

Insurance and benefit pitfalls in merger

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45¢ a copy; \$10 a year

July 19, 1971

business insurance

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



Property and liability claims resulting from the Penn Central derailment in Grand Central Terminal will be met by the railroad's self-insurance. Penn Central reportedly retains at least \$2 million of its liability cover. One of the train's 600 passengers was killed and 18 were injured.

—Wide World photo

Self-insurance covers Penn Central's crash

NEW YORK—According to insurance and other industry sources, the Penn Central railroad is self-insured for property damage and liability claims resulting from the July 7 accident here that left one commuter dead and 18 others injured.

The accident took place when a Penn Central train derailed in Grand Central Terminal, about 200 yards from where it was supposed to have discharged its passengers, according to one of those aboard. The second car of the train jackknifed across two tracks and struck a pillar, apparently after riding over a broken switchpoint. The train carried nearly 600 passengers in its eight coaches and was moving at less than five miles an hour at the time of the derailment, according to the engineer. All of the casualties were in the first two cars.

One commuter was sitting in the second car behind what he described as a "flexwood panel" that separated the main part of the car from its front compartment, which was destroyed by the steel and concrete pillar as it sliced through the car's heavy body.

THE COMMUTER, Peter J. Mullen, 34, of Hartsdale, N.Y., insurance manager for North American Philips Corp., told *Business Insurance* that "as we were coming into the station the train stopped and started, which is nothing new, but suddenly it started to bounce and it was obvious that we were off the track. Someone yelled, 'Hit the deck! Hit the deck!', which is exactly what I did."

According to Mr. Mullen,

"When I looked up after the crash, the man in front of me had lost his leg and I was staring at an awful lot of blood. I was awfully lucky; I just have a sprained hand and shoulder where I leaned to protect myself. If Penn Central would put more money into maintenance and less into development, things like this wouldn't happen," Mr. Mullen commented. "They're going to get hit hard on this."

Neither Mr. Mullen nor any of the other passengers saw 38-year-old Clinton Richmond of Chappaqua, N.Y., meet his death. Mr. Richmond was standing near the door ready to disembark when the car lurched across the tracks and struck the pillar. He was crushed by debris.

"People acted out of this world," Mr. Mullen said. "There was very little yelling and panic."

ACCORDING TO sources, the railroad retains at least \$2 million of its liability coverage. A source at Penn Central told *Business Insurance* that property damage resulting from the accident would probably "be in the range of our deductible."

The July 7 crash was the first in a series that made the end of the week rougher than usual for the Penn Central. On Thursday, July 8, another of the railroad's trains was derailed when it struck a heavy drill left on the track by workmen repairing the effects of Wednesday's crash; no one was injured. And on Friday, July 9, a Long Island Railroad train crashed into the rear of another commuter-loaded train at Pennsylvania Station after it had "passed a restrictive signal." ■

Inside story of Dick Stewart and bank's group life sales

By STEPHEN GILKENSON

NEW YORK—Former New York superintendent of insurance Richard E. Stewart has been caught up in what has been described as "an unfortunate juxtaposition of events" since he resigned that post late last year to become senior vp and general counsel of First National City Bank here.

The bank subsequently moved into the business of offering certain depositors "wholesale life insurance," and it was a November ruling by Mr. Stewart—one of the last to go out over his signature—that allowed commercial banks to make such a move.

The case has caused such a furor among industry factions that it has been brought to the state's supreme court in Albany where a decision is expected sometime this month. It pits the New York State Life Underwriters Assn., a 6,600-member organization made up mostly of independent life insurance agents, against a trio of supporters of the new life insurance concept—First National City, Connecticut General Life Insurance Co. and the New York state insurance department.

Beyond that, however, Mr.

Stewart's personal integrity has been impugned by the developments and the former insurance regulator is said to be deeply disturbed by it all.

THE JUXTAPOSITION of events, as being circulated within the insurance industry, goes like this:

- In the past dozen years or so there have been attempts to modify state insurance laws dealing with permitted forms of wholesale life insurance. Banks, for example, have sought to change the law in a way that would allow them to market life policies that are tied to savings accounts much as savings banks have been allowed to for years. On occasions when the subject did come up, however, it was either resisted by the insurance department, disapproved by the legislature or vetoed by the governor.

- On Nov. 19, 1970, the New York insurance department, in amendments to existing wholesale life approvals, made it known that banks would thereafter be allowed to market such coverage to depositors.

- Early in December, 1970, Mr. Stewart resigned as New

York superintendent effective Dec. 31.

- On Jan. 1, the former regulator assumed the position as senior vp and general counsel of First National City Bank and First National City Corp.

- Less than four months later, in April, First National City announced that it would become the first commercial bank in the state to sell life insurance to savings depositors, with premium payments made out of interest accumulating in accounts.

THE INNUENDO that arises from such a construction is obvious: Insurance regulator Stewart makes a ruling favorable to a bank and is then rewarded with a nice fat, juicy plum. The plum, of course, is the senior vice-presidency of the bank, complete with a large corner office 15 floors above Park Avenue.

"It's a painful thing," Mr. Stewart said during an interview with *Business Insurance* the other morning. "If I had wanted to sell out my office I could have done a million things. This is the reason I didn't go from regulation into the insurance business in the first place—to avoid this sort of . . ."

Continued on page 2

Illinois rate law to lapse; federal intervention feared by car insurers

SPRINGFIELD, Ill.—The 77th session of the Illinois general assembly produced some bizarre insurance legislation and non-legislation.

Most significant among the legislature's omissions was its failure to adopt a state auto insurance rating law, an omission that some say puts the state's rating under federal regulation.

So insecure are the Illinoisans about being under federal insurance regulation that the Chicago Daily News said in an editorial, "We hope that federal authorities will show understanding and forbearance, at least until the assembly has a chance to correct its mistake."

CONGRESSIONAL sources felt the Illinois rating situation would be an appropriate subject for the Justice department's antitrust division. Whether the division is looking into the matter could not be determined at press time. A staff lawyer said that while Illinois' lack of legislation regulating rating was not a subject known to be under official investigation "something may be under consid-

eration. It's hard to determine."

Under the present legislative situation in Illinois, the file-and-use law will expire Aug. 1, but the legislature will not come back into session until Oct. 5. Meanwhile, the state will rest on the "residual" powers of the state insurance director.

A spokesman for auto insurers in Illinois has pledged that companies affiliated with his group

will continue participation in the state's assigned risk plan, whose statutory authority will lapse with the expiration of the rating law. Some Illinois insurers expressed the fear that 65,000 drivers covered by the assigned risk plan would continue to drive with or without coverage.

An ancillary effect of the legislature's failure to adopt a rating

Continued on page 2

International call

The *Business Insurance* International Issue to be published Aug. 30 will carry a special service supplement, a handy guide to special international services available to employe benefits administrators and risk managers. Insurance carriers, insurance brokers, special advisory organizations and other firms operating in the areas of international employe benefits and international property-liability insurance are invited to contribute.

Business Insurance readers who offer special international services are invited to send a brief description of their services with the name of the company, its address and phone number to Leslie Murray, Editorial Assistant, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611. Items submitted to the guide should be in our office no later than Aug. 13.

Inside story of Dick Stewart and bank group life

Continued from page 1

He used a popular expletive to sum up his feelings.

In a series of interviews with those involved, including Mr. Stewart's successor, Benjamin R. Schenck, this magazine has learned that events leading to the eventual approval of wholesale life insurance for commercial bank depositors go back much further than any of the allegations making the rounds indicate. In fact, the concept has been allowed in several other states, California, Michigan and Indiana among them, for years. The Bank of America introduced a similar savings-life insurance deal as long as two decades ago.

According to Mr. Schenck, and memorandums in department files document this, the New York insurance department began taking a formal look at the subject in May, 1969, when Mutual Life Insurance Co. of New York (MONY) submitted a request to amend wholesale life insurance rules then in effect.

WHOLESALE LIFE insurance standards set by the department until then had allowed term life insurance to be distributed on a mass merchandising basis and administered by group methods if the policies were sponsored by an employer, an association, a union, two or more employers under common control, or an association of civil service employees.

MONY's filing with the department sought to change those standards to include as eligible "individuals maintaining interest-bearing savings accounts in the same bank."

The filing "percolated" within the department for a while, according to Mr. Schenck, and was turned over to Deputy Superintendent Robert J. Bertrand, who was appointed to head the department's Albany office Sept. 1, 1969.

Mr. Bertrand told *Business Insurance* that the filing "became bogged down" in his office because of the transition in the Albany office. It was almost a year before proposed amendments to the wholesale guidelines could be drawn up and, in the meantime, Mutual of New York decided to withdraw its interest in such a plan.

ON JULY 24, 1970, Mr. Bertrand drafted a memo to then Superintendent Stewart:

"Attached are proposed amendments to the wholesale guidelines to permit the insuring of individual holders of savings deposits in banks and credit unions." (The insurance department had added credit unions and had, in fact, been studying the situation for the Credit Union National Assn. even before the filing by Mutual of New York.)

Mr. Stewart said that he was never really close to this particu-

lar filing. But, he added, the proposal definitely did fit into his operating philosophy as an insurance regulator and things have not changed since he left the department.

"During my four years with the department I carried on an epic fight to get away from those silly-ass restrictions that prohibited such things as associations, unions and other groups from exercising group buying power through mass merchandising," he declared.

THE JULY 24 memo from Mr. Bertrand to Mr. Stewart set forth the basic guidelines that would go into the amendments to the wholesale life standards. Mr. Bertrand concluded by saying, "If this meets with your approval, I will prepare a final draft after consideration of comments which I have requested from the Albany staff and any others who might wish to comment."

After receiving and reading the Bertrand memo, Mr. Stewart scribbled the following in the margin and shipped it off to Mr. Schenck, his first deputy at the time:

"OK with me if it's OK with you. Why don't you return this to Bob (Bertrand) with our OK to proceed and handle it (including any hand-holding with agents or in the department) to a conclusion." It was signed "RES."

On Sept. 25, 1970, Mr. Bertrand

took the matter to its conclusion within the department. In a memo to the department staffer in charge of such things, he wrote:

"**ATTACHED IS** a draft of a circular letter, revising the wholesale life guidelines to permit the writing of franchise on depositors of banks and credit unions.

"This revision was previously circulated to department staff and approved in principle by Superintendent Stewart."

"I would appreciate your distribution of the circular letter with your usual dispatch."

On Nov. 19 the amendments were released in circular letter #14 and mailed to all insurers licensed to write life and accident and health insurance in New York state.

DICK STEWART does not recall the formal publishing of circular #14. At the time, he said, he had other things on his mind. He had made a decision that after eight years in government work (four as an aide and counsel to Gov. Nelson A. Rockefeller and four as insurance superintendent) it was time for him to move into private business.

Mr. Stewart told *Business Insurance* he made his choice known to Gov. Rockefeller on Nov. 9, the Monday after the 1970 elections. At the time he had no plans in mind but "began contacting all those people who said, 'Look, Dick, when you get

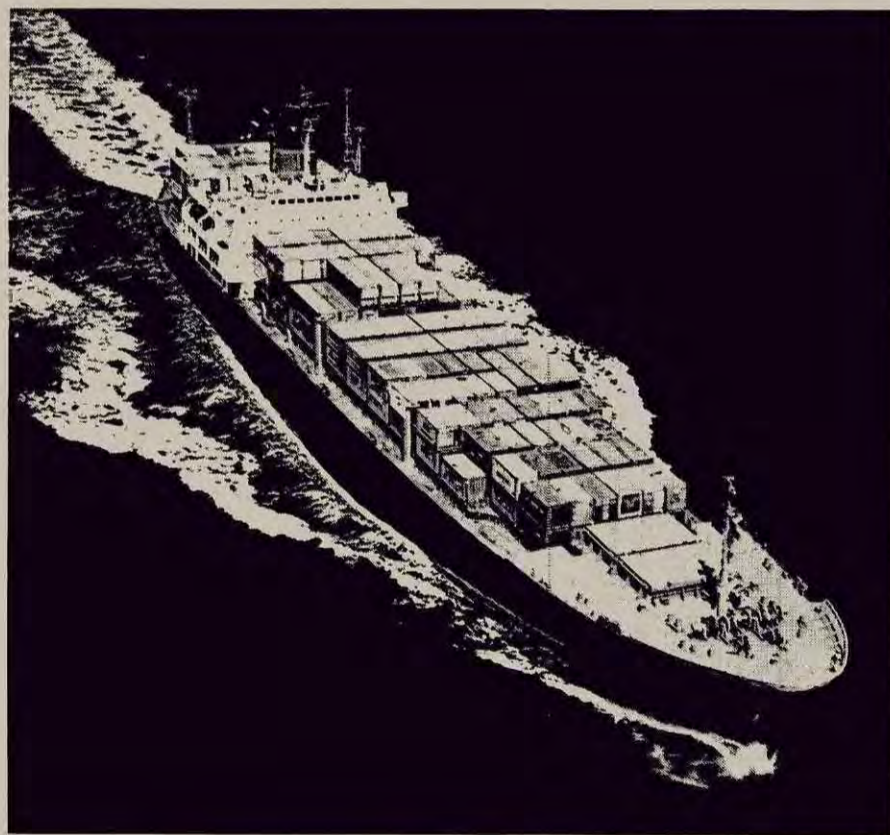
through with your tour in government be sure and look me up.'" Mr. Stewart did look up several of them, he said, but it was not until late in November that he made the initial contact with First National City's chairman, W. B. Wriston.

Gov. Rockefeller made the formal announcement of Mr. Stewart's departure on the morning of Dec. 14, the opening day of the National Assn. of Insurance Commissioner's annual meeting in Chicago. Mr. Stewart, who was president of NAIC at the time, still did not know whether he had a job. The following morning, however, he received word from Mr. Wriston that the bank's board of directors had approved his appointment at its board meeting that day.

Mr. Stewart insists that when he walked through First National City's doors at 399 Park Ave. to start his first day on the job he was still not aware the bank intended to get into the savings-plus-life insurance deal.

"**THE FIRST** I learned of it was at an executive board meeting in February when the bank's executive vice president (James D. Farley) brought up the subject. Yes," he said in answer to a question, "I did think to myself, 'Oh, God. Some sort of connections are bound to be drawn.'"

According to Eugene J. Callan, *Continued on page 33*



Marine coverage

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Correct figures for auto victim reparations survey

CHICAGO—Owing to a typographical error, two percentages reported in the *Business Insurance* auto victim compensation survey in the July 5 issue were incorrect.

On the type of system preferred by corporate buyers of insurance, 57% favored a modified no-fault system with direct first-party payments to injured parties up to a certain amount with victims retaining the right to sue. Thirty-eight percent favored adoption of a broad no-fault system that would compensate accident victims promptly without recourse to the courts.

These figures were erroneously reported in our last issue as 64% and 31%, respectively. The 5% figure given for those who would retain the present tort system is correct.

All other percentage figures reported in the survey results were correct.

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Vol. 5, No. 15—Business Insurance is published every other Monday at 740 Rush St., Chicago, Ill. 60611. Controlled circulation postage paid at Chicago, Ill. Copyright 1971 by Crain Communications Inc.

Illinois ...

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law was the loss of the black community's demand for universal auto rating within the city of Chicago and the erasure of Area 43, a rating territory that blacks contend was drawn to conform to the black ghetto. This issue was discussed in the Perspective pages of *Business Insurance* on July 5 by a black broker and a spokesman for Allstate Insurance Cos.

A PROPOSAL enacted by the Illinois legislature was an auto victim compensation program, termed no-fault by Gov. Richard B. Ogilvie, that made statutory the advance payments programs practiced by auto insurers for more than a decade. Under the plan auto victims who are policyholders or pedestrians would be paid up to \$15,000 for medical expenses and wage losses without regard to fault. The plan still permits the right to lawsuits for pain and suffering.

Also enacted was a post-assessment insolvency indemnity program that would assess Illinois insurers up to 1% of their annual premiums to pay claims of insolvent insurers. The program is designed to block federal legislation, the call for which has been partly based in Illinois' more than 29 insolvencies within the past decade.

Governors' retirement

A retirement program for Oregon governors has been approved by the legislature. Except for former governors, the state's chief executive will contribute 7% of his salary to a fund that, when he is 62 and has served at least two years, will provide a pension equal to 45% of the salary he received during his final year in office. If a former governor is receiving a pension from another branch of government, that amount is deductible from the amount of the new governors' pension plan.

Bon Vivant soup recall is an uninsured expense

NEWARK, N.J.—Food and Drug Administration officials are calling it a "significant recall." The Bon Vivant Soups Inc. people are not saying much except that they are "voluntarily" withdrawing their food products from the nation's grocery shelves. And insurance people are saying that the company is lacking product recall coverage.

Bon Vivant is recalling thousands of cans of its soups, sauces and other canned foods after a can of vichyssoise was found to be the culprit in the botulism-poisoning death of an upstate New York man. The recall is nationwide and involves food products sold under 34 separate labels.

The reason, sources feel, that the company probably does not have products recall insurance is that the market for the coverage is somewhat small. Fireman's Fund Insurance Co. is the largest writer of the insurance, while Lloyd's of London and Insurance Co. of North America also dabble in it.

GARRETT REDMOND of Fireman's Fund, an expert in product recall coverage, stated that his company did not cover Bon Vi-

Bion Francis of Colt now consultant

BRIDGEPORT, Conn.—Bion H. Francis has left his position at Colt Industries, Inc., where he was manager of benefits planning to devote his time to consulting, research and writing.

Mr. Francis has held such positions as insurance manager and director of employe benefits and has formed and operated captive insurance companies and employe savings plans. Among the companies he has worked for are Colt Industries, Crucible Steel, Olin-Mathieson Chemical Corp. and West Point Manufacturing Co.

He is a contributing editor of *Business Insurance*, and his articles appear regularly in the Perspective section of this magazine. He has recently published a book, "Employe Savings Plans—The Coming Trend in Retirement Planning." He was a member for six years of the insurance Planning Council of the American Management Assn. and has been president of the Insurance Buyers Assn. of Pittsburgh.

Mr. Francis will operate from his home in Milford, Conn., and from his office, Suite LL1, Commerce Park, Bridgeport. ■

Tips for dealers on auto theft losses

SAN FRANCISCO—More than 14% of all automobiles stolen here during a one-month period were taken directly from auto dealer lots.

As a result of its discovery the Pacific Coast division of the National Automobile Theft Bureau is now making available to auto dealers an advisory bulletin suggesting how they may reduce thefts from their lots. The one-month loss from car dealer lots involved more than \$204,000 for the insurance carriers who protected the dealers. The division suggests "greater key security, inventory control and general reinforcement of lot security."

vant and that it was "highly unlikely" that any other company did. (Sources at INA and a London-based broker voiced similar opinions.) "Some companies have the coverage, the vast majority of them don't," Mr. Redmond said. "Those that don't have it have either not heard about it or they don't understand it."

The broker reported that he was amazed at the lack of customers for the coverage since "it is incumbent in most products liability policies that you remove the hazard from the shelves."

Mr. Redmond concurred. "The products liability policy will tell you that you must take all necessary steps to remove the danger and the manufacturers will negotiate his coverage if he doesn't. However, the liability policy will not cover the costs of the remov-

al."

The costs of an undertaking as vast as the nationwide recall by Bon Vivant can be overwhelming, according to the sources. "They have to remove the cans immediately. That will add to the expense," said the broker.

"IN A CASE like this, you should get customer lists from wholesalers, send telegrams to all the customers, press releases should go out (you may have to hire a public relations firm to do it for you), you should have the word in every paper and on every radio and television station around," Mr. Redmond noted. "And that's all above and beyond the actual cost of removing the bad products. It can be a huge expense."

He also pointed out that "Bon

Vivant's expenses will probably be increased because of all the different labels. A single product recall policy would cover all those labels but as communications increase, so do expenses.

"They have an added problem because they are dealing with canned goods," he went on. "If they have to dispose of the cans, special methods have to be used. Most products you can just dump. But cans have to be totally destroyed to remove even the remote possibility of their being used again."

Though the deadly botulinum toxin has been discovered in only five of Bon Vivant's cans, all of them vichyssoise, the company is undertaking a total recall. Some suspicious looking cans have been reported in different parts of the country.

THE VICHYSOISE that killed the New York man and put his wife in the hospital had been served cold and it is mainly other items that can be served without heating that are being investigated.

A spokesman for the Food and Drug Administration reported that the occurrence of botulinum poisoning indicated errors in quality control at the Bon Vivant plant. He said that insufficient processing temperature and failure to hold cans at the factory long enough to observe defects could have contributed to the presence of the toxin, which can survive in the absence of oxygen.

The F.D.A. man also said that this was a far more inclusive recall than that of canned tuna fish in 1963. ■

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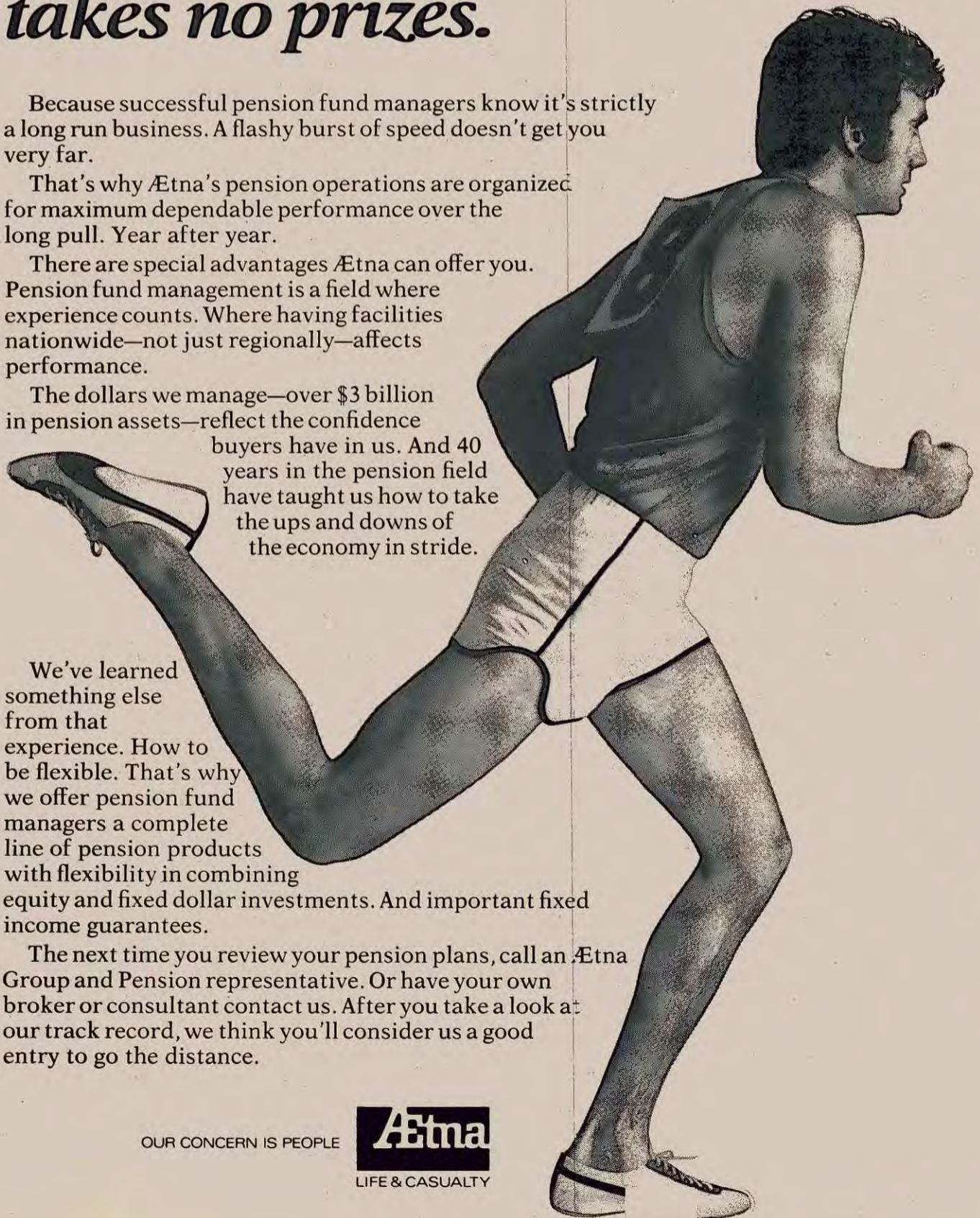
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washington watch

Sen. Taft joins private pension plan critics in strong demand for reform

WASHINGTON—Senate advocates of private pension reform legislation have a new and potentially powerful ally in the form of conservative Republican Sen. Robert A. Taft, who in a lengthy floor speech praised the pension legislation efforts of liberal Sens. Harrison Williams (D.-N.J.) and Jacob Javits (R.-N.Y.) and called on Congress to take "affirmative steps to protect the pension rights of America's work-

ing men and women.

"We must act now to assure more reasonable vesting provisions, assure actuarial soundness, eliminate self-dealing on the part of the trustees, and prevent pensions from being reduced to wipe out Social Security increases," Sen. Taft told the Senate.

"Only through these measures can the employees of this nation be assured that they will receive the retirement benefits they have

earned," he said.

The Ohio senator's speech was apparently prompted in part by the closing of the Fruehauf Trailer plant in Avon, Ohio, which he said left many workers who had been with the firm for as long as 11 years with no pension benefits whatever.

HE SPECIFICALLY cited one 53-year-old Fruehauf employe, who was laid off after 23 years of service and who will receive a

pension of only \$50 a month at age 65. Because of his age, this man will probably not be able to qualify for another pension with another employer, Sen. Taft noted.

Sen. Taft quoted at length from a study recently released by the labor subcommittee which found that of 51 pension plans with either no vesting, or vesting after 11 or more years of service, only 5% of the participants who left those plans obtained any benefits at all.

Even where benefits are vested, employes may be in for a "rude awakening," Sen. Taft noted, and cited the 1964 closing of Studebaker in South Bend, Indiana. Most employes there with vested benefits were still paid only 15 cents on the dollar, he said.

Sen. Taft came down particularly hard on private pension fund management practices, citing numerous specific examples of "scandalous investment prac-

tices and insider transactions."

"**MANY PENSION** plan trustees have been using the pension fund assets for their own personal business ventures and dealings" and "have been putting their own speculative schemes ahead of the security of the employes and pensioners," Sen. Taft charged.

"This is a practice which must be stopped now by federal law," he said.

Congress should "examine the wisdom of" permitting employers to invest trust fund assets in their own company's stock, the senator said. He noted that the profit-sharing plan of "one of America's largest retailers" holds more than 21% of the stock of that company and that "one large packaging company" has invested more than 99% of its pension fund assets in its own stock.

"If it is wrong for a union to use trust fund assets to advance its collateral interests (referring to the recent court case involving the United Mine Workers' welfare and retirement fund), it should also be wrong for an employer either to buy its own stock or to lend itself money from the pension fund," he said.

"**HOW CAN WE** be sure a trustee-employer is putting the interest of the beneficiary first, if he is allowed to play the stock market and buy the company's own stock with pension fund assets?" Sen. Taft asked.

The senator said the litigation over the UMW welfare and retirement fund brought to light a "classic case of mismanagement."

He noted that the court found that the union held 74% of the stock of a Washington bank and that the trustees of the union's welfare fund then deposited as much as \$75 million (44% of the fund's total resources) in this bank at no interest.

Sen. Williams, chairman of the Senate labor committee, has introduced legislation to assist in funding retirement benefits for public school and college teachers, who currently lose pension credits by moving from one state to another.

UNDER THE Williams bill, the federal government would provide funds to state teacher retirement plans to aid in the financing of recognized out-of-state service credits and to supplement deferred vested benefits.

To qualify for federal funds, state plans would have to permit teachers to purchase credit for at least 10 years of out-of-state public school teaching service not vested elsewhere, whereby the teacher and the employer share in the cost.

Also a plan would have to provide for vesting of retirement rights after not more than five years of service.

ACCORDING to Sen. Williams, his bill would allow teachers who have worked in two or more states to retire with benefits "substantially the same" as they would have received by teaching in a single state for their entire careers.

Sen. Williams notes that many state retirement systems have made attempts toward solving the teacher mobility problem caused by lost pension rights. But, he says, the state-based nature of American education and the limited funds available have not permitted the states to make any great strides in this direction.

Some states, he points out, use the basic concept of out-of-state credit. But, in nearly all cases, he said, the teacher must pay both the employer's and his own share, plus an interest fee, making such a move financially beyond the limits of the teacher's income in most cases. ■

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Touchy Question #144

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

The policy exclusions are customer benefits.

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

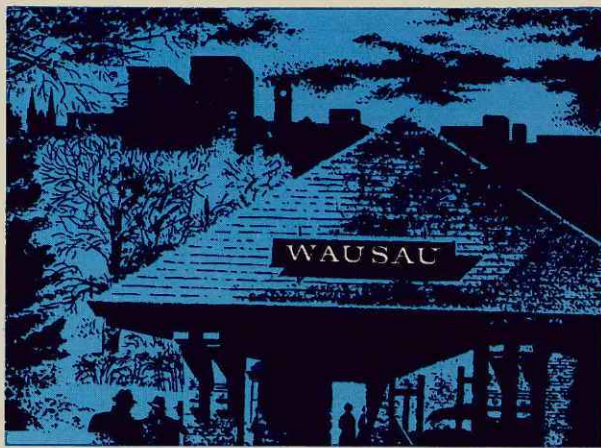
The more precisely the peril can be defined, the more equitably the losses can be shared and the more economically the policy can be written and serviced. The exclusions are an indispensable part of the definition. The declarations say what the peril *is*. The exclusions say what it is *not*. They are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

Because exclusions are so continuously argued (they go to court every day of the week all over the country)

many people think they *create* arguments. Not at all. They are there not to create argument, but to resolve it. When lawyers refer to policy exclusions, they do so in order to determine the policy intent.

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

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



Employers Insurance of Wausau

**We think insurance
ought to work for
a living.**



london line

Stockholders ask \$24 million cover on exec's life; he's asking Lloyd's

LONDON—Business executive Jim Slater believes in his own future so much that he feels he is worth \$24 million to the investment corporation he runs. So he is asking Lloyd's of London to prove the point by insuring his life for that sum.

It is a new move among corporate leaders in Britain, though pop stars like Tom Jones and Engelbert Humperdinck are already heavily insured by show-biz companies who use their talents, and

there is routine life assurance on lesser executives. But this is different.

Stockholders asked tycoon Jim Slater to insure himself for this amount after learning that his firm had nearly \$30 million in profit last year. He founded the firm seven years ago and it looks like he'll be making star rating on the stock exchange business charts for many years to come.

To cover himself for \$24 million and his business associates for an-

other \$12 million is likely to cost \$100,000 a year in premiums. He thinks that Lloyd's might share the risk with insurance companies, and perhaps offer some of it abroad. He is 42, and is top man in Slater Walker Securities, which runs banking and industrial groups. He will become one of Britain's highest-priced executives if the company insures him for this sum.

* * *

FRAUDS on Britain's social se-

curity services are being probed by government inspectors after complaints that too many working people are beating the system by trickery.

Investigators report that 30 Ford plant workers, some of whom have recently been on strike, have made illegal claims for welfare benefits. There is also the case of eight workers in the port area of Middlesbrough, in Durham County, who got fake doctors' certificates and stole sickness benefits while earning \$200 a week at oil refineries.

Reports from nationwide sources show that more than 23,000 industrial operatives are thought to have swindled the government-run organization last year. Only 7,000 were prosecuted, despite a step-up in the number of official investigators.

Britain will spend another \$1.3 billion on social security services this year. Increased contribution rates will be levied on both employers and workers. But in re-

turn there will be better welfare pensions for people over 80, and improved benefits for industrial injury liabilities from public funds.

Strike-bound plants in Britain cost industry the loss of 80 million work hours in the first half 1971, and social service benefits provided by the government to aid strikers and their families when union pay ran short of their needs totalled nearly \$10 million. Government leaders are being urged to cut this form of welfare insurance so as to halt labor disputes.

* * *

LAWYERS are being invited to join a new hospital benefits plan that Continental Casualty Co., Chicago, is backing in Britain. It is the first time this type of insurance has been offered on the U.K. market and the Law Society of England is urging all its members to support it.

The plan is slanted towards providing extra income for lawyers while they are hospitalized as a result of accident or sickness. Promotional literature explains that they can use the money in any way they think fit: for hospital or doctor bills, to pay the rent or buy groceries.

Quarterly premiums to buy \$24-a-day cover for up to twelve months' hospitalization range from \$8.40 up to age 35 through \$10.80 up to 45 and \$16.80 to age 55. There are higher rates on offer for family cover.

* * *

RISKS THAT can face dentists in the treatment of frightened children were revealed through the unusual death of a four-year-old London girl.

Coroner Gavin Thurston accepted that it was a case of accidental death when he held an inquest on the victim, who had been taken to the Royal Dental Hospital to have four teeth out.

But he agreed that her heart had stopped through fear, which had caused an excess of adrenalin in her bloodstream. He added: "It is a question of assessing the degree of fear, and balancing this against the necessity for treatment. Any person about to have dental treatment is frightened; this produces adrenalin. It is a question of knowing how much."

He was told that the girl had refused to go into the operating theater because she was frightened. But her teeth were causing pain, so she was given a sedative and carried in. The teeth were successfully removed, but she suddenly went limp and died.

* * *

A LEADING Lloyd's underwriter warned shipowners against the hazards of running unsafe vessels when he spoke on insurance problems at the Baltic and International Maritime Conference in Gothenburg, Sweden.

Peter Green, underwriter for one of the largest marine syndicates at Lloyd's, hinted that bad owners might find themselves in a position where the market refused to insure them. Dealing with the growing toll of tanker incidents, he said:

"There are many fine masters of tankers with highly qualified crews who operate their ships with prudence. But the operation of so-called 'flags of convenience,' representing over one-third of the world tanker tonnage, is at the other end of the spectrum.

"It is clearly desirable that there should be an international agreement on oil spillage and clean-up costs."

* * *

HULL RISK premiums will have to be hiked by 20% in the next twelve months, and will go higher if inflation is not halted.

Henry Chester, chairman of
Continued on page 38

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Massachusetts auto reform law upheld by state's supreme court

BOSTON—The first judicial challenge of controversial auto insurance reform legislation was turned back rather forcefully late last month when the Massachusetts state supreme court upheld the state auto insurance reform measure that has been in effect since Jan. 1.

The Massachusetts measure treats fleet vehicles favorably—or at least does not discriminate against them—and the court decision has been greeted warmly by corporate consumers of insurance for auto fleets, trucks and buses.

The test case here had been brought by Milton Pinnick of Sharon, who charged that provisions of the new law deprived him of his right of property and abridged his right to trial by jury.

THE LAW PROVIDES that liability claims up to \$2,000, including loss of wages and medical expenses, are paid by the victim's own insurer. Suits for "pain and suffering" are prohibited unless medical expenses exceed a \$500 threshold. (Property damage coverage is not affected by the law, however; accident victims' insurers must still subrogate against the party at fault although a drive is being mounted to amend this and include it in a first-party system.)

In a 46-page decision by Justice Paul C. Reardon, the court held that the law, as applied to the plaintiff, is constitutional under both federal and state constitutions.

The opinion further commented that those who challenge the law "have attributed to it not only a drastic stripping of legal rights but also, in its practical effect, a

Explains crime act requirements

FARMINGTON, Mich.—Electronic alarm system requirements of the Housing and Urban Development Act of 1970 will likely be carried over to any program established by the state of Michigan, according to Allen Silvarman, administrative head for Security Services Inc. here.

The 1970 act proposes rules for insurance at reasonable rates in high-crime areas in any state in which private insurance is not available by Aug. 1, 1971. Rules call for three types of electronic alarm systems, Mr. Silvarman said:

- Establishments dealing in furs, jewelry, guns and ammunition, and wholesale liquor, tobacco and drugs need a silent alarm system constantly in operation that signals private sentry or guard headquarters that are attended and monitored 24 hours a day.

- Precious metal storage facilities, industrial tool supply houses, pawn shops and stores dealing in liquor, electronic equipment, wigs, new clothing, cameras, coins and stamps would be required to have silent alarms that signal at a location other than the premises where installed without giving warning there that they have been activated.

- Antique stores, art galleries and service stations would be required to have local alarm systems that signal by means of one or more bells or other loud, audible devices located on the premises.

substantial diminution of the damages which the average non-negligent accident victim may reasonably expect. . . .

"Analysis demonstrates, on the contrary, that the (state) legislature has acted with extreme caution on altering prior legal rights, changing in one respect only the elements of damages which are recoverable by the victim," the court went on.

TOUCHING ON the law's practical effect, the court noted:

"It appears that the statute af-

fords the citizen the security of prompt and certain recovery to a fixed amount of the most salient elements of his out-of-pocket expenses and an increased flexibility in avoiding duplicate coverage, at double premiums, for the same expense.

"In return for this," it went on, "he surrenders the possibly minimal damages for 'pain and suffering' recoverable in cases not marked by serious economic loss . . . and the outside chance that through a generous settlement . . . he may be able to reap a

monetary windfall out of his misfortune."

Judge Reardon also pointed out that the ills against which the law is directed are "obvious" and that "one of the most prominent of these will be found in a brief consideration of the impact of the automobile on the burden of litigation carried by courts in general and Massachusetts courts in particular.

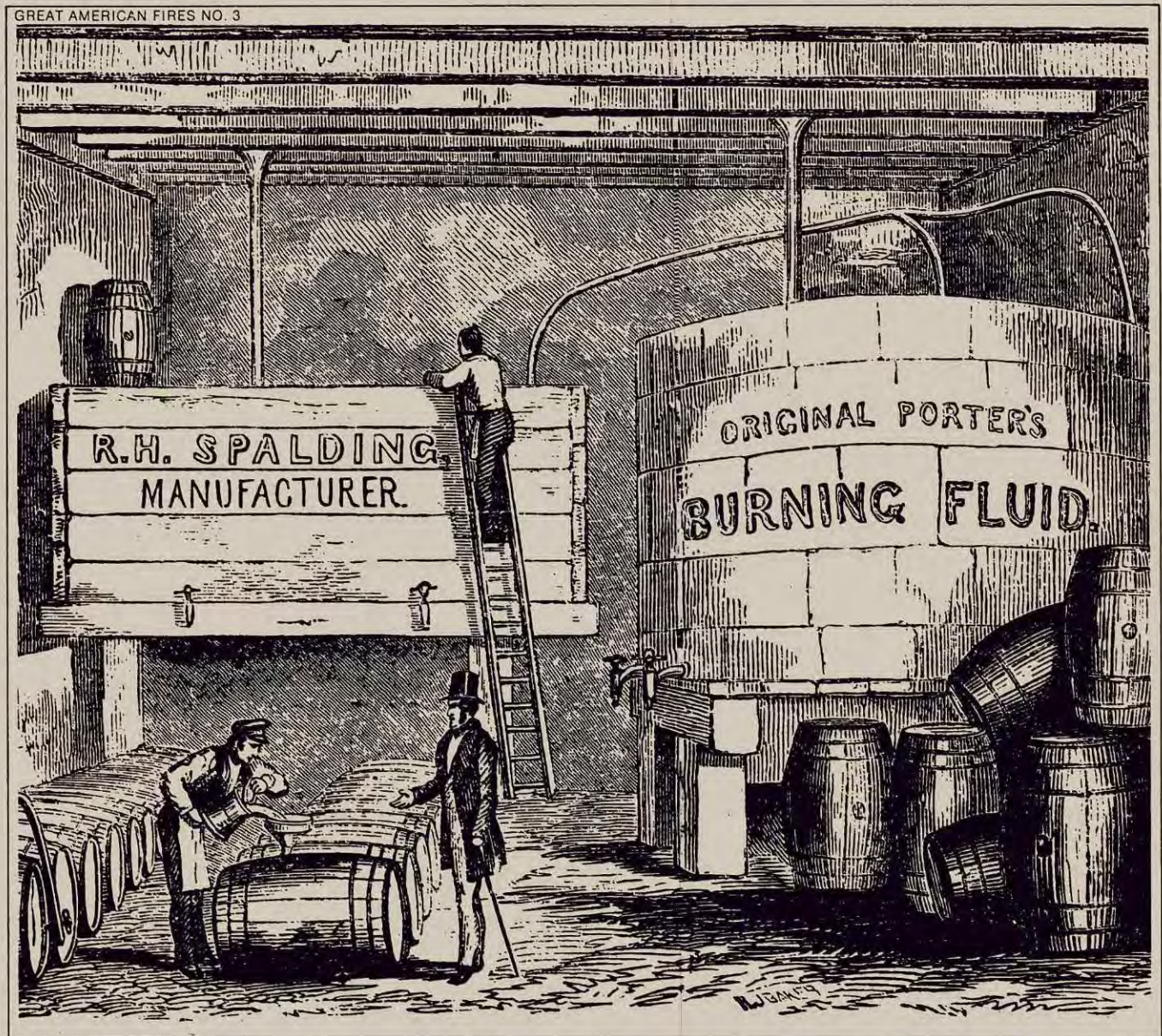
"The problems of society to which the courts have been called no longer permit the luxury of using them as a forum for resolving the ever-increasing numbers of automobile accident claims," he said in his opinion.

FOOTNOTE: The impact of the new law was being driven home to Massachusetts insurance buyers in a rather interesting fashion

early this month.

In newspaper ads taken by the Massachusetts Insurance Information Committee, which represents stock and mutual property and casualty companies serving the state, big, bold headlines proclaimed, "You've just saved \$76 million. And we're proud to have been a part of it."

Calling attention to the court decision, the advertisement notes, "In practical terms, this means that the 15% reduction in bodily injury liability rates established last January is going to stand. Based on what your 1971 compulsory rates would have been without the no-fault law, you and over 2 million other Massachusetts car owners have just saved \$76 million in 1971. That's great news. And we're as pleased about it as you are." ■



Fire devastates chemical complex

Could Ansul Have Saved the Spalding Camphene and Fluid Works?

Prior to the disastrous fire which razed the firm's main plant, Spalding had been one of the great names in camphene—to say nothing of burning fluid.

The explosion and subsequent conflagration was traced to the "fluid" works (pictured above in happier times). Investigation later revealed that fire protection in this highly hazardous area was woefully inadequate.

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If the management of the concern had asked Ansul to conduct a hazard

analysis, the debacle might have been prevented. We might have recommended installation of a Light Water Sub-surface system in the Burning Fluid vat. Powered by nitrogen, the Light Water would have been injected at the base of the vat, risen to the top and formed a vapor blanket. This in turn would have extinguished the fire and prevented reflash.

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We would have recommended strategic placement of dry chemical hand portable extinguishers throughout the complex; and possibly the addition of a large dry chemical hand hoseline stationary extinguishing system to protect the neighboring camphene

works. However, this dazzling array of equipment would still be inadequate without thorough training in its use for Spalding employees. And of course, we would have seen to it that the equipment was regularly inspected and serviced by local representatives of our nationwide dealer network.

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THE ANSUL SYSTEM



Froehlke assumes army post after he denies charges to Senate panel

WASHINGTON—Robert F. Froehlke, his nomination approved by the Senate armed services committee after he denied participating in the reorganization plan of Sentry Insurance while an assistant secretary of defense, has been confirmed by the Senate and sworn in as secretary of the army.

Mr. Froehlke was questioned by the committee about the *Business Insurance* report (June 21) that he continued to have a role in the Sentry plan after taking the Defense Department post in January, 1969. Sen. John C. Stennis (D.-Miss.), committee chairman, referred to the report, which later appeared elsewhere, as news items "with respect to a

plan that never materialized under which you were to be a participant in purchasing some insurance stock in your former company." He asked Mr. Froehlke to "clarify."

"I read the story in the June 21 issue of *Business Insurance* concerning my alleged involvement in the organization plan of the Sentry Insurance Cos.; the story repeats allegations that were publicly made and publicly answered in detail a year and a half ago," said Mr. Froehlke.

HE SAID he had discussed the allegations with the general counsels of the army and the Defense Department. "Both concur that even if the allegations were true,

which they are not, there would be no conflict of interest were I to invest in the stock of the reorganized Sentry Cos.," he stated, adding that Sentry "does not do business with the Defense Department."

Mr. Froehlke went on to say that he "did not at any time participate in the reorganization of the Sentry Cos. after joining the Department of Defense."

He stated, however, that he was "initially involved" in preliminary plans, which he said started "well before" he took office. "But I never applied for a loan from Chase Manhattan Bank or any other bank to finance the purchase of stock," he added.

He also said he attended two



Secretary of the Army Robert F. Froehlke (left) stands tall next to Defense Secretary Melvin Laird and Gen. William Westmoreland, the army chief of staff, as a 19-gun salute ushers Mr. Froehlke in as army secretary. —Wide World photo

meetings of the board of Sentry Cos. since resigning: "Twice I

have happened to be in Stevens Point, Wis., when the board was in session. I took the opportunity to visit with old friends. I did not vote or participate in the formal business of the board."

"**AND YOU HAVE** no connection now with the company?" asked Sen. Stennis.

"I am on a leave of absence to protect my retirement," Mr. Froehlke replied.

"But you have no active connection and have none planned during your tenure in office?"

"None whatsoever other than friendship," answered Mr. Froehlke.

From there, the committee went on to general questioning.

At the opening of the hearing, Mr. Froehlke got the backing of Sen. William Proxmire (D.-Wis.), who said the nominee "has been a great success in business in Wisconsin; he has earned an enviable reputation for integrity and capability."

At the close of the hearing, Sen. Stennis predicted that there would be "a close vote" but added "we feel like you'll get there." The "close vote" comment was later interpreted by an aide as "just a joke." The committee approval came out as officially "unanimous" for Mr. Froehlke, the aide stated.

Mr. Froehlke's was one of several executive nominations approved by the Senate on June 30. He was sworn in on July 1. ■



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Here's how Froehlke answered BI

CHICAGO—Robert F. Froehlke, on the day he was nominated by President Nixon for secretary of the army, put an embargo on a telephone interview with *Business Insurance*. He said any comment prior to his confirmation hearing before the Senate armed services committee would be "inappropriate."

Mr. Froehlke and *Business Insurance* Editor Richard Bjorklund worked out agreed-upon wording that indicated the nominee's decision not to make a public statement.

The nominee did agree, however, to answer questions that had been put to him in writing during the *Business Insurance* investigation of his dealings with Sentry Insurance while he served as assistant secretary of defense, a post he assumed in January, 1969.

• To the question of whether he attended at least one Sentry board meeting while serving in the Defense Department, Mr. Froehlke said:

"You've got to remember that
Continued on page 39



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DOT official to clarify fleet vehicle treatment

By NORMAN HOFFMAN
Contributing Editor

WASHINGTON—A federal official has pledged to tell members of the American Society of Insurance Management how the Department of Transportation proposes to treat commercial vehicles under its recommendations for auto victim compensation reform.

The pledge came from Assistant DOT Secretary Charles D. Baker at the third annual federal legislative review sponsored by the Insurance Information Institute. More than a hundred insurance company executives, association representatives and others attended the session in the new House office building here.

Mr. Baker said the huge DOT automobile and accident insurance study clearly showed the

present system of auto victim compensation to be inadequate. It costs \$2 of input to get \$1 of output from the present system, he said. He added that the allocation of benefits is uneven, favoring small claims and hurting those seriously injured, that the present system does little about accident prevention and rehabilitation, and that it is unduly protracted in offering solutions. He concluded that, in the light of these defects of the present tort and insurance systems, new approaches are needed rather than mere patchwork on the old system. In introducing new proposals, he believes the major focus should be on bodily injury not on property damage, and that the states should do the job and that the federal government is committed to leave it at the state

level if and where possible. "If the states fail, then the federal government will come in with both feet, even if they are both left feet," Mr. Baker asserted.

HE PRAISED both the Democrats for having started the study of the automobile insurance system, and the Republicans for continuing and concluding it, and declared it to be a bipartisan issue. He reported that the DOT will inform Congress in 1973 of the progress made as a result of its work. He is sure that Secretary of Transportation Volpe does not wish to be an automobile insurance czar, nor does he believe that the federal government should be one.

Asked what he would consider to be progress on state and industry levels, he stated that the

agreement as to model legislation by the states or the National Assn. of Insurance Commissioners would be progress, and that an increasing number of states having passed this legislation and experimentation with it would be considered progress. Such progress, he indicated, would preclude the necessity of the federal government having to fill a void.

Asked to explain the philosophy behind the difference in treatment afforded fleet or commercial vehicles with the treatment of private passenger vehicles under the no-fault legislation, Mr. Baker replied that although the subject is alluded to in his DOT report, it is a complicated question to answer and that the best he could do would be to answer it in writing to those interested.

Rep. Gerald Ford (R.-Mich.) in-

dicated it was his opinion that the trend toward insurance legislation will accelerate as the consumer movement gains acceptance. Present proposals provide for an office of consumer affairs to replace the temporary consumer's office now operating under the executive branch, and it is likely that some form of consumer legislation will be passed by this Congress. Mr. Ford thinks that the Federal Trade Commission should be reinforced and would then be able to adequately handle consumer affairs. He does not believe that the addition of a new department established specifically for this purpose would be the best method of solving the problem.

HE INDICATED that he believes a health insurance plan would be passed by this Congress at its 1972 session, probably not at this session, and that it would be a compromise between the Kennedy plan and the President's plan. He said that he was sure that legislation aimed at improving the delivery of medical services would be passed simultaneously. For example, the federal government is backing physicians' assistant training programs, physicians' scholarship programs and other medical manpower programs.

Rep. Ford indicated that the new Occupational Safety and Health Act is really an opportunity for industry to clean its own house, with government assistance and that since the legislation is brand new, individuals and corporations still have an opportunity to make their views known and ask for changes in the law; to his knowledge, there have been no changes requested.

He said there has been no demand for a federal insurance guarantee program, but, to the contrary, compared with ten years ago, there is a strong feeling that state supervision of insurance is inadequate. He indicated that his office and those of other Congressmen and Senators are receiving more mail and complaints on insurance matters than ever before.

With respect to no-fault automobile insurance, he was aware of the three States which now have such legislation, stated that he knew that a Federal plan would pre-empt state plans, and did not rule out the possibility of federal legislation in this Congress.

SEN. GLENN BEALL (R.-Md.) indicated that Congress is reluctant to get into the insurance business, but feels that it must respond to complaints brought by voters. He said that the government always steps in where there is a void, for instance, flood and FAIR plans. He stated that the government is trying to encourage states to pass no-fault legislation so that the industry, the federal government and the public will have an opportunity of testing it and comparing it with the old tort systems. Should industry fail to provide this opportunity, he feels certain that the federal government will step in. He notes increasing numbers of letters from senior citizens regarding the automobile cancellation problem and currently refers them to his state commissioner. As long as the states are able to resolve these continuing problems, he feels that Congress would be reluctant to step in.

He indicated that Congress is concerned with crime coverage only to be certain that people who

Continued on page 42

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Two towns leaving state pension fund

HARTFORD—Two smaller Connecticut towns are pulling out of a state-operated municipal employees retirement fund over dissatisfaction with its performance. (See *Following the Funds* on page 34.)

The towns of Windsor and Darien are removing upwards of \$1 million in town funds—their initial investment without interest—and plan to invest the money in private plans.

Windsor, a Hartford suburb, is taking \$444,565, and Darien, in the Southwestern portion of the state, is pulling out \$602,058.

EARLIER, State Treasurer Robert Berdon disclosed a loss of \$140 million in asset value for six large retirement funds administered by the state, including two municipal employees' retirement funds, from the initial investment figure.

Mr. Berdon appealed, unsuccessfully, to the state legislature for authority to set up a small trust division in his department with professional investment personnel to give their expertise to administration of all state investment funds.

A "part-time" state employe, he said, is now supervising the funds. (The employe was identified as Alexander J. Pardee, who lives in North Haven, a New Haven suburb).

Darien's town finance director, Albert Brunner, remarked that Darien decided to withdraw its funds because it had a "better plan."

"**THERE ARE** no vested interests or survivor benefits in the state plan," Mr. Brunner said. "It wasn't as good a plan as the town employes would like. We have a new plan that will be better for the town employes."

A Windsor town finance department spokesman commented, "We are going right into another plan with an insurance company. We will get a better return on our money. We never got any interest on our money with the state."

He said the main reason the town was quitting the state plan "is that we could do a lot better with our money. There were no vested rights until after 35 years' service."

"The fund was limited as to how it could be invested," he continued. "We are now able to write our own specific conditions and we put it out to bid. We will get more for our money." ■



David Kee, (left) a senior at Temple University, Philadelphia, Pa., was awarded a scholarship for exemplary work in the field of insurance and risk. The annual award is sponsored by the Delaware Valley chapter of the American Society of Insurance Management and was presented by Eugene E. Marinelli, chapter president.

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info for buyers

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

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

- The National Safety Council has recently published **Fundamentals of Industrial Hygiene**, a hard cover 1,008-page textbook for self-teaching or college class work in an industrial hygiene fundamentals course. The book is fully indexed, includes a glossary plus extensive bibliographies for many of the chapters and can serve as an important reference source. Written for students with minimal backgrounds in this field, the manual features recognition, evaluation and control of chemical, ergonomic and physical environmental stresses. The price is \$10 for single copies, less in quantity. A complimentary syllabus and instructor's guide is also available. For information write the council, 425 N. Michigan Ave., Chicago, Ill. 60611.

- Audio-cassettes, complete journals of the *Business Insurance*-Computerworld computer protection/insurance workshop, are available to *Business Insurance* readers. Edutronics Systems International Inc., 3345 Wilshire Blvd., Los Angeles, Cal. 90010 offers four audio-cassettes containing the entire workshop proceedings for \$50. Included on the tapes are speeches and panel discussions of computer fire protection, computer security, computer employe safety and morale, property and liability insurance and risk management for computer facilities.

- The Equity Funding Corporation of America offers four brochures describing its new series of business insurance packages incorporating the company's leverage concept which enables individuals to purchase insurance and mutual funds in a coordinated program. The pamphlets cover Equity's close corporation, deferred compensation, key man and partnership programs. Copies may be obtained by writing Mr. Henry Gold, Equity Funding Corporation of America, 1900 Avenue of the Stars, Los Angeles, Cal. 90067.

- **How the Stock Market Affects Your Savings Plan Account and How the Stock Market Affects Your Profit-sharing Account** are available from Hewitt Information Service, Inc., an affiliate of Hewitt Associates. The booklets are designed to clearly explain to employes what happens to profit sharing and savings and thrift plan funds. Samples and price information are available on request from Mrs. Retta Rench, Hewitt Information Service, Inc., Libertyville, Ill. 60048.

- The 1971-1972 edition of the **Design Data—Fire Resistance Manual** is available from the Gypsum Association, 201 N. Wells St., Chicago, Ill. 60606. The publication contains extensive fire test data for 262 wall, ceiling, column,

beam and roof deck assemblies using gypsum board or gypsum plaster, as well as considerable sound and structural data. Newly expanded to 100 pages, it provides detailed information for assemblies used in residential, commercial, industrial and institutional buildings plus a detailed sketch of each assembly listed. Copies are available in bulk at 70 cents each from the association. Single copies may be obtained at no charge.

- **Image 10-40** is a booklet describing a program of long term disability coverage for firms with from 10 to 40 eligible employes. The Combined Insurance Co. of America has made the publication available by writing Hal Lawrence, Advertising & Sales Promotion, Combined Insurance Co. of America, 5050 N. Broadway, Chicago, Ill. 60640.

- The National Fire Protection Assn. has published a 2100-page fire encyclopedia containing a reference volume on every aspect of fire prevention and protection, authoritative information on fire behavior and control, process hazards, buildings and other structures, building equipment, protection systems, water supplies, the public fire service and other subjects. The latest edition of the **Fire Protection Handbook** can be ordered from the NFPA Publications Service Dept., 60 Batterymarch St., Boston, Mass. 02110.

The Aug. 30 issue of *Business Insurance* will feature a special report on international insurance and risk management, and will include an international Info for Buyers section. Items relating to this topic are welcome for inclusion in the Aug. 30 column. Sample items should be sent, along with price and quantity information and the name and address of your company, to: Info for Buyers, *Business Insurance*, 740 Rush St., Chicago, Ill. 60611 by Aug. 11, 1971.

- **What about Drugs and Employes?** is a booklet dealing with the drug problems in industry. Guidelines included in the booklet cover identification of drug dependencies on the job, drug abuse on the job, special problems of illegal drug use and drug traffic, treatment resources and background information regarding marijuana. The booklet is released by Kemper and also contains Kemper insurance guidelines on policy and procedures and general Kemper policies regarding drugs. Initial orders of five copies are free from the company, additional orders are 10 cents each. Direct requests to the firm at 4750 Sheridan Rd., Chicago, Ill. 60640.

- Towers, Perrin, Forster & Crosby has released **Venture Management**, a comprehensive survey of the venture management operations in 36 large, United States industrial companies. Venture management is the formalization of a new corporate-level activity designed to generate new businesses for the large organization primarily through the use of internal resources. Diagrams are included. For a copy write Joseph A. Banik, Towers, Perrin, Forster & Crosby Inc., Three Penn Center, Philadelphia, Pa. 19102.

• The American Management Assn., 135 W. 50th St., New York, N. Y. 10020, has released **Fact Finding Techniques in Risk Analysis**. The publication deals with the need and use of several forms in fact gathering, presentations to underwriters, presentations to boards of directors, contains a check list of exposures insurable or not insurable, and balance sheet approaches. Single copies are \$4.95.

• The William J. Burns International Detective Agency Inc. has released **Detect, Report, Deter Fire-Burglary Automatically**, describing the company's central station alarm service which automatically signals fire, burglary or other trouble points for client companies. Devices for detection outlined in the foldout include manual fire alarm service, automatic waterflow alarm service, air temperature supervision, early warning automatic alarm service and others. For a copy write Ashley W. Burner, Manager, Public Relations, the William J. Burns International Detective Agency, Inc., 320 Old Braircliff Rd., Briarcliff Manor, N. Y. 10510.

• The Insurance Information Institute has released the 1971 edition of **Basic Insurance Books** containing a 20-page bibliography of books and periodicals on all phases of insurance except health and life. Capsule descriptions of the book as well as the name of the publisher, price and number of pages are included. Single copies are free upon request from the Insurance Information Institute, 110 William St., New York, N. Y. 10038, or from the College of Insurance, 150 William St., New York, N. Y. 10038.

• American Home Assurance Co.'s 12-page brochure on **Builders Risk Insurance** takes into consideration the fact that every structure is unique and every builder's approach is equally unique. It outlines the basic builders risk plans available, including extras, and explains the types of commercial structures they are designed to cover. It is available, free of charge, to agents, brokers and buyers, by writing American Home Assurance Co., Dept. A 14, 102 Maiden Lane, New York, N. Y. 10005.

• **Rite Whitecap** offered by Personal Environment Systems Inc. is a booklet describing in illustrations and text their air-supplied helmet and hood systems to protect workers from dust, smoke, toxic vapors, insects, chemicals, dirt, cold, fumes, odors, noise, pollen, chapp, heat, sand, falling objects and other problems caused by some working environments. For a copy of the booklet write: Manager, Personal Environment Systems, 4429 San Fernando Rd., Glendale, Cal. 91204.

• **Flammable Liquids—A Challenge For The 70's** summarizes the problems and suggested remedies in the storage, use and disposal of flammable liquids along with a collection of case histories of careless storage use and disposal of liquids that resulted in fires. An index of common terms and a safety check chart are included. The Justrite Manufacturing Co. offers this publication free to *Business Insurance* readers. Direct requests to J. N. Grimshaw, Justrite Manufacturing Co., 2061 N. Southport Ave. Chicago, Ill. 60614.

• **Testing The Defender** is a 16mm and 8mm film from Kane Manufacturing Corp. showing actual tests made on Kane screens

by a large midwest fire department and the results of the tests. The 1970 film is available for showing, free of charge, from the company. For more information write Robert Snow, President, Kane Manufacturing Corp., P. O. Box 641, Kane, Pa., 16735.

• **Safety Above All** is an illustrated booklet for use by roofing and sheet metal contractors to inform their employes of the many hazards existing in the sheet metal and roofing industry. This booklet is published by the safety engineering department of Hewitt, Coleman & Associates Inc. in cooperation with the safety committee of the Carolinas Roofing & Sheet Metal Contractors Self-insurers Fund. For a copy write R. P. Hewitt, President, Hewitt, Coleman & Associates Inc., P. O. Box 3665, Greenville, S. Carolina, 29608.

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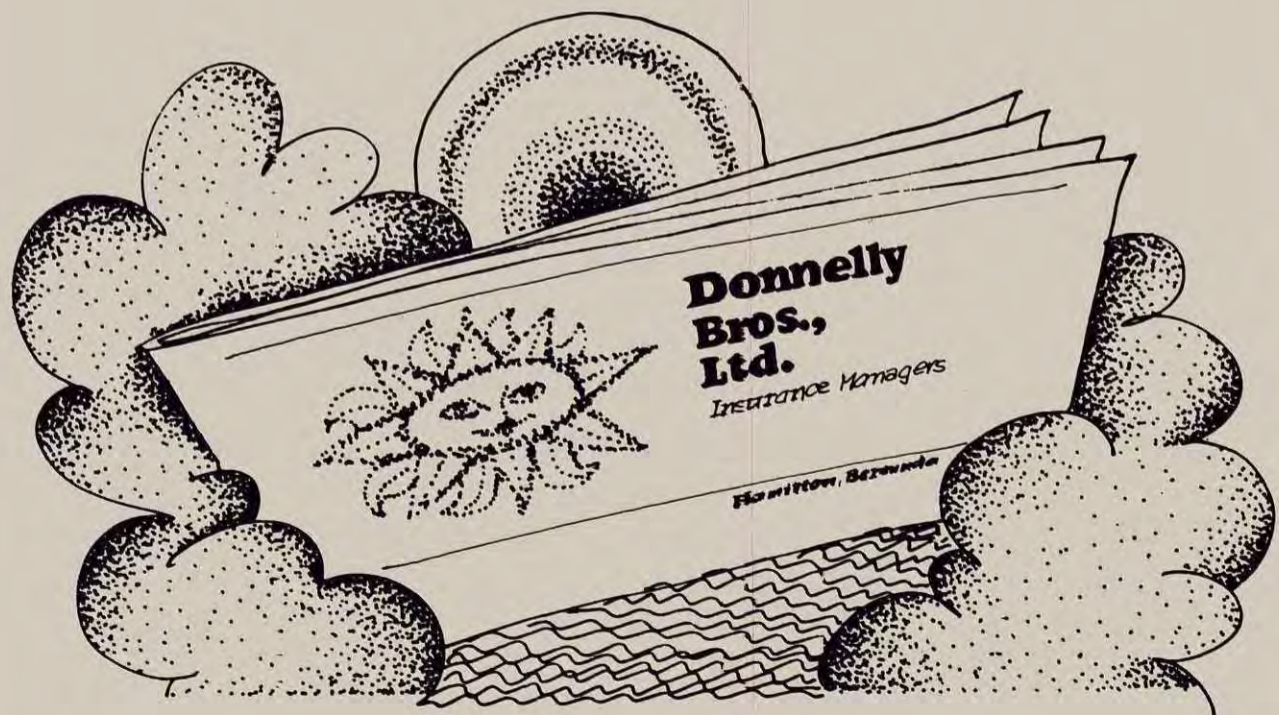
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Black brokerage runs benefits for poverty workers

NEW YORK—When a black insurance brokerage firm here won the contract to come up with and administer an employee benefits package for almost 7,000 employees of agencies funded by the New York City Council Against Poverty there were those in white-managed brokerage houses, including some who lost poverty plum business to the firm, who looked down their noses and murmured that eight-letter bromide—tokenism.

To be sure, the murmurings have not stopped, for the E. G. Bowman Insurance Co. got more than a token when it won the contract a year ago. The account generates about \$3.5 million in premiums annually. And that, not at all incidentally, increased the Bowman firm's premium volume by 100%.

Mrs. Ernesta Bowman Procope is president of the firm. (See related story on page 15) Her first husband, E. G. Bowman, founded the company in 1947 and she has carried on since his death. She is now married to John L. Procope, who is general manager of the N.Y. Amsterdam News, the city's black daily newspaper.

IN AN INTERVIEW at her office, which is smack in the middle of Brooklyn's Bedford-Stuyvesant ghetto, Mrs. Procope talked about her business in general and, more specifically, about the package she put together for the employees of more than 30 Community Development Agency arms. These include 26 "community corporations" that are headed by locally elected boards of directors who in turn hire a staff to run, coordinate and seek funds for local projects. It is these employees who are now covered under a single benefits package that replaces a hodge-podge of fringes—formerly worked up for the individual agencies.

The 6,700 employees covered by the package, which is administered by a Bowman subsidiary, Bowman-Procope Associates Inc., are a rather unique group of workers and require benefits that fit their needs.

In general, they are ghetto residents, almost entirely black or of Spanish extraction, in many cases, that have just made that giant leap from the welfare roles to gainful employment. The employment, of course, is with a poverty agency where they are taught a skill. They are then encouraged to seek private employment.

As such there is very little use for such things as pension benefits. "The idea," Mrs. Procope told *Business Insurance*, "is to get you in and get you out again as soon as possible. Hopefully there are few long-term employees in this business."

THE BASIC BENEFITS package worked up by Mrs. Procope's firm includes hospitalization, medical and surgical coverage, major medical, a dental plan, life insurance and accidental death and dismemberment coverage. Workmen's compensation and New York state disability benefits are statutory coverages also included. All benefits are paid for in full by the Community Development Agency.

Hospital and surgical coverage, as well as the dental plan, is written by Blue Cross-Blue Shield. The Blues were chosen, Mrs. Procope said, because of their contractual relationship with hospitals. "It would be very difficult for a poverty worker to present an insurance card from, say, Aetna or Connecticut Gener-

al," she explained. "Hospitals (with this class of non-welfare patient) ask for their money and tell you to get reimbursed by the private insurer. These people," she said of the poverty workers, "don't have that kind of cash on hand."

The Blue Cross-Blue Shield plan provides full semi-private hospital care for up to 120 days. Employees are eligible on the first of the month after 30 days of employment. Typical waiting periods for some benefits (10 months for maternity, six months for removal of tonsils and adenoids and 11 months for pre-existing conditions) have been waived.

The supplemental major medical cover, written by Federal Life & Casualty, Battle Creek, Mich.,

has a \$50 deductible annually, with the maximum deductible per family set at \$125. Federal pays 80% of the first \$2,000, 90% of the next \$3,000 and 100% of the remainder up to a \$20,000 maximum per lifetime.

FEDERAL ALSO writes the life insurance, which is set for each employe at one times annual salary rounded out to the nearest \$100.

The dental plan, which a year ago was the first written by Blue Cross-Blue Shield in New York, covers diagnostic, restoration and preventive procedures.

This plan, said Harry Ennevor, chief of administration for Mrs. Procope, was thought out and conceived especially for the type of employe covered. "It's preven-

tive, not curative, care. We just want to get these people to the dentist," he declared, admitting that in the first year of the program participating agencies have not been altogether successful in getting poverty workers and their families to utilize their benefits.

To help solve this problem a film has been made and will be shown to all 6,700 covered workers within the next month or so. Called "Your Health Benefits—Utilize Them," it was done by a professional film company and in simple but dramatic terms tells employes that when illness, accident or dental problems strike insurance coverage is there to pay for it. It was filmed in the Bedford-Stuyvesant area and also uses a hospital emergency scene to convey the message.

THE FILM WAS paid for by Bowman-Procope Associates and Mrs. Procope said it was rather expensive. "We paid the going rate. I'll put it that way," she said.

The Bowman firm has also extended itself in other ways. When it won the contract and developed the coverages a year ago, the company began attacking the problem of administration, which can be a real can of worms when dealing with agencies in which there is a large turnover and little central control.

Mr. Ennevor, who is in charge of this particular slice of business for the company, has since developed a data processing system where names of employees, amounts and costs of coverages

Continued on page 30



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Ernesta Procope: No miracles, but she's doing something right

NEW YORK—Ernesta Procope is an attractive woman, vivacious in personality, shrewd in business—and black.

Mrs. Procope is president of Bowman Insurance, which may be the largest black-managed brokerage firm in the country.

The company has grown rather dramatically in the last few years. Its only office, at 1424 Fulton Street, Brooklyn, is all but bulging at the seams. However, Mrs. Procope has not forgotten where she came from and doesn't intend to.

Fulton Street in the Bedford-Stuyvesant district of Brooklyn is, well, a national landmark. Film clips reappear every so often on the 6:30 news, and if you live in

Wichita or Iowa City or Tulsa you've gotten the picture.

BUT TV CAMERAS can't record the smell of the heavy air of a hot summer day in Brooklyn. Nor do they enter the dilapidated tenements, row upon row of them, where families of eight, 10 or 12 live together in one, two or three rooms. The area is a blight. Its residents have rebelled against their environment and in doing so have almost destroyed themselves.

Mrs. Procope does not seem dismayed by it at all. She sees some hope in the various rehabilitation projects going on around her tiny office building and wants to stay and help with necessary insurance requirements.

Next door, for example, the Bedford-Stuyvesant Restoration Corp., a privately-funded firm conceived by the late Sen. Robert F. Kennedy, is buying up depressed buildings and using the skills of hard-core poor to restore and resell marketable property. It is converting the shell of an old milk bottling plant into a complex that will include a theater, office space, a supermarket, drug store, boutiques and a day-care center. The project required a \$3 million builders risk policy. Mrs. Procope obtained such a policy from Royal-Globe, along with necessary workmen's compensation coverages.

The Bowman firm began working on various social projects in



Ernesta G. Procope (third from left, front row) is surrounded by her staff which conducts the business of one of the nation's largest black insurance brokerage firms.

1966. Prior to that it had been a personal lines agency. It still is—a sign in the window proclaims that for \$25 down you can get auto liability coverage the same day, and two girls do nothing but process personal auto business—

but the real action these days is in commercial lines.

WHILE ROUGHLY 60% of the commercial business is, for lack of a better term, in "black involvement" such as ghetto businesses and social programs, Bowman Insurance does have some blue chip accounts. For example, the company places slices of business for ITT Continental Baking Co., Kraftco Corp., Mays Department Stores, Pepsico Inc., Wilson Sporting Goods and General Foods. Other names on the client list range from the Concord and Bethany Baptist Churches, the two largest in Bed-Stuy, to Spartacus Securities Inc and the Niagara Falls Housing Authority.

Mrs. Procope was described to *Business Insurance* by one industry source as "a shrewd woman, who has good connections in the insurance business. But she doesn't abuse them."

For example, the spokesman pointed out, most brokers with a client that has a ghetto area location automatically throw that business into property pools instead of evaluating the risk and attempting to get the business into the conventional markets.

"Not Ernesta," this source said. "She'll take a look at the risk and if she thinks it can be underwritten in the normal markets she'll get some underwriters out there to take a look at it. But—and this is why she is so well respected—if she takes a look at the risk and thinks it can't be underwritten in the normal markets she won't waste anyone's time."

THE CONCORD Baptist Church, Bedford-Stuyvesant's largest, is a red brick building in excellent condition. The church's last broker was able to obtain only \$800,000 of insurance on the property, and that in a pool, despite the fact the building is valued at more than \$2 million. Mrs. Procope was recently named broker of record for the church and she's now working up proposals for full coverage. She is confident she can get several carriers to take a percentage of the business.

A second Baptist church in the area, Bethany, faced the same problem some time ago. Mrs. Procope came along, however, and the church is now out of the pool with a \$1.2 million policy tucked safely away in its belfry.

"Ernesta Procope is no miracle worker, but she must be doing something right," the industry man told this magazine.

Mrs. Procope was also instrumental in laying some of the groundwork that led to the formation of the N.Y. Property Underwriters Insurance Assn., the pool that has filled an insurance void in this state for substandard risks

"**IN JULY** of 1966 I had 30 cancellations in one day from the same company. Eighty," Mrs. Procope said, noting that she did later manage to place the business with Royal-Globe. (As a re-

Continued on page 30



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Career apparel looked at by some as benefit

By ANNETTE DUFFY

NEW YORK—In a series of related phenomena, hot pants are being worn at a Pennsylvania bank as an accepted part of employe work clothes, a group of undertakers in New York has buried their black suits to liven up their image with crested navy blazers and grey trousers, and office employes at a chicken plucking farm in Delaware have started to reign over their birds in well-matched sartorial splendour.

You who suffered through parochial school uniforms, Boy Scout gear or Brownie beanies may not believe it—but the uniform has made it into the grown-up world of business, providing a raft of benefits to employer and employe in the process. The word "uni-

form," however, is a no-no, especially when talking to young employes, and is replaced by the more acceptable term "career apparel."

"We don't call them uniforms," explained Howard Wolfe, executive director of the Career Apparel Institute (CAI) in New York, in an interview with *Business Insurance*. "A policeman's clothing, for example, is a uniform. You look at it and know right away what its wearer does. But career apparel doesn't tell you what it is, its wearer is not defined by the garment itself; it becomes something in the group wearing it, and outside the group it's just normal street clothing with no meaning."

ACCORDING TO all reports, the career apparel market is

booming. Banks are especially interested in the concept, and even corporate giants like American Telephone & Telegraph Co. are getting into the act. The appropriately named Richard Draper, who has been in charge of career apparel research and testing at AT&T, told *Business Insurance* that employe reaction at his company has generally been favorable, particularly among women, and that by the fall employes will be wearing career apparel.

"Our employes don't feel regimented by the clothing," he said. "They don't seem to feel a degree of conformity they can't live with. And from our point of view the clothing is good because it will give us a public identification—it is meant for employes who have contact with the public. A house-



Career suits can be attractive and functional—and they provide a money-saving benefit for some employes.

wife, for example, will feel happier about letting a repairman

into the house if she can recognize his uniform."

Mr. Draper said that only about half of AT&T's women are unionized while almost all the men are, so the company must treat the programs separately. "We will have to negotiate with the unions on who pays," he said. "The company has to pay at least part of the cost, but employes will pay no less than 50%. The cost is tax deductible for both company and employe in most states."

Actually, experts in the career apparel market make some distinctions that exclude heavy-duty work clothes like the uniforms to be worn by AT&T repairmen. Career apparel is different, they say, from both industrial uniforms and institutional clothing. The industrial uniform is work clothing often of the jumpsuit or overall variety—for bottlers, bakery employes, service repairmen and others. Institutional clothing, on the other hand, is standardized and non-personal, usually laundered and cared for by the institution, and includes such articles as the busboy's starched cotton jacket or the hospital worker's white smock. In contrast to these two categories, career apparel looks like normal street clothing and is usually owned and cared for by the employe like any other element of his wardrobe, regardless of whether he pays for it or his company does.

WHO DOES PAY depends on whom you talk to. Howard Wolfe of CAI said, "Most companies pay at least a portion of the cost, but extras like shoes, dry cleaning and replacement articles are often picked up by the employe. It all depends on the industry."

Joseph Bendinger of Bendinger Bros. Co. Inc., Philadelphia, said that "in most cases the company pays for garments and gives them to employes as a benefit." Herbert Weinberger, president of Angelica Career Fashions in New York, said it all depends on geography. "Where labor is hard to get the employer picks up the tab," he said, "but out West, for example, where personnel are readily available, the employes pay." In any case, career apparel is a tax deductible expense, and if employes must pay they usually do so on an installment basis with small amounts being taken out of their pay checks.

The First Pennsylvania Bank in Philadelphia, which has completed four years in a career apparel program with Profiles Inc., the C/A arm of Bendinger Bros., pays for the clothes while employes pay for cleaning and repairing. "We're now going into our third issue of career apparel," said George Butler, executive vp of the branch system, in an interview. "Every two years we go into a new set of clothing. This

Continued on page 40

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But who's paying the bills?

Group is campaigning to kill all no-fault auto insurance measures

NEW YORK—A group calling itself "Citizens Against No-Fault" and operating out of the Hotel Commodore has been running an ad campaign here for the last month or so against the proposed New York State no-fault auto insurance laws presently being considered by the state legislature.

Interestingly, however, it is somewhat difficult to get details of the group's backing from Irv Spivack, its executive director, who also has his own public relations firm in Brooklyn.

In an interview with *Business Insurance*, Mr. Spivack said he had been commissioned to run the anti-no-fault ad campaign by "a number of people who happen to think there are tremendous flaws in the proposed legislation now being considered by the state senate."

Mr. Spivack's group is running ads on television and full-page ads in every major newspaper in New York City and in some Long Island and upstate New York papers as well. He said this apparently costly operation was being supported by contributions from "housewives, union men, insurance men—you know, private people." The executive director said he had "no idea what the breakdown is on our costs. All I know is a lot of people in the state are concerned about no-fault, and anything being put across as a great consumer idea has to be examined."

ASKED ABOUT any possible connection between "Citizens Against No-Fault" and the New York State Trial Lawyers Assn., (NYSTLA) Mr. Spivack said, "I'm not denying there are lawyers who support us—there are all kinds of private individuals who make contributions." He said he had received a phone call several weeks ago asking if he would run the campaign, but could not recall who it was who contacted him.

An inquiry by *Business Insurance* at the Manhattan office of the New York State Trial Lawyers Assn. about that group's view of or possible relation to "Citizens Against No-Fault" brought the response, "let me give you the name of a man who can explain it all to you—Irv Spivack." All other attempts to have the trial lawyers' spokesman clarify the relationship were met by lengthy explanations of why no-fault is no good, and interspersed with advice to contact Mr. Spivack.

Two co-chairmen of "Citizens Against No-Fault" proved no more cooperative. One, a CPA, was friendly until asked about his connection with the group. "I can't talk now," he said "I'm in a meeting. In fact I can't talk at all today—it's a busy day. You're going to find it hard to tie me down during business hours."

The second co-chairman, who has his own insurance brokerage firm, would not comment on who backs "Citizens Against No-Fault," but did discuss his attitude toward no-fault auto insurance. "I'm in favor of a modified no-fault law," he said. "Admittedly the system we've been operating under has many faults and needs change, but you don't throw out the present system and take on something totally untried. We should watch what happens in Massachusetts with the modified no-fault plan before doing

anything."

THE INSURANCE agent's comments follow the arguments being put forth both by "Citizens Against No-Fault" and by the NYSTLA. They generally admit that the present auto insurance system is failing and must somehow be changed, but proceed to caution against hasty action.

The recommendation that New York and other states should watch Massachusetts for a while is also a universal theme with the anti-no-fault forces. At the state legislature's hearings in March the president of the NYSTLA,

Stanley P. Danzig, said, "immediate and precipitous action is not a cure-all, even in an emergency. . . . The Massachusetts experience with 'no-fault' can be our experience here in the State of New York without our suffering the pain which may arise from difficulties and experimentation with some scheme of 'no-fault.' We should profit by their experiences . . ." The advice comes from the same group which is trying with every means in its power to have the Massachusetts no-fault law repealed, making observation rather difficult.

The apparently thoughtful

stance implied by the backing of a "modified no-fault law" also bears further investigation. So-called no-fault laws can be worked out which mix in enough deductibles and torts to keep lawyers very much in the profitable auto-accident picture. The introduction of such laws into state legislatures confuses the no-fault issue and makes it more likely that any change in auto insurance systems will be partial. According to an article that appeared in the *New York Times*, "no-fault advocates accused sponsors of such bills of deliberately planting the confusion as a major tactic to defeat reform legislation. Opponents of the no-fault concept, notably organized trial lawyers and elements of the insurance industry, had a hand in drafting the bills."

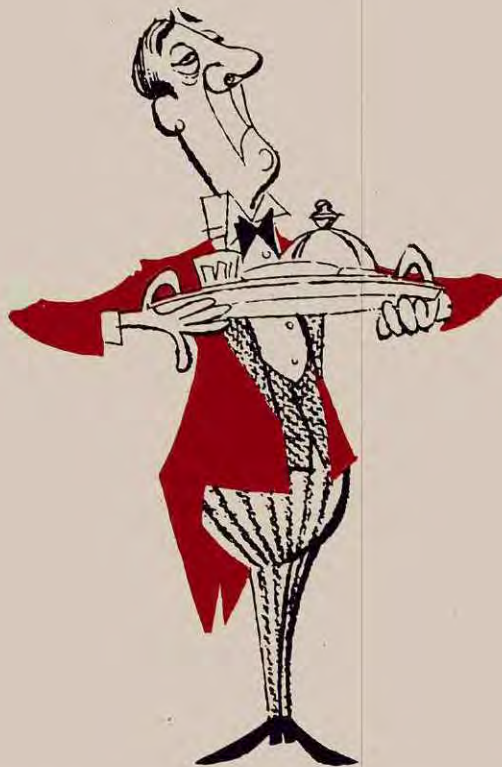
The ads being run by Irv Spivack's group seem to be aimed at the Stewart Plan, although there

are at least two other auto insurance bills before the New York state legislature. The Stewart Plan is the original proposal presented to Governor Rockefeller in February, 1970, by the New York insurance department, and headed by former Insurance Director Richard Stewart. It was backed by the governor before the state legislature in 1970 and again this year. It is a pure no-fault bill, with no torts or deductibles.

"CITIZENS AGAINST No-Fault" does not name its target, but makes the general announcement that, "You're right, New York! You're beginning to get the idea. 'No-fault' auto insurance is a hoax!" The ads go on to point out several potential injustices the organization sees in current legislation and warn that insurance costs may rise if no-fault is passed.

Continued on page 28

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Work comp carrier must cover chiropractic care

SAN FRANCISCO—Failure of a workmen's compensation insurance carrier to provide chiropractic treatment is, in effect, denial of medical treatment, according to a ruling by the third district court of appeals. The decision reversed a ruling by the California workmen's compensation appeals board.

In the original hearing before the board a neurosurgeon and orthopedist filed reports asserting the injured workman required no further treatment. A chiropractic

practitioner, however, testified he believed the worker would benefit from additional care. The carrier, however, refused to provide chiropractic treatment.

In its ruling the appeals court declared "the California constitution vests the legislature with plenary power to create and enforce a complete system of workmen's compensation.

"This court is not interested in quarrels between practitioners of the healing arts as to which possesses a higher or exclusive profi-

ciency.

"There is no question that treatment by a chiropractic practitioner was within the ambit, as applied to the facts of this case. There is no question either that effectually the carrier here was trying to repeal this legislation in a circuitous way."

Circus wagon covered for \$1.5 million on trip

MILWAUKEE, WIS.—The historic circus wagon train that pulled out of Baraboo, Wis., June 30 for its annual trip to the Fourth of July parade in Milwaukee was insured for \$1.5 million.

"I don't know what the Pawnee Bill bandwagon was worth when it rolled through towns of the Wild West but it doesn't move out of Baraboo without \$25,000 insurance coverage," said Tom Walker, a commercial lines manager for Fireman's Fund American Insur-

ance Co., Chicago.

Mr. Walker said Fireman's Fund had the \$1.5 million riding on the following property of the Circus World Museum at Baraboo: 82 wagons, carts and carriages, 27 railroad cars and several hundred pieces of miscellaneous gear including uniforms, flags, a bullhorn, decorative garbage can lids, a sewing machine, welding equipment and a llama.

The job of moving the ornately carved bandwagons and wheeled animal cages more than 200 miles round trip, through two loadings and two unloadings, exposes the expensive relics to numerous dangers. But no damage claims have been filed in the four previous trips that have been insured by Fireman's Fund.

Mr. Walker credited the parade's sponsors, the State Historical Society and Jos. Schlitz Brewing Co., with exercising extreme care in the unusual operation.

Oregon farm labor is under work comp now

SALEM, Ore.—The Oregon legislature approved and Gov. Tom McCall has signed into law senate bill 186 bringing under the definition of "subject workmen" those employed by a farmer whose payroll for previous years did not exceed \$1,500.

Under SB 186 all Oregon farm workers will have to be covered by workmen's compensation insurance by July 1.

"Under the 1971 statute," said M. Keith Wilson, chairman of the Oregon workmen's compensation board, "agricultural employees must meet the same workmen's compensation requirements as any other trade, business or profession. Those who will be obtaining this coverage for the first time should understand that they have a choice of insuring with private companies or with the state accident insurance fund."

Also to become law is house bill 1279, which increases workmen's compensation benefits for children of deceased workmen.

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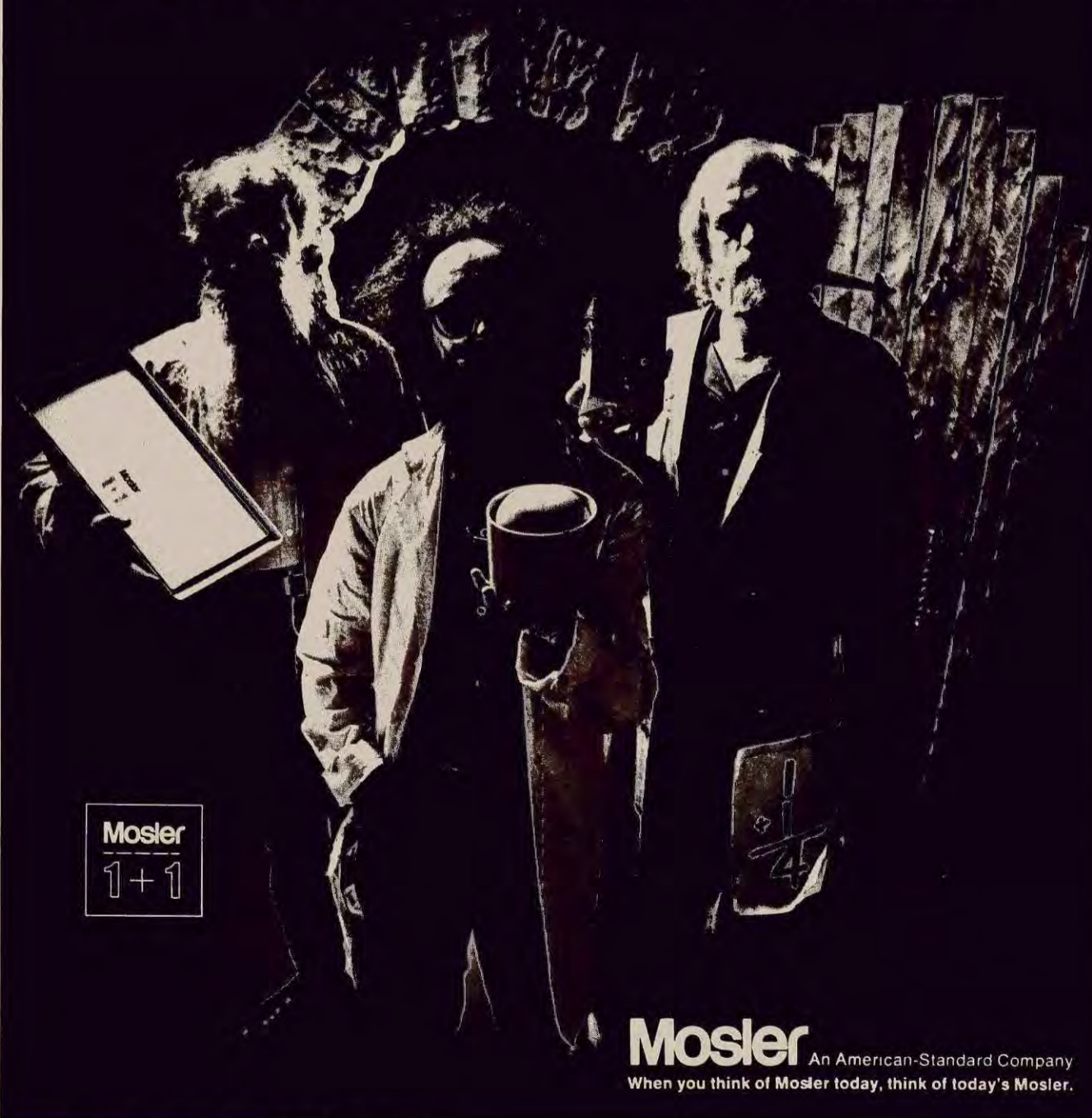
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Miami loses wrongful death action

MIAMI—A circuit court jury here has awarded a taxi driver's widow the largest verdict ever made against the city.

Alan Rothstein, city attorney, said he will appeal the \$300,000 award, granted to the widow of a man shot to death by Miami policemen in a case ruled as "justifiable homicide" by a peace justice. The award went to Mrs. Noemi Jiminez.

Miami's police department is self-insured. It defends its own claims through the city attorney's office and pays successful claims out of the city's general fund.

Mrs. Jiminez' husband, Rolando, was shot twice by officer Ronald A. Clayton in the Yellow Cab dispatch lot on Feb. 17, 1970. Officer Clayton fired during a gun battle with several cab drivers during an explosive and prolonged labor dispute. In the suit, a "wrongful death" action, the city was held responsible for the officer's "willful and deliberate discharge of a firearm without justification." The officer was not named as a defendant.

Mrs. Jiminez, mother of three teenaged children, had brought suit for \$324,000 to \$224,000 in income her husband would have provided during his expected life and \$100,000 for the loss of companionship for her and a father for the children.

Victims' relatives indemnified by state

SACRAMENTO, Cal.—Relatives of the Yuba City mass murder victims are expected by Eugene Veglia to file claims against the state of up to \$5,000 each for "indemnities."

California has the first program in the U.S. to indemnify "the innocent victims" of criminal attack or their survivors. Mr. Veglia has charge of administering the indemnification program. He pointed out that "because the Yuba City murder victims were largely loners, the program probably will not provide financial aid to their families."

He added that the program has paid out more than \$630,000 since 1967.

In the Yuba City incident the bodies of at least 25 slain transient agricultural workers were unearthed. Many remain unidentified.

Continued on page 29

This inspector checks for flaws in boilers and machinery to help you save money.

■ And if you just said, "Let's run that by again," you got the picture. Odd as it looks, that statement is right.

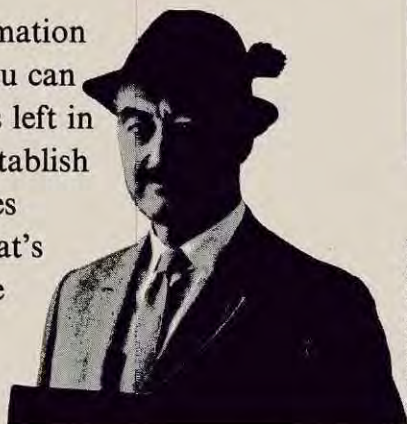
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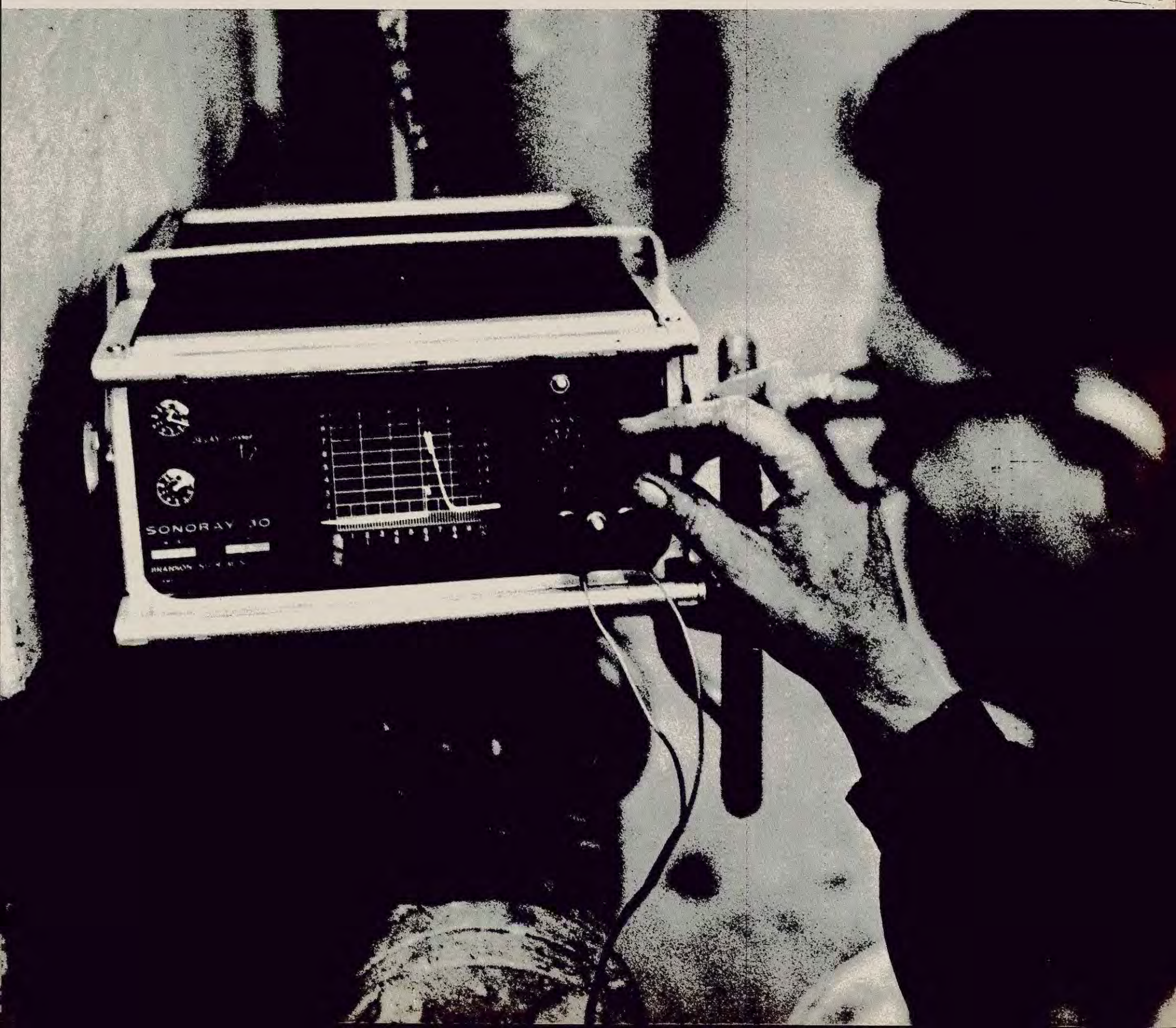
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opinions

Readers' mandate

MORE THAN 300 corporate insurance buyers spoke out on reform of the auto victim reparations system in the poll conducted in *Business Insurance* and reported in our July 5 issue. Federal and state legislators as well as state insurance commissioners ought to pay close attention to the results of the poll, the most significant consumer statement yet made on what changes should be made in the way we compensate auto accident victims.

Corporate insurance buyers, who spend more than \$2 billion annually on motor fleet insurance, made clear through the survey that they want federal standards for auto insurance reform. Fully 67% of respondents to the survey opted for national standards set by Congress instead of a hodgepodge of state laws with varying provisions that could cause costly confusion for commercial vehicle operators as well as for private passenger car drivers who cross state lines.

This clear call for federal standards for the auto reparations system is at odds with recent pronouncements by Transportation Sec. John Volpe and Mrs. Virginia Knauer, President Nixon's consumer affairs adviser. Mr. Volpe, in announcing the results of a \$2 million study of auto insurance by the DOT, called upon the states to "experiment" with various auto reparations systems. Mrs. Knauer echoed this call but she, like Mr. Volpe, later acknowledged that federal standards might eventually become necessary.

We think that the 67% of buyers who opted for immediate enactment of federal standards are a lot wiser than the Administration officials. If the states continue to "experiment," as Mr. Volpe puts it, we can get into a gummy situation in which there are 51 sets of laws incompatible with each other and impossible to cope with for those companies and individuals who use interstate highways. Why let the states go off in all directions when federal standards will be needed eventually? Neither Mr. Volpe nor Mrs. Knauer has an adequate answer for that question.

Meanwhile, state legislators are going ahead with consideration and adoption of at least 28 separate proposals, most of them loosely described as "modified no-fault plans." One drawback to having state legislators decide upon plans is that most of them do not understand the complexities of auto insurance reform proposals and those who do understand are frequently plaintiffs' lawyers whose vested interest is to retain the aspects of the system that provide them with lucrative legal work.

Ignorance and special interest were at work in Illinois where the legislature adopted a "modified no-fault" plan that is nothing more than a system of advance payments for injured victims with the old tort system piled on top of it. The Illinois program, adopted in response to Mr. Volpe's call for experimentation, will result in higher costs for consumers because it keeps the plaintiffs' lawyers in business while providing a weak undergirding of first-party payments.

Fifty-seven percent of *Business Insurance* survey respondents favored "a modified no-fault system with direct first-party payments to

business insurance

for buyers of employe, property and liability protection.

pension investments, financial services

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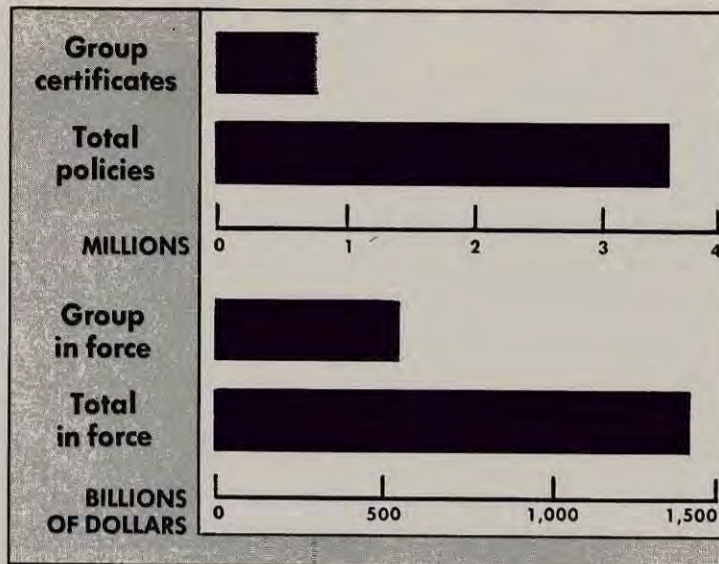
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Published by Crain Communications Inc., Chicago, publisher of Advertising Age,
Industrial Marketing, Advertising & Sales Promotion,
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Cable address: **CRAINCOM**

Published at 740 Rush St., Chicago 60611 (337-5200). Offices at 630 Third Ave., New
York 10017 (YU 6-5050); National Press Bldg., Washington, D.C. 20004 (RE 7-7659);
1018 Fisher Bldg., Detroit 48202 (TR 2-7211); 6404 Wilshire Blvd., Los Angeles
90048 (OLive 1-3710); San Francisco (GR 4-8532); Fort Lauderdale (771-8242).
45 cents a copy, \$10 a year in U.S., Canada and Pan America. Elsewhere \$4 a year
extra. **WILLIAM STRONG**, circulation director. **ROGER DIGREGORIO**, subscrip-
tion manager. Four weeks' notice required for change of address. Address all sub-
scription correspondence to subscription manager, *Business Insurance*, 740 Rush
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In 1970 group life insurance in force accounted for 38.9% of the total amount of life coverage in force in the U.S. The \$545 billion of group coverage was written under 79,145,000 certificates and was up approximately \$6.3 billion from 1969. The total amount of life insurance in force in the U.S. increased from \$1.3 trillion in 1969 to \$1.4 trillion in 1970.

Source: Institute of Life Insurance

injured parties up to a certain amount, but victims would retain the right to sue." We cannot know just how far these readers would modify the no-fault concept, but we presume that they want a system quite advanced from the present tort system which was favored by only 5% of our readers. Thirty-eight percent favored adoption of a broad no-fault system similar to the Magnuson-Hart plan now pending before Congress.

We were especially encouraged that 33% of respondents to the survey favored a concept advanced by this magazine: That auto insurance reform measures embody an equalizing liability factor that would take into consideration the greater potential for damage of large commercial vehicles. No state reform law yet offered has included the concept. Rather, the laws proposed call either for absolute liability for commercial vehicles (as in New York) or make no distinction (as in Massachusetts). A majority of our readers (63%) favors making no distinction between private and commercial vehicles. But this system, as proved in Massachusetts, is inherently unfair to operators of private passenger cars. We believe that an equalizing liability factor based on actuarial analyses is the only fair way to distribute the costs of auto accidents.

Everybody who bears a share of the horrendous cost of our highway carnage should get intelligently involved in the effort to reform the reparations system. Our readers have taken a strong first step by calling for national standards.

Another sad episode

ROGER KENNEY, the astute insurance columnist for United States Investor magazine, termed the attempted reorganization of Hardware Dealers Mutual Fire Insurance Co. a "sad episode in Wisconsin." He wrote that when 33 management insiders unsuccessfully attempted to convert the mutual company into a stock company in which they would enjoy 90% of the voting control.

Now one of those insiders, Robert F. Froehke, has been confirmed by the U.S. Senate to be secretary of the army, a post equivalent to the old office of secretary of war. Mr. Froehke has ascended to a position in government formerly occupied by such distinguished Americans as James Monroe, John C. Calhoun, Jefferson Davis, U. S. Grant, Elihu Root, William Howard Taft and Henry L. Stimson.

Business Insurance, on the eve of Mr. Froehke's confirmation hearing, brought to the attention of millions of Americans and many members of the Senate the fact that the new army secretary continued to dabble in the reorganization plan long after he joined the Nixon Administration as assistant secretary of defense. Members of the Senate were satisfied with Mr. Froehke's answers to our charges and some pointed out that there was no "conflict of interest." We are not satisfied with Mr. Froehke nor with his answers nor with the idea that the Senate should examine nominees for high posts merely on the basis of whether they are guilty of conflict of interest.

No risk manger

SPEAKING of President Nixon's appointments, it was keenly disappointing to us that Mr. Nixon did not follow our editorial suggestion of January 4 that he name a corporate risk manager to the National Commission on State Workmen's Compensation Laws. He named a highly competent workmen's compensation administrator and a company president's assistant to represent business management. A risk manager should have been included. We also feel it is a slap at the American public that the President chose to name a state official—Marion E. Martz of Maine—to represent "the General Public" on the commission. That's reminiscent of President Johnson's public-be-damned appointment of an insurance agent to represent the public on the auto insurance study commission.

letters

'Effective reporting'

To the Editor: Susan Trausch's article about Boston's Methodist Old West Church cancellation woes *Business Insurance*, June 21, was a very effective reporting job because it fairly presented both sides and gave an in-depth review of a difficult problem.

Since the public rarely understands insurance company thinking, and since we are a convenient scapegoat, it is not surprising that we are again cast in the role of the bad guy. After all, refusing to insure a church is almost being for sin and against apple pie!

I believe Dr. Alberts understands the reason for INA's cancellation, even though he does not agree with their thinking. However, his quoted remarks to the effect that insurance companies are partly responsible for not reducing the tensions that lead to arson and vandalism are rather far-fetched (he said they could help "ease tensions" by being less rigid).

The church accepts certain additional risks as they involve themselves in various civil-social activities in the community they serve. Why should the church assume that it is incumbent upon any insurance company to go with them, step by step, as they choose to meet greater and greater risks by becoming more and more deeply involved in burning social issues. At some point down the road, the insurance company is going to have to leave the church, or any other operation it insures for that matter, if they insist on creating risks not contemplated in their rate makeup.

What is really needed today to ease tensions and help solve our complicated social issues is a more understanding attitude on the part of all parties concerned, rather than a desire to cast stones at insurance companies or other convenient bystanders.

Insurance companies, for the most part, recognize their social responsibilities in our society and try to meet these responsibilities whenever possible. But, they should not be deprived of an opportunity to exercise reasonable business judgments and this is in effect what Dr. Alberts is criticizing INA about.

As the dispute is reported in your magazine, each side blames the other with the minister being a little stronger in his criticism than is INA. It's almost a case of the good Dr. Alberts saying to INA: "Let me tell you how to run your insurance company, but don't tell me how to run my church."

James S. Burkart

Secretary, Gulf American Fire and Casualty Co., Montgomery, Ala.

No challenges

To the Editor: Thank you for Patrick Thomas' generous review of my book, "Peril on the Job" *Business Insurance*, June 7.

You are most complimentary. Interestingly enough, nearly all the reviews have been complimentary; I don't recall reading a single one that more than mildly criticizes.

And, interestingly enough, not a single one of the companies named in the book has challenged the accuracy of the book in any respect. At least none has done so in any open forum from which such challenge has been reported to us, and none has complained to us. Of course I'm a little disap-

Continued on page 32

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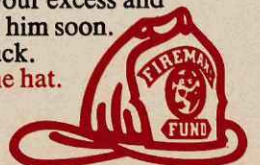
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business insurance/perspective

Insurance and benefits are potential pitfalls in mergers

by William J. Jones III,
Executive Vice President,
Risk Planning Group,
Darien, Conn.



William J. Jones III

THE BURGEONING urge to merge is again with us and acquisitions and mergers are germinating. Modern managers, time tempered and perhaps a bit burned, are bringing to their problems new professionalism, for one of the benefits of the cyclical nature of our economy is the opportunity to learn from the past. Mergers are unquestionably on the rise as the economy stops sputtering and begins to hum, and corporations aiming for increased affiliation can learn substantially from the experiences of others.

One of the often overlooked areas for merger study is that of insurance and employee benefits. Many of us fallaciously feel that we are not in the insurance business and therefore ignore this potential profit pitfall. Most managers are surprised to learn that insurance and employee benefits account for between 15% and 19% of operating expenses and as much as 15% to 20% of earnings. We are all in the "insurance business" even though we may not realize it.

With respect to a merger or acquisition, the two most critical time periods for proper profit protection occur prior to the execution of the contract of sale and immediately after acquisition. During the pre-merger phase, particular attention must be paid to the factors, both tangible and intangible, which affect valuation. For example, determination of the adjusted "net worth" of a company will be dependent upon accurate quantification of any unfunded prior service liability of the pension plan, particularly when a company is acquired with cash. This can be discovered by examining a current actuarial report in tandem with the companies' financial statements. The actuarial assumptions must be tested for relevance. Note, it is best to use common actuarial assumptions.

TO BEGIN, delegate to your risk manager or financial consultant the responsibility for review of the pension, general insurance and group plans currently in force. Plan assets also must be analyzed. For example, if corporate policy dictates continuation of existing pension plans, the discovery of any "continuation carry-over" could have significant tax benefits after merger.

'Much worry and regret can be avoided by designing policies to automatically embrace newly acquired entities.'

To be certain, the absolute amounts of these continuation "funds" must be related to the other tangible and intangible values involved.

Another area for analysis is the loss experience extant in the prior plans. Prudence suggests provision for a clause in the acquisition contract focusing on public liability claims which arise after acquisition but occur before closing. This technique has eliminated serious claims and is very important when a retrospectively rated liability insurance plan is involved. Further, it is important to remember that when a company is purchased your experience modification immediately applies to their premium. Usually it is advantageous to discontinue the acquired plan.

Much worry and regret can be avoided by designing policies to automatically embrace newly acquired entities, if even for 60 days. Also remember that you have the opportunity to reject group insurance experience. Therefore it may be possible to eliminate claims from your pooled experience. By examining group reserves, not only can you determine whether or not

pensioners' life insurance has been funded but other hidden assets or liabilities may be found. We know of one case where a company was able to get back a large dividend carrying only 3% per year which had been retained by an insurance company for over five years. Additional large savings may be realized through consolidation of insurance programs. In some cases, as much as 15% to 30% has been saved by consolidation of property and liability insurance.

When examining the physical aspects of the acquisition, be careful of existing conditions which may generate future costs, such as outstanding recommendations to install a sprinkler system in a warehouse, or a smoke detection system in a computer center. Also, be sure current limits of insurance reflect today's construction and replacement costs. These needed additional expenditures can be duly noted in negotiations. The insurance companies are good sources for this information.

EXISTING KEY-MAN life insurance may be another hidden asset, particularly, for example, when purchasing a \$10 to \$15

million gross sales business run by a few top executives. Because of the age of these policies or of the insured or the amount of insurance involved, it may be wise to continue them. These policies can also be an unexpected source of working capital as they sometimes have significant loan value.

Deferred profit-sharing plans, savings plans, product recall, directors and officers insurance, fidelity insurance and surety performance bonds are examples of other important coverage areas, but they generally do not represent areas of material savings and therefore are not of immediate concern.

The secret for successful implementation of recommendations is immediate action after acquisition. Changes are expected when new ownership arrives and change can be very unsettling later.

One final caveat: communications are dependent upon mutual understanding. Therefore, create a risk management manual which tells executives what corporate policy is and how the risk/security management function relates to them. Distribute it to the new executives immediately and give them an opportunity to question its assumptions and implications. Expectations are important influences on our thinking; let employees know what benefits they have and tell executives what to expect from the risk/security program.

Material additions to profit stemming from acquisition can be realized if the proper actions are planned for and taken immediately, and this includes employee benefits and insurance. Newly acquired companies expect change, therefore do not breed unnecessary anxiety. The longer you wait the more difficult change will become. Coordination of benefits, Medicare and carve-outs, the addition of key-man life insurance, elimination of workmen's compensation and other general insurance coverages or transfer of pension funds can all be accomplished without great hardship if done immediately. ■

An American Lloyd's: Could it really happen?

by W. A. D. Hare,
Director-Client Services,
Ebasco Services Inc.,
New York, N.Y.



W. A. D. Hare

'We must face the fact that this is the most confusing insurance market ever in history.'

STUDY IS PROCEEDING on the feasibility of an American Lloyd's. It is sponsored by a group of leading insurance companies that felt the need to undertake joint action and explore this potentiality. Recent indications by those concerned with the study are that while it is proceeding favorably, with considerable enthusiasm by its sponsors, any concrete undertaking is a long way from activation. They have indicated a deliberate desire to avoid the pressure of trying to make such a vehicle a reality overnight and have recently stated that such an activity would be closer to reality in 1980 than in 1970.

While their effort is to be admired and such a vehicle as an American Lloyd's is a really new departure, what are we to do in the interim period? Our problems are here now and must be attended to now. We have to try to, if not eliminate them, at least reduce the possibility of their

growing greater as each year goes by. There is, nevertheless, sound reasoning behind the industry's own judgment of avoiding pressures which might bring about a faulty start and thereby create even greater pandemonium than now exists.

We must face the fact that this is the most confusing insurance market ever in history, but while facing this in its broadest aspects, we must separate the problem into its two major divisions, which are, of course, personal and corporate. Our attention will probably lean more toward the corporate problems since this is something all of us find a part of making a living and because personal insuring problems have so many potholes around them.

LET'S EXAMINE a little history of Lloyd's to see whether or not this is really
Continued on following page

American...

Continued from preceding page

the solution for which we are looking.

Basically, one of the problems that we face at this moment is reaching out in desperation for some magic formula that will solve our problems with ease and little financial expenditure. While I am sympathetic to the idea of a Lloyd's type of operation, I don't honestly feel that this has been a perfect answer even for itself if you look realistically at the problems that they have been facing recently. We must, therefore, consider the fact that Lloyd's is, in reality, a historic operation and even in its own country a development that is unique. I have extreme doubts if no Lloyd's existed that a group of individuals could be rounded up who would start a Lloyd's undertaking, trust the underwriting to their leaders and obligate themselves to such personal liability as they presently do. On the other hand, if there were no Lloyd's and no individual participants, would the British companies—the counterparts of U.S. insurers now considering the establishment of an American Lloyd's—put themselves in the position of establishing such an operation? I doubt it very much.

Now let's turn to our own inherent structure to see what the possibility of establishing such an operation really is. While we can lump insurance companies together as a group, we obviously have many different and individual entities just, which need a little attention. We have a tremendous difference in ownership: some by conglomerates, some by financial organizations, some by the general public, and even what you could call a real mixed bag. We also have completely individual attitudes in operation, as for example the Insurance Co. of North America with its tremendous drive for diversification out of the industry at this time. We have many differences in corporate staffs—some that operate with a thin level of top management and total capability for decision-making, while others have mammoth staffs and operate on what is normally called a committee basis. Since the latter is more often the case, we have a problem here in that so many decisions and authorizations other than for very nominal amounts must go through this labyrinth of communication and authorization, thus making the type of decisions that we have been talking about in the formation of a Lloyd's very difficult to actually consummate.

We have the present underwriting pools to which many insurers have committed themselves, thereby eliminating their opportunity for individual decision making. In the long run, we then come down to the hard and real facts that from our insurers the financiers are looking to obtain use of money, cash flows, and a return on their investment and find it difficult to justify how any business can go along in the state that we have at this time since their whole thinking is to cut away from losers.

WHILE IT IS ALWAYS very easy to criticize, finding some constructive answers is most difficult and usually to be avoided if at all possible. If we aren't able to start up an American Lloyd's that would answer all our problems immediately, what then is an alternative for bailing ourselves out of this present fiasco? From the real insurance side of the coin, my own feeling is that a reinsurance pool for catastrophe losses must be established and could be established with much less difficulty than would result from the direct operations required by another entity such as the one we are discussing today. I don't say that this is an easy answer, but it represents one approach. The alternative, or perhaps more correctly the additional facet, that must be undertaken immediately is an educational program in all categories of the insurance industry. This means money realism.

There are many instances in which individuals are making claims at financial levels that long ago should have been eliminated or in which participation should have been increased in proportion

to their incomes. In other words, there has not been enough bearing of one's own risks, particularly in the categories where pure negligence is one of the obvious causes. One can see this most readily in automobile accidents where small claims are reported that the individual could easily afford to bear. The insurance company pays them and later cancels the insurance. The client ends up in the assigned risk plan, his parting comment being, after a string of curse words, "I wouldn't have claimed if I had only known."

This is also true for corporations that are often completely unaware of their capability for acceptance of financial loss in the insurable areas of their loss-carrying capabilities. A program of education has to be started immediately in order to preserve some order in the insuring marketplace. We must face the fact that insurers have not made it worthwhile to carry substantial portions of our own risks based on a predetermined breakdown of the premium and its application toward catastrophe losses.

If you examine the self-insuring areas,

'Brokerage houses must move to some form of fixed commission or fee basis to give advice needed in noninsuring areas.'

whether done internally by assumption, by self-insuring with a reserve, or externally by a captive insurance company, there are two obvious areas for interest in order to try to effect some saving while preserving your insurance. At one end of the scale we have the position of someone who makes no claims or has claims in such a small amount that he obviously should not be insuring that risk or should be enjoying much lower cost. At the other extreme we have those who have extremely bad losses, thereby burning up their insurance companies and ultimately paying for these losses anyway. Obviously, they are just trading dollars with the insurance companies to have these losses paid, with possibly achieving the advantage of some chronological stabilization in the period of the following five to ten years. It is at this point that a corporation, more than an individual, must be prepared to assume these losses itself and, in order to reduce them, undertake effective loss-prevention measures. In the middle of this scale we have those whose losses are either not serious enough to warrant immediate at-

tention or whose loss picture lets the insurers believe that there is good hope for salvation in the near future.

TURNING NOW TO practical examples and the solutions that have been considered, there is not a segment of business today that does not have glaring problems facing it, with some form of immediate change an absolute necessity. These vary from public institutions to the greatest of private enterprises. Among them we can find our colleges and universities, the utilities, the chemical companies, pulp and paper companies, the drug companies (particularly for their products liability) the oil companies (of which we are all very ecologically conscious), contractors, and the airlines (who seem to have achieved a form of temporary solution).

While the oil companies are attempting to establish their own captive insurance market through OIL (Oil Insurance Ltd.) the tremendous pressures that have been put upon the oil companies to join this group have caused certain fears in the minds of potential participants. Obviously,

if OIL is able to commence operations in the face of many unsolved tax and other problems, and achieve its requirement of members with \$40 billion in assets, the Oil Insurance Assn. (OIA) stands little chance of continuing its operation. Let us only hope, then, that the future does not show that we have gone from bad to worse.

The drug companies have been undertaking their own study to try to find some way of alleviating the continuing shrinkage in their market, particularly as a consequence of adverse publicity. What then, with all of this, is the answer to this problem?

If we go back to our original consideration of Lloyd's and its historic establishment, we recall that it arose out of desperation because a group of people could not buy insurance that they needed. It has developed into a worldwide market and in its most successful period was able to achieve great profits by having a small piece of smaller concentrations in a much larger world. Its own fortunes have had their recent downs based on the shrinking

world, the elimination of many local covers by local insurance companies, and the huge concentrations of value that have forced them to obligate themselves in much greater amounts than ever before.

IF A U.S. LLOYD'S is to develop, it will be established for one of two reasons: Either such a desperation again arises from the lack of market that there is no practical alternative, or government intervention into the total insurance industry becomes so imminent and so necessary that a common effort is the only answer to retaining any vestige of private control.

There have been suggestions made in the past that tended toward a solution, such as housing many of the markets within a World Trade Center building. This is within the realm of consideration but does not offer a total or permanent solution. In Canada, of course, subscription policies have been used for many years and quite successfully. Here again, the confidence and trust present in a smaller market helps immeasurably. Underwriting pools have been quite common for many years. Unfortunately, it is my feeling that the reduced rate levels and poor underwriting that have been part of these undertakings may ultimately bring many of these pools to the same threshold that the OIA is now facing.

One of the obvious answers is going to be, as indicated earlier, a program of education undertaken by the insurance companies and more particularly by the brokers and consultants who buy on behalf of their clients or advise them what to buy. Obviously, brokerage houses must move to some form of fixed commission or fee basis in order to give the type of advice that will be needed in the noninsuring areas. This will involve establishing an insuring philosophy with their clients, whether individual or corporate, in order that only necessary risks will be insured while preserving the catastrophe capability of the insurers. Another important development will be for the insurance buyers, particularly those who now consider themselves risk managers, to know their own operations intimately and to be totally familiar with their managements.

As you can see, I did not have any easy solutions to this very difficult problem and can only, like anyone else, contribute thoughts that might enlighten someone in his attempt to initiate meaningful activity.

I can only return to a very trite and almost Agnew-like sounding expression: Preparation Prevents Panic. ■

Risk management notes

The Disaster Relief Act of 1970 and how public agencies use it

prepared by Warren, McVeigh & Assoc.,
risk management consultants,
San Francisco—Los Angeles, Cal.

THE DISASTER relief act of 1970 is essentially directed at U.S. public agencies, and, except for some minor provisions relating to debris removal grants for privately owned lands, the private risk manager is probably only concerned academically or as a taxpayer.

Public Law 91-606, or the Disaster Relief Act of 1970, is primarily designed to provide relief to public agencies in the event of a major disaster. "Major disaster" means any hurricane, tornado, storm, flood, high water, wind-driven water, tidal wave, earthquake, drought, fire, or other catastrophe in any part of the United States, which, in the determination of the President, is or threatens to be of sufficient severity and magnitude to warrant disaster assistance by the federal government to supplement the efforts and available sources of states, local governments...

50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, American Samoa, and the trust territory of the Pacific islands."

Some of the key factors underscoring this act are highlighted by the above quote. This act is not intended as an insurance contract, or as automatic indemnification, for public agencies in the event of a major disaster. The President must first declare a disaster area, and this must be preceded by a request from the governor of the affected state or territory. Secondly, this relief is intended to supplement any local funding, not as a substitute therefore. If, for example, a local public agency has had enough foresight to anticipate and purchase insurance for a particular catastrophe, the federal government will not offer any assistance. If, on the other hand, a public agency did not buy insurance because of reliance on this act, it is conceivable that a

localized disaster could occur, such as an earthquake shock or local flooding, that, to the agency would be a catastrophe, but not widespread enough for the President to declare a disaster. Under these circumstances, the poor public agency would receive no indemnification from any source.

THIS ACT WAS SIGNED into law December 31, 1970, by President Nixon. Within two months, Uncle Sam was faced with indemnification awards totaling over \$400 million with the Los Angeles earthquake. These grants were made to Los Angeles county, the city of Los Angeles, Los Angeles school district and the state of California. The problem now facing state, county and city governments, school districts, bridge and turnpike authorities, is whether to buy insurance (if available)—or otherwise treat the catastrophic risk—or depend on the uncertainties. ■

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evened out.

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He's just one way self-insurance can lag
behind your business.

And just one of the Insurance Lags
we can help you beat.

Contact your CNA agent. Or write us.

CNA/insurance
Your way to beat the Lags

Atlantic Tubing wins \$4 million from FIA in explosion claim suit

PROVIDENCE—A Rhode Island superior court jury has awarded Atlantic Tubing & Rubber Co. of Cranston, R.I., and four sales affiliates aggregate damages of \$4,310,048.36 in a precedent-setting suit, under two insurance policies, for property damage and interruption of business from a fire and explosion on April 13, 1968.

The trial—which took 103 days—was the longest jury trial in Rhode Island court history.

By awarding damages, the jury rejected the claim of Factory Insurance Assn. of Hartford, the defendant, that Atlantic Tubing and its affiliates so exaggerated and misrepresented their losses in

proof-of-loss statements that they voided the two policies and were entitled to no recovery.

As principal plaintiff, Atlantic Tubing got \$2,801,336.60 for property damage, plus \$529,452.05 in interest on that amount.

IN ADDITION, Atlantic Tubing received \$2,901,336.60 for business interruption plus \$155,660.29 in interest.

Four sales affiliates, which market resins and compounds made by Atlantic for the plastics industry, or finished products it makes, or combinations of finished products and raw materials, were awarded damages for the interruption of their business, but

the awards were included in the amount awarded to Atlantic.

The four affiliates, all based in Rhode Island, are Everex, Inc.; Imperial Chemical & Plastics Corp.; Chemalon Industries, Inc.; and Realstron Corp.

In testimony and exhibits, Atlantic sought to show that it had sustained \$4,487,302.39 in property damage and that it and the four affiliates suffered losses of \$3,200,000 by business interruption as a result of the fire, bringing the total to \$7,687,302.39 in total losses. FIA sought to show that the losses were only \$1,109,782.62 in property damages and \$209,352 for business interruption—a total of \$1,319,080.62.

The marked difference of more than \$6 million between respective estimates of loss was explained by the parties' entirely different outlook as regarding major loss categories.

ATLANTIC, FOR its part, sought to show that damage to its so-called resin plant, where it produced polyvinyl chloride used in its manufacturing operations and sold to other manufacturers, was such that the plant and much of its machinery and equipment must be replaced.

Witnesses for Atlantic noted that the process by which monomer vinyl chloride is converted into polyvinyl chloride is so potentially hazardous to the safety of the plant and the community that new construction, machinery and equipment were needed rather than patchwork repairs.

Witnesses for FIA, however, asserted that the resin plant could be repaired. There was no

need for a completely new plant, they said. It was contended that much equipment and machinery said to be no longer usable by Atlantic was, in fact, undamaged.

As a result of the resin plant's loss, the spokesman added, the firm had to buy resins from other sources. Resins from various producers, they said, are not necessarily interchangeable and it could not economically adapt the purchased resin to some manufacturing needs. As a result, some lines of finished products were dropped.

Group . . .

Continued from page 17

Among possible inequities cited in the newspaper ads is a warning that "a law which penalizes a union member so that he may lose full use of his fringe benefits is a bad law." The reasoning behind this is not explained in the ad copy, but it is aimed at a provision of the Stewart Plan that would cut premium costs for the consumer by letting him fall back on cheaper forms of compensation than auto insurance.

The provision would establish that an auto-accident victim able to collect compensation from a private, union or other health plan must do so, and cannot collect from his auto insurer at the same time. This could conceivably use up some sick leave pay or other fringe benefits of a union member—the basis for the anti-no-fault group's charge.

According to Robert Mackin, executive assistant to N.Y. Superintendent of Insurance Benjamin Schenck, the whole point of this approach is that people are presently forced to pay for duplicate coverage and should be freed from such a costly compulsion. "Under the Stewart Plan," said Mr. Mackin, "the employe with good fringe benefits for health care and loss of income would see those benefits reflected in a lowering of his auto insurance premiums. However if that employe chose to pay twice in order to protect his fringe benefits he would be free to do so."

THE "CITIZENS Against No-Fault" ad also points out that "a poor man may not be able to recover full payment for pain and suffering, but a rich man might—because his medical bills might be higher for the same injuries." This criticism would have some bearing on a bill with a cut-off point for medical bills—say \$400 or \$500. Any injuries costing less than that would be unpaid, giving the rich, with more access to expensive treatment, a greater chance to cross the expense threshold and receive full reimbursement.

One of the more interesting questions "Citizens Against No-Fault" raised is, "Did you know that you will no longer be able to sue for damage to your car caused by a careless driver?"

Bringing up the rear of the ad's charges are its warnings of economic disaster if a no-fault plan is passed. "Did you know," it queries, "that none of these proposals deals with property damage?" The ad also implies that property damage premiums may go up 38% if a no-fault plan is passed. According to the Stewart Plan, "a typical individual could expect to save 53% on the personal injury portion of his combined (compulsory and optional) coverages and 16% on the property portion, for an average overall saving of 33%." These figures are based on estimates of the state insurance department's actuaries, and the projected savings are conservative.

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9

IMPACT

6

+

Record . . .

Continued from page 18

Survivors of 166 other murder victims have so far filed claims with the state for indemnification. The state board of control must approve all payments.

New carrier for California's fleet

SACRAMENTO, Cal.—California's state-owned fleet of 26,000 motor vehicles, probably the largest commercially insured fleet in the world, will be insured for the next three years by the Farmers Insurance Group.

A total of seven carriers participated in bidding for the state contract. The bid from Farmers was nearly \$1 million lower than its closest rival and \$175,000 lower on the deposit required.

Coverage provided is \$250,000 per person and \$500,000 per incident on bodily injury and \$100,000 property damage per vehicle with a premium rate of \$67 per vehicle per year. The contract also provides identical coverage for privately owned vehicles when being used in an official capacity.

Farmers succeeds Employers-Commercial Union, which held the state contract for nearly a decade. "Inasmuch as Farmers Insurance Group writes their insurance with no independent brokers," explained Edgene D. Marquart, insurance officer for the department of general services, "the state will be able to deal directly with the insurance company officers."

Health cover for unemployed defeated

SACRAMENTO, Cal.—Legislation to require employers to maintain health insurance coverage up to one year for unemployed former workers has been rejected by the California assembly.

Supporters of the bill said they will attempt to get reconsideration of the proposal, which was vigorously opposed by employer organizations that claimed it "could cost thousands of dollars a year."

Intent of the legislation, according to John L. Burton, Democratic assemblyman from San Francisco, is to "assure health protection for a worker and his family while they are unable to provide for themselves because of unemployment."

The health protection would end after one year or when the worker found a new job. Workers would be required to continue any regular contribution to the company's group disability or health insurance program.

Canned heat case could get hot

SAN FRANCISCO—The product liability insurance of a manufacturer and several distributors of canned heat may get nicked for \$10 million, the amount of a damage suit filed in superior court here on behalf of a state prison forestry camp inmate permanently blinded because he drank "unlabeled canned heat."

Two men were blinded and one was killed as a result of drinking screwdrivers made with the canned heat instead of vodka.

The suit was filed by attorney Dennis B. Conklin on behalf of Joseph J. Martinez, 35, now on parole, who was an inmate of a prison camp last September when he and other inmates were sent to

fight a forest fire. Unable to return to the regular mess hall, they were given emergency food ration packages by forestry personnel. The rations, according to Mr. Conklin, contained the canned heat, with methanol, which the prisoners were to use to keep themselves warm. Instead the prisoners dissolved the canned heat in tinned orange juice and drank it.

The suit charges failure to label the cans as poison and names the May Day Hot Food Co., Van Waters & Rogers Inc. and the Luca Packing Co., of South San Francisco, and Central Solvent and Chemical Co., of Contra Costa County.

Mr. Martinez, who suffered blindness and injury to his nervous system, seeks \$5 million general damages and \$5 million punitive damages. ■

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We're here for just one reason . . . to keep you in power. The Hartford Steam Boiler Inspection and Insurance Company, Hartford, Connecticut.



Built in France in 1903, this dashing Gardner-Serpellet steam car had the advantage of a multi-tube flash boiler which raised steam quickly. It was photographed for Hartford Steam Boiler at the Museum of Transportation, Larz Anderson Park, Brookline, Mass.

Ernesta . . .

Continued from page 15

sult, perhaps, she speaks rather glowingly of that insurer. She also speaks highly of other major carriers and refuses to indict them for not living up to social obligations when they refuse to write inner city property and cas-

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ualty business. "There are 300 property and casualty writers in this state," she said forcefully, "and it seems a shame that only a few of them have to take it on the nose all the time.")

The day of the 80 cancellations Mrs. Procope happened to be in Gov. Nelson A. Rockefeller's office for the political appointment of a friend. She was introduced to New York's secretary of state at the time and, not passing up the perfect opportunity, told him her problem. One thing led to another and eventually the state insurance department held hearings and a pool was formed. From that the more formidable N.Y. Property Underwriters Insurance Assn. came into being.

Bowman Insurance's gross premium volume last year was about \$6.5 million. That is about double what it was before she won the bid to wrap-up a package of benefits for the city's Community Development Agency's 6,700 work-



Ernesta Procope

ers. (See story on page 14). That package, which bills about

\$3.5 million, does have a large Blue Cross-Blue Shield premium and no commissions are derived from the business. Bowman does get a fee for administering the plan, though.

Asked how many employees she had, Mrs. Procope had to think a moment. "Ten," she said, "but don't say that. They're all worked to death. I guess I am going to have to do some hiring."

THE OFFICES ON Fulton Street in Bedford-Stuyvesant are modernly furnished, brightly painted—and air conditioned. Coming out of the bowels of the N.Y. subway system on a steaming July day and walking one block through the rubble of the ghetto, 1424 Fulton is somewhat like a brewery in the middle of the Sahara.

It is, nevertheless, hard to forget where you are. The conference room in back of the building has a full-length glass window

leading to a concrete patio surrounded by other brick buildings. Nearby roofs provide access to the area, though, and so the window has a burglar alarm and there is a sliding steel gate. The front of the building is entirely protected at night by a roll-down metal enclosure.

Mrs. Procope has \$65,000 property cover on the building and the contents are insured for \$30,000. The risk is spread among several carriers. She does not carry burglary insurance. With the precautions taken she's decided to self-insure that line. It's better risk management.

Has she ever thought about leaving Bed-Stuy and moving to the Wall Street area?

"We've played with the idea of taking space in the World Trade Center," she said. "But we would never give up this location. We are serving this community and we must remain here." ■

Black . . .

Continued from page 14

are stored and printed out each month. Monthly computer runs are then sent to agency department heads for approval and for changes in employe status.

The Bowman company, as a result, has become the one central location to which the Community Development Agency (CDA), which is the "umbrella" of all the poverty subdivisions, can go for information on employes within the agency. Although it was not intended as such, the data processing runs can also be used by the CDA to check on possible abuses within the poverty program. Abuses in the past have included fictitious names on payrolls. This is all but eliminated when insurance enrollment cards are filled-out and checked.

MRS. PROCOPE and Mr. Ennevor are unabashedly pleased with the plan they have put together for the CDA. They are, after all, dealing with city agencies where sophisticated employe benefit managers don't have a place on the payroll and where benefit dollars are often poorly utilized. With the whole package under one roof, the agency's benefit buying power has increased enormously, Mr. Ennevor noted. Moreover, he added, under such a central program all employes have equal benefits. Previously, some employes had better benefits than others because of their particular agency's dollar power. Mr. Ennevor illustrated this point:

Benefit dollars within the poverty agency system, he explained, are based on percentage of payroll—15%, including about 5% for Social Security.

"Suppose your agency has a \$5 million payroll. You walk into a broker and say I've got X number of dollars (in this case 10% on fringes above Social Security, or \$500,000)." "Why," Mr. Ennevor exclaimed, "you're going to get a Cadillac. But suppose your agency has a \$500,000 payroll. Go into a broker with 10% of that and . . ." He didn't finish the sentence.

While pleased with the benefits bought with the dollars available, Mr. Ennevor does see at least one gap. The medical plan does not include maternity benefits for unwed mothers. Nor are there any provisions for abortion coverage. Blue Cross will write these into contracts for about 10 cents a month per individual policy and about 50 cents per family contract, and Mr. Ennevor does hope that this coverage can be provided in the near future. ■



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Ontario safety training plan proving successful

ORILLIA, Ont.—A year and a half ago the Workmen's Compensation Board of Ontario and the St. John Ambulance service began a unique experiment designed to turn this town's 20,000 residents into safety experts.

They named the project "FACTS"—First Aid Community Training for Safety—and, from the results at the half-way point, it's working.

First aid training is usually bestowed on only a handful of the general population. Suppose, the project designers dreamed, that an attempt was made to train the entire populace. The result would be fewer accidents and better on-the-scene handling of the mishaps which did occur.

Orillia was deemed an ideal "typical community" by the project planners. Its location 60 miles north of Toronto makes its population less transient than that of suburban communities. It has a good cross-section of business, and, most important, the FACT people are receiving complete co-operation from all segments of the community.

The three-year project began with the training of volunteer instructors. There are now 52 first-aid instructors conducting courses in industrial plants and schools, and for municipal employes, housewives, small businessmen and retired persons. Even the unemployed and welfare recipients are being trained.

To date, more than 2,500 persons have received the eight-hour course in first aid and accident prevention techniques. Another 400, mostly in the town's larger industrial plants, have graduated from a 16-hour safety course. When school ends this year, more than 600 students will have completed the short course, and, by the end of the three-year experiment, some 2,000 students will have been trained.

The program is designed to reach the segment of the commu-

nity which is between 10 and 60 years of age. There are an estimated 12,000 persons in the target group, and, by the end of the program, some 7,000 of them are expected to have received some form of safety training. Once completed, FACT should leave Orillia with one safety expert in each of its 6,000 households.

Two research groups have been engaged to study the effects of the experiment once it is completed. One team will study the impact on industry, while the other concentrates on overall community effects. The results will later be compared to the data collected from a similar, but non-safety-trained Canadian community. ■

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Group insureds to fight auto cover cost

CHICAGO—Policyholders under payroll deduction auto insurance plans are being alerted to the causes of high auto rates and asked to fight them through letter campaigns saying they are fed up with drunk drivers, careless drivers and flimsy auto construction.

CNA Insurance is enclosing a brochure with all renewal notices telling insureds to contact state senators, representatives, mayors and auto manufacturers and make their dissatisfaction known.

According to the brochure, repair costs for 1971 cars increased 30% from 1970 cars and drunk drivers accounted for more than half of the 56,400 auto fatalities in 1970 and serious injury in 2 million other cases.

Safety pays for renters

Residents of the Sherry Park apartments in Dallas, Tex., will receive a \$10 per month discount on their rent for being nonsmokers. Anita Maxfield, manager of the 260-unit complex, said that the safety measure will result in decreased maintenance costs because smokers invariably "burn holes in rugs and furniture."

Water fights not fun and games: Salvage \$5 million for fire insurers

NEW YORK—Water may be a fire department's most effective weapon in containing a blaze, but any fire underwriter will admit that the property losses due to water damage can be just as costly as the destruction caused by the fire itself.

Consequently, the hundreds of fire insurers who write protection within New York City invest \$1.25 million a year in a 103-man "Fire Patrol"—a brigade of helmeted, raincoated dare-devils whose job it is to fight the water that the New York City fire department uses to fight the fire. Last year the patrol responded to 9,693 alarms and saved the fire insurance industry an estimated \$5 million.

"This is the last active patrol in the United States," John J. McGovern, vp of the New York Board of Fire Underwriters said in an interview. "There are still active brigades in London, but the old patrols in Philadelphia, Boston, Chicago, Milwaukee and other major cities have all died out. I'm not sure why, but I'd guess it's the expense."

THE NEW YORK patrol is now 169 years old and operates out of

three stations strategically located to give the water-fighters easy access to the city's high-insurance areas.

"New York is unique in terms of its vertical exposure," Mr. McGovern said. "With miles and miles of skyscrapers, the potential for water damage is phenomenal. I would say New York is the biggest source of water damage claims. Obviously, we don't know if a building is insured or not. We roll on all alarms. Many times our men will wind up saving thousands of dollars worth of property and we'll find out there was no insurance at all."

Most of the patrol's on-the-scene tactics involve the construction of bags, dams and sluices out of tarpaulins to catch, block and transport potentially damaging water. What can't be trapped by the tarps is removed with an assortment of pumps and brooms which are standard equipment on the patrol's seven trucks.

Once the fire and water are contained, the patrol secures the names of all occupants and their brokers and transmits the information to the New York board's loss committee. If furs, refrigerat-

ed merchandise or electrical equipment are affected, emergency adjusters are summoned by the patrol immediately to prevent additional damage and to facilitate immediate salvage.

THE PATROL HAS both lost lives and saved them. Thirty members have lost their lives in the line of duty, but no serious injuries or deaths have occurred since four men died in a 1958

Clyde's kin lose court shoot out

TYLER, Tex.—Warner Bros. Seven Arts Inc. and Interstate Circuit Inc. have won a suit in which relatives of Clyde Barrow alleged defamation through the movie "Bonnie and Clyde."

The 12th court of civil appeals here ruled against two sisters and a brother of Clyde Barrow and noted in its decision that each of the plaintiffs had admitted they had not been named, referred to or identified in the movie.

The ruling was unanimous.

factory collapse which also killed two city firemen.

More recently, the patrol was credited with saving 20 lives when it beat the city firemen to a Brooklyn tenement fire and rescued persons trapped on upper floors. It is not unusual for the patrol to arrive first at the scene of a fire, and, if nothing else, their firemen-like appearance often has a calming effect on panic-stricken occupants.

The city of New York, apparently convinced the patrol's function is indeed worthwhile, is now putting together its own version.

Letters

Continued from page 20

pointed by that. Even a libel suit would have had its benefits to us—like the old days of getting a book banned in Boston to promote sales.

The lack of company reaction in only partly accounted for by the reasonable accuracy of the book. I think it also is due to company policies of simply not agitating the subject; management no doubt believes the wisest course is silence so as to draw a minimum of attention to "Peril on the Job."

This could account for the fact that none of the safety directors you contacted said he had read the book. I know that companies have purchased many copies. Conceivably some you spoke with had read the book but didn't care to say so.

Ray Davidson

Publicity Director and Editor,
Oil, Chemical and Atomic Workers International Union

Some 40 men—mostly high school dropouts from the patrolless Central Brooklyn Model Cities area—are now enrolled in an eight-week course in containing water damage and safeguarding property. The Fire Salvage Corps, as it is to be known, will receive a two-year operating budget of \$474,000 from Model Cities. ■

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Stewart . . .

Continued from page 2

the First National City vp who has been riding herd on the program, the bank has been interested in the concept since "1964 or 1965 when I became aware of the fact that banks in several other states had actually promoted programs as part of a savings development package."

The bank's broker on the business, Johnson & Higgins, was also involved in the interest on the part of Mutual of New York and, after that insurer lost interest, took the package to Connecticut General.

"The bank's first and only contact with the state insurance department was in the spring of 1971 when, at Connecticut General's suggestion, I attended a meeting with them at the insurance department office in Albany to explain the details of the bank's role in the program," Mr. Callan said.



Richard E. Stewart

UNDER THE program, life insurance coverage in amounts up to a maximum of \$15,000 based on a customer's age, savings balance and rate of interest paid on the account, are offered to regular First National City savings and Golden Passbook account customers whose accounts earn at least \$2.50 quarterly interest. The bank merely obtains policy authorization for the term coverage and sends the premiums on to Connecticut General quarterly.

At the moment, about 1,300 First National City Bank customers have signed up for the coverage and the average policy is between \$6,000 and \$7,000. "It's not the type of program the bank is going to make any money on—it will never make money on term insurance in these amounts," Mr. Stewart said. "I think we're using it more for competitive banking reasons than anything else, to stabilize savings accounts," he added.

The N. Y. State Assn. of Life Underwriters thinks otherwise. They have brought suit in the state supreme court in Albany. Briefs have been filed by both the association and lawyers for First National City, Connecticut General and the state insurance department.

Spencer L. McCarty, managing director of the association, said his group is challenging the concept on several grounds. Mr. Stewart, he said, did not have the authority to amend the wholesale life standards through a circular letter. Moreover, he added, the amendments violate Section 193.3 of the state insurance code, which prohibits the sale of insurance if it is used to promote other goods or services, such as bank accounts.

"This is tantamount to giving away an alarm clock or an electric blanket in a bank promotion," Mr. McCarty told this magazine. Both Supt. Schenck and Mr. Stewart disagree with this argument, saying that the insurance policies are not being given away.

that suit, Mr. Stewart will likely smart for the next little while.

In the end, though, he said he would do nothing differently now and talks of his department's progressive ("enlightened" is the word others use) decisions on such things as holding companies, rating laws, group marketing techniques and variable life insurance—"an unending list of things that could have been giveaways."

He thought about those when he made his decision to leave the department. It was partly because of them that he avoided proffered executive opportunities at major insurance companies.

"Actually," he said the other morning, "there were very few unreplicable options available to me when I sat down and thought about going into private employment. This one," he said of events that have led to some personally damning conclusions, "didn't even occur to me." ■

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following the funds**Connecticut's pension funds now healthy, state's treasurer asserts**

HARTFORD—The panic button isn't being sounded any more for Connecticut's state pension funds.

State Treasurer Robert I. Berdon has asserted that state pensioners will continue to receive retirement checks and that there is no danger of Connecticut pension funds collapsing.

The comment followed a recent declaration by Mr. Berdon that the condition of the funds amounted to "a financial disaster," having depreciated in value by some \$140 million, as of June 30, 1970.

Spokesmen for the Hartford insurance community admitted they were "puzzled" by the phrase, "financial disaster," contending that market value of most security issues—in particular long-term bonds—was hitting bottom in June, 1970, and would not necessarily reflect today's market value. Moreover, whatever the market value was, they said, the yield on the bulk of pension funds' securities would not be affected.

Henry S. Beers, ex-member of the state retirement board and

former chairman of Aetna Life & Casualty, which is headquartered here, remarked he could not provide a definite opinion until he looked at the portfolio. He added that pension funds traditionally comprise, in the main, fixed-yield securities such as U.S. and corporate bonds. And it follows that whatever these securities' market value might be at the moment, the yield would be that projected at the time of purchase.

Questions, he added, could conceivably be raised over the wisdom of committing a heavy portion of such a portfolio to long-term, low-yield securities. If the securities had had a shorter yield, it was obvious that the capital would have been freed for investment in higher-yield securities.

A man who handles pensions at an insurance company home office told *Business Insurance* that the 5% yield cannot be considered unusual for "conservative" pension funds. He added that in recent years more funds have moved assets to common stocks, hoping to keep pace with the ongoing inflationary spiral in the American economy. A rule of thumb says that as the value of the dollar drops, the value of the common stocks goes up.

MR. BERDON commented at a press conference that one of Connecticut's six pension funds was about \$700 million underfunded—meaning, in effect, that without greater income immediately available the fund would inevitably be exhausted, forcing the state administration to use current state income to handle pension checks.

He added that an expert in the investment field had cited a figure of \$50 million as vital injection into this fund, yielding 12% (including capital gains), as probably bringing the economics into a better, more realistic atmosphere within a few years.

Mr. Berdon's "financial disaster" phrase was voiced after the state legislature turned down a proposal to buy outside professional investment counseling for the \$500 million portfolio.

THE STATE'S chief executive noted that Mr. Berdon made this issue a campaign matter last November and, hence, there was nothing especially new about the treasurer's remarks.

"The tragedy," Gov. Thomas J. Meskill said, "is that the story is so old."

For his part, Mr. Berdon commented that he originally brought up the issue of the \$140 million depreciated value of the funds (from \$558.2 million at time of investment to \$418.3 million on June 30, 1970) in an April public hearing of the legislative joint financial committee.

A copy of the report from a committee of volunteer investment advisors was given to the state lawmakers at the time. In part, it said: "Employees of the state are without the security of accumulated reserves to assure their pensions and this is a single compelling consideration for revision of current practices."

The state treasurer remarked, too, that the fund managers, with a lack of expert guidance, had erred badly by committing much of the fund to bonds yielding as low as 2.5% to 3.5%. ■

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Data processing policy needed for unique EDP property risks

CHICAGO—The factors that make data processing risks unique call for a comprehensive data processing insurance policy carefully geared to that uniqueness, according to Gordon M. Paine, assistant secretary and manager of the commercial inland marine underwriting department of the St. Paul Fire and Marine Insurance Co.

Speaking on the topic of computer property insurance at the computer protection/insurance workshop sponsored by *Business Insurance* and *Computerworld* magazines, Mr. Paine stated that among the factors making the data processing risk unique are the high value of the machines, the concentration of value and data in a small area, and the high susceptibility of the machines and media (punchcards, magnetic tapes, perforated tapes, disks, drums, data cells) to damage by dust or corrosion, mechanical and electrical breakdown, temperature and humidity extremes, and magnetic faults.

Property coverage on the data processing equipment itself includes coverage on the air conditioning system, and is usually all-risk. Mr. Paine pointed out the need for an air conditioning clause by noting that damage to equipment through corrosion, rust, temperature and humidity fluctuations is generally excluded in a data processing policy unless it results from failure in the air conditioning.

HE ALSO WARNED that those leasing equipment carefully check the limits of liability in their leases. As an example, Mr. Paine said, "I have seen some lease contracts that are 'all-risks' but go on to except negligence. Others are silent on this important point. In order to take care of this situation, it is possible to buy coverage for the difference of conditions—in other words, the perils over and above the perils named in your contract—and I might say that in this connection, various deductibles are available so that in the final analysis the cost for such 'peace-of-mind coverage' is very nominal."

Active data processing media is also covered in the electronic data processing policy, he continued, and all-risk cover is again provided. According to Mr. Paine, the most important feature of the media section of the policy is the valuation clause, which may be arranged on one of two bases: a fixed amount per reel or per card, which he claims "may be rather difficult because all items cannot be valued at the same amount due to variation in type or age of data," or, second and preferably, on an actual reproduction cost basis.

Mr. Paine emphasized that the actual reproduction cost basis includes the extra expense that would be involved in reproducing the media—not just the actual cash value at the time of loss or the cost to replace media under normal working conditions.

A broad extra expense section is also included in the policy, he said, covering not only media but also "the necessary extra expense incurred in order to continue, as nearly as practicable, the normal operation of the business following damage to the data processing system."

ALSO COVERED in this section are the air conditioning and electrical systems, if they are

damaged to the extent that they reduce or suspend the user's ability to perform data processing operations, as well as the expense of using other property or the facilities of other companies.

Not covered, however, are loss of profits or earnings from reduction of business, accounts receivable or the cost of purchase and repair or replacement of physical property, unless for the purpose of reducing the loss, he explained.

Mr. Paine continued, "In order to take care of the true business interruption loss for the firms doing data processing for others, and also to cover this exposure on computers used in manufacturing processes, there is an additional insurance agreement. This covers

against loss resulting directly from the interruption of business due to loss of or damage to the data processing system or media."

Cover is written on a valued basis for each working day of total business suspension, he explained, with the daily measure

COMPUTER WORKSHOP

reduced accordingly if business is only partially halted. "In determining the amount of loss, we also take into account any reduction which could be effected by

complete or partial resumption of operations using your own or substitute facilities or stock," he said.

THE EXPENSE of reducing loss (not exceeding the amount by which the business interruption loss is reduced) is also covered, he told the workshop, and an accounts receivable policy is available to insure those amounts of money due from customers that are uncollectable because of the destruction of records.

Methods for deciding the amount of insurance to purchase, Mr. Paine noted, should include a "disaster plan" that details steps to be taken in the event of loss and ascertains how long restoration will take and how much it will cost.

"Unfortunately, there is no magic formula to determine values," he concluded. "There are an infinite number of different types

of businesses putting electronic data processing to an infinite number of uses. Your people know your operation best and they are the ones who must come up with the answers." ■

Rehab administrator

Norman Silver, Portland, Ore., has been appointed administrator of the Oregon vocational rehabilitation division by Jacob Tanzer, director designate of the newly created Department of Human Resources. Mr. Silver has been special placement manager of Tektronix, which currently employs more physically handicapped workers than any other company in Oregon. He succeeds Nicholas Peet who has been promoted to the position of deputy administrator under Mr. Tanzer. Carl A. Haugerud, Salem, former secretary for the state board of control, will serve as deputy administrator under Mr. Silver.

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Computer environment and its effects

CHICAGO—The physical environment in which computer operations are performed can greatly affect the efficiency of the operation. At the *Business Insurance-Computerworld* computer protection/insurance workshop here Herbert T. Walworth, manager of special technical services for Lumbermens Mutual Casualty Co., explained several environmental problems and solutions.

Noise, he said, is a primary factor affecting computer operations because it can interfere with the communication process and can result in computer input error. The Occupational Safety and Health Act refers to noise level standards established by the American Conference of Governmental Industrial Hygienists for the conservation of hearing.

These levels, for the most part, are higher than those normally found in computer operations. However, certain computer operations do produce noises sufficiently high to interfere with communication.

Common sources of interfering noise, he told the workshop, in-

COMPUTER WORKSHOP

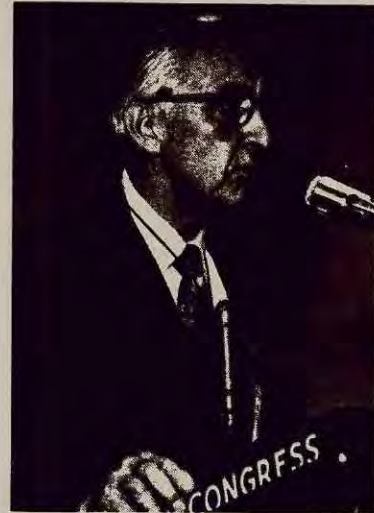
clude not only the operation of the computer equipment itself but also typewriters, air conditioning systems and telephone and face-to-face conversation. The best method of controlling these noise-

es, he believes, is at the source. Sound-absorbing material in ceilings and walls, he pointed out, is of benefit primarily to people outside the work area and, he added, absorbs only the sound that reaches it. "A person standing between the noise source and the sound-absorbing material still hears the same noise," he said.

NOISE GENERATED by equipment operation can be reduced by partial enclosure of the machinery in absorbent material and noise from an air conditioning system, said Mr. Walworth, can be reduced by removing the system from the area or, perhaps, switching to a central system. Controlling conversational noise, he added, is a matter of employe supervision.

"High-frequency noise and the variation of noise level usually causes interference with communication," he explained; introduction of a constant sound, at a level somewhere between the high and low ranges of the interfering sound, will mask unwanted noise. As an example, he noted that the noise problem in a room full of typists can sometimes be ameliorated by the constant sound of a fan in operation.

Studies of the effect of noise on office operation are, in general, difficult to substantiate scientifically, according to Mr. Walworth.



Herbert T. Walworth

He mentioned one study, however, that reported that a reduction in noise reduced typing errors 29%, mistakes by machine operators 52%, absenteeism 37.5% and employe turnover 47%.

Another environmental factor affecting computer and other machinery operation, he continued, is work room air contamination.

COMPLAINTS of headache and dryness of throat and upper respiratory tract have occurred among photocopy machine operators, he said, and these symptoms usually develop when machines are located in poorly ventilated areas or are operated continuously or become overheated. Complaints are caused by breathing the irritant ozone, a result of operation of the high-voltage electrical parts of the machine. Ozone is an unstable, powerfully irritating gas but, said Mr. Walworth, its irritating characteristics would prevent anyone from staying in a contaminated area very long.

To correct an ozone problem he recommended relocation of photocopy machinery to a better ventilated area or the use of exhaust fans. By the time the ozone-laden air reaches the outside, he added, it is diluted and harmless.

Within Mr. Walworth's own company a study of complaints of eye and respiratory irritation among workers in the punch card section of the computer operation was made. Between 100 and 200 employes were involved, he said. Complaints resulted from exposure to aldehydes, which are chemical compounds obtained by oxidation of primary alcohols.

The conclusion of the study, he told the workshop, was that there was air pollution from surrounding coal-fired furnaces and cigaret smoking by employes, inadequate room ventilation and air distribution. It was recommended that the number of air changes in the room per hour be increased progressively until complaints ceased. Chemical analyses were made of air samples to determine acceptable aldehyde levels. Mr. Walworth emphasized that this problem was not one of health but of employe comfort, which also can affect computer operating efficiency. ■

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Union charges leniency in safety-health citation

WASHINGTON—The first citation issued by the Labor Department under the new Federal Occupational Safety and Health Act has been criticized by the Oil, Chemical and Atomic Workers Union for being too lenient.

The union—with help from Ralph Nader and friendly legislators—filed a complaint with the Labor Department on May 14 charging that conditions at an Allied Chemical Co. chlorine plant in Moundsville, W. Va., constituted an "imminent danger" which warranted emergency closure.

The government didn't agree. Instead it issued a citation on May 28 which charged Allied with a "serious" violation which posed "the substantial probability that death or serious physical harm could result." Allied was told it would be fined \$1,000 if things did not change, but the company merely insisted that no violation existed.

THE UNION IS concerned about the possibility of chlorine poisoning at the plant, while the government has based its charges on mercury spillages and vapor concentrations which it says "significantly exceed levels generally accepted as safe."

"We feel the Secretary of Labor acted capriciously in not even mentioning the chlorine problem at this plant," union spokesman Steve Wodka said in a press conference here. "The fact that this citation concerns itself only with mercury poisoning and does not even mention chlorine is incredible."

Dr. Sidney M. Wolfe Jr., medical consultant to the union and a Department of Health, Education and Welfare alcoholism expert, charged that workers were being exposed to at least three and a half times the safety limit of

chlorine. He based his findings on urine analyses and said the results of his tests and similar tests conducted by the government varied widely. Dr. Wolfe also reported he found "classical neurological symptoms" of mercury poisoning among employees interviewed.

Labor Department inspections led to a report by Dr. P. G. Rentos of the U.S. Public Health Service's Bureau of Occupational Health and Safety which said "nearly all ambient air concentrations of mercury vapor far exceed the threshold limit."

Allied's position: "We have never had a case of mercury poisoning diagnosed in our plant." ■

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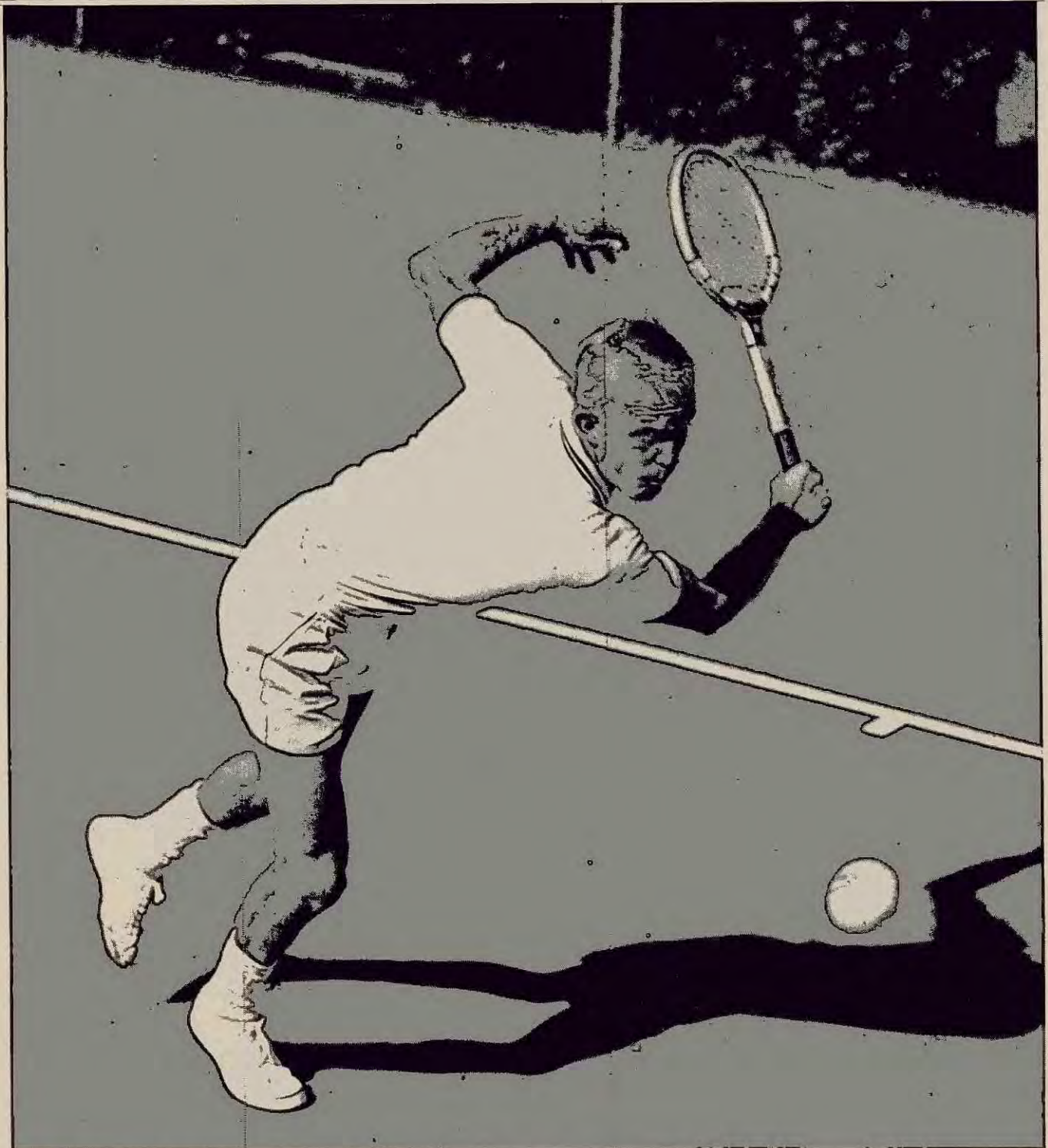
NEW YORK—Safety in the atom-smashing business is not a subject taken lightly.

The Nuclear Energy Liability Insurance Assn. (NELIA) and Mutual Atomic Energy Liability Underwriters (MAELU) mailed premium refund checks totaling \$1,017,609 to the firms they insure against liability stemming from atomic energy dangers. The money represents about 97% of premiums put in a loss reserve fund in 1961 and was refunded to 247 varied organizations that operate nuclear reactors.

Under the rating system used by the two pools, a large portion of the premiums received from the insureds is placed in a loss reserve fund and returned to the insureds after 10 years if not used to pay losses. And, in the 14-year history of the pools, no claim due to the operation of a reactor has ever been received. It is for that reason that there is a growing optimism regarding future loss experience of the nuclear insureds.

Premium refunds paid by the pools so far total \$2,567,736.

Every utility-operated nuclear reactor in this country and virtually all research and development reactors and other nuclear undertakings are insured by the two pools. NELIA and MAELU have a combined capacity of \$82 million on each risk. ■



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London . . .

Continued from page 6

Lloyd's Underwriters Assn., forecast these changes when he met shipowners at a Norwegian international exhibition in Oslo. He told them: "The hull market has lost money for most of the past seven years, and if there is no increase in rates, then capacity will cease to be available.

"The annual increase of 10% is not enough, and it will need a 20% rise in the next months to make the account profitable again."

Underwriters were facing increased exposure through the appearance of mammoth tankers and container ships, he pointed out.

* * *

GOVERNMENT law officers are probing the collapse of the Vehicle and General Insurance

Co. which has left 500,000 people uninsured. It dealt mainly in auto risks, and outstanding claims against it may top \$12 million from other people who had been involved in personal liability accidents.

The probe, which began July 5, will enable Justice Arthur James to find if there was any failure by government civil servants to spot in time that the company was facing a cash shortfall. Fears that it was going bankrupt after operating for about ten years were revealed by private accountants who were called in to check its corporate affairs.

Government agents have power to act as "watchdogs" over all insurance firms, and it is alleged they were dilatory in realizing that its claims-rate was outstripping premium income, even though it is an ordinary business insolvency with no suggestion of fraud.

FEARS that international aviation insurance might "get into a muddle" were expressed by Peter Martin, a London lawyer, when he told airline executives in Britain that attempts to limit liability to \$100,000 per passenger might not satisfy every country in the world.

He suggested that unless the limit was raised, passengers might sue airlines first, and then move on to claim damages from component manufacturers as well. "Every accident is almost certainly due to the interplay of all aspects of the operation of aircraft, and this can give rise to claims against aircraft manufacturers, engine makers, and instrument and component makers," he declared.

He even forecast that air traffic controllers at busy airports might find themselves sued for damages if liability limits were restricted to airlines.

The solution, he urged, was for a common convention covering everyone involved in the operation of aircraft, so that higher limits could be set and damages shared by all parties. The U.S., he pointed out, had talked in terms of a \$250,000 limit.

* * *

INTERNATIONAL aviation insurers were told of tremendous hikes in U.S. pay-outs for air crash claims when they met in annual conference at the Hague, Holland.

They were given reports from the U.S. Civil Aeronautics Board that average cost of settling passenger death claims had risen in the past four years from \$18,600 to \$80,000 for cases covered by the Warsaw Convention and from \$85,000 to \$195,000 for non-Warsaw cases.

Hans Caviet, president of the International Union of Aviation Insurers, told this to delegates

when they met at Noordwijk, Holland and added: "The world aviation insurance markets proved their value last year by providing sufficient capacity for hull all risks and legal liability for the airlines, manufacturers and aviation industry generally. Such an accomplishment has attracted the attention of colleagues in other insurance fields."

He reported that world insurers had paid out more than \$166 million last year for hull losses, including the hijacked Boeing 747 jumbo jet in the Middle East. This was twice the 1969 figure.

Note was taken of the protocol to the Warsaw Convention, signed in Guatemala City in March this year, and the effect this would settling passenger liability claims. The delegates also got reports on the capacity for hijack cover, and the problem of noise and pollution perils.

* * *

FINAL WORD on auto safety in Britain after Ralph Nader tried to attack its regulations came from the government's top man on that subject, Transport Minister John Peyton.

Big firms like Ford and Chrysler in Britain had already clashed with Mr. Nader, who had chosen to make his criticism in an interview with a London newspaperman.

So far his remarks have found little long-term reaction in the United Kingdom, which prides itself on its own pattern of safety checks, such as those made every year on any vehicles more than three years old. Normal consumer reaction in any case in a tight-knit community would soon hit any manufacturers who failed to maintain safety.

Minister Peyton declared that Britain "did not relish being lectured on auto safety," and that "a framework of safety regulations has been developing in Britain for more than 40 years, and we do not feel obliged to adopt without question a mass of new regulations simply because another country does so.

"If British manufacturers sell to the U.S. or other foreign markets they comply with the regulations in those countries.

"But there is room for some difference of opinion on such matters as windscreen glass and the value of headrests. We are moving to uniform standards with other countries as far as we can."

He claimed Britain's death rate per 100 million vehicle miles was around 2.8, compared with more than four in the U.S. ■

Seeks more money for safety act

WASHINGTON—The Occupational Safety and Health Act "will become nothing but harmless bits of parchment" if not backed up by enough money to enforce it, according to Jack Beidler, United Auto Workers legislative director.

Mr. Beidler testified before the House appropriations subcommittee on the Labor and Health, Education and Welfare budget for fiscal 1972 that the \$150 million being sought is "like asking for pennies when we need dollars." The UAW regards \$2.2 billion, to be spent over the next five years, as a more realistic figure.

Mr. Beidler noted that only 250,000 inspections could be made under the best of circumstances during the first year with the 1,000 inspectors the Department of Labor seeks. ■

Sculpture: George Kafka



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Syracuse U. claims it pays less for coverage

SYRACUSE, N.Y.—The insurance consultant for Syracuse University has claimed that SU's net insurance costs are the lowest among colleges and universities of its size and kind for comparable coverage.

Maurice W. Pomfrey said that the rate has remained a fairly constant 1% of the school's operating budget. This is in the face of a proclivity among insurers to raise rates for colleges and universities.

"Anyone who knows anything about insurance knows we pay a lot," he said, adding that the university insured \$123 million worth of property, "but a close working relationship with insurance carriers and good safety engineering have made SU an excellent risk."

While admitting that some schools had lost their coverage or had their premiums summarily hiked after campus troubles last year, he said that Syracuse had not faced the problem.

"INSURANCE COMPANIES were writing policies from headlines. It was, in many cases, an over-reaction," he noted.

However, he felt that radical outbursts were not the only reason for the high-flying rates. He explained that insurers, as late as five or six years ago, had gone

Here's how . . .

Continued from page 8

Sentry is a large company in a small town and that I have many friends in the company. If ever I happened to be in Stevens Point when the board was meeting, I would attend."

• To the question of whether he received a June, 1969, memo from Sentry General Counsel Mark Makhholm warning of "reverses with the Securities and Exchange Commission," he said:

"I don't recall the memo, but if it says I got it, I guess I did. Mark and I used to write to each other about our families and things and if it says I got the memo I'm sure I did."

• Asked if he acted on the memo by contacting the SEC or members of Congress or their staffs, Mr. Froehlke said:

"No. The only thing I've done for people since I've been in Washington is arrange tours of the White House or seats in the Congressional galleries, and these things only for old friends who happen to visit here."

• Mr. Froehlke was asked when he withdrew or decided to withdraw as a \$200,000 participant in a loan program with the Chase Manhattan bank which would have allowed him and 32 associates to gain 90% voting control of a stock company successor to Hardware Dealers Mutual Fire Insurance Co. His answer was:

"I felt the reorganization as proposed was a good move for the company and a good move for stockholders, including myself. I would have participated if I had stayed with the companies. I was never asked for a statement of withdrawal from the Chase Manhattan arrangement because I never signed anything in the first place.

"Naturally, when the thing became controversial (after the Senate antitrust and monopoly subcommittee report) I withdrew because I would never be involved in anything controversial that would embarrass this Administration."

out of their way to write policies for schools and colleges. The rates, as a result, went lower and lower.

"They drove the rates down to get prestige risks, but it didn't work," Mr. Pomfrey pointed out. "In one case, \$3 million of school property was insured for a \$900 premium."

Noting that a number of small claims had then driven the rates higher, he said, "Companies found it easier to cancel policies or impose large deductibles to discourage the constant filing of small claims. And they stopped their aggressive campaigning for new business. They found they could get all they could handle from their old customers." ■

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Career . . .

Continued from page 16

year we convened a panel of employees who designed their new outfits after we had taken a general survey of peoples' opinions."

According to several experts contacted, employe participation is very important in their acceptance of career apparel. "It cannot be forced on them or it becomes 'issue' clothing and is rejected," said one source at E. I. Du Pont De Nemours & Co., which produces a majority of the special fabrics used for career apparel around the country. "They must be involved in the design and selection of their corporate fashions. Without that involvement the program can seldom succeed."

THE FIRST Pennsylvania Bank's program seems to be succeeding because of employe involvement and diversity of clothing. Mr. Butler said that hot pants were offered as an optional part of the set, which includes nine pieces for women (a jacket, a skirt, slacks, a tunic top, a vest, two blouses and two dresses) and slacks and blazers for men, all done in navy and a coordinating lime green. "Employes have had only one complaint in the past," said Mr. Butler. "They did not like having to wear basically the same thing every day. But the new outfits have 44 possible combinations, which should overcome

that problem.

"We are behind career apparel because it gives a good image to the public, who walk into a branch and know immediately who works there and who can help them. It is certainly a good benefit for employes, particularly for women who have been housewives and are just returning to the working world. They seldom have a wardrobe that is keyed to their new needs, and career apparel takes care of the problem."

Mr. Butler also said that a low rate of employe turnover might be partly attributable to the clothing, although he noted that the tight labor market is also a factor. "Our biggest surprise," he concluded, "has been that young girls coming to work at the bank from parochial schools like the clothing, even though they've been in uniforms for years."

Career apparel is big business, and it's beginning to attract the attention of some of the big manufacturers of regular clothing. According to a study by E. I. Du Pont De Nemours & Co., the potential for career apparel is \$300 million a year in garment sales. Only about 10% of this potential is realized to date.

"**ALL THE BIG** dogs are trying to get into it," said Morris Weckler, president of Starflite Uniforms Inc. in New York. "David Crystal, Herman Marcus, Evan-Picone—they'd all like a piece of the action. But all they can handle are big jobs. They're

just not able to outfit the little company with 10 employees."

Mr. Weckler's company has supplied blazers to Volkswagen sales offices and outfitted tax collector's offices, travel agents and a "chicken-plucking company in Delaware."

Herbert Weinber of Angelica Career Fashions Co. in Long Island City said Evan-Picone Inc. is not in the uniform business. "Angelica has the right to use Evan-Picone's facilities," he said, "but Evan-Picone is not in the business as such. Angelica uses the Evan-Picone concept of selling a package: an ensemble of eight garments."

Mr. Weinberger pointed out a problem that appears to be one of the biggest pitfalls of career apparel. "Continuity is the key," he said. "Everyone can sell a company the first time, but can the customer come back in six months or a year looking for a particular dress in, say, size 12? The key is to have an in-stock program." Mr. Weinberger said employes at companies that he has outfitted are always a little apprehensive at the start of a career apparel program. "But they find that they'll save around \$300 a year and begin to like the idea. Even if they pay themselves, it's tax deductible. And girls discover they don't have to compete about clothing any more."

"**PUTTING PEOPLE** in an identifying uniform is the point," said Jack McCarthy, president of Profiles Inc. "Companies whose primary product is service need all the help they can get to distinguish themselves from their competitors. Career apparel is especially big in banks, insurance companies, car rental agencies, door-to-door sales companies—that sort of thing.

"The most interesting development in the field is multiplicity of wardrobe," he said. "The fatigue factor involved in 18 months of wearing the same dress and jacket is enormous, but now we're developing eight- and 10-piece wardrobes that can be worn more than 17 different ways. This clothing usually saves a girl \$300 to \$500 a year. Times are rough and companies can't afford raises, but this kind of benefit is good for employe and employer both, and can be an added incentive in job recruitment and cut down on turnover. Banks have a big problem, for example, keeping tellers.

Mr. McCarthy said a problem for C/A manufacturers is that their garments must look good on all different types of wearers, from the teenage girl to the elderly woman. "We must create certain kinds of lines that maximize most bodies," he said. "Also, there must be a consistent standard of quality to withstand day-in and day-out wear. Our garments must be built like Patton tanks but look like fashion.

"This kind of quality and unity of appearance is terrific for a service institution. Career apparel has charisma," he concluded. ■

New FCIA office

A new regional office, at One Embarcadero Center, San Francisco, has been opened by the Foreign Credit Insurance Assn., which represents 50 of the nation's leading casualty and marine insurance firms. FCIA chairman Thomas M. Torrey said, "This move to new and larger quarters is an indication of the tremendous interest in export expansion now being shown by the San Francisco Bay area business community." The FCIA works jointly with the Export-Import Bank of the U.S. in promoting credit insurance to U.S. exporters.

Bank Clearing House studying self-insurance

NEW YORK—The 11-member New York Bank Clearing House Assn. is studying the feasibility of self-insuring a sizable portion of its operations, according to William S. Renchard, president of the association and chairman of the board of Chemical Bank.

He said that self-insurance may become necessary in the near future because the insurance market has been shrinking and rates have been skyrocketing. However, he, and just about everyone else involved in the possibility, was quick to point out that the plans for the banks to form an insurance pool were only in the talking stages.

The furor which led to the point of self-insurance began last December when Continental Insurance announced that it would not renew blanket bond coverage for the banking community here. The insurer said that experience on blanket bond insurance had been adverse over the past few years. Had Continental, one of the largest underwriters of such coverage, actually withdrawn from the field, banks would have been stuck with millions of dollars worth of securities and no insurance on them.

HOWEVER, AFTER a series of meetings with Treasury Department officials and banking representatives, Continental agreed to extend the coverage for a specified period of time (*Business Insurance*, April 12). In return for the extended coverage, the government agreed to try to secure passage of a bill which would provide for immediate redemption of lost or stolen government securities. The banks promised to step up security measures, mainly implementation of the "book entry" system of making transac-

tions.

Lack of security on the part of banks has been one of the main reasons for the tremendous rise in rates and deductibles. Millions of dollars in securities are either lost or stolen every year. For example, in 1969, embezzlers got away with \$16.9 million, according to the American Bankers Assn.

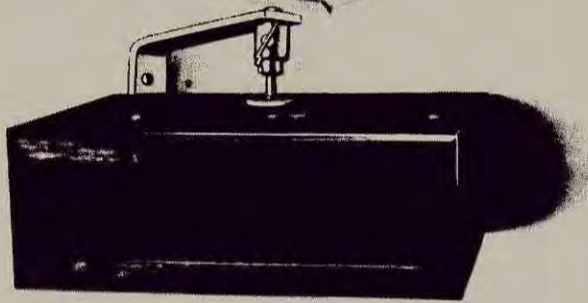
A spokesman for the New York Bank Clearing House Assn. told *Business Insurance*, "We are very serious about this self-insurance thing. We almost did it in December. The situation is not nearly as bleak right now as it was then. We are working hard on the book entry system and the government is pushing the immediate redemption bill, so things are not all that dark. We don't want to do this, but we will if we are given no alternative."

He also noted that the study, which was undertaken in January, could possibly point out other areas, aside from blanket bond, where self-insurance could be of use.

Just how serious the association will be when the time comes remains to be seen. As the insurance manager at one of the member banks looked at the situation, "It's just in the talking stages now. You hear all this talk but our bank won't be self-insuring anything tomorrow." ■

Feder opens office

Ollen S. Feder, associated since 1969 with Levison Insurance and Diner-Levison, has opened an office at 30 Sansome St., San Francisco, where he will specialize in the design and supervision of deferred compensation, profit-sharing and pension plans, employe benefit programs and corporate and estate insurance planning.



— San Diego, California

Low Cost NORMDA Ultrasonic Detector System Gets UL Listed

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SAN DIEGO, Cal. — NORMDA Industries, the nation's leading manufacturer of ultrasonic security systems, has just received full UL listing on their new ES-500, low-cost, ultrasonic intruder detector designed for protecting a company's physical assets.

"This new unit", according to C. H. Peterson, President of NORMDA, "is the best ultrasonic that's available on the market today . . . and I'll stake my reputation on it. Not many small security systems are UL listed, so our new ES-500 represents a real breakthrough. The ES-500 will play an important roll in providing low cost installations in businesses where large UL listed systems are not practical."

NORMDA Industries is the leading manufacturer of ultrasonic security systems, with a world-wide marketing and service network. More than 11,000 NORMDA ultrasonics are in field use throughout the U. S.

The new, UL listed, ES-500 ultrasonic uses an all-metal chassis enclosed in walnut. It has a walk-test light, standby battery, R.F. shielding, tamper switch, rear access range control, and operates on low voltage 12 VAC primary power. Mounting hardware is included and a full year's warranty. For further information write: NORMDA Industries, Inc., 6330 Riverdale Street, San Diego, California 92120 or telephone (714) 283-2033.

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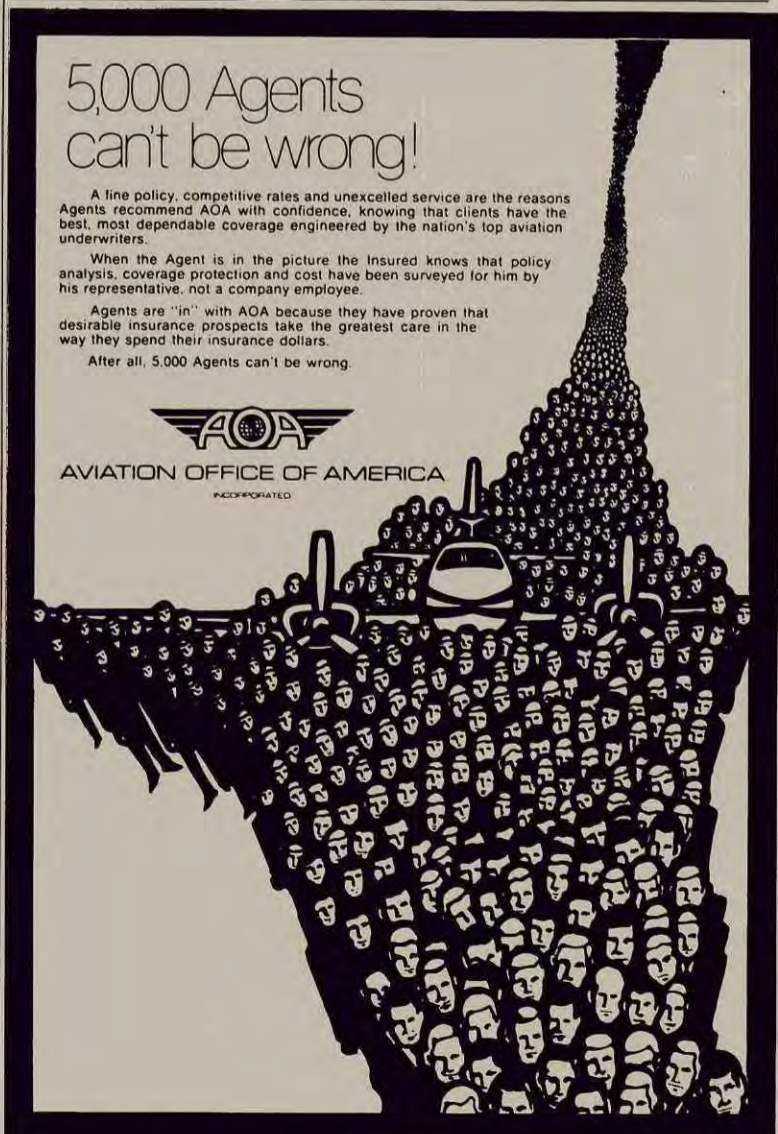
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Avoid discriminatory no-fault plans: Palmer App

CLEVELAND—An insurance executive has warned risk managers against no-fault auto insurance reform proposals that favor commercial vehicles over private passenger cars or vice versa.

Palmer App, vp of Lumbermens Mutual Casualty Co., Chicago, told the Cleveland-Akron chapter of the American Society of Insurance Management that there are inequities in the plans offered by the American Insurance Assn. (AIA) and by former Insurance Supt. Richard Stewart in New York.

"The AIA complete protection plan appears to favor corporate

fleet owners and truckers. However, the AIA has periodically studied ways in which commercial vehicles would be required to bear a larger total share of the cost. This would seem inevitable, as the general public could hardly be expected to accept discriminatory rate treatment favoring those who make very extensive use of public highways," Mr. App said.

AN OBVIOUS inequity of New York's Stewart plan is that owners of commercial vehicles (e.g. trucks and cabs but not buses) would be strictly liable for injuries to occupants of all pri-

vate passenger vehicles injured in a collision with a commercial vehicle regardless of how the accident may have occurred."

The Hart-Magnuson bill, S. 945, requires that the net economic loss of an occupant in a commercial vehicle would be paid by the insurer of that vehicle. When a motor vehicle in an accident is "larger than an ordinary passenger automobile," the insurer of the larger vehicle is responsible for a percentage of any net economic loss paid.

"A House version of the Hart-Magnuson bill, HR. 7514, does not provide for any special treatment of commercial vehicles. This change may reflect an anticipated adverse reaction from commercial operators to the approach in S. 945. However, the whole commercial car problem will come up

whenever a revolutionary 'no-fault' approach is adopted," he said.

"Even if the initial version of such a plan did not include special treatment for commercial vehicles, there would be a strong tendency on the part of legislators to react later to complaints and to add a provision to make commercial vehicles responsible for any damage resulting from a collision with a passenger vehicle," the executive warned.

MR. APP noted that "neither the Guaranteed Protection Plan (a no-fault proposal by the American Mutual Insurance Alliance) nor the Illinois plan provides for any special approach for commercial vehicles."

"As in the present system, commercial vehicles are not responsi-

ble for injuries or damages resulting from a collision with a private passenger vehicle or any other vehicle unless the operator of the commercial vehicle was negligent," he explained.

Mr. App told *Business Insurance* that the Kemper Insurance executives have carefully studied alternative proposals for reforming the auto victim compensation system and that they have concluded that what the public wants is not necessarily "no-fault but no-fuss." He said that the public wants the decision problem to be handled between the insurance companies involved or by having the settlement submitted by them to arbitration proceedings.

"If we pass no-fault insurance legislation and it doesn't reduce premiums, there will be disenchantment," he said.

Government crime cover will be available Aug. 1

WASHINGTON—The government's crime insurance program gets off the ground Aug. 1 when policies become available in 11 states and the District of Columbia, where private insurance is not available at a reasonable rate.

Under the final regulations governing the plan passed by Congress last year, maximum coverage is \$15,000 for commercial property and \$5,000 for residential property. Losses covered are burglary, robbery, vandalism and other criminal activities.

Policies for business with gross receipts of more than \$50,000 will be sold with deductibles of \$200 or 5% of the loss, whichever is greater. Businesses with receipts between \$25,000 and \$50,000 will have deductibles of \$150 or 5% and those with receipts of less than \$25,000, as well as residential property, will carry a deductible of \$100 or 5%.

THE DEPARTMENT of Housing and Urban Development will administer the plan. States included in the program are California, Connecticut, Illinois, Maryland, Massachusetts, Michigan, Missouri, New York, Ohio, Pennsylvania and Rhode Island.

Premiums will be based on a formula that reflects crime statistics compiled by the Federal Bureau of Investigation for each

metropolitan area.

In addition, premium rates will be uniform throughout a standard metropolitan statistical area; that is, rates will be the same in the inner city as in the suburbs of the same metropolitan area.

California and New York are currently considering their own state crime insurance programs and if acceptable plans are adopted federal insurance will not be made available in those states, according to George Bernstein, federal insurance administrator. ■

Alcoholism committee

The Washington Insurance Council has formed a steering committee to develop a program to combat alcoholism in that state. It will explore the effects of alcoholism in society in an attempt to develop effective ways to apply the resources of the insurance industry to the solution of problems.

U.K. fire seminar

Fire losses cost Britain's paper industry \$20 million a year, so risk managers involved in the problem are being invited by the nation's Fire Protection Assn. to attend a five-day seminar on the topic to examine risk-evaluation procedures.

DOT...

Continued from page 10

need it are able to buy it at reasonable premiums. Congress will review the course of the program and, hopefully, be able to return it to the states and the insurance industry.

Sen. Beall feels there is an immediate need for catastrophic illness coverage and feels confident that this Congress will pass at least that minimum protection, for those who do not presently have it.

REP. BARRY Goldwater (R-Cal.) Jr. said that the federal government paid all the \$400 million of emergency aid to California earthquake victims recently to reimburse them for damages not covered by insurance as well as to reimburse the state for repairs to its properties. Rep. Goldwater said that earthquake insurance is very expensive in California, that few people purchase it, and that industry has not really made an effort to sell it. He added that earthquakes are less frequent in occurrence than hurricanes and that research done by his office indicated that earthquake insurance was profitable.

Ralph Waldo Emerson said, "The less government the better" and Rep. Goldwater concurred. He felt that industry should work out a program of disaster insurance, possibly in a partnership with the federal government, so that it would not be necessary for the government to do it alone.

He suggested that mandatory earthquake or "natural disaster insurance" would permit poolings of premiums and losses, and allow substantial rate reductions. When asked whether he thought that people outside of the earthquake area would be interested in purchasing this protection, he replied that it could be included as are all of the many risks now covered under the extended coverage or "all risks" policies.

Bruce B. Wilson, chief of the consumer affairs section of the antitrust division of the Justice department, presented a detailed discussion of the treatment of consumer complaints by the Justice department and by the agencies of primary jurisdiction such as the Federal Trade Commission, the Food and Drug Administration and the Department of Agriculture. He indicated that proposed consumer fraud prevention acts before Congress would prohibit such actions as (1) bait and switch, (2) advertising merchandise without sufficient supplies, (3) selling old goods for new, (4) misrepresenting functions of products or services and (5) mis-

representing quality of products. The new legislation would give consumers rights to bring individual and class actions after the federal government has successfully prosecuted an action against the offending vendor or manufacturer. He presently feels that class actions have many limitations, some of which are that it is difficult to reach all of the members of a class, difficulty in apportioning judgments, legal fees disproportionate to the rewards of the individual class members, and in general, felt that class actions are not the panacea some members of the legal profession claim them to be.

When asked whether he thought the federal government would include insurance or specifically exclude insurance from liability for class actions, he indicated that there was no great pressure to eliminate insurance companies from such legislation.

Federal Insurance Administrator George Bernstein indicated that about 70,000 flood policies have been sold, far less than the originators of the program had contemplated. This is a case, he said, of the people clamoring for a product and then not buying it. Their failure to exercise their right to purchase this protection

then makes them ineligible for further government flood aid. It is a serious situation and the government is seeking more effective methods of promoting this coverage. The government is suggesting that banks, the Veterans Administration and the FHA, for example, require flood insurance on any loans financed by them, where such insurance is available. He pointed to Minot, North Dakota, as being an area in which coverage was available, was generally ignored by the public, and which then experienced a serious flood having detrimental effects upon the almost totally uninsured community.

With respect to crime insurance, he anticipates that about 12 states will be included when the program becomes effective on Aug. 1. At least two insurance companies have bid for the privilege of servicing these programs in each of these states, so that policies should be issued on the Aug. 1 target date.

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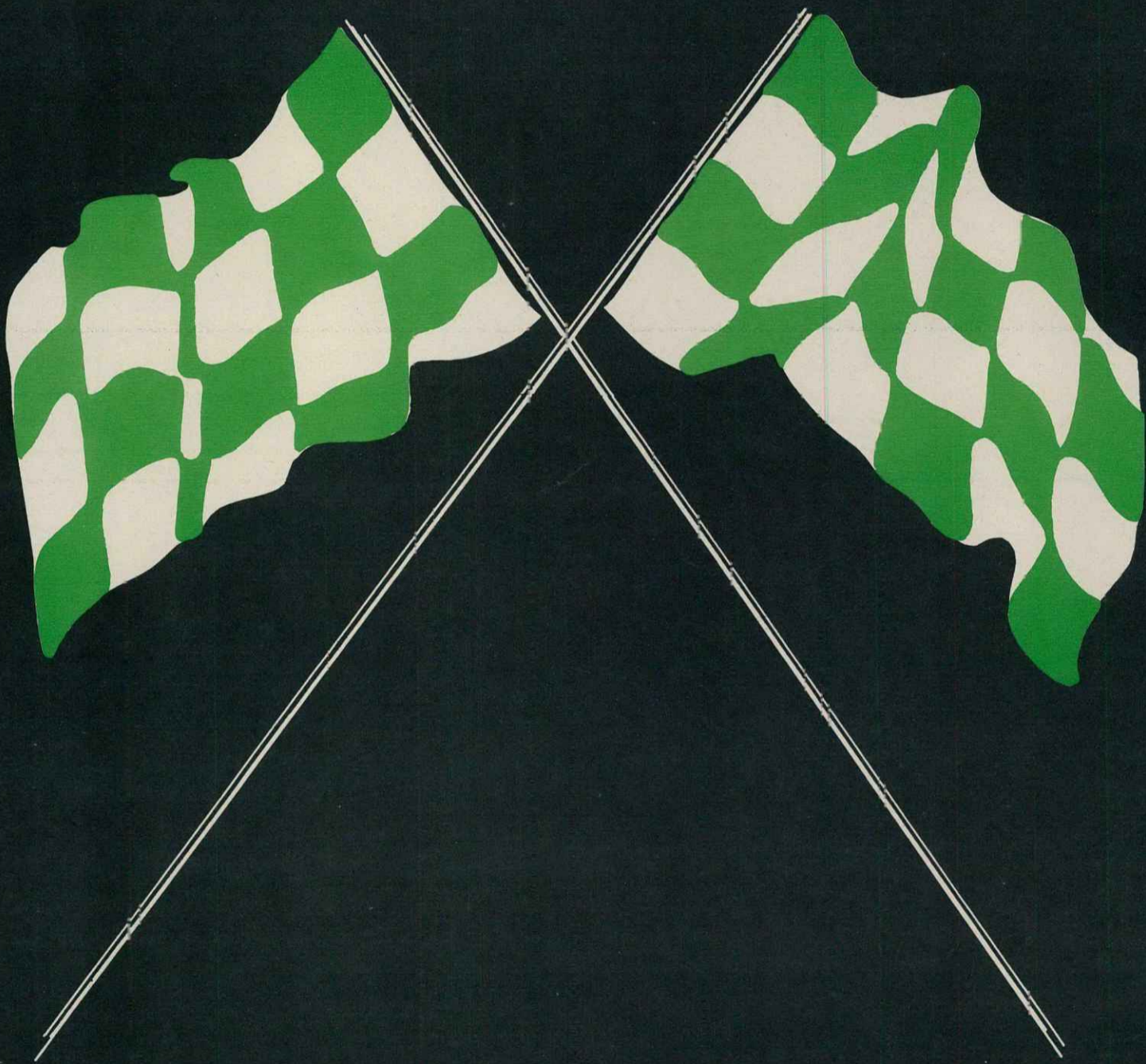
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