Vital info service from risk managers

See page 25

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



Lawmen sift through rubble in the west section of the Capitol building, damaged in a bomb explosion. Repairs will cost taxpayers approximately $300,000 since the government self-insures its property. See story on page 2. —Wide World photo

Missouri minimutuals fight effort to impose regulation

JEFFERSON CITY, Mo.—The insurance committee of the Missouri state senate is conducting hearings on a bill that would require farm mutual insurance companies in the state to pay taxes and come under the jurisdiction of the state insurance department.

Introduced by State Sen. John D. Schneider (D.—Florissant), the bill is designed to end abuses of farm mutuals that have been free of state regulation since they began to form in the 1900s to meet farmers' needs for inexpensive insurance protection.

Farm mutuals, which are now governed by the state's general corporation but remain unregulated, have been involved in illegal insurance activities that resulted recently in the indictment on mail fraud charges of four St. Louis men who used two "minimutuals" as part of a worldwide insurance scheme.

TESTIMONY favoring adoption of Sen. Schneider's bill was presented to the committee last week by Ellery Holler, general counsel of the Missouri insurance department; Edward Dolan, the department's chief examiner; George Eckmann, of the department's investigation division, and Cornell Allen, a St. Louis claims adjuster. Articles from *Business Insurance* were made part of the committee records.

Hearings to be held today (March 15) will include testimony by Warren Williver of Columbia, an attorney representing the Missouri Assn. of Farm Mutuals, which opposes regulation of more than 100 farm mutuals organized before 1953 that are now exempt from state regulation.

Charters of at least two Missouri farm mutual companies have been revoked since *Business Insurance* revealed the illegal opations of companies operated by Philip M. Wilson and his associ-

Continued on page 2

Self-insurance a success

See other ASIM Conference coverage on pages 3, 6 and 37. Photos on page 14.

SAN FRANCISCO—American Smelting & Refining Co., which began self-insuring medical, hospital and surgical benefits seven years ago, is now saving an estimated $250,000 a year in administrative and premium tax costs. The figure does not include income from loss reserves, which, at 8%, likely bring the company $100,000 more in savings.

This was disclosed here by Charles H. Waldmann, director of personnel for the company. Mr. Waldmann participated in a panel discussion on financial planning of benefits at the annual American Society of Insurance Management conference.

Mr. Waldmann also revealed that American Smelting & Refining is now considering forming a captive life insurance company. The idea, however, is still in the conceptual stage, he said. Equitable is the carrier on the life business at the moment, with about $100 million in force.

Continued on page 2

Mass marketing: How fast will it catch on?

By STEPHEN GILKENSON

NEW YORK—That mass marketing is off and running is a subject that won't be disputed by officials at five major insurance companies here in the Northeast. But off and running is only one thing. Momentum is another. (See related story on page 29.)

In a round of interviews with mass marketing experts at the Hartford Group, Travelers, Aetna Life & Casualty, Royal-Globe and Insurance Co. of North America, *Business Insurance* has made the not-so-startling discovery that practically all concerned with the concept know where mass marketing has been and where it is now. Some will even predict where it is going. None, however, cares to tell you how fast it will get there.

That, friend, they will tell you, depends upon a number of factors. One factor, of course, is the speed at which no-fault auto insurance takes hold in this country. A far more important factor, they say, is whether Congress moves to make contributions to such things as payroll-deducted auto and homeowners insurance tax exempt for both the employer and the employe.

WHILE PHILOSOPHIES and the types of accounts now held differ somewhat from company to company two questions do get the same answers from more than a dozen executives at the five companies. First: Yes, timetables are on schedule. Second: No, response from employer sponsors has not been overwhelming. Not, that is, as overwhelming as had been anticipated.

The two answers may seem to contradict each other. They do not, really. For while response from employers has been less than expected other sponsoring groups have taken up some of the slack.

Generally speaking there are four types of sponsoring organizations. They are employers, labor unions, credit unions and associations. Most insurance companies that are into the mass merchandising game prefer employer-sponsored plans. At the same time, however, most companies have found these to be the most difficult to sell. To keep their mass marketing plans proceeding on schedule, therefore, most companies have had to pitch for business among unions, credit unions and associations.

This is not to say that unions, credit unions and associations are bad business. However, they are less attractive to insurers than employer-sponsored payroll deduction plans in which direct billing to the policyholder can be avoided in most cases.

spotlight report

HERE, THEN, is a rundown on mass marketing developments at five companies on the East Coast:

The Travelers Insurance Cos.: If there is an exception to the rule Travelers is it. "Ninety-seven percent of our accounts are employer sponsored," said William F. Rowe, a second vp. While Travelers does have "a couple of association plans" on the books, the company is primarily interested in employer-sponsored plans. "If we didn't have the sponsorship and backing of employers we'd just be spinning our wheels," Mr. Rowe noted.

Travelers now has 63 accounts in about 35 states. That figure represents well over 50,000 policyholders "of one sort or another." Mr. Rowe emphasized that in all but two of Travelers' 63 mass marketing plans "any personal line of insurance that Travelers has on its books" is available to the employe on a payroll deduction basis. This might include supplementary life insurance, disability income or a personal umbrella policy.

The two largest mass marketing accounts now on Travelers' books are Lockheed Aircraft Corp. and Grumman Aircraft Corp. They represent about 15,000 policyholders, a reduction from the number a year ago because of layoffs in the aerospace industry.

Lockheed, incidentally, is the only account in which Travelers' insurance counselors are not allowed to meet with employes on the premises on company time. That agreement was negotiated with a union and not under the direct sponsorship of the employer. As a result, Travelers must maintain offices outside Lockheed plants. In Georgia, for example, there is a Travelers counseling office a mile from the Lockheed gate.

MR. ROWE SAID that the Hartford-based insurance company would avoid such business in the future. The company, he said, is firmly committed to employe-sponsored plans with on-the-job counseling services.

Other insurance companies that went the personal counseling route at first have since gone to mail and telephone solicitation, claiming that personal counseling on the premises was simply uneconomical for mass marketing. .Why has Travelers persisted in this form of marketing and even become more deeply committed to it?

Mr. Rowe shrugged. "Of course it's uneconomical if you are only selling one or two products," he said. Again he noted that Travelers is selling not only auto and homeowners to employes on company time, but also a substantial amount of life, disability income and personal umbrella coverages.

Continued on page 30

Success . . .

Continued from page 1

SPEAKING OF his company's motive for going the self-insurance route seven years ago, Mr. Waldmann remarked: "Our primary consideration was a concern over rising medical costs and the apparent inability of the insurance carrier or my own office to control these."

To be sure, there were other reasons. Among them, Mr. Waldmann noted, was an apparent waste on the administrative end.

"We conducted a feasibility study before we started self-insuring," he said. "One of the things we asked the insurance company for was a five-year report that would tell us the premiums we had paid, the claims paid and the reserves set aside. We didn't even know what our reserves had been, and of course they (the insurer) didn't tell us.

"To make a long story short," Mr. Waldmann went on, "we finally received a memorandum from the insurance company." It went, he said, something like this: "Unfortunately, the great bulk of your charges . . . cannot be specifically accounted for."

AT THIS POINT in the discussion, which was one of the most heated sessions in the five-day ASIM schedule, Mr. Waldmann was interrupted by Michael L. Balint, a partner in the accounting firm of Haskins & Sells, who was also a member of the panel.

Mr. Balint, emphasizing that he was not defending the insurance industry but, rather, offering "an amplification," said that cost accounting in the insurance business has varied considerably from that of businesses such as American Smelting & Refining.

To this Mr. Waldmann responded: "Yes, but our question was, 'Were we paying for General Motors or were they paying for us?'"

Mr. Waldmann told ASIM members and others attending the session that American Smelting & Refining is now paying hospital, medical and surgical claims "directly out of operating expenses." They now amount to about $4 million a year.

"WE USED TO pro-rate costs under the insurance company plan, but now we charge directly to each unit. You'd be surprised how conscientious local people are about weeding out possible illegimate claims."

The company has 11,000 employes in 50 locations throughout the U.S. and Canada. All are covered under the plan, as well as their dependents. The entire self-insurance program is administered from the New York office. A staff of nine handles all administrative details and this costs the company about $95,000 a year, including salaries and rent.

Asked by one panelist how the company handles "reasonable and customary" medical charges, which vary considerably from state to state, Mr. Waldmann replied:

"WE JUST HAPPEN to have a booklet that describes reasonable and customary fees and we keep it up to date." Noting that the company acquired the booklet through a friend, he added, "You can bet we didn't get it from the insurance carrier when we left."

Coordination of benefits, the American Smelting & Refining personnel chief reported "hasn't been a problem."

A considerable portion of the savings enjoyed by American Smelting & Refining in recent years has come from health insurance premium taxes, which the company no longer pays. In the first year of the program, 1964, the company saved $43,000. Now, Mr. Waldmann estimates, savings amount to about $100,000 a year. ■

Which policy covers gold?

NEW YORK—A mysterious $1.8 million gold shortage discovered last month at the Attleboro, Mass., refining plant of Handy & Harman will likely be covered under one of two policies carried by the firm.

Insurers of the New York metals processor are the Insurance Co. of North America and Aetna Insurance, a Connecticut General affiliate. But until the Federal Bureau of Investigation and others complete their inquiries into the case, it cannot be determined whether the all-risk policy or the fidelity coverage should respond to the loss.

Although the company reported it had notified its insurance carriers, a source at J. F. Helmus & Co., New York, Handy & Harman's insurance broker, said last week, "We know nothing for sure about the loss. Until conclusions are drawn about what happened to the gold we can't take proper action."

Sources familiar with the case disclosed that the metals firm has two policies. One is an employe dishonesty fidelity bond with a $3.75 million limit. Aetna covers up to the first $250,000 with INA picking up thereafter and up to the limit. The second policy is an all-risk floater with a $3 million limit with Aetna. ■

J&H, not Marsh Mac, was the broker on Penn Central D & O

NEW YORK—Marsh & McLennan Inc., which is the broker on some Penn Central Co. business, was not the broker on a disputed directors and officers liability insurance policy as reported in the March 1 issue of *Business Insurance*. It was, rather, Johnson & Higgins that placed the business. Stewart, Smith Inc. was the London correspondent on the policy written by Lloyd's.

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Missouri . . .

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ates.

In December, 1968, when the minimutual dealings were first detailed in this publication, a strong statement for regulation of the companies was issued by Harold W. Walters, executive secretary of the National Assn. of Mutual Insurance Cos. in Indianapolis. He said:

"WE'D LIKE to see Missouri's farm mutuals under state insurance department jurisdiction. There have been problems over the years because these companies are unregulated. Improvement is needed and we are sure it will eventually come."

At that time, Paul S. Wise, president of the American Mutual Insurance Alliance, refused to join Mr. Walters in the call for regulation. "When the time comes," he said, "we'll take a stand."

Proponents of farm mutual regulation say, however, that neither the Alliance nor any other major insurance industry group has come forward to support or, for that matter, to oppose the law now being considered.

"It's sad to say," said one Missouri source, "but they're just not interested in the thing even though it gives the entire industry a black eye." He pointed out that several minimutual charters have been offered "for sale" in insurance trade publications. ■

U. S. Capitol self-insured

WASHINGTON—The damage resulting from the explosion of a bomb in the Capitol building here will cost the taxpayers of the nation "somewhere in the neighborhood of $300,000," according to a spokesman in the architect of the Capitol's office, because the government self-insures federal property.

"The damage consists primarily of cracked and otherwise damaged walls, blown-out doors and windows, destruction of trim, weakened and damaged masonry, floor and arch construction and damage to chandeliers," a report from the architect's office said.

The spokesman indicated that weakened arch construction would have to be shored up and that "the actual damage sustained is somewhat questionable because of the construction of the building, but we think $300,000 is close."

The spokesman for the architect's office also told *Business Insurance* that "the damage to the barbershop will be covered by the government. The barbershop is a government operation, not an outside concession, and the barbers are government employes." ■

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Top execs ask benefits flexibility, communication

SAN FRANCISCO—An employe benefits session titled "View from the Top" provoked the greatest debate of all programs presented here at the American Society of Insurance Management's risk management conference.

Major reasons for the exchange were challenging assumptions put into the discussion of Sidney R. Bernstein, president of Crain Communications Inc., publishers of *Business Insurance*.

Mr. Bernstein, who confessed ignorance of the technical side of employe benefits, said that sometimes he wished that "benefits would just go away."

He suggested that benefits recipients should not only know exactly what they are getting, but that they also be permitted to pick and choose among benefits that they really require. Perhaps, he said, those who use certain benefits more should be required to pay higher rates for coverage, for hospitalization insurance, for example.



Sidney R. Bernstein

THIS THEORY was quickly challenged by an ASIM participant who said that increasing rates for those who use health insurance programs would penalize those for whom the programs were designed.

Another questioner prefaced his query by saying "You said, Mr. Bernstein, that you don't know much about benefits, and that's obvious. We who are professionals in the field have long offered the 'cafeteria' approach that permits employes to discriminate in the selection of their benefits according to their ages, family situations and personal financial situations."

Mr. Bernstein replied that he simply favors flexibility in employe benefits to give the worker the option of choosing the plans he wants to take advantage of.

Michael F. Morrell, president of Leasco Computer Inc., told ASIMers that when a company reaches maturity it must move from "distaste" to concern about employe benefits.

FROM HIS business experience, Mr. Morrell has distilled two principles: That young growth-oriented firms too often ignore employe benefits and that many firms do not adequately explain benefits they provide.

"One of the things that disturbs me about employe benefits is that while communication of benefits is a responsibility of top management, there is a marked lack of comprehension of benefits on the part of employes."

Mr. Morrell lamented that many employes view benefits as either nonexistent or expected.

"Employe benefits should be sold," he said, "to make sure that employes avail themselves of the benefits provided and to assure that they appreciate the benefits they get."

Anthony B. Cashen, vp of Donaldson Lufkin & Jenrette Inc., agreed with Mr. Morrell that better communication of benefits is vital. "An employe is dissatisfied if he is in the dark," he said.

Mr. Cashen also urged that managers of private pension funds "let Washington know what the private pension system is all about. Congress is ill-informed on private plans.

"Ferment in the pension world is like that on Wall Street; the time is ripe for congressional action. I favor private solutions to these problems," Mr. Cashen said, "but I'm afraid that private pension plans may face either murder or suicide if we do not get our message across."

A brewing company benefits manager said that his company provides an "85% program—straight" under which employes' benefits are self-insured and recipients pay 15% of the cost of health insurance. "Such a program," he said, "is a deterrent to excessive use and, because it is self-insured out of operating capital charged to plants, the manager attempts to lessen abuse." ■

Railroad employes to buy stock

RICHMOND, Va.—While the Penn Central Co.'s brush with bankruptcy has been dominating the headlines, Southern Railway System, the nation's ninth largest railroad, has quietly watched earnings reach record levels and last month initiated a payroll deduction stock purchase plan for its employes.

The stock plan is open to some 20,000 employes of Southern and its subsidiary companies in 13 states and the District of Columbia. The maximum deduction permitted is $100 a month, or 6% of the employe's monthly compensation, whichever is less. Southern will contribute an amount equal to 20% of the employe's deduction.

The plan went into gear Feb. 1, and all persons actively employed by Southern and its subsidiaries on that date are eligible to participate. New employes may join the program after one year's service. Southern Railway common stock recently traded at 70 on the New York Stock Exchange.

The plan is administered by First & Merchants National Bank of Richmond, Va.

Southern's system extends through 13 states from New York to Florida and west to Illinois and Missouri.

During 1970, earnings and operating revenues were the highest in the company's history. Total operating revenues reached $602.5 million, 6% higher than in 1969, while net income after taxes jumped 21% to $55.7 million. Earnings were equal to $7.55 per share of common stock, also a company record. ■



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OUR CONCERN IS PEOPLE

washington watch

Union leaders vow no time lag in enforcement of federal safety act

WASHINGTON—Employers have been placed on notice that they definitely cannot count on a one-to-two-year moratorium on effective enforcement of the new occupational health and safety act while federal bureaucratic machinery gathers steam.

On the contrary, the first two years of the act may well be the hottest, because labor unions throughout the nation are gearing up in almost unprecedented fashion to "help the government" enforce the law. The new safety and health provisions become effective April 28.

The AFL-CIO is on record as saying it will "shoulder much of the responsibility for realizing the full potential" of the act while the Labor and Health, Education and Welfare Departments and the states attain the necessary funds and manpower to properly take over its enforcement.

THE GIANT union claims the 100 federal safety inspectors slated to be on the job April 28 are woefully inadequate and it is pushing the Labor Department to allow it to send at least 1,000 union men through the government's training course for safety officials. Locals across the nation are assigning individuals to become experts on the new law and others to draw up and distribute simplified explanations of its provisions to rank and filers.

Some 2,000 members of the United Steel Workers are right now gathering in Chicago to study exactly how to file complaints under the new law. Officials of the Oil, Chemical and Atomic Workers Union are giving top priority to developing plans to train members to use sophisticated monitoring devices to detect unhealthy and unsafe working conditions.

At the recent AFL-CIO annual meeting in Bal Harbour, Fla., the union's powerful executive council resolved that organized labor "must do all in its power to see that the programs under the act are fully funded, adequately staffed and firmly enforced." The council recognized that neither the Labor Department nor HEW is "equipped with either money or manpower resources for more than a prototype program at this point of time," adding that "most of the states are similarly unprepared."

It speculated that "it may very well require two or three years under the best of circumstances before the potential benefits of this act are felt by a majority of workers." But, in the meantime, it said organized labor would go all out to carry its load of enforcement responsibilities.

ONE LONG-TIME Washington observer told *Business Insurance* he has rarely seen excitement reach such a pitch in anticipation of the effective date of a piece of domestic legislation; usually once the bill is signed the excitement is over, he said.

The AFL-CIO executive council made a number of other resolutions of interest to employe benefit and risk managers.

It called for an immediate 15% across-the-board increase in Social Security, to be followed by an additional 20% hike next year.

The 6% increase proposed by the Administration was described as "entirely inadequate." The council said even the 10% boost supported by ways and means committee Chairman Wilbur Mills (D.—Ark.) would mean a "severe decline in the buying power of already woefully inadequate benefits."

The council said the inclusion of a cost-of-living mechanism would be a good step toward a more adequate method of automatic adjustment "only if it is clear public policy that there will be periodic increases in benefits in addition to those related to rising living costs." The danger of such a mechanism is that it could condemn the aged to "a perpetual substandard way of life by forcing them to subsist on present inadequate benefits without hope of ever raising the buying power of those benefits to an adequate level," the council said.

A NUMBER OF other specific changes in the Social Security program were suggested, including:

- An increase in the earnings figure on which contributions and benefits are based to $9,000 in 1971, $12,000 in 1972 and $15,000 in 1973, and an automatic adjustment thereafter in accordance with rising wage levels.
- Gradual use of general revenue contributions to help finance the cost of Social Security benefits.
- No reduction in benefits for workmen's compensation benefits received, coupled with Medicare coverage for the disabled.
- Liberalization of the definition of disability and reduction of disability waiting period.
- A provision permitting men who retire at age 62 to compute their average earnings up to that age rather than to age 65 as required in present law.

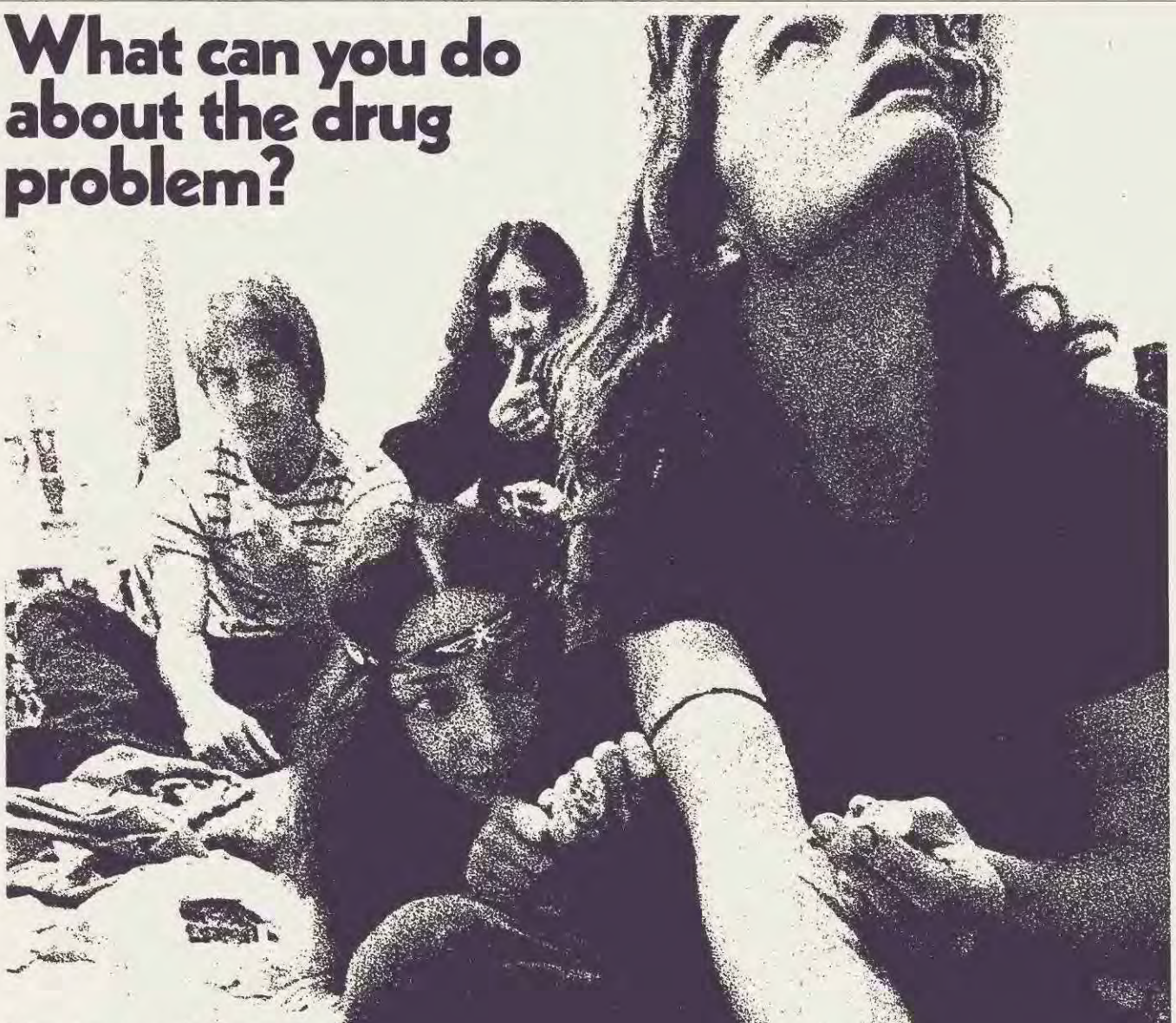
The council took the expected stand on national health insurance, endorsing the so-called Kennedy bill drawn up by the Reuther-founded Committee of 100 for National Health Insurance. It was particularly vehement, however, toward private health insurance carriers and the Administration.

According to the council, "it is a myth that private insurance is doing, or can do, the job. Private insurance companies are unwilling or incapable of dealing with increased costs. They have acted simply as a pass-through mechanism, paying for whatever care was offered, good or bad, needed or unneeded, efficient or inefficient.

"THEIR RATES go up not only to pay for increased medical costs of policyholders, but also to maintain profit margins and pay

Continued on page 30

What can you do about the drug problem?



Many community leaders want to help young people trapped in the world of drugs. But they don't know where to begin.

A new Kemper Insurance documentary film shows how others are helping. The 27-minute, full-color film, "It Takes a Lot of Help," is narrated by Lorne Greene of Bonanza.

The film involves you in an in-depth analysis of citizen-initiated programs in Cedar Rapids; group therapy sessions in Chicago and Phoenix; a dramatic conversation on Boston's narcotics "hot line"; a drug-free sensitivity trip near Tucson; and more.

As a public service, Kemper Insurance offers free loan of this film to any interested adult group anywhere. It could lead to a solution.

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Touchy Question #14

Why aren't insurance company recommendations more "Practical"?

Well, of course they're as practical as the people who offer them. And our safety and nursing consultants are as practical as continuous training and wide experience can make them. They are practical in the literal sense of being practiced.

But to be practical, safety recommendations must also be imaginative.

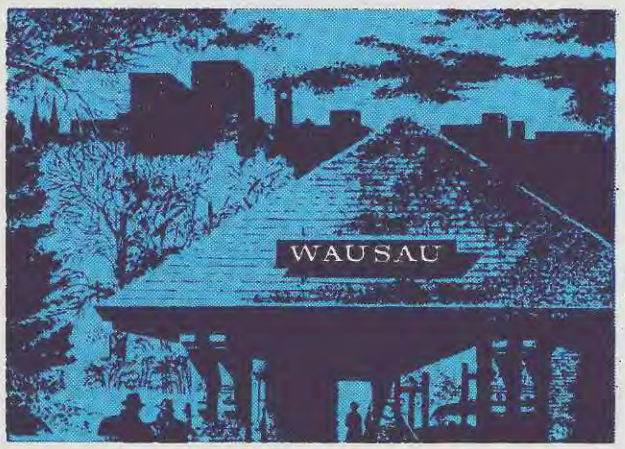
The accident that happens has a lot more publicity value than the accident that has been prevented. The biggest headlines and the blackest print are reserved for the fatal plunge from a faulty scaffolding, the electrocution, the child smothered under a collapsing earthwork.

But the accident that has been avoided is just as real as the accident that has been allowed to occur. A cracked lens in a pair of safety goggles tells as vivid a tale as the black patch over the eye of the workman who should have worn those goggles—and didn't.

A safety recommendation often presents the insurance buyer with an equation. The *certainty* of an immediate outlay of thought, effort, and perhaps money must be balanced against the *possibility* of tragedy at some unknown time in the future. Maybe the risk manager thinks: "Let's be practical. It might not happen for years. Why should we make the investment now?"

But next Saturday night, an employee of one of our policyholders will take his wife bowling. We don't know his name. We don't know what he looks like. But we do know one thing about him, perhaps the most important thing there *is* to know about him. He's a chap who'd be taking his exercise in a wheelchair but for the fact that his employer and our safety consultant, working together, recognized a danger and protected him from it. Or taught him to protect himself from it, or—most likely—both.

The broken back that employee didn't get will never make the papers, but there's a record of it, just the same. It was recorded at the moment the risk manager used his imagination, and thought: "Let's be practical. It might happen tomorrow. We'd better do something about it today."



Employers Insurance of Wausau

We think insurance ought to work for a living.

ASIM will . . . er . . . ah . . . take a survey . . . maybe



Leaders of the American Society of Insurance Management conduct a press conference at the close of the 1971 risk management conference in San Francisco. Left to right are Raymond Cox, City Stores, assistant treasurer; W. D. Woodard, Boeing Co., secretary; R. D. McGowan, Rand McNally & Co., treasurer; Rollyn L. Storey, SCM Corp., retiring president; Douglas A. Barlow, Massey-Ferguson Ltd., president-designate; Edward P. Lalley, Kraftco Corp., conference vp; D. E. Sullivan, Northern Electric Co. Ltd., director; Hugh McCommon, Memphis Light, Gas & Water Division, legislation vp, and James E. Bailey, legislative counsel. —Business Insurance photo

By RICHARD BJORKLUND

SAN FRANCISCO—Those interested in what the future is for the American Society of Insurance Management got few clues at a press conference held by ASIM leaders after their 1971 risk management conference.

For one thing, ASIM's election machinery—despite two efforts to revise it—prevented Douglas Barlow, of Massey-Ferguson Ltd. of Toronto, from taking over as president of the society at the conclusion of the conference. He has been nominated and carries the title of "president-designate" until his election is affirmed next month.

For another thing, those leaders who were available for questioning were wary of making any positive statements about the direction of the organization's legislative stands or ways in which it might expand its activities.

A case in point was a reply to a *Business Insurance* question that asked if ASIM plans to formalize its interest in the employe benefits area by affiliating with an existing employe benefits group or by forming its own.

The answer, offered half-jokingly, was "no comment, but that's off the record." ASIM will, however, "evaluate" the employe benefits session presented at the conference.

On the possibility of organizing continuing industry-by-industry risk management units to cope with mutual problems like products liability, ASIM leaders said that they served only as "landlords" for industry discussion groups at the conference. No plans have been made to organize risk managers on an industry basis as was done recently by the drug industry in defense against a spate of products liability suits.

And, while ASIM strongly opposes absolute liability for commercial vehicles under no-fault auto insurance plans, there is "a wide spectrum of opinion" within the organization about no-fault proposals, which now number eight or more according to ASIM count. "An opinion survey is being made," according to Rollyn L. Storey, SCM Corp., retiring ASIM president.

ASIM HAD A liaison committee that met several times during the preparation of the Department of Transportation report on auto insurance, but the committee is no longer active and does not confer with insurance industry representatives or insurance commissioners on the development of no-fault plans or alternatives for auto victim compensation.

James E. Bailey, ASIM's legislative counsel who was awarded a new three-year contract at $50,000-plus per year, said that 23 states have now added "favorable provisions" amounting to industrial insured exemptions in their nonadmitted insurers legislation. Originally designed to control mail-order insurers, the bills must carry the exemption to allow major insurance buyers to seek coverage in a broad range of markets.

On the problem of insolvency, Hugh McCommon, of Memphis Light, Gas & Water Division, legislative vp of ASIM, said that his group favors state post-assessment laws and opposes proposals for federal insurance guaranty funds as "too expensive."

Mr. Storey acknowledged that ASIM has been "disappointed" with the number of its members who have taken the risk management course sponsored jointly with the Insurance Institute of America, but he added that the course is being redesigned to emphasize risk management.

President-designate Barlow put in that the course, developed in part with ASIM funds, has attracted many employes of brokers and carriers "because they recognize that risk management is what it's all about. They now sell contracts for service without involving insurance. ■



WHO'S SETTING
THE PACE IN
AVIATION INSURANCE?

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Berg named Borg-Warner risk manager

CHICAGO—Arnold F. Berg has been named director of risk management at Borg-Warner Corp. here as part of an increased effort by the company to analyze loss potential and find new methods of loss prevention.

In related moves Thomas O. Lenhart was appointed manager



Arnold F. Berg

of general insurance and William L. Stiens was named manager of loss prevention. Both will report to Mr. Berg.

Mr. Berg was manager of general insurance and loss prevention since 1968 and told *Business Insurance* that the departmental changes indicated by the new titles were made to "better define work areas. The loss prevention work itself was already going on here."

Borg-Warner has approximately 85 locations worldwide, with 60 in the U.S. and Canada, and Mr. Berg makes several trips abroad each year to visit them. "We have just hired an insurance manager to coordinate our coverage in Europe and Africa," he said, "and I am on my way to Australia right now to investigate the possibility of doing the same there." The new insurance manager is directly responsible to Mr. Berg on policy matters.

Borg-Warner handles its property-liability insurance under two master plans. Operations in the U.S. and Canada are covered by Continental Insurance Co. and all other locations are underwritten by Zurich Insurance Co. ■

Auto funds invested elsewhere

AUSTIN, Tex.—An insurance industry spokesman said many auto insurance companies cannot write more coverage because "conglomerates" have bought the companies and siphoned their funds into more profitable areas.

"Many companies cannot write any more insurance because their assets have been diminished," William Harding, executive secretary of the Assn. of Texas Fire & Casualty Cos., said.

"In many cases," Mr. Harding added, "conglomerates have bought them, not to write automobile insurance but to take the funds and milk them from the insurance business and put them into areas where they can write more business at a greater profit."

Mr. Harding recalled a recent accident in Corpus Christi, Tex., in which he said the insurance company that wrote the policy of one driver was owned by a credit card company and the other insurance company, was owned by a telephone company. ■



"This year, we'll handle insurance on over $1 billion worth of mining property." Says Dick Basco, "I was the maddest kid in town when that gold turned into brass. But I found out soon that real gold isn't easy to get. Our clients in mining need very special insurance, too."

Dick Basco is a Property Department vice president in Johnson & Higgins' San Francisco office. One of his key jobs is insurance for mining companies. On mine hoists and cages, narrow-gauge railways, ore-crushers and other complex equipment. "You don't order mining machinery out of a catalogue," Dick says. "It's built to order. So is mining insurance."

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following the funds

N.Y. fund levels a volley at NYSE on matter of institutional members

NEW YORK—The $4.5 billion New York State Common Retirement Fund has become the first pension fund in the country, corporate or public, to draw a bead and take aim at institutional membership on the New York Stock Exchange.

Actually, however, the New York fund may only be engaging in some mild gun play in an attempt to drive down broker commissions on large stock transactions made by the fund.

In a letter to the NYSE, State Comptroller Arthur Levitt, the sole trustee of the fund, said that exchange membership would be sought "unless adequate relief" from present commission rates is granted through the competitive-fee system, whereby fees are negotiated between customer and broker.

IN HIS LETTER, which did not formally request Big Board membership, Mr. Levitt stressed that his primary concern was to reduce commission expenses for the fund he trustees. He said he would be equally satisfied if that was accomplished through membership or negotiated rates.

The fund, which covers all state employes and almost all policemen and firemen outside the city of New York, has been paying approximately $1.5 million annually in brokerage commissions on common stock transactions, according to Mr. Levitt.

Some $611 million, or about 16% of the fund's assets, were in common stocks as of Jan. 31, Thomas M. Whalen, the fund's director of investments and cash management, disclosed the other day. The fund is authorized to invest up to 30% of its assets in common stocks.

The common retirement fund is now buying stock at the rate of $20 million a month. Five investment advisors manage the account, including four commercial banks and Lehman Brothers Inc., a Big Board member firm. The banks are U.S. Trust Co., Morgan Guaranty Trust Co., First National City Bank and Bank of New York. The brokerage business is parceled out to several firms.

MR. LEVITT's letter to the NYSE declared:

"In view of the high volume of our stock purchases, it is essential that there be relief from the cost of commissions if we are to be expected to keep faith with our members, who expect maximum economy and efficiency in the managements of so large an investment program. Indeed, the cost of commissions is ultimately imposed upon the taxpayers. . . I intend to seek membership on the exchange for the New York State Common Retirement Fund unless adequate relief from the commission rates is otherwise provided.

"We have benefited only to a limited extent from the quantity discount on commission rates introduced in recent years by the exchange," he continued, "and would expect to benefit from the introduction of negotiated commission rates if and when adopted by the exchange. However, it would seem that even further savings for the people of the State of New York might be achieved if a direct membership . . . were obtained. . . ."

Elaborating on this later, Mr. Levitt was quoted as saying, "I don't really have a preference; if negotiated rates prove significantly productive of savings, that would relieve me of the responsibility of administering a member firm and augmenting my staff."

AN ADMINISTRATOR of corporate pension funds with assets almost twice the size of the state common retirement fund, and with about 40% invested in common stocks, told *Business Insurance* that he was keenly interested in the pressure being exerted on the Big Board.

"You're going to continue to get this pressure until the exchange makes a move," he said. "We have the same reasons to favor institutional membership as the New York fund does and we would benefit in the same way—reduced commissions."

Asked, however, if it would be practical for corporate funds such as those he administers to join the Big Board, he replied:

"Probably not. Our funds are so large it would require quite a set of investment people. That's not our specialty," he said, referring to the national business his company is engaged in. He also noted that a company would likely face "considerable resistance" from banks, insurance companies and other investment advisers that would lose funds if a corporate pension fund purchased its own seat on the NYSE.

UNTIL THE TIME the Levitt letter was hand-delivered to the exchange, two financial institutions had formally applied for Big Board membership through their broker subsidiaries. They are Dreyfus Sales Corp. and Jefferies & Co., affiliates of Dreyfus Corp., and Investors Diversified Services Inc. However, a decision on institutional membership has been put off by the exchange until completion of a study, that is not expected for another six months.

Ironically, the Levitt dispatch arrived on Wall Street the same day Donald S. MacNaughton, chairman and chief exec of the Prudential Insurance Co., again chided the NYSE on the same issue—institutional membership.

"We think the question has been studied to death. The exchange has all the information it needs to make a decision," he said.

About a year ago, at a similar briefing, Mr. MacNaughton disclosed that the Pru might seek a seat on the Big Board if brokers failed to reduce commissions on large institutional transactions. In the meantime, the insurer has applied for membership to the Philadelphia - Baltimore - Washington regional exchange. If approved, and that is not expected to be a problem, the Pru would save approximately $1 million a year in commission costs, Mr. MacNaughton said. The company presently spends about $3 million annually for broker commissions. ■

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financial briefs

CNA Financial Corp., Chicago, has acquired Modern America Corp., Dallas. Modern America mass markets financial planning services.

* * *

Old Equity Financial Corp., parent of the Old Equity Cos., Evanston, Ill., reported 1970 assets rose 15.1% to $12,801,633 from $11,121,441 in 1969.

* * *

Great-West Life Assurance Co., Winnipeg, Canada, reported total life insurance and annuity sales of $1,359,211,000 in 1970. Insurance and annuities in force for 1970 were $12,948,457,000. Assets were reported at $1,525,418,000, an increase of $71,000,000 over 1969. Company earnings were $3.05 per share compared with $4.50 on a comparable basis last year.

* * *

Aetna Life & Casualty Co., Hartford, Conn., reported a 1970 net income of $95 million compared with $50 million in 1969. The company raised its quarterly to 40 cents from 35 cents to holders of record March 11, payable April 15.

* * *

Mission Equities Corp., Los Angeles, insurance holding company, reported consolidated adjusted earnings of $1,886,547, or $1.17 per share, before realized capital gains of 5 cents per share in 1970, marking its sixth consecutive year of underwriting profits. Total operating income rose from $37,191,408 in 1969 to $37,843,771 in 1970.

* * *

Hawkeye-Security Insurance Co., Des Moines, Ia., reported net income for 1970 totaled $1,191,490 after taxes, compared with $763,069 for 1969. Earnings per share of common stock were $2.60 compared with $1.63 for 1969. Assets were reported at $30,551,861.

* * *

Mutual Service Insurance Cos., St. Paul, Minn., reported total premium income for 1970 at over $41 million, an 18% increase over 1969. Combined assets for Mutual Service Life and Mutual Service Casualty and Modern Service reached $108 million.

* * *

Indiana Insurance Co., Indianapolis, Ind., reported total insurance premiums written before purchase of reinsurance in 1970 reached $46,166,056 compared with $38,546,299 in the previous year. Statutory earnings in 1970 were $1,758,523.

* * *

Kemperco Inc., Chicago, reported profits of $8,179,000 or $1.82 a share, excluding realized capital gains of three cents a share, for 1970. Sales reached $236,755,000 in 1970 compared with $198,661,000 in 1969.

* * *

Life Insurance Company of Georgia, Atlanta, reported earnings of $7,375,716, 32.75% above those of 1969. Earnings per share were $1.84 compared with $1.39 the previous year.

* * *

The St. Paul Cos., Inc., St. Paul, Minn., reported net income for 1970, not including realized gains from the sale of portfolio securities, reached $33,716,000 compared with $28,555,000 the previous year. Earnings per share were $3.21. Sales revenue, including premiums written totaled $475,960,000 compared with $421,586,000 in 1969. Assets at year end were $1,169,088,000.

* * *

Interfinancial Inc., Atlanta, Ga., reported earnings for 1970 totaled $874,442, or 34 cents per common share. This compares with $1,707,263 or 67 cents per common share in 1969.

* * *

U. S. Life Corp., New York, N.Y., reported 1970 assests in excess of $690 million and more than $5.3 billion of life insurance in force. The U. S. life group of companies includes 11 subsidiaries operating in life insurance, consumer finance, savings and loan, reality investments, mutual funds and title insurance. ■

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Giles on the law

Jury must decide what's 'natural' in an olive and what you can expect

By JOHN W. GILES
Attorney at law

WASHINGTON—Don't be fooled by that hole in the olive. It may mean a broken tooth. A restaurant patron bit into an olive with a hole in it and did break a tooth. The olive had a pit in it. He sued the restaurant and the restaurant obtained a directed verdict in the lower court. The court said the patron failed to establish a prima facie case of breach of an implied warranty.

On appeal both parties agreed that there is a split in the authorities as to what test should be applied when an injury is suffered from an object in food and drink consumed in a restaurant. Some courts hold that there is no breach of implied warranty on the part of the restaurant if the object in the food causing the injury was "natural" to the food served. On the other side are authorities who hold that under modern conditions the test should be to ask what should reasonably be expected by the consumer to be in the food served to him.

The court thought the reasonable expectation test was the best one. In the court's view, it is unrealistic to deny recovery as a matter of law if, for example, a person is injured from a chicken bone while eating a sliced chicken sandwich in a restaurant simply because the bone is natural to the chicken. The exposure to injury is not much different than if a sliver of glass were there. Because a substance is natural to a product in one stage of preparation does not necessarily mean that it will be reasonably anticipated by the consumer in the final products served.

And so the court sent the case back for determination by the jury. (D. C. Ct. App. *Hochberg* v. *O'Donnell's Restaurant* 1/27/71.)

* * *

ARE A CONDITIONAL premium receipt and a policy application properly construed together? Rober V. Piece had been for a number of years and was, in the spring of 1968, president of Machinery Center Inc. In order to meet requirements for a Small Business Administration loan to Machinery Center Inc., from Continental Bank & Trust Co., he applied to the Anchor National Life Ins. Co., and on April 29, 1968, he completed an application to it for $60,000, declined term life insurance. The primary beneficiary was Continental Bank & Trust and Machinery Center was named as contingent beneficiary and owner of the policy.

On April 29, Machinery Center paid by check the first year's premium in the amount of $819.40, and was issued a conditional premium receipt. The check for the premium was cashed by Anchor during Mr. Pierces lifetime. Mr. Pierce was examined on April 29, 1968, by a physician chosen by the Machinery Center, and the physician rated the proposed insured as a good risk.

He died, however, on June 10, 1968, at which time Anchor had not made any decision to accept his application and the record indicates that at the time of his death, the underwriting investigation had not been completed because parts of the medical and other information on Mr. Pierce requested by the insurance company had not been received. At no time did the insurance company ever deliver a policy of insurance to Mr. Pierce or to anyone else.

The insurance company tendered back the premium and the tender was refused. Machinery Center sued the insurance company and recovery was denied. The court said that at the time of the proposed insured's death the life insurer had not completed its underwriting investigation and had not satisfied itself that the proposed insured was insurable or entitled to insurance, conditions set forth in the premium receipt were not met, and no contract of insurance either temporary or in the form of final policy was in force. (*Machinery Center Inc.* v. *Anchor National Life Ins. Co.* - 434 Fed 2nd 1 - 1970.)

* * *

DURING LATE 1967, William Gray, a negro, unsuccessfully attempted to rent an apartment from Serruto Builders. In December, the Montclair fair housing commission, to whom he had complained, informed him that Serruto had available apartments. He again spoke to the superintendent, who said that despite a vacancy sign in plain view, no space would be open until June. To check on the possibility of racial discrimination, a white couple went to the apartment later that same day, and were offered occupancy as of Jan. 1. Mr. Gray filed suit against the superintendent and Serruto Builders alleging violations of his rights under state and federal law, and requesting an injunctive relief and damages for mental anguish and embarrassment.

The court held that Mr. Gray was entitled to the injunction and to $500.00 damages for mental suffering. Apparently recovery of damages for mental distress is an additional weapon with which to attack racial discrimination in housing. (*Gray* v. *Serruto Buildings Inc.*- 265 At. 2nd 404- 1970.) ■

Football air crashes cost $2 million

HARTFORD—The Aetna Casualty & Surety Co. has paid almost $2 million in life insurance benefits to more than 50 college football players and members of their coaching staffs killed in two separate plane crashes last fall. They were insured under a group insurance plan sponsored by the National Collegiate Athletic Assn. (*Business Insurance*, Dec. 7).

Fourteen members of the Wichita State University football squad and several members of the school's athletic staff killed in an Oct. 2 crash in the Rocky Mountains were insured under the plan. Beneficiaries of the players received $25,000 each, while the coaching staff members were insured for varying amounts from $50,000 to $150,000. Total benefits in that crash cost Aetna $1.17 million, the company said.

The second disaster, this one involving 37 members of the Marshall University football squad and 12 members of the university staff, has cost Aetna $735,000. Students and staff members killed when the Huntington, W. Va., school's chartered craft crashed Nov. 14 were insured for $15,000 each under the NCAA plan. ■

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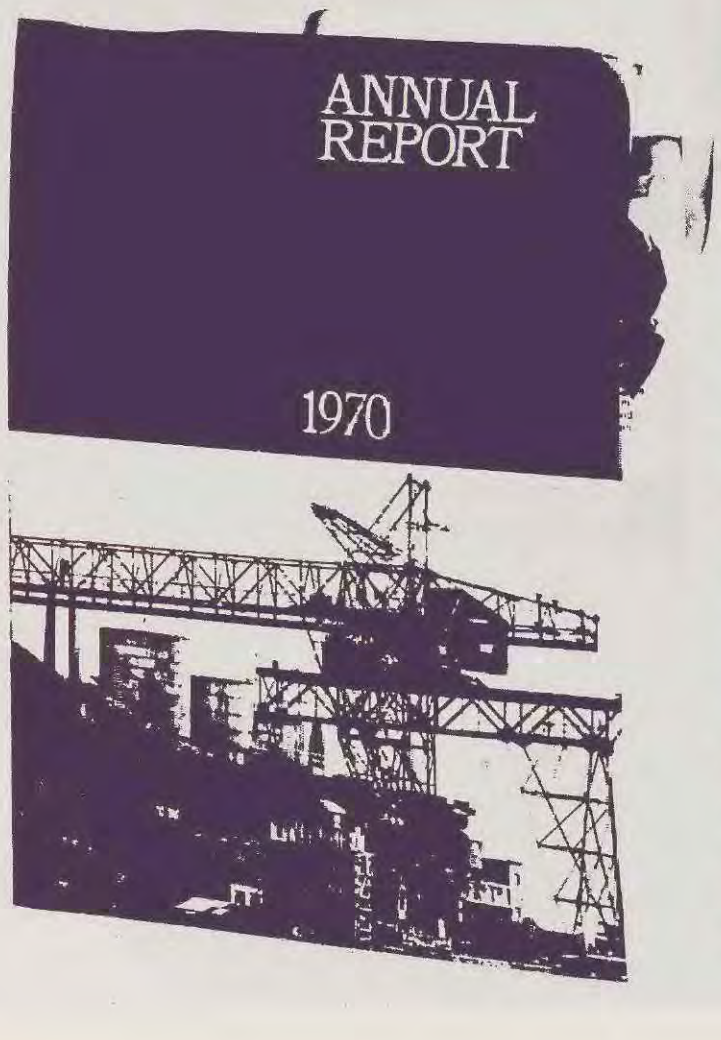
But even if it should; even if a firm has the kind of protection that can help put its plant back in shape after a disaster, there's no insurance that can cover all losses.

Fortunately, there is a way you can reduce the chances of your plant being shut down by a holocaust. Institute a Property Conservation Program.

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Sessions of computer workshop scheduled for Chicago on June 14

CHICAGO—Monday, June 14, has been set for the one-day workshop on the protection and insurance of computers co-sponsored by the publishers of *Business Insurance* and Computerworld.

The workshop, to be held at the Pick Congress hotel here, will feature speakers and panelists reviewing important aspects of computer security and loss prevention, liability problems and the well-being of workers who operate computers.

Advance registration prior to June 1 is $90, a saving of $15 from the regular price of $105. This fee includes admission to all sessions, a continental breakfast, two coffee breaks, lunch and a special workshop notebook.

Companies pay only $75 each for additional personnel when their registration accompanies the first registration form.

INITIAL RESPONSE to the computer workshop announcement included expressions of interest from corporate risk managers, insurance carriers, brokers and agents whose operations employ computers in their businesses or to process insurance policies and claims.

Subjects to be covered by the workshop include computer security with sessions on fire protection, security against intrusion, prevention of theft of print-outs, and prevention of computer damage through power shortages.

Aslo on the program will be discussions of liability problems arising out of computer operations and the security and the psychological well-being of computer personnel.

Faculty members will include experts from the fields of fire prevention, computer technology, liability and property insurance and industrial psychology.

The workshop will be a down-to-earth, shirtsleeve session designed to give participants much useful information on computer protection and insurance. Workshop registrants will have opportunities to ask questions of speakers—and even of other participants in voluntary discussion periods.

Those who wish to register for the workshop are urged to complete the coupon on this page promptly and return it with the appropriate registration fee. ■

Send to: Computer Protection/Insurance Workshop
Business Insurance/COMPUTERWORLD
740 Rush Street, Chicago, Ill. 60611

Please enroll me for the Computer Workshop to be held Monday, June 14, 1971, in Chicago. The advance registration fee of $90 is a saving of $15 from the regular price, $105, if postmarked before June 1. If my plans change and I can't attend, I will get a complete refund (less $15) by notifying you before June 14.

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Note: The fee for additional registrants from the *same* company is only $75 each when accompanying first registration.

Barger forms consumer service unit

SAN FRANCISCO—A division of consumer services has been created within the California department of insurance as part of a reorganization just completed by Insurance Commissioner Richards D. Barger.

"The purpose of the reorganization," he said, "has been to more efficiently manage a rapidly growing workload within the department's current ceiling on staff by modifications in the legal and compliance division. The new consumer services division will be responsible for handling the thousands of inquiries and complaints received each year from the public."

All of these functions formerly were handled by the legal and compliance division, which will be known now simply as the legal division.

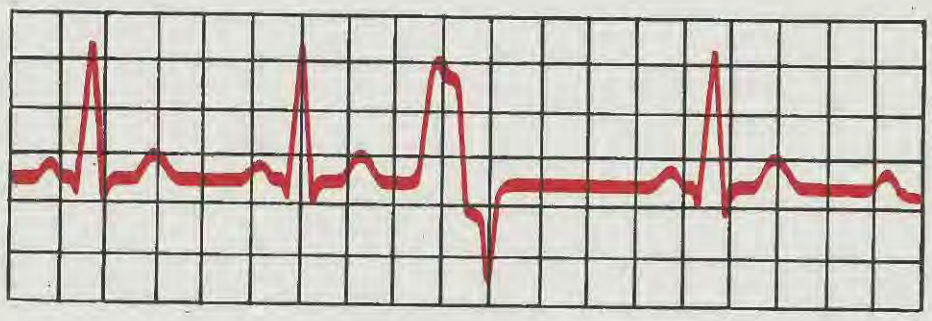
Responsibility for management of the legal division, the license division and the new consumer division will be assigned to the chief assistant insurance commissioner. Field examination, rate regulation and company information and analysis division will be under the chief deputy insurance commissioner. ■

Crackdown on world trade thefts

WASHINGTON—The Treasury Department has announced new regulations, effective April 1, designed to stem the tide of merchandise theft in world trade.

A customs director, under the new regulations, will have the power to prohibit the unloading of any cargo unless the terminal provides secure storage for goods with broken packaging or a high value-to-weight ratio. The regulations also give customs directors in high-theft areas the power to prescribe the form of pickup and to retain merchandise under their supervision until assured the delivery is complete. Customs officials will also have the power to require bonded warehouses to turn over lists naming all employes who handle cargo. ■

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

• Hewitt Information Service Inc., an affiliate of Hewitt Associates, has developed a **Profit Sharing Calculator** designed to enable an employe to make his own estimate of the future of his deferred profit sharing account. A calculator for use with savings or thrift plans is also available. Orders of 1 to 99 are 35 cents each, 100 to 499 are 30 cents each with minimum orders of $10. Send requests for additional price information or orders for either calculator to Howard L. Peck, Hewitt Information Service Inc., Libertyville, Ill. 60048.

• **Group Dental Expense Insurance** is a brochure outlining some reasons why an employer should consider group dental expense insurance. The brochure also briefly describes three types of dental expense plans offered by the Equitable Life Assurance Society of the United States. For a copy write Group Sales Promotion, Location 24-E, 1235 Avenue of the Americas, New York, N.Y., 10019.

• **The Ansul System** is a brochure describing the Ansul Company's approach to fire protection. Ansul appraises your fire hazard and compiles a definition of the hazard in terms of manpower available, hazard area, fuel and type of fire. For a copy of the brochure indicated write Larry Coutts, Marketing Communications Supervisor, Fire Protection Division, One Stanton St., Marinette, Wis., 54143.

• **Umbrella Liability Insurance —What Is It?** is a booklet offering a concise description of catastrophe liability insurance, why it is needed and who needs it. Included are specific coverage charts showing how personal or commercial umbrella provides vital supplementary protection for individual or business firms. For a free copy write Larry J. Welch, Grain Dealers Mutual Insurance Co., 1752 N. Meridian, Dept. NCL, Indianapolis, Ind., 46202.

• **Information Systems For Insurance Companies** is a descriptive brochure detailing effective, economical information management programs utilizing Kodak Microfilm Systems. The brochure explains the benefits of microfilm and the systems Kodak has designed for the insurance filed ranging from computer compatible microfilm systems to simpler systems for policy application files and policy status files. For a copy write D. L. Patterson, Business Systems Markets Div., Eastman Kodak, 343 State St. Rochester, N.Y., 14650.

• Elan Industries Inc. has released a brochure describing their **Emergency Lighting Systems.** The illustrated brochure tells what the product is and where it can be used. Specifications of all units plus accessories is included. For a free copy write Worth Ochs, Sales Mgr. Elan Industries Inc., 2429 University Ave., St. Paul, Minn., 55114.

• **The Consultative Approach To Safety** is part of the U.S. Dept. of Labor's safety in industry series. The consultative approach to safety in industry is advocated as the modern technique of industrial accident prevention. The bulletin discusses the meaning of safety consultation and suggests how it can be put into practice. The method is a supplement to routine inspection and other educational and promotional means now being used in safety promotion. The bulletin is 15 cents from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

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



• **GP-10/33** is a foldout describing group protection for small companies employing 10 to 33 employes by Northwestern National Life Insurance Co. The booklet describes the plan designed with protection against the loss of reduction of employes' earning power, whether caused by death or disability, and against most health care expenses, major and minor. Included is a schedule of benefits available and their descriptions along with special features to major medical insurance including the package, minimum volume, eligibility, participation and maintenance requirements, employer contribution, effective date of coverage, and termination of insurance. For a free copy write Norton Korn, Group Sales Promotion Mgr., Northwestern National Life Insurance, 20 Washington Ave. So., Minneapolis, Minn., 55440.

• American Home Assurance Co.'s two group accident brochures, **One Of Your Key People Just Had An Accident,** illustrate the benefits of such a program for the employer with five to ten of 10-25 key employes. They give brief descriptions of coverage, including schedule of benefits and

exclusions, and provide a tear-off application for enrollment. The brochures are available free of charge to agents and brokers by writing the firm to the attention of Dept. A-14, 102 Maiden Lane, New York, N.Y., 10005.

• Westinghouse Electric Corp. has made available by writing information on its TV-500 pass pedestrian system. The system tightens gate security by providing remote TV viewing of a face alongside a blown-up picture of the identification pass. Alan Zimmerman, Specialty Electronics Div., Westinghouse Electric Corp., 7800 Susquehanna St., Pittsburgh, Penn., 15221.

• **Business Life Insurance** is a kit describing the principles and concepts behind business life insurance, including separate pamphlets on key man insurance, close corporation, partnership and sole proprietorship and a summary and definition of basic plans and combinations of the basic types of plans offered by the Employers' Life Insurance Co. of America. Direct requests to Augustine Eovine, Advertising Manager, 110 Milk St., Boston, Mass., 02107.

• The cost of alcohol-related claims can be enormous in terms of accidents, poor judgment, hospital-medical claims (under disguised diagnoses) and disability and early retirement payments. **Alcoholism Loss Control** provides information on a tested alcoholism loss-control program. The publication, offered by the Labor-Management Division of the National Council on Alcoholism Inc., can be received free of charge by writing the organization at 2 Park Ave., New York, N.Y. 10016.

• The specialty lines division of America's Insurance Center has made available free of charge information on their customers bailee insurance package which is a program established to provide customers bailee coverage for the mercantile and/or franchised dry cleaner located in urban areas, including all customers goods with or without box storage, and their Coin-op Package Insurance Program. The second booklet describes and includes rating structures for the writing of the complete package of insurance coverage. For the information write the firm at 562 Blvd., Kenilworth, N.J., 07033.

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

• **On The Move With Latham-Stevens Co.** is a brochure describing the services of the company including factual studies of the client's business, planning, engineering and rating, contracts, office and field staff and a yearly review. For a free copy write John T. Hart Jr., E. C. Michener Assoc. Inc., 1007 N. Front St., Harrisburg, Penn. 17102.

• Towers, Perrin, Forster & Crosby has made available free of charge a booklet dealing with **Survivor's Income Benefits.** The booklet deals with employer-provided death benefits, form of survivor benefits, funding and tax considerations. Direct requests to Joseph A. Banik, Towers, Perrin, Forster & Crosby Inc., Three Penn Center, Philadelphia, Pa. 19102.

Peer review system slows malpractice

NEW BRUNSWICK, N.J.—Robert C. Lukens, secretary and manager of compensation and general liability for the Hartford Insurance Group, told a meeting of the New Jersey Hospital Assn. here that peer review of doctors' performance is a vital step toward the solution of the medical malpractice problem.

Mr. Lukens urged physicians to accept the peer review committee concept. Under this concept, the committee would be made up of fellow physicians who would act on fee complaints, judge on ethical conduct, evaluate the diagnostic, medical and surgical procedures used and take dsciplinary action.

He noted that the review concept is basic to the group malpractice insurance program the Hartford is writing for the medical associations in Los Angeles and other adjacent California counties.

AS REPORTED in *Business Insurance* April 27, 1970, the Hartford plan provides a standard $100,000 coverage for each doctor named on the master policy. It also provides excess coverage in the amounts of $1 million, $3 million and $5 million on an individual basis for those doctors who desire the added protection, and most of them do.

The plan includes other features that could not be considered as run of the mill. For example, it contains a provision through which doctor-policyholders will receive a premium refund if the entire account develops a favorable loss experience. Another feature calls for crediting to future premiums investment income the company derives from the reserves it sets up with current premiums to pay anticipated claims.

Mr. Lukens pointed out that there was indeed a medical malpractice insurance crisis and that its solution must begin with doctors realizing that there is a malpractice problem, not merely a malpractice insurance problem.

The crisis arises, he said, from a deteriorating doctor-patient relationship, contingency-fee practices in our legal system, extraordinary jury awards for commonplace injuries, mounting public sophistication in medicine along with unhappiness over high medical fees and the resulting inability of insurance companies to write malpractice insurance at a profit.

"Physicians must support some of the new ideas advanced to help control the cost of malpractice insurance," he said. He cited, as worthy of such support, a number of approaches including:

• No-fault insurance to cover patients by a "medical accident policy" with a schedule of benefits for various injuries.

• Legislation limiting the time during which a claim could be made following the date of injury.

• Patients agreeing to arbitration of any legal claim or civil action as a condition for hospital admission.

He concluded by telling the audience that the insurance industry can not solve the problem alone and needs the full support and cooperation of the medical fraternity. ■

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Brains. Our girls are a lot more than just a pretty face. They're all well educated.

Smile. Very friendly. A big help in a delicate situation.

Hard Workers. Note wear on frock, from keeping shoulder to the wheel. (Not shown.)

Great voice. Very soothing.

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Hands. Think of her as an extra pair, which you can certainly use.

Well-turned ankle. No use to you, but it's pretty to look at.

We call her the Claim Service Representative.

And she's guaranteed to make life a lot easier for you. And your clients.

She's sort of a one-stop accident service, relieving the Agent of working out the time-consuming details between claimant and insured; giving policy holders fast, efficient service; plus the added advantage of diplomatic handling of the whole matter.

Think about it. If *you* had an accident, wouldn't you appreciate a chat with a pretty girl? Of course you would.

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RELIANCE INSURANCE COMPANIES

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in focus



Coming from the penthouse of the Marsh & McLennan hospitality suite at the ASIM meeting are, left to right, William Beaton, senior insurance analyst for Standard Oil Co. (Cal.), and Mrs. Beaton, and Mr. W. W. Senner, insurance analyst for Standard Oil Co. (Cal.) and Mrs. Senner.



Talking about things in the INA hospitality suite at the San Francisco ASIM meeting are, left to right, Don Allen, vp, INA; Shirley Norman, Western Insurance Information Service; Robert D. McGowan, manager of administrative service for Rand McNally & Co. and treasurer of ASIM; Charles Brandyberry, insurance director, California Polytechnic Institute, and Ray Rauch, insurance professor, California State Polytechnic in Pomona.



Happy ASIM registrants and their wives get ready to board a yacht on San Francisco Bay, a trip sponsored during the ASIM conference by R. B. Jones, national insurance brokers. The evening cruise was one of a number of events sponsored during the ASIM conference by brokers, carriers and other sellers of services to corporate insurance buyers.



Enjoying a (Falstaff) beer in the hospitality suite of Rollins Burdick Hunter Co. are, left to right, Dan Kobeski, second vp of RBH; Bill Dintelman, manager of insurance and safety for Falstaff Brewing Co., and Mrs. Kobeski.



A discussion of insurance programs is underway in the Travelers Insurance Co. suite at the ASIM conference among Ed Carter, Travelers vp; Duane Cooksey, director of insurance for Super Valu Stores, and Ben Womeldorf, corporate manager of insurance and loss control for Thomas J. Lipton Inc.



Tasty appetizers beckon American Society of Insurance Management conference participants in the hospitality suite of Employers Insurance of Wausau. Left to right are W. E. Altstaetter, corporate director of insurance, North American Rockwell Corp.; Jim Costa, senior vp, Frenkel & Co.; Harley Hoff, vp of Employers Insurance of Wausau; Don Faro, manager, national accounts, Employers Insurance of Wausau, and Ray Severin, director of insurance, American Metal Climax.

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opinions

Is D&O worth it?

THE QUESTION of whether directors and officers liability insurance is worth the paper it's printed on came up again when the usually sedate and gentlemanly Lloyd's of London sent its legal wizards to a federal court in Philadelphia. Lawyers filed a suit in which Lloyds will seek to rescind on a $10 million D&O policy the London insurer wrote on certain officials of the Penn Central Co. in 1968.

Few companies have the problem of Penn Central. Many, however, do have D&O coverage on their top executives and directors. More contemplate the purchase of such coverage daily. It behooves all, in view of the Lloyd's-Penn Central development, to again take a good hard look at D&O.

This magazine has never been a fence-sitter on the subject. We, as others, have long questioned the value of D&O. We do so again.

There are, for example, three major exclusions in the standard D&O cover. They are dishonesty, short-swing profit taking and self dealing, and unjust conflict of interest. ("That," as someone said a while back, "may well take away just about everything.")

Lloyd's apparently is seeking out of the Penn Central D&O policy because it feels certain company officials did not disclose questionable past dealings on applications for the coverage, dealings that likely would exclude coverage anyway. The Penn Central Co., meanwhile, spent $305,000 of stockholder monies to purchase the three-year $10 million policy, which now hardly seems worth the ink used in the underwriter's signature.

Moreover, certain members of Congress are now getting into the act. Rep. Wright Patman (D.-Tex.), chairman of the House banking committee, for one, is questioning not the worth of the coverage but the propriety of insuring corporate directors and officers for, as he puts it, "wrongdoing."

Rep. Patman, of course, may not be fully informed of the exclusions in standard D&O policies. Risk managers, however, should be. And, even more important, they should make it their job to let officers and directors of their companies know what the policies do not cover.

That, we again submit, is practically everything. It's sort of like buying auto insurance that excludes all hazards except those that arise between the hours of noon and 4 p.m. on the third Sunday of the month.

Where the action is

A brave and enlightened innovation at the recent risk management conference of the American Society of Insurance Management was a two-day program on employe benefits to supplement the traditional risk management meetings.

Imaginatively organized by Bill Jones of Risk Planning Group Inc. and Gordon O. Rice, manager of benefits planning and personnel research for National Biscuit Co., the program demonstrated that there is much dynamism in benefits. The dynamism ranges from theoretical questions about the direction of benefits raised by top corporate executives to the continued development of new benefits as represented by the role of the employer in employes' total financial planning.

ASIM's program pointed out the importance of such employe benefit functions as communication, effective bargaining of benefits with unions, and monitoring legislation in Washington that vitally affects the extent of benefits and their administration.

During the ASIM meeting we had a visit with a West Coast spokesman for the property-liability insurance industry, an aware and articulate man who is keenly conscious of the criticisms, legislative moves and changes that swirl around his business.

As we talked about the progress of the ASIM meeting and the effectiveness of the benefits program, he asked, "You mean to say that there's more that's dynamic and challenging in benefits right now than there is in property-liability insurance?"

Our answer would have to be 'yes,' there is certainly more action in the employe benefits area, a field that is producing—sometimes under union prodding—fresh ideas in what employers ought to be providing for employes. Benefits administrators are keenly conscious of new programs introduced by competitors and they are willing sometimes to match or exceed the offerings of companies that might lure away some valuable help.

We think that employe benefits is where the action is, no matter how loudly auto insurers howl about their loss ratio problems.

TYPES OF MOTOR VEHICLES INVOLVED IN ACCIDENTS

	Percent in all accidents	Percent of total vehicle registrations
Passenger cars	85.1	80.8
Trucks	11.5	16.6
Farm tractors, equipment	0.1	not included
Taxicabs	0.7	0.2
Commercial buses	0.7	0.1
School buses	0.1	0.2
Motorcycles	0.8	2.1
Motor scooters, motor bikes	0.1	
Other	0.9	not available

The 1969 percentage figures in the table do not reflect miles traveled or place of travel, both of which affect accident experience. Commercial vehicles typically travel many more miles than passenger cars, which makes their accident record even more favorable than the table indicates. Statistics are based on reports from 23 state traffic authorities and were coordincted by the National Safety Council with vehicle registration data from the U.S. bureau of public roads and the International Taxicab Assn.

business insurance

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

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Richard W. Bland

ON THE EVE of its 1971 risk management conference, the American Society of Insurance Management lost a strong and distinguished member when a heart attack ended the life of Richard W. (Dick) Bland, risk manager of Panhandle Eastern Pipe Line Co.

Dick Bland was one of the first corporate insurance managers to get —and deserve—the title of risk manager, denoting his ability to apply the concept of true risk management to the operations of his company and its subsidiaries.

Throughout his career, Dick Bland worked ceaselessly for professionalism and recognition for risk managers. In addition to being a charter member of ASIM in 1950, he was a co-founder of the Pipe Line Insurance Managers Conference, which he served as permanent secretary for a dozen years. As vp for insurance of the American Management Assn. he helped plan a number of meaningful AMA seminars for risk managers and employe benefits administrators. He also fostered risk management in positions with the Chamber of Commerce of the U.S., the Insurance Consumers' Committee and the Associated Industries of Missouri.

Perhaps our sharpest impression of Dick Bland comes, however, from his activity as a member of the national legislative committee of ASIM. Among all 1,800 members of the society, Dick Bland stood out as the man who most clearly recognized the need for risk managers to understand legislation that affected their operations and to speak out effectively for measures that would protect corporate insurance consumers.

He put his principles into practice by keeping in close touch with legislators and legislation in both Kansas and Missouri. One of his legislative liason maneuvers was to put *Business Insurance* into the hands of legislators in those states so that they would be aware of the problems and point of view of corporate insurance consumers.

Nobody, in our view, articulated so well the need for legislative action by risk managers as did Dick Bland. He and his contributions to risk management will be sorely missed.

Hopefully, future leaders of ASIM will keep the example of Dick Bland before them as they develop legislative programs to protect the interests of corporate insureds. Perhaps, too, ASIM ought to develop a program to give an award in Mr. Bland's name to the most effective chapter legislative chairman. That would be a most fitting tribute.

letters

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

Lease guarantee cover

To the Editor: We would appreciate further information regarding an article in your Feb. 1 issue. The title of the article was "Lease guarantee cover written on New York store," Page 3.

We are interested in securing additional information on lease insurance and would appreciate the name and the address of the person who can supply this information.

Marian Saliter
M. H. Ross Co. Inc., Sherman Oaks, Cal.

Editor's Note: For further information regarding lease guarantee coverage contact New York Guaranty Corp., 501 Fifth Ave., New York, N.Y. 10017 (Telephone: 212-687-8144).

Price of quake cover

(In this letter Mr. Smith takes exception to a statement made in the Feb. 15 issue of Business Insurance, *page 1, that read: "Homeowners generally do not buy earthquake coverage because of steep premiums and high deductibles.")*

To the Editor: The popularity of earthquake insurance varies with the stability of the earth. After every sizable temblor there is a surge of buyer interest and attention focuses on the economics of earthquake coverage. In Los Angeles today there are many families that are glad they bought it, and many more who can wish they had.

In Los Angeles, insurance companies anticipate paying insured losses of $50 million because of the earthquake. The coverage is available. More than 180 companies sell it in California.

Some dwelling owners don't like the price. In truth, it is relatively inexpensive. In California the rate runs from 11 cents to 30 cents for wood frame dwellings (including stucco exteriors) per $100 of insured coverage. That's $40 to $90 a year for a $30,000 house, about the same cost as fire insurance. Many people pay more than that each year just to protect their investment in their automobile. Flood insurance, which requires the backup of the federal government to make it financially feasible, costs 45 cents per $100 of insured value, often twice as much as earthquake insurance.

Earthquake insurance is not designed to pay the first dollar of every loss. Trading dollars with buyers on that basis would make the price too costly and probably eliminate the coverage altogether.

Earthquake insurance is for catastrophes. It is designed to provide financial protection against the huge loss—the financial investment of a lifetime—that most people would find very difficult to bear. That's why there is a deductible on earthquake losses. For dwellings it is usually 5% of the value of the dwelling, or $1,500 on a $30,000 house. With that deductible, an owner could not look to earthquake insurance to pay for cracks in walls or even, perhaps, a fallen chimney. But for structural loss, collapse or demolition such as has occurred in Alaska and Los Angeles, earthquake

Continued on page 36

The only thing harder to find than a company willing to write property insurance here is one also willing to write it abroad.

Anyone looking for property insurance these days, no matter where they're looking, has a problem.

And, if they're looking for coverage in more than one place, their problems are compounded.

Because, as everyone knows, there's a capacity squeeze on. A squeeze that's hit just about every part of the world. A lot of insurance companies aren't renewing their old property business, let alone looking for new business.

There is one group, however, that's actively seeking property insurance both here and abroad.

It's The American International Group. Through its member companies, American Home Assurance Company in the United States and Canada, and American International Underwriters abroad, AIG has the capacity and the willingness to write all types of property insurance. In fact, they'll consider not only preferred and standard risks, but also the hazardous classes.

Another important point is the fact that if your properties are located both at home and abroad, we'll handle them as one account. Which saves you and your broker a lot of time, energy and paperwork.

So whether you need property insurance over here or over there, have your broker contact the American International Group first. It may be the last contact he'll have to make.

American International Group

Georgia's used-car dealers may face $50,000 surety bond requirement

ATLANTA—Following a typical afternoon of ritual tire kicking, engine examining and "taking it around the block," a man buys a late-model sedan from a Georgia used-car dealer.

A few months later he learns that he has not bought a car, that he does not own a car and that he still is obligated to meet the payments on a car he thought he bought.

And he learns, too, that both he and the car dealer were victimized by an incredibly sophisticated band of car thieves who lawmen say have been running one of the biggest and most professionalized operations in the country.

THE OPERATION, uncovered after months of work by local, state, federal and private investigators, has been a "million-dollar business," according to a Federal Bureau of Investigation agent. And it has helped create a baffling problem that has some legislators talking about requiring surety bonds of $50,000 from used-car dealers.

Another answer, advanced by the Georgia Independent Automobile Dealers Assn., would be to require every car buyer in the state to obtain title insurance on his vehicle.

A wrecked car, its tag and title, a similar car that was stolen and its altered serial number are the basic theft-ring ingredients, according to lawmen who have been investigating the ring. For an investment of about $500 everything the recipe calls for can be assembled to foist a $2,500 hot car on an unsuspecting market.

Glenn Richard "Legs" Law, a gangly, 51-year-old Georgia mountaineer who was arrested recently on a fugitive warrant, is the man law enforcement officers say polished the operation into a multi-state, production-line scheme. "Legs knows more about cars than those fellows sitting up there in those fancy office buildings in Detroit," a Georgia sheriff was recently quoted as saying.

According to the Georgia Bureau of Investigation's auto theft squad officer, Bill Blackwell, here is what Legs and his boys have been doing:

"Somebody will get paid, say $150, to steal a 1970 model car from Atlanta. Meantime, somebody else goes to an old car salvage lot and pays around $250 for a wrecked car of the same make and model.

"Sometimes the stolen car is repainted, reupholstered or maybe a vinyl top is removed or added to change the appearance. It depends on how good the shape of the car is when it is stolen and how fast they want to move it."

The next step, Lt. Blackwell said, is to take the salvaged serial number and body plates from the wrecked car and place them on the stolen vehicle. Serial numbers etched into the chassis and engine block of the stolen car are reetched to match those of the wrecked car. "After that," he said, "you're in business."

THE INGREDIENTS, lawmen believe, converge from several southern states on a simple remanufacturing plant in eastern Tennessee.

Finally, when the stolen car is offered for sale to an unsuspecting used car dealer, it carries what appears to be a legitimate chain of title, which it inherited from the salvaged vehicle. And it has been "remodeled" to the extent that its original owner probably wouldn't recognize it.

By the time the car is back on the road, the original owner no longer has an interest in it. He has been reimbursed by his insurance company. Unless involved in a conspiracy to sell the stolen car, the dealer is not required to reimburse the buyer.

The National Automobile Theft Bureau assigned agents to assist in the investigation. In Dalton, Ga., more than 70 stolen vehicles were purchased by used-car dealers and sold to local citizens.

NATB AGENTS use acid solutions, cotton and a day's work to raise the original serial number from an engine block.

State Sen. W. W. Fincher, Chatsworth, said he will introduce legislation to place $50,000 surety bond requirements on used-car dealers in the state. The legislation is unrealistic, according to the Georgia Independent Auto Dealers Assn. because, despite the bonds, stolen cars could move through the market.

The GIAD wants a law that would make title insurance mandatory.

Another answer, lawmen and car dealers say, is to make uniform the motor vehicle title laws in various states, thus closing loopholes through which illicit vehicles can travel. ■

Cyanamid plant in safety drive

PAINESVILLE, Ohio—When American Cyanamid Co. purchased the I R C Fibers Co. here, it meant more to the employes than just something new to talk about. It meant an added awareness of plant safety and some rather novel ways of approaching it.

For example, when management took a look at the number of injuries to toes and feet during the past few years, they issued a policy stating that no canvas or tennis shoes could be worn in the plant area. Likewise open-toed sandals. In an effort to encourage employes to wear even better foot protection than regular shoes, the company offered to pay $3 toward the purchase of safety shoes. The special safety shoes were made available at the plant.

At the same time, a shoe supplier offered two discontinued styles of ladies' safety shoes at a huge discount. The company bought a number of the shoes and reported that 325 pairs were sold to employes in a two-week period.

Also inaugurated was an eye protection program. Now all I R C employes are required to wear safety glasses in operating areas, which is standard policy at all Cyanamid plants. In 1969, before this program started, approximately one out of every three I R C employes received treatment for some kind of eye injury.

In order to stimulate interest in plant safety, a program to reorganize safety committees is being considered. ■

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Coverage arranged for Rebels' unique business

SAN FRANCISCO—Insurance, food stamps, a bank and a self-help group of disadvantaged minority youths all form a unique mix that launched a new version of an old business here.

The insurance comes through Marsh & McLennan and Fireman's Fund American Insurance Co. here. The bank is Wells Fargo, the food stamps, of course, are a federal project and the young people are the Mission Rebels.

San Francisco's social services commission, headed by attorney Gary P. Vannelli, unanimously approved a contract with the Mission Rebels for that group to take over sale of food stamps to people in need of such supplementary social service.

THE REBELS' first pilot project outlet opened Feb. 1, and will be followed with a new outlet opening each six weeks until they reach a total of five. Ed Powell, executive director of the Mission Rebels, said he expects the organization will initially be dealing with 5,000 stamp customers and with 10,000 by July.

San Francisco County had been paying local banks 75 cents for each customer to whom food stamps are sold. That payment now goes to the Mission Rebels.

Wells Fargo, one of the banks that had been handling the business, worked out the arrangement to relieve its "swamped facilities." It will train the Mission Rebels and will supervise personnel and armored car service.

Marsh & McLennan, insurance brokers for Wells Fargo, obtained $25,000 insurance and bonding coverage for the Mission Rebels through Fireman's Fund. The insurance was essential because the food stamps issued by the federal government are purchased for cash, in amounts varying according to the status of relief or non-relief recipients.

The stamps then are used to buy food supplies. ■

Says no quake fault in Golden Gate area

SAN FRANCISCO—The directors of this city's famed Golden Gate Bridge will spend $22,500 for an immediate federal underwater survey "in an effort to hold down insurance costs." The cost of insuring the bridge, Robert E. Shields, bridge engineer, told the board, "could very well skyrocket as a result of the Los Angeles earthquake.

"There almost certainly is no east-west quake fault running through the bridge," Mr. Shields said, "but the insurance companies just will not take our word for it. We hope they will believe a government survey and admit, finally, that quake faults in this area run north-south and that the nearest, the San Andreas fault, is seven miles out at sea when it crosses the Golden Gate area."

The bridge board also authorized financing of a trip by three of it members and a consultant to a Washington, D. C., meeting of toll facilities directors. The meeting, scheduled for March 21-23, will promote and perhaps organize a self-insurance pool.

Bridge directors report that several underwriters of Lloyd's of London have cancelled $66,661 of coverage for the Golden Gate already. "The amount is small," explained Geneal Manager Dale Luehring, "but when I became manager of the bridge highway and transportation district two years ago, the insurance coverage totalled $57 million. Insurance company drop-outs since then," he told the board, "have dropped the figure to $32 million, with a substantial number of the pullouts based on concern over earthquake potentials."

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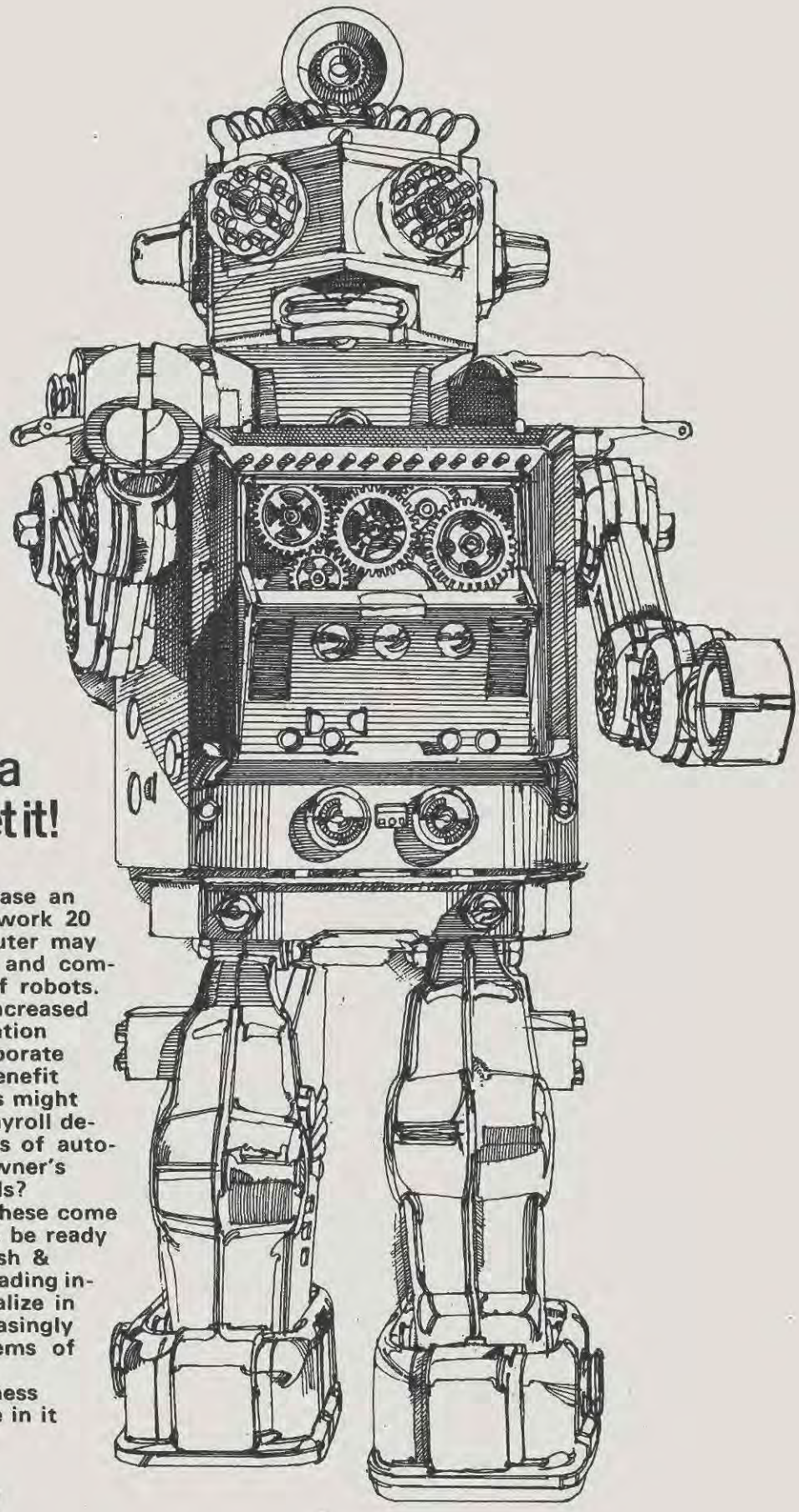


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Blades says 'tell the truth' about market shortage

NEW YORK—Insurance industry growth is not keeping up with industrial growth, J. H. Blades told the American Management Assn.'s annual international finance conference.

In discussing the use of a subsidiary insurance company as a financial tool, Mr. Blades, president of J. H. Blades & Co., Houston, and St. John's Insurance Co. Ltd., Hamilton, Bermuda, acknowledged outstanding exceptions to his statement. Among the exceptions he noted were the insurance industry's banding together on a worldwide basis to provide a market for the 747 aircraft, and the way in which the London market has stuck by the oil and gas drilling contractors through adversity and continued increase in values.

"Most corporate risk managers are now confronted with the worst shortage of insurance in our times. Insurance packages are being broken up, coverage cut back, rates increased, yet the shortage continues," he said.

"EVEN WORSE than shortages is the disappearance of insurance in certain areas," he continued. "Pollution, as long as it is a political and social problem, filled with hysteria, will be difficult to insure. Malpractice claims are causing some doctors and hospitals to pay exorbitant prices. Architects and engineers are having a hard time buying professional liability at reasonable prices. These are only a few examples of the conditions of the insurance market today."

Mr. Blades said that if this is "the age of wisdom," it is time that business and industry should take action to confront the problem and tell the truth about the conditions that exist.

"Every risk manager should be reporting to top management that he probably will not be able to continue the same degree of insurance protection that he has had in the past," said Mr. Blades. "Top management must be made aware that it will be forced to carry new risks, and bigger ones than ever contemplated. If management wants its new factory or warehouse all under one roof, with tremendous values, it may be forced to go with little or no insurance."

The shipping industry, with its super tankers and pollution problems, has developed TOVALOP (Tanker Owners Voluntary Agreement Concerning Liability for Oil Pollution), an industry facility set up to assist with pollution liability.

IN OFFSHORE oil and gas exploration, companies must be aware that they are now faced with tremendous pollution problems, as well as the responsibility to gain control of any wild wells, he said.

"As the market for pollution insurance dries up—I hope only temporarily—these firms must, in my opinion, communicate with their stockholders about the exposures that they are now carrying or may be forced to carry in the near future," said Mr. Blades.

"Some of these exposures are large enough that they could actually wreck a medium-size company and play havoc with the earnings per share of even the world's largest giants," he observed.

It would truly be the "age of foolishness" if anyone thinks these problems are going to go away, or that the insurance industry on its own or without a real shot in the arm of additional capacity is ever going to solve these problems, Mr. Blades added.

"THERE IS NO simple answer to the problems confronting the insurance industry or the insurance-buying public, nor do I want to imply that the use of a captive or subsidiary insurance company will be the answer to all of our ills," he said; "it is not however, it is one step in the right direction and it can be a very important financial tool.

"Some of the largest industrial groups in America have recently taken substantial positions in insurance. They have done this not for any love of insurance, not for any desire to be Florence Nightingales to a sick industry, but because as businessmen they see not only the problems but also the opportunities and, here, we have 'the spring of hope.' "

Mr. Blades said that in the last few months he has worked with four industrial groups with subsidiary insurance companies that have entered the London market. "These financial executives liked what they saw, an industry full of opportunity without unreasonable problems of inventory labor, or stifling government regulations."

He said the Argonaut Insurance Co., a subsidiary of Teledyne, has taken a position of leadership in the London market. "The Argonaut is not in London picking up a few crumbs from the Englishmen's table, but they have gone into an underwriting agency with one of the strongest casualty insurance leaders in London, and effective Jan. 1, 1971, their name started appearing in the major casualty insurance programs in the world, not down the slip with a small line but with a substantial line set by one of the lead underwriters in the market.

"WHILE ARGONAUT was taking a position of leadership in the London market, such companies as Halliburton Co. Inc., owners of the Highlands Insurance Co., and Anderson Clayton & Co., owners of the Ranger Insurance Group, have taken substantial commitments in the American insurance market.

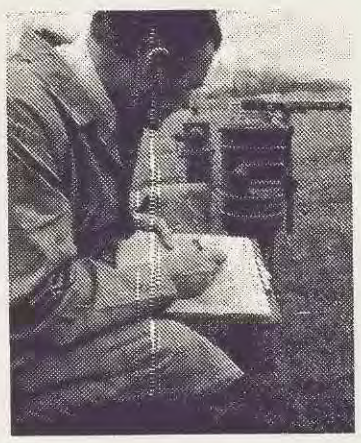
"Other companies, such as Kirby Industries Inc., through its wholly-owned subsidiary, the Mariner Assurance Co. Ltd., have also entered the London market, and the latest one, through us as intermediary, is the Desert Insurance Co. Ltd., owned by the subsidiary of El Paso Natural Gas Co."

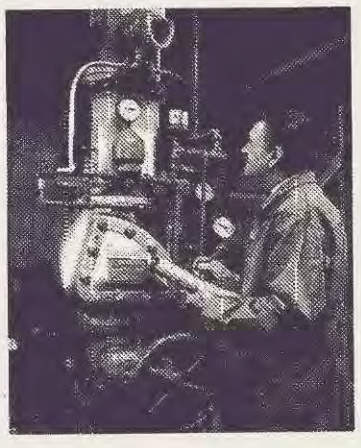
Mr. Blades said he thinks these industrial groups that have entered insurance are the forerunners of many to follow, "and it will give our insurance industry the financial shot in the arm that is needed. It is also going to give the insurance industry some lessons in marketing and American business know-how.

"For those who do not believe or recognize today's insurance revolution, it will really be 'the winter of despair,' for in my opinion the insurance industry will never return to the so-called 'good old days' of plenty and the desire to provide a market for all risks, attempting to live on an investment profit with little regard to underwriting," he emphasized.

Continued on page 28

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*Fire Journal • July 1970, Vol. 64, No. 4

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for the record

Altermatt is new Conn. insurance commissioner

HARTFORD—Paul B. Altermatt, a New Milford, Conn., attorney, has assumed the position of State Insurance Commissioner.

He succeeds Robert I. Claffey, who moved up from deputy commissioner when William B. Cotter resigned last fall to successfully seek a Congressional seat.

The State Legislature has approved the appointment by Gov. Thomas J. Meskill.

House Majority Leader Carl R. Ajello remarked that the executive committee on nominations learned, in an interview with Mr. Altermatt, that he had "no preconceived notions" about current Connecticut insurance industry issues.

Minority Leader Francis J. Collins described the new commissioner "as a competent, concerned person who was making a sacrifice by leaving his law practice for state service."

Coca-Cola, Aetna sue shippers

HOUSTON—The Coca-Cola Co. foods division and Aetna Insurance Co. have filed two suits in federal court each seeking $150,000 damages in connection with the loss of 2,000 bags of coffee as a result of the Jan. 25, 1971, collision of two Venezuelan cargo vessels in heavy fog in the Gulf of Mexico.

The suit names as defendants the Venezuelan owner and operator of the Roraima, a 420-foot vessel outbound from Houston with a cargo of grain at the time of the mishap. The same pleading was filed naming as defendant the SS Anzoategui, which was carrying the coffee, and was the second ship involved in the collision.

The plaintiffs allege the Roraima was traveling at an excessive rate of speed in foggy conditions.

A $500,000 damage suit has been filed in federal district court in Galveston by the owners of the Anzoategui against the Roraima's owners. The suit alleges the collision and damages were due to neglect of the persons in charge of the Roraima's navigation.

Include fat fringes in National Can pact

CHICAGO—National Can Corp., which broke ranks with the can manufacturing industry to reach an agreement with the United Steelworkers Union, granted its 3,500 union workers major fringe benefit improvements as well as a 27% wage increase over three years.

Union members won a comprehensive medical insurance program and a $15 monthly increase in present pensions. In the second year of the contract, the monthly pension payment will increase from $6.50 per month for each year of service to $8.50. Under this formula, a worker with 30 years of service could retire with a pension of $255 a month in addition to Social Security.

Effective in the second year of the contract those who retire before they're eligible for Social Security will receive a boost to $130, from $100, in their monthly payment.

The company has also agreed to pay Medicare Part B premiums up to a maximum of $7. The present premium is about $4 but may be increased this year. Other major medical and hospital benefits include the elimination of a $200 schedule for retirees' medical coverage. A spokesman at the steelworkers' Pittsburgh office told *Business Insurance* that National Can will now pay all "reasonable and customary" fees for retirees' medical care.

Effective in the third year major medical will cover all costs except dental and eye care, with a $50 deductible for single people. Previously only nursing and psy-

Continued on page 38

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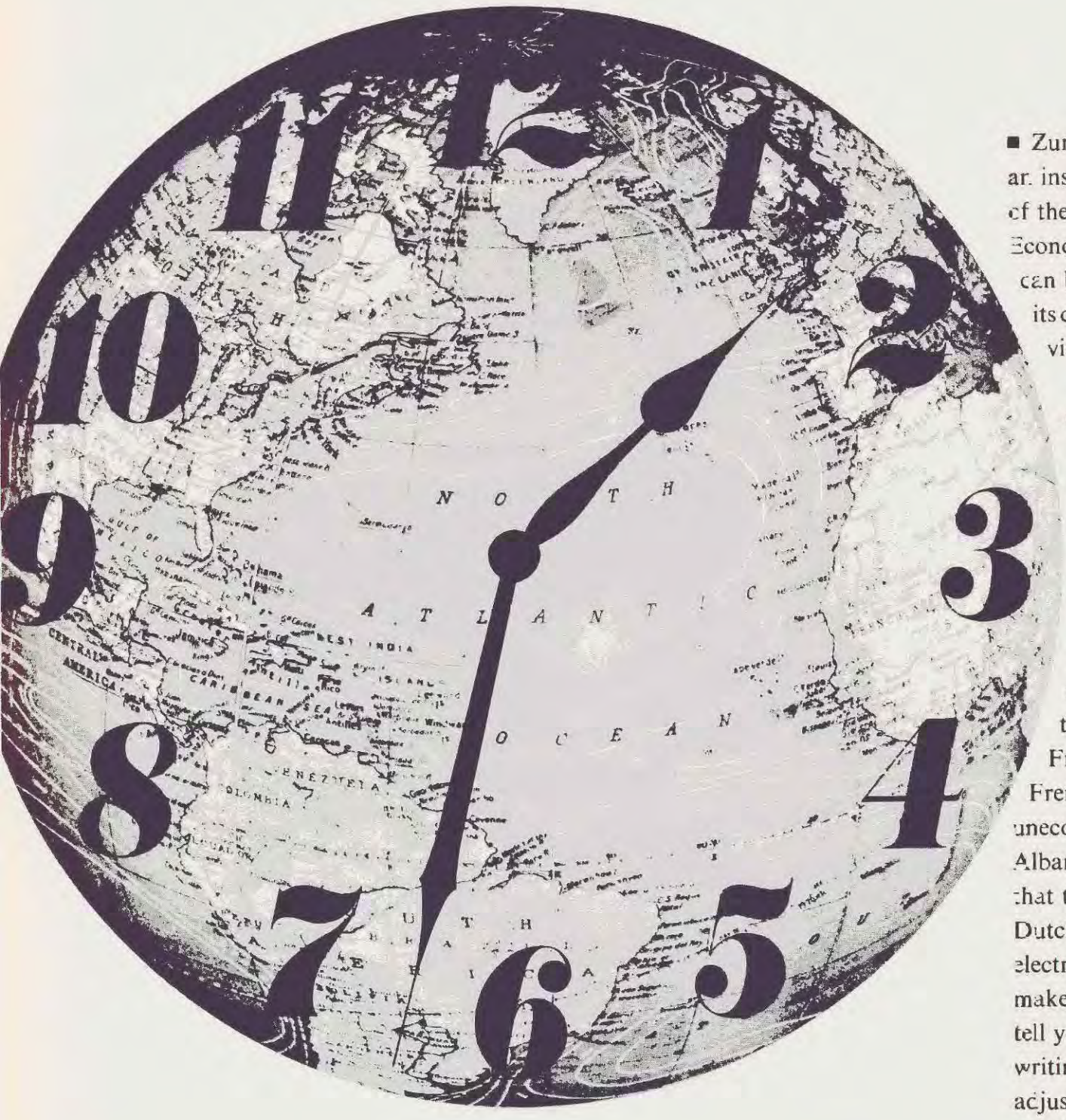
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■ Zurich's "declared aim is to provide an insurance service tailored to the needs of the multinational concern," says The Economist, of London. "This service can be offered at no extra cost . . . because its chain of subsidiaries are there anyway, viable entities in their own right.

"From the technical angle," continues The Economist, "there are certain other advantages. If you are insuring five electronics factories, you will need proportionately less reinsurance than if you are insuring only one.

"There are minor administrative problems. Your manager in France may dislike being saddled with the group's electronics factory in France at a premium which he, in French conditions, may regard as uneconomic. You, sitting in Zurich (or Albany, Aurora, or Azusa), will know that the premiums your German and Dutch managers will be getting from the electronics factories there will more than make up for this. So you will have to tell your French manager that the underwriting results he turns in will be adjusted to allow for this.

"When the will is there," concludes The Economist, "and when the international branch network is there, these problems can be surmounted."

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business insurance/perspective

Risk managers can operate a vital information service

by Norman Hoffman,
corporate insurance manager,
National Industries Inc.,
Louisville, Ky.



Norman Hoffman

In a multifaceted, multimillion-dollar, multilocation company the insurance manager provides a multitude of risk- and insurance-related information to his companies, executives and employes.

The risk and insurance manager is ideally situated to receive and disseminate information on new exposures, new forms of protection, developments in insurance markets and in the field of employe benefits through his exposure to his own companies and to the number of trade and professional publications currently available. If the corporate insurance manager will review the huge quantity of information available, relate it to his own business or to individuals' personal needs, reduce it, and translate it into layman's language, he will provide a service above and beyond the call of duty.

Here is a collection of miscellaneous information we felt important enough to call to the attention of our personnel for their personal and business use:

Prime Interest Rate Reduction

Financial people would be familiar with the several discount and prime rate reductions recently effective. They might not know, however, that some premium finance contracts contain variable interest rates, tied to the prime rate, and that they might be entitled to interest savings as a result of these changes.

Credit Card Coverage

Recent legislation reduced or eliminated the liability of credit card holders. Your business associates may have credit cards of their own or in the corporate name under which their former liability for lost or stolen cards may now have been eliminated. They may also have corporate or personal insurance to cover such loss that might now be discontinued.

Deductibles

Most businessmen find deductibles to be an irritant when applied to personal or business losses. It takes some explaining to convince them that deductibles may be the best thing that ever happened to them. For example, they reduce premiums, offer an incentive to avoid loss, make the insurance easier to buy and are an incentive to seek recovery from others who may be responsible. A positive approach to deductibles is accomplished through education, which the insurance manager can provide.

Pollution

It comes in several sizes and varieties —noise, water, air, forest, wildlife—and everyone is against it. Even the insurance companies are against it. Corporate personnel should know that they face increased costs of insurance, and possibly cancellation of coverage, should they fail to take preventive action. They may also face large uninsured judgments from claimants, individually or by class action. Insurance companies have advised that they will provide expertise to aid companies in correcting pollution problems; corporate management should hasten to avail themselves of this service.

No-fault Automobile Insurance

Massachusetts is the first state to have legislated mandatory no-fault coverage; similar legislation is under consideration in several other states. Whether it will be effective in correcting the defects of the present tort system, and replace liability insurance coverage, only time will tell. In the interim, the automobile insurance market continues to contract and increase in cost and the public should be apprised of these developments. In addition to the usual bad news, perhaps we should cheer them with the news that 1970 appears to be the first year in which automobile fatalities and accident costs have gone down. Education surely has been a factor in this small gain.

'The risk manager is ideally situated to receive and disseminate information on exposures, protection, markets, benefits.'

Mass Marketing

One effect of the consumer movement is more efficient merchandising of products and services, and there is reason to believe that mass merchandising of personal lines such as homeowners and automobile policies is such an improvement. Your people should be informed on the subject since they are consumers who may shortly make a decision on the subject, or because they are employers who may, voluntarily or not, be asked to provide this service for their employes.

Medical Insurance

One of the newer and more popular fringes under medical insurance contracts is payment for dental expenses. It continues to grow as an employe benefit. Changes in abortion laws in several states have automatically provided expanded maternity benefits for married and single women. Since President Nixon for the Republicans and Sen. Ted Kennedy (D.—Mass.) for the Democrats are agreed that the government should provide medical insurance, it is no longer a matter of 'if' but only a question of 'when and how much.'

Group Life Insurance

Recent developments with respect to this coverage include:

- An opportunity for the individual to assign group life policies so that they are not included in his estate. Care must be taken to comply with the legal requirements for such a transfer.
- A combination of term and permanent insurance is available to employes to provide them with the same benefits individual permanent insurance would, at a premium savings.
- Family income provisions are optional and, over an extended period, may provide more coverage than a lump-sum policy would.

Industrial Safety

The new federal legislation affects all companies, employers and employes. The act is made for the benefit of the employe, as is compensation insurance, and the responsibility to see that it is complied with thereby becomes the employer's. Considered as a challenge rather than as a threat, the legislation affords corporate

Continued on following page

Retirement today is really a problem of obsolescence

by Bion H. Francis,
manager of benefits planning,
Colt Industries, New York



Bion H. Francis

This is the second of a series of eight thoughtful columns by Bion Francis on the subject of retirement, which he dissects into a series of provocative questions for the employe, the employer, society and, most of all, for those responsible for planning employe benefits programs and compensation schedules.

Let us look into the matter of learning, and its relationship to retirement, a little more deeply. One of the outstanding features of the present day is the rapidly increasing tempo of production, the use of natural resources and scientific discovery.

This was formulated by the American historian, Henry Adams, in writing about the "acceleration of history." He pointed out that every feature of our society is accelerating. If we plot a curve to represent the acceleration of history, it will be a long flat line that for thousands of years has shown little increase in human knowledge and technology. The rate of increase rose somewhat in historic times, but was still limited until the Industrial Revolution, which started about 1750. The rate of increase then began to rise more rapidly although this increase still does not compare with the explosive development of the present century.

Suppose we take 1750 as the date when mankind stood on the threshold of modern times. The total of human knowledge accumulated over thousands of years to that point in time was impressive to those who lived then.

HENRY ADAMS MADE a number of studies to show how growth accelerated from that time. His findings were summarized briefly by an article in Vectors, fourth quarter, 1967, published by Hughes Aircraft Co. "Actually, knowledge doubled between 1750 and 1900, doubled again from 1900 to 1950, doubled again from 1950 to 1960, and will again double in the present decade." It is easy to give examples to support this increased tempo of activity and knowledge. For instance, the use of electric power in the U.S. has increased as follows:

Years	Billions of Kilowatt hours
1920	57.499
1930	116.229
1940	182.021
1950	390.000
1960	846.151

Source: Edison Electric Institute

As another example, 18 leading engineer-

Continued on following page

Information

Continued from preceding page

management an opportunity to achieve safer operations, with all their inherent benefits, through the utilization of government assistance.

Personnel Employment Procedures

Fidelity bond applications, physical pre-employment examinations and applications, and motor vehicle records are tools available to employers in determining the acceptability of prospective employes. Management should be encouraged to utilize them.

Construction Standards

Insurance companies, trade organizations, the National Safety Council, National Fire Protection Assn. and many others make available construction standards that a corporate insurance department should, in turn, pass on to its operating subsidiaries. The establishment of corporate standards can be both edifying and beneficial, and serve as a discipline.

Inflation and Depreciation

Sound business practice requires the maintenance of adequate insurance. Determining adequacy of property and business interruption insurance is, however, not a one-time function. It is rather, a continuing operation requiring re-evaluation caused by internal and external factors. It is important to remind management that the responsibility for determining whether insurance is adequate or excessive is not the insurance company's, but is solely the policyholder's.

Claims Service

The degree of assistance rendered to operating companies by a corporate insurance department depends on the size of the operation, loss frequency, type of business and claims. Nevertheless, one key service an insurance department provides is to assist with personal and business claim settlements when the need arises. A corporate officer may be more upset by his child's broken wrist than by a production facility fire and need reassurance that the claim will be settled expeditiously.

Another service the insurance manager can provide is to advise the corporate branches or divisions of unusual or special claims experienced by one of his own or by an outside location. For example, injury to minors may result in punitive damages, and such a claim should be called to the attention of all operating locations. Another example might be explaining that hiring disabled employes also means assumption of future claims arising from the disability. Unusual property claims such as loss of power due to weather conditions should be reviewed, together with suggestions for preventing similar future losses. Recent pertinent legal decisions should be discussed. And the corporate insurance department should spearhead accident prevention, property conservation and loss review programs.

New Coverages

Corporate umbrella liability insurance is not a recent innovation, and yet it is said that fewer than 40% of businesses have it. Certainly a much smaller segment of American industry protects its directors and officers with D & O liability coverage, which has recently received national notice in connection with the Penn Central collapse and which some states have recently legislated against. Lease guarantee protection is new, too, and your management might find it useful; your construction and financial people might want to consider its availability to assist in securing financing for new construction. Corporate management depends upon the insurance department to provide information on new business and personal forms of protection.

'Indeed, the horizons of the risk manager and his department are limited only by their own vision.'

Market Conditions

The recent acquisition of insurance companies by corporations in nonrelated fields and the diversification of insurance company holding companies has resulted in the withdrawal of approximately $2 billion from insurance company capacity. This depletion of resources and the resulting contracting underwriting capacity affects all businesses. It has been publicized in all major general and trade publications and its effect on your corporation's insurance program should be conveyed to management.

Growth of Self-insurance

The recent increased activity and formation of industry self-insurance pools in the college, oil, aircraft and waste-disposal fields is an interesting development. Whether it presages a general drift of insurance from professional risk bearers, is a matter for the insurance companies to contemplate. For operating corporations, the question is whether to join this movement.

* * *

The subjects above are examples of helpful information an insurance department can and should provide as a part of its service to the corporation in addition to performing its specialized function. Indeed, the horizons of an insurance manager are limited only by his own vision. With respect to the dissemination of information, Edith Wharton advised that there are two ways of spreading light: "To be the candle, or to be the mirror that reflects."

Take your choice, both methods work. ■

Norman Hoffman is corporate insurance director of National Industries, Inc., a diversified conglomerate headquartered in Louisville, Ky. Holder of a Chartered Property & Casualty Underwriter and Insurance Institute of America risk management designations, Mr. Hoffman is past president of the CPCU in Miami, Fla., where he was formerly associated with the Tobin & Tobin Insurance Agency. He attended City College of New York and the Insurance College of New York.

Retirement

Continued from preceding page

ing societies in the U.S. published a total of more than 177,000 pages of technical papers in 1966, as compared with only 25,000 pages 20 years earlier. Presumably, knowledge will continue to double each decade.

Until recently, the growth of human knowledge, depicted in a graph, took the form of a long, flat curve. From 1750, when the Industrial Revolution began, for men who worked out their lives during the following two centuries, it was still possible to obtain during early years educational preparation for any ordinary occupation to which he might aspire.

But we are now at a new and critical turning point, a turning point that represents something new in history. Human knowledge has rounded a bend and is rising at exponential speed to a new and unknown territory in the skies. During the 50 years from 1900 to 1950, knowledge doubled. And now we begin to run into a new situation. If all human knowledge doubles in 50 years, can a man prepare himself during his years of school for the changes that he will inevitably meet during his life?

Perhaps he can—but the question is already out of date. During the 10 years from 1950 to 1960, knowledge doubled once more. If anything, knowledge will continue to grow at an ever-increasing speed. There is no doubt about the answer to the question: If human knowledge doubles each 10 years, can a normal scholastic or technical training prepare a man for a lifetime of work? In reply, one professor at Massachusetts Institute of Technology stated, "It is becoming impossible to learn a skill that will continue for a lifetime."

IF KNOWLEDGE will double every 10 years, this means that it will increase 16 times in 40 years. Consider the position of the worker struggling to cope with this situation. The problem is not a problem of retirement—it is a problem of obsolescence. Retirement is simply a point at which the problem of obsolescence has become acute. This problem of obsolescence is one that affects all employes, old and young alike.

How can we help them cope with this increase in human knowledge? Is it possible to reorganize education and work to permit the employe to retain indefinitely his skills and standing in his chosen field of endeavor? Perhaps this should not be phrased as a question. We *must* do it to survive.

The explosive growth of human knowledge is not a problem for the employe alone. It is a problem for his employer as well.

Perhaps the most important employe benefit that can be provided during the years ahead is education—the education that will permit employes to hold their own in the exploding universe of knowledge. This is recognized in part by thousands of seminars and conventions held each year. But are they enough? Companies may well be judged on how well they respond to this challenge. And the companies that get ahead may be those that are first to recognize this challenge and rise to meet it. ■

Risk management notes

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

Self-insured workmen's compensation tax deductions

Confusion abounds with regard to the extent to which a workmen's compensation payment and its reserve may be deducted from taxable income. First, it is clear that payments actually made for medical or disability benefits are deductible, whereas reserves established for future losses (even though actuarially sound) are not deductible.

A question arises about a claim that is incurred in one year, but payments are spread out over several years. May this entire "incurred loss" be deducted in the first year? The answer is that it may; that is, as long as the accounting records are on an accrual basis. A claim that is adjudicated in one year may have the entire amount deducted in that year, and this is so even if the exact amount is not known. As long as it is ascertainable with reasonable accuracy and as long as there are no conditions attached to the payment, it will be deductible.

Fees and commissions

Increasing attention has been given to the traditional controversy of fees versus commissions as a means of compensating producers. Most recent was a study by a committee in the northern California chapter of the Society of Chartered Property & Casualty Underwriters. Their study indicated a nationwide acceptance of fees to a slight degree by many brokers amid a feeling by most that the use of fees would increase in the future, but would tend to reduce, rather than increase, the broker's income.

This is a subject about which there has been a great deal of emotion and partisan pleadings. Let us here attempt to separate fact and opinion as nearly as possible. First, some factual statements that are relevant are:

- The complexity of insurance and risk problems is growing. Services ancillary to insurance are increasingly available from specialized firms as well as being offered by producers and insurance companies.
- The premium for insurance sold is not an accurate measure of services required from a producer.
- Recognition of "risk management" is increasing. The commission system rewards only one element in risk management: insurance, which is the last recourse. Anyone who performs on a pure commission basis is therefore rewarded if he emphasizes insurance and minimizes risk reduction, risk assumption, and non-insurance methods of risk transfer.
- As evidenced by the growth in numbers and stature of the American Society of Insurance Management, the corporate risk manager is rapidly increasing in importance. In general, he prefers the fee system of compensation.
- The risk management consultant's growth has paralleled that of the corporate insurance manager and companies are increasingly turning to the consultant for assistance.
- Direct-writing companies represent an important segment of the insurance marketplace. Under a commission system, it is awkward or impossible for a broker to use them, and they are underutilized except where their staff sales force operates. ■

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speaking of safety

Fire drills are important for those who work in high-rise city buildings

NEW YORK—Remember those instructions everybody got in school when they were kids about what to do in case the old school ever caught fire? Remember fire drills?

It would be well if you did remember them if you work in a high-rise building and it happens to catch fire, according to Clifford Long, battalion chief of the New York City Fire Department. Speaking to a workshop audience of the Commerce and Industry Assn. Institute, Chief Long said, "Those kids know what to do. They are drilled in what to do and we haven't lost a kid in a school fire in the city of New York in more than 50 years."

Chief Long and the workshop's other speaker, John Jebens, president, New York Chapter of the Society of Fire Protection Engineers, agreed with each other on most points. They particularly agreed on the fact that there is no such thing as a fire-proof building, though many are labeled as such. "A building is only as fire-proof as its contents," Mr. Jebens noted.

HE POINTED out that fire protection is built into the building. Fire prevention deals with such things as the isolation of hazardous areas and the installation of sprinklers and fire resistant doors. Fire suppression is up to the fire department.

Both men felt that an adequate fire escape plan should be worked out and that all employes in a building should be aware o it. This fire plan would consist not only of escape routes but the naming of wardens for each floor to "direct traffic" and designating specific locations for groups to assemble at after they leave a burning building. They also suggested that fire drills should be conducted.

Mr. Jebens said that "your insurance carrier can help you with your fire safety program as well as the fire department and safety consultants."

Chief Long pointed out that many buildings were being constructed with lightweight concrete and uncorrugated metal, which transmit heat rapidly. He also noted that steel beams were sprayed with asbestos but that many times contractors scraped it off in order to place pipelines and wires "These buildings are still fire-proof—until people move in. Furniture, carpeting, paneling and paper all burn."

He covered a number of points pertaining to the action to take in case of fire:

- Have a good fire plan and make sure everyone knows it.
- Use the fire plan and not rely on the telephone. The man who pulls the fire box should remain there to direct the fire department to the fire.
- Get people on the fire floor out first, then those on the floors above.
- Use the fire tower or fire stairs, not the elevators.
- If trapped, get as far away from the fire as possible, stay low and open a window at the top and bottom. Heat and smoke will go out the top and you can breathe through the bottom.
- Feel doors before you open them. If they are hot to the touch, do not open them.
- Jumping out a window is a last resort. It is better to sit on the window sill until rescue arrives.
- Once out of the building, do not re-enter it.
- Have a point of assembly outside so a headcount can be taken.
- Walk, don't run, and close all doors.

It was pointed out that these steps were really common sense and that tragedy could be avoided by following them. For example, after a recent high-rise fire in New York 10 bodies were found huddled together in front of a jammed elevator, a short distance from the fire stairs. Bodies have also been found in elevators that have stopped between floors.

Chief Long was quite emphatic in saying that he felt that the building of fire towers should be reinstated into the New York fire code. It was removed in 1968.

He also felt that means should be provided to vent a fire floor to prevent the spread of smoke. This venting should be lateral and direct to the outside or at least not through shafts that could be used by personnel.

He also noted that elevator call buttons should not be responsive to heat, flames or smoke. ■

Blades . . .

Continued from page 22

MR. BLADES SAID that in addition to being a financial tool to help business and industry enter the insurance industry, he believes a subsidiary insurance company can be used to turn an insurance department from a cost factor into a profit center.

"A foreign subsidiary insurance company can best be utilized by a company with international operations," he said. "When both U.S. and foreign operations are involved it is, many times, advisable to set up one company for U.S. insurance and another for all non-U.S. insurance. This puts the parent in the best possible tax position. However," he noted, "with those companies I have worked with, the tax aspects have been important but in no case has this been the governing factor as to whether or not to set up an insurance company."

Mr. Blades said that upon establishing an insurance subsidiary, the firm has the opportunity to meet directly with reinsurers and with certain markets that do no business on a direct basis.

"You also have a chance to coordinate your insurance program on a worldwide basis, by writing it yourself, by reinsuring established international insurance companies and sharing in the profits and/or risks, by possibly reinsuring certain local insurance companies in countries in which you operate, or possibly by encouraging them to write coverage that you want, with the support of your reinsurance," he told AMA members. ■

It's not finished — Insurance in America. It never will be, if we can help it.

Chapters written in recent years do not make happy reading. The public finding many coverages more difficult to obtain, and often available only at higher rates. Companies faced with greater operating expenses, and more and higher claims, and needed rate increases repeatedly denied. Producers caught in the squeeze between public demands and shrinking markets.

We want the story to continue, but written as it should be. Chapters on industry adaptations to meet the policyholders' needs, about cooperation to serve the public interest within the limits of private enterprise, and about growth and new thinking to match the American economy.

Writing the next vital chapters won't be easy, or a task which any single segment can accomplish alone. It will take cooperation, and story conferences, and agreement on common goals of all contributing authors if the story is to be written with new developments more pleasing to everyone — producers, companies, *and the public.*

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YOUR Independent Insurance AGENT SERVES YOU FIRST

Mass marketing pioneer sees it as 'wave of future'

CHICAGO—"Thank you so very much for letting me get car insurance," said the hand-written letter from a night-crew worker in a Chicago bank, "I will have no worries about making payments; I only have to come to work all the time."

Her letter concluded: "I will tell all the people who work with me to write to you if they are grateful like I am."

This expression of gratitude came from one of 40,000 auto insurance policyholders covered under the Personal Security Plan of CNA Insurance, the pioneer in mass marketing of personal property-liability insurance through payroll deduction and other techniques.

The woman who wrote the letter had only recently bought her first car, but she was forced to keep it in the garage for three months after an auto insurer cancelled her policy without stating a reason. She was afforded a policy under the CNA program because under the mass marketing plan CNA pledged to underwrite 100% of the bank's risks, excepting only those whose licenses were revoked for cause.

CNA INSURANCE, which began its mass marketing program about five years ago, has not lost its enthusiasm for the plan, which many of its executives view as the "wave of the future" in auto insurance.

Tom Friedberg, a CNA assistant vp and director of the Personal Security Plan program, told *Business Insurance* that the scheme has undergone at least one important revision since its introduction.

"We no longer look upon mass marketing as a situation in which we substitute a carrier counselor for an independent agent," he said, "although all of our mass marketing programs are written through agents at a flat 5% commission, an amount that takes account of the reduced workload for the agent."

spotlight report

At the inception of CNA's mass marketing program, the carrier sent a counselor to discuss coverages with employes at each plant or office site that adopted the program. This, CNA found, was a waste of time for the counselor and represented lost time for the employer, who had to allow employes time to discuss their personal insurance programs.

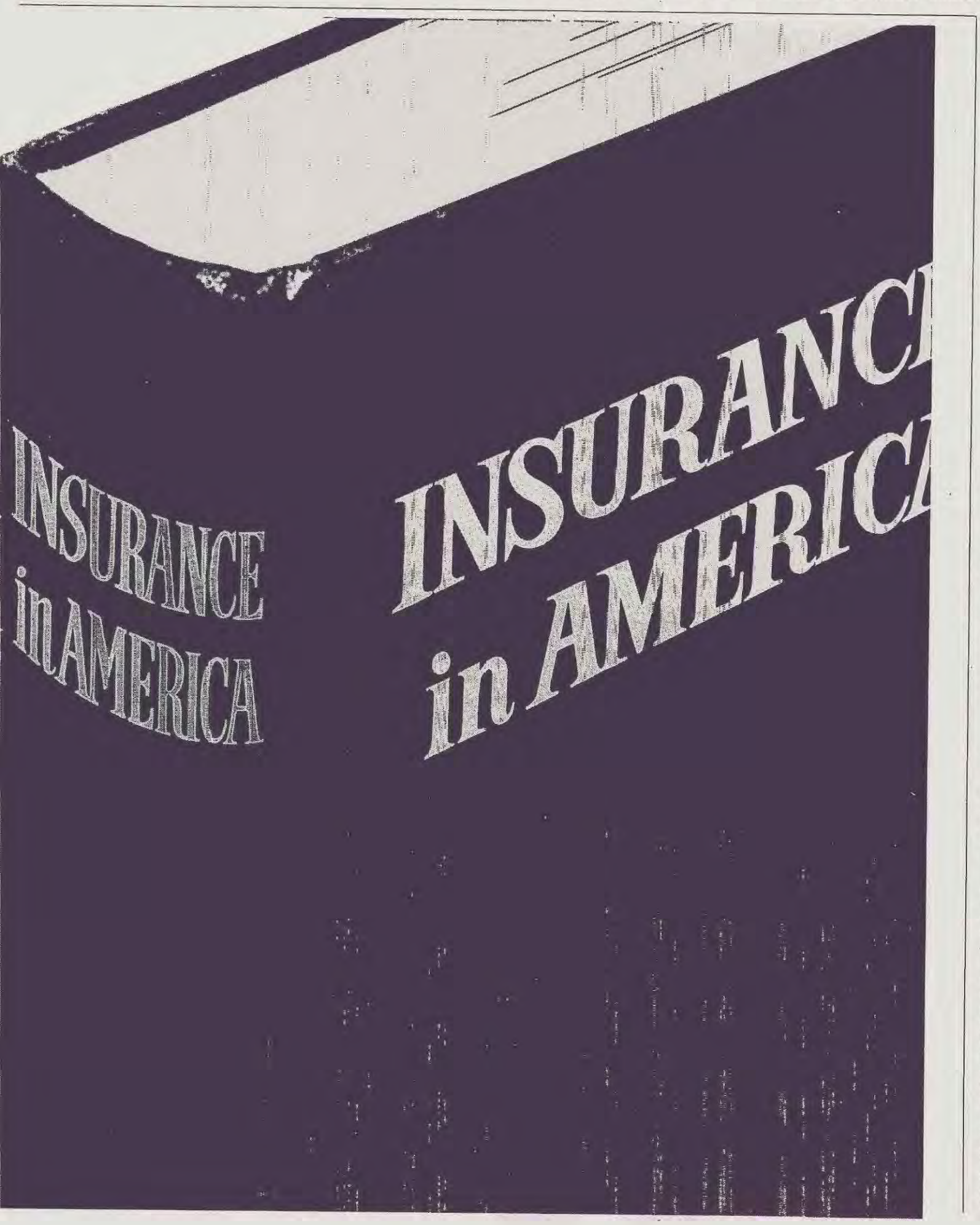
NOW THE BULK of the CNA mass marketing operation is conducted from a hectic nerve center in the company's high-rise headquarters on Michigan Avenue here. A roomful of counselors manning WATTS-line connections with insureds in groups as far away as Groton, Conn., gives answers to claims and coverage questions.

CNA underwrites mass marketed insurance for employe groups under the payroll deduction plan, for credit union groups through savings plan deduction and for at least one union group whose employers pay for their employes' auto insurance under a "true group" plan that nevertheless provides individual insurance policies.

"We feel that we need strong sponsorship to make mass marketing work," said Mr. Friedberg, "and usually employer-employe groups are the strongest for this purpose. We strenthen the identification by publishing leaflets that carry the name and symbol of the sponsoring group on the cover page of an explanation of the Personal Security Plan."

In addition to auto insurance, CNA is considering mass marketing of homeowners insurance, accidental death and dismemberment, and permanent life coverage. The homeowners program, offered initially through the PSP plan, is now included only when the sponsor asks for it because homeowners bookkeeping is handled manually while auto insurance is put through an on-line computer.

CNA, sensitive to criticism of mass marketing by agents' associations, is careful to write all of its PSP business through agents. "Agents are concerned," said one CNA official, "that mass marketing takes them out of their traditional role with policyholders."■



Air crash awards up to $195,443

WASHINGTON—A study by the Civil Aeronautics Board has shown that during the first six months of 1970 the nation's airlines paid more than double the average amount paid in 1966 to survivors of persons killed in airline accidents.

The average settlement per death during the first half of last year was $195,443 while the average settlement in 1966 was $85,003.

1970 saw two settlements reach $500,000. The same number gained that figure in 1966. However, there were only five settlements in excess of $250,000 in 1966 compared to 42 during the January to June period of 1970.

THOUGH the average amount paid per serious injury was also up from the $30,867 figure in 1966, the amount was not as high as the average payments in 1967 and 1968. The average amount paid per serious injury in 1970 was $45,855. That figure was $58,037 in 1967 and $47,407 in 1968.

The study also showed that the average time between accident and settlement for recoveries at various levels from $100,000 to $500,000 was running between four and six years.

Also included in the study were claims arising out of international transportation subject to the Warsaw Convention, which has a liability limit of $8,300 and the Montreal Interim Agreement, which provides absolute liability limits at $75,000 for transportation to and from the United States.

However, since the Warsaw and Montreal claims are subject to a liability limit and a different liability system they were compiled separately from claims not subject to the Warsaw Convention. ■

Marketing . . .

Continued from page 1

In the auto and homeowners lines, however, Travelers seems to echo everyone else when it says "penetration is painfully slow." In any given month, for example, you can only hope to pitch one-twelfth of the auto owners and one-thirty-sixth of the home owners because of prior policies.

Homeowners, described by some as the weak sister of the two most widely mass marketed products, is not so described by Travelers. "Response has been better than we expected," Mr. Rowe said, noting that "more than one-third" of the buyers of payroll-deducted auto coverage will also spring for homeowners.

The Hartford Insurance Group: Hartford wrote its first account, a United Auto Workers local in Flint, Mich., Sept. 1, 1969. It now has nearly 100 accounts in about 20 states, according to Scott Ripley, the Hartford secretary who keeps tabs of mass plans in the home office.

To be sure, Hartford has had more success selling labor unions mass marketed plans than it has had with employers. Roughly 60% of Hartford's 100 accounts are with labor unions. "We have found union sponsorship to be strong," Mr. Ripley told *Business Insurance*, "but there is no effort on our part to become known as a union insurer. It's just that the first consumer demand came from unions."

The 100 accounts in Hartford's files represent about 20,000 policyholders. Most of them are not on payroll deduction. "If our approach has changed," said Mr. Ripley, "it is in response to consumer demands. We have found that employers are not yet ready—if I can use that expression—for payroll deduction. To be viable in this market we have had to go the direct billing route," he added.

HARTFORD just a month or so ago copped a biggie in its own back yard. It is the Connecticut State Employes Assn., with close to 40,000 members and potential policyholders. That will be a payroll-deducted plan and the largest Hartford has to date.

"Penetration is the biggest problem in this business," Mr. Ripley said. "And," he added, "payroll deduction and guaranteed sponsorship are the single most important solutions to that problem." Hartford is using mail, telephone and local agents to solicit business once they have gotten a mass marketing sponsor. In April it will start offering homeowners.

The future of mass marketing? Said Mr. Ripley: "I think it will have a prominent place when mass marketing lives up to its name. If you've only satisfied a piece of a man's need then have you done the job? The answer, of course, is 'no.' Financial service centers are the future."

Royal-Globe Insurance Cos.: Like Travelers, Royal-Globe insists on writing payroll-deducted plans with employers. However, it will write other single-bill accounts, such as associations and credit unions.

The New York-based company wrote its first plan early in 1969. It now has about 100 accounts. Three of its accounts are a Chas. Pfizer & Co. plant in Groton, Conn., the University of Notre Dame, and a UAW local in Michigan. Royal-Globe, however, has little other business on the labor union end, according to Robert Broski, assistant vp in the home-office. "There's no question though that unions are by far the easiest to write at the moment," Mr. Broski said.

Royal-Globe "is right on schedule," he said. In fact, Mr. Broski added, "we were about 4% over our premium goal for last year."

Most of their accounts are employer-sponsored. "Associations are not our favorite situation. We've found that in most cases there is not enough glue in an association to hold a plan together."

Royal-Globe does not offer personal counseling on the premises of the employer. "We've found that's not necessary," the vp said.

At Pfizer, for example, there are 1,200 auto insureds on Royal-Globe's books. All are serviced by a local agent in Groton.

Aetna Life & Casualty. Aetna began mass marketing in July, 1969. It now has more than 20 accounts in about eight states. Total policyholders number somewhat more than 1,000.

Said Milton P. Anstey, an assistant secretary in the Hartford home office: "We're probably most heavily involved with credit unions, although our product emphasis continues to be on the employer as sponsor. But, the employer is the most difficult person to sell at this stage of the game."

Aetna's premiums all come from payroll deduction or credit union share accounts. However, they will be direct billing some accounts in the near future.

In marketing practice Aetna is "trying to avoid" face-to-face solicitation or a counseling-type situation, company officials said, explaining that "sheer economics" prohibit these.

Insurance Co. of North America: INA wrote its first mass plan in 1967. It was for the University of Pennsylvania, which has since become a much-touted success story in employer-sponsored plans.

"By far the majority of our plans are employer sponsored," said Edwin G. Johnson, an assistant vp. INA does write some credit unions and is experimenting with associations to some extent. In the latter case, however, Mr. Johnson noted that "there is a lack of a central source of payroll deduction, which we feel is the key to mass marketing." They will not direct bill, he said, noting that the company has "lost potential accounts because of our refusal to go the direct-billing route."

INA also offers homeowners coverage and, like Travelers, is very satisfied with results. In addition, they offer other personal insurance lines on payroll deduction.

On marketing approach, however, INA is not as rigid as Travelers. "We are flexible," Mr. Johnson said. "Some accounts are counseled on the employer's premises. Others are by appointment in the potential policyholder's home." In other instances the mail may be used. "But," he noted, we are leaning more toward personal counseling." ■

Burglary drive

A campaign to reduce burglaries of commercial business firms here has been launched by members of the Independent Insurance Agents Assoc. of the San Fernando Valley, California. Insurance company field men and engineers joined the agents in providing free inspections of mercantile stores, checking for the adequacy of protection against burglars. The inspection project originated in this city in 1965.

Wash Watch

Continued from page 4

higher operating expenses," it stated.

The council described the American Medical Assn.'s "medicredit" plan and the private insurance carriers' "health care" proposals as "thinly disguised efforts to protect vested interests and insurance company profits. "They are bandaids where surgery is required," the council said. It also said that while it had not had sufficient time to thoroughly analyze the Administration's national health insurance proposals, it is clear on cursory glance that they are devoid of many essential details.

"We have noted," the council said, "one or two constructive features such as the President's belated recognition that prepaid group practice can deliver better medical care at less cost and his proposal to eliminate the onerous Medicare premium the elderly must now pay.

"But, it is evident that the President's approach taken as a whole is both piecemeal and inadequate. It places main reliance on discredited private insurance, which has been largely responsible for the high-cost, low-quality medical care we have today."

The council endorsed virtually the entire range of consumer bills that have bounced around Congress during the past few years, including consumer class action legislation, establishment of an independent consumer protection agency, mandatory product testing before marketing and auto insurance along the lines suggested by leading reform advocate Sen. Philip Hart (D.—Mich.).

IN WASHINGTON Sen. Hart greeted the AFL-CIO support with the reintroduction of his reform measures. The proposals were almost exactly the same as the calling for modified no-fault coverage and removal of all barriers to group auto underwriting. He pledged hearings would begin on the issues in mid-March.

Sen. Hart added one new twist —a bill to amend the Taft-Hartley Act to allow employer contributions to jointly-administered trust funds established for group auto insurance. The Taft-Hartley Act flatly prohibits payments by employers of money, or anything else of value, to employe representatives, except in very limited and carefully defined situations.

Primary among these exceptions are payments to jointly administered funds set up for the purpose of providing specifically outlined benefits, including medical and hospital care, pensions, compensations for occupational injuries and illnesses, and insurance to provide any of these. Also trusts may provide unemployment benefits and life, disability, sickness and accident insurance.

The act was amended in 1959 to include payments to trust funds for pooling vacation, holiday, severence and similar benefits to defray the costs of apprenticeship and other training programs, and again in 1969 to provide trusts for educational scholarships for employes, their families and dependents and child care centers for preschool and school age dependents. ■

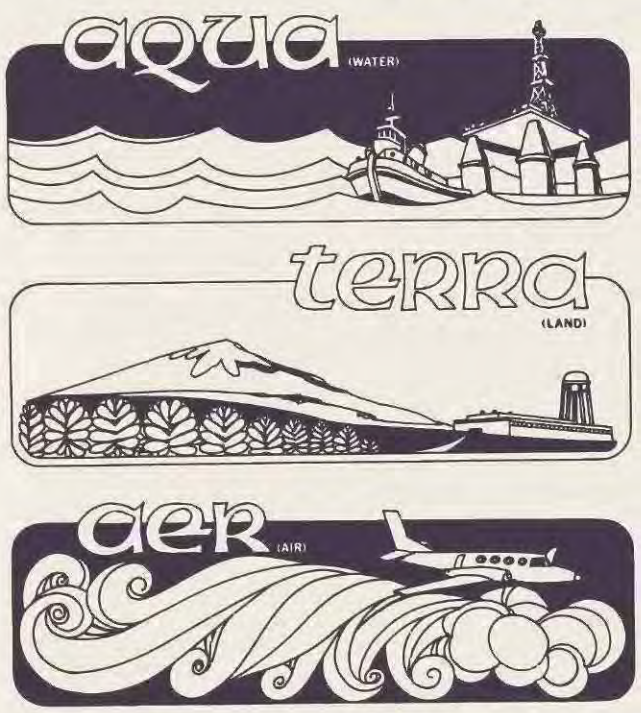
Maritime society elects officers

NEW YORK—Robert D. Reardon, manager of the personal injury department of Moore-McCormack Lines has been named president of the Society of Maritime Personal Injury Consultants.

The four-year old society meets once a month to discuss the problems of injury accidents involving maritime personnel. Comprised of personal injury specialists, the non-profit society pools the knowledge of its members to discuss actual cases, sometimes making suggestions to the partys involved Mr. Reardon told *Business Insurance* that the society had no statistics as to its influence on claims handling.

Other officers include: M. D. Slocum, manager, insurance department of Trinidad Corp., vp; Michael Caprio, vp of Corroon and Black Corp., life-time director; Joseph Reddington of the Law Office of Theodore F. Turner, treasurer; Joseph DiMartini, manager personal injury department, Prudential-Grace Line, Inc., secretary. ■

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Good record keeping best defense against products liability claims

BEAUMONT, Tex.—Good record keeping is the best defense against products liability claims, according to a Texas attorney.

Floyd W. Addington of Jasper, speaking before the American Society for Quality Control's local group, said this admonition goes from the original inception of the product through the plans and manufacturing of it.

Mr. Addington also stressed the necessity of good record keeping of products or materials firms buy.

IT IS THE FIRM'S duty to inspect the product before it is put into their own product, he said. "These records of inspection of materials purchased from a third party should be carefully kept."

The attorney suggested that if a firm has no system by which it could prove to a court or jury that its inspections and testings were "fruitful," one must be developed.

"It is common knowledge that a company is going to ship defective materials from time to time," he said. Results from inspection of bad materials are equally important, he added.

"It bolsters good inspection when a firm turns up defective materials," he said.

"INSPECTION AND test records are evidence which could be admitted to court and jury under the business records statutes," the attorney said.

Mr. Addington also said that if company officials know that their product was, in fact, not defective, it is very important to get possession of their materials.

He said it is possible to get possession after an accident or defect through court procedures. "The reason for this is that if the product has been materially changed or altered, the manufacturer's duty ceases."

Mr. Addington also warned of overadvertising "because advertising materials that are too strong have come back to haunt the advertisers.

"Also, advertising materials can be interpreted as additional warranty under some circumstances." ■

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40 insurers on damage of $1.2 million

HOUSTON—A $1.2 million price tag has been placed on the damage to a ultra-modern 15-story office building hit by a tornado which ripped through downtown Lubbock in May.

C. J. Gholson, vice president of Pioneer Natural Gas Co., which jointly owns the building, through a subsidiary, with the First National Bank at Lubbock said the damage, much less severe than originally thought, was fully insured.

He said the claim is being handled by General Adjustment Bureau, whose actions on the matter were highly praised by the corporate officer.

Mr. Gholson was one of Pioneer's executives speaking before the Houston Society of Financial Analysts.

HE SAID THE coverage was handled by approximately 40 insurance companies. It was placed through Lubbock agents.

Mr. Gholson told *Business Insurance* the repairs have generally been completed with the exception of replacement of some marble. The decision has not yet been reached whether the imported stone will be used again, or whether domestic marble will be purchased.

He said there was no structural damage to the building, which represents a $7.2 million investment including the land. The portion invested by Pinaga, a wholly-owned Pioneer subsidiary, was in excess of $3 million. Pinaga made a private placement to finance its interest, on June 16, 1970, of $3 million of 9⅞% sinking fund notes due 1990, with annual redemptions of $150,000 beginning June 1, 1971.

"Needless to say, there were a few anxious moments when we received a report that the building that we were financing had been blown away by the tornado that went through downtown Lubbock," Mr. Gholson said. "Fortunately, that was not true."

He said the building, powered by gas energy, kept its power and lighting during the disaster, when all of downtown Lubbock was blacked out.

The bank and Pioneer occupy the first seven floors of the structure. ■

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PEG has been up and down the street enough to know that no single comp program will fit every client's needs. You see, we took accident prevention, analyzed it top to bottom, inside and out. Then we added our own new tools of the trade—like the PEG Loss Control Profile and management control by objectives—to get it down to a pretty exacting science.

We call it the PEG Loss Control Program. And, together with our unbroken record of dividend payments and claims service hustle—it gives us the flexibility we need to provide your company with a comp program that fits. Not just pretty close, but exactly. So next time you need a fast, accurate quote, call your agent or broker. He'll call us. We'll all put our heads together—and get back to you with a custom-shaped program almost before you can say, "Here comes PEG."

PEG

PACIFIC EMPLOYERS INSURANCE COMPANY / an INA CORPORATION company.

Comp rate makers provide accurate statistics

NEW YORK—The making of workmen's compensation rates probably turns up more accurate statistics on the actual rate of on-the-job injuries and illnesses than the bureau of labor statistics does when it's making its yearly laborious studies of the phenomena.

Started in 1922, the insurance industry's nationwide workmen's compensation rate-making organization, the National Council on Compensation Insurance, has always been subject to close government regulation. Some 400 insurance companies belong to the organization. The council either files or supplies the statistical work for rates for members in all but the six states that use the workmen's compensation funds rather than insurance companies.

"Workmen's compensation has always been a regulated line of coverage," explained Robert D. Heitzmann, assistant general manager of the council (NCCI). "Once we file the rates we're also responsible for checking every workmen's compensation policy that is issued. This is accomplished at our 18 branch bureaus situated throughout the country where our people examine each policy to make sure that the level of coverage is that specified by law, as well as to insure that the proper rates have been applied," he explained.

APPARENTLY, to take a look back, the National Assn. of Insurance Commissioners didn't trust the council at first. "The NAIC maintained a representative on the council on a permanent basis from 1922 until 1943 or 1944 when the gentleman who had the job died," Mr Heitzmann said.

The insurance commissioners had apparently seen enough at this point to convince them of the scrupulousness of the rate-making organization. Once their representative had died, they failed to reappoint anyone to take his place. Mr. Heitzmann added, however, that the insurance commissioners' agent had been maintained on the national council's payroll, rather than having been bankrolled by the commissioners' group itself.

He pointed out that the first step in the rate-making process for workmen's compensation coverage was the separation of business and industry into several hundred (approximately 700) different classifications. The classifications are meant solely to reflect the comparability of risk exposure of a group of firms.

MR. HEITZMANN explained that this was done to create what he called "individual pockets" of statistics that would accurately reflect experience of all of the employers in a state in a given industry. He noted that the statistics of a given state were never mixed up with those of another.

The council actually collects separate loss experience statistics on each and every policy in effect in each state by industrial classification. It is this information, these losses reported to the rating organization, that is the ultimate cost or base upon which the insurance carriers decide to set next year's reserves, Mr. Heitzmann explained.

The council then calculated by actuarial means the premium rates for workmen's compensation for each industrial classification. These rates are then filed with the state supervisory authority that rules upon their acceptability. Typically, according to Mr. Heitzmann, hearings are held in this regard by the regulatory state commissions.

In addition, the national council is examined every five years by the NAIC to make sure that its statistics-making efforts are up to standards required by the regulatory group.

ONCE THESE rates have been formulated and approved they are published in a rate manual and are used as one of the three components in determining an insured's premium. The other two segments of the process are mandatory rating plans.

The manual rate reflects the average experience of all of the insureds who are grouped within a particular industrial classificaton, Mr. Heitzmann said. In order to determine an individual employer's premium his own experience record is compared with that particular classification's overall average. If his record is better than this average, he then receives a certain premium discount. If, on the other hand, his experience record is worse than the overall industrial classification's average, his premiums are hiked accordingly.

The other rating plan that is mandatory is known as "premium discounts." Once an insured's premium for his workmen's compensation coverage exceeds $1,000, he is eligible for a standard premium discount that results from a reduced administrative expense incurred in the collection of the additional premium.

Mr. Heitzmann also pointed out that there are two different discount schedules employed: One is formulated for stock insurance

Continued on page 37





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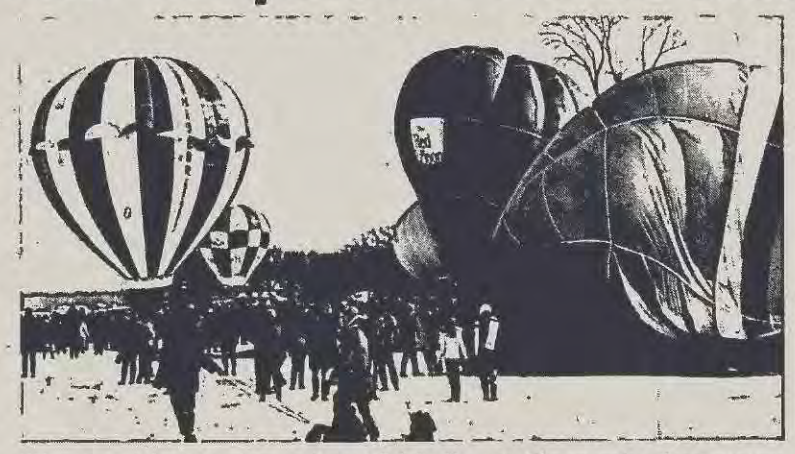
Balloon race requires insurance as well as hot air

By ROBIN MENZ SUHRBIER

ST. PAUL—From a hot air balloon race to a car race on ice to the "Minnesota 300" the range of activities for the annual winter carnival, Mother Nature's answer to Minnesota's bitter cold, is varied and spectacular—and so are the event's insurance needs.

Beyond the carnival's basic insurance plan additional liability policies, each with sizable limits, had to be obtained for several of the events. Through Alexander and Alexander a $500,000 spectator liability policy for the balloon race was arranged with CNA Insurance. The event brought one claim when a parked car tangled with one of the balloons.

According to Fritz Heger, chairman of the event, "the coverage was a one-shot deal—in effect from burners on to burners off." He clarified that the burners are what keep the mammoth balloons filled with hot air and are on for the duration of the flight.



"Up, up and away in my beautiful balloon," Thousands of spectators watched as balloon pilots inflate their mammouth balloons for the St. Paul Winter Carnival's hot air balloon race. This year, hampered by strong winds and a —43° wind chill temperature, five of the seven participants achieved lift off.

THE CARNIVAL'S basic liability coverage picked up where the balloon race's coverage ended. Coverage for damage to the balloons themselves is arranged by the individual balloon owners. Mr. Heger mentioned that a West Coast underwriter is looking into the possibility of making available such insurance.

Hampered by strong winds and a —43 degree wind chill temperature, five of seven participants managed to get their balloons off the ground and keep them in the air for about an hour. Their flight patterns, determined by the direction of the wind, are monitored by the FAA under whose jurisdiction hot air balloons fall. Once the flight pattern has been calculated, the FAA then keeps all other aircraft out of the way.

During the balloon race, which is the oldest of its kind, a private plane with a balloon pilot on board keeps track of all the balloonists. In addition, according to Mr. Heger, as a precautionary measure a car is assigned to every balloon to help in case of emergency. It's also up to the drivers to bring the balloonists back at the end of the race.

Balloonists are required to have a license and their balloons are inspected annually by the FAA. Pilots are required to wear helmets to protect their heads from the flames above them. Parachutes are also recommended safety equipment; however they are most effective above 3,000 feet and most balloons, at least those in the carnival's race, fly below a 3,000-foot altitude.

MR. HEGER emphasized that if pilots use common sense in handling their balloons it's pretty hard to get hurt. During this year's event, because of the wind and weather conditions, the pilots had a struggle getting their balloons aloft, but no serious injuries to spectators or pilots occurred. One woman pilot jumped from her gondola just as it was nearing land but escaped injury.

Another event requiring its own coverage was the car race on ice. Liability coverage for bodily injury and property damage was arranged for the three-day event but because the lake where the event was held was bounded by two municipalities both required certificates of insurance. The 3M Sports Car Club helped arrange the race and 3M Co. acted as the go-between in arranging liability coverage with the Travelers. Marsh & McLennan was the broker.

The club itself is insured on an annual basis through the Travelers. Property damage to a race car is assumed by the owner.

The winter carnival race was considered part of the Can-Am (Canadian-American) Ice Race, a series of five races on ice. During the carnival six classifications of cars were raced and each race was 100 miles. According to John Spreck, co-chairman for the event, "racing on ice requires a different technique than racing on blacktop. Going 60 miles an hour on ice is equivalent to 120 miles an hour on blacktop."

HE POINTED OUT that studded tires are legal but that all tires are checked prior to a race to be sure that only the legal number of studs are used. Drivers are required to have approved helmets, shoulder harnesses, seat belts, roll bars and fire extinguishers; the equipment is thoroughly inspected before a race.

"We also check the ice to be sure it's solid," Mr. Spreck said. Since most of the winter carnival events make use of the snow and ice, the conditions of both are of constant concern.

Emergency equipment for the ice race included an ambulance and a pick-up truck equipped with a pry bar. Carbon dioxide and dry chemical extinguishers were on hand in the pit and at the various corners.

A plowed ridge of snow separated the race fans from the track, which was approximately 300 feet from the spectator area. Also, according to Mr. Spreck, a group of people on snowmobiles patrolled outside the track, keeping the crowd back. Another group in uniforms helped control the crowd and the St. Paul Police were on hand to direct traffic around the lake.

A THIRD EVENT, a snowmobile race on a specially prepared track, had liability coverage with limits set at $1 million. The event chairman, whose specialty is preparing such tracks, explained that because of the involved hazards insurance coverage is hard to obtain. The hazards, he said, are similar to those of car racing.

"It takes about a week to develop a track for snowmobile racing," he said, adding that the technique used is a safely guarded secret.

Several classes of snowmobiles raced from three to ten laps. All machines were inspected prior to the event by the race directors. Spectators were seated in stands about 50 feet from the track, with this area further separated from the track by concrete walls.

During the week-long carnival, first aid stations were established at most events to treat everything from frostbite to wind burn to scrapes and cuts. ■

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Miami school board paid $64,265 for nonexistent fire insurance cover

MIAMI—A Miami newspaper has charged that the Dade County school board paid $64,265 for fire insurance coverage that the insuring company said did not exist for 74 days.

Board members unanimously approved the payment on the advice of their attorney, though the company never agreed the coverage existed and no claims were made against the policy during the 74 days, according to the Miami Herald. The Herald contended that school officials accepted a bid for insurance coverage that violated the specifications written by the school system, apparently because nobody bothered to read the fine print. The policy clearly stated that the policy would lapse after one year.

THE POLICY WAS written by Miami insurance agent H. S. Brannen, who characterized the issue as "a difference of opinion" that was "equitably and economically resolved." But the Herald argued that, had there been a fire at any of the school system's $500 million worth of property while the coverage presumably had lapsed, there would have been "a serious question as to whether or not the board could have collected for its losses."

The issue dates back to May 1969, when Ed Hurst, assistant superintendent for support services, mailed out bid specifications detailing the coverage involved. The lone bidder was Mr. Brannen, whose Miami agency handled all of the board's insurance exclusively until a grand jury halted the practice a decade ago. Mr. Brannen's bid of $197,759 in annual premiums actually was somewhat lower than the rate he'd been getting under a former five-year policy due to lapse July 1, 1969.

But, although Mr. Hurst had specified that he was seeking five-year coverage, Mr. Brannen wrote in that his bid was "irregular," a fact that Mr. Hurst later acknowledged he had overlooked. The irregularity was contained in a form letter signed by Earl C. Trefry, a regional manager of the Employers Commercial Group, which would write the policy. The letter clearly stated that the bid was "subject entirely to the explicit conditions of our policy of insurance, if written." A sample policy Messers. Trefry and Brannen submitted contained neither an inception nor expiration date.

"There seems little question that the company had not in fact bid on a five-year policy," according to the Herald.

According to the Herald, Mr. Brannen proposed that the board's cumulative deductible be hiked from $50,000 to $500,000. In any event, he said, the policy would expire July 1. Mr. Hurst refused to raise the deductible, insisting that a five-year policy protected the board against rate increases. But he did put the policy out for bid after July 1, and a bid from the INA-CNA group later was accepted providng for a $500,000 occurrence deductible.

School Board Attorney George Bolles advised board members that Mr. Brannen had bid on a five-year policy requiring 60 days notice of cancellation. Employers Commercial Group disagreed, stating in a letter to Mr. Hurst that "we herein are attempting to point out to you that our policy expired on July 1, 1970." It stated that "there most certainly is not any 60-day extension of coverage beyond the expiration date under any conditions." Neither Mr. Bolles nor Mr. Hurst was persuaded. Instead, they urged the board to go through the formal cancellation process "to make them live up to the terms of the specifications."

No claims were filed during the period. On Sept. 23, 10 days after the board-determined cancellation date expired, Mr. Brannen sent school officials a bill for the additional 74 days of "coverage." The board paid the bill. ■

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London underwriters' unit refuses ITT subsidiary's marine business bid

LONDON—Efforts by the International Telephone and Telegraph Corp. to enter the British insurance market through a subsidiary firm acquired last year have met with a surprise ban on marine business by a group of powerful London underwriters.

The outcome has been to deprive it of the policy-signing and accounting services of the Institute of London Underwriters, although no effective reason has been given for this refusal to cooperate in its normal work. Sources questioned by *Business Insurance* beleive that there may be secret dislike of a big American finance conglomerate breaking into the hitherto closely-guarded realm of British insurance, even though there is no doubt about its financial integrity and reputation.

But ITT is going ahead successfully with most aspects of its new British business, as it is only the marine account, representing 10% of its subsidiary's turnover, that has faced suspension.

THE DECISION came when the Institute of London Underwriters rejected an application by the London and Edinburgh General Insurance Co. to remain in normal membership standing after it had been bought by ITT in a $7 million deal last year (*Business Insurance*, Aug. 3).

Two other associated companies, London and Edinburgh Life Insurance Co., writing in Britain, and Great Eastern Insurance Co., writing auto and general business in Canada, were joined in the ITT deal when they were taken over from Mercury Insurance Holdings, part of the worldwide Stewart, Smith chain. Since then, ITT has moved further into the British life market by buying full control of Abbey Life Assurance, and its work in this field is going ahead normally.

London and Edinburgh General announced to British insurers: "We have been a member of the Institute of London Underwriters for 22 years. Its rules provide that membership ceases automatically upon a change of control, and this applied as soon as we were bought by ITT on June 25, 1970.

"Our application for reinstatement of membership failed to obtain the necessary majority vote in the committee of the institute, and we have been informed that the policy signing and central accounting services of the institute will no longer be available to us. As a result we are suspending new business and renewals in our account underwritten through Westminster Marine Insurance Manager Ltd. as it is felt it would not be in our interest to continue without benefit of these services.

"**THE COMPANY** regrets the interruption in its relations with brokers, and hopes it will soon be possible to resume. This decision relates only to our Westminster marine account, and other accounts are unaffected."

The Institute of London Underwriters has refused to give any reason for its attitude. But Mr. Walter Corbett, a director of London and General, in an interview with *Business Insurance* explained:

"The effect is to deprive us of central administrative services that brokers can use when placing lines of marine business, such as hull cover, with a variety of companies. The institute cannot stop us carrying on alone, but this would be unattractive, as it would mean brokers would have to come specially to us, as well as to institute members, in sharing business. It would add to their costs, and to ours, and so would not be practicable. So we have decided to suspend this side of our business.

"Every effort is being made for a restoration of membership, but it is at present impossible to say how and when we can get the decision reversed. It is an unhappy situation after we have been in membership so long.

"I HAVE NO idea what the motive is for the ban on membership," he said, "and I don't want to make any guesses, in case we can get back into the institute. There is certainly no complaint about the financial standing of ITT or of our own company."

He said that marine business of London and Edinburgh affected by the decision totaled $750,000 to $850,000 a year out of overall premium income of approximately $8.5 million.

Mr. Corbett added: "The marine account has not been very profitable for most companies in recent years, but it shows signs of turning toward profitability now, so that it is a pity to suspend it. Brokers would be reluctant to go to extra trouble and cost in processing business outside the institute's central system."

The guess in London insurance circles is that ITT's status as a major corporation, with interests far beyond insurance, may not be welcomed by some underwriters. Two American insurance corporations already members of the institute are Continental Insurance of New York and Insurance Co. of North America.

Mance knighted: marks Lloyd's role

LONDON—New distinction for Henry S. Mance, Lloyd's chairman, was awarded in Britain's traditional New Year list of honors given by Queen Elizabeth to business personalities.

He should now be addressed as Sir Henry Mance. For he was knighted by Her Majesty the Queen to mark the important role Lloyd's plays in world insurance affairs.

The reason is because he is now its chairman for the third successive year, and has been tireless in his efforts to promote its activities in many directions. It is a distinctive honor which the London insurance market feels is thoroughly deserved.

In his own future forecast for 1971, Sir Henry Mance told *Business Insurance*: "The coming year can well show a return to underwriting profitability for world insurers."

dates for buyers

March 21-23, seminar dealing with obtaining property damage and liability insurance, International Bridge, Tunnel and Turnpike Assn., Washington, D.C.

May 13-14, 5th Annual Conference on Employe Benefits, Pension & Welfare News, Statler Hilton Hotel, New York City.

May 17-21, Diamond Jubilee Annual Meeting, National Fire Protection Assn., San Francisco Hilton, Cal. For more information write NFPA, 60 Batterymarch St., Boston, Mass. 02110.

May 19-21 25th Annual (Silver Anniversary) Technical Conference and Exhibit, American Society for Quality Control, Conrad Hilton Hotel, Chicago, Ill. For more information write the Registrar, ASQC, 161 W. Wisconsin Ave., Milwaukee, Wis. 53203.

May 21, Data Processing Risk Management, Computer related training course, Automation Training Center, Chalfonte Haddon Hall, Atlantic City, N. J. For more information write Automation Training Center, 1930 Issac Newton Square East, Reston, Va.

Too soon for Houston to feel impact of '69 Tort Claims Act

HOUSTON, Tex.—A controversial state law giving individuals the right to sue local governments over many heretofore immune actions has now been in effect for one year, but its impact is still largely unknown, local government attorneys here say.

Neither the City of Houston, Harris County or the Houston independent school district paid any significant damages under the Tort Claims Act of 1969, but the possibility is still there.

Houston City Attorney William Olson, said it takes from 18 months to two years for a suit to work its way through the courts and not enough time has elapsed to really feel the impact.

HE ESTIMATED, however, that the total of claims and lawsuits lodged agains tthe city during 1970 will be about $3 million.

County Attorney Joe Resweber declined to estimate the total of claims against the county, but noted they are far more than the plaintiffs really expect to collect.

"For a slight injury it's not unusual for a $100,000 suit to be filed," Mr. Resweber said, "with the intention being all along to collect $5,000 to $10,000."

Mr. Resweber said that, like the city, the county will not have exact totals of the amounts or number of cases lodged against it until late January, when the annual report for 1970 is completed.

THE ACT MAKES the county and the city liable for death and injury in certain governmental functions, significantly widening the liability of the taxpayers for actions that formerly were considered immune from legal redress from the aggrived.

Under the Tort Claims Act, however, a school district can only be sued for actions involving motor vehicle accidents, said school attorney Harry Patterson.

"When the Tort Claims Act is applied to the schools, it doesn't even cover property damage, only personal injury involving motor vehicles," Mr. Patterson said. "Everything else remains immune."

The liability limits under the act are $100,000 for injury to one person and $300,000 for one accident.

The school district has paid out several small claims arising from the act, which went into effect Jan. 1, 1970. ■

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Workmen's compensation is worth saving: Raab

Following is a reply by Frank E. Raab, president of Pacific Employers Insurance Co., to a Business Insurance *editorial, "Maybe the time has come."*



Frank E. Raab

LOS ANGELES—In its Dec. 21, 1970, issue *Business Insurance* stated editorially: "Now the question is whether the (workmen's compensation) system is worth saving or whether it should be replaced by federal laws."

My answer to the first part of the question is a resounding 'yes.' To the second part, it is an emphatic 'no.'

The system is worth saving because it has worked, because it is working now and, more importantly, because it is adaptable to the modifications all of us concerned recognize as necessary.

I am an optimist, but one whose basic outlook has been shaded by a cynicism no rational man could ignore in an industry that deals with the real gut issues continually confronting the peoples of the earth. This merely points up that my advocacy of the system is not unabashed gunghoism. It is the result of studying the system, working in it, and comparing it with proposed changes.

NO PROPOSED federal alternative, however benign it may appear to its originator, can deliver help and hope to the injured worker as speedily as the state system, or with as little red tape, or as appropriately. And, no system has the solicitude and personal touch embedded in the existing system. Anyone who has seen an insurance company nurse giving of her strength and spirit to help rehabilitate a despondent injured worker can never doubt her warmth and sincerity—nor that of her company.

There may be imperfections in any system but the current system presents a framework within which they may be eliminated. Working on the system cannot be construed as patching a tattered shirt, but as setting additional stones in the fortress against the ravages of injury and disease. All of us involved—employes, employers, insurers and state officials—are common-sense men who do not expect instant perfection, even in love and marriage. Certainly we do not expect it from the federal government. But most certainly we should and can expect the groups involved to combine their talents to set the needed stones in place.

Four bills have been introduced in the California legislature recently and each would increase disability and death benefits. One of our attorneys is engaged in consultations regarding similar bills pending in other Western states. The point is: The state system is so designed that progressive improvements such as these can be made.

There may be fiery, able, dedicated labor leaders who could never be completely satisfied with compensation payments no matter how great nor by whom administered. There may be employers for whom rates could never be low enough, insurers for whom rates could never be high enough, commissioners for whom the system could never run smoothly enough. But reasonable men strive to reach agreements reasonable to them all.

California has almost reached this state. I say 'almost' because there are men I respect who have nagging doubts about portions of the system, and one cannot discount their opinions. But we know that these doubts can be resolved, just as other doubts have been resolved over the years. We are not looking to Washington for succor. Experience in other fields has taught us better.

CALIFORNIA has consistently built within the system and there are several examples of change:

- Reduction and then elimination of the numerical requirement pertaining to employes.
- Enlarged applicability as to occupations of employes.
- Requirement of funds to be in deposit with the state treasurer in a sum adequate for full discharge of obligations for payment of benefits.
- Reduction of the waiting period for claims payments, and its complete elimination when hospitalization is involved.
- Inclusion of all occupational diseases.
- Periodic increases in benefits for temporary disability, for permanent disability, for funeral expenses and for beneficiaries in death cases.
- Creation of the subsequent injury fund.

There are many more examples and they did not come at once. They came as the system improved to meet changing socio-economic conditions and this pattern will continue.

That the federal government has the right—and the duty—to examine the system and recommend improvements cannot be disputed. But the federal government does not have an agency, nor can it create one, that can properly manage workmen's compensation. The most ardent exponent of federalization must occasionally ponder the following:

- Employers and insurers are involved; they are dedicated to creating a safety environment and providing the skilled people who can maintain it. Could a federal agency do this across the 50 states?
- Employers and insurers are quick to provide the finest medical services, if for no other reason than that the best is ultimately the least expensive. This attitude may be contrasted with federal medical care programs particularly Medicare.
- Whether motivated by compassion or profit or both, employers and insurers are developing rehabilitation to a degree unknown to any other government-regulated sector. Common sense dictates that an injured worker be restored physically, financially and psychologically as speedily as possible. This practice not only benefits the employe, but also his employer, his family, the community and the insurer. This concept of total rehabilitation is being carried out by every enlightened workmen's compensation insuror in the country.

The tentative moves by proponents of federalization are not going unnoticed by the insurance industry, and the industry is moving intelligently to counter them. The American Mutual Insurance Alliance is developing an educational program to upgrade the state system in lagging areas and Industrial Indemnity Co.'s president, Fred Drexler, has enlisted the aid of the National Assn. of Insurance Agents in a similar program.

I heartily support these moves and I recommend that the National Assn. of Insurance Commissioners initiate a study and action program with the same goal in mind. The NAIC has a stake in maintaining the state system and it has the resources necessary to implement system modifications as it sees fit.

Thoughtful, well-considered action, not hasty action, is needed now. Our chief concern must remain the just compensation of the injured worker. But it may be well to bear in mind the basic tenet of workmen's compensation voiced by the National Assn. of Manufacturers: "The level of workmen's compensation benefits should be commensurate with the ability of industry to sustain the cost in a free and competitive economy—while providing an economic incentive to return to work following industrially-caused disability." ■

Deductible up after bomb

SAN RAFAEL, Cal.—Deductible limits for insuring Marin County, Cal., buildings "should still be raised" in view of the Oct. 8 bomb blast at the county civic center.

Spokesmen for Fireman's Fund American Insurance Co., at San Francisco, said the present $100 deductible might be raised to $25,000 for any loss involving riot and civil commotion and to $5,000 for a loss from other causes.

The carrier earlier had aroused the anger of the Marin County board of supervisor by suggesting that the deductible on the county's $16 million insurance coverage should be raised to $100,000. "Public buildings," the company told the board, "have become prime targets for radicals." ■

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Miami would rather switch than fight rising airport insurance cost

MIAMI—One of the nation's largest airport authorities has switched insurers to hold down the soaring costs of aviation insurance.

The Dade County Port Authority, which operates six Miami airports, more than any other authority in the country, took the action.

Lucian C. Cantin, manager of Dade's insurance and safety division, reported to port authority commissioners that he had negotiated a new policy to handle the coverage.

THE CHANGE, ACTUALLY accomplished on Dec. 1, resulted from a previous insurer's attempt to escalate airport rates with the advent of the Boeing 747 jetliner into Miami International Airport.

"The company was quite concerned with our ability to handle the 747," Mr. Cantin said, "although I can't find how the 747 changes our liability one iota."

The port authority's new insurer is Southeastern Aviation Underwriters Inc. of Atlanta, Ga., through Myers-Ruel Insurance Inc. of Miami.

Mr. Cantin said Southeastern, one of three major aviation underwriting groups in the country, agreed to provide increased coverage for a fixed premium of $210,000.

THAT'S WELL BELOW the minimum premium of $250,000 quoted by the authority's former underwriter, United States Aviation Insurance Group (USAIG) for comparable coverage, he said.

Mr. Cantin said the authority has hiked its total liability from an "insufficient" $20 million to $53 million.

Mr. Cantin traced the insurance question to the summer of 1969, when the authority advertised for bids on the $20-million coverage.

Bids submitted by the three aviation underwriting groups came in, ranging from a high premium of $300,000 to a low of $231,000.

"I REPORTED to Alan Stewart, Port Authority Director, that they should be rejected," Mr. Cantin said. "All were too high."

Mr. Cantin said he entered into negotiations with USAIG, which then held the existing policy on Miami International.

Out of those discussions came an agreement by USAIG to continue its policy at a premium of $12 per 1,000 passenger movements at Miami International.

Although USAIG jacked up that rate to $17.25 per 1,000 in January 1970, Mr. Cantin said, the port authority's premium of $173,140 for the year ended Sept. 30, 1970 still represented a saving over the lowest bid totaling $58,735.

But when the insurance firm began to ask questions about National Airlines' introduction of the first Miami 747 service in October, "we knew what was going to happen," Mr. Cantin said.

USAIG notified the port authority that it was hiking the premium to $20 per 1,000 movements under the old $20 million liability. It quoted a price of $24.50 per 1,000 with a minimum premium of $250,000 for the increased coverage of $35 million.

That is when port authority officials started looking elsewhere. ■

Toronto port said to be very secure

TORONTO—Cooperation, a commodity you might not see a great deal of these days, has had a noticeable effect on the dock areas of this Canadian city. So noticeable, in fact, that the absence of theft and pilferage has become one of the port's strongest selling points among shippers.

The security set-up began about five years ago when a reorganization took place, creating a special unit of Port Police. Since that time, cooperation between the police, the Toronto Harbor Commissioners and waterfront labor has reduced the amount of theft and pilferage on the docks to an almost negligible level.

The unions did their part to eliminate members who had been chronic offenders before the cleanup. As of now, an offender is warned off the docks for a period of one year, at which time his case is reviewed. If he is caught a second time, he is prohibited from working on the waterfront.

All dockside areas are fenced and the only way to get to the merchandise is through gate checkpoints. The docks are patrolled 24 hours a day by 34 harbor policemen.

As an example of how effective the cleanup has been: in 1969, 94 persons were charged with various offenses on the docks. Of that 94, 37 worked on the docks. In 1970, 84 persons were arrested and only 15 were waterfront workers. The rest were truck drivers, sailors and outsiders.

Most of the longshoremen were charged with minor offenses, such as drinking on the job. There have been virtually no large-scale thefts.

Robert Murphy, chairman of the Toronto Marine Loss Group, a pool of most of the companies that write marine insurance in Canada, agreed that most of the losses were limited to petty pilferage.

"As far as I'm concerned," he said, "and I think most people in insurance claims would agree, Toronto is one of the better ports in the world." ■

Rail safety study

The Canadian transport commission has set guidelines for what has been described as a "broad inquiry" into the causes of railway accidents. The inquiry, prompted by three rail accidents in Ontario last summer that took the lives of two men, will focus on maintenance and inspection of railway cars, signals, track, dangerous cargos, accident procedures, research and development by railway companies respecting safety, supervision of train operations and railway company rules and employes' instructions.

letters

Continued from page 16

insurance does what it is designed to do.

For the insurance company, earthquake insurance is a problem. It is difficult to establish a price with precision. Earthquakes cannot be predicted. How violent they will be cannot be foretold. Violent quakes tend to inflict near total destruction to all vulnerable structures.

By and large, only the people who live in earthquake-prone areas buy earthquake coverage. Two-thirds of such coverage sold in the U.S. is sold in California. That's still only about $6 million in premiums per year (mostly for commercial coverage) compared with more than $200 million paid each year by Californians for dwelling fire insurance. So, even in this state, there is not the spread of risk that makes mass market insurance rates possible.

Myles W. Smith

Regional Manager, Insurance Information Institute, San Francisco, Cal.

Driving agreement

The following is an answer to a letter from Albert E. Lietzau III, manager, risk analysis department, Longue, Brooks & Co., directed to Gerald Wilson of our Dear Gerry column. Mr. Lietzau asked for clarification of the second paragraph under Section 2 of the Employe's driving agreement, which appeared in the Nov. 9, 1970, issue of *Business Insurance* which reads: "In no event will the company furnish insurance for public liability or property damage in an amount not in excess of: financial responsibility limits found to be applicable . . ."

Mr. Lietzau said that "unless we are reading this incorrectly, we cannot justify the implied coverage of the employe with the standard comprehensive employers non-ownership coverage available under the comprehensive auto liability policy."

Mr. Lietzau: The sentiments in this letter are typical of the broker or agent who take refuge in standard policy wording and in turn justify it by presuming to advise their corporate client on top management decision making. The corporation is protected in all situations and this was made clear in the article and should be inherent in the form. The corporation is made up of people. Some of these people may use their personal automobile on company business with implied or directed consent of their supervision. This employe who gets involved in an accident and is inadequately insured and has a judgment against him is as effectively financially ruined as in any other way. The employe was exposed to the risk however because he was performing a service for his employer. An employer which takes refuge in the situation that since it was not included in the law suit or judgment is not very enlightened and it may not be the posture top management wishes to assume. It is really escape by legal technicality. At least with the form of agreement the employe knows where he stands, how much he is committed for, and that his employer considers his insurance policy omnibus clause part of a two way street where both employe and employer have obligations. The company also has legitimate reason to request accounting of the actions of the employe while on the company's business, such as accident reports.

It seems incongruous to give coverage to the owner of a hired or rented car but decline to give some acknowledgement to a borrowed car simply because it is operated by its owner which is the situation under non-ownership coverage on employe automobiles.

Gerald Wilson

Analyst of Corporate Insurance, New York, N.Y.

Motor carrier fire report

There were 75 incidents reported by commercial property carriers involving fire during 1969 according to the Department of Transportation's federal highway administration. This represented 1.57% of the 48,643 accident reports. Fire-involved accidents resulted in 126 fatalities, 363 injuries and almost $9 million in property damage. Passenger carriers reported 10 accidents involving fire resulting in no fatalities, 25 injuries and $156,450 in property damage.

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Management must save its own neck theftwise

SAN FRANCISCO—Employe thefts in this country may amount to $8 million a day but, according to Norman Jaspan, employers dissipate "at least twice that amount through poor business practices that encourage crime."

Mr. Jaspan is president of Norman Jaspan Associates Inc., a management engineering organization that specializes in shortage control, methods and systems evaluation and material handling procedures.

At the annual conference of the American Society of Insurance Management here he said that a substantial amount of thievery goes on among supervisory and executive personnel and that the insurance industry estimates that 30% of all business failures result from employe dishonesty.

The most realistic solution to this problem, he said, "lies in the usage of new and proven techniques that enable management to know what is taking place at all levels before serious damage occurs." Only then, he told ASIM members, can corrective action be taken.

"THE IMPACT of employe dishonesty on profits," Mr. Jaspan said, "is aggravated by the fact that few victimized firms use the relatively inexpensive fidelity bonds available. Such bonds, in addition to financial protection, provide an excellent psychological deterrent. But only 15% to 20% of the nation's buinesses protect themselves this way."

Another mistake companies make is believing that standard auditing procedures are adequate to deter employe theft, he said. "Though public accountants attempt to discourage dishonesty, they admittedly are not in the business of ferreting out fraud. Their obligation deals primarily with establishing the validity of a firm's financial statements." Opportunists are familiar with intricacies in their own departments, he pointed out, and can easily devise ways of deceiving auditors.

"This explains why unconventional auditing techniques, specifically geared to uncover theft and manipulation, are urgently needed to supplement standard procedures," the consultant said. "Long experience has made professional auditors wise about anticipating the ruses and devices of dishonest employes."

Practical preventive measures can be taken by management to safeguard assets and profits. Mr. Jaspan suggested a three-part program: getting at the root of the problem; developing inventory exposure awareness, and delineating to the employe his responsibility to the employer.

IN THE FIRST phase of the program he emphasized the necessity of estimating employe capabilities and setting realistic performance standards. "Requiring employes to achieve a goal, while denying them the means to accomplish it, leaves them with two alternatives—failing or resorting to dishonesty," he said. He added that company books that show increased sales don't always mean increased profits; they could be the result of record manipulation to simulate achievement of unrealistic goals, and "the net effect is that the company unwittingly pays taxes on non-existent profits."

Because employes are no better than their supervision, he said, effective communications must be established and tested regularly to make sure they are understood and respected at all levels.

Unpredictability in setting up and enforcing controls is one of management's strong assets, Mr. Jaspan believes. Spot checks and introduction of occasional deliberate errors are effective. "Employes should be made to feel that such tests can occur at any time as a normal, acceptable safeguard of the operation."

Employers must maintain uniform standards and show no favoritism toward particular employes, he said; "nothing breaks down discipline and morale so rapidly or so quickly lessens respect for management and procedures" as laxity in this area.

AS A FINAL STEP in getting at the root of dishonesty, he recommended measuring work output and evaluating employe performance regularly. "The knowledge that everyone's work is being spect for management and provides incentive and upgrades employe respect for management and supervision."

The second phase of a preventive program should involve establishing a series of targets for control of inventory exposure; Mr. Jaspen highlighted four areas of business operation that a security program should cover.

- Procedures governing purchasing, ordering, receiving, storing, issuance, damage and return to vendors.

Protection during storage of raw materials, components, finished products, scrap and maintenance equipment.

- Protection of sensitive information that should not fall into competitors' hands.
- Organization, performance criteria and reporting techniques of security guards.

To complete his suggested theft-prevention program Mr. Jaspan noted the importance of making the employe's obligation to his employer clear.

"COMPANY BOOKS, records and other data directly concerned with the performance of employe duties are the property of the employer," he said, and any employe who removes them, secretly or openly, should be aware that he has violated a legal right.

Employes, he said, should understand that they cannot deal secretly with their own company, cannot have an undisclosed interest in a supplier firm, and cannot work for a competitor or customer without the permission of the first employer.

Management also has the right to restrict employes' outside activities if they affect job performance, he reminded ASIM members, and it should make this clear to employes.

"Management cannot close its eyes and ears to how business is acquired," he concluded. "It is responsible for the authorized acts of its employes. When purchases are made price quotations and samples should be a matter of record, readily available for examination and study by higher-ups." ■

Washington FAIR plan

Washington's FAIR plan has now provided property insurance covering 2,034 homes and business properties, with a total value of $63,672,000, it was announced in Seattle by M. D. Verretto, chairman of the governing committee. Only 5% of the applications for insurance under the FAIR plan in Washington have been refused and these have been primarily for vacant buildings.

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Widow gets $580,000 in product liability suit involving scuba gear

BOSTON—In an unusual negligence suit that may have far-reaching effects in the scuba-diving equipment industry, an Alabama widow, her four children and her parents-in-law have been awarded approximately $580,000.

The suit was filed in U.S. district court in Boston. The verdict, believed to be the highest product liability verdict in the state's legal annals, was awarded by Judge Charles D. Wyzanski Jr.

Mrs. Sylviane McCormick charged Stebco Industries Inc., Chicago, and New England Divers Inc., Beverly, Mass., with negligence in design and testing and improper selection of materials for scuba equipment used by her husband, 41, who drowned in an accident Oct. 12, 1968, in Okinawa.

DR. JESSE McCormick, a lieutenant colonel in the army, had been called up by the Alabama National Guard after the Tet offensive and was on leave from the faculty of the University of Alabama. He was taking scuba lessons in Okinawa, a recreational activity unconnected with his military assignment, when he developed a problem and panicked. His instructor pulled a cord on McCormick's suit to activate the 12 gram carbon dioxide cartridge for inflation. The suit inflated to its capacity of 14 pounds buoyancy, enough to keep a diver's head above water in calm seas but insufficient in the choppy waters at the time.

Because the accident occurred in Okinawa, Japanese law governed the case. According to Thomas Connolly of the Boston law firm Schneider & Reilly, who assisted Albert T. Zabin of the same firm on Mrs. McCormick's behalf, Japanese law is far more liberal in such cases than either Massachusetts or Alabama state law.

Consequently the money award included a forecast of Dr. McCormick's future income, $20,000 each for the widow and her four children for grief, and $5,000 each for Dr. McCormick's parents for grief. Fifteen percent of the final total was deducted on account of the negligence of the deceased himself with regard to the accident. Thirty-five percent is to be paid by New England Divers, which is covered for just under that amount by a $250,000 policy with the Reserve Insurance Co., and the remaining 50% falls to Stebco, whose $200,000 policy with the Hartford Accident and Indemnity Co. leaves it exposed for more than $100,000.

Stebco Industries manufactures inexpensive inflatable suits whose standard of 14 pounds buoyancy is legal but does not approach the minimum standard requirement of 32 pounds held by the U.S. Navy and the U.S. Air Force and suggested by such authorities as the British scuba-diving magazine Triton, Mr. Connolly told *Business Insurance*.

FURTHERMORE, Mr. Connolly reported, a textile technologist testified at the trial on the inadequacy of the material in Stebco's suit, which is made of soft cotton with no reinforcing materials, such as nylon. Dr. McCormick's plight had been worsened by the presence of coral, which shredded his suit as the choppy waters threw him up against it. The plaintiff was able to prove that Stebco had never tested their materials thoroughly for wear under such conditions.

New England Divers Inc. distributes various types of equipment all over the world, and Dr. McCormick's suit had been purchased through them. Having their own label put on the suit by Stebco made them liable even though they had nothing to do with the suit's manufacture.

"I feel very sure this case will lead to the revision of standards in the scuba-diving equipment industry," said Mr. Connolly, "because more cases will result from it, and such losses are costlier than improving the product."

The defendants have until mid-March to appeal the verdict. A source at Hartford Accident & Indemnity said "this is still in active litigation; it is by no means at an end. We have some time to come to a decision about what we should do now." ■

Rates . . .

Continued from page 32

companies while the other is used by non-stock (or mutual) insurance companies.

GENERALLY speaking, he said, the non-stock companies' premium discounts schedule is lower than that used by stock insurance companies. The reason for this, he explained, is that non-stock insurance companies anticipate paying a dividend to the insured upon the expiration of the workmen's compensation policy.

Workmen's compensation coverage may also be paid for by retrospective rating, using maximum and minimum boundaries for the premium to be paid. ■

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Continued from page 23

chiatric care had been covered.

In the third year of the contract a new pension vesting arrangement will go into effect under which employes with 15 years of service will be vested in the plan and therefore entitled to some pension benefits even if they leave National Can.

Steelworkers' president I. W. Abel, meeting with union leaders in Bal Harbour, Fla., hailed the National Can agreement as a pattern for his union's negotiations with nine giant steel companies this summer. One provision cited by Mr. Abel as a "must" is a cost-of-living clause under which union members are to receive a 1-cent-an-hour increase for each consumer price index increase of four-tenths of a percent over 5% each year.

Points to heavy shipping losses

NEW YORK—Over 75% of underwriters' air freight claims last year resulted from nondelivery of goods to consignees, according to Dale E. Taylor, president, American Institute of Marine Underwriters.

Although the number of theft and pilferage claims was down slightly from 1969, the percentage has not changed more than a few points over the last three high-volume years, regardless of the number or dollar amount involved.

Underwriters' claims are recorded at the American Institute of Marine Underwriters and include only those of $1,000 or more. In 1970 they reached $4,466,764, which is nearly the average of the prior two years. Preventable claims including handling and water damages are also studied.

Mr. Taylor emphasized that air freight claims could be avoided if shippers would use proper equipment, training and security programs. Failure to do so increases consumer costs.

"Of course, underwriters could cover this heavy claim drain by resorting to use of deductibles in policies or by increasing premiums," Mr. Taylor said, "but such steps would not solve the basic problem—laxity of shippers and carriers." Mr. Taylor pointed out that these steps would indeed guarantee availability of insurance to those willing to pay the price, but that the aim should be to lower the cost of the product to the consumer by stemming the current of larceny and carelessness in the transportation of goods.

He added: "I am not suggesting that underwriters are going to raise insurance rates, particularly in today's business climate. But this class of losses can and must be prevented. Airlines, freight forwarders and shippers can solve these problems and must make decisive efforts to do so."

Cal. group receives more hospital benefits

OAKLAND, Cal.—Daily hospital benefits, as well as group accident and health rates, have been increased for all members of the Associated Home Builders of the Greater East Bay. The new room and board benefits have risen from $52 to $57.

Members were warned by exec vp, William Leonard, to "check hospital rates ahead of time in the event of a hospital stay being required." A variation of as much as $25 a day in ward rates is not unusual in hospitals throughout the San Francisco Bay area, according to Mr. Leonard.

"Our members," he added, "also can save themselves, as well as their group insurance program, hundreds and sometimes thousands of dollars by insisting that their doctors place them in a convalescent hospital whenever practical after a stay in a general hospital."

Mr. Leonard recently asked Associated Medical Plans Inc., administrators of the A.H.B. program, for a comparison of costs in the past 10 years. The survey results were:

Benefits & Rates	1961	1971	1% Change
Major medical coverage	$10,000	$20,000	+ 100
Daily Hospital room allowance	$ 15	$ 57	+ 280
Deductible/Co-insurance			
Deductible	$ 500	$ 100	— 80
Co-insurance	80%	80%	
Monthly costs (age 40-50)			
Insured only	$ 8.10	$ 13.50	+ 66.66
Insured and dependent	$ 20.80	$ 30.50	+ 46.66
Insured and all dependents	$ 24.60	$ 36.60	+ 49

The average rate increase over the past decade has amounted to 54%.

Firestone plants set state safety record

MAGNOLIA, Ark.—The Firestone Rubber Co.'s coated fabrics plant here has become the first firm in Arkansas to go over the 2 million man-hour period without an accident that caused loss of time for an employe at work.

"We are especially proud of this record since we were the first in the entire state to surpass two million man-hours without a lost-time accident," said John H. Street, the company's industrial manager and safety instructor. The firm's employes accumulated a total of 2,115,650 injury-free man hours from February 11, 1969, to August 18, 1970.

However, as Mr. Street pointed out, the record has since been broken by another industrial plant in the state, "but there is a sense of satisfaction in knowing that it was another Firestone plant, the one at Russellville.

At a recent banquet, the Arkansas labor department and the Liberty Mutual Insurance Co. represented awards to the Magnolia plant. Accepting on behalf of the company were Mr. Street, J. Howard Hayes, president of United Rubber Workers Local 607, and J. D. Talley, chief of plant protection and safety instructor.

Mr. Street said the awards signify a tribute to the "Firestone employes who amassed this enviable record over a period of more than 18 months and also demonstrates the support given by Local 607 members to safety."

Court rules insurer must pay

NEW YORK—A federal court jury has ruled that a Manhattan insurance company must pay $70,000 more than the limits of a liability policy because the insurer failed to act "in good faith" in negotiating for an out-of-court settlement.

AllCity Insurance Co. carried an auto liability policy with limits of $10,000 on a car operated by Nathaniel Washington. The car was involved in an accident in June, 1967, and injured a Brooklyn woman. Miss Juanita Peterson suffered loss of sight in her right eye and other injuries. Prior to court action, AllCity offered Miss Peterson $5,000 in damages. She rejected it and a jury eventually handed down an $80,000 verdict, which the insurance company paid.

The injured woman's lawyer, however, pressed suit for the additional $70,000, claiming the company had "failed to negotiate in good faith" and "put their own interests first" by offering Miss Peterson $5,000 in spite of her serious injuries.

Work comp may cover highway accident

AUSTIN, Tex.—Mrs. Louis Davis brought suit against the Best Steel Buildings Inc. of Houston to collect workmen's compensation benefits for an auto accident in which her husband was killed and her son injured.

The Texas supreme court returned the case to the court of civil appeals here for review, ruling that Louis Davis and his son James were injured in the course of their employment despite the fact that they were driving back to their job site after a visit with their families.

Mrs. Davis presented evidence that the men were instructed to return to Houston by their employer to obtain supplies for the job.

The supreme court said that the men would not have been traveling to Austin if there had not been any business of the employer to tend to.

First 'pill' verdict in European court

OSLO, Norway—The first product liability verdict involving an oral contraceptive has been handed down in a European court. The award, for $21,600, went to the husband of a woman whose death six years ago was alleged to have been caused by birth control pills.

The manufacturer in this case was Schering, AG, of West Berlin. Schering marketed a pill known as Anvolar that was used by Mrs. Joseph Hudecz of Bergen, Norway, until she died of a coronary thrombosis in 1964.

City's $40 million insurance cancelled

WATERBURY, Conn.—The Continental Insurance Co. cancelled all fire coverage on Waterbury's public buildings—a total coverage of more than $40 million —effective Feb. 25, two weeks before Waterbury's existing policies with Continental were due to expire.

It presumably means that Continental won't renew coverage or write new policies.

The action follows a series of fires at three schools and a city park comfort station in the last several months, responsible for nearly $300,000 in damage.

Mayor Edward D. Bergin said he had not yet determined what to do about coverage replacement.

Lawyers lose malpractice case

SEATTLE—George W. Dennis Jr. won a $110,000 jury verdict against a Seattle law firm because his lawyer failed to pursue a medical malpractice lawsuit within the time provided by law.

Mr. Dennis had sought $250,000 in damages from Charles H. W. Talbot, Floyd V. Smith and Edwin S. Stone, partners in the firm of Talbot, Smith & Stone. He contended that negligence by a veterans administration hospital physician and other members of the hospital staff in 1965 and 1966 made amputation of his left leg necessary.

The plaintiff went to Mr. Talbot in February, 1968, and employed him to prosecute the case under the Federal Tort Claims Act. The lawyer failed to take the proper steps to begin the suit within the time provided by law, the superior court jury in Seattle was told.

Mr. Smith and Mr. Stone were defendants because of their partnership with Mr. Talbot, it was reported.

Better benefits for tobacco workers

RICHMOND, Va.—The contract agreement between the members of the Tobacco Workers International Union Local 16 in Louisville, Ky., and Local 203 here, with Philip Morris Inc. includes benefits valued at $1.10 an hour.

Besides wage increases of 85 cents an hour for some 5,000 employes and a temporary cost-of-living allowance of 10 cents an hour to the basic hourly rates, the contract provides for Philip Morris to increase its payment to the family hospitalization and surgical insurance programs to 50% this year, 60% next year and 75% in 1973.

Workers will receive one week's pay for each year of continuous employment and retain their recall rights during layoff in the new agreement. The normal retirement age was lowered from 62 to 60 and the early retirement age was lowered from 57 to 55.

An additional paid holiday has been added and the improved vacation schedule provides for three weeks after eight years of service, four weeks after 15 years, and five weeks after 25 years. ■

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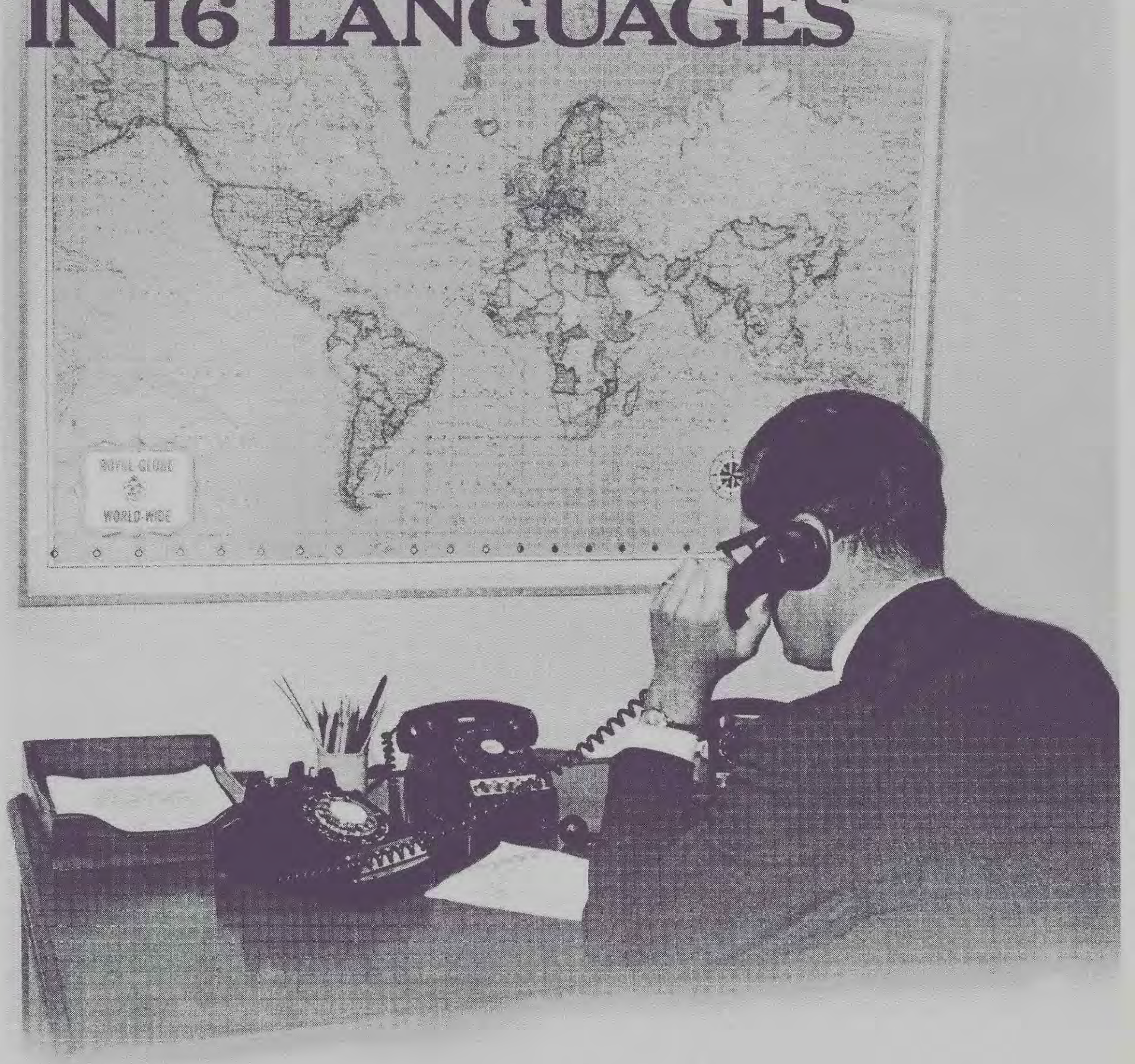
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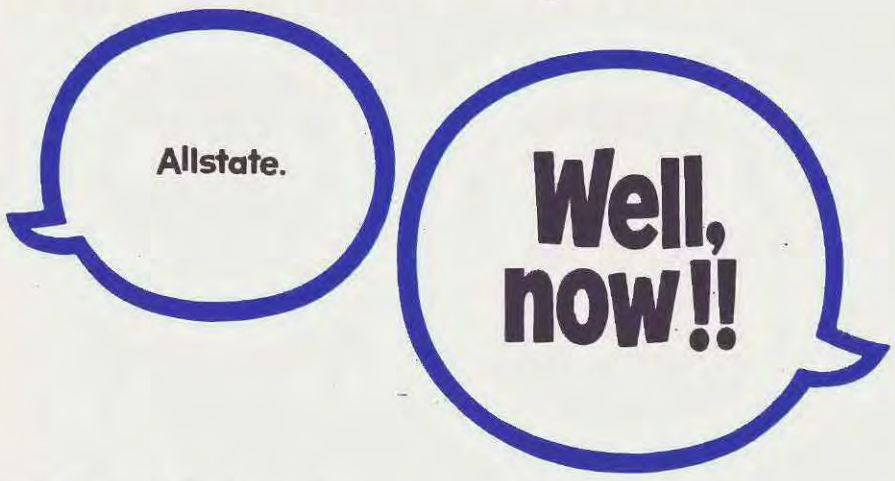
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