

Exhibitors sue electrical firm for McCormick Place blaze

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business insurance

for buyers of employe, property and liability protection

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Rubble must be cleared before investigators can determine the cause of an explosion in Chicago's Loop last week that caused an estimated \$1,000,000 damage and injured 56 persons. Several insurance companies were involved in coverage of the clothing store, restaurant and jewelrystore leveled by the blast. Howard C. King, fire department manager for the General Adjustment Bureau, said, "The damage estimate looks about right from what I've seen of the outside of the area, but I don't know the contents value of the building." Glass losses from at least 2,000 shattered windows in the area and those lost in the building will be huge. A mobile detection unit from Peoples Gas Light & Coke Co. found no gas in the area after the blast. A company spokesman said it has reason to believe a gas leak was not the cause. A check of the area had been made in June by a device that siphons air and analyzes the amount of combustible matter in it. Samples were said to be "safe."

Wide World photo

Air snags may 'improve' safety

NEW YORK—Insurance managers and underwriters are keeping a close watch on traffic snarls at local airports, but no one is sure what effect this will have on insurance.

One aviation insurance manager said he is watching the situation very closely but "I'm not sure how it relates to the job."

In the New York area delays of up to six hours have been reported, and the result from an intensive drive by control tower personnel to follow safety regulations down to the fine line. The

safety campaign by controllers points up the needs for a fourth and possibly fifth airport plus additional help and safety equipment in the control towers and centers.

FOR ONE thing the specific requirement for separation of planes is being strictly adhered to. Within a 40-mile radius of the airport, planes must be three miles apart; outside the 40-mile radius, planes must be five miles apart.

Before the delays began, con-

trollers were taking shortcuts in order to avoid long delays. As one airline employe said, "the controllers were doing us a favor."

Although the safety regulations may be a general nuisance, said another aviation insurance executive, "Nobody can quarrel with safety," and, taking a long term view, an underwriter acknowledged that "increased safety is bound to benefit all segments of the insurance industry."

The Professional Air Traffic Controllers, an organization claiming to represent the 5,300 Federal Aviation Administration flight controllers, warned that such enforcement would result in even more flight delays and disruptions. The group said that the stricter enforcement would continue until more controllers were hired and better safety equipment was installed at the airports.

Flood, riot pool O.K. imminent

WASHINGTON—The U.S. Senate and House were expected last week to pass a conference committee report setting up federal riot and floor reinsurance pools.

The conference committee report, approved July 19, was to be ready last Wednesday for Congressional action.

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Ex-buyer at Crane now pleads 'guilty'

NEW YORK—The former insurance buyer of Crane Co. who allegedly funneled \$870,000 of the firm's money to a "paper" insurance company in Antigua, British West Indies, has reversed his plea from not guilty to guilty, a move that is expected to close the case after the sentence is handed down in September.

George F. McDermott, who pleaded guilty to four counts of grand larceny and one count of conspiracy, stands to receive a prison sentence, fine or both, according to a legal source.

While employed at Crane before he resigned in June, 1967, Mr. McDermott, in his role as insurance buyer, allegedly conspired with John Caldiero, an

American born whisky distiller, to set up Global Risk Underwriters Ltd. as a writer of the firm's excess coverage.

The alleged scheme, was uncovered after Mr. McDermott resigned from Crane, and his successor couldn't locate some of the policies written with Global. Crane was told that Global was "unknown" as a writer of insurance.

Final tab in the case reached \$924,547 after the court added up legal fees and other related costs. About \$701,000 has been recovered by Crane, most in cash, but also from a \$40,000 house owned by Mr. Caldiero in Antigua and from Mr. McDermott's estimated \$140,000 interest in a distillery. ■

Three insurance trade groups in schism over auto accident methods

CHICAGO—Three major associations of property-liability insurance companies are poised to strike out in opposite directions in search of ways to adequately and promptly compensate victims of auto accidents, *Business Insurance* has learned exclusively.

Positions taken by the insurers' groups are intended to counter the "basic protection" no-fault proposal of Professors Robert Keeton and Jeffrey O'Connell that is intended to lower the cost of coverage, distribute loss payments more equitably, speed claim payments and reduce fraud as well as court congestion.

Diverse methods of solving the auto victim compensation dilemma caused one insurance company executive to comment, "It is not hard to visualize the possibility of a hodgepodge of state laws which will be extremely hard to live with, not to mention the costs which could be overwhelming for many carriers. In other words, there is a good chance that within the next two years we could find the automobile insurance business in an even more desperate situation than it is now."

DESPITE THIS ominous warning property-liability insurance trade associations, *Business Insurance* has learned, plan to go their own ways to test various plans to compensate accident victims that would lessen the current tide of criticism of the auto insurance industry. Proposed solutions have been widely discussed within the industry and among plaintiffs' lawyers who would be targets of provisions in the proposals designed to cut the cost of litigating auto accident cases.

Last month at a meeting here, trade associations representing the majority of auto insurers unveiled heretofore secret plans to the American Bar Association's special committee for reparation. At the meeting, industry representatives conceded that there is general agreement, within the insurance industry and without, that a major overhaul of the system of compensating auto victims is needed.

Solutions offered are:
• **KEETON-O'CONNELL PLAN**
A compulsory two-party (insurer and insured) insurance system replacing the present concept of fault or liability in auto accidents. In cases where damages for pain and suffering do not exceed \$5,000 and econom-

ic loss is less than \$10,000 the injured party would collect directly from his own insurance company. The Keeton-O'Connell proposal is called "mixed" because it preserves the present tort liability system in cases involving larger amounts. There would be supplemental coverages beyond the basic limits; assigned claims for certain noncovered accidents, and provisions for deduction from the basic protection payments for payments received from workmen's compensation, group or individual accident and health coverages, wage continuation, medical insurance and Medicare and Social Security benefits and other mandatory deductibles.

• **GUARANTEED BENEFITS:**
A scheme designed by the American Bar Association
Continued on page 22

Delta begins payroll plan

ATLANTA—Delta Airlines has begun a payroll deduction scheme to provide insurance coverage for its 16,500 employees.

The coverage, which will be voluntary and paid for entirely by employees, will be underwritten by Chubb & Son and administered by Parker and Co. out of its Atlanta office. Participating insurance companies will be the Federal, the Vigilant and the Sea.

Available coverages will include automobile, homeowner, jewelry, furs, boat, fine arts—"in fact anything handled by Chubb as a personal line."

There will be no minimum participation requirements explained a source at Chubb, "but in any case, the response has been so enthusiastic that Parker has had to hire two extra people to cope with all the inquiries."

The only eligibility requirement is one month service with Delta.

Delta published the payroll scheme by setting up regional meetings in New York, Chicago, Atlanta, San Francisco, New Orleans and Miami.

Every month, Delta will accumulate and collect the deductions, and remit them to Chubb on a printed computer tape. ■

State moves to seize union's welfare funds

NEW YORK—Evidence indicating Mafia control of pension and welfare funds of the Mason Tenders District Council has prompted the state insurance department to seize operations of the funds.

Assets of the two funds total about \$19,600,000. According to Richard Stewart, state insurance commissioner, continued operation of the funds by present trustees might result in a "financial hazard" for the beneficiaries.

In recent hearings conducted by the New York State investigation commission, it was said that members of the crime syndicate control locals of the Mason Tenders Union in this area. It

was also charged that officials of local brick mason unions have been accused of raking off payments to the union's pension and welfare funds.

In his application for a court order, Mr. Stewart said that his examiners had found in an examination begun 18 months ago that huge amounts had been paid out in fraudulent claims.

Insurance department examiners found what they termed "a picture of scandalous mismanagement, including gross deficiencies in record-keeping." They also reported that general fund expenses were found to be excessive and many union locals didn't contribute to the funds. ■

They can laugh about it now

BLOOMINGTON, Ill.—Copies of the latest press run of a road atlas used as a promotion piece by the State Farm Insurance Cos. included a full-page ad boosting automobile insurance.

The only trouble was that it was for Allstate Insurance Co., a fierce competitor of State Farm. Officials feared that the mistake, at least from State Farm's point of view, had been shipped out to regional offices.

Apparently some copies were shipped out but the error was quickly corrected, and one of the "collector's items," as they are now described, was presented to State Farm Board Chairman Adlai Rust as a "gag" gift.

'Philosophical' break blocks CGL revision

KANSAS CITY—"Philosophical differences" have reportedly blocked a committee of the American Society of Insurance Management from coming out with a buyers' version of the much criticized comprehensive general liability policy.

Instead, ASIM will publish a review of the CGL form, comparing the old policy against a new one adopted in Oct. 1966. The 140-page analysis will be available from ASIM in New York early next month for \$2.50 a copy.

Chairman of the committee was R. W. Bland, risk manager for Panhandle Eastern Pipeline Co. A frequent critic of the new CGL form, Mr. Bland has contended that the new form is an example of the insurance industry not recognizing the needs of buyers.

Griffin, assistant insurance manager, Carnation Co., Los Angeles; Larry McVey, corporate insurance coordinator, Nationwide Communications Inc., Columbus, O.; and Stefan Jalovich, senior insurance representative, Kaiser Aluminum & Chemical Corp., Oakland, Cal.

ACCORDING TO one ASIM insider, the committee decided to publish a comparison of the two forms because the committee "had difficulty coming up with one policy."

Mr. Bland denied this "difficulty", however, saying it would be useless to recommend a form that would not be adopted or that could only be obtained by big buyers, and not small buyers, who may need it more but who have less bargaining power with insurance carriers. ■

AT A MEETING of the American Management Assn. in May, Mr. Bland appealed to insurers to consider the inconvenience and cost to U.S. business in changing a standardized policy. He said that industry has spent an estimated \$50,000,000 to obtain a body of law to interpret the old form.

Mr. Bland told *Business Insurance* that although the committee was charged with coming up with a new form, "we made a decision that if we did, and no underwriter used it, we would have accomplished nothing."

"The book puts all buyers on notice," Mr. Bland stated, "and if a buyer can't live with the new form, he may wish to apply pressure on his broker and insurance company to seek changes."

Called a "Customers Analysis of the Comprehensive General Liability Policy," the book is the product of almost two years of study by the committee. Other members of the committee include Arlington Beck, insurance administrator, The Weatherhead Co., Cleveland; Russell A. Drake Jr., insurance manager, Allied Supermarkets Inc., Detroit; C. C.

Trimble voted Northern Cal. ASIM head

SAN FRANCISCO—A. J. Trimble, manager of insurance for FMC Corp., San Jose, has been elected president of the Northern California chapter of the American Society of Insurance Management.

Mr. Trimble will succeed R. W. ap Hugh, Foremost-McKesson Inc., insurance manager.

Other new officers include Mrs. Emily M. Schmitz, insurance coordinator for the Salvation Army, vp; Mrs. Carmela J. Fazio, Bank of America, secretary; and R. E. Roth, assistant treasurer, East Bay Municipal Utility District, treasurer.

John A. McEachern, insurance administrator for Hills Bros. Coffee Inc. and Ray W. Summers, manager of corporate insurance for Fibreboard Corp. were elected to two-year terms as directors. ■

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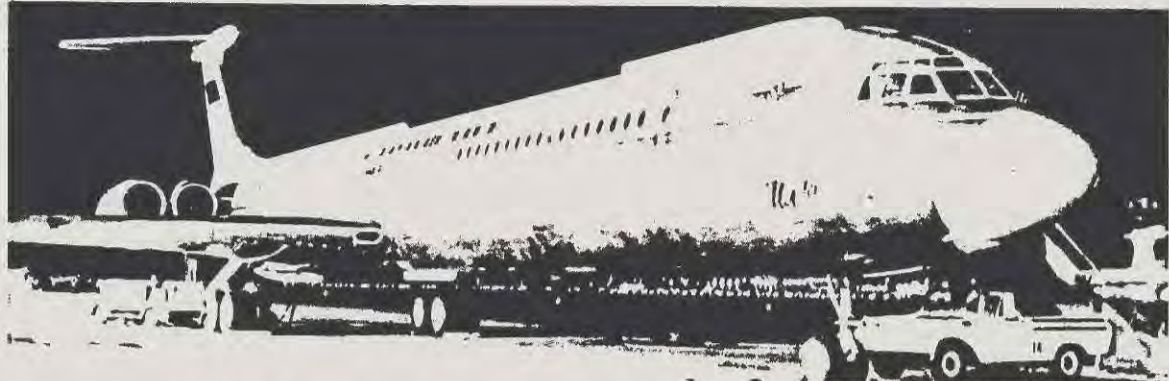
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The Russian airline Aeroflot self-insures, except for its passenger legal liability cover. The airline buys the \$75,000 per passenger cover required by the U.S. Aeroflot and Pan American World Airways exchanged direct flights between New York and Moscow earlier this month.

Wide World photo

Treasury's pension proposals puzzling, benefit managers say

NEW YORK—A recent Treasury proposal to set a rate of 30.34% instead of 37.5% as the integration level of private pension plans, has been described by benefit managers as "complicated," and "far worse than anything we ever had before."

A sore point with most persons questioned is the fact that although details of the proposed regulations have only been issued in the middle of this month "on a piecemeal basis," companies must submit their written comments to the IRS no later than August 24, 1968.

"More time is obviously needed to study such complicated proposals," was one comment. "Our tax attorney will have to study them deeply because they're so complex," and "These rules look as if the Treasury is becoming more fixed in its viewpoint," were others.

THE PROPOSED rules are a further method of determining if a pension plan discriminates in favor of officers, shareholders, supervisors or high-salaried employees. Generally, a plan isn't considered discriminatory if contributions or benefits bear a uniform relationship to the compensation of all employees.

The integration percentage of a private pension plan is the maximum rate which an employer may contribute on that portion of salary which exceeds the Social Security wage base.

In the past, benefits could be integrated at a uniform level of compensation for all employees, but the new proposed rules would substitute a scheduled level of integration for final pay plans. As a result it was explained the basis for deciding integration will vary, according to the year in which an employee reaches age 65.

ALTHOUGH EXISTING plans have until Jan. 1, 1971, to conform with the new rules, benefit managers and their tax attorneys are getting together quickly in an attempt to meet the government deadline. At the time *Business Insurance* went to press, the American Pension Conference had scheduled a New York conference, with the proposed integration rules as the main topic on the agenda.

The integration level has been

a subject of controversy since September, 1966, related the employe benefits manager of a New York headquartered company. At that time, the IRS suggested in an "announcement" that the level should be reduced to 24%. Comments were invited from industry all over the country.

The result was such an "overwhelmingly critical protest" from responsible business leaders, that the proposals were shelved, "but like all government ideas never dropped."

Two of the influential companies which wrote protesting letters were General Electric and Mobil Oil.

The problem this time, explained a pension expert, "is that in 1966 we were faced with an announcement, but these are definite scheduled proposals, and seem more nearly final."

SOME MANAGERS said that the proposals wouldn't affect them greatly, "since we don't discriminate in favor of higher paid employes anyway." The biggest problem in the future, will be the fact that since the Social Security base is always changing, this will affect the level at which integration starts.

"This only makes the administration of a pension plan even more a nightmare than it is now," was the final comment of one manager.

Mother wins O.K. to sue for 'fright, shock'

SAN FRANCISCO—A landmark decision by the California supreme court here allows a mother who sees her child run down by a car to sue the driver for the fright and shock she may have suffered.

Justice Mathew O. Tobriner, writing the opinion for the majority, contended, "There must be a remedy for every substantial wrong."

The decision rose from a 1964 Sacramento accident in which Mrs. Margery Dillon watched as her four-year-old daughter Erin was killed when struck by a car driven by David Legg.

Hospital will appeal giant liability verdict

NEW YORK—Mt. Sinai Hospital will appeal a \$500,000 judgment handed down by a Brooklyn jury in a case involving the brain damage of a premature baby.

The hospital is self-insured for such liability awards through a fund set up by the Federation of Jewish Philanthropies. If the liability award exceeds a certain sum (believed to be \$750,000) excess insurance through Lloyd's of London takes over.

BASIS FOR the appeal according to the law firm representing Mt. Sinai, was that the doctor who administered an injection of Demerol to the baby's mother,

causing brain damage to the premature infant, was absolved of negligence charges by the jury.

The child, who will be seven years old next month, is unable to speak and has the mentality of an 18-month-old child, although the girl is physically mature for her age.

The key issue in the case was the advisability of giving an injection of Demerol, a morphine substitute, to the mothers of premature babies. The use of the drug for full-term babies was not an issue.

Mt. Sinai's counsel asked the judge to set aside the jury's decision. Judge Harold P. McLoughlin reserved decision.

Aeroflot buys passenger liability cover for U.S.; self-insures rest

NEW YORK—Aeroflot, the Soviet airline which flew an Ilyushin 62 airliner into New York for the first time this month, has always been self-insured, except for passenger legal liability, *Business Insurance* has learned.

Pan American, which also began direct flights to Moscow this month flying a Bceing 707, needed no special insurance re-

quirements, explained a Pan Am source. "Our coverages are worldwide in any case," according to the source.

An underwriter at Lloyd's of London disclosed that the London insurance market has made "repeated offers" to reinsure the Russian state insurance company, Ingosstrakh, which underwrites Aeroflot, but to date the

Russians have declined.

The Russians do, on occasion, insure specific ferry flights of new aircraft, but this was not one of them, he continued. "The only coverage that has been placed in this market is the mandatory \$75,000 passenger liability limits that are required on all aircraft flying into the U.S."

Negro agents in Ohio discuss cancellations

DAYTON, O.—Negro insurance agents from Dayton, Cleveland, Columbus and Cincinnati met here with state insurance officials over fear of mass insurance cancellations in inner city areas.

"Our main concern is mass cancellations and refusals to renew in the inner city—the black homeland" said Sanders Stone, Dayton insurance executive.

Refusals by insurance compa-

N.Y. rules umbrella rates needn't be filed before policy issued

The New York state insurance department has decided that rates for umbrella liability insurance policies needn't be filed before the policy has been issued to commercial and industrial insureds.

The regulation establishes procedures and conditions to be met before such policies can be issued and requires the filing of the policy form and certain other information within 30 days after it's issued.

Insurers must maintain separate premium and loss statistics for umbrella coverages, the department said, sufficient to establish that the rates charged are "reasonable and adequate."

nies to renew expiring policies are also feared. "Failures to renew will run three to one over cancellations eventually," said Mr. Stone. "They are just as bad."

BASICALLY, cancellation and refusals to renew occur when insurance firms fear they will lose too much money because of riot damage claims.

Some states have filed suit against the companies seeking to prohibit them from cancelling coverage.

Other states are working to establish machinery to create assigned risk insurance pools similar to assigned risk automobile insurance.

Fred Smith deputy director of the Ohio department of insurance, said he expects Ohio "to make a move" toward a mandatory assigned risk plan to guarantee that insurance coverage will be available.

How soon Ohio takes such steps, he said, depends on what action is taken by a congressional conference committee now working on resolving differences between bills passed by the House and Senate.

The thrust of the bills would allow the federal government to underwrite a part of the major casualty losses in riot areas.

Huston, ASIM head, named to AMP post

HARRISBURG, Pa.—Kenneth R. Huston, president of the American Society of Insurance Management, has been named insurance manager of AMP Inc. He replaces Wayne Harrison, who has moved to General Telephone in New York.

Mr. Huston came to AMP from Consolidation Coal Co., Pittsburgh, where he served as the assistant insurance manager. He moved into the Consolidation insurance department in 1955 after working in the treasurer's and secretary's departments.

No one has been named to succeed Mr. Huston at Consolidation.

Mr. Harrison's new position is that of foreign insurance manager. He replaces Allen Golightly, who is now with a Vermont real estate agency in the commercial insurance department.

Mr. Harrison was with AMP Inc. for three years; prior to that he served as a senior insurance administrator in the casualty and property department of Alcoa.

As with Mr. Harrison, Mr. Huston will handle property, casualty and employe benefits for AMP.

N.J. says most out-of-state firms derelict on 3% surplus lines tax

By GEORGE YOUNG

TRENTON—Virtually all corporations with plants and factories located in New Jersey have been branded by the state's insurance department as being derelict in not paying a 3% tax on surplus lines premiums written with out-of-state insurers since 1960.

Ironically, a spot check showed that many corporations domiciled in New Jersey have been paying the tax all along and will not be subject to paying any back taxes.

It was corporate giants such as General Motors, Ford, Radio Corporation of America, and Standard Oil of New Jersey—none of which are domiciled in

the state—which were cited by Horace Bryant, deputy banking and insurance commissioner, as having bought insurance for their New Jersey facilities directly from out-of-state carriers without paying the tax.

"PREMIUMS PAID TO out-of-state carriers on facilities located in New Jersey are subject to the 3% tax regardless of where the company is domiciled," Mr. Bryant told *Business Insurance*. "Unpaid taxes will run into millions of dollars."

The issue stemmed from a case involving surplus lines coverage in which the state supreme court ordered Rosecliff Realty Co., operator of Palisades Amusement

Park, to pay \$15,000 for taxes owed the state for insurance premiums paid to Lloyd's of London from 1960 to 1963.

According to the decision, the insured is responsible for deducting the tax when paying the premium to the out-of-state insurance firm and to forward it directly to the state.

A BROKER WHO represented several New Jersey companies said the Rosecliff case should be taken to the U.S. Supreme Court.

Prior to the New Jersey decision, the question of a corporation's legal obligation to pay the 3% tax, enacted by the state in 1960, was left hanging because of a case involving Todd Shipyards

Co. and the state of Texas. It was held by the U.S. Supreme Court that a tax by the state on premiums paid by Todd was unconstitutional because the contract for insurance was made outside the state.

A spokesman for Rosecliff Realty said the Todd decision set a precedent which removed Rosecliff from any obligation to pay the New Jersey tax.

IN ITS DECISION the state supreme court in New Jersey interpreted the Texas case as not affecting New Jersey, and paved the way for collecting the premium tax over the last eight years.

E. Robert Levy, who represented the New Jersey state banking and insurance department in its suit against Rosecliff, said Rosecliff went directly to insurers in New York and London to buy property and liability insurance. At the same time he in-

dicated the state was hampered in its bid to collect the premiums because of the Todd case.

"The Rosecliff decision," said Mr. Levy, "will bring jurisdiction over nonadmitted insurers back to the state and set a national precedent for taxing premiums."

While the New Jersey case did not involve direct mail insurance solicitation, Mr. Levy pointed out it will make such activities subject to state control.

"MANY ACTS INVOLVING contracts with out-of-state insurers take place in the state where the corporation is domiciled," said Mr. Levy. He used such examples as underwriting inspections, claims adjustments or other acts where the insurer is required to perform specific functions in the home state to carry out the contract.

On a national level he pointed out the decision could start a trend for other states which vary in their methods of regulating the nonadmitted market.

Michigan, for example, passed a strict surplus lines act last year imposing a 3% tax on property insurance and 2% for all other coverages placed with out-of-state insurers.

RICHARD H. SHINN of the Michigan Insurance Bureau explained that the act restricts buyers from seeking coverage from outside insurers solely because of lower rates. The admitted market, he said, must be exhausted first.

Corporate buyers, according to Mr. Shinn, have not been restricted because of the act, and the state makes allowances for individual needs. "It appears to be working with the flexibility originally intended," he said.

Arkansas' efforts to pass legislation regulating out-of-state insurers failed when Lloyd's, which is admitted only in Kentucky and Illinois, and other carriers aligned against the measure. A proposed bill would have prohibited nonadmitted carriers from doing business in the state through fees or taxes.

IN THE ARKANSAS case the American Society of Insurance Management worked to have the proposed bill amended to include an industrial exemption to allow businesses to obtain certain coverages wherever they could find a market.

An industrial exemption was overlooked in New Jersey, said one buyer. Coverage not available in the state where the corporation is domiciled should be exempted from the out-of-state tax, he said.

This view was partially supported by a bill introduced in Pennsylvania, which would bar the sale of insurance within the state by insurers not licensed to do business in Pennsylvania. It specifically excludes insurance purchased by corporate buyers, who, it was explained, need to "shop" for the best rates.

Kemper succeeds Newcomb as board chairman of institutes

James S. Kemper Jr., president of the Kemper Insurance Group, has been elected chairman of the board of trustees of the American Institute for Property & Liability Underwriters and of the board of governors of the Insurance Institute of America, Bryn Mawr, Pa.

Mr. Kemper succeeds William E. Newcomb, chairman of Great American Insurance Co., who was honored for his two years of service as the institutes' board chairman.

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washington watch

Federal 'blitzkreig' on pensions of 'consumerism' gender, so far

WASHINGTON—An analysis of the past year's federal blitzkrieg on the private pension plan system reveals that most of the attacks have been of the "consumerism" gender, in line with the recent trend in this direction into almost every phase of the American corporate scene. That is, they are largely designed to right real or imagined wrongs in the actual terms of the plans to protect the interests of the beneficiaries and to insure fairness.

To illustrate this point, there are a host of bills bent on establishing minimum requirements for vesting, funding, reinsurance and disclosure, and the Treasury Department's newly-released rules on integration of private pension with Social Security.

Early this month another side of the federal government's interest in the private pension plan system emerged in the form of a report put out by a subcommittee of U.S. Rep. Wright Patman's (D., Tex.) powerful House banking and currency committee.

ENTITLED "Commercial Banks and Their Trust Activities: Emerging Influence on the American Economy," the two-volume, 1,946-page report deals extensively with the implications of the growing economic power being placed in the hands of banks by private pension plans.

To be sure, the report questions whether the rights of pension plan beneficiaries are being shifted way down on the list of priorities by banks acting as trustees for the plans. But, most of the legislative proposals made in this area are already under active consideration on Capitol Hill. One new proposal would prohibit any officer or director of a commercial bank, insurance company or other financial institution from serving on the board of directors of any corporation for which his company manages an employee benefit fund.

The report's chief concern, however, is the phenomenal amount of wealth controlled by banks—a situation which raises a host of fascinating questions in the area of private pension plans and which should be studied in detail by anyone involved in this field.

The problem of concentration of wealth in the U.S. is by no means a new one. But, it is certainly a growing one and the trust departments of commercial banks—and with them private pension plans—are right in the foreground of the controversy.

OF THE SLIGHTLY more than \$1 trillion in assets held by all institutional investors in the U.S. in 1967, \$607 billion (60%) was held by commercial banks. Of this, more than \$250 billion was held in bank trusts.

According to the report, the role of the trust department has been "accentuated" in the last several years by the "dramatic growth" of pension and other employee benefit fund accounts. Since 1955, pension fund assets have grown almost 400% from an estimated \$27.4 billion, to \$100 billion at the end of 1967. Bank trust departments manage more

than \$70 billion of this in pension fund assets. And, the report projects these trust departments will manage more than \$200 billion of the national total of \$285 billion in pension fund assets expected to be available by 1980.

A good measure of what all this means in raw economic power can be found in the increasing volume of stock trading done in recent years by pension funds, over two-thirds of whose assets are controlled by bank

trust departments.

In 1966, total common stock transactions of all pension funds amounted to \$9.6 billion, with purchases accounting for \$6.6 billion. In 1967, total common stock transactions of pension funds jumped dramatically to \$15 billion with purchases amounting to over \$10 billion. Pension fund net acquisitions of common stock during 1967 were \$5 billion, an increase of 38% over 1966 and more than three times as large as

any other investor group in 1967.

Where is all this leading? The committee report quotes the opinion of Columbia University law professor and author, A. A. Berle, who says, "As a result of this broad-scale buying of equities, the pension trusts are slowly 'chewing up' control of those corporations which offer the best means of equity investment. . . . If the pension trusts continue to take the good equities, as they have been doing, they may well have the prevailing control-stockholding position and the capacity to make it absolute. They will have, say, 20% to 30% of the good equity stocks and the capacity to increase that to 40% to 50%.

"We thus dimly discern the outline of a permanently concentrated group of officials, holding a paramount and virtually unchallenged power position over American industrial economy.

"A few hundred large pension

trusts and mutual fund managers would control, let us say, the hundred largest American industrial concerns. These would have the ultimate power to determine the management and to some extent influence the policy of the bulk of the business of America unless they abuse their power. They would do so, let us assume, primarily to fulfill the obligations of their funds. But, secondarily, they could not avoid deciding by whom and in what direction these businesses (which are essentially the supply line of the U.S.) shall be managed."

IF THIS is true—and apparently the committee feels that it is highly likely—what should be done?

A voluntary approach was taken in 1955 by General Motors. It established a policy whereby investments of each trustee in voting stocks of any one com-

Continued on page 20



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Slum fire cover cancellations prod state reactions; carriers retrench

CHICAGO—Mass cancellations of property coverage by insurance companies in urban ghetto areas earlier this month resulted in action along three fronts:

- At least six state regulatory bodies have ordered investigations or sought injunctions to prevent the cancellations;

- Increased pressure to set up assigned risk and property pools in several states; and

- Retrenchment by the companies from their announced intention to cancel policies.

State insurance departments in Kentucky, Michigan, New Jersey, Ohio, Illinois and Pennsylvania have called in compa-

nies and agent associations to discuss cancellation of property insurance in urban areas.

In addition, the Illinois insurance department has won an agreement from the Royal Globe Insurance Cos. in circuit court not to cancel any policies in Illinois to avert a court order to the same effect.

THE INSURANCE company was also asked to a hearing Aug. 1 before the insurance department. The company will be asked to explain why it is threatening to cancel policies during a 120-day moratorium period requested by the state.

Both houses of the Illinois leg-

islature have passed bills to provide a shared risk insurance pool, with federal backup for ghetto area property coverage.

In Delaware, the state insurance department has given insurance companies 30 days to come up with a plan for a pool or it would seek legislation to provide statutory assignment of high-risk properties.

The Pennsylvania insurance department reported that 25 insurance companies doing business in that state have agreed to make a special effort to provide property cover in high risk areas.

State insurance commissioner David O. Maxwell said that if the

state legislature fails to act on a bill for a mandatory pool, he would ask the companies for a voluntary pool. The Pennsylvania lower house has passed a bill that would set up a so-called "FAIR" plan.

IN NEW JERSEY, Gov. Richard Hughes and insurance and banking commissioner Charles R. Howell urged quick passage of a three-bill package that would extend the normal cancellation notice period from five to 30 days, would set a four-month moratorium on cancellation of municipal liability cover, and set up a mandatory risk-sharing plan for ghetto properties.

Both New Jersey legislative units have passed the pool bill, and Gov. Hughes is expected to sign it into law shortly.

Herbert S. Deneberg, consultant on insurance for the District of Columbia, has set up an interim property insurance plan

to help property owners obtain coverage. Under the plan, carriers have agreed not to deny coverage without a careful inspection of the property. There is also a bill pending that would set up a mandatory pool for the district.

Gov. Ronald Reagan is waiting to sign a bill that would guarantee basic property cover for all insurable dwellings in California.

IN VIRGINIA, the state corporation commission has approved the establishment of an insurance placement facility to assign policies to carriers and set up a reinsurance pool through which carriers would share a portion of the risks.

The Virginia General Assembly had approved legislation requiring that such a plan be formulated and put into effect by June 28.

Royal Globe has agreed to extend the effective date of cancellation of fire policies in Michigan and Kentucky. Both these states are also working to set up fire risk pools. In Michigan, the policies will be extended until Nov. 1; the Michigan pool would become effective Aug. 1.

In Kentucky, the extension is until Aug. 1, and the carrier said it would extend this even longer.

IRVIN DAGEN, executive director of the St. Louis Housing and Redevelopment Authority, told *Business Insurance* that Royal Globe will honor its three-year \$52,000,000 policy. The carrier had indicated that it would cancel this policy, and the authority had said it would fight the cancellation in the courts.

The owners of a six-story apartment house in New York City filed suit in federal court asking a court order for nine insurance companies to issue coverage "on the same basis and at the same rates as are afforded property located in areas predominantly occupied by white citizens."

The property is located on the city's west side. The building has 18 apartments and several stores.

A TOLEDO, O., businessman, who operates the Sherwood hotel and an office building in the Dorr-Detroit area, filed a protest with the Ohio state insurance director because the Royal Globe refused to renew policies which expired July 5.

An Ohio legislative committee is investigating two voluntary pool plans in Cleveland. The committee heard testimony that not enough carriers were willing to go into the so-called Cleveland Plan, and a spokesman for the state insurance department said success of plan in terms of numbers is "somewhat less than spectacular."

A spokesman for the second plan, called Fire Insurance Review Method, told the committee he was disappointed with the initial response. The state insurance department has said it will ask for a mandatory risk pool and reinsurance backing.

Kelley joins consultant

NEW YORK—Burton E. Kelley, formerly insurance manager for U.S. Plywood-Champion Papers, has joined Commonwealth Management Consultants as assistant to the vp, insurance and pensions division.

Mr. Kelley, who served as insurance head of U.S. Plywood since 1953, is a former president of the American Society of Insurance Management.



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BART seeks 5% lost at renewal

SAN FRANCISCO—Aug. 1 is the date for renewal of much of the insurance coverage of the Bay Area Rapid Transit System, created by a \$792,000,000 bond issue, and begun in October, 1964.

It is reported that on those coverages subject to renewal Aug. 1, BART lost about 10% of its London market but to date has been able to replace about half of that and is now attempting to find capacity to replace the remaining 5%.

The BART insurance program is handled by Transit Insurance Administrators, consisting of Leland J. Hoagland; Fred S. James & Co.; Kindler, Laucci & Day; Levison Insurance; Putnam, Knudsen & Weaver; John T. Schroder Insuror and Transwest Insurance Brokers.

Leland J. Hoagland reviewed

the program for the annual meeting here of the Society of Insurance Brokers.

Mr. Hoagland reported a large volume of relatively small claims from business and property owners claiming damage to buildings along the BART system.

In addition, Mr. Hoagland reported "a relatively few" larger liability losses, including one of \$100,000 paid after a steel girder had been dropped. Still pending is another claim estimated at \$150,000.

MOST OF THE liability coverage, Mr. Hoagland said, has been written on a retrospective basis, with substantial deductibles.

To date, a compressed air medical center has had about 17 decompression patients. None have

suffered seriously. As a result, the current rate for the tunnel work is \$33 per \$100 of payroll. The loss ratio to date has been slightly under 39%, approximately 30% below the state's construction industry as a whole.

This, Mr. Hoagland reported, is based on a volume of about \$5,000,000 in earned compensation premiums out of a projected \$28,000,000 for the entire project.

In the area of first party property losses, BART has had several. One section of the tube which will carry trains under San Francisco Bay sank prematurely.

It was recovered but the salvage operations cost \$580,000. A coffer dam broke at Lake Merritt in Oakland and cost another \$400,000. Premiums for property coverage, as a result, have been re-adjusted.

info for buyers

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

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

- A pamphlet outlining steps that can be taken by businessmen to protect their employes and property in times of civil disorder has been published by the American Insurance Association. "Riots" contains suggested loss prevention procedures for both large and small properties, including protection of store fronts and merchandise, provision for fire-fighting equipment, maintenance of vital book-keeping information and communications procedures. Single copies may be obtained free by writing the association at 85 John St., New York 10038.

- "You and Emergency Fire Control" is an illustrated employee educational folder released by the National Fire Protection Association. It urges employes to be prepared for any kind of emergency which might hit their business and advises giving priority to learning how to operate portable extinguishers and other fire fighting equipment and to knowing fire exit routes. Another booklet, "Here's Your Inspection 'Tool' Kit," provides a check list for ridding work areas of common but dangerous fire hazards. Sample copies of both are free by writing Mr. Deuel Richardson, Public Relations Mgr., National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110.

- "Accident Analysis and Remedial Action" is a worksheet designed to provide a method of classifying the various types of information about individual accident cases. The 30-page book stresses the importance of a well prepared accident investigation report. The book is for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 for 25¢.

- Based on a series of studies prepared by the Bureau of Labor Statistics "Private Pension Plan Benefits" deals primarily with the types and levels of benefits available for normal, disability, and early retirement. It also covers vesting provisions, supplementary pension plans and death benefits. The 104-page book is available for 55¢ from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

- The California State Psychological Association is currently conducting a comprehensive survey to evaluate the range of industry mental health provisions and to determine for its membership which of the 1,800 companies underwriting health benefits will reimburse qualified clinical psychologists for services. A copy of the results of the industry-wide survey is available for \$2.00 from John E. Armer & Associates, 4401 Wilshire Blvd., Los Angeles 90005.

- "Striking the Windshield" is an illustrated booklet which presents recent automobile accident investigations which indicate that the new (post-1965) laminated windshield markedly reduces the number and severity of facial lacerations caused by head-to-glass impact. The 80-page item is free by writing Libbey-Owens Ford Glass Co., Safety Glass Dept., 811 Madison Ave., Toledo, Ohio 43624.

- The sixth revision of "Basic Insurance Books" is offered by the Insurance Information Institute and the Library of the Insurance Society of New York, Inc. It is a selective bibliography of the property, liability, marine and surety insurance fields. The 20-page pamphlet includes title of the book, author, publisher, price and a brief description. Also included are lists of publications, reference books, periodicals and publishers' addresses. Copies may be obtained from the Insurance Information Institute, 110 William St., New York 10038. Bulk orders 6¢ each.

- With rising benefits and rates, a sound self-insurance program may be the only answer. An informative brochure, "A Self-insurance Program for Workmen's Compensation," is available free by writing to Assurers' Service, Inc., 22 Batterymarch St., Boston, Mass. 02109.

- Hewitt Information Service, Inc. has revised their edition of an employe handout entitled "How the Stock Market Affects Your Profit Sharing Account." The 12-page booklet answers questions on investment securities and their changeable prices through charts, graphs and analogies. Sample copies are free by writing Hewitt Information Service, Inc., Libertyville, Ill. 60048.

- The newly revised "Worldwide Directory" has been released by the American International Underwriters Agency, Inc. This booklet, valuable when handling overseas coverage, is free by writing the agency at 175 W. Jackson Blvd, Chicago 60604.

- "1967 Source Book of Health Insurance Data" reviews the continued growth of private health insurance in the United States. Four out of every five Americans are protected by one or more forms of private health insurance. Single copies of the 86-page booklet are available free by writing Mr. Fred DeLuca, Managing Director, Health Insurance Institute, 277 Park Ave., New York 10017.

- A new edition of the booklet "Summary of State Regulations and Taxes Affecting General Contractors" is available at 35¢ a copy to members of the American Insurance Association and at 60¢ to others. It is a useful tool for builders, contractors and lawyers. Write the Publication Division, American Insurance Assn., 85 John St., New York 10038.

- "Engineer Your Employe Benefit Dollar for Maximum Efficiency" is a 12-page brochure covering several cost areas of providing employe benefit programs. It emphasizes self-insurance for corporations with 200 or more employes and includes a typical case history. For a free copy write Executive & Employee Benefit Plans, Inc., 225 E. Broad St., Columbus, Ohio 43215.

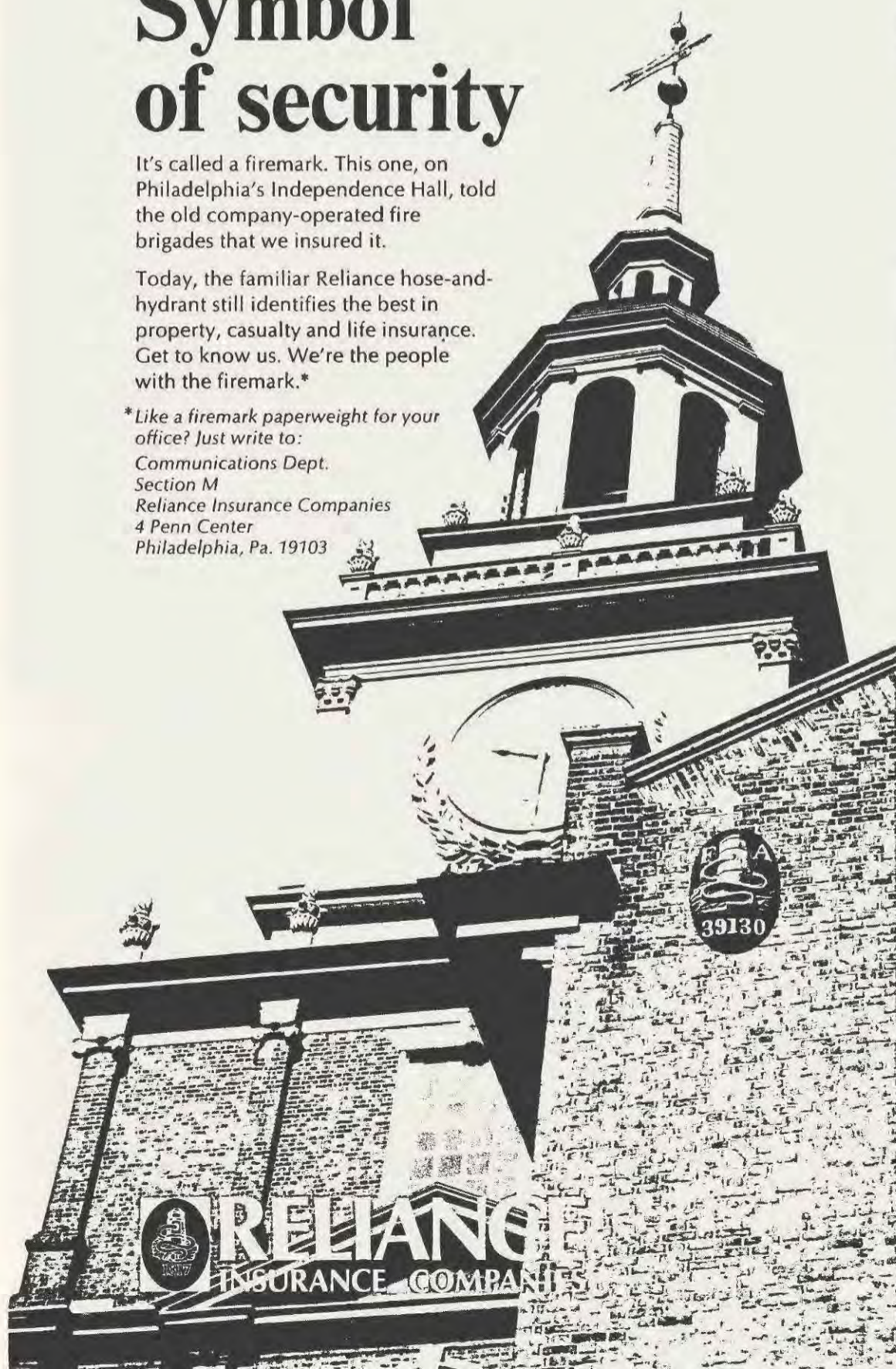
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• An illustrated, 27-page booklet, "Safe Schools," is available from the American Insurance Association for 20¢. It explains specific fire hazards in new and existing buildings and lists recommendations for their elimination. Details of necessary fire protection equipment are given and it is recommended that fire drills be conducted monthly. A program for accident prevention and rules for precautions in various types of classes are provided. Write the association at 85 John St., New York 10038.

• "The A B C's of Product Liability Loss Control" explains the need for accurate advertising and warranty, better quality control and coordination of customer complaint handling. The pamphlet is free by writing Miss Mary Biber, Adv. Dept., Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401.

• The Defense Research Institute has gone into its second printing of "Excessive Medical Treatment in Personal Injury Cases." Based on the writings of physicians in the fields of surgery, neuropsychiatry, neurosurgery and orthopedic surgery, the monograph examines the relationship of overtreatment of patients and their subsequent seeking of compensation through lawsuits in the courts. Copies are available for \$1 each, prepaid, upon request to the DRI at 1212 W. Wisconsin Ave., Milwaukee, Wis. 53233.

• The revised edition of "Code of Federal Regulations (Title 38—Pensions, Bonuses, and Veterans' Relief)" is available in paperback form by writing the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402. The book is 796 pages and is priced at \$2.25.

• "Notes on Old Age Benefits under Social Security Based on 1967 Amendments (\$7,800 Maximum Earnings)," is offered free by the consulting actuarial division of Alexander & Alexander, Inc. You may write them at 2 N. Riverside Plaza, Chicago 60606.

• "AFIA Guide Europe" features detailed information on insurance requirements and forms for 14 countries. The illustrated, 32-page booklet provides information of value to agents, brokers and insureds. It is free by writing the American Foreign Insurance Assn., 110 William St., New York 10038.

• The College of Insurance offers two brochures, one describing its one-year Multiple Line Certificate Program. The other details its nine professional certificate programs, which include: bonding, casualty insurance, insurance accounting, insurance adjusting, life insurance, multiple line insurance, ocean marine insurance, property insurance and reinsurance. Copies of the brochures may be obtained by writing the college at 150 William St., New York 10038.

• "What Every Executive Should Know about Pension, Profit Sharing and Deferred Compensation Plans" is offered free by the Lambert M. Huppeler Co. The booklet presents a step-by-step explanation of the plans and their implementation. You may write the company at 400 Park Ave. New York 10022.

Connecticut Blue Cross asks group rate increase for '69

HARTFORD—More than 1,000,000 Connecticut employees would be affected by a group rate boost request filed with the state insurance department by Connecticut Blue Cross.

The rate increase—first in nearly eight years—would go into effect next Jan. 1, according to J. F. Duplinsky, CBC president.

The jump, ranging from 33.2% to 57%, applies to all those under group planning but does not involve individual subscribers or the elderly covered by Blue Cross 65 which supplements Medicare.

Monthly rates requested:

• Comprehensive plan—Individuals from \$3.10 to \$4.13; family from \$7.30 to \$10.81.

• Extended plan—Individuals from \$3.70 to \$5.14; and for fami-

lies, family from \$8.70 to \$12.69.

• Extended plan plus semi-private rider—Individuals from \$5.35 to \$8.40; family from \$12.80 to \$19.94.

The requested increase is attributed to escalating hospital costs averaging some 11.3% since the last increase, with a 19.7% jump in 1967.

Mr. Duplinsky added: "For the year 1967, Blue Cross operating losses on group business exceeded \$3,700,000 and during the first quarter of 1968, operating losses on group business were \$1,800,000.

"While hospital employees' salaries account for the biggest increase in hospital charges," he continued, "sophisticated equipment and other costs of doing business have also had their impact."



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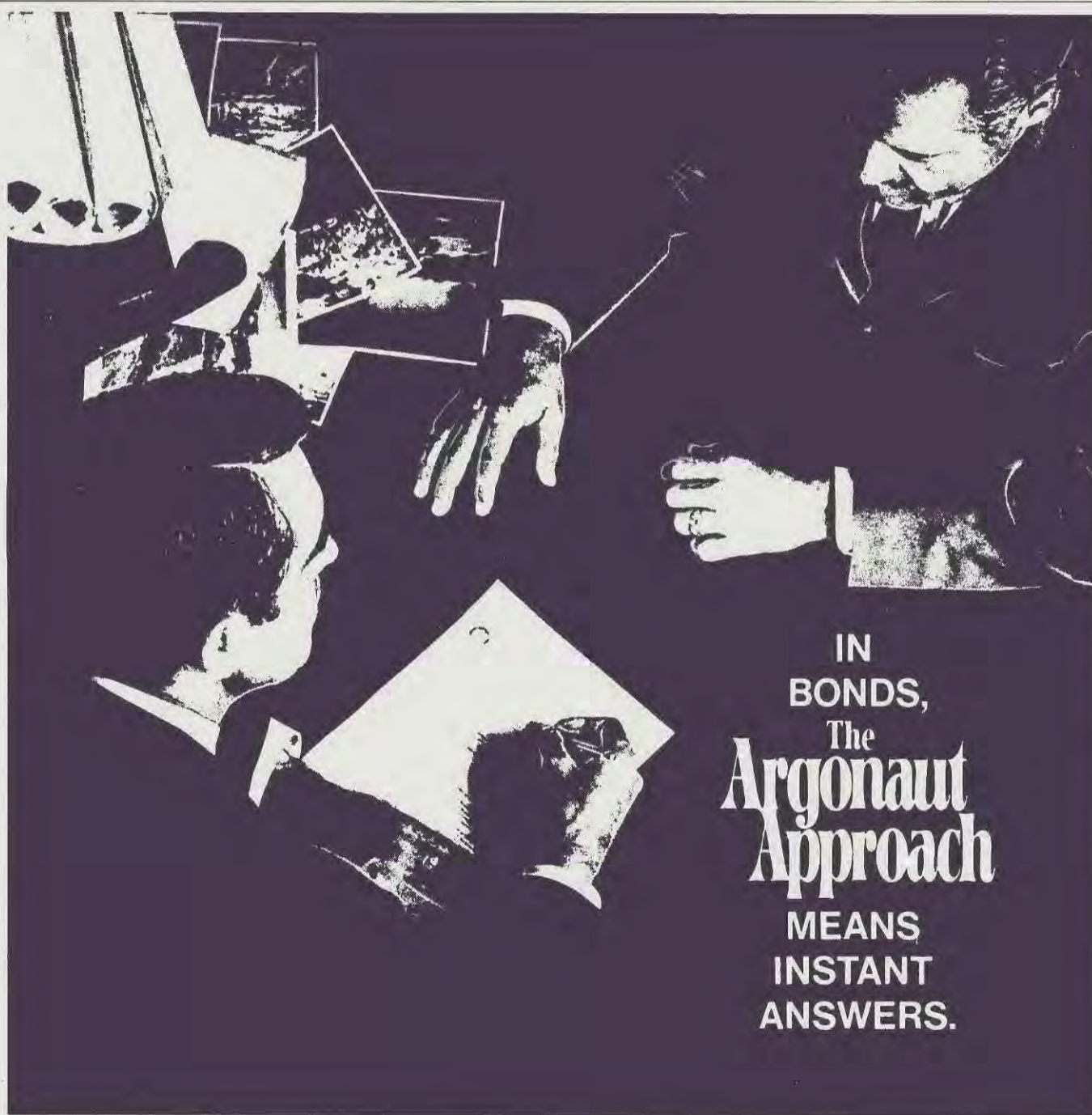
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opinions

Organized crime infiltrates the insurance industry

We've noticed a disquieting trend creeping into our news pages lately: Organized crime appears to be infiltrating insurance.

The New York state investigating committee recently turned up evidence that union officials of local mason unions were raking off payments to the union's pension and welfare funds—to the extent that the fund is in danger of going broke.

What's more, disability insurance for the unions was funneled through an agency with alleged Mafia connections.

Now we read a warning from Joseph A. Humphreys, head of the alien companies branch of the National Assn. of Insurance Commissioners, that organized crime is moving into the insurance business on an international scale.

It seems that Mafia-controlled operations have been setting up "paper" insurance firms in British commonwealth territories to sell surplus lines insurance to U.S. businessmen. After collecting premiums in a crash sales program in this country, Mr. Humphreys explained, the operators vanish with the money and leave a "ghost" company behind.

The insurance industry presents an inviting target for mobster infiltration, of course. It churns up billions of dollars in premiums every year, and the size and complexity of the business lends itself to all sorts of phony schemes.

What's more, the fact that the industry is regulated on a state basis means that there's no central source—such as the Federal Trade Commission—keeping tabs on any illicit activity.

The current tight insurance market hasn't helped matters. Businessmen are looking under rocks these days for additional capacity, and if an insurance salesman comes along offering excess lines at bargain rates, well, who's to blame businesses for falling prey?

About the only advice we can offer here is to make sure all your insurance policies are in order and are issued by reputable carriers. This procedure can be accomplished with the help of your auditors, who can write to the individual insurers involved to verify coverage.

But, it seems to us, the government can take action to minimize the possibility that union officials are not milking their own pension and welfare funds, although it appears that the government is reluctant to take such action.

The Labor Department's new pension bill, which would require minimum vesting, funding and reinsurance provisions, is written to go easy on multiemployer plans—such as the local mason unions whose officials have been accused of dipping into the till.

The insurance industry has enough problems without having to contend with mobster infiltration. We urge insurance managers, employe benefits men and the insurers to keep a watchful eye for such organized illegal activity.

And we also think it might be a good idea to campaign for closing up the loopholes in the pension legislation. The Justice Department, which is strongly backing anticrime legislation, might be able to bring the case to the Labor Department, which is sponsoring the pension measure.

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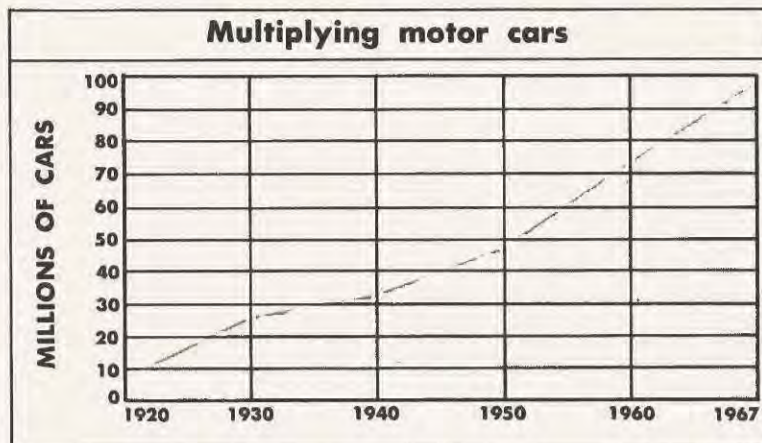
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Source: U.S. Department of Transportation, Bureau of Public Roads

Registrations of private cars, buses and trucks have skyrocketed in recent years to a high of 97,000,000 at the end of 1967. Total registrations have nearly doubled since 1950. This rapid rise in our vehicle population increases highway congestion, contributes to rising accident tolls and inevitably raises the cost of auto insurance for fleet and private operators. Auto insurance premiums, which were negligible in 1920 when there were 9,000,000 motor vehicles, now amount to \$10 billion annually.

Nit picking

A nit picking amendment to the Social Security law, which was described by the late Sen. Robert F. Kennedy as "punishing the poor," will cut off any pension benefits due to about 500 alien residents of the United States. Payments average about \$100 a month.

The amendment provides that pensions payable to foreigners who have retired to their native countries will be discontinued unless the recipient returns to this country once every 30 days, or else remains for 30 days every six months.

Of the estimated 500 persons affected by this requirement, some 120 live in Belgium, and another 170 live in Argentina. Such a trip to the U.S. would be expensive under any circumstances, and it's doubtful whether aged pensioners, often in ill health, could even consider it.

The restriction was approved by Congress in an attempt to pressure foreign governments with pension systems similar to U.S. Social Security to reciprocate under similar circumstances for Americans who have worked abroad and retired to the U.S.

These small monthly pensions will surely not bankrupt the Social Security system, but in individual cases could well mean the difference between real hardship and a modest standard of living.

In any case the foreign workers concerned paid in their contributions in trusting anticipation that the mighty U.S. government would stand by its pledge of paying them pensions.

Little episodes such as this lead one to wonder if the same selectivity will be applied in other cases, perhaps with as little justification.

A ray of hope peeks through

The move by Lloyd's of London and the U.S. reinsurance market to let state and federal reinsurance pools handle riot risks will hopefully have the effect of increasing the capacity of the reinsurance market.

This state of affairs can come none too soon, because while the big corporate buyers have so far been relatively untouched by the wave of cancellations which have hit "center city" areas, reinsurers are nevertheless taking a close look at the business of their primary insurers—with an eye to becoming much more choosy.

Specifically, many reinsurance firms are requiring a "letter of intent" from their customers stating that when "alternative indemnity" for riots and civil disorders becomes available from federal or state authorities, the insurance company "will take advantage of it unless otherwise mutually agreed."

In such a case, policies covering riots and civil disorder which are covered by the backup pools "will no longer be within the scope of the catastrophe coverage" for such perils.

Letters sent out by reinsurance brokers explaining the new exclusion stress that the letter of intent "is not designed to retract any cover but merely to pass the responsibility for riots and civil disorders to the federal or state authorities when such alternative protection becomes available."

While in the past reinsurers haven't actually allocated any charges, specifically to riots (a part of catastrophe coverage which includes windstorm, fire, explosions, earthquake), this action could make the balance of the catastrophe package more attractive to reinsurers, to the point where they'd be somewhat more liberal in taking on an expanded catastrophe line.

Estimated loss expectancies, which have been thrown into a state of disarray since the riots have swept the country, would once more be called into play, and the insurers and reinsurers would be faced with a more "rateable" situation.

letters

CPCU reading

To the Editor: The American Institute conducts the five-year program of study and national examinations which leads to the Chartered Property Casualty Underwriter (CPCU) professional insurance designation.

In order to strengthen this professional education, the Institute seeks permission to reprint material from the May 20 issue of *Business Insurance* in an anthology of readings on government of business and of insurance, one of the major subject areas for the third year of CPCU study.

Specifically we believe everyone who aspires to being an insurance professional should read: "N.J. merchants worry over ghetto riot cover."

Would you please let me know within the next two weeks under what conditions the Institute may reprint this material in this anthology distributed at cost to CPCU candidates sitting for the June 1969 national examinations?

George L. Head

Director of Educational Publications, American Institute for Property and Liability Underwriters Inc., Bryn Mawr, Pa.

Editor's note: Reprint permission granted.

'Tell it like it is'

To the Editor: Re gun control editorials: Please accept my vote of confidence for "telling it like it is." You will always receive my renewal subscription in the future if I am convinced the people responsible for your publication are permitted to think and to print freely what is important to America. What is important to America is important to its insurance men.

Insurance is the "glue" which helps hold a fractious America together. Please don't attempt to substitute baby food for glue.

Roy E. Niemoeller, Jr.

Vice President, Missouri Mercantile Inc., St. Louis

Correction, query

To the Editor: Readers will have a hard time finding a book by "Willis Roeker" (See "On the credibility of witnesses," page 12, July 1 *Business Insurance*). The author's name is Willis Rokes.

Also, regarding the article on page 18 of the July 1 issue, who is John Street and where is he?

Bob A. Hedges

Department of Insurance & Risk, Temple University, Philadelphia

Editor's note: John Street is a pseudonym for an observer of the contemporary business scene who is alive and well in New York City.

'Guns' reprint

To the Editor: We request permission to reprint your cover page article in the June 17th issue, titled "Guns must go!" and also your editorial comment below a table on "Crimes committed with firearms" appearing on page 12 in our house organ, "Great Centralizer."

I would appreciate hearing from you at your earliest convenience.

Harold S. Lang

Assistant Secretary, Great Central Insurance Co., Peoria, Ill.

Editor's note: Permission granted.

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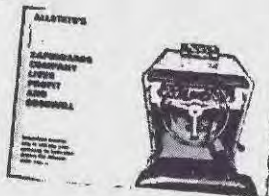
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Link Belt insurance buyer retires; recalls early days

CHICAGO—For almost 30 years, M. P. Anderson, assistant treasurer and secretary of Link Belt Co., has been responsible for his company's insurance program, both property-liability and employe benefits.

Tomorrow he will retire from the firm, move to a second home in Michigan and do some part time work with a local marina. In a preretirement interview with *Business Insurance*, he outlined the course of his career with Link Belt, which last year became a division of FMC Corp., San Jose, Cal.

Gary Hesser will be responsible for insurance in the Link Belt division as an assistant treasurer. In the past year Mr. Anderson and Mr. Hesser have worked to consolidate coverages with FMC

placement value, which Link Belt used on its properties.

"OUR CARRIER, Factory Mutual, took over the risk, with the understanding that we would work to improve conditions. The remodeling job took two years, and we got four or five times the coverage at less cost."

Mr. Anderson also recalled some of the provisions of early Link Belt employe benefits programs. The hospital benefits were \$5 a day for 30 days. Also, employes paid \$1.30 per \$1,000 life cover per month and Link Belt the remainder.

The union pension was funded on a pay-as-you-go basis, but after several years the Link Belt board set up a trustee plan for



M. F. Anderson

union employes, Mr. Anderson pointed out.

He said the union trustee plan had an unusual feature in that there are individual trusts for each union, but the company is allowed to commingle funds for better investment results.

In 1942, Link Belt adopted a retirement program for office

employees, and an insurance company handles those funds.

Mr. Anderson said he felt that all insurance matters for a corporation could best be handled in one department, although administered at various operating levels. The writing and negotiation of all policies, property, liability and employe benefits, should be at the corporate level, he said.

The retiring insurance buyer felt that one of the key problems facing corporate buyers is product liability exposure. He said that Link Belt has set up a special department that makes certain appropriate engineering warnings, designs and construction are made for each product. "This is necessary as a defensive measure," he said.

He said that Link Belt and other companies are urging various associations and professional groups to write or update product specifications.

ASIM to take survey

NEW YORK—The management consultant firm of Woodward & Foniller has been commissioned by the American Society of Insurance Management to survey the group's members.

The study will cover the responsibilities, authority, organization and compensation of risk managers. Since the last survey in 1958, it was noted, ASIM has increased in membership from 1,000 to 1,600 members in the U.S. and Canada.

The new study will also cover communications, publications, programs and other ASIM activities. It will be completed in time for presentation to the group's seventh annual conference here in February, 1969.

MR. ANDERSON joined Link Belt in 1921 as a clerk in the cashier's cage. He then became successively a cashier and credit manager, the assistant credit manager, general credit manager, general accountant or controller, assistant treasurer and assistant secretary. When he was named general accountant in 1939, Mr. Anderson assumed responsibility for insurance, employe benefits and pensions. He became secretary and assistant treasurer in 1965.

Mr. Anderson recalled one of the first insurance situations he was called on to deal with at Link Belt. The company had acquired Speeder Machinery Co. in 1939 to add to its product line.

In going out to Iowa to visit a plant, Mr. Anderson found that it was heated with a series of open stoves. During cold weather, employes worked near the stoves, which had open flames.

"Needless to say, the company found it difficult to find coverage," Mr. Anderson said. "I think there were 24 individual policies on the plant, the largest \$22,000. On top of that, it was insured at depreciated value, instead of re-



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Pro football leagues boost pensions 50%

NEW YORK—National Football League owners, in a last-minute settlement, have agreed to contribute \$2,816,000 for the players' pension fund, over a two-year period.

Most of the increase, it was explained, will be used for higher benefits, but some of it will be set aside for a joint study of the combined benefits considered necessary by both the NFL and the American Football League, which will merge in 1970.

"Coverages must be equal," explained an NFL spokesman, "because trading will begin at that time, and players mustn't lose by moving around."

Both retirement plans are ad-

ministered by Pension Planners of Baltimore Inc. The basic annuity portion for the NFL is underwritten by New England Mutual Life Insurance Co., Boston.

The AFL portion is with Mutual Benefit Life Insurance Co., Newark, N.J. The equity portion of both plans is managed by U.S. Trust Co., New York.

AFL owners have agreed to a 50% increase in their contributions, bringing projected pension benefits at age 65 to \$689 a month for a five-year player—up from \$500; \$1,132 for a ten-year player—up from \$755; and \$1,500 for a 15-year player—up from \$990.

These benefits are similar to benefits the NFL players had

been getting. However, under the new agreement benefits will be higher. For example, projected NFL pension for ten-year veterans at age 65 is now \$1,600 a month.

"The benefits may seem high," commented an NFL spokesman, "but you have to bear in mind the limited tenure of our players, most of whom fall in the ten-year category."

In addition to the increased pension benefits, active players in both leagues and dependents will have their medical coverages increased from \$15,000 up to \$50,000 a year.

The medical cover is written by Mutual Benefit Life. ■

Dallas storm loss

The insured loss from a hail-storm which hit Dallas and surrounding populated areas April 28 will total about \$13,500,000.

S.C. calls riot charge 'unfair discrimination'

COLUMBIA, S.C.—The South Carolina insurance department, citing "unfair discrimination," has denied an attempt by major insurance rating bureaus to levy a surcharge on riot coverage in the state.

The department, in an order against the proposals, said six rating bureaus, representing major insurance firms writing policies for individual businesses and for state and local governments, had failed to prove South Carolina could become a battleground of riots.

The department said the bureaus failed to prove that costly riots have or could occur in South Carolina and that propo-

sals that policyholders should pay for losses experienced elsewhere carried no weight.

"While social eruptions such as those encountered in Watts, Newark, Detroit, Baltimore and Washington may possibly occur here, in terms of probability, the reasonable probability is that they will not," the department order said.

The order, signed by the state's new insurance commissioner, Leroy Brandt, said losses due to disorders in South Carolina have been negligible.

The Insurance Rating Bureau and the Mutual Insurance Rating Bureau had asked approval of a 2% surcharge on policies for glass and theft insurance. The South Carolina Insurance Rating Bureau, the Multi-Line Insurance Rating Bureau and the Transportation Insurance Rating Bureau asked for a flat additional charge of \$1 a year on each homeowner policy.

THE DEPARTMENT SAID the reasons given by the bureaus for increasing premiums in South Carolina were "shot through with unfair discrimination."

The department said the bureaus argued during previous hearings that "we in South Carolina must share in and be guided by the gloomy forebodings pre-saged by Watts, Detroit, Newark, Baltimore and Washington." It called these arguments "easy rationalizations."

"It is not reasonable to predict that significant numbers of our people will be infected by the insane urge to burn, pillage and riot," the department said.

The agency said it had no right to approve a "private tax" such as proposed by the bureaus in the form of a rate hike and surcharge.

"If a judgment is to be made that those who are not exposed to riot and civil commotion must bear some part of the burden of those who are so exposed, such judgment can only be made by the elected representatives of the people in the General Assembly," the order said. ■

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Prudential Insurance Co., Newark, is marketing a new tax-deferred group variable annuity to public schools, hospitals and certain other nonprofit institutions. The annuities will be funded separately.



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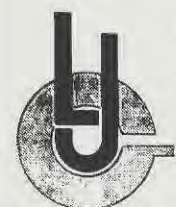
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First Dr. King riot damage claims filed against cities, more expected

CHICAGO—The first claims in what one insurance expert predicted will be an "avalanche" have been filed against municipalities across the U.S. for riot damage following the assassination of Dr. Martin Luther King Jr. last April. Such suits usually contend that the municipality was negligent in not preventing or quickly quelling rioters.

The claims, most of them from insurance companies with rights of subrogation after having paid their insured's claims, come at a time when the market for municipal general liability coverage without a riot exclusion has all but dried up. In addition, courts have been striking down the

"governmental immunity" doctrine with increasing frequency, Indiana and Arkansas being two more recent examples.

Governmental immunity laws also often include protection for charitable, nonprofit organizations, and these groups are being forced into buying comprehensive general liability coverage, many for the first time. For example in a recent newsletter to its lodges, the Moose have been urged to investigate CGL coverages.

AMONG THE FIRST cities to be hit is New York, with more than 170 claims totalling almost \$12,000,000 to date. The claims

were filed to meet a 90-day time limit from the time of the riots following the Dr. King murder. The city has 30 days to consider the claims and after that, the claimants may bring suit against the city.

Claims against the City of Baltimore have reached more than \$4,000,000. Pittsburgh, Memphis and Chicago are considered likely targets in the near future.

In Baltimore approximately 45 suits for reimbursement of uninsured losses have been filed, alleging that the riot damage resulted from a situation the city should have foreseen and prevented.

In addition to those states in which the court has struck down governmental immunity, there are 16 states with varying laws allowing recovery. They include Connecticut, Kansas, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Missouri, Montana, Nevada, New Hampshire, New Jersey, Pennsylvania, Rhode Island, North Carolina and Wisconsin.

The Illinois legislature repealed its governmental immunity statute last year, but some insurance men contend that the repeal is not effective. The Illinois supreme court has a test case pending on immunity.

ONE APPARENT exception to the trend of riot damage claims is Washington D.C. There have been no claims against the district, and although the District of Columbia is authorized to settle on "a moral basis" more than 40 cases have upheld the District's governmental immunity.

One source told *Business Insurance* that there is no move afoot by insurance companies to file any claims stemming from riot damage. One suit which named the district as a nominal defendant has been dismissed on a technicality and has not been reopened to date.

The City of Milwaukee has 225 claims asking \$608,000 as a result of the civil disturbances that rocked that city last July. The city's common council has rejected the claims, and it is expected that at least some of these will be tested in the courts.

There are also a number of court cases pending in other states, such as Michigan, Maryland and New Jersey, that are testing whether a governmental unit can be sued for riot loss. ■

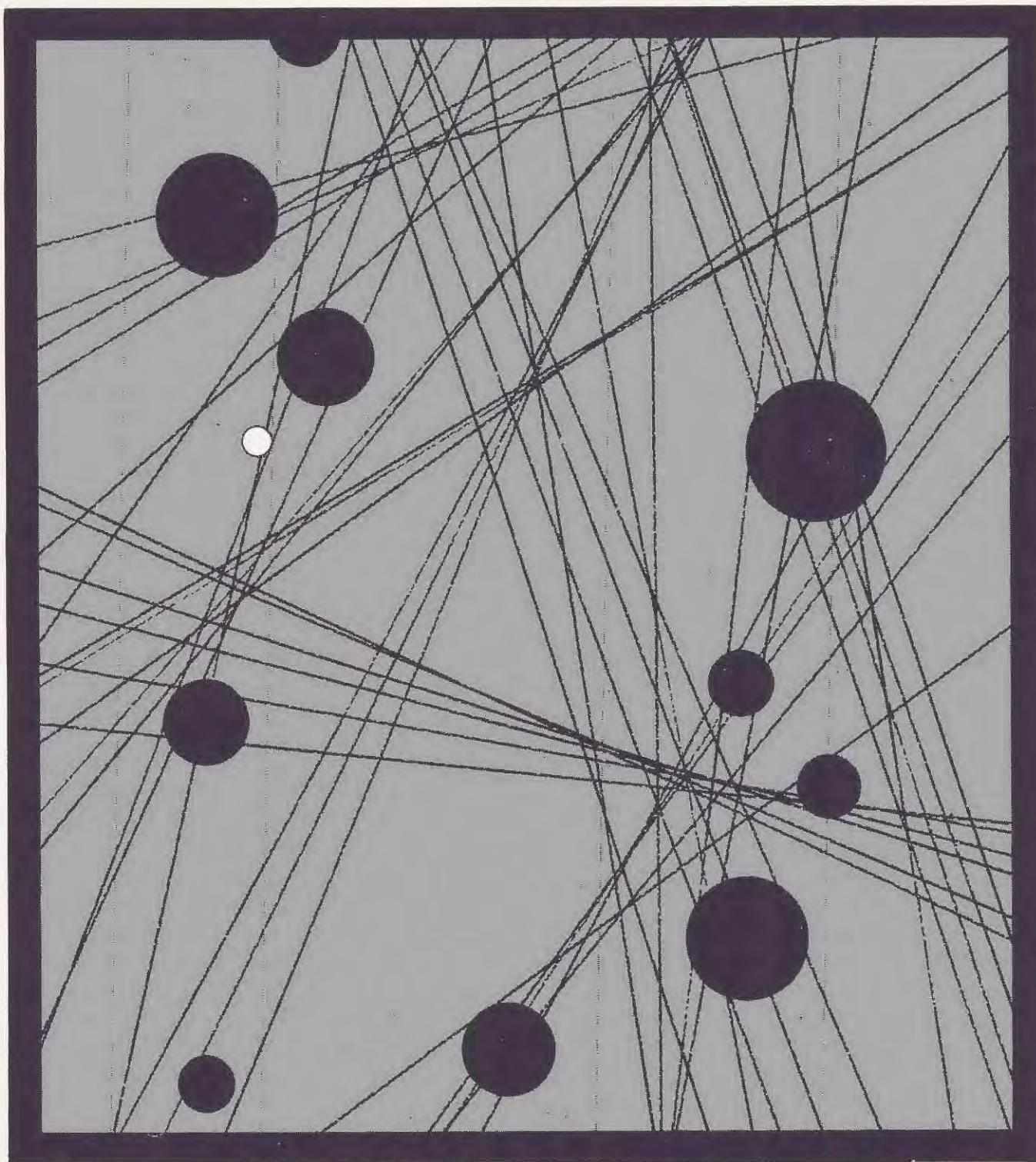
Settles with New Haven for \$162,500

NEW YORK—A 17-year-old boy who was struck by a New Haven freight train when he trespassed onto a railroad trestle has settled with the railroad for \$162,500.

The New Haven is self-insured for liability coverage.

The award was made to John Marinak, who has been confined to a wheelchair since the accident.

The railroad had contended it was not liable because the boy and three others were trespassers on the trestle when the train came around a bend and hit the youth. The other three boys jumped to safety. ■



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Mutual funds as fringe benefits

by Elliot Beier
pension profit sharing manager
Nuveen Corp., New York



Elliot Beier

term investment in mutual funds, a diversified equity portfolio, company stock and/or life insurance. Such plans are being developed on an Internal Revenue Service qualified basis even where the employer does not contribute. Nuveen Corp. is designing qualified pension plans funded solely by employe contributions for:

- Corporations—as a no-cost fringe benefit;
- Mutual funds—and life insurance companies entering the mutual fund field—to provide a mass market procedure to sell life insurance and mutual funds together.

The rush of life insurance companies to enter the mutual fund field has been explosive. Some life companies have set up their own mutual funds or acquired funds—including Connecticut General, U.S. Life, New England Mutual, Travelers, Occidental Life. Others have arranged joint life company—mutual fund sales activities, such as Bankers National Life of New Jersey with Scudder, Stevens & Clark and Eastern Life of New York with Oppenheimer and Dreyfus Funds.

OTHERS ARE GOING the broker-dealer route—selling a number of mutual funds—such as Insurance Co. of North America. Whichever route they take in entering the equities field, life insurance companies will be seeking new approaches to sales of life insurance and mutual funds in combination.

Many life companies have sold corporations on the idea of employe payroll deduction plans for purchase of life insurance. Many companies have employe stock purchase plans—often these are on a monthly investment plan arrangement. Some companies have employe payroll deduction plans investing in mutual funds. But these plans have generally attracted only 10% to 15% of employes due to their lack of a lower group purchase cost and because they do not offer a tax shelter.

One of the keys to setting up a qualified “employe pay only” plan is Revenue Ruling 66-205, according to Martin M. Bell, tax attorney, formerly with the pension trust branch of IRS’ tax rulings

division, now working with Nuveen Corp. on the design of these plans.

The ruling states that “the fact that contributions to an employe’s trust are only those of employes will not, of itself, preclude the qualification of the trust under section 401(a) of the Internal Revenue Code of 1954, so long as the trust forms part of a pension plan established and maintained by the employer and is not one established by the unilateral action of the employes to which the employer merely acquiesced. The essential requirements are that the plan be established and maintained by the employer and that all applicable requirements be met. If so, the fact that the employer does not contribute and is not committed to make up benefits will not prevent qualification.”

IF THE EMPLOYER DOES not contribute, what does it cost him? The only costs are the initial ones in sponsoring the design and qualification of the plan, and the nominal continuing costs for bookkeeping the payroll deductions. Other administrative costs—such as individual account record-keeping—should be provided by the life insurance company, mutual fund or both. For little or no cost, the employer is providing a valuable fringe benefit to employes, one that is particularly attractive to the executive and higher-salaried groups.

What are the advantages to the employes

First, the **tax shelter**—although the employe contributions are made after taxes, once the money is in the fund, interest, dividends, and gains compound tax-free until retirement or other separation from service. Reinvestment or earnings and gains before taxes substantially increase and may often double the accumulated fund available for distribution at retirement. In addition, the other advantages of a qualified plan are available such as long-term capital gains on a lump-sum distribution at retirement; and where the investment is company stock, no tax is paid on the gain until the stock is actually sold by the distributee.

Second, **group purchase**—since this is a qualified plan, the employe benefits from quantity discount on the purchase of

mutual funds, possible group or wholesale rates on life insurance, and lower acquisition costs for stock purchases than the individual monthly investment plan. In addition, the employe may benefit from greater investment opportunities, including diversification and sounder management through the group purchasing power.

Third, **the trust**—provides a closely supervised, creditor-free investment medium that should provide the employe with regular reports as to his investments. While life insurance does not offer the tax advantages of mutual funds, for example, it can provide immediate completion of the investment program if the employe should die or become disabled.

FOURTH, THE OVERALL advantages of a payroll deduction plan are a systematic saving and investment program for the employe and a favorable tax and purchase cost basis.

Since the “employe pay only” type of tax-sheltered retirement plan is so new, following are some areas for exploration:

(1) **Effective communication** will be necessary to make the plan successful. Employes will have to be shown graphically the advantages of investing their own savings through a qualified plan rather than through direct purchases of insurance, mutual funds, savings accounts, etc.

(2) **Existing pension or profit-sharing plan**—should the new plan be a separate one or form part of the basic retirement plan?

(3) **Employer contributions**—should the plan provide for optional employer contributions, possibly based on a profit-sharing formula? Or should the plan provide for nominal employer contributions such as ½% or 1% of payroll?

(4) **Employe contributions**—what is the maximum percentage of pay permissible? Should the plan set a minimum for required employe contributions, such as 1% to 6% of compensation, and allow additional voluntary contributions, say up to 10% in the aggregate?

(5) **IRS nondiscriminatory provisions**—suppose the plan was open to all or most employes, but the only participants in any one year were all among the stockholder—employes, supervisors or highly paid employes?

Because of the advantages to both employer and employe, more corporations should be setting up tax-sheltered payroll deduction plans. From the marketing end, life insurance companies and mutual funds should take a close look at the possibility for mass sales to “employe pay only” plans.

Fringe benefits are misnamed—they are no longer a “fringe” added on to wages or salary. Recent studies by the U.S. Chamber of Commerce, National Industrial Conference Board and others have shown that total fringe benefits of larger corporations amount to about 25% of payroll. And the trend is continuing upwards—it is highly likely that it will total 35% to 40% of payroll in the 1980’s.

Corporate employe benefit managers are seeking ways to meet the ever-growing demand of employes and executives for more benefits by providing these fringes at a low-cost or no-cost basis to the corporation. One result is the growth of contributory group medical, life and disability plans. Another is the increasing popularity of employe savings plans where the cost to the corporation may be 1% or 2% of payroll versus 5% to 10% in basic pension or profit-sharing plan.

PROCEDURES ARE NOW BEING developed to tax-shelter employe payroll deduction plans—whose purpose is long-

Telling the Benefit Story

The case for employe report meetings

by Howard L. Peck, partner
Hewitt Associates
Libertyville, Ill.

A few weeks ago in this space, we talked about computerized status reports, their applications and advantages in keeping the employe apprised of his personal benefit situation.

There is another kind of reporting that supplements, but does not replace, the status report. That is the employe group meeting—conducted annually or more frequently—that reports on the functioning of the benefit program, how it is working, what it is doing for people, the recent changes and developments. In

short, it provides the background that helps the employe understand how the figures on his status report came to be. Such meetings, using imaginative visuals, demonstrate dramatically the value of the benefit program and show that it is not just a series of complicated legal documents but a set of active, functioning tools that work to help employes and their families.

Why meetings? It costs a lot of money to have people attend meetings on company time. It affects production, disrupts routines. Wouldn’t it be just as effective to distribute a printed report that people could read on their own time?

The answer appears to be “No.” Many work groups include substantial numbers

of people for whom reading is a chore. And even those with good reading skills benefit from the graphic, colorful, sight-and-sound presentation.

One Wisconsin company that has held employe meetings annually for more than 15 years reports that it is unable to detect any adverse effect on production during the week of the meetings. Apparently the stimulation of the communication offsets the lost time.

Some companies devote the entire report meeting to a review of benefit and compensation developments during the year, while others combine the benefit story with a report on the performance of the business.

One of the latter is the Andrew Jer-

gens Co., maker of the famous Jergens lotion and other toiletries, cosmetics, and soaps. The idea of employe report meetings originated at Jergens in 1961 when the company made its first public offering of common stock, and the figures on sales, profits, and dividends became public knowledge instead of a family secret.

MOST OF JERGENS’ employes are at three factory locations in Ohio, California and New Jersey, with others, including the sales force, widely scattered across the country. A few weeks after the close of the fiscal year, each Jergens employe attends a report meeting to hear and see a presentation on “the state of
Continued on following page

perspective

Continued from preceding page

the business and the state of your benefits."

The meetings, conducted by trained leaders, are small—generally not more than 15 to 25 people—to permit and encourage discussion and questions. They last about an hour each. At the conclusion of a meeting the employe receives a printed report that summarizes the highlights of the presentation and reproduces some of the art employed in the presentation visuals. (Jergens employes also receive—by mail at home—the regular stockholders' report, but this special report covers the operations from the employe viewpoint and avoids the accountants' language of the bigger document.)

The content of the report presentation reflects employe interests as revealed by questions and comments in earlier meetings and by the results of a questionnaire.

THE THEME OF THE 1967 report was "It was a very good year." The meetings opened with a recorded message from President F. G. Meeker, which was followed by a filmstrip presentation. The company story covered such subjects as sales, profits, dividends, distribution of the income dollar, new products, new facilities, and major personnel changes. Then came the report on the benefit program: benefits paid in each of the major categories of retirement, death, disability,



Howard L. Peck

and medical care; trends in benefit costs; a review of the changes and improvements in benefits announced during the past year. Then followed a detailed section on the performance of the profit sharing plan. This profit sharing report

covered the company contribution, how it was allocated, employe contributions, the investment performance and how it compared with those of previous years, the highlights of the investment portfolio, the growth of a typical account, etc.

JERGENS' OFFICIALS feel that the section on investment performance is an especially important segment of the report, since many employes have no other exposure to the world of stocks and bonds than that afforded by the profit-sharing plan. By putting each year's market performance into perspective with those of previous years, they constantly remind the employe of the effect of market changes on his account. These annual reminders apparently have helped in cushioning the emotional effect of market declines, like the one in 1966. The amount of employe grumbling about the investment policy is minimal.

Past meetings have included dramatic case histories of the way the Jergens program of benefits has functioned to help employes and their families meet the financial crises resulting from catastrophic illnesses and disabilities.

Employe response, as evidenced by comments in the meetings and replies to questionnaires, has been excellent. The meeting leaders huddle with company officials at the conclusion of the annual sessions to record reactions and com-

ments for management consideration and guidance in planning future reports.

William T. Moeller, Jergens' vice president and secretary, who directs the company's benefit program, says, "These meetings and the accompanying printed reports probably are the single most effective employe communication device we use. Not only do we present a substantial amount of information of lively interest to the employes, but at the same time, we demonstrate a concern for the employe and his information needs. In addition, we get substantial and valuable feedback from employes during and after the meetings."

Howard L. Peck is a partner in the firm of Hewitt Associates, Libertyville, Ill., independent consulting actuaries, analysts, and advisers on pensions, profit sharing and employe benefits. He heads the firm's activities in employe communication. Mr. Peck, who has been active in the advertising and communication field since his graduation from Grinnell College, spent several years handling investment securities advertising. He was a program director for Wisconsin radio stations and for 15 years was an account executive and later vice president of a Milwaukee advertising agency. Since joining Hewitt Associates in 1952, Mr. Peck has handled employe communication projects for many companies in various parts of the country.

Reflections on cash flow and industry jitters

by Jack B. Nimble

(The following column is, by the author's own admission "one reaction of one guy" to the current state of the insurance business. It's written by a business risks underwriter of a major insurer, who prefers to work under a nom de plume.)

Multiple choice

Insurance is:

- Protection
- a real buy—stockholder
- a mystery—policyholder
- Cash flow

Now that the national political scene has become somewhat sidetracked, we're free to turn our attention to the increasing phenomenon of the merger. I suppose it's really been going on for some time, but we figured it was part of some evolutionary process that only affected the outside world of commerce and industry.

In the few cases of small insurance company takeovers we felt for one reason or another that the little guy just couldn't cut the mustard. The sellout figured to be all tied up in the perennial bug-a-boo of expense ratios. But cash flow—that's really something else.

For years the insurance companies have relied on their ability to make good investments as the offsetting balance to expected underwriting losses. After all, what other business do you know where they're ready to do handsprings if they should happen to turn a profit?

But I didn't notice any financial folks totting insurance stocks to any degree throughout those years. So having cash flow just isn't enough. But now enter the new people who will use the insurer's bag of gold for leverage—which I guess is another way of saying that they know how to get the most for their money.

What's all this got to do with insurance? Some say it doesn't mean too much except as possibly a sign that now more active interests will be overseeing things, expecting responsive change where results tend to drive underwriting losses above the mark where financial leverage begins to fade. These changes will probably be more dynamic and boat-rocking than in past years.

Coincidentally, there's a new round of government interest in the insurance business. They threaten, without saying

so, to take over certain classes that are related to social legislation and the welfare of the complaining public. Such conditions combine to demand more flexible response in both product and marketing in order to keep up the cash flow.

Many senior insurance men are now coming on the public scene with forceful and intelligent arguments establishing the youth of the private insurance sector. Maybe they've been reluctant before, and it's probably just another case of necessity forcing a strong defense—but the important point is that these matters are getting aired. For the first time even insurance men are getting a spotlighted platform and are making good use of the opportunity.

AS IF FINANCIAL maneuvers, government hearings and poor public image aren't enough, a London-bred catastrophe consciousness has weakened the strongest historic support of the U.S. insurance industry. The London picture is undoubtedly complex, but its effects here are fairly simple and depressing. Not only does London represent a faith that bad years will be weathered, but it

provides the worldwide center for attracting risk capacity.

When London gets more than a little balky and pulls in its horns, our market suffers both psychologically and practically. Severe single losses well beyond accepted limits have made London aware of the trend toward concentrated values and high contingency risk exposures. The London underwriters also have a greater respect for total loss potentials, and they may even be wondering what trends may be uncovered during this coming year.

The most apparent result of all these dismal factors is a tough case of the jitters. If that's too strong, at least we all see a lack of confidence in the old standards—both in form and rate and also in the attitude of the ultimate customer.

The marketplace lacks competitive activity, although not in the sense of price, but in the sense of a positive approach to problems both old and new and of new fields of coverage and new merchandising techniques.

There's been an abrupt reversal from a buyer's market to a seller's market, but the ill effects of the long buyer's market have done some permanent damage, and we now need to regain a proper balance. We need to restore confidence and capacity, giving the seller a fighting chance to see a profit. We need to provide a good value to make the buyer more interested in the products.

It all sounds like a pretty tall order, but if we have to get up and go to work every day we might as well undertake it.

Setback for pensions of 'salaried only' employes

by Joseph S. Robinson
Member of the New York Bar

We previously reported a tax court ruling, allowing a company to get the tax deductible benefits of a pension plan which it installed just for its salaried employes. Normally, Internal Revenue puts up a fight on these restricted plans because the tax rules forbid pensions which favor officers and high-paid employes. But under the facts in the case in

which the pension was upheld, the plan actually covered six out of 14 employes or 43% of company personnel; and of the six covered, only three could be considered as top echelon.

While there is nothing in the rules to disqualify a pension merely because it is limited to salaried workers, Internal Revenue takes the position that this limitation usually results in unlawful discrimination when the plan unfolds in operation. In other words, it will tend to favor

officers and management.

In a recent tax clash, the Treasury once again turned thumbs down on a pension for "salaried only" employes. This time the tax court agreed. Here are the facts:

A construction company put in a pension for its salaried employes, consisting of three officers—two of whom were also stockholders. The company also employed about a dozen hourly-paid permanent union workers. The company felt that

since the latter varied in number and were hired under a union negotiated contract, it should not be compelled to include the union men in the plan.

But the tax court brushed this reasoning aside saying—"The fact that petitioner's business needs are such that it requires no more than three non-union salaried employes, plus a permanent work force of union laborers, is of little consequence and certainly is not conclusive." *Fetz, Inc. 50 T. C. No. 35.*

Case histories used to outline Ward protection plan benefits

By LOUIS HAUGH

CHICAGO—Tom Shaw suffers a heart attack and Miss Mary Ware has her appendix removed.

Mr. Shaw spends 20 days in a hospital plus additional time recuperating and has a medical bill of \$1,465. Miss Ware's seven days in a hospital cost \$420.

Montgomery Ward & Co. uses the misfortunes of these two fictional characters to illustrate its protection and security program for employees. The plan includes life, accidental death and dismemberment, weekly disability, comprehensive health care, retirement benefits and employee savings programs. In addition, Ward has a payroll deduction plan for employee auto coverage.

in California, New Jersey, New York and Rhode Island have different schedules to meet variations in state law.

Disability benefits for management and supervisory employees are four weeks at full salary with up to one year of service and up to 13 weeks full pay and 13 weeks half pay with ten years or more service.

The long term disability pays a monthly benefit of 50% of salary up to a \$1,500 maximum per month. The long term disability is payable after the salary continuance is exhausted, up to age 65.

Premium for salary continuance and long-term disability is 38.1¢ per \$100 base salary.

Medical expenses are divided into A, B and C classifications. Employees receive 80% of class A, which includes in-patient fees during confinement of 18 hours or more, x-rays, lab tests, operating room and drugs.

FOR EXAMPLE, the plan would pay 80% or \$352 for the hospital room and \$160 of the remainder of Tom Shaw's expenses. For Mary Ware, the payment would be \$40 for the operating room, \$24 for drugs and \$160 for the surgeon.

Class B and C charges are subject to a \$50 deductible with class B at an 80% rate and class C at 50%. For Mr. Shaw, the class B payments included \$540 for pri-

vate nurses, drugs outside the hospital and \$25 for ambulance. Class C benefits were \$150 for doctor's visits in the hospital and at home.

The Equitable Life Assurance Society writes Ward's accidental, death and dismemberment, weekly disability benefits, comprehensive health care and some life policies. Equitable has been with Ward since 1912 when it wrote the first group policy.

Other carriers include the Insurance Co. of North America, for long-term disability for management and supervisory employees; Continental National American Group, for voluntary employee auto coverage; and Montgomery Ward Life Insurance Co., a Ward subsidiary, 80% of the group life outside Illinois and all the group life cover in Illinois.

In the last part of this series, *Business Insurance* will outline the Ward retirement and savings

plan, how it introduced major changes in the plan and some of the company's philosophy on employee benefits.

Newark franchise taxes from insurers up 2.7%

Newark, N.J., is collecting \$3,935,330 in franchise taxes in 1968 from the 19 insurance companies which are headquartered in the city. The total, the highest since 1948, was 2.7% above the 1967 collection total.

Most of the gain came from an increase of 3.5% in the taxes of Prudential Insurance Co. to \$3,170,976. Mutual Benefit Life, Newark's other big life insurer, is paying the city \$331,463, up 3.35%.

Franchise taxes, which are in addition to any real estate or personal property taxes, are based on premium business recorded by the insurers in New Jersey.

Second of three parts

The Ward health care benefit would pay \$1,102 of Mr. Shaw's medical bill and \$336 of Miss Ware's. Ward, in 1912, was the first major company in the U.S. to provide employees group life insurance as part of an economic benefit plan. The plan has been revised several times since its initiation.

THE CURRENT program, which underwent a major revision in 1963, includes a life insurance schedule, based on earnings, ranging from \$500 up to \$100,000. This compares with an average of \$2,000 cover in 1912.

In 1912, Ward had 2,900 employees; it has 103,000 currently.

Employee contributions for life insurance range from 63¢ per week and \$2.03 per week for dependents for \$500 coverage up to \$14.27 and \$15.56 per week for \$100,000.

An employee paid \$10,000 to \$12,000 annually may purchase \$20,000 of group life at \$3.30 per week or \$4.75 per week to include dependents.

Eligibility for group life is first day of employment for management or supervisory employees, and the first day of the fourth calendar month following employment for an hourly wage employee. Employees must sign up within 31 days after becoming eligible.

IN JANUARY, 1967, Ward dropped a separate schedule for female employees which had limited the amount of life cover available to them to \$5,000.

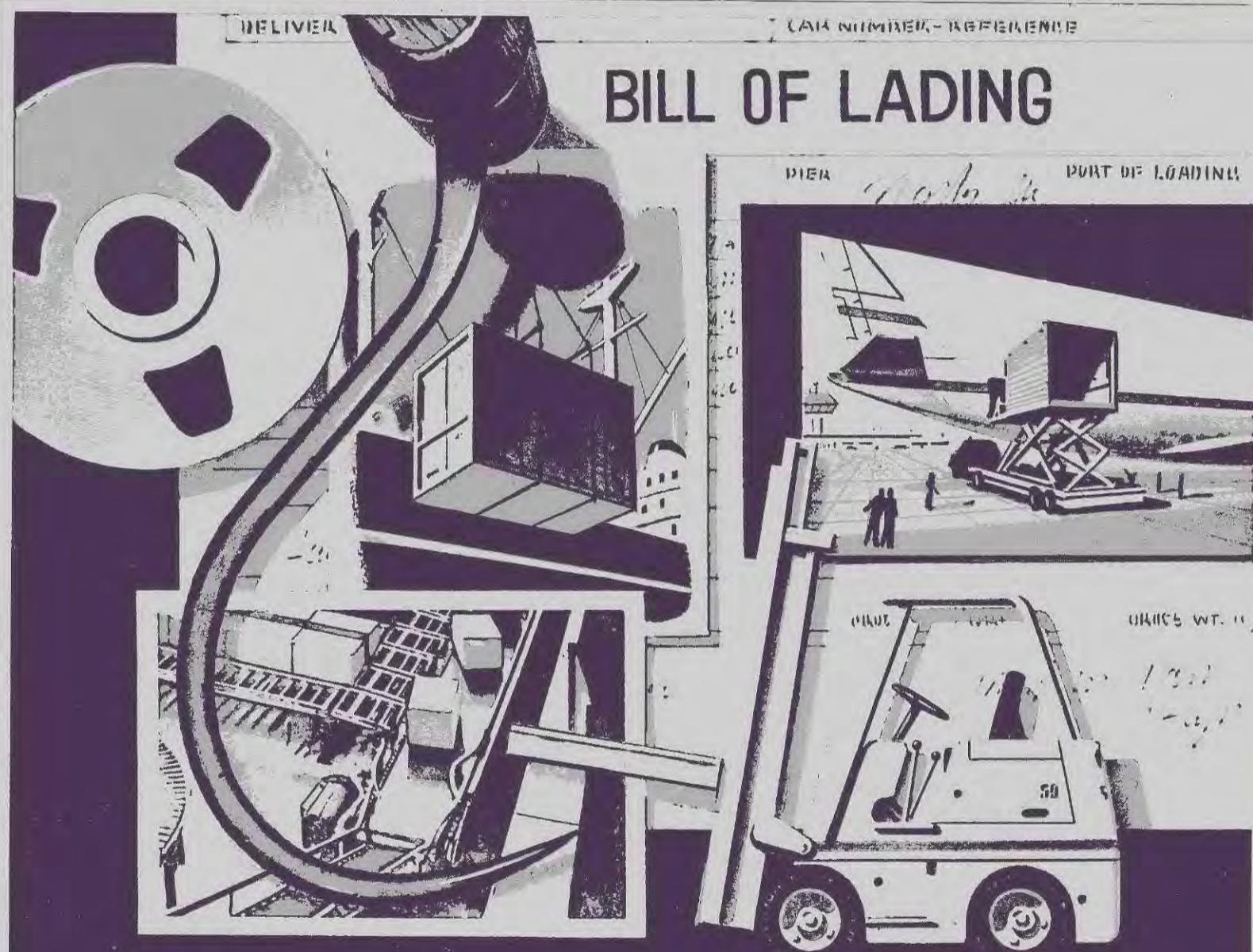
Dependent coverage includes an employee's wife, unmarried children under age 19 or to age 25 if a full-time student. A female employee may not insure her husband, but may include her children.

The group life and hospital-surgical coverages may be converted to individual policies within 31 days after leaving the company. Coverage must have been in effect for at least three months before evidence of insurability can be waived.

Accidental death and dismemberment coverage is equal to the amount of the employee's group life, up to a maximum for \$5,000.

Weekly disability benefits, in general, for wage employees, are two-thirds pay for four weeks with less than five years service and one week at two-thirds pay for each year of continuous service after five years.

THE MAXIMUM weekly disability benefit is \$75, with a pregnancy exclusion. Ward employees



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Insurers write some liability cover for Connecticut cities reluctantly

By ALLEN M. WIDEM

HARTFORD—Connecticut cities seeking to renew general liability insurance policies must pay more and agree to acceptance of less riot coverage.

This was the offer extended by Connecticut insurance company representatives at a meeting of the Connecticut conference of mayors.

The compromise riot insurance offer will apply to more than 90 cities and towns presently covered by general liability policies.

Under order from state insurance commissioner William R. Cotter, Aetna Fire and Casualty offered riot coverage to New Bri-

tain, Norwalk and Stamford, but at 30% to 40% higher rates for coverage limited to \$500,000.

AT THE SAME TIME, William O. Bailey, Aetna vp, said, "If given our preference, we would not write this kind of coverage at all."

Also attending the session here were officers of Aetna Life and Casualty, Travelers Insurance Cos., Aetna Insurance Cos., Hartford Insurance Group, Security Insurance Co. and National Fire Insurance Co.

At issue is coverage protecting a city from major complaints arising from "riots, civil commotion and mob action."

Mr. Cotter had asked the insurance companies involved to continue coverage after learning that they had violated an agreement to offer coverage at higher rates by failing to offer coverage at all.

Mr. Bailey remarked, "We cannot continue open end liability coverage. The largest part of the possible millions of dollars lost to riots should be borne by society through its tax structure."

THERE WAS an agreement by insurance men at the meeting that a state law requiring Connecticut cities to cover riot damage should be abolished.

Mr. Bailey and other representatives offered the cities and towns a \$500,000 limit with room for negotiations on rates.

He said that the alternative proposal is a reasonable one. The riots following the murder of Dr. Martin Luther King Jr., "put us in a brand new ball game."

"If widespread riots again occur under our present coverage it could break us. However, I do hope we are looking at a ghost."

Mr. Bailey voiced criticism of Mr. Cotter's proposal that companies pool their coverage of cities. He called the suggestion unrealistic and contended that the companies involved would still be risking more than they could afford to lose.

"IT'S NOT the burden that we carry in your city that bothers us, it's the burden that we carry on all cities across the U.S. that bothers us. No pool is going to solve that," he said.

Mr. Cotter insisted that for the time being, however, the companies have an obligation to cover the cities. "I think there's a definite responsibility on the part of the companies to write this insurance," he told the assembled mayors. "They've been taking premiums from you all these years, now things are getting rough and they want to run."

Hartford Mayor Ann Uccello defended the insurance industry. "I think the insurance companies are trying to tell it as it is—as the popular expression goes today," she commented.

State attorney general Robert K. Killian remarked that he considered it rather curious that the insurance companies all seemed to be reaching the same conclusions simultaneously.

"THE INDUSTRY," he said, "ought to consider the fact that they all began to sweat together on this proposition."

Mr. Cotter said, "It seems as though if there were mass cancellations, the companies could almost be acting in concert."

But the assembled company representatives protested the suggestion of collusion, contending that if writing extensive riot insurance were good business, it would be written.

Spokesmen said, moreover, that they were dissuaded from doing so not by losses sustained in the past but by the possibility of immense losses by the individual insurance companies in the future.

Conn. mayor says riot cover 'unacceptable'

NORWALK, Conn.—The mayor of this downstate city, Frank N. Zullo, has requested another meeting with state-based insurance companies to discuss what he labels "unacceptable" limitations on municipal riot insurance.

(See story on mayors' conference above.)

Mr. Zullo has written the insurance companies in his capacity as conference president, commenting that present-day offered riot insurance is inadequate for some of the larger cities. The proposed premiums are excessive, he added.

MR. ZULLO told William O. Bailey, Aetna Life and Casualty vp, that the plan submitted to the municipal chief executives is unacceptable for the long range.

Mr. Zullo asked for an early meeting between representatives of the mayors' group and insurance companies.

He cited these three alternatives:

- Channeling all municipal insurance in Connecticut into a mutual insurance program operated by the state.
- Creating a combined risk or assigned-risk pool.
- Repealing the state law allowing negligence suits against municipalities for injuries and property damage incurred during riots.

Livingstone elected

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Florida college's new liability policy covers risks anywhere in the world

ST. PETERSBURG, Fla.—As education has become big business in the U.S., and as college campuses have faced a host of new problems, from student violence to student representation abroad, insurance has assumed a new and more vital role for colleges and universities.

This point was emphasized by John D. Phillips, vp for business affairs at Florida Presbyterian College, a young and growing school which graduated its first class in 1964.

With an extensive insurance portfolio prepared for the privately-owned college by Upham Insurance Agency, St. Petersburg Beach, Mr. Phillips declared: "We certainly don't endorse one insurance company over another, but leave it up to our counsellors to see that we have the best possible coverage."

THOMAS HUCKNALL, Upham agent who has prepared the college's package, pointed out that because of the rapid growth and expansion, the coverage has had to be upgraded each year to meet new demands.

Most significant among policies held by Florida Presbyterian, which incidentally has developed a new approach to curriculum now capturing national attention, is a recently acquired \$1,000,000 all-risk, worldwide policy underwritten by Continental Casualty.

Mr. Phillips feels this coverage is significant because it protects the college against a wide variety of possible liability claims in every part of the world. Under its special "independent study" programs, Florida Presbyterian has students active either periodically or on a year's study basis in such countries as Germany, Japan, France, Spain, Israel, Mexico, India, Jamaica and even Hong Kong. In addition, many of the students will be working in other areas of the U.S.

"This blanket policy covers just about everything that could happen and which might be held against Florida Presbyterian," Mr. Phillips explained.

He pointed out that while the policy doesn't cover students themselves when engaged in study projects elsewhere (this is covered under another policy), it does cover the college's liability for incidents which might occur with the students serving as representatives of the college.

Mr. Phillips did not refer directly to violence which has occurred on a number of campuses during the past year, but he indicated the policy covers any potential "incidents" at Florida Presbyterian—hopefully ones which will never occur.

"WITH STUDENTS spread around the world," Mr. Phillips explained, "there is no way to know what sort of liability we might have or what kind of incidents might involve us. The all-risk, worldwide policy handles that for us."

Florida Presbyterian's insurance is perhaps more extensive than many state-operated facilities because none of the publicly-owned immunity exists.

A blanket policy covering buildings and contents with a ceiling of \$7,600,000 is underwritten by Maryland Casualty. This policy has a \$10,000 deductible.

General liability, again under-

written by Maryland Casualty, has limits of \$500,000 for each occurrence and \$250,000 for an individual.

AUTOMOBILE LIABILITY for the college's 20 motor drive vehicles (including a tractor) has limits of \$100,000 and \$300,000, also written by Maryland Casualty.

Bond for "faithful performance of duty" and against loss of valuable papers is written by Maryland Casualty for \$50,000 coverage.

A blanket "accidental death of employees" policy for \$100,000 is written by Insurance Co. of North America. This covers employees while on duty for the col-

lege anywhere, but not when on private business.

The college is proud of its safety factor, which last year brought a reduction of 12% in premiums to Maryland Casualty on the workmen's compensation policy.

A THEFT POLICY covering valuable papers, records and securities is carried by Cherokee Insurance Co.

With frequent use of fine arts items, chiefly art works, borrowed from other sources for temporary campus display, the college has a "fine arts floater" written by Cherokee with a limit of \$10,000.

A general property floater,

covering college property both on and off campus, is written by Fireman's Fund for \$900,000.

The standard "boiler and machinery" policy written by Maryland Casualty has provision for \$100 deductible. The college points out that this policy applies for the most part to air conditioning equipment.

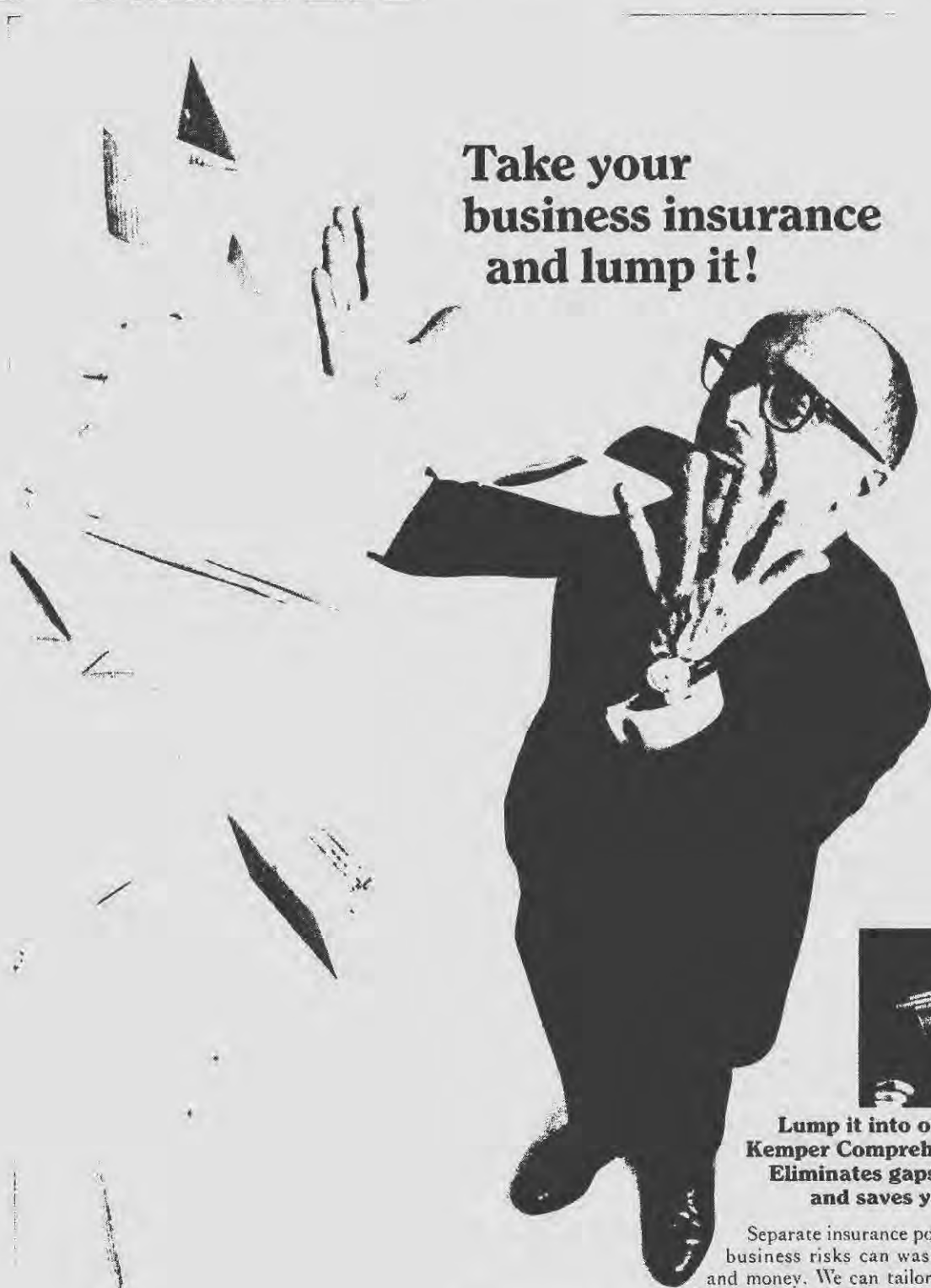
MR. PHILLIPS, who has instituted a business-industry oriented program of "management by objectives," declared the college has what it believes to be one of the top employe benefit programs in addition to the broad insurance portfolio.

The college pays in full an annuity program through Teachers Insurance & Annuity Assn., with major medical coverage provided under the same plan. The major medical is designed to cover medical costs not included in the Blue Cross-Blue Shield plan also provided for employes.

Life insurance also is provided for employes, with amounts depending on salary and work classifications. Aetna underwrites another policy to provide payments to employes in event of disability.

ON TOP OF THESE plans, the college recently entered a program with Farmers National Life to provide health and accident insurance for students, and this applies to the students wherever in the world they may be studying.

This extensive insurance coverage at Florida Presbyterian represents a "business approach to business problems." Mr. Phillips utilizes business-industry techniques to college management and has created written formulas and methods for the disposition of business affairs, with objectives spelled out and time controls built into each phase.



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Steamfitters local 562 self-insures life cover

ST. LOUIS—Steamfitters local 562 is using a \$9,000,000 reserve in its welfare and education fund to underwrite group life benefits for members, wives and dependents.

The local cancelled its coverage with First United Life Insurance Co., Gary, Ind. and Meramec-Lathrop Insurance Agency, Clayton, Mo. The U.S. Department of Justice had begun looking into the First United-steamfitters arrangement shortly after it was initiated in 1963 because of alleged rebates from the company to various union members.

A federal grand jury in Gary indicted four persons, including two union members, on charges of conspiracy and kickbacks. A

Clayton attorney, also involved, was killed in Miami a year ago. That murder is still unsolved.

THE NEW PROGRAM will save the union \$382,000 annually in premiums, a union spokesman said. Trustees of the welfare fund who set up the self-insurance program included Lawrence L. Callanan, union business manager, John L. Lawler, his assistant, and Edward Steska, union business agent.

Several members of the Mechanical Contractors Assn. here are also trustees. The association negotiates contracts with the steamfitters.

The fund will be directed by Edward Henry, a union member

and one of those indicted by the federal grand jury.

THE GOVERNMENT alleged that there was a conspiracy to rebate cash and First United stock in return for the union insurance account. Federal law prohibits the offering or accepting of anything of value to influence the operation of an employee benefit program.

The new program was set up by John B. LaMacchia & Associates, a consulting actuary firm. Union members each get \$7,000 of life insurance with double indemnity. Wives and dependents have \$2,000 coverage each, and the benefit is continued for five years if a union member dies.

Others indicted by the federal grand jury include John E. King, operator of the now defunct Meramec-Lathrop; William E. Long, president of First United; and Hugh J. Gorham, union member.

Wash Watch...

Continued from page 5

pany do not exceed three-fourths of 1% of any company's voting stock. A higher percentage limitation of this type of investment may be established, under the GM policy, by any trustee or trustees, with the approval of the coordinator, provided that the investments of the combined trust funds in the voting stocks of any one company do not exceed 5% of such company's voting stock.

THIS POLICY IS, of course, hardly likely to spread throughout industry. So what does the committee propose? The following points, all of which deserve careful and thorough examination by anyone connected with employee benefits.

- Disclosure annually by each bank trustee of aggregate holdings in all capacities of stock registered with the Securities and Exchange Commission (SEC).

- Disclosure annually by all pension funds of the contents of their portfolios.

- Prohibition of any bank trust department holding more than 10% of any class of stock of any corporation required to be registered with the SEC.

- Prohibition of any employee benefit fund working or voting any class of stock of the corporation creating the fund.

- Disclosure of all proxy vot-

ing by bank trust departments of all securities registered with SEC.

- Consideration of passage of a federal statute similar in concept to the Federal Indenture Act of 1939 to be applied to all trust instruments. (That act established certain requirements which must be included in all trust indentures.)

- Consideration of creating a regulatory agency to assume jurisdiction over certain aspects of the employee benefit plans.

- Prohibition of any officer or director of a commercial bank or other financial institution serving as an officer or director of any other corporation where the financial institution holds in the aggregate more than 5% of any class of stock of that corporation.

- Careful study and determination by the Department of Justice as to whether the trust business should be considered as a separate line of commerce from commercial banking for purposes of the antitrust laws, and whether antitrust action should be brought against banks.

- Determination by the Department of Justice, bank supervisory agencies, the Civil Aeronautics Board, the Interstate Commerce Commission, the SEC, the Federal Communications Commission and other government agencies as to whether the data and other information presented in this study warrant legal action or proposals for amendments to present law.

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Twelve exhibitors sue electrical firm for McCormick Place fire

CHICAGO—Twelve houseware manufacturers and exhibitors at the National Housewares Show at the time of the McCormick Place fire have filed a \$10,000,000 damage suit charging Fishbach & Moore Inc. with negligence and faulty wiring causing the fire.

The suit asks the court to act as receiver for distribution to the 1,200 other exhibitors who suffered losses in the fire Jan. 16, 1967.

Fishbach & Moore Inc., New York, and its Chicago subsidiary Fishbach & Moore Electrical Contracting Inc., are understood to have several layers of insurance coverage.

IN A PREPARED statement, W. P. Gutekanst, Fishbach & Moore president, told *Business Insurance*, "With respect to the suit filed on July 15, 1968, we are advised by our engineers, attorneys and outside technical consultants, that Fishbach & Moore Electrical Contracting Inc. has no responsibility for the McCormick Place fire. All electrical work was performed by qualified electricians and accepted by all of the appropriate authorities. We will vigorously oppose this suit since we are convinced that any charges against us cannot be supported.

"Though we have not yet seen the suit and cannot comment on the specific language, we have participated in the investigations that have been made by many interested parties over the last 18 months. We have cooperated with investigating bodies and have made a thorough study of all the available facts. Our studies convince us that there is no merit to any claims against our firm."

The suit charges 32 separate violations of state electrical codes.

It states: "The defendants were otherwise willfully and consciously indifferent to the consequences of their actions and the rights of exhibitors and others lawfully at McCormick Place."

THE SUIT says the 12 plaintiffs lost \$212,000 in the fire and recovered \$140,000 from their insurance companies. It estimates that the other exhibitors lost \$10,000,000.

The suit contends that the fire began under an exhibit booth on the main floor of the main exhibition hall. The defendants, the suit says, ran a 30-foot long extension cord from a main electrical box in a fan room, through a hole chopped in a wall between the fan room and the main exhibition hall.

The cord was then placed under an exhibit booth with an electrical distribution box from which four more extension cords were extended, the suit contends.

It says the fire started when one of these four cords burst into flames.

Among code violations, the suit charges, are improperly ground-

ed distribution box, running electric lines across dock doors without protection and running a cord through an unprotected hole in the wall.

A STUDY of the McCormick Place fire by a blue ribbon panel appointed by Chicago Mayor Richard Daley and published by the Illinois Inspection and Rating Bureau, avoided naming any "fault bearer," stating, "No single factor stands out as a major cause of the McCormick Place fire.

"The fire . . . originated at approximately 2:05 a.m. on or near the floor at the center-rear of booth 178-80-82 [an exhibit of the H&P Home Furnishings Co.].

Janitors and other personnel unsuccessfully attempted to extinguish the small initial fire before transmitting the alarm.

"Reports of eyewitnesses who fought the fire initially indicate it started in the vicinity of the booth electrical wiring connections. The specific cause of the fire could not be fully determined, due to the extent of fire damage. Although the committee was refused permission, after many efforts, to interview electricians who wired the booth in question, our investigation did reveal the temporary wiring methods used for booth connections contained many departures from recognized good practice. Thus the possibility of an electrical cause is strong."

Insurance industry sources predicted to *Business Insurance* that there will almost certainly be additional suits filed and that the Metropolitan Fair and Exhibition Authority, operators of

the hall, may be brought into the suit.

The sources also said that the suit came about after extensive negotiations with the contracting firm for a settlement broke down.

IN A RELATED matter, the MFEA has a provisional agreement with the Factory Insurance Assn. and Kemper Insurance Group to take the builders risk coverage on the new McCormick Place. The exact amount of the policy has not yet been determined.

It is understood that both insurance companies and Prof. Rolf Jensen, head of the fire prevention department at Illinois Institute of Technology and chairman of the blue-ribbon panel that investigated the fire, have drawn up extensive proposals for fire safety equipment to be included in the construction of the new building. ■



Winkelman named buyer at Beloit Corp.

BELOIT, Wis.—Earl L. Winkelman, 40, has been named assistant counsel and insurance manager for Beloit Corp., a heavy equipment manufacturer here. He begins Aug. 1.

Mr. Winkelman was insurance manager for Louis Allis Co., Milwaukee, a division of Litton Industries Inc.

The newly-established position at Beloit is in the legal department, and Mr. Winkelman will be responsible for property, liability and employe benefit coverages. A successor has not been named at Louis Allis. It is understood that the insurance function there will be delegated to several other departments.

Mr. Winkelman is a lawyer and has a CPCU designation. ■

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Michigan credit union starts 1st 'pure' group auto cover in U.S.

LANSING, Mich.—The nation's first "pure" group auto insurance program—in which rates are based on the experience of a particular group of employees—has been approved for 300 employees of the Michigan Credit Union League.

Under the plan all of the credit union's employees are eligible to participate in the program, which guarantees rates for three years and dividends payable on the basis of experience.

Arbitrary cancellations by the insurer for the group cover, Farm Bureau Insurance Group, are forbidden.

Because of administrative savings, premiums will be about 15% less, the credit union estimates. A policy which would normally cost \$130 a year will cost

the employer \$52 and the employee \$60, a total of \$112.

The Michigan Credit Union League represents 1,500,000 credit union members in the state and owns a life insurance company. ■

J&H enters merger pact

RICHMOND, Va.—Johnson & Higgins has merged with Baker-Cockrell here to form Johnson & Higgins of Virginia.

The Richmond insurance brokerage firm, whose major national account is A. H. Robbins Inc., is described as a middle-sized broker with good local standing and ability. ■

Schism . . .

Continued from page 1

ican Mutual Insurance Alliance after six years of study by its automobile insurance committee provides accident victims benefits for medical care costs, basic disability, loss of services, supplemental disability, medical impairment and survivor's loss to a limit of \$5,000 for medical benefits and up to \$7,500 for other losses without deduction for payment from other sources. In general application, the plan would compensate all victims, except for flagrant violators. Guaranteed benefits attempts to preserve the present system of liability insurance by permitting accident victims to choose whether to accept assured benefits or to go to court to seek greater compensation. The Alliance, with 120 member-companies, is testing the guaranteed benefits plan in certain counties in New York and Illinois with certain limitations to comply with legal requirements.

• **NO-FAULT COMPULSORY INSURANCE:** A program akin to the Keeton-O'Connell plan advanced by the American Insurance Association, an association of 167 capital stock property-liability insurers, would completely eliminate the tort liability system and require every motorist to take out "first-party" insurance that would cover medical payments and loss of wages for the driver and his passengers and any liability the driver might incur involving pedestrians. It would eliminate payments for pain and suffering and the cost of litigating auto accident cases, thereby saving money for insureds. Courts would serve only to arbitrate disputes that arise under the system. The AIA's proposal, which has not yet been announced or tested, would require that losses be shifted to first-party insurers and would not permit "crossover" suits in which the occupants of one vehicle sue the driver of another.

• **INVERSE LIABILITY:** A plan tentatively proposed and possibly to be tested by the National Association of Indepen-

dent Insurers, a group of 350 member-companies including some of the nation's largest automobile insurers, would offer all accident victims scheduled benefits to cover medical expenses and wage loss. It would permit them to retain their right to sue those responsible for accidents. Recoveries in tort actions would be offset by amounts paid by the victims' first-party auto insurers as well as by payments under workmen's compensation, Social Security, medical insurance and the like. The plan is similar to one advocated publicly by the Insurance Co. of North America which describes its proposal this way: "The program would be implemented through enactment of a statute requiring standard coverages as a prerequisite to the registration of vehicles. The standard coverages would include a first-party direct benefits coverage applicable to all occupants of the insured vehicle, and all persons injured by the insured vehicle except occupants of another vehicle, and tort liability coverage as afforded by the present automobile liability policy."

Advocates of the inverse liability proposal concede that it might cost more than the \$10 billion now paid annually for automobile insurance, but they contend that it would close coverage gaps and provide for prompt compensation of auto insurance victims. Proponents of the American Insurance Association's no-fault compulsory first-party insurance system contend that it would definitely reduce costs by eliminating payments now made to plaintiffs' lawyers and those made for pain and suffering. The guaranteed benefits proposal of the Alliance, which is in practice a formalized system of advance payments to accident victims, may save as much as 15% of auto insurance costs, according to some advocates.

WHATEVER THE cost factors involved in the various plans, there is no question that the plans, except for the guaranteed benefits program, involve substantial changes in state insurance and tort liability laws. Some states, in fact, have constitutional barriers against auto victim compensation plans that would have to be overcome before the plans could be put into effect. These legal obstacles are under close study by committees of lawyers as well as claims and legal executives of the insurance carriers that advance the programs.

Some critics of the auto insurance industry suggest that the diversity of plans offered by the three associations is a smoke-screen designed to "buy time" until the U.S. Department of Transportation completes its two-year comprehensive study of auto insurance. Others suggest that the split posture of the industry typifies its lack of cohesion and that the wide split on auto victim compensation may result in such confusion of state laws that the federal government will be required to step in and regulate auto insurance to straighten out the situation in the interests of the public.

Keeton-O'Connell-type laws have been adopted, with some variations, by Puerto Rico and by one house of the Massachusetts legislature. It is expected that many more legislatures will consider similar proposals next year and in years to come.

Effect of the auto compensation proposals on corporate risk programs has been the subject of extensive debate. Opponents of the Keeton-O'Connell program say that fleet auto insurance costs may be reduced as much as 20% and they cite this shift in premium payments from heavy road users as a chief defect in no-fault, first-party auto protection plans. But no accurate actuarial projections can be made until various schemes are field tested within coming months.

Employee benefits managers note that auto compensation plans generally contemplate offsetting payments to victims with amounts payable under workmen's compensation, Social Security, health and accident insurance and other group and individual insurance coverages. Offset provisions in the plans may in the long run increase the cost of other protection to the employer and employee by increasing the demand for such coverage. ■

U.S. backup . . .

Continued from page 1

The program would be set up under the Housing and Urban Development Department.

The flood pool would make flood coverage general, available at actuarially sound rates with a federal subsidy in some cases.

The riot backup would allow private insurers to provide property coverages for high risk areas, with pooling of risks, some financial contribution through state governments and federal reinsurance for excessive riot damage. ■



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