Consultant checks pulse of GATX risk program

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June 9, 1969

INA moves to drop pollution cover on oil spillage mishaps

NEW YORK—Oil companies are caught in a squeeze play between the Federal government and insurance firms over liability for pollution accidents.

On the one hand, Congress is pressing for a proposed amendment to the Water Pollution Act which would impose absolute liability—regardless of fault—up to $15 million on tankers that spill their cargoes into the sea.

On the other hand, *Business Insurance* learned, Insurance Co. of North America has just sent out notices to what it says were "selected" oil and chemical companies that INA was excluding liability coverage for land, sea and air pollution damage claims.

AN INA source said that the exclusion was not across the board but was being applied to firms that the insurer felt weren't taking adequate safeguards to prevent pollution accidents and also to firms engaged in offshore drilling and oil exploration activities.

However, the insurance manager of one oil company that had received such an exclusion, said that INA had never been out to examine one of the company's rigs "so they don't know what exposure we have." He said the exclusion was "completely unacceptable" to him and he proposed a compromise exclusion similar to one that Lloyd's invokes encompassing oil seepage.

It was also learned that Lloyd's was working on an exclusion similar to INA's and that both underwriters were working toward an eventual exclusion on all "speculative" risks that would be exposed to contamination losses.

The Lloyd's pollution exclusion under study, which has been in effect since 1961, does not cover any liability for "property damage caused by seepage, pollution or contamination, unless such seepage, pollution or contamination is caused by a sudden, unintended and unexpected happening during the period of this insurance."

The INA source contended that it was "kind of silly" for his company to subsidize uncontrolled waste disposal. He said that when a company is pumping waste materials into a stream or lake it could be considered "beyond the realm of insurance. It's like trying to insure a building on fire."

WHAT WORRIES oil companies is that the government measure on absolute pollution liability introduced in the Senate and INA's (and possibly Lloyd's) move to cut off liability for pollution accidents will strip them of coverage in this area.

Absolute liability, it was explained, would do away with one of the fundamentals of shipowner's liability insurance—having to prove negligence—and could render oil spills uninsurable.

The oil companies have come up with their own solution to the oil pollution problem in the form of a proposed industry-operated captive insurance company to com-

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The Kruse Grain Co., Cleves, Io., suffered an uninsured loss in this mishap that was estimated more than $135,000. Three nearby railroad boxcars were knocked over when about 70,000 bushels of corn burst from a storage bin. A structural weakness in the bin was the indicated cause of the loss. After friends and neighbors helped clean up the corn, Ernie Kruse, manager, said he is thinking of making a claim against the manufacturer of the bin. The clean-up operation took two days to complete.
—Wide World photo

Homeowners policy covered astronaut Cernan's jade ring

MANCHESTER, Conn.—John Labonne & Associates, an insurance firm here, covered a $1,200 jade ring worn by Astronaut Eugene Cernan during his eight-day Apollo 10 moon trip, it has been learned.

Mr. Cernan wore the ring at the request of a friend, William Kemp, an Avon, Conn., businessman.

The Labonne organization insured the ring at no extra cost under a homeowners policy.

The ring was to be returned to Mr. Kemp.

See hangups in Curtis tentative pension deal

PHILADELPHIA—A tentative agreement between Curtis Publishing Co. and its council of unions over alleged misappropriation of pension funds may not have finally settled the dispute, despite the tentative agreement.

Business Insurance learned that new directors do not necessarily have to live up to the agreement hammered out by Philip P. Kalodner, Curtis president, and the union. The agreement was announced at the company's annual meeting last month.

The suit filed by the 1,700 member union charged that the company, under the management of Martin S. Ackerman, a former president, used $6 million from the fund. The company contended the money was surplus. The union also wanted to freeze the fund to avoid additional withdrawals by the company.

A KEY concession won by the union from Mr. Kalodner would provide retirement benefits to nonvested employes of about 70% of the amount set aside for them. The company would provide full benefits for all vested employes.

Curtis, under the agreement, would be able to use additional pension fund money, which would give the ailing company an additional "several million" dollars. Some experts told *Business Insurance* that this could amount to more than $4 million.

The original $6 million was used to capitalize the Saturday Evening Post Co., a subsidiary set up by Curtis. However, some financial experts have contended that this was the wrong thing for the company to do and that the investment didn't work out for the benefit of the fund or the company.

A SLATE of directors put forth by trustees of the Cyrus H. K. Curtis estate, representing about 30% of the Curtis stock, has gained control of the company over a slate put forth by Mr.

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safety and security today

The June 23 issue of *Business Insurance* will carry a special section on Safety and Security Today, a review of fresh developments in the protection of employes and property.

A highlight of the *Business Insurance* safety and security section will be a full-scale public debate on the future of the workmen's compensation system. Included in the debate-in-print will be articles by representatives of the AFL-CIO; the International Assn. of Industrial Accident Boards and Commissions; and the American Mutual Insurance Alliance.

Other features in the safety and security section will tell about safeguards against laser beams, university security in the face of campus riots, plant safety in storm situations and other subjects of vital concern to corporate executives as well as safety and security directors.

Late news

Buys into Arizona insurer

LOS ANGELES—Signal Cos., a conglomerate with interests in the transportation, aerospace and oil industries, has acquired a 50% interest in a small Arizona fire and casualty underwriter, Commonwealth Assurance Co. Commonwealth, which is handling Signal's general liability coverage on a reinsurance basis only, in turn controls 50% of the stock of Founders Life Insurance Co. of California and reportedly is seeking additional insurance company acquisitions.

Colorado gets group auto law

DENVER—Colorado legislators passed a bill that will allow retrospective rating of group auto insurance for companies, unions or any group with 125 or more people. The retrospective feature means groups with low loss ratios will receive dividends for their safe driving.

Hall readies public offering

NEW YORK—Frank B. Hall & Co., generally considered to be the fourth largest insurance brokerage firm in the U.S. in terms of commissions and fees, has filed with the Securities & Exchange Commission preparatory to going public, *Business Insurance* has learned.

Boden Joins Marsh & Mac

LONDON—Donald E. Boden, formerly manager, employe benefits programs at Westinghouse Electric Co., Pittsburgh, has joined Marsh & McLennan International here to head the broker's benefits operation in the United Kingdom as senior consultant.

N. Y. employes of General Mills to get unemployment benefits

BUFFALO, N.Y.—Employes of the Buffalo plant of General Mills Inc. have won a six-year battle for New York State unemployment benefits which grew out of a layoff caused by a waterfront labor dispute in 1963. A total of 315 employes are affected.

Vindication by the state court of appeals of the employes' position was disclosed by Michael Ricci, unemployment insurance representative of the Buffalo AFL-CIO council.

As a result of the court's decision, Mr. Ricci said, the General Mills workers will be entitled to receive about $94,500 in jobless benefits.

Frank Sheehy, superintendent of unemployment insurance here, said his office will notify the affected claimants to come in for settlement of their cases.

The case grew out of a six-week wildcat strike by 40 employes at General Mills' elevators. The strikers were members of Local 1286, International Longshoremen's Assn. (AFL-CIO).

THOMAS P. McMAHON, the workers' attorney, said that when General Mills was unable to move grain from elevators to its processing plant, the 315 workers, who became the claimants in the case, were laid off.

Mr. Ricci and Mr. McMahon advised the 315 to file for state jobless benefits. The state industrial commissioner held the claimants were entitled to payment.

HOWEVER, the employer protested the payments. He contended the 315 were idled as the result of an industrial dispute in his "establishment" and therefore—under the state unemployment insurance law—were not entitled to benefits until a mandatory seven-week penalty period had elapsed

The union and state industrial commissioner contended the mill and the elevators were not part of the same establishment under the law, but were separate entities. ■

Connecticut rejects no-fault auto plan

HARTFORD—The state legislative judiciary committee has unanimously rejected the so-called "no-fault" insurance bill.

The measure, devised by state Insurance Commissioner William R. Cotter and spokesmen for Connecticut-headquartered insurance companies, would provide for payments up to $2,000 to persons injured in automobile accidents without the necessity of litigation procedure.

Turn-down of the "no-fault" bill was announced by committee co-chairmen, Sen. John Pickett (D., Middletown) and Rep. John Carrozzella (D., Wallingford).

SEN. PICKETT said the bill collapsed because of a dispute with Mr. Cotter over "pain and suffering" of those injured in accidents.

Commissioner Cotter told the committee that payments for "pain and suffering" should be eliminated from the "no-fault" measure under committee discussion, contending that "it would cause a substantial increase in premium costs."

Sen. Pickett remarked that his fellow committee members felt they could not back a "no-fault" measure less "pain and suffering" payments. Enactment would amount to approval of a "workmen's compensation bill."

A COMMITTEE sub-committee, headed by Rep. Lawrence J. Merly (D., Bridgeport), had the "no-fault" measure under study for many weeks, finally took the stand that it should be rejected in committee.

A sub-committee report added: "The subject matter is a complicated one, and one which profoundly affects the legal system and reparations systems of our state, and we believe in moving slowly in this area, particularly where we are being urged to throw out time-tested and socially accepted procedures." ■

Stewart, Smith has U. S. tieup with Pacific Indemnity Co.

NEW YORK—In a news story on directors and officers liability insurance in the May 12 issue of *Business Insurance*, it was erroneously stated that Stewart, Smith & Co., international insurance brokers, places all its D&O insurance business in the London market. Actually, in addition to their facilities at Lloyd's for D&O, Stewart, Smith also has an exclusive arrangement in the U.S. with Pacific Indemnity Co., Los Angeles, for both D&O coverages and Securities & Exchange Commission liability insurance. Stewart, Smith has placed $20 million in premiums for D&O coverage in the past six years.

GUIDE TO FEATURES

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Suit charges loss in JWT stock transaction

NEW YORK—A retired J. Walter Thompson Co. director is suing the advertising agency because it repurchased his stock last January without informing him of its plans to go public.

O'Neill Ryan, a 26-year JWT veteran who retired in January, 1966, states in papers filed in Federal court, southern district, here, that JWT paid him $276,200 for the return of 5,000 shares of common and 2,000 shares of preferred stock last January. He believes this stock would amount to 27,000 shares of JWT common, based on a five-for-one split proposed in the agency's preliminary prospectus of April 3.

THE SUIT comes about a week before the agency expects a Securities & Exchange Commission go-ahead for its previously reported plan to sell 750,000 shares of common stock. Agency sources said the litigation is not expected to delay the public sale.

JWT issued a brief statement about the action: "Dan Seymour, president, stated that the company had referred the complaint to its legal counsel, who have reviewed it and have advised that in their opinion there is no basis for the action and the suit is absolutely without merit," and declined further elaboration. The agency is represented by Breed, Abbott & Morgan. Mr. Ryan is represented by Kissam & Halpin.

Mr. Ryan, 71, said that while the agency has the option of repurchasing stock held by ex-employes within three years of their departure, the option was designed to keep agency stock inside the shop. Through the years, he said, he was repeatedly assured by JWT's top executives that the agency would not go public. Mr. Ryan said he was "aghast" when advised by letter from Mr. Seymour on March 28 that a public issue was afoot.

ESTIMATING an opening market price of $40 per share—a figure Mr. Ryan said some Wall Street people are using as their "guesstimate"—he said the January sale could mean a difference to him of about $800,000.

When he retired, the JWT house organ referred to him as "one of advertising's all-time greats" who "had a considerable part in attracting to Thompson such accounts as the Ford Motor Co., Ford Dealer Advertising Assns., Brillo, Mentholatum, Radio Corp. of America and Liggett & Myers."

"Certain officers and directors took full advantage of the knowledge that the company was going public without disclosing their intent and used the option," he said. "As options came due so close to the time that they filed their preliminary prospectus, the recalled stock was not bought by the agency, as was customary, but was bought by certain director and officers," he said.

"THEY SHOULD have said to me, 'Now that we plan to go public, we're not going to exercise our option, in consideration of your contribution to this company.' What they did instead was very, very indecent," Mr. Ryan said.

Mr. Ryan's complaint charges JWT with violating the Securities Exchange Act of 1934, Sec. 10 (b), dealing with full and complete disclosure. Mr. Ryan asks that the sale of his stock to JWT be rescinded, that the agency return the shares to him "or, in the event that recapitalization [going public] occurs, JWT be directed to issue and transfer to the plaintiff an equivalent amount of JWT stock to which the plaintiff is entitled" and that he be permitted to dispose of this stock as he chooses. He also seeks an accounting for dividends to which he believes he is entitled and an order directing JWT to pay "reasonable" court costs.

THE AGENCY'S attorneys have 20 days in which to respond in Federal court.

Mr. Ryan's suit lists some transactions given in a chart in the JWT prospectus that shows "sales of stock by the company since March 31, 1966, to directors and executive officers of the company." The chart shows that a total of 47,625 shares of common stock and 190,500 shares of Class B stock were acquired by ten JWT officers since March 31, 1966. Mr. Seymour brought 50,000 shares for $223,280; Henry M. Schacte, chairman of the executive committee, paid $69,920 for a total of 10,000 shares; John Monsarrat, group exec vp, brought 21,250 shares for $130,385, etc.

The prospectus noted that Mr. Seymour will still own 100,000 Class B shares after the sale and the JWT profit-sharing trust will own 300,000 shares. Norman H. Strouse, retired chairman, will retain 72,960 shares.

Mr. Ryan's action obviously will be closely watched in the industry because it raises the delicate questions of "insider" actions and stock recall prior to public offerings. If, as expected, more of the older agencies go public, this area will be of special concern.

In a recent "insider" case, involving Texas Gulf Sulphur Co., the supreme court refused to review a ruling by the SEC that executives may not profit from inside information until that information has been widely disseminated. ■

Embezzlements top bank robbery losses

NEW YORK—The American Bankers Assn. reported that in 1968 "there were 146 cases in which the dishonest acts of officers and employes resulted in individual losses of $10,000 and over. The composite totaled $11.2 million as of the reporting dates."

The group said that in six of the 146 cases, losses exceeded the amounts of the blanket bonds carried by the banks involved. "The excess totaled $1.6 million and was excess dishonesty insurance covered under the $1 million carried by all six banks," it added.

Other dishonest acts by officers and employes of banks numbered 811 in 1968, with the average of these defalcations approximately $3,400, according to the bankers group.

Losses from 1968 holdups amounted to $8.9 million and numbered 1,327 attempts.

washington watch

If insurers want out of FAIR pools, state law makers to provide bail

WASHINGTON—Last year at this time almost everyone was predicting a long, hot summer of violence and riots. Because of this, pressure was building up here in Washington for passage of the Federal riot reinsurance bill.

Suprisingly, the measure had the support of a major segment of the property insurance industry—a segment generally staunchly conservative, very much anti-big-government. This support was rumored to have resulted in part from the frightening—some say alarmist—theory that a relatively small number of well-organized rioters in cars, with a relatively large number of molotov cocktails, might possibly throw the industry into bankruptcy in a few hours if it were not reinsured against such a possibility.

The industry got the reinsurance. But, as payment, it technically agreed to write property and liability lines in core areas with no surcharge against the policyholder for being in these areas.

TIMES ARE quieter this spring, at least as far as the potential for large-scale riots in the nation are concerned. Because of this, the riot reinsurance program no longer seems quite as necessary to carriers.

Particularly now, they realize that the government was serious about bringing them, and their policies, down into the ghettos, maybe even with the so-called crime lines—theft, vandalism, glass, etc.

There is a possible way out for the industry, however, and it appears to be trying it.

Under the provisions of the reinsurance bill, each state, to qualify for the Federal reinsurance, had to adopt a so-called FAIR plan. These plans operate similarly to the assigned-risk auto insurance programs.

FAIR PLANS could be adopted and operated through August 1, 1969, without state legislative approval. And, they were adopted in 34 states, Puerto Rico and the District of Columbia. But, by August 1, the state legislatures must make provision for shouldering a portion of the potential reinsurance losses or lose the Federal reinsurance. The state legislatures do not appear to be cooperating.

It looks as though as many as 20 of the 34 states with FAIR plans will fail to get the necessary legislation passed by August 1 to keep their plans reinsured, one government official estimates. He asserts that in most cases this is due to either passive non-support or direct opposition by the insurance industry in the states.

South Carolina's FAIR plan has already been dropped for "lack of funds," much to the chagrin of the Charlston merchants who fear an outbreak of violence as a result of the hospital strike currently being led there by the Southern Christian Leadership Conference.

THE VERMONT plan has also been dropped and plans in Tennessee and Georgia are understood to be in trouble. West Virginia's legislature failed to pass the back-up legislation last session. However, there is a slim chance that it may be brought up again in special session this summer.

Colorado's FAIR plan is presently inoperative because of legislature problems and California has constitutional problems—and so on down the list of states.

The Federal government has a number of alternatives to keep the riot reinsurance program operative if it looks, as it does, as though state legislatures will fail, *en masse*, to act by August 1. Only four states have acted to date.

Among other things the government can repeal the section of the bill requiring state participation. Or, it can postpone the August 1 deadline.

NEITHER move is likely to be instituted by the Republican administration as a means of saving the Democratically inspired program.

In any case, with the threat of riots diminishing, and therefore the enthusiasm of the insurance industry for Federal riot reinsurance, it does not look as if the current program is going to become a viable part of the eventual solution for the insurance problems of our cities' core areas.

In the final analysis, as a *Business Insurance* editorial pointed out over a year ago, the answer must lie in better law enforcement and not only the government but the insurance industry must realize this.

The government's mistake has been to look for an insurance solution to a problem that is inherently alien to an insurance solution. The insurance industry's mistake was to back such a program originally.

RUDIMENTARY insurance texts explain that the purpose of insurance is to spread the expense of a specific risk among a large group, all the members of which pay according to their respective susceptability to the risk. Anything else is not insurance, the *Business Insurance* editorial said.

Our nation's insurance industry has developed a remarkably accurate method of determining actuarial susceptibility, and events have generally proved the industry correct when it concludes that a certain property, in order to carry its actuarial load, must pay prohibitively high premiums.

There are two traditional ways to provide insurance for properties that fall in the prohibitively high premium category. One is to lower the property's susceptibility to the risk. This means better law enforcement. The second is to subsidize a portion of the premium. This is not a traditional insurance practice. ■

Payroll auto at PSA

Pacific Southwest Airlines, San Diego, Cal., will offer payroll deduction auto insurance, written by Continental Casualty Co.

Cheers.

You're looking at a drink that is really growing in popularity.

It's sea water.

The salt has been removed and now it's pure, cold and very refreshing. This little scientific marvel is brought to you very economically, compliments of Aqua-Chem, Inc., Waukesha, Wisconsin.

Right now, in Ilo, Peru, someone is probably having a good swig and toasting their good fortune. Things weren't always so cheerful, though. Before Aqua-Chem came, to drink water in Ilo was almost wasteful. Rainfall averages almost zero. So, water was transported 120 miles.

Now it's bottoms up and three cheers.

Salt water (nature's own little prohibition) is converted for industry and people with Aqua-Chem equipment in over 35 countries. In fact, about 48,000 Aqua-Chem units are now in operation.

You wouldn't think there was much you could do for a smart company like Aqua-Chem would you? But we found a few ways to be helpful. And our suggestions paid off nicely in reduced insurance costs. This is the Wausau way. "Creative Underwriting" someone called it. We call it knowing business insurance like nobody else in the business.

Employers Insurance of Wausau

Wausau Story

Home builders get strict liability rule, begin fight

OAKLAND—A recent California appellate district court decision upholding the theory of strict liability has launched organized Northern California home builders into a legislative effort to change the law.

The Associated Home Builders of the Greater East Bay, which has headquarters here, has appointed a builders' liability committee.

Home builder Emmett Clifford was named chairman. Members include James Pierron, Frank Chamorro and Ray Poulton.

The committee will work to obtain legislative changes in the law governing the statute of limitations and will also seek a complete legal abandonment of the concept of strict liability.

The district court decision in litigation of *Kriegler* vs. *Eichler Homes Inc.* was upheld on appeal to the state supreme court and the law, therefore, now holds a contractor and his insurance carrier responsible for physical damage to property.

The Eichler case involved steel tubing embedded in concrete floors and used for radiant heating systems in homes during the time when the Korean war prevented use of copper.

The tubing disintegrated and had to be replaced. One of the owners of an Eichler home sued and the court decided it was not necessary for him to show that Eichler had been guilty of negligence. In the court's opinion, the disintegration of the steel tubing constituted sufficient evidence.

Strict liability rises under the uniform sales act which applies in California and many other states.

"ORDINARILY," *Business Insurance* was told by William Leonard, exec. vp of the home builder group, "the uniform sales act is thought to apply in terms of chattels.

"The application of its concept to houses and real property," Mr. Leonard added, "is a new idea in California. Strict liability has been applied previously with respect to bodily injuries but not for physical damage to property.

"We believe this decision has tremendous and far-reaching implications, of great importance to the insurance industry as well as the home-building industry.

"The decision," Mr. Leonard continued, "makes the contractor responsible regardless of the duration of any guarantee in his contract.

MR. LEONARD POINTED out California has no statute of limitations for latent conditions or hidden defects. Now it is not necessary for a claimant to show that the builder did anything wrong . . . only that an implied warranty was breached.

Mr. Leonard asked, " . . . as a matter of equity . . . for how long must a contractor and his insurance carrier be responsible?

"What of concrete which deteriorates after 10 or 20 years? How about metal which rusts, or paint which flakes off or wood that rots? Are such failures as these a breach of implied warranty? One can imagine all manner of such losses facing contractors and insurance companies years after the work was completed."

Mr. Leonard and Committee Chairman Clifford point out that the insuring clause of the so-called Lloyd's broad form B of third-party property damage coverages covers "liability imposed by law against the assured.

"ORDINARILY," Mr. Clifford said, "implied warranty is considered to be liability imposed by law. Thus it would appear that form B is broad enough to cover builders protected by this kind of insurance. But it could be costly for insurance companies and, inevitably, result in higher premiums.

"Other policy terms," Mr. Clifford continued, "might, however, conceivably deny coverage. The Lloyd's form, for example, excludes claims for repairing or replacing any defective product manufactured, sold or supplied by the assured or any defective part or parts thereof or for damage to that particular part of any property upon which the assured is or has been working, caused by the faulty manner in which the work has been performed.

"Since the doctrine of strict liability means that the contractor may be liable without fault," Mr. Clifford said, "it might well be argued that the work was not done in a faulty manner. However, underwriters would no doubt deny liability under the defective product wording." ■

Court award covers future hospital costs

TORONTO—The supreme court of Ontario established a Canadian precedent by granting a $7,000 award to cover future hospital expenses of a traffic accident victim who is confined to a wheelchair.

Mr. Justice Donald Morand, who made the award to the Ontario Hospital Services Commission, said in his decision that no Canadian court is on record for ever having made a similar ruling.

He said he was doing so because 32-year-old Manuel Dias of Toronto, who lost the use of both his legs in a two-car collision in 1966, will require an average of 10 days' hospital care every year for the rest of his life.

The judge also granted the commission an additional award of $28,244 to cover hospital and trial costs.

The total award of $35,244 will be deducted from $177,209 granted Mr. Dias in a Supreme Court of Canada decision in 1968 against the old Toronto Township, now the town of Mississauga, and a police constable. Mr. Dias' car was in collision with a township police cruiser driven by the constable. ■

Adds California firm

Towers, Perrin, Forster & Crosby, Philadelphia, international consultants to management, has acquired the San Francisco-based management consulting firm of Dalaba Associates. Dalaba specializes in psychological, personnel and training consultant work.

Term theft of computer data sophisticated crime

CHICAGO—Installation of EDP systems puts a "fast idiot" in a business operation that can easily be tapped for all the information it knows, according to an electronics expert at the International Security Conference.

Bernard Van Emden, general manager of Card Key Systems Inc., told *Business Insurance* that no single factor in business surpasses the computer in its capacity to totally destroy a business. Computers can be embezzled from by employes and outsiders alike, he added.

"If you have sufficiently sensitive equipment," Mr. Van Emden explained, "you can detect what is going on in a company's computer from outside the building in which it is housed."

The electronics security expert declined to say what companies have reported that their computers have been tapped, or that any computers have been tapped to his knowledge. "I'll guarantee you this," Mr. Van Emden said, "No company will admit it if they do find out someone is stealing information from their computer."

To guard against the possibility of computer information theft, Mr. Van Emden made seven suggestions:

- Monitor all access routes to the computer room and keep everyone out of the room who does not belong there.
- Be particularly careful about who gets a copy of the systems and procedures manual for the computer.
- Buy computers that have built-in checks and balances (i.e., computers that are programmed so that one part of a program checks out another part). Always have more than one programmer work on a program, and, if possible, have each programmer work on only part of the program.
- Audit data trails (i.e., see how things progress through the computer).
- Install a lock and key operation on the computer and monitor personnel who have keys.
- Have secret password cards to activate particularly important data processing operations.
- Be sure the company's security officer is fully aware of the problem of computer information theft.

To guard against possible theft from outside the building in which the computer is housed, Mr. Van Emden said there are devices available on the market today that "filter" information coming from the computer and confuse sensitive devices used to do the stealing.

Mr. Van Emden also said that the underworld probably has pretty knowledgeable people now working on computer information theft. ■

Auto maker held liable for bolt failure

OLYMPIA, Wash.—The state supreme court here has ruled that an auto manufacturer or any other manufacturer, no matter how careful he may be, remains liable for damages to the user of his product if the product fails.

The decision reverses a judgement of King county superior court Judge Eugene Wright and grants a new trial to Ann Ulmer in a suit against Ford Motor Co.

The Cincinnati, Ohio, woman was visiting her brother in Seattle at the time of an auto accident. She contended in court that she was injured when a bolt in the car in which she was riding failed and the car went out of control.

She also contended that she had only to prove that the car, as made by Ford, was defective and that the defect was the cause of the crash.

In so doing she challenged a number of Judge Wright's instructions to the jury, on the grounds the instructions "improperly placed a burden" on her to prove negligence on the part of Ford.

The supreme court agreed with this contention and said it is adopting as state case law in such matters a "doctrine of strict product liability."

The supreme court ruling declared "a maker who sells any product in a defective condition unreasonably dangerous to the user or consumer or his property is subject to liability for physical harm thereby caused the ultimate user or consumer." ■

Teledyne expands

Argonaut Insurance Co., Menlo Park, Cal., has been acquired by Teledyne Inc., Los Angeles. Argonaut, specializing in workmen's compensation insurance, will continue to operate with present management and personnel, according to Teledyne.

At IBM, safety developed 'on the firing line' creates enviable records

NEW YORK—How fast could your company get back to business after a fire, earthquake or other disaster?

And how many customers would you lose to your competitors while you were getting an installation back in operation?

John H. Trout, IBM safety and fire prevention manager, put these questions to insurance managers attending a luncheon meeting on loss control in risk management sponsored by the American Society of Insurance Management.

THE THREAT of serious property, business interruption, product liability and worker injury losses are problems faced by every company. Some of the solutions IBM has found for meeting these problems were discussed at the luncheon meeting.

At IBM, safety standards and procedures are not formulated and handed down by corporate management, Mr. Trout explained. They are developed and implemented with the cooperation of full-time safety officers "out at the firing line" in plants and installations around the world.

In product safety, for example, proposed safety codes and standards are submitted to every product safety engineer in the world. They in turn evaluate the procedures and make recommendations, so that by the time the standards are in final form they will meet United States safety standards and be assured the approval of the national testing laboratory of every country that has one, Mr. Trout said.

Once a product-safety standard has been adopted, it may not be changed at an individual plant unless a corporate deviation is approved by the division management. The company welcomes approved deviations, Mr. Trout said, as a means of testing new methods and developing improved procedures for future use by the whole corporation.

IN HIS discussion of product safety, Mr. Trout noted that product liability is becoming an increasingly troublesome source of lawsuits, and warned that management would have to do a better job in this area. "A lot of lawyers who used to chase ambulances are now chasing third-party liability," he cautioned.

A group of questioners flock around James M. Gillen, director of personnel research for General Motors Corp., after he discussed how to preplan employe benefits negotiations with regard to design, cost and new benefits at the spring employe benefits and pension conference sponsored in New York by the American Management Assn.

In designing and implementing fire and environmental safety procedures, the same procedure of consultation with appropriate safety personnel used in the product safety area is followed, Mr. Trout said.

One first safety measure taken by IBM is the use of materials that are relatively fire-safe. The plastic materials used, for example, burn very slowly or do not burn at all. This reduces the probability of fire and slows the destruction of equipment once a fire has started.

As another fire precaution, plans for new products are put on microfilm on a weekly basis and stored in a vault in a location remote from the plant to prevent a costly loss of information in the event of fire.

THE PROPER storage of highly flammable chemicals is another fire safety essential, Mr. Trout said, noting that the manner in which some companies stored their chemicals was "appalling."

Chemicals should be stored in a special flammable liquid cabinet, he warned. In quantities of more than 250 gallons, they should be stored in a separate room, preferably set off from the rest of the plant to prevent the spread of flames to the rest of the installation in the event of fire.

These safety measures have paid off for IBM in terms of a solid safety record. The injury rates at IBM plants and laboratories are as follows:

- Injuries requiring first aid —312 per million man hours.
- Injuries requiring a doctor's attention—12 per million man hours.
- Disabling injuries—0.97 per million man hours.

THE FIRE-LOSS ratio stands somewhere between 3% and 4% and the company estimates its recovery time following fire or disaster at a plant anywhere in the world at two weeks.

Mr. Trout urged that management avoid placing their companies in jeopardy by practicing proper loss control and protecting themselves with reasonable insurance, and reminded the group that the time to practice loss control is before a big loss.

Once a fire or other loss shuts down an installation, competitors will come in to fill the void, Mr. Trout warned. Customers will turn to your competitors and no one knows whether or not they will come back, he said. ■

Groves to board

Charles H. Groves, director-insurance, CF&I Steel Corp., Denver, has been appointed a member of the international board of electors of the Insurance Hall of Fame.

Calls coverage factor in rack storage units

NEW YORK—The insurability of high-rise, rack storage warehouses may be a factor controlling their construction, according to Roger N. L. Russell, national chief research engineer for the Factory Insurance Assn.

There is currently a $250,000 study of how to protect automated rack storage buildings, Mr. Russell said. Some of the problem areas include:

- A greatly increased fire rate, often ahead of the sprinkler.
- The fire expands horizontally as well as vertically.
- Hose and spray access is severely limited.
- The risk represents increased values exposed to risk.
- Salvage operations are more difficult.
- Interior rack protection is difficult.
- Roof sprinklers are not enough.
- Structural members, which carry the loads and are subject to great stress are bathed in fire.

Mr. Russell told the American Management Assn. spring insurance conference that a typical time-temperature fire curve shows that after two hours temperature reaches 1,850 degrees. However, the time-temperature curve for 19-foot high storage can reach 1,460 degrees in 26 seconds and up to 2,800 degree-minutes above 500 degrees in four to five minutes.

HE SAID that the economic aspects of a high-rise storage facilty must include cost of the installation, operating cost, replacement cost, competitive production position if interruption occurs, cost of fire protection and increased cost of insurance.

"It is not unusual for a warehouse to represent a risk in eight figures," Mr. Russell commented. Vast amounts of stock can be stored in automated racks up to 100 feet high, covering an acre or more.

He compared a high-rise unit with storage 80 feet high to a six-story warehouse with sprinklers on each floor, saying that each floor represented at least some fire control and in that light only 16% of the warehouse was subject to loss. In the high-rise unit, the entire stock area is subject to fire, heat, smoke and water damage at the same time.

He said that intermediate sprinkler systems and high-expansion foam may provide some answer, but that each has drawbacks as well. The solution that drains from the foam can damage the stock, he said, and intermediate sprinklers can be rendered useless by the rack twisting in the heat and disrupting the lines.

MR. RUSSELL said there are warehouses proposed that are up to 3 million sq. ft. in area all under one roof, which, with contents, represent a $250 million loss potential.

Some of the combinations of circumstances not always anticipated in a warehouse but which are favorable to rapid-fire development include:

- Introduction of high-hazard contents.
- Overloading and congestion of storage.
- Protection impairments (such as during a power blackout or severe weather).
- Human failure.

"In such enormous structures, the geometry is not conducive to effective fire fighting," he said. "In a 3 million square foot warehouse, this can require that firemen must operate 800 feet from the nearest exit."

He said that multimillion dollar precision storage systems can rise 50 to 80 feet high and have been constructed 100 feet high. "The values involved in such a facility may approach $100 million," he said.

"As the distance between floor and roof is increased, so is the time required for fire detection lengthened, all other things remaining the same. This delay provides additional time for a fire to spread both horizontally and vertically before sprinklers operate.

"This vicious cycle is further intensified because a multiplicity of vertical flues exist between tiers of pallet loads," he said. ■

Chicago, Cook county ruled not liable for riots

SPRINGFIELD, Ill.—Personal injury suits brought against Chicago and Cook county as a result of the 1968 riots in Chicago must be dismissed, the Illinois supreme court has ruled.

The laws under which cities and counties in Illinois could be held liable have been repealed by the state legislature, Justice Walter V. Shaefer wrote in an opinion for the court.

Only two suits were involved in the ruling, but Justice Shaefer revealed that "affidavits filed by attorneys for the defendants showed that more than 200 actions were pending."

ONE SUIT involved in the ruling was filed by attorneys for L. C. Shelton, who sued the City of Chicago for $1 million after he lost a leg when he was shot by a policeman during a riot in front of his home.

The other suit, filed by Americo Detres Sr. against the city, sought $300,000 in damages for Americo Jr., who lost the sight in one eye as the result of mob action during July, 1966.

After reviewing Illinois law in regard to municipal and county liability for riots, Justice Shaefer said, "We conclude that the legislative purpose to repeal the statutes upon which these actions are based is unmistakable."

In addition, the question of "vested rights"—those rights that cannot be retroactively defeated by repeals—was answered when the justice said, "No 'vested right' is involved."

KNOCKING DOWN a final argument by the plaintiffs, the justice ruled that "governmental immunity and the simultaneous expansion of concepts of strict liability" do not warrant the recognition of common law for a cause of action in the riot cases.

"A legislature is better equipped than is a court," Justice Shaefer concluded, "to appraise the issues of policy involved in selecting the unit of government upon which to impose an insurer's liability of the type here involved."

"Insurer's liability" was used in this instance as a legal definition of the city's or county's liability and does not imply that an insurance carrier is involved.

Business Insurance reported last month that Chicago is self-insured for any liability that could have arisen from mob actions. ■

Court blames parents for son's wreck

LITTLE ROCK—The Arkansas supreme court ruled that parents may be liable for the damages caused by their minor son's automobile even though they claim he was driving without their consent.

A *prima facie* case existed for imputing the liability of a wreck to the parents, the court said. It added that it was up to the parents to prove that no consent had been given to the child to drive the car.

The decision was the first interpretation of a statute assigning liability to the parents when minors are involved in accidents.

THE STATUTE refers to cases in which the parents "shall cause or knowingly cause or permit" a person under 18 to drive.

The supreme court got the case after a Johnson county circuit court awarded $1,449.75 in damages to Herbert B. Vaught. He was involved in a two-car collision, the other car driven by the 14-year-old son of Vernard Ross of Johnson county.

In writing the unanimous court decision, Associate Justice Frank Holt relied on a rule that the court announced in 1931 in a case involving a company vehicle driven by an employe. The natural inference of consent existed if the vehicle was driven by a regular employe, the court said then.

The current court applied that interpretation to the parent-son relationship. ■

Consultant takes 'fresh look' at GATX risk program

By RICHARD BJORKLUND

CHICAGO—Suppose you are an insurance manager who has been in his job 30 years. And suppose your insurance program has been developed with capable brokers. Then suppose that in a discussion with your company's management you are asked how you can verify that yours is a good insurance program. What would your reaction be?

For Leonard B. Lippman, secretary and insurance manager for General American Transportation Corporation (GATX), the answer was to call in an outside consultant, and he never regretted his decision.

Mr. Lippman's insurance program and 30 years of his careful, conscientious and imaginative work were laid on the line and were surveyed by EBS Management Consultants, Inc., one of a number of companies that offer insurance consultant services.

"WE WANTED to be sure that GATX had the best possible insurance program," Mr. Lippman explained to *Business Insurance*, "a program that included complete coverages at a fair price.

"I thought the program was a good one, but in fairness to the company we felt it would be best to have our insurance set-up reviewed by competent professionals who were not as close to it as we had been all these years," he added.

Arthur H. Melzer, assistant insurance manager, said, "We felt an independent consultant could do a better job of surveying than could be done by us or by our broker because we're too involved with day-to-day operations, and also because they can be impartial."

GATX hired the EBS Management firm under a contract with a fixed fee for the entire survey, rather than being related to any insurance premium savings that might be realized from the study.

EBS personnel were engaged for several months in reviewing all property-liability insurance on far-flung GATX operations in every state and foreign countries. Company properties included a fleet of tank cars, plants that manufacture tank cars and other products, industrial equipment, liquid storage terminals and now include GATX/Boothe leasing operations, Chicago's LaSalle National Bank and the bank's building (formerly the Field Building).

One key concept applied to the GATX insurance survey was seeking out those areas in which the company might profitably turn to self-insurance or greater assumption of risk, an area a broker might find it difficult to approach objectively. The survey of GATX did not concern itself with department administration or department personnel, although EBS often does include such items in insurance studies.

"The recommendations made by the consultants were well taken, but sometimes it turned out that we had just approached the matter in different ways," Mr. Melzer explained. "In one case they noted that malpractice coverage was not specifically endorsed on our liability policies, but we had handled this by a letter affirming that coverage definitions included malpractice."

Mr. Lippman and Mr. Melzer said they felt reassured when the EBS firm concluded that GATX has an insurance program that is excellently conceived and reasonably priced. Corroon & Black, the

the survey and cooperated wholeheartedly in its execution, as did the company's other brokers.

"This independent survey showed that our brokers had done a good job," Mr. Melzer commented, "and it affirmed for us our belief that the broker has his place, the risk manager has his place and that there is also a worthwhile function for a consultant."

"It's like Mayo Clinic," said Mr. Lippman, "they've seen a problem over and over again and you get the benefit of their experience with other firms."

A management consultant concurred in this evaluation and added:

"The broker who has the responsibility for the creation and merchandising of the insurance program may not be in a position to review open-mindedly the results of his efforts. Sometimes top corporate management calls for an insurance audit, and feels more comfortable if the audit is prepared by an outside expert rather than the insurance manager and his staff.

"Sometimes the insurance manager requests the audit, simply because he realizes that he is so closely involved in handling the company's problems that it would be wise to have somebody take a fresh look at the entire program without the disadvantage of having lived through all the historical growth of the current program," he said.

At GATX the insurance manager's decision to audit the proper-

Continued on page 36

More than 47,000 gallons of methanol can be loaded into this new General American Transportation Corp. tank car used by Celanese Chemical Co. The car was built in the GATX Sharon, Pa., plant, one of many installations protected by GATX's insurance program that was reviewed by EBS Management Consultants. GATX leases more than 65,000 units of rolling stock.

Auto dealers suggest full record keeping, good work to avert suits

SAN FRANCISCO—Northern California automobile dealers are getting "worried" and much more interested in the insurance business as a result of their concern over the frequency and severity of claims and judgments in auto products liability cases.

The concern has reached the point where Steve Snow, exec. vp of the Northern California Motor Car Dealers Assn., in collaboration with Universal Underwriters, has issued a set of "do's-and-don'ts" for member dealers.

"EVERY car dealer," Mr. Snow has told his members, "should recognize the fact that any automobile sold or repaired may prove to be the source of a substantial damage claim alleging product defect or negligence.

"A car dealer," Mr Snow emphasized, "can become involved in such a case even though he may have been only the seller of the product."

Mr. Snow suggested that dealers adopt and enforce rules designed to minimize loss from products liability claims "even though you feel you may be well insured against such losses."

SOME RULES Mr. Snow proposed are:

- Predelivery, warranty and all other repairs or services must be done strictly in accordance with factory instructions. Repairs should be made in exact accord with factory manuals. Variations or exceptions or deviations can become very costly.
- Always prepare a repair order that is complete as to date, accurate description of work performed, name of service salesman and mechanic. Refusal by a customer to permit recommended work, whether a call back or otherwise, should be noted on the repair order and the customer should be made to sign the repair order in every instance.
- Maintain a copy of repair orders, predelivery check sheets and factory reimbursement forms for at least five years.
- When an accident happens to a vehicle sold or repaired and a defect is alleged, make an immediate report to the liability insurance carrier.

"Assuming quality workmanship," Mr. Snow concludes, "the dealer's best protection is his ability to prove that he has a repair order for every item of work done and that he performs service or repairs in exact accord with factory instructions." ■

DeWolf reports progress in efforts to adopt open competition rating

CHICAGO—"If anyone knows the real need for competitive rating laws . . . it is the corporate buyer," George E. DeWolf, assistant general counsel for the National Association of Independent Insurers, told a joint meeting of the Chicago chapters of the American Society of Insurance Management and the Chartered Property and Casualty Underwriters. Both groups have backed competitive rating laws.

"I am sure," Mr. DeWolf told the insurance managers, "each of you has several times run into a situation in which the bureau of rates and, in fact, any rating plan available would not properly fit your risk."

Among those on hand to hear Mr. DeWolf's remarks was Illinois Director of Insurance James Baylor, who arranged introduction of a competitive rating bill in the 1969 Illinois legislative sessions.

IN ESSENCE, competitive rating laws would allow insurers to rate their coverage without getting approval from a state department of insurance. Under the present prior-approval laws in most states, insurers must get approval of the department of insurance before they make rates.

Calling competitive rating the "truest regulator of rates in the public interest," Mr. DeWolf charged that state regulators were reared in the prior-approval system "and, in some cases, if I may be permitted a cynical observation, a number of jobs in state insurance departments were tied to the function of approving rates."

However, the NAII counsel was optimistic about the future of competitive rating bills. "Today the rate potato is too hot to handle. More and more regulators are very aware that inadequate return on capital is bleeding the insurance industry within their states, and the public is crying out over severe market shortages," Mr. DeWolf said.

Besides regulators, other "opponents of open competition insurance rating have vanished for one reason or another," Mr. DeWolf said. Among these, the NAII attorney observed, are rating bureaus themselves, conservative insurance companies, and the independent agent.

Recapping the status of competitive rating proposals, Mr. DeWolf said that 14 states had some form of the law in either the property or liability area at the beginning of 1969.

Three states had true, open competition rating laws covering all property and liability insurance except workmen's compensation," the NAII counsel said. These were California, Florida and Georgia. Although Georgia does require an "information filing," it does not require an audit of the rate before it can be used.

THE NAII COUNSEL said, "We believe that the key provision of a competitive rate law is not pre-filing or post-filing, but is really the definition of "excessive" and "inadequate" rates set forth in the bill. Mr. DeWolf cited the California law as an example of the "appropriate latitude within which rates should be proper and negotiable."

Listing the states in which competitive rating proposals are pending, Mr. DeWolf said:

- The Wisconsin "bill is probably in trouble." It is part of that state's "consumer package," which includes an insolvency fund, a noncancellation law and a "super assigned risk and FAIR plan pool enabling statute."
- In Maryland, an open competition rating law has been returned to study committee and will probably be reintroduced in 1970."
- Minnesota's rating bill is "given questionable chance of passage, as not much was done to educate the legislature in advance, and legislators will be susceptible to the cry that this will permit the insurance companies to raise rates.
- Support for a California-styled bill in Michigan is coming from that state's commissioner of insurance the insurance industry. The bill "may pass if union interests do not succeed in killing it."
- Passage of a competitive rating law in Connecticut has been killed because the bill was part of Commissioner Cotter's auto insurance reform package. "Since the legal profession has found the part of Cotter's package which regulates attorneys' fees objectionable, the whole thing" died.
- In Pennsylvania, Commissioner Maxwell has proposed a competitive rate law as part of a seven-point package including compulsory insurance, the adoption of comparative negligence and some other so-called 'consumer items.'"
- The commissioner of insurance in the state of Washington has endorsed the principle of a competitive rate law.
- A competitive rating law in Illinois ran into rough Democratic opposition after the former director of insurance, a Democratic appointee, supported the measure. ■

Giles on the law

Recovery limited to 'necessary' business interruption, court says

By JOHN W. GILES
Attorney-at-law

WASHINGTON—What are your options under a business interruption clause when your premises are damaged by fire? Do you have a choice of either rebuilding, repairing or replacing the damaged property?

The whole problem is discussed in a recent case in Wisconsin. In the action, the insured was attempting to recover benefits under a business interruption clause on several of his fire insurance policies. The insured based his estimates on the time it would take to demolish and completely rebuild his place of business.

The insured occupied the basement and first floor of two adjacent buildings. He had a bar in one of the buildings and a restaurant in the other. When a fire occurred causing the temporary cessation of business, the barroom was gutted and a portion of its floor collapsed and fell into the basement. The restaurant was only damaged by smoke and water.

THE INSURED procured the estimates of two architects and claimed compensation for an eleven-month period of business interruption. He objected on the ground that the estimates were predicated on demolition and reconstruction. The insurer claimed a simple repair of the actual damage was all that was necessary.

The trial court held for the insured, saying that he had a choice of either rebuilding, repairing or replacing the damaged property. But the Wisconsin supreme court disagreed. That court said that the policy provided that recovery was to be limited to "necessary" business interruption.

The options of rebuilding, repairing or replacing the damaged premises were dependent on due diligence and dispatch in restoring the property to usefulness. The court found that the architects admitted that they had recommended demolition and rebuilding of the premises without having actually investigated the structural integrity of the buildings. The court sent the case back for a new trial *(Congress Bar and Restaurant Inc.* v. *TransAmerica Insurance Co.* Wisconsin Supreme Court, 3/7/69).

* * *

HERE IS ONE CASE of alleged products liability in which the plaintiff did not recover. Rather refreshing!

The plaintiff sought to recover against a truck manufacturer for personal injuries sustained when his new panel truck ran off the road during a rainstorm and hit an abutment. The impact of the collision caused his 300-pound cargo to shift and hit the rear of the front seat, which folded over and caused his injuries. The plaintiff recovered a judgment and the manufacturer appealed.

The Georgia supreme court rightfully said that the offending truck was not being used for a purpose intended by the manufacturer, when it was driven off the highway into a concrete abutment. The Court said also that the manufacturer, in making a product which is safe for its "intended use," is under no duty to build an automobile or truck which will protect users against the consequences of collision with a vehicle or object not on the highway.

The manufacturer cannot be held to foresee an unpredictable or unanticipated use of the truck. Therefore, the plaintiff was stopped from claiming a breach of warranty of fitness. Judgment reversed. *(General Motors Corp.* v. *Edwin H. Friend et al.,* Supreme Court of Georgia. 3/6/69.)

MUST YOU, as a foreign manufacturing corporation, be called upon to defend an action for an alleged defective product in the state where the accident occurs?

The 8th circuit of the U. S. court of appeals thinks that you should. The court says: "As a general proposition, it might be reasonable to hold that a foreign corporation that manufactures or places in use a defective chattel, that it knows will enter into the stream of commerce and which causes the death of an innocent victim while being used for the purpose intended, should be called to defend in a jurisdiction where the accident occurs. (U. S. Court of Appeals, 8th Circuit. *Peterson* v. *U-Haul Co.* 4/25/69.)

IF YOUR WHEELS lock, and you are thrown into a ditch and killed, your widow may recover a substantial sum, in this case $95,000, but this is not one of the objectives of driving.

The decedent had been driving on the highway. As he entered a slight curve in the road, smoke was seen coming from his left rear wheel. His car briefly crossed the center line and entered the opposite lane, but then returned to its proper lane. A moment thereafter, it began to spin and went into a ditch, throwing the driver out and killing him.

His widow sued the manufacturer for his wrongful death. Expert witnesses testified that the decedent had been driving within the speed limit and that the accident was the result of the improper assemblage of the universal joint bearings which had caused the wheels to lock. When this happened the car was thrown out of control.

The court stated that contributory negligence in products' liability cases involves one of three elements: (1) Failure by the plaintiff to discover an obvious defect in the product; (2) assumption of risk by continuing to use the product after discovering a defect; or (3) using the product in a way not contemplated by the manufacturer.

No contributory negligence was found here by the trial or appellate court *(General Motors Corp.* v. *Dorothea M. Walden.* U. S. Court of Appeals Tenth Circuit. 1/15/69).

IF ONE OF YOUR employes, particularly in South Carolina, slips on a banana peel in a store and is injured, he may get a $10,000 verdict in the trial court, but unless he can show that the banana had been on the floor long enough to put the proprietor on constructive notice of the danger-

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NASA

opinions

'Tell me in plain English'

We think one of the fringe benefits of *Business Insurance* has been that it's helped open up a more meaningful dialog between the insurance manager and top management. Our financial management readers report that by reading our publication they're better able to keep abreast of new developments affecting corporate insurance coverages—in any language they can understand.

And insurance managers tell us that they're now able to communicate with their bosses on a more regular basis, because there seems to be greater understanding of what the risk management job is all about.

More than one of our readers has found that the financial vp has started asking about various coverages and their availability. "Why don't we have this?" the financial men want to know.

We think this sort of two-way communications has come about none too soon. We have talked before about how risk managers can climb the corporate ladder, and what we think the best way is for them to be able to understand and discuss insurance problems in understandable terms.

One corporate treasurer, for instance, told us that his company's insurance manager was hard at work devising a glossary of "common language" similar to a volume that the company's accounting department came up with.

"The insurance industry has isolated itself because it has become so specialized," our friend the treasurer told us. "Insurance people have almost removed themselves from the rest of business communication. What happens to value? What's the degree of risk? Tell me in plain English."

Business has grown so fast in the past few years, this corporate executive maintained, "that we face the danger of becoming segmented by devising our own language."

The treasurer went on to say that what his company is after is "optimum unit cost. Insurance has to go on the cost curve just like everything else."

We think this is solid criticism. Insurance men, to be considered valued members of the management team, must learn to talk about the complexities of the business in nontechnical terms. What management wants is concise, usable and easily digested data.

We're happy that we've tuned in top management to insurance news and developments. We did it, frankly, by using nontechnical straight-to-the-point language.

And we think this technique will work for insurance managers, too. Try it.

An advance invitation

We received an announcement last week that the Secretary of Labor's advisory council on employe welfare and pension benefit plans was seeking nominations for new members from the labor, insurance, management and public areas. Nominations were to be received by June 1 for new members to serve two-year terms.

The council advises the Secretary of Labor regarding his functions in carrying out the Welfare and Pension Plans Disclosure act and to make recommendations about the administration of the act when it meets at least twice a year.

Vincent J. Calon, the affable and able executive secretary of the council, informed *Business Insurance* that the "management" members to be nominated this year will be drawn from such groups as the Chamber of Commerce of the United States and the National Assn. of Manufacturers. That's fair enough.

But what disturbs us is that managers of employe benefits are not represented on the council because the "other interested groups," who are to nominate members next year, are currently represented only by Joseph Mursher, sponsored by the American Academy of Actuaries, and by Joseph Seligman, of the American Bar Assn.

We understand that both of these gentlemen have made worthwhile contributions to the deliberations of the advisory council, and we commend them for their service.

However, *Business Insurance* advocates membership on the council for at least one representative of the organizations that speak for employe benefits managers in the nation's businesses. We think specifically of the National Foundation of Health, Welfare and Pension Plans, the Council on Employe Benefits, the new Assn. of Private Pension Plans, the Council of Profit-Sharing Industries and the American Society of Insurance Management.

Lawyers, actuaries and accountants speak with authority about technical matters regarding the administration of benefit programs. But those who actually administer the programs and live with employe inquiries day-to-day should also be represented on the advisory council on a continuing basis.

Next year the council will seek new members from the "other interested groups" category. We think that the associations that represent benefits plan administrators should get their bids in early, and often if necessary.

Another war on crime

While crime in the streets seemed an important issue during the last presidential election campaign, little notice was given to the undoubtedly larger problem of crime in business.

A month ago *Business Insurance* reported exclusively that $50 million in securities was stolen from stockbrokers and other financial institutions. At the same time we noted that "insurance companies writing stockbroker blanket bonds are doing so sparingly."

More recently, the Surety Assn. of America revised its standard blanket bonds for banks and other security exchanges. Dishonest acts last year by officers and employes of banks brought about a total loss of $11.2 million—$2.3 million *more* than was taken from banks in all armed holdups during the same period.

We applaud the studies of the securities theft problem being made by the Surety Assn. of America, the College of Insurance and the New York Stock Exchange, and we look forward to the results of those studies.

We likewise applaud the recent announcement by the Department of Justice that it plans to subpena stockbroker records as part of the Nixon administration's war against organized crime in legitimate business operations, a campaign that has the support of responsible businessmen throughout the country.

MEDICAL COSTS SOAR

Percentage change of Consumer Index Price (CPI) and medical cost—1957-59 = 100

	1946	1960	1968
CPI, all items	68	103.1	121.2
CPI, all services	63.9	105.6	134.3
Medical care, total	60.7	108.1	145.0
Medical care services	58.4	109.1	145.6
Hospital daily service charges	37.0	112.7	226.6

The Consumer Price Index and its medical care component have risen continuously since World War II. Medical care cost, which directly or indirectly affects the cost of many lines of insurance, has outpaced the CPI. The average annual increase in the CPI as a whole amounted to 3.0% for the period of 1946-60. There was a perceptible slowing down in the rate of increase for all consumer items during 1960-65 when the CPI rose at an annual rate of 1.3%. Hospital daily service charges, one of the hospital services measured in the CPI, have been increasing faster than any other component of the medical care price index. Over the long run, a prime force is the pressure of rising wages and other costs. Hospital wages have been notoriously low and there has been a continuing trend in recent years toward closing the gap between hospital wages and wages in other industries. Because capital has not replaced labor in hospitals to the extent that it has in many other industries, the higher hospital wages have not been matched by higher labor productivity and the result has been more rapidly rising labor costs. Physicians' fees, based on a 1957-59 base index of 100, rose to 145.3 for 1968, while drug and prescriptions, based on a March 1960 index of 100, registered 98.1 for 1968.

Source: *Consumer Price Index*, Bureau of Labor Statistics

business insurance

for buyers of employe, property and liability protection

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letters

'Appalling'

To the Editor: The article (page 18 of your May 12 issue) on the insurance situation in Illinois throws light on a most appalling situation. I say appalling because it spotlights the general lack of insurance knowledge by laymen and some so-called experts and how special interest groups can capitalize on this ignorance to the detriment of the general public.

One of the most striking elements of your article was the revelation that a large state like Illinois could be so unaware of the need for central administration of an insurance program. This, of course, is a principle which has been well known to professional insurance managers for many years. Hardly anyone these days allows insurance to be purchased by different departments, but then it seems apparent that political motivations have been dominant in this case. However, your publicity will no doubt have the salutary effect of alleviating at least the most excessive of the abuses.

Whether or not all will be alleviated is problematic in view of your statement that a bill has been introduced in the legislature to establish a commission to study the issues. Commissions are usually effective in inverse proportion to the number of members and in direct proportion to the capability of their advisors. Unfortunately, there are many who lay claim to being expert in the field of insurance but few who actually so qualify. When you extend the field to self-insurance, even fewer qualify. Certainly no one employed by an insurance company, agency, or broker can legitimately make that claim. If conflict of interest does not rule him out, then lack of familiarity with such programs would. However, in practice, lay persons do not always recognize the need for specific expertise or see the pitfalls inherent in conflicts of interest.

AS A CASE in point, the governor's hiring an insurance agent to advise on the state's insurance program is rather like hiring IBM to advise whether or not you need a computer. Expertise in insurance is not expertise in risk management. With the current availability of so many well qualified professional consultants, it is unfortunate that the governor should go to an amateur consultant, and a biased amateur at that.

The principal conflict, as stated in your article, seems to arise from the protagonists of self-insurance versus insurance, and arguments for both sides are presented. Much of the difficulty has a semantic origin and could be remedied by proper definitions of terms and by proper delineation of the problem. Actually, it is not a case of insurance versus self-insurance so much as a matter of *how much* self-insurance and how it is to be funded. Every company and every individual self-insures. The $50 deductible on auto collision is self-insurance as the term is often used, though professionals use a somewhat different terminology.

Those in the insurance industry and other opponents of self-insurance dwell at length on the hazards of *complete* self-insurance, saying little about the well-planned program of loss assumption to the limit of financial

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The difficulty in selling our EBP plans is finding ways to occupy your extra time.

With most individual policy pension or profit-sharing plans, an agent really has to work for his money. Before and after the sale.

But with our EBP marketing program, you can leave the details to us.

The program contains the approach, the presentation, contracts, underwriting and services specially designed to meet your client's needs. Our highly trained staff at the home office is alert to all current developments and is readily available to answer all your questions. Our staff tailors each plan and takes over much of the detail work after the sale is closed, including employee communications and IRS reports.

In short, Mutual Benefit's expert assistance is at your disposal before, during and after the sale.

All of which should give you more time for other business. Or for pursuing your outside interests.

For more complete information, contact your nearest Mutual Benefit General Agent.

MUTUAL BENEFIT LIFE

THE MUTUAL BENEFIT LIFE INSURANCE COMPANY/NEWARK, N.J./SINCE 1845

london line

Britain has high hopes for profit from U.S. market after massive loss

LONDON—Hopes for higher profitability in the American insurance market are expressed by top executive Sir Paul Chambers, chairman of Britain's Royal Insurance Co., in his current report to stockholders.

Declares Sir Paul Chambers: "After prolonged period of unprofitable underwriting, great changes are now taking place in U.S.A., with takeovers of insurance companies by conglomerate and holding company groups on the one hand, and with insurance companies on the other hand extending activities outside their own immediate field.

"These developments, combined with sharp contraction in availability of reinsurance, and increase in its cost, may point towards emergence of a seller's market in which reasonable profits can again be earned."

His firm, with total premium income worldwide of $840 million, lost $25 million in its American operations last year. This was a massive loss because Royal Insurance made money in other countries. With its premium income from American clients now topping $450 million a year, it has called in business consultants to help it move into profit-making in this market.

LOOKING AT THE American market from his British headquarters, he complains: "The substantial loss was due mainly to a sharp deterioration in the experience on business covering liability to third parties.

"Personal injury claims in U. S. take longer to settle than in Britain because of different legal arrangements, so sudden rises in inflation rate can have an adverse effect.

"It is encouraging that there is a growing tendency for state insurance departments to permit charging new premium rates without their prior approval."

* * *

Lloyd's underwriters fear that shipping insurance rates for container cargoes may have to be uplifted before the current trading year ends, say London sources.

Otherwise some of the underwriting syndicates engaged in this line of business will find themselves in the red.

REASONS ADVANCED for this threat are that difficulties are developing over claims for cargo damage which were never foreseen when big shipping lines began to expand the "containerisation" idea.

One major problem is that the simplicity of oceanwide "container transport" is backfiring on insurers. They are finding it difficult to pin down the exact point when damage may have occurred to goods in transit, and are having to bear losses that may be due to careless packaging before shipment, or to other causes which would not normally be protected by insurance cover.

Specialists in marine insurance are fighting to keep premiums steady. But some of them are going on record as saying that cargo rates are far too low, and may have to rise by 30% before any future profit can be shown.

Reports recently published in London insurance circles reveal that Lloyd's underwriters had to pay out $80 million for damage claims on hurricane Betsy about four years ago.

BUT IT IS ONLY now that syndicates dealing in marine business have been able to assess the full effect of the payments they had to make.

They have ended up with losses which they have faced with the typical fortitude of Lloyd's syndicates, who traditionally balance good years with bad years so that they can maintain their worldwide reputation.

But even they need to make a profit in the end, and that is why cargo rates in particular may have to be put under close scrutiny before long.

* * *

Insurance claims for road accidents are reaching record highs in Britain. Printing manager John-Kitcat, 39, has just got $180,000 damages for being crippled so badly in a car crash that he lost all chance of executive promotion in his firm. This tops the previous record of $120,000, paid out in London last year to a building surveyor, by $30,000. Both awards were made after court hearings to assess the potential earning capacity which the victims had lost.

* * *

British insurers who run private schemes to supplement state health care face increased hospital costs. They are putting up their premium rates for the first time for seven years in some

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benefit tax slants

Design incentive plans to keep corporation's 'top-brass' people

By JOSEPH S. ROBINSON

NEW YORK—Because profit, in the final analysis, is the name of the game and because management is largely responsible for business success, companies are taking a long, hard look at their incentive compensation plans. Object: to keep the top brass, as well as middle management personnel, from seeking greener pastures elsewhere.

In 1967, Texaco decided to review its incentive programs in the light of current circumstances. As part of its review, Texaco examined the incentive plans of other companies.

Here is a summary of the revised incentive compensation plan with which Texaco hopes to insure the retention and growth of its staff of executives and other employes.

Texaco has set up a reserve fund for this purpose in which it may set aside annually up to 3% of its net income in excess of 6% of "employed capital" (as shown on the company's consolidated annual balance sheet).

Restricted Stock: Under the plan, yearly incentive compensation awards will be made either in restricted shares or partly in restricted shares and partly in cash. For each employe with whom an incentive compensation agreement is made, a specified number of "units," each of which is deemed equivalent to one share of Texaco stock, is set aside by the company, and dollar amounts corresponding to dividends on such shares of stock are credited to the employe.

The restricted shares may not be sold or otherwise disposed of by the participant (except in the event of a merger or similar change in the capital stock of the company).

These shares are taxable to the recipients in the year in which the restrictions are removed. The restrictions are normally removed on the retirement of the employe or his death—subject to provisions for cancellation in the event of termination of employment prior to retirement.

Savings Plan: Under Texaco's Employes Savings Plan (qualified under the Internal Revenue Service Code), employes' contributions range from 2% to 6% of base pay with the company contributing an additional amount equal to one half the employes' contributions.

The funds are deposited with a bank as trustee. Employes may request the trustee to purchase Texaco stock. The company contributions are not taxable to the employe until withdrawn by the participant or his beneficiary.

Pension Plan: Texaco has a contributory set up under which employes' contributions range from roughly 1% to 2% of base pay, with the company paying the balance. Each covered employe will receive as his normal pension under the plan the greater of the following amounts:

(1) An amount that when added to the primary Social Security benefit will approximate 2% of the participant's monthly base pay for each year of service, or

(2) An amount that when added to a maximum of 50% of his primary Social Security benefit approximates 1½% of the participant's average monthly pay during the five consecutive years of his highest earnings in the ten years preceding retirement multiplied by the number of years of service for which he has pension credit.

IT SHOULD BE noted that Texaco's contributions are not earmarked to the account of any particular employe until he actually retires under the terms of the plan. These contributions are paid to two corporate trustees and to three insurance companies for investment. The sums deducted from the employe's salary are turned over to the three insurance companies. At the time of the participant's retirement, his entire annuity is purchased from the insurance companies.

Texaco officers participate in the pension plan on the same basis as the approximately 30,000 other employes. However, it is estimated that the chairman of the board, who now gets an annual paycheck in excess of $300,000, will receive roughly $158,000 each year in pension benefits when he retires, toward which he will have contributed about $100,000.

The president, who now draws about $192,000 per year, will receive an annual pension of some $55,000, toward which he will have contributed $58,000.

The executive vice president (who elected early retirement) became entitled to a reduced annual pension of $36,000, toward which he has contributed slightly less than $40,000. ■

Waves cause $1 million award

LITTLE ROCK, Ark.—The defense failed in its contentions that the Arkansas River wasn't navigable and a Federal district court jury awarded $1 million in damages to a deck hand as Arkansas continued to learn about naval law.

The award went to Patrick Brinegar, 23, of Pine Bluff, who was paralyzed from the neck down except for some motion in his arms as the result of the capsizing of the boat on which he was a deck hand. Part of the boat struck him in the neck.

He had filed a suit for $1.75 million against S.O.G. of Arkansas, the contractor for Lock and Dam No. 4 on the Arkansas River.

THE RIVER is being made navigable from the Mississippi River to near Tulsa, Okla., a $1.2 billion project that is one of the largest navigation projects in the nation's history.

S.O.G. is a combine composed of the San Ore Construction Co. of McPherson, Kan., and the Gardner Engineering Co. of Houston, Tex.

The suit was filed under the Federal Jones Act, which permits the crews of vessels operating on navigable streams to sue their employers for injuries allegedly caused by negligence or an unseaworthy craft.

It was the second largest verdict in Arkansas history. A Little Rock orthopedic surgeon, Dr. John M. Hudley, won a $1.25 million verdict last December in Pulaski County circuit court for a neck injury allegedly suffered in a minor collision of two automobiles. He later settled the case out of court, reportedly for $500,000.

MR. BRINEGAR was employed by S.O.G. as an oiler on a dredge, but his duties also included that of deck hand on the "Hal B.," a boat used to fuel the dredge.

Mr. Brinegar, who testified from a wheelchair, said he and the operator of the "Hal B." were instructed by the construction superintendent to take the boat through one of the spillway gates of the dam to obtain drinking water for other workers. On the return trip, the boat capsized.

The jury found that the "Hal B." was unseaworthy and that S.O.G. was negligent in sending the boat through the open gate and that it violated a Coast Guard regulation requiring the boat to have a licensed operator. The operator, testimony revealed, was 20 and the regulations require him to be at least 21.

Workers who are injured in the course of their employment normally are barred by the state Workmen's Compensation Act from suing their employers. But that prohibition doesn't apply in Jones Act cases. The maximum Mr. Brinegar could have recovered under workmen's compensation insurance carried by his employer would have been $14,500. ■

Norris named vp

Warren G. Norris has been named a vp of Johnson & Higgins, New York. Mr. Norris joined J&H in 1967 as a senior consultant in the employe benefit plan department and was elected an assistant vp in 1968.

Turnabout fair play

ALBANY, N.Y.—The Delaware & Hudson Railroad must be reimbursed $23,000 by the Adirondack Farmers Cooperative Exchange Inc., representing the amount the railroad paid to an ex-employe.

This was the effect of a verdict by an Albany supreme court jury, which found that the cooperative and the railroad employe, John P. Connally, were negligent with respect to serious and permanent injuries Mr. Connally suffered five years ago.

The unusual case, in which the railroad sued the farmers cooperative, arose when Mr. Connally fell through an open space between a freight car open doorway and the loading platform of the warehouse owned by the railroad and leased to the cooperative.

MR. CONNALLY, as an employe of the railroad, had gone to the warehouse to investigate a claim that some bags of fertilizer, shipped by freight car to the warehouse, had been damaged.

He was retired subsequently because of the injury.

In satisfaction of Mr. Connally's claim against his employer, under a Federal law that permits railroad employes to sue the railroad, the Delaware & Hudson paid him $23,000 and then sued the farmers cooperative for reimbursement. ■

letters

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capability of the concern. This, sad to say, is essentially the thrust of the Insurance Information Institute's pamphlet which you quoted. This pamphlet does a grave injustice to the III by depicting such a poorly reasoned, professionally inept, and biased viewpoint that it hurts, rather than helps, their cause. There is a strong case for insurance for all catastrophic hazards. There is also a strong case for self-insurance and programs of planned loss assumption. Decisions on the importance of the many variables involved should spring from advice which is both professional *and* objective.

You are doing a real public service by bringing these conditions to the surface. Please keep us posted on developments.

David Warren
Warren, McVeigh & Associates, San Francisco, Cal.

Many comments

To the Editor: I was very pleased that you saw fit to publish my article in your March 3 issue. I have received a number of complimentary comments about the article and it was pleasing to see our very specialized form of export credit insurance given some attention.

Your associate, Miss Teresa Norton, was most helpful to me when I phoned your office two or three times. She helped me to obtain information I needed and she was extremely cooperative.

I continue to enjoy reading your publication very much and I hear many complimentary remarks about *Business Insurance*. If I can every be of assistance to you, please let me know.

Paul Garrigue Jr.
Executive Vice President, Intercredit Agency Inc., New York, N. Y.

Travelers fears milk-bonding ploy may backfire, turn into sour grapes

SAN FRANCISCO—Sour grapes aren't worth much but sour milk is worth a million dollars if bought from Spreckels Dairy.

This San Francisco Bay area firm claims to be the first and only dairy company to transfer the "bottled-in-bond" identification to milk. The product quality bond was obtained from Travelers Indemnity, Hartford, by Spreckel's parent company, Southland Corp., Dallas.

Karl F. Schmidt, vp and manager of the Spreckels dairy division, explained: "Under the covenants set forth in the bond, we guarantee to the retail purchaser that Spreckels milk will remain fresh under normal home refrigeration for a full ten days from date of purchase. What we are mainly emphasizing in a promotion of this nature is that Spreckels milk has to be fresh when the consumer buys it.

"IN THE EVENT of a claim filed within the ten-day period, we pledge to make a full refund of the original purchase price or an exchange of the product, whichever the consumer requests. And we back up that pledge to the tune of $1 million," he added.

John R. Blackinger, company vp for marketing, reported: "Customer reaction has been terrific, and we are exceedingly pleased with the response." Up to this time, he reports, no claim has been made on the Spreckels bond.

Travelers Indemnity hopes that this remains the case. Describing this type of bond as "unique" and "most difficult to get," a source at Travelers pointed out that unfavorable publicity received in the past has made the company reluctant to issue such a bond, but added that it was probably issued to Southland to accommodate one of Travelers' larger accounts.

The real problem facing Travelers is not the bond itself, but the confusion that generally surrounds it—both the company taking out the bond and the consumer do not realize the nature of the transaction, the source told *Business Insurance*. A bond is not insurance; rather, it is a guarantee that the product will function properly or the manufacturer (not the bonding company) will refund the original purchase price or replace the defective item. In most cases, consumers seem insistent upon contacting the bonding firm for a sum in the amount of the bond.

THE TRAVELERS source cited one instance in which his firm allowed its name to be used on accompanying publicity for a camp stove and lantern company. Calls were received from irate campers at any time—day or night—complaining that their stoves weren't working. The complaint, Travelers noted, should have been directed to the manufacturer but it was difficult to explain the technicalities of a bond diplomatically to a very cold camper. Instead of a successful promotion for the product, the bond only succeeded in generating adverse publicity.

As a result of past experience Travelers prefers that its name be kept out of publicity and advertising promotions. And, the Travelers representative cited the possible repercussions from a bond such as the one issued to Spreckels.

For example: Suppose that the wife of a large individual insurance holder from Travelers in the San Francisco area buys a quart of milk that is sour or turns sour. Knowing there is a bond worth a million dollars, she will triumphantly send her husband out to claim the money. She has found the product at fault, and viewing the bond as insurance, usually seeks to be paid for "her injury."

If the husband does contact Travelers directly, the company has little choice but to send the consumer to Spreckels where he must file a claim within ten days after purchasing the milk. Under the terms of the promotion, Spreckels is not required to pay $1 million; it must refund the purchase price or replace the milk.

ONLY IF Spreckels admits the milk was sour but refuses to refund or replace the product can the consumer make a claim on the bond—with Spreckels. If Spreckels can not pay the full amount of the bond, then—and only then—does Travelers become involved.

Travelers is very much aware of the dangers inherent in the bond campaigns. It fears that a deceptively simple advertising campaign that assures consumers of quality masks a mass of technicalities that may only succeed in annoying and alienating the housewife with a quart of sour milk. The housewife is likely to never quite comprehend why the minute her milk turned sour she didn't get a check for a million dollars. ■

Sue insurer for M.D. payment

NEW HAVEN—A $150,000 suit has been filed in U.S. district court here against the New Hampshire Insurance Co. charging the firm with failure to pay court-ordered damages concerning a malpractice suit involving a New Haven dentist.

The court action was filed by the estate of Evelyn Elizabeth Davis, who died in March, 1965.

According to the suit, the insurance company that covers Dr. Herman Tenin against malpractice suits, had been ordered to pay

Minneapolis cops curtail accident probes; claims decrease by one half

By CLARK EDWARDS

MINNEAPOLIS—He leaned back in his swivel chair as far as it would go, rolled his cigar between his thumb and index finger and smiled broadly at my question.

"I don't really know why people do as they do. Maybe it is just that there is a little larceny in us all. The more we investigate, the more people claim injury from relatively minor accidents.'

Donald Dwyer, chief of the Minneapolis Police Department, leaned forward over his desk to pore over his file on the department's recent reorganization, which pulled policemen off traffic investigations and put them into the city's high-crime areas.

The reorganization was begun last Nov. 1, when the city council turned down a request for an additional 80 men. Chief Dwyer told *Business Insurance* that "it became apparent that with crime increasing 15% in 1968 over the previous year, something had to be done with the existing manpower allocations.

CHIEF DWYER sat up and glanced quickly over the long rows of numbers on two pieces of paper before him.

"The table of organization that we operated under at that time was examined carefully, and we felt we could move 75 men from the traffic division, if at the same time we recognized that we would cease to investigate property damage accidents. The decision was made. We knew it would be a calculated risk."

Chief Dwyer resumed his tilted-back position and continued to explain what his policemen now do when called to an accident.

"We still answer calls of property damage auto accidents but instead of filling out voluminous reports for insurance companies, we now 'packet' each individual involved. The packet contains the

Donald Dwyer

proper reporting materials for the State of Minnesota together with an instruction sheet as to driver responsibility for anyone involved in a traffic accident.

"THE PACKET also contains a slip of paper with instructions for noting the name, address, license number, driver's license number and driver's insurance company. This smaller form is exchanged between the drivers of the autos involved.

Chief Dwyer said the department "felt this was a calculated risk. We knew the public had to be informed. We launched a campaign to alert the driving citizens of the city to the fact we would not investigate their property-damage accidents any more. We wanted also to explain in detail how to use the packets. News releases, news conferences and dozens of interviews on local news sources did the trick."

Chief Dwyer continued, "Fortunately we now have six months' experience, and we have a good idea about what has been accomplished. At the end of April, the crime rate had decreased 6%, compared to the 15% increase in the same period the year before.

"It is in the traffic experience that the really interesting figures begin to appear. In the first four months of 1969 we have had 2,507 total accidents reported. In the same time span in 1968 we had 5,925 total accidents. We have had 12 fatal accidents in four months compared to the 16 fatalities from Jan. 1 to the end of April last year.

"THE REALLY startling figures," Chief Dywer continued, "come in the personal injury column. The total number of accidents reported in the first four months of 1969 total 1,962 injuries connected with auto accidents. We have had one-third the number of property-damage accidents reported to police."

These figures reflect two major occurrences, he explained. First, people involved in accidents have been properly educated as to the role of police and are settling the nuisance, fender-bender type of property damage at the scene, between the drivers involved. They are properly reporting the accidents to their respective insurance companies.

Secondly, the figures bear out something Chief Dwyer has "strongly felt" for years. "I believe that when police appeared on all accident scenes, we did, more or less by our presence, encourage people to report injuries in their auto accidents. They would complain to us of a slight neck injury or stiffness just to get it on record in our reports.

"But by our figures and the weather being almost a constant factor over the two time periods, we can see that we had almost one-half the injury claims that we had experienced the year before.

"I DON'T KNOW, maybe it's just a little larceny in us all. I have had the idea that people involved in auto accidents felt that insurance companies would pay anything, or would settle if their client was at fault in the accident.

"Our reports, although not admissable in court because of their hearsay nature, do give people the feeling that something official has been done about their accident, and if they register a complaint about a minor injury a property-damage accident becomes a personal-injury accident," Chief Dwyer contended.

"The entire outlook for further proceedings for damages is good. Officers can be called into court to testify, and this is another official appearance. I feel strongly about this. The more we investigate, the more people claim injury from relatively minor accidents

Continued on page 36

Did anyone ever tell you that you don't need more insurance?

Chances are, if you're like the businessmen we cover, you're up to here in property and casualty insurance.

And unless some enterprising soul invents a new risk or two, there's nothing much we—or any other company—could offer you that would actually improve your coverage.

Which, logically enough, leads to the conclusion that one insurance company's property and casualty plan is as good as the next's.

Which it is. If all goes according to Hoyle.

Except there's an army of claimants out there who couldn't care less about Hoyle. So the difference between good protection and so-so protection inevitably hinges on your insurance company and not on your insurance policy.

Simply because keeping you out of hot water involves more than merely forking over.

For instance, we at Consolidated feel that you deserve to be protected against the claim that shouldn't be paid as well as the legitimate claim. So we make it a point to spare all our policyholders indiscriminate settlements (and the higher rates that inevitably accompany across-the-board generosity) by investigating every major claim; then discouraging and dissuading the questionable ones. Tactfully, of course.

We also believe you need protection from the trouble-spots that spawn claims. Your end of the bargain is to put up with a very determined loss prevention engineer who may want to consult with your architect, your office planner, your floor waxer or even your mail boy. Our end? To stabilize your premiums.

Finally, we feel it's only fair to protect you from inflexible underwriting and the stand-pat package plan. Our underwriters have the experience to judge a property (and its owner) on its own merits. Because we don't have to compensate for underwriting errors, we don't have to insist on minimum coverage requirements either.

Unfortunately, we can't offer you our protection without offering you one of our policies.

So our producers—like all producers—continue to sell our insurance.

Only we'd like to think they sell our services even harder.

Did anyone ever tell you that you might need another insurance company?

Consolidated Insurance Companies
345 Adams Street, Brooklyn, New York

When you need a company. Not just a policy.

Protect your computer equipment regardless of cost, Mazur says

NEW YORK—Every computer installation, based on construction features and air flow, should be individually surveyed and protected in the most advantageous manner, regardless of cost, according to William B. Mazur, assistant insurance manager for American Express Co.

In a paper prepared for a risk management seminar on electronic data processing for the American Management Assn. spring insurance conference, Mr. Mazur discussed conflicting recommendations on the use of sprinklers for computer installations.

"The fact that some insurance associations recommend sprinklers for computer installations should be weighed against the fact that most computer engineers do not," Mr. Mazur said.

"UNFORTUNATELY, the automatic sprinkler system is not normally recommended for extinguishing electrical type fires usually found in data processing areas because it is thought that the water might cause incalculable damage to magnetic tapes and computer hardware.

"Some insurance carriers will even increase their all-risk loadings if sprinklers are installed."

Mr. Mazur commented that a majority of risk managers and their EDP employes are firmly against the use of any type of sprinkler system in EDP rooms.

But, he reported, there are conflicting arguments about the actual damage to computer equipment caused by exposure to water. Many insurers having coverage on an entire building want sprinklers to put out a fire, before it spreads to the rest of the building. To them, water damage to a computer is smaller than an entire building loss.

Mr. Mazur recommended that susceptibility to down time caused by a drying out period be considered. He cited some of the problems a partial or complete loss of a computer installation could mean to a company:

- Rental of temporary premise;
- Rental of substitute computer and related equipment;
- Personnel needs, retention of all or part of the current staff, hiring of additional employes;
- Transportation of employes to new locations;
- Reproduction of damaged or destroyed records and the related expenses and added correspondence.

MR. MAZUR also discussed three types of fire detection equipment—heat, smoke and ionization—as well as the advantages and disadvantages of automatic CO_2 fire extinguishing systems.

He said the automatic CO_2 systems were extremely effective: The gas is odorless and nontoxic; as an inert gas, CO_2 will not conduct electricity; CO_2 won't contaminate liquids or damage clothes; it won't damage tapes or computer equipment; it eliminates after-fire damage and mess dissipating into the atmosphere; and the components of the system can be relocated.

The disadvantages of CO_2 systems include usually dependence on another detection system; entire cylinders are used once activated; false alarms are costly and a reserve system (an equal number of cylinders) can cost 75% of original cylinders; automatically shuts off air conditioning and power so that down time can produce costly reruns, even if only of short duration; probably ineffective for fires starting outside the protected area; and possible damage to computer because of extreme cooling effect. ■

Giles . . .

Continued from page 15

ous condition, his $10,000 may evaporate.

In a recent case in the U. S. court of appeals, the plaintiff recovered $10,000 in the lower court for slipping on a banana peel, but on appeal, the court said that the plaintiff must show that the banana peel had been on the floor long enough to charge the supermarket owner with constructive notice of its presence.

You must show to the jury how long the banana had been on the floor, and this, as you know, is very difficult. The court here noted that the jury could not tell from the evidence produced whether the banana had been on the defendant's floor for 30 seconds or three days (*See Joye* v. *Great Atlantic & Pac. Tea Co.* 405 Fed. 2nd 464).

* * *

WE RECENTLY REPORTED that a farmer in Illinois recovered a judgment for $50,000 for the loss of an eye against the manufacturer and the wholesale seller of a claw hammer.

The accident occurred when the head of the hammer chipped while he was tapping a pin into a clews on a farm implement. The judgment was affirmed by the supreme court of Illinois. The court observed that the term "defect" in the context of the law of products liability is to be examined from the viewpoint of the ultimate consumer.

A defect need not necessarily manifest itself immediately after a product is purchased and put to use. The consumer has a right to expect that he will be able to use the product with reasonable safety for a period of time which would be considered normal for the particular product (*Benjamin E. Dunakm* v. *Vaughn & Bushnell Mfg. Co.* Illinois Supreme Court. Jan. 29, 1969). ■

Colorado senate okays file and use measure

The Colorado senate gave 22-8 approval and sent to the House the insurance industry's "file and use" bill.

The legislation applies to property and casualty insurance, but not to life, health and accident policies. It would allow insurance companies to set their own rates in Colorado without prior approval of the state insurance commissioner, who now reviews rate applications in advance of their being put into effect.

The insurance commissioner would still retain his right to review after rates are in effect to determine whether they are unreasonably high, dangerously low or "unnecessarily" discriminatory.

Safety achieves savings under group comp plan

SAN FRANCISCO—Concentration on safety in the construction industry, combined with good organization, has paid dividends for the Pacific Contractors' Association . . . insurance dividends that is.

The association has just received a workman's compensation group plan dividend of $431,045.19 from Argonaut Insurance Co., the Menlo Park-based liability insurance carrier.

The substantial check represents the eighth consecutive dividend return on the association's workmen's compensation group plan, according to William B. Glassic, association president.

"The PCA has an extremely safety-conscious membership and a below-average loss experience," explains William M. Grizzell, special accounts executive in the Los Angeles division of Argonaut.

"The dividend check speaks for itself," Mr. Grizzell added, "safety obviously pays . . . in cash!"

THE CENTURY division of the PCA is open to contractors with a $50,000 or more estimated annual premium on a special commission and retention plan.

During the 1950's, Mr. Glassic points out, workmen's compensation rate levels were "inadequate . . . loss ratios soared . . . and dividends to policyholders were reduced or eliminated.

"Group workmen's compensation plans were the hardest hit," he added, "inasmuch as they usually had a cross section of risks . . . the good, bad and indifferent employers.

"Group plans also had the additional burden of guaranteeing bad-debt premiums of their members to the underwriting insurance company."

THE RESULT OF all of this, according to Mr. Glassic, was that the total number of association group plans in California was reduced by one third in a five-year period due to poor loss ratios and bad debts.

In some instances, members were even assessed additional funds to pay bad debts to their insurance carrier where no dividend was earned.

Mr. Glassic, a past president of the Los Angeles Insurance Agents Assn., and considered to be the "dean" of California's workmen's compensation program, had been studying the problem for several years.

He developed a formula for a construction industry group plan which, in one phase, entailed a "breakthrough" or a broad interpretation of exising bureau rules.

THIS WAS THAT an association for all the construction trades, including engineering classifications, such as Canal Construction, Street and Road Construction and Dam Construction, could be put together and be made to work.

In the past, construction group plans had written the building trades only, such as carpentry, concrete construction, cement work, plastering, roofing, etc.

Another of Mr. Glassic's concepts was to keep the group open to all agents and brokers and to pay them a full commission, with no override commission to the supervising agent, and to give them a more active part in the association program.

This concept included the idea of permitting the producing agent to deliver dividend checks directly to his client.

THE "CORNERSTONE" of the new concept, however, was "safety" and the gathering together of members who would be interested in really furthering safety among their employes.

"This," Mr. Glassic explained, "entailed selecting members with a better-than-average loss experience and with a good credit rating.

"To put teeth into this requirement," he continued, "members were to receive dividends based upon their own individual loss experience and any participant with a loss ratio of more than 100% would receive no dividend."

In the past, Mr. Glassic said, "most group compensation plans paid dividends to all members, regardless of loss ratio, on a level or percentage plan."

ONE OF THE oldest and major complaints of employers and producers had been the claim reserves set up by workmen's compensation carriers for injured employes.

The PCA was set up on an open-end group plan, whereby any claim reserve salvage is added to the dividend each year. This meant that even an old subrogation claim salvage, four or five years old, could be added to the current dividend.

The net result of this program, Mr. Glassic explained, was that, in computing dividends, the loss ratio eventually ended up being calculated on closed-claim costs.

Each year the membership of PCA has grown, at a rapid rate, as the dividend results have surpassed any individually insured employer's net results.

AFTER EIGHT years of "proven results" and an earned premium of several million dollars annually, the association now has opened a special division for those employer contractors whose premium exceeds $50,000 a year.

This century division now writes, at a reduced commission and reduced insurance company retention, those contractors with a better than average loss experience, having such a $50,000 or more premium.

During the first five weeks of the program, three major contractors joined and seven are now considering membership in the plan.

PCA membership now includes members of several other previously existing contractor associations, such as the AGC, the EGCA and several others. It is open to all members (who qualify) of all of the California construction trade organizations. ■

Bill empowers pool

The Connecticut state legislative insurance committee has approved House Bill 5556 empowering the state insurance commissioner to adopt regulations to establish a fire and allied lines underwriting pool. The committee also gave the nod to House Bill 5557, giving the insurance commissioner authority to adopt regulations to establish pools to underwrite any kind of insurance control unavailable on the normal market; and House Bill 5558, a "backup" bill for the Fed-

Auto makers lose liability decisions in Alaska, Pennsylvania and Texas

NEW YORK—Automobile companies are still the target of serious litigation, and are not faring so well in Alaska, Pennsylvania and Texas.

In Pennsylvania, the court discussed the duty of the manufacturer to provide a safe "hard top" on an automobile.

The plaintiff claimed that her injuries were greatly increased by the failure of the roof to sustain, even partially, the weight of the overturned car. As for the requirements for a safe roof, the court said that it is the obligation of an automobile manufacturer to provide more than merely a movable platform capable of transporting passengers from one point to another.

The passengers must be provided a reasonably safe container within which to make the journey. The roof is a part of such container, and except in the case of vehicles such as convertibles, which essentially have no roof in the normal sense of the term, the roof should provide more than merely protection against rain.

The manufacturer can be expected to provide a convertible which is as safe as it reasonably can be made, and which is not appreciably less safe than other convertibles. (U.S.D.C. E. Pa., *Dyson* v. *General Motors*, 4/17/69).

In Alaska, the manufacturer of a station wagon is liable to an Alaska purchaser who suffered brain damage as the result of a defect that allowed carbon monoxide to enter the passenger compartment of the car.

In explaining why strict liability was imposed here, the court said: "The purpose of imposing such strict liability on the manufacturer and retailer is to insure that the cost of injuries resulting from defective products is borne by the manufacturers that put such products on the market, rather than by the injured persons who are powerless to protect themselves. Sales warranties serve this purpose fitfully at best." (Alaska Sup. Ct., *Clary* v. *Fifth Avenue Chrysler Center, Inc.*, 5/5/69).

In Texas, the court recently held that a manufacturer of a truck whose brakes failed and that crashed into the rear end of a car on a Texas highway, is strictly liable to those injured.

The court said that recovery under the strict liability doctrine is not limited to users and consumers, citing authority from Michigan and Connecticut.

"There is not adequate rationale or theoretical explanation why non-users and non-consumers should be denied recovery against the manufacturers of a defective product.

"A manufacturer who places in commerce a product rendered dangerous to life or limb by reason of some defect is strictly liable in tort to one who sustains injury because of the defective condition.' (Texas Sup. Ct., *Darryl v. Ford Motor Co.*; 4/23/69). ■

Variable and special fund linked by CG

HARTFORD — Connecticut General Life Insurance Co. has introduced the first variable annuity plan to be linked to a special purpose mutual fund.

Registration statements of a group tax-deferred variable annuity and of Companion Fund Inc., a "no-load" mutual fund designed exclusively for variable annuity investments, are now filed with the Securities & Exchange Commission.

Under the arrangement, annuity contributions are to be deposited in a separate account, which will purchase shares of Companion Fund. Accumulated contributions and annuity benefit payments will reflect the investment performance of the Companion Fund portfolio, consisting primarily of common stocks.

THE NEW program enables Connecticut General to issue variable annuity contracts to religious, charitable, scientific, literary and educational organizations, including public school employes.

Special Federal tax legislation permits employes of such organizations to have part of their salaries invested in retirement annuities on a fully tax-deductible basis.

CG also announced a new fixed-dollar group annuity contract that will be available to complement the company's variable annuity plan.

The combination fixed-variable annuity approach enables participants to choose the proportion of contributions to be placed in either type of annuity and to change the "mix" at any time up to retirement. ■

Canada unit wants to move on loss claim

OTTAWA, Ont.—The commons public accounts committee has voted to establish whether the government can collect damages for negligence from de Havilland Aircraft of Canada Ltd. for a costly fire during construction of the navy hydrofoil Bras d'Or.

Committee chairman Alfred Hales said company negligence could be proved "without much trouble" for a fire aboard the craft Nov. 5, 1966, while de Havilland, the builder, was trying out generators.

"It's our duty to see if we can put $6.5-million back into the kitty and if not the reasons why," he said.

GOVERNMENT legal opinion after the fire pointed to negligence but concluded contracts with de Havilland with the government as insurer barred collection of damages.

Auditor-General Maxwell Henderson, who first pinpointed the fire among project costs that escalated to more than $50-million from an initial $9-million in 1963, said he would consider obtaining a second, independent legal opinion.

Mr. Hales said later the committee would pursue the question of collecting damages even if Mr. Henderson advised against obtaining the second opinion. ■

Insurers told rates 'exorbitant,' investment banking not their goal

CHICAGO—The insurance industry was told to stop "trying to be investment bankers" and to stop charging "exorbitant" rates for property insurance at a joint meeting of the Chicago chapters of the American Society of Insurance Management and the Chartered Property and Casualty Underwriters.

William Gibbons, director of insurance at Standard Kollsman, cited and quoted early 1969 *Business Insurance* articles in which several insurance-risk managers acknowledged or predicted higher rates and a tighter insurance market.

"Many of the risk managers surveyed indicated that they had not been faced with any significant increases but this was mainly because none of their major lines expired during 1968," Mr. Gibbons said. "I was in this happy position, but have now been rudely awakened to the facts of life in negotiating certain renewals in which we are faced with increases of over 30% without giving consideration to the normal increases that result from the appreciation of property values."

MR. GIBBONS also told the ASIM-CPCU meeting that he did not want to take a "pot shot" at property insurers but after personal research he concluded that the cost and capacity problems lie mainly in the property field, with the major exception the "present chaotic situation in the aircraft liability market."

"The basic increase in rates appears modest," Mr. Gibbons said, "but when coupled with increases in co-insurance requirements and deductibles, it becomes rather exorbitant."

The Standard Kollsman insurance director told his audience that "one also faces mandatory and immediate requirements for vastly improved protection measures, which if complied with would result in significant, unbudgeted capital expenditures for nonproductive assets during a period when money is tight and interest rates are high."

Sympathetic to the industry's unsatisfactory underwriting results in recent years, Mr. Gibbons held that making "radical rate increases without any apparent effort to look inward to solve profit or capacity problems" was the wrong thing for the industry to do.

"I think it is about time that the seasoned operating executives of insurance companies get back into the business of underwriting instead of trying to be investment bankers," Mr. Gibbons said.

The Standard Kollsman director of insurance suggested seven ways risk managers can do something about holding the price line:

- Inject an element of competition by periodic marketing in spite of the limited markets for some lines.
- "Use realistic deductibles or franchise clauses and charge losses against the responsible plant or division."
- Analyze property values at a realistic minimum.
- Carefully prepare business interruption worksheets so that unrealistic amounts of insurance are not required.
- Work with the underwriter so that his protection requirements are not based on unrealistic multiple-peril loss estimates.
- Immediately comply with loss prevention recommendations that do not require substantial capital expenditures and budget for major recommendations.
- Continue analysis of contracts with suppliers and others to transfer risks to responsible parties where possible.

JAY GLEASON, president of Illinois R. B. Jones Inc., told the group that one reason more domestic syndicates are not formed to handle special super risks of merged corporations is that many U.S. insurers are already in on the primary coverage of these risks. To solve the problems of capacity with U.S. insurers, Mr. Gleason said, "you almost have to restructure the U.S. insurance business."

On the subject of loss prevention, R. Maynard Toelle, vp for Corporate Policyholders Counsel, Inc., said, "it is axiomatic that for every dollar you are paid by an insurance company you pay one dollar plus a service charge in return." Mr. Toelle held that risk managers must make loss prevention a first priority.

Mr. Gibbons charged that "the posterior of an insurance company has been the loss prevention people." He said that insurers are not doing enough in the area of loss prevention.

Chicago ASIM President James Mascarella, The Quaker Oats Co., told the group that "no loss prevention engineers from outside can help" unless a corporation already has a sound loss prevention program.

MR. GLEASON said that riots in the U.S. have not had an extensive effect on the reinsurance market in London. "Fire losses alone have been bad," he said. "The whole book of business hasn't been good."

He estimated that without the riot losses the reinsurance market in London would be 95% the way it is now. "The tight market doesn't result from the riots—they are an excuse to a certain extent—but we aren't going to take chances either."

The president of Illinois R. B. Jones commented on the Department of Housing and Urban Development FAIR plan by saying, "The HUD plan is a bad case of someone having to do something and painting the insurance companies into a corner."

No-fault heads west

DENVER—A bill that would provide a "basic protection" form of compulsory auto insurance has been introduced in the Colorado legislature by Reps. Don Horst and George Woodard and Sen. J.C. MacFarlane.

Rep. Horst said the plan would provide up to $10,000 for any injured party but payments would be reduced by any money received from such sources as Blue Cross. Every person would be reimbursed for actual net economic loss, he noted.

Payments would be made, the lawmaker explained, from the injured person's own company without regard to anyone's fault in the accident.

It would exempt from law suits any claims for the first $5,000 for

Your catastrophe has arrived, Mr. Merriweather.

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Although he's somewhat awed by the spectacle, Merriweather is ready. As a keen and clear-eyed insurance buyer for his firm, he saw to it that his company had The St. Paul's Umbrella Excess Liability Policy to take over where their basic liability insurance ended. They'd been a pioneer with the coverage. Besides, reasoned Merriweather, they had been stable and solvent for 115 years, and the first 100 are the toughest.

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The U.S. government and auto insurance

by Charles F. Levinson,
insurance manager,
Port of New York Authority

Charles F. Levinson

The first set of Senate antitrust and monopoly subcommittee hearings on the auto insurance industry was concluded last year. A good long look at the conclusions arrived at by the Congressional members who listened to many man-hours of testifying may give us indications of the direction regulation might take.

SENATOR PHILLIP A. HART (D., Mich.), chairman, stated that Congress has a real stake in how this thing operates. After all, it approved the antitrust exemption which legalized the basic pricing system of the insurance industry. Rating bureaus, described by him as "price-fixing cartels," otherwise would not be setting the prices motorists must pay.

Even the independents "track" the bureau companies rather than use their own individual experience to set rates. State financial responsibility and compulsory insurance laws have made the public a captive market which must buy no matter what the rate.

NOT ONLY IS the pricing system based on thousands of classifications, but also subject to subjective underwriting and a surcharge system based on some questionable assumptions.

One state insurance commissioner who testified felt that getting insurance was like joining a country club, which either rejects an application for membership, cancels it at any time or raises the dues, sometimes for the flimsiest reasons.

The whole basic principle of judging a man according to what classification he fits into, rather than his own abilities, is contrary to one of the basic American ideas.

THE COMMITTEE investigated assigned-risk pools in several states to find that the majority of assigned risks were either "clean" or "preferred" as defined by state law. For your information, "clean" means no record of offenses while "preferred" refers to one who has been involved in a single accident or convicted of one minor infraction. The point is that even here the good driver also is paying for the bad experience of the serious offender.

The report goes on to criticize the entire underwriting and rating system as in need of rather basic overhaul. All of the testimony on behalf of the carriers blames the system on the refusal of the different states to allow adequate rates so that carriers could take a chance on a new system.

The committee report also treats the matter of whether auto insurance business is profitable. Some testimony reflected high profits while other testimony said it was extremely unprofitable. The committee decided that the truth was somewhere in between, when you broke through accounting methods and investment profit. Certainly the direct writers seem to be doing well. The plea of poverty, on the basis of underwriting results only, did not impress the committee.

THE CHAIRMAN STATED that when someone turns one pocket inside out to show you it is empty, but has over $7 billion of investment profit in another pocket, it is difficult to take his claim of poverty seriously.

The testimony taken by the committee on the carriers' claim of inability to get state rate increases because of local politics, showed this to be false. On the contrary, because of limited staffs state insurance departments, with a few exceptions, generally have been giving rate requests on demand. California, with its file-and-use rules, has had rates go up, but there has been no change in underwriting practices.

The committee found the system of 54 jurisdictions regulating rates inefficient and expensive.

One most important conclusion was that while the committee leaned toward competition and not rate regulation (be it state or Federal), this approach would need the reapplication of antitrust regulation to the insurance industry to protect the driver in the nonregulated market.

A FURTHER QUESTION in this area was that with legalized price-fixing as a way of life in the insurance industry would even antitrust enforcement machinery be adequate to police the scene?

The area of claims adjusting came in for much discussion. While it may be necessary to go as far as to switch to some variation of "Keeton-O'Connell" amending the "tort" liability theory, the committee felt some immediate changes could be put into effect.

An examination of one large insurer's claims manual went so far as to tell the adjuster to consider whether the claimants eyes bulged or his Adam's apple moved when the claim was discussed. Even changing to a no-fault system would require claims adjusting with first parties. Poor claims-adjusting practices seemed to be fairly commonplace.

THE COMMITTEE LEANED toward some type of "no-blame" coverage presently available to a limited degree from all carriers in all territories under medical payments coverage.

Their studies seemed to indicate that the wave of mergers and acquisitions were not helping an already bad situation.

Rising costs were explored to see whether they have hurt auto insurance carriers. Testimony showed that since 1957 insurance premiums have risen nearly one third faster than medical costs, average weekly earnings or auto repairs. Payout percentage in 1957 was 53.6% of premium dollar while last year it averaged 53.8%.

A particularly hard swipe was taken at the apparent inefficiencies in company operations. Testimony pointed out that for each $100 of claims paid to injured parties there was $125 of administrative and other expenses. It was pointed out that the direct writer is absorbing a greater and greater portion of the total auto business because of greater efficiency.

RECOMMENDED WAS GROUP writing of auto insurance plus a close look at

Continued on following page

Commercial credit insurance: Management tool for planning and sales

by A. A. Dilworth,
president,
American Credit Indemnity Co.,
Baltimore, Md.

So thin is the difference between profit and loss to many a manufacturer and wholesaler than an economic downturn would catch a lot of them with debts which are sticky or uncollectible. A deteriorated business credits situation has accrued through years of economic uptide. Year after year, managements have pushed for ever more sales volume. The tendency has been to lengthen terms of payment while being soft in business credit judgments. That is why financial exposure to slow or bad debt losses is of timely concern. Now is the time to fix a leaky roof before it rains.

It is a rule of thumb that for $1 of loss ciency, product reject, work accident, excessive inventory, disaster or bad debt—it takes $25 of sales to offset if the profit margin is assumed as 4%. However, a 4% profit-sale ratio is rather high as a generalization.

Profit margins vary widely from industry to industry, and from company to company. In dairy products and meat packing the average is less than 1% industrywide, which indicates that a $10,000 credit loss would require $1,000,000 of added sales to offset. In household appliances the average is 2.8%, meaning that a credit default of $10,000 would take $300,000 of sales volume to make up for it. fat 4.95% in surgical and medical instruments, yet a $10,000 bad-debt loss to a manufacturer would entail a counteractive of $200,000 in make-up sales.

SOME OTHER RANDOM, key business ratios cited by Dun & Bradstreet Inc. show averages of 1.11% in hardware; 1.45% in lumber and construction materials; 4.4% in airplane parts and accessories; 5.2% in books, publishing and printing; 3.96% in broad-woven fabrics; 5.85% in drugs; 4.23% in electronic components; 3.48% in farm machinery; 2.81% in household appliances; 4.48% in metalworking machinery; 3.78% in auto parts and accessories; 2.41% in wood, household furniture.

Therefore, it is plain that the condition of accounts receivable would be seriously exposed to financial losses in many an industry when and if a general business recession comes. It is an ebbtide which reveals clutter and litter.

Supporting evidence of the vulnerable condition of business credits has been furnished by the Federal Reserve Bank of Chicago in observing that the liquidity of U.S. manufacturing corporations has been falling for 20 years. The downtrend has flattened, yet it continues to show perilous exposure to financial risk.

"The conventional liquidity ratio for

Levinson...

additional other methods of distribution. The ultimate goal they sum up to be the furnishing of auto insurance on reasonable and more equal terms with accident victims promptly and fairly reimbursed.

One thing is quite plain from all the above conclusions. The Federal government is going to put some additional auto insurance legislation on its books before all these hearings are over. Let's hope it can be averted by a program suggested and planned by practical insurance people. The new Puerto Rican compulsory no-fault law is supposed to go into effect this coming July 1, although it probably won't be implemented until October or later.

On the surface, to the nonexpert with the government, this type of law would seem to be the answer to all the ills of the auto insurance business. The low cost applying equally to all ($35 per year) plus the efficiency and convenience of purchasing the coverage automatically each year when you buy your license plates eliminates the dual complaints of difficulty in obtaining and retaining coverage plus the increasing cost due to inefficiencies of distribution regulation and an inequitable, complicated rating system.

INCIDENTALLY, ONE of the main reasons the law was passed was to remove from the already crowded highways all of the old junk heaps driven by youngsters who will not be able to afford the mandatory insurance charge—small as it is.

The government moved in with Medicare several years ago when Congressional committees developed almost the same report on health insurance as the foregoing does on auto. Remember that the Puerto Rican plan is entirely the brainchild of two University of Pennsylvania professors. They certainly will be scheduled to advise the government in its future planning.

Indirectly, this has already occurred. One of them, Professor Denenberg, has been hired as a consultant and has suggested sweeping changes in the District of Columbia insurance law. Congress thus could be running a pilot program for all of us. ■

Charles F. Levinson, insurance manager, the Port of New York Authority, holds a B.A. degree from Columbia University and a CPCU designation. He was formerly associated with a number of Midwest stock insurance companies as insurance underwriter and field man. Mr. Levinson served as insurance manager of Magnavox Co. from 1954-57, subsequently becoming insurance consultant to Insurance Audit & Inspection Co.

Dilworth...

manufacturing companies measured as liquid assets (cash, bank deposits and government securities) in proportion to current liabilities—declined from an unusually high 85% in 1947-48 to a fairly low 35% in 1966-67," said the Chicago Federal Reserve Bank.

AMONG THE SEVERAL reasons is one that is significant. Much of that decline in liquidity has been going into slow receivables. A principal cause has been the relentless zeal for new and bigger sales without enough concern over *profitability* at minimal risk.

Lengthened credit terms are given, impeding turnover of working capital. There is more tolerance of past-due accounts.

A capsuled case of risk exposure is recalled of two competitors selling to the same accounts. Company "A" sold $700,000 per year for some time, and had been extending credit of more than $100,000. As it became obvious that the account was in financial trouble Company "A" reduced its credit limit. While feeling that it had a moral obligation to the account it was prepared to lose $70,000 in what was expected to become customer's bankruptcy.

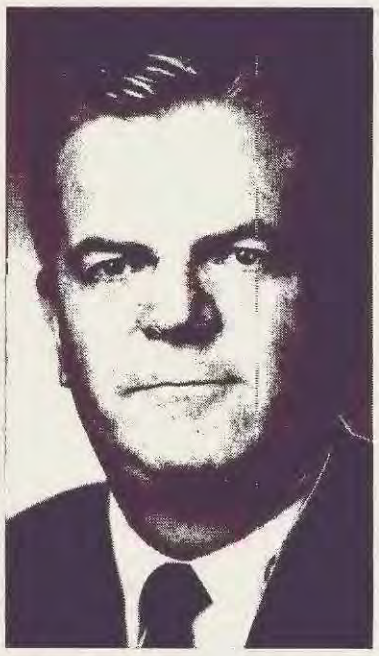
What did Company "B," the competitor, do? Company "B" deluded itself into thinking that it was taking sales away from "A" as it let the account build up to $300,000. At this point the customer's financial problem culminated in a Chapter XI proceeding with the debtor remaining in possession. This made no sense because the customer's management had already shown it could not operate profitably.

AT THIS POINT Company "A" cut off the customer completely with $40,000 owing to it. Company "B" continued to sell under the "debtor in possession" arrangement. Several weeks later the customer became an adjudicated bankrupt, so Company "B" was in for another $50,000, or a total of $350,000. Final realization was about 10¢ on the dollar.

Many a management disregards the axiom that during a period of sales expansion the need increases for stricter control over receivables and collections. The supplier who willingly lengthens credit terms should realize that sooner or later he could suffer a serious financial exposure. Past-due accounts using a supplier's money (working capital) are a luxury which not many can afford.

A few years ago a financially solid manufacturer of components for a home appliance kept its working capital (and profit) intact by having its receivables insured. The strict credit squeeze of high interest and constricted credit availability reacted against home mortgage financing and caused a drop in housing starts. The customer which manufactured the home appliance kept building up inventory heedlessly. That inventory became so unwieldy that the component user could not pay the component supplier, and defaulted.

The $250,000 credit loss was reimbursed by the commercial credit insurer. The insured supplier, as I said, was financially strong yet that $250,000 money-back reimbursement kept its working capital (and profit) from being badly hurt.



A. A. Dilworth

POSITIVE NONDEFENSIVE examples can be cited in which commercial credit insurance of accounts receivable, when properly applied, can be a sales-building tool in a prudent way.

The credit management of a Midwest steel warehouser uses commercial credit insurance aggressively to support the sales department in getting new customers. In two years his company's sales volume has risen remarkably. Emphasis has been on attracting and holding medium- and small-sized steel fabricators showing strong growth trends which justify venturous credit and who must keep their working capital really *working*. The warehouser supplies top-rated "blue chip" companies, too, yet the aggressive sales build-up is with the smaller, up-and-coming new customers of its inventoried steel sheets.

In this case, commercial credit insurance is far more than a defensive back-stop for the credit manager. It saves him staff personnel and office overhead. The commercial credit insurer does some things better than he could do for himself. The insurance company has a reservoir of experience and know-how on credits and collections.

So much for the defensive, precautionary and aggressive reasons for insurance of accounts receivable.

USUALLY MANAGEMENT carries insurance all the way through production and inventory because the company *owns* all of this. When sale and shipout is made, however, the title goes with it, and so does the right to insure. A new entity is created which is an account receivable. That account receivable is actually inventory one step forward. When it is insured the cycle of protection is completed from cash invested to cash returned into working capital, with what that implies to realizing profit.

Commercial credit insurance applies to manufacturing, wholesaling and to service business, such as an advertising agency. Each policy is tailored to fit a particular company, its management philosophy and the character of its customers and accounts receivable.

Ideally its purpose is to support maximum sales at least risk. Its justification exists regardless of how good an account appears to be at time of shipment, and regardless of business cycles. It does not imply that the customer is not going to pay for what he bought. Instead it guarantees that if something does go wrong and the producer/seller cannot collect then the insurance guarantor reimburses the extraordinary bad-debt loss.

The abnormal credit loss is more apt to come from the "good" account. The marginal is watched cautiously.

THE SUPPLIER may not discern trouble in a "good" account due to management dissension, cover-up of inefficiency, mistaken judgments or disturbed marketing. The customer may be affected by problems beyond anyone's control, such as disaster, economic slump or the customer's own customer's inability to pay him.

Commercial credit insurance guarantees all credit extensions to the extent that they are insurable, and reimburses the insured for losses over and above a normal expectancy (deductible) for a particular company. The primary loss is a one-time deduction for the entire policy period.

It usually covers automatically those accounts having a specified rating from an agency such as Dun & Bradstreet, plus a catch-all for miscellaneous small accounts. All other accounts are investigated and, if approved, are named in the policy.

The commercial credit insurance policy guarantees the insured up to a specified amount against loss due to insolvency of a debtor or to past-due accounts. Past-due accounts must be filed with the insurer within a specified period, usually 12 months, from date of shipment. Coverage is generally written on a collection basis in which debtors are placed with the insurer who assumes responsibility for collecting. Before a contract becomes applicable there must be sale, shipment and delivery.

THE INSURER may intervene in the policyholder's behalf when a collection is 60 to 90 days past due. There is a collection charge, but much of what the insurer does is free in handling policyholders' collections.

A reporting type of coverage—available coverage—may be applicable to most of the general coverage policies. This enables a lower premium for businesses which are seasonal or in which balances due fluctuate widely. Specific endorsements may be made to policies to cover specific situations. A policy with coinsurance is also available.

The defensive concept as to "bad debt" or "insolvency" is oversimplified. This insurance is more than a shield against the surprise of an abnormal debt default.

Used positively, it is a management tool for planning and sales building in a prudent manner. The policyholder knows a year in advance that the company will collect on what it produces and delivers. There is satisfaction in management realizing what it helps to do and at an expense of a fraction of 1% sales.

IN BUDGETING for the year ahead the cost basis can better be estimated on product delivered, and for materials, production flow, cash needs and borrowing requirements. There is assurance against expenses going up if an unexpected default slashes into working capital.

It is a credit guidance tool. Management wants to roll-over inventory (receivables) as quickly as practicable so as to minimize borrowing needs. Faster turnover of working capital implies much to profiting.

Working capital is not tied up in delinquent accounts when the receivables have an insured value. There is a reinforcement of an excess bad-debt reserve behind the company's own reserve for bad debts which is in its bookkeeping figures.

It is a backstop for the credit department. The insurance underwriter has experiences which go long, deep and wide in collecting methods, credit information and credit know-how.

THE POLICYHOLDER may use the insurance company's name to advance his own collections. The threat of outside intervention is impressive.

The bank lender likes to see that the loan applicant's receivables are guaranteed. To him it is like having a co-signer of a loan to an individual.

The company's own financial statement is made stronger when there is an asterisk which denotes a footnote stating that the accounts receivable are insured.

In planning for next year the credit and sales departments can agree on which are the acceptable credit risks, and for what amounts. The sales department has its go ahead.

FOR LONG-RANGE sales building the policyholder can fortify his base of credit extension to the established clientele by having the receivables guaranteed. From this perimeter the sales department can go out for new sales sources. The significance is that through a year-after-year sequence the inner circle base of guaranteed credit extension can be kept widening in a compounding manner as volume keeps swelling out.

In this way, when prudently and wisely pursued, sales can be built up going along. A retired metals company treasurer has said that through proper application of commercial credit insurance his company added $100 million in sales over a 14-year span.

In summary, the philosophy of good corporate management, as well as in the insurance industry, is that it is the *unexpected* which is to be *expected*.

Complacency over the deteriorated quality of business credits, and disregard of prudent credit judgments, will sooner or later bring disillusionment. On an upside things look good but on a downside the risk exposures show up. An economic slump would have pervasive consequences throughout the structure of business credits. ■

A. A. Dilworth has been with American Credit Indemnity Co. since 1952 when he came to the company in Detroit following his graduation from McMaster University in his hometown of Hamilton, Ontario. In 1955 he became manager of its Detroit operation and subsequently managed the Chicago, Wisconsin and Indiana area from 1962 to 1964. In 1965 he transferred to headquarters in Baltimore and in 1968 became president and chief executive officer.

Have a good day. Plan on an accident.

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CGL policy language unclear on pollution liability

NEW YORK—Many losses caused by pollution cannot be met by insurance, F. Freeland Chew Jr., assistant director of industrial hygiene field services for Liberty Mutual Insurance Co., told an American Management Assn. session on pollution.

Mr. Chew said that insurance does not pay for noncompliance with laws or if a plant is closed down by injunction. "An insurer can't cut pollution," Mr. Chew said, "but can only act as a consultant."

Insurance companies can provide investigative services and can make recommendations, he said, in addition to providing information that will act as a source of advice in the legislative area.

He offered this general information checklist in the pollution risk area:

- Types of contaminants that can be expected and in some instances the quantities.
- Specific effects contaminants can have on persons and property.
- General controls to be used for specific contaminants.
- The character of the neighborhood.
- Code requirements and penalties of municipalities.
- Advice for policyholders on surveys and sampling programs.

Mr. Chew pointed out that out-of-plant pollution surveys can take months or even years, because tests have to be performed in varying weather, temperature and production conditions. He said such tests are beyond the capabilities of most insurers.

Edward L. Wolf, partner in the Bellis, Kolsby & Wolf law firm, Philadelphia, outlined for the seminar medical, engineering and insurance methods to protect against air pollution suits.

MR. WOLF URGED that corporations consult an industrial medical specialist (an M.D.), who should use biopsy studies with spectrographic analysis and pathological evaluation to diagnose pollution problems. Other medical tests the specialist should perform include lung function studies, blood studies and urinalysis to establish a diagnosis and toxicant presence in the body of those exposed to the pollutants.

"The history taken by a medical investigator is extremely important," he said.

"Air sampling requires an industrial hygienist with a sampling device," Mr. Wolf said. Other tests include stack samplings, which can be excellent defense tests where several other industries nearby may be polluting as well, and climatological and topographical studies.

Mr. Wolf said there is substantial doubt that the comprehensive general liability policy covers personal liability claims because of the use of the word "accident" in the policy. The courts will have to decide whether sulphur dioxide, for example, can be classified as poison.

IN A QUESTION-and-answer session later, Mr. Wolf said that the use of the word "occurrence" in the new CGL policy may change the situation but judicial policy is yet to be determined. Mr. Chew said the new CGL is broader and will cover more situations.

"Air pollution cases can be divided basically into two categories—those in which the exposure to or ingestion of a particular toxicant by an individual has given rise to a condition or disease that is unique to that toxicant, and those in which the toxicant has caused a condition that can also result from other factors or aggravated exacerbated pre-existing conditions," Mr. Wolf said.

Mr. Wolf added that most courts faced with the decision of determining a company's negligence in exposing its neighbors to an unreasonable contamination have held that usual insurance coverage does not apply. "But this is really yet undecided," he said.

"The defendants have been held to be entitled to a defense by their insurance carriers but whether or not their carriers are responsible for the damages is yet an undecided question in many jurisdictions. What concerns the carriers even more is that, if held responsible, what is the limit of their exposure."

Mr. Wolf used an example: In 1945, a beryllium company bought a $100,000 policy from an insurer. Then, 16 years later, the plaintiff became disabled.

"Is the 1945 insurance carrier responsible if it is contended by the plaintiff that part of his exposure occurred during the period of insurance coverage?" Mr. Wolf asked. ■

OK revised comp law

SACRAMENTO — Emergency legislation to correct a drafting error in the 1968 workmen's compensation insurance revision in California has now become law.

Under the new legislation, no longer will any increase in compensation death benefits granted by the 1968 special session be capable of retroactive application to the end of the 1959 legislative session.

The unintended provision was included in the 1968 law when its author failed to change a specific clause of the older law which he sought to amend. ■

coming august 18th...

international risk management

a searching look overseas at insurance, safety, security and personnel problems—coming in the august 18th issue!

Just as "no man is an island," so also is no business an island. The number of U.S. businesses which have insurance, safety, security, pension and profit-sharing problems overseas is big and growing rapidly bigger. It is an integral part of the economic expansion so often referred to when discussing the might of the U.S.

What U.S. firms do in these areas overseas, then, is business insurance news. And so, *Business Insurance* will have a special emphasis International Issue August 18 devoted to these problems.

The special report will contain profiles of what U.S. firms are doing overseas with their property and liability risks. For example, our editorial staff will outline what is happening to deductibles in various foreign countries; are they skyrocketing in a manner similar to deductibles in the U.S.?

Other key editorial areas in the special report will include:

- Employe benefits, such as how group life, accidental death and dismemberment, health and retirement programs vary from country to country. And, in order to be competitive, companies must know what appeals to employes overseas, both U.S. citizens transferred there and citizens of the country itself.

- And what about third-country nationals, a real problem area for U.S. firms? These employes, citizens of one country working for a U.S. firm in still another country, present a unique compensation problem. At what level and with what currency are these employes to be compensated?

- Perhaps the most common yet complex problem facing U.S. firms doing business overseas is how to insure the products shipped to foreign markets . . . not only while in transit but also in warehouses overseas before they are sold.

- What foreign governments are doing to regulate insurance companies, agents and brokers, retirement funds, and even more broadly, the very strength of the local currency.

- Evaluation of the off-shore captive as a risk bearer, what to look for in buying from a foreign insurer, whether to insure in U.S. or local currency, and what foreign markets, not usually thought of in reinsurance circles, are being used by some U.S. companies.

- As we did last year, a member of the *Business Insurance* staff will go to Europe for a firsthand look at the insurance scene there. And we'll send a reporter to the Bahamas to describe what's new with the "nameplate" insurers that lurk in that island and other countries that have "easy" insurance laws.

However, the main emphasis of the August 18, 1969 International Issue of *Business Insurance* will be on how U.S. firms find capacity, minimize risks of all types and handle employe benefits in their overseas operations.

Risk management executives in the 12,500 leading U.S. corporations will be reading the International Issue of BI to see the answers that their counterparts in other major corporations are finding to overseas problems.

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Bankers bond revised with loan clause load

NEW YORK—An optional loan-participation insuring agreement, which calls for a 25% premium loading, has been added to the standard bankers blanket bond form as the result of a four-year effort by The Surety Assn. of America and the American Bankers Assn. to hammer out a revised bond.

William F. Owens, director of the insurance and protective committee of the ABA, told *Business Insurance* that his association and the banking industry as a whole have contended that language in the old blanket bond covered loan participation (the practice of one bank to participate in a loan made by another bank holding collateral securities for the loan, when the first bank does not check the authenticity of the collateral).

The ABA agreed to the addition of the loan-participation clause because the extent to which banks engage in the practice required that they be insured.

"WE WERE after coverage. It was up to the surety association to rate it. When we see what the losses are for this situation, then we'll know whether or not the rate is any good," Mr. Owens explained.

According to Mr. Owens, the revised bond now has a check kiting exclusion, which he called the "second most controversial issue" in the revision. ■

1969 Javits' pension bill prospects seen as dim

WASHINGTON—Pension experts see very little difference between Sen. Jacob Javits' (R., N.Y.) recently-introduced 1969 omnibus private pension plan bill and the one he has introduced in each of the past few years.

And they don't feel this one will get much farther in the 91st Congress than its predecessors did in past sessions.

As with its predecessors, the new Javits bill would establish minimum Federal standards for vesting, funding, reinsurance and portability of private pensions and would establish a Federal agency similar to the Securities and Exchange Commission to administer these standards.

The key difference between the new bill and previous Javits efforts is that it would require 10% vesting after six years' employment and an increase of 10% per year in each of the next nine years. Previous bills called for full vesting after 15 years.

No hearings are expected on any pension matters on the Senate side at least until next fall. Rep. John Dent (D., Pa.), chairman of the House labor subcommittee, is however expected to open hearings soon on last year's amendments to the Welfare and Pension Plan Disclosure Act amendments, which deal with fiduciary responsibility. It is expected he will also delve into such matters as vesting, funding, reinsurance, and portability. ■

'Value' of Fortas 'annuity' put at $380,000 cash

SAN FRANCISCO—The "real value" of the financial arrangement that led to the resignation of Supreme Court Justice Abe Fortas "sort of got lost in the volume of words," according to local insurance experts.

"The real question," a number of brokers point out, "is how much cold hard cash it would take to obtain an insurance annuity that would pay $20,000 a year for life to a 59-year-old man . . . and continue the payments to a surviving wife . . ."

San Francisco insurance companies put a price tag as high as $380,000 on a joint survivor annuity which would pay the same amount as allegedly existed in the arrangement Fortas had with Louis E. Wolfson.

"What's more," explains one authority "all that money would have to be put up all at one time . . . instant cash!"

INA drops . . .

Continued from page 1

pensate governments for the cost of cleaning up tanker oil spills off coastlines.

The captive, however, would not cover the cost of mopping up oil from stationary oil rigs, such as the Union Oil rig off Santa Barbara, and it has been suggested that a second captive operation be formed to take on this problem.

Seven oil companies, which account for 30% of the world's privately-owned tanker tonnage, said the plan would get under way when oil companies operating 50% of the world's tanker tonnage pledged their support.

It was understood, however, that the seven are experiencing difficulty drumming up the necessary 50% support to get the venture on the road. Oil companies met in London last week to discuss the fortunes of the cost-sharing enterprise.

"We anticipated this two-way squeeze by insurers and the government," one oil company risk manager told *Business Insurance*, "and that's why companies in the crude or 'dirty' oil business set up a protection and indemnity club to cover tanker spill liability risks."

Even P&I club protection may not meet government-imposed liability, however. A typical P&I policy says, "Underwriters hereon have the privilege of tendering immediate notice of cancellation in the event of the U.S. Government passing legislation affecting owner's rights of limitation and/or responsibilities caused by oil and/or petroleum products cargoes." ■

Curtis . . .

Continued from page 1

Kalodner. There are conflicting reports whether or not the Curtis estate directors stand behind Mr. Kalodner's union agreement.

It was also learned that a group of 100 former Curtis employes, most of whom went to Downe Communications as part of the sale of two Curtis publications, are negotiating for a similar settlement. The group has not filed a suit, however.

The employes did not get any pension payout as a result of the sale.

The agreement won by the union would also cover salaried employes at the printing facilities. ■

Small businessmen lose $3 billion yearly, have insurance woes galore

WASHINGTON—The small businessman loses over $3 billion dollars a year through crimes and carelessness—most of which is uninsured, according to Herbert S. Denenberg, Harry J. Loman Professor of Property and Liability Insurance at the University of Pennsylvania's Wharton School of Finance and Commerce.

Studies conducted on behalf of the Small Business Administration show that over one-third of ghetto businesses and over one half of ghetto retail establishments report serious insurance problems, Dr. Denenberg told the Senate select committee on small business.

Major complaints were cancellation of policies in force; refusal to renew policies at date of expiration; accepting policies even though it was less than the desired amount; and the necessity to pay above the going rates for coverage.

ONE OF THE major problems, according to Dr. Denenberg, is that many businessmen view insurance as a substitute for prevention techniques. Insurance companies often stress the loss prevention aspects of their services and are usually heard to play up their loss control capabilities. In reality, Dr. Denenberg charged, the industry has failed to provide adequate resources and impetus for prevention work.

Dr. Denenberg contended that it would be sound public policy to enact legislation, such as the Bank Protection Act of 1968, to require businessmen to take reasonable precautions to prevent crime losses. Such legislation would simplify the problem of providing adequate crime insurance coverage, he added.

But Dr. Denenberg said, insurers have not written substantial amounts of crime insurance and the statistics produced have been inadequate to provide enough data to reduce crime losses. The industry, testified Dr. Denenberg, has shown little inclination to do basic research in crime loss prevention.

The SBA insurance report recommended that the industry and the Federal government establish programs to develop new loss prevention techniques. This information, commented Dr. Denenberg, would be used to create more accurate crime insurance premium discounts.

IT WAS further recommended that business, in consultation with the Federal government, should take steps to further unify and consolidate statistical collection and processing activities, looking toward an eventual single agency to collect data from all insurers and to provide needed experience information.

Other steps, Dr. Denenberg said, might include:

- State legislation requiring a specified percentage of the premium dollar be committed to loss prevention work and research.
- State legislation requiring insurance companies to report annually on the loss prevention implications of their statistics, with the information being made available to the small businessman.
- New and existing government lending programs to make loans for protective devices and other loss prevention measures.
- State legislation regulating insurance company investments to establish priority for loans such as for safety devices.

The SBA insurance report, said Dr. Denenberg, recommended that the practice of calculating premium rates by counties be discontinued. Risk of loss from crime should be spread through the premium structure for an entire metropolitan area, state or other territory that represents a complete social unit. ■

Union cover disclosed

NEW YORK—A new coverage to protect union trustees of pension and welfare funds was disclosed here by Frank O. Watt, vp of Mass Insurance Consultants & Administrators.

Mass Insurance worked with Aetna Casualty & Surety Co. to develop trustee liability insurance patterned after directors and officers liability, Mr. Watt said.

The new coverage came on the market in September and has been approved by the states and purchased by more than 100 funds, he said. The policy covers trustees of pension and welfare funds and persons to whom the trustees have delegated administrative functions for personal liability.

THE INSURANCE company would pay all sums in suits brought by an employe, a former employe, a beneficiary, an attorney or an organization for injury caused by a negligent act, error or omission. Fraud and dishonesty normally covered by a fidelity bond, are excluded.

The policies are written with limits of $100,000 per claim and $300,000 per year; $500,000/$1 million; or $1 million/$1 million.

Premium is based on the number of employes participating. The minimum annual premiums for plans with 2,500 or fewer employes are $42 for $100,000/$300,000 limits; $531 for $500,000/$1 million and $555 for $1 million/$1 million. The premiums go up in proportion to the number of participants.

There is a $500 deductible on all claims, and coverage may be extended to satellites such as supplemental employe benefit funds, vacation funds and apprentice-training programs, Mr. Watt said.

Maryland rejects hike

Maryland Insurance Commissioner Newton I. Steers Jr. has rejected a request from the Insurance Rating Board for higher automobile liability and physical damage insurance rates. The board had wanted an average increase of more than 39% for commercial cars and garages.

Sweetlife benefits

A strike involving warehousemen and truck drivers at the Sweetlife Food Co., Suffield, Conn., has ended, union members voting to accept essentially the same contract they rejected before start of the two-week action. Provisions of the new agreement include a $3 weekly increase—to $10.30—by the company to each employe's health and welfare benefits; a $2 weekly increase—to $10—by the company to each employe's pension.

The new contract calls for a $275 monthly pension for each employe at age 60.

GATX . . .

Continued from page 13

ty-liability program was given concurrence by top management. Both were satisfied with the results and have since used insurance consulting services for special problems.

One of these involved evaluating competitive quotations on a package insurance program, one of the most difficult insurance products to assess. EBS was called in again to assist in judging the merit of competing proposals.

In such situations insurance consultants apply their knowledge of rates and market conditions, coverage provisions, insurance company stability, company services and other factors that should be taken into consideration in the purchase of coverage, knowledge no individual insurance manager would possess. Sometimes consultants are called in simply to relieve insurance departments of pressures from competing brokers.

Leonard Lippman

Arthur H. Melzer

Mr. Lippman summarized his experience with insurance consulting services for *Business Insurance* this way: "In business, as in life, it's hardest to know yourself. Living with an insurance program, it becomes part of you and you naturally feel that this is the best program for your company. GATX was pleased with our consultants' findings that our insurance program is as modern and functional as our newest tank car." ■

Minneapolis...

Continued from page 22

When we ceased investigating and started packeting, the claims were cut in half. I'd say that was pretty dramatic."

Chief Dwyer related his experience with the insurance companies.

"WE MET WITH insurance companies and made known our plans. All they wanted was to be kept up to date on all of the information and statistics we gathered. They agreed that it was probably short-changing the tax-paying public to have two officers spend an hour and a half investigating a property-damage accident, then another half-hour writing a long report that sold to an insurance adjuster for $2.

"We informed them that we felt this was nonpolice function since the reports were merely notations of figures and little information was admissable in court," Chief Dwyer said.

Many insurance companies were concerned that "bandit" investigators might appear on the scene to shoot pictures and make out some sort of report. It did not happen.

"The so-called bandits would have to be so well equipped and staffed that their expenses would prevent them from going in or staying in business," Chief Dwyer stated. "Minneapolis is so spread out that covering the city would take several cars and lots of luck. I doubt if anyone is foolish enough to try."

WITH THE TRAFFIC division dissolved, 75 men were sent to the western half of the city to beef up high-crime areas. Mr. Dwyer flatly stated that the decreasing crime rate in the city is due to the additional manpower —but not in the sense that mere numbers of policemen mean less crime.

"The aim of the additional deployment was not just numbers. It was planned to cut down the response time from call for help to policemen actually at the scene. We hope to keep this response time to two minutes.

"Another part of that calculated risk is exposure of officers. I predicted with the reorganization that more officers would be getting into gun battles. That became a fact of police life almost immediately. Officers arrive at the crime scene before criminals have time to clear out. In the first six months of this short-time response, one officer has been shot to death. One burglar and one stick-up man were killed in gun battles," he disclosed.

The Minneapolis police chief feels strongly enough about his concept to send details to at least 25 cities across the country which inquired about the new setup.

"It will always depend upon their local situations." Chief Dwyer said, "but there is really no reason why with planning and the courage to take that calculated risk any major city cannot solve some of its manpower shortages by reorganization. It might even cure some of its citizens of a little larceny." ■

London line...

Continued from page 18

cases. But they plan to attract new customers by making company group schemes, in which employes benefit, more attractive. Discounts of more than 30% will be offered on the standard rate for big corporations. Britain has a nationwide health and medical facility run by the government which covers free hospitalisation. But there are several insurance groups who offer extra-care benefits, such as private nursing home treatment, to give "fringe" protection for people who do not want to use government-run hospitals.

* * *

Fire and riot cover for U. S. urban areas is reported by General Accident Fire and Life Corporation, of Perth (Scotland), in its latest world survey, to be: "A continuing problem which has been helped, but not satisfactorily resolved, either by Federal riot reinsurance or by the 'FAIR plan.'" The corporation looks for better results from increased automobile insurance rates which it has introduced for auto cover in some states. ■

Conn. legislative unit okays buyer exclusion

By ALLEN M. WIDEM

HARTFORD—Unlicensed out-of-state insurance companies doing business in Connecticut, mainly through mail orders, would be brought under state insurance department control for the first time through provisions of a measure approved by the State Legislative Insurance Committee.

The measure—senate bill 287—got support from State Insurance Commissioner William R. Cotter.

Each of the unlicensed companies—including Lloyd's of London—would have to pay a 3% gross-premium tax on all policies written in Connecticut. (This is the same tax applied to all licensed firms.)

A STATE insurance department spokesman remarked that "nobody has any idea" as to how much the premium tax on unlicensed firms would yield in state income.

Up to the present time, there has been no record of the insurance policies sold in Connecticut by the unlicensed out-of-state companies.

The proposed bill specifies that each of the unlicensed companies must file a statement with the Connecticut insurance department on Connecticut sales and then pay a 3% gross-premium tax on such transactions.

Failure to file would result in state superior court action by the state insurance department. Also figuring in legal moves would be the state's attorney general.

At a state capitol hearing on the bill, spokesmen for United Aircraft Corp., largest industrial employer in Connecticut (some 80,000 on the payroll), and other sizable manufacturing interests that have dealt directly with companies unlicensed to service insurance in Connecticut urged "an industrial exemption."

AN INSURANCE committee spokesman told *Business Insurance* that the bill grants this "industrial exemption for nonprofit educational insurance company policies sold in Connecticut."

(These nonprofit policies are purchased by instructors and the like in the educational field.)

The 3% premium tax, however, would have to be paid by the firms writing policies under the industrial and nonprofit educational exemptions. ■

Washington unit gets extra insurance funds

OLYMPIA—Most Washington State agencies had their appropriations cut as requested by the governor.

One exception was Insurance Commissioner Karl V. Herrmann, who received $417,000 more than requested for a total of $2.58 million.

The additional funds are to administer a bill passed by the recent 41st legislature bringing health-care contractors under the insurance commissioner, to expand consumer-protection activities and to "beef up" the state fire marshal's office.

Mass. senate blocks 'strike benefits' action

BOSTON—Another effort by Massachusetts labor interests to gain unemployment compensation for workers during labor-management disputes has been stymied—at least temporarily—in the state legislature.

A senate roll-call vote of 19-17 was recorded against advancing to a third reading legislation that would make workers involved in plant lockouts eligible to draw state unemployment benefits.

The proposed measure is sponsored by Senator Mario Umana (D., Boston) who contends that the action is not intended as "a strike-benefit bill."

He emphasized that it will not provide unemployment benefits to workers on strike as written.

But opposing senators remarked that it was merely a disguised strike-benefit bill.

Senate President Maurice A. Donahue (D., Holyoke), among Mr. Umana's supporters, cited a lockout staged by a food store chain after a wage-dispute strike.

"All the people in Connecticut that were locked out were able to collect unemployment compensation," he said, "but the people in Massachusetts couldn't."

Senator David H. Locke (R., Wellesley) called the Umana bill a strike benefit "no matter how you dress it up. If this bill is passed this year, strike benefits will be here next year and make no mistake about it." ■

Foam used to extricate runaway train

MECHANICSVILLE, N.Y.—A tank car filled with volatile liquid propane gas was pulled from its resting place in the showroom and service area of a new-car dealership in this industrial city on the Hudson River.

The tanker was one of 54 cars that broke loose earlier in the day from a Boston & Maine Railroad staging area about two miles away.

Five of the cars, including the tanker, careened through a retaining rail. The gas-laden car continued across a street and through a cement block wall before coming to rest against a hoist in the automotive concern.

Four diesel engines were used to haul the wayward tanker from its resting place.

Prior to the removal operation, the accident site was covered with a thick coat of a foam fire-fighting material. The foam was as thick as three feet in some places.

The Clements dealership was housed in a former railroad station.

The errant tank car contained nearly 33,000 gallons of liquified propane, a railroad investigator said.

The railroad cars that broke away rolled on a downhill grade before finally coming to rest.

No injuries were reported. ■

Actuary opens

J. Ross Hanson has formed his own consulting actuary service for variable annuities and life insurance at 810 18th St., N.W., suite 209, Washington, D. C.

Solid security at warehouses cuts losses

CHICAGO—Security heads of two corporations that depend on large warehouse inventories discussed the interplay of insurance and security measures in their protection programs and the resultant improved loss-ratio at the International Security Conference here.

Spiegel Inc. takes a $50,000 deductible on its $1 million-limit employe-theft and holdup coverage, which is handled by Continental Casualty Co. J. M. Kneafsey, Spiegel's protection superintendent and a speaker at the conference, told *Business Insurance* that for the past five years the corporation has maintained a shrinkage on total sales of only one-half of 1%. In 1968 Spiegel reported net sales of $320,248,000.

"We don't measure shrinkage as a retail company would," said speaker J. Kirk Barefoot, director of security for Foremost-McKesson Inc. in New York.

PRIOR TO the 1967 merger of Foremost Foods and McKesson & Robbins Inc., it was estimated that losses due to theft amounted to $200,000 to $250,000 a year based on a sales volume that had passed the $1 billion mark. This was an improvement over a 1959 McKesson & Robbins report of $1 million in theft losses on a $600 million sales volume.

Hartford Accident and Indemnity Co. handles the corporation's single bond with a $5 million limit.

Mr. Kneafsey said that the 25 Spiegel warehouses in Chicago are protected by a security force of 125 people, 88 of whom are full-time uniformed guards watching goods stored on 6 million square feet of warehouse space.

The warehouses are guarded 24 hours a day, seven days a week. Alarms protect the areas in which jewelry and firearms are stored.

THE SPIEGEL protection superintendent said that not long ago the company had some problems with the theft of firearms. Because of the nature of the thefts, which Mr. Kneafsey described as "embarrassing," security guards now escort shipments of guns from the loading dock to a fenced-in and locked area where they are stored. High-priced gems are handled the same way.

Among the security precautions at Spiegel's warehouses are these:

- All receiving stamps are purchased by the protection-security department. They are numbered and handed out and periodically recalled for security checks.
- Label authorization stamps are also issued and picked up periodically by the same department.
- A cadre of investigators has been hired and trained to go into any area of Spiegel's operation. As Mr. Kneafsey put it, "We do a lot of prevention work and if that doesn't work, we investigate."

Those and other security measures are not a secret at Spiegel—although the rank-and-file does not know about the authorized stamp changes. Spiegel's employe handbook lists all the causes for dismissal due to security violations.

MR. KNEAFSEY'S protection department is part of the company's operating division, but he said he works with all facets of the financial division, including insurance problems.

At Foremost-McKesson there are five regional security officers and the same number of investigators. Mr. Barefoot works closely with the insurance department.

The security director believes the corporation's good theft record is the result of a program that began in 1954 with the institution of polygraph testing when hiring employes for merchandise- and money-handling jobs. Mr. Barefoot is the chairman of the board of the American Polygraph Assn.

Also instituted was an aggressive investigative effort to route out entrenched company theives.

THE THIRD step in the program was summed up by Mr. Barefoot, "Temptation is ever present and management has an obligation to help honest employes remain honest by throwing up 'road blocks' or controls to reduce the opportunity for theft."

One of these controls is accomplished by not permitting office personnel to enter warehouses where merchandise is stored. This also eliminates running a security check on them during the interview stage.

American Sunmark Co., owned by Foremost-McKesson, reduced the problem of theft of goods in transit from Japan to the U.S. by switching the labeling of containers from words to a number code.

The corporation's various divisions, totaling 237 locations and 17,000 employes nationwide, operate autonomously by absorbing the first $2,500 of the $5,000 deductible on the fiduciary bond for their own losses. A self-insurance fund is maintained by the corporation to handle the deductible. "Sometimes we don't even put in a claim if we think it will drive the premium up," Mr. Barefoot said. "What you end up doing if you're not careful is just trading dollars."

The largest warehouse maintains a staff of 100 and the smallest has approximately 25, he said. R. W. apHugh, corporate insurance manager, told *Business Insurance* that losses were so low it was impossible to see if any pattern or higher incidence of theft had ever emerged in a specific division. Only two of their locations even use uniformed guards, the security director pointed out. ■

Man receives $10,000 for relocation

CALGARY—The Alberta supreme court awarded a 40-year old man $10,000 for expenses incurred when his employer decided to cut down on overhead costs by firing him.

Henry W. Vos, an assistant branch manager with the Foundation Mortgage Corp., Ltd., told the court he reluctantly sold his property in Calgary and moved to Red Deer on orders from his employer.

IN MAY 1967, the assets and property of Foundation Mortgage were transferred to Security Trust Co. Ltd. Mr. Voss continued working for the new company.

Then in 1968, Mr. Vos said, a Security vp informed him that there was to be a substantial reduction in fixed overhead, which would include elimination of his position.

Mr. Vos said he stopped working Feb. 29, 1968, and began searching, without success, for a job in Calgary or Edmonton.

Mr. Justice H. W. Riley awarded Mr. Vos $10,000 to cover expenses in finding a job, relocation expenses and the losses incurred in moving to Red Deer. ■

Pension plans called major issue in Plywood-Champion merger

NEW YORK—Pensions were the most important problem to solve in the merger of U. S. Plywood and Champion Papers in 1967, according to Harold L. Hudson, employe benefits manager of U. S. Plywood Champion Papers Inc.

As a result of a study, which took more than two years, Mr. Hudson told the American Management Assn. spring employe benefits conference, a uniform retirement program for salaried employes evolved out of three very different pension programs. The third plan belonged to Drexel Enterprises, which was acquired in July, 1968.

The combined plan will go into effect in September. A study of hourly employe benefits has not yet begun.

MR. HUDSON said that a moratorium was called on company benefits changes and no changes were made until the full-scale study was completed. In addition to Mr. Hudson's staff, three outside consulting firms were called in to help with the study.

The personnel department created a philosophy and a direction, Mr. Hudson commented, recognizing the differences in each company and their respective industry, that they did not represent the same return on capital or investment and that both practical and philosophic problems were involved.

For example, two of the plans determined retirement benefits on a career-average basis; the third was on a final pay basis. One of the companies had a deferred profit-sharing plan.

In addition, Plywood Champion has acquired a number of lumber camps and paper mills, adding more than 60 additional pension plans, each with different methods of funding, Mr. Hudson said. These have not been merged into Plywood Champion, he said, and the benefits plans have not been integrated either.

MR. HUDSON described the problems of implementing an electronic data processing system with employe benefit programs. He said that those who warn against permitting management information departments to organize a personal system are correct.

"We had the largest system of its type ever assembled," Mr. Hudson commented, "and it just did not work." The job was then put back into the hands of the personnel department and the company is now working toward a centralized benefits plan.

Some of the benefits under study for revamping include medical, life, disability, long-term disability, travel, direct compensation, pension, 24-hour accident and dread disease.

He said that before any company considers switching its self-insurance and self-administered benefits programs, the additional burden on the EDP system must be considered. Champion is self-insured except for its life insurance program for salaried employes, and U. S. Plywood and Drexel are basically insured by outside carriers.

AT THE SAME seminar, William M. Hendry, supervisor of benefits administration for General Foods Corp., discussed employe benefits and EDP at his firm.

General Foods has five products divisions, 20,000 U. S. employes, 44 unions, 60 plants and offices and 25 payroll offices.

The General Foods benefits are essentially uniform for hourly and salaried employes, but with seven dental plans.

Life insurance is two times pay with long-term disability, a basic medical plan plus major medical, accidental death and dismemberment at two times pay and a retirement plan with career pay benefit with minimum final pay formula.

There is a contributory thrift plan with the employe allotting between 2% and 10% of pay and the company contributing a minimum of 30¢ for each dollar of employe contributions. The investment choices are General Foods stock, a diversified fund or government bonds.

PARTICIPATION in these plans are as follows: medical 94%, life insurance 87%, retirement 81%, accidental death and dismemberment 73% and thrift plan 40%.

General Foods first ventured in EDP in 1959; before this insurance carriers maintained records and calculated the benefits. In 1959, the pension trust decided to self-administer and thus had to maintain its own records and calculate its own benefits.

The payroll offices send in monthly reports on new participants, transfers, terminations, deaths and retirements. An attached enrollment card supplies basic data on Social Security number, sex, birth date, employment dates and monthly contributions.

EDP is used in the planning and development stage and costs for this data to supply to the carrier to develop costs. For the retirement plan the actuary develops additional liabilities from basic data supplied by the data processing center.

In benefits administration, EDP calculates retirement termination and death benefits under the retirement plan, supplies renewal data for the insurer, updates actuarial data on retirement participants, prepares 2,100 monthly pension checks, supplies forms to report taxable income on each retiree and prepares an annual computer report showing stake in the benefit plans, accrued money in retirement plan and the projected contributions and benefits to age 65 along with group life medical and accidental death and dismemberment coverages. ■

1968 riot loss totals reach $80 million

NEW YORK—Insured riot losses in 1968 totaled $80 million, according to the American Insurance Assn. Losses for 24 "serial" catastrophes during 1968 totaled $209 million.

The AIA said that 9,400 loss reports in 361 cities and 37 states and the District of Columbia were included in the riot-loss estimate. In 1967, riot losses were estimated at $70 million.

Serial catastrophes are large hurricanes or other natural disturbances recorded by AIA committees. ■

Eye choice of benefits—from cars to stock—as 'motivational bang'

NEW YORK — Clifford L. Sherran, Sybron Corp. vp, presented the supermarket compensation concept that would bring benefits and pay in every form from Cadillacs to phantom shares of company stock as one way of getting "a bigger motivational bang for the buck."

Speaking at the American Management Assn. spring confernece on employe benefits here, along with Harvey J. Saffeir of Towers, Perrin, Forster & Crosby, Mr. Sherran unfolded a program that might well be the last word, to date, on freedom of choice.

The supermarket concept, in its most ideal form, would bring compensation to everyone from hourly blue-collar workers to board members in items selected from a large array of benefits sold at "the company store."

While industry today offers impressive programs in the incentive area—from pension and welfare benefits to training programs and paid foreign travel—these programs are individually administered and fragmented, he said.

IN ORDER to maximize impact and increase administrative efficiency industry now needs to adopt a concept of total compensation with benefits consolidated into one package with centralized planning and administration, Mr. Sherran said.

The centralized supermarket concept, operating in conformity with free marketing principles, would put compensation on a marketing basis rather than the product basis now used, Mr. Sherran said.

In a totally free market, employes would receive their total cash and benefits compensation in cash to spend as they wished, but for several reasons management cannot go quite this far. The government requires income and other tax deductions, some holidays are statutory, he said. Vacations are needed for health, and group plans require minimum participation.

BUT WORKING within these limitations, after legally required deductions and minimum group benefits, each employe could decide how much of his total compensation he wanted to spend on salary, deferred compensation, social clubs, vacations and other items.

One item management might be thinking about putting on the shelves of the company store could be automobiles. The cars could be offered at a reduced price if management stocked up on a bulk basis and offered them through a group auto-purchase plan, and employes could realize the additional savings of buying the cars with pre-tax dollars.

The supermarket compensation plan, as seen by Mr. Sherran, would result in a wide variety of purchasing patterns based on age, sex, number of children, position held and other factors. It would work to fulfill the real needs of the individual, and not his needs as visualized by some central planning office.

HARVEY J. Saffeir, an actuary, discussed dental care, prescription drug and other coverages now being introduced in benefits packages and the advice his firm was offering clients on these items.

Recently it has been estimated that dental expenses account for about 10% of a family's medical expenses. Dental coverage is becoming an increasingly widespread demand in union contractual negotiations, Mr. Saffeir said.

A dental-care benefit providing coverage for preventive and basic routine care could cost an employer about $4.50 a month for each employe and $7.50 a month for dependents. This normally does not include orthodonture or other complicated procedures.

Some major medical plans include a dental-care program, and in that case the cost is brought down to an additional $1 a month for employes and $1.50 a month for dependents, with a $100 deductible.

TOWERS, PERRIN warns clients that the dental program is costly and advises those companies with already strong comprehensive medical programs that it is probably unnecessary to add this coverage, he said.

Some unions have proposed vision-care coverage to take up the costs of routine eye examinations and prescription glasses now excluded from most standard medical plans, Mr. Saffeir said.

This coverage would cost an employer roughly $1.50 a month for an employe and $2.50 for dependents. It is a benefit that virtually no employer plans and very few union plans provide, Mr. Saffeir said.

There is some current interest in coverage for out-of-hospital prescription drugs, but administrative costs are high in relation to benefits provided, and Towers, Perrin is now advising clients that prescription drug is probably not necessary at this time, Mr. Saffeir said.

MOST PRESCRIPTION plans have a deductible, which might be in the form of a maximum of roughly $2 for each prescription or of a $10-per-person maximum for a six-month period, Mr. Saffeir said.

With a $2 deductible for each prescription, the cost would come to $1.25 a month for employes and $2 a month for dependents. Without a deductible, the cost goes up to $2.50 a month for employes and $4 for dependents.

In preventive care, few companies have liberalized group coverage to include outpatient care, although outside of group such things as pre-employment physicals and annual medical exams, at least for the senior people, are being done, Mr. Saffeir said.

In the surgical areas, a move is being made away from schedules of surgical costs to the more flexible "reasonable and customary charges."

Some of the larger unions have won agreements with this provision, Mr. Saffeir said, pushing up the number of workers covered by "reasonable and customary" as high as one in 10 Mr. Saffeir said.

Towers, Perrin has been slow to recommend the switch to "reasonable and customary" because of its newness and cost implications and generally advises clients that there is no need right now to rush into this coverage, Mr. Saffeir said. ■

Georgia-Pacific eyes $2.5 million savings from sprinkler installation

NEW YORK—Georgia-Pacific Corp. could save up to $2.5 million over the 50-year life of its new headquarters building because it installed automatic sprinklers.

This was the contention of Richard E. Ritz, associate partner in the architectural firm of Skidmore, Owings & Merrill, Portland, Ore., who termed "startling" findings that resulted in complete sprinklering of G-P's office tower under construction in Portland.

Mr. Ritz noted that when original construction of an office tower includes a sprinkler system the cost is completely offset by construction savings, and the annual gain from insurance premium savings and additional rental brings in at least $50,000 annually.

RENTAL AREA, explained Mr. Ritz, can be a profitable 85%, because less space is taken up by stair and access areas—including the loop corridor usually required in high-rise office buildings.

Savings in construction costs result from better arrangement of these and other items and doing away with others, Mr. Ritz told the 73d annual meeting of National Fire Protection Assn.

Design of the prototype Georgia-Pacific high-rise pivots around a central core floor plan with completely modular rental space, Mr. Ritz said. This design left architects with the major problem of devising a simple, economical method of locating sprinkler heads to fit varying partition requirements, the NFPA meeting was told.

The solution permits location of a sprinkler head at any one of the four sides of each module grid. Each grid is complete with light fixture and with supply or exhaust grille for air conditioning in the ceiling, and with outlets for electrical and telephone service on the floor.

THIS FOUR-SIDED arrangement makes 912 possible locations of heads per floor in the modular area—six times as many possibilities as will probably be used at any one time, according to Mr. Ritz.

The need for sprinkler systems in high-rises has become acute, the architect stated, because of the considerable number of fires in recent years at such locations, with major property losses and some loss of life.

"A large percentage of these losses brought out the inability of fire departments to combat fire easily and carry out rescue work above the reach of truck-mounted aerial equipment," Mr. Ritz said.

At another session of the NFPA, a British aviation fire safety expert contended that "light water" can be twice as effective as foam in controlling aircraft fires, but foam is better at preventing a recurrence of the blaze.

TESTS INVOLVING light water and foams were summarized by Philip Nash, head of the extinguishing materials and equipment section of Britain's Fire Research Organization.

Mr. Nash said that when two types of foam were applied during simulated aircraft fire conditions, light water was about 1.5 to two times as effective as regular protein foams in terms of the quantity of solution required to control the fire.

On the other hand, Mr. Nash said, "resistance of light water foam to re-establishment of the fire was much less than that of the protein foams, once a significant area of fire was burning."

He pointed out that effective rescue operations during aircraft fires can only proceed when the fire is reduced to a low level and is safe from reflashing. "As the fire-fighting agent has to be carried to the scene of the fire, it is therefore essential that it has a high weight effectiveness in subduing the fire and in preventing its recurrence," Mr. Nash stressed.

ANOTHER aviation expert—this one from the Federal Aviation Administration—told the NFPA gathering that airplane fires and experimental fire tests of cabin interior materials indicate a need for limiting smoke and gases produced from burning materials and also limiting ignition hazards.

Charles M. Middlesworth, in charge of fire testing at the national aviation facilities experimental center near Atlantic City, pointed out that burning materials slow escape, limit survival time and injure occupants from high temperatures or flames and by creating low visibility from smoke, from the possibility of flash fire and from toxic products of combustion.

Mr. Middlesworth noted that chemical treatment of materials to reduce flammability may increase the amount of smoke given off. He also said that heating up or burning certain materials may release unburned gases that mix with air and produce a highly combustible gas mixture.

Members of the industrial fire protection section of NFPA elected John R. Corcoran, fire protection engineer at Niagara-Mohawk Power Corp., Syracuse, N. Y., as chairman. Other new officers of the NFPA industrial section are William S. Murray Jr., director of fire protection, Goodall Rubber Co., Trenton, N. J., vice chairman; and J. Ward Bush, manager of security, Caterpillar Tractor Co., Peoria, Ill., secretary.

Elmer C. Reske, manager of the Illinois Property Insurance Placement Facility, Chicago, was reelected president of NFPA. Other NFPA officers reelected are vps John J. Ahern, director of security, General Motors Corp., Detroit, and Elmer O. Mattocks of Port Washington, N. Y.; Secretary-Treasurer Frank J. Fee Jr., president of Reliable Automatic Sprinkler Co., Mt. Vernon, N. Y.; and chairman of the board, Loren S. Bush, Fire Protection Consultant, Oakland, Calif. ■

In-plant drug abuse: fight now or pay later

PHILADELPHIA—Corporate executives should take steps to deal with the growing problem of drug abuse by employes before the situation becomes a new factor in risk evaluation, Frank E. Bird, director of corporate safety and security for Insurance Co. of North America, told *Business Insurance*.

Although insurers do not consider employe drug abuse critical today, there are published reports that three out of every four plants with 50 or more employes may have a drug abuse problem, Mr. Bird said.

A tight labor market and 25% to 40% of the entire industrial work force involved in "moonlighting" are two factors that have contributed to what the safety and security expert called "lower employment standards." The lower standards in some industries have increased the likelihood of drug abuse in the industrial environment, according to Mr. Bird.

AN EQUALLY important factor contributing to employe drug abuse in some industries is the ages of the workers. Mr. Bird said that younger employes, between the ages of 20 and 30, present the greatest drug problems.

The INA safety and security director cautioned that GI's who have served in the war in Vietnam may require a special preemployment physical examination to determine whether or not they use drugs. He cited another published report that said 60% of all GIs with Asiatic service use drugs.

The drug problem in industry extends beyond the "hard" and "soft" drugs (opiates as opposed to marijuana), Mr. Bird said. "Many people take nonprescription drugs, which clearly have warnings printed on the labels, then go out and operate heavy equipment in industry," he added.

This area, the misuse and abuse of nonprescription drugs, is one industry should help combat by publicizing the hazards of nonprescription drugs, according to Mr. Bird.

Other ways corporate management can deal with the drug abuse problem by employes are:

- Alert the plant doctor or those who administer preemployment physicals.
- Check prospective employes' police records.
- Collect a good library on drugs and publicize the hazards of their misuse.
- Administer tests of drug addiction. ■

Riot fund meetings

A committee of insurance industry representatives has been holding a series of meetings in Sacramento with California Finance Director Casper Weinberger to explore possibilities of obtaining $30 million of general fund money as a "state layer of reinsurance" under the Federal riot reinsurance act. End result of the meetings was a decision that such state expenditures could not legally be made. If such a reinsurance layer is to be established it will, therefore, have to come from industry assessment or additional charges to policyholders.

Court gives miner union pension

WASHINGTON—The United Mine Workers of America (UMW) was wrong in denying a trust fund pension to a miner because he had not worked in mine covered by the trust for one year immediately preceding his retirement, the U. S. District Court for the District of Columbia has ruled.

A miner had met the other pension requirements of being fifty-five years old and having worked 20 years in the coal industry. UMW, however, rejected his application because of a third requirement that he must have ceased work in the industry immediately following regular employment for a period of at least one full year as an employe of an employer who was a signator to the agreement which covered the fund.

The miner had worked over 12 years in union mines and had resigned his job with a union mine because of unsafe conditions there. He claimed that he was compelled to accept employment in a nonunion mine because no other employment was available and he had to support his wife and children.

JUDGE HOLTZOFF noted that the trust involved "is of a type hitherto unknown in equity jurisprudence," the conventional trust names specific beneficiaries, or a determinable class of beneficiaries, leaving no discretion to the trustees to decide who is entitled to the benefits of a trust.

The only exception is a charitable trust by which a specific gift is left for a philanthropic purpose, or for members of a group as a free gift. In this instance, the trust is for the benefits of a general class, membership in which, however, has to be defined by the trustees, who have discretion to determine who within the class should be entitled to the benefits of the trust.

It is not a charitable trust, the judge held, because it was created by agreement by contributions of employers as fringe benefits in consideration for the work of the employes.

The union claimed that the "last year" requirement is not arbitrary or unreasonable since it was designed to prevent fraud and to confine the benefits of the fund to retired employes whose labors brought about contributions to the fund.

JUDGE HOLTZOFF ruled, however, that "all that is necessary is to require that the miner should have worked for a specified minimum period in signator coal mines.

"To exact a requirement for the very last year of his employment in the coal industry is unreasonable, arbitrary and capricious."

The judge pointed out that a miner could have worked for his entire career in a non-union mine, yet receive a pension if he worked his last year in a union mine covered by the trust. ■

Sues God, awaits appearance, default

SANTA ROSA, Cal—Insurance companies from all over the world might well be justified in thinking of sending representatives to this comparatively small San Francisco suburban town . . . to act as observers in a legal action in which a suit is being proposed against God.

Att. Russell H. Tansey, who filed the $100,000 damage suit in behalf of Betty Penrose, has issued a summons for God to answer civil charges that "HE" caused a lightning bolt to strike and destroy her home.

Attorneys for insurance companies can quickly see the obvious implications of a successful outcome for Tansey's suit.

Tansey indicates he may try to collect by attaching the Morning Star Ranch which folksinger Lou Gottlieb recently deeded to the Deity.

"Plaintiff believes," reads the summons issued by the Sonoma county clerk, "that God is responsible for the maintenance and operation of the universe, including the weather in and upon the state of Arizona.

"ON OR ABOUT Aug. 17, 1960 . . . in such careless and negligent manner, God caused lightning to strike the plaintiff's house, setting it on fire and startling, frightening and shocking the plaintiff."

The suit further alleges that "God . . . did this with full knowledge and the act was committed with malice and ill will."

Tansey said the suit was filed here "because God now owns property in this county . . . the 31-acre Morning Star Ranch.'

Gottlieb, a bearded musicologist who formerly sang with the Limeliters, filed a grant deed putting the ranch in God's name, because county authorities objected to his hospitality to scores of hippies who lived on the ranch.

Tansey said he would not ask sheriff's deputies to begin a search for the defendant. Instead, he indicated, he will ask for a default judgement "when and if God fails to appear in court."

The suit asks for $75,000 in general damages and $25,000 in punitive damages. This is the approximate value Gottlieb had placed on the ranch when he deeded it to God.

Minorities safer workers

LOS ANGELES—A group of 287 young employes of Kaiser Steel Corp. plants in California taught that company how inexperienced recruits from disadvantaged minorities work out in hazardous industry jobs.

The report on the Kaiser experiment was one of more than 46 presented to the 19th annual Governor's Conference on Industrial Safety held at the Ambassador Hotel here.

Robert J. Wayne, director of safety for Kaiser Steel, presented findings from a nine-month study of the company's inexperienced steel workers. ■

Hikes airline trip cover

OMAHA, Neb.—Mutual of Omaha will hike its rates on over-the-counter, airline-trip insurance an average of 33% to make premiums uniform across the U. S., *Business Insurance* has learned.

In Washington, D. C. the cost of a $150,000 policy will go from $3.75 to $5 and a $100,000 policy from $2.50 to $3.30, the company said. *Business Insurance* learned that this rate had already been in effect at several other locations across the U. S.

Last year Mutual of Omaha said it renegotiated its reinsurance treaties on these types of coverages and that no rate hikes were forseen.

THEN Continental Casualty Co., a pioneer in this risk, unexpectedly bowed out of the market on Jan. 1. claiming among other things that the cost of selling the coverage was excessive, making the line unprofitable. Mutual of Omaha calls itself the nation's largest seller of airline-trip insurance.

It is estimated that annual premiums in this line are about $20 million dollars and that Mutual of Omaha has 40% of the market.

The only other large seller is Continental Insurance of New York.

Experts said that they saw little effect on group markets from the price boost. ■

Explosion award

A superior court jury in Okanogan, Wash., has awarded a $28,626 judgment against the Goodyear Tire & Rubber Co. to Ronald L. Ewer for injuries suffered when a tractor tire exploded in May, 1967.

This flaw in a boiler tube could have meant disaster.

This is a greatly enlarged unretouched photograph of a flaw in a boiler tube. The crack is known as a laminar fault. It was caused by a bit of slag inclusion when the metal was rolled. It's almost undetectable to the naked eye. It couldn't be seen at all from the outside of the tube.

If this internal crack had gone undetected, the tube—in a boiler under 900 pounds of pressure per square inch—could have exploded. The results: Employee injuries, factory down-time, expensive repairs, and a lot of money lost by the company.

But nothing happened, because a Z-A boiler inspector detected this flaw.

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The boiler tube pictured above is actually about 3 inches in diameter. The fault is only a fraction of an inch long. *On such small things are client relationships built!*

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▪ A Z-A boiler inspector operates a Sonoray, which, by electrical impulses, determines the thickness of metal and detects structural flaws.

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