Quake coverage—write more of it

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See page 25

Pension fund loan kickbacks 3
Congressmen's mixed benefits ...22
First American takeover 28
Cargo insurance control 35

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March 1, 1971

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Opening session of the employe benefits seminar at the 1971 risk management conference hears Gordon O. Rice, manager of benefit planning and personnel research for National Biscuit Co. Sponsored by the American Society of Insurance Management, the conference drew about 1,000 registrants to the San Francisco Hilton hotel. ASIM benefits men comment below on President Nixon's health plan and other ASIM articles are on pages 8, 37 and 38.
—Business Insurance photo

ASIMers talk out Nixon plan

WASHINGTON—President Nixon's long-awaited plan to avoid comprehensive national health insurance would require all employers to provide employes with a minimum health insurance package estimated conservatively to cost in the $300-a-year range by Administration spokesmen whose job it will be to sell the concept to a reluctant business community and its lobbies.

For the first two and one-half years of the proposed program, employers would have to pay only 65% of the policy cost, the employe would pay the rest. After that period, the employer would have to pay 75%. The proposed effective date of the plan is July 1, 1973.

Exceptions to the mandatory coverage rule are state and local government employes, the self-employed, household domestics, part-time and seasonal workers.

EMPLOYE BENEFITS men contacted at the American Society of Insurance Management annual meeting in San Francisco last week reacted with general favor to President Nixon's national health insurance proposal, although some grumblings about "too much federal involvement" did not go unsaid.

Most of the benefits people who met prior to the formal opening of the annual conference agreed on one thing. That is that the Nixon proposal is the lesser of all evils yet proposed, the evils of course being national health schemes in general. The plan being touted by Sen. Edward M. Kennedy (D.—Mass.) was mentioned most often as being the most evil. Sen. Kennedy's plan would create a subsidized national health program.

Said Edward P. Lalley, insurance manager of Kraftco Corp.: "I think there are two things you have to remember when you come to national health insurance. First, don't glut the market by overpaying benefits and, second, avoid at all costs the huge federal bureaucracy." He noted that the Nixon measure appears to avoid both.

As for the Nixon estimate that his program would cost employers $2.5 billion more per year in health insurance premiums, Mr. Lalley agreed with William S. Mortimer, insurance manager of Norton Simon Inc., who remarked, "Large employers are already providing benefits far ahead of what President Nixon is proposing. It will be the smaller employer who feels the difference."

E. SID WILLIS, employe benefit manager at General Electric Co., said, "I'm for it," when asked by *Business Insurance* to comment on the Nixon proposal. "As far as the financing goes," Mr. Willis said, "I think it's a far better program than that Sen. Kennedy and the labor movement have endorsed. Their federal approach would be a waste."

Continued on page 2

Late news

No fire protection at 25% of U.S. airports

ATLANTA—More than 25% of the airports serving jet aircraft in the U.S. have no fire protection equipment, according to a survey by the Airline Pilots Assn. Capt. Victor Hewes told *Business Insurance* that 129 of the 488 terminals studied have no fire-fighting equipment on location. Another 84 terminals have "token equipment," he said, and 152 have good equipment but fail to meet National Fire Protection Assn. or Federal Aviation Administration standards.

Jax Beer fire causes loss of $2 million

NEW ORLEANS—Four insurance companies wrote the coverage on the Jackson Brewing Co. (Jax Beer) warehouse that burned, with almost a $2 million loss, during a three-day fire in the famous French Quarter here, *Business Insurance* has learned.

According to the brewing company's broker, T. C. Farrell Jr. of Farrell & Co., coverage on the building and contents was written by the Home Insurance Co., Royal Insurance Co. Ltd., the Aetna Casualty & Surety Co. and Employers-Commercial Union Insurance Co. of America. Mr. Farrell said that the companies' shares in the coverage were "just about equal."

The Home Insurance Co. had a standard fire policy on the building with a $5,000 deductible, ac-

Continued on page 11

D&O cover faces key test in Lloyd's Penn Central suit

By STEPHEN GILKENSON

(See related story on page 34.)

PHILADELPHIA—Lloyd's of London has brought suit in a federal district court here seeking to nullify a $10 million directors and officers liability insurance policy taken out by Penn Central Co. for its executives in 1968. In its complaint to the court Lloyd's has, in effect, charged Penn Central with lying on its policy application.

The dispute is likely to trigger renewed interest—and, indeed, even more criticism—for D&O liability. One outspoken critic of this form of coverage gleefully proclaimed to this magazine that the suit could "blow D&O right out of the water." To this, an equally vocal proponent of the coverage responded, "That's bunk."

In its petition to the court, Lloyd's and 16 of its underwriting syndicates joining in the action, allege that David C. Bevan, who was ousted last June as the Penn Central's top financial officer, gave false and misleading information in obtaining the policy. Moreover, the suit charges, statements by Penn Central officials falsely denied knowledge of acts, errors or omissions that might afford grounds for future claims.

THE POLICY in dispute was written in 1968 shortly after the Pennsylvania and New York Central railroads merged. It protected 71 Penn Central officers and directors for a three-year period, which is still running. Penn Central paid $305,360 for the policy and Lloyd's now says it is willing to refund this completely in exchange for the railroad holding company's forgetting that it ever had the policy.

Business Insurance reported Nov. 9 that the Interstate Commerce Commission had pointed to "very substantial dealings" by officers of the Penn Central in stock of the company and its affiliates that may have worked to the "ultimate disadvantage" of the company's rail subsidiary. It was also noted that such dealings could negate the directors and officers liability cover the company had because of exclusions in standard D&O policy forms that deny coverage if the protected directors and officers self-deal or reap benefits not afforded corporate stockholders.

If allegations of wheelings and dealings by some Penn Central officials hold up—and a 61-page report issued by Rep. Wright Patman's (D.—Tex.) House banking committee is even more damning—Lloyd's would likely be able to avoid paying claims anyway. Why, then, has Lloyd's brought suit?

"I THINK LLOYD'S just wants to get out of the mess," one source close to the case said.

Beyond that, however, there appear to be other reasons.

Since the financial collapse last June millions of dollars in stockholder derivative suits have been filed against the Penn Central Co. and its directors and officers.

Continued on page 39

Wilson says 'not guilty' to his second indictment

ST. LOUIS—Philip M. Wilson and three of his associates pleaded not guilty to 16 counts of mail fraud alleged in a new federal grand jury indictment concerning their far-flung insurance operations.

Mr. Wilson, Charles Earl Brown, Monte Schuff and William E. Fox made the pleas before Federal District Court Judge John K. Regan, who released each of the four on $20,000 bond.

In addition to alleging 14 instances in which Mr. Wilson and his associates purportedly used the mails to accomplish insurance frauds, the new indictment charges that Mr. Wilson, Mr. Fox and Mr. Brown sent worthless checks for more than $22,000 to Braniff Airways Inc., to pay for air travel charged to credit cards. The checks were drawn on the Bank of Sark Ltd., Guernsey, Channel Islands, which a government source described as not having "a quarter on deposit."

The four, originally indicted for mail fraud last July, were indicted under the new writ on Feb. 12 and were placed under arrest by U.S. marshals on Feb. 16 when they came to court to answer charges under the old indictment.

Continued on page 2

ASIMers . . .

Continued from page 1

In like fashion, employe benefit men also seemed to approve of another major change that is likely to come with a national health scheme. That was with a disclosure by Undersecretary of Health, Education and Welfare John G. Veneman who, the day after President Nixon unveiled his plan, remarked in a television interview that it is "very apparent that there will have to be federal regulation of health insurance companies" as part of the Nixon health scheme.

"Federal regulation doesn't disturb me in the least," said Mr. Lalley "but I don't like the concept that everything goes into the Social Security system," he added, speaking of some of the other national health schemes thrown into the Congressional hopper.

Robert A. Lennox, assistant director of employe benefits, General Motors Corp., said that GM was "not taking any position at this time." Mr. Lennox, who was a conference speaker, noted that he had been on vacation and had not yet studied the President's proposal. However, he did remark, "There's a lot to be said for the private insurance system. We've used it for some time and it's worked well."

WHILE COMMENTS did generally favor the President's plan, employe benefits men were not unanimous in their approval of the Nixon measure. Across a luncheon table on the opening day of the conference came this comment from the employe benefits director at a major food manufacturer:

"There's no question about it. It's going to cost more money—for both the employer and the taxpayer. We, for example," he said of his own company, "will have to increase our major medical program to cover the $50,000 benefit maximum level proposed."

To this he added: "And, you know, whenever the government gets involved they make a mess of it."

Pressed for a reaction as to the comparison between the Nixon bill and other measures, most notably the more federalized approach taken by Sen. Kennedy, he said, "Well, it's just the lesser of two evils."

STANDARD required benefits of Nixon's plan would include inpatient hospital care (or equivalents in extended-care facilities or home health services), surgical and medical care including physicians' services, laboratory and X-ray ancillary services on an inpatient and outpatient basis, maternity care, well-child care and vision care for children.

There would be a deductible of $100 per person up to $300 per family, except for well-child and children's vision care. Two days of hospital room and ward charges per person would also be deductible.

The policyholder would pay 25% of additional costs up to $5,000 in medical bills per person. Medical bills of more than $5,000 in a year would require no further co-insurance for that person for that year and for two succeeding years. This would mean that out-of-pocket medical expenses would be limited to about $1,250 per person per year.

To protect against catastrophic costs, benefits would have to include not less than $50,000 in coverage for each family member during the life of the policy. The policy would also have to include an automatic restoration of $2,000 in benefits a year.

HEALTH, Education and Welfare Secretary Elliot Richardson, in a White House press conference, explained that an employer would have to carry the insurance on an individual for 90 days after he leaves his job. On the other hand, of course, he would not have to begin paying the premium until a new employe had been on the job for 90 days.

It was during the Richardson press conference that the Administration dropped the big bomb on the carriers.

Asked if there were any safeguards built into the proposal to assure that private health insurance firms wouldn't raise their rates as the demand is increased for insurance, Secretary Richardson responded that a bill would be introduced to provide for federal regulation of the private health insurance industry. The bill will incorporate means of assessing rates and costs, a really "necessary correlative of a program that mandates insurance coverage for all families and all employes in the U.S.," he explained.

BESIDES FEDERAL controls over the carriers, the Administration is counting on a reorganization of the delivery of health services to help keep costs in line.

The principle element in this portion of the plan is the health maintenance organization (HMO). The Administration stressed the use of HMOs last year when it asked Congress to approve a plan under which Medicare beneficiaries could opt for membership in such plans in place of regular Part A and B coverage. This legislation is still pending as part of the overall Social Security bill.

President Nixon has now proposed that all public and private health insurance plans provide the HMO action. To spur the establishment of HMOs he has proposed a $23 million program of planning grants to aid potential sponsors in both the private and public sector.

He also has proposed a $300 million program of federal loan guarantees in the first year of the plan to enable private sponsors to raise building funds.

Wilson . . .

Continued from page 1

According to Kenneth Heinemann, assistant U.S. attorney here, the new indictment was returned because additional information was developed on Mr. Wilson's operations. Four counts in the former indictment were replaced by four new counts, one of them based upon evidence provided by a *Business Insurance* reader.

MR. HEINEMANN said that the new indictment includes allegations of denial of claims by companies under the control of the defendants, issuance of worthless bank drafts and the writing of insurance policies that far exceeded the underwriting authority of minimutual companies operated by Mr. Wilson and his associates.

Business Insurance revealed in December, 1968, that Farmers and Merchants Mutual Insurance Co. and Bankers Security Mutual Insurance Co., both domiciled in Missouri, had far exceeded the underwriting limitations placed on farm mutual insurers. Missouri laws regulating such companies have since been tightened.

In addition to the two minimutuals, Trans-American Excess Underwriters Ltd. was named in the indictment as a company used by the Wilson group to further their alleged scheme against policyholders and legitimate insurance brokers and agents.

Among victims of the allegedly fraudulent scheme named in the new indictment were Talley Industries Inc., Cass Federal Savings & Loan Assn. and Braniff Airways Inc. Companies used by the St. Louis group listed in the new indictment, in addition to those listed in *Business Insurance* on Sept. 28, 1970, were: Gaunahani Insurance Co. and Big Ben Insurance Co. Ltd.

THE INDICTMENT charges that Mr. Wilson and his associates in January of 1969 acquired the charter of the Bank of Sark and established offices at 14 Smith St., Guernsey, Channel Islands. It is alleged that they "printed hundreds of international cashier's drafts on the Bank of Sark, which were used to pay some insurance claims and air travel charges."

The defendants did this "knowing that the Bank of Sark did not have financial assets sufficient to pay drafts," the indictment says.

New counts in the indictment charge:

- That on Sept. 15, 1969, a letter was sent containing an international cashier's draft for $18,000 drawn on the Bank of Sark in favor of Warta Insurance and Reinsurance Co. Ltd. on the account of Intercontinental Managers Ltd., addressed to Laurence S. Clutz, General and Mercantile Underwriter's Agency Corp., Overland Park, Ka.
- That on April 23, 1968, a letter from Intercontinental Managers Ltd., signed by William E. Fox was sent to Stephen Bridge, Fred. S. James & Co., Scottsdale, Ariz., "to defraud."
- That on Sept. 20, 1969, an international cashier's draft on the Bank of Sark in the amount of $13,681.59 was sent by letter to Braniff, and that again on Nov. 28, 1969, a check to Braniff on the Bank of Sark in the amount of $8,573.31 was sent by letter. ■

The Nixon health message also asks for a supplemental appropriation of $5 million this year and an additional $8 million over amounts already in the 1972 budget to "implement aggresively the new occupational safety and health act" signed in December. "We must begin immediately to cut down on the 14,000 deaths and more than two million disabling injuries that result each year from occupational illnesses and accidents," the President said. ■

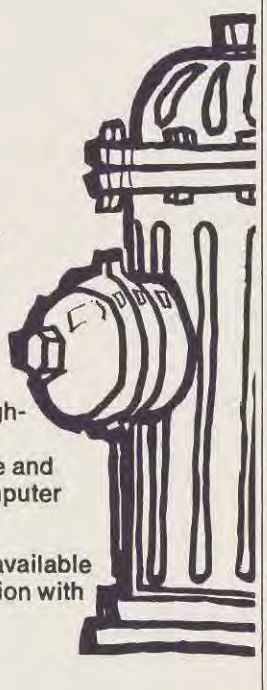
GUIDE TO FEATURES

Washington Watch	4
Giles on the Law	10
Info for Buyers	12, 15
Speaking of Security	16
Editorials	20
Following the Funds	23
Perspective	25-26
Benefit Tax Slants	29
For the Record	36
London Line	41
Dates for Buyers	42

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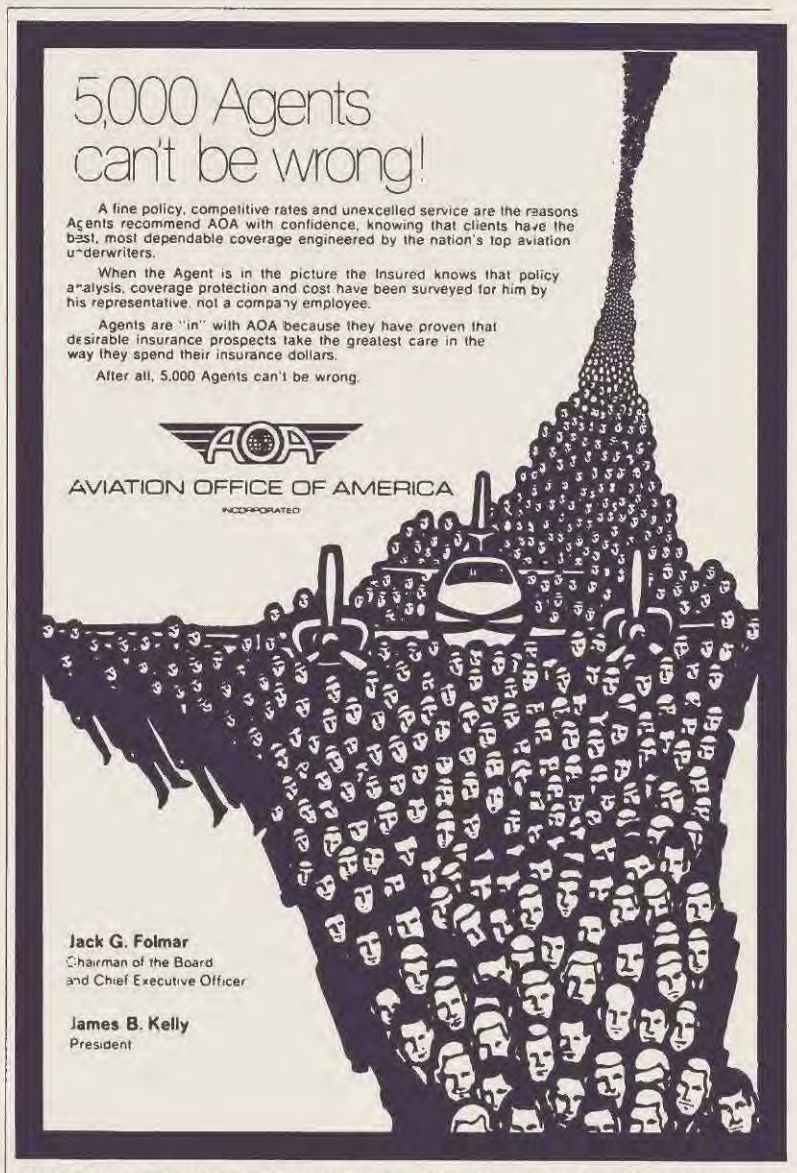
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Indictment charges pension fund loan kickbacks

CHICAGO—A federal grand jury here has indicted the president and the former financial consultant of the barbers' union for an alleged conspiracy to take more than $300,000 in kickbacks for approving more than $7 million in loans from the union's pension fund.

The indictment named Thomas A. Shaheen, a business associate of bankrupt millionaire Lammot duPont Copeland Jr.; Joseph N. DePaola, president of the Journeyman Barbers Union, and Max Block Jr., described by federal officials as a "conduit" for fees and commissions paid to Mr. DePaola.

Also named in the indictments were Columbia Financial Corp. of Chevy Chase, Md., owned by Mr. Shaheen and Mr. Block, and Winthrop Lawrence Corp., an investment holding company in which Mr. Copeland held a 50% interest. Mr. Copeland was not named in the indictment, but Winthrop Lawrence was named co-conspirator.

ALLEGATIONS IN the 36-count indictment assert that Mr. Shaheen received kickbacks of $281,597 and that Mr. DePaola got $29,000 in kickbacks from loans made by the fund. Mr. Shaheen served as financial advisor to the $16 million fund as it loaned more than $11 million.

The allegedly improper loans listed in the indictment come to about $7 million, but the loss to the fund is estimated by government sources as possibly as much as $4 million.

The plan, set up early in 1966, was scheduled to start pension payments at the beginning of this year from funds accumulated by the Indianapolis-based plan. Union officials concede that few payments have been made, but they assert that this is because 7,000 claims for pension payments must be verified.

Anthony Mastronardi, secretary-treasurer of Chicago-based local 576, told *Business Insurance* that the pension fund's minimum payout is $25 a month to members who have paid $5 a month for five years and reach the age of 65; those who paid $10 a month would receive $50 a month pension.

"Payouts increase from that point in five-year aggregates of $5 a month," he said.

MR. MASTRONARDI added that the plan "could pay more" if it established a good investment record. He criticized press coverage of the indictment, saying that the newspapers made it appear that the union president and his associates "are already guilty."

The Chicago local officer said the pension fund program was endorsed in a national referendum of union barbers and that it was made mandatory—"join or be suspended"—because 100% subscription is the only way the union could make the plan work.

Mr. Mastronardi also pointed out that Mr. DePaola is only one of five trustees of the plan and needed the approval of the other union-member trustees to issue loans.

Included in the indictment are charges that the conspiracy to defraud the pension fund was carried out in Chicago, Los Angeles and Las Vegas beginning in 1965. Among allegedly irregular loans are those of $1.4 million to Millerton Lake Development Corp., Fresno, Cal.; $1.3 million to Community Publications in Los Angeles; $1 million to the Reno Horseshoe Club, Reno, Nev.; $820,000 to Dean Van Lines, Los Angeles, and $500,000 to the Shaheen-Copeland firm, Winthrop Lawrence Corp.

Judge Richard F. Austin, acting chief judge of the federal district court here, set bond for Mr. Shaheen at $25,000 with a stipulation that he must surrender his passport or post an additional $125,000 bond. Mr. Shaheen was said to be willing to appear on the charges.

Bond for Mr. DePaola and Mr. Block was set at $45,000 each. ■

Charge plot caused insolvency

CHICAGO—Thomas A. Shaheen, named in a federal indictment charging kickbacks on loans from the barbers' union pension fund, is also a defendant in a $2 million lawsuit filed against those who allegedly defrauded policyholders and creditors of Freedom Insurance Co.

Freedom, hailed as one of the nation's first all-black casualty insurance companies, was chartered in the closing days of the administration of former Illinois Insurance Director John F. Bolton Jr.

At the time the company was authorized by Mr. Bolton to enter the casualty insurance underwriting business, it claimed to have assets of $600,000 in the Independence Bank of Chicago. Bank officers certified to the department that the company had that amount on deposit, but it turned out after Insurance Director James Baylor took over that the funds claimed as assets were nothing but bad checks (*Business Insurance*, April 27, 1970).

By March 31, 1970, Freedom was insolvent and was put into liquidation by the state of Illinois.

MR. SHAHEEN, according to the complaint filed in behalf of Mr. Baylor, allegedly gave false assurances that Winthrop Lawrence Corp., which he owned with bankrupt millionaire Lammot duPont Copeland, conveyed to Freedom 4,667 shares of stock of Transogram Company Inc. and 25,000 shares of stock of United International Inc. which the management of Freedom valued in its annual statement at $140,338.

Later, in March, 1970, the suit alleges, Winthrop Lawrence furnished Freedom with a telegram asserting that it would fund Freedom in the amount of $250,000 and "that said representations were falsely made for the purpose of causing the department of insurance to forebear from intervening."

The suit asserts that Mr. Baylor "believes that the defendants engaged and conspired in numerous other acts of fraud, unjust enrichment and waste."

Defendants, in addition to Mr. Shaheen, Mr. Copeland and Winthrop Lawrence, are Norma Anderson and F. Lee Bailey, as trustees; Norman G. Howard, Joseph B. Semper, Jesse W. Shannon and Isaac R. Sims, and the Independence Bank of Chicago. ■



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washington watch

Patman claims state laws on D&O purchase undermine federal statutes

WASHINGTON—Rep. Wright Patman (D.-Tex.) has launched a vigorous campaign to halt the increasing acceptance by states of laws specifically allowing corporations to pay for insurance against wrong doing by their directors and officers.

The highly controversial and widely publicized purchase by the Penn Central railroad of a $10 million policy of this type from Lloyds of London sparked Rep. Patman's crusade.

According to the powerful chairman of the house banking and currency committee, state laws permitting the purchase of such policies undermine numerous federal statutes, including the Securities Act of 1933, the Securities Exchange Act of 1934, the Sherman Act, the Internal Revenue Code and various federal statutes imposing civil liability on responsible corporate officials.

REP. PATMAN also cites a New York supreme court ruling made 30 years ago which stated "liability to suits is considered a risk attendant on directorships to be assumed together with the more compensatory features of that office."

The only situation in which officer and director liability insurance may be proper is where the individual has been vindicated by a court or is guilty only of an honest business error not involving a violation of a statute, Rep. Patman maintains.

Laws authorizing board liability policies for officers and directors have been adopted in Delaware, Nevada, Oregon, Washington, Alabama, Georgia, Iowa, Pennsylvania, New Jersey, Utah and Louisiana and proposed in many others.

Such laws have "been urged by a group of corporate lawyers whose primary concern is protecting the officiers and directors of large corporations," Rep. Patman charges.

THEY ARE contrary to the public policy and to the best interest of stockholders and consumers, he continues, adding that when congress provided in federal law for fines and liability for unlawful conduct, it did not intend that corporate officers and directors should defeat these laws through insurance.

The fact that the insurance may be paid for by the corporation and thus its stockholders and ratepayers, compounds the evil, he maintains.

In a letter to Rep. Patman, the Interstate Commerce Commission has said that the premium on the Penn Central policy was paid from company funds and charged off as business.

This is a violation of the ICC accounting rules, but the agency has no regulation forbidding carriers from purchasing this type of insurance, the ICC said.

The ICC said its policy is to require premium payments to be charged off as a nonoperating expense not chargeable to the consumer.

According to the agency, insurance of this kind is not uncommon in the transportation industry and generally protects officers and directors for wrongful acts, neglect, or breach of duty.

Wrongful acts entered into for personal gain or resulting from dishonesty are not covered, it said.

* * *

THE SOCIAL Security Administration has so far paid $150 million in benefits nationally under the "black lung" compensation provision of the 1969 Federal Coal Mine Safety Act.

Monthly payments are being made to over 95,000 miners and widows. Adding wives and dependent children covered by these claims, the number of beneficiaries now total about 158,000.

In a letter replying to an inquiry by Sen. Jacob Javits (R.-N.Y.), Social Security Commissioner Robert Ball said that decisions had been made on over 170,000 claims by Jan. 26, 1971, almost half of these in December and January.

The commission had at that time received a total of over 250,000 claims and Mr. Ball said new claims were being filed at the rate of over 2,500 a week.

SOME 75,000 claims had been denied for failure to meet the requirements of the law. In each case, Mr. Ball said, the claimant is advised of the reason for the denial and given an opportunity to request reconsideration.

The recently-enacted pay increase for federal employes had the effect of increasing benefit rate for black lung beneficiaries, effective January 1, Mr. Ball explained.

The monthly benefit for an eligible ex-miner or widow was increased from $144.50 to $153.10, by the pay raise. Maximum family benefits were boosted from $288.90 to $306.10.

Mr. Ball said the commission was taking steps to include the increase in all beneficiary checks starting February 3.

* * *

SEN. WINSTON Prouty (R.-Vt.) and Rep. Albert Quie (R.-Minn.) have introduced in their respective houses of congress, President Nixon's proposed amendments to the Longshoremens and Harbor Worker's Compensation Act.

The legislation is a two-edged sword. In behalf of business it seeks to limit the recovery of damages by employes from their employers, including shipowners, to benefits provided for under the act that is, to reinstate the exclusive liability principle of the longshore act.

This would eliminate situations in which longshoremen are permitted to recover damages in suits against shipowners, which usually require the longshore employer to identify the shipowner for the damage paid.

To point up the seriousness of the situation, Rep. Quie points out that in fiscal 1968, 14,464 employes covered by the longshore act received compensation. In the same year, 1,320 cases were filed

Continued on page 42

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Touchy Question #21

Why should I recommend directors' and officers' liability insurance to our company president, when I haven't heard of any payoffs under that coverage?

Because what you haven't heard can hurt you.

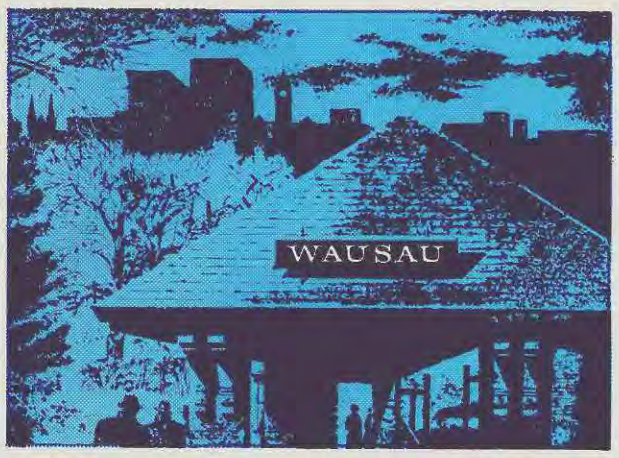
The reason premium is still running far ahead of paid losses under Directors' and Officers' insurance is that a vast preponderance of the premium is still *new*. Our own book of business under this line is about 200 times as big as it was four years ago, and we have no reason to suppose that the all-industry picture differs from ours.

Another point is that this is a low-frequency, high-severity exposure. It does not produce a volume of small claims, or of cases of clear liability and readily measurable loss. Demands are seldom negotiable. Almost every action is huge, complex, and prospectively a subject for years of litigation, with appeals from lower court decisions taken as a matter of course. Many suits have been remanded by courts of last resort and may have to climb the whole ladder again. And when settlements are made along the way, the amounts are seldom disclosed.

Paid-closed files are therefore much slower to accumulate than under other lines. A carrier entering the D & O field for the first time may reasonably expect to go for several years with a zero loss ratio—indeed, it probably counts on it, knowing that the first claim to come along is likely to consume all of the premium previously accrued.

But the London underwriters who reinsure most or all Directors' and Officers' policies sold in the United States are very unhappy with their experience to date. They are alarmed by skyrocketing "advised losses" (British for reserves). They are shocked by pyramiding legal costs. Last May's rate boost already appears to have been inadequate. Some of them are tinkering with revisions that would narrow the coverage, or reduce available limits, or incorporate substantial deductibles with no decrease of premium.

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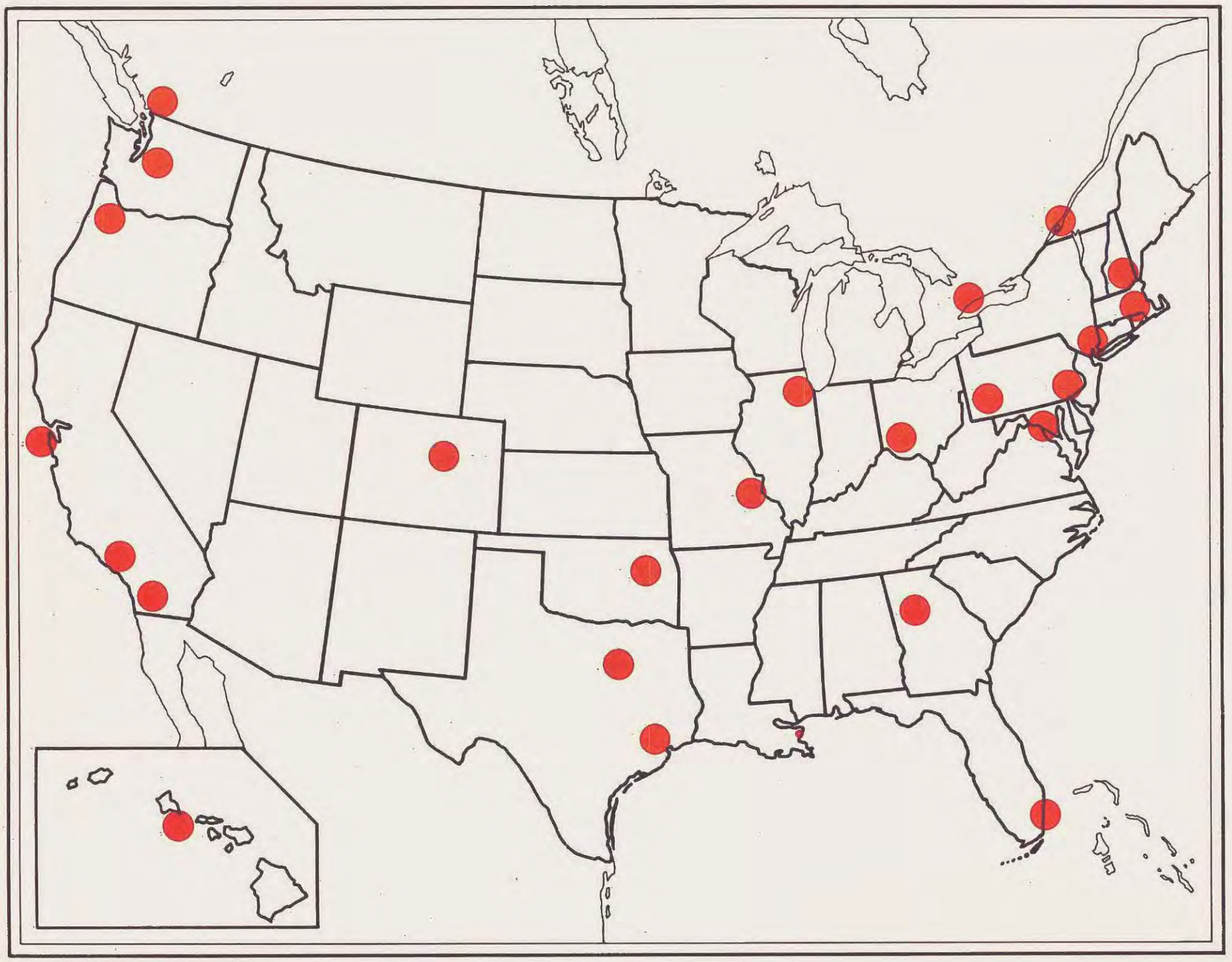


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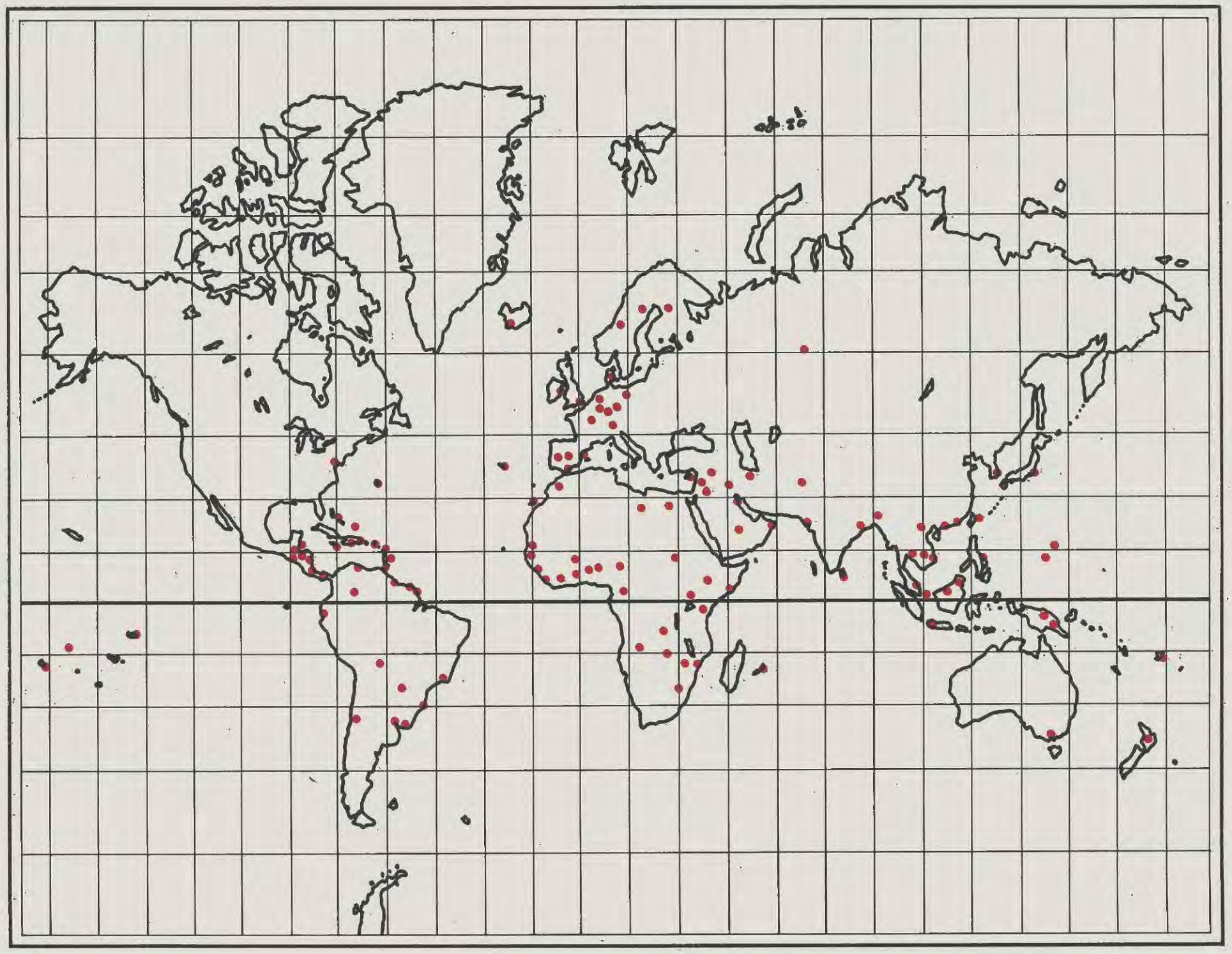
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The 'how to' of fund evaluation and management detailed at ASIM meet

SAN FRANCISCO—The importance of comparing pension fund investment results with those of other funds is well known. Members of the American Society of Insurance Management attending the annual meeting here learned some relatively simple steps for comparison, and fund management selection, from Curtis R. Henderson, vp of Johnson & Higgins.

Three methods are currently used to compare results, he said. The first involves computing the dollar-weighted or internal rate of return on the basis of cash flow and comparing it with similarly computed rates for other funds. No adjustment for different cash flows is made.

The second method, said Mr. Henderson, is to compute annual rates of return on a time-weighted basis, between each date money is paid into or out of the fund until the next such date. The rate of return produced reflects the fund's investment result during the period without any weight for the number of dollars in the fund at any one time.

"WITH THIS approach," he said, "it's possible to make a reasonable comparison between two different funds over any specified period of time but it is not possible to get an idea of the dollar impact of the different results."

Many organizations use both methods to compare rate of return with that of other pension funds having different cash flows, Mr. Henderson added, in order to rank their fund performance.

The third approach, however, offers "truly apples-to-apples comparison," he told ASIM members. "It compares the fund being measured with a number of specific, identified yardsticks, using in each of those yardsticks the identical cash flow in the fund being measured." This is done by using only those "yardsticks" for which continuous market value per share information is available, Mr. Henderson said.

Johnson & Higgins, he noted, uses Standard & Poor's Industrial Index, several specified mutual funds, an insurance company separate account invested in equities, and (under appropriate circumstances) the common fund of a bank. He pointed out, though, that this method cannot make comparisons with other pension funds because continuous market value information is not available.

Experience in selecting group insurance carriers, Mr. Henderson believes, is useful background for selecting a pension fund investment manager and two valuable premises can be drawn from this background:

- Uniformity—If each insurance company, or investment manager, formulates its own presentation the masses of information obtained will make comparison difficult.
- Conserving the Bidders' Efforts—Some insurance brokers send out elaborate, detailed specifications to a great number of insurance companies without screeening to determine which companies really have a shot at the business. Such brokers do not get the best attention from any of the companies.

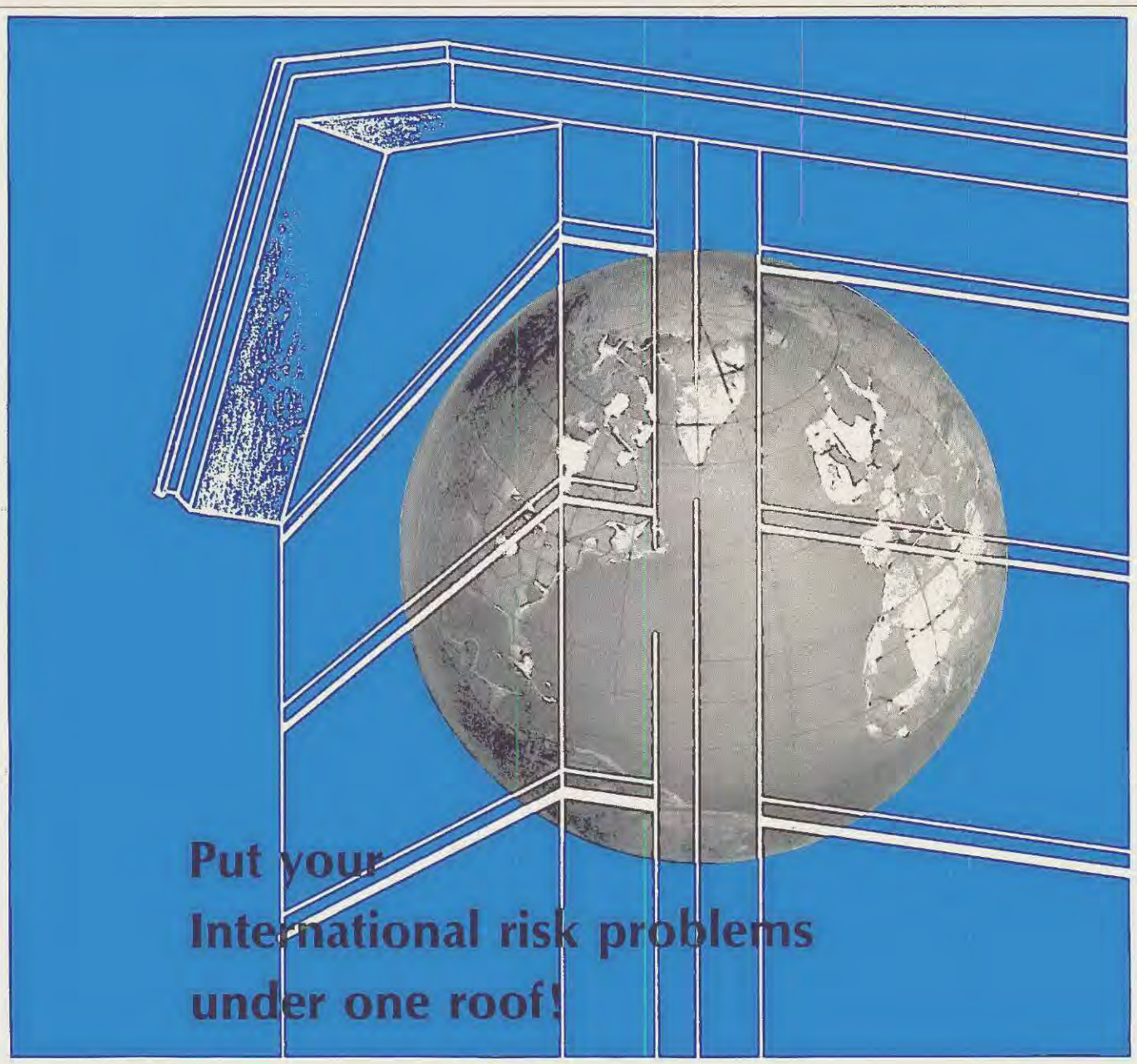
MR. HENDERSON emphasized that "with investment managers, this point is even more important. Money managers typically do not have a separate force for sales and public relations work. If you ask them at the outset to fill out a complicated questionnaire, you might be creating exactly the wrong kind of screening: You will get the attention of money managers who have lots of time on their hands and discourage the managers who are busy, presumably because of demonstrated value to their clients."

Because an investment management firm's past performance record is not a guarantee of future performance Mr. Henderson suggests probing its organization and operating procedures and the quality and character of its thinking. He outlined three steps for selecting an investment manager:

- A short letter describing the fund, the tentative investment philosophy of the corporation and the fund's investment objective should be sent to prospective managers for evaluation and criticism.
- From the replies a small number of managers should be selected for an interview of about two hours. This should take place in the presence of one or two financial executives of the corporation and follow a predetermined outline. Notes should be taken and examined by the investment manager during the interview so that he can correct them if necessary to make them precisely accurate.
- From the interviews two or three finalists should be selected to appear before the committee or corporation executive who will make the final choice.

The value of this system, Mr. Henderson noted is that "at every step each prospective money manager exerts an amount of effort appropriate to his chances of getting the business. He is working for a known company and he knows that he is telling the story in his own words.

"There are no technical secrets or information banks in this process," he said. "Any corporation can have its own staff carry out the whole procedure," although a company with a lean staff in this area may find it economical to hire someone outside to do the work. ■



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No-fault receives two treatments

HELENA, Mont.—The first instance, in the West, of legislative action on the no-fault concept of auto insurance, has resulted in the death of the proposal in a committee of the Montana state legislature.

Rushing to adjourn the session, limited by constitutional provisions, the proposal was given only a brief hearing, with proponents permitted five minutes and three opponents two minutes each. The committee, after killing the no-fault concept, recommended a two-year study of the subject, with a report to be filed at the next session.

In contrast to the action here, the Alaska legislature held an eight-hour hearing on a no-fault proposal introduced by 22 of the 40 members of the lower house. ■

Ask funds for uninsured county quake damages

SACRAMENTO—A bill has been introduced in the assembly here to appropriate $12.5 million in disaster relief for Los Angeles County to repair earthquake damage to county structures. Legislators have also begun informal meetings with insurance industry representatives who expect "a substantial increase" in the demand for eathquake insurance coverage.

Legislators involved indicated they have plans for "a critical re-examination of the conditions under which earthquake insurance has been made available by private carriers."

Los Angeles County officials said 427 buildings had been damaged, with a dollar loss of $125 million, and 42 evacuated. State highway department officials estimated damage to roads in excess of $15 million.

Buildings in Los Angeles County owned by pension funds or nonprofit corporations and leased back to the county are protected by earthquake coverage. The famed Los Angeles County Music Center and the Hall of Administration fall into this category.

BUILDINGS owned outright by the county, however, do not have earthquake coverage. No state-owned buildings or structures, except certain dams, have earthquake insurance. The City of Los Angeles also has no earthquake insurance on city-owned buildings.

In Los Angeles, where schools were closed immediately after the first quake, some 700 school buildings do not meet the earthquake standards of the California Field Act. Al Kemper, of the California Bureau of School Buildings, said that "California cannot continue to rely on good luck to prevent loss of children's lives in sub-standard schools."

In San Francisco, federal and state buildings are the only structures not subject to the city's stringent building code. Like the Veterans Administration Hospital in Sylmar, which collapsed and killed 26 people in the Los Angeles quake, they are exempt from San Francisco regulations.

At least 64 of San Francisco's school buildings fail to meet the earthquake standards of the California Field Act which requires buildings to resist vertical and horizontal seismic forces. The San Francisco school district also uses 223 portable classroom structures and 93 of these do not meet standards of the California Field Act. Throughout California there are 1,777 school buildings that do not meet established standards.

FOR FEDERAL and state building projects in San Francisco, no building permits are required and plans do not have to be submitted for review by city engineers. Construction proceeds without any check by San Francisco building inspectors. "Their buildings," declared Alfred Goldberg, superintendent of San Francisco's bureau of building inspection, "should not be treated differently than other structures. Our residents work in these buildings and are entitled to the same protection anyone else gets."

He added that he "has no idea" how the San Francisco federal building, completed in 1964, would hold up in a major quake because "they never showed us the plans. I do know the building violates the city's fire code in several ways."

Thomas Hannon regional administrator for the U.S. General Services Administration, reacted to Mr. Goldberg's comment by pointing out that "not a single building constructed by G.S.A. in Los Angeles suffered any damage, whereas several private buildings in which we lease space had to be evacuated."

San Francisco boasts of having the nation's toughest building code and amendments to the code are now being prepared to adopt new regulations based on recent earthquake experience. ■

Asks minimum cover

Legislation has been introduced in the Pennsylvania House of Representatives that would require all county child welfare agencies to carry a minimum of $50,000 in liability coverage for each child under their care.

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Giles on the law

Court rules that auto maker was liable for the result of a collision

By JOHN W. GILES
Attorney at law

WASHINGTON—California has written the script on a new decision on the liability of automobile manufacturers.

In the case it was claimed that the automobile was defective when struck in the rear end by another car. The car in question hit the curb and gas from the tank was thrown into the passenger compartment, resulting in injury. The court reviewed the holding in the famous Evans case against General Motors (359 Fed 2nd 833,) and disagreed with it. That decision holds collisions are not an "intended use" of an automobile and therefore the doctrine of strict liability does not apply.

In that case the court said that the intended purpose of an automobile does not include its participation in collisions despite the manufacturer's ability to foresee the possibility that collisions may occur. But the California court disagrees with this reasoning, and says that to manufacture an automobile that is accident proof is an obvious impossibility.

The court points out that the Evans rule was rejected in *Larsen* v. *General Motors* (319 Fed. 2nd 498) and *Dyson* v. *General Motors* (298 F. Supp 498). The wisdom of the court is reflected in these words: "It is to the public interest to discourage the marketing of products having defects that are a menace to the public." Judgment for the plaintiff. (Cal. Ct. Apps.—3rd App. Dist.—*Badorek* v. *General Motors Corp.*—10/1/70.)

* * *

A PATIENT in a hospital in Delaware sued her doctor for alleged malpractice in connection with surgery. The charge was that the surgery was unnecessary and, second, that the doctor failed to properly attend the patient after the operation.

Pending the proceedings, the doctor died and the suit was continued against the executrix of his estate. The question was whether the testimony of the hospital employes who attended the patient was barred under the Dead Man's Statute. The court held that the testimony was admissible. The rule in Delaware is directed solely toward controlling the testimony of parties in a situation, not that of witnesses.

The Delaware code has changed the common law rule that prohibited the testimony of parties and of others interested in the event of the suit. The hospital employes could properly testify in this case. (Cel. Sup. Ct.—*Whitman* v. *Hassler*—10/14/70.)

* * *

THE FEDERAL Aviation Administration requires a licensed pilot to practice night landings and takeoffs within 90 days before taking up passengers at night. If he does not, he is prohibited from taking them up.

This insured failed to so practice and he was killed and so was his passenger. Did this failure to practice defeat the administrator's claim on the pilot's policy? The lower court said "yes." The appellate court said "no."

The court said this federal regulation was an operating safety rule, not a limitation on the pilot's certificate within the meaning of the policy exclusion. The pilot's failure to practice did not violate any express term of the pilot's certificate, nor did it mean that he flew the plane for an unlawful purpose. Every violation of FAA regulations does not make the flight necessarily "unlawful." (*Roach* v. *American Home Assurance Co.*—U.S. Court of Appeals —8th Circ.—9/18/70.)

* * *

IF YOUR LEFT thumb was injured and had to be amputated, would it be worth $45,000 to you?

It was to a painter whose left thumb was amputated at a point above his wrist because his skin was pierced by paint that escaped under high pressure from a minute hole in a metal braided spray painting hose. He brought the action against the manufacturer of the hose to recover for his personal injuries.

The superintendent of the painter's employer testified that it was not possible to tell whether the hose was new when he examined it after the accident. He said that he found no sign of damage to the outside of the hose, and that he saw paint in a thin stream from the body of the hose shortly after the accident. An expert witness testified that the accident was caused by an inherent failure inside the hose caused by a manufacturing defect.

In affirming the jury's verdict for $45,000, the court found there was evidence from which the jury could find that the hose was in a defective condition that rendered it unreasonably dangerous at the time it left the control of the supplier. (*Nicholas Kappatos* v. *Gray Co.*—5/15/70.)

* * *

YOU CAN PREJUDICE the rights of your employes if you are not fully informed concerning the age limitations in a group policy. The supreme court of Tennessee has considered the question.

A 71-year old insured's beneficiary was denied recovery under an accidental death group life insurance policy because the policy contained a clause terminating coverage when the insured reached 70 years. The original policy was replaced by one containing the age limit clause when the insured was 69, but he was not notified of this change.

The court held that the employer's knowledge of the change was imputable to the employe because the employer was the agent of the employe. The authority to select the type and terms of group insurance rests solely between the insurer and the employer as the primary insured. Therefore, the employer is the agent of the employe. (*Hale* v. *American Home Insurance Co.*—Tennessee Supreme Court—11/16/70.) ■

Motor defects report

Of the 50,657 accident reports received in 1969 by the Federal Highway Administration's bureau of motor carrier safety, 2,922 reports, or 5.8% indicated that a vehicle defect or a mechanical failure was a causative factor. The bureau reported that brake system defects accounted for the largest number of accidents, 702 or 26.6%, and $1,566,109 in property damage and tire failures causing accidents accounted for 410 or 15.5% and $2,566,053 in property damage.





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Supreme Court will decide retiree's bargaining rights

WASHINGTON—The Supreme Court has agreed to review a decision by the U.S. sixth circuit court of appeals, which ruled that employers do not have to bargain with a union over changes in benefits for retired persons.

The case came about when a dispute between PPG Industries Inc. and the Allied Chemical and Alkali Workers of America was decided by the National Labor Relations Board in favor of the union position, which stated that a union could bargain for the benefits of already-retired persons. The lower court then overturned the board's decision.

When the board made the original ruling, it said, "Employes who have been actively employed to have earned a pension have for a sufficient number of years deep legal, economic and emotional attachments to a bargaining unit, which measurably exceed the attachments of others who have been held to be employes.

"When an employe retires from the bargaining unit, most of the threads that once bound him to the unit are severed, except those that affect his retirement rights. But his retirement status is a substantial connection to the bargaining unit, for it is the culmination and the product of years of employment."

The NLRB felt that the issue involved huge numbers of retired persons in all parts of the country and that the lower court's decision raised the possibility of strikes and labor discord. ■

Raise benefit requirements

SAN FRANCISCO—Eligibility requirements for medical, drug and life insurance benefits for members of the Culinary, Bartenders and Service Employes Welfare Fund have been tightened.

At least two contributions to the fund within a 12-month period will be required before eligibility for benefits is established.

All employes in the industry who work two hours or more per day, four days or more per week, in at least three out of four full payroll weeks in a given month, earn an employer contribution the first of the following month.

For members who utilize California Blue Shield there has been a minor change in benefits in which payments will be coordinated if the member is also covered under another medical plan. ■

Jax . . .

Continued from page 1

firm. He pointed out that the warehouse was covered for "a little more than $1 million on the building and $500,000 on the contents."

The other policies are believed to be similar.

THE WAREHOUSE, which was described as "in a state of cremation" by an insurance adjuster, was a four-story mill-constructed brick building. "The beams and columns in that building were 24 inches square," Mr. Farrell noted. "It was an incredibly strong old building and it burned to the ground in two hours. I've never seen a fire that hot."

Under Louisiana law, the owners of the building are entitled to full value because the warehouse was a total loss. A spokesman for Jackson Brewing said, "We really haven't got everything together yet but we should be totally covered."

Also damaged in the blaze were a motel and a dry cleaning establishment. "They were across the street from the warehouse," Mr. Farrell said. "The motel was more than 100 feet away. The heat was so intense that it caught fire from the inside. Window frames on the motel were not even burned on the outside."

Proving liability for the fire may be a problem for the brewer's insurer, according to a source in the area. It was first thought that a Southern Pacific Railroad tank car on a side track near the warehouse exploded and caused the fire. However, it is not known what the cause was now. ■

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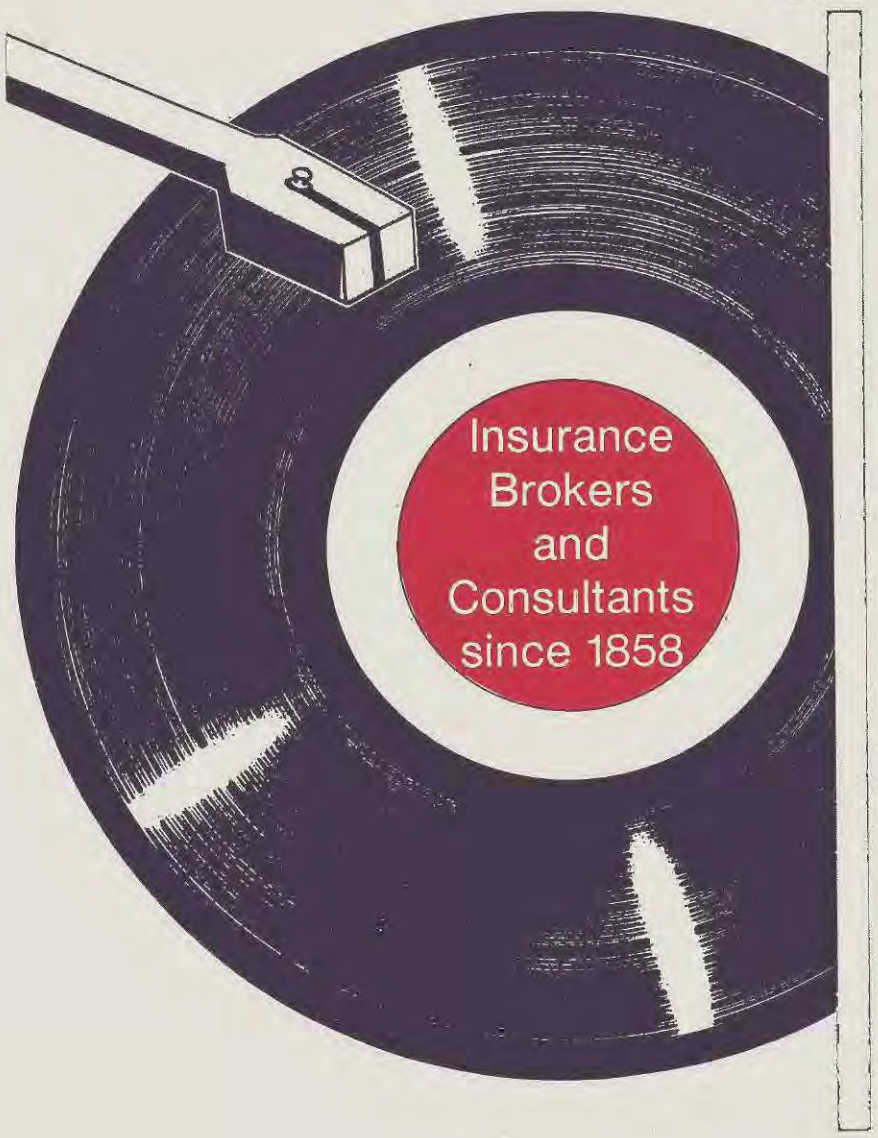
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Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

• Close Productions Inc., 2020 San Carlos Blvd., Ft. Myers Beach, Fla., offers a program to train clerks, cashiers, and other personnel in the methods thieves use to steal store merchandise and cash. The program consists of two tapes on **Stop the Short-Change Artist** and four tapes on **Stop the Shoplifter.** The tapes run from seven to 10 minutes each listening time on slide #1. The reverse side has ten questions with multiple-choice answers which provide participation and self-testing on each subject. They can be played on any type of cassette tape player or recorder. The complete set of six tapes is priced at $39 plus $1 for postage and handling. A 10% discount is offered on quantity orders of five or more complete programs. For more information or to order the tapes write the company.

• The College of Insurance is accredited by the Middle States Assn. of College and Secondary Schools. It offers the Bachelor of Business Administration, Bachelor of Science and the Master of Business Administration degrees. **Viewbook** is an attractive booklet describing the program and facilities of the College of Insurance, located in New York City. For a copy write the Director of Public Relations, The College of Insurance, 150 William St., New York, N.Y. 10038.

• **Honeywell Fire Protection Planning Guide** is a handbook covering various types of local, central station, remote station and proprietary fire-detection systems; thermal, pneumatic, sprinkler and ionisation detectors plus "road-maps" showing fire-protection systems for stores, shopping centers and office buildings, hospitals, schools and colleges, industrial buildings, apartments, motels, hotels and dormitories, libraries and record-storage areas. The handbook is free by writing Tom Bellinghausen, Commercial Div., Honeywell, 2727 So. Fourth Ave., Minneapolis, Minn. 55408.

• Exemplar Service Inc. has made available a reprint of an article from Life Association News on **Section 303 As A Sales Vehicle.** Section 303 of the federal estate tax laws is for owners of successful businesses enabling corporate funds to be used to pay estate taxes, funeral and other such expenses wihout being taxed. For a copy write David L. Winston, President, Exemplar Service Inc., 1168 Teaneck Rd., Teaneck, N.J. 07666.

• **Selected Drug Abuse Education Films** is a guide intended as a resource for persons using films in drug abuse education and prevention programs. Some of the films listed are intended for the general public and concern the nature of drug addiction, its treatment and control. Other films deal with drug abuse in relation to broader social issues such as poverty, inner city life and the alienation of youth. A synopsis of the film, the producer distributor, date of production, description, purchase and rental price, and target audience is listed for each film. Single orders are 10 cents from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

• **The Professional Corporation** is a booklet which discusses significant tax savings as well as important non-tax advantages that the professional corporation can provide the professional employe. In a concise manner, it describes the various pension, profit sharing and group plans,



and compares features of a Keogh Plan and a Qualified Corporate plan in chart form. Direct requests to Advertising and Public Relations Dept., Provident Mutual Life Insurance Co., P. O. Box 7379, Philadelphia, Penn. 19101.

• It is the responsibility of the insured, not the insurer, to determine adequate coverage and furnish a detailed inventory of property and its values for proof of loss. **3 Important Obligations In Your Property Insurance Policy** shows how to preclude problems in event of loss, including co-insurance clause precautions. For a copy write John Heath, Vice President, Marshall and Stevens Incorporated/Appraisals, 1645 Beverly Blvd., Los Angeles, Cal. 90026.

• Sony Corp. of America has published the **Sony Videocorder Application Bulletin Vol. II** providing a compendium of applications of video tape recording and closed circuit television equipment covering a wide variety of users in business science, industry, government and education. The illustrated booklet contains case histories covering such things as settling hurricane Camille claims, ranging and investigating tools for El Monte police, and aiding crime fighters. For a copy write John McDonnell, Advertising & Sales Promotion Mgr., Video Products, Sony Corporation of America, 47-47 Van Dam St., Long Island City, N.Y. 11101.

• The 1971 edition of **GABs' Little Red Book,** providing the complete mailing address for each office as well as day and night phone numbers of the General Adjustment Bureau in the United States, Puerto Rico, The West Indies and The Virgin Islands is available free of charge by writing Management Services, General

Adjustment Bureau Inc., 123 William St., New York, N.Y. 10038.

• The third edition of the **NFPA Inspection Manual**, Sept. 1970, is available for $6.75 from the NFPA Publications Service Dept., National Fire Protection Assn., 60 Batterymarch St., Boston, Mass., 02110. The 352-page manual tells what to look for in inspecting all types of properties. It describes common and special hazards, building features, exits, inspection of extinguishing equipment, detection systems, writing reports and other information.

• The Detex Corp. has made available brochures describing their **Entry Control System** and **Guardsman Watchclock System.** The entry control system is a low-voltage doorway control system which limits doorway use to persons who have been issued special cards. The cards act as keys would for ordinary locking systems. The watchclock provides mechanical supervision of guards on weekends, during holidays and extended plant closings, as well as every week night. It operates on a continuous roll of tape that records your guard's activities for up to 96 hours without changing the tape. For more information write Dan B. Sedgwick, Detex Corp., 53 Park Place, New York, N.Y. 10007.

• **Long Term Disability Income Insurance** is a brochure describing long term disability income insurance and also includes typical plan provisions. The booklet is free by writing Group Sales Promotion, Location 24-E, The Equitable Life Assurance Society of the United States, 1285 Avenue of the Americas, New York, N.Y. 10019.

• Underwriters Adjusting Co. has published a **Directory of Service Locations** listing 277 service locations staffed with over 3,000 trained employes. he firm offers claims and loss adjustment services, including catastrophe response, in the fields of casualty, automobile, fire and allied lines, inland marine, wet marine, fidelity, surety, burglary, aviation, and accident and health. For a copy write Robert L. Tatro, Manager, Dial-A-Claim Services, Underwriters Adjusting Co., 224 So. Wacker Dr., Chicago, Ill. 60606.

• **Certified Portfolios Inc.** is a booklet describing the firm and its management. Services offered are: record-keeping, tax-information, designs exclusive tax-qualified plans that provide maximum flexibility so that the client can select from a variety of investment possibilities for his tax-sheltered portfolio. The firm serves as a trust administrator of tax-qualified plans for individuals and corporations. For free copies direct request to Charles R. Billman, President, CPI, 500 Newport Center Dr., Newport Beach, Cal. 92660.

• **International Employes Personal Insurance Plan** is a brochure by the International Division of Chubb & Son Inc. describing its insurance plan for the U.S. firm with overseas facilities. The plan provides personal property floater coverage, comprehensive personal liability coverage and personal umbrella excess liability coverage underwritten by insurance companies affiliated with Chubb. Descriptive brochures are available from the firm at 90 John St., New York, N.Y. 10038.

• A foldout describing the services of Towers, Perrin, Forster & Crosby, international consultants to management is available free of charge by writing Joseph A. Banik, at three Penn Center, Philadelphia, Pa. 19102. The foldout covers the firms' background, approach, qualifications, fees, actuarial and related mathematical services, organization planning, international consulting services, and morale and attitude surveys among others.

• Airkem Division of Airwick Industries Inc. has released a brochure describing the do's and don'ts of odor removal to those who have recently experienced a fire **What To Do After The Emergency** discusses the nature of odors, solutions and the Airkem process and procedures which will alleviate present complications. For a free copy write Lawrence J. Mulcahy, Market Manager, Smoke Odor Service, Airkem Division of Airwick Industries Inc., 111 Commerce Road, Carlstadt, N.J. 07072.

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speaking of security

Retailer's war on inventory shrinkage is full force and out in the open

By TERESA NORTON

CHICAGO—There will be no more trench-coated anonymity for Carson Pirie Scott & Co.'s State Street store detectives, no more fading into the crowd and zooming in to nab unsuspecting shoplifters. In the near future all detectives will stick out like sore thumbs because they'll be wearing bright red uniforms.

Has Carson's, a venerable old retail giant in this city, thrown all caution to the wind, you ask? After all, what thief would try to make a hit if a red-blazered security officer were in sight?

If you've reasoned that far, you've answered your own question, according to the thinking of Delbert L. Wood, Carson's new director of security. The idea of preventing shoplifting by making detectives conspicuous is only part of an accelerated program he has designed to halt the company's inventory shrinkage problem.

MR. WOOD has been with Carson Pirie Scott for one year. Prior to that he was director of special services for the Illinois Central Railroad for 24 years and with the Federal Bureau of Investigation for six years.

Mr. Wood began his program to decrease inventory losses from shoplifting, theft and book work errors soon after he arrived at Carson's. "Retail stores in this country are losing $8 million per day in these areas," he told *Business Insurance*. A store's inventory shrinkage should be about 1%, he said, but in the past five or six years shrinkage at many stores has reached 5%.

"Eighty percent of this shrinkage is caused internally," Mr. Wood said, "because, obviously, the people working in the store have the greatest opportunity to get at the merchandise."

The red uniforms for store detectives, he explained, are aimed not only at scaring off shoplifters to reduce the 20% shrinkage caused externally but also at letting employes know that the security force is around. Some of the women detectives, he said, objected to wearing a distinguishing uniform at first, fearing that it would make them more subject to physical attack by thieves. But as time passes, he noted, more of them are requesting the uniforms. "Of course," he added with a laugh, "it could have something to do with having the store pay for their work clothes."

MR. WOOD PLANS to have detectives in all branch and division offices wearing the uniforms soon.

His new Preventive Action Concept (PAC) program has involved all of Carson's 6,000 employes through educational seminars. "The primary emphasis of our meetings has been to bring home to employes the fact that stealing from the store, no matter how it occurs, is stealing from them. We have 6,000 employes and we need 6,000 pairs of eyes to make PAC work. Without their full cooperation," he said, "raises and improvements in working conditions will be hard to come by."

A film of shoplifters in operation and demonstrations of preventive measures have been viewed by all Carson's workers. The film will be run in every training session for new employes from now on, Mr. Wood said.



Carson Pirie Scott store detectives wearing red blazers will be easy to spot in the future—and that's just what's intended.

PAC concentrates mainly on internal theft and book work errors and, to that end, the position of inventory shortage control officer has been created at Carson's. Gretchen Hannan is working in that post to coordinate findings of sales people, security officers and the credit department and to establish corrective measures.

THE PROGRAM has eliminated book work and documentation shortcuts and obsolete procedures that provided opportunities for employes to be light fingered. "If a shipment is received at a dock or store with an incorrect manifest, showing a shortage or overage," Mr. Wood said, "the person receiving it has one hour to contact me. This new policy enables us to end the line of mistakes immediately and get directly to the person who made the error and find out why."

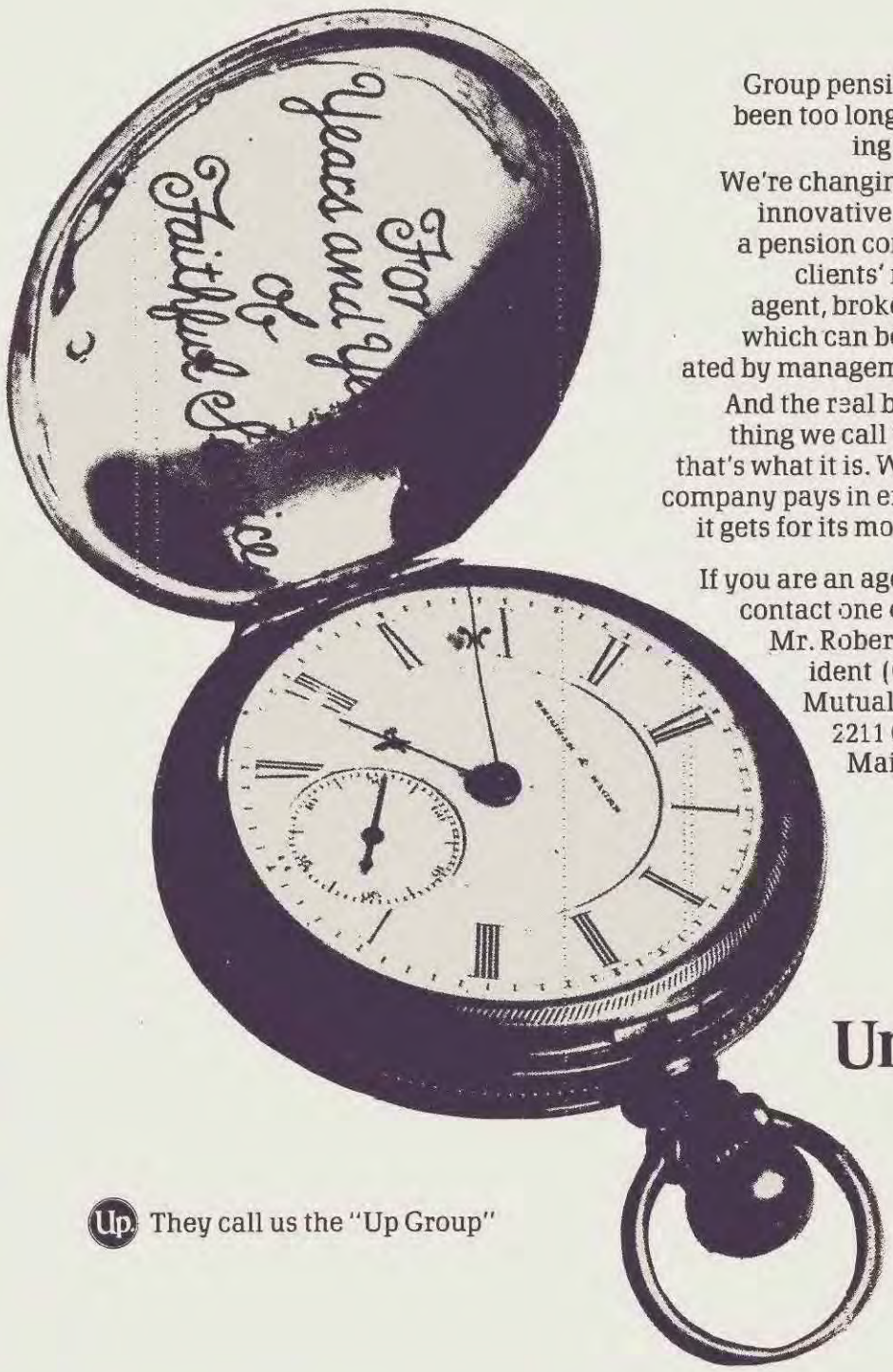
Because many losses are caused by incomplete charge plate imprints on tickets, making it impossible to send out a bill, all sales people now imprint the charge plate before making out the ticket and double check the entire bill for legibility before the customer signs it.

During the store's semi-annual physical inventory in July, Carson's "beefed up" its usual approach to inventory training, Mr. Wood said. All the basic merchandise listing, collecting and checking techniques were reviewed with sales people and the disciplines required to reduce and prevent inventory shrinkage were spelled out. The method of stock control was also changed from a central corporate control point to one holding each store completely accountable for its own inventory. This changeover will be complete in the spring.

The employes of the store are being watched more closely as part of the PAC program and are subject to more unannounced locker inspections, Mr. Wood said. Eventually, every Carson's store will have one central location for lockers, instead of several as is

Continued on page 40

Unionmutual "retires" some old ideas about the pension business.



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Unionmutual

They call us the "Up Group"

Ryan named to new post at Celanese

NEW YORK—John J. Ryan has been named assistant treasurer of Celanese Corp. here. He will have overall responsibility for risk management and employe benefits, reporting to Harry Skilton, Celanese's treasurer.

Mr. Ryan, who has been with Celanese for eight years, first as benefits manager and then as director of risk management and insurance, reported that he will



John J. Ryan

also handle credit and real estate, as well as insurance and the financial end of employe benefits.

Mr. Ryan said that despite the sometimes dangerous nature of products that Celanese employes work with (chemicals and plastics, for example) insurance has not been a special problem. "Historically, safety has been of great concern to Celanese. We have a very good, intensive safety program; our record is excellent, and our experience with workmen's compensation is good."

With regard to employe benefits the new assistant treasurer told *Business Insurance*, "the problem we're facing right now in benefits is increased costs. We're trying to get the biggest return on the company's investments. We've gone through two years of bad investment returns —there's no aggressively managed fund that hasn't had trouble. We've made out better than some, and aren't contemplating any major policy changes at this time."

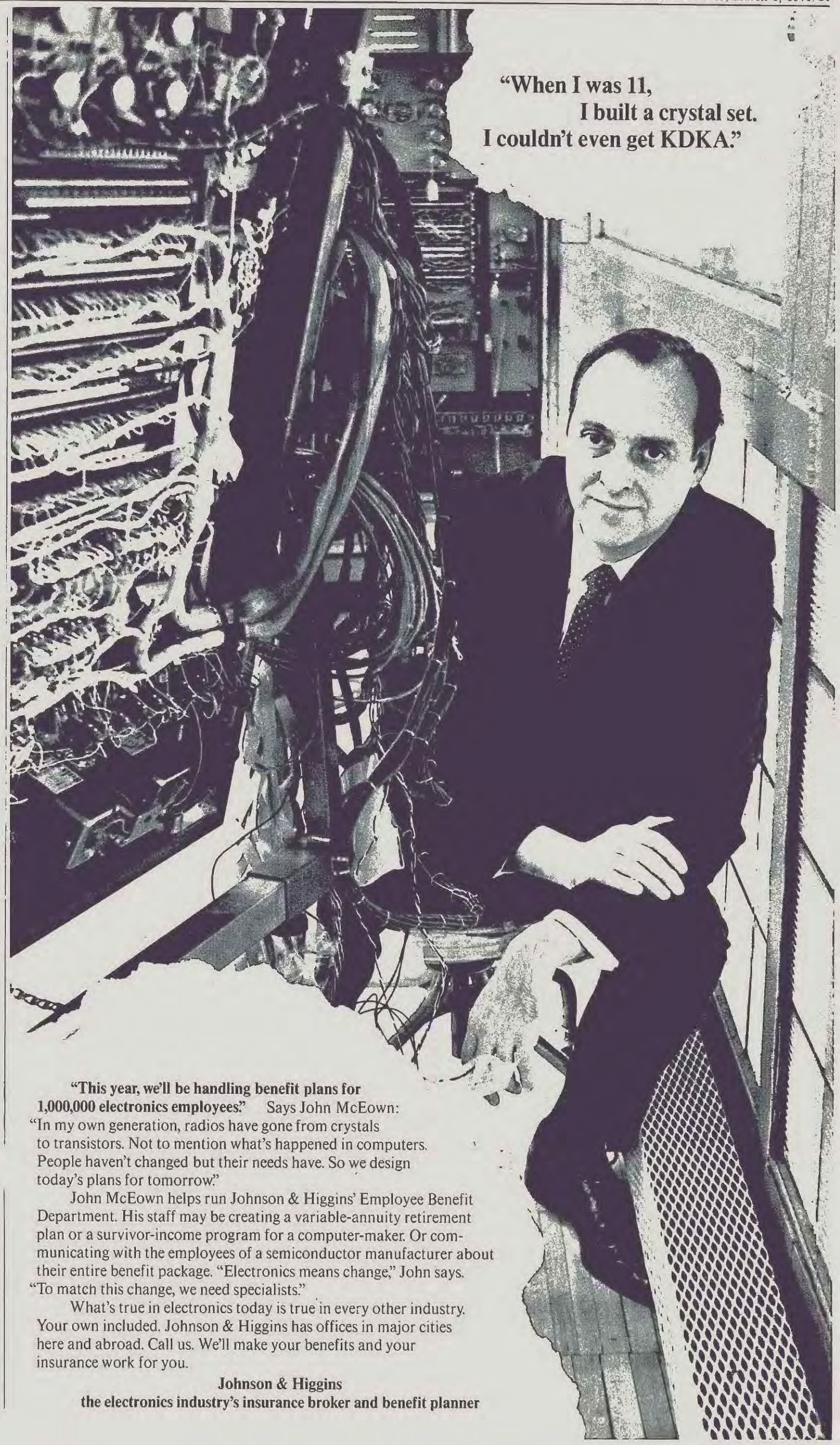
Mr. Ryan, a graduate of St. Peter's College in Jersey City, received his M.B.A. from New York University. He was with American Machine & Foundry for three years as manager of employe benefits prior to joining Celanese. ■

Moves to extend jobless pay

OLYMPIA, Wash.—The first bill passed by either house of the new 1971 session of the Washington state legislature, to extend unemployment insurance benefits, has been adopted by the senate.

The house is considering a similar proposal in an effort to provide "quick action on jobless pay benefits" sought by Gov. Dan Evans. The senate-approved measure would extend unemployment insurance benefit payments to long-time jobless workers by as much as a full year.

This removed an Oct. 2, 1971, cut-off date contained in the change requested by Gov. Evans. Removal of the cut-off, opponents charged, would cost Washington's unemployment compensation fund "as much as $44 million a year." ■



"This year, we'll be handling benefit plans for 1,000,000 electronics employees." Says John McEown: "In my own generation, radios have gone from crystals to transistors. Not to mention what's happened in computers. People haven't changed but their needs have. So we design today's plans for tomorrow."

John McEown helps run Johnson & Higgins' Employee Benefit Department. His staff may be creating a variable-annuity retirement plan or a survivor-income program for a computer-maker. Or communicating with the employees of a semiconductor manufacturer about their entire benefit package. "Electronics means change," John says. "To match this change, we need specialists."

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FIREMAN'S FUND

opinions

Stopping the leaks

An insurance study committee in Texas has come up—belatedly—with a proposal to regulate the relationship between holding companies and their insurance affiliates to prevent the draining of insurance company assets.

The Texas action came after four recent instances in that state in which insurance carriers have been bled into insolvency or serious impairment by manipulation of their assets by holding company operators.

In our tight money market, assets of insurance companies have special allure for managers of holding companies who can find ingenious—and sometimes marginal—ways of applying surplus insurance funds to other aspects of their operations.

Sometimes this application is beneficial. James S. Kemper Jr., a battle-wise authority on insurance company operations and investments, has said that perhaps the financial brains of holding companies and conglomerates will contribute something to the wisdom of insurance company managers who have found it hard to turn a profit in recent years.

But Mr. Kemper thinks in terms of those who are sincere in their efforts to gain control of insurance companies and to integrate these operations with their conglomerate corporate operations. What the Texas legislature now attacks is not the honest conglomerate that acquires an insurance company; rather, the problem Texas and other states must face is that presented by those who buy, or buy control of, insurance companies with the clear intention of bleeding the assets of the insurers to shore up or enhance other business or personal interests.

This is the nature of the four recent cases in Texas. Unhappily, this pattern of financial rape has cropped up recently in Illinois, Indiana and Florida. It might be noted that the insurance commissioners of these states appeared utterly helpless in the face of serious threats to the financial security of insurance companies domiciled in their states.

Something that has puzzled us throughout this period of tight money and efforts to grab insurers' surpluses has been the general indifference of corporate insurance managers and employe benefits administrators to insurance company failures and the widespread draining of insurance company assets, sometimes by downright criminals.

Corporate buyers of insurance seem to view such problems as business irregularities that affect chiefly the buyers of high-risk auto insurance, the residents of inner-city areas who buy policies from marginal insurers.

Those who blissfully view insolvencies from afar might be waked up if they listened to a call we had last month from an agent who wrote policies on a commercial risk that involved radioactive substances and hence was written in the excess market. The company that covered the risk was one that was recently bled to death by financial manipulators interested only in their personal gain and the enhancement of their other business enterprises.

Despite cautionary notes from his state's insurance commissioner, the excess agent who wrote the risk's workmen's compensation and general liability policies failed to reduce his writings in the questionable firm until he received notices of cancellation brought about by the insurance company's insolvency.

In this case the primary agent, because he had a substantial premium involved, covered the return premium that was due the insured. Under other circumstances, the insured would have been stuck for the full amount of the unearned premium, an amount that could represent a substantial loss to a small company.

This story is told to point out that insolvencies and the draining of insurance companies' assets is a problem for insurance buyers big and small. The burden of the unsatisfied judgment or the lost unearned premium can fall on the large corporation as easily as it can on the inner-city private auto owner.

A source close to the U.S. Senate finance committee, headed by Sen. Warren G. Magnuson (D.—Wash.), indicates that the committee is gathering evidence in preparation for hearings on the problem of questionable insurance company takeovers. Hopefully such hearings would result in some hard thinking in Washington about strengthening regulations regarding holding companies and penalty provisions in the federal Bankruptcy Act to bring to justice those who deliberately send insurance companies into insolvency.

Corporate insurance buyers ought to play an active role in bringing financial shenanigans to light. If they don't, they may cost their companies significant amounts of money and, in the process, lose a measure of that precious capacity that they seek so avidly.

UPS AND DOWNS OF WORKMEN'S COMPENSATION COSTS

Year	Total Change	Law Amendment	Experience
1959	Base	Base	Base
1960	+ 2.6%	+ 1.4%	+ 1.2%
1961	+ 3.0%	+ 1.7%	+ 1.3%
1962	+ 3.7%	+ 1.4%	+ 2.3%
1963	+ 2.6%	+ 1.2%	+ 1.4%
1964	+ 2.8%	+ 0.4%	+ 2.4%
1965	+ 4.1%	+ 4.2%	− 0.01%
1966	+ 3.5%	+ 3.3%	+ 0.2%
1967	+ 2.7%	+ 4.1%	− 1.3%
1968	− 0.4%	+ 2.2%	− 2.5%
1969	+ 3.3%	+ 4.2%	− 0.9%

Rate changes for workmen's compensation have been generally upward for the past decade. The first column in this table shows the overall change in rate level countrywide. The next two columns indicate what contributed to the total overall rate level change. Law amendments include changes in benefit provisions and medical fee schedules. Experience indicates what changes were brought about by changes in loss experience. Thus, for 1960 there was a 1.4% increase owing to changes in law amendments and a 1.2% increase owing to experience totaling overall 2.6%.

Source: National Council on Compensation Insurance

New ways to collect

A RECENT Alabama court decision underscores the inadequacy of the present state system of workmen's compensation that was pointed up in a Spotlight Report in our Feb. 15 issue.

The state's supreme court ruled that an Alabama worker who is injured on the job may now sue anyone in management whose negligence led to his injury. Previously the recovery for the worker and his survivors was limited to benefits prescribed by the workmen's compensation statute.

In the instant case one worker was killed and another injured in a sewer line cave-in. Attorneys for the victims successfully maintained that a supervisor was negligent in sending the men into the hazardous area.

We also found some evidence in developing the Spotlight Report that injured workers are giving increasing consideration to turning to products liability suits to gain recoveries greater than what they would be entitled to under workmen's compensation.

Both developments emphasize the inadequacy of present workmen's compensation benefit scales, scales that are so low in many states that injured workers understandably turn to other remedies. For the injured worker, of course, there is some hazard in renouncing workmen's compensation, which is paid without regard to fault, for court actions in which the company official or products manufacturer must be shown to be negligent.

Risk managers should carefully note the development of the trend to bypass workmen's compensation as the exclusive remedy for on-job deaths and injuries. Widespread negligence and products liability suits by injured workmen could impose wider loss exposure on employers and manufacturers.

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letters

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

McCormick Place

To the Editor: Your excellent article, in the Jan. 18 issue, on the McCormick Place protection and coverage has been read with a great deal of interest. We would, however, have to take exception to the statement attributed to the "spokesman for Near North Insurance Agency Inc." This statement read: "Factory Mutual attempted to provide some of the coverage but they could offer only 50% of the amount subject to $500,000 of additional engineering requirements, which duplicated requirements already met."

We believe this statement is misleading and suggest it should have read: "Factory Mutual would not provide coverage without a revision in protection requirements." It is true that we recommended additional water supply requirements but, in our opinion, these would not have resulted in the $500,000 figure and, instead of duplicating requirements, any increased costs would have been sizeably offset by decreased requirements in other areas.

Bruce P. Mattoon
Vice President, Public Information Div., Factory Mutual Engineering Corp., Norwood, Mass.

Prediction is true

To the Editor: Your editorial of Feb. 1 was a gem.

You'll also be glad to know I've appointed Hal Platzker of WCAU-tv Philadelphia as my press secretary, and on his first day on the job he put out three press releases. So you can advise the insurance executive that he was right when he said: "Gee, think of all the press releases he'll issue, probably three a day for four years."

Herbert S. Denenberg
Insurance Commissioner, Harrisburg, Pa.

Alcoholism programs

To the Editor: In the Jan. 18 issue of *Business Insurance* an editorial entitled "Insurers vs. alcoholism" appeared. In that editorial the statement was made that Bethlehem Steel Corp. has admitted an alcoholism problem and has advertised the fact that the company is doing something about it.

As a member of a study committee that is in fact an advisory committee to the local Allen County Coordinating Center I am interested in communicating with the person or persons in charge of the activities of the Bethlehem Steel Corp. in their program.

I would appreciate receiving the correct name and address for this information.

C. O. Cripe
C. O. Cripe Agency, Fort Wayne, Ind.

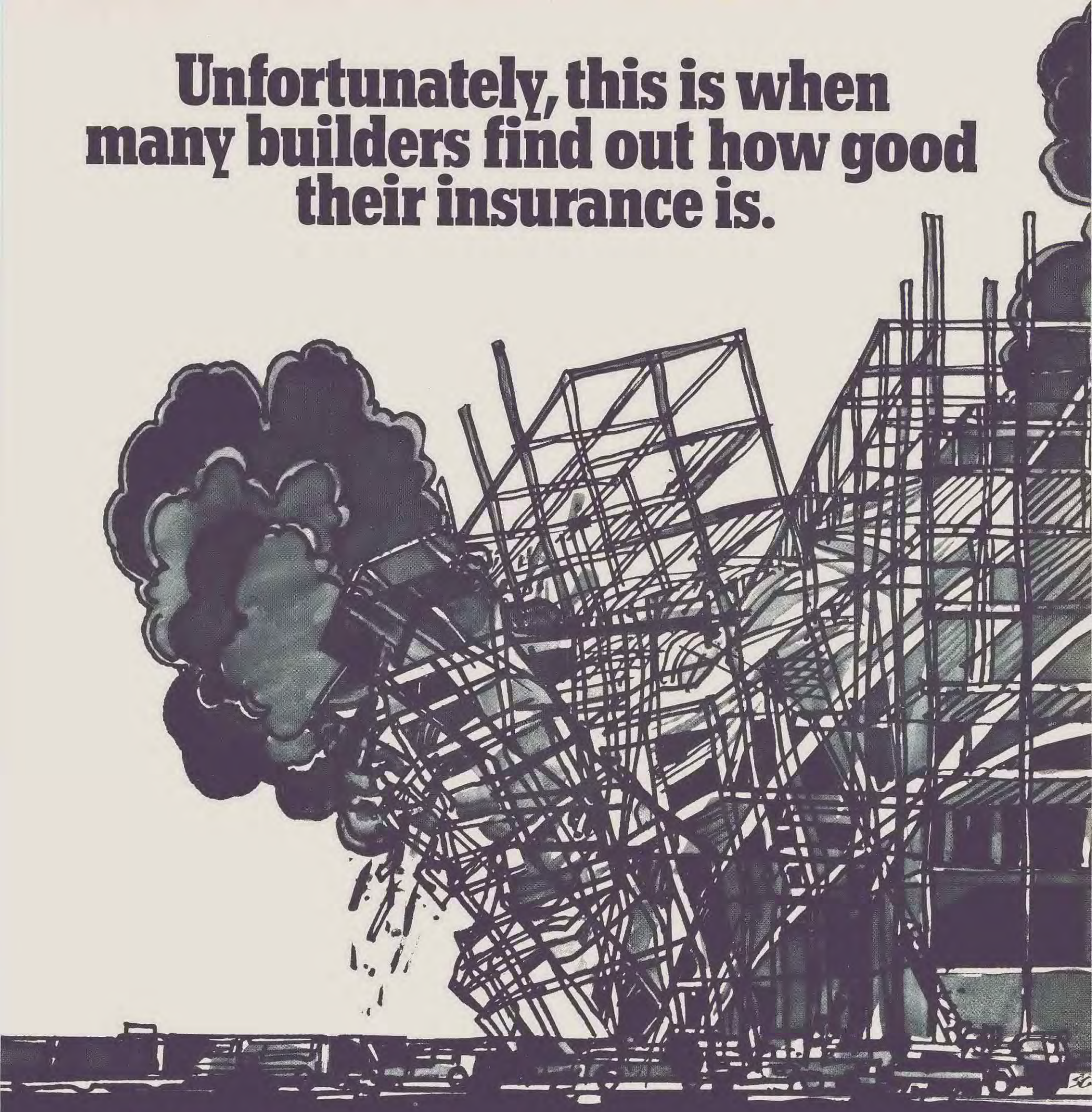
Editor's Note: The person in charge of the activities of the program is the corporate medical director, Bethleham Steel Corp., Bethleham, Pa. 18016.

Strike insurance

To the Editor: I read with a great deal of interest your article in the Jan. 18 issue of *Business Insurance* "Strike insurance pools gain approval of NLRB."

Continued on page 22

Unfortunately, this is when many builders find out how good their insurance is.



You've probably taken out the kind of insurance we're talking about. The kind that's meant to protect you in case an earthquake or a windstorm or a flood or an explosion or a fire or collapse should occur while you're putting up a building.

Even though these are all things that probably won't happen, you're smart to be covered.

What's not so smart is if you haven't taken a few minutes lately to study or review that coverage.

We have a Builders Risk policy we think you should at least look into. Now.

Because of our experience with every kind of insurance for builders and contractors, we're able to understand your special requirements.

The basic policy, that's one consideration. But maybe your particular situation requires extra coverage. Such as an equipment or installation floater. Or perhaps there's a good reason your subcontractors should be covered in your policy, too.

Talk to your insurance agent or broker about American Home's Builders Risk insurance. Now is the time to make sure you have what you think you have.

American Home Assurance Company
102 Maiden Lane, New York, N.Y.10005

Congressmen getting a mixed bag of benefits

By CAROL RATISHER

WASHINGTON—When the 92nd Congress convened last month it was not likely that many of its members needed to be lured to their places in the halls of power by the promise of a fringe benefit program. But members of Congress nonetheless are recipients of a fringe benefit grab bag stocked with items from health and retirement benefits to cut-rate haircuts and rock-bottom price tuna salad sandwiches.

Congressional salaries now stand at $42,500, up from $30,000 three years ago when Congress voted itself a 41.5% pay increase amid angry cries of "inflation" from some segments of the public and press. There is, in addition, a $3,000 tax-free living allowance to cover such Washington expenses as meals, lodgings, commuting and maid service.

While Congressmen must do without the credit cards rife in the business world, lunch tabs at the restaurants in the Capitol run comfortably below New York expense account prices. Corned beef and cabbage with boiled potatoes and creamed horseradish sauce goes for $1.95; pork chops, French fried potatoes and tossed salad are priced at $2.00. Add 35 cents for a butterscotch sundae and 20 cents for a pot of coffee.

CAFETERIAS in the House and Senate office buildings offer the truly economy-minded Congressman bologna sandwiches at 35 cents, American cheese sandwiches for 30 cents and tuna salad on toast for 45 cents. Cigarets are still 28 cents a pack and cartons go for $2.65, also in the cafeterias.

Haircuts are $1.50 in the Senate barbershop, manicures $2.50 and shaves $1.00. The beauty parlor on the House side charges $2.00 for a haircut and $3.00 for a shampoo and set. There is also free underground parking for Congressmen and their staffs.

During tax season, the Internal Revenue Service dispatches tax specialists to Capitol Hill to dispense counsel, at no charge, on the intricacies of the 1040 form. Members of Congress also have access to a fully equipped gym, to further ease the burdens of office.

Committee junkets provide some lawmakers the opportunity to travel overseas. During one recent session of Congress, at least 147 House members plus staff traveled abroad on official committee business, and about half of these touched down at five or more foreign countries. One Conressman made it to 19 foreign nations from Argentina to New Zealand during the 10-month session; another to 16 countries on four continents.

THE CONSTITUTION provides that members of Ccongress shall be immune from arrest for any cause except "treason, felony and breach of the peace" while Congress is in session. The legislators also are protected by the Constitution against charges of libel "for any speech or debate in either House."

Congressmen also may enroll in the Civil Service benefit programs on terms basically identical to other federal employes. And according to statistics released to *Business Insurance* by the U.S. Civil Service Commission, life, health and retirement insurance benefits are high priority items on Capitol Hill.

When the 91st Congress adjourned on Jan. 2, 99 members of the Senate were signed up for life insurance protection. There were 100 Senators eligible, as well as the Vice President. On the House side, 425 Representatives were enrolled in the plan. House membership is fixed at 435, but there were two vacancies at the end of the last session.

Health insurance coverage was elected by 419 Representatives and 91 Senators. The retirement program drew all 100 Senators, the Vice President, and 425 House members. All three benefit programs are both voluntary and contributory.

THE FEDERAL Employes Group Life Insurance Program provides Ccongressmen with a $45,000 policy that includes benefits for accidental loss of a hand, foot or eyesight and double indemnity in the event of accidental death. The government pays one-third the cost of the policy; with the rest, $12.38 bi-weekly, paid through payroll deductions.

Congressmen can also elect an extra $10,000 optional life insurance, but must pay for it themselves. Cost is related to age, with deductions starting at $1.30 biweekly for legislators under 30 and grading up to a top of $19.00 biweekly for those age 60 and over. The optional coverage also provides dismemberment benefits and double indemnity for accidental death.

Those Congressmen who find themselves out of office after the next election can convert either coverage to an individual policy.

Further, Congressmen may also receive up to 80% of their salaries in retirement benefits should their constituents fail to return them to office. The amount depends on age and length of service. All government service, whether in or out of Congress, counts towards a pension. A Congressman may even be entitled to both a Civil Service and a Congressional annuity if he has put in enough years.

A CONGRESSMAN is eligible for a pension if he meets one of these age and service requirements: Age 62, five years of government service; age 60, 10 years of service in Congress; age 55, 30 years of government service; age 50, 20 years of government or 18 years of Congressional service; or total disability, any age, five years

Continued on page 30

letters

Continued from page 20

Can you give me any information as to an insurance market for this type of business? We have a client with a dockside organization who is interested. I would greatly appreciate this information.

J. I. Hulse

President, Gillis, Hulse & Colcock Inc., New Orleans, La.

Editor's Note: The article did not say that strike insurance was generally available. It did say that "the National Labor Relations Board has effectively squelched a union bid to destroy strike insurance pools to which several industries have turned to defend themselves from the economic ravages attendant to strikes."

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David S. Butler
Executive Vice President
Assurex International
Post Office Box 1270
Wheeling, West Virginia 26003

following the funds

Mutual fund book a 'must' before listening to the benefits sale pitch

NEW YORK—Lean and hungry "financial planning consultants" are busily packing their grab bags with a wide variety of mutual funds as they prepare to step up the competition against "just plain insurance."

They are stuffing these funds into individually wrapped packages plastered with gummed labels reading "split dollar benefits," "cafeteria benefits" and "mass merchandising."

Their efforts are all aimed at both the new and old employe. What he will finally buy will depend on which sales presentation he receives and the selective quality his employer exercises in packing the "right presentation." Unfortunately, the employer, like other buyers of financial services, usually learns about mutual funds/life insurance packages through sales presentations.

HOWEVER, a controversial figure and former legal profession gadfly has written a relatively unbiased book about the mutual fund industry that's quite easy for anyone to understand. And reading it will give the employer, his benefits expert or even the employe himself about as good a background on mutual funds, their "Yes's and No's" as anything these days.

Norman F. Dacey's new book is called "Dacey On Mutual Funds." Perhaps Mr. Dacey's most famous work is "How To Avoid Probate!", a best-seller of a few years ago that gave the confused consumer a clear look at what to do about the legal entanglements to which one's estate may be prone. Mr. Dacey has also ruffled the feathers of the insurance industry—in addition to those of the legal world—with his "What's Wrong With Your Life Insurance."

"Mr. Dacey is well known to the mutual fund industry and its regulators as a gadfly of the mutual fund establishment. His professional involvement with mutual funds goes back over 30 years and there are few who can match the vervor of his conviction when it comes to mutual funds, their pros and cons, their management and their regulation," says Rep. John E. Moss, chairman of the House subcommittee on commerce and finance, in the preface.

Perhaps everyone has heard what has become almost an "old saw": That life insurance isn't exactly a hedge against inflation. Says Mr. Dacey: "We have all seen those Phoenix Mutual Life Insurance Co. advertisements picturing a man sitting in a boat fishing. In the 'balloon' above his head it originally read, 'How I retired on $100 per month.' Later, the figure became $150, $200, $250 and now $300. What has become of the early purchasers who struggled for years to meet the premiums on a policy that would pay them $100 per month? For certain they're not sitting in that Phoenix rowboat in carefree retirement—they are working at odd jobs trying to keep going," he explained.

THE CULPRIT, inflation, can be successfully combatted in three ways, real estate, commodities and common stocks. Then he goes about explaining why he sees investment as the best inflation hedge: "There have been periods, generally brief, when stock prices went down while the cost of living kept rising. But over the past 30 years, while the dollar has been losing 60% of its value, common stocks increased in value by more than 800%."

In addition, Mr. Dacey pursues the various ways in which one can invest. He covers the do-it-yourself approach, dealing through brokers and relying upon "tipster services." ("Generally speaking, they tell everyone to do the same thing at the same time. Actually, successful investing frequently consists in doing just the opposite of what a lot of people are doing. When they are buying furiously, you sell at the high prices then prevailing; when they are unloading, you buy back at a bargain.")

He also covers bank trust departments: "... the quality of the investment management provided by a bank is not nearly as good as that provided by an investment counsel firm. An investment counsel firm exists because some individual or group of individuals feels that he or they have skill at money management. A trust department, on the other hand, frequently exists for no other reason than that such a department is traditionally a part of a bank," he explained.

Mr. Dacey also discusses closed-end investment companies, concluding that they were "popular in the '20's" and as "financial dinosaurs" they are a "far from ideal" medium of investment for the public. Stock life insurance companies, Mr. Dacey charges, exist under "regulation in this country so negligible as to be practicaly nonexistent." He suggests that such companies' securities reflect a "degree of risk no sensible investor would want to take."

MR. DACEY admittedly makes quite a case for investing in mutual funds in his book. He cites the fund alternative's abilities to diversify investments, control investment philosophy, the collateral value of its shares, as well as the advantage it has over a bank: "In one instance, you turn your own money over to the bank, which pays you a fee for the use of it.

"It puts it to work and keeps the profit. In the other instances, you turn your money over to the mutual fund, you pay the fund managers a fee for putting it to work for you, and they turn all the profits over to you. In one case, you get the fee and the bank gets the profit, in the other, the fund gets the fee and you get the profit," he explained.

Mr. Dacey goes on to explain each of the 16 different types of mutual funds currently available to the public. They include bond funds ("an investment in a bond is an investment in the dollar"), balanced funds, income funds ("they try to avoid buying the stock of companies whose growth

Continued on page 39

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business insurance/perspective

Quake coverage problem—the solution is to write more of it

by Warren G. Brockmeier, Director—Western Region, Risk Management Dept., Ebasco Services Inc., Chicago, Ill.



Los Angeles tenants in the Fireman's Fund American building were drafted for moving jobs after the Feb. 9 earthquake.



Warren G. Brockmeier

On Feb. 9, 1971, an earthquake of fairly strong intensity occurred just north of Los Angeles, in the San Fernando Valley. By the time this is printed it will probably be true that:

- Six seers will have predicted that the entire West Coast is about to drop into the ocean.
- Sixty leading underwriters in London will have doubled their rates for earthquake reinsurance.
- Six hundred domestic companies will have sent memos to branch offices instructing them not to write any earthquake insurance.
- Six thousand people will have written to Washington demanding that the federal government do something to provide earthquake protection.

All of the above are terribly unnecessary and somewhat foolish. Earthquakes are a natural phenomenon that are greatly misunderstood, and because insurance companies have generally not tried to understand them the industry has failed to provide a realistic market for coverage of losses by earthquake.

As an example, in 1969 the total earthquake insurance premium written was only $7,960,000. Losses paid were $151,000, for a 1.9% written/paid loss ratio. (The earned-incurred figures were $8,081,000 in premium earned, $461,000 in losses incurred, for a 5.7% loss ratio.) During the period from 1950 to 1960 inclusive, the total premiums for earthquake insurance in the U.S. were $51,257,705, and losses were $2,156,179 for a loss ratio of 4.2%. The loss ratio for the entire state of California for earthquake insurance from 1916 to 1955 was 4.6%—and that included several earthquakes similar in intensity to the Los Angeles quake of 1971.

There was only one insurance carrier with an earthquake premium of more than $500,000 in 1969, and that was only barely over that figure. A breakdown of the writings of companies in 1969 is of interest:

Premiums	Number of companies
Over $500,000	1
$401,000 to $500,000	3
$301,000 to $400,000	4
$201,000 to $300,000	5
$151,000 to $200,000	7
$101,000 to $150,000	2
$51,000 to $100,000	15
$11,000 to $50,000	27
$10,000 or less	107

Obviously, if a company only writes $20,000 in earthquake premium, it cannot expect to have very much of a spread of loss, and even with an industry average loss ratio of 5% an individual carrier can be hit with a bad loss ratio on that small a volume. Naturally the question that arises is why insurance carriers don't write more earthquake insurance than they do. Let's examine the facts, and the myths, involved.

In the Feb. 9 Los Angeles earthquake, the newspapers reported in detail the deaths, the horror of collapsed buildings and bridges, and the fact that the earthquake was of Richter magnitude 6.5 and was felt as far north as Fresno, as far south as Mexico, and as far east as Las Vegas. All of this helps reinforce the impression of the general public (including underwriters) that earthquakes involve severe damage over vast areas.

Yet this is not the case. Official reports have not yet been compiled, but it should be observed that although the newspapers said things like "Damage from Tuesday's southern California earthquake was widespread," the recitation of affected areas that followed listed damage in the San Fernando Valley, Burbank, downtown Los Angeles, Hollywood, Beverly Hills, Glendale, Alhambra, Culver City, Newhall and Saugus. The underwriter in London or Hartford reading such an account may think that half of southern California was damaged, and not realize that all of the places mentioned are in an area 25 miles long and 15 miles wide, with intense damage restricted to an area about one-half the size of that mentioned.

OF COURSE, EARTHQUAKES of this magnitude are big news and the press cannot print scientific analyses of damage —they are rarely written in a style that will sell. But it may be well to read the words of the late John R. Freeman, in his 1932 book "Earthquake Damage and Earthquake Insurance:"

> "Careful study shows that the serious damage has always been confined to a surprisingly narrow area. The distinction must be clearly kept in mind between the broad area within which an earthquake has violence enough to be noticed by all and to frighten many people, and the relatively very small area within which any serious damage is done."

Mr. Freeman also pointed out, very truly, that:

> "The large distance over which earthquake shocks are often felt has become confused with the small distance from the center of maximum intensity over which the shock is strong enough to damage buildings seriously; and this confusion of ideas is at the bottom of the present difficulties. Not only in the newspaper accounts, but also in scientific treatises, the emphasis and the interest appear chiefly put upon the great distance over which the earthquake shock was felt, while very little is said about the narrow limits to which damage was confined."

Thus the Los Angeles earthquake of 1971 followed a quite predictable pattern. The San Francisco earthquake of 1906 probably involved the biggest area of any, but the serious damage even there was confined to a discontinuous area 280 miles long, the width of which seldom exceeded 10 miles. The total area of all the separate spots of severe damage in any given earthquake within the U.S. has never exceeded 10 square miles, except the San Francisco earthquake of 1906 and the New Madrid earthquake of 1811.

FURTHERMORE, while the Richter scale magnitude of earthquakes is generally published in the press some confusion exists as to what a 6.5 Richter scale earthquake really signifies. Charles F. Richter, an eminent seismologist, devised this scale for the measurement of earthquake magnitude based on seismograph readings rather than local effects. It is a very precise and scientific means of measurement, in terms of the energy release involved in the earthquake, but as noted above, it does not measure the effect of an earthquake.

An older system of earthquake intensity measurement is the modified Mercalli scale, which is based on the physical results of the earthquake. As such, it involves such aspects as soil condition, depth of focus and other factors. It is more subjective than the Richter scale, less scientific in a sense, but for purposes of projecting damage it is more useful in many ways. As an example, on Dec. 21, 1954, there was an earthquake at Eureka, Cal., with a Richter magnitude of 6.6 but a Mercalli intensity of only VII (see box) and damage of about $2 million. There was another earthquake on March 10, 1933, at Long Beach, Cal., with a Richter magnitude of 6.3 but a Mercalli intensity of IX, and with 115 lives lost and $40 million in damage.

From a study of quakes of intensity VII or greater from 1869 to 1968 it can be predicted that there will be an earthquake causing some damage about two to three times a year on the average, that 75% of these will cause only moderate damage, and that there will be a fairly serious earthquake, of an intensity comparable to that at Los Angeles, about twice a decade, with 66% of the very serious earthquakes taking place in California.

It should be kept in mind that total damage figures include damage to highways, railroad track, and other non-insured properties and that fires, insured in any event, account for part of the earthquake damage,

Continued on following page

Definition of modified Mercalli scale

The following is a brief summary of the physical results of earthquakes of various intensities on the Mercalli scale, above the most minor levels:

V—Felt by nearly everyone in area. Some dishes, windows, etc. broken; a few instances of cracked plaster; unstable objects overturned.

VI—Felt by all. Some heavy furniture or machinery moved; a few instances of fallen plaster or damaged chimneys. Damage slight.

VII—Damage negligible in buildings of good design and construction; slight to moderate in well-built ordinary structures; considerable in poorly built or badly designed structures.

VIII—Damage slight in specially designed structures; considerable in ordinary substantial buildings with partial collapse; great in poorly built structures. Panel walls thrown out of structures. Fall of chimneys, factory stacks, columns and walls.

IX—Damage considerable in specially designed structures; great in substantial buildings with partial collapse of buildings shifted off foundations, underground pipes broken.

X—Most masonry and frame structures destroyed with foundations badly cracked. Rails bent. Considerable landslides.

XI—Few masonry structures remain standing. Bridges destroyed. Underground pipelines completely out of service. Rails bent greatly.

XII—Damage total.

Quake . . .

Continued from preceding page

frequently a major part. Thus, more complete earthquake insurance would not mean that the insurance industry would assume the entire amount of these damage figures as a new burden.

S. T. ALGERMISSEN, chief of the geophysics research group, Coast and Geodetic Survey, ESSA, presented a paper at the Fourth World Conference on Earthquake Engineering at Santiago, Chile, in 1969, which included a seismic risk map of the U.S. showing the maximum probable earthquake intensity for each area of the country. Eight areas were shown as susceptible to quakes of modified Mercalli intensity VIII or greater (major damage):

- Much of California and Nevada—about 150,000 square miles.
- The Puget Sound Basin in Washington—about 15,000 square miles.
- An area in western Utah, eastern Idaho, northwestern Wyoming, and southwestern Montana—about 100,000 square miles.
- An area in southern Illinois, southwestern Indiana, western Kentucky, western Tennessee, northwestern Mississippi, northeastern Arkansas, and southeastern Missouri—about 30,000 square miles.
- An area in eastern South Carolina—about 10,000 square miles.
- The area surrounding Boston, Mass.—about 1,000 square miles.
- The northern and western fringes of New York State—about 15,000 square miles.
- The northern tip of Maine—about 4,000 square miles.

Thus about 325,000 square miles, or about 11% of the area of the conterminous U.S., is susceptible to a major earthquake.

If each such major earthquake causes severe damage in a 20-square-mile area (doubling Mr. Freeman's observation) and 75 such earthquakes occur every century, then in one century 1,500 square miles applied to all property in these areas, should theoretically cover losses with a 50% loss ratio, assuming an even spread of earthquakes and population.

OF COURSE, earthquakes are not distributed evenly, even in the susceptible area. Mr. Algermissen assigns a frequency of 51.3 earthquakes of modified Mercalli intensity VIII per 100 years per 10,000 square kilometers to the southern California area—the highest frequency in the nation. Assuming an affected area of 20 square miles, or 50 square kilometers per earthquake, this would involve about 25% would be adversely affected, or about .5% of the susceptible area. On this basis, an average annual premium rate of one cent, of this area every century, or require a rate of about 50 cents per year for a 50% loss ratio—assuming total destruction in the entire 20-square-mile area. This never happens—even in the heart of a stricken area many structures will be relatively undamaged, or at least only to an extent less than the deductible usually applied.

Thus, it appears that the insurance industry could well accomplish a significant service to itself and the American public if it would reduce its rates and free its underwriters to write a high volume of earthquake insurance—possibly adding it to the extended coverage endorsement. There are reasons why it does not do so, but these reasons are not without remedy:

Reason: An earthquake might strike the most densely populated area of Los Angeles or San Francisco and cause damage in the billions of dollars, out of proportion to the "averages" mentioned above.

Answer: Divide the 325,000-square-mile susceptible area into squares 10 miles by 10 miles and limit the writing of your company to an amount not more than .2% of its total earthquake amount in any one grid square. This will spread risk enough to avoid a disaster to your company.

Reason: Remedy #1 won't work because more than .4% of the insurance demand is in Los Angeles or San Francisco.

Answer: It will work to a significant degree if insurance carriers will sell earthquake coverage in Seattle, Buffalo, Memphis, St. Louis, Charleston, Salt Lake City, and Boston, instead of declining coverage. That is, almost all of the insurance demand in those cities, and in the less populated areas, could be met, and a significant portion of the demand in Los Angeles and San Francisco as well, due to a greatly increased premium volume and distribution pattern. Excess capacity in a few centers of population could be needed, but could possibly be developed in the form of reinsurance by the Federal Insurance Administration after a company has reached .2% of its writings in a given grid square.

'The industry could do a significant service if it would reduce rates and write a high volume of earthquake insurance.'

Reason: You can't expect the insurance industry to write earthquake coverage on a building right on a fault—that would be like writing fire insurance on a burning building.

Answer: That's right, you can't. Thus companies should underwrite based on soil conditions and construction, which would encourage better construction and more prudent land utilization. Furthermore, no carrier should write earthquake coverage on property within a half-mile of a known fault. There should be no assigned risk pool for the coverage. Maybe this would help develop badly needed green-strips down the fault lines, devoid of buildings, since owners of such buildings would be unable to get insurance on them. This will only happen if earthquake insurance becomes the norm, not the exception, however.

Reason: Income taxes will eat up premiums in the good years and leave no reserves for the losses of bad years.

Answer: So what insurance company is worried about income taxes? Besides, losses in bad years are tax deductions, there are such things as loss carryovers, and if a problem still exists remedial tax legislation should be sought diligently. The industry can only do so if it has a sincere desire to do something about the problem once it gets the appropriate legislation.

Reason: The state of California is about to drop into the Pacific Ocean.

Answer: Oh no—are we back to that? Well, look, if the whole state disappears, so do your policyholders! ■

Warren G. Brockmeier is director of the western region of the risk management department of Ebasco Services Inc., a general management consulting firm. Mr. Brockmeier holds a B.S. degree in fire protection engineering from Illinois Institute of Technology, and the degree Juris Doctorate from the College of Law, DePaul University. He is also a Chartered Property and Casualty Underwriter and a member of the Chicago Bar Assn., the Society of Fire Protection Engineers, the National Fire Protection Assn.

When should you retire? It depends . . .

by Bion H. Francis,
Manager of Benefits Planning,
Colt Industries, New York



Bion H. Francis

This is the first 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.

When I set out to write this I intended to prepare a column—one column—on the most suitable age for retirement. As you will see from this, and from columns in following issues of *Business Insurance*, the question "When should you retire?" has led me to some strange—and unexpected—conclusions.

In a sense, the question "When should you retire?" arises from the increasing productivity of industry. There was a time when retirement was a meaningless term. The labor of all was required to provide a meager standard of living. But our productivity *has* increased. We can produce more and more of the good things of life with an expenditure of less and less labor on our part. This presents us with a choice—do we want more of the good things of life or more leisure?

The answer is undoubtedly that we want both. In the last generation or two, our standard of living has risen sharply—and so has the amount of leisure available to us. It was not too long ago that men worked—hard—for ten and 12 hours a day with no thought of vacation or retirement. Obviously, much of our increased productivity has been used to provide greater leisure.

IN RECENT YEARS this trend toward increased leisure may have slowed. If we allow for increased "moonlighting," increased participation in the labor market by women, and the volume of work taken home by salaried employes, it might be possible to argue that there has been no great increase in leisure in recent years. Have we satisfied the demand for leisure?

If we decide we want more leisure, there are several possibilities available to us. The question of retirement is therefore part of a much larger problem. If we want more leisure, *how* do we want it? As a shorter work week? As longer vacations? As earlier retirement?

There has been a trend in large corporations toward earlier retirement. Is there any reason for this trend? I have talked with many men who are about to retire. Some are prepared—both financially and psychologically—for retirement. There are many who are not prepared. I have talked with men who objected violently to the enforced leisure they were about to endure. And I have heard the stories of men who, when retirement was thrust upon them, did not live long enough to enjoy that much-touted retirement leisure.

Which can raise the question: If rising productivity is going to be used to provide more leisure, why not use it for more vacations and longer weekends? If men can object so violently to retirement, why must they retire? Is there any reason?

It is very well to talk about the advantages of early retirement. It clears the avenues of promotion for younger men, for example. The fact remains that when we retire a man who is still good, we are giving up a resource of value. Or are we?

WHILE REVIEWING this problem of retirement, I happened to think of another problem which faces our personnel and employe compensation managers. Some years ago, one of them told me about a recent college graduate who was being hired for $6,000 a year. At that time this was considered a good salary for a recent graduate, and we exchanged some reminiscences about what *we* were paid to start.

A few years later, a similar graduate was hired by the same company for $9,000 a year. Curious, I checked back to find out what the earlier graduate was earning. He, too, was receiving $9,000 a year!

The first graduate was a good man. He was doing a good job, he had now several years of experience—yet the judgment was that he was worth no more than the youngster fresh from school.

This doesn't sound right. Is there some reason why older employes should be at such a disadvantage? Perhaps there is. Let me quote from the Fourth Quarter 1967 issue of "Vectors" which is published by the Hughes Aircraft Company: "It has been estimated that the rate of obsolescence of engineering knowledge is about 5% per year, a figure that can and probably will increase. At this rate, the engineer, unless he continues his training, will in ten years find himself with half of his knowledge obsolete, and about half of what he will need to know in another ten years not yet invented or discovered. In fact, with the amount of technical knowledge now doubling every decade, the engineer may be said to have a "half-life" of only ten years, and this will shrink still further."

If we extend this to a working life of 40 years, it would indicate that only 6% of the knowledge that an engineer starts with when he leaves school is still useful knowledge at the end of 40 years; most of what he needs to know by the end of that time was discovered *after* he left school.

The purpose of education is to prepare you for life. The time has passed when a few years at the beginning of life is sufficient preparation. Education, if it is to accomplish what it should accomplish, must continue throughout your lifetime.

The problem of retirement is not a problem that concerns only the old. The young are equally involved. For the real problem is not a problem of retirement at all, but is rather a problem of obsolescence—obsolescence which starts as soon as the graduate clutches his degree.

The answer to all this seems obvious. A man's education must continue throughout his working lifetime. As soon as education stops, obsolescence starts and will continue with ever-increasing speed. Retirement frequently means only that society judges that the problem has become acute. Society is throwing in the towel. ■



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First American is first to feel Florida law

MIAMI—Florida's state insurance department has quietly taken control of a Miami-based insurance company under legislation passed by the 1970 legislature.

First American Insurance Co. is the first company in the state affected by the legislation, designed to avert insurance company failures.

The law permits the department to take supervision of the company for 30 days, audit its books and require changes that it suggests. If the company fails or refuses to comply, the department can move to place it into conservatorship or receivership.

DEPARTMENT officials emphasize that the company, headed by former State Senator L.A. Bafalis until he made an unsuccessful gubernatorial bid last year, has not been placed in receivership. Even if that action becomes necessary, they pointed out, policyholders will be protected under a new guaranty fund also established by the 1970 legislature but never used.

First American's problem, according to department officials, is liquidity—its ability to convert assets readily to cash to handle claim payments. "We stopped them from writing three or four weeks ago," said Harry Landrum, an adviser to the senate on insurance legislation.

When the company was quietly taken over by the department on Dec. 31, Mr. Landrum was chief aide to Broward Williams, outgoing insurance commissioner. Commissioner Williams was in command of the department at the time of the takeover.

"We have been predicting this for some time if they didn't add to the company's assets," said Mr. Landrum. "The department has the company under control." He said the company's last statement reflects that it is solvent under state law, but the department has ruled that its loss reserves, set aside to pay claims not yet settled, were more than $250,000 deficient.

"THIS ACTION will give them time to contribute to the surplus or to sell," he said, "and it will also give us time to be sure that everything is there that is supposed to be there. We just felt we couldn't wait any longer to act."

Twice before, the company actually was placed in receivership by the state, but both times it was judged rehabilitated. The most recent time was in June, 1968, under its present name and with Mr. Bafalis as president.

A special house committee investigating Florida insurance company failures questioned the company's solvency again in 1970. Miami Sen. Jerry Lewis, then a representative and member of the committee, stated publicly that the company was in trouble on the eve of one committee meeting.

But Mr. Bafalis promptly challenged him on the statement and he recanted, unable to document his allegations.

THE MIAMI HERALD disclosed that the company had employed as a consultant Philip Kitzer Jr., who was indicted but later acquitted for his part in the failure of American Allied Insurance Co., which prosecutors charged had been milked of its assets.

Although the insurance commissioner has no authority to reject a company's consultants—as he does company officers—Mr. Landrum said the department "told them they had to get rid of Mr, Kitzer."

Insurance department officials maintain that First American's major problem is its unfinished building in Miami.

Only the first two stories of what was planned as a 12-story structure have been completed. First American sought to sell the building to a motel chain, but zoning restrictions blocked that transaction. ■

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Commercial rates raised

PORTLAND, Oreg.—The Oregon rating bureau has recommended a 10% rate increase for extended coverage on general commercial structures of frame and brick construction, effective Dec. 1, 1970.

The bureau said unfavorable fire experience on a number of commercial classifications in Oregon made the rate jump necessary.

The bureau also recommended an overall 8.6% premium jump in dwelling fire insurance rates, also effective Dec. 1.

The recommended premium adjustments include a 7% reduction for owner occupied dwellings. Rates in most instances will go up about 16% for renter occupied dwellings.

A $100 deductible to apply to all perils, including fire, also is recommended. ■

New work comp insurer

SAN FRANCISCO—A new workmen's compensation insurer for California's construction industry, Beaver Insurance Co., has been established here and at Los Angeles.

Among founders are four former directors of Argonaut Insurance Co. They are W. C. Tait, San Francisco, builder and general contractor, who will be chairman and president of the new firm; Leo R. Westwater, vice president of Granite Construction Co., Watsonville; Hardie C. Setzer, Sacramento; and Fred Parr Cox, San Francisco.

Mr. Westwater will be senior vice president. ■

benefit tax slants

Treasury Department continuing to push for pension reform in 1971

By JOSEPH S. ROBINSON

NEW YORK—It is perfectly obvious that Congress will have a busy schedule this year—not the least of which is a full tax load of proposals including a new approach to put all qualified pension and profit-sharing plans on an equal footing.

In other words, corporations and the self-employed will be on a par in so far as retirement plans are concerned. And, (as we have previously reported), lump-sum payouts would no longer receive capital gains treatment if the Treasury has its way—all such pension distributions would be taxed at ordinary rates. What's more, "plan" benefits would be included in the employe's taxable estate if he died before the payout.

But here's the bombshell—the government is pushing hard for restrictions both on contributions and on benefits. Under the aggregate-funded pension plan, the benefits would be restricted to 3% if based on final average pay, but 4% if based on a career average. For money-purchase pension plans and profit-sharing plans, the maximum that could be contributed each year would be limited to 16.66% of wages. This is figured on pay up to $60,000; pay over that would be excluded. The net effect is that yearly contributions would be limited to $10,000 per man.

VESTING would be shortened and employes would get nonforfeitable rights much sooner. This would be based on combination of age plus years of service.

The employe might get tax deductions for his contributions to a plan. To encourage an employe to save for retirement, a limited tax deduction might be given for his voluntary contributions to the plan. He could deduct the lower of 20% of his salary or $1,000, but reduced by 10% for any wages in excess of $5,000. So an employe earning $15,000 would get no deduction.

What about Social Security? Look for a 6% to 10% general increase in benefits with widows getting 100% of spouses' benefit —not 82.5% as under present rules.

In order to pay for the increased benefits, the wage base is expected to rise from $7,800 to $9,000.

* * *

EMPLOYE moving expenses took on some new twists: You can't take depreciation on your car even though you used it to move your family. That's not considered a business activity (Rev. Rul. 70-656).

But you can take 6 cents a mile as moving expense rather than figure actual costs for using the car. On a mileage basis you can still deduct tolls, parking fees, taxes on car and auto loan interest (Rev. Proc. 17-2).

Many more moving expenses are deductible from 1970 on, thanks to the Tax Reform Act. For any expenses to qualify, the move must be 50 miles or more.

* * *

YOU CAN, without risking loss of tax status, exclude from an employe stock-purchase plan workers in a country that prohibits foreign corporations from granting stock options to its nationals. The Internal Revenue Service has clarified this point in (Rev. Rul. 71-39).

* * *

SUPPOSE an employe wins a bundle of money in the company's suggestion program. He should keep in mind that his winnings are treated as wages subject to FICA and withholding.

* * *

AN ELDERLY aunt who resided with her nephew received a pension of $700 a year. The nephew contributed in excess of that amount for her support. Query: Can the nephew take a dependency deduction? "No," says the tax court. Reason: The pension is includable when calculating whether the aunt is a dependent. What's more, the $700 exceeds the limit on income for a dependent other than a taxpayer's child.

* * *

A QUALIFIED retirement plan called for employe contributions. Under the plan, an employe was entitled to an annuity of X dollars per month at retirement. Let's suppose the employe later elects to take a joint and survivor annuity. Under the circumstances Internal Revenue held this to be a taxable gift to the beneficiary. ■

Widow awarded $75,046

PORTLAND, Ore.—A federal judge in Portland found the Port of Bandon liable for $75,046 in damages in the drowning of a port employe.

Judge Robert C. Belloni awarded the money to Mayme L. Froland, widow of Alfred J. Froland and executrix of his estate.

Mr. Froland, 51, was manager of the port with duties that included operating a boat on the Coquille river to clear logs. He was using a 22-foot launch owned by the port when he was drowned on Oct. 7, 1969.

MR. FROLAND's body was found by the Coast Guard but the boat was never recovered.

Judge Belloni ruled Mr. Froland's death was due to negligence of the port in failing to make the boat seaworthy to withstand normal perils.

The judge said the boat was in a continuously leaky condition and was not capable of withstanding collisions with logs which could be expected in debris clearing.

Mr. Froland was also negligent, the judge said, in leaving the dock in stormy weather and rough water and in not taking another person along.

The judge found total damages amounted to $150,000 but cut the amount by half because of the contributory negligence. ■



Let's Talk About Your Problems!

In talking with insurance people these days, you hear a lot about their problems —capacity problems, rate problems, exclusion problems, etc. Certainly they are real enough, only they aren't necessarily *your* problems. You already know your problems. But are you getting solutions?

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Security guard business on the rise due to spiraling crime rate

LITTLE ROCK—The phenomenal growth of the security guard business is a direct result of the zooming crime rate, which has drastically affected insurance rates, according to Ira A. Lipman, president of Guardsmark Inc., the nation's seventh largest security-guard firm.

Mr. Lipman, 30, a Little Rock native, was farsighted when he began his security-guard firm in 1963, long before the words "law and order" became a phrase of political dogma. He claims his company is the nation's fastest growing one in the field and he feels that his initial $11,000 investment to start the company in Memphis is his best investment.

"You remember back years ago you used to see the old night watchman with the clock slung over his shoulder," Mr. Lipman said. "You used to see it more then than now.

"RIGHT NOW ONE of every four watchmen comes through a security service like us. Three of the four are still those old men that walk around. That's what the potential is for this service to grow substantially over the next 10 years."

The Guardsmark guard is especially proud of the safety record compiled in the firm and in the industrial sites, colleges, banks, hospitals, etc., that it guards.

Marvin S. Donnaud, resident manager of Liberty Mutual Insurance Co. at Memphis, Guardsmark's insurer, said that the firm's record has had "exceptional results for the current three-year rating period. During this time, a very favorable loss ratio of 46% was produced.

"This unquestionably is one of the best results in your industry. Your workmen's compensation experience modification of .63 for the period ending November 30, 1970, is probably the best in the uniformed guard service business.

"THIS BETTER-than-average record can only be the result of that better-than-average program which Guardsmark Inc., employs in the selection and training of its people. Without question, this is the primary factor in bringing about this unprecedented record."

Guardsmark, which operates coast-to-coast, bonds its guards for $1 million in excess liability, with general liability rates up to $300,000 for bodily injury and $100,000 in property damage. In industrial security, the company's special provisions coverage includes protection in arrest, detention, imprisonment, malacious mischief, libel, slander, invasion of privacy, wrongful eviction, etc.

Mr. Lipman said the successes of Guardsmark can be traced to strict discipline for guards and hour-to-hour supervision of their activities, plus adequate training for the job. Guardsmark guards are trained in fire fighting, prevention of espionage and sabotage, control of vehicles and visitors entering secured areas, boiler operation, detection of pilferage, weapons use, civil disorders and other specialized areas.

The guards place red tags on dangerous equipment or other hazards found in the area where they are working, which has helped firms avoid costly accidents. Also the guards write a daily report of their activities, noting the possible safety hazards and any unusual occurances.

"WE'RE IN TWO phases of business," Mr. Lipman said in a telephone interview from the company's executive offices in New York City. "We're in the protection business, but we're also a service business.

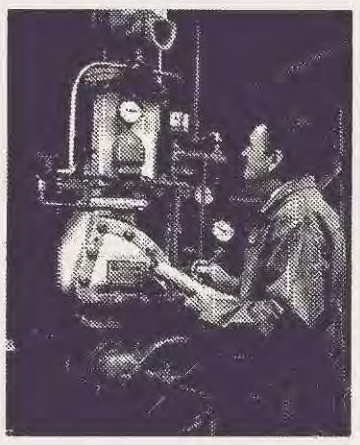
"One of the reasons we are growing so fast is the fact that we are a service and the service business is growing so fast.

"The second reason is that we are the second fastest growing industry in the country, and that is crime prevention, second only to crime. Crime is the biggest business in America today, and our purpose really is to combat that. Combating that growth, you really grow yourself."

Mr. Lipman hasn't forgotten the people who have helped his firm grow. The guards, who are employed only after a police and background security check (only one of 25 qualify), are provided with a minimum of $1,000 life insurance and a pension plan. Many of the guards are retired armed servicemen. ■

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Benefits . . .

Continued from page 22
of government service.

In addition, Congressmen may be eligible for deferred retirement benefits at age 60 after 10 years of government service or age 62 with five years of service.

The Federal Employes Health Benefit Program brings Senators and Representatives the standard health plan offered federal employes. The two principal plans offered through the program are Blue Cross-Blue Shield and Aetna Life and Casualty Company Indemnity Benefit.

Blue Cross-Blue Shield provides up to 365 days of hospital care under the high option program, and up to 30 days of care for each confinement on the low option, plus coverage for certain physicians' services and laboratory fees. In addition, supplemental benefits provide for additional services and supplies subject to a deductible of $100 on the high option and $150 on the low option.

The cost of the low option plan to the employe is $2.40 biweekly for single enrollment and $5.88 for family membership with the government contributing an equal amount in both cases. The high option enrollment costs the employe $5.60 biweekly and the government $3.46. Family memberships, high option, cost the employe $13.47 biweekly and the government $8.64.

The Aetna Life and Casualty Co. plan is a similar major medical program, with benefits paid to either the physician or hospital or directly to the employe, at his option. High option memberships cost the employe $6.33 biweekly for a single enrollment and $15.62 for a family plan, with the government paying $3.46 and $8.46 respectively. Cost of a low option membership is $2.68 biweekly single and $6.40 family with the government contributing an equal amount in both cases. ■

Information head

Edgar L. Kale, vp of Pacific Indemnity Co., has been elected president of Western Insurance Information Service.

Los Angeles had turned down quake cover idea

LOS ANGELES—A sidelight to the devastating southern California earthquake, responsible for the largest insured earthquake loss since the San Francisco quake and fire of 1906, could lead, in the future, to following recommendations of consultants.

In June, less than six months before the Feb. 9 quake, Los Angeles County received recommendations from the San Francisco consulting firm of Warren, McVeigh & Associates as to coverage the county should carry.

The recommendation was that the county self insure itself up to $3 million and carry catastrophe all-risk policy protection above that.

THE COUNTY rejected the recommendation and chose not to carry insurance other than for automobile liability and malpractice.

One of the major losses in the February quake was that of the new $23 million county owned Olive View Hospital.

Had the consultant's recommendation been followed, the county could have recovered $20 million of the loss. *(See related story on page 9.)*

More than 180 insurance companies write earthquake coverage in California and industry sources say that insured losses from the Feb. 9 earthquake in the Los Angeles area may exceed $50 million out of an estimated $2.5 billion exposure in the state.

Lockheed Aircraft suffered an estimated $1.5 million loss in property damage and business interruption according to Robert E. Butler, corporate insurance manager. The company has earthquake coverage as part of their difference in conditions policy, Mr. Butler said. The total coverage of $12 million, insured through the London and American markets, has a $100,000 deductible.

The leading earthquake carriers in the state have estimated their losses at $500,000 or less each with the exception of the Factory Mutuals, which expect losses of about $5 million. Fireman's Fund American has had $500,000 in claims filed with its own severely damaged Los Angeles office.

Sen. John V. Tunney (D.—Cal.) plans to introduce legislation to broaden the National Flood Insurance Act to include insurance protection against earthquakes. His proposed program would provide for federal subsidization to help pay the cost of catastrophic earthquake losses and would also apply to earthslides. It would be administered by the Federal Insurance Administration. ■

Gets equal insurance rights

MILWAUKEE, Wis.—The state equal rights division has ruled that a Catholic high school here discriminated against a woman teacher by failing to provide her with the same health insurance as offered to male teachers.

The division, which is part of the state department of industry, labor and human relations, said it would prepare an order directing Messmer High School to offer the same Blue Cross policies to married women as to married men. Mrs. Beverly Hundley said the school refused her for family plan coverage since she was not the head of her household.

Thomas W. Dale, division administrator, said that the school claimed it was not subject to the state's Fair Employment Act because it is a religious organization, supervised by the Milwaukee archdiocese of the Catholic church. He said the division decided, however, that since the school's principal function is education it is covered by the law ■

Premiums taxed

The Wisconsin state legislature's joint finance committee approved a proposal to increase the state's revenues an estimated $2 million by taxing insurance premiums that are currently exempt from fraternal, mutual, annuity and health insurance programs.

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Patman charges Penn Central exec manipulated employe benefit funds

WASHINGTON — Scarcely hours before Lloyd's of London brought suit in a federal district court charging some officials of the Penn Central with giving false and misleading information on an application for directors and officers liability insurance in 1968, House Banking Committee Chairman Wright Patman leveled a new volley of charges at former Penn Central execs and others for allegedly manipulating the company's investments, including a pension fund, for the benefit of themselves and their friends.

Rep. Patman made the charge in a letter attached to a 61-page report of the banking committee staff. In the letter he also recommended legislation that would require full disclosure of the makeup of pension fund assets, and their sale and purchase, and prescribed limitations on the investment of pension fund assets in any single enterprise.

The report involves Penphil Co., an investment club whose membership consisted mainly of Penn Central officials and close associates. Established in 1962, it was run almost entirely by David C. Bevan, former top financial officer of the Penn Central Co., and Charles J. Hodge, chairman of the executive committee of E. I. du-Pont-Glore Forgan, a New York investment banking firm.

THE PATMAN STAFF report says that some Penphil investments paralleled those of Penn Central itself, raising "serious issues concerning the use of insider information to benefit the members of Penphil." It notes, for instance, that the investment club purchased 10,000 shares of Great Southwest Corp. in mid-1963 for $165,000. Those shares were sold 17 months later, after Penn Central had gained control of Great Southwest. Penphil, the report alleges, had a profit of $212,500 on the transaction.

In his letter accompanying the report, Rep. Patman said the study "constitutes a classic example of the use of corporate power for personal profit. In effect" he declared, "it is the chronicle of how two men, David C. Bevan, the former chief financial officer of Penn Central, and Charles J. Hodge, the former chief investment adviser of the railroad manipulated the financial resources, the assets and the credit of the nation's sixth largest corporation for the benefit of an investment company, Penphil, which they established and directed."

The study reports that key elements to the success of Penphil were an unrestricted line of credit provided by Chemical Bank of New York and the manipulation of Penn Central investments by Mr. Bevan and Mr. Hodge. The line of credit amounted to $1.8 million in eight years and was primarily due to the large loan and deposit accounts maintained at the bank by Penn Central, the study contends.

"Chemical Bank loans to Penphil were made on such favorable terms that they played a large role in enabling most Penphil members to claim a profit of $83,500 on a cash investment of $16,500," the report states.

"THE DUAL ROLES played by Mr. Bevan and Mr. Hodge—controlling Penn Central investments in a way designed to benefit Penphil, which they also controlled —involved the manipulative use of Penn Central pension funds on which thousands of persons depend to sustain themselves in retirement. The details of the transactions disclose that Penphil stood to be the ultimate beneficiary," the report states.

It further maintains that Mr. Bevan and Mr. Hodge, between them, had access to the Penn Central supplemental pension plan, with assets of more than $300 million, and the Penn Central contingent compensation fund, with assets in excess of $11 million. They also had access to the assets of Mr. Hodge's firm.

"Thus, to a large extent," it continues, "other people's money was being used to finance investments in certain selected companies for the purpose of permitting Penphil and those associated with it to control these same companies."

In addition to the investment in Great Southwest Corp., the report also questioned the Penn Central investment, through the supplemental pension plan, in Tropical Gas Co. stock. Penphil held half the seats on the board of directors and the Penn Central purchases in Tropical Gas were made over a 25-day period in the fall of 1968, but after the gas firm had decided to make a new $1 million stock offering.

"This new issue," the report contends, "would have inevitably diluted the value of the outstanding Tropical stock after the pension fund purchase was made. Mr. Bevan and Mr. Hodge . . . knew of the plans for the new issue before the pension funds started buying Tropical stock in September, 1968, but did nothing to prevent this harmful action from being taken." ■

Reiterates absolute liability view

WASHINGTON—The American Society of Insurance Management, through legislative counsel James E. Bailey, has reiterated its opposition to absolute liability for commercial vehicles under no-fault auto insurance legislation.

Mr. Bailey urged the joint legislative committee on insurance rates, regulation and recodification to bear in mind the fact that almost all ASIM members who are fleet operators have "extensive safety programs in operation and many companies have total safety programs that carry the safety theme out of the working place environment and into the home.

"Our professional risk managers," he told the committee, "do not agree with statements suggesting that corporate fleet operators would be the beneficiaries of a windfall by way of premium reductions if they were not held absolutely liable. It is the opinion of those knowledgeable in risk management that any premium reduction would be an earned one derived in whole or in part from company-oriented safety programs.

In April, 1970, the ASIM national legislative committee voted unanimously that it was "unalterably opposed to absolute liability for commercial vehicles regardless of the method of insuring the remainder of the automotive exposure to first- and third-party claims," he said in Washington. ■



Up in Northern Canada, where the roads end and the endless snow begins, the Hudson's Bay Company still serves the native Eskimos and Indians. Until recently, the only way to ship them ever the proverbial refrigerator was by dog sled.

While those dogs and sleds were still running, the Canadian subsidiary of MOAC insured every one. Goods and all. Despite the fact that they often ran over some pretty thin ice

No history to learn from. Until MOAC did it, no one had ever thought of insuring such a risk. After all, it's judgement business. And, in inland marine, most companies concentrate on the other kind. Of course, we can quote standard rates as well as anyone. But almost 80% of the inland risks we cover are risks that have no precedent.

Skill and common sense. Obviously, every judgement risk is different. And so is every policy that covers

INA executive says cargo insurance belongs under the control of one

NEW YORK—Alvin S. Roberts, secretary of underwriting at Insurance Co. of North America, is an old hand at marine insurance and, while speaking to a gathering of risk managers here he drew on his years of experience to make his points.

"We acknowledge that cargo insurance is a specialty," he told those assembled, "and, moreover, is relatively expensive. Not expensive insofar as total annual insurance dollars are concerned, but proportionately so. For example: $100,000 in manufactured goods insured under broad marine and war risk coverage for a two week trip from the U.S. to a Mediterranean area destination may cost in the general area of $500. That same $100,000 in merchandise could probably be insured while in a good warehouse either stateside or at the Mediterranean destination for around $250 for an entire year. It behooves all of us then to take a long, hard look at this clearly high risk business and see what can be done to reduce the losses."

Mr. Roberts pointed out that the risk manager had two real responsibilities in the overseas transport area.

THE FIRST responsibility is to see that everything possible is done to deliver the product in sound condition. The second is to see that there is prompt reimbursement by an underwriter when something goes wrong. He said that these points were partly the responsibilities of the traffic and shipping departments but that the risk manager's knowledge of loss and damage experience and his knowledge of other shippers' experience should be the cornerstone of packing, marking, preserving and routing the shipment.

"Now that we have established you, the international insurance manager, as the logical source for all loss and damage data, there is one step you must take to be sure that you have direct access to all of your loss information," he continued, "and that step is to bring all of your cargo insurance together under your direct control. When each overseas branch has insurance autonomy and places its own covers it is just about impossible for you to assemble any valid loss and damage figures. You should also control the cargo insurance on shipments to your customers."

Mr. Roberts noted that only 20% of all cargo losses were due to uncontrollable events such as sinkings, strandings, collisions, fires and storms at sea. The other 80% were preventable. This major category included such things as theft, pilferage, breakage, leakage, handling damage and several forms of water damage. He said that the cost of uncontrollable disasters was spread among all shippers but that each shipper must bear his own cost for the preventable losses.

In breaking down the preventable losses into categories, Mr. Roberts noted that the most costly was theft, including pilferage, non deliveries and hijackings. He felt that the best defense against theft was adequate packaging and non-descriptive marking. Of equal importance was the selection of carriers who use the best theft control measures, such as lighting, alarm systems and guards. He added that a positive and planned approach to theft control was necessary because of the presence of organized crime.

"THE EXTENT of the spread of organized crime in the past 20 years," he said, "is grim evidence that each one of you must bring all the pressure you can upon carriers to fight this disease else it will ultimately wind up in control of important segments of our economy, just as Newark, New Jersey, demonstrated that it controlled important segments of politics."

He also noted that organized crime was the main cause of losses to air cargo.

The second preventable category was the handling and stowage area, which produced breakages, leakages, crushings and contaminations. The losses could be prevented, or at least minimized, if packaging was designed to withstand expected hazards. "Your best defense against these destructive forces is your packaging engineer, be he on your staff, in your shipping or traffic departments, or be he an independent contractor."

The third area was water damages, including salt sprays, ship's sweat and cargo sweat. Mr. Roberts was of the opinion that heat and cold should also be included in this grouping because variations in temperature and humidity often produce heavy rust damage. "The prevention of these losses are also in the hands of your packaging engineer for our technology has produced a host of water proof and moisture vapor proof barriers and techniques that can just about guarantee freedom from these losses," he contended.

IN REGARDS to containerization, Mr. Roberts, like just about everyone else close to the shipping industry, was not certain whether "the added loss hazards introduced by containerization more than offset the diminished break bulk hazards, or vice versa."

He noted that some of those added loss hazards introduced by containerization included the huge losses suffered when a number of containers stored on the deck of a vessel were swept overboard in heavy weather, container maintenance, damages due to improper loading of containers and the fact that many containers were designed in such a way that opening, pilfering and restoration could be done in a very short time.

"What is both vital and reassuring, both to shippers and underwriters, is the certainty that the international traders' own premium and loss experience is the most significant determinator of his cargo rates. He can be confident that to the extent that containerization reduces the losses he previously suffered when shipping break bulk, then to that extent will his rates go down. Or, believe me, go up if the opposite turns out to be true," he said. ■

Quantas raises benefits

Some 150 members of the International Assn. of Machinists in San Francisco and Honolulu have won improvements in a three-year contract negotiated with Quantas Empire Airways, an Australian airline. The new contract provides for full company payment of pensions and dental insurance, improvements in hospital insurance and increased wages.



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Workers win benefits but forego '71 pay raise

HAVERHILL, Mass.—As a result of the impact of foreign imports on the shoe manufacturing business, a two-year contract has been reached between the shoe workers union and New England manufacturers to forego wage increases this year. A 5% across-the-board wage increase next year is stipulated.

The agreement calls for an increase, from 11 cents to 13 cents an hour, in pension fund contributions and an increase in the hospitalization allowance from $45 a day to $80.

Additional improvements included free eye examinations and eye glasses and in the event of layoffs or factory shutdowns vacation pay will be given on a pro-rata basis after Aug. 1, 1972.

R. B. Jones acquires Kansas City agency

KANSAS CITY, Mo.—R. B. Jones Corp. has concluded an agreement to acquire Altman Bros. Insurance Agency Inc. An exchange of R. B. Jones common stock for all outstanding shares of the Altman agency has been proposed.

The Altman agency had 1970 commissions and other income of about $210,000 and handles commercial business principally. It will become part of R. B. Jones Inc., Jones' Missouri subsidiary.

R. B. Jones Corp. is the seventh largest insurance brokerage and agency in the U.S.

New auto rating system for Chicago

CHICAGO—A new auto insurance rating system, based on loss experience of Insurance Rating Board member companies, has divided Chicago into four separate rating districts.

Chicago previously comprised of only one rating district and according to Walter Dithmer, regional manager of the Insurance Information Institute, is one of the last of the big cities to be divided.

After the division rates for comprehensive coverage (based on an average car, moderate use and no bad driving record) jumped approximately 300% in one area and doubled in another. Mr. Dithmer said that rates stayed fairly constant in the two remaining areas.

Approximately 170 insurance companies throughout the U.S. belong to the Insurance Rating Board, an industry statistical research service. Not all members write coverage in Illinois, however.

Brewing firm sued by retired executives

PITTSBURGH—A $700,000 damage suit, charging that the company's board of directors arbitrarily withdrew retirement death benefits, has been filed against Duquesne Brewing Co. by three retired executives of the firm.

The suit charges that the board of directors voted to cancel the life insurance policies of salaried employes in October, 1969. The policies were written by the Equitable Life Assurance Society of the U.S.

The three executives, a retired vp, retired chief brewmaster and the retired general sales manager, are asking $200,000 in actual damages to cover death benefits and $500,000 punitive damages. The suit is also being backed up by about 40 other retired employes who would share in any damages awarded by the court.

'Phantom' plan for key Gruen employes

NEW YORK—In a tableau that could be called, "The Phantom Strikes Again" the directors of Gruen Industries Inc., maker of watches, have adopted a "phantom" stock plan for compensating key employes. The move will almost do away with Gruen's conventional stock option plans.

The plan, however, is subject to the approval of Gruen's shareholders at the annual meeting in July.

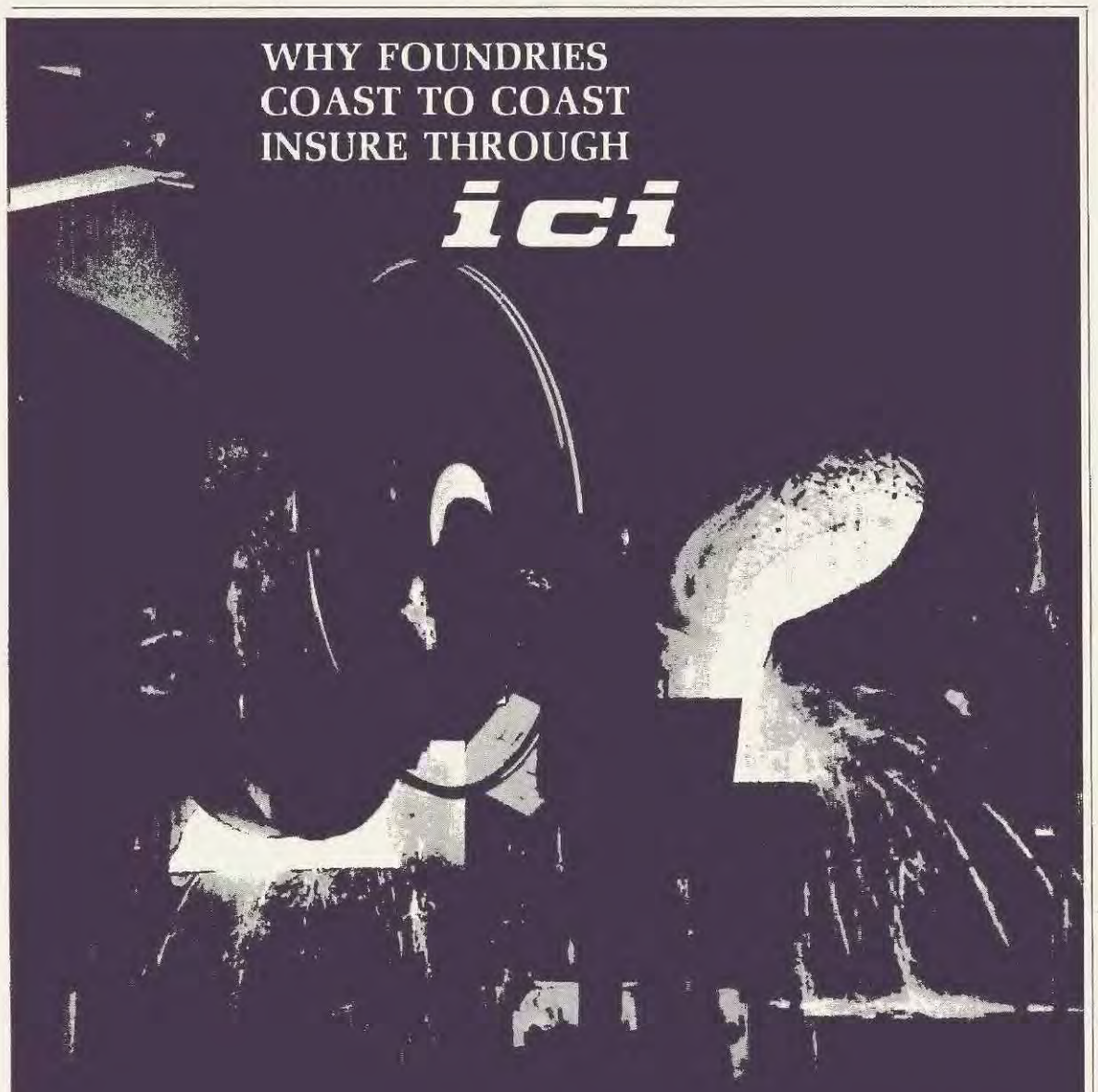
The phantom stock plan is an operation in which an executive receives a certain number of imaginary shares of stock, or units of participation, in the company and receives regular dividends on them. The shares are actually bookkeeping entries and not real shares. The executive usually takes lump sum dividend payments when he retires. A few plans give the executive the appreciation on his imaginary stock over the years he has held it.

Gruen has said it may purchase shares of its common stock on the open market from time to time. The shares will be held in the treasury in connection with the phantom plan.

A&A acquires Boston brokerage

NEW YORK—Field & Cowles, 103-year-old Boston insurance brokerage, has merged with Alexander & Alexander Inc., New York. Field & Cowles, with a staff of 35 to 40, have been mul-

Continued on page 42



SAFETY ENGINEERING

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'Big job' plan encompasses social challenges for company, employes

SAN FRANCISCO—"People from all walks of life would like to have a bigger job, a job they can relate to a bigger cause than their own immediate day-to-day survival," according to Walt Eimold, vp, O. C. Tanner Co. He suggested the creation of "a force of volunteer combat teams organized by company incentives to fight company and country problems" in a plan entitled "big job."

Mr. Eimold discussed the new horizons in motivation and benefits at a luncheon meeting of the American Society of Insurance Management annual conference.

"Behavorial scientists tell us," Mr. Eimold said, "that one of the soundest and most lasting ways to motivate a man is to give him a challenging and rewarding job. A job that requires him to stretch and grow, a job that will test him and help him develop on the outer perimeters of his talents so that he has the opportunity of becoming all that he can become."

THE VP ADMITTED that it would be a difficult task on a large scale "because changing job content to accomodate individual needs means adapting the organization to the individual, and bureaucracy being what it is there are few organizations up for adaptation."

Mr. Eimold sidetracked from the individual needs to the greater problems of business and society and their interrelatedness, stressing the greater commitment business has to make to solve the problem areas of life such as urban slums, pollution, war and peace, and technological innovation.

Mr. Eimold suggested the coupling of the two problems: "I believe that the time has come for the conceptual acceptance of the idea that any company can make the jobs it offers more satisfying, and any company can better fulfill its wider social responsibilities if it will systematically use the motivation it can create to make its employes want to assume, voluntarily, an extracurricular action interest in these problem areas of society.

"The mechanics of how this idea can be utilized are as varied as the imagination," according to Mr. Eimold. He did however offer an illustration of how the idea could be put to use. He used for his plan a client of O. C. Tanner. The client is an international company of more than 20,000 employes.

"THIS COMPANY, like many others, has on tape a manpower index of the background, education and talents of its employes." Mr. Eimold suggests the following idea action plan for such a company.

- "The company would single out 10 'big job' problem project areas in which both the company and the country are involved."
- A decision would be made on what kind of people (background capabilities) would be best suited to make contributions to the solving of the problems.
- The company computer would select a broad group of employes.
- The same process would be used for each of the problem areas.
- "A briefing letter would be sent by the president of the company to those employes selected inviting them to undertake a 'big job' project assignment as an extracurricular activity. The letter would cite the reasons the company was asking the employe to consider participating, the growth benefits to him and the benefits to the company." The letter "would make clear that this activity was voluntary and could be refused without penalty, and would be non-directed and not subject to monetary compensation by the company . . . the individual would be free to work on the problem alone, but names and address of other company employes in his area who accept a similar 'big job' assignment would be furnished to him so that each of them would be free to organize 'big job' teams."
- "A formal written acceptance by the employe, if he decides to accept, would be required. Acceptance would acknowledge the obligation to submit an annual report of the action taken and the results achieved by the employe or the team on which he chooses to function.
- "An annual review of all 'big job' project reports will be made by a board composed of executives drawn from both within and outside the company.
- "This I consider most important: Suitable symbolic recognition for 'big job' project endeavor would be awarded annually. Outstanding 'big job' achievements would be given outstanding visual, wearable recognition.
- "At the end of each year old 'big job' projects can be retained or new ones introduced. Participants would be invited to renew their commitment based on performance or perhaps change their project.

"The finest motivation and the greatest benefit I can imagine is one of helping a fellow human being become all that he can become. The concept of company-promoted 'big job' projects has, in my opinion, that potential," Mr. Eimold concluded. ■

Wis. plan rates up 25% to 30%

MILWAUKEE, Wis.—Because the Wisconsin insurance plan operated at a loss for the first nine months of 1970 rates on property that is difficult to insure were raised 25% to 30% this year. Rates on new policies were increased Jan. 1 and renewal policy rates went up in price Feb. 1.

According to Roger C. Krafft, manager of the plan, it lost $363,100 from January through September. He said the loss "continues the unprofitable trend established last year" and made necessary a rate adjustment.

The plan became mandatory, by state law, Jan. 1 for most insurance companies licensed to do business in Wisconsin. Those companies, therefore, will share in the 1970 losses, Mr. Krafft said.

The plan added vandalism and malicious mischief coverage July 1 to the fire, storm, explosion and riot insurance guaranteed to be available to any property owner in Wisconsin. According to Mr. Krafft, more than $134 million worth of protection has been provided by fire insurance companies for about 6,200 properties in Wisconsin under the plan.

The only properties ineligible for coverage are factories, farms and those places that have excessive and uncorrectable hazards, he said. ■

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Exec financial counseling benefits company, too

SAN FRANCISCO—Who really benefits from an executive financial counseling service, the executive or his company?

Arthur S. Hummel, chairman of the Aims Group Inc., says the answer is "both" but that the benefit to the executive, "although important, is really incidental."

He told the American Society of Insurance Management at its annual meeting here that Aims Group studies "make it clear that the dedicated executive who is, in fact, organized on a personal financial level will in almost every case devote more time to his executive responsibilities and be more efficient in his work." These improvements, he added, are radiated to all the people reporting to the executive.

"We are convinced of the relationship between quality of executive performance and profitability."

COUNSELING can also reduce outside financial stress leading to illnesses such as high blood pressure, Mr. Hummel said, and help the executive to do a better job for his company and the company's stockholders. In addition, counseling is a recruitment and retention aid and, he said, in this time of executive lay-offs most good men "have weathered the storm and the demands on them have multiplied so that a service like ours is more necessary than ever." Many employe benefit plans, designed at great expense and effort, go "unemployed" by executives and they will appreciate a service that coordinates them with their own financial attitudes, goals and capabilities, he said.

Of major benefit to the sponsoring company are the objective audit of its benefit programs and the feedback of executive attitudes toward them that result from financial counseling. The company also receives the advantage of increased employe enthusiasm that always follows provision of an immediate benefit.

Mr. Hummel warned ASIM members, however, that selecting a financial counseling service to provide all these benefits was not an easy thing. He named several points to bear in mind while looking for a service.

Just as an executive is uncomfortable about revealing his personal financial business to a fellow employe so is he uncomfortable revealing it to a person or organization whose overriding duty is to his employer. A counselor must be able to obtain full disclosure, Mr. Hummel said, or there will be only fractured planning.

BE SURE, he said, that the service provides truly total planning and does not respond only to what are patent executive vulnerabilities. Typically an executive is "worth more dead than alive" and "the sad truth is that all too much alleged planning is little more than a first step toward a life insurance policy or the opening of an account with a trust company," said Mr. Hummel. Another weakness of the high-income man with attendant tax erosion problems is his desire for a tax shelter. "Unless every aspect of his financial life is carefully examined, right down to automobile liability contracts," he noted, "he could become very uncomfortable and disturbed with his so-called tax shelter."

A full written report of interviews should be made to an executive. This is "crucial to the prevention of misunderstanding and is evidence of the in-depth capabilities of the advisory organization," he told the employe benefit men. "Beware of glib and oral statements."

Mr. Hummel warned of a lack of emphasis in the past on providing a continuing service to monitor the executive's affairs and keep him up-to-date. "There have been many unfortunate situations in which investments by an executive whose attention is focused on the company's bottom line were construed as conflicts," he said. "Such experiences have damaged the executive and the company as well." One example he recalled cost the heirs to the Campbell Soup Co. $7 million.

An executive wants more than financial advice, he said; he wants help in implementing a plan. The question of conflict when an advisory organization is also in a position to make money in the area of implementation must be faced squarely, he noted; full disclosure of any money that could be made by the counselor or its subsidiaries or affiliates is necessary.

"A safeguard here," he pointed out, "is to make certain that the organization providing the counseling service charges an adequate fee for the counseling and therefore is not put in the position of having to push for commissions or other fees."

The last major guideline, Mr. Hummel said, is to remember that the executive who does accept financial counseling paid for by his company must be told that he will incur personal out-of-pocket expenses. He will have to pay for the services of his attorney and accountant, who must be called upon for opinion, legal and accounting advice and draftsmanship. ■

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Mass market reinsurance

LOS ANGELES—Reinsurance for mass merchandising will be made available by Beneficial Standard Life Insurance Co. here.

Henry Roth, president, described the action as being "designed to help counter the impact on insurance companies of federalization of health insurance. For the first time," he said, "both reinsurance and co-insurance of mass marketing for accident and health coverages will be offered with complete service facilities.

"Ever since establishment of Medicare," Mr. Roth explained, "it has been apparent that the next move would be to seek to nationalize health insurance. We agree, then, with insurance leaders who say that time is running out and who see mass merchandising as one of the realistic methods for supporting the voluntary system.

"And mass merchandising," Mr. Roth added, "can provide basic protection for the more than 35 million Americans entirely without hospital coverages."

Mr. Roth's company originated the mass merchandising through credit cards in the late '50s and now markets through department stores, banks, oil companies and credit organizations. ■

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Funds . . .

Continued from page 23

pattern has leveled off"); growth funds ("more vulnerable to market declines"); specialized common stock funds; Canadian and international funds; geographic funds ("there's little to be gained by restricting one's investments geographically"); the competitive capital funds concept ("the idea of hiring the cream of the management crop"); leverage funds, convertible funds, exchange (switch) funds, dual funds, public hedge funds, letter funds and savings bank mutual funds.

MR. DACEY quotes a mutual fund evaluator, Hugh A. Johnson, in his suggestion of the three questions a potential mutual fund investor should ask himself in making his decision: "Does the fund do what I want done? Do I approve of the methods it uses to attain its objective? What success has it had doing it that way?"

"Dacey On Mutual Funds" includes voluminous comparative information on many different actual mutual funds. One chart maps the fluctuation factor of 232 funds, which Mr. Dacey claims "is a measurement of management performance. A fund that consistently displays a fluctuation factor of substantially more than 1.00 in rising markets and substantially less than 1.00 in falling markets is performing ideally, and that a fund can easily stand a downside fluctuation factor of 1.25 if it delivers a factor of 2.25 in a rising market."

Aside from several different approaches to trying to understand how mutual funds perform and why, Mr. Dacey also discusses the various means by which these funds are sold. He covers both the case for load (those which charge a commission for sales) as well as no-load mutual funds. He leaves this decision up to the reader after carefully explaining the criteria to be analysed in choosing either alternative.

Mr. Dacey is not unaware of the several skeletons in the closets of the mutual fund industry, either. He runs through a detailed account of the Mates story (of private placements and bad bookkeeping), the Winfield story ("jiggery-pokery with the books") and the Enterprise story ("the fund's magnificent performance was an out-and-out fake, contrived largely of discounted letter stock purchases and gross overvaluation of such holdings").

MR. DACEY has also shown himself as a decided critic of the Securities and Exchange Commission itself. "The quality of its administration of the securities laws has deteriorated sadly," he charges, and then goes on to explain why he feels this way.

The reader comes out of this book with a much clearer view of the investment industry. No employer or benefits expert should sit down to a sales presentation without first or last, sitting down with this book.

("Dacey On Mutual Funds", $4.95; 272 pages; published by Crown Publishers Inc., New York, N. Y.) ■

Fees for self insurers?

Legislation has been proposed in Sacramento, Cal., to require self-insurers to pay fees to cover the cost of their supervision. The measure is similar to one proposed two years ago by the division of industrial accidents. The current measure was written by Jack R. Fenton, Montebello Democrat assemblyman who is chairman of the assembly committee on finance and insurance.

Lloyd's suit . . .

Continued from page 1

Naturally, the directors and officers named in the suits have turned to their insurer to defend them. Lloyd's, therefore, could conceivably spend $10 million—the limits of the policy—defending actions it later found to be excludable under the policy terms. Moreover, it would likely be unable to recover such expenses because of the Penn Central's bankrupt condition.

One corporate attorney who has long minimized the value of D&O coverage saw the developments another way, however.

"THIS PROVES two things," he said. "First, Lloyd's is running scared for fear that government interest will blow D&O right out of the water. Second, their backing away from coverage in this case tends to confirm that there are few things that a directors and officers liability policy covers."

Asked about the possibility that Lloyd's may simply be trying to avoid the fantastic defense costs that are likely to be rung up by Penn Central, the source noted: "Sure. Absolutely. But it goes a little deeper than that. I think Lloyd's is genuinely concerned with the position of certain members of the U.S. Congress on D&O coverage." He was referring to national attention Mr. Patman has gotten for criticizing insurance for "wrongdoing" by corporate directors and officers.

Confronted with this, a New York broker familiar with D&O declared: "I do not agree. Literally hundreds of claims have been defended by Lloyd's at substantial defense costs and they've never backed away from a policy. I just think that the attorneys for the underwriters must have come upon so many things that were known to Mr. Brevan before the policy was taken out that they are saying that the whole thing was a fraud."

As far as government interest in directors and officers liability is concerned, the Penn Central case and Mr. Patman's concern for the propriety of corporations insuring executives for "wrongdoing" appears to be giving underwriters reason for being nervous.

SAID AN OFFICIAL of American Home Assurance Co., a second major market for D&O: "There will be a lot of investigation, no doubt, but just how far the government might get interested in all D&O, even that purchased by companies not regulated by government agencies, I really don't know at this stage."

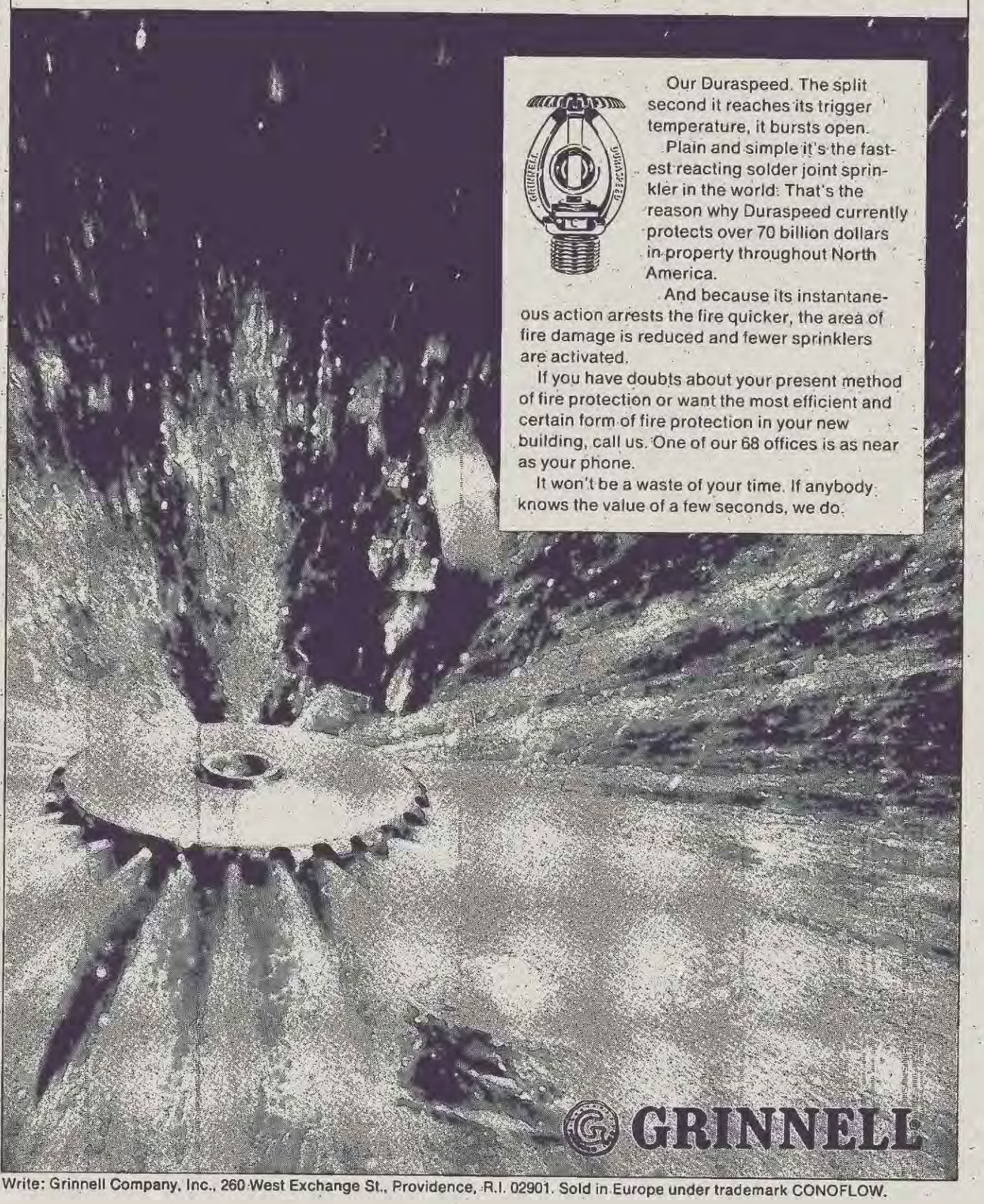
Directors and officers liability, though the fact is not advertised by underwriters at Lloyd's or American Home, is believed to be an extremely profitable line of coverage these days despite increasing stockholder derivative actions. If the federal goverment does get interested in D&O, it will be one of the few times it has gotten interested in a profitable line.

Penn Central's broker on the disputed policy was Marsh & McLennan. The London correspondent on the business was Stewart, Smith, New York. A spokesman for the latter broker refused to comment on the case other than to say "it is not the most unusual" course of action for the underwriters to take under the circumstances." ■

Flood program started

The Federal Flood Insurance program has been introduced for the first time in Arizona and in Oregon. In Arizona the servicing organization will be the Zurich American Group. In Oregon the servicing organization will be State Farm Fire and Casualty.

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Urge hurricane pools to solve Texas problem

AUSTIN, Tex.—Insurance agents have urged strongly that the state board of insurance be authorized by law this year to establish mandatory insurance pools to make hurricane and other windstorm and hail insurance available in certain areas of Texas.

Officials of the Texas Assn. of Insurance Agents and agents' spokesmen from Galveston and Corpus Christi strongly supported the proposal.

The insurance board is expected to propose that it be authorized to require all insurance companies selling such insurance to share in providing coverage in insurance-short areas like Galveston, Corpus Christi and parts of west Texas.

THE PROPOSAL is that companies share in writing the insurance in proportion to their total writings in Texas, with credit for their voluntary writings in the storm-prone areas.

Baxter Johnson, executive secretary of the Corpus Christi Assn. of Insurance Agents, urged that the mandatory pool system apply also to fire insurance. He said the availability of fire insurance, as well as windstorm and hail insurance, has become highly restricted in his area.

LEWIS HARRIS, president of the Galveston insurance board, said his city has long had restruction of storm insurance availability and "since Hurricane Celia our condition has been aggravated. It is our opinion, based on a survey of agents, that between 25% and 50% of expiring policies of all kinds cannot be renewed in the normal market."

The number of companies writing windstorm insurance at Galveston has declined from 55 in 1961 to 35 in January, 1968, and to 26 now, he said. The number of active insurance agencies has declined from 36 in 1961 to 15 now, and agency plants have declined in that time from 159 to 47, he said. ■

Retailer's . . .

Continued from page 16

now the case, and only one door authorized for employe entrance and exit. This will make it easier for guards to check employe packages for the security department inspection seal, which indicates there is a sales slip for every item in the package.

IDEALLY, the security director said, an employe should not have to walk through the sales area to reach his locker—that provides too much temptation.

Mr. Wood also intends to purchase clear plastic handbags for



Delbert L. Wood

all female employes. "Their own purses will be left in their lockers," he said, "and they will use the clear bags to carry any necessities to the floor with them. This eliminates another temptation to steal."

Employes who notice any internal irregularities are encouraged to submit a written memo stating the situation to Mr. Wood. "We make it easy for them to remain anonymous. All they have to do is type a sequence of numbers at the top of the memo and repeat it at the bottom. They then tear off the bottom and keep it. If our investigation does reveal irregularities we put a notice in the store newsletter asking if #12345 will come claim his reward. If the torn part of the memo with the proper numbers fits, the reward is paid."

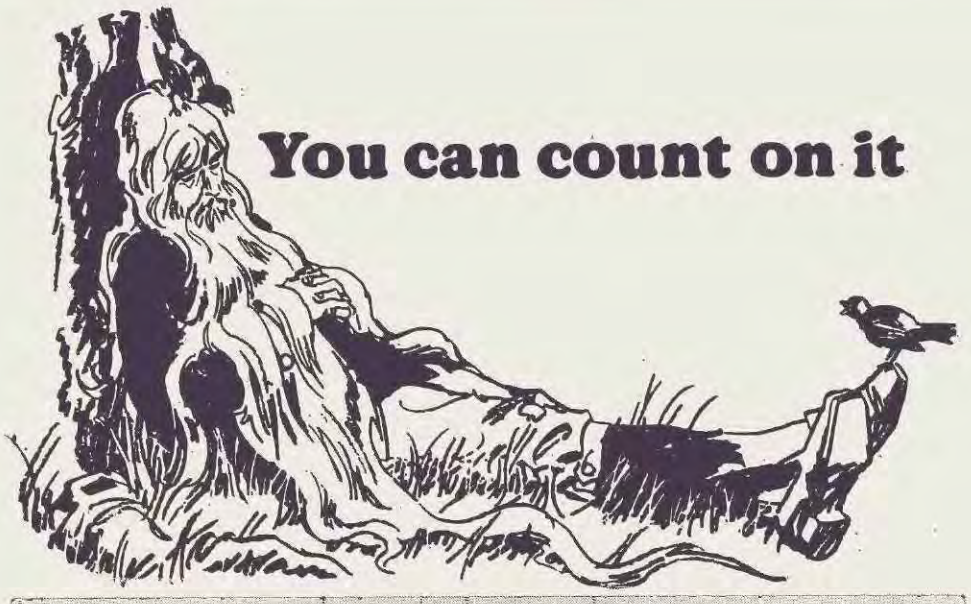
Carsons' newspaper and individual store newsletters have played an important part in the success of the new security drive. New security developments are announced and reviewed in almost every issue and rewards to employes who have recovered stolen charge plates are listed. Public address announcements before and after store hours are also part of the security communication system and a booklet on shoplifting, written by Carsons, is given to each employe. ■

'Bad guy' movies may help merchants

FORT MYERS BEACH, Fla.—A training program to help management reduce mounting losses from shoplifters and short-change artists has been put on tape by Close Productions Inc. here.

"Stop the Short-change Artist" (two tapes) and "Stop the Shoplifter" (four tapes) can be played on any cassette tape player or recorder. Each runs from seven to ten minutes and has ten questions with multiple-choice answers for self-testing on the reverse side. They can be used in group meetings or for self-training.

The complete set of six tapes is $39 plus $1 postage and handling from the company at 2020 San Carlos Blvd., Fort Myers Beach, Fla. 33931. Discounts are available on quantity orders.



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london line

London underwriter predicts rate hike of 10% to 15% for supertankers soon

LONDON—Supertanker insurance rates will rise by 10% to 15% before long, Sidney J. Charlton, chairman of the Institute of London Underwriters, has warned.

"By July last year there were 98 tankers of 100,000 tons gross, with a total tonnage of 11,062,580 tons. I calculate that the total premium called for, excluding total loss content, was approximately $53 million gross, or $45 million after allowing for brokerage and discount.

"Total cost of repairing the Mactra, Kong Haakon VII, and Esso Cambria is likely to exceed $40 million. I have excluded the Aquarius, as her weight is 99,822 tons. But with such figures, quite apart from the effects of inflation, an upward adjustment of large tanker rates is called for."

After urging an annual adjustment to all marine rates to meet inflation, he revealed that marine underwriters in Britain are considering the idea that minimum deductibles should be introduced on cargo risks to reduce small claims. He added: "Arguments against such a move include the need to comply with letters of credit, and competition from overseas. But it might help to offset premium increases."

* * *

EMPLOYE liability claims are now soaring so much that premiums for employers with bad safety records may rise by 100%, according to Michael W. Payne, a Lloyd's underwriter in this field. He told the London Insurance Institute that average premiums for employers' liability in Britain might have to go up by 25% because the courts are awarding heavier damages.

Then he added: "It is to be hoped we will never reach the level of awards in the U.S., where recently one claimant received more than $3.5 million, but we are certainly heading in that direction. Some insurers are even reducing premiums to attract new business, but this is unrealistic and could lead to their financial collapse."

British court awards for the worst types of injury, such as paraplegia or severe brain damage, are now at the $100,000 level, compared with $50,000 less than three years ago, and some have nearly hit the $200,000 mark. They have always been kept down by the courts to what are felt to be realistic limits in terms of lack of employment prospects, loss of enjoyment of life, and financial suffering to the families of injured workers. But inflation has hit all walks of life and compensation for minor injuries, such as loss of a thumb, has risen from $35,000 to $70,000.

Mr. Payne criticized risk managers who "shop around" and bring rates down to a bare minimum. He believes this merely means moving the risk to another market as soon as the underwriter tries to put it on a proper basis and that the best system is to get adequate and complete cover at all times.

* * *

ON HIS FIRST day of work at a new industrial plant in Sheffield, Eng., Thomas McCarthy, 35, fell 16 feet when a heavy pipe being lifted by two cranes slipped. He was paralyzed for life from the waist down.

He and his wife had planned to have a second child, but this is no longer possible.

Awarding him $80,000 damages in compensation against the firm that had employed him, Judge Gerald Thesiger said it was difficult to measure loss of enjoyment and life's amenities. Mr. McCarthey's attorney told a court trying his civil suit, "Being unable to have another child is something that should be taken into account in law when considering loss of amenities. He would have liked another child, but his sexual life is now very limited.' ■



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Wash Watch

Continued from page 4
by longshore act employes in U.S. district courts seeking recovery from shipowners.

THE PROPOSED legislation would increase the maximum weekly compensation under the act from $70 to $119 and raise the minimum weekly compensation for total disability from $18 to $35.

It would also make a proportionate increase in the overall maximum for temporary total and partial disability from the present $24,000 level to $40,000.

Other provisions of the proposal would modify the statute of limitations under the act increasing its period and allowing for the later development of a disability resulting from an employment injury; reduce the period of continued disability required to avoid a waiting period; increase the level of survivors's benefits and allow a surviving child to continue to receive benefits after age 18 if he is in a student status as defined by the bill.

To promote employment of the handicapped, the bill makes more definite the second injury provisions and provides additional revenue for the "special fund" for second injuries.

The longshore act serves as the workmen's compensation legislation for the District of Columbia. The average weekly wage in Washington is "substantially lower" than that for longshoremen, Rep. Quie points out, and therefore the amendments provide a lower maximum weekly compensation of $85 and set the overall maximum for temporary total or partial disability at $29,160 for the district.

Rep. Quie said he understands proposed legislation is forthcoming which would create a separate workmen's compensation act for the district.

* * *

BUYERS OF fidelity or surety bonds, the Federal Trade Commission says, have probably noticed an unhealthy decline in the past years in competition among underwriters for their insurance dollar and therefore a decline in service.

This trend has resulted from a drop in the number of fidelity and surety bond underwriters and subsequent concentration of the total business in the hands of a relatively small number of large firms, according to the FTC. All of this, in turn, is directly attributable to a significant merger trend in recent years in the property-liability field, it continues.

The FTC says between the years 1960 and 1968 a total of 580 mergers and acquisitions involving property-liability insurers took place. The value of their admitted assets exceeded $9.9 billion.

Over 60 fidelity and surety bond underwriters have been acquired since 1957 and of these over half have been horizontal in nature (between firms in allied fields), according to the FTC. This trend has accelerated sharply in the 1960's with over 20 major horizontal combinations having taken place between 1963 and 1969, it claims.

IN RESPONSE to this trend, the FTC has moved to dissolve one of the biggest mergers ever in the field—that of American General Insurance Co. and Fidelity and Deposit Co. of Maryland.

It is the first FTC action challenging a merger between insurance companies and gets right down to the nitty-gritty of the McCarran-Ferguson Act (formally called the Insurance Antitrust Moratorium Act of 1945), which exempted insurance firms from the federal antitrust statutes. The legal basis for the FTC action is the Clayton (antitrust) Act.

The American-Fidelity merger took place in July 1969 and, according to the FTC, it increased the concentration in the business of underwriting fidelity and surety bonds "to the detriment of actual as well as potential competition."

Also, the FTC says, it "has encouraged and may contribute to further increases in concentration and the decline in the number of underwriters of fidelity and surety bonds."

ACCORDING TO the FTC, the total direct surety bond premiums written in the U.S. by all companies in 1968 amounted to approximately $343 million with national concentration among the four and eight largest producers increasing at a substantial rate.

From 1962 through 1968 the top four firms increased their share of the market from about 25% to nearly 31%. Similarly, by 1968, the eight leading firms showed an increase to nearly 48% from their 1962 level of about 43%. Combined with Fidelity, American became the leader in surety bond underwriting with about 13% of direct premium written, based on 1968 data.

In addition, the merger resulted in American being the largest surety bond underwriter in 16 states, among the top four underwriters in 29 and among the top eight in 41.

On the basis of the 1968 data the merger had the effect of increasing concentration among the four top underwriters to approximately 35%, a relative increase of over 38% since 1962, the FTC states.

IN FIDELITY bond underwriting, total 1968 direct premiums written in the U.S. by all companies amounted to about $140 million and like the case with surety bonds, concentration among the four and eight largest fidelity underwriters increased substantially between 1962 and 1968, the FTC says.

During this period the four leading producers increased their market share from about 24% to over 31%. The eight largest firms grew from approximately 44% to nearly 54%.

As a result of the merger, American General became the largest underwriter of Fidelity Insurance with approximately 11% of the national market based on 1968 data, the FTC complaint alleges.

Also, the firm became the largest underwriter in 12 states, was among the leading four in 36 states and among the top eight in 41 states.

The merger had the effect of increasing concentration among the four top underwriters to about 35% and among the top eight to nearly 57%, the FTC says 1968 data show. ■

Hazards studied

Six potential health hazards have been chosen for research by the World Health Organization which aims to probe the effect of air pollutants. They are sulphur dioxide, carbon monoxide, lead, nitrogen oxides, oxidants, and dust particles. The aim will be to find what pollution level health is at risk, so as to set international safety standards for both industrial and domestic users.

Record . . .

Continued from page 36
tiple line brokers principally involved in property and casualty insurance.

For three years Alexander & Alexander has been gradually expanding its Boston office; the acquisition will greatly strengthen that office and broaden A&A's whole New England operation, said a company spokesman. The staffs and facilities of the two companies will join in larger quarters at a new location in Boston in the near future.

Field & Cowles' history, by the way, includes this caper: During World War II, they served as insurance advisors to the atomic energy plant at Oak Ridge, Tenn., in behalf of a client, Stone & Webster, and the U.S. government. Of a more current nature, one major client in the Boston area is Boston Edison Co.

$3.5 million paid

TUMWATER, WASH.—The fire which swept through the Tyee Motor Inn here, Jan. 27, 1970, has resulted in the state's largest fire loss insurance payment in several years. Fred. S. James and Co., Seattle insurance broker, reported $3,475,000 has been paid the owner of the firm. The Continental Insurance Cos. of New York underwrote the policies on the facility. Of 209 units, only 50 remained after the fire, it was reported.

$450,000 won in products liability case

NEW BRUNSWICK, N. J.—Kodak, Sylvania and Underwriter's Laboratories share in a $450,000 damage award won by an Edison, N. J., family in a products liability suit. The suit resulted from critical burns suffered by a 6-year-old girl when a movie floodlight exploded in 1967.

Joanne Ferenczi, now 9, won $300,000. Her parents Mr. and Mrs. R. Joseph Ferenczi, received $140,000 and Mr. Ferenczi received $10,000 for burns he suffered while beating out flames that ignited his daughter's nightgown when the Kodak instamatic movie light exploded. ■

dates for buyers

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

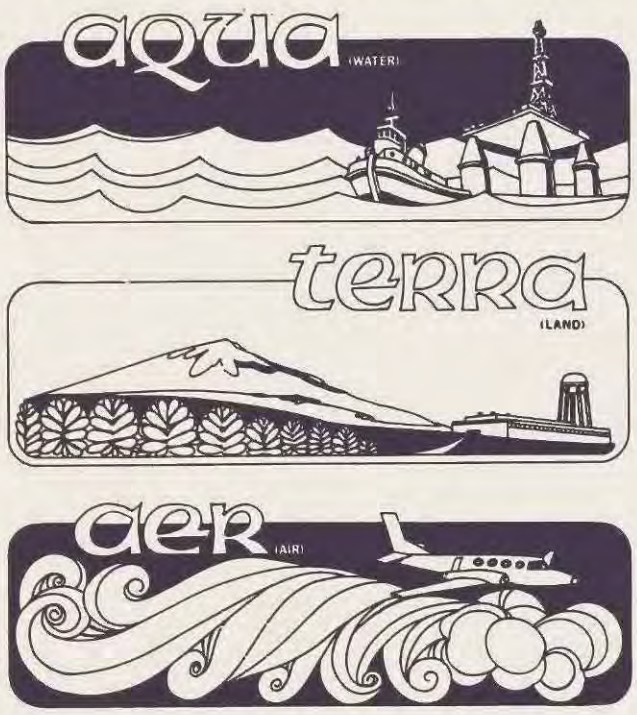
May 13-14, 5th Annual Conference on Employe Benefits, Pension & Welfare News, Statler Hilton Hotel, New York City.

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.

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