave., Chicago, Ill. 60640.

• The National Foundation of Health, Welfare & Pension Plans, Inc. has published a collection of statements and opinions on **Trustees' New Responsibility in the Medicare Age**. The comments in the 113-page book are gleaned from seminars held by the foundation and do not necessarily represent the views of the foundation. Copies of the book are \$2.75 for members and \$3.75 for nonmembers. Write Lee R. Polacheck, president, P.O. Box 898, Elm Grove, Wis. 53122.

• **The FIAC Taxicon** is a check list to show an individual's tax liabilities in various pension and profit-sharing plans offered by most employers. Prepared by the First Investment Annuity Co. of America, the brochure also describes investment annuities as an addition to pension plans. The chart may be obtained from FIAC, 1500 Chestnut St., Philadelphia, Pa. 19012.

• **The Handbook on Negotiated Multi-employer Pension Plans** serves as a basic guide on plans negotiated between employers and trade unions. This 56-page booklet, published by the Institute of Life Insurance, includes legal requirements, plan design, cost analysis, financing, administration and a brief history of the development of such pension plans. For a free copy write Labor Ed., Institute of Life Insurance, 1701 K St., N.W., Washington, D.C. 20006.

• The National Foundation of Health, Welfare and Pension Plans has released its research report **Measuring and Reporting Investment Performance of Pension Funds**. The 34-page book attempts to formulate professionally acceptable guidelines, which boards of trustees could use to measure performance of their pension trust funds. Single copies are \$1.25; five or more copies are 75¢ each. Write Lee R. Polacheck, president, P.O. Box 898, Elm Grove, Wis. 53122.

• **Comparing and Appraising Investment Performance of Pension Funds** is an 80-page book offered by the National Foundation of Health, Welfare & Pension Plans. It is the sequel to **Measuring and Reporting Investment Performance of Pension Funds** and attempts to correct the fact that, often, invalid and/or inappropriate measurements are made and used for purposes of comparison. This research study explains how to research valid conclusions drawn from valid comparisons. Single copies are \$1.25, five or more are 75¢ by writing Lee R. Polacheck, president, P.O. Box 898, Elm Grove, Wis. 53122.

• **Combined Insurance Co. of America** offers a brochure of special interest to association officers or brokers who deal with associations. It details the company's attitude that high membership participation is achieved by tailoring programs to individual association needs. **Insurance and the Association** includes comments from association officers. Write the company at 5050 N. Broadway, Chicago, Ill. 60640, for a copy.

• **Ten Ways to Increase Profits with Concord Video Tape Recorders** is a brief, illustrated brochure covering use of recorders in time-and-motion studies, employe orientation and surveillance systems. It is free by writing Concord Electronics Corp., 1935 Armacost Ave., Los Angeles, Cal. 90025.

• Information on the **Reid Report** is free from John E. Reid and Associates, 600 S. Michigan Ave., Chicago, Ill. 60605. The report was developed for use as a written examination in conjunction with or in place of polygraph (lie detector) tests in screening employes for jobs necessitating a high degree of honesty. The initial information explains attitudes toward honesty and application of the report and contains comments from various companies that have used it in hiring employes.

• Royal-Globe Insurance Cos. have compiled a 52-page publication entitled **How to Reduce Embezzlement Losses**. The material is handled in a question-and-answer form that can be easily adopted for use in any type business and flow charts are used to trace handling of incoming and outgoing funds, purchasing and receiving inventory, handling of petty cash, and checks on shipping and stock in storage and withdrawal. The item, which costs \$1, may be obtained from the fidelity-burglary department of the companies, 150 William St., New York, N.Y. 10038.

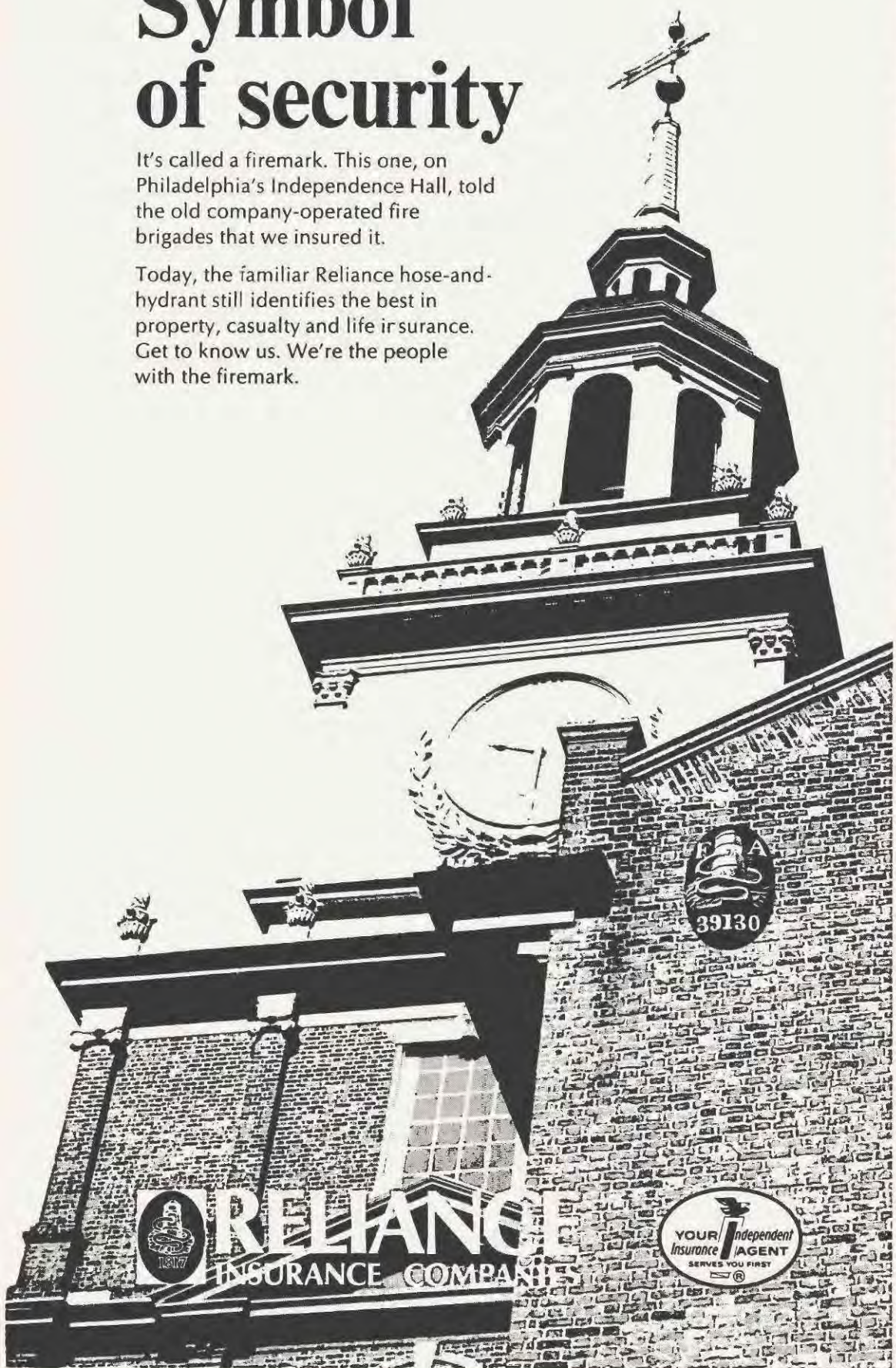
• **Defense Research Institute. What it is . . . What it does . . . What it needs . . .** is a free brochure available from the DRI, 1212 W. Wisconsin Ave., Milwaukee, Wis. 53233. It discusses these three facets of the organization and also includes a list of representative publications the DRI has released.

• A 27-page booklet, illustrated with 21 charts, has been published by American Credit Indemnity Co. of New York. **Signs of the Times** looks at economic events in the U.S. since 1951 and their effect on sound business management. It is free by writing the company at 300 St. Paul Pl., Baltimore, Md. 21202.

Symbol of security

It's called a firemark. This one, on Philadelphia's Independence Hall, told the old company-operated fire brigades that we insured it.

Today, the familiar Reliance hose-and-hydrant still identifies the best in property, casualty and life insurance. Get to know us. We're the people with the firemark.



Racetrack blaze burns up 41 horses

Specific measures required to assure continuity of corporate management in a post-disaster period must include a system to protect vital documents. **Protection of Vital Records** is a 24-page publication prepared by a special committee of the Assn. of Records Executives and Administrators, Inc. It enumerates, among other things, the information required to develop a program: (1) determination of what information is vital; (2) knowing what records reflect the information, and (3) learning how to protect the records. The booklet may be obtained from the Department of Defense, Office of Civil Defense, Washington, D.C. 20310.

Alexander & Alexander has released a booklet describing their firm and its services. **A Complete Insurance Service for Business**, 16 pages, points out that of all businesses forced to close their doors because of fire or other disaster, more than "43% fail to re-open—despite adequate property insurance coverage," and comes to the conclusion that "obviously, the standard forms of property insurance are not always sufficient to give companies the protection they need." Complementary copies are available by writing the corporation at 225 Broadway, New York, N.Y. 10007.

A new employe and association-member benefits program, to help the small businessman or trade association manager compete for people or members at little or no cost, is described in **Pick and Choose Personalized Insurance Protection Plans**. Published by Bankers Life & Casualty Co., the color brochure explains various coverages and options and lists ways in which other organizations have used the program to strengthen employe/member relations. A worksheet is included. Write George H. Hunter, Dept. P.I.P., 4444 W. Lawrence Ave., Chicago, Ill. 60630.

Information on a new EDP record vault is available from Wright Line, a division of Parry Wright Corp., 160 Gold Star Blvd., Worcester, Mass. 01606. The vault, manufactured by Schwab Safe Co., carries the Underwriters' 150°, two-hour label for storage of EDP media. Interior temperature and humidity can be held well below the 150°F 85% R.H. limit at which read-out errors and losses can occur even when the vault is exposed to a raging fire for up to two hours. For material on the **Data-bank Safe** contact Wright Line.

50 Ways to Reduce Crime Losses is a check list of proven accounting safeguards for crime protection published by Kemper Insurance. It stresses a company's obligation not only to provide proper crime loss coverage but to take reasonable means to stop losses before they happen through internal controls. Copies are available by writing Joanne Twomey, Public Relations Ass't., Kemper Insurance Cos., Mutual Insurance Bldg., 4750 Sheridan Rd., Chicago, Ill. 60640.

INFIGHTER is a man-powered emergency vehicle, designed to squelch fires in the first critical moments. Bulletin 96810, from the Young Fire Equipment Corp., Lancaster, N.Y. 14086, illustrates INFIGHTER, which has compartments for storage of fire extinguishers and additional emergency equipment specific to the hazards of an individual building or worksite.

LINCOLN, R.I.—One of the worst fires in recent track history destroyed 41 thoroughbred race horses here, including one triple crown eligible, when a barn at Lincoln Downs race track went up in flames.

Track officials said the fire was in the center track room of a barn stabling horses owned or trained Sam Sahagian, Richard Gottsman, Stanley Lukaszewicz and Arthur Pare. The cause has not yet been determined.

The Frelinghuysen Livestock Agency is the underwriter of all-risk mortality policies on three of the horses killed in the fire. The horses and the amount of claim are: Beaten Biscuit, owned by Irving Smith, \$3,500; Advance Man, owned by John L. Chaney,

\$3,500; Sun Tallah, owned by Tilly Foster Stock Farm, \$3,000.

THE HORSEMEN'S Benevolent Protective Assn., a national group of owners and trainers, provided blanket fire and extended coverage for all other horses killed as a result of the fire. The policy covers race horses owned by members who have not made other fire insurance arrangements, and covers the horses at meets at any approved track.

These policies are written by the Stuyvesant Insurance Co., Allentown, Pa. through broker Leroy Mark Inc., Washington. The amount is determined by the value of the horse, with \$5,000 the maximum.

Leroy Mark Inc. president Elsa Blake said the Lincoln Downs fire was the worst since the company started placing insurance for the horsemen's association in 1960. Miss Blake estimated that total damages on the race horses covered by the group would run between \$75,000 and \$125,000.

Lewis Rinebolt, Burrillville Racing Assn. assistant auditor, said that the property at Lincoln Downs is covered by a blanket fire and extended coverage policy handled by the M. A. Cain Insurance Agency, Providence. He said the cost of replacing the barn destroyed in the fire could run \$40,000 or more.

A spokesman for the Cain agency said that some ten insur-

ance companies supply the Lincoln Downs property insurance, while six companies are involved in losses caused by the fire.

The Lincoln Downs fire marks the fourth major fire at a New England track in the past four years. Recently, some underwriters have become wary of insuring horses that race in New England, due, in large part, to the poor fire safety record of the New England tracks.

Manion gets promotion

William E. Manion, who has been with R. B. Jones & Sons, Kansas City insurance agency, for 45 years, has been promoted to the post of senior vp. Mr. Manion will continue to serve on the firm's board.



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Participating workmen's comp from Pacific Employers Group. It can cut your costs and here's why:

Participating with PEG, you get premiums based on your own safety record, so that the better your safety performance, the lower your net costs will be.*

You get the benefit of PEG's pioneering experience in safety engineering plus the MEND rehabilitation program that reduces costs by returning injured workers to financial independence just as promptly as possible.

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*In a few states, we're required to use the level dividend rate.



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benefit tax slants

O.K. to transfer group policy— if not in anticipation of death

Insurance and Pensions:

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management of corporate insurance programs,
evaluation and planning coverage for specific application,
analysis of pension and employee benefits programs.

Commonwealth diversification helps management solve complex problems. Its strength is reinforced by its ability to draw upon the resources of its various companies.

By JOSEPH S. ROBINSON

NEW YORK—One way to cut down a man's estate is to have him assign his life insurance to his wife (or child) with no strings attached.

In other words, if the insured divests himself of all ownership rights in the policy, this should shore up his estate against tax erosion on the proceeds upon his death—assuming the policy was not transferred in anticipation of death within three years from the date of the transfer.

But remember this: When group life insurance is involved, Internal Revenue will not approve the estate tax exemption—unless both the group insurance contract itself and state law permit such assignment. (Technical Reference: Rev. Rul. 69-51.)

ANOTHER HURDLE with respect to the assignment of group insurance is this: Could Internal Revenue charge that the change in ownership of the policy was made "in contemplation of death," since group insurance is

written on a year-to-year basis? In a recent tax clash, IRS went to battle on this point. Here's what happened.

Mr. Landorf owned a half interest in a closely held corporation. The firm had a group insurance plan which covered Mr. Landorf for \$200,000. He turned over ownership of his policy to his wife under a standard assignment clause which the insurance carrier furnished.

He died two years later. When Internal Revenue sought to include the entire \$200,000 proceeds in Mr. Landorf's estate, the executor balked. The dispute was then taken to the court of claims.

HELD: SINCE Mr. Landorf had previously embarked on a program of "gift-giving" and since he was in good health at the time of assignment of his group insurance, he did not transfer the insurance in anticipation of death. What's more, the group insurance contract (while written on the basis of a one-year term) is a continuing arrangement. It is automatically renewed each year.

Note this well: Apparently, most states are silent on group insurance assignments. They neither specifically permit nor prohibit such arrangements. So it might be good tax strategy for executives with substantial estates to consider assigning their group insurance to their wives. There's little to lose and perhaps a great deal to gain. (Technical Reference: Landorf, ct. of Claims, 3/14/69.)

Like so many other companies, IBM is competing hard to attract and retain competent employees. One road it is taking is the improvement of the retirement plan to keep in line with current standards and practices.

ACCORDING TO IBM actuarial experts, the approximate total amount required to meet the benefit hike will be \$96 million. IBM is permitted to pay to the trustees and to deduct for Federal income tax purposes each year (in addition to current service cost) up to 10% of such additional cost, or \$9.6 million. The company figures its total 1969 cost of its retirement plan will be \$72 million—give or take a little.

Here are some of the principal provisions of IBM's retirement plan:

- Each regular employee who retires at age 65 with five or more years of service, will receive, in addition to Social Security benefits, a monthly income for life which equals the greater of: (a) \$6.50 times the number of years of service; or (b) one-twelfth of .75% of each year's compensation up to \$4,800 plus one-twelfth of 1.5% of such compensation over \$4,800.
- Early retirement at reduced income is permissible at or after age 55 with 15 years' service.
- The maximum retirement payment is \$50,000.
- For computation purposes, the annual compensation for employee services prior to January 1, 1969, will be the average compensation paid for the ten years preceding.

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By planning the system with Grinnell right at the start, construction costs and insurance premiums

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Keeton-O'Connell would reward wrongdoers, Mass. opponents say

BOSTON—The self-insurance or basic protection Keeton-O'Connell car insurance program encountered opposition in its latest return before the state legislative committee on insurance.

Prof. Robert E. Keeton of Harvard Law School appeared at the hearing to resume his defense of the controversial measure, denouncing the charge of opponents that it would reward wrongdoers.

Two proposals faced the committee—one to have all cars so insured, the other to allow the driver to elect self-insurance under which his own company would pay him without the need to go to court and prove fault on the part of another driver.

JOHN P. HAGERTY, New England manager of American Mutual Insurance Alliance, was among those voicing disapproval.

Prof. Keeton remarked that the present liability insurance system is far more subject to the wrongdoer charge, since bodily injury claims are used to collect property damages with such charges as back or neck injury.

He said, too, that a deductible clause under basic protection is feasible, but under present liability law, it cannot be because there would be an injustice.

PROF. KEETON admitted that bodily injury claims might be used to recover property damages under basic protection, but pointed out that this evil is also with the present liability system.

Prof. David J. Sargent of the Suffolk Law School categorized the Keeton-O'Connell plan as a "disaster" for the motorist and predicted enactment would "wreak both physical and financial havoc on millions of unsuspecting motorists."

He contended, moreover, that it would make the innocent suffer at the hands of the guilty and would proceed to waste the efforts of the prudent man, taking away various benefits he has purchased for health, hospital and wage loss insurance.

MR. HAGERTY TOLD the hearing that the Keeton-O'Connell plan should be called "excess coverage" or "last resort insurance." He charged that most victims would collect little, and protested that the plan abandons the principle of driver responsibility.

He feels that Keeton-O'Connell would apply only after other forms of insurance, Medicaid and Medicare have been exhausted, and, therefore, "should be called 'last resort insurance.'"

The reduction in benefits, he said, would fall most heavily on those least able to afford it.

Teachers get full coverage

NEWINGTON, Conn.—The Newington Teachers Assn. has won an 11.5% increase over existing salary schedules and a boost in hospitalization benefits from 50% Blue Cross coverage to full coverage following extended negotiations with the Newington board of education.

The board will also pay 50% of the cost of college courses taken by teachers, as compared to \$10 previously.

Total cost of salaries alone represents a hike of \$370,000. ■

Mr. Hagerty provided an example that could occur under basic protection in a collision involving a truck owned by a self-employed grocer and a station wagon carrying seven children:

THE TRUCK DRIVER would

collect nothing—being covered by wage and health insurance (obtained by union negotiation), and paying low insurance rates. The grocer would be a poor risk and subject to high insurance rates.

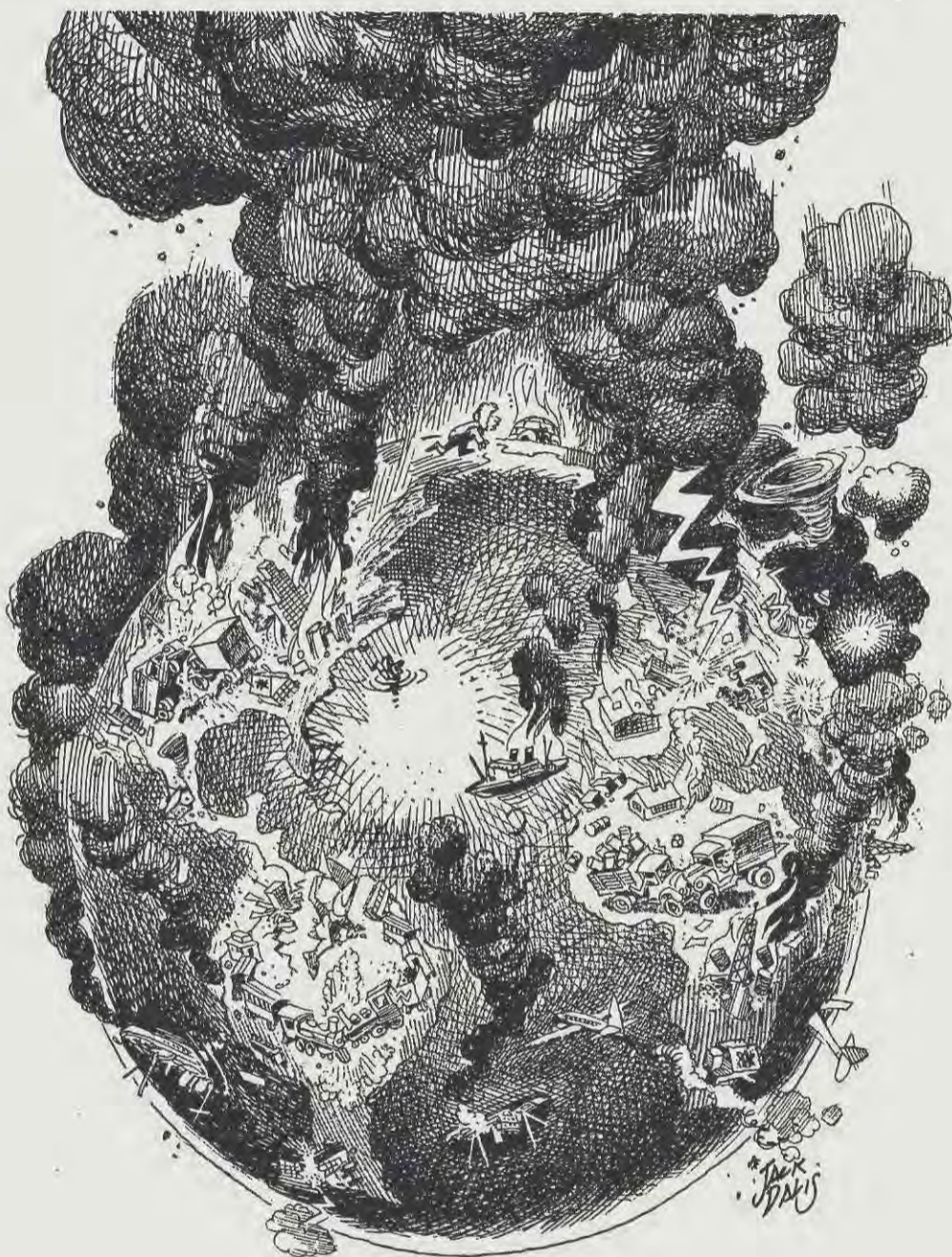
A better way, in Mr. Hagerty's

view, would be an evolutionary change of the sort recommended by Connecticut State Insurance Commissioner William R. Cotter. (The inclusion of \$2,000 in medical benefits and 52 weeks of disability income for every private passenger policy would be automatic. After that, insurance companies would contest which picks up the tab. Liability damages could be sought by drivers).

The Keeton-O'Connell plan will not put the vast majority of

Americans in any better position, according to Prof. Sargent. "Of course, it's bad for lawyers," he added, "but this is not a good reason for lawyers to be opposed."

He added: "Under no circumstances can you buy a policy to pay you for pain and suffering. Why should a person pay an extra premium for pain and suffering inflicted on him by somebody else? You'll never convince the average motorist of the type of policy he is buying." ■



The whole world would have to go up in smoke before we'd cancel your insurance.

A flood would have to melt a thousand fields of sugar. Fire would have to snuff out an entire continent of smoke stacks. Earthquake would have to gulp down tons and tons of bricks. And unless your entire wealth was destroyed in that inconceivable kind of forty days and forty nights, you'd still have your insurance. (You might not even suffer an increase in your premium.) The whole beauty of it is in the consolidation of your purchasing power.

American International Underwriters can issue you one worldwide property and business interruption policy to cover all your operations all over the world except the U.S. and Canada.

Having one policy saves a lot of time and money,

and in that respect, makes a lot more sense than having ten or twenty separate policies. And frankly, there are some things quite impossible to protect yourself against (in some countries) if you're buying separate policies country by country. Things like flood, in-transit hazards, and even riot.

But with AIU's worldwide property insurance you can be covered for all of that. Your claims can be paid in local currency, or in American dollars if you like. And the whole lot of it would have to collapse under your nose before we'd cancel you out.

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opinions

Strange things are happening

It's interesting to note that the Nixon Administration is backing—at least in a limited way—two measures which drew little support from businessmen last year.

One bill would set up health and safety standards for plants and factories, and the other would tighten fiscal requirements for pension and welfare plans.

Under Secretary of Labor James D. Hodgson expressed "strong interest" in occupational health and safety legislation at a recent Senate hearing, although he deferred endorsing any of the specifics of such measures.

And in an exclusive statement to *Business Insurance*, W. J. Usery Jr., the newly-appointed assistant secretary for labor-management services at the labor department, said: "I feel sure the Administration will support some form of legislation establishing Federal fiduciary standards in the private pension and welfare field."

What's more, labor department sources also indicated that the Nixon Administration is sensitive to the need for legislation in the vesting and funding area to protect the interests of pension plan participants.

While industry was outspoken in its opposition to the health and safety bill introduced the last session of Congress, a source close to the committee studying such legislation told this publication that business doesn't seem as hostile toward the measure this year, and he predicted that businessmen "may be willing to accept a reasonable" version of the bill.

We have a sneaking suspicion that the administration's attitude reflects a newly emerging realization on the part of business that there are worse things than federal regulation. We get the idea that many business executives are fed up with the uneven regulatory treatment of the various states and secretly yearn for some uniformity.

That's why, we submit, a surprising 24% of the U.S. members of the American Society of Insurance Management backed Federal regulation of the insurance industry and why almost a third of the ASIM members polled thought the state system of supervising workmen's compensation was inadequate.

Businessmen, we believe, are governed not by liberal or conservative leanings but by pragmatic approaches. They are for what works best with the least amount of trouble. And if Federal regulation means uniform standards for all—both management and labor in the case of pension legislation, for instance—we think business executives will accept the situation without forebodings of doom.

Idea exchange

All too often business executives complain of the casual or indifferent attitude employees take with regard to employee benefit programs. A reason for this frustration and a possible cure were uncovered in our work on a special pension and profit-sharing report in the last issue of *Business Insurance*.

business insurance

for buyers of employee, property and liability protection

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Benefits for private and public employes	Coverage, 1967			Employees as percent of employed wage and salary workers	Benefits paid
	Total	Employees (in millions)	Dependents		
Life insurance and death benefits	51.8	44.7	7.1	63.5%	\$1,878
Accidental death and dismemberment	30.4	30.4	—	43.2%	101
Hospitalization	131.7	50.6	81.1	71.9%	4,526
Surgical	128.5	49.6	78.9	70.5%	(surgical and regular medical)
Regular medical	110.3	43.1	67.2	61.2%	2,100
Major medical expense	56.0	20.3	35.7	28.8%	1,306
					\$15,686 TOTAL

Source: Social Security Administration, Dept. of Health, Education, and Welfare

A new report by the Social Security Administration indicates that employee benefit plans reached new highs in coverage and benefits in 1967. Temporary disability coverage, for example, provided short-term sickness and accident protection for about 31 million workers, a 6.5% increase over 1966. Major medical coverage increased 7.7% over the 1966 figures, and retirement plans added more than 1 million persons for a total of 27.6 million.

In preparing a roundup of the 1968 results of leading funds in the U.S., one reason for this seeming inability of business to communicate with employees became apparent.

As part of the research, our editorial staff contacted public relations men, financial executives and fund managers to collect data in categories such as assets, contributions, earnings and employees covered. Few were able to provide this information on first contact.

To be sure, many companies provide employees with benefit statements, but even so, further explanation to those who are interested would certainly seem to be in order.

How can business expect to stir up enthusiasm among employees when those in charge of disseminating the data do not seem to have an understanding of even the basics?

Irving L. Straus, a New York public relations man, has predicted that benefit plan results will be reported in the press much as corporate earnings are. He predicted that such things as fund assets, portfolio changes and fund managers will be fair game for news stories.

In its own way, *Business Insurance* has already begun to report some of these items with its roundup of 1968 results. We have carried and will continue to carry stories of companies that have been successful in this area. In addition, we will attempt to open communication channels among companies as part of an idea-sharing forum. Companies, large and small, are invited to send in annual reports on their funds and other material on employee benefits to help share in this exchange.

What is paralysis worth?

Even \$780,000 is probably not enough to compensate a young girl for permanent paralysis, but that was the total verdict of the jury in a recent South Carolina case which the supreme court of that state has sent back for retrial.

However, in its opinion the court believes that under the facts, the manufacturer, Ford Motor Co., may ultimately have to pay.

In essence, the claim is based on a defective gear shift knob. In a collision with another vehicle the 17-year old girl passenger was impaled on the gear shift lever which penetrated her spine at about breast level, causing complete and permanent paralysis below that point.

The other defendant, a construction company which had removed stop signs at the intersection, in the process of widening one street, neither furnished temporary signs nor attempted to warn travelers on the through highway that the stop signs were not in place.

The jury verdict against the construction company was \$468,000; that against Ford was \$312,000. The supreme court said that the jury could have reasonably found that the 12-inch gear shift lever presented an unreasonable risk of injury unless effectively guarded. The knob covering the end of the gearshift was made of a plastic material labeled tennite butyrate.

This knob became frangible after exposure to sunlight and thus permitted this tragic impalement on the gear shift lever. Although there was no proof in the case that the driver of the car knew that the knob had become worthless as a protective device, "Ford is not relieved by failure to replace the knob. . . . Mere passage of time should not excuse Ford of its negligence with the car."

The supreme court noted that the (offending) knob was designed not as a needed safety device, but simply as a handhold for convenience in shifting gears." The result of a retrial of this will be watched for with great interest, in view of the size of the verdict.

letters

Is your town ready?

To the Editor: Your March 17 story about the \$151,000 settlement on the New Britain, Conn., department store collapse reminds me that we had one just like it when I was claim manager for Connecticut—the Merberg case—that resulted in quite a bit of litigation and made some interesting law.

But it's your paragraph on the "near-catastrophe (that) brought nearly every piece of New Britain city rescue equipment racing to the scene," that prompts this letter.

I don't know how New Britain made out, but most towns are abysmally ill-prepared for such disasters. Many of the men reading your story wondered, I imagine, how their towns would do in the face of catastrophe.

I just saw a new film the other day—"Before the Emergency"—made by our safety and health services department, a film designed to get people moving in their own communities toward answers to this problem. It's about the townspeople in Minocqua, Wis., and a doctor (originally from Chicago, as I recall) who led them into one of the best disaster preparedness programs you've ever seen.

Keep an eye out for the film—the color shots of Minocqua are great (enough to make even an old New Havenite like me want to go up north once the ice-cap retreats and take a look at the place), the story is lively and has an interesting twist to it, and the problem is one people are just starting to think about. I'll bet it produces a lot of community planning-for-disaster all over the country, once it gets into circulation.

In the meantime, keep that Connecticut news coming. As I sit here staring out at the ice-cap I sometimes get to feeling that Connecticut is only a figment of my frozen imagination.

M. A. O'Malley
 Associate Editor, Marketing Communications, Employers Insurance of Wausau, Wausau, Wis.

Compliments

To the Editor: My sincere compliments on Teresa Norton's excellent article which dealt so favorably and so completely with Motorola's 1969 profit sharing announcement.

We were happy to have you visit us and we will certainly be most willing to work with you in the future on another article (either on profit sharing or insurance) when you are again interested in featuring Motorola.

Many thanks for your wonderful support.

John B. Maloney
 Employee Communications Manager, Motorola, Inc., Franklin Park, Ill.

Want to join ASIM

To the Editor: Could you please furnish me information as to how membership may be obtained in the American Society of Insurance Management?

Martin Tessler
 Vice President, Diversified Underwriters Agency Inc., Clayton, Mo.

Editor's Note: Readers interested in joining ASIM should write Mr. Ron Judd, Managing Director, ASIM, 8 W. 40th St., New York, N. Y. 10018.

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Conn. police, firemen back bills on hypertension, heart disease

HARTFORD—Representatives of Connecticut police and firemen's organizations voiced support of proposed measures that would insure them workmen's compensation for hypertension and heart disease suffered while in the line of duty during a state legislative labor committee public hearing.

They appeared to back bills, introduced by Rep. Dominic J. Badolato, New Britain Democrat, and Rep. Gerald F. Stevens, Milford Republican, that would place the burden of proof for claims unconditionally on the insurer.

Rep. George Ritter, Hartford Democrat, contended that workmen's compensation commissioners have not enforced existing

laws involving heart disease for police and firemen and should be impeached if they do not respect the intent of the law.

MR. RITTER drafted the initial legislation (1959) that would allow claims for heart disorders but the claims could be rebutted by the insurer.

The current proposed legislation would remove the opportunity to challenge the claim unless there was iron-clad proof that the disorder was not connected with the claimant's job.

Mr. Ritter explained that the workmen's compensation commissioners accept flimsy excuses from the insurers not to pay claims and then shift the burden of proof to the claimant. ■

Traveler's lament hard to believe: Dempsey

HARTFORD—An insurance industry spokesman's claims about what proposed tax boosts would do have been labeled "awfully hard to believe" by Gov. John N. Dempsey.

Millard Bartels, chairman of the insurance executive committee, Travelers Insurance Cos., maintained that tax increases on insurance, as proposed by the Dempsey administration, would eliminate his company's total profit from insurance written in Connecticut.

Mr. Bartels remarked that if the tax hikes are enacted into law by the state legislature, the Travelers may "switch" its business out of Connecticut to avoid the taxes.

Dismisses suit against burglar protection firm

TORONTO, Ont.—An Ontario supreme court judge has dismissed a Toronto diamond merchant's \$500,000 suit against Dominion Electric Protection Co. for loss of diamonds seven years ago to thieves who bypassed an electrical alarm system.

Justice G. A. Addy ruled that J. Nunes Diamonds Ltd., headed by Jacobus Nunes-Vaz, failed to prove its case or to establish liability on the part of the defendant, based on the contract for the alarm system.

The judge also held in his 35-page judgment that Dominion Electric was not liable for any negligent misrepresentation or for breach of duty in giving advice or failing to give advice.

The burglar alarm system was a plywood box which covered the safe on six sides, and was wired from the inside to form a circuit. Two wires went from the system in the office to a connection in a public hallway in the building, then the wires went down the Bell Telephone system to the basement where the circuit was continued through the telephone lines to one of Dominion Electric's central monitoring stations.

BEFORE DEALING with the burglary of the Nunes diamonds on the night of June 15-16, 1961, Justice Addy mentioned an attempted robbery of \$1-million worth of diamonds from Baumgold Bros. of Canada Ltd. in October, 1969.

The judge said that an identical safe box protective system had been installed at Baumgold's as at Nunes' by Dominion Electric.

The Baumgold diamonds were recovered in the building when the thieves were scared away. They got the diamonds from the Baumgold safe without setting off the alarm, Justice Addy said.

THE ROBBERY caused serious concern among diamond dealers, insurers and the police, the judge stated. "An extensive investigation was carried out to attempt to find out how the diamonds were removed from the safe without setting off the alarm."

Justice Addy said it was never established whether the system had been circumvented by the thieves without the complicity or collusion of Dominion Electric employees.

"But in any event," the judge continued, "as a result of the attempted robbery, three Dominion Electric employees who had previous criminal records were dismissed as security risks and a detailed examination of the past of all the employees of Dominion Electric of Toronto was carried out."

In the Nunes' burglary thieves removed all the diamonds from the office safe without setting off the alarm, although it was apparently functioning properly at the time. ■



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NEBA International head gets record policy

MIAMI BEACH—The largest single life insurance policy ever written on one individual in this country, \$11 million, has been issued by Bankers Life Nebraska to Michael Davis, founder of NEBA International Inc., a fast-food franchise company.

Mr. Davis, 34, recalled that he was once turned down by a company which felt he couldn't pay the premiums on a \$500 policy.

NEBA, of which he is chief executive officer and chairman of the board, has franchise units in Eastern, Central and Southern U.S. and is currently negotiating sale of franchise rights in England, Germany and Australia.

George B. Cook, president of Bankers Life Nebraska, Lincoln, said the record policy is the company's new T-Plus, introduced in January, 1969. It incorporates low cost advantages of term insurance with cash values and paid up insurance advantages of ordinary life.

James '68 revenue is \$9.56 million

CHICAGO—Fred S. James & Co., which has been in the insurance brokerage business since 1858, had income from fees and commissions of \$9,569,284 in 1968 and net income of \$507,218, according to the prospectus detailing proposed stock offering to the public.

James, the fourth broker to go public, is selling 150,000 of its shares, and the broker's shareholders are selling another 82,220. An aggregate of 10,000 shares is being reserved for sale at the public offering price to employes "and certain other persons designated by the company," according to the prospectus issued by Shields & Co., the stock underwriter.

Alexander & Alexander, in its prospectus issued earlier this month, said the firm itself was not selling any shares to the public but that A&A executives were offering 290,000 shares. A&A's income from fees and commissions in 1968, by way of comparison, was \$20,921,235 and its net income last year was \$932,158.

OTHER BROKERS that have gone public are Marsh & McLennan (with 1968 fees and commissions of \$106,467,849 and net income of \$15,080,328) and Corroon & Black (which reported gross revenue in 1968 of \$6,384,945 and net income of \$1,611,486 before taking into account an extraordinary gain, the sale of its Reliance Insurance stock).

James will use \$1,007,500 from the proceeds of the offering to finance the purchase of three insurance brokerage firms, according to the prospectus.

The prospectus stated that James will use \$745,000 of its share of the offering to pay for the purchase of R. C. Rathbone & Son and the insurance accounts of Kuhrts, Cox & Co. and to repay the remaining balance (\$262,500) for O-W & Criddle Associates.

The remainder of the net proceeds to the company "will be added to working capital, to be used in connection with possible acquisition opportunities which may arise in the future and for general corporate purposes," the prospectus said.

THE JAMES figures include revenue from Rathbone and Criddle. The contribution of Criddle last year was net income of \$42,416 on revenue of \$806,656. Rathbone had revenue of \$1,916,921 and adjusted net income (75% pooled portion) of \$71,986. Most of Rathbone's earnings were distributed directly to the stockholders primarily in the form of salaries and commissions, and in accordance with an Internal Revenue Service provision no Federal income taxes on these earnings were paid.

In 1968, the prospectus stated, James had more than 50,000 customers, and no single customer accounted for as much as 3% of the firm's total commission income. The ten largest clients contributed less than 16% of 1968 income, it was added.

Last year James derived 44% of its commissions and fees from casualty business, 20% from property, 15% from life and accident and health, 14% from marine, 5% from bonds and 2% from other, according to the prospectus.

James' definition of "casualty" includes legal liability, workmen's compensation, automobile, burglary and boiler and machinery insurance.

The brokerage firm paid its president, Arthur M. Jens Jr., \$66,027 in 1968, the prospectus stated. In addition Mr. Jens will receive an estimated \$2,726 a year in pension benefits when he retires. At the end of 1968 he had another \$53,759 coming to him from the firm's profit-sharing plan.

Other executives and their salaries, with amounts from pension and profit-sharing plans in parentheses, are: Leo C. Havey, exec vp, \$55,161 (\$1,944 and \$46,991); Thomas J. Ryan, exec vp,

\$50,256 (\$2,934 and \$35,310); Charles A. O'Malley, senior vp, \$50,866 (\$1,823 and \$26,077); and Sherman W. Finger, vp, treasurer and secretary, \$33,500 (\$3,341 and \$27,950).

Also: F. R. Blossom, vp, \$27,621 (\$3,625 and \$18,647); William B. Mezick, vp, \$45,980 (\$2,516 and \$21,668); George E. O'Mara, vp, \$37,610 (\$3,193 and \$18,727); and John L. Boyd, vp, \$36,370 (\$1,526 and \$18,106).

All directors and officers (38 people, including 29 vps not named above who are officers of

subsidiaries) are paid an aggregate yearly sum of \$1,232,065, the prospectus said.

UPON SALE of the stock to the public, James will terminate shareholder agreements that restricted transfer of the stock, the prospectus said. The company's purchase obligations under the agreements have been funded in part by insurance on the lives of its stockholders.

The prospectus said that James has offered to assign these

Continued on page 16



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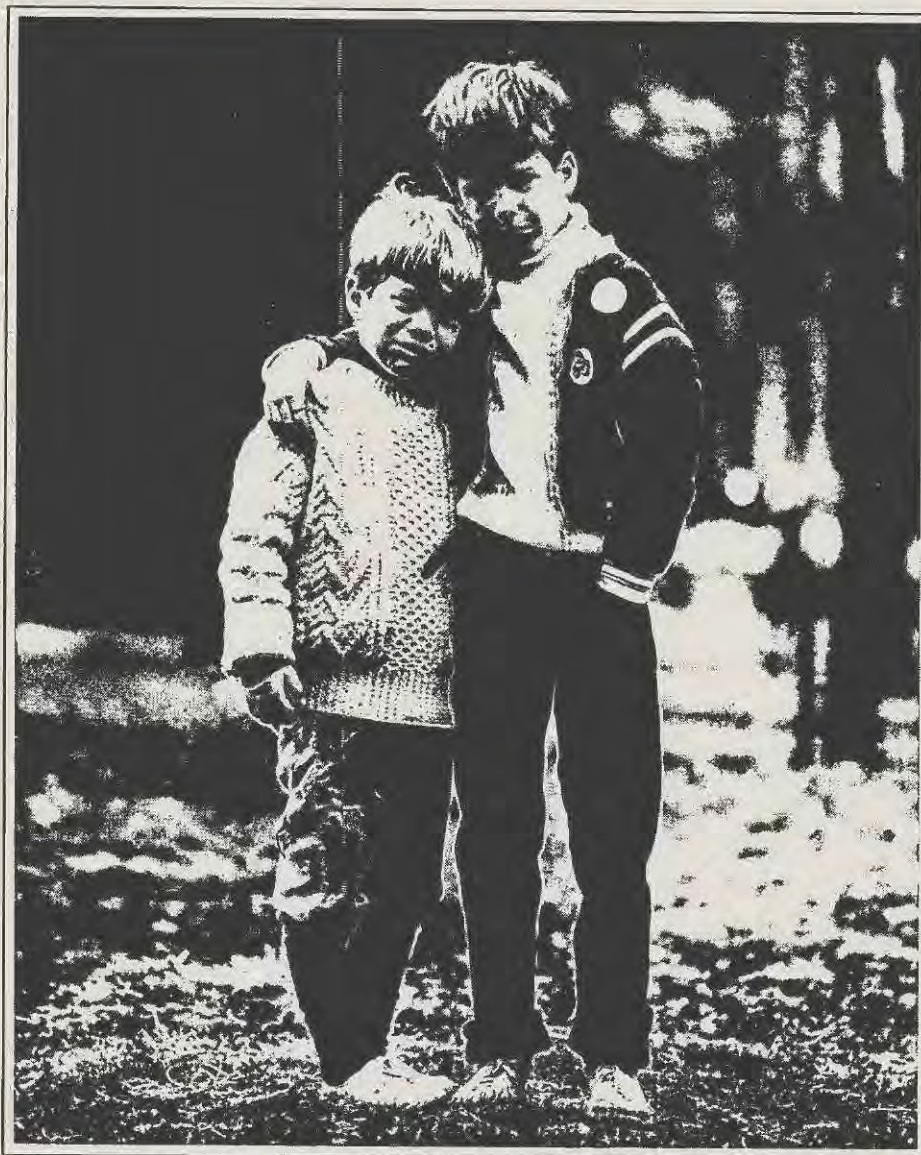
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Burglary cover for small firms gets under way in Connecticut

HARTFORD—Five Hartford insurance companies are joining forces to provide Connecticut urban area small retailers with the opportunity to buy basic burglary and robbery insurance.

State Insurance Commissioner William R. Cotter said that the experimental program is to be offered by Aetna Life & Casualty Insurance Co., Aetna Insurance Co., Travelers Insurance Cos., Hartford Insurance Group and Security Insurance Group.

This is the first such joint venture in the country, according to Mr. Cotter.

INITIAL PHASE got under way April 21.

Mr. Cotter expressed the hope that "this will take care of the small businessman in the highly sensitive urban area—the man who needs it the most."

Previously, coverage has not been offered by the companies because of the calculated high risk in urban areas.

Since the companies still have no real experience to go on, the coverage is being offered to merchants meeting "reasonable underwriting standards," according to Mr. Cotter.

ALTHOUGH MANY operational principles are yet to be worked out, it is understood that the plan will offer a stan-

dard "storekeeper's burglary and robbery" policy to merchants determined eligible.

The policy is to provide both robbery and burglary coverage on money, securities and merchandise, coverage to be available in basic units of \$250 (which may be increased in multiples of \$250, up to a \$1,000 limit).

In addition, there would be a \$50 deductible clause in policies up to \$500 and \$100 deductible in policies between \$500 and \$1,000.

THERE IS TO BE no exclusion because of ethnic or racial concentration in any neighborhood, Mr. Cotter emphasizes. At the same time, there will be a

surcharge for sub-standard conditions until said conditions are corrected.

It is expected that when the working details are firmed up, any licensed insurance agent in the state may file an application for coverage with one of the participating companies.

The company would then inspect the premises, and if the risk met "reasonable underwriting standards," the company would make an offer to insure. The company would issue the policy or payment of the premium.

MR. COTTER told *Business Insurance* that the upcoming development is not connected with the Connecticut Insurance Placement Facility, a voluntary program in which all insurance companies licensed in Connecticut provide basic fire and extended coverage insurance to those un-

able to obtain this coverage in the normal market.

Extended coverage includes protection against high winds, storms, civil commotion, riot, and riots attending a strike. ■

County eyes insuring its work comp

BINGHAMTON, N.Y.—Broome County may ditch self-insuring workmen's compensation claims on the premise that private insurance carriers can provide coverage at less cost.

County Executive Edwin L. Crawford said that he is sending letters to legislatures and chief executives of the 15 towns and six villages which have joined with the county in a \$270,000-a-year self-insurance program.

The letters state that preliminary studies by the county indicate that workmen's compensation insurance probably would be cheaper if placed with a private insurance company.

MR. CRAWFORD asked officials of the other municipalities in the county to cooperate by providing information needed for the county's study.

The county executive said one advantage private companies would have over the county and the 21 towns and villages would be in lower cost claims investigation.

In addition to the town Union and the village of Deposit, which lie partly in another county, Binghamton does not participate in the workmen's compensation self-insurance program. ■

James...

Continued from page 15

policies to the named insureds, who are all officers or directors, at their cash surrender value of about \$350,000.

James' profit-sharing plan calls for a contribution by the firm of not more than 9 3/8% of the compensation of participating employees in excess of \$4,800 a year, less forfeitures from the accounts of terminating employees, plus an additional amount sufficient to provide a minimum allocation of \$50 for the year to each participant.

CONTRIBUTIONS to the plan by James for 1968 were \$206,000, based on a payment of \$17,500 on the first \$75,000 of consolidated net earnings for the year plus 50% of earnings over \$75,000.

James employees make contributions to the firm's pension plan up to \$31.35 for employees receiving over \$800 a month. The broker's contribution has averaged about one-third of the total cost of the pension plan and was \$30,500 for 1968. All past service costs under the plan have been funded, the prospectus noted.

The plan provides a monthly pension of the amount accrued to the employee under certain pre-existing annuity contracts, plus 2.193% of his total contributions under the plan after January, 1961.

Selling stockholders among officers and directors, and the number of shares they will sell and they own are as follows: Messrs. Jens, Havey, Ryan and O'Malley, each 6,750 out of 54,000; Mr. Finger, 8,000 out of 40,000; Mr. Blossom, 2,000 out of 16,000; Mr. Mezick, 3,900 out of 26,000; Mr. O'Mara, 3,200 out of 16,000; and Mr. Boyd, 2,140 out of 17,120. ■

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Howard Hughes' 'ocean front' hasn't upset quake coverage

OAKLAND, Cal.—A rumor being circulated these days is that billionaire Howard Hughes has bought land in Nevada because he expects to get ocean front property.

He bases his hopes, the story goes, on predictions of soothsayers and some scientists that a giant earthquake will cause California to sink into the Pacific Ocean.

Insurers and insurance buyers in the Golden State aren't buying the prediction, but a number are buying the coverage. A *Business Insurance* roundup found that earthquake coverages are available as a specified risk or as part of a difference in conditions policy. For the giant limits, it was learned, there is no more or less of a placement problem than on any other risk in these days of capacity problems.

Donald W. Henning, insurance manager for Kaiser Industries Corp., said he was able to secure more than enough earthquake coverage on a new \$25,000,000 building the company is constructing. The coverage was included as part of a builder's all-risk policy, he said.

MR. HENNING explained that because it was builder's risk policy, Kaiser was able to make use of the London marine market, which substantially increased capacity. He added that the earthquake coverage was a requirement of the lender.

Kaiser has a specified peril policy with earthquake added on its fixed properties, he said. He said that earthquake coverage is difficult to obtain now because of the overall shrinkage of the world market.

"London is avoiding doubling up on reinsurance," he explained, "in taking coverages directly and then as part of reinsurance from U.S. insurers."

Buyers estimate that maximum earthquake limit on fixed property is currently about \$20,000,000. General Motors is known to have sought coverage for its \$50,000,000 plant in northern California without success. Mr. Henning said that he may not be able to get full coverage when the Kaiser building is finished.

A. J. TRIMBLE, insurance manager of FMC Corp., San Jose, said he had earthquake coverage as part of a U.S. and Canada differences in condition policy.

In addition, Mr. Trimble said, when buildings are constructed in California, architects and others take special precautions using such things as sway bracing, special internal partitioning and avoiding facing materials on buildings.

In Southern California, Hunt Foods & Industries, Fullerton, has earthquake coverage as part of its differences in conditions package policy, according to Richard L. Koontz, assistant insurance manager. The company changed from specific earthquake coverage to the package coverage some years ago, he said.

Lockheed Aircraft, Burbank, has a \$20,000,000 limit on earthquake coverage as part of its multiple-peril policy, according to Robert Butler, insurance manager.

Arrowhead & Puritas Waters, with 20 plants in the U.S., does not have earthquake coverage, according to William Campbell, assistant secretary. However, he said, Coca-Cola, which merged

with Arrowhead April 1, does.

Some insurance buyers contend that coverage is expensive but that the cost is relative to each company's needs. One buyer lamented that there just aren't enough statistics on earthquakes.

The cost of earthquake coverage is a factor. One buyer said the cost was "reasonable" in 1960 but that premiums have soared since.

William J. Wert, western region property supervisor for Continental Casualty Co. in Los

Angeles, compared rates on similar buildings in Southern California and Chicago.

A brick building valued at \$200,000 could get earthquake cover for about \$200 annually in Chicago and \$1,500 with a 10% deductible in Southern California, Mr. Wert pointed out.

On an earthquake resistant building of the same value, the Chicago premium for earthquake coverage would be \$80 and would jump to \$700 with a 5% deductible in Southern California, he said.

Cost of earthquake insurance on the contents of building varies according to use, Mr. Wert pointed out. For \$100,000 of content cover, annual premiums would be \$350 for a brewery, \$250 for a church, \$100 for a lumber mill and \$1,350 for an antique shop, he said.

Meanwhile, Mr. Hughes still doesn't have Nevada beach front property. But Hughes' giant California operation, Hughes Aircraft Corp., Culver City, does have earthquake coverage for its California properties.

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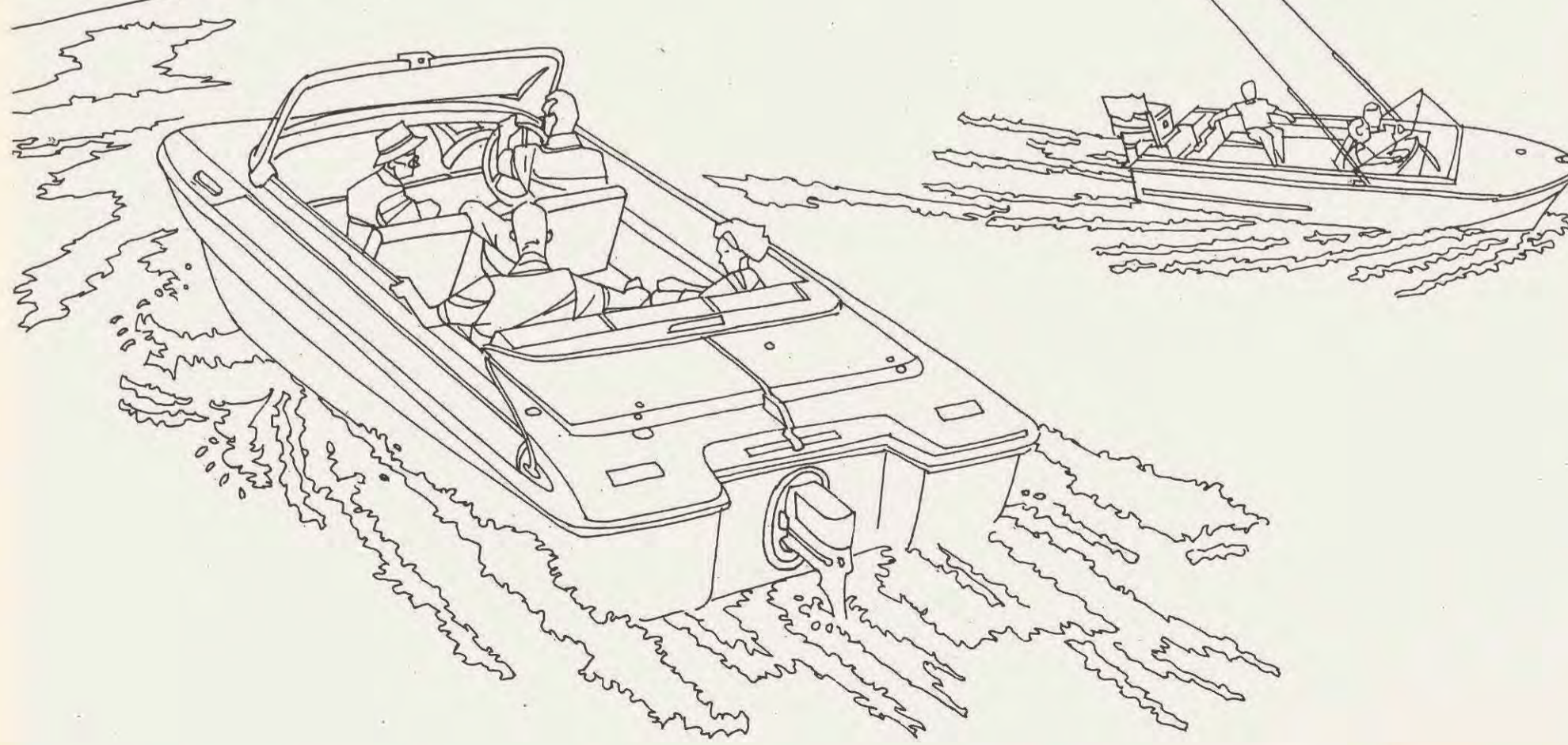
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Another solution to the 747 problem: A wrap-up policy

by John P. Olsen,
insurance manager,
Ingersoll-Rand Co.



J. P. Olsen

Recent discussions and articles concerning possible solutions to the liability risks of the Boeing 747 and the later jumbo jets can stand further review. The problem—insuring catastrophe exposures of a large number of entities in a shrinking insurance market—has been dealt with in some detail by others. Some of the points, perhaps from the viewpoint of those who do not operate airlines or airports, may bear repeating, some elaboration and also be of interest.

First, the problem is very real. The Boeing 747, to be followed by comparable aircraft manufactured by McDonnell-Douglas and Lockheed, presents major liability (and hull) risks to the airlines, manufacturers, component manufactur-

ers, airport operators and others. Some believe the problem is insoluble. This, of course, is not correct. But unless certain affirmative actions are taken, problems the likes of which few risk managers have encountered will be presented with no ready answers. The consensus of conservative thinking is that the hull and liability loss of a fully loaded Boeing 747 will approximate \$75 million. This assumes a single aircraft loss and no damage to persons or property on the ground.

THE AIRLINES APPEAR well on their way to a solution for the airlines. The pooling of their mutual interests to create funds for a Swiss captive (although still cloaked with some secrecy) seems to be proceeding toward realization. In addition, some of their representatives are actively proposing revisions in the common law to impose absolute liability on the carrier for passenger claims but limiting their liability—thus, in effect, a U.S. Warsaw Treaty. This may be wishful thinking.

Although the argument makes sense to the airlines, it may never become law for several reasons. First, there is on the one hand the argument that by setting a limit of liability, you have simply begun a spiral which will end in a situation similar to workmen's compensation with ever-increasing limits of liability being imposed.

On the other hand, plaintiffs' interests argue that the assumption of absolute liability by the airlines on domestic flights really means very little since in most actions (but by no means all) the claimant has been able to recover against someone at common law. Thus, it is argued that the assumption of absolute liability by the airlines who, as a *quid pro quo*, will be permitted to limit their liability, prevents the injured party from

obtaining what he should be due.

IN OTHER WORDS, any limitations would preclude the so-called higher valued life from making a recovery commensurate with the loss. Additionally, this begs the question of what will happen to actions involving the crew who are precluded from suing their employers or whether the law would apply to the airlines only.

In any event, these questions aside, I see no rush by the airlines to wrap-up the liability exposure of their manufacturers or others. Perhaps it makes economic sense to do so but any effective wrap-up for the present understandably will not include the airlines who now appear well on their way to their own solutions.

In my view, the problem of the aircraft builder and the maker of component parts can be solved, but only through enlightened guidance by those responsible for controlling the risk. In case you wonder whether this is a real problem, check with any aviation attorney. The courts are filled with cases involving the products liability of manufacturers.

THERE IS AN increasing number that involve component manufacturers and notwithstanding the Kollsman Instrument case in New York (in which the court would not hold the component manufacturer on the basis of strict liability) no knowledgeable person will argue, assuming a defectively manufactured or improperly designed part, that a component manufacturer could successfully avoid at least a portion of responsibility to third persons including the aircraft builder.

Well, what is the problem? Simply stated, how may a relatively small manufacturer who may make a critical component part protect himself? He may purchase insurance. In what limits? Prob-

bly \$75 million minimum. Where? That is a good question. At what cost? Another good question. One component manufacturer recently related to me that the first \$20 million of coverage would exceed his estimated total profit from the manufactured part unless he included in his cost of product the insurance costs. Now here is the rub and this must be pointed out to the prime manufacturer. Major aircraft manufacturers are highly sophisticated organizations, cost oriented, and appreciative of any real cost saving opportunity. Clearly here is one.

THERE IS NO QUESTION that substantial economies can be obtained by the aircraft builder if he wraps up the product liability risk of his component manufacturers under his program. This will effectively reduce the premium cost to the manufacturer and keep responsible component manufacturers in a competitive market who might otherwise, because of their financial uninsured exposures, withdraw. The pooling should effectively funnel premiums to a single underwriter (or single group) permitting them to earn premiums that would otherwise be expended on the world market without any control. It offers the best chance to underwrite the risk at some margin above even. It is difficult to see any other solution.

Insofar as the airport operators (and the Federal government) are concerned, I find no real hope of a combined solution at this time. An overall wrap-up suggested by some appears to be something for the future. As an old "airport operator," I sympathize with their problem. Fortunately (perhaps unfortunately) most (with some noticeable exceptions, including the Port of New York Authority) are municipal entities with recourse to taxpayers. Some are still immune from suit.

In summary, and for the immediate present only, wrap-ups by the aircraft manufacturer to include his component manufacturers seem the first order of business—not, however, to the exclusion of continued study to expand these programs. ■

John P. Olsen received a B.S. degree from the University of Virginia in 1945 and an LL.B. degree cum laude from the New York Law School in 1954. He has been manager of the insurance department of Ingersoll-Rand since 1965.

Only good losses are those that never happen, says Head

by George L. Head,
director of educational publications,
Insurance Institute of America

(This is the second of a two-part series on the treatment of risk. The first installment dealt with avoiding and assuming the risk and reducing the hazard. This part will take up shifting and reducing the risk.)

A firm which shifts a risk it faces enters into a contract with another entity other than an insurance company. Under this contract the firm to which the risk is shifted agrees to absorb the losses, and perhaps reap the gains, which would have fallen to the firm from which the risk is shifted.

An example should clarify how risks can be shifted. A construction firm which contracts to erect a downtown office building for a fixed price can make a great profit or incur a crippling loss, depending on no more than what happens to the prices of steel, concrete, and other raw materials purchased at current market prices during the 18 months to two years needed to finish the project.

Regardless of the contractor's technical skill, if he based his bid on a certain price per ton of steel, a \$10 change in the cost of a ton can make or break the project. Rather than face this risk, however, the builder can contract with another firm to deliver steel to the contractor as he needs it at a fixed price per ton anytime during the course of the project.

With this contract for steel, sometimes

termed a "forward buying" contract, the construction firm has tied down the price of a vital raw material, which must be known to bid intelligently on the contract for the office building. The price-change risk on this part of the construction job has been shifted from the contractor to the steel supplier.

Insurance is excluded from risk-shifting devices for two reasons. First, insurance actually reduces risk rather than shifts it because insurance pools exposures to make losses more predictable. Risk shifting usually does not involve risk reduction. The firm to which the risk is transferred, the steel supplier in the last example, generally is as uncertain of the losses or gains it will realize as is the firm, the contractor above, which transfers the risk.

The second reason for setting up a class of risk-shifting devices which excludes insurance is to call attention to the amazing variety of contractual arrangements other than insurance by which risk, both pure and speculative, can be transferred between firms.

ONE MAJOR RISK transference device is the hold harmless agreement, which appears in many places in a great variety of shapes and sizes. These agreements, usually growing out of a contract for the sale of goods or services, provide that one of the parties (the indemnitor, usually the one with the weaker bargaining position) will indemnify the other party (known as the indemnitee) for certain or all liability claims lodged against the indemnitee in connection with the goods or services covered by the underlying sales contract, even if the claims arise from the indemnitee's proven negligence.

For example, a broad form of hold harmless agreement may stipulate that a building contractor will repay the owner "for all claims, loss, damage, injury, liability, costs, and expenses of whatever

Continued on following page

perspective

Continued from preceding page
kind, howsoever the same may be caused, resulting directly or indirectly from the work covered by the contract."

Similarly, manufacturers supplying component parts to other manufacturers often assume the buyer's products liability exposure for injuries to ultimate users of the product for which the component is supplied.

Applying the same risk-shifting principles, but usually in less sweeping language, many a merchant is an indemnitor of trucking firms for injuries to pedestrians by the trucks while on the merchant's premises.

FOR THE INDEMNITOR, hold harmless agreements may have at least two distinct advantages over liability insurance. First, the indemnity clause can be drawn much more broadly with fewer exceptions than the typical liability insurance policy. Thus, the shield afforded by a hold harmless agreement may be much more protective than that afforded by a liability policy.

Second, in contrast to liability insurance, the indemnitee usually finds that the cost of a hold harmless agreement is zero—usually the necessary provisions can be inserted into an essentially completed contract for a project with an already agreed upon price.

But liability insurance also has some pluses that hold harmless clauses often do not. Few hold harmless indemnitors, usually weaker bargainers than the indemnitees, have the financial strength with which a liability insurer can meet a severe loss. As a practical matter, a hold harmless agreement cannot be enforced against an indemnitor unable to meet its promises.

ANOTHER BARRIER TO the enforcement of hold harmless provisions is that

many courts hesitate to construe such provisions as strictly against an indemnitor as these courts interpret a liability policy against an insurer. These reluctant courts reason that hold harmless clauses are drafted by the indemnitee and often are unthinkingly accepted by a firm unfamiliar with an indemnitor's obligations.

Because hold harmless clauses have been sprayed promiscuously into so many business documents, the party assuming obligations under a hold harmless agreement must have shown, other than through the wording of a hold harmless clause, an intention to be an indemnitor before an indemnitee can count on legal enforcement of the promised hold harmless protection.

The risk management techniques discussed thus far have aimed to reduce or shift losses. The core of reducing risk, the final technique, is to make more predictable those losses which do occur. Prediction of chance events belongs within the science of statistics, and statistics points the way to the most effective means of reducing risk, namely, to pool separate yet similar loss exposures.

COMMERCIAL INSURERS make prime use of this technique, knowing that the larger the number of like buildings, cars, or lives they insure, the more likely are actual losses to conform to predicted average losses in both frequency and size.

As the likelihood of the averages coming true increases, risk—that is, unpredictability or uncertainty—decreases when "the law of averages" asserts itself. Averages can apply, however, only to similar exposure units each with an essentially identical probability of loss, sufficiently separated so that a loss to one unit does not change the chance of loss to another unit.

One of the most important ways commercial insurers benefit society is by providing a mechanism by which different owners of like properties can pool their risks by paying into one common fund for the restoration of each owner's losses. Because a very large number of separate exposure units minimizes the chance deviations from the expected volume of losses, this common fund can be smaller than could be the aggregate of separate funds which each owner would need in order to restore his own losses.

WITHOUT TURNING to commercial insurance, however, many firms can find opportunities to reduce risk by pooling exposures, relying on the force of averages. For example, a florist with as few as ten panel delivery vans should be able to predict annual physical damage losses to those vehicles with sufficient accuracy to forego insuring commercially at least part of this exposure.

If the trucks are essentially identical and are handled by comparable drivers in similar territories, the negligible probability that one van will collide with another belonging to this florist allows that firm to treat the trucks as ten separate exposure units for any physical damage occurring off the florist's premises. "Vehicle repair and replacement expense" then can become a budgetable expense account for this enterprise.

Other ways to pool risks and gain predictability of losses will catch the eye of an imaginative risk manager. The florist example illustrates that, as a firm expands and acquires more properties, some risks which once had to be commercially insured can be assumed or "self-insured" at a fairly predictable cost.

BUT COURAGE IS needed. A self-insurance effort should not be abandoned just because one year losses exceed

what it would have cost to insure those losses commercially. Unless there is good evidence for believing that these above-average losses are more than a chance deviation from a long-run average, management should realize that there will be other years, with few if any losses, when the firm will be able to save the entire premium for commercial coverage.

To summarize, insurance should be viewed as a last resort, a catchall to hold those exposures which remain after all the firm's pure risks have been filtered through the other risk management techniques. In deciding which, if any, risks must be commercially insured, the first step is to eliminate some losses entirely by avoiding the risks which create them.

Next, risks can be assumed when the losses they generate are relatively small and are fairly predictable or can be made tolerably predictable through some pooling device other than commercial insurance.

Third, some risks can be transferred to noninsurance indemnitors. Only the remaining pure risks should be considered for any available commercial insurance, provided the premium is sufficiently low to make insurance appear attractive when compared with retaining the risk.

Finally, whatever other risk management tools, including commercial insurance, a firm adopts, it should reduce hazards through conscious safety efforts to prevent losses. Despite all the risk management tools which will ever be available, the only good losses are those that never happen. ■

(This article is drawn from material treated in greater depth in the Program in Risk Management conducted throughout the United States by the Insurance Institute of America, 270 Bryn Mawr Avenue, Bryn Mawr, Pa. 19010.)

The FAIR plans: Potential source of additional capacity

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

A property owner who has not been able to get all of the insurance that he needs may be able to augment his coverage through the FAIR plans.

The FAIR plans were designed to help provide insurance coverage for properties located in the deteriorated areas of the larger cities. Many property owners in the older sections of the cities have had difficulty in buying insurance. The insurance companies normally direct their sales efforts toward the more affluent areas of the cities and suburbs. Insurers also tend to avoid covering the sections where economic and physical decay increase the chances of loss.

Efforts to relieve this shortage of insurance coverage were made before the riots with their looting and arson had caused an even more sparse insurance market. Insurance companies with the cooperation of state and city governments had established insurance pools and placement facilities for the purpose of helping property owners secure fire and extended coverage insurance. The FAIR plans are essentially an expansion of this idea.

The letters F.A.I.R. form an acronym that stands for "Fair Access to Insurance Requirements." This is a word which was contrived to indicate the purpose of the plans. The essentials of all FAIR plans are (1) a pooling of insurance liability among most, and in many states all, of the insurance companies licensed in the state, (2) an inspection of each risk submitted to see if it qualifies or can be made

to qualify for insurance, and (3) an insurance placement facility which either distributes the insurance among the participating companies or assists the owner in securing additional coverage.

INSURANCE COMPANIES had maintained their voluntary pools for about ten years in some of the larger cities, but a new impetus to the FAIR plan idea came from Federal legislation regarding riot reinsurance. The Congress passed legislation which provided insurance companies with an opportunity to buy riot reinsurance. This legislation required that a FAIR plan be in operation in any state in which the Federal riot reinsurance was to be available. The result was that FAIR plans were established either by law or by regulations of state officials in about 35 states. Officials of the remaining states believe that widespread riots are unlikely in the states, and they took no action to have FAIR plans set up in their states.

The Federal riot reinsurance is important to the insurance buyer in one respect. It does make insurance companies somewhat more willing to write insurance in areas where riots might occur. However, there is little direct benefit to the insurance buyer because the reinsurance from the Federal government applies to riots only, and does not provide any additional capacity for the many other hazards for which insurance is needed.

The collateral development of the FAIR plans provides an avenue through which the insurance buyer may be able to fill out some of his insurance needs. The FAIR plans differ in their detail and in their operations in the different states,

but certain requirements must be met for the plans to secure the approval of the Federal Department of Housing and Urban Development. A plan must include direct loss by fire and what are called the "extended coverage" hazards. These include windstorm and riot and civil commotion. Additional hazards of vandalism and malicious mischief are also included in a few states. Federal and state officials alike are in favor of extending the plans to other hazards, and it is possible that burglary and robbery will be included in some states in the future. In Washington D.C. the insurance commission has ruled that crime coverage must be included.

The plans provide for coverage of direct loss only, and make no provision for business interruption or other indirect losses. Most states exclude farming and manufacturing properties, although they are eligible in a few states. Geographical areas are set up within each state where the FAIR plans will help to secure insurance. Some state rules designate the entire state. In such states the owner of any eligible property within the state may apply to the FAIR plan for insurance. In other states the FAIR plan is available only in specifically designated areas, such as portions of cities, entire cities which are named, specified counties, or other geographical designations. The requirements of the U.S. Department of Housing and Urban Development in this respect are that the designated areas must include those in which insurance has proved difficult to secure. It is all right with the Federal officials if the plans go beyond the minimum requirements in this respect.

An inspection facility is arranged so that each property which is submitted

to a FAIR plan is inspected for eligibility, rate of premium, and the amount of insurance that will be written. This inspection facility is either the fire insurance rating bureau in the state or an inspection office which is affiliated with the rating bureau. All properties which are submitted for coverage are actually inspected before insurance is written.

THE AMOUNT OF INSURANCE which is generally available under a FAIR plan is \$100,000 for a dwelling and \$500,000 for a commercial property. The guidelines of the Department of Housing and Urban Development indicate that the FAIR plans must assist in placing insurance up to the full insurable value of the property. In the case of very large risks (which are shown in the Federal guidelines as those exceeding \$1.5 million in value) the placement facility of the FAIR plan must also undertake the responsibility for seeking to place the excess portion. The effect of this somewhat ambiguous wording is that the FAIR plan in a state is obligated to assist a property owner in placing insurance up to the full insurable value of the property.

The first question of the insurance buyer is, "How do I go about submitting a risk to a FAIR plan?" Information and application forms in the 35 or so states having FAIR plans may be secured either from the fire insurance rating bureau, or the bureau will tell where the FAIR plan office is located. The placing of the application with the FAIR plan office will assure that an inspection will be made of the property.

In some states the actual account servicing is done by an insurance company office, whereas in other states the FAIR plan office handles all negotiations with the property owner. The procedure can be determined from the fire insurance rating bureau, or the FAIR plan office. Insurance companies are publicizing plan information. The property owner who has difficulty securing all of the fire and extended coverage insurance he needs should inquire about possible additional coverage through the FAIR plans. ■



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Spread of \$12 million mill blaze blamed on inadequate water supply

BONDSDVILLE, Mass.—The state fire marshal's office, releasing the investigative report on the \$12 million mill blaze in this Springfield suburb last Oct. 4, has asserted that the cause is still unknown, but said it has been determined that the fire definitely spread because of inadequate water facilities.

The report terminates months of investigation by Det. Lt. Thomas F. Flood.

There is no evidence, the report continued, that arson was involved. The time of the fire and the presence of workers at the site were among factors considered in arriving at this finding.

At the same time, Lt. Flood said that until the cause has been

determined, "arson has not been ruled out."

Further investigation will be conducted "as evidence crops up," it was said, but for all practical fire probe purposes the blaze that destroyed seven businesses, two homes and put several hundred persons out of work for a number of months will go down in the state fire marshal's books as a combination of unfortunate circumstances.

Lt. Flood's report scored inadequate water supplies of the Bondsville Water Co., owned by Jack Endelsohn, Atlantic Beach, N.Y. (Mr. Endelsohn is also owner of the Bondsville Realty Co., which in turn owns the five-acre tract on which the destroyed mill

complex was situated).

CITED AS contributing factors in the fire's rapid spread were alleged disabilities of a 75-year-old night watchman at the mill whom Lt. Flood claimed suffered from "impaired hearing and less than acute powers of observation," and the prevalence of highly combustible materials and oil-soaked floors.

Lt. Flood, referring to numerous witnesses, commented that the fire's origin was in the third floor of Building 1, occupied by Bondsville Print Works.

The report noted that large numbers of 11-pound wax blocks and cloth print material spread over the magnesium frames con-

tributed to the fire's rapid spread.

LT. FLOOD SAID that sprinklers in the five-story Building 1 apparently were activated by the fire.

The sprinklers, however, depended on gravity-fed water from a 600,000-gallon capacity tank on a hill to the mill complex's east. The tank had a rupture one-third of the way down from its top and at the time of the fire held no more than 400,000 gallons, the lieutenant continued.

An electric water pump had been "inoperative" for about two weeks prior to the fire, according to Mr. Endelsohn, because he was encountering "great difficulty" in obtaining the services of a qualified electrician to make the necessary repairs.

Lt. Flood went on: "The auxiliary steam pump required a certain amount of water before steam could be generated and an attempt to provide more water was thwarted even as workers were trying to put it into operation when the water supply failed.

"Consequently, at least in the initial stages of the fire, the only available source of water was the tank on the hill.

"If we assume that the tank contained at the time of the fire

400,000 gallons of water, which is unlikely at that time of day (because of domestic demands on water supply), it would have supplied 27 sprinkler heads with 15 pounds of pressure per square inch.

"Though this pressure and volume could not be sustained for longer than 8 to 10 minutes, it should have been, under normal conditions, sufficient to at least hold in check any fire which broke out.

"That the sprinklers activated, there seems no doubt; but for reasons as yet unknown, they had little or no effect on the fire."

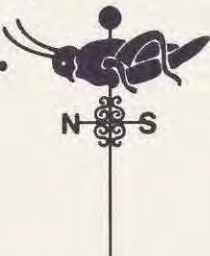
LT. FLOOD commented that the question of why the fire covered such a large floor area in initial stages remains a major ponderable.

"While arson has not been ruled out," he said, "there is no evidence to support such a belief.

"If arson is to be considered, its motivation most likely would fall into the areas of spite, revenge or pyromania. Yet I do not give this theory much credence due to the hour (6:30 p.m.) at which the fire occurred; the presence of workers in the building who might easily have seen the arsonist; the presence of the watchman, insufficient as he may have been, presented a danger to an intruder bent on arson." ■



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NYU absorbs small deductible for property damage losses

NEW YORK—New York University, the largest private institute in the country, is insured for both property and liability in excess of \$160,000,000.

The university, whose total assets are valued in excess of \$500,000,000, is insured by the Royal-Globe Insurance Cos. under two major policies.

NYU is insured against all types of property damage under a broad form blanket fire insurance policy with a small deductible of \$1,000. This covers any damage incurred by student riots and civil disorder.

Martin Siegel, NYU's insurance manager, told *Business Insurance* that the New York Fire

Rating Assn., which promulgates the rates for these policies, has acknowledged the increased risk of riots by instituting a "disorder charge," which will up the premiums. The university will be subject to this increase when its policy is renewed.

ROYAL-GLOBE covers NYU for public liability under a retrospective rating plan, which Mr. Siegel explained "is the closest thing to self-insurance." This plan covers both workmen's compensation and general liability. Mr. Siegel estimated the university's aggregate premiums at \$1,250,000. ■

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New York buyers earn more: survey

NEW YORK—New York insurance managers earn some \$2,300 more a year than do their counterparts in the rest of the country.

That at least is what a study by Woodward & Fondiller for the New York chapter of the American Society of Insurance Management shows.

ASIM members as a whole earn a mean figure of \$17,700 a year and New York ASIM members pulled in a mean salary of \$20,000, the survey revealed.

Bonuses accounted for another \$2,500 for New York risk managers on the average, according to the study. Some 11% of ASIM members here were awarded \$12,500 or more in annual bonuses, and 35% of members earned at least \$2,500 in bonuses a year.

THE WOODWARD & Fondiller salary study, the first for ASIM since 1958, also showed that 28.8% of New York members earned between \$15,000 and \$30,000 in salaries only, 24.6% made between \$20,000 and \$25,000 and 17% made \$25,000 or more.

The survey disclosed that New York insurance managers have more involvement with safety than other buyers. For instance, 79% of New York members are concerned with "risk evaluation" (safety, loss prevention, claims handling), compared with 63% of all ASIM members.

Furthermore, 53% of the New York insurance buyers get involved with contract review in the area of leasing, construction and purchasing, against 46% of the total ASIM membership.

Almost all of the New York and overall ASIM membership

West Coast chapters to host seminar

SAN DIEGO—The West Coast chapters of the American Society of Insurance Management will host a "shirt-sleeve" seminar here May 7-9.

The session, limited to 60 participants, will be divided into four separate discussion groups, according to John J. Brooks of the Fluor Corp., who is seminar chairman.

He said each of the discussion groups will be "a round-table, shirt-sleeve conference type affair" that will take up such subjects as increasing corporate profits by risk cost reduction; management aspects of risk management; insurance for international operations; and protecting corporate profits and property.

Discussion leaders will be James P. Lang of Litton Industries; J. L. Christenson of Weyerhaeuser Co.; Wesley Peterson of Santa Fe International Corp.; R. William Hugh of Foremost-McKesson Inc.; William A. Miller of Rexall Drug & Chemical Corp.; A. J. Trimble of FMC Corp.; C. C. (Bud) Griffin of Carnation Co.; and W. D. Woodward of Boeing Co.

Guest speakers at a formal banquet on the evening of May 9 will be William S. Mortimer of Norton Simon Inc. and president of the ASIM, and Justin A. Crockwell of Pacific Gas & Electric Co. and a national vp of ASIM.

Twister overturns 10-ton trailer in California

REDWOOD CITY, Cal.—Bay Area insurance companies braced themselves this week for a wave of claims expected to result from a window-shattering, roof-ripping tornado which caused more than \$500,000 damages here.

It was the area's first tornado in 18 years: Force of the 120 mph twister was so great it overturned a 10-ton construction trailer in the course of its three mile long pattern of devastation.

ASIM members combined. Some 30% of New Yorkers went over from insurance companies, while 20% of the overall membership were connected with insurance firms.

Health, welfare plans provided 97% of California union workers

SAN FRANCISCO — Health and welfare benefits last year were provided for 97% of California's union workers through collective bargaining agreements, according to a report by the California department of industrial relations.

The proportion of organized workers in the state covered by negotiated health insurance has been "very high" since the early 1960's; the ratio was 91% in 1961; 95% in 1964 and 96% in 1966, the report states.

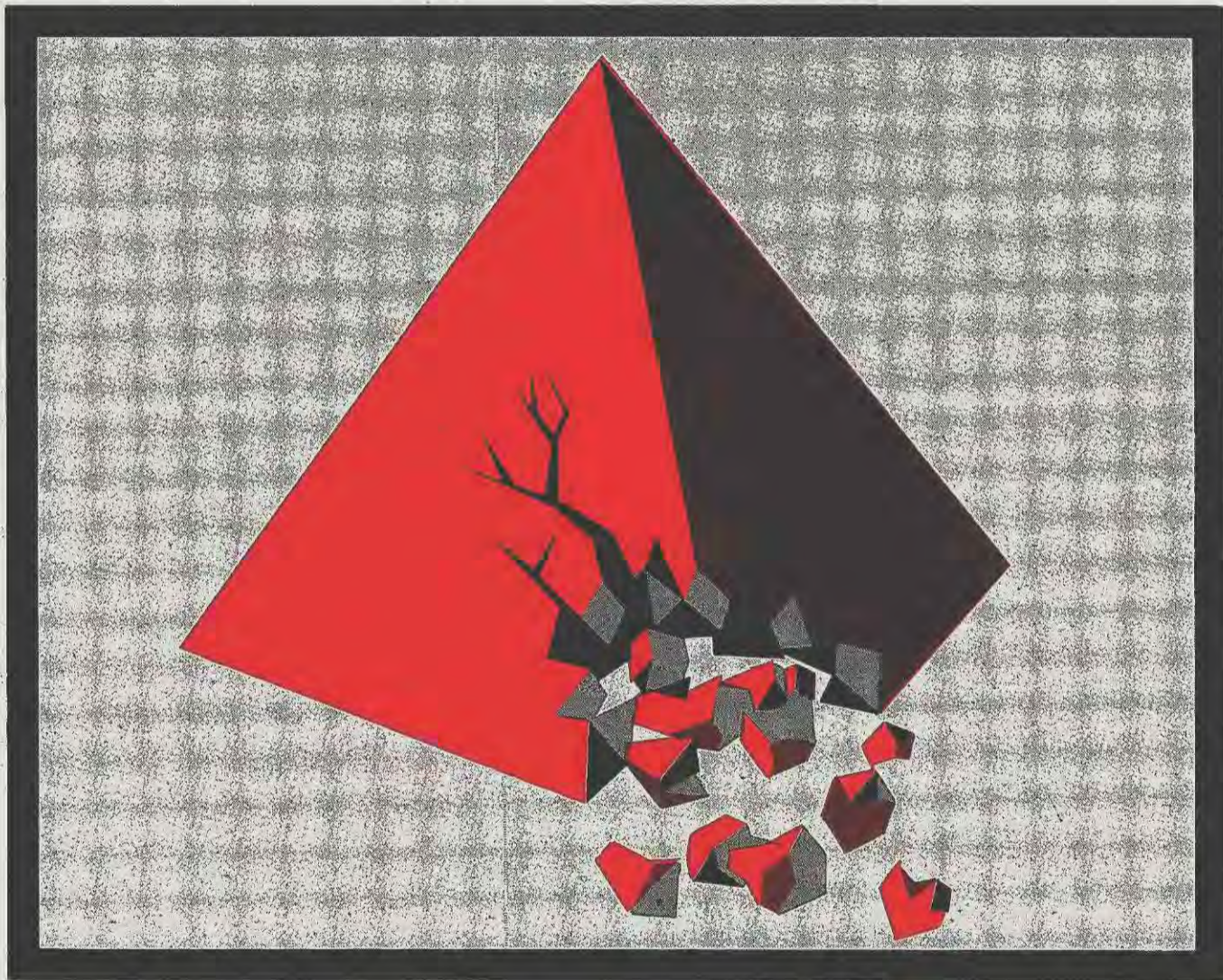
The report surveyed 1,610 union contracts, covering 1,551,000 California workers. 1,514 of the agreements, applying to 1,500,000 workers provided for a health and welfare plan.

Monthly employer contribu-

tions in 876 contracts averaged \$30.65. Smallest amount stipulated was \$6 per month in eight laundry worker contracts. Largest was a construction industry agreement providing an employer contribution of 94½ cents per hour.

THE FIRST major prepaid dental care plan negotiated in California was a program for children established in 1954. The report states. By mid 1966 about 400,000 California union workers were covered by dental plans, and by mid-1968 the total had reached 537,000.

The Teamsters, largest union in the state, has dental plans for more California workers by mid-1968 than any other union.



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London line

Insurance hassle could ensue over QE2 delays

LONDON — Many important questions are being asked in insurance circles in London in connection with the delays that have occurred in putting the Queen Elizabeth II into service.

The Cunard Steamship Co. is not yet the owner of the 65,000-ton liner, because it has not yet been handed over by the shipbuilders, the Upper Clyde Shipbuilding Group. The vessel is still undergoing trials.

All went smoothly till the first seagoing trials on a special cruise in the English Channel and the

Atlantic Ocean during the last few days of 1968. It was then discovered, when at full speed, that the turbines that powered the liner were faulty and were vibrating to such an extent that the ship could only limp home very slowly to Southampton.

THE TURBINES were designed and manufactured by the John Brown Engineering Co. This caused complications and the necessity for a great deal of tactful negotiations by the Upper Clyde Shipbuilding Group. The

Mortgage insurers back bill

HARTFORD—Strong support was voiced before the state legislative insurance committee in favor of a proposed measure (House Bill 7791) that would permit private mortgage insurance companies to insure not more than 20% of a mortgage undertaken by lending institutions.

Spokesmen for the mortgage insurance firms and the mutual savings banks of Connecticut said passage would permit banks to make loans with smaller down payments.

reason for this was that John Brown Engineering is the largest shareholder in the UCSG, owning 30% of the stock, and Cunard, their biggest customer.

Arrangements have already been made by the Cunard Co. to insure the vessel when it comes officially into their possession. It is understood that Lloyd's will play a predominant part in the insurance when in service. It is also understood that other insurance groups have taken important shares in giving cover for the liner. Also, reinsurance has been spread widely even to groups outside Britain.

A spokesman of Lloyd's stated that they had made inquiries in the British insurance market whether any special insurance cover was obtained during the building stages, from the laying down of the keel to the handing over to Cunard. The result of their inquiries was that they could not discover any signs that the ship was specially insured at all during building.

THE UPPER CLYDE Shipbuilding Group obviously carries the normal insurance that any such industrial concern carries, which includes ships on the stocks, but nothing special for the QE2. It may therefore be assumed that some guarantee was given the UCSG by the British Government indemnifying them against any unforeseen mishap.

This is not surprising, for it must be remembered that the UCSG is the brain child of Anthony Wedgewood Benn, the Minister of Technology, and the British Government, through one of its semiofficial bodies, is the sponsor of this new grouping of shipyards.

The building of a new large passenger liner was another ambition of Mr. Wedgewood Benn, and the minister would undoubtedly do his best to reduce expenses as much as possible to his new pet shipbuilding group.

As with the UCSG, the John Brown Co. had not taken out any special insurance cover for the turbines of the QE2. They felt that normal insurance cover would suffice. Inquiries made in insurance circles have elicited the information that insurance could be taken out against faulty workmanship and materials, but not against faulty design. As far as can be gathered, because all concerned are very reluctant to answer questions, the fault or faults seem to be in the workmanship or the materials used.

THE CUNARD Steamship Co., through its chairman, Sir Basil Smallpiece, insisted an impartial person or committee be appointed to find the cause of the turbine failure and apportion the blame, if any. With the Minister of Technology helping in negotiations, Sir Arnold Lindley, a former president of the Institute of Mechanical Engineers, was asked to solve the problem.

City's insurance cover provokes heated blast

NIAGARA FALLS, N.Y.—The city council here, in a meeting that turned into a shouting match, finally approved a life insurance company on coverage for municipal employees.

The winner was Bankers Life Co., Des Moines, Ia. The decision came after months of argument, procrastination, alleged string-pulling, and a heated blast by Mayor E. Dent Lackey at a representative of one of the nine unsuccessful bidders, Massachusetts Mutual Life Insurance Co.

The matter had been delayed from regular council meeting time—where the members spent more than an hour in secret session talking about the contract.

ALL FOUR councilmen present voted for Bankers Life after the manager said the annual net cost based on an average would be \$24,647 to the city, before inclusion of employees granted coverage at the last minute, such as library workers and crossing guards.

A group representative of Massachusetts Mutual, who waited outside the chambers for the results, apparently tried to protest the basis of that figure,

but he was shouted down by Mayor Lackey.

The mayor had just finished saying that if any other insurer felt it could do a better job, its representatives were invited to come before the committee at any time to make a presentation.

THE MAN FROM Massachusetts Mutual stood up and started to say the figures were incorrect or had been prepared too optimistically, when the Mayor ruled him out-of-order and accused him of "not very impressive salesmanship."

"If there were two tie bids," the mayor shouted, "and yours was one of them, I'd give it to the other company. You don't have enough good taste to represent your company well. I'll not be intimidated by people coming in here and trying to run the show."

While the man tried to explain his protest in terms of percentages of incurred losses, the mayor dismissed him and concluded: "I'll not say thank you for coming."

"Well, it hasn't been a pleasure," shot back the man from Massachusetts Mutual.

Federal court to hear suit on California health law

SACRAMENTO, Cal.—Federal Judge Gordon D. Schaber has agreed to hear a suit that could result in forbidding the state department of employment from dispatching farm workers to ranchers who violate the state's health and sanitation laws.

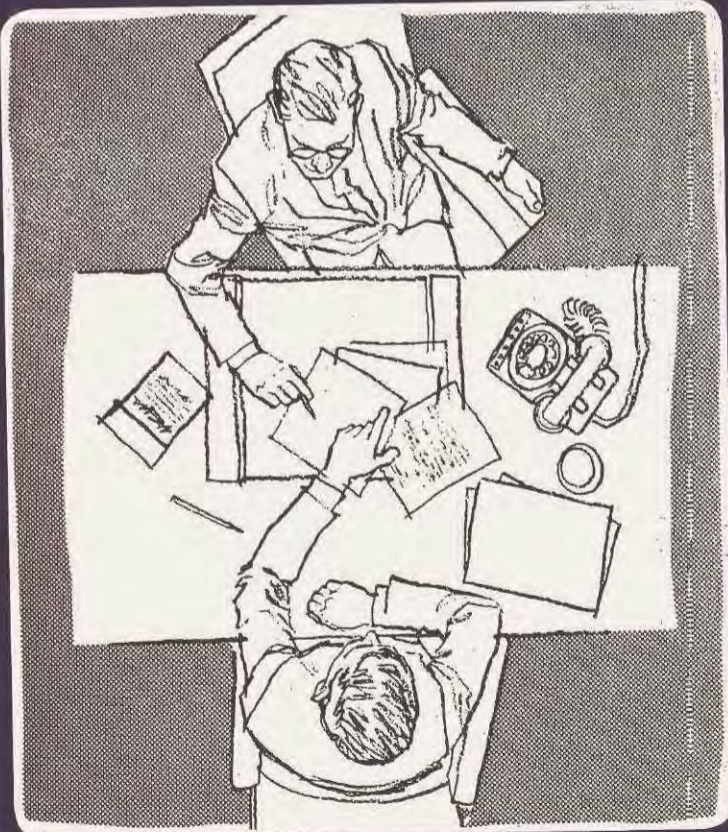
The challenge was brought by Mauricio R. Munoz, 31, former farm worker, field foreman, insurance salesman and school counselor. Mr. Munoz charges he was denied unemployment compensation insurance after he insisted on a guarantee that he be sent to work at a ranch with adequate sanitary facilities.

The suit was filed by attorney Robert Gnaizda of California Rural Legal Assistance.

"California," Mr. Munoz charges in his suit, "has enacted an extensive series of special health and sanitation laws designed to protect the health of farm workers."

"The state farm labor office is fully funded by the U.S. Department of Labor which specifically prohibits the department from referring any farm worker to any grower in violation of any Federal, state or local law, including health and sanitation laws."

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Giles on the law

Drug maker liable for not telling detail men about product dangers

By JOHN W. GILES
Attorney-at-law

WASHINGTON — Failure to instruct salesmen of the dangerous propensities of a drug can result in liability to a drug manufacturer.

Here the patient's doctor, who had been introduced to the drug by "detail men" of Sterling Drug Inc. prescribed it for treatment of the patient's arthritis in 1958. The prescription was ordered to be refillable on order of the patient, and she continued daily use of the drug until 1964. Her doctor had not read or heard of any warnings concerning irreversible degeneration of eye tissue until it was mentioned by another physician who examined the patient's eyes.

It appeared that Sterling's detail men who made regular personal calls on prescribing physicians and customers were never, in the relevant period, instructed to invite attention to the reported dangers of irreversible retinal damage from prolonged use of this drug by patients.

THE WARNINGS OF the side effects in general, and of retinal damage in particular, when given by the defendant, were limited to the product cards, the Physicians' Desk Reference and a "Dear Doctor" letter, dated February 1963.

The court said that the method of using detail men for presenting dangers from drugs was good, but here the warning actions were unduly delayed, reluctant and lacking in a sense of urgency, and therefore, unreasonable.

THIS DOES NOT mean that every physician in the U.S. must have been given an immediate personal warning. But it does mean that the trial court was justified in finding that it was unreasonable to fail to instruct the detail men, at least, to warn the physicians on whom they regularly called, of the dangers that the drug company had learned, or should have known. The judgment for the plaintiff was affirmed (U.C.A. 8th Cir. *Sterling Drug, Inc. v. Yarrow* 3/12/69).

THE NEW YORK court of appeals has recently decided a case in which a worker was employed for 22 years with the same company and was continuously exposed to harmful noise.

After leaving his position in New York he took up similar work under similar conditions in New Jersey. Although there was no six-month hiatus in exposure to harmful noise as is required by section 49-bb of the Workmen's Compensation Law, claimant nevertheless sought compensation for his occupational hearing loss occasioned while employed in New York.

The court held that the plaintiff is entitled to compensation without further waiting. We agree with the dissenting opinion. It said that had the claimant in this case left his New York employer and had gone to work for another New York employer, he would not be able to receive compensation under the statute until he separated himself from the second noisy employment for six months.

We fail to see any reason why re-employment in the same noisy

work outside the State of New York rather than within the State should change the result (N.Y. Ct. App. In re Russell. 3/5/69).

DOES THE TERM "trade secrets" include business information? The U.S. District Court in West Virginia thinks that it does.

In the case the plaintiff sued a life insurance company and a retail credit company on the theory of invasion of privacy.

The court said that the complaint for disclosure to competitors of business information

furnished by plaintiff to qualify for insurance stated a good cause of action.

The court stated that the term "trade secrets" included business information. (See *Copley v. Northwestern Mutual Life Insurance Co.* July 23, 1968. U.S. District Court, Southern District of West Virginia.)

STOREOWNERS HAVE TO be very careful about detaining suspected shoplifters lest they be sued for false imprisonment.

But the court of appeals of Michigan has adopted the privi-

lege recognized by the Restatement of Torts in favor of a merchant to detain, for reasonable investigation, a person whom he reasonably believes to have unlawfully taken a chattel from his premises.

The case arose when a private policeman, an employe of the store, confronted a store customer in a parking lot with the suggestion that he may have been shoplifting.

The plaintiff was released after she had proved the goods were purchased. The Court extended the privilege to one who has left the premises but is still in the immediate vicinity of the store. (*Bronkowski v. Arlan's Dept. Store.* 162 N.W. 2nd 347.)

WHEN YOU RENT a truck, and a passenger is later injured while riding in it, are you, as lessor, liable?

The truck was oversized and when it was being driven under

a low bridge by the lessee, the passenger was injured.

Before the lease was made, the lessor inquired as to the truck-driving experience of the lessee and was advised that he, the lessee, had driven a pick-up truck.

The lessee had a valid Pennsylvania driver's license which is prima facie evidence of fitness to drive. In refusing compensation to the passenger, the court said that there was no evidence of any knowledge, on the part of the lessor, of the lessee's inability to drive the truck or any reason for the lessor to have taken any more precautions than he did before leasing the vehicle. (Pa. Sup. Ct. *Littles v. Avis Rent-A-Car System.* 1/15/69.)

Lift motor club ban

An order from the California insurance department that prohibited the Pacific Motor Club Inc., San Mateo, from selling insurance has been lifted.

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Floods . . .

Continued from page 1

just when. This gave us time to get prepared," the Red Owl source said.

Managers for Red Owl stores are provided with a security brochure that outlines just what precautions should be taken with threatening floods such as building dikes, sandbagging and removal of merchandise to dryer grounds. So far only four or five Red Owl stores are threatened by the floods.

With Northern State Power, since all of its power plant loca-

tions are on rivers, the design of the areas must withstand considerable amount of flooding. New plants built since 1965 can withstand flood levels equal to that year, which were supposed to be the highest in about a century. On other locations extensive work went into preparing them for any repeat of that flood.

A NORTHERN State spokesman said that walls were raised and strengthened and electrical equipment such as transformers were raised an additional 2½ to 3 feet.

"This year," he said, "we've mostly had to concentrate on

sandbagging. In several areas, we've also weighted the floors with 55-gallon drums to prevent such damage as buckling."

Northern State has been able to keep all its plants operating during the flooding. In many cases, employees have to come to work by boat.

In one area in North Dakota, where there's a steam plant, Northern State had to build a contraption over the manholes so that the steam could escape through the flood waters.

CARGILL INC. maintains coverage under its difference in conditions policy on graining but not on the buildings. However, according to the company, "We're not expecting any damage."

At one seed plant all of the inventory has been removed. The dike at the port Cargill facility, which was built for the 1965 floods, was raised several feet this year and is expected to hold through the flooding.

Control Data's property insurer sent out a bulletin explaining what should be done in case of flooding. The bulletin outlines plans for emergency actions such as having pumps, sand and sandbags available. It advises naming a responsible person within the plant organization to maintain contact with appropriate local authorities until all danger of flooding has passed.

Any plant that could become

isolated during the flood should be well equipped with food, water and communication for emergency personnel who will stay in the plant. Even though most Control Data locations and computer centers are not susceptible to flooding, personnel were made aware of these emergency procedures.

CONTROL DATA also has some flood coverage under its DIC policy.

The Pillsbury Co. has two locations in flood areas—one at Grand Fork, N.D., and the other at Davenport, Iowa. Preliminary reports from Grand Fork indicate that everything went all right. The plant was advised as to diking, sandbagging and moving equipment and inventory out of the basement.

At Davenport, Iowa, the crest hasn't arrived yet. Flood coverage for Pillsbury is maintained under DIC coverage with a \$500,000 limit.

Low-lying farm lands in the flood area use special draining methods to clear as much flood water as possible. One big headache farms suffer is the stench that results from the lingering waters.

Elect Flinn

Edwin A. Flinn has been elected executive vice president of Clifton & Co., a San Francisco based insurance brokerage firm.

miums have quadrupled.

Mr. Duval outlined some of the security measures instituted by the New York office since the November loss:

- Hiring of the New York Stock Clearing Corp. to handle all its NYSE traded shares.

- Handling of all American Stock Exchange shares has been moved to Nashville.

- Use of a small vault in the office for negotiable securities has been discontinued, and they have been transferred to two bank vaults in the same building.

- Use of a bank in Tennessee to act as custodian for Treasury bills.

- Installation of a wire barrier to separate back office personnel from those in the "cage" and where securities are handled, a list of those authorized to enter the cage is posted at the door.

- Hiring of a firm to check on the background of new employees before they begin work.

- Use of a facsimile endorsement on certificates as soon as they are received has been discontinued.

Securities . . .

Continued from page 1

ing to deliver stocks and then failing to do so. He told clients that certain estates were to be liquidated and that it was possible to purchase shares held by the estate at less than market value.

Bradford fired the salesman, and American Casualty cancelled Bradford's coverage. The insurer filed suit alleging that Bradford knew of the salesman's activities.

BRADFORD was insured by Aetna Life & Casualty and six excess insurers when it reported a \$1.3 million loss last November of Treasury bills and corporate bonds.

A source close to Bradford said the firm was able to retain its bond coverage with some "scrambling and by instituting extensive security measures."

Gordon Duval, a Bradford managing partner, told *Business Insurance* that the firm's pre-

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Aircraft . . .

Continued from page 1

London and British companies met in San Francisco at the invitation of the council to discuss problems common to the aerospace industry.

"The Boeing 747 jumbo jet with a hull valued at \$20 million and a seating capacity of more than 350 seats will be operational by 1970. The exposure in terms of dollars is conservatively 80% greater.

"To provide adequate coverage for the manufacturers and suppliers for their legal liability arising out of product claims a huge sum of money will have to be put at risk.

"The demand for coverage comes at a time when all segments of the economy are placing orders for larger limits of liability, straining an already tight market. In order to supply the buyer with the protection he will require it will be necessary to utilize the capacity of the world insurance market, domestic as well as foreign.

"The council has scheduled a follow up meeting for early June to explore several alternatives."

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Sen. McGee wants government to equalize health premium costs

WASHINGTON—In introducing a new bill designed to increase the government's share of participation in Federal employe health insurance plans, Sen. Gale W. McGee (D., Wyo.) said combined annual premiums paid for Blue Cross/Blue Shield and Aetna plans now total \$675 million.

This is an increase of nearly \$123 million from the government plan premiums paid in 1968 for the two largest health plans available to the Federal worker.

Sen. McGee wants the government to equalize the premium costs in his Senate Bill #S-1772, submitted to the U.S. Senate this month. Federal employes will be paying \$494 million for their share of the two largest health insurance programs this year. The government will pay \$180 million.

"THE BILL THAT I introduced today will provide that from now on, the agency contribution to the cost of health insurance will be adjusted at the beginning of each fiscal year to an amount equal to one-half the cost of the least expensive government-wide "high option" insurance plan," he proposed.

The Federal Employees Health Benefits Act, enacted in 1959, provides for a hospital and medical insurance protection program wherein the government would pay for one-half the premium cost of the "low option" plan. It also provided for the Federal employe to pay the difference, if he or she elected to choose the "high option" plan.

Nearly 90% of all government employes currently are subscribed to the "high option" plan. In all cases, the government is paying the same figure—\$8.88 per month—for self-and-family protection, regardless of the plan or option chosen.

There are a total of 36 health insurance plans available for government participation. Statistics on the other 34 companies engaged in the Federal health insurance plans have not as yet been released by the Civil Service Commission.

THE BLUE CROSS/Blue Shield participation, known as the Service Benefit Plan, is the largest Federal health insurance plan in the program. They will collect over \$495 million in premiums in 1969, with a total of 1,475,514 enrollments. This is up some \$81 million from 1968's total of over \$414 million.

Indemnity Benefit Plan is the designation used by Aetna for its government insurance program, and it will receive over \$179 million in 1969 for an enrollment of 542,898 Federal workers. This is an increase of over \$41 million from the 1968 figures of \$138 million.

Under the Service Benefit Plan

Wash. senate passes work comp measures

The Washington State Senate has approved bills raising benefits to injured workmen and money paid to their survivors if the accident is fatal. The upper chamber voted 44-2 and sent to the House SB 439 increasing benefits by 22% paid by workmen's compensation. By a vote of 46-0 SB 513 which provides workmen's compensation for permanent disability was approved and sent to the lower chamber for consideration.

(Blue Cross/Blue Shield), the government contribution of \$6.76 per month for self-and-family coverage from June, 1960, to November, 1964, equalled 34.9% of the cost of "high option" and 47.6% of "low option" of the plan.

WHEN RATES BEGAN to go up annually beginning in November, 1964, the government monthly contribution of \$6.76 dropped from 34.9% to 28.4% of total cost through June, 1966.

After a statutory increase in the amount of the contribution, bringing it to \$8.88 in July, 1966, the government's share rose to 37.3%, and then dropped to a 1969 figure of 25.2%.

Aetna's Indemnity Benefit Plan indicates a similar trend, with the government contribution percentage of 34.3% in 1966, and a drop to 23.5% in 1969.

Early in February of this year, Sen. Joseph D. Tydings (D., Md.) introduced Senate Bill #S-1218, calling for the government to increase its contributions "to be not less than 38% of the total premiums."

Sen. McGee's bill, which is offered as an amendment to the Federal Employees Health Benefits Act, was cosponsored by Sen. Quentin N. Burdick, North Dakota, and has been referred to the Committee on Post Office & Civil Service for possible hearings later in the year. ■

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HEW says \$2 of \$5 U.S. spends on fringes is for health cover

WASHINGTON — Almost \$2 out of every \$5 of U.S. contributions to employe benefit plans goes to cover the cost of health insurance, according to a preliminary report on the cost of employe benefit plans for 1967 released by the Department of Health Education and Welfare. Retirement plans cost more

than \$2 out of \$5 spent, the report states.

A detailed analysis of benefit plan costs appears in the April Social Security Bulletin. A table summarizing the number covered and the expenditures in life, accidental health, hospitalization and other medical benefits may be found on page 12 of this issue. Total benefit payments were \$15.7 billion in 1967, up 8.8% and total contributions by employers and employes rose to \$22.3 billion, a 7.4% gain, the preliminary report states.

Health insurance plans cost \$8.5 billion in 1967, the report states, up \$5 billion over 1936. Retirement plans cost \$9 billion in 1967.

THE REPORT said the growth in contributions was about the same as for 1966.

"This slowing in the rate of contributions to health insurance reflects the impact of Medicare, which shifted the financing of some benefits from voluntary to the government sector," the report said.

Contributions for individual portions of the employe benefit package included:

Surgical and regular medical expense, up 9%;
Hospital, up 3.4% (smallest in history);
Major medical, up 8%;
Pension contributions, up 9.4%;

Temporary disability, up 7.1%;
Life insurance, up 6.5%;
Accidental death and dismemberment, up 8.5%

Benefit expenditures were up \$1.3 billion, the smallest percentage increase since 1950, except for 1963, the report states. Total health benefit payments rose about 7%, much less than the 10% to 12% gains experienced in most years since 1950, the report says.

THE BENEFIT increases included major medical, up 15%; retirement payments, up 13%; temporary disability (including paid sick leave) up 5%.

Death benefit and accidental death and dismemberment payments were up \$190 million and was called a sharp gain in the report.

The report states that employe benefit plans reached new membership highs in 1967. Temporary disability coverage was up 6.5%.

Major medical was extended to 20 million workers and 36 million dependents, up 7.7% over 1966; 2.1 million workers were provided death benefit protection; and retirement plans added 1 million persons to reach a total of 27.6 million workers.

The report states that 72% of the work force had hospital coverage; 70.5% surgical; 61% regular medical expense; 29% major medical; 64% life insurance; 43% accidental death; and private retirement plans about 47% of the private wage and salary work force.

Name Surfus risk manager for Madison

MADISON, Wis.—Gerald M. Surfus has been named risk manager for the city of Madison, a new post. He had been risk manager at the University of Wisconsin.

Mr. Surfus, 32, had been risk manager for two years at the university and in the institution's



Gerald M. Surfus

insurance department prior to that. The new city post was created as a result of a study done by Prof. Jerry Todd of the University of Texas.

His Ph.D. thesis on "the risk management concept applied to municipal government" used the city of Madison as a case study.

Mr. Surfus has a BBA in risk management from the university and worked as a claims adjuster for General Casualty Co.

No replacement at the university has been named.

Modern America, P.R.O. Inc. merge

Modern America Corp., Dallas, and P.R.O. Inc., Philadelphia, have agreed to merge. Modern America, the surviving company, specializes in retirement and group benefit plans for self-employed businessmen.

P.R.O., through a subsidiary, manages an open-end investment company, PRO Fund Inc., and owns Cannon & Co., a brokerage firm. The organization offers life, fire and casualty insurance.

Travelers men travel to Greenland for RCA

HARTFORD—Not so surprisingly, one of the major adverse factors involved with annual inspection and service "missions" by Travelers Insurance Cos. to Greenland is fickle weather.

For eight years, representatives of Travelers, through a special RCA engineering service contract, have trekked to Thule, Greenland, for two to four weeks of duty to inspect boilers and pressure vessels at "J" site, an early warning radar system about 10 miles from Thule Air Force base.

Failure of a boiler could easily damage or knock out a key missile defense system and, when temperatures go as low as 45 degrees below zero, prove fatal to military personnel.

The inspection trips fall between August and October, when summer has snapped the near constant grip of cold.

THE SUN shines for at least 4 hours a day, and the mercury has been known to hit as "high" as 45 degrees above.

Walter R. Fahnestock, a senior engineering representative, remarks, "It used to be a nerve-shattering 12-hour ordeal, requiring up to 12 hours' layover for fuel and repairs at two intermediary stops—Goosebay, Labrador, and Sondrestrom, Greenland."

With the jet, however, the trip now takes nine hours from McGuire Air Force Base, N.J.

But the weather is still the dominating factor in the north-land.

A day's sunshine can be snuffed out by a howling ice storm (called a "phase" in the north-land) in 15 minutes. Striking frequently and without warning, "phases" contain 100-mile-an-hour winds completely blotting out visibility.

"AS YOU can well imagine," Mr. Fahnestock adds, "these storms are exceedingly dangerous. No one ventures outdoors during a 'phase' except for life emergencies and then under the strictest safety precautions."

University buyers to meet at Penn State May 1 and 2

STATE COLLEGE, Pa.—The eastern and western groups of the University Insurance Managers Assn., representing almost 50 universities and colleges in the U.S., will have a joint annual meeting May 1 and 2 at Pennsylvania State University.

A highlight of the meeting will be a case history of insurance coverages at the University of Wisconsin presented by Gerald M. Surfus, former university risk manager. Mr. Surfus has just been named risk manager for the city of Madison.

Other topics and speakers for the meeting include risk retention and self-insurance for workmen's compensation and proper-

ty coverages by Armond O. Vergara, president of Robert F. Coleman Inc., New York; insurance management and safety engineering by Michael Varnamonte, safety engineer at the University of Pennsylvania; malpractice by Roy Wilkinson Jr., Pennsylvania State counsel; and boiler insurance by L. Wayne Arney, vp of the James S. Kemper Agency.

Other speakers include Russell B. Gallagher, manager of facilities and investment analysis for Philco Corp., and Bion H. Francis, manager of benefits planning for Colt Industries Inc. and columnist for *Business Insurance*.

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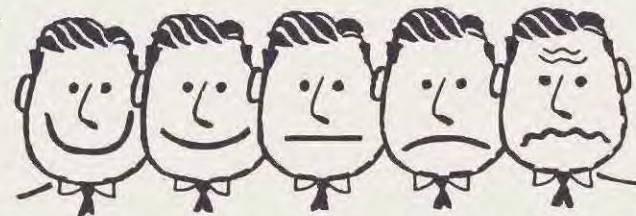
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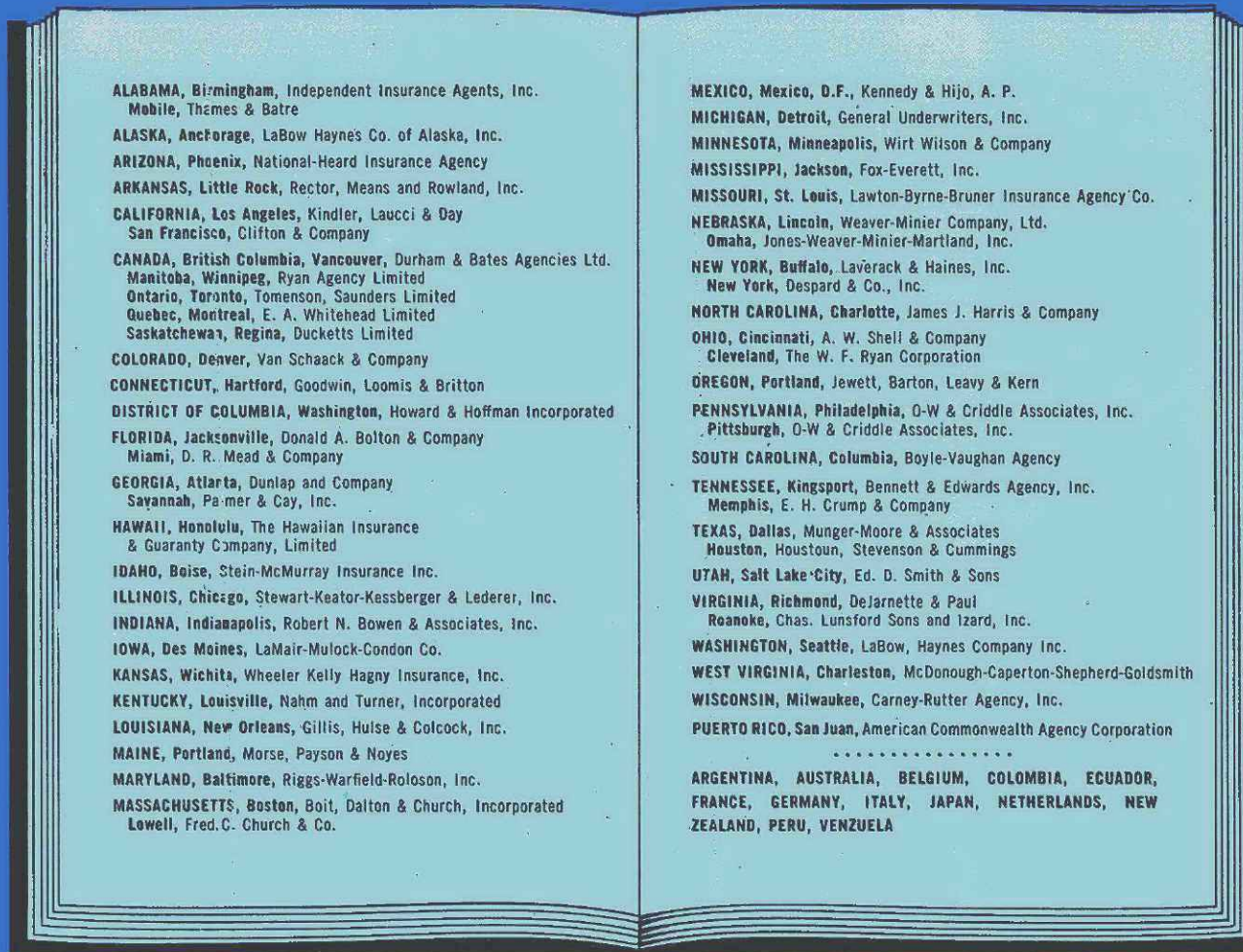


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influential contacts, finding sources of marketing information—even help with language problems.

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If this sounds interesting, talk to the member near you. Soon.

INSURANCE SERVICE ASSOCIATES



Upjohn International plans to save \$1 million on benefits in decade

By GORDON L. DOLBEE

(The following talk by Mr. Dolbee, assistant manager of personnel services at Upjohn International, Kalamazoo, Mich., was delivered at the American Management Assn. briefing session on international benefits in New York.)

NEW YORK—The opportunity to do a thorough review and revision of your international benefit plans is a very welcome and desirable experience. When you can do this and come up with improved or increased benefits and at the same time lower the company's cost, a benefit manager has a program which is easy

to sell to both his management and his employees.

Add to this the following advantages:

- A projected saving of \$1,000,000 over the next ten years;
- The ability to treat your subsidiaries as one purchaser and to experience-rate your life and pension plans;
- To raise your life cover limits;
- To be able to standardize and have a reasonably consistent contract throughout the world;
- To be able to insure third-country nationals and small units of operation;
- To be able to review your broker and agent ties and eliminate them if desired;
- To maintain thorough control and review of new benefit proposals;
- To assure that communications are clear between your subsidiary and the home office.

These are the major reasons why Upjohn International has changed its method of operation and is now operating through one insurance carrier for benefit plans outside of the United States.

LET'S LOOK BACK a moment and review the progress of our company. Upjohn International was established in 1952. At that time we had approximately 60 employees and a little over \$1,000,000 in sales. Our growth has been rapid and in 1963 we have some 3,600 employees overseas with sales over \$86,000,000.

During this development period, various individuals in our subsidiaries had the responsibility to develop benefit plans to attract and keep personnel. Some of these received final review in Kalamazoo, and others did not. A variety of plans grew out of this procedure. Some were good, some weak, and all costly.

We had no ability to insure third-country nationals. We found that we were purchasing insurance in some countries at rates ten times higher than in other countries. We took stock of this situation in 1966 and decided to investigate the multinational approach to benefits.

WE SELECTED TEN countries and accumulated the necessary information regarding the number of employees, salary, age, and so on. We then searched for various companies that would be willing to bid on such an arrangement. After one year we found three units that were willing to. These were (1) broker; (2) a U.S. insurance company; (3) a combination between a U.S. insurance company and an Italian company.

We reviewed their proposals and based upon 20 different criteria made the selection of the U.S.-Italian combination which appeared well ahead of any other company in the field.

We agreed upon the following procedure to convert to the one carrier. First, we had five or six plans that were in their proposal stage. These were placed with the carrier. This enabled us to work out the various kinks that might develop in our communications system.

SECONDLY, we developed coverage for our third-country nationals and small units. Currently this consists of life insurance with a proposed pension plan under review. We started a switch over from our current in-

tracountry carriers to the local office of our selected carrier. We are now about 30% to 40% complete in this process.

In converting over, we established various guidelines to be used by our new carrier in proposing plans to our local in-country managers. Basically, these are as follows: In the area of life insurance a total of 24 times monthly basic salaries, and double this amount for accidental death.

In the pension areas we have three different approaches:

- A 2% carrier average plan with no maximum length of service. This is primarily for our new operations.
- A 2% final average plan with 30 years' maximum service.
- Or, a final average or career average plan with a widow's and orphan's pension.

ALL THREE OF these approaches will be coordinated with the local social security systems.

Again, the above are only guidelines and we would vary our approach if local circumstances warranted.

New proposals are developed in the following manner: First, our local manager meets with the local representative of our insurance carrier. Together they

develop a proposal. The local insurance manager forwards the agreed proposal to his headquarters in Italy. Our local manager will forward his comments to my attention.

After review in Italy, the material is then sent to the United States office of the Italian firm where it again is reviewed. The proposal is then reviewed in Hartford and then forwarded to our attention.

WHILE THE PROCEDURE may seem lengthy, it only takes some four to eight weeks for the proposal to reach my office once it is developed in country. The thorough review and the information supplied by each office limit our work and greatly shorten the time for final proposal.

We entered this arrangement knowing that the advantages greatly outweighed any disadvantages we could foresee. As we have developed, we find the advantages continue to increase and the disadvantages become almost nonexistent.

To my amazement, I find that very few have taken advantage of the multinational insurance approach. I believe that in a few years those of you who operate in more than one country will be utilizing a similar approach. ■

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Suit over gas station okaying 'bald' tires settled out of court

SPRINGFIELD, Mass.—A \$75,000 suit brought against a Chicopee Falls service station because it gave an inspection sticker to a car with "bald" tires, which was later involved in an accident, has been taken from a Hampden County superior court jury and settled for an undisclosed amount.

The action was brought against Henry Jurkowski and Leon Falkowitz, doing business as A and H Service Station, by Mr. and Mrs. Arthur Paquette of Dorval, Quebec, Canada.

The Paquettes claimed that a car belonging to Richard Herzig of Holyoke, was inspected at the service station on Oct. 15, 1965.

The car, they charge, was

given a sticker, although the station owners "should have known that the tires were substandard," with the tread worn so thin "that on many parts of these tires there was no tread at all."

THEREFORE, they allege, the car could not be properly controlled and stopped and on Dec. 25, 1965, was caused to collide with the plaintiffs' car.

Mrs. Paquette suffered multiple concussion, a fractured collarbone, brain damage and is now 50% disabled, it was claimed.

A companion \$75,000 suit against Mr. Herzig and Dabel Realty, owner of the Herzig car, was also settled. ■



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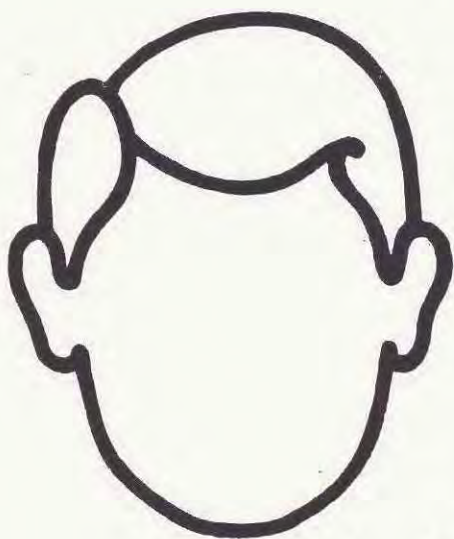


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