

Three-way financial planning with portability

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July 5, 1971

business insurance

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



Nearly 200 risk management and computer experts from 22 states and three foreign countries attended the Business Insurance-Computerworld workshop on computer protection/insurance in Chicago. Panelists and speakers discussed fire protection and security, property and liability insurance and motivational techniques. Coverage of the workshop is on pages 31 through 38 of this issue.

Pru, Travelers, the Met challenge Lloyd's with new reinsurance deals

By THOMAS WALSH

NEW YORK—A newly announced reinsurance arrangement between the Prudential Insurance Co. of America and the Travelers Corp. and an announcement by the Metropolitan Life Insurance Co. that it will write a \$15 million airline reinsurance package have reportedly triggered what American insurance executives term a "challenge" to Lloyd's of London dominance in the field.

As of July 1, Prudential is writing "a substantial layer" of reinsurance which will protect Travelers from losses over \$30 million on one-occurrence catastrophic happenings such as earthquakes and windstorms. The upper limit of the coverage and the price-tag on the package were not revealed, but other domestic reinsurance giants have termed the deal "irresponsible" because it reportedly undercuts Lloyd's

existing package so drastically that Travelers quickly dropped the London account.

"This deal is really a replacement of the coverage we had with Lloyd's," Travelers senior vp John Resony told *Business Insurance*. "It is merely a contract with a different set of people rather than a change. The considerable capacity we already extend will not be affected, and

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No risk man in Nixon's workmen's comp group

WASHINGTON—President Nixon named 15 members to the National Commission on State Workmen's Compensation Laws, but he failed to include a risk manager among his appointees.

Representing management on the commission will be C.E. Carothers, administrator of workmen's compensation for Ford Motor Co., and William J. Moshofsky, assistant to the chief, Georgia-Pacific Corp., Portland, Ore.

George Guenther, assistant secretary of labor in charge of administering the new federal Occupational Safety and Health Act, said that no risk manager was appointed because risk managers and their organization—the American Society of Insurance Management—have not played an active role in shaping state or federal legislation.

Business Insurance, on Jan. 4 urged President Nixon to appoint a risk manager to the commission because such a member would have expertise in how changes in

the law would affect the total risk management picture for employers.

Harry S. Flemming, special assistant to the President, wrote *Business Insurance* Editor Richard C. Bjorklund acknowledging the editorial sent to Mr. Nixon which suggested that the President ask ASIM to nominate a risk manager.

ASIM did nominate Gerald Griffin of Dravco Corp., Pittsburgh, but his name was not among the appointees.

At a press conference following ASIM's annual conference in San Francisco last February, James E. Bailey, ASIM's \$50,000-a-year legislative counsel, said that an unnamed ASIM member had approval of his state's two senators. Mr. Bailey expressed confidence at that time that ASIM would be represented on the commission.

Contacted by *Business Insurance* after the appointments were announced Mr. Bailey said, "Well, I don't know how they name those commissions."

Lalley: 'We want to aid workmen's comp laws study'

NEW YORK—Edward Lalley, insurance manager of Kraftco and legislative vp of the American Society of Insurance Management said: "There are two members of industry on the commission but no member of ASIM. We feel we could have been of some assistance to the commission and we would have liked to have been asked.

"It may not be entirely the commission's fault, however. Last year former ASIM President Rollyn Storey proposed a member to the commission but his company promoted him out of risk management at a most inopportune time. That may have had something to do with it.

"The two gentlemen from industry management have good reputations in their fields and we still hope to work with the commission as best we can."

Readers ask U.S. standards for auto reform legislation

CHICAGO—Corporate buyers of insurance overwhelmingly favor adoption by Congress of national standards for changes in the auto victim reparations system, a survey by *Business Insurance* shows.

The buyers, who spend more than \$2 billion a year on commercial auto insurance coverage, also favor a modified no-fault system with direct payments to injured parties up to a certain amount with victims retaining the right to sue. They strongly prefer a system that would include both bodily injury and property damage losses.

Responses to the survey indicated that buyers of corporate insurance do not want no-fault bills to make a distinction between commercial and personal vehicles. They strongly reject absolute liability for commercial vehicles, but about one-third of the respondents favor adoption of an equalizing liability factor that would take into consideration the greater potential for damage of large commercial vehicles.

MORE THAN 300 readers responded to the *Business Insurance* survey.

Though insurance company executives, insurance agents and

Court oks no-fault in Massachusetts

BOSTON—The Massachusetts supreme court ruled last week that the state's modified no-fault insurance law, the first auto insurance reform act in the nation, is constitutional.

In a test case brought by a Sharon, Mass., resident and supported by several lawyers' associations, Judge Paul C. Reardon ruled that no-fault "as applied to the plaintiff is constitutional under both federal and state constitutions."

The Massachusetts law is favorable to commercial fleet insurance consumers and experience in the first few months under the measure has reportedly reduced claims (*Business Insurance*, April 26).

others in the insurance business were not invited to respond, more than 50 such persons completed forms and their answers closely matched those of corporate buyers of insurance, except that they

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Froehlke answers BI's charges to Senate panel

WASHINGTON—Assistant Secretary of Defense Robert F. Froehlke appeared before the Senate armed services committee on June 28 and voluntarily answered charges in *Business Insurance* that he kept his hand in a controversial insurance company reorganization plan while serving in the Defense department.

The committee, after "extensive" discussion of the *Business Insurance* charges, recommended Mr. Froehlke favorably to the full Senate for confirmation as secretary of the army. No action had been taken by the Senate at press time.

Business Insurance, in its June 21 issue, charged that Mr. Froehlke attended at least one board meeting of the Sentry Insurance Cos. months after he was confirmed to his present post, that Mr. Froehlke received a memo from Sentry's general counsel warning him of "revers-

es" with the Securities and Exchange Commission, and that Mr. Froehlke at no time disengaged himself from a proposed \$200,000 loan from Chase Manhattan bank that would have enabled him to buy into a stock company that was intended to succeed Hardware Dealers Mutual Fire Insurance Co.

Mr. Froehlke and 32 associates were to control the successor company under a plan struck down by the Wisconsin insurance departments in April, 1970.

Details of Mr. Froehlke's testimony will be reported in the next issue of *Business Insurance*. Sen. John Stennis, chairman of the committee, surprised his committee colleagues by announcing on Saturday that the nomination would be heard on Monday. See Opinions on page 18 for editorials on Mr. Froehlke and the thwarted Hardware Dealers Mutual conversion.

Readers endorse U.S. standards for auto reform

Continued from page 1

leaned more heavily toward broad no-fault provision, an equalizing liability factor and, surprisingly, to national standards set by Congress. Fully 76% of the insurance respondents favored national standards while 67% of the insurance buyers opted for the national approach.

A full tally of the insurance buyers' responses may be found on this page.

A sampling of comments that *Business Insurance* readers at-

tached to their survey forms shows some of their thinking on the auto reparations system. Here are some:

• "Many of our employees are finding their insurance premiums are being raised so high that they can afford only liability insurance. I think manufacturers of cars should use heavier metal for car bodies. They are just like tin."

• "I am basically against abolition of the tort system unless it is abolished for all forms of lia-

bility, auto and nonauto."

• "This is a Canadian view, but we should move ultimately to full no-fault, but in steps at a time."

• "Most of the problems of the present system could be cured by simply making it mandatory to select three licensed independent adjusters to arbitrate all cases not settled within 90 days after notice. There is otherwise nothing wrong with the present system. All people who want cover can buy some now, including accident and health, disability and life."

• "Commercial common carriers have to submit certificates of insurance before obtaining licenses. Why can't private passenger car owners be made to do the same? No certification—no title of license. It really seems strange that after spending more than \$1.8 million on the Hart committee, a more definite program and concrete system couldn't have been devised."

• "Stronger laws and strict enforcement for traffic violations are needed, plus compulsory driver education for new drivers."

• "This right to sue should be available if the no-fault program is going to be restricted to dollar amount. If it is a no-fault program with no limitations as suggested by former New York Insurance Superintendent Stewart, then the right to sue could be dropped."

• "I do feel that there must be some method preserved that will cause the reckless driver, the

muscle car owners and the gas trucks to pay a premium commensurate with the hazardous exposure."

• "As an alternative to Congressional interference, we suggest that guidelines for no-fault insurance on a national level be developed by a committee designated by the state insurance commissioners."

• "It is my observation that the no-fault concept introduces a cost element into the automobile insurance field which might have far-reaching repercussions."

• "We live in a very mobile society today. If legislation such as no-fault liability is to be enacted, then let us make it on a uniform basis. Unless this is done each time an insured individual or business crosses a state line with a different law in this respect such insured will have to have insurance to fit the circumstances of his new environment. This won't produce the much alleged savings."

• "It appears to me because of the extensive use of interstate highways and the preponderance of activity that we should have a

federal standard imposed on all states rather than let each state go on its own, creating a hodgepodge of motor vehicle laws as now exists."

• "Imposition of 'absolute liability' on commercial vehicles seems unfair, but this is an aspect of the no-fault concept that may not have been adequately discussed."

• "There have been so many conflicting statements appearing from all kinds of sources that, for one, will be delighted to see your July 5 issue showing the results of this survey."

• "We must get damage claims out of the hands of the plaintiffs' attorneys."

• "If national standards were set, it might reduce underwriting costs and confusion in insurance companies. There could be a national standard policy. No-fault for property damage would be a disaster. If someone couldn't sell a six-year-old car all he would have to do is rear-end a friend who owned a truck. Since today's cars fall apart so easily, he wouldn't have to hit the truck too hard."

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Here are the results of BI no-fault survey

More than 300 readers of *Business Insurance* responded to the survey on the auto reparations system that appeared in our May 24 and June 7 issues. The responses of corporate insurance buyers are tallied below with percentages assigned for each answer. We appreciate the cooperation of so many readers, who are encouraged to respond to surveys we conduct in the future on other matters of vital concern to corporate insurance consumers.

- 1. On the no-fault concept for reform of auto victim compensation system:**

 - 5% I would retain the present tort system with modifications such as advance payment for seriously injured victims.
 - 64% I favor a modified no-fault system with direct first-party payments to injured parties up to a certain amount, but victims would retain the right to sue.
 - 31% I favor adoption of a broad no-fault system that would compensate accident victims promptly without recourse to the courts.
- 2. On the treatment of commercial vehicles under no-fault:**

 - 4% I would impose "absolute liability" on commercial vehicles in collisions with private passenger cars, making the commercial vehicle's insurer pay for all damages.
 - 63% I would not introduce any provisions setting commercial vehicles apart from private passenger cars.
 - 33% I would set up an equalizing liability factor that would take into consideration the greater potential for damage of large commercial vehicles.
- 3. On standards for no-fault auto insurance:**

 - 67% I favor national standards set by Congress.
 - 33% I favor adoption of standards by each state.
- 4. On the scope of no-fault auto insurance laws:**

 - 11% I favor no-fault for bodily injury losses only.
 - 89% I favor no-fault for bodily injury and property damage losses.

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Trucking firm's risk man is also a company vp

By ANNETTE DUFFY

CARLSTADT, N.J.—"I believe in self-insurance," said Robert J. McRell with characteristic self-confidence. The intense, blue-eyed man, whose red hair is balding on top, was talking over lunch at a quiet New York City-type restaurant, complete with a large, leather-upholstered bar, that seemed out of place in Carlstadt, N.J.

At 39, Bob McRell is a vice president of Eastern Freight Ways, Inc., headquartered in the truck terminal town just across the Hudson from Manhattan.

In the five years since he joined the company as risk manager, Eastern has taken over seven other trucking companies and become one of the top 40 firms in the industry, with about \$40 million in annual revenues. "But we've got plans now," he said in the interview with *Business Insurance*, "to buy out a company by September that will put Eastern Freight Ways among the top 15, with \$100 million a year in revenues."

SHORTLY AFTER the acquisition, Mr. McRell mentioned, he will be setting up a captive insurance company for Eastern that will start out handling accident and health coverage, and eventually move on to workmen's compensation and general liability. "We probably won't be into liability for a while," he said. "It should be three or four years before it's all firmed up."

Right now, according to Mr. McRell, Eastern is self-insured through a bond with American Casualty Co. of Reading, Pa. up to \$50,000. Excess catastrophe is bought from Insurance Co. of North America up to \$10 million for a premium of about \$25,000; the broker is Transportation Underwriters in Indianapolis. The formation of the captive, Mr. McRell said, should not affect Eastern's relationship with these insurers, at least in the beginning. "It will be a small captive," he explained, "and the only immediate change will probably be a move from the \$50,000 deductible with INA to something like \$100,000 or \$150,000."

The trucking company also has a separate all-risk (Mr. McRell calls it "a quote all-risk") policy with Lloyds for 90 percent of evaluated damages. "This is a fire and extended coverage policy that covers every possibility except a flood," he said.

"If a trucking company is big," Mr. McRell asserted, "it's self-insured. Self-insurance requires the financial capability—at least \$15 million in revenue to self-insure in a limited way. With an income between \$25 million-\$50 million, self-insurance is generally broader, and over \$50 million in revenue means there's no questions about doing it—just about how much."

"**WHEN YOU'RE** talking about self-insurance," he said, "you're talking about removing all the fat from the operation. There must be 35% overhead in the operations of an insurance company. Why pay for that if you're big enough to cut it all out?"

Driving back from lunch to Eastern's extensive lot and rambling two-story buildings, Mr. McRell said his company's self-insurance approach has helped him with the numerous mergers of the last five years and the meshing of insurance coverage with new companies. "The trend of business today is mergers and acquisitions," he said. "The entire insur-

ance program of a corporation can drastically change overnight. With the flexibility of a self-insurance program, these changes can be absorbed without major revisions in the basic program."

Mr. McRell heads a staff of 20, with responsibility for workmen's compensation, liability and cargo insurance, group life and hospitalization, claims handling and safety. Safety, he said, is extremely important for truckers. They are subject to safety compliance checks by the federal government, which can close down any terminal it finds below standards. "Those federal inspectors are notoriously honest," he said. "There's not much you can do to get around them; they won't even let you take them out to lunch."

Eastern Freight Ways has 800 drivers, according to its insurance

head. "We are pretty strict with them," he said. "They have to keep detailed and accurate log books, which are inspected by the government, and we have paperwork experts who make sure they have all documents required by federal law." In line with the stepped-up safety program that Eastern initiated in 1967, any driver who has an accident is interviewed by a safety board and given more training.

"**WE'RE BIG** on security too," Mr. McRell continued. "Escorts are sent with valuable loads; we run a careful security check on new drivers and we've got three patrol cars on the road. There's been no hi-jacking since late 1967." Eastern has a fleet of 1,500 trailers and 600 power vehicles,
Continued on page 30



Bob McRell, vp of Eastern Freight Ways, believes in self-insurance for the fast-growing concern whose risk problems he is in charge of solving.
—Business Insurance photo

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washington watch

GAO investigation calls mine safety enforcement 'uncertain, inequitable'

WASHINGTON—The federal General Accounting Office (GAO) recently completed an investigation of the Interior department's implementation of the federal Coal Mine Health and Safety Act of 1969 and found that enforcement of the health and safety standards under the act has "not been effective" and has "at times been confusing, uncertain and inequitable."

The implications of these find-

ings go far beyond the coal industry, extending to virtually every business in the U.S., since they are all currently faced with the possibility of similar federal implementation of the omnibus all-industry Occupational Safety & Health Act of 1970.

One thing worse than extremely tough federal regulatory enforcement is slipshod enforcement, businessmen in industries that have lived with federal regu-

lation for decades generally agree.

Under strict and even enforcement, businesses at least know what to expect and decisions can be made accordingly. Also, industry executives can rest assured that the competition is facing the same compliance problems that they are.

POOR, UNEVEN enforcement adds confusion to the orderly process of running a business and

can, in many cases, aggravate labor troubles. This latter fact was highlighted by the recent 1,700-man walkout at Jones & Laughlin Steel Corp.'s four Pennsylvania coal mines.

The labor discontent at these mines reportedly resulted largely from feelings that safety conditions at the mines had not come up to standards supposedly guaranteed by the federal government, and that Washington was doing little to remedy the situation. Many observers say this type of labor unrest has been prevalent throughout the coal industry ever since the safety and health act was passed.

The GAO report could further fuel miners' discontent. It states that the enforcement progress made by the Interior department's bureau of mines has "not been in accord with the target dates set forth in the act and it does not appear that full compli-

ance will be achieved in the near future."

Most mine operators, the GAO found, had not started vital-for-health dust sampling programs required under the act as late as five months after the law required such samplings to begin. Furthermore, it found in one government sampling more than 55% of the dust samples collected by industry were unusable for various reasons. The GAO concluded that it appears doubtful the mine operators' sampling programs have been of much value to the bureau for safety enforcement purposes.

THE KEY SAFETY section of the act also was not being adequately enforced, the GAO found. The act calls for four federal safety inspections annually. However, to insure safety when the federal inspector is not present, the law requires inspections by the operator before each shift, during each shift and every week.

According to the GAO, these inspections frequently were not made or were being made inadequately and the bureau was not taking the necessary steps to improve the situation.

A problem the government is having with both the coal mine act and the omnibus occupational safety and health act is the recruitment and training of well-qualified safety inspectors. Industry and labor have both expressed fears that the pressing need for inspectors might force the government to lower standards for these individuals. Neither side relishes the thought of poorly trained, under-educated federal safety inspectors enforcing the law.

In the area of coal mine safety, at least, such fears appear to have some justification. Beginning in July, 1969, in anticipation of enactment of the act, the mine safety bureau and the civil service commission took steps to speed up the recruitment of coal mine inspectors. Employment, however, did not pick up fast enough and in October, following passage of the act, the bureau requested the civil service commission to lower the passing grade for the coal mine inspector examination.

IN NOVEMBER the commission approved the request by lowering the passing grade from 125 to 105. In December, the bureau also revised its experience requirement by permitting substitution of education for experience.

Recruitment still did not fill the bureau's needs and in November, 1970, the requirement for a written test for coal mine inspectors was dropped entirely.

Training practices were also shortened. Prior to passage of the mine safety bill, the training program for coal mine inspectors consisted of two days a week of classroom training and three days a week of on-job training with an experienced coal mine inspector. After about six months the trainee-inspector was assigned on a full-time basis to an experienced inspector until he was qualified to work on his own.

THE GAO report says it usually took about a year from the time a man was hired until he took full responsibility for making inspections.

After passage of the 1969 act, the bureau reduced the time required to train inspectors to 10 weeks of classroom work and about three months of on-job training with an experienced inspector—or a total period of about six months.

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Touchy Question #49

When does the smart risk manager place his group insurance with a carrier that does NOT offer the lowest rate?

Whenever another carrier can give him a superior program.

These are troubled times for administrators of employee security plans. In the past few years, group health insurance premiums have risen not only much faster, but much higher, than workmen's compensation insurance premiums (for instance), and there are no signs of a slowdown.

There are several reasons for this. Group accident and health insurance is still in the growing stages. Its protection extends beyond employees to their dependents, a minor factor in compensation exposures. New workmen's compensation benefits must be legislated; new group health benefits are negotiated in labor-management bargaining sessions every day in the week. And there's a sort of leapfrog relationship between health benefit boosts and pyramiding hospital-medical rates, with each used as an excuse for the other.

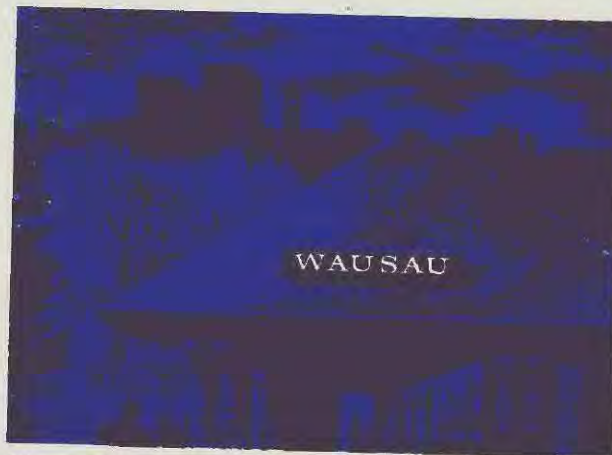
The problem is intensified by the fact that group insurance is written to a higher permissible loss ratio than any other major coverage. About 90c in every premium dollar

goes into losses and (with mutual carriers) dividends. The insurer must pay acquisition costs and expenses out of the other dime. This leaves little room for price-cutting, as a good many group carriers have learned to their cost.

As a good many risk managers have learned to *their* cost, when an insurance company can't live with its retentions and go-in rates and bails out, the policyholder gets hurt worse than the insurance company. The carrier can solve its problem by abandoning it. The risk manager can't do that. He has to start all over again with a new insurer—if he can find one.

Retention and go-in rates are not a major consideration to any smart group insurance buyer. He's looking for a company ready, able, and eager to help him make his security program economically insurable and keep it that way.

It's a little bit like courtship. If the guy is prudent, he'll look beyond those dimples and ask himself "Can she cook? Can she sew? What does she look like in the mornings?" What he wants is not just a short, happy honeymoon, but a long, peaceful marriage.



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following the funds

Pensions have a prominent place in those glossy, colorful annual reports

NEW YORK—Pension fund managers faced with abiding pressures from corporate stockholders, top managements and employees—and not necessarily in that order—take little comfort in the old saw that everyone is in the same boat.

The design of the vessels may be the same, of course, but there is a marked variance in the roughness of the waters in which employe benefit funds must cruise these days.

That pension funds are a matter of huge concern to U.S. corpo-

rations is evidenced by the prominent place they play in those glossy, colorful and rarely gloomy booklets the public relations departments fret over once yearly: The annual report.

Prominence in the annual report, of course, is anything more than a single line entry. Pension funds usually get paragraphs—footnoted paragraphs, along with such things as "Capital in excess of par value of common stock," "Commitments and contingent liabilities" and "Earnings reinvested in the business" and other

heavy business.

A LOOK AT A handful of annual reports that were ground out by companies for their 1970 operations does reveal some interesting facts about pension plan provisions. It should be pointed out that the capsules that follow are arranged in no particular order, nor was there any criteria set for choosing the companies listed.

• Warner-Lambert Co.: "Warner-Lambert has various pension plans covering most of its employes in the United States. Employes whose earnings exceed

specified amounts contribute to these plans . . .," the pharmaceutical company's report reads.

"Warner-Lambert's policy is to fund and charge income for pension costs accrued. Such charges, totaling \$11.5 million in 1970 and \$9.603 million in 1969, include amortization of unfunded prior service costs over periods ranging from 13 to 40 years from the dates prior service costs arose. The total unfunded liability under all plans, plus lump sum value of pensions payable to retired employes outside of the plans, after deducting taxes at 1970 rates, was approximately \$14.606 million at Dec. 31, 1970."

• U. S. Industries Inc.: Contributions under its several pension and retirement plans were \$4.7 million in 1970, as compared to \$3.5 million in 1969, this company's annual report points out. Included, it adds, are the normal cost and amortization of prior service costs over periods ranging

from 10 to 40 years.

"The company's policy is to fund pension costs accrued," the report notes, and adds: "Unfunded prior service costs amounted to approximately \$9.6 million and \$6.2 million at Dec. 31, 1970 and 1969, respectively. The actuarially computed value of vested benefits for all plans approximates the total assets of pension funds and balance sheet accruals at both dates."

• Xerox Corp.: Contributions to profit sharing retirement and pension plans for 1970 totaled \$53,237 million in 1970, a jump from \$41,452 million in 1969. Xerox's major retirement plans, the report states, are noncontributory, fully trustee, profit-sharing retirement plans which use a formula related to return on assets. Each employe may elect to receive a portion of his share of the annual contribution in cash or in Xerox common stock, or to invest such amount in the profit sharing trusts. Contributions subject to those options in 1970 amounted to \$21,440 million and \$16,640 million in 1969.

• Diebold Inc.: The company has several differing plans. Total pension expense was \$1,124,453 in 1970, as compared with \$808,273 in 1969. "Includes, as to certain plans, amortization of past service costs over varying periods not to exceed 40 years," it reports.

The Diebold report added: "The actuarially computed value of vested benefits for all plans, except those that require contributions based upon a negotiated rate per hour worked, as of the latest valuation dates exceeded the total pension funds and balance sheet accruals by approximately \$1.065 million. The vested benefits calculated in accordance with the current benefit payable from funds set up under the plans requiring contributions to be made on the basis of a negotiated rate per hour worked as of the latest valuation dates exceeded the total pension funds by approximately \$1.659 million."

• Brown-Forman Distillers Corp.: Pension expenses were \$604,000 for 1970 and \$305,000 for 1969, determined principally under the aggregate cost method. Costs accrued are funded currently, the report states, and at the most recent valuation date (Dec. 31, 1969), plan assets exceeded the actuarially computed value of vested benefits.

"The aggregate cost method does not deal separately with past service costs, but it is estimated that if a separate valuation were made, the unfunded past service costs, if any, would be immaterial," it adds.

• Richardson-Merrell Inc.: Pensions got five lines in this annual report.

"The company and its subsidiaries have pension plans covering substantially all their employes, including certain employes in foreign countries. The total pension expense for the year was \$1.536 million (1969-\$1.459 million). The company's policy is to fund pension cost accrued, with prior service costs generally amortized at the rate of 10% per annum. The total pension fund is in excess of the actuarially computed value of vested benefits as of June 30, 1970."

• The Coca-Cola Co.: This company did something interesting this year in its annual report that had nothing to do with pensions. To wit, this line on the opening page of its modest brochure: "As a contribution to the conservation of our natural resources and the protection of the ecology, the paper used in this report has been manufactured from 100% reclaimed waste paper."

8 months after start-up the "upstarts" are up, up and away!

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If you are a broker or consultant and want to know more, contact one of our field offices or write Mr. Robert W. Stevenson, Vice President (Group Marketing), Union Mutual Life Insurance Company, 2211 Congress Street, Portland, Maine 04112.



A. I. Life and fund join split dollar benefit plans

NEW YORK—American International Life Assurance Co. and Union Service Distributor Inc., general distributor of shares of National Investors Corp., have agreed to market a life insurance/mutual fund shares product as an employe benefit.

Described by both as "a different approach to marketing a new employe benefit," the program is actually only a new twist to a relatively new employe benefit. Under the concept, employes approve and endorse the idea, then deduct the appropriate amount from an employe's pay check and funnel the money to Union Service Distributor. Union Service then channels half of the sum to American International Life, which underwrites a life policy on the named employe, and the other half to National Investors Corp., which buys mutual fund shares.

George Abouzeid, president of A. I. Life, at a press luncheon the other noon, pointed out that the uniqueness of this particular program is in the marketing approach.

IT WILL BE marketed, he said, strictly on a group basis. That is, the employer must first endorse the product and write a letter of endorsement to the employe. Meetings of "15 or 20" employes will then be set up on or off company time. Registered securities dealers will, at that time, explain the program in more detail and invite the employe to participate.

According to Mr. Abouzeid, the whole thing will be done on a soft sell basis. Employes will merely be invited to participate, although he expects company endorsement and presentations will enhance the attractiveness for the employe. No individual "enrolling" sessions will be held, he added, noting that these often take more time than an employer can afford out of his production schedule. This latter approach, he noted, has been responsible for a not-so-overwhelming response to other similar employe benefit products now on the marketplace.

The plan is being offered in essentially two forms. One is a \$7-a-week deduction and the other is \$10-a-week. The amounts are then split between American International Life and National Investors Corp.

For a \$7 deduction, for example, a 35 year old male would get \$10,028 worth of life insurance from the \$3.50 that goes to A. I.

Pollution bill sets liability at triple level

HARTFORD—The Connecticut state legislature has approved a bill holding oil polluters liable for triple damages when "gross negligence" is shown in court. The measure—senate bill 399—is directed at pollution of land and water by oil, gasoline or other chemicals.

It holds the person, firm or corporation directly or indirectly responsible for the pollution liable for containing and cleaning up the contamination or pollution.

In the case of "gross negligence," the measure holds the polluter liable for triple damages, at the court's discretion. ■

Life. His mutual fund shares, of course, would vary according to the performance of the National Investors fund.

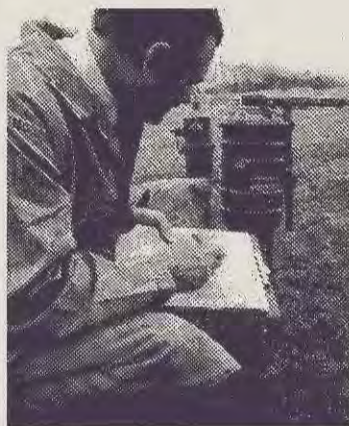
ALSO INCLUDED under the program is a disability provision. After a six month employe disability A. I. Life will pay both the mutual fund and life insurance portions to maintain the program for life. The program, moreover, allows a participant to "pour in" more money on the life insurance portion towards the purchase of an annuity contract. Mr. Abouzeid also pointed out that the program is "completely portable." Upon termination of employment a participant may maintain the program on a direct basis. ■

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(Fire Journal July 1970, Vol. 64, No. 4)

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HEW black lung benefits challenged

WASHINGTON—Benefits exceeding \$300 million have been paid to over 200,000 coal miners disabled due to "black lung" disease and to dependents of miners who died of the disease, the U.S. Department of Health, Education and Welfare has told Congress.

In the meantime, however, some mine workers and widows have charged that many legitimate claims are being denied.

In the first annual report on the Social Security Administration's black lung benefit program—an offspring of the Federal Coal Mine Health and Safety Act of 1969—HEW Secretary Elliot L. Richardson said monthly benefits exceeding \$23 million are currently being received by 70,000

former miners, 55,000 widows of miners and 76,000 dependent wives and children.

In the 18 months since the law was signed on Dec. 30, 1969, 290,000 claims have been filed. Of the 255,000 claims processed, almost half have been approved for payment. About 13,000 claims have thus far been denied because evidence—applicant medical sources, or SSA examinations—did not show requirements of the law were met.

FAILURE of a miner's chest X-ray to indicate symptoms of pneumoconiosis, the medical term for the coal dust disease, is the principle reason for claim denials, the report said.

Meanwhile, the West Virginia Black Lung Assn. is unhappy about the denials and has charged that too many eligible miners have been refused benefits. About 100 disabled Appalachian miners and miners' widows told a group of senators and congressmen here that failure to take action on their complaints could result in strikes this summer, a move which could reduce power-producing fuel in the east.

Testimony by physicians in May at a House Committee on Education and Labor hearing indicated that a single X-ray is an insufficient indicator of black lung disease. Some cases, the doctors said, could escape detection even if five or six X-rays were taken.

Seventy-two percent of the claims filed in Kentucky, 52% of West Virginia claims and 31% of the claims from Pennsylvania have been denied, the lobbying group charged. The HEW report indicates that 60,000 requests for reconsideration have been received.

RECONSIDERATION normally involves re-reading of X-rays by one of several radiologists employed by the SSA to "make sure that nothing in the miner's X-ray has been overlooked," according to HEW. "If necessary to resolve any doubt, the SSA makes arrangements for a new X-ray to be taken at no cost to the miner."

One disabled miner who traveled here charged that a large percentage of benefit denials was being made to spare mine operators future black lung payments. After July 1, 1973, the Federal government will shift the financial burden of the program to the operators through state workmen's compensation plans or through industry-financed funds administered by the Labor Department.

The HEW report estimated that some 260,000 persons will have received total annual benefits of \$400 million by the end of June, 1972. ■

Buyers elect officers

The Massachusetts Insurance Buyers' Assn. has elected John F. Keating of the Ludlow Corp., Needham Heights, as president for the coming year. Other officers elected at the association's annual meeting were: Joseph W. Chevarley, Stone & Webster Engineering Corp., Boston, vp; William L. Mather, the Gillette Co., Boston, treasurer; and Mrs. Helen F. Hetherington, the MITRE Corp., Bedford, secretary. Named directors were: Leonard D. Allen, Eastern Gas & Electric, Boston; Richard W. Lent, Itek Corp., Lexington; and Philip A. Murphy, Howard Johnson Co., Braintree.

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Insurer loses intrigue case

NEW YORK—American International Life Assurance Co. has agreed to pay \$400,000 to the widow of a Lebanese national who, the company had contended, was murdered while engaged in espionage.

American International wrote two policies—with total face value of \$450,000—on the life of George Yussif Aarage, vp for the Middle East for Gramco Ltd., a large offshore mutual fund. The insurer underwrites life coverages worldwide for the investment concern.

The settlement was worked out in the state supreme court here after a Beirut court had ruled that robbery was the motive for the slaying on May 3, 1970. American International, however, had argued that Mr. Aarage was engaged in spy activity, was killed as a result of this activity and therefore they refused to pay.

A source at American International told *Business Insurance* that the settlement was simply the only course left for the insurer. "It was a case of not being able to get anyone to testify on our behalf," he said. ■

Funds . . .

Continued from page 6

On pensions: "The company and its subsidiaries have various pension plans covering substantially all employees . . . Pension expense determined under various actuarial cost methods, principally aggregate level cost method, amounted to \$9,763,674 in 1970 and \$7,711,729 in 1969. In general, pension costs are funded when accrued."

• Kraftco Corp.: The company's general policy is to provide and fund current service costs and interest on unfunded past service costs annually, this report states.


"At Jan. 1, 1970, employees' vested benefits under these (several) plans were fully funded," it adds, noting that total pension costs under all plans approximated \$16.45 million in 1970 and \$15.55 million in 1969.

• Akzona Inc.: Several retirement plans, funded currently, with the annual cost of these at about \$4.2 million, including amortization of prior service cost over periods ranging from about 10 to 30 years.

"The actuarially computed value of vested benefits under the various plans," the report points out, "exceeded by approximately \$8.2 million the total of the assets of such plans and balance sheet accruals."

• Brown Shoe Co.: Various pension plans. Total expense for year was \$3.125 million, which includes amortization of prior service cost over a period of 30 years. The actuarially computed value of vested benefits for all plans at the latest valuation date (Oct. 31, 1969, or subsequent) exceeded the total of the pension funds by about \$6 million, the report says.

• American Airlines: Funds pension costs which are accrued. Such costs, including amounts to amortize prior service costs over approximately 20 years, amounted to \$36.2 million in 1970, compared with \$23.030 million in 1969. "Substantially," American points out, "all the increase in pension costs in 1970 as compared to 1969 was due to increased salaries and improved benefits adopted during 1970." ■



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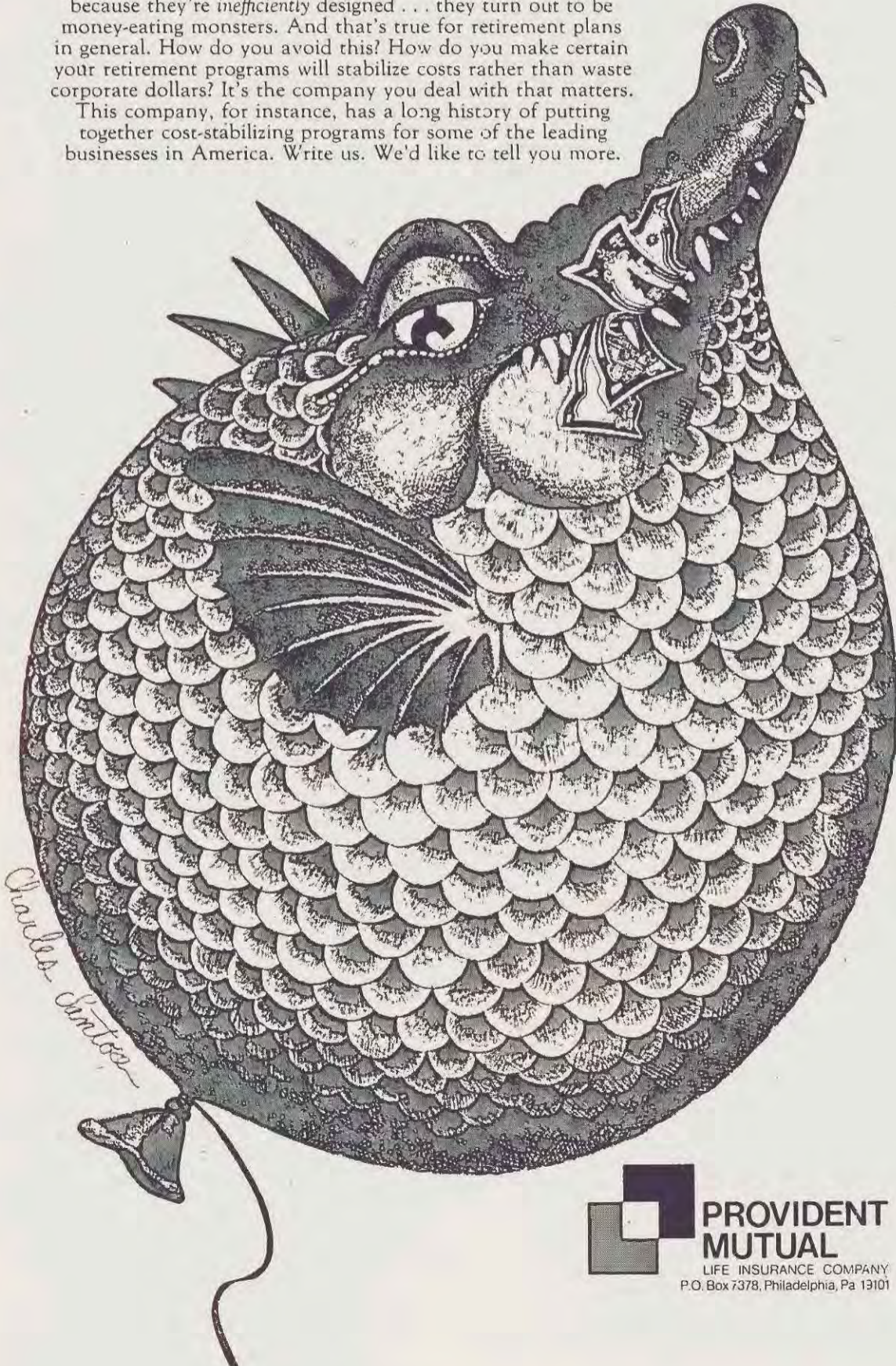
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Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

- Two folders covering various phases of building security are available from Improved Risk Mutuals, 15 N. Broadway, White Plains, N.Y. 10601. The pamphlets describe various types of alarms, locks, fences, flood lighting and other deterrents, and are available without charge in single sets by writing the company.

- A revised third edition of **Insurance for Contractors** is available from Fred S. James & Co., 1 N. La Salle St., Chicago, Ill. 60602 at \$3 per copy. The 109-page booklet is of wide interest to general, prime and sub-contractors, owners, architects, engineers and those charged with properly insuring contract specification. A wide variety of topics is discussed, including hold-harmless clauses, directors'/officers' liability, protective liability and employee benefit liability. Quantity prices are available from the company upon request.

- The Pension Planning Company, Inc., 355 Lexington Ave., N.Y., N.Y. 10017 has made available an attractive brochure describing its **Payplus** Employee Statements, a plan designed to give each employe a detailed annual summary of all his fringe benefits. The brochure and sample statements can be obtained by writing Mr. James Kahn, President, the Pension Planning Company, Inc. at the above address.

- The Equitable Life Assurance Society of the United States has released a brochure describing a group pension contract to provide annuities at retirement for employees retiring under a deferred profit sharing or thrift plan. **Annuities Under Profit-Sharing and Thrift Plans** is available, free of charge, by writing Group Sales Promotion, Location 24-E, The Equitable Life Assurance Society of the U.S., 1285 Avenue of the Americas, N. Y., N. Y. 10019.

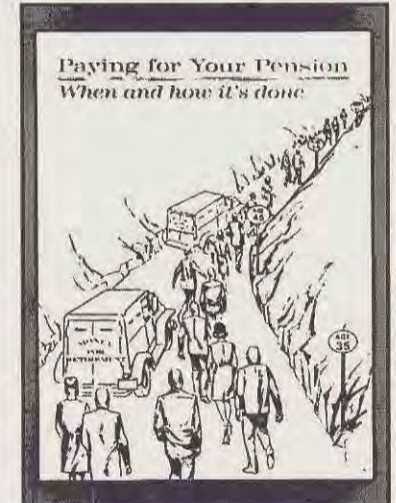
- **Fire Protection Guide on Hazardous Materials** is designed to give quick, authoritative, accurate data on fire, explosion, and health characteristics of thousands of chemicals and materials. The guide consists of 912 pages, single copies are \$5.50. To order write the National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110.

- **Standards for Preventing the Horizontal and Vertical Spread of Fires in Grain Handling Properties** has been compiled by The Mill Mutual Fire Prevention Bureau. The publication lists the minimum requirements that can prevent the vertical and horizontal spread of fires. Construction and

equipment is described in detail as well as fire ratings for specific construction. Tables and diagrams are included for better understanding. A list of the Mill Mutuals and regional offices is included. For a copy write Donald D. Mauger, Assistant Manager, Mill Mutual Fire Prevention Bureau, 2 N. Riverside Plaza, Chicago, Ill. 60606.

- An adaption of a speech by Fred Drexler, president of Industrial Indemnity Co. at the 1970 IAIABC convention, **What is Best for Workmen**, proposes a plan for action to protect and improve the present system of workmen's compensation. The speech is addressed to anyone interested in workmen's compensation, whether they represent labor, employers, the government, or the insurance industry. It deals with the situation today, threats of federalization, Social Security and takes a look at the alternatives. For a copy write Publications Office, Industrial Indemnity Company, Box 3660, San Francisco, Cal. 94120.

- **Paying for Your Pension** is a pamphlet designed to explain, in clear and concise language, what goes into a pension fund, how pension money is provided and what happens to the money.



Samples and price information are available on request from Mrs. Retta Renich, Hewitt Information Service Inc. (a subsidiary of Hewitt Associates), Libertyville, Ill. 60048.

- A booklet describing its telephone voice scrambler is offered free of charge by Signatron, Inc. 21748 Devenshire St., Chatsworth, Cal. 91311. The scrambler is shaped like a standard telephone handset and once attached to a telephone it scrambles the conversation to protect it from wire-tapping. The scrambler costs about \$295. For more information write Larry Czubiak, Vice President, Marketing, at Signatron.

- **The Prototype Planner** is a monthly publication dealing with new developments and trends in the area of corporate master and prototype plans. For price information write Jack McKinley, Editor, The Prototype Planner, P. O. Box 171, Kew Gardens, N. Y. 11415.

- **Property Insurance . . . Need for Appraisal Service** is a brochure discussing the various reasons for the need of appraisal service in determining the proper property insurance cover. The brochure also describes the appraisal

service offered by American Appraisal Co. For a free copy write the firm at 525 E. Michigan St., Milwaukee, Wis. 53201.

• **Noise And The New Walsh-Healy Act**, No. 500, is a booklet consisting of three articles dealing with noise pollution, hearing conservation, and hearing protection and the Walsh-Healey Act. The reprinted articles are offered, free of charge to *Business Insurance* readers. Direct requests to Robert M. Paulson, Customer Relations Dept., Sigma Engineering Co., 320 Burbank Blvd., No. Hollywood, Cal. 91601.

• American Home Assurance Co.'s 2-page brochure on **Valued Form Business Interruption Insurance** illustrates the advantages of valued form over other business interruption plans. It explains how valued form coverage can be tailor-made to each individual need, and details the policy's important clauses. The booklet is free to agents, brokers and buyers by writing American Home Assurance Co., Dept. A, 102 Maiden Lane, N. Y., N. Y. 10005.

• In conjunction with its entrance into the commercial umbrella field, Commerce and Industry Insurance Co.'s new brochure **Sorry, You're Not Covered** answers these important questions: Who needs commercial umbrella? How broad is the coverage? What does the coverage include? It is available free of charge to agents, brokers and buyers by writing Commerce and Industry Insurance Co., Dept. A14, 102 Maiden Lane, N. Y., N. Y. 10005.

• A guaranteed renewable policy for life providing up to \$5200 for medical expenses in treatment of cancer, offered by Unity Mutual Life Ins. Co. of New York, is described in **Cancer Policy**. For information from the company or for a copy of the brochure write William R. Loehr, Mgr. Health Insurance Dept., Unity Mutual Life Insurance Co. of New York, 636 S. Warren Street, Syracuse, N. Y. 13201.

• The U.S. Dept. of Health, Education, and Welfare has prepared **Social Security Information for Young Families**. The booklet deals with the protection social security has for younger people, how a worker earns his protection and about the benefits that can be paid and other information of interest to younger workers. For sale by the Superintendent of Documents U.S. Government Printing Office, Washington, D.C. 20402 at 15 cents per copy.

• **Stop Unnecessary Water Damage** is a brochure offered by Compentry Research & Development Enterprises Inc. describing how unnecessary water damage may be stopped instantly, without closing the sprinkler control valve, by using a sprinkler-stopper which makes it possible to keep the rest of the sprinkler system functioning, while cutting off the flow where unnecessary water damage is being caused. For a free copy write Arthur Elian, vp, Sales, 9 Second Rd. Great Neck, N.Y. 11021.

• Close Productions Inc., 2020 San Carlos Blvd., Ft. Myers Beach, Fla., offers a program to train clerks, cashiers, and other personnel in the methods thieves use to steal store merchandise and cash. The program consists of two tapes on **Stop The Short-Change Artist** and four tapes on **Stop the Shoplifter**. The tapes run from seven to 10 minutes each listening time on side #1. The reverse side has ten questions with

multiple-choice answers which provide participation and self-testing on each subject. They can be played on any type of cassette tape player or recorder. The complete set of six tapes is priced at \$39 plus \$1 for postage and handling. A 10% discount is offered on quantity orders of five or more complete programs. For more information or to order the tapes write the company.

• Advanced Devices Laboratory Inc. has released a brochure explaining how its **Infrared Intruder Detector** works, how to install it and provides technical specifications on the multiple sensor system. One system provides space protection for up to 8 remotely located areas. For a copy write E. E. Self, Customer Services Mgr., Advanced Devices Laboratory Inc., 316 Mathew St., Santa Clara, Calif. 95050.

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NAIC urges insurance industry to upgrade group communication

NEW YORK—With the reminder that problems in the area of employer-employee group coverages are large problems indeed, a task force of the National Assn. of Insurance Commissioners has recommended further study to precede the drafting of model legislation or regulation.

The task force, which convened as part of the NAIC's meeting here, came to the decision that there were four major problem areas to be considered and that they were serious enough to warrant some kind of action.

Commissioners Stanley C. DuRose of Wisconsin and J. Richard Barnes of Colorado said that one of the problems involved employers who collect the group pre-

miums from employees but do not forward the premiums on to the insurer. In some cases this involved firms going into bankruptcy or paying the premiums with bad checks. In any event, policies would lapse in such a case and the individual insured would be stuck without insurance coverage.

ANOTHER PROBLEM discussed by the task force was that of coverage being terminated or substantially changed for the group without notification being sent to the individual insureds. This also involved the change of carrier.

The third sticky area centered around insurance being changed for groups with no provisions

made for the continuous coverage of all persons who were protected under the original contract. Again, in many cases those involved had not been notified.

The fourth problem was a general one: the general lack of communication in group coverage. The panel noted several instances in which the insureds had no idea of what their coverage included, or more importantly, excluded.

The audience, made up of members of the insurance industry as well as watchdogs and regulators, responded with a flurry of spirited advice and paranoid defenses.

INDUSTRY spokesmen advocated everything from prosecut-

ing employers for fraud when these problems occur to simply stating that communication of coverage should be the employer's responsibility.

One insurance company spokesman wanted to know if the employer could be considered the agent for the insurer. It was then pointed out that courts have found that the employer is indeed the agent for limited purposes, mainly of the administrative sort. It was argued that these decisions could apply only to the specific cases.

Another insurance man said that it was difficult for the insurer to notify the employees because it was sometimes difficult to get their names from a hostile employer who was in the throes of terminating coverage or changing carriers.

To this, Commissioner Cornelius J. Bateson of Oregon replied, "It is absolutely amazing what an insurance company can do when

there is money involved."

HE WENT ON to say that in Oregon, the insurer is now responsible for the notification of the individual insureds regarding any changes or termination. "Since the insurer furnished the enrollment information, it is incumbent upon the insurer to notify the beneficiaries of the termination. This only holds true if the insurer used his name during the enrollment process. We feel that this is morally right even if it's legally shaky."

The task force listened to all the arguments and, while admitting that the subject is very complex, discussed several remedies to the situation.

They felt that it would be desirable for the insurance industry to develop some kind of uniform policy regarding the notification of individual insureds when a policy has been terminated or changed substantially.

The task force members also mentioned the possibility of amending the NAIC model group insurance bill to protect against abuses.

As possible remedies to the situation, the task force mentioned: the insurer should make reasonable efforts to notify the individual insureds of changes or terminations; laws should be passed requiring that, upon a change in carrier, all persons protected under the old contract would be protected under the new one and the contract should specify that the policyholder is the agent of the insurer regarding the remittance of premiums. ■

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Lawyer raps oil spill liability laws

WASHINGTON—"Major oil spills will not be prevented by legislation imposing liability and uninsurable limits," Gordon Paulsen, a member of the law firm of Haight, Gardner, Poor and Havens and a specialist in admiralty law, told a meeting of the 1971 Conference on Prevention and Control of Oil Spills here.

Calling the enactment of such legislation "at best a futile exercise," Mr. Paulsen pointed out to the multi-national audience of 1,300 persons that, in his opinion, the liability section of the Water Quality Improvement Act of 1970 was not necessary. "It has long been recognized," he said, "that the general maritime law imposes liability for damage resulting from negligent discharges of oil."

He said that maritime law covered indemnification as well as liability in oil spill cases.

Mr. Paulsen also felt that the cause of oil spill prevention would be advanced by appropriation of funds for the development of improved anti-spill technology and "the uniform and rigid enforcement of legislation concerning operational oil spills," rather than worrying about liability legislation.

While he abhorred the fact that federal, state and local governments have enacted their own liability laws, he felt that international liability legislation was, in all probability, a good thing.

"The most appropriate type of legislation covering liability for oil spills from oceangoing vessels is an International Convention," Mr. Paulsen said. He admitted that this may not be the perfect answer but that "the essential requirement of uniformity outweighs any disadvantages of such a convention." ■

American Airlines hangar in LA has \$3 million in fire protection

LOS ANGELES—The huge American Airlines maintenance hangar at Los Angeles International Airport is not as vulnerable to the ravages of fire as it may have been a few weeks ago. The four Boeing 747s that reside in the hangar are also more snug. The reason for these feelings of security is a new foam fire protection system, installed and successfully tested.

The fire protection system, manufactured and installed by Grinnell Co. Inc. at a cost of more than \$3 million, operates pneumatically on a heat detection basis and is capable of spreading biodegradable protein base foam, which is particularly effective on fuel fires, over 8,000 square feet of floor space in about 20 seconds. The system's seven diesel engines can pump 28,000 gallons of water through the underground piping system. The foam is spread by hundreds of nozzles.

A spokesman for Grinnell explained, "A standard sprinkling system would be ineffective in these hangars because of their great height. You can use water in a smaller hangar but you need foam in the larger structures. Also, again because of the height of the building, the fire would have to be very hot before the sprinklers were triggered. This system works on a rate-of-heat-rise detection basis."

HE ALSO POINTED out that the new system is the largest fire protection pumping system on the West Coast and that American is having a similar system installed in its facilities at San Francisco Interna-

tional Airport. "The first time this was done was for United Airlines in Chicago," he said, "but that was a rather small job by comparison."

When asked if he thought the system would help bring down American's insurance premiums, he answered, "This is really not a question of insurance. With \$92 million worth of airplanes in the hangar, a system like this is a necessity."

A spokesman for a large aviation insurance pool agreed—to an extent. "There have been few catastrophic losses in hangars because fire protection has been very good. We still have the insurance on the airplanes once

they are in the hangars so we are quite interested in their protection though the fire companies would be more knowledgeable.

"I think this system will definitely help rates," he continued, "if it really does stop losses. Anything that reduces losses is certainly desirable. We will have to wait and see. If loss experience improves, so will rates."

THE AVIATION spokesman also noted that the insuring of aircraft in the hangar was sometimes a touchy matter but that usually the aviation company would continue coverage for planes while they were in the buildings. In many cases, deducti-

bles are lower if something happens to the aircraft when they are not in motion. He said fire companies would normally write the coverage on the hangars themselves and that the airlines would usually have separate policies on parts and other materials stored in the hangars.

The sometimes touchy nature of this type of insurance was also mentioned by F. J. Goodfellow, general manager of Factory Insurance Assn.

"Planes in hangars are normally excluded in FIA policies," he said, "though there are exceptions. For example, we would not cover a 747 that had been flying for any length of time and was in a hangar. However, if a hangar at the Boeing plant were to catch fire and destroy a 747, we would cover that."

He agreed with the aviation source when it came to the foam system and insurance rates.

"Rates reflect the degree of protection. If a new protection system comes along and really works, it should be reflected in the rates."

He noted that hangars were not a great problem area in insurance "if they are protected well and protecting them is sometimes a real engineering feat."

There are strong arguments on both sides of the question as to whether new products and systems in the safety area will bring down the rates that the airlines pay. There are those who feel that the nation's air carriers have shaved as much as can be shaved from their insurance and there are those who feel that there is still room for improvement. So whether this new foam fire protection system, or something similar to it, will make the insurance rate makers smile upon the airlines is still a matter for conjecture.



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Tool strikers lose pension

DETROIT—Striking tool and die workers in 43 area job shops found themselves without a pension plan when they rejected a final offer for a new labor contract from the Detroit Tooling Assn. Some 5,000 tool and die workers, members of the United Auto Workers, have been on strike since April 27, although fewer than 40 percent of them were employed at the time the strike was called. The old contract expired March 1.

In its final offer, the DTA proposed a 64 cents per hour general wage increase over the three years of the new contract, plus reinstatement of the pension severance and supplemental unemployment benefit plans that were cancelled when the old contract ran out. Insurance programs for members have been paid by the UAW as a strike benefit.

The DTA-UAW pension fund of \$43 million is in trust at the National Bank of Detroit, so that present retirees will continue to receive benefits, according to an association spokesman. But no new payments are being made into the fund.

In the offer rejected by UAW locals, the DTA had offered to continue Blue Cross-Blue Shield coverage and pay future increases in premiums. The plan also included the addition of a prescription drug program in the third year of the contract.

benefit tax slants

IBM uses employe stock option plan to raise some fresh capital

By JOSEPH S. ROBINSON

NEW YORK—While the demand to attract and hold high caliber employes continues to be the underlying reason for IBM's stock purchase and stock option plans, the stock option has also proved to be source of new capital for IBM. Together, the stock and option plans have raised al-

most \$1 billion in new funds since their inception. Currently, there are approximately 150,000 IBM employes who buy shares under its stock purchase plan.

The IBM Employe Stock Purchase Plan gives workers an opportunity to purchase IBM stock through payroll deductions. This is done through a series of five consecutive annual offerings of

shares, the first of which began July 1, 1971, the first offering date. Eligible employes on each offering date may purchase IBM stock one share at a time through payroll deductions of up to 10% of compensation. The price for a share of stock is 85% of the average market price on the offering date or on the date the employe has saved enough to

buy the share—whichever price is lower. Eligibility will be extended to all regular employes of the corporation except optionees under any one of the stock option plans.

Under the tax rules, an employe does not realize income at the time he enters the plan or purchases a share. If he does not dispose of the stock within two years from the offering date and six months from the date the share was purchased by him, when he later disposes of the stock, he has ordinary income to the extent of the lesser of (1) 15% of the fair market value of the stock at the offering date; or (2) the amount by which the fair market value of the stock at the time of disposition exceeded the price he paid. Any further gain is

taxed at capital gains rates. No income tax deduction is allowed the corporation.

THE IBM STOCK option plan is designed to recognize the contribution of key personnel. All options will be granted at not less than 100% of the market price of IBM stock on the date the option is granted. Employes may be granted qualified or nonqualified options.

Nonqualified options may also be granted in conjunction with qualified options in the following manner: Both options shall be granted simultaneously, and for the same number of shares, but the nonqualified option will not become exercisable until five years and one day after the date of grant. The number of shares purchasable under the nonqualified option will be reduced on a one-for-one basis as shares are purchased pursuant to the qualified option.

Qualified options granted under the stock option plan have a maximum duration of five years from the date of grant. The qualified options may not be exercised while there is outstanding any other qualified option previously granted to the same individual at a higher price.

All options are nontransferable and may be exercised by an employe only while he is employed or within three months after termination of employment. If he leaves the corporation, he can exercise only those installments which have become purchasable by the time he leaves, and forfeits the remainder. If he dies after the first year of the option while still employed, however, his estate may exercise the option within one year thereafter whether or not the particular installments have become purchasable.

UNDER THE TAX rules, the granting of an option will have no immediate tax consequences to IBM or the employe. For tax purposes, when an optionee exercises a qualified option, he will realize an item of "tax preference" equal to the excess of the market value of the option shares on the purchase date over the option price paid. Under certain circumstances, this tax preference item may be subject to a special 10% tax. If he does not dispose of such shares within three years after such shares are purchased by him, upon the later disposing of the shares he will generally realize a capital gain or loss equal to the difference between his option price and the amount he realizes on the sale. When an optionee exercises a nonqualified option, he will realize ordinary income equal to the difference between the market value of the shares when purchased and the cost of such shares to the optionee. No income tax deduction will be allowed the corporation with respect to shares purchased by an optionee upon the exercise of a qualified option. With respect to the exercise of a nonqualified option, the corporation will be allowed an income tax deduction equal to the excess of the market value of the shares when purchased over the cost of such shares to the optionee. ■

Maternity leave

The Connecticut state senate has approved a proposed measure that will require employers to give pregnant workers eight weeks off to have babies. The bill, however, is being challenged by several Republican senators who have threatened to recall the bill and amend it so that small businesses are exempt.

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Health, life insolvency model being prepared

NEW YORK—A subcommittee now exploring the feasibility of life and disability insurance insolvencies told the annual gathering of the National Association of Insurance Commissioners a model plan of operation for the Life and Health Insurance Guaranty Assn. should be ready for consideration by December.

Only five states now have laws on their books protecting policyholders from health insurers that become financial casualties, the subcommittee reported. Insolvency funds for property and liability insurance, on the other hand, are now established in 41 states.

A motion submitted by the American Life Convention, Life Insurance Assn. of America and the Health Insurance Assn. of America requesting a provision allowing assessed companies to offset payments to their respective states against their premium or income tax liability over a period of not less than five years was rejected. Instead, the subcommittee drafted a motion which asks each state to handle the tax offset question as its experience has shown it can best be done.

The subcommittee, assigned the task of reviewing legislation relating to insurance holding companies, decided that changes in

the model legislation now adopted by regulation or statute in the majority of states should not be made except in instances where trouble seems imminent or where legislation has caused problems in the past.

Rather than amending the model laws, the subcommittee chose to pass the following resolution concerning the definition of "surplus":

"If a state sees fit to exclude the capital from definition of surplus, the commissioners of other states are encouraged to accept this as being in substantial compliance with the model act insofar as the reciprocity provisions of the act are concerned." ■

Meany says: 'No adequate act policing'

WASHINGTON—Labor leader George Meany told union members here he is "impatient" with the Labor Department's target industry technique of enforcing the new Occupational Safety and Health Act and expressed doubt that the federal government will be able to strongly enforce the new law.

Under the target plan, the Labor Department will concentrate its enforcement on five industries which have high rates of accidents, but, until the department receives some financial support from Congress, a small brigade of inspectors will have to do an army's job of inspecting the nation's 4.1 million work places.

"The department just can't do the job of inspection and enforcement that it is required to do with an enforcement staff the size it is now assembling," Mr. Meany said.

The government, to a degree, agrees and has planned to turn over much of the responsibility of enforcing the new law to the states. The administration is pushing to work out the statutory bugs by July, 1972. Interim agreements have already been signed with 27 states and the District of Columbia.

According to Mr. Meany:

"America has already waited too long for the states to take action. There can be no waiting to see what the states do to amend their laws and assume jurisdiction by providing equal or better protection. The legislatures of 32 states will not convene until next year. Eighteen won't meet until 1973, and it is highly unlikely that even many of those that meet next January will be ready to take action of a kind that will relieve the Department of Labor of its responsibility of seeing to it that the nation's work places are made clean and safe." ■

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opinions

Mr. Froehlke's problem

PEOPLE WHO know Assistant Secretary of Defense Robert F. Froehlke say that he is charming and capable, a prince among men. Even the good, gray New York Times quoted a Froehlke associate as saying that he is "a jolly boy who has become a jolly man" when Mr. Froehlke was nominated by President Nixon to be the next secretary of the army.

Mr. Froehlke may need to apply a great deal of charm as well as some of the savvy he gained as eight-time campaign manager for Secretary of Defense Melvin Laird when he appears before the Senate armed services committee for confirmation to his new post. The secretary-designate has promised to answer to the Senate committee charges in *Business Insurance* (June 21, 1971) that he kept his hand in a controversial insurance company conversion deal while he served in his high Defense department post.

Specifically, this magazine, basing its allegations on documents in the files of the Senate antitrust and monopoly subcommittee, said that Mr. Froehlke attended at least one board meeting of the Sentry Insurance Cos. many months after he took his federal post, that he received in Washington a warning that Sentry had suffered "reverses" with the Securities and Exchange Commission, and that Mr. Froehlke as assistant secretary maintained his \$200,000 participation in a proposed loan program that would have enabled him to gain a financial windfall.

We believe that Mr. Froehlke's impropriety in this matter is such that it is a proper subject for Senate inquiry at this time. When he was confirmed to his present post, Mr. Froehlke made no mention of his participation in the company conversion deal, and he gave the committee the clear impression that he was stepping out of all of his Sentry associations to devote himself to his government job. His dabbling in the deal while in Washington was contrary to the spirit of his testimony.

Mr. Froehlke himself called the conversion a "once in a lifetime situation," but he feared that a number of people "for varying reasons" would question the motives of the Sentry management team and might accuse them of making a "big grab." That, Mr. Froehlke, was an accurate prediction. Unfortunately, Mr. Froehlke's impropriety has been an embarrassment to Defense Secretary Melvin Laird, who has been his friend since childhood, and to President Nixon, who has already had enough trouble with nominees submitted to the Senate.

The mutuals' problem

NATIONAL attention focused on Mr. Froehlke's association with the thwarted Sentry conversion plan also spotlights the larger issues involved in the motives behind the thwarted effort to switch Hardware Dealers Mutual Fire Insurance Co. into a stock company

business insurance

for buyers of employe, property and liability protection,
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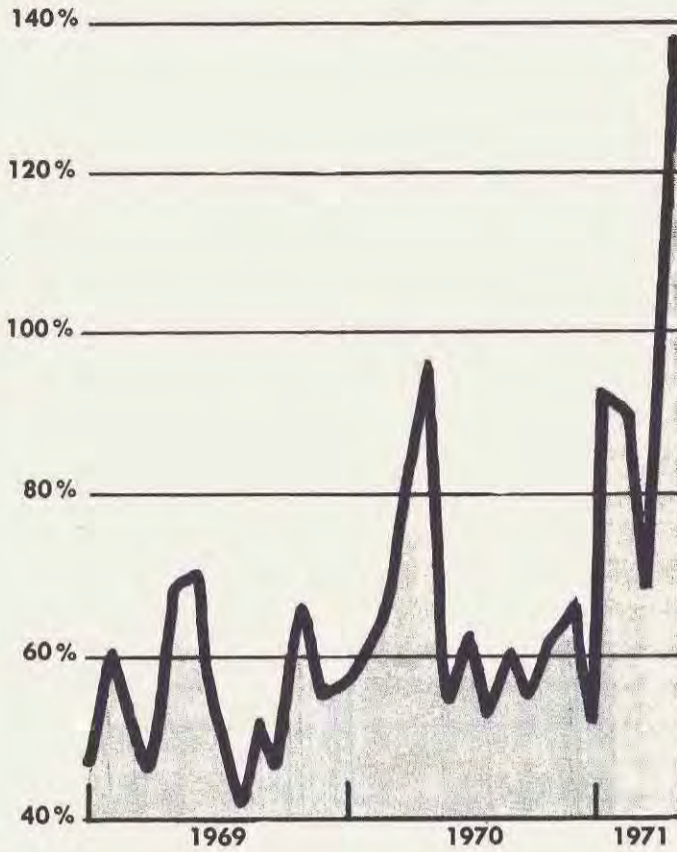
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MUTUAL FUNDS Redemption to Sales



Mutual fund redemptions during May exceeded purchases for the first time in 31 years. An executive of one insurance company that has a mutual fund tie-in said that most of their mutual fund clients have stayed in because of tax advantages. He attributed the heavy redemptions to the reduction in commission levels which remove brokers' incentives to sell mutual funds and said it was a "typical pattern after a bear market."

Source: Investment Company Institute

90% controlled by Sentry Insurance insiders.

Those most sharply critical of the proposed move attribute it solely to "greed" on the part of the Sentry management team, accusing the 33 officers and directors of trying to use the company's surplus to their own financial advantage. We don't subscribe to this argument, though we did editorially applaud the Wisconsin and Michigan insurance commissioners when they opposed the plan as not adequately protecting the interests of policyholders.

We believe that there were several deeper motives that have importance and meaning for mutual property-liability insurance companies and, for that matter, for the entire insurance industry.

Mutual companies were organized, chiefly in the 1900s, to provide insurance at reasonable cost in situations where it might not otherwise be available at all. Hardware Dealers was one of hundreds of "class mutuals" organized in part to provide insurance when special hazards (like kerosene storage) frightened stock insurance companies away from risks that needed protection. Mutual insurance is a uniquely American institution founded on concepts of mutual assistance, thrift and prudence.

But Hardware Dealers and other middle-sized mutual companies have been severely pressed in recent years by the confluence of worsening loss ratios, inflation and resistance to rate increases by state insurance commissioners who themselves have come under heavy pressure from consumer advocates.

Hardware Dealers Mutual was also under another stricture of Wisconsin law that suggested an attempt at a conversion. Wisconsin law until recently prohibited mutual companies from engaging in noninsurance business. This prevents Hardware Dealers and other mutuals from entering into lucrative investments that would be more profitable than wider insurance sales.

The Hardware Dealers case is hardly unique and, though its conversion plan was turned down by the Wisconsin insurance department last year, we can expect other proposed conversions to come up in other states that permit such changes. It is important for the reputation of the insurance industry that future conversions of mutual companies to capital stock companies be more prudently designed than was the thwarted Sentry plan. Protection of policyholders' interests is paramount, and it is the responsibility of insurance commissioners to review carefully the terms of any conversion proposals, as was done by Insurance Commissioner S. C. DuRose in Wisconsin.

It should be of interest to mutual insurance company managers that Insurance Commissioner Herbert Denenberg of Pennsylvania, fresh from his successful demand that public representatives be placed on Blue Cross-Blue Shield boards, will soon insist that personal lines policyholders be represented by public spokesmen on mutual insurance company boards. Such boards are now typically populated by business policyholders who are frequently friendly to management and sometimes beholden to the company managers. Commissioner Denenberg, as usual, has come up with a challenging idea that will be interesting to watch if put into practice.

letters

(This column is a readers' forum. Letters are welcome. Address: Letters to the Editor, Business Insurance, 740 Rush St., Chicago, Ill. 60611.)

Both correct

To the Editor: I enjoy your publication and respect both your advertisers and your editorial staff. But after your June 7 issue, I'm not sure whom to believe:

Article, Page 37: "Holmes protects Tiffany's."

Advertisement, Page 42: "AFA protects Tiffany's"

I'm curious. Who is correct, or are they both?

Norman A. Jacobs

Administrative Vice President,
Amicon Corp., Lexington, Mass.

Editor's note: Mr. Jacobs asks a most valid question. Both the advertising and editorial content of *Business Insurance* are reliable, but never the twain shall meet. In this case, Holmes protects Tiffany's safes and guards the company against burglary. AFA provides Tiffany's with fire protection devices. Holmes, not an advertiser in this magazine, was newsworthy because of the scope of its protection services and the recent retention by the firm of former New York Police Commissioner Howard Leary. AFA, ADT and other competitors of Holmes are welcome to present story ideas to *Business Insurance*, but whether they are used will be determined by the value of their ideas to readers of this magazine. Editorial staff members are encouraged to read our advertising to keep up on trends and fresh approaches in the subjects we cover, but they are never permitted to select or slant stories to favor advertisers. The Bible said it: "When thou doest alms, let not thy left hand know what thy right hand doest."

'Endearing benefit'

To the Editor: Mr. Tom O'Day, public affairs director of American Mutual Insurance Alliance here in Washington, recently brought to my attention an editorial from your magazine entitled, "An endearing benefit."

I was delighted to read of the Searle Company's adoption policy and benefit payment, and also wanted to commend you for carrying this item in your magazine. This is an area which should be of interest to all Americans. I also thought you would be interested to have the enclosed copy of the Congressional Record. I refer you to page S. 7980 and my comments on the Senate floor regarding your write-up.

Bob Packwood

U.S. Senate, Washington, D. C.

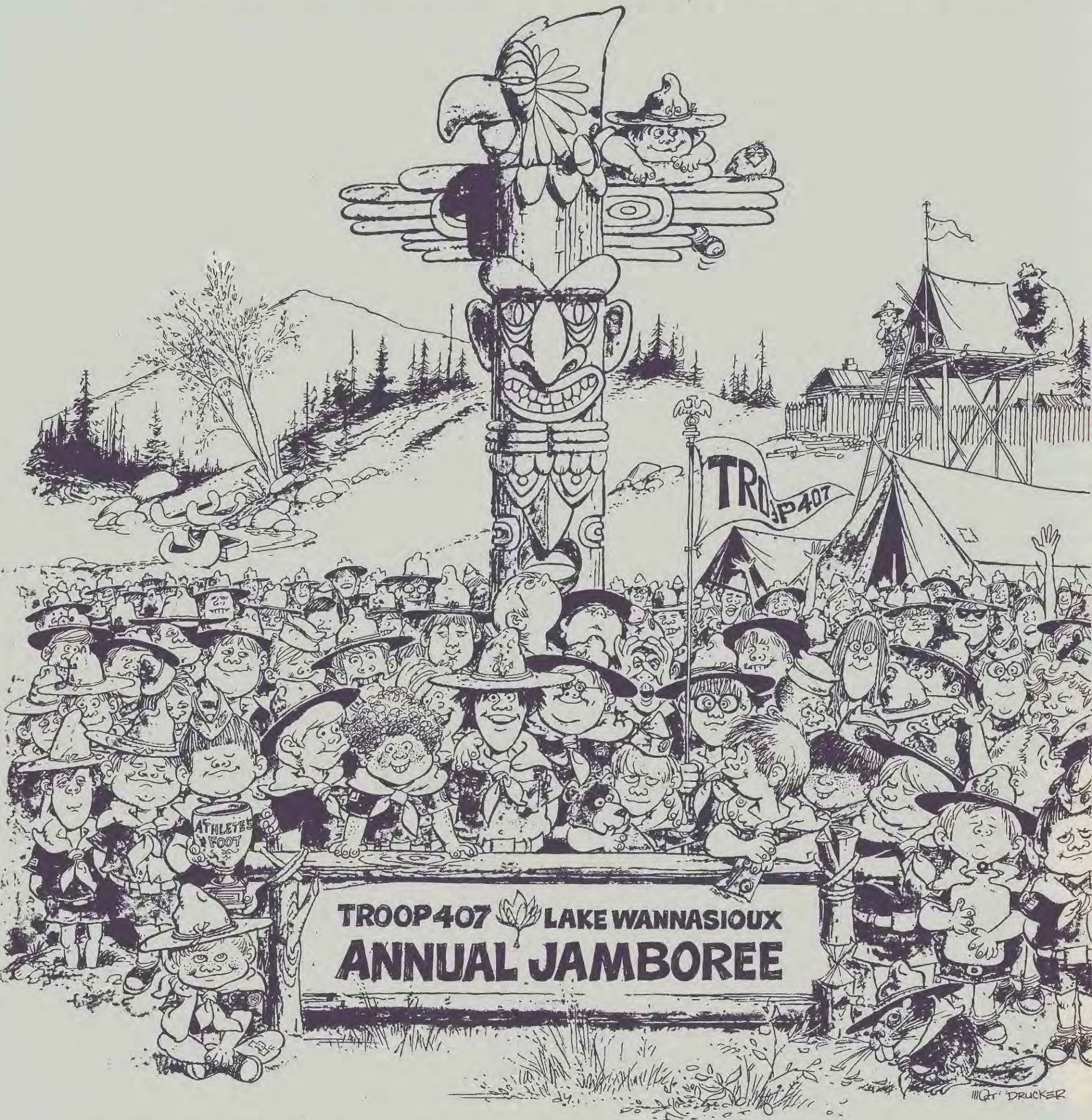
Editor's note: Sen. Packwood refers to an editorial commending G. D. Searle for instituting benefit payments for those employes who adopt children. He related the editorial to his effort in the Senate to obtain population stabilization by voluntary means.

Hecht headline

To the Editor: I have been reading *Business Insurance* for the past several years and have found it to be a very helpful and informative publication. However, your article in the May 24 issue "Hecht pays \$165,000 for false arrest" greatly disturbs me.

Continued on page 26

These boys are trustworthy, loyal, helpful, friendly, courteous, kind, obedient, cheerful, thrifty, brave, clean, reverent and a pain in the neck to most insurance companies.



Individually, they're some of the greatest kids in the world.

But as a group, they're one of the biggest insurance risks you can find.

In fact, any large gathering from a county fair to an annual convention is exactly the kind of group most insurance companies don't even want to talk to. The way they look at it, the bigger the crowd, the bigger the risk.

There is one insurance company, however, that will not only talk to your group, there's a good

chance they'll be able to insure them.

That company is the National Union Fire Insurance Company.

National Union specializes in this particular kind of insurance.

In fact, they'll specialize with up to \$1,000,000 worth of protection for bodily injury and property damage.

And, if the event being covered needs more protection, they'll add on things like personal injury, products liability, non-ownership automo-

bile coverage, blanket contractual, and even rain insurance.

So if you're arranging a Camporee for little boys or a convention for big ones, have your agent or broker get in touch with the insurance company that's willing to insure them.

For a special brochure on National Union's Special Events Insurance, send your business card to National Union Fire Insurance Company, 102 Maiden Lane, New York, N.Y. 10005, or your nearest National Union office.

National Union Fire Insurance Company of Pittsburgh, Pa.



Catastrophe 27.

Code name for a tornado.

The one that came slamming through the heart of Oklahoma City at three o'clock one morning. Came barreling through the court of a new 220-room motel and restaurant, one of our clients. Tearing out windows, doors, ripping up furniture, smashing china, mirrors and glassware.



The Hartford claims man was there three hours after the tornado was gone.

The motel had to be ready for a convention booked for the end of the month. So The Hartford helped line up upholsterers, painters and suppliers.

By the end of the first week the restaurant was operating again. By the end of the month, the motel was handling the convention – thanks in part to a \$50,000 advance payment made by The Hartford.

With 3500 claims people who know the needs of just about any business, with more than 300 claims offices on the spot across the country, with a home office noted for its unusual speed and for its understanding, The Hartford can take a lot of the trouble out of a catastrophe. Quickly. It's a point worth noting when you sit down with your agent or broker.

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That can be a scary prospect for all of you!

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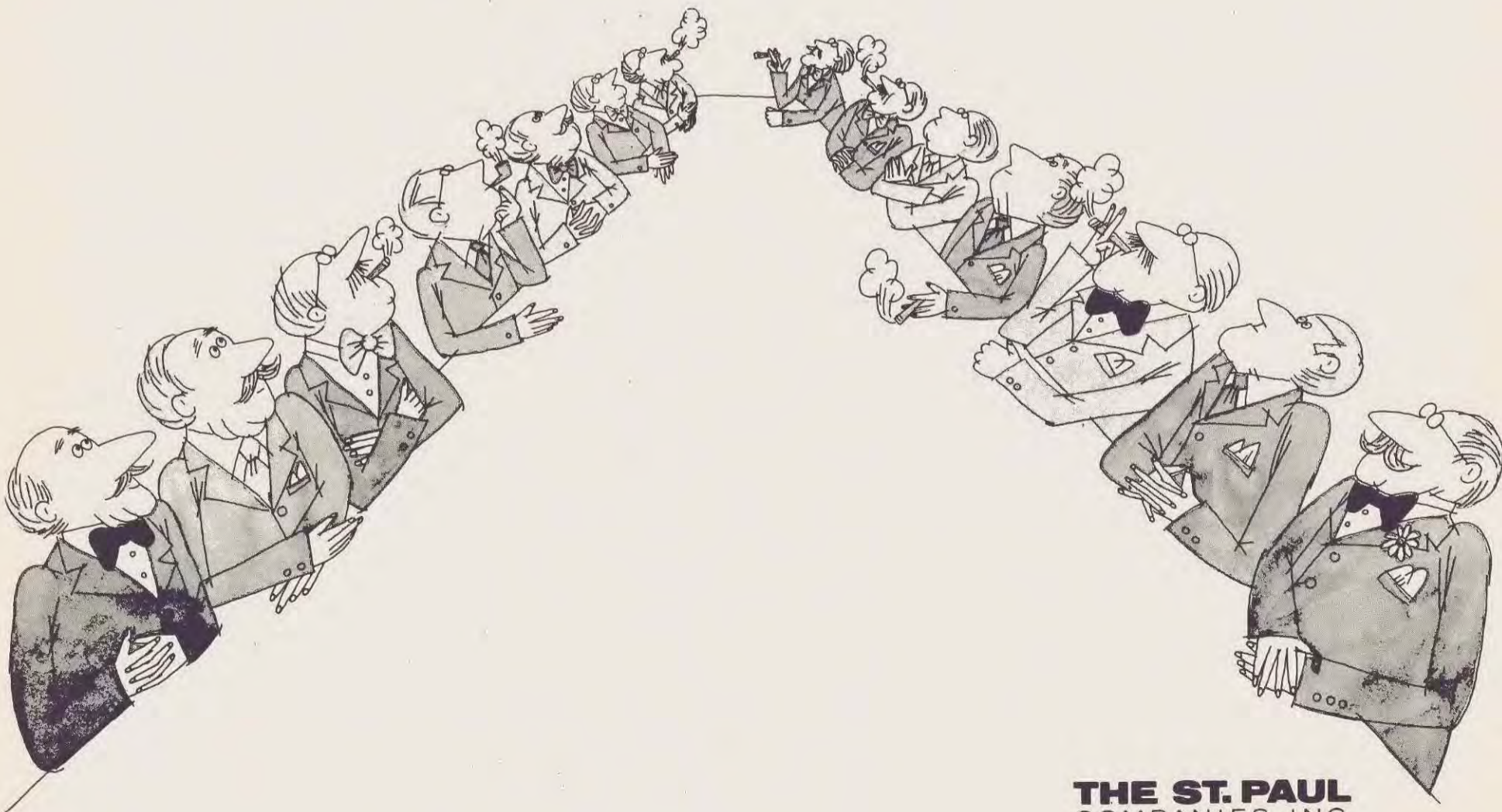
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business insurance/perspective

Rating area follows city racial line: Black agent



by Millard D. Robbins Jr.,
President,
Robbins Insurance Agency Inc.,
Chicago, Ill.

IN JANUARY of this year the Insurance Brokers Assn. of Chicago called a press conference to publicly express the concern and chagrin of its members over the subdividing of the city of Chicago from one insuring base into four and the resulting financial hardship such redistricting has had on black automobile insurance buyers.

Since that time, committees from our association have met with representatives of the American Insurance Assn., Insurance Rating Bureau, Illinois Department of Insurance and representatives of direct writers. The insurers have been adamant. There is no change in their position, their logic, their philosophy or their view toward their social responsibility. Not one single remedial thing has been done. The industry representatives protest strongly that the redistricting has nothing to do with color or race and that it is strictly a matter of statistics to them.

Because we could see no municipal or state relief in sight to correct the discriminatory cost of compulsory automobile insurance coverage levied against the poor, the black and other nonwhite people in the city of Chicago, the members of the Insurance Brokers Assn. petitioned members of Congress, the Secretary of Transportation and other federal government officials to make an independent investigation of our charges of discrimination.

THE SENATE antitrust and monopoly subcommittee, headed by Sen. Philip A. Hart (D-Mich.) met and conducted hearings in Chicago in May. The distillation of our views presented to the committee follows:

The major casualty insurance companies have established a new set of rules for rating auto insurance premiums in Chicago. The result of these new rules is to place an almost unbearable financial burden on blacks.

Heretofore, the city has been treated as one insuring area. Premiums for all people in the same underwriting category have been the same. Now, however, the premium is based on where a person happens to live . . . and the premium for each sector is different.

The city's 227 square miles have been divided into four areas: Northeast Area (44), Northwest (45), Central (43) and South (46). The central area is roughly 100 square miles, gerrymandered so as to cut out the center of the city and entrap practically every black citizen in Chicago.

It is the contention of the creators of the plan that, based on "statistics" compiled by two insurance companies since 1964, area 43 has the highest percentage of accidents and therefore, should be charged the highest premiums.

ONE CRITICAL look at the boundary limits of area 43 and we find that they just about conform to the city's racial pattern outlines. It certainly would be an

extraordinary set of statistics which set the southern boundary of Area 43 at 95th Street and then move westward to Ashland Ave., only to then make a sudden northern dip along Ashland to 47th St. and thence again west to the city limits—thereby excluding Beverly Hills, Gage Park and other essentially white areas.

Area 43 is ringed and crisscrossed by main arterial streets and expressways. The bulk of the city's commerce runs along these streets and thousands upon thousands of motorists, taxi-drivers, and truck drivers go thru the area endlessly day and night.

A CRITICAL review of the new rates shows that Area 45, a virtually 100% white area, enjoys the lowest rates in the city.

Given a resident in Area 43 and one in 45, each with no violations, over 25 years of age, driving less than 10 miles to work and the owner of a moderate priced 1969 car, the premium in Area 43 would be \$176 greater per year.

The resident of Area 43 will pay \$203 a year more for driving a Buick, an Oldsmobile or like car. If he drives a Cadillac or a Lincoln or an Imperial, he will pay about \$257 a year more.

Two cities were selected in each of Chicago's northern, western and southern suburbs and we compared their I-C rates (driving over 10 miles) to I-B rates for Area 43. It was found that the new rates were from \$56 to \$75 lower for the suburban buyer. He could thus drive in to work or shop or whatever, every day, yet pay a lower insurance premium.

WHEN THE 1970 and 1971 premiums for these territories were analyzed, we discovered that the 1971 premium had been reduced or increased by only a dollar or two.

The net effect of this is that the standard rate companies are competing strongly for the suburban market and lowering the suburban rates at the expense of the inner-city people.

Historically, the black automobile insurance market has belonged to the so-called

Continued on following page



by Thomas E. Dunavant,
Assistant Secretary,
Allstate Insurance Cos.,
Northbrook, Illinois

FAIRNESS to all insured car owners, not racial discrimination, is the purpose of the territorial rating plan for the city of Chicago. Premiums are based on insurance losses. Where losses are high, premiums are high. And if one and one equal two, then the charge of discrimination, or "color tax," is obviously unfounded.

Chicago is divided into four zones with different auto insurance premiums fairly based on the rates of insurance loss in those zones. Without such zoning, the insured car owners in light loss areas would have to subsidize the insurance of those in the high-loss areas. The cry of "color tax" is a racially charged device to obscure this simple fact.

The black inner-city residents perhaps are hoaxed most cruelly by such tactics, since they are falsely led to believe that their premium rates are punitive rather than practical.

Zoning is not unique to Chicago; it has long been in effect in other major metropolitan areas of the country, such as New York, Los Angeles, and Detroit.

IN THE INNER-CITY central zone, policy premiums are admittedly higher. But the charge of inequity is misleading. Allstate Insurance Co., which is the largest writer of automobile insurance in the city of Chicago, was among the first to adopt a territorial rating plan. Allstate's purpose was to provide an equitable method of distributing auto insurance costs among Chicago policyholders at the lowest possible price consistent with accepted principles of insurance ratemaking.

As a business judgment, Allstate thought it wise to undertake an extensive study to determine territorial divisions within Chicago. It began by studying U.S. census data on unemployment, housing and population density, and police reports that would bear on automobile insurance loss potential. Allstate also made its own

Auto rating in Chicago fair to all: Insurer exec

physical inspections of the various neighborhoods. It is important to understand that these studies served only to establish boundaries for the territories. They had nothing to do with premium rates. Allstate did not set out to define four subdivisions within Chicago as opposed to three or five or some other number. Instead, the present territories evolved from the grouping of postal zones, which were the building blocks for these territories. The differences in premium rates for these territories were based exclusively on the accident and loss records of the residents of each territory as they have actually happened since 1965.

From these studies, some significant differences in loss potential are shown in the various areas. In essence, Allstate is dealing with high congestion, high crime areas that are divided into north and south portions. These are the areas labeled as territories 2 and 3 and referred to as the north and central territories of Chicago. Identification of these territories leaves remainders of the city to the northwest and south, which are labeled as territories 1 and 4 and referred to as northwest and south territories of Chicago.

Allstate did not begin to charge different prices in these four territorial divisions until five years after its initial study in 1965. Then, as a part of a revision in June, 1970, it introduced variant rates into the four parts of the city for the first time. These rates are based on actual premium and loss experience developed by policyholders in the intervening years.

CONTRARY TO the excessive claims of "color tax," the resulting range of prices for these territories is low. The widest differences are in comprehensive coverage which is heavily affected by the high incidence of auto theft in the central area. For this coverage, Allstate base rates go from a low of \$39 in territory 1 to a high of \$48 in territory 3, or a range of 23%. For the other coverages, base rates are larger in terms of total dollars, but the scale from the highest to lowest is less than 12%. For a policy including all of the usual coverages, the base rates range from \$223 to \$249, or a span of about 12%.

Ratemaking is necessarily a two-part process. The first part involves the overall income of the company compared with the overall outgo for a particular private passenger automobile insurance in Illinois. From such total income and outgo figures, a statewide average premium per automobile could be determined. This would provide the exact same rate for a weekend motorist in a suburb of Peoria as it would for a motorist who lives and drives daily in the heart of Chicago. So the rate making process could end there, if it were fair or economically realistic to charge each policyholder throughout Illinois the same rate.

But it would be neither fair nor realistic, and thus the second part of ratemaking emerges. This is concerned with the establishment of different rates for different classifications based on subdivisions, such as annual mileage, age of driver, the

Continued on following page

Battle Lines

In this Perspective section, *Business Insurance* introduces Battle Lines, a new feature designed to bring to our readers opposing statements on important issues confronting those who buy and sell insurance, benefits, financial services and safety-security devices. This week's Battle Lines concern the raging controversy over rating territories for auto insurance policyholders in Chicago. The issue over the rating territories was joined in May when the

Senate antitrust and monopoly subcommittee held hearings in Chicago that included testimony from black insurance brokers, insurance carriers and the Illinois department of insurance. A suit has been filed against Illinois auto insurers to remove the territorial rating. Though the territories apply only to personal lines auto coverage, we believe that the provision of auto insurance for inner-city residents is of deep concern to *Business Insurance* readers.

Robbins...

Continued from preceding page

specialty or high-risk companies. With the enactment of financial responsibility legislation in Illinois and the resultant heavy demand for liability insurance by blacks, small companies sprang into being to meet this demand because the standard-rate companies didn't want the black business, refused to write it, and, by and large, hold the same posture today.

These small companies went into liquidation with a numbing regularity and it has been estimated that more than 400,000 persons—mostly blacks—have had to bear the burden, the burden of assessments (for mutual policyholders) and eroded or dissipated claims.

It is not my intention to set up these smaller companies as the whipping boys for the industry. Their failure—at least in part—was due to the nature and level of competence of the supervision done by the Illinois insurance department.

OF THE MORE than 435 insurance companies licensed to write automobile insurance in Illinois, we have observed during the 18-year life of our organization that not more than 15 companies have written or now write insurance coverage in the black community. This figure does not include the substandard companies which write 90% of black automobile insurance.

In addition to paying the highest basic premium rate, there are secondary underwriting factors which serve to force this basic premium upward.

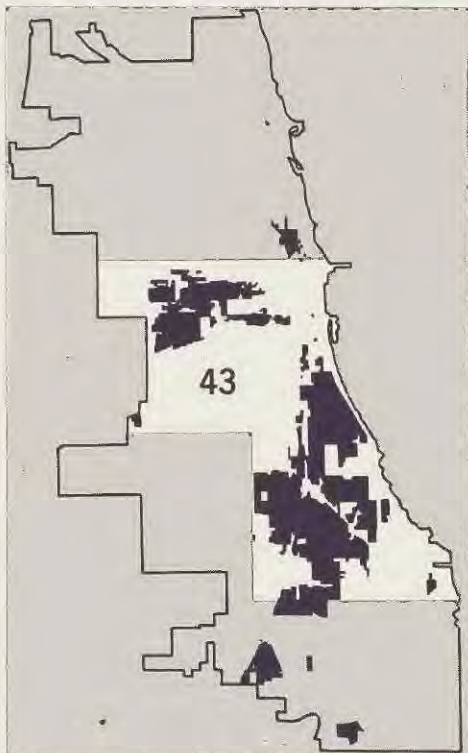
The rating procedure now in force by the standard-rate companies encompasses 410 primary classifications of drivers plus 60 secondary classifications which carry penalty surcharges. There are more than 70 questions and subsections of questions on some company applications.

The high-risk underwriters are not as esoteric but they can match the standard-rate companies with an abundance of occupational exclusions and parts equipment surcharges.

THE UNKNOWLEDGABLE can buy a car off the dealer's floor, with only factory installed equipment, and find that the car has \$50 to \$100 in surchargeable items.

It appears that the auto insurance companies are trying to dissect the population into little parts in an attempt to siphon off the cream of the risks. In doing so, the industry is completely ignoring its overriding social responsibilities and is doing violence to the fundamental insurance principle of spreading the risks.

CHICAGO'S AREA 43 and areas of black residency



Sources: Chicago Urban League and Insurance Services Office.

Sen. Hart observed recently, "Auto insurance pricing is a mix of rating formula and competitive pressures to isolate the so-called 'less desirable' risk and thus maximize profits.

"In adjusting rates by formulas, insurance companies and rating organizations first determine a statewide rate level. They then develop rate level changes by territories and classifications. This means that some are charged more and others less.

"As a consequence, unfair discrimination between motorists of relatively low-rated areas who do commute daily to higher-rated areas and those who do not is inevitable."

MOST COMPANIES require an applicant to be free of accidents or moving violations for the past three years in order to be charged the basic rate premium. And now that the basic rate has been increased by about \$150 for those in the central area, those residents will have a truly enormous auto insurance load to carry. Few will qualify for even the basic premium.

It is virtually impossible for a black to drive one year, to say nothing of three years (usual requirement to get basic rate) without a moving violation ticket.

In an expose, recently, a Chicago daily newspaper disclosed that in high accident areas the police must write an average of eight moving violation tickets per day.

If a policeman is short on his quota, he will do whatever is necessary to make the quota, even by writing tickets indiscriminately.

IT IS SUGGESTED that the overly complicated and unfair underwriting methods should be dropped.

Our association is of the opinion that because of the heavy traffic from outside the city, instead of the city being divided in four parts for rating purposes a whole new concept of the geographic base be considered.

The area used as a study base for the Chicago Area Transportation Study (1956) is far more suitable for such a rating base.

This is a 1,236 square mile area which

approximates a semicircle spreading out from the Loop for roughly 25 miles, with Lake Forest on the north, Park Forest on the south and Wheaton on the west. The outer limits of this area were described in the study as the "commuter shed," a border beyond which there was no significant, regular, daily commuting into Chicago.

THAT STUDY shows that within the built-up-area of the metropolis which includes Chicago and its adjacent suburbs there were 5.2 million persons living, working, shopping and carrying out their daily activities in 1956. On an average weekday, these people made 10.2 million one-way journeys, 7.8 million of them by passenger cars and taxis. All this travel is a measurable expression of the normal daily life in this area.

Among the interesting and pertinent facts drawn from the study are:

- The farther a family lives from the city proper, the more trips are made by the family.

- The lower the population density the greater the car ownership.

- Conversely, in the high density areas of the city there was as high as 40% no-car ownership.

- The people in the suburbs have the cars and use them to travel to Chicago and they should pay some of the freight.

The irony of the present system is that the lower-rated suburbanite—who lowers traffic density in his neighborhood by leaving it for the day—is raising traffic congestion and density (and premiums) for the city dweller.

It seems to be well accepted in almost all quarters that the common law tort liability approach to auto losses is no longer workable and basically progressive legislation of this scope and substance must be federal legislation. The local state houses are too full of lawyers and their pervasive influence for them to let this profitable area of business get out of their hands and control.

Additionally, we believe that the Illinois Insurance Guaranty Fund should be enacted into law as the one way to ease the tremendous burdens heaped on the policyholders and claimants when an insurance

company goes into liquidation.

It is our considered opinion that the time is now ripe to straighten out the racist structure of the insurance business. We believe:

- Rating areas within the city must be abandoned as insuring bases.

- That the 1,200-square-mile area described and detailed in the 1956 Chicago Area Transportation Study should be accepted and adopted as the new rating territory since it effectively defines a commuter shed and would establish the same premium rates for all who use both Chicago and its environs.

- The industry should approve the enactment of federal no-fault legislation.

- That all companies, as a condition of doing business, should write coverages in the entire city—ghetto and all—at rates appropriate for the individual buyer.

- Insurance companies should use the same, if not identical, underwriting rules and regulations so as to avoid underwriting practices being used as effective discriminatory devices.

- That rates should follow the insured and not his place of residence. As a matter of fact there is a lot of logic in writing an automobile policy on an individual much as a life insurance contract is written to follow him for life, amended and changed as he personally changes by age and driving practices and personal loss-ratio.

- That a series of meetings (perhaps on an on-going basis) with company underwriters should be conducted so that they may better understand the black market and the black brokers better understand the underwriters' problem. ■

Millard D. Robbins Jr., a native of Columbus, O., worked for the Treasury department and the Veterans Administration before opening his insurance brokerage firm in 1947. In 1962 he entered the mortgage business. A graduate of Roosevelt University, he has taken courses for a Chartered Property and Casualty Underwriter certificate and courses in the University of Chicago's small businessmen's seminar. He is currently president of the Insurance Brokers Assn. of Chicago.

Dunavant..

Continued from preceding page

cost and age of the auto, frequency of automobile use or any other reasonable basis of rate, including geographical location.

To further clarify an obvious point, consider the hypothetical situation of a company that attempts to serve an entire area at one price, as opponents of the territorial rating plan demand companies do. First, it is at a distinct disadvantage against competitors who operate in the lower loss area but avoid the congested central part of the city. It must assess an extra charge against its policyholders in the lower loss cost areas, over and above the amount needed to provide their coverage, in order to finance or subsidize the underwriting losses it will suffer from policies issued in the central area.

ITS ABILITY to compete in the lower cost areas is diminished against companies that stay out of the central area. As customers disappear in the low loss cost areas the assessment grows larger unless the company pulls back from the central city. And it will eventually have to pull back, unless it is permitted to adjust its price upward to the new average cost situation. In that event, it would finally arrive at a point where it had one price for the entire area, but could sell only in the central city. It could hardly expect to sell outside the city because suburbanites could buy from other companies at lower costs. The other companies, too, would have a single rate for the entire area, but these companies would not offer their policies in the city—indeed, they could not afford to!

In effect, then, there would be rate variation by territory anyway, so far as the motorist is concerned.

This illustration demonstrates the classification principle by showing why the market for automobile insurance becomes restricted when companies are not permitted to employ realistic and equitable rating classifications. It points up the reality that the automobile insurance market tightens like a noose as prospects for profits fade, just as other markets throughout our free enterprise system fade or disappear when profit opportunities are reduced. Most important, it shows that the purpose of classification is to equalize market availability for motorists everywhere in every class by spreading the opportunity for profit evenly over all driver groups.

Before rate zoning, a long-time problem in the inner-city area was the unavailability of insurance. Allstate and a few other reliable firms have always met their responsibility to inner-city markets on a full and fair scale.

Opponents of the zoning system have estimated that as many as 40% of the black inner-city motorists do not carry liability insurance because of a prohibitive cost. If this were the case, it would be cause for a significant concern to other motorists. But the figure of 40% has been advanced only as a guess and without supporting evidence. On the other hand, Illinois Insurance Director James Baylor has replied that the best statistical estimates show that at least 90% of the 700,000 registered cars in Chicago do carry such insurance.

THOSE WHO cry "color tax" are merchants of confusion and injustice. Where liability coverage is now increasingly accessible to inner-city residents, they propose a retrogressive system that would surely restrict the availability of insurance to black motorists. Where major companies are now alleviating the strain of former inequities, the merchants of confusion

promote a system that would only encourage those agents of insecurity who have long fed on the black community. In a time of inflationary insurance costs, the confusion merchants recommend a return to what amounts to a subsidy, where the motorist of one area finances the loss of a motorist in another area.

The responsible insurance company's focus is on the motoring public. Consequently, the motorists' views are the ones that count. Allstate feels these motorists would be dissatisfied with the single territory approach and that their dissatisfaction would spread quickly to agents and brokers, to insurance company managers, to lending institutions, to regulators and legislators and to just about everyone else connected with the problem.

The single territory plan would sharply curtail the availability of coverage to residents of the inner-city. We believe that Chicagoans are not interested in low prices for a product that is suddenly out of stock!

It is not the role of the insurance industry to compel a portion of those it serves to subsidize the insurance costs of one section of its clients. The insurance device was never designed to be an instrument of subsidy and is not equipped to execute such a function. ■

Thomas E. Dunavant is an assistant secretary of Allstate Insurance Cos. Mr. Dunavant joined Allstate in the home office in Skokie, Ill., in 1958 as an assistant state filings director and was promoted to director in 1962. In 1964, he was appointed to his present position in which he directs the preparation and presentation of filing of new classification plans, rate changes and revised policies and endorsements with state insurance commissioners of the U.S. and Canada. Prior to joining Allstate, he was in charge of casualty rate regulation in the Michigan insurance dept.

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Your way to beat the Lags

Three-way financial planning initiated by CNA-allied firms

CHICAGO—A new financial service program that combines a savings and loan account, mutual fund purchase and term life insurance is being mass marketed on a group basis and is aimed at the middle-income worker.

The plan, called Interact, is available through payroll deduction from agents of Valley Forge Life Insurance Co. and registered representatives of CNA Investor Services Inc. It is designed for monthly contributions in units of \$30, \$45 or \$60. John A. Roesser, president of Interact Marketing Co. Inc., which introduced the service, said, "We think this is the first time all three elements have been offered on a large scale ba-

sis in a single package."

Another unique feature of Interact is that it is offered on a non-medical basis up to age 59.

A \$30 payment by the employee is split into \$10 units for savings, life insurance and mutual funds. Reevaluation of a participant's money split is recommended every five years. Participation from age 30 to age 65 would give an employee \$11,433 in savings (predicated on 5% interest compounded daily), \$11,746 in level term life insurance and a \$234 pension purchase option, on a monthly lifetime income basis, at age 65.

THE PLAN IS NOT as rigid as

it sounds, however, and its flexibility, plus the fact that it is portable, should have wide appeal to today's youth market, which often grumbles that pension plans tying them to one company for their entire careers are useless. According to Mr. Roesser the participant can withdraw money from his account at any time because it is in his name and the mutual fund is an even load fund that doesn't tie the investor to a long-term contractual plan or make a heavy initial service charge. And, he added, "this type of plan is welcomed by the Securities and Exchange Commission."

However, Mr. Roesser feels that the key benefit of the Interact

plan is its self-completing feature. After six continuous months of permanent and total disability occurring before age 60 the program provides cash to complete the plan, including repayment for outlays during the waiting period.

Many employers who are providing the opportunity to join the plan as an employee benefit, he said, are splitting the contribution cost with the workers. The only cost to an employer is the actual accounting work involved in the payroll deduction and if he doesn't want to do even that, Mr. Roesser said, employees could be billed on an individual basis.

The employer can also set strictures on the three-way contribution split, depending on how much book work he wants to do. The savings and loan company (or any other financial institution Interact accepts to offer the program) sends the employer one monthly bill.

SOME OF THE groups already participating in the newly offered plan include Majestic Savings & Loan and Syles Advertising Agency in Denver, King County Employees' Assn. in the state of Washington and the Downtown Long Beach Businessmen's Assn., Mr. Roesser told *Business Insurance*.

The Dreyfus Fund Inc. is the main mutual fund being used by Interact but the investor may select any fund he wants. Dreyfus was chosen, Mr. Roesser said, because it was the most acceptable to the saving and loan associations initially involved in the plan and because it is so well known.

The company has filed with the government to make the plan a tax-sheltered annuity, he added.

Interact is described by its designers as a plan that does not attempt to solve all of a man's problems but one that will force him to look at his retirement prospects. ■

Letters

Continued from page 18

I ask you if the headline on that article is not false or at least grossly misleading, especially in view of the last paragraph of the article.

In claims work, I am constantly besieged by people who tell me how much a defendant paid in a given situation when their information is based on articles as misleading as this one appears to be, based on the headline. I think you do a disservice to all parties involved in claims by printing such stories.

S. A. Weller,

Office of Counsel, Midwest Territory, Sears Roebuck and Co., Skokie, Ill.

Editor's Note: Mr. Weller's point is well taken. A court award does not necessarily mean that a defendant "paid" the amount of the judgment, and therefore we have inadvertently made the job of claims departments more difficult. We are reminded of the sage advice an old editor once gave us: "You get bruised jumping to conclusions."

'Sleeping on it'

To the Editor: I don't really think that much deep thinking is done at the office. The usual everyday problems and decisions are of course solved quickly during the day and in the office. For anything else but that, my best "think time" is in the early hours of the day while still in bed just before getting up—and this is usually because I've thought about the problem the night before. So the term "sleeping on it" certainly would be valid in my case.

You may have seen an article in the Wall Street Journal just a while ago describing the work habits and environments of some company presidents, all of whom spend their time away from the office, not only for days but for weeks. I'm sure this is partly because they have found that it is awfully hard to "think" while sitting at their desks.

Walter J. Fraser

Safety Director, Safeway Stores Inc., Oakland, Cal.



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Reinsurance

Continued from page 1

nothing in the agreement will lead us to do anything different."

TRAVELERS IS attempting to protect itself from aggregate losses on small claims from the millions of homes and businesses it protects, Mr. Resony said, rather than losses on any one large property risk it writes.

Why the switch to Prudential? "In this particular arrangement, it was simply a matter of opening up another source," Mr. Resony said. "Now there are more roads to follow, and it's better to have two suppliers than one. These people (Prudential) are big boys, and they have a lot of capacity. They had a lot of surplus money lying around which, up to now, was unavailable to property-liability companies. This arrangement was good for the country and good for us."

With the birth of the Boeing 747 jetnasiums and the speedy work of the New Jersey legislature, Prudential entered the aviation reinsurance market last year, chipping \$15 million into the accident liability pot (*Business Insurance*, July 20, 1970). The giant jets' undreamed of capacities, the increasing tort worth of the passengers and the unending urbanization of the areas the mammoths fly over threatened the airlines' insurance capacities to cover huge potential accident claims. Without increased capacities, the airlines couldn't afford to buy jumbo jets much less fly them and, consequently, they turned to the assets of the life carriers.

ASIDE FROM the airline package, Prudential has been collecting premiums on a homeowners and auto insurance arrangement made last year with the Kemper Insurance Group.

David J. Sherwood, Prudential's property and casualty president, sees his company's entry into the reinsurance field not as a challenge to the leaders but as an expansion of capacity.

"Let me just say we intend to be in the reinsurance business," he said in an interview. "We will be establishing a reinsurance department and we will be providing added capacity in the areas of liability and property and, I think, in the entire market. The agreement with Travelers has been in the back of our minds for a long time. I will admit it came along earlier than we expected."

Prudential is not now negotiating reinsurance packages with any other companies, Mr. Sherwood said, stressing that future reinsurance dealings "are still in the planning stages."

"We haven't defined what areas we will be in and won't," he said. "The first step is to get our reinsurance department personnel organized and then determine what realms we will be in. This thing is in the development stages, and we don't want to encourage a lot of brokers to be knocking on our door Monday morning. We're a long way from being operational."

MR. SHERWOOD described the numerous insurance pools in the U.S. which are seeking added capacity as "naturals" for future Prudential investment.

Metropolitan has been legally held in the gate for a year and is chomping at the bit, sources say, very eager to invest its \$15 million to insure not only passenger liability but the plane and the property and people it flies over. When the two companies faced the hurdle of legislative sanction last year, bills were entered both in the New Jersey and New York

legislatures.

Backed by Newark-based Prudential, the New Jersey bill met quick approval. The New York bill—sponsored not by Metropolitan but by a small casualty company—got lost somewhere in the dense house committee system and couldn't find its way out before adjournment. This year, Met, in its words, "called attention to it" and the bill passed with no difficulty. The legislation is now awaiting New York Governor Nelson Rockefeller's signature, and will automatically become law July 6, signature or not.

Metropolitan's strategists say they are well-trained and well-experienced and are ready to out-hustle Prudential. Edward A. Lew, vp and actuary, is now gathering world experts in risk theory for an October cram session and is experimenting with a century-old Finnish mathematical approach to insuring potential losses which have never in histo-

ry been experienced.

Other major life companies, knowledgeable sources say, are just as ready to join the swelling aviation pool and the reinsurance market in general.

"It's obvious the other major life companies won't think it's a stupid thing to do once they see the two largest companies jumping right in," one life company man said last week. "And once this new airline capacity increases to \$50 million, the pool may well be the dominant reinsurance pool in the world."

Word of this threat is said to be giving Lloyd's of London some reason for anguish. The syndicate, in what American reinsurance elites term its "British temperament," is taking the challenge all very personally. Until this American insurgence, Lloyd's was the undisputed world reinsurance leader. But it isn't personal, sources say, merely natural.

"There are over 200 million

people in the United States and there are somewhere near 50 million people in Britain," one U.S. life insurance executive told this magazine. "We have increasingly more people, therefore we're getting increasingly more powerful financially. Britain is like an old man who wants to play singles lawn tennis after he's long fit. Lloyd's is simply trying to play a role it cannot."

MEANWHILE, the top U.S. reinsurers—including kingpin General Reinsurance—are seeking information and are waiting for the next moves by Prudential and Metropolitan.

"We're waiting to see what their plans are," a General Re executive said. "These companies have great capacity, and, if they bring it to bear irresponsibly, it will have an adverse affect on the reinsurance market. If they do it responsibly, that's something else."

Given this country's ability to breed, the airlines will soon want more 747s and the people who lend them the money to purchase them will insist they be fully insured, the speculators say. Once technology either pacifies and/or prevails over Congress, jets a la SST are expected to be built, again increasing capacity demands. The risk experts say increased exposures will undoubtedly lead to more life insurer participation. Continuing urban buildup which, when located on a hurricane-prone coastline or an earthquake-prone chunk of mountain, will also result in new reinsurance deals similar to the Prudential-Travelers package.

The experts say things have just begun. The London market is being deposed and the giant American life companies are racing for the throne. The competitors appear well aware they are running for one of the biggest purses of the season.

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N. Y. uniformed employes to wait for study to get pension increases

NEW YORK—City fathers here told 52,000 members of three uniformed employes' unions that they would grant no pension improvements until a newly created state pension commission had completed studies and made recommendations next year on future benefits.

This latest development in the city's continuing pension saga came late last month, and a day or two before New York City officials were to resume contract negotiations with the 30,000-member Patrolmen's Benevolent Assn., the 11,300-member Uniformed Firefighters Assn. and the 11,000-member Uniformed Sanitationmen's Assn.

The newly formed pension commission, which was established by the last legislature because of burgeoning public employe retirement plan costs, has been directed to submit guidelines to next year's legislators for regulating such benefits.

THE SAME SESSION of the legislature failed to approve changes in pensions negotiated between the city and District Council 37, State, County and Municipal Employes, for more than 100,000 white collar city employes. The improvements would have provided retirement at half pay after 20 years of service and full pay after 40 years. The denial

of the change, which actuaries said would have had a financially devastating effect on the city in years to come, led to a two-day tie-up of the city by several hundred key employes last month (*Business Insurance*, June 21, 1971).

The statement that no pension improvements would be forthcoming in the police, fire and sanitation department contracts now being negotiated to supplant pacts that expired last Dec. 31 came from Mayor Lindsay's Labor Policy Committee. It said, in part:

"In view of the state legislature's action in creating this commission on pensions, and its fail-

ure to enact the district 37 pension bill, no constructive purpose would be served by bargaining on pensions until the commission makes its recommendations to the state legislature for pension guidelines."

FIREMEN AND POLICEMEN now retire at half of their final year's earnings (including overtime pay) after 20 years of service. For each year beyond 20, policemen receive an additional 1.6% of their average annual salary. This is computed from the date on which they reach 20 years of service; thus, after 40 years they retire at about 83% of base salary.

Sanitationmen, on the other hand, retire at half pay after 20 years and at about 75% of pay after 40 years.

Two months ago the firemen's union rejected an impasse panel's contract proposal that included,

in addition to salary increases, a full-pay pension after 40 years. At that time, it was said that the union rejection was based primarily on its demands for a full-pay pension after 35 years.

Commenting on the most recent dispatch from the mayor's Labor Policy Committee, Edward J. Kiernan, president of the patrolmen's union, said:

"That's their opinion. We don't agree."

Truck . . .

Continued from page 3

housed in 22 terminals in New York, New Jersey, Connecticut, Pennsylvania, Delaware, Washington, D.C. and Virginia. According to Mr. McReil, the company has found that fences and guards are the best protection.

Once back in the office and ensconced behind his wide, well-ordered desk, Mr. McReil discussed claims handling under a self-insurance program. "With no primary insurance," he said, leaning back in his black chair, "you do not have the services of an insurance company claims department to fall back on. Self-insurance programs require the services of trained claims people, particularly in the areas of liability and workmen's comp. We have found it advantageous to hire experienced personnel and train them in our specific business. We have a well-qualified claims staff of 17 that can handle most situations; in emergencies we use outside adjustors and attorneys."

Eastern's insurance staff has a committed boss. Bob McReil puts in a good 12 hours at the office every day and has his Cadillac equipped with a dictaphone and a telephone, "so I can take advantage of the hour drive to and from the office to get more work done." Mr. McReil lives in a town 40 miles from Carlstadt with his wife and four daughters.

"For claims over \$500," he said with finality, "I see every check and I go over every file. Our biggest problem is damaged cargo. It's concealed damage, you see, because freight is shipped inside boxes. Our men deliver a crate, it's opened—and the contents are all busted up. Now who broke it—the sender who packed it, my guy who carried it, or the receiver who might have unloaded it? These situations are constant problems."

ASKED WHAT he does about theft, Mr. McReil laughed and said "Pray." He considered and continued: "We keep what we call a shortage file on guys who make a delivery that's short. There's a card on each incident, and if one man piles up enough so the shortages don't seem to be from other causes we call him in and have it out. This is a universal problem in the trucking industry."

Referring to the planned captive insurance company and to his own three-month-old appointment as a vp of Eastern, Mr. McReil said, "this company knows the financial importance of insurance." He said Eastern's present insurance department will staff the captive. What will his own title be? "General clerk," he laughed. "A title doesn't make any money for anybody."

Fund investment law

Gov. Tom McCall of Oregon has signed into law a bill that permits the state accident insurance fund to invest in real property for the use of its own operation, and subjects any such properties to property taxes. An expenditure limitation is established at \$3.9 million.

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Protecting your computer—ask what it does and what you need to backup

CHICAGO—Protecting the computer that runs a widely scattered national or international business requires expertise and full-time attention. At the computer protection insurance workshop sponsored by *Business Insurance* and *Computerworld* here the experts told the audience "how to do it right."

Michael T. Verbick, director of systems and data processing at Playboy Enterprises Inc., said that physical security for the computer system that runs their \$100 billion-a-year-plus business starts right at the reception desk. Picture identification cards are used by employees for admittance and visitors must be accompanied by an employee. The security department steps in if there is any problem whatsoever.

"Frankly, that reception area is our area of greatest vulnerability," he said. "I'd like to see a wall of riotproof glass across it with a door that can be opened by a key or a buzzer at the receptionist's desk."

THE DOCUMENTATION for systems and programs, he continued, is kept under lock in the systems and programming area and is designed to protect Playboy against "the lazy programmer who documents nothing and leaves you holding the bag when there is a program problem and he's left the company."

Doors in the computer area will

soon be fitted with combination locks, he said, and programmers and other personnel are not allowed in. "Some doors in this area will have push bars to escape by in case of fire," explained Mr. Verbick, "but the use of these doors will trigger an alarm at a remote station that is constantly manned."

Playboy's computer library is accessible only by locked door and to a limited number of personnel. Inventory tape is checked weekly, he said, and discrepancies are reconciled immediately.

Security checks are run on all new personnel, and building passes for material leaving the building can be signed only by a limited number of employees. "Our guards in the lobby have been oriented as to what magnetic tape looks like," he added.

The security officer at Playboy is a former FBI agent and Mr. Verbick told the workshop that "we've learned not to play detective"—the security man is the professional and tests their protection systems periodically.

WHEN PLAYBOY set up its backup system it assumed a catastrophe of major proportions had taken place and then defined what it would need to do to get back into business. Four of the areas of concern that Mr. Verbick expanded on are:

- People—Playboy has a list of every person in systems and data

processing and their address and telephone number and a hierarchy of telephone call responsibility. Following a catastrophe employees would be advised to stay near their phones until called to report to a new operating location.

- Hardware—The company has a list of other installations similar to theirs and has agreements with the appropriate personnel in each of the backup locations to use their equipment for a reasonable amount of time.

- Operating system—"We have a copy of our operating system as a backup within our installation but we also have a copy at our warehouse, located about 10 miles away," Mr. Verbick said. Playboy also uses the father-grandfather approach on its files, with father files in a 2,000 degree, two-hour safe at the installation, son files in the library and grandfather files at the warehouse.

- Input data—All Playboy Club transactions are sent to the computer center by teletype and the checks themselves remain at the clubs. There is only one-day's business on the premises at any given time.

Mr. Verbick estimated that, with the kind of backup it has, Playboy could be back in business in less than a week after a disaster.

Continued on page 32

COMPUTER WORKSHOP



The computer security panel drew many questions from the floor at the Chicago workshop.

Ten-point guide offers EDP security; privacy

CHICAGO—In this age of computers the subject of privacy versus security is often the source of heated debate. Melvin Bockelman, manager of computer facilities for the Kansas City, Mo., police department, told the *Business Insurance-Computerworld* workshop here that both have different values and it is up to data processing experts to educate the public "on what this machine is all about and what it has done and what it will continue to do in the service of humanity."

He defined "privacy" as a social question relating to the collection of data and the input to the computer. "It involves defining parameters of when, where, with whom, what, how and why," he said, and deciding what information should be stored, shared and withheld. The solution to the privacy problem, Mr. Bockelman feels, requires the information seeker to discipline himself in determining his legitimate information needs.

"Security concerns the safeguard of information once it is stored in the computer," he told the workshop. "From an operational point of view, there are three basic problem areas relevant to security and privacy. These are unintentional errors, misuse of data and intentional data change."

MR. BOCKELMAN offered ten major guidelines to insure reasonable privacy within ethical and acceptable standards of society. They are designed, he said, "to respond to both the right of the citizen, and the right of government and industry to collect and maintain data in our environment."

- Limit data in the system to that based on a source document

on file in the agency exercising management control over the system.

- Spend approximately 5% of the total automation budget on data verification against source documents. This could be done through printouts of automated files for validation against their original sources; programs to identify incorrect codes and data for correction against the source; programs to edit against relationship conditions and requirements; provision of the clerical staff that is necessary to insure proper validation.

- Institute education programs for those employing system data, especially that from remote terminals.

- Program the system to exclude all inquiries inconsistent to

Continued on page 32

Edutronics offers workshop cassettes

LOS ANGELES—Audio-cassettes, complete journals of the *Business Insurance-Computerworld* computer protection/insurance workshop, are available to *Business Insurance* readers.

Edutronics Systems International Inc., 3345 Wilshire Blvd., Los Angeles, Cal. 90010, offers four audio-cassettes containing the entire workshop proceedings for \$50.

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Protecting . . .

Continued from page 31

PROTECTING computer operations for Household Finance Corp., according to Karl W. Fruecht, vp, requires understanding that 1,300 branch offices in the U.S. and 350 in Canada are depending on your equipment.

HFC's computer operation is a separate division known as OR-

BIT, an acronym for on-line, real-time, branch information transmission, and is the largest real-time computer application in the consumer finance industry. Plans to expand the ORBIT system to from 5,000 to 6,000 remote terminals with the U.S. and Canada, Mr. Fruecht noted, call for greater security precautions in the future.

The ORBIT central computer room contains all equipment, fa-

cilities and programs, he said. Central processing equipment has been duplicated on site and only one of the main computers is essential to the operations.

Mr. Fruecht agreed with Mr. Verbick that the best way to find out what you need in the way of physical protection is to assume a catastrophic loss has occurred. Duplicate tapes of all account records and programs, on a father and grandfather basis, are stored in a fire-resistant library in a separate part of the building, he said, as well as in an underground bomb-proof shelter.

ORBIT WOULD face a problem if the facilities themselves were destroyed, he noted, because "investigation has proven that there is no other complex like it, and of its size, which we could use during reconstruction."

ORBIT's computer site was formerly arranged on a showcase format, he said, with glass walls and opportunity to view ongoing work from a public lobby. "We have since followed a prime concept for security," he told the workshop; "don't advertise and you will not attract." The use of glass is being phased out and the operation is now hidden behind unmarked doors and all reference

to it has been removed from the building's lobby directory, he said.

Unauthorized entry into the computer area was formerly handled by an alarm system, Mr. Fruecht continued, but that, too, is now viewed as "primitive" and is being updated. "We have on the drawing boards plans to partition our lobby in such a way as to provide a limited-access area," he explained, which uses an electronically locked door to prevent

COMPUTER WORKSHOP

unwanted entry.

Location in a suburban area, he said, was considered as a means of protection but the Chicago loop offered advantages that better met ORBIT's needs. Communication lines are well established and not as vulnerable to disruption as in a new community, he noted, because they are underground and the site is just a few blocks from the main American Telephone & Telegraph switching station.

First National City's life cover okayed

ALBANY, N.Y.—The New York State Assn of Life Underwriters has been defeated in its attempt to prevent First National City Bank from selling life insurance to its savings depositors.

The underwriters association had tried to obtain a preliminary injunction against the bank but a state supreme court judge denied the motion. The insurance coverage in question is written by Connecticut General Life Insurance Co. through Johnson & Higgins (*Business Insurance*, June 7, 1971).

First National City Bank, the largest commercial bank in New York, is the first to offer such insurance in the state, though savings banks have been selling life insurance to depositors for years.

Allegheny crash covered

NEW HAVEN, Conn.—An Allegheny airlines Convair 580, which crashed on approach to the airport here early this month killing 26 of 28 people on board, is insured by the U.S. Aviation Insurance Group.

Sources told *Business Insurance* both the hull of the craft—insured for less than \$1 million—and a primary layer of liability are covered by the aviation group under a policy on the regional airline's entire fleet.

Ten-point . . .

Continued from page 31 system rules.

- Telecommunications systems should log for examination all actions on the network.

- Program systems should provide for "locked data files" requiring proper codes or passwords to be read and matched by the computer to authorize file access.

- Library security and inventory controls should prevent duplication and removal of files by unauthorized sources.

- Programmed control over remote terminal operations should provide access to only those real time files to which the user has prior clearance.

- Clearly inform data users that careless use represents unprofessional conduct and may be subject to disciplinary or litigation action. Write a procedure to clearly identify to whom data may be released, under what circumstances and whether identity of the citizen should be removed before release.

- Include on application forms an opportunity for citizens to indicate whether they want their names to be referred to other prospective business interests.

"I believe that computerized data banks designed and created around the 10 preceding guidelines will enhance rather than diminish individual human rights," Mr. Bockelman concluded, "and will afford a greater guarantee of privacy and security than a manually based filing system could ever possibly afford. The real challenge, as I see it, is for those of us directly or indirectly involved with the computer to insure that automated information systems are rigidly controlled according to ethical procedures of our times." ■

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Analyze computer use for proper protection

By TERESA NORTON

CHICAGO—Insuring of electronic data processing equipment is only a small part of a fire protection program, according to Rolf H. Jensen; the analysis of the computer's use, which precedes insurance purchasing, is much more important.

Mr. Jensen is president of Rolf Jensen and Associates Inc., fire protection and building code consultants, and chairman of the fire protection engineering department of the Illinois Institute of Technology. As a panelist, he told the *Business Insurance-Computerworld* computer protection/insurance workshop here that there are five questions a risk manager must ask himself when establishing an EDP protection program:

- In the area of function, what does the computer mean to your business?
- Is it owned or leased?
- How can the computer's function be continued if you lose the computer installation?

CONCERNING the first three questions he posed, Mr. Jensen told the workshop: "If there is duplicate equipment you can use, or if you have adequate storage of information, or if you can go without the installation—you may have your whole program of protection right there."

But, he continued, a computer that is unique is "another story entirely." As an example, he mentioned a computer he recently inspected that controls an entire warehouse and is used to minimize the number of miles driven by loaders. "There is no other kind of computer like this one in the world," he said, "and there would be chaos if it broke down."

And so, the fourth and fifth

Just because you lease your computer instead of owning it don't think your liability problems stop there, warned Warren G. Brockmeier, director of the Western region of the risk management department of Ebasco Services Inc., a general management consulting firm. IBM, he said, is one company that doesn't hold the lessee responsible for much that happens, but that isn't true of other lessors.

Some contracts, he continued, don't hold the lessee responsible for anything as long as the computer is housed in a building meeting National Fire Protection Assn. standards. Other contracts exclude certain perils but are not written on a broad, all-risk basis. And still other leases, he said, hold lessee responsible only if damage is due to his negligence.

Although direct loss from physical damage is certainly impor-



Fire protection panel at the Business Insurance-Computerworld computer workshop was moderated by Richard C. Bjorklund, editor of *Business Insurance*, (left) and included a lead-off statement by Rolf H. Jensen, (right) chairman of the fire protection engineering department at Illinois Institute of Technology and a consulting fire engineer.

—Business Insurance photo

COMPUTER WORKSHOP

questions a risk manager should ask himself, he said, are:

- How special is your computer?
- To what hazards is it exposed?

One "special" computer Mr. Jensen inspected in Georgia was well protected against hazards—almost—he said. The machine controlled the payroll, inventory and product flow for a huge warehouse and the room housing it had a fire separation wall, a raised floor and a separate air conditioning system. But directly underneath the air conditioning system he found a stack of cardboard cartons 14-feet high.

COMPUTER LOCATION is a problem that has followed the sophistication of the machine, noted Fred Zeleny, chief engineer of the Western regional office of Factory Insurance Assn. Initial use of computers was only for process analysis, he said, but now that they perform the actual processing function and are located in the middles of plants and warehouses they are subject to a great many more hazards.



Warren G. Brockmeier

tant, Mr. Brockmeier told risk and computer experts present that the area of consequential loss should concern them more.

INSURANCE may protect the media on which a company has programmed its information but it doesn't do much to restore lost information to the media, he reminded. In the long run, he believes it is better to prevent a software loss of this type by storing duplicate tapes in an off-

premises location with inferior protection than in an on-premises site with good protection.

Also in the area of consequential losses, he added, the risk manager must consider the extra expense of renting other EDP equipment or switching to a manual system and the cost of duplicating information. The costs of business interruption and of an accounts receivable loss should not be forgotten either, Mr. Brockmeier told the audience, because even if accounts receivable money isn't lost forever, the loss may necessitate borrowing capital to continue business.

A very exotic consequential loss that a company he is familiar with must protect against, he said, involves oil leases. Retention of the many leases for prime oil sites owned by the company, he explained, hinges on computerized payments made throughout

the year. "Not enough insurance could ever be purchased," he said, to cover a computer loss that resulted in nonpayment of one of the leases.

Computer fire-fighting tools themselves were discussed in a question-and-answer session following the panel presentation and Mr. Jensen emphasized that selection of method, again, depends on how special a computer is.

Protection of a common machine, whose function can easily be duplicated, should begin with products-of-combustion detectors. "I never would recommend use of a less sensitive type of detector," he said. These should be used when a company has a 24-hour, seven-day-attended operation run by employees trained and provided with proper extinguishers.

Protection of an uncommon machine, whose function cannot be easily duplicated, he continued, should combine products-of-combustion detectors, a sprinkler system and a pre-action system design. The cost of installing a pre-action system, Mr. Jensen noted, is justified because unwanted initiation of the protection system can be prevented.

The importance of a pre-action system was demonstrated when Mr. Zeleny mentioned a products-of-combustion device that was so sensitive it was activated by fumes from a lift truck parked 25 feet from a fire protection wall.

Sprinkler protection, carbon dioxide and Halon 1301 and 1211 were compared in the session.

Continued on page 36



Fred Zeleny

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Surety covers Chicago plan

CHICAGO—A spokesman for American Motorists Insurance Co. told *Business Insurance* that the cancellation of its \$100,000 surety bond on Chicago Plan job program employees had nothing to do with "personnel involved" in a check-bouncing scandal unfolding here.

Alderman Fred D. Hubbard, director of the plan, has been charged in a federal warrant with forging at least one check on the program's bank account, from which \$98,450 has been stolen, according to the Cook County state's attorney's office.

Thomas Patton, head of bond sales at American Motorists, part of the Kemper Insurance Group here, said that the surety bond, written in March, was cancelled because "from an underwriting point of view, some questions we asked weren't answered." The information requested concerned the plan's operating procedures.

The \$20,000 check forgery with which Ald. Hubbard has been charged occurred after cancellation of the surety bond but Mr. Patton said that the insurer may be liable for part of the loss. "If Ald. Hubbard falls within the definition of 'employee' under the contract," he told *Business Insurance*, "Kemper will repond." ■

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Analyze . . .

Continued from page 34

"Water isn't the worst sort of thing," Mr. Zeleny said of sprinkler systems. Other protectors may control a fire, he said, but "you usually end up with water to end it." Water will also wash out soot damage, he continued, although he added that FIA didn't recommend letting a fire progress that far. "A fire should be stopped before this stage," said Mr. Zeleny, "but if it takes water to protect the remaining facilities at a site, don't be afraid to use sprinklers."

In Mr. Jensen's opinion carbon dioxide extinguishers are "useless" in computer room fires. Tests run by Underwriters Laboratories for Illinois Bell Telephone Co., he said, proved that water or carbon dioxide didn't do the trick because, for one thing, a sprinkler doesn't protect against fire in under-floor wiring spaces or inside the computer. However, Mr. Zeleny added that under-floor spaces are generally so low that carbon dioxide is the only protection that will work.

Employe safety problems came to the fore in comparisons of carbon dioxide and Halon protection. Halon 1211, Mr. Jensen told the workshop, is not recommended by the NFPA's Halon committee for use in normally occupied spaces. Carbon dioxide also presents a danger, he said, because a 55% concentration is required for a Class A fire and it only takes a 16% concentration to kill.

Halon 1301 gives "no discernable problems over toxicity up to a 7% concentration" and if employes can be evacuated in 30 seconds a 7% to 10% concentration is safe, Mr. Jensen said. A concentration of Halon sufficient to end flame while employes are still in the computer room is

therefore possible.

One thing the NFPA Halon committee has found out, he said, is that it "doesn't know what a Class A fire is. Whether a fire is surface claiming or deep seated determines how well you can extinguish it." A surface-claiming fire can be put out with a 4% concentration but a deep-seated fire may require a 20% concen-

COMPUTER WORKSHOP

tration, he explained. Product soaking or holding time is also being investigated by the committee.

DuPont, Fenwal, Inc. The Ansul Co., Cardox and Safety First are sponsoring a test program right now, he told the workshop, to evaluate Halon extinguishing characteristics.

Carbon dioxide is cheaper per pound than Halon, the panel noted, but seven or eight times less Halon is needed and therefore the system requires less equipment installation.

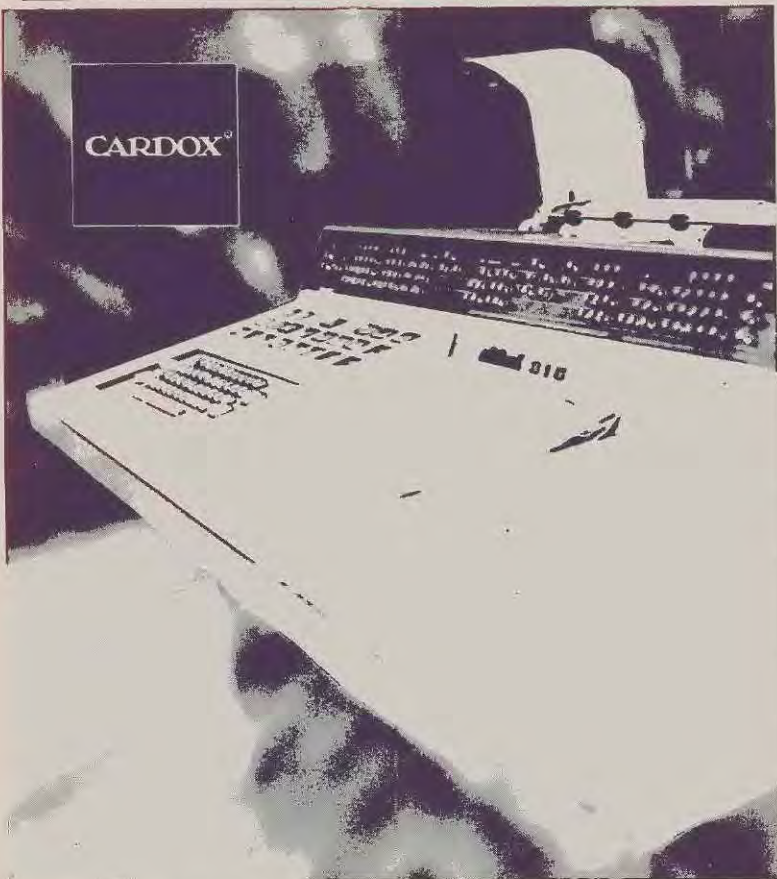
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Computer talk went on at coffee breaks at the Business Insurance-Computerworld computer workshop at the Pick-Congress hotel in Chicago. Here, left to right, are Joseph L. Wauters Jr., regional sales manager, Arkwright-Boston Insurance Co., New York; W. J. Condon, supervisor, EDP division, Sacramento Municipal Utility District, Sacramento, Cal.; J. Payne, manager, general services department, Sacramento Utility District, and Donald Klink, assistant regional chief engineer, Arkwright-Boston Insurance Co., New York.



Luncheon companions at the workshop were, left to right, Paul Oswald, Cook Electric Co., Morton Grove, Ill.; Paul Vahrenwald, director of data processing, Cook Electric Co.; Phil Bracfute, manager of systems operation, Berkline Corp., Morristown, Tenn.; T. J. Kennedy Jr., president, Knoxville Computer Center, Knoxville, Tenn.; William Reach, Merri-dex Computer Inc., Louisville, Ky.; R. B. Edga, assistant to the commercial property department manager, Chubb & Son, Short Hills, N.J., and W. H. Burder, senior supervisor, GAC track and coach division, Pontiac, Mich.



A question is addressed to workshop speaker by Louis Keiser, Lyons Transportation Lines, Erie, Pa.



Organizers of the workshop, left to right, are Patrick J. McGovern, publisher of Computerworld; Myron A. Hartenfeld, exec vp, Crain Communications Inc., and Alfred Malecki, publisher of Business Insurance.



Mutual concern about the protection and insurance of computer installations is discussed by, left to right, Mrs. Judy Graff, assistant manager, Michael Reese Hospital, Chicago; Thomas J. Lynch, assistant treasurer, Peerless Tube Co., Bloomfield, N.J., and Joseph L. Forte, data processing manager, Peerless Tube Co.

—Business Insurance photos

Employees now pose growing security risk

CHICAGO—As increased physical protection has made access to data processing centers more difficult, employees are now becoming the biggest security risks, according to Dr. Robert E. Wiper, a behavioral psychologist.

Dr. Wiper spoke to an audience of insurance executives, corporate risk managers and data processing professionals at the computer protection/insurance workshop sponsored by *Business Insurance* and *Computerworld* magazine here.

"Serious losses such as sabotage, theft and data embezzlement are more likely to be perpetrated by an employee," he said, "than by an outsider since security measures undertaken by many data centers have placed the employees in a position where they are more subject to attempts at bribery or extortion."

As an example, he pointed

urged, in data processing, and he recommended a management devoted to goal-oriented employees.

"A keypunch operator may be grateful for his job and for the opportunities it offers, but the realization that a keypuncher he is and a keypuncher he will remain will build into job dissatisfaction. With job dissatisfaction comes not disloyalty but no reason to be loyal. A grievance follows that.

"That keypuncher has both the right to advance and the right to the training he needs to advance. If he does not advance, he must thoroughly understand that it is his own doing and not the fault of his company. Even then he should be guarded against outsiders who

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out that the receptionist at a data center, though hired on job specifications for a receptionist, is no longer merely a receptionist. "She is," he said, "expected to be a guard, an outstanding judge of character, quick-witted and ob-



Dr. Robert Wiper

servant, extremely loyal, a person of unquestioned integrity and a gracious hostess to visitors.

"Yet," he said, "she was probably hired only for her charm and good looks and is being paid only what is standard for mere receptionists alone. That girl, not properly motivated, is a prime target for a bribe."

Dr. Wiper outlined personality conditions in employees that can create losses. He named members of anti-establishment groups, those employees with real or imagined grievances against employers, those employees dissatisfied with their jobs or the future those jobs offer them, and those who have mismanaged their personal goals and objectives.

Care, he said, should be exercised so that a "shave and a haircut doesn't bring a firebomber into the employment team."

He recommended a re-evaluation of job descriptions and specifications on personnel, saying that most were determined long before data processing was so widespread and certainly before security was considered a necessity. He suggested that behavioral profiles on job candidates be obtained and analyzed before hiring.

Authorization control of employees should be abolished, he



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Errors and omissions coverage vital for those who process others' data

CHICAGO—According to Robert J. Dolan, vp of Rollins Burdick Hunter Co., because most computer liability coverage is written for data processing service centers that lease or purchase equipment to handle information belonging to others, realizing the differential of coverage is of vital consideration.

"If you are performing a full scale service operation," said Mr. Dolan, "the one insuring clause limiting coverage to the process-

ing of financial data or financial records of others would fall far short of the required coverage which would be furnished in the performance of data processing services for others on a fee basis." One specific example he cited is large commercial banks that, when their data processing equipment is not being used for their own purpose, provide services for customers and correspondent banks. It is in these instances, particularly, that an er-

rors and omissions policy stresses that the coverage applies to services performed for others.

Mr. Dolan pointed out that many insurers will not accept coverage of this type on "firms performing scientific, engineering or mathematical calculations. Such firms may act as consultants for others and, as such, there is considerable exposure not only from the possibility of an error or omission in their calculations, but also from the professional advice

justment is usually preferable. The rate level normally is maintained, the deposit premium is constant, and the administrative burden of the annual renewal is eliminated. These factors permit easy budgeting of premiums with anticipation of additional audit premiums due to a normal growth of business."

While Lloyd's of London remains the main insurer in this field, a number of domestic carriers also afford coverage, he noted.

Wiper . . .

Continued from page 37

could take advantage of his unhappiness and discontent to gain access to the center," Wiper said.

The workshop also presented faculty members who discussed subjects ranging from fire protection and detection through insurance coverages, security techniques, liability loss potential and insurance protection, to noise and pollutants' effects on data processing personnel efficiency.

Biggest sprinkler

The biggest fire sprinkler system in Europe has come into operation in the new servicing hangar of British European Airways, the U.K. domestic airline that also covers Europe, at London's Heathrow Airport. The system covers the entire 90,000 square foot building.

\$1 million per week in benefits

PITTSBURGH—In a report to its employees on the status of their insurance and pension plans, Westinghouse Electric Corp. told workers that group insurance benefits to employees and their dependents totaled more than \$1 million a week last year. The pension fund, worth nearly \$721 million, was healthy and thriving, according to the report.

The total paid in claims was nearly \$54.5 million, \$9 million more than claims paid in 1969. The company said that they had paid close to \$23 million in hospital expenses, nearly \$4 million in maternity benefits and over \$5 million in major medical claims.

Under the life insurance plan, payments to beneficiaries of deceased employees came to almost \$11 million.

THE COMPANY said that it had put up \$45 million to meet the cost of the plan while employees had contributed \$13 million in 1970. The report also noted that the size of the employee contributions would diminish in 1971.

Employees were also told that when they reach retirement age, one-third of the amount of their life insurance, with a \$2,500 minimum, would continue as a death benefit at no cost.

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they render as consultants."

PREMIUM BASIS for computer liability coverage is receipts, which are defined as "the gross amount of money received for services by the insured during the policy period" or "the actual sums received from clients for data processing or programing services," he said. Premiums are generally estimated in advance based on anticipated receipts, with the insured either paying an additional amount if the actual receipts are higher, or earning a credit should receipts fall short of expectation.

In the new data processing policy form, there is a limit for each claim and an annual aggregate, Mr. Dolan explained, and the addition of extra insured parties does not increase the limit of the company's liability. Basic limits are \$10,000 for each claim, with a \$20,000 aggregate. This may be increased to \$500,000 to \$1 million or more. Deductibles range from \$1,000 to \$5,000. Policy periods are one or three years.

Mr. Dolan continued, "From the insured's point of view, the three-year term with annual ad-

Racetrack fire covered

ARLINGTON HEIGHTS, Ill.—The \$250,000 replacement cost for the 76-stall barn lost in the Arlington Park racetrack fire will be covered by insurance after the owner, Madison Square Garden Corp., picks up the \$50,000 deductible.

Fred Bistrong, director of insurance for Madison Square Garden, told *Business Insurance* that coverage for the June 4 fire is under a subscription policy and that the track is not responsible for the 33 horses lost. When stall contracts are signed by the horsemen, he said, a hold harmless clause goes into effect relieving the track of any liability for stock.

There is, however, a \$500 maximum compensation payment made to horsemen who did not have their stock insured, according to Jack Loomer, president of Chicago Thoroughbred Enterprises Inc. A \$500 maximum payment is also made for tack lost in the fire if owners did not have it insured.

Mr. Loomer explained that coverage is provided through a disaster policy written and rated on a national basis for the Horsemen's Benevolent Society by Lloyd's of London. The premium for the policy is apportioned equally among all participating tracks in the country, he added.

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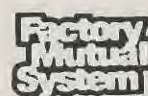
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