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for buyers of employe, property and liability protection/pension investments/financial services



United States Steel Corp.'s basic oxygen furnace shop in Gary, Ind., was the scene of tragedy as three workers were killed and five others injured in the collapse of an air pollution control pipe. The fallen pipe, 16 feet in diameter, caused damage estimated at \$3.7 million and forced U. S. Steel to shut the plant down. Officials of U. S. Steel said the company is self-insured for workmen's compensation, property damage and business interruption. -Gary Post-Tribune

Teamsters ask \$22.50 weekly increase for welfare, pension funds

WASHINGTON—The International Brotherhood of Teamsters is seeking a whopping \$22.50 weekly increase per employe in employer contributions to the union health/welfare and pension plans.

The benefits portion is coupled with a 75% overall wage increase demand, which was presented by acting Teamster president Frank Fitzsimmons to Raymond Beagle, chief negotiator for the Trucking Employers Inc. at the opening of 1970 contract negotiations held at the Washington Hilton Hotel.

Mr. Beagle placed a \$9 billion dollar price tag on the union package—that, if agreed to by the truckers, could conceivably cause freight rates to jump 82% over the life of the contract.

"What we are asking for," said Abraham Weiss, research director for the Teamsters, "is a \$3.75 weekly increase per employe in employer contributions to our health and welfare and pension funds in each year of the proposed three-year contract under negotiation."

"THE ENSUING five feet of proposal agreements were carefully reviewed by our central negotiating and policy committee here in Washington." From their review the members of the national committee developed a consensus of the local members' proposals. The locals were then asked to send two representatives each to a national meeting late last year. "They ratified the consensus proposal, and that's what we are going with in the negotiations now," he said.

The same consensus method was used in the development of the wage increase demands, Mr. Weiss declared, denying any influence from the independent Chicago Truck Drivers Union, whose 1967 hold-out forced renegotiation of the national master contract resulting in a bigger wage boost than that settled for by the Teamsters.

Edward Fenner, executive director of the Chicago-based union, was present during the meeting between the Teamsters and the Trucking Employers' negotiators, Continued on page 26

Aetna will continue to insure commercial autos in New Jersey

HARTFORD—Aetna Casualty & Surety Co. will continue to write and renew commercial auto and truck insurance in New Jersey despite the fact it will stop insuring private passenger vehicles in that state shortly.

A source at Aetna told *Business Insurance* that the official answer to the question "Will Aetna continue to write commercial auto insurance?" is: "At this time we plan to continue. The experience is somewhat better and the rating needs are not as great. As you know, we have greater flexibility in the area of commercial auto insurance than we

have in private passenger areas" The company, which insures some 88,000 private vehicles in New Jersey, recently announced it would not renew policies hereafter when they became due because it has not been granted a rate increase since April, 1966.

W. MORGAN SHUMAKER, assistant deputy commissioner of insurance for the state, has extended an invitation to W. O. Bailey, senior vp of Aetna, to sit down and talk about the decision. Mr. Bailey expressed a willingness to accept.

However, a source at Aetna

said, "This (decision to stop writing business) is presumed to be pretty hard and fast. We would not have announced it had we not intended to stick by our guns until we get some rate relief."

Sources at other companies that insure private cars in New Jersey, Travelers and the Hartford Group among them, said they had no present plans to follow Aetna's lead. The Aetna announcement did not provoke any immediate response from Gov.-elect William Cahill.

Pan Am completes last-ditch 747 cover

NEW YORK—Pan Am World Airways, which as late as the second week in January had not wrapped up its \$100 million liability cover on the first Boeing 747 which goes into service Wednesday (Jan. 21), completed the deal last week in what is believed to have been a last-minute flurry of insurance activity.

Details, however, were not available at press time.

In a related development, *Business Insurance* learned that the recent Pan Am 747 proving flight to London on which 361 passengers were aboard had no "special" liability insurance. Most of the passengers were Pan Am employes (even a dishwasher was among them), who are covered by company travel/accident policies with limits based upon salary.

The remaining (about 10% of the load) were FAA officials who made the trip for certification purposes.

A BARGAINING start, the demand is the first in a two-and-one-half-month haul. The present national master freight contract expires March 31. Mr. Fitzsimmons declared that the union's demands are the result of "the best thinking of the membership on what it needs to maintain its present standard of living in a marketplace with ever increasing prices."

"We requested no specific changes in our benefits program," Mr. Weiss explained, "but, rather, we asked for an increase in employer contributions to our benefits funds because their control rests solely with their trustees."

"Whatever benefits increase we win will be turned over to these trustees on the local level," he said. "They will decide whether to beef up their existing plans or institute new ones according to the needs of the local members covered by the plans they administer. The national office does not tell the trustees how to spend this money."

Asked how the union came up with the "magic number," Mr. Weiss said, "We sent out a hundred proposal agreements to the 350-odd locals (450,000 members) affected by the contract under negotiations. They held general meetings in which their membership expressed their suggestions and needs to be incorporated into the proposal agreements."

Big cake for Tiny Tim

SAN FRANCISCO—The cake produced by Wilmington, Del., baker Hugo Immediato for the now famed wedding of Tiny Tim and Miss Vicki was insured for \$1,000.

Everything went well and the 8-foot-high cake arrived safely in New York for the wedding . . . and Fireman's Fund did not have a claim to pay!

Hugo and his brothers, Al and Nick, known in Wilmington as the Three Little Bakers, obtained a trip transit insurance policy on the cake through Fireman's Philadelphia branch.

The 300-pound confection had been dismantled for the journey. Each section was carefully packed in a tub of granulated sugar, to absorb road shock. Riding with the cake in the baker's station wagon was agent Frank Dolson of Goldsborough-Barr & Dolson Co., which placed the insurance coverage.

The bakers also are professional acrobats. Once in New York, the three used shoulder stands to put the tiny figure of bride and groom on top of the assembled cake.

No comp for the wicked

OKLAHOMA CITY—An Oklahoma hotel bell captain who was shot during working hours by a prostitute for whom he procured without the hotel's knowledge cannot recover workmen's compensation because the injury was not in the course of employment, the Oklahoma supreme court ruled in the case of *Jackson v. Dudley*.

The bell captain made arrangements with women to work as prostitutes at the hotel and shared in their earnings, renting two rooms for the women.

On the date of the injury, claimant, upon reporting to work at 7:15 p.m., was told to "check 601 because she was out of order." He went to the room and found one of his prostitutes intoxicated. He attempted to sober the woman by giving her milk, but after a few swallows she said she could not take any more and wanted the captain to secure more whiskey for her, which he declined to do. As he began to leave the room, the prostitute shot him twice.

Justice Hodges ruled that the captain "was performing no duties in connection with his work as bell captain. There was no disturbance interfering in any way with safety or comfort of guests of the hotel," therefore the injury "did not arise out of and in the course of the claimant's employment."

Businessmen hard pressed by thefts on all levels: seek varied solutions

NEW YORK—Stick 'em up, Mr. Businessman. You're surrounded.

The Mafia, petty thieves, long-term embezzlers, the computer jimmying expert, and the junkie have slipped into almost every department of your company as trusted employees. Even some of the armed guards take a walk for a price.

They've all come together to cost your banking, investment, brokerage and security firms \$37 million in theft losses this year. In 1966 that figure was only \$9 million. The New York Stock Exchange alone has lost \$23 million in securities.

SPEAKERS fired these figures at financial industry executives attending the Security Control Conference held at the New York Hilton recently. About 400 brokerage and bank officials came to the conference to discuss the industry's massive problems and

seek some solutions. "The industry must answer the challenge and declare all-out war on crime," said Frank G. Zarb in the opening speech of the conference. Mr. Zarb is chairman of the Joint Bank-Securities Industry Committee on Securities Protection.

"There has been a lack of communication in the industry. We have to join forces and come to grips with this problem."

He said that stock certificates have to go through too many hands in trade negotiation.

"CERTIFICATES go to the stapling department, then they are numbered, then they go to the transfer agent and back to the broker. That's taking too many chances," he said.

He hopes that eventually the paper certificates, which are negotiable and just as good as cash, will be eliminated.

Mr. Zarb disclosed that a

telephone system was being set up so that anyone who wanted to check on a particular stock would be able to make the necessary calls and have the information immediately before a transaction is made.

HE STRESSED the importance of awareness and said there must be tighter management control and a keen eye on employees.

"Remember," he said, "a securities theft is almost always an inside job."

Robert N. Morgenthau, U.S. attorney for the Southern District of New York, said that the enemy within was creating a whole new type of crime.

"The theft and sale of common stock is the new 'bank robbery' today," Mr. Morgenthau said. "The modern-day alternative to the armed bank robber requires no gun, no getaway car, no bravado, but can generate an illegal wealth that Dillinger and Baby Face Nelson wouldn't have dreamed of."

He noted that Dillinger's entire life-long take was about \$200,000, but that in the first major stock theft, which occurred in 1962, embezzlers made off with \$300,000.

Mr. Morgenthau outlined the typical theft.

"FIRST, a back-office employee of a major New York brokerage house—usually young with expensive tastes—is approached in a local bar, encouraged, befriended and corrupted," he explained.

This employee, who has access to all proper forms and channels, takes stock shares out of the vault under the pretense that they are to be transferred to a new account. The stocks are transferred and certificates are mailed to the new owner, who is, of course, a confederate in the crime. He sells the stock and then the money is handed out.

Money from illegal sales is usually split between the person in the bank, the seller and an organizer of the operation.

"The organizer is fairly safe," Mr. Morgenthau said. "Even if the confederates are caught, the organizer's word is supported by an unblemished record of citizenry."

ALTHOUGH the high-level organized crime members can hide behind legitimate businesses, the low-level henchman usually begins to acquire a record. Security Control Conference speakers constantly emphasized the need for employers to make intensive

background checks on new people.

"This doesn't mean you have your personnel gal call up the personnel gal at the company that previously employed the person," said Philip J. Hoblin, in one of the conference's 14 sessions. Mr. Hoblin is vp, secretary and general counsel of Shearson, Hammill & Co., a brokerage firm.

He suggested that employers try to go back ten years on personnel checks, adding the expense of private investigating would be worth it in the long run. He said that the industry should push hard for the availability of Federal fingerprint files.

"I think the industry should be jumping up and down like a four-year-old child having a tantrum and demand Federal fingerprint availability," Mr. Hoblin said.

As it stands now, local fingerprint files are available. But if a person is a long-time criminal of another state, the company would never know.

VINCENT GILLEN, president of Fidelifacts of Greater New York, which is a private investigating firm, urged management to keep a close watch on employees even if background checks cleared them of suspicion.

"Look at your employee's lives," Mr. Gillen said. "Be aware of changes. Drinking, divorce, drug addiction, sudden outside invest-

ments could indicate financial trouble."

Sgt. Tom Dolan, head of the stock & bond unit of the first precinct of New York City, suggested that companies offer financial help to employees in trouble.

"We encourage employers to loan money," Sgt. Dolan said. "Because this help isn't offered, an employee will go to someone down the street. The lender gives him the money, but the following week says, 'Pay it all off or else. Bring us some of that paper out of your company.' So he does it to protect himself and his family."

THE EMPLOYEE in trouble, the employee who is an implanted arm of a crime syndicate, and the employee tempted on a spur of the moment crime all have one thing—a complicated paper society so knotted in red tape and office bureaucracy that crime is almost impossible to trace. Criminals don't have to fight the system. The system is killing itself.

The best example of this is in the computer rooms of financial industries. Industries have gone ultra modern with electronic devices that supposedly save time and energy. But the physical handling of this paper is causing havoc.

"The industry just hasn't kept up with the machines," said Eugene P. Dougherty, secretary

Continued on page 25

"FÜRSORGEPFLICHT"



*(the obligation of an employer to take care of his employees)

Pension plans are part of providing for the future financial security of employees. And TPF/C has just published its *Survey of Private Pension Practices in Germany*. Our survey is unquestionably the most authoritative account of its kind. The survey includes details on the pension plans of over 700 companies in Germany.

Copies of the complete survey (available in German language edition only) can be purchased for \$250. For your copy (or additional information) write to TPF/C Publications, 3 Penn Center, Philadelphia, Pennsylvania 19102.



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Inflation, survivor benefits: pension problems

WASHINGTON—Concern with inflation, a tendency toward final-average pay plans and survivor benefits increases mark industry's current strategy for pension plans, according to a survey completed late last year by the Machinery & Allied Products Institute here.

The trade association conducted the pension plan survey among 60 members of its industry relations council. MAPI attempted to find out in what directions companies were taking their pension plans in response to "the acute problem of the annuitant whose fixed income has been rapidly eroded by the inflation which has accompanied those unbroken years of affluence" which have produced the prosperous retirement plans now prevalent in industry.

Pension plans based on the "last five years of service or the best five of the last ten years" are utilized by 55% of the respondents to the survey. Several of those who listed their plans as "final-average" reported that this approach was utilized along with several other factors such as the following: "A plan with three formulas including career average, a flat amount per continuous years of service, and a final-average formula. The formula which provides the greatest benefit is used in the calculation of an employee's benefits."

THE SURVEY reported that 30% of the survey respondents base their salaried employees' pension plans on a "career-average" formula. Career-average plans are not being used exclusively, because, as the survey noted, "even with the use of a career-average pension plan, concern with the impact of promotional increases and inflationary adjustments leads to modifications." Several survey respondents noted variations built into their career-average plans including:

- A plan with updating of salary applicable to early years.
- A plan based on a modified average of the last 25 years.
- A plan with a five-year "update" provision, i.e., past service prior to a given date every five years is adjusted to salary in effect on that date with a career average for future service.

Ten percent of those responding to the MAPI reported a recent change in the formula of their pension plans from a career-average base to a final-average based plan. The respondents also noted the trend away from the career average plan. As the survey noted, "as inflationary pressures affect salary levels and cost-of-living for retirees, a pension benefit based on career average may—if not adjusted from time to time—result in inadequate benefits during retirement."

Retirement plans no longer depend on the pension plan as their principal source of income, the survey noted, as 53% of the companies polled cited "alternative"

or "supplementary" plans based on principles different from their salaried pension plans which they include in their retirement plans. Such supplemental plans include thrift or savings plans, and profit-sharing plans, as well as other "deferred compensation" plans.

THE SURVEY POINTS up a marked increase in the usage of these supplementary plans, noting that its predecessor, a MAPI survey of 1964 turned up "only a handful" of companies which had supplementary plans. About 20% of those companies having such alternative plans revealed that they had adopted the new plans in the last year or so.

Companies polled by MAPI stated that they were looking into many new forms of alterna-

tive plans in order to strengthen their retirement plans, noting that more widespread use of secondary plans (such as savings, profit-sharing, etc.) would continue in the future.

MAPI discovered a pervasive concern with inflation among firms as far as the adjustments they use to counteract its affect on their pension plans. Two percent used a cost-of-living adjustment, eight percent relied on a variable annuity feature in their plans while a whopping 52% of the companies polled depended on periodic adjustment of the pension plan at their management's discretion.

"It is the rare exception," noted the report, "among the plan providers surveyed to adopt provisions that would automatically

increase benefits with increases in the cost-of-living. By the same token, the survey reveals that variable annuities, although widely publicized, are not in widespread use either."

PERHAPS THE MOST significant insight provided by the MAPI survey was that change is endemic to the pension plan. Sixty-eight percent of those companies polled had made some form of change in their pension during the last 18 months, according to the survey. The percentage of employer contribution, Social Security offsets, retirement benefits, early retirement provisions, vesting provision, and widow's or spouse's benefit provisions were those areas which underwent some transformation, the survey noted.

Utilizing employe attitude surveys, relying heavily on the experience of outside consultants, and participating in an increasing number of surveys, members of the MAPI industrial relations council have come up with a list of priorities for needed change in their pension plans. In order they are survivor's widow's benefits, attention to early retirement features and increase in benefits or new benefit formulae.

The last area earmarked for change revealed an unusual cost-saving feature, a practice not normally associated with retirement plans. Companies noted that "while generous early retirement features are expensive there is a possible saving in easing out long-serve employes not performing as well as desired."

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Agencies merge

Riggs-Warfield-Roloson Inc. and Michaels, Fenwick & Downes, Baltimore insurance agencies, have agreed to merge. The new firm, which principals say will be the largest locally owned independent agency in the Maryland-Delaware-Virginia area, will do business under the name Riggs, Counsellman, Michaels & Downes.



washington watch

Insurance legislation drifts with no direction from Nixon or Congress

WASHINGTON — Predicting what insurance-related bills will reach the President's desk in the new year is always touchy. It is even more so this year due to the lack of the most essential ingredient for making Congressional prognostications—a clear-cut list of party priorities on which to judge where the real pressures will be applied.

Predicting what bills Congress will be considering, however, is a snap. Because of the lack of much direction from either the

White House or from the Democratic leadership, most observers feel the second session of the 91st Congress will be a simple extension of the first, where the committee chairmen set the direction, drawing from a backlog of Johnson Administration proposed bills and inventing new vote-getting ventures of their own.

President Nixon has yet to send a comprehensive Administration program to Capitol Hill. It is doubtful that he has enough influence with Congress to make

a complete Administration program viable anyway.

His rather weak relationship with Congress was clearly evidenced by the failure of the Haynsworth nomination and by his inability to get Congress to take prompt action on his crime in the streets and welfare reform bills—reportedly the Administration's top priority proposals.

THE DEMOCRATS also lack a clear-cut program that can be pointed to as an indication of

what bills will have the steam behind them to go all the way to the White House. And, again, even if they had, their Congressional leadership, in the form of Senate and House majority leaders Mike Mansfield and Carl Albert, is decidedly weak.

Committee chairmen have thrived in this atmosphere, building their little Congressional fiefdoms into extremely powerful vehicles from which to feather their own political nests.

House and Senate labor committee chairmen—Carl Perkins (D., Ky.) and Ralph Yarborough (D., Tex.)—will keep their labor subcommittees busy this election year working on labor-supported issues.

Each supports a strong occupational health and safety bill and can be counted on to finish up hearings on this subject and get bills reported out to their respective houses of Congress.

BUOYED BY the success of efforts to get a black lung workmen's compensation provision in the coal mine safety bill, it is likely that one side or the other will take up the subject of occupational respiratory diseases, like brown lung suffered by textile workers.

The entire subject of workmen's compensation is likely to be taken up in the committees since Rep. Perkins, Sen. Yarborough and the entire labor community support a proposal calling for the government to set Federal standards for the states to follow.

In addition, the Senate labor subcommittee is certain to open hearings on a proposal by its chairman, Sen. Harrison Williams (D., N.J.), to beef up the Federal Longshoremen's and Harbor Workers' Compensation Act.

Both labor committees are likely to keep the ball rolling on a bill to stiffen the Pension and Welfare Plan Disclosures Act. In addition, Sen. Jacob Javits (R., N.Y.), long-time crusader for Federal standards for vesting, funding, reinsurance and portability for private pension plans, says he has assurances that at least one of the labor subcommittees will open hearings in 1970 on his omnibus pension plan act.

THE SENATE finance committee, chaired by Sen. Russell Long (D., La.), plans to capture public attention with lengthy hearings into Medicare and Medicaid—the many abuses of the program by the medical community, rapidly rising health care costs and the hundreds of changes that have been suggested to improve the programs.

In this context, Sen. Long is understood to be anxious to open public discussion on national health insurance.

The committee will also write new Social Security provisions, including a hike in the tax rate to pay for the just-passed 15% across-the-board increase, and the addition of new benefits.

One area which will surely come up for discussion is a proposal, vehemently opposed by advocates of a strong state workmen's compensation system, to broaden the Medicare program to cover everybody now receiving benefits under the disability provisions of Social Security and to cut to three months the waiting period for payment of Social Security disability benefits.

REP. WILBUR Mills' (D., Ark.) powerful House ways and means committee will also be working on Social Security, Medicare and Medicaid. In addition, it probably will continue work on the President's welfare reform proposal, on which it heard the Administration's views in late 1969.

The committee may also take up the entire issue of taxation of deferred compensation plans, including qualified and nonqualified pension plans, if President Nixon sends up legislation on this subject as he promised during the Tax Reform Act debate.

It would be surprising if hearings on the progress of the FAIR plan program and the feasibility of expanding it to take in crime insurance weren't opened by the House banking committee.

In addition, the Senate banking unit is likely to report out early in the year the Consumer Credit Insurance Act, which would require the board of governors of the Federal Reserve System to limit the maximum premiums which consumers may be charged directly or indirectly for insurance provided or arranged for by a lender or seller in connection

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When the man from Talcott talks insurance it's with Paige O'Brien Russell



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Touchy Question # 33

When the employee who "always knows what to do" dies, what do you do?

You will notice that things once taken for granted require minute by minute decisions. It'll seem like an old-fashioned slow-down, and you won't like it.

If you are fortunate, you'll be able to piece together a new leadership by relying on your foremen or even a vice-president or two. But the prospect of someone suddenly being able to see the big picture after years of concentrating on his own small part is a longshot.

This is where key man insurance comes in.

It protects the positions of important people as fire insurance protects your physical assets.

For example, one such man might be a chemist or metallurgist whose scientific know-how is vital to the manufacture of your product. This insurance will help defray the cost of finding and training an adequate replacement.

Another could be an innovator. The designer, or inventor, or other idea man who is keeping your business

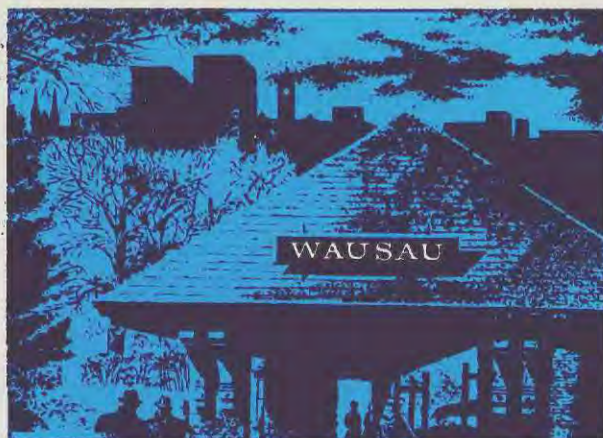
ahead of the competition. In this case, the insurance could be written in an amount adequate to offset the loss in profit caused by his death.

A third could be a sales or customer contact man whose customer relationships have been built up for many years on a basis of personal loyalty. Cash supplied by this insurance could buy interim planning, perhaps by an independent consultant, until your firm is back on its feet.

In short, this insurance will help your company keep its economic balance by reassuring creditors and stockholders, while providing cash to offset lost profits and direct costs.

So, what we want to do right now is sit down and figure out who the people are that make your company tick. And then give them the protection that indispensable men deserve. And if we do our job right, then that leaves you free to do your job right.

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Aircraft component manufacturers arrange \$50 million product cover

NEW YORK—Members of the Aircraft Builders Counsel, a group of some 270 component part suppliers, are paying a minimum of \$50,000 a year in premiums for \$50 million products liability coverage for the new 747 jumbo jets and other aircraft.

But because liability premiums are based on total sales of the suppliers, some big corporations could be paying between \$1.5 million and \$2 million for coverage, it was explained.

In a twist considered "quite unique" by ABC members, premiums for the 747 will be spread over a five-year period instead of being paid all at once. Since premium dollars could go into

"astronomical figures," as one supplier put it, ABC members won't be tying up all their money in insurance payments and also will be able to match payments more closely to liability exposure.

It was explained that 60% of the premium will be turned over to insurers in the first year of flight, when the risk of something going wrong is considered greatest. After that, 10% will be paid in each of the next four years.

THE SCHEME acknowledges the fact that suppliers incur relatively limited liability during the period of construction, and so in-

surers don't need as much premium volume in that period.

Because of the big premium figures involved, it's reported that some of the smaller suppliers are taking a hard look at whether it's worth it to continue supplying parts for the jumbo jets.

One supplier said that he's "quite sure" smaller suppliers are taking a "long look" at continuing such business.

ABC members, of course, can buy less than \$50 million coverage. Costs start at \$2,500 a year for \$1 million coverage excluding the "target exposure"—i.e., the jumbo jet. Cost for the minimum \$1 million coverage including the

target exposure is \$5,000.

About 20% of the \$50 million coverage will be supplied by domestic insurers (Liberty Mutual, Employers Insurance of Wausau, American Mutual and Michigan Mutual), with the remaining 80% written by Lloyd's of London and other British insurers.

Suppliers are still scrambling for excess coverage over and above the \$50 million.

One U.S. underwriter said that he understands that Lloyd's is working on a scheme to provide \$25 million on top of the primary coverage. ■

New unit formed

State Mutual Life Assurance Co. of America, Worcester, Mass., has formed an equity products unit to market variable annuities and mutual funds offered through American Variable Annuity Life Assurance Co. and SMA Equities Inc.

Edwards named by can company

NEW YORK—James Edwards has been named to succeed Howard Austen as manager of insurance and loss prevention at Continental Can Co. Mr. Austen recently left Continental Can to join Digital Equipment Corp. in Maynard, Mass.

Mr. Edwards served formerly as corporate insurance manager and assistant to the vp of indus-



James Edwards

trial relations at ITT Rayonier Inc.

"Right now I'm in the middle of an overall review of Continental's current loss prevention program," Mr. Edwards told *Business Insurance*. "My biggest job will be maintaining markets at justifiable costs," he said.

LIKE MANY of his colleagues, Mr. Edwards feels that the biggest challenge of the '70s will be the insurance capacity pinch which shows no signs of abatement. Risk managers are facing "more decisions on whether a risk, formerly insured outside the company with a carrier, cannot be more economically covered with self-insurance.

"Overall, large corporations are leaning more and more toward self-insurance as a means of coping with this problem," he said.

Mr. Edwards is a director of the New York chapter of the American Society of Insurance Management. In addition, he has served on a national committee for the society.

IN MOVING from Continental Can, whose sales tipped the billion dollar mark last year, to Digital Equipment Corp., which did \$83 million in business in 1969 (up from \$23 million in 1966), Howard Austen expressed "tremendous excitement in getting in on the ground floor of a company which is growing so fast."

Like Mr. Edwards, Howard Austen views the capacity pinch with alarm in the '70s. "We manufacture small computers primarily, and as a result I will be dealing with higher concentrations of values in a given location—something I haven't had to worry about before," Mr. Austen said, in explaining his special problem in facing the capacity pinch in the insurance market. ■

Group operations

Equitable Life Assurance Society of the U. S., New York, is restructuring its group insurance operations. Group insurance and pension operations will now consist of four departments: sales, claims, services and administration. New managers for the reorganized departments are R. J. Cusick, sales; R. J. McCullough, claims; S. J. Duran, services, and Joe Chaille, administration, all vps.

Employee euphoria: Can you profitably create it?

If you're like many of the companies who have called us in to help, your employee benefit program shows as many growth rings as a California redwood, with new benefits simply tacked onto old ones year after year.

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As in the case of Andrews vs. Andrews, when a Consolidated claims man bargained on the theory that true love could even avert a possible invasion of privacy suit.

In the hotel when the comedy of errors occurred, he settled the fracas on the spot by scouting down Staff Sergeant Andrews’ young bride and bringing her to the elder Andrews’ room.

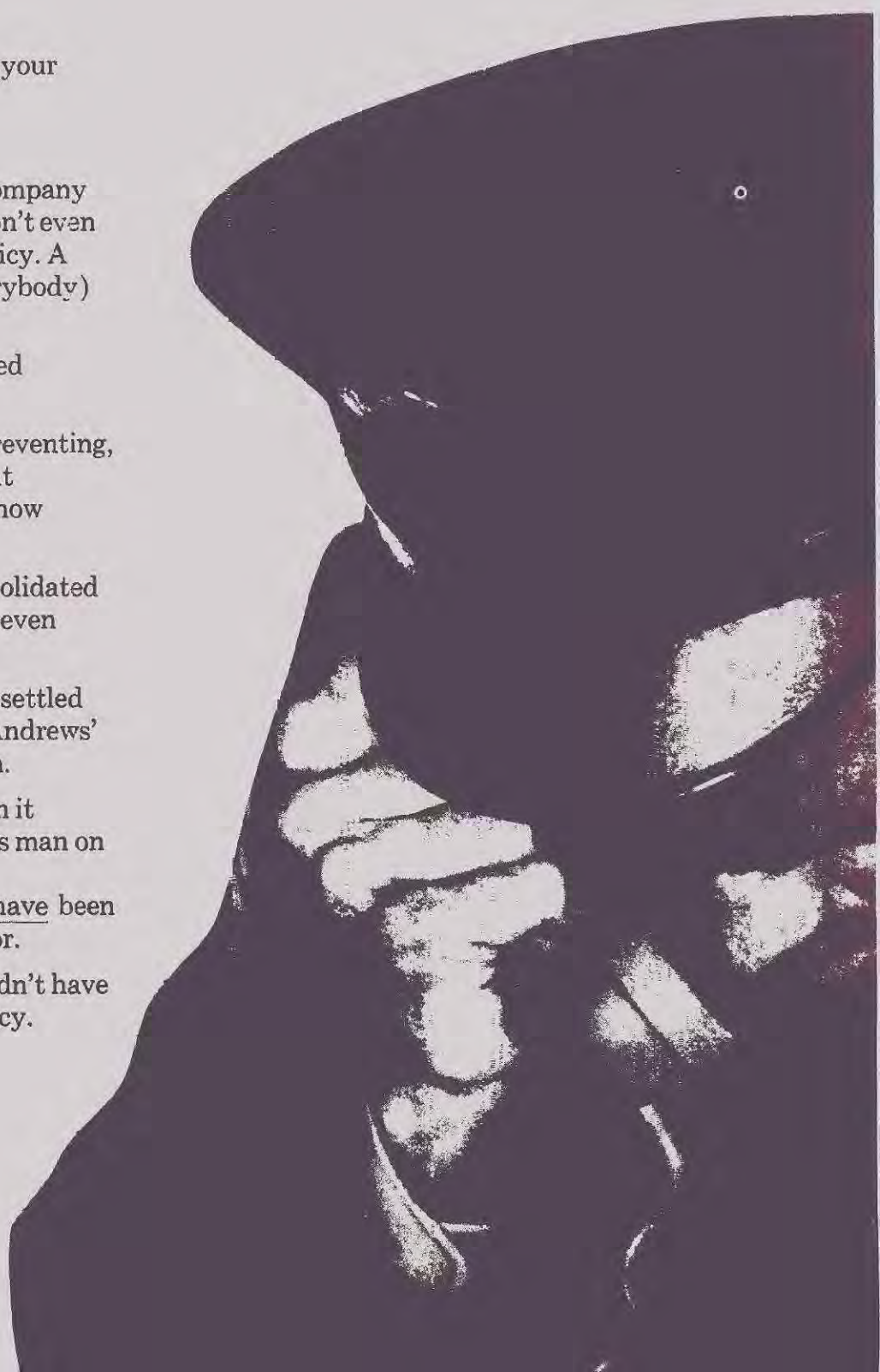
Not that all potential claimants are push-overs when it comes to honeymooners. Not that there’s always a claims man on the scene to save the day. But in the absence of either, Consolidated’s omnipresent loss prevention engineers have been known to send more than one desk clerk to the eye doctor.

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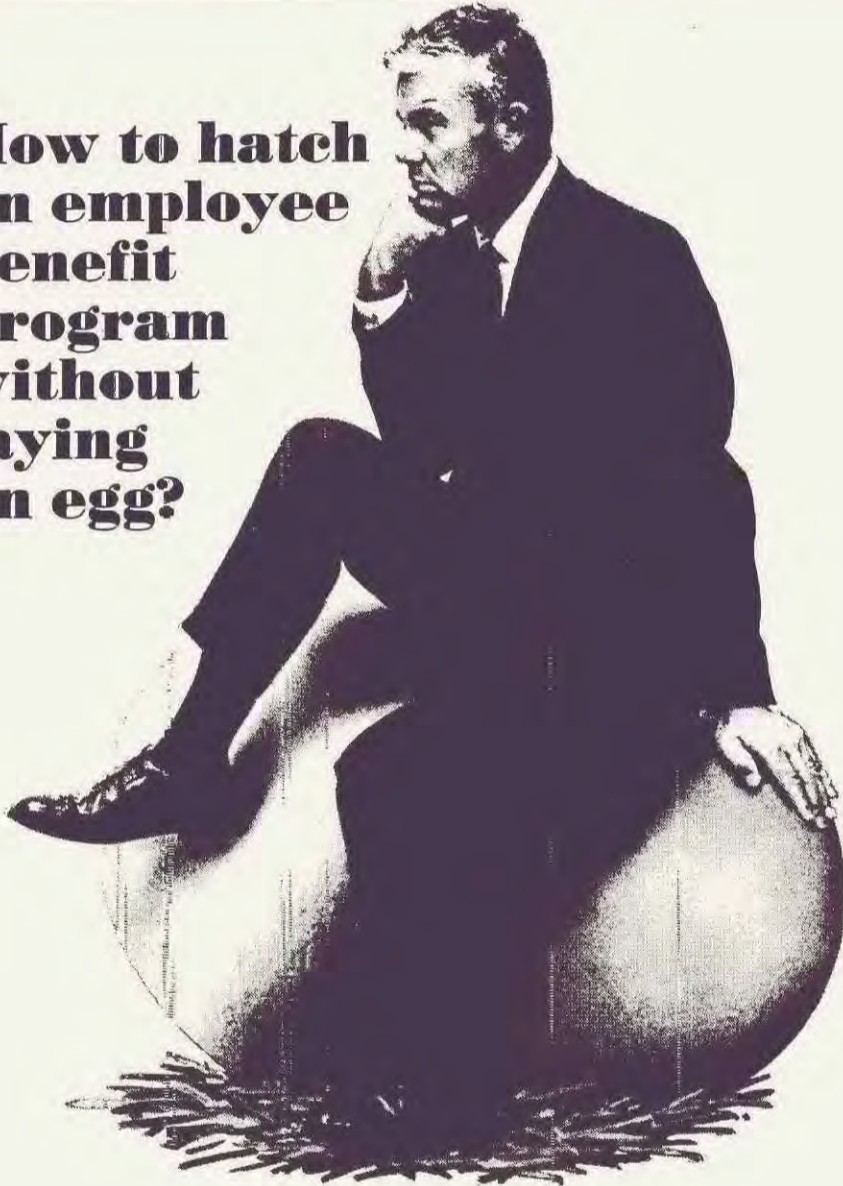
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But more than that, our program saves you needless expense and concern about claim service. It's geared to your present and future needs. It's personal and continuing. Beyond that, our program helps develop maximum employee understanding and appreciation of your company's benefits. When it comes to employee benefits, you can draw on NWNL's more than 50 years of experience in this area. We call it "Employee Benefit Awareness." Write us for a copy.



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info for buyers

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

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

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

• Industrial Insurance Management Corp., insurance consultants, has prepared a booklet outlining the firms' operating divisions including data on the heads of the divisions and a list of its customers. For a free copy write the company at 909 East Boulevard, Post Office Box 3842, Charlotte, North Carolina 28203.

• Detectalarm is a product of Alarmtronics Engineering, Inc., 154 California St., Newton, Mass. 02195. It is an electronic audio detection system designed for economical protection from burglary, intrusion and vandalism. For further information write the company.

• The U.S. Bureau of Mines conducted radiation ventilation studies in six large underground uranium mines to investigate the extent of radium exposure experienced by the miners and to analyze the ventilation systems to see what changes were required to achieve recommended radiation standards. **Radiation-Ventilation Relations in Six Underground Uranium Mines** can be purchased for 30¢ by writing the Superintendent of Documents, U.S. Printing Office, Washington, D.C. 20402.

• **Safety Inspecting For** is a booklet that discusses types of inspections, steps in a safety inspection, and tips on how to conduct inspections. It can be purchased for 10¢ from the Superintendent of Documents, U.S. Printing Office, Washington, D.C. 20402.

• The thirteenth edition of **Fire Protection Handbook** has just been published by the National Fire Protection Assn. Each of the 117 chapters has been exhaustively reviewed by experts in the specific subject dealt with and updated to incorporate the latest fire experience, research and technical developments. The illustrated book is divided into 20 sections, which give a progressive

understanding of fire and its control. Among additions to the current book are an entire new section on industrial and manufacturing process hazards and a table on state and provincial fire laws. The book is available at \$22.50 from the association at 60 Batterymarch St., Boston, Mass. 02110. Discount prices apply to orders for six or more copies.

• Computer Claims Control has published a new brochure entitled **Facts in Motion for IMPACT**. IMPACT stands for Insurance Management + Accident Control Technique, an information control system to relate the total costs of accidental loss to each operating division of a company. Monthly computer reports are designed to communicate with divisional management to motivate correction of cost-causing conditions. To obtain a Facts Pack on IMPACT, write Guyon Saunders, Computer Claims Control, Box 9013, Armarillo, Tex. 79105.

• Computal Corp. offers two example booklets explaining their **Business Insurance Analysis and Computer Report** services. The format of the literature is that of a questionnaire, which would be filled out by the customer, and the actual analysis he would receive. For further information contact the company at 175 W. Jackson Blvd., Suite A2101 Chicago, Ill. 60604.

• The National Fire Protection Assn. has published in pamphlet form its **Proposed Standard for Fire Tests of Window Assemblies** (NFPA No. 257-T). The text has not yet been officially adopted by NFPA and is still subject to major revision. The item applies to window assemblies including glass block and other light-transmitting assemblies for use in wall openings to retard passage of fire. Copies are available from the association for 75¢, at 60 Batterymarch St., Boston, Mass. 02110.

• A pamphlet issued by the Kemper Insurance Group contains a complete check list to be followed in winterizing plant buildings and yards and roadways and fire protection systems and equipment. **Winterizing Your Plant** also lists action to take when a freeze-up does occur. Copies may be obtained by writing Combined Property Dept., Kemper Insurance, 4750 Sheridan Rd., Chicago, Ill. 60640.

• Information on a line of fire alarm equipment is now available from the Standard Electric Time Corp. **Alarm-matic** is a brochure describing the basic control panel module featuring low voltage operation, automatic DC standby, low voltage trouble signals and station circuits which provide positive trouble and alarm annunciation. Modular components to make up a variety of systems for a variety of applications are illustrated and detailed. Dimensional data and description of accessories are also included. Request publication 263-A from the corporation at 89 Logan St., Springfield, Mass. 01101.

ASIM learns foreign coverage secrets

By TERESA NORTON

CLEVELAND—The U.S. firm with branches or subsidiaries overseas wants basically the same protection program for its investment as it has on the domestic scene, Leslie W. Sage, vp underwriting, American Foreign Insurance Assn., told a foreign insurance seminar in Cleveland.

Co-sponsors of the meeting were the Cleveland/Akron chapter of the American Society of Insurance Management and the Cleveland chapter of Chartered Property and Casualty Underwriters.

The seminar, one of several to be held around the country, was based on the imperative need for those dealing with foreign insurance problems to not only recog-

nize but also to understand the different heritages, laws and customs that govern overseas business.

Discussing fire and allied perils coverage, Mr. Sage said, "The package policy is a marketing idea that has its place in some specific areas of insurance, but it is a concept that only tends to muddy the waters of international insurance programs." Locally admitted insurance, he said, must be meshed with appropriate difference in conditions (DIC) cover to provide the equivalent of a domestic program. At the same time advantage must be taken of special situations in which local cover provides even broader standard coverage than the insurance program requires.

FIRE FORMS overseas, he em-

phasized, have one thing in common: They do not cover fire from any cause. Excluded causes can usually be specially endorsed through payment of additional premium and more often than not both the fire and the direct damage due to the peril are endorsed together, such as riot fire and riot damage, he said.

"The variations on explosion by themselves," he said, "could provide enough material for a separate study." Knowing these differences is important not only for the insured but also for the AFIA representative who becomes involved with DIC and must know the exact nature of the gap that the DIC policy is bridging.

The majority of overseas areas require 100% coinsurance but

first-loss contracts may be obtained in some countries as the alternative—"a kind of all-or-nothing approach compared with U.S. practice, in which a reasonable choice usually exists," Mr. Sage remarked.

Property damage policies written abroad often contain more stringent requirements as to the duties of the assured but others are in the form of warranties that, more often than not, are part of the rating formula and are related to the technical side of the assured operation. "They sound more frightening today than they really are," Mr. Sage said, "but I would not like to pretend that they would never be applied to deny a claim." As long as they exist there is the possi-

Continued on page 18

• A new line of wrenches featuring a spring-loaded ejection device has been manufactured by Miracle Instrument Co., 1569 Third Ave., New York, N. Y. 10028. The devices prevent the tools from remaining in position after a chuck has been tightened and pressure on the wrench has been released. The items sell for between \$10.80 and \$34, depending upon size. Write the company for illustrations and information.

• A 27-page, pocket-size booklet, *Logging Safety*, has been prepared by the safety engineering department of Hewitt Coleman & Associates Inc. Free single copies of the color-illustrated item are available from the company at P.O. Box 3665, Greenville, South Carolina 29608. Quantities may be purchased for \$4¢ each.

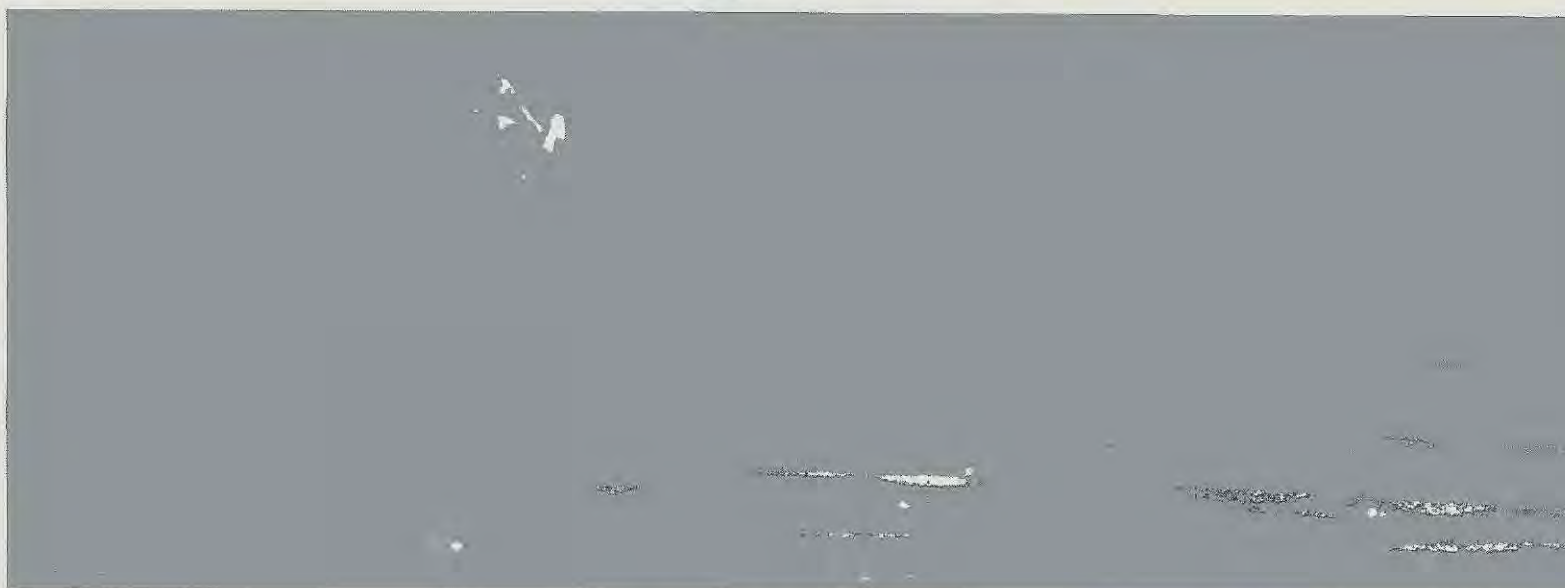
• A four-page, illustrated brochure on *Data-Vault, Walk-In Computer Media Vault* is available from Data-American Equipment Co., 333 N. Michigan Ave., Chicago, Ill. 60601. It explains the need for vault protection of computer tapes against fire, steam, explosion and flood. The new vault protects tapes with a temperature less than 140°F. for at least six hours in a fire exposure equal to the American Standard Time and Temperature Test reaching 2,250°F.

• The Chamber of Commerce of the United States has released a 72-page book telling businessmen how to detect organized crime in their own companies. *Desk Book on Organized Crime* points out the symptoms of organized crime techniques and suggests what businessmen can do to combat them. The book gives details on how to fight dummy or fraudulent associations, gambling, labor racketeering, loan sharking, monopoly and coercive competitive practices, illegal uses of stocks, bonds, credit cards, and illegal takeover of a legitimate business. For a copy write the news department of the Chamber of Commerce of the United States, 1615 "H" St., N.W., Washington, D.C.

• A new line of safety self-ejecting keys has been introduced by Miracle Instrument Co., 1569 Third Ave., New York, N. Y. 10028. A patented spring-loaded ejection device prevents "flying key" injuries caused by chuck keys accidentally left in power and machine tools when the units are activated. Information on the keys, which range in price from \$2 to \$5.95, is available from the manufacturer.

• Companies that spend as much as 30% of payroll on a wide range of employe benefits should at least receive a reciprocal benefit from those employes—that of recognition. *Benefacts* is a folder of sample brochures and reports, aimed at the individual employe, and explanatory material on the services of Benefacts Inc. in an effort to reduce the benefit communications gap. It is their contention that each employe must be given a dollars-and-cents value to place on his personal benefits before realization of them occurs. This, the company believes, is far more effective than a general information brochure or film, which offers the worker only general knowledge of his company's benefit program. For your folder write Walter P. Petersen, 2 N. Riverside Plaza, Chicago, Ill. 60606.

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The underwriter and the sky diver have something in common. They both must know all the risks of their business.

Our business is working with underwriters to help solve big-risk problems through reinsurance. There is an exceptionally able facultative specialist in one of General Re's nine offices ready to help

your insurance underwriter. His job is to innovate for unique needs—a fast growing example: facultative excess of loss property covers. If you have an unusual problem General Re may help solve it.

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london line

Issues call for non-marine forms to increase the efficiency of Lloyd's

LONDON—Changes in the pattern of non-marine underwriting were prophesied by Brian Hose, chairman of Lloyd's Non-marine Assn. when he informed members in his annual report: "We have woken up to the fact that much of our system needs a complete overhaul if we are to compete in world markets. New forms of insurance, pioneered in the past by Lloyd's, are more difficult to invent. But we cannot change a system, which has been common

practice for many years, overnight. If we act too quickly we may unwittingly inject a spanner into the works, and make confusion more confounded."

He urged that schemes designed to increase efficiency, even if unpopular among certain individualists, ought to be seriously considered by underwriters as the market would otherwise grind to a halt because of the volume of business.

* * *

BRITISH FIRMS are beginning to take out special indemnity for their staffs against terrorist threats from Arab nationalists.

This applies specially to companies run by Jewish interests that have reason to think they may be targets for sudden bomb or arson attacks.

Police in London are already probing a number of fires that are believed to have been started by underground Arab agents as

part of their campaign against Israel.

The Sun Alliance group, of London, has now planned special cover for two Israeli-backed firms that requested protection for their employes against terrorist activity.

It has added a 50% loading to the normal personal accident policy that would apply to work people. The policy provides for payments of \$24,000 in the event of death or total disablement, or compensation up to \$50 a week for two years, in the event of employes being hurt through terrorist acts occurring at their premises.

H. E. C. Grosstephan, personal accident underwriter for Sun Alliance who drew up the policies for a bank and an import-export firm both based in London but with close Israeli connections, said: "The companies asked us to quote for cover in the light of Arab threats that Jewish organi-

zations would be the target for bomb attacks."

* * *

FEARS THAT highly-organized gangs of criminals are planning big raids on container traffic in world seaports and other storage centers have been expressed by company chiefs in Britain.

Sir Andrew Crichton, chairman of the major consortium of Overseas Containers and Associated Containers, said there would have to be consultation with Interpol chiefs over the problem.

Warning industrialists about the threat, he said: "I am certain that the growing use of containers on major shipping routes has not gone unnoticed by criminals. They will be ready to cash in on any security weaknesses that escape the attention of container users."

He supported the American-based idea of high-security vehicle parks for container loads awaiting shipment.

* * *

INSURANCE shares are being tipped as good prospects on the British stock market. This is because underwriters are now realizing that they ought to look for profit on their business arrangements, instead of fighting to get premium funds merely for investment purposes.

Companies tipped recently by experts after studying current London Stock Exchange prices include General Accident, Commercial Union, and Royal Insurance.

It is felt that the price of their stock ought to rise in 1970 if present favourable trends continue to go well.

* * *

LIABILITY insurance of \$250,000 covered the ceremonial pageant through the streets of London when its new Lord Mayor, Sir Ian Bowater, drove through crowds of spectators who cheered him into the historic centuries-old appointment. It protected tourists and other watchers from any unrehearsed incident such as a horse bolting from the procession.

Campaign afoot for portability

LONDON—More than 120 Members of Parliament from all parties have begun a campaign to protect the full pension rights of employes in private business and industry who change their jobs before retirement age.

The M.P.'s have signed a motion calling on the British government to amend the present tax laws which penalize mobility, particularly among middle rank executives. The move, in effect, would provide for portability, a subject which is also gaining interest among legislators in the U.S.

Estimates of the Confederation of British Industry indicate that approximately \$2.4 million a week is currently being lost by employes covered under private pension schemes who change their jobs.

The motion by the nonpartisan group follows confirmation in Commons late last year that under the proposed government superannuation scheme only public sector occupational pension rights would be fully transferable.

Until now the government has accepted the insurance industry's argument that transferring all right in private schemes would be administratively too complex.

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broad limits, the amount of his contribution towards paid-up insurance. And, if his needs change, he can alter his coverage later.

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Bahama finance head pushes insurer investments

By NICKI KELLY

NASSAU—The days of free-flowing insurance funds out of the Bahamas may soon be at an end.

Following the precedent already established in Trinidad, Barbados and Guyana, Finance Minister Carlton Francis has warned insurance companies here that unless they can be persuaded to sink some of their funds into local investment, the government may take stronger measures to urge them to do so.

Mr. Francis's Progressive Liberal Party has embarked on a massive capital development program since it assumed power 35 months ago.

Addressing insurance men at their annual banquet, he said that about \$400-\$500 million would have to be found by the government over the next ten years for capital works.

THE MINISTER made it clear that he expects Bahamian-based insurance companies to contribute their share on the premise that "they should seek to help those who contribute to their savings."

Accusing the industry generally of clinging to the colonial pattern of noninvolvement in under-developed countries, Mr. Francis said this had been carried to such lengths that some countries had found it necessary to regulate the activities of these insurance companies—many with branches here—by passing legislation to ensure that an appreciable amount of the savings generated were reinvested locally.

"Some diehards," he declared, "ran away rather than conform and contribute."

Without minimizing the extent to which the Bahamas is prepared to go to effect such investment, Mr. Francis indicated that his government would prefer to achieve its ends through "moral persuasion" rather than "coercion."

BUT, HE WARNED, "ensure that your protective usefulness is not outweighed by any constrictions you may place on investment, and therefore on growth and economic development."

"Do not," he added, "repay the gains you realize from the funds you employ by creating grave problems in other areas."

This is the first time the all-Negro PLP has openly stated its position regarding the operation of insurance companies within the Bahamas.

Passage a year ago of a bill to control and regulate insurance companies here gave rise to considerable speculation that the government's next step would be to freeze local assets in a general trend towards forcing greater local investment on the part of these companies.

Within one month three of Canada's largest life insurance companies—North American Life Assurance, Sun Life Assurance

and Manufacturers Life Insurance—closed down their sales operations in the Bahamas.

NO ADEQUATE explanation has yet been produced by either the companies or government, which promised an investigation.

The new measure, a complement to the Banks and Trusts act, is designed to curb illegal companies, which for years have used this country as a base from which to operate fraudulent insurance schemes in the United States and elsewhere.

On the whole it has been welcomed by bona fide companies stigmatized by the hit-and-run operators.

The act, however, cannot have the force of law until the necessary enabling regulations are worked out to give it effect.

These have now been drafted by the registrar of insurance companies and submitted to the government's legal department for final approval.

INDICATIONS are that the act will become operative in early 1970. There is nothing in it at this time to indicate any attempt by the Bahamas government to exercise control over the disposition of insurance funds.

It is likely that the introduction of more specific legislation along this line will depend on the response to Mr. Francis's speech.

Of the 27 American, Canadian and Bahamian companies located in the Bahamas, only British American Insurance, as part of its general policy of investing in the local economies, has shown evidence of any sizeable expendi-

ture in the country.

This has included several well-established stores handling books, cameras, clothing and quality tourist items, and a controlling share in two hotels—the Montagu and the Pilot House Club.

THE GOVERNMENT'S argument is that since the Bahamas is committed to no income tax and provides numerous tax haven opportunities, it must of necessity look to other sources to keep the economy moving forward.

Logically, these sources should be insurance companies, which, by the very nature of their operations, accumulate savings.

In the past, long-term lending by these firms has taken place outside this country, thus having an adverse effect on the economy

by diminishing the funds available for investment, Mr. Francis said.

By extension, reduced investment funds have meant a reduction in investment, in employment, in wage income, in savings, and, finally, in a further reduction in investment.

At present this gap is being filled by capital investment funds from abroad, but this has created other problems in that the outflow of profits from foreign investment constitutes a burden on the balance of payments.

What particularly concerns the Bahamas government, Mr. Francis stressed, is that the greater the influence of foreign capital, the greater the reliance on external forces over which the Bahamas has no control.



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Fire damage \$1 million

Damages from a fire at Arlan's Department store in Tiffin, O., has been estimated at \$1 million by store officials. There was an estimated \$750,000 damage to warehouse stock and smoke damage to a nearby Kresge store. Cause of the fire in Tiffin's Westgate Shopping Center still is undetermined, although nearby residents have reported hearing an explosion before the fire alarm was sounded.

Pensions, profit-sharing as dynamic benefits

Figures in the table on this page give one dimension of the growth in popularity of pension and profit-sharing plans. During the decade of the '60s such plans increased in number nearly threefold, and since the beginning of World War II pensions and profit-sharing have become major factors in the growing range of employe benefits.

What figures in this table don't show is that pension and profit-sharing plans now amount to multibillion dollar enterprises with reserves exceeding \$110 billion—enterprises that wield tremendous economic power because of the financial resources held by fund trustees.

The magnitude and complexity of pensions and profit-sharing funds will be reviewed in a special report to be published in *Business Insurance* of March 30. This report will be of special interest to general corporate executives and employe benefits administrators whose companies either have pension and profit-sharing programs or have them under consideration.

Readers of *Business Insurance* who administer such programs will be asked to complete questionnaires on pertinent pension and profit-sharing topics to provide an idea exchange in the special report.

Other features of the special report will include:

- Details on how the new tax reform act will affect those who get lump-sum payments from profit-sharing plans. While the effect of the tax changes is uneven among persons of different income levels, the report will give examples of how the tax bite will be altered.
- Information on the status of Administration and Congressional proposals to change requirements for funding, vesting, reinsurance, portability and eligibility for pensions. Officials of government departments as well as members of Congress will give their views and predictions about legislative changes that will affect the operation and management of funds.
- New studies on the communication of pension and profit-sharing plans that show employers how to get greater mileage out of programs that cost them significant amounts of money.
- Fresh data on "master plans" for pension programs for small companies, which amount to prototypes that allow employers to institute pension programs without going through the costly, time-consuming process of designing one's own plan.
- A special Info for Buyers section that will list current pension and profit-sharing materials available from insurers, financial institutions, associations and other sources. Readers who have informational material available—free or at some cost—are invited to submit samples to the Info for Buyers Editor, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.
- News articles on such subjects as union moves toward demanding profit-sharing in contract negotiation; efforts of employers offering pensions to allow for portability regardless if legal requirements, and

PENSIONS AND PROFIT-SHARING SHOW REMARKABLE GROWTH

	Number of Qualified Profit-sharing Plans	Number of Qualified Pension Plans
1929	10	105
1939	37	622
1950	3,700	9,200
1960	24,800	38,800
1969	77,000*	114,000*
*Estimated		

Profit sharing and pensions have shown a remarkable record of growth during the past 40 years. Records of the Internal Revenue Service, which qualifies pension and profit-sharing plans for tax exemptions for employer contributions, indicate that both programs grew threefold during the 1960s. General corporate executives and employe benefit plan administrators interested in pensions and profit-sharing will find news and trends in both areas in the special March 30 *Business Insurance* report.

Source: Internal Revenue Service and Council of Profit Sharing Industries

how individual pension and profit-sharing programs are administered and communicated.

• Tables that will indicate results of leading pension and profit-sharing plans and how they are managed.

Also included in the special pension and profit-sharing report will be corporate profiles that will detail how specific aspects of fund administration are handled in various companies that share their profits or offer pensions. In the pension and profit-sharing field, as in other subject areas covered by *Business Insurance*, we feel that the greatest contribution we can make to corporate executives is to serve as an information exchange between our readers. New approaches to investments, communication, administration, tax planning and other aspects of pension and profit-sharing management will be part of the March 30 report.

In general, the special report on pension and profit-sharing plans will present such programs as the dynamic and important employe benefits they are. Readers are invited to offer their suggestions and pose questions that our editors may answer in developing data for this special *Business Insurance* report.

Wrong objective

Joe B. Hunt, insurance commissioner of Oklahoma, has long campaigned under the slogan, "Nobody loves me but the people."

It's agreed, we suppose, that insurance commissioners ought to be loved by the people. *Business Insurance* has always stood for the concept that insurance should be regulated in behalf of the consumer rather than the insurance industry.

Joe B. Hunt, for example, annually brags to the legislature and to the people of Oklahoma that his department has gathered in so many million dollars of revenue in the form of insurance taxes and fees. Mr. Hunt seems to see his state's insurance department as a profit center for Oklahoma.

In fact, in 1967, Oklahoma spent only 1.66% of its income from insurance taxes and fees for operation of the insurance department, excluding examiners' salaries and expenses which are paid on a per diem basis by companies that are examined. Oklahoma's expenditures compare with an average of 4.35% of taxes and fees spent on insurance department operations in other states.

Recently it was revealed that Community National Life Insurance Co. of Tulsa, a company licensed by and under the jurisdiction of the Oklahoma insurance department; was \$6.4 million dollars in the red as a result of the company's taking worthless or near-worthless stocks, bonds and real estate in payment for paid-up life insurance policies. When the fraud was revealed, Commissioner Hunt issued an order prohibiting such practices.

It seems to us that Joe B. "Nobody loves me but the people" Hunt has pursued the wrong objective during his years of service as insurance commissioner. A properly financed and efficiently directed department could surely have uncovered the questionable deals involving Community National before it was learned that the company was financially impaired.

But when an insurance department is run as a profit center and its achievements defined in terms of its contributions to the state treasury, there is some question of whether the commissioner is doing the job he was appointed or elected to do. There are many better ways to raise state revenues than through the crimping of insurance department regulatory actions. Cutting insurance department expenditures is a dangerous way to feed state coffers.

We believe in insurance regulation for "solidity," a concept enunciated by Spencer Kimball of the University of Wisconsin and put into practice by Illinois Insurance Director James Baylor.

State insurance regulators in the decade of the '70s must put themselves on the side of the consumer. They must serve both business and private citizens as ombudsmen who impartially regulate insurance in the interests of company solidity. Insurance departments were never meant to be profit centers, but rather agencies that assure that insurance companies can and will stand behind their policies.

Too sorry

To the Editor: On your front page of the Dec. 22, 1969, issue you apologize to Alexander & Alexander for the error in connection with the merger.

As a careful reader of the news in connection with the industry, it is my feeling that all that was necessary was the front page retraction. The fact that you carried on further explanation and an appeal to insurance managers and others not to hold it against you was not really in good taste. My reaction to the apology on the front page was that I felt you took your medicine "like a man"; but the additional comments smacked of a whimper.

Lawrence A. Smith Jr.
Smith, Gow & Van Voorhis Inc.,
Pittsford, N.Y.

Wide response

To the Editor: You were kind enough to mention the services of Benefacts Inc. in your Info for Buyers column and I want you to know how delighted I am with the results. We received nearly 100 responses from coast to coast, including Canada. It was an excellent display of your distribution and readership.

I truly appreciate your kindness to us and wish you continued success in the New Year.

Walter P. Petersen
Benefacts Inc., Chicago

Santa reprint

To the Editor: Could I have the right to reprint in our house newspaper Susan Trausch's very current spoof entitled "Santa will fly despite current capacity crunch," as published in your Dec. 22, 1969, edition?

I would of course print all proper credits and send *Business Insurance* a copy of our edition that included the article.

Leon Raff
Insurance Manager, Alexander's Inc., New York

Editor's note: Permission granted.

Point of interest

To the Editor: In your Nov. 24 article, "Met Tries Campus Approach to Medical Care," you refer to the Metropolitan as the country's largest group insurer. We do not want to seem unduly sensitive; but if you will refer to the gain and loss exhibits filed by the various companies, you will find that the Metropolitan's net premiums after deducting dividends and experience refunds were \$1,281,300,000 for the latest year reported (1968), whereas the Aetna's were \$1,303,500,000. In case you were referring only to group life and health insurance, you will find the totals were \$1,102,300,000 for the Metropolitan and \$1,114,900,000 for the Aetna.

Lawrence M. Cathles Jr.
Senior Vice President, Aetna Life & Casualty, Hartford, Conn.

Send address

To the Editor: In a recent issue of your *Business Insurance* we saw the National Commission on Product Safety mentioned. We would appreciate it if you would send us the address of this commission.

Leonard Lewis
President, Atlas Tack Corp.,
Fairhaven, Mass.

Editor's Note: The address is 1016 16th St. N. W., Washington D. C.

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May I compliment you on your positive attitude and prompt response regarding the [redacted] re-serve and the medical claim on [redacted]. I've been impressed by Zurich over recent years and am more pleased as time goes by.

Your marvelous efforts in assisting us in the submission of our proposal were as usual outstanding.

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I have never had a company I hold in such high regard as Zurich - we sort of had a wedding 10 years ago this month.

■ The above quotations are from unsolicited letters in our files. The writers range from an individual policy holder to small agencies to one of America's largest brokers.

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City reviews hospital costs, what they mean

CINCINNATI—The administrators of company health and hospital care programs in Cincinnati, O., are generally in accord that the community's moderate \$64 per day hospital cost average reflects favorably on the job that hospitals are doing. But they frankly admit that they cannot say whether the higher costs mean hospitals are giving their patients more valuable services these days or simply charging more for the same services.

The administrators of company programs also admit they cannot protest the amount of specific hospital charges—particularly for professional services. They simply pay the bills. And, in most cases, they are satisfied with the high level of the professional services they are receiving, de-

spite new contracts now being written for 1970 that give employers a bigger share of the bills.

The key to whether hospital care costs (and supporting laboratory and other professional services) conform to general inflationary patterns, or become stabilized at current levels, is being decided now in the insurance contracts being written. Two facts are indisputable. No negative forces are being directed at hospital administrators that will induce them to reduce their professional and housekeeping services, stop building and remodeling, reduce their investments in advanced new equipment, or stabilize wages; and future cost-savings, if any, will be produced only by keeping hospi-

tal beds fully occupied—while also reserving the beds for only the very sick (maternity cases, surgical cases, special diagnostic cases and, perhaps, not even terminal cases).

HOSPITAL administrators remind critics that their chargeable costs fall into two classifications: professional services and housekeeping services. Both are vulnerable to all of the influences that increase prices in every other segment of the social economy.

The only counter-force they envision is more precise selectivity for who goes to bed and for how long.

Administrators of the company programs have the same point of view, and they, perhaps more than their counterparts in the

hospitals, are more concerned with costs.

Companies with generous employee benefits are looking ahead to higher annual hospital costs but are devising agreements and contracts that could mean, ultimately, lower costs per employee sick day. The trends are tighter control over absences with inducements to return to work, and contract provisions that encourage employees to visit physicians for early detection of illness and early treatment.

THESE SEEM to be the most promising changes in contracts that are expiring. Employees will be motivated to ask for outpatient services instead of admissions. At least one company—a manufacturer with excellent bene-

fits, and 15,000 employees—is dropping deductible provisions for individual employees, is increasing coverage for employees' dependents, but will make full (100%) coverage contingent upon recovery in a moderate cost convalescent facility following hospital care. The plan has promise. This is a company that historically has taken the lead in expanding employee benefits. They administer insurance plans for a total of 25,000 employees in an autonomous division, and have the ability to pay benefits when they think it's essential.

Administrators say that the different elements involved in hospital care and costs—the hospitals that give service and charge for it, employees who take advantage of benefits, and employers who pay the bills—have different interests, different motives, and different objectives.

The differences are not really conflicts, but they are not likely to change. Said one personnel man: "The only responsible group seriously concerned with hospital care costs is the one that pays."

He claims the role of "spoiler" in a run-away cost spiral, and believes if the general economy should decline, or the cost of money and cost of doing business creeps higher, the differences in motives and objectives would be perceived in sharper detail.

"**HOSPITALS** could not reduce services," he admits. "But they probably would stop construction and remodeling, and become cautious about raising their prices."

"Employees would stay sick and be slow to spend their own money for hospital care," he points out. "And employers, perhaps, could stand pat or get tougher about absenteeism . . . or provide more in-plant medical services and earlier diagnosis of serious health problems."

He doesn't hope for this disaster. He'd simply like to be the spoiler in the area of inflation pertinent to his responsibility.

Other company administrators have a slightly different view of things. One of them said: "Most hospitals these days have a primary goal to increase and improve their facilities. They feel they need more of everything, and they probably do. Justification for new construction, from the public's point of view, is simply the continuous population growth."

HE BELIEVES that higher costs for professional services of any kind are accepted by an affluent society as just another component in the cost spiral and inflation.

He points out that hospital construction is generally well-done and reflects sensible long-range planning. If the achievements are most easily identified by the numbers of new beds, larger parking lots, new kitchens, and expanded clinics and outpatient facilities—things patients and visitors see easily—it doesn't mean they were unnecessary. Most hospitals improve their laboratory and surgeries when they build new parking lots. They also try to train and hire people with higher level skills.

Said still another company administrator: "Hospitals cannot be faulted if they construct aesthetically and make their facilities more attractive and comfortable to patients and employees. It's part of their job."

The role of "spoiler" isn't popular, despite valid motives, hu-

Continued on page 24

How to cushion the money crunch:

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following the funds

Doubt early admission of pension, profit-sharing funds to exchanges

CHICAGO—Much ado on the stock exchanges over allowing institutional members may be about nothing for pension and profit-sharing funds.

Institutional investors, including employe benefit funds, which complain about high brokerage commissions, don't seem to be interested in buying their own stock exchange seats.

In a *Business Insurance* survey of fund administrators an executive of a large private profit-sharing plan said, "I would be most surprised if a private fund got on an exchange and I can definitely say there is no remote chance of our company doing it."

MUTUAL FUNDS and other investment companies, he commented, are the ones that are trying to get on the exchanges because their securities turnover and volume are so much greater than those of a private plan.

The Midwest Stock Exchange has denied reports that it will permit institutional membership. According to the exchange, reports that Kansas City Securities, an institutional investor, would be approved as a member were inaccurate.

A spokesman for the Pacific

Nelson gets risk post

PITTSBURGH—Donald Nelson has been named corporate risk manager at L. B. Foster Co., an international manufacturer, fabricator and distributor of steel pipe, piling, construction products and equipment, and rail/crane and track accessories. Formerly he was assistant insurance manager at United Engineers and Constructors Inc., Philadelphia.

"Basically I will be handling all the property and casualty coverage and coordinating safety functions with a safety committee," Mr. Nelson remarked.



Donald Nelson

Mr. Nelson has had at least one surprise since moving from Philadelphia to Pittsburgh.

"My biggest single value is \$3 million or \$4 million in buildings and contents. We have a high concentration of stock values, but it's all steel. I still can't get a carrier to write one building and contents policy. I have to split it up. That's been surprising to me, anyway," Mr. Nelson.

The new risk manager has studied at Temple University and the University of Pennsylvania. He also holds a Chartered Property and Casualty Underwriter designation, and has been active in the Delaware Valley chapter, American Society of Insurance Management.

Coast Stock Exchange told *Business Insurance* that it had no plans to allow pension and profit-sharing funds as members, "because they are not in the securities business."

Chicago stockbrokers are following New York and Detroit brokers in discussing union formation. The move reflects growing dissatisfaction over reduced commission schedules now planned or already instituted by brokerage houses, in part to retain the good will of institutional investors.

Another pension fund source

pointed out that most large funds use outside counselling expertise for their investment programs anyway and buying their own seat on the exchange would in no way eliminate this necessity. Most companies aren't in the financial business and their staffs don't include investment experts. "I don't think institutions would save much by circumventing only a broker's commission because they would lose the benefit of the guidance he might provide for the fund," he added. That

loss plus the cost of exchange membership do not justify eliminating the broker's services, he observed.

An employe benefit fund also has a duty to demonstrate to its members, he said, that it has dealt at arm's length with investments, particularly when funds are heavily invested in the company's own stock. Proof that the stock was purchased on the market by a third party makes the use of a brokerage firm highly desirable.

There is, however, a distinct advantage to insurance companies holding seats on exchanges, he noted, because investment is one of the important aspects of their business and they are equipped with personnel capable in the financial investment field.

"I THINK you will see a trend toward incorporation of brokerage firms," one observer told

Business Insurance, "and if an incorporated brokerage house can own a seat on an exchange, I don't see how other types of corporations could be prevented from getting in." So the opportunity may soon be there if there are funds that want to take it.

Another financial expert sees a trend toward "independent functioning." There are men, he said, who have recently created third and fourth markets and could save investors a large amount of money. An institution would still have to provide its own investment counselling but for a flat fee, say \$10,000 a year, these men execute all of the institution's trades.

"If you could really look ahead," he commented, "you might see this independent concept becoming so popular that there would be complete elimination of stock exchanges as we know them today."

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benefit tax slants

Medical reimbursement plan helps the employe solve money crunch

By JOSEPH S. ROBINSON

NEW YORK—Increased doctor bills and other soaring health costs make the medical reimbursement plan under Internal Revenue Code Section 105 one of the most valuable "fringes" today. Through such an arrangement, the company (either directly or indirectly) finances the medical expenses of its employes—including officers and stockholders. What's more—unlike the pension or profit-sharing setup—the rules

do not preclude discrimination, thus making it possible to tailor the benefits to a select group.

Another plus factor is the fact that the stockholder-employe in a high personal income tax bracket need not include medical reimbursements in his income. Should he pay for his own medical bills, that portion that amounts to 3% of his adjusted gross income is, of course, nondeductible on his personal return. The medical reimbursement plan eliminates this tax waste.

THERE IS no need for the plan to be in writing. However, as a practical matter, it would be wise to adopt it formally, putting it into the corporate minutes. The amount of coverage for medical expenses as well as the date the plan is to start should also be indicated. It is important to communicate the fact that there is such a plan to the employes. This has been a source of trouble with IRS in the past.

WATCH THIS pitfall: Internal Revenue has been successful in a

few instances in knocking out the deductions as well as the exclusions of such plans (in other words, payments are treated like dividends). In *Smithback, T. C.* Memo 1969-136, a plumber incorporated and adopted a medical reimbursement plan upon recommendation of his accountant and lawyer. Although the corporation employed two other plumbers and a part-time bookkeeper, the taxpayer was the only full-time employe covered. The corporation did not put the plan into writing until 1966, although the corporation made payments and took deductions from 1964 on. Without deciding whether the payments made for 1964 and 1965 were made pursuant to a "plan," the court upset deductions and exclusions because the purpose of the plan was not to benefit the taxpayer as an employe, but as a stockholder. This is not in keeping with the rule that such a plan

must be exclusively for the benefit of employes.

OBSERVATION: This attack by IRS isn't new. It won on the same point in *Larkin, 48 T.C. 629*, aff'd 394 F. 2d 494.

Some idea as to what sort of arrangement can defeat an IRS assertion that the plan is for the benefit of stockholders can be found in *Bogene, T. C.* Memo 1968-147. In that case, only two out of 50 employes were covered and both were stockholders. But the corporate minutes on the plan specifically stated who was covered. In *Bogene* the only employes (including their families) covered were two unrelated stockholders, each of whom held 50% of the corporation's stock. The plan provided for no limitation on the amount of benefits to be paid.

The court held that since there was no relationship between the amounts which would be paid out by the plan (that is, it could be \$10 for one, \$10,000 for the other) and their 50-50 stockholdings, the genesis of the plan was the employe, rather than the stockholder relationship. And so the validity of the plan was upheld.

NOT ALL COSTS in connection with an illness or accident are deductible—only those that are necessary to medical care.

Take this situation. Kelly was on a trip to New York and was caught up with an emergency appendectomy. Since it was difficult to get adequate nursing care, the doctor suggested that his wife lend a hand. Later, when Kelly was discharged from the hospital, he had to stay at a hotel until he was well enough to return home.

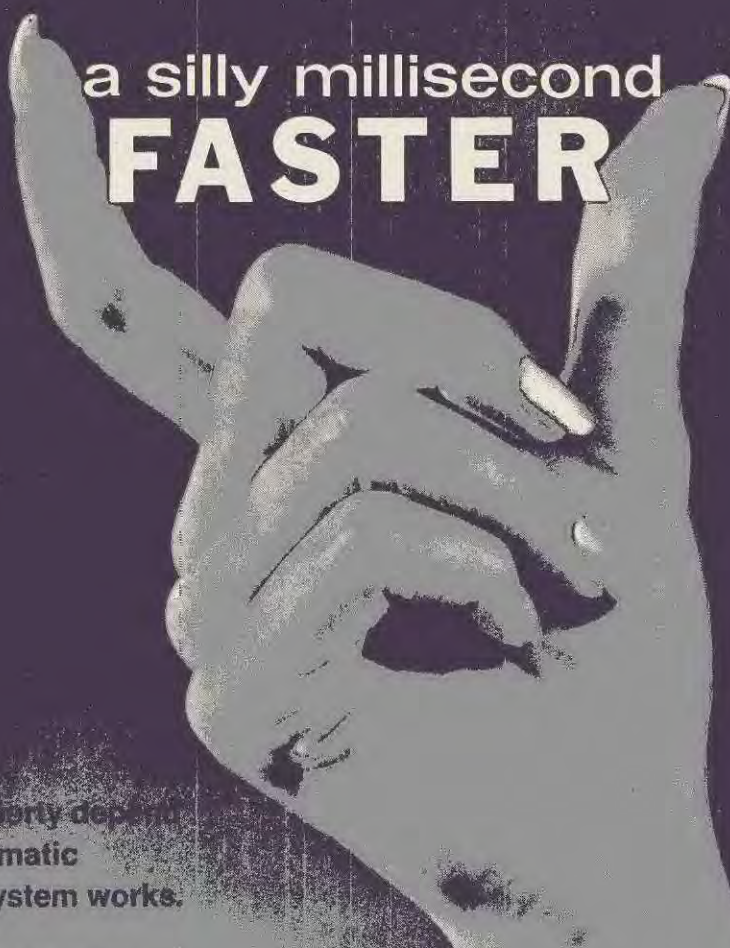
The tax court allowed the wife's travel to and from New York plus meals while en route, as well as cost of daily trips to visit her husband in the hospital. But it turned down expenses for meals and lodging for both husband and wife while staying at the hotel during recuperation. These were ruled not essential to medical care. (*Kelly, T.C. Memo 1969-231*).

WHAT ABOUT writing off the expenses of a general college education to maintain or improve skills? For example, take this situation. A police detective entered a local university as a philosophy student. The police department cooperated with men who attended college by rearinging program of duty to fit the education program. The detective claimed that his college expenses were deductible because it would help him in his police job.

Held: While a college education improves the job skills of all who avail themselves of it, this relationship is insufficient to remove the expense of such education from the status of personal expenses disallowed under the tax rules. The courses were general and unrelated to the taxpayer's duties as a policeman. (*Carroll, Ct. of App. 7th Cir. 10-22-69*).

Court orders new hearings in Jersey

The New Jersey supreme court has ordered the state's insurance department to hold further hearings on its denial of a 20% jump in rates requested earlier this year by auto insurers doing business in the state. At the same time, the court also upheld the department's contention that insurance companies should include investment income from unearned premiums and loss reserves when determining rates. However, the court did note that insurance company's investment earnings from other assets "do not appear to be relevant" in this respect.



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Farmers held liable for hiring illegal workers

SANTA ROSA, Calif.—Farmers and growers will have to look more seriously at the agricultural workers' labor movement demands in the wake of a Santa Rosa superior court decision which makes an employer liable for damages if he employs an illegal entrant into the U.S.

The decision was handed down in response to a suit filed by California Rural Legal Assistance Inc., (CRLA) an agency of the Office of Economic Opportunity, on behalf of Eleno Riojas and Guadalupe Guitan against apple grower Donald Orr of Healdsburg, a town located just north of San Francisco. The suit accused Mr. Orr of hiring illegal immigrants and sought \$20,000 in damages from the grower.

Superior Court Judge Joseph Murphy rejected a move to block the damage action. Mr. Orr's attorneys had contended that the laborers had no right to bring suit. Judge Murphy ruled that the right was provided under the unfair business practices law.

ATTORNEYS for the CRLA representing Messrs. Riojas and Guitan also sought an injunction ordering farm employers to require prospective workers to show alien registration cards, draft cards or local drivers' licenses as legal proof of residence. Judge Murphy stated that this move would be inappropriate since the working season was over. He stipulated, however, that his rejection was "not a determination on whether it should be ordered"—thus leaving future recourse to such action open.

CRLA regards the decision as a victory in its long fight to stop the use of illegal migrants by farmers and growers. The ruling will enable other agricultural workers to obtain injunctions against employers using such poorly paid labor.

The Border Patrol has estimated that as much as \$100 million a year is taken out of the U.S. by illegal workers. A total of 151,000 border-jumpers were apprehended between June 1968 and July 1969.

The Congressional Record lists two bills aimed at remedying this current situation. A bill to prohibit the intentional employment of a person illegally in the U.S. was introduced last year by Sen. Edward Kennedy and Rep. Michael Feighan. In addition, Sen.

Ask changes in work comp

SACRAMENTO—A number of changes in California's workmen's compensation laws are recommended in a report published by the Commission on California State Government Organization and Economy.

The report urged that greater use be made in safety programs of compensation claims information available to the division of industrial accidents, the state fund and other California governmental agencies.

The report also recommends that fees be charged for inspections to cover the costs of such inspections and that fees be charged to self insurers to cover cost of state supervision.

The commission also proposed that the governor be authorized to reorganize the California department of industrial relations. Only jurisdiction not left to the department would be the state compensation insurance fund. ■

Mondale has introduced a bill which would amend the National Labor Relations Act to make it an unfair labor practice to employ aliens unlawfully present in the country, or to hire nonresident commuter aliens during a labor dispute.

In introducing evidence in support of his bill into the Congressional Record, Sen. Mondale stated that "the easy employment of Mexican nationals at wages ranging from five to ten times the amount earned in Mexico has led to the development of a lucrative and sophisticated series of smuggling syndicates which extract up to \$300 from Mexican workers to get them into the United States and find them work." ■

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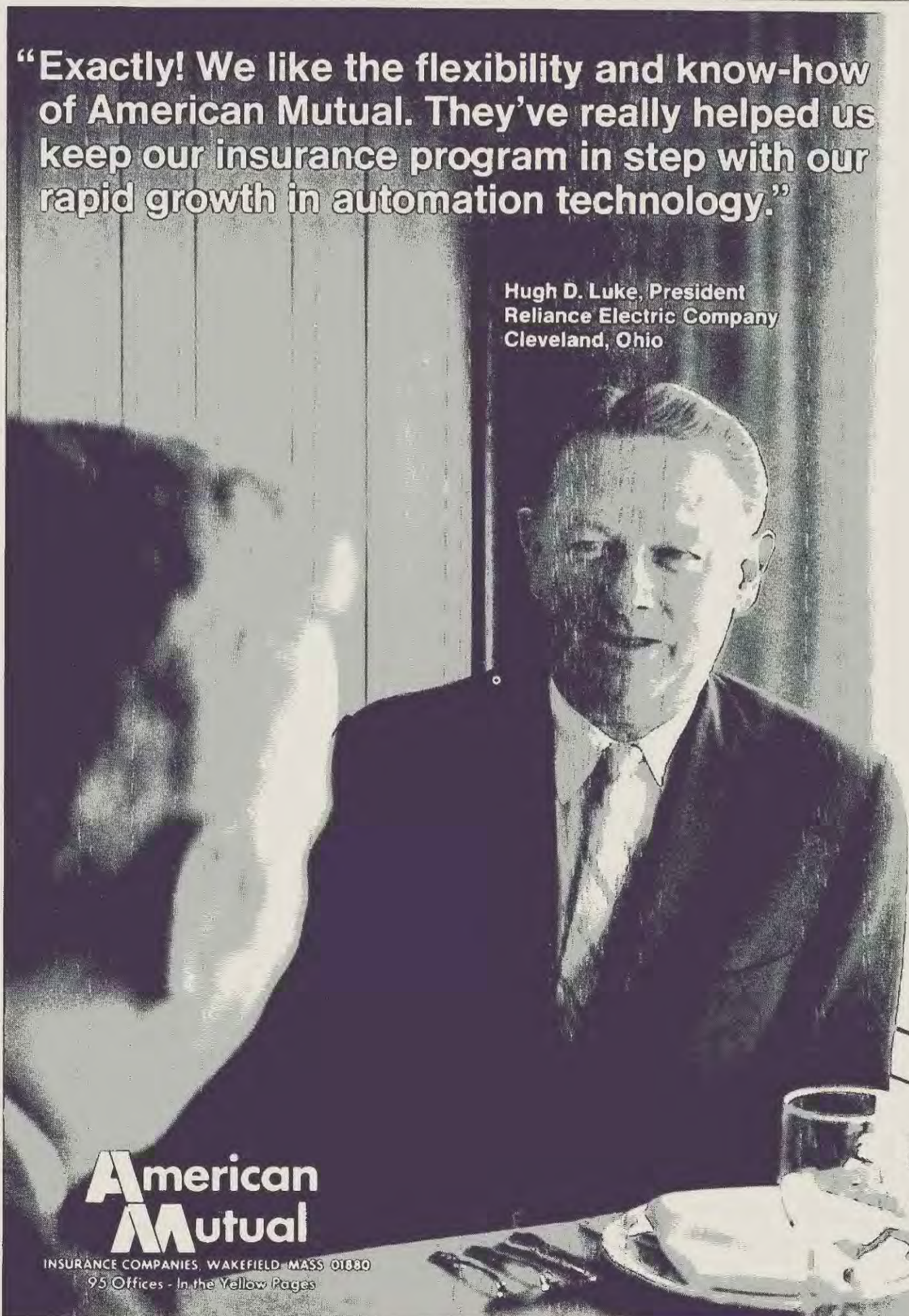
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ASIM learns.

Continued from page 9
bility that a warranty will be breached at the time of a loss, so DIC coverage is necessary, he concluded.

ADDITION OF extraneous perils coverage is particularly important to the basic fire and lightning policy in view of the exclusion of coverage for fire from any cause. Extended cover-

age, the package as we know it, is not standard and not always available from local companies, Mr. Sage said, but has been introduced by American companies wherever possible. It is usually the practice to provide extraneous perils coverage separately for each major peril but sometimes a few associated perils are grouped together.

If a peril is commonly written in a particular foreign market, AFIA must protect its accounts and provide the same cover, "so the net result is that we may wind up with a book of business covering broader perils than either the domestic or the foreign market themselves would write," he said. The problem of catastrophe potential in extraneous perils is often aggravated by the DIC cover that has to be written as part of any well-designed program, Mr. Sage continued. "A world-wide DIC for an important account can add many millions of dollars to our aggregate liabilities in problem areas. Occasionally it may be necessary for this reason to insert a reduced limit for earthquake, for example, in a DIC cover."

AFIA views difference in conditions coverage as a device to bring a "miscellaneous bag of foreign coverages up to a uniform level," Mr. Sage told the meeting, adding that it should not be expected to remedy all the defects in the local insurance program. "In some quarters, among sloppy thinkers on both sides of the table," he said, "the idea persists that the DIC cover can be given away . . . because of

bulk purchasing economies." However, he explained, economies are dissipated when the insurances are spread over different countries with different regulations and requirements.

In emphasizing Mr. Sage's point that DIC is too important a coverage to be "underpriced and poorly administered," F. Arthur Mayes, AFIA president, said, "Our heaviest losses of the past five years were under the DIC, so losses must be covered."

The loss of profits, or consequential loss, policy is the most commonly used contract for business interruption in most overseas insurance markets. In one respect, at least, it is more extensive than the American BI form in that indemnity is provided beyond the time required for physical reinstatement of the damage to the insured risk. Indemnity is made for the period of time it takes earnings to reach the level of the period prior to the fire. Domestic BI forms provide this only as an extension at an additional premium.

THE SUM INSURED represents the annual gross profit and the indemnity period may vary. The rate is a multiple, varying with the country, of the average fire contents rate and the multiple increases as the period of indemnity increases.

In the United Kingdom, Mr. Sage said, the loss of profits policy may be extended to include special perils that would not be covered under a fire policy, such as murder, food poisoning and contagious diseases that could af-

fect profits through loss of confidence in the insured business.

G. R. Stanyon, AFIA secretary, liability, discussing public liability insurance abroad, said it is "relatively simple compared to most of the other required insurances." It is usually the least expensive cover, reducing the importance of having the major cover written locally in an admitted company so that the premium can be taken up as a local tax deduction. All countries also use one basic policy form and modifications can generally be made with little difficulty.

The main problem for a U.S. or multinational company, he said, is that "local admitted forms, with few exceptions, do not extend to accept suit, defend actions or indemnify the insured for claims presented outside the territorial limitations of the policy even though the accident happened within such territorial limitations." The only fool-proof program, he said, is a combination of local admitted insurance complemented by a nonadmitted comprehensive general liability (CGL) policy similar in coverage to that deemed appropriate for the insured's U.S. domestic operations.

The local policy will have the advantage of meeting local insurance requirements within the laws of the country. The nonadmitted CGL policy will afford coverage written in familiar terms, provide excess limits protection for incidents covered under it and the local policy, and give primary DIC coverage for such incidents as may not be covered by the local form.

PRODUCT LIABILITY claims sometimes raise the question of whether the domestic or the foreign policy should respond. In Mr. Stanyon's opinion the best solution is for the contract of the U.S. domestic carrier to provide cover and defense for all claims brought within the territorial limits of its policy, regardless of where the incident occurred, and for the foreign carrier's policy to do the same.

General public and product liability concepts overseas are not as sophisticated as they are in the U.S., he said, and it is wise to check the laws of each country.

"Surety bonds U.S. style and their guarantee counterparts overseas are difficult, if not impossible to compare," Donald H. Colyer, AFIA secretary, bonding and crime, told the gathering. "I think it fair to say that the normal guarantee overseas could be better described as a security deposit with its fundamental function recognized as such."

Picking up the recurring theme of seeing through the other man's eyes, he said, "Our overseas friends . . . are guided by local custom and rules of the game as they play it, that, for the most part, serve them well. Only when you fully recognize nationalism can you then begin to think in international terms."

PERFORMANCE guarantees in some countries are handled exclusively by bank guarantee, or cash deposit; in some countries they are required by law, in others they are optional. Where there is no knowledge of the guarantee function, but where it is called for, it may be considered a contract of insurance rather than suretyship.

A performance bond, he said, may mean the deposit of a letter of credit through the local or correspondent bank, a bank guarantee, or a cash deposit. In most countries contracts are supported by a token guarantee of 20% or less, which is forfeiture in nature. The amount of guar-

British insurers set motor repair center

LONDON—Auto insurers here have set up a motor repair center to perform research and to bring about savings in vehicle repair bills. The British Insurance Assn. says British underwriters pay out about \$250 million a year for car repairs and the association believes that a small savings in that bill would more than pay for the investment in the center.

Located 50 miles from here, the center acquires written-off cars, repairs some, uses others for research and spare parts, and sells the restored cars. All repairs are timed and different techniques for similar jobs are compared. Only cars that are less than two years old and with low mileage are repaired.

Principal aim of the center is to produce findings that will help the repair trade to work faster, better and cheaper.

antee required may be governed by the difficulty of the contract itself or the unknown or questionable performance ability of the contractor.

He recommended studying carefully any restrictive efficiency requirements in bonds in view of local conditions that may affect labor or machinery. "Experience tells us," he said, "that only too often the available labor overseas is inefficient, or even nonexistent—skilled labor may mean ability to hammer a few nails—and where they measure rain in feet rather than inches, concrete doesn't set and machinery, no matter how packaged, gets wet in transit. Efficiency, for myriad reasons, becomes second class."

Adjustment of casualty claims under an unadmitted workmen's compensation policy overseas has some different ramifications than when handled on the domestic scene, Harry E. Strong, AFIA casualty claims manager, said. A voluntary workmen's compensation policy, in reality an accident policy that enumerates benefits by reference to those of a compensation law of a particular state, does not carry with it overseas the protection of being an exclusive remedy. Consequently, each claim must also be viewed as a possible employer's liability claim.

Another major difference, he continued, is the impact of criminal investigations, hearings and trials on claims for civil damages. "In many jurisdictions," Mr. Strong said, "the finding of a criminal or court of inquiry is a complete adjudication of the happening of an accident."

The scope of authority of the insurance manager responsible for supervision of foreign programs should be clearly defined by his corporate management, Joseph B. Weimert, AFIA vp in charge of U.S. brokerage, told the group. Communication of his authority to the overseas organization and full support in his implementation of that authority is imperative. If management feels it must limit his function to an advisory status, he said, "then it should specifically free the insurance manager from responsibility for what might go wrong as a result."

Aetna names secretary

James R. Hibbitts has been named secretary, group division, at Aetna Life & Casualty Insurance Co., Hartford.

ACTUARIES

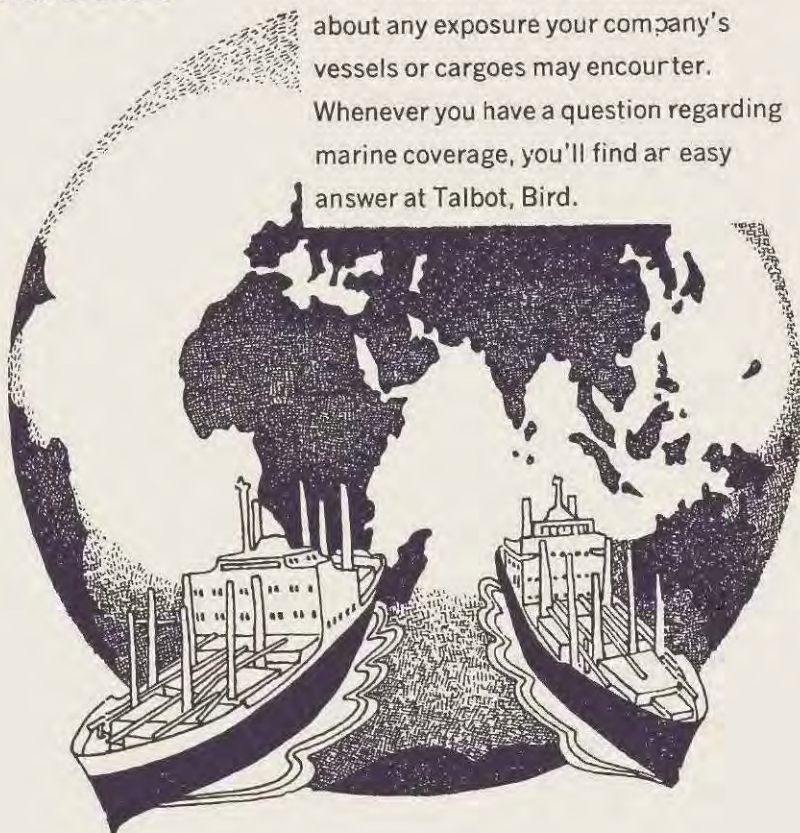
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N.Y. expects minimal rate changes under new no-prior-approval law

NEW YORK—The deputy superintendent of the state insurance department has told brokers he is confident the new no-prior-approval law will not provoke any major changes in insurance rates for the consumer—either up or down.

Moreover, he emphasized that the law has sufficient safeguards built into it to insure against chaotic changes in rates.

Benjamin Schenck spoke before members of the Greater New York Brokers Assn., a group that apparently feels somewhat neglected by the new law which went into effect Jan. 1. "Brokers are not mentioned much in the new rating law," lamented one close to the industry shortly before Mr. Schenck took the podium at a recent meeting here.

ALSO SPEAKING to the brokers were Alexander Rosenthal, president of the Greater New York Mutual Insurance Cos., and Robert Gilmore, assistant general counsel for the American Insurance Assn. Mr. Rosenthal told the group that at this point anything said about the new law and its ultimate effect is "only speculation." Mr. Gilmore, on the other hand, noted that the law is bound to provoke changes in the make-up of rating bureaus because of its anti-trust provisions.

Explaining that the law is divided into four parts—expansion of assigned risk provisions, expansion of the cancellation provisions, expansion of insolvency provisions and an open competition provision—Mr. Schenck said the latter is the most sweeping change for the buyer.

"Our report found that while regulation might have been needed at one time because of widespread membership in rating boards it was no longer necessary for the protection of the public consumer," Mr. Schenck said, referring to the study done by the insurance department prior to its recommendation of the law.

"WE FOUND that the old prior approval law induced companies to join rating bureaus which had the ultimate effect of being anti-competition," the deputy superintendent said.

"Basically," he went on to explain the new law, "rates may now be changed by a company without approval of the department whenever a company is satisfied in its own judgment they are 'reasonable' changes." However, he noted that subse-

Venzke gets Jewel post

MELROSE PARK, Ill.—R. Paul Venzke has replaced Don Straub as Jewel Companies Inc. insurance manager. Mr. Straub assumes new responsibilities as a Jewel assistant counsel and will be assigned to corporate real estate matters of the chain store operation.

Mr. Venzke joined Jewel in 1964 and since then has worked as a claims investigator, insurance analyst and, most recently, assistant insurance manager.

Jewel operates food stores, drug stores and a department store chain. Sales for 1968 were \$1.3 billion.

Mr. Venzke is a 1960 graduate of the University of Illinois with a B.S. degree in finance and economics.

quent filings must be made by companies in addition to quarterly reports of changes made. He added that the department "has the power to reimpose prior approval if it finds open competition is not working.

Emphasizing that anything he said was merely speculation at this point ("There are so many imponderables and intangibles involved . . ."), Mr. Rosenthal said he feels 1970 will not see any "dramatic changes either up or down.

"IT WILL ALL depend on the philosophy and attitude of the superintendent and his aides. A weak statute may be strongly en-

forced in some states and a strong statute may be weakly enforced in others. The (insurance) department has indicated it will maintain a neutral position."

In terms of changes, however, Mr. Rosenthal did say that buyers might see some changes. "In those lines that are difficult to place, there probably will be a general increase of rates. And in the few lines that have been profitable, there may be a decrease in order to get more of this business on a company's books," he said.

According to Robert Gilmore, it is the anti-trust provisions in the new law which have given the American Insurance Assn.

and rating bureaus some cause for pause.

"RIGHT NOW the bureaus and member companies are hard at work trying to rationalize these anti-trust provisions," Mr. Gilmore noted. "It is quite conceivable that we are going to see a different type of arrangement of the rating bureaus," he said.

As reported earlier in *Business Insurance* several insurance companies have withdrawn their memberships in rating boards and associations.

"All the rating bureaus are in the process of revising their constitutions and the way they operate," Mr. Gilmore said. The general counsel said that it is his own view the flight will not go beyond what it has already. "Many companies did that out of ultracautiousness," he noted, adding that he doesn't think withdrawal of formal membership necessari-

ly means they will not continue to participate in obtaining rating information.

THE PROVISIONS bothering rating bureaus and insurance companies are those which prohibit insurance companies from acting in concert when setting rates and another provision which allows private parties to bring treble damage actions if it is determined rates are being set in this fashion.

"What we have here is a little Sherman Act buried in the rating law," Mr. Gilmore later told *Business Insurance* explaining that the provision could open up a Pandora's box similar to that opened when the electrical appliance industry was charged with price fixing. The treble damage provision would allow private suits in which damages, when determined, would be tripled as a punitive measure.

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Giles on the law

Charitable immunity doctrine now applicable in only three U.S. states

By JOHN W. GILES
Attorney-at-law

WASHINGTON—The charitable immunity doctrine protecting charitable institutions from tort liability is practically in ruins, according to the Missouri Supreme Court.

In 1942, six states remained where the rule was in full force. Only three states now remain where the doctrine is enforced, and they are Massachusetts,

Rhode Island, and South Carolina. The court, in abandoning the doctrine, notes that today charity is big business. It is often corporate both in the identity of the donor and in the identity of the donee who administers the charity. Tax deductions sometimes make it actually profitable to contribute to charity. This kind of charity can pay its own way, not only as to its office expenses, but as to the expense of insurance to pay for torts, as well.

Today, public liability insurance is available to charitable institutions to indemnify them against losses by way of damages for their negligence. However, the court said that it did not make the existence of liability insurance a criterion of liability, as some states have done. It merely emphasized its availability and widespread use as a fact and circumstance which did not exist when the doctrine was first adopted.

(Mo. Sup. Ct.—Abernathy v. Sisters of St. Marys.)

WHEN IS AN insurance carrier liable to an employe covered by workmen's compensation, if the carrier refuses to authorize a necessary operation?

A New Jersey case reports that the employe was admitted to the hospital at the request of the carrier, for examination and treatment. The carrier's doctor reported that an operation was necessary to remove a disc. The employe was prepared for surgery on three occasions, but it was canceled each time because the carrier refused to authorize it. The employe charged that he suffered unnecessarily prolonged pain, suffering and mental anguish; that his injury was wors-

ened; that he was prevented from obtaining employment sooner, and that he was not compensated under the workmen's compensation award which he ultimately received for his injuries.

The court said he was right. It cited *Mager v. United Hospitals of Newark*, 46 N. J. 398, which held that a workmen's compensation carrier that maintained its own medical clinic for treating injured employes is liable for the negligent treatment of such employes. The facts in the instant case indicate such an "independent undertaking." Once a carrier has undertaken to provide treatment, it may not cease treatment without subjecting itself to liability.

(N. J. Super. Ct. Appellate Division, *Rothfuss v. Baker's Mutual Insurance Co. of New York*.)

WHEN DOES THE government have a salvage claim?

A ship of the American Oil Co., carrying gasoline and heating oil, caught fire while in dock. The U. S. Coast Guard had assisted the local fire department in attempting to control the fire, and it called in the Air Force and the Navy to provide air lifts of chemical foam when the local supplies were exhausted.

The U.S. made a claim here for salvage in the amount of the chemical foam expended, as well as for aircraft flight costs, military vehicle transport costs and military expenses involved in the Navy and Air Force. American Oil contended that the Air Force and the Navy could not legally refuse to respond to the Coast Guard's request for services and therefore these expenses could not be recovered.

In rejecting this contention, the court pointed out that the legal duty of assistance here was owed to the Coast Guard, not to American Oil. Therefore, since neither the Navy, Air Force, nor Coast Guard had statutory, preexisting legal duties to assist in salvage operations, these operations were entirely voluntary.

You will recall that a salvor's claim must be based entirely on voluntary action; that is, he must render it without compulsion of official or legal duty to render assistance.

(U. S. Court of Appeals, 5th Circuit, *U. S. v. American Oil Co.* 10/3/69.)

CAN YOU WIN on a policy covering your eyes? This plaintiff did not.

The insured was struck in the right eye by a foreign metallic object which was removed from the eye by a giant magnet. A cataract was removed from the eye at a later time. He sought to recover for loss of his eye.

In the policy, "member" included "eye" but loss was defined "with regard to eye, entire or irrecoverable loss of sight." The district court dismissed the suit on the ground that the loss of sight was "entire but not irrecoverable."

This decision was affirmed by the U.S. court of appeals for the 6th circuit. The gist of the decision was that the use of the word "irrecoverable" in the policy requires the minimization of the damages, in that it implies that the insured make an attempt to determine whether his sight could be recovered by glasses or surgery. (*Wallace v. Insurance Co. of North America*—U.S. Court of Appeals, 6th Circuit, Sept. 16, 1969).

Is not this placing a heavy burden on an injured insured who cannot afford to engage expensive eye surgeons? Was there or could there be any guarantee that surgery would improve the condition of the eye?

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business insurance/perspective

Point of no return? The insurance company viewpoint

by Walter R. White,
vice president and commercial lines sales
manager,
Kemper Insurance Group,
Chicago, Ill.

EW. Altstaetter, in his article "An industry at the point of no return" in the August 4 issue of *Business Insurance* has raised several complaints and accusations against the property-liability insurance business.

If his article's title suggests simply that the insurance industry can't go back to the good old days of the 1940s and prior, we all must heartily agree. If the title means, as it seems to, however, that the industry is doomed, then we must take the position of Mark Twain, who protested that the rumor of his demise had been greatly exaggerated. Insurance is indeed faced with many vexing problems, but it is hardly on the verge of extinction.

Mr. Altstaetter's complaints appear to be based largely on two concepts: (a) there is a lack of capacity, and (b) the companies say they are making a poor profit but in fact are making a good profit. He rightly senses that capacity and lack of profit are related. Let us look at one of these concepts, profits, first.

Insurance Company Profits

There has been a great deal of first-rate literature on this subject in the past year or two. Receiving the most attention are the two Arthur D. Little studies by Dr. Irving H. Plotkin. Equally meritorious is

Russell P. Goddard's paper, "Total Earnings from Insurance Operations—The Investor's Viewpoint," appearing in the 1968 Proceedings of the Casualty Actuarial Society. While approaches and philosophies differ, all these studies indicate that the ratio of profit to invested capital has been about 8% for the past ten years or so (somewhat less for the past five years). The ratio of profit to gross sales has, of course, been a great deal less.

THESE PROFITS have been realized very substantially from investment income and unrealized capital gains, and hardly at all from underwriting opera-

'No, the companies do not say they are making no profit. They say, rather, that they are among the least profitable of all industries.'

tions. In fact, the typical company shows an underwriting loss, which reduces the investment profit. The degree of underwriting loss varies, but obviously if it increases to a point where it exceeds investment income, the entire operation becomes unprofitable. The company in that case would be better off to shut its insurance doors and operate as a mutual fund.

No, the companies do not say they are making no profit. They say, rather, that they are among the least profitable of all American industries. Consider:

- Item—The First National City Bank of New York lists the profit ratios of leading industrial groups countrywide. Property-liability insurance consistently shows up last in the listing of the 65 groups.

- Item—Forbes, in its January, 1969, issue, ranks the finance group 20th out of 23 for profitability, and 14th out of 23 for growth. It includes insurance companies in this group, which also includes IBM and Sears Roebuck. In fact, in the list of 41 corporations in the finance group, the first insurance company appears 21st, and this is a group, American General, which is heavy on the life side. The big property-liability companies barely make the

have been less than their adjusted book values. In other words, in the eyes of the investors they were deemed to be better dead than alive. Toward the end of 1968 their prices climbed, so that they nearly reached a parity with their book values; but in 1969 they have again retreated, along with the general market. How do those who claim the insurance companies are making a high rate of profit explain this fact?

Mr. Altstaetter implies that the conglomerates, which have been buying some insurance companies, are doing so on account of their profitability. He says, "Certainly National General didn't think badly of Great American." National General valued the earning power of its new acquisition so low that it pulled \$150,000,000 completely out of the business and put it to work elsewhere. What this kind of action does to capacity we will consider in a moment.

THE INSURANCE companies very naturally want to turn a profit on their insurance operations. The managers are constantly reviewing their portfolios, to prune out the least profitable parts or to raise prices. They are fought bitterly every inch of the way by insurance departments, consumers' organizations, and legislative bodies, and are accused of everything from indiscriminate cancellation and "dumping" to downright boycott. In New Jersey, for example, they have

Continued on following page

Forbes 500 list: Aetna is the first one, appearing in 446th place, Travelers Corp. 449th, Hartford 469th. These companies showed about a 5% or 6% average five-year return on stockholder's equity.

- Item—News Front, November, 1968, lists the top 100 U.S. corporations, ranking them by (a) profit to sales, (b) profit to stockholder's equity, and (c) growth. Not one insurance company appears on any of the three lists.

For several years the prices of the stock of property-liability insurance companies

Products liability: Controlling and avoiding losses

by Robert D. Schaible,
liability claim manager,
Employers Insurance of Wausau,
Wausau, Wisconsin

This is an excerpt from a speech given by Mr. Schaible at the recent Mutual Insurance Technical Conference in Chicago. Though Mr. Schaible speaks as an insurance company executive, his remarks carry a sharp message for risk managers and general corporate executives.

Fifteen years ago, not more than a handful of cases in the courts involved questions of products liability. Today these suits are counted in the tens of thousands. Not only has the number of products claims increased, but the average cost to manufacturers, assemblers of parts, distributors and retailers is increasing faster than any other type of case.

The sharply rising uptrend in the incidence of such cases can be laid to an increased claims consciousness on the part of the public that is fanned by news stories that seize upon the sensational and blow it up. Just as the advertising media has done so much for mass distribution of products,

so other media have educated the consumer to the possibility that someone may be liable for the harm which is caused by the product. That public which has been persuaded to buy with enthusiasm is just as eager to impose liability if the product does cause harm.

The problem hasn't escaped the attention of the Federal government either. When he was president, Lyndon Johnson said, "Among the American consumer's rights in the marketplace is the right to be protected from unsafe products." And, on another occasion, he was quoted as saying, "Safety is no luxury item, no optional extra; it must be a normal cost of doing business." The National Commission on Product Safety, a Lyndon Johnson brainchild that is being continued by the Nixon Administration, has launched a fact-finding foray into the maze of legal questions surrounding product liability. It can be expected that far-reaching legislation will be proposed by the commission to provide what the commission believes is needed for consumer protection.

MOST PEOPLE who have little or no understanding of design engineering, manufacturing, test procedures, quality

control, marketing, or contractor inter-relationships, are forming opinions about safety and product liability on the basis of what they read in newspapers and magazines—and the emphasis in the news is on product failure rather than product success. Is it any wonder that the general public believes that manufacturers, in general, are dragging their feet on product safety?

What must be done to control or avoid product liability losses? A few examples of the types of product cases being encountered today may provide the answer.

A product defect, or a claim alleging a product defect, may arise from faulty design, faulty manufacture, faulty components or materials that are purchased, faulty specifications, incomplete instructions, lack of warning or inadequate warning of hazards that might arise from normal use, as well as reasonably foreseeable misuse of the product.

The following examples include cases where the claim was based on one or more of these causes:

- Claim for fire damage to a building allegedly due to a malfunctioning deep fat fryer. The alleged malfunction was claimed to be due to plumber's pipe dope or com-

pound entering a gas valve making the valve inoperative.

- Claim by an electrician for loss of vision in one eye caused by a piece of coaxial cable hitting the eye when the cable was cut by the electrician. It was claimed that the conductor gave the appearance of soft copper wire when it was, in fact, copper covered steel wire. The claim was that the wire was unreasonably dangerous and defective because the manufacturer failed to give a warning that the wire would fly off when cut.

- The manufacturer of a sewing machine was asked to pay damages to a purchaser for injuries sustained when the head of the machine struck her as she opened the machine. The head had bypassed the stop because the hinges bent out of shape. It was claimed that the hardness of the hinges had a rating less than that specified by the retailer for whom the machine was manufactured.

- Claim against the manufacturer of a sheet metal shearing machine wherein the claimant was injured while using the machine when the blade came down upon his arm. The only allegation of negligence was that the manufacturer designed and man-

Continued on following page

perspective

White...

been denied an auto liability rate increase for four years, and are now expected to operate at an underwriting loss of at least 20% (far more than can be offset by investment income). Is it any wonder that the insurance market in that state is drying up? The companies are quite conscious of the increasing attention automobile insurance is receiving as a necessity in today's society, but understandably are reluctant to subsidize the New Jersey motorist to such an extent.

One vocal critic of the Arthur D. Little report is Professor Norgaard, formerly of the University of Southern California. He teamed up with his then fellow Professor Schick to produce testimony before Senator Hart's antitrust and monopoly committee, to the effect that insurance companies "are producing extremely high rates of profit."

In an article in *Trial* magazine, he categorically states that insurance companies over a 15-year period turned a better profit than 90% of non-insurance companies. But upon examination it turns out that he measures noninsurance profits in a normal fashion, i.e., net income to net worth, while his measure for insurance companies is growth in assets only. He naturally arrives at some distorted figures. For example, his worksheets show a

70% profit for Continental Casualty Co. in 1956. This is the year that company acquired National Fire Insurance Co. of Hartford for an exchange of shares, and assets went up from \$274 million to \$453 million. To label this as "profit" is, of course, mistaken.

In like fashion, Mr. Norgaard disregards contributions to surplus. When the owners of Allstate put another \$50 million into the company in 1958, he records it as "profit." Likewise increases in the loss reserve, the tax reserve, indeed all reserves. It would be a tragedy if such data were being taken at face value in Congress and elsewhere.

Capacity

It is against this background of relative unprofitability that we must examine the problem of capacity. Under these conditions it is inevitable that capital will seek more remunerative uses. Even so, the insurance companies have done a very creditable job. In airline insurance, liability covers up to \$100 million per occurrence have been put together. Against the hazards of peaceful nuclear energy the companies have fashioned protection with a top limit of \$164 million per occurrence.

Mr. Altstaetter speaks of "the retreat of aviation underwriters in the face of jumbo jets." One must presume that the inability of the insurance companies suddenly to triple the capacity to \$300 million, which is probably the new level sought,

is what disappoints him. He must be very much aware of the efforts of the airlines to form their own insurance company and of the troubles and disappointments they have had.

THE JUMBO JETS certainly do pose new problems. The insurance companies must be convinced that they can get the necessary premiums to sustain the expected losses. Unless such premiums are forthcoming, they will indeed "retreat." Unlike auto, no one really expects them to subsidize the airline business. If appropriate premiums are forthcoming it is likely that substantial increases in participation will occur.

Incidentally, in two places in his article Mr. Altstaetter has gone out of his way to deride London reinsurance. In view of his criticism of the companies for their failure to reach huge, new capacities, this is quite puzzling. Why reject British and other foreign support? They form about one-third of the nuclear pool insurance capacity, and are very welcome partners in that venture. He says, referring again to the demands of the jumbo jets, "No running to London on this one." Why not? If reinsurance markets outside the U.S. are not to participate, capacity will indeed take a nose-dive. We need them, just as they need us in many reverse situations.

Several criticisms are made by Mr. Altstaetter of the crippling nature of state regulation. In general, the insurance in-

dustry agrees with his ideas. He is certainly optimistic, however, in his contention that Federal regulation and control should be exclusive, "replacing the 50 states with one jurisdiction, not just adding a 51st."

It is partly because such an outcome is so unlikely that the companies oppose Federal regulation. Also, they view the idea of a single jurisdiction with misgiving, mistrusting the possible consequences of putting so much power in a single place. He says that under no circumstances should the Federal government become involved in rate regulation. But in view of the social nature of auto insurance such regulation would inevitably follow, and there are those within the industry who believe removal of the antitrust exemptions to be a desirable form of Federal rate regulation.

Mr. Altstaetter is to be commended for his appeal that the insurance companies be permitted to operate at a profit, that some meaningful measure of profit be agreed to by all parties, and that we move away from some of the outmoded and shackling methods of regulation presently employed. If he is joined by all corporate insurance managers, the companies will indeed receive some powerful support in the attainment of these objectives. In the meantime, however, the industry is alive and kicking, and very far from the point of no return. ■

Schaible...

ufactured a sheet metal shearing machine with a safety guard which could be easily removed while knowing that such devices are often removed to speed production.

- Claim for injury due to the use of a product even though the user was using it contrary to the warning and caution wording on the label. The product's name contained the word "Safety." It was claimed that the prominent display of the product name played down the dangers and canceled the warning and caution that were printed on the label in smaller print than the name.

- A manufacturer of swim suits was sued by a young lady for mental anguish she claimed she suffered when her personal and private parts were exposed to view after her bathing suit became wet.

The claimants didn't recover money damages in all of these cases. However, in all of them the manufacturer or his insurer had to make an investigation. In some of them the manufacturer and/or his insurer had to make elaborate tests or experiments, engage the services of experts, pay attorneys' fees, attend conferences, answer interrogatories, give depositions, attend trial and appeal to appellate courts before the manufacturer's liability or nonliability was determined. Win or lose, the existence of products claims means greater operating costs for the manufacturers and, not so incidentally, higher prices for the consumer.

How does the manufacturer meet the problem? Obviously he must develop a plan of action for controlling product liability losses. Careful preventive measures must be established and followed.

THERE HAS BEEN considerable literature published for manufacturers on this subject of product loss control. Two especially good pamphlets were published by the Defense Research Institute. They are entitled "Products Liability: Guides for the Corporate Manufacturing Executive" and "Products Liability: Guides for the Corporate Executive II." Copies of these pamphlets may be obtained at cost from the Defense Research Institute, 1212 West Wisconsin Ave., Milwaukee, Wis.

My company long ago concluded that the product liability problem could best be met with a positive, creative, long-range approach. We therefore set to work with the conviction that the only practical and permanent solution would be to help our policyholders minimize the possibility of their products proving harmful—and

maximize the possibility for a staunch defense if and when their products were alleged to be harmful.

How, specifically, can an insurance carrier be of practical help in the matter of products loss control? It must recognize, first of all, that it cannot prevent its policyholder's product liability losses for him, any more than it can handle his quality control, or his marketing, on any other basic function. The carrier cannot run this or any other parts of the policyholder's business. But the insurance carrier can counsel and assist toward that end; this is its proper role.

One of the first steps the insurance carrier can take in providing assistance is to help the policyholder evaluate his product liability problems. Once a manufacturer has completed such a painstaking evaluation, his major needs are determined. On this foundation, the carrier can then assist in developing a plan of action, in which objectives are spelled out in the form of controls for the most serious problems and target dates are established for the completion of these controls.

'Some companies have created the position of reliability director or product safety coordinator ...'

I WON'T GO INTO specific product liability loss controls, as you are probably familiar with most of the basic ones, such as maintaining careful records and checking the accuracy of advertising and sales literature. But I do want to emphasize, especially, the importance of having a manufacturer's top management develop a positive philosophy and a management policy on product safety. There must be vigorous determination within the company to make the finest, the safest, the most reliable product on the market; this determination must penetrate the organization, from the top down! Management—and management only—can spark and nourish such a positive philosophy.

As a first specific control step, management must develop and communicate a firm policy on product safety. The policy must spell out objectives concerning product safety and underline each employee's responsibilities in meeting those objectives. Every person must know, unmistakably, what is expected of him to assure product safety and he must be held accountable for meeting responsibilities.

After a positive philosophy is created and spread throughout the organization,

and a policy on product safety is clearly and forcefully written and communicated, beneficial forces will be set in motion. But then these forces must be kept moving. This is achieved only by fixing responsibility and accountability.

Company policy should designate a specific person or group of persons in the organization who will have the important responsibility and authority to keep the product safety policy working throughout all operating divisions.

Some companies have created the position of "reliability director," or "product safety coordinator"—and before long, perhaps the title "vice president for product safety" will become a familiar one. Whoever this person is, and whatever he is called, he should be in a fairly high echelon of management. He will help maintain the consistent coordination, cooperation and communication involving key people and departments that are required for an effective control system.

IN THE SUMMER of 1968 my company hosted a national symposium on product

consulting regularly with one another—should be continuously meshing gears with one another."

Over and over again participants pointed up the need for top management leadership and direction in product safety—and not mere support. One man summed it up well when he said: "The best control system in the world won't even get off the ground without strong, consistent management leadership."

Effective product liability control and preclaim planning will not only help to guarantee a company's survival in today's perilous climate; it will also help to guarantee for that company a generous slice of the market—because everything a manufacturer does to heighten and maintain the quality, the reliability, the safety, the integrity of his product, also works directly to make that product more saleable—more valuable—more reputable in the consumer's eye. ■

Answer man

This feature is designed to give *Business Insurance* readers an opportunity to get answers to questions related to risk management and employe benefits administration. Ask the Answer Man about sources of information, a special problem in your company, a market for a particular line of insurance. You may wish to ask for information on an insurance carrier or on particular facets of an employe benefits program. Send your questions to the Answer Man, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611.

Dear Answer Man:

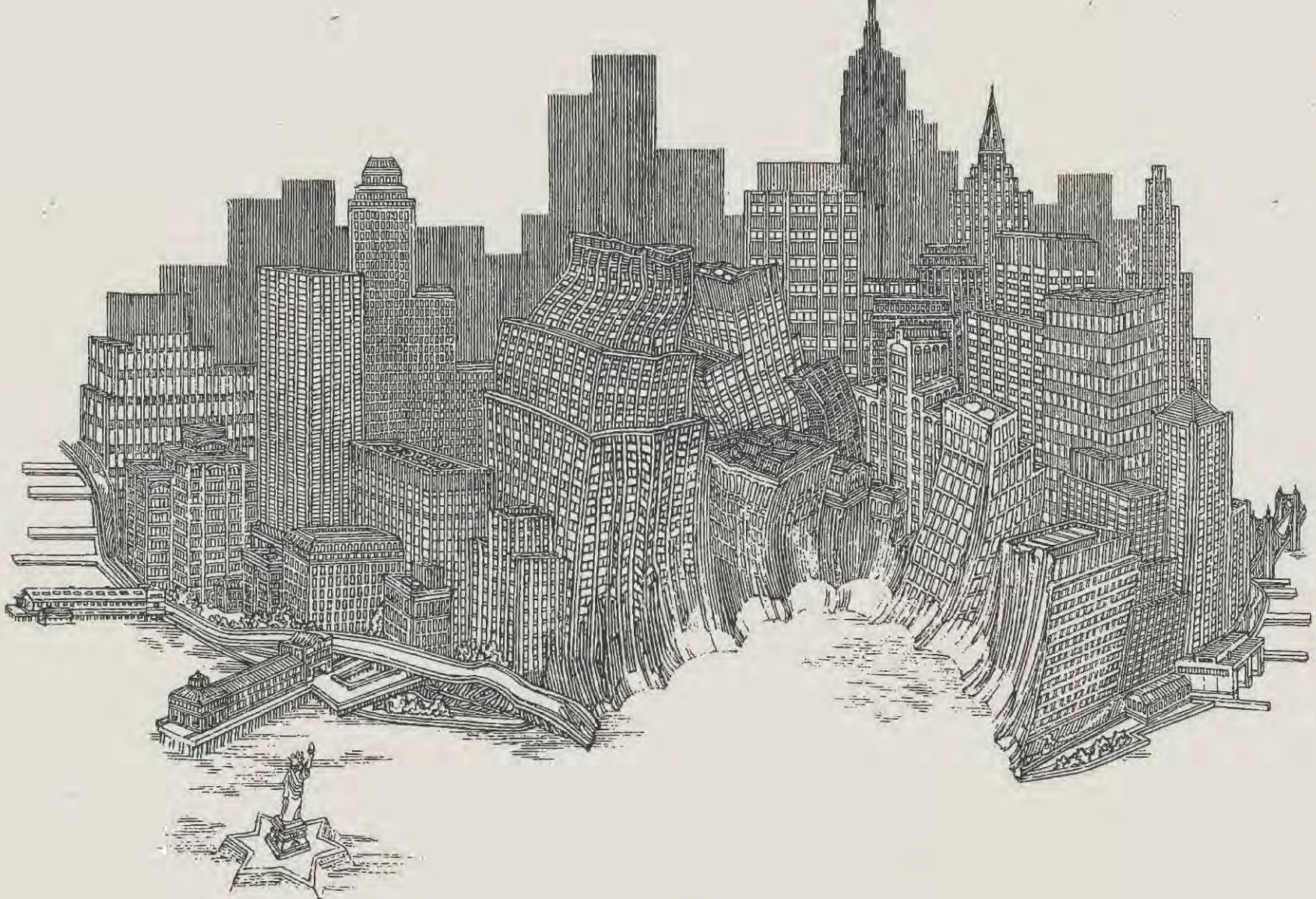
Please advise me of the proper methods to employ in seeking a state license to establish a fire-auto-property insurance company.

Thank you for whatever help you may be able to give me.

Edward F. McFarlin

Chicago, Ill.

ANSWER MAN SAYS: Requirements for a state license are detailed in the State of Illinois Statute Code, Chapter 73, Articles 1-2, Section 613-647.1 with supplemental requirements under Article 1, 1-35.1. The Illinois department of insurance advises that anyone interested in starting a company contact Don Weber, Fire and Casualty Department, Illinois Department of Insurance, State Capitol, Springfield, Ill.



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Lunt offers prepaid dental care to 500 employes

GREENFIELD, Mass.—Some 500 employes and their families of Lunt Silversmiths here will comprise the first group in the six-state New England area to receive prepaid dental-care coverage under a new plan sponsored by the Massachusetts Dental Service Corp. through Blue Cross.

"We simply felt this was a proper move," company president Denham C. Lunt Jr., said, noting that the firm has always

tried to maintain the best possible health insurance coverage for workers.

Dental Service president, Dr. Harry K. Bailey, remarked:

"WE KNOW THAT pre-payment will encourage better use of dental services, so we expect that the corporation, sponsored by hundreds of dentists throughout the state, who have signed as participants, will make a major contribution toward improved

dental health in the commonwealth."

Dental Service has arranged with Massachusetts Blue Cross to provide administrative services for the program to be offered to employed groups across the Bay State.

Initially, a group must have at least 200 employes enrolled—and the 200 must be at least 75% of all eligible employes.

This minimum will be reduced in the future, and, it is expected,

individual memberships will be offered.

SIGNIFICANTLY, a group does not have to subscribe to Blue Cross-Blue Shield to join the statewide dental service plan.

Lunt Silversmiths will pay the entire cost of the local program, basic benefits including full coverage with no waiting periods for services listed when rendered by a participating dentist.

District manager Edward Bach, Blue Cross, told *Business Insurance* that "participating" is the key word to the no-waiting provision.

At the outset, some 50 dentists in Western Massachusetts communities are participants.

BENEFITS INCLUDE services provided by dentists on routine visits.

The service corporation says that participating dentists have agreed to accept the dental service payment—95% of a dentist's customary fee—as payment in full.

Service components include: Diagnostic X-rays, one complete examination, diagnosis and charting for each person covered in the plan, one cleaning each six months per person, one fluoride treatment annually for each person if done in connection with cleaning, fillings as needed, including treatment, fillings and stainless-steel crowns for primary teeth, simple extractions, and, if extractions do involve surgery, payment for regular extractions will be made towards the cost of surgical extraction, root-canal work, general anesthesia and denture rebase and repair.



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COMPUTER CLAIMS CONTROL

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Hospitals ...

Continued from page 14

more goals, sensible, self-respecting responsibility, and the size of bills.

Hospitals can help. In Cincinnati, the hospitals are chipping away at some of their more apparent inefficiencies. A spokesman—well-trained, experienced and conscientious—takes issue with anyone who suggests administrative inefficiencies contribute to higher costs. He doesn't like the stigma of inflation applied to medical costs.

HE RIGHTLY points out that higher costs do not mean inflation when services are improved. More and better service should cost more, he says. He can make other cogent points.

- Cincinnati hospitals four years ago accelerated their training programs for practical nurses, and induced 200 retired Registered Nurses to take refresher courses and return to duty. Scholarships are made available and are attractively advertised to laboratory people, dieticians, and people trained in other essential disciplines who might otherwise seek employment in industry.

- Obstetric beds were reduced from a high level of 700 (12 years ago) to the current 400 bed level; the 300 beds were converted for surgical cases without constructing more floor space and additional investments. Three hospitals dropped OB services entirely. Cincinnati now has a birth rate of 78 babies per day, and no hospital now has fewer than 1,500 OB patients per year.

- Three hospitals have joined with Blue Cross of Southwest Ohio in developing a time-sharing computer service to increase the efficiency of their business office operations.

- Other hospitals are cooperating in laundry services.

THE HOSPITALS were not helped by evolution of comprehensive specialty services, such as privately owned laboratories. Cincinnati has only one private 'total service' laboratory and it's just getting started. The community also has no private (corporate) group medical services.

(It helps understanding to know that Cincinnati's business and industrial community serves a very large rural and suburban area, and is located in the center of a semi-rural transition area containing many doctor-poor communities.)

Hospital spokesmen tactfully avoid discussion of their operat-

ing efficiencies. They also avoid comparison of their different levels of service, both professional and housekeeping. Prices charged vary, however.

The only logical explanation is that competitive forces are at work, and the public and its physicians are exercising choice, and that different hospitals offer different levels of service. Evidence indicates the differences are in the level of *professional services*.

AN OPTIMUM hospital economy demands that beds, at least, stay full. This covers the cost burden of parking lots and kitchens. And if keeping beds full is a significant factor in efficient operation, then empty beds—while they increase opportunity for providing faster moving professional service—are a cost-increasing problem that hospitals could share, ultimately, with motels and hotels, dormitories and public institutions.

The problem is simply academic at the moment. But a hospital with good housekeeping and declining or 'stand pat' professional services, may be the long-range solution to the persistent cost problem. Patients who need fewer professional services can be comfortable in lower cost beds. The total cost of individually funded group plans could be reduced, and the cost to employers who offer generous insurance benefits also might be reduced.

Subtle forces at work in a competitive society, when they influence 'customer' selection of non-competitive services, most certainly increases differentiation of the available products and services. Differentiation of hospital care services—at least in professional services, likely will continue.

Administrators of company-funded programs can help the expansion of lower cost facilities; they can devise the provision in agreements now being written.

This is apparently what the most sophisticated management teams are trying to do. They are doing it with professional 'style,' without criticism, without pointed attacks on any segment of the medical fraternity.

IF NEW PROGRAMS represent trends, it seems likely that employers will:

- Fill voids in coverage;
- Expand benefits;
- Write the provisions 'in more detail';
- Rely on existing professional services rather than create in-plant services of their own;
- Study their costs very carefully.

D&O, manufacturers' covers introduced

CHICAGO—Stewart, Smith has introduced two new coverages, one for directors' and officers' liability coverage for moderate-sized companies and the other manufacturers' penalty insurance.

The directors' and officers' coverage is written in Pacific Indemnity Co., Los Angeles, and will compete with similar plans now offered by American States Insurance Co., Indianapolis, and American Home Assurance Co., New York.

The manufacturers' penalty coverage is designed to insure against liquidated damages clauses for the late delivery of manufac-

ture goods, the late completion, starting and testing of machinery, and the failure of goods supplied to meet performance guarantees required by the buyer or ultimate user. It is believed this is the first time manufacturers' penalty insurance has been offered domestically.

GENERAL qualifications for financial institutions under the d&o plan are deposits of not more than \$50 million and not less than \$10 million. Corporations must not have assets greater than \$5 million with net worth of at least \$1 million. Non-profit organizations with assets of not more than \$5 million also qualify, but closely held compa-

nies are not accepted as risks under the new plan.

The maximum coverage available under the d&o plan is \$1 million; rates are determined individually, according to Hal Fredricks of Stewart, Smith. The minimum deductible and retention is \$5,000 for the d&o insurance.

The manufacturers' penalty coverage also has a \$1 million limit, A. Norman Dubois, another Stewart, Smith executive, said. The policy pays 90% of the insured's actual liquidated damages losses.

"Strikes are normally excluded," Mr. Dubois added, and underwriters will watch carefully arbitration clauses.

"Underwriters are interested only in firms manufacturing standard products—not experimental products," the Stewart, Smith executive said. ■

Many bridge-collapse claims remain unsettled

POINT PLEASANT, W. Va.—Although traffic is now moving on the new \$14.5 million replacement of the Silver Bridge, which crashed into the Ohio River here two years ago and killed 46 people, settlements of claims against the state and construction companies remain at a standstill.

A spokesman in the West Virginia state road commission told *Business Insurance* that \$6,392,483.52 in claims have been filed against the state. In addition, \$37 million in suits have been filed against the construction companies—U. S. Steel and the J. E. Greiner Co. of Baltimore.

"The National Transportation Safety Board is still trying to determine what caused the col-

lapse," he said. "They should release their report early in 1970, if they ever release it. It's hard to determine the cause of something like this."

HE EXPLAINED that the board was studying pieces of the 1967 wreckage. According to one report, a hairline crack in a support bar has led the board to believe the bridge fell from internal stress rather than from too much traffic weight on top.

"The board is not trying to put the blame on anyone," another highway official said. "They are merely determining what physically went wrong with the bridge. How lawyers will use the board's report is something else." ■

Businessmen..

Continued from page 2
of Continental Insurance Co. "They're like doctors trying to keep a patient alive while a cure is sought. Most firms are very highly automated, but every day I see some senile messenger stumbling along taking millions of dollars in securities from one computerized firm to another."

Philip L. Schiedermayer, president of the Security Engineering Co., thinks it's a matter of management programming the computer programmers as to what's happening in the company.

"Often a programmer comes up with something that the office people simply can't live with and that makes audit trails impossible," Mr. Schiedermayer said. "Management should sit down and look at its procedures, not as he thinks they exist or as some computer expert tells him they exist, but as they are."

AS MOST procedures exist now, it's easy for an unscrupulous computer operator to push the wrong buttons. Robert V. Jacobson, president of Bradford Associates, said that the person who tampers with computers acquires his fortune slowly, but surely.

"With computer errors," he said, "it's death by slow strangulation. For example, one man in a brokerage firm came in on Sundays and ran punch cards through the computer to add a little bit every week to his and his wife's account. In five years he had a quarter of a million dollars."

He said another employe programmed a computer to ignore all bad personal checks that he cashed.

"Errors are often hard to detect because the data of one computer is input for another machine. The second machine computes the wrong figures and pretty soon all the files are full of mistakes," he said. "People just tend not to question a nice neat form that comes out of a computer."

BY THE TIME all the little errors have mushroomed into a big loss figure, the criminal has flown south with the money and is usually never heard from again. Employe background checks being what they are, he may even wind up working in another financial house.

Mr. Jacobson suggested much tighter guarding of computer rooms in off-hours and having a separate computer library that also has close supervision.

"Once you get a good system going, the main thing to do is audit, audit, audit," he said. "Keep up with it." ■

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Sentry's new conversion plan to be heard Feb. 2

MADISON, Wis.—A complex battle over the proposed reorganization of Hardware Dealers Mutual Fire Insurance Co. into a capital stock insurance company will resume here on Feb. 2.

Wisconsin Insurance Commissioner Stanley C. DuRose will reconvene a hearing on the plan, revised by the management of the Stevens Point-based company in the face of criticism that the original plan would not be fair to policyholders and might provide a windfall for company officers who would have enjoyed healthy stock options.

The proposed reorganization, long under consideration by the management of Sentry Insur-

ance, the general name of the Hardware Dealers group, came into controversy at a department hearing in December. One of the issues was the accuracy of a 100-page report on the Sentry plan compiled by Bernard L. Webb, assistant professor of actuarial science and insurance at Georgia State University, Atlanta.

PROF. WEBB, a former Sentry employe and still a policyholder, alleged that faulty appraisals of the company's net worth could result in a windfall of \$8 million or more for the Sentry management team. He later withdrew his objection to the appraisal but

maintained that the reorganization would be undesirable for policyholders.

In this assertion he was supported by Michigan Insurance Commissioner Russell E. Van Hooser, whose assistant testified at the hearing, as well as by Sen. William Proxmire (D.-Wis.) and Dean Spencer L. Kimball of the University of Wisconsin law school.

OFFICIALS of the company told *Business Insurance* that major corporate policyholders would not be affected by the reorganization plan. Hardware Dealers Fire has 341,000 policyholders, most of them in personal lines.

Sentry's major corporate policyholders are concentrated in Hardware Mutual Casualty Co., which is not part of the reorganization plan. Policyholders of the casualty company are represented by Atty. Richard D. Pinkham of Wausau.

Sexton buy brings A&A volume to \$28 million

MINNEAPOLIS—An agreement in principle has been reached on a Feb. 1 merger of Charles W. Sexton Co., Minnesota's largest insurance brokerage, with Alexander & Alexander Inc., an international insurance brokerage firm headquartered in New York.

Merger with the Sexton firm, with an annual volume of \$3 million in fees and commissions, brings the annual volume of A&A to \$28 million, a figure that includes the income of the Detroit Insurance Agency recently merged with A&A, one of the nation's three largest brokerage firms.

Officials of the Sexton firm acknowledged that the merger may cause a reevaluation of the status of Alexander-Sexton & Carr Inc., a nationwide joint venture of several insurance brokerage firms. Alexander & Co., another principal of Alexander-Sexton & Carr, was recently acquired by Corroon & Black Corp.

AMONG MAJOR accounts of the Sexton Co. are Hormel, Green Giant, Archer Daniels feed, Con-

trol Data, Gould-Clevite and Horner-Waldorf paper, among others.

Sexton, founded in 1884, has offices in Minneapolis and St. Paul, Minn., and in Portland, Ore. After the merger, the firm will operate officially as Charles W. Sexton Co., division of Alexander & Alexander Inc.

An announcement said, "The merger will give Sexton expanded facilities for all types of commercial and industrial insurance, as well as employe-benefit services, with offices throughout the United States, Canada and the free world."

Teamsters . . .

Continued from page 1
Mr. Weiss said. "Once Mr. Fitzsimmons had completed the presentation of his formal proposal to the truckers' negotiators, Mr. Ferner stood up and declared he was 'in full agreement' with the Teamster program."

The wage demand the Teamsters presented consisted of a \$1 hourly increase in each year of the proposed three-year contract for drivers, mechanics and other hourly employes. The average hourly wage under the current national master freight agreement is close to \$4.

IN ADDITION to the hourly increase, the Teamsters are asking for a 12¢ per mile increase in the mileage rate for long-haul drivers currently averaging about 12.5¢. In addition, the union asked for a higher cost-of-living rider based both on the hourly and mileage rates of compensation.

The contract demands prompted a wry, "This all goes to show that man's needs and desires are insatiable," from Mr. Weiss. When asked to comment on the union's chances for winning its proposals, he laughed, saying, "I'm afraid my crystal ball is too foggy just now."

The Teamsters and truckers have already had a minor hassle involving the cost-of-living rider, which the truckers do not want to change. In addition, management has asked that the "grandfather" clause, a traditional union method of preserving contract gains, be omitted from the new contract.

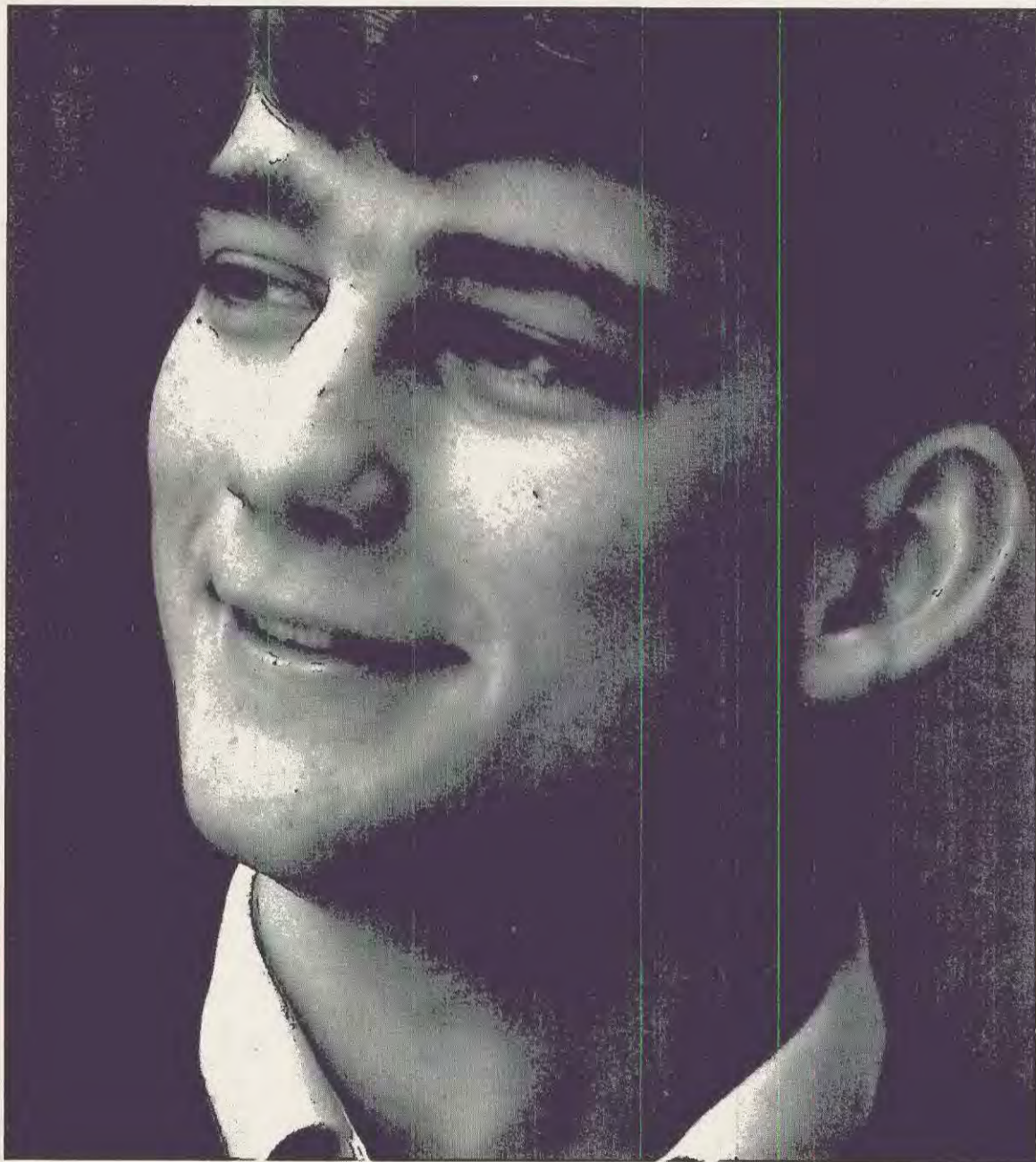
Insurers hike tanker rates

LONDON—Insurers are raising rates for tankers after several major casualties. They are also pressing for special safety checks to find the real cause for sudden fires while tankers are being cleaned.

These drastic moves follow such disasters as the loss of the 206,000 ton Marpessa, the explosion on the 220,000 ton King Haakon, and the fire of the 208,000 ton Mactra at sea within a few days of each other.

Experts are being pressed to find what went wrong during the critical period of tank cleaning before these vessels reloaded with further oil assignments.

Underwriters have agreed already on an increase in premium rates for total loss from around one per cent to two per cent, but special rates may be sought for the jumbo tankers, because of anxiety over the loss ratio.



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speaking of safety

Foam: Stepchild may get 'big daddy' approval

By GEORGE LANGWORTH

HARTFORD—High expansion foam, long a stepchild in fire protection, is expected to be formally approved by the "big daddy" of fire risk rating, the National Fire Protection Assn. at its annual meeting scheduled for late this spring, *Business Insurance* has learned.

The fire-killing foam, produced rapidly in large volumes by mixing air, water and a liquid chemical under high pressure on a metal screen, garnered startling results in various tests in which it has been demonstrated. How-

ever, widespread utilization of "high-ex foam"—as it is called in industry parlance—has been slow in coming because of fire experts' difficulties in determining how it should be coordinated with existing fire protection techniques. They have also faced an additional problem of arriving at suitable standards for foam producing equipment and procedures for its usages due to the rapid technical developments in the field.

First developed in 1955 for use in fighting fires in the coal mines in England, foam underwent a myriad of scientific improvements spearheaded by Will Jami-

son who developed the first high expansion foam generator in 1958. High expansion foam is differentiated from conventional foam because it expands a gallon of water over 100 times in volume. Conventional chemical foam's expansion ratio is around 20 to 1.

MOST HIGH expansion foam in general use today has an expansion ratio of 500 to 1,000 gallons of foam for each gallon of water used.

Hailed as a miracle fire-killer, "high-ex foam" demonstrated its ability to extinguish fires which water could hardly control. "We've seen it do a really fantastic job on fires in rubber tire storage areas," said W. Robert Powers, superintendent of the Bureau of Fire Prevention for New York's Board of Fire Underwriters. "Water just couldn't get to the fire which was burning inside the tires. It was all the firemen could do to control the blaze without water.

"Once high-ex foam was applied, however, the fire was completely extinguished in four to five minutes," Mr. Powers remarked.

High-rise warehousing in which goods are piled as high as 48 ft. as well as gigantic airplane hangars such as those now under construction to house jumbo jets pose fire protection problems which high expansion foam can solve effectively, noted R. M. L. Russell, chief research engineer for Factory Insurance Assn. (FIA).

"**AFTER GOODS REACH** a height of 20 ft. in a warehouse," said Mr. Russell, "water sprinkling systems prove ineffective because heavy upward draft of the fire and lack of adequate water pressure prevents the water from getting close enough to cool it down. High expansion foam, on the other hand, will completely inundate paper rolls piled as high as 48 ft. in five to seven minutes."



The high-ex foam system test gets under way as foam pours down into warehouse from the six Kidde generators. The test was conducted for officials of Kidde, Union Bag Camp and Factory Insurance Assn. underwriters for final system approval.

Because of the sensational test performance of high expansion foam there was talk of substituting it for the water sprinkler. "This brought out a lot of violent argument against the proposed substitution of foam for water," said Robert Powers.

"The chief basis for the dispute was the argument of simplicity versus a complex system," he remarked. "All it takes to start the water flowing from a sprinkler is the melting of a tiny piece of solder. But in a high expansion foam system, you have to start the water flow, chemical flow and the compressed air flow. It involves starting an electric or water-driven generator. You can easily see how such a system, much more complicated in comparison to the water sprinkler, could possibly have a variety of trouble spots to worry about," Mr. Powers explained.

Perhaps a more important consideration was: Why change from something which works, just for something new?

"**WATER SPRINKLERS ARE** about 96% effective in fighting fires," remarked R. M. L. Russell who in addition to his duties as chief research engineer for FIA also heads the two committees chiefly concerned with high expansion foam in the National Fire Protection Assn.

"High expansion foam is normally not recommended for fires which can be handled by water sprinkler systems," Mr. Russell explained. "In addition, FIA does not accept a fire protection plan which uses high expansion foam

as its primary or exclusive method.

"We feel that high-ex foam is a supplement to the water sprinkling system, rather than a substitute," he explained. Foam has a far smaller cooling effect than water, he said, simply because foam's coolant, water, comprises only about 1/1000th of the foam. While high-ex foam cuts off a fire from further oxygen and isolates it from potential fuel, the cooling off period is about a half hour when foam is used exclusively, Mr. Russell noted.

Instead of competing with one another, water and foam are therefore best used in conjunction with one another to provide the best means of killing the fire, he explained.

OBVIOUSLY, it's a complicated matter to determine just how high-ex foam fits into the fire protection picture. The knowledge required to get the answer comes from many tests in a variety of situations, Mr. Russell said.

"A tentative standard for foam equipment and usage procedure was promulgated by the National Fire Protection Assn. about three years ago," said Mr. Powers, ex-

Continued on page 30

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Wash Watch...

Continued from page 4

with a consumer credit transaction.

SEN. WARREN Magnuson's (D., Wash.) commerce committee—the fount of the Congressional consumer movement—will continue its work on a host of consumer issues, including the Nixon-proposed bill to allow consumers to file class action damage suits in federal courts against firms that engage in unfair or deceptive practices in violation of the Federal Trade Commission Act.

The Commerce Committee will also continue hearings on the Federal Insurance Guaranty Corporation to protect the consumer against insolvencies among all property and liability underwriters.

Sen. Philip Hart's (D., Mich.) antitrust subcommittee—where both the credit bill and insolvency bill began—will continue its campaign against the McCarran Act. The insurance staff of the subcommittee is currently writing a report on the subcommittee's year-long investigation into the auto insurance industry.

Financial seminar

A risk management seminar will be sponsored in San Francisco, Feb. 26, by the University of California Extension. Moderator for "Risk Management for the Corporate Financial Manager", held at the Sir Francis Drake Hotel, will be Douglas M. Temple, associate professor of business administration and chairman of the insurance department at Golden Gate College. Speakers will include William S. Mortimer, director of insurance at Norton Simon Inc., Fullerton, and national president of the American Society of Insurance Management; Robert C. Goshay, associate professor of business administration, University of California; and David Warren and Donn P. McVeigh, partners in Warren, McVeigh & Associates, risk management consultants.

Early indictments probable in Miami State Fire and Casualty collapse

MIAMI—Criminal indictments are likely early in 1970 in the wake of the collapse of Miami-based State Fire and Casualty Co., according to the chairman of a Florida House investigating committee.

Jerome Pratt said both federal and state indictments are in prospect—and he chided Florida's Insurance Department for not seeking such action earlier in the State Fire case.

In a letter to House Speaker Fred Schultz, Mr. Pratt stated that Insurance Commissioner Broward Williams should have closed the company in August or September 1968 rather than waiting until April of 1969.

"IT IS DIFFICULT to understand," according to a report by the committee, "why the proper authorities have not pursued these prior to the work of the subcommittee."

The investigating group found that Mr. Williams contributed to the collapse of State Fire and two other insurance companies through the use of poor judgment and his failure to take advantage of existing laws.

After five months of hearings, the committee charged that Mr.

Williams' department "vacillated between strict supervision and no supervision" in its efforts to save State Fire. The insurance company finally was allowed to pass into the hands of "fronts for persons known to have connections with organized crime."

The report suggested that the U.S. comptroller of the currency "investigate the loan servicing practices of the Citizens Bank of Orlando" which lent money to the now-defunct Florida Insurance Exchange.

"AT THE BEST" the report said, "it was sloppy banking; at its worst, it was a violation of the fiduciary responsibility of the

bank or its officers . . ."

The charge was a slam at former state comptroller Clarence Gay, now president of Citizens, who told the committee he knew of a false entry of \$1 million in the exchange's books but did not inform the Insurance Department.

The committee also said Mr. Williams erred when he let Community National Life of Oklahoma buy control of a Florida company, National Trust Life. Community did the biggest share of its business in Florida.

Along with its criticism of the Insurance Department, the committee inserted some praise for the department and urged new laws to help Mr. Williams protect

policyholders.

MR. PRATT SAID IT WAS still "premature to make any long-range conclusions concerning the Insurance Department."

The progress report was offered, he said, "to prevent any inference that the activities and motivation of the department have not been exhaustively scrutinized by this subcommittee."

A series of articles in Miami and St. Petersburg newspapers triggered the investigation.

"I must state," Mr. Pratt wrote Mr. Schultz, "that some of the criticism of the department is justified by the handling of three cases, particularly as your subcommittee is blessed with hindsight."

MR. PRATT NOTED that the department has successfully rehabilitated many companies "and has saved the citizens of this state from suffering cash losses

or loss of protection."

But he added, "there is ample evidence, however, that the department failed to utilize those provisions of the code which were available.

"And in the case of State Fire and the Florida Insurance Exchange, the department could have acted sooner to take over the companies. It is apparent such earlier action would have reduced the amount of ultimate loss although the amount of loss and injured persons was greatly overstated in the press.

Mr. Pratt acknowledged that the over-statements were attributable to the department's own initial analysis of claims and assets.

He said the committee plans to schedule another session in Miami to help untangle the affairs of State Fire. It already has conducted a series of five three-day meetings.

Suit filed in unsolved Shell Oil fire

MARTINEZ, Cal.—A \$900,000 suit has been filed in Contra Costa superior court here by the widow of a Shell Oil Co. worker who died from injuries suffered in last spring's dynamite-fire at Canyon.

The suit, filed on behalf of Mrs. Betty D. Davis and her three children, names that sum to compensate her for the loss of the "care, comfort, society and support" of her husband.

Defendants are the Cabildo Corp., a Southern California firm that installed an aviation gasoline pipe being inspected by Earl Davis, 47, when the fire started, and Winifred Garibaldi, a Canyon resident on whose land the pipe was being inspected.

THE COMPLAINT accuses the defendants of being "negligent and careless" in installing the pipe in an exposed position over San Leandro Creek.

The suit also names a total of 30 "John Doe" defendants, accused saboteurs who dynamited the pipe line on the day that Mr. Davis, pipe superintendent for Shell, was injured.

As Mr. Davis was calling the oil company from a booth nearby, the ruptured pipe burst and threw 20,000 gallons of gasoline and a "wall of fire" down the creek and through the village of Canyon. He died four days later of third-degree burns suffered over 75% of his body. Six other persons were injured and 12 automobiles as well as a store were destroyed.

The dynamiters have not yet been caught and a \$50,000 reward offered by Shell for their arrest remains unpaid.

Mrs. Davis was barred from suing Shell Oil Co. under state law because she had been accepting workmen's compensation insurance payments from the company.

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Demand health insurers clear up policy terms

SACRAMENTO—Health insurance companies were accused here of failing to make the terms of their policies "clear or understandable" to consumers.

State Sen. Alfred Song, chairman of the senate business and professions committee, made the charge. "I also am puzzled," he declared, "by the social paradox that enables a person receiving welfare to afford the kind of medical care that the average man or woman cannot obtain."

He said he was referring to the government-financed Medicare and the state-financed Medi-Cal health programs, which provide health care for the elderly and needy.

A NUMBER of insurance industry and labor representatives testified at public hearings of the committee into what can and should be done by the legislature to help reduce the cost of health insurance.

"Benefits provided by practically all insurance policies," Mr. Song declared, "are somewhat inadequate. But I have seen no evidence that insurance carriers are making any inordinant profit."

"However," Mr. Song added, "many buyers of health insurance just are not aware of what their policy actually covers until they receive a bill from the doctor or the hospital."

"I am an attorney," he said, "I am also a member of a group plan and I have gone through the insurance booklet a number of times and I find myself rather hard pressed to determine what the benefits actually are."

"MANY INSURANCE policies," he continued, "fail to pay a large share of the costs for such routine surgery as tonsillectomies, appendectomies and hysterectomies."

Tom Moore, testifying for the California Council of Health Plan Alternatives, declared that "most plans are designed to pay 75% of medical costs but now pay only 50%."

Paul Putnam, spokesman for Blue Shield, said "medical costs cannot stop going up until there is a greater supply of doctors, nurses, technicians and the prices of supplies and hospital construction go down."

J. Philo Nelson, president of Blue Cross, testified that hospital costs continue to increase "an average of 8% each year."

Named at F.B. Hall

Joseph C. Barnum has been named manager of the international department at Frank B. Hall & Co. Inc., New York. Mr. Barnum was at one time assistant manager of the international department at Marsh & McLennan Inc.

Continued from page 28

plaining that this was a normal step in the procedure of evaluating a new fire protection device and specifying how and where it should be used for best results.

"Only one company's equipment (Walter Kidde's) and usage procedures comply with the existing NFPA standard," said Mr. Russell. "The other companies who manufacture foam equipment have been developing and improving their equipment at such a rapid rate that no adequate tests of their equipment have been made," he explained.

This equipment certification problem aggravates an already existing problem of high-ex foam's "legitimate status" as a fire protection device. When a company sets up a new plant its fire protection system is specifically dictated by the company's insurance carrier safety engineer.

"INSURANCE COMPANIES utilize fire rating bureaus who adhere rigidly to the official standards of the National Fire Protection Assn.," said Gene Benzenberg, product manager for Walter Kidde & Co., explaining that NFPA fulfills much the same function for fire protection standards as the American Standards Assn. does in other areas of industry where national standards are necessary.

"Although NFPA has had a tentative standard for high-ex foam for three years, foam has been largely disregarded by insurance companies, especially the smaller ones, chiefly because of the NFPA standard's tentative nature. Because of this, high-ex foam has caught on slowly," he remarked.

On the other hand, insurance companies are "slow-moving for damned good reasons," remarked Mr. Powers in response to this complaint. "Usually three to five years of good risk experience is expected before a fire coverage carrier will react to a new method. This is exactly what has happened to foam," he explained.

"The NFPA high-ex foam standard was made tentatively because more evaluation was deemed necessary by NFPA," said Mr. Russell. "NFPA standards are used as the basis for a lot of city and state fire safety regulations. Consequently NFPA feels that it has a vested responsibility in ensuring the re-

liability of its standards," he explained.

THE ADDED PERIOD of evaluation has unearthed other problems which foam presents to industry which were not anticipated when it was first introduced, he explained. "Foam has been praised because it did not damage goods in many cases as much as water. However, a cheese factory in Wisconsin discovered that high-ex foam has a slight detergent odor which curbed the marketability of a warehouse full of cheese in which foam was used to put out a fire."

Mr. Russell noted another case in which a beer manufacturer discovered that a soapy-flavored residue left on several million cans of beer when high-ex foam was utilized had to be washed off before the company's customers would buy it. The huge cleaning bill which resulted was handed over to the insurance company, he remarked.

"I feel reasonably certain that our committee's recommendations will result in a formalized official NFPA promulgation specifying standards for high-ex foam equipment and for the procedures with which it should be used," said Mr. Russell, who chairs the two NFPA committees which are chiefly concerned with high-ex foam. "The standard will

probably be voted on by our general membership during the annual NFPA conference scheduled to be held during May of 1970 in Toronto," he noted.

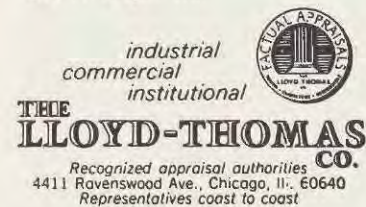
In the face of high expansion foam's impending official acceptance in the field of fire protection, *Business Insurance* contacted Elgin Sallee, manager of safety and industrial hygiene for the American Can Co. in New York.

"WE ARE DEFINITELY considering the use of a high expansion foam system, especially after an experience which we had with a fire in a new plant. It involved a newly constructed warehouse used to store facial and toilet tissue. The warehouse's main fire protection device, a water sprinkling system, had been installed according to the specifications of our carrier, Factory Mutual. The fire, starting from a small welding operation, got out of hand and the water sprinkling system came into play."

"The fire was extinguished without too much trouble. However once we ascertained the damages it caused, we found that about 95% was caused by water. It amounted to around \$600,000. Based on a situation like this, we feel that high expansion foam certainly has promise as a fire protection device," Mr. Sallee remarked.

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Union asks for pension increases

NEW YORK—Union negotiators for the International Ladies Garment Workers Union have demanded an additional ½% increase in company contributions to the retirement benefit (presently at 4½%) in negotiations for a new contract for 80,000 union dressmakers.

In addition, the union is asking for a third week's vacation and another 1½ days paid holidays.

These employee benefits demands were coupled with a 25% general pay increase demand across the board, said a spokesman for the ILGWU's garment district here. He said that the dressmakers' current medical plan written by Blue Cross and Blue Shield was considered sufficient at this time.

The contract, when finalized, will affect an eight-state area including New York, Massachusetts, Pennsylvania, Connecticut, New Jersey, Rhode Island, Delaware and Maryland. About 60% of all the dresses made in the U. S. are manufactured in these states, he noted.

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