

Will your insurer be here
when you need him?

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business insurance

for buyers of employe, property and liability protection 35¢ a copy; \$8 a year May 26, 1969

Small 'political' banks lose ex-insurers' funds after B. I. investigation

CHICAGO—Illinois Insurance Director James Baylor has revised policies regarding the investment of funds of insurance companies in liquidation in the wake of a *Business Insurance* inquiry into the previous investment practices of the state insurance department.

To assure "safety and security" of funds of insurers in liquidation, Mr. Baylor announced that he would confine major investments in bank certificates of deposit to the five largest Chicago Loop banks with lesser amounts going to other major banking institutions in the city.

Mr. Baylor, who took office in January after the inauguration of Republican Gov. Richard B. Ogilvie, said that this investment policy will be followed as certificates of deposit mature at politically connected small banks.

The safety of funds of insurers in liquidation and the interest yielded on the investments of such funds vitally affect businesses and individuals who have claims against the companies. Funds of liquidated insurers are finally distributed on a pro rata basis to claimants and other insurers that have filed claims against the bankrupt companies.

PRUDENT INVESTMENT of these funds is especially important in Illinois which has 21 companies in liquidation, far more than any other state. This high number of insurance failures is blamed by some on licensing of high-risk auto insurers under

Joseph S. Gerber, who served as insurance director under Govs. William Stratton and Otto Kerner.

John F. Bolton, Jr., a Kernerr appointee and Mr. Baylor's predecessor, placed \$526,000 in certificates of deposit and cash in the Civic Center Bank, a bank organized in 1966 with resources of \$22.1 million at the end of last year. The funds Mr. Bolton invested in the bank from insurers in liquidation amount to more than half of Civic Center's total capital stock.

A maximum \$50,000 of the deposit in Civic Center Bank is covered by the Federal Deposit Insurance Corp.

AMONG MEMBERS of the board of directors of the Civic Center Bank are Democratic County Commissioner Harry H. Semrow, former Illinois Director of Financial Institutions Joseph E. Knight and Daxid X. Meyers, operator of city-sponsored parking lots. General counsel of the bank is Theodore J. Isaacs, who resigned under fire as Gov. Kerner's revenue chief.

Major one-year deposits in Civic Center Bank were made by Mr. Bolton after Gov. Ogilvie's election, according to department records.

Mr. Bolton also invested \$105,000 of the insurers' funds in the Marina City Bank, a \$23.2 million institution organized by Col. Jacob M. Arvey, Illinois Democratic national committee-

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Race driver Art Pollard tries to straighten out his car during a practice run at the Indianapolis Motor Speedway. Drivers in the Indianapolis 500 on Memorial Day have a \$10,000 death benefit plus medical and disability income protection provided by the U.S. Auto Club. Also covered are owners, pit crew members and others, such as the press, who sign up for "pit passes" in races sanctioned by the U.S.A.C. Premiums are determined by the type of race, type of track and distance of the race. For example, a pit pass for the 200-mile-plus championship race class, such as the Indianapolis 500, would cost \$16.50, and coverage is included as part of this cost. The coverage is written by Continental Casualty Co. Wide World photo

Oilmen and jet makers threatened with coverage pull-back by Lloyd's

NEW YORK—Lloyd's of London is threatening to pull back sharply from the U.S. market on two fronts unless corporations can come up with substantially increased premiums.

Lloyd's has indicated it might pull out of the offshore oil drilling rig market if current efforts to increase premium volume to a level sufficient to offset losses are not successful.

At the same time, Lloyd's continued 85% support of the Aircraft Builders Council, a group of 270 airplane and component parts manufacturers, was said to depend on whether Boeing and Lockheed would come in with additional premium volume. Both companies have withdrawn from ABC.

In a meeting last month, Lloyd's representatives hinted strongly that syndicates would back off from supplying products liability coverage for the big, new jumbo jets if ABC members turned down a proposal for un-

derwriters to try to supply liability coverage of \$100 million on an "all-industry" aggregate basis.

THIS WOULD mean that the entire industry would share the cost of a loss to any individual

airframe or component parts manufacturer. All ABC members would have to pay extra premiums to get the \$100 million coverage reinstated should a loss occur.

It was explained that buyers

Continued on page 30

Telephone union rakes AT&T savings plan

HARTFORD—The president of the 8,500-member Connecticut Union of Telephone Workers has blasted American Telephone & Telegraph Co. for establishing a savings plan applicable only to management-level employees.

AT&T has filed the savings plan with the Securities & Exchange Commission that would permit some 185,000 eligible salaried employees to invest in AT&T stock, Federal government obligations or a company investment fund through payroll deductions.

The new development does not cover management employees at the Southern New England Telephone Co., which is part of the Bell system, because AT&T owns only about 20% of the company.

CUTW president John W. Shaughnessy Jr. asserted:

"However, once AT&T does something, it is customary for other Bell system companies to take similar action."

A source at AT&T said the company has agreed to talk with the national Communications Workers of America Union about the savings plan, but he pointed out that AT&T is in the middle of three-year contracts with the unions, which don't expire until 1971.

Continued on page 30

Late news

\$50 million fire loss for AEC

WASHINGTON—The U.S. government must absorb an estimated \$50 million in damages from a fire at a nuclear weapons factory in Golden, Colo., owned by the Atomic Energy Commission and operated by Dow Chemical Co. Dow said its own property insurers, Factory Mutual and Factory Insurance Assn., were not involved in the loss, which is the biggest suffered to date by the AEC.

Pill maker covered

SOUTH BEND, Ind.—The Enovid contraceptive pill maker, G. D. Searle & Co. of Skokie, Ill., bought products liability coverage that would have paid for the damages requested in a landmark law suit against the company, according to Kenyon Bowes, vp of finance for Searle. The suit involved a claim for \$750,000 in damages by Raymond Black for the 1965 death of his wife, who took the pill. The case was decided in favor of Searle in Federal district court here last week.

Nixon awaits outcome of pension study

WASHINGTON—President Nixon will await the outcome of pending discussions by top-ranking labor and commerce department and other officials before deciding whether to send up his own bill regulating private pension plans, back current proposals or take action at all this year, *Business Insurance* was told.

(Mailing label here)

Incentive awards or stock options used by 97 of 100 top companies

NEW YORK—Ninety-seven of the nation's 100 biggest corporations employ some form of incentive award or stock option plan in their executive compensation programs, according to a study by Towers, Perrin, Forster & Crosby.

This year's survey showed that 80 companies have incentive plans (up two over 1968), and 90 companies grant stock options (up six over last year).

Incentive awards, TPF/C said, are normally distributed to top and middle management (about 2% of employees), and stock options are generally given to top executives only (usually less than 1% of total employees).

There were 73 companies in

the top 100 (up from 66 last year) which use a combination of incentive awards and stock options, the survey disclosed.

Of the remaining 27 companies, 17 grant stock options but distribute no awards of options for shares of restricted stock (down one from 1968); 7 companies distribute incentive awards but grant no stock options (down five); and three companies have no reported plans (down one).

"SIGNIFICANTLY, 95 companies report the use of company stock in their executive compensation programs—either as incentive awards or through stock option grants (up two over 1968)," TPF/C said.

Eighty companies—up two over 1968—distribute incentive awards to their executives. Of these companies:

- Sixty-three have a combination of both current and deferred awards (up five over 1968);
- Fourteen pay all awards currently (down three);
- Three defer all awards to termination or retirement (no change).

Both cash and stock are used as compensation payments in the incentive awards, the TPF/C survey showed. Of the 80 companies reporting incentive awards, 58 use both cash and stock (up eight); 19 use cash only (down six); and three use stock only (same).

There are 77 companies in the study which use cash as part of their incentive award payout, 49 of which use both current and deferred cash, 25 of which use current cash only and three of which use deferred cash only.

TPF/C reported that companies using restricted stock plans have increased from 19 in the top 100 in 1968 to 31 this year. Of the 31, 24 companies use restricted stock in incentive awards only (up nine over 1968); two companies use restricted stock only in stock options (same); and five use restricted stock in incentive awards and stock options (up three).

"The future of restricted stock," TPF/C said, "is still shrouded in mystery. The Treasury Department had announced that it would eliminate the capital gains treatment of restricted stock after June 30, 1969.

"SOME OBSERVERS, however, feel that the Treasury Department will turn the problem over to Congress before that and suggest that the elimination of capital gains treatment of restricted stock be part of any tax reform bill."

Of the 90 companies (up six of 1968) which offer stock options: 68 grant only qualified options (down two); two grant non-qualified options (down two); and 20 grant both qualified and nonqualified options (up ten).

TPF/C said that the "continued strong showing of the stock option in the top 100 indicates that the Revenue Act of 1968—which took away many advantages—has had little noticeable effect."

The management consultant pointed out that an executive exercising a nonqualified stock option is liable for income tax in the year he executes his option.

"This coupled with the opportunity for capital gains tax treatment after holding the stock for only six months, may encourage executives to sell their stock shortly after exercise — thus eliminating the incentive embodied in long-term stock ownership.

"The nonqualified stock option, however, offers a degree of flexibility that makes it an important element in the executive compensation package."

Hartford sets group cover for transplants

HARTFORD—The Hartford Life Insurance Co. has announced it will cover the cost of organ transplants—up to \$50,000—for \$1 to \$3 a year extra on group medical policies.

Last fall California Western States Life Insurance Co. started offering organ transplant coverage as part of a group medical plan for \$3 a year extra.

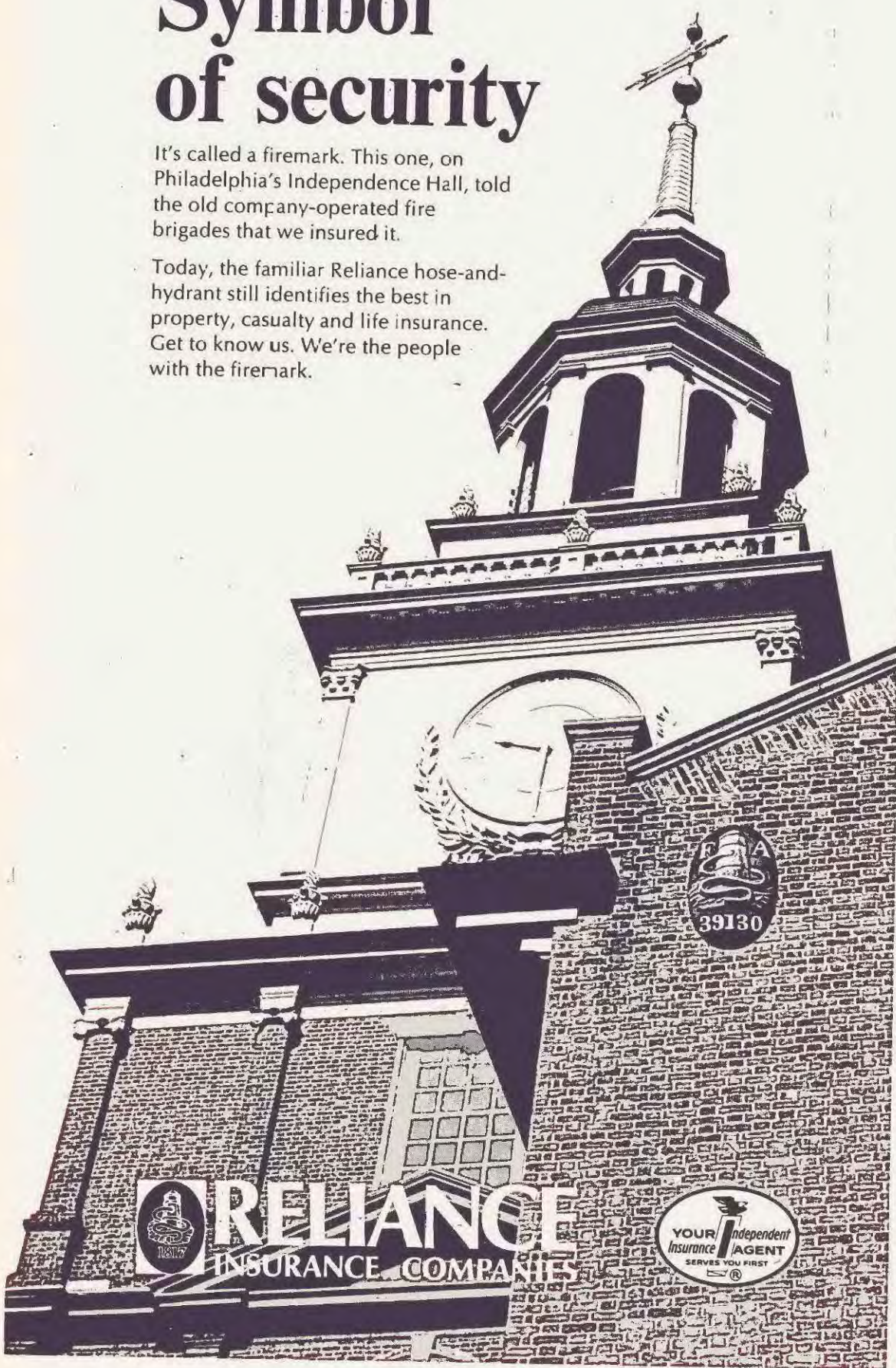
Warren V. Smith, secretary and director of group sales at Hartford, told *Business Insurance* that his company has signed up one group policyholder with over 1,000 employees for the transplant benefit.

HE ADDED that although Hartford currently offers the new benefit only to corporations which already have basic health coverage with the insurer, Hartford is "considering" the possibility of offering transplant coverage to employers that don't carry medical benefits with it.

Symbol of security

It's called a firemark. This one, on Philadelphia's Independence Hall, told the old company-operated fire brigades that we insured it.

Today, the familiar Reliance hose-and-hydrant still identifies the best in property, casualty and life insurance. Get to know us. We're the people with the firemark.



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Expect fewer statutory agreements governing contractual liability

HOUSTON—What happens when the risk manager, contractor and insurance broker get together to discuss contractual liability?

The Houston Society of Insurance Management, at its annual spring insurance conference, held a panel on this subject moderated by W. A. Holcomb of Houston, Transcontinental Gas Pipe Line insurance and pension department manager.

"As society becomes more complex, many agreements are being put into writing," Mr. Holcomb said. "The greatest contributor toward the use of indemnity agreements was the railroads.

"In World War II," he continued, "it was fashionable to use sweeping indemnity clauses, especially in the construction field."

As a result, small firms paid for high-priced insurance, he added.

"The trend is toward restricting the use of statutory agreements and this is expected to develop," Mr. Holcomb said.

Other panelists were Robert L. Murphy, partner in Ehrmann-Murphy-Young & Co., Houston; Joseph M. Shelton, attorney for American Assn. of Drilling Contractors, Dallas; and R. W. (Dick) White, acting director of general insurance, Gulf Oil Corp., Pittsburgh.

"You and I are on the same ball team," Mr. Murphy told the risk managers. "Let's play with the same kind of baseball."

First, Mr. Murphy asked whether broad-form contracts were really needed or if this was something that can be self-insured. "We think every individual needs to be responsible on his own.

"There is no trouble with limited or intermediate contractual liability," Mr. Murphy said. "We have trouble with the broad coverage."

The "problems," Mr. Murphy said, are threefold with a risk manager:

- "He doesn't tell me what he wants until 12:10 A.M. when the deadline is 12 midnight.
- "The agent has to fight for exotic agreements.

- "We are handed contracts which have been executed, and know we can't get insurance."

Despite these concerns, Mr. Murphy commented why a broker is needed.

- "Agents of today possess specialized knowledge you gentlemen have dire need to know.

- "Agents are more familiar with insurance company operations and problems on a daily basis.

- "The agent or broker can buy more economically by volume purchases.

- "Many times agents are called to negotiate a proper loss settlement."

Mr. Murphy discussed the ramifications of bidding with or without insurance. As an example, he cited, a mechanical contractor building an air-conditioning unit for an offshore rig bunk house.

A major oil company was the customer for this \$3,000 turnkey installation. "The client said, 'Fix me up—I'm going to start tomorrow.'"

He added that the client had assumed responsibility for everything in the Gulf of Mexico—"even if the fish die."

The cost for the coverage came to \$1,000. The contractor said there was no way he could accept a contract of this size with \$1,000 of insurance, Mr. Murphy related. He said he met with the oil company and contractor and suggested the oil company hire the contractor for a day. This wouldn't work for the contractor would have had to go to New Orleans for a physical.

Next, Mr. Murphy said, he suggested the insurance requirement be waived, but the oil company said approval for this had to come from The Hague.

"I asked that they increase the contract \$1,000. This was done," he said.

"Inflexible agreements are dynamite, expensive and should be junked," Mr. Murphy added.

Mr. Shelton said of contractual liability that when it begins to exceed the burden of risk, there is an invariable shift of burden.

"My people wish to submit bids to drill oil wells and separate price insurance," he said. "This shows what are submerged indirect costs. The results in this area make one a little sick."

It is proper to set clearly what the contractor is responsible for, listing such items as failure of equipment, or defects of materials.

It is proper to ask for and receive written analysis. But there is a strong objection to indemnification agreements of broad-form type.

"INDEMNITY should be defined to those acts, missions or omissions under which one had a reasonable ability to control," he said.

"On the surface it is fairly attractive to say one avoided many risks in our name because of broad-form coverage."

But this has a higher indirect

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Borg-Warner's manager of general insurance, Arnold Berg, had a hand in this year's "500" Festival of the Indianapolis 500-mile Race. He arranged for insurance coverage on the 1969 Festival Queen, Janet Lee Faures, through Marsh & McLennan with Lloyd's of London. Miss Faures will be covered by a \$250,000 accidental death and dismemberment benefit, a \$5,000 medical reimbursement and a \$100 weekly indemnity payment for 156 weeks. Mr. Berg also got Lloyd's coverage through Marsh & McLennan for the trophy bearer, Jack MacKenzie, who is covered by the same AD&D and medical benefit and a \$250 weekly indemnity payment for 156 weeks. The huge trophy is insured for \$52,000 by Providence Washington.

State director of insurance puts 'if' on industrial exclusion bill

CHICAGO—Illinois corporate insurance managers can expect no industrial exclusion in a uniform unauthorized insurers bill that will be introduced in the state legislature next year—unless a bill to put insurance rate making in Illinois on a competitive basis is signed into law.

This state's director of insurance, James Baylor, and his assistant, William Gibson, told *Business Insurance* that, under the present prior-approval rating system, nonadmitted insurers would have an unfair advantage in writing business insurance.

An industrial exclusion in all uniform unauthorized insurers laws is a legislative goal of American Society of Insurance Management. It would let corporations buy from companies not admitted to do business in a state.

MR. GIBSON said that an industrial exclusion in an unauthor-

rized insurer law without an open rating system would not allow admitted insurers to compete openly with nonadmitted insurers for corporate business. "But the problem may solve itself if we get an open rating law," Mr. Gibson said.

The open rating proposal, which was introduced in the state senate as part of a package to reform auto insurance underwriting, has been passed by the state senate, although the rest of the auto reform package was not. Director Baylor and his assistant said they were hopeful that the open rating bill would be signed into law this year.

An open or competitive rating law would allow insurers to file their rates with the state insurance department and proceed to charge those rates without the state's immediate approval. Under the present, prior-approval law, insurers must get approval of the state insurance depart-

Spills clobber market

HOUSTON—"The oil spills recently are going to clobber the liability markets," William A. D. Hare of New York, director of client services, EBS Management Consultants Inc. said at the "captive company" portion of the Houston Society of Insurance Management's annual spring conference.

"The only way to increase capacity is a guaranteed rate of return," Mr. Hare said in discussing the huge costs associated with the spills. He suggested this rate guarantee similar to what the utilities have. "Why should profit be a dirty word?" he asked.

Like the Lloyd's shippers who couldn't get insurance, Mr. Hare said there are going to be the corporations that can't buy insurance they need, either primary or secondary, or are unable to make the purchase due to the cost.

THIS WILL call for firms reinsuring each other to add to what other coverage they have.

A great deal of work will be needed in this coming period, Mr. Hare said of this problem.

In discussing the captive company, he pointed to three firms in which the ability to absorb losses received scrutiny. They were:

- Ford's \$275 million cost of the Edsel.
- Lockheed's \$150 million cost associated with the Electra.
- General Dynamic's \$300 million in expenses for the Con-vaire program.

insurance cost, the owner has the economic risk associated with his purchase power, there are gaps in coverage, and reduction of the independent to serve industry, he outlined.

Mr. Shelton said there are over 134 broad-form indemnity clauses. Some of the worst and industry-damaging fights between the carriers squabbling

have been over the broad-form indemnity, he said.

Mr. White said the utopia would be for the contractor, owner and insurance company to review active versus passive negligence.

Most owners include hold harmless agreements, according to the Gulf Oil director of general insurance.

Marine insurers battle over liability bill

NEW YORK—The marine insurance fraternity has embarked on what it calls a do-or-die battle with Sen. Edmund Muskie (D, Maine) over a proposed amendment to the Water Pollution Control Act to impose a \$15 million or \$450 per-gross-ton liability limit on U.S. shipping.

The insurers feel that the proposal is tantamount to compulsory insurance and that asking for absolute liability could sink the already faltering merchant marine.

Joining in the battle against Sen. Muskie and 24 other senators who introduced the bill are the marine insurance committee of the Insurance Brokers Assn. of New York, the American Institute of Merchant Shipping, the American Maritime Assn. and several oil groups.

IN TESTIMONY before the House public works committee, Paul J. Kreuzekamp, vp of the Alexander & Alexander marine department and head of the broker's committee, said that five years ago the maximum liability limit available from insurers was \$30 million, but that now the limit is \$17.5 million, with \$17.25 million taken in the British market. Premiums have gone up 400%, he said.

London insures about 80% of the world's shipping risks, he said.

A companion House bill would provide liability limits of \$100 per gross ton or a \$10 million maximum. Mr. Kreuzekamp termed this bill good for the public and one that ship owners and insurers can live with.

Mr. Kreuzekamp testified that insurance costs the American shipowner 15% of his total operating budget and that marine liability premiums are eight to ten times greater than foreign owners.

THE PROTECTION and indemnity insurance package covers a shipowner's liability such as loss of life and personal injury of seamen, passengers and other persons; damage to cargo and other property, including such things as oil leaks. The policy does not extend to the clean-up of oil which has not caused property damage, however.

One of the major considerations, according to Mr. Kreuzekamp, is that the great segment of the U.S. merchant marine is comprised of dry cargo vessels and vessels trading in inland waters. Under the proposed Senate bill, these owners would suffer severe economic loss, he said.

"The worldwide insurance-market cannot provide capacity to comply with the \$450 per-gross-registered-ton limit and the \$15 million ceiling presently contained in the proposed bill," Mr. Kreuzekamp contended. "Such combination of limits is uninsurable."

Washington court denies work comp

OLYMPIA, Wash.—The Washington State supreme court has ruled that a widow is not entitled to collect a claim for partial disability under the workmen's compensation act when the claim was awarded to her husband after his death.

The high court reversed a decision of the Spokane superior court which had directed the state to pay Mrs. Roxy Urban \$875 which was the amount of money awarded to her husband by the board of industrial insurance appeals.

When members of the board made the award to Mr. Urban, they were not aware that the man had died from causes unrelated to the injury for which he had lodged a claim, it was reported.

The court ruled that no money had been awarded to Mr. Urban during his lifetime, and death terminated his claim before the board acted.



washington watch

FBI says 'new left,' black extremists will increase risks for business

WASHINGTON — Businessmen are next on the list of New Left campus radicals, FBI domestic intelligence division chief William C. Sullivan recently told the 57th annual meeting of the U.S. Chamber of Commerce. His warning held implications for corporate risk managers and those responsible for business security.

The New Left and black extremists are mounting a "total challenge" to the economic polit-

ical, military and social aspects of American society and "this summer they will test you," Mr. Sullivan cautioned the businessmen. The harassment of corporate recruiters on campus marks a shift in the attack from educational institutions to industry and the private sector, he said.

The task of businessmen is to "help restore and develop freedom under law" and to "recognize the legitimate grievances of the educational world," he

pointed out, and suggested one approach they could use would be to help eradicate the grievances upon which the revolutionaries are rallying their campus followers.

"Inequities must fall before social justice . . . oppression before freedom . . . the germs of racism before tolerance, good will and democratic values," he said.

A COMPANY'S ROLE in this

type of social movement has traditionally been vested in the hands of its top corporate management, who have traditionally treated this responsibility not as a part of the business but as an opportunity to lend power to their own personal political and social theories.

However, with the threat of a possible radical movement against business documented by the FBI, the corporation's role and image in society has suddenly become too important to be left to the personal whims of the topside alone. It has instead become a very important factor in the corporation's overall economic business picture and should be treated as such.

And, the risk manager should be playing an integral part in this treatment, since the risks involved in ignoring society's needs have suddenly become as real as any ordinary fire or safety hazard.

The risk manager's obvious role in this picture is seeing that the company is adequately insured against all possibilities. But it must go beyond this into the field of prevention, just as it must in the case of fire and accident coverage.

The best approach to prevention was probably provided by Dr. S. I. Hayakawa, president of troubled San Francisco State College, who shared the platform with Mr. Sullivan. Prof. Hayakawa suggested that businessmen "outbid" alienated black radicals with skill and vision by providing the opportunities for members of the minorities to make something of themselves.

Talk of progressive social programs by corporations as preventive measures against threats of radical movements against the business community of course brings immediate charges of blackmail by many businessmen.

Whether true or not, these charges are, for all practical purposes, meaningless, since the "ransom" in this case would be good business no matter what the reason for it.

CHASE MANHATTAN Bank President David Rockefeller recently pointed out in testimony before the Equal Employment Opportunity Commission that while business has an obligation to the community, it protects its own interests and insures its own survival by fulfilling that obligation.

"Today there is a growing realization that management is not doing the job it should for the stockholders simply by earning as large a profit as it can this year, unless at the same time it is helping to shape an environment in which business can continue earning a profit four or five or ten years from now," Mr. Rockefeller said.

Without a change it is highly questionable whether many businesses will find themselves in an atmosphere conducive to profit in ten years.

According to an EEOC study, 56 of 100 major corporations headquartered in New York City had not a single Negro manager. Together these companies had a managerial staff of 12,665 employees. Forty-eight of the 100 firms, with a combined managerial workforce of 8,857, reported not a single Puerto Rican so employed.

The leading 21 law firms in New York City together employed one Negro and one Puerto Rican among their 1,282 attorneys. Four of the 21 firms totally excluded Negroes at even the lowest clerical level; five similarly excluded Puerto Ricans.

This in a city where 18% of the population is Negro and 10% is Puerto Rican.

API names air manager

BEAUMONT, Tex.—Aviation Office of America Inc. here has been appointed aviation manager for American Policyholders' Insurance Co., Wakefield, Mass.

The action was initiated by API so its agents could write aviation coverage.

A spokesman for AOA said the arrangement will not increase the capacity of its market—now generally \$75,000 for hull liability, with a ceiling of \$150,000.

AOA specializes in underwriting general aviation insurance for light private and business aircraft—liability, hull, medical payments, airport and hangarkeepers liability.



Jonathan Logan inc.

fashions
its insurance
with
**Paige
OBrion
Russell**

Jonathan Logan, Inc., international leader in women's wear, is bursting its seams with a widening variety of innovative and stylish apparel lines. Their diversified designing, manufacturing and merchandising activities call for insurance fashioned with equal imagination and flair. We cut the pattern for Jonathan Logan's insurance program. Could we help keep yours in vogue with the times?

**Paige
OBrion
Russell**

Our insurance is designed to eliminate the need for it.

Insurance is unusual. It's one of the few commodities that people hope they don't have to use once they buy it.

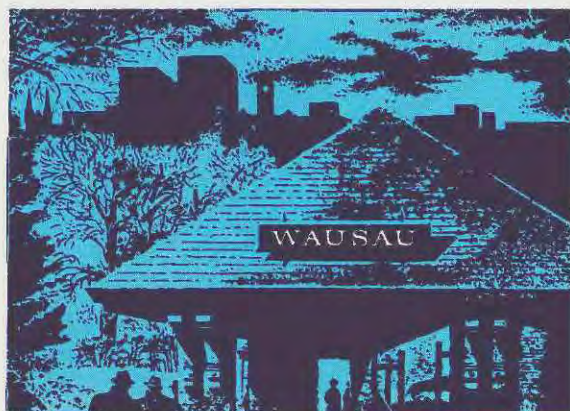
But our insurance doesn't just wait for something to go wrong.

We offer more than just a dollar of protection for a dollar of insurance. We offer services.

We *think* our services are unequalled in the insurance industry. We *know* our services are unequalled when it comes to business insurance.

That's why we're called the people who know business insurance like nobody else in the business.

**Employers Insurance
of Wausau**



Get the Wausau Story
for yourself.

'Michigan Week' partly covered; nearly all U.S. insurers involved

LANSING, Mich.—Year-around promotional activities of thousands of volunteer workers in Michigan probably are being covered at least in part by nearly every U.S. insurance company.

That unique situation comes about as a result of work by a one-of-a-kind foundation that conducts extensive activities throughout Michigan each year, climaxing its programs with Michigan Week, May 17-24.

Sponsor of the celebration and continuing programs is the Greater Michigan Foundation, a nonprofit, charitable-education foundation as described by state and Federal laws.

THE FOUNDATION itself

does have its own individual insurance policies for direct liabilities, but the broader activities are covered through the policies held by the individual volunteers, said Mrs. Leona Weeks, acting executive director.

The foundation policy with Michigan Mutual Liability Co. of Detroit includes cars of employees when on foundation business. Terms are \$100,000 and \$300,000 bodily injury and \$10,000 property damage. Owner-tenant liability is covered for the same liability levels and \$5,000 property damage.

Insurance covering office equipment and contents of the foundation's office is boosted by \$3,000 to \$7,000 during the Michi-

gan Week period to cover additional promotional material.

Workmen's compensation provisions are a little unusual in that they cover both direct full-time employees and part-time employees, as well as volunteers who are carried as "salesmen collectors and messengers" when on direct foundation business.

THROUGH A COMPLEX system of committees at state level, regional level, in counties, cities, townships and villages, the foundation has more than 10,300 volunteers working on its programs throughout the year.

Programs sponsored by the foundation serve to inspire civic cleanup, expand recognition of

religious freedoms, give recognition to the state's history and heritage, pay tribute to the business and industry that provide a livelihood for residents of Michigan call attention to state educational programs, give leadership to youth of the state and generally promote greater hospitality.

Meetings, special events, exhibits, shows and programs are being held in many areas of the state from one Michigan Week to the next, and in the years since the first event in 1954, it has grown to be the largest state voluntary public relations program.

From time to time the board of governors, consisting of about 90 of the state's outstanding leaders in business, government and education, have been concerned about the liability the foundation might have in the case of an accident related to one of these events.

Dor. Brown, an attorney for

Michigan Bell Telephone Co. in Detroit, who serves as a volunteer attorney for the foundation, admits it's a ticklish point.

"Obviously, the premium for a foundation policy to cover liability at all of these events would be more than our annual budget," he said. "We recommend that local chairmen and workers setting up such programs use local facilities, which will have their own insurance, wherever possible. If they have to set up a grandstand or exhibit by themselves, then we just urge them to be careful."

He clarified this point by explaining that when a show is being given in a hotel, employees of the institution should do the work as part of the rental agreement and thus keep the actions covered. Volunteers doing it probably would not be covered, he said, at least by hotel insurance, but might be covered by their own personal insurance if they have it.

"We do hope that everyone offering services to Michigan Week and the year-around activities had adequate personal coverage to take care of these possibilities," Mr. Brown said. "But we don't feel like it's something we can insist on from volunteers. We just hope there will never be occasion to find out."

Contractors get blame for explosion

MONTREAL, Que.—An explosion that killed one man at Calnex Oil Co. storage depot in east-end Montreal last January was caused by negligence on the part of contractors, this city's fire commissioner's court was told.

John McDougall, Montreal fire commissioner, said the explosion, which levelled a pumping house, was caused by a mixture of air and gasoline in the pumping station under construction at the time.

He described as negligent a decision by Canadian Erectors Ltd., one of the contractors.

"Along with the waste, a quantity of gasoline made its way into the building," he said.

"A short time after the explosion, tests made on the building showed a 100% reading on the scale of an explosion meter, indicating maximum danger."

In 1967, the Calnex depot was the scene of one of the worst oil fires in Montreal history, lasting for three days and destroying nearly 5,000,000 gallons of oil.

Fire guts warehouse

FREMONT, O.—A warehouse holding sugar beet pulp was destroyed by fire at the Northern Ohio Sugar Co. here.

No loss estimate has yet been made, but officials said the beet pulp could have brought \$240,000 when sold.

Floyd Logan, plant superintendent, said the warehouse was near its 6,000-ton capacity because the annual sugar beet run had just been completed. The beet pulp, a byproduct sold as cattle feed, brings more than \$40 a ton on the market.

The steel-constructed warehouse, built in 1965 and doubled in size in 1968, was 320 feet long and 80 feet wide.

Officials said sugar beet pulp is highly combustible.

No cause for the blaze has been determined.

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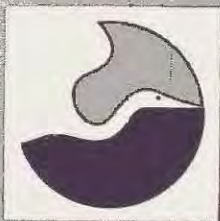
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Conduct pre-bargaining analysis, GM personnel exec urges AMA

NEW YORK—James M. Gillen, General Motors director of personnel research, urged that companies facing contract negotiations carry out extensive pre-bargaining benefit planning and analysis at the American Management Assn.'s spring conference on employee benefits here.

At the same AMA session, Joseph Swire of the International Machine Workers Union presented the labor view of coming benefit trends, and Daniel M. Breon of Goodyear Tire & Rubber summed up the upward trend in paid time off.

Mr. Gillen urged that management, in preparing for union negotiations, take a hard look at the current company benefit picture and assess strengths and weaknesses candidly and objectively.

HE ADVISED, as a first step, an objective analysis of the company's benefits position in terms of what comparative companies offer and in terms of the goals the company expected to reach when the benefits were introduced.

After study and discussion, he recommended that management draw up a list of probable union demands and work to develop company positions with respect to these demands, and wherever possible compute the cost for each.

"Generally, today there are few surprises in benefit plan negotiations," Mr. Gillen said, since unions have taken to publicizing their major goals well in advance of bargaining.

OTHER SOURCES of information for probable demands are speeches by union executives, resolutions at conventions, the union's position and settlement in other recent negotiations, and the union's demands from previous negotiations which were not granted, Mr. Gillen said.

At General Motors, where six contracts have been negotiated since 1950 with some 18 international unions, there has always been one pension plan and one insurance program for all hourly workers regardless of the union involved or whether the worker is a member of a union.

The negotiation preparations at General Motors begin well in advance of expiration date, Mr. Gillen said. Studies are made of benefits offered by comparative "peer" companies; detailed charts are prepared comparing benefit items and these other companies are asked to verify the statistics and the conclusions reached.

A CROSS-SECTION of accounting and personnel people in representative plants, states and industries is asked to submit reports on the operation of benefit programs to determine whether these programs are having the effect intended by management when they were introduced.

These reports are intended to isolate areas where benefits are failing to do the job or creating administrative problems, and are also sources for suggestions in correcting problems or improving programs.

In addition, files are reviewed for complaints, problem cases, suggestions or other material which might indicate that a benefit or program has fallen short, Mr. Gillen said.

A list of probable union demands is drawn, company positions on these items are established, and then, as has been the practice in the auto industry, the union is offered a package in writing before the contract expires. A popularized version, giving examples, may also be mailed to employee's homes and distributed to the press. Then the bargaining begins.

JOSEPH SWIRE, a national officer of the International Machine Workers Union, gave the labor view of new directions in pension and group insurance likely to be seen in future collective-bargaining sessions.

Some trends in the benefits

area Mr. Swire saw for collectively bargained contracts were:

- Retirement with adequate benefits at age 60.
- The possibility of second careers for factory workers following early retirement. He noted that police and firemen who receive benefits after 20 or more years often embark on a second career.
- Disability benefits amounting to 75% of earnings.
- Survivor's benefits for spouses of one-half pay for life or until remarriage, with restrictions as to age and service.

LABOR GOALS in the health field will include comprehensive
Continued on page 29

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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.

- The principal aspects of the A. G. Becker & Co. Inc. funds evaluation program are summarized in a 28-page, illustrated booklet. **Measuring Performance of Corporate Pension and Profit-sharing Plans** explains why and how investment performance is measured and ends with a question-and-answer section. Copies are available from A. G. Becker & Co. Inc. offices in Chicago, at 120 S. LaSalle St., 60603, and New York, at 60 Broad St., 10004.

- A new bulletin in the AMA management series, **EDP Risk Management and Insurance**, has been released. The 32-page study was compiled by Leonard J. Silver, CPCU and president of First Insurance Management Cos., and Richard C. Sleeper, CPCU and President of Insurance Buyers Council Inc. It is free to American Management Assn. members enrolled in the insurance division. Those enrolled in other divisions must pay \$2.00. Price to nonmembers is \$3.00. Write the AMA at 135 W. 50th St., New York, N.Y. 10020.

- **50 Answers That Help You Get to Know Your Life and Health Insurance Coverage** is a free pamphlet published by the Bankers Life. Types of life insurance are explained as a prelude to the 50 questions, which apply to individually owned and group insurance policies. Write the company public relations division at 711 High St., Des Moines, Iowa 50307.

- Hundreds of lives are lost every year because families have no way of escaping from their burning homes. Nearly all of the tragedies could have been prevented if there had been rehearsals on how everyone was to get out of the house in case of a fire-at-night emergency. Reports indicate that most lives are lost because of bewilderment, fear and panic. The Institute for Safer Living has published **If Fire Breaks Out at Night**. The pamphlet, which discusses practices and drills, is suitable for use as an employee handout and is available free from the institute at American Mutual Liability Insurance Co., Wakefield, Mass. 01880.

- A 16-minute film, in color, has been released by the American Red Cross. **Breath of Life** shows scenes of mouth-to-mouth resuscitation drills and could be used for emergency first-aid, employee-training classes. The film is for sale and price information is available from your local Red Cross office.

- **Safety Color That Shouts** is a 30-minute, oral-visual presentation featuring numerous accident-prevention applications for fluorescent color. It is offered by the Day-Glo Color Corp. The pre-

sentation shows how color can contribute to increased safety, explains what fluorescent color is, demonstrates its uses and explains application procedures. Contact the corporation, 4732 St. Clair Ave., Cleveland, O. 44103, regarding presentation dates available.

- An eight-page outline entitled **Advantages and Disadvantages of Various Methods of Financing German Pensions** is free from Swiss Life Insurance and Pension Co., International Dept. Topics covered include book reserves, pension funds, support funds, and direct and indirect group insurance. The company is at 40 General Guisan Quai, CH-8022 Zurich.

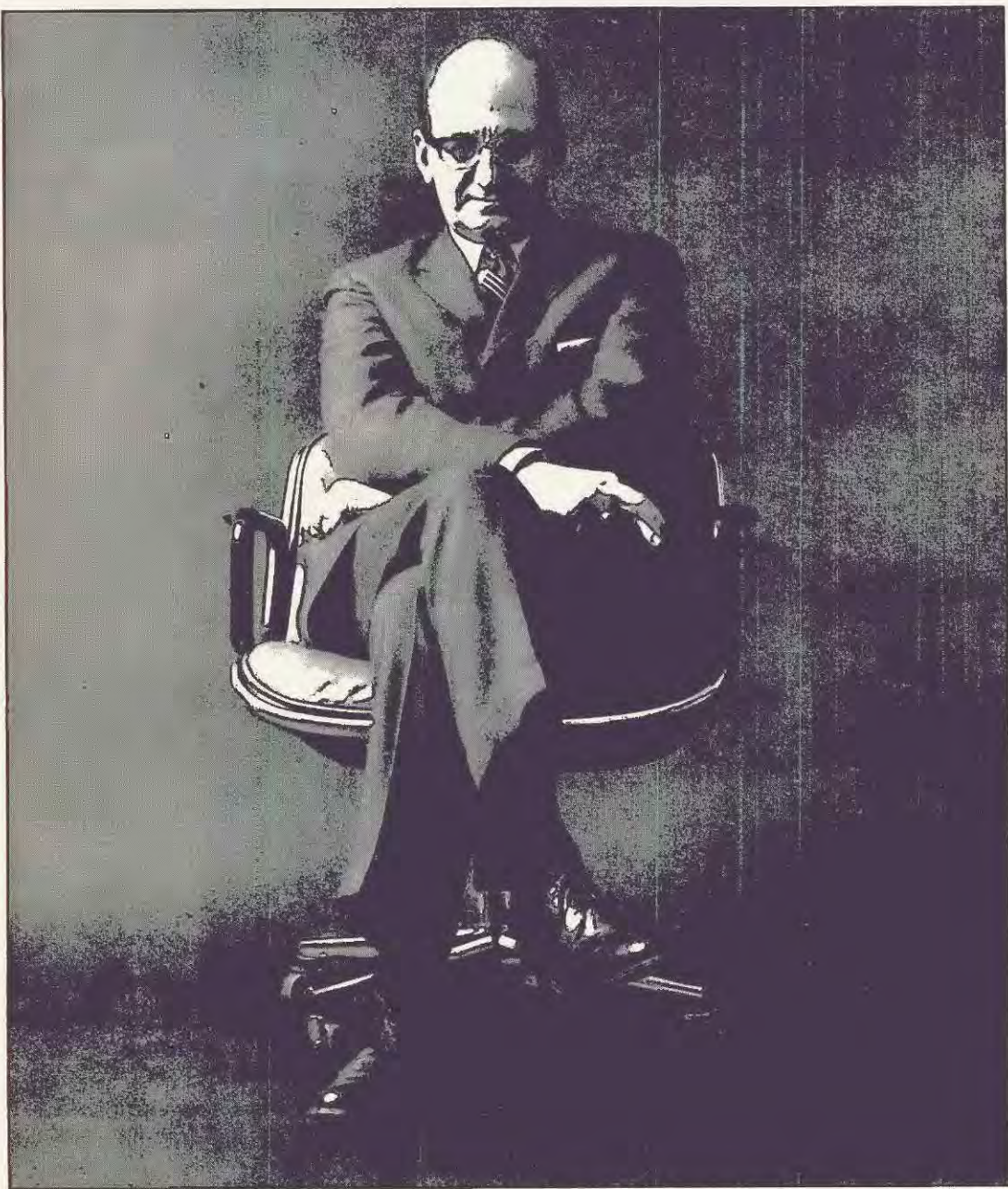
- The engineering and safety department of the American Insurance Assn. has published an eight-page brochure entitled **Riots**. The item points out that: at present the normal means for protecting life and property are rendered ineffectual during civil disorders; an occupied premise is less apt to be attacked, and a definite order of looting targets exists, among other things. To obtain a copy write the association at 85 John St., New York, N.Y. 10038.

- **The Competitive Edge** has been released by the American Credit Indemnity Co. of New York, 300 St. Paul Pl., Baltimore, Md. 21202. The purpose of the booklet is to dispel some of the reasons for "thinking of credit protection in restrictive terms... as little more than a method for recovering unexpected losses." Ways in which it can strengthen a company's competitive edge are listed. Direct requests to Mr. Frank McNulty, director of advertising and promotion.

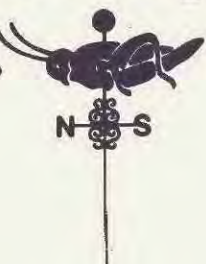
- A revised edition of the **Industrial Fire Brigades Training Manual**, 150 pages, is available for \$5.00 a copy from the National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110. It covers organizing and training a property fire brigade, fire-fighting practice with automatic sprinklers, fire causes and hazards, fire extinguishers, and many other subjects important for plant protection. The book is illustrated with photos and drawings. For information on quantity-order discounts, contact the association.

- **Alcoholism in Industry—Modern Procedures** is a pamphlet published by the Christopher D. Smithers Foundation Inc., 41 E. 57th St., New York, N.Y. 10022. The item, designed for top management down through the ranks of supervisors and foremen, deals with the essentials which are encountered and must be treated by all company supervision in handling alcoholism as an employee illness. For details on price, write the foundation.

- **How 325 Companies Control Their Group Insurance and Pension Costs** is a survey of current policies and practices which representative companies are using to increase the effectiveness of their group insurance and related employee benefits. Emphasis is placed on cost reduction techniques. The survey may be examined on an approval basis and is priced at \$39.50 per copy. Write: Dartnell Corp., 4660 Ravenswood Ave., Chicago 60640.



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• **Getting More Mileage from Profit Sharing: How Better Reporting Can Help** is a booklet by Hewitt Associates, Libertyville, Ill. 60048. It relates, in outline form, the need to report to employees, what should be reported and how to make the reports. Copies are free from Hewitt Associates.

• **Collective Merchandising of Automobile Insurance: The Employers' View** is a 50-page report prepared by Bernard L. Webb, assistant professor of actuarial science and insurance, Georgia State College, as a part of a study on behalf of the subcommittee on antitrust and monopoly of the Senate Committee on the Judiciary. The survey is an estimate of the current status and future progress of the movement toward collective merchandising of private passenger automobile insurance and a definition of terminology is contained in the foreword. Copies are available for \$1 from the Bureau of Business and Economic Research at the college, at 33 Gilmer St., S.E., Atlanta, Ga. 30303.

• **Alexander International**, a professional service organization providing coordinated advisory, actuarial, banking, investment, and administrative services in the international employee benefit field, has released an explanatory brochure describing its principles and services. Information also includes a list of the board of directors and backgrounds of the board members. For a free copy, write Alexander International at 225 Broadway, New York, N.Y. 10007.

• Copies of a four-page article by Warren G. Brockmeier, manager of client services for EBS Management Consultants Inc., are free by writing the group's risk management department, research section, 100 Church St., New York, N.Y. 10007. **Settling Losses before They Occur** deals with seven common causes of uncertainty in loss recovery and is limited to property losses and not concerned with third-party claims.

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

• **Private and Public Pension Plans in the United States** is a new edition of a historical and statistical analysis of the American pension system. The booklet, released by the Institute of Life Insurance, covers insured and uninsured pension plans, retirement plans for civilian employees of government agencies, the railroad retirement system and the Social Security system. A free copy is available by writing the institute at 227 Park Ave., New York, N.Y. 10017.

• **Reciprocity — Portability** contains highlights of regional seminars held by the National Foundation of Health, Welfare & Pension Plans Inc. on reciprocity and portability between pension funds, including case studies, forms, provisions, legal and legislative considerations. Copies are available to members at \$2.75 each; \$3.75 to nonmembers. Write: National Foundation of Health, Welfare & Pension Plans, P. O. Box 898, Elm Grove, Wis. 53122.

Greyhound not likely to appeal baggage claim liability decision

DETROIT—It's unlikely that Greyhound Corp. will appeal a judgment here which rejected the liability waiver on a Greyhound baggage claims ticket.

A Greyhound source, pointing out that the decision was handed down by a common pleas court, said that lower court cases "don't make law." He said that "sometimes you let a case go down the drain because it's very dangerous to appeal—if you lose the decision could set a precedent."

The case arose when Greyhound lost the suitcase of bus passenger Mrs. Esther Molton in 1967. Greyhound told Mrs. Molton that her \$300 claim would be disallowed because of a liability

waiver on the baggage ticket.

A NOTICE on the claim ticket warns passengers that Greyhound is liable for only \$50 in losses, as stated in a tariff agreement between the bus company and the Interstate Commerce Commission.

Judge Peter B. Spivak, in awarding Mrs. Molton \$361.04, said parts of the tariff were difficult for him to understand, and that \$50 wouldn't pay for the clothes worn by the Greyhound attorney.

Although Greyhound offers bus passengers the opportunity to insure their baggage for up to \$250 (for a \$1 premium), the

judge contended that neither the ICC nor Greyhound would expect passengers to read baggage tickets and then buy the expanded coverage.

"THERE ARE admittedly no signs around saying 'liability limited, read your ticket' or 'bring your dictionary and read your ticket,'" Judge Spivak noted.

"There are slogans like 'leave the driving to us' and smiling families loading all their baggage into the Greyhound for a nice long trip. Where are the TV commercials showing daddy getting that extra coverage for his family's luggage?" he asked. ■



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Don't let systems people make risk decisions on EDP: Silver

NEW YORK—In managing the electronic data processing (EDP) risk, there seem to be two bad rules that some U.S. businesses follow:

"Never underestimate a business man's capacity to remain in ignorance about matters affecting his business."

"If there is anything that can possibly go wrong it will."

Leonard J. Silver, president of First Insurance Management Cos., told the American Management Assn. spring insurance conference that the change in emphasis and growing role EDP is playing in U.S. business today makes these rules especially dangerous.

Mr. Silver, along with Richard

Sleeper, president and senior consultant of the Insurance Buyer's Council, previewed a new AMA management bulletin entitled "EDP Risk Management and Insurance." They are co-authors of the booklet.

MR. SILVER said that the EDP risk must be reduced, starting at the highest level. "What level of risk retention is the top corporation management willing to accept?" he urged insurance buyers to ask. "And don't allow low-level systems personnel to make these decisions."

He said that ingenious use of the computer for fraud and espionage purposes is a risk that is potentially very dangerous.

"Computer fraud leaves a narrow trail, with little residual evidence," he said. And an expert needs only a few moments with a machine.

He said that the essentials in a computer fraud are:

Access to the computer (not necessarily yours); access to a machine language file; know-how; desire for personal profit; and the forms.

He warned that often only high-ranking company officers perhaps in league with an EDP expert have access to this type of information. He urged that EDP operators' pay be audited.

Mr. Sleeper said that the level of utilization a firm makes of a

computer is a consideration in possible insurance coverages.

These levels include accounting; bookkeeping or payroll; production or processing control; management decisions; business forecasting; or information storage and retrieval.

Other considerations include the type of equipment such as an off-the-shelf computer or a one-of-a-kind machine; the location of the data; and the effect a loss might have on the business.

He said that there are several types of policies that can provide varying levels of protection for EDP risks. These include a boiler and machine policy for equipment associated with the computer; a standard comprehensive general liability policy; a named perils contract with a large deductible all-risk back-up; a manufacturer's output contract; valuable papers for media; and special data procession policies

Ex-track star gets \$513,000 in damages

ANDOVER, Mass. — Edward J. Palmierei, a former Tufts College track star paralyzed in a motor accident three years ago, has been awarded \$513,000 damages by a Norfolk County jury.

Defendants were Philip F. Feldman of Milton, Mass., and the Morse Food Marts Inc., Boston, which he operates.

Mr. Palmierei's spinal cord was severed when a car crossed the median, flipped over and landed on top of his car.

including business interruption and extra expense coverages.

GUY MIGLIACCIO, property manager for Marsh & McLennan, said that EDP equipment represents one of the greatest concentration of property values. A 650-square-foot area can represent more than a \$2 million loss of EDP equipment and average values can run about \$3,000 per square foot.

He said that in buying EDP coverages, insurers don't like to wheel and deal over price; they tend to take an account approach; \$2,500 and \$5,000 deductibles are often asked; and loss-prevention systems are very important.

He said that a rule of thumb is cost of 1% of total equipment values at risk for loss-prevention devices.

He also said that he often has to warn clients of errors and omission exposures because they are not aware of them.

Youth who 'left' work gets compensation

ALBANY, N.Y.—A workman's compensation award to Dominick T. Anadio, 22, seriously injured in an automobile accident, has been affirmed by the appellate division here.

The insurance company for Ideal Leather Finishers Inc., of Gloversville, N.Y., owned by the youth's father, had appealed the award by the state workman's compensation board.

Young Anadio, the insurance company had contended, "left" his employment as a parttime delivery boy, when he went to Caroga Lake, from which he was returning when the automobile accident occurred.

The youth was rendered a paraplegic as a result.

Mr. Anadio had picked up some merchandise at his father's factory and had delivered it (while driving the manager's car) to Gloversville Leather Co. Inc., where he was told to come back and pick up materials to be returned to Ideal.

Meanwhile, he and some companions drove to Caroga Lake, and on the return trip met with the accident.

To be compensable, an injury must arise out of and in the course of employment. The appellate court said that when an interim of inactivity occurs, such as the Gloversville youth's case, an employee is not required to "remain immobile."

"There had been a lull of delay in the work . . . and, at the time of injury, Anadio was operating the employer's instrumentality within close range of and directly towards the business directed destination . . ." said the court. ■

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Dow goes 'long mile' to avoid products liability suits: Martin

NEW YORK—To minimize products liability suits and claims, manufacturers must go the "long mile" in quality control, good labeling, and research and development, Fred B. Martin, assistant director of domestic and foreign insurance at Dow Chemical Co., told the American Management Assn. spring insurance conference.

Mr. Martin presented a case history of a Dow agricultural chemical product from research to market to illustrate checkpoints in reducing products liability risks.

He said that reducing exposure to a minimal or acceptable level involves four areas: control, labeling, sales and marketing, suits and claims.

The Dow research and development people started out with more than 3,500 potential raw materials to work with in developing the particular product, Mr. Martin said. "These were all routinely screened, analyzed, compared and checked with biological and toxicological tests on humans and animals.

AFTER ONE year and \$500,000 in costs, the field had been narrowed to 40 products, that merited further study, he said. In the second year, an additional \$500,000 was spent in large sampling tests, and all but three or four chemicals were eliminated.

Across the U.S., field studies

were then carried out, including a two-year feeding toxicity test on several species of animals. The product was then offered to government labs and other experiment stations for independent evaluation, he said.

After six years and \$4 million in expenditures, the product was first offered to the public for sale.

Mr. Martin said that Dow attorneys reply to some claimants:

"The product in question was in the development stages from 1953 through to clearance with the Food and Drug Administration in 1960 with costs for research and pilot testing of over \$1 million before we ever sold a dollar's worth.

"During this time some 45,000 different animals were treated in the U.S., Canada, Australia, England, Africa and South America under controlled conditions with the help of some 50 outside professional biologists, scientists, veterinarians and university teams. Is it any wonder then that we know more about our product than anyone else?"

MR. MARTIN said that such a statement quite often makes the claimant reassess his position.

Mr. Martin said adequate labeling "can be your best line of defense" in discouraging potential claims and suits. The sales, advertising, research, legal and public relations people all have a significant contribution to make in the writing of a label, he said.

He also urged that salesmen be warned to avoid over-enthusiastic embellishment of or enlargement beyond labeled instruc-

tions. At Dow, requests for technical advice are referred to professionals, chemical engineers, analytical physicists and others for answers, he said.

Mr. Martin said his office turns over to the insurance carrier the name of the regional sales office and particular salesman that could be involved to the insurance investigator, in addition to the suit papers. "We have the adjuster in the proper frame of mind right from the start," Mr. Martin pointed out.

"When such tactics appear warranted, we simply tell the claimant that despite his allegations, we are still advertising, manufacturing and selling the product. We haven't changed the label or printed literature on it, that the product was on specification, will perform when used according to directions and we suggest he consider trying the product again," Mr. Martin said.

Firms along N.C. coast to get cover

RALEIGH, N. C. — Businessmen along the North Carolina coast apparently are going to get some long-desired relief soon from a shortage of fire and extended coverage underwriting in their area.

A mandatory plan requiring all such underwriters in the state to accept their fair share of risks along the hurricane-haunted beaches is expected to be enacted into law soon by the North Carolina general assembly.

IT WOULD supplant a voluntary coverage system worked out two years ago by Insurance Commissioner Edwin S. Lanier by legislative order. Sponsors of the mandatory plan—and many coastal residents—contend that the voluntary arrangement has been woefully ineffective.

Under the new bill, all companies writing fire and extended coverage in North Carolina would be forced to join a North Carolina Insurance Underwriting Assn., and each firm would be obligated to take on a volume of beach insurance corresponding to its volume of business elsewhere in the state. Any voluntarily written coastal business would count toward the quota fulfillment.

Essentially all buildings along the coast would be eligible for insurance from this plan, provided they met the state building code standards.

SEN. ALBERT ELLIS of Onslow County, who has wrestled with the beach insurance problem since he came to the general assembly in 1967, co-sponsored the mandatory insurance bill, which has passed the senate by unanimous vote and now will be considered in the house. He noted that the bill would allow businessmen and other property owners along the shore to get coverage up to the full value of property.

It's been a common complaint from coastal people that lack of insurance (or lack of adequate amounts of coverage) has been a stumbling block in the way of business development there.

Representatives of the insurance companies, in appearances before senate committees this session, have given a general okay to the mandatory system proposed as a solution to what they acknowledge has been a coastal problem.



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My name is Fred Maynard. I work for The Travelers in Hartford.

Treasury Secretary Kennedy has asked me to work for him, too, this year. I am chairman for the insurance industry of Treasury's 1969 drive to increase the number of employees buying Savings Bonds and Freedom Shares through payroll deduction. I'm delighted to moonlight for a cause I believe in—a campaign whose success will benefit my country, my company, and me.

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Fred Maynard

National Academy of Medicine could provide 'innovative solutions'

HARTFORD—U.S. health care system defects call for creation of a new, top-level National Academy of Medicine, Dr. James A. Shannon told a Travelers Research Corp. seminar.

The former director of the National Institute of Health remarked that such an academy, similar to the concept of the National Academy of Sciences and National Academy of Engineering, would contain the power plus the prestige to bring "innovative solutions" to medicine's present-day problems.

No single governmental or private force is powerful enough to bring on necessary change since each is too parochial in outlook,

too prone to comprise rather than lead, he lamented.

MOREOVER, none is able to set national priorities and then lobby as the united voice of health professions.

"The result is that medical education is often poor, research in medical centers often defeats the prime role of teaching students and the care available to Americans is uneven, expensive and disorganized."

National Academy of Medicine membership would be broadly informed and objective enough to provide "true leadership," he said.

Dr. Shannon now functions as special advisor to the president of the National Academy of Sciences.

"What is needed," he continued, "is a system that will give to the physician in his office the kind of expert backup now found only in the leading medical centers."

DR. SHANNON, in Federal service for nearly 20 years, said that he has found the prepaid group practice program on the West Coast—pioneered by the Kaiser-Permanente project—the best available system, since it emphasizes preventive medicine

by providing subscribers with complete physician checkup as well as illness care.

He noted that Kaiser-Permanente has reduced the amount of hospitalization as well as quantity of hospitalization among subscribers and has demonstrated that this preventive approach is cheaper than the normal insurance coverage paying for illnesses only.

"THIS AND OTHER systems must be examined in an effort to improve the health services to the community.

"Medical school hospitals should not be asked to place great emphasis on community service, because their chief role should help develop innovations but not be expected to be the chief provider of the improved community care."

General Mills post goes to A. N. Brown

MINNEAPOLIS — Arthur N. Brown, formerly director of personnel for the consumer foods group of General Mills, has been named corporate personnel director. In his new post he will handle the administration of employee benefits.

Mr. Brown, who succeeds Elmer R. John, joined General Mills in 1951 as a staff assistant in



Arthur N. Brown

the personnel administration department. He has served in the company's Canadian operations, grocery products division and flour division, in addition to the consumer foods group.

Mr. John is leaving General Mills to go into the teaching and management consulting field after serving for the past nine years as corporate personnel director. He will continue to serve the company as a consultant.

Group reports broker volume

SAN FRANCISCO—The California Surplus Line Assn. reported that brokerage firms in the state last year wrote \$28,783,699 worth of business, compared with \$24,189,000 the prior year.

The increase in premium volume reflects higher rates imposed, rather than a greater number of risks written.

Brokerage firms placing more than \$2 million in 1968 included Cravens, Dargan (\$2,903,190), Swett & Crawford (\$2,625,904), Walker & Co. (\$2,205,507), Marsh & McLennan of California (\$2,165,027), Stewart, Smith, Haidinger (\$2,010,246).

Brokerage firms placing between \$1 million and \$2 million included Rathbone, King & Seeley (\$1,968,214), Johnson & Higgins of California (\$1,839,284), Transit Insurance Administrators (\$1,626,937), Alexander & Alexander (\$1,370,618), and Sayre & Toso (\$1,153,987).

The remaining volume was distributed among 76 separate brokerage firms reporting to the association.



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Fire causes \$500,000 damage to paper mill

WATERTOWN, N.Y. — Fire badly damaged the Knowlton Brothers Paper Mill in this northern New York city.

Damage, mostly from water, was unofficially estimated by firemen at \$500,000.

There were no injuries. The fire reportedly broke out on the mill's third floor. Cause of the blaze was not immediately determined.

The 150-year-old firm produces special papers.

Court says no warning needed when user knows of product's dangers

By JOHN W. GILES
Attorney-at-law

WASHINGTON—In a recent Federal court case in Montana, the court considered the duty of a manufacturer to warn of dangers in "nondefective" but potentially harmful products. Has the manufacturer such a duty?

The question in the case was whether a manufacturer, selling a wire strand and knowing the use to which it was going to be put, was required to warn in order to avoid liability.

The plaintiff's intestate was killed as the result of the breaking of this wire when used as a hold-down device. The court said here that no warning was necessary by the manufacturer.

The rule, said the court, is that a warning by the manufacturer is not required where the manufacturer has reason to believe that those for whose use the chattel is supplied already know or will realize its dangerous condition (C.A. 9 — *Jacobson v. Colorado Fuel & Iron Corp.* 3/26/69).

YOU CAN ALWAYS trust women to have a "better idea," especially when they are suing Ford.

A woman passenger was injured in the State of Washington when an automobile in which she was a passenger crashed against a concrete abutment. She alleged that the accident was caused by a defectively installed A-frame pivot bolt which had come loose, allowing the A-frame to drop and thereby rendering it impossible for the driver to control the direction in which the automobile was moving.

She argued that the defendant manufacturer was responsible for the defect. However, she offered no evidence of negligence on its part, unless it could be said that the fact of a defect raised an inference of negligence. Of course, Ford said that the bolt would have come loose much sooner than it did if it had been improperly installed at the factory.

THE TRIAL COURT stated that the plaintiff must prove negligence to recover. The supreme

Schroeder named to new insurance post

NEW YORK—Leslie J. Schroeder, formerly manager of insurance and employee benefits at Worthington Corp., Harrison, N.J., has been named to the new post of corporate director of insurance for Studebaker-Worthington Inc., the parent company here.

Mr. Schroeder, who joined Worthington in 1937, is past chairman of the insurance council of the Machinery & Allied Products Institute, a member and former director of the New York chapter of the American Society of Insurance Management and is a member of the workmen's compensation committee of the New Jersey Manufacturers Assn.

No replacement for Mr. Schroeder will be named at Worthington.

court said no, in sending the case back for another trial. The supreme court of Washington said that this case is comparable to the strict liability which has been imposed on the manufacturers of food products. This is a case of strict liability in tort and in a new trial, the case should be tried on that theory and it is not necessary that the plaintiff prove any negligence.

You are well aware of the tremendous increase in these products liability cases and the difficulty of defending them (See Washington Supreme Court, *Ulmer v. Ford Motor Co.* 3/20/69).

INSURANCE AGAINST interruption of business can get complicated.

To get it, there must be the prospect of business earnings, consisting of net profits or fixed charges and operating expenses that would have been earned but for the property damage to and destruction of the object.

If an insured suffers a business interruption because of fire and actually goes back in business, the reduction in gross earnings would be based on the actual amount of time necessarily spent to restore the business.

Continued on page 24

Sears says its theft loss was \$12 million last year

CHICAGO—Sears, Roebuck & Co. lost about \$12 million in stolen merchandise last year, a company spokesman has revealed.

The figure was released by Sears in response to an allegedly erroneous estimate of theft losses made by H. Bruce Palmer, president of the National Industrial Conference Board. Mr. Palmer estimated Sears' theft losses at \$120 million.

Mr. Palmer also estimated that Sears employed a 14,000-man security force, which the Sears spokesman said was not "anywhere near" being correct.

However, *Business Insurance* learned that Sears has at least one security officer for each of its large stores across the U.S.

And, because Sears has about 900 stores, with additional assistants and part-time security help, the 14,000 figure is not far off, the source said. This would put Sears' security force on a manpower par with the Chicago police department.

It was learned that the Sears insurance department does not set up the reserve the firm has to cover theft losses. Rather this is an accounting function, the source said.

"And although these losses may seem large," he said, "actually the company has been far below the retail industry average on stock shrinkage." A figure of .5 to 1% of gross sales is not uncommon, he pointed out.

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Industry must view handicapped as qualified resources: Viscardi

CHICAGO—Two old wives' tales about handicapped employees faded in the light shed by Henry Viscardi Jr., internationally known authority on mental retardation and the physically handicapped, during a seminar here. The four-day meeting was sponsored by Insurance Co. of North America for corporate insurance managers, medical directors, brokers and agents.

One tale that Mr. Viscardi ridiculed is that retarded people are prone to make mistakes because of their low intelligence quotient. Employers should know, he pointed out, that this is

one of the very factors that prohibits mistakes because these people do not become bored with their jobs. The matter hinges on training for an appropriate occupation. One area in which retarded people have been highly successful is key punch operation because more intelligent workers are subject to boredom and the result is often error.

Another misconception was cleared up by George Welch, rehabilitation director of INA's Medical and Educational Needs for the Disabled (MEND) program. Employers who claim that hiring a handicapped person prohibits them from securing insurance coverage and burdens them with an accident-prone worker are dead wrong, he said.

A PSYCHO-sociological team from MEND, which is aimed at financial, medical and vocational rehabilitation, has completed a study of a number of cardiac cases and found that their risk potential was much lower than that of an equivalent number of non-cardiac cases. Employment of handicapped workers doesn't prohibit insurance coverage, Mr. Welch emphasized, because an insurance company bases rates on losses rather than physical qualifications.

A point that was stressed by both Mr. Viscardi and INA representatives was the stability of a rehabilitated employee. Studies have revealed that these people have attendance and job-residence records far superior to nonhandicapped workers. Mr. Welch commented that rehabilitation ends insurance-company check writing and rewards an employer with a stable employee who has many years left to ren-



Henry Viscardi Jr.

der valuable services for his community.

The MEND program has serviced more than 8,810 cases and Mr. Welch estimated that those closed as of March, 1969, had effected a saving of \$4 million for the company.

Mr. Viscardi, who has two artificial legs, is president and founder of Human Resources Center, Albertson, N.Y., and has been retained as a consultant for MEND since last year. Work done at the center helps qualify handicapped and mentally retarded people for employment in industry.

A RESEARCH project now being conducted has led to de-

velopment of a device for measuring attention span in relation to safety. An activity tolerance laboratory measures worker fatigue and stress under various environments and a study of the relation of tool design and fatigue in workers, and its possible connection with accidents, is also being conducted.

"What is learned by studying the disabled," Mr. Viscardi said, "is even more appropriate to the normal worker."

Work simplification and training techniques developed at the center will enable employment of more mentally retarded people, he commented. Audio-visual aids are used in 10-second concentration-span periods when training the mentally retarded. This approach also serves as an efficiency check on the job itself.

A non-profit demonstration work center, Abilities Inc., is included under Mr. Viscardi's Human Resources Center and attests to the employability of the handicapped. The 450 workers operate in fields such as electrical engineering, banking and computer data processing. They earn the prevailing wage and regular benefits although "they are unemployable by normal standards of commerce and industry," Mr. Viscardi pointed out.

"We must shake up business and industry," he said, "because too many of its rules were written 30 years ago and we have proved that handicapped people can be trained to work everywhere and contribute to society."

City pays claim to avoid jury

SAN FRANCISCO—This city has decided, through its board of supervisors to pay \$17,500 to Richard Barragan, 21, victim of a shooting three years ago by an off-duty policeman. The city is self-insured.

The police officer, Deputy Sheriff Robert S. Danielson, has since died in a car accident.

The finance committee of the board recommended that San Francisco pay the sum in an out-of-court settlement "rather than risk a higher jury award."

The shooting occurred Dec. 27, 1965. Witnesses have testified officer Danielson had been visiting bars before he fired at Mr. Barragan, then 18.

THE POLICE officer later was convicted of assault and battery with a deadly weapon. He argued that Mr. Barragan and some friends had used abusive language and that his gun "went off during a scuffle."

Mr. Barragan had sued San Francisco for \$75,000. The trial ended with a hung jury. A new trial was to have started but the city attorney recommended the \$17,500.

Supervisor Terry Francoise said, "This case illustrates the need to change the law requiring officers to carry arms at all times."

Judge nixes injury award to boy who hitched illegal ride on railroad

NEW HAVEN—A New Haven County superior court judge has ruled that a boy who illegally hitched a ride on a New York, New Haven & Hartford Railroad freight car, and in the process severely injured himself, could not hold the carrier responsible for his injuries.

Judge John Clark FitzGerald ruled in a memorandum of decision that Robert James Kline, now 18, should not collect on a suit filed against the railroad.

The judge granted a defense motion for judgment, made in accordance with a motion for a directed verdict, after a six-member jury could not arrive at a decision last January.

THE BOY'S FATHER brought suit for \$750,000, after the youth lost his left arm, the toes of his left foot, and part of his right hand when he fell from a moving freight car.

The accident occurred on Aug. 26, 1962, on a railroad spur line near the Boulevard in New

Haven, when Robert and a younger brother secretly hitched a ride on a moving train comprised of an engine and two freight cars.

He claimed that the railroad crew should have been aware of his presence and was negligent in not protecting him.

However, testimony indicated that the pair had hidden themselves near the tracks, and, waiting until the train had moved past, ran behind and hitched a ride on the side of one of the cars.

IT WAS ALSO noted that none of the five-member train crew was apparently aware of the boys; that both boys had been warned by their railroad-employee father against hitching train rides; and that a third boy, just prior to the escapade, had refused to participate when Robert suggested hitching a train ride.

Judge FitzGerald commented that the plaintiff was a tres-

passer who should have known of the danger of his act and that negligence on the part of the train crew had not been proved.

THE JUDGE continued: "The trial court strongly feels that if the facts of this case were deemed to warrant a recovery for a minor plaintiff who is dedicated in the role of trespasser to securing a ride on a freight car, all railroads in Connecticut and in the entire country would be put out of business."

Judge FitzGerald said that he should have granted a motion by the defense for a directed verdict in its favor rather than have allowed the jury to decide the issue of negligence.

Oregon okays work comp bill

SALEM—The Oregon house of representatives approved HB 1790 relating to workmen's compensation.

The measure would provide that 75% of workmen's compensation costs for employees of sheltered workshops shall be shared by all covered employers in the state, and will take effect July 1, 1969, if approved.

THE SENATE, April 24, gave unanimous approval to SB 322 which would let insurance companies change property and liability immediately without a hearing.

State Insurance Commissioner James Faulstich has endorsed the measure, saying it would increase competition.

The bill, affecting all insurance rates except those for life, health, marine, transportation, airplane or reinsurance, was sent to the house for consideration.

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Standard of California in mass marketing of personal insurance

SAN FRANCISCO—Standard Oil of California has entered the mass marketing of insurance, in collaboration with Fireman's Fund Insurance Co., with the formation of a new Chevron Travel Club.

D. H. Farmer has been named as vp and general manager of the new organization, which will have headquarters here.

"Our new club," Mr. Farmer explained, "is designed specifically to open new horizons in motoring pleasure. Membership will be offered exclusively to holders of Chevron National Credit Cards."

Membership fees will range

from \$2.50 to \$3.50 per month, depending on the extent of the insurance coverage desired, with member benefits amounting to \$15,000 plus.

The broad coverage accidental loss of life insurance protection will be provided under a group policy issued by Fireman's Fund. Coverage starts with the moment membership in the new Chevron Travel Club becomes effective and remains so long as membership is maintained.

The policy covers all forms of travel, including air travel as a passenger, and it covers any accidental loss of life occurring within 100 days of an accident.

Social Security could destroy private pensions: HEW actuary

WASHINGTON—The chief actuary of the Social Security Administration warned here this month that expansion of the government retirement program to provide full economic security for most of the population "would destroy the vital role of the private pension system."

Robert J. Myers told a symposium sponsored by the American Enterprise Institute for

Nebraska kills insurance bills

LINCOLN—The Nebraska legislature's banking committee has killed two Little Hoover Commission bills which drew heavy fire from insurance interests.

Killed by a vote of 8-0 were LB 1331 which would have put the state in the business of establishing a self-insurance program for school districts, and LB 1332, which would have required insurance companies to furnish reports to the department of motor vehicles on all Nebraska drivers they have insured.

Ed Copple of Lincoln, representing the Nebraska Assn. of Insurance Agents, told the committee many states have tried self-insurance with unhappy results. Gar Donnelson of Lincoln, a member of the Little Hoover Commission, a businessmen's group, acknowledged that LB 1331 needed further study.

LB 1332 was attacked as unnecessary and one that would force a tremendous flow of paper between insurance companies and the department.

Silicosis in first stage not disabling: court

WHEELING, W.Va.—The fact that a workman is receiving Federal total permanent disability does not bar him from additional compensation for unrelated first-stage silicosis, the West Virginia supreme court has ruled.

The court noted that state law provides for compensation of \$1,000 for first-stage silicosis, even when capacity for work is not impaired, as a complete and final award.

BY CONTRAST, compensation for second-stage silicosis is determined by the percentage of disability.

The court concluded that "a total permanent disability award does not include or cover first-stage silicosis, and a first-stage silicosis award does not constitute an additional award for either permanent partial disability or total permanent disability. The distinction between first-stage silicosis and any degree of advanced silicosis is that first-stage silicosis is not necessarily disabling but advanced silicosis is disabling and is dealt with the same as a disabling injury."

Two dissenting justices pointed out that: "It must be obvious that a man cannot be more than totally disabled. It should be equally obvious that he cannot receive compensation for more than total disability." (*Cummins v. State Workmen's Compensation Commission.*)

Public Policy Research that "if the social security systems and private pension plans are on a collision course the loser most certainly will be the private pension system, which will come out second best and will sink to the bottom."

Mr. Myers said Social Security and private retirement plans are compatible, and he is optimistic that both will have "significant and more or less equal roles" in the years ahead—providing that the expansionist philosophy for Social Security doesn't gain the dominant hand.

WHEREAS "MODERATES"—and he indicated he was in this camp—believe the present sys-

tem is reasonably adequate but that some modifications will be needed to keep the program up to date, "expansionists" contend that Social Security should provide "full economic security" for all except 5% or 10% of the population.

Mr. Myers said that former Secretary of Health, Education & Welfare Wilbur J. Cohen was among the expansionists who often "argue for their goals as though governmental programs are the only way to achieve the betterment of our society and the brotherhood of man," said Mr. Myers, who has been actuary of the Social Security Administration since its creation in 1947.

Part of the expansionists' plan to raise the benefit level without making increases in cost "readily (and perhaps painfully) apparent to the public" would include taxing employers at double the contribution rate charged employees, Mr. Myers contended.

ALSO, EMPLOYER contributions would be based on the entire payroll, while the employees' taxable earnings base would be fixed initially at \$15,000. Employee and employer contribution rates are now equal and based on a maximum earnings base of \$7,800.

"Further, to make the greatly increased financing more palatable, the expansionists strongly favor a government contribution out of general revenues in an amount equal to 50% of the combined employer-employee contribution receipts," Mr. Myers said.

He told his audience that he

opposed Federal contributions for Social Security from the general fund.

THE EXPANSIONISTS also want to liberalize eligibility requirements for disability benefits to include all short-term sickness cases, Mr. Myers said. "Obviously, there would thus be no need for private insurance in this field, or for private savings to help take care of the problem, or for sick-leave plans," he stated.

Also in the health benefits area, the expansionists would provide Medicare for the entire working and retired populations and their dependents, and gradually institute so-called "Kiddie-care," which includes prenatal care, obstetrical care and infant care.

"This would be another step," Mr. Myers said, "toward the attainment of the expansionist social goal of nationalizing medical care."

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opinions

Municipalities must provide protection or be held liable

We note the rising backlash to the permissiveness that some authorities have granted to riots and the willful destruction of real and personal property. We are not surprised, and we predict the backlash will grow in legal and financial persuasion.

The most striking example is the suit filed by the Aetna Insurance Co. against the U.S. Government for allegedly deliberately sacrificing private property to burning and looting during the riots in Washington in April of 1968, although there was plenty of force available to quell the riots in their early stages. The suit seeks to recover \$1.2 million worth of claims paid out by Aetna to Washington business concerns.

There is another aspect of this failure of protection. That is the failure of the universities to protect their property adequately, when they were fully advised of its potential destruction by rioting students.

Again, thousands of parents have paid their hard-earned money to universities for the education of their sons and daughters, only to find that the curriculum has been seriously interrupted by uncontrolled riots on the private property of the universities. Why should they not obtain financial redress for their lost investment, in the light of lack of proper precautions to protect the property and curriculum of the universities?

We cannot help but comment that for a municipality to take the taxpayers' money for police protection and then fail to furnish that protection is nothing short of a fraudulent practice, for which compensation should be paid.

We favor the application of financial pressure on universities and municipalities, which, knowing of the dangers and obvious possibilities of riots, have failed to take proper precautions to protect those who have paid either by tuition or taxes, for such reasonable protection.

May we introduce . . .

A *Business Insurance* reporter not long ago talked with a state insurance commissioner and key legislators on insurance committees in both houses of the state legislature. Subjects under discussion included open rating laws and an industrial insured exclusion in the state's law regulating unauthorized insurers. Both subjects, of course, are of vital interest to buyers of corporate property-liability insurance who want to have a marketplace that is at once competitive and open.

Members of the American Society of Insurance Management have publicly endorsed both file-and-use rating laws and the industrial insured exclusion that would permit major buyers of insurance to deal with companies of their choice unfettered by restrictions designed to apply to mail-order insurers.

In the course of the interviews it developed that neither the state insurance commissioner nor key insurance committee members were acquainted with local chapter officers of ASIM. The press aide to one

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Assets of Noninsured Private Pension Funds, 1950-1967

Type of asset	1950		1967	
	Amount (In millions)	Percent	Amount (In millions)	Percent
Cash and deposits	264	4.1	1,184	1.6
U.S. securities	1,966	30.5	2,246	3.1
Corporate bonds	2,828	43.8	25,527	35.5
Preferred stock	304	4.7	975	1.4
Common stock	802	12.4	33,853	47.1
Mortgages	102	1.6	3,935	5.5
Other assets	186	2.9	4,098	5.7
Total	\$6,452	100.0	\$71,818	100.0

In the years since 1950, the assets of noninsured corporate pension funds have shifted sharply from holdings in U.S. Government securities and corporate bonds to other investments with higher yields. Investments in common stock in 1967 amounted to fully 47% of assets held by such funds. This compares with 32% in 1960 and only 12% in 1950. Total reserves of noninsured plans in 1967 stood at \$71.8 billion compared to \$32 billion for insured plans. The office of research and statistics of the Social Security Administration notes that there has been "a strong increase in funding (of noninsured plans) reflecting both consistently higher levels of contributions, at least in the past five years, and higher returns on assets."

Source: Social Security Bulletin

legislator asked the *Business Insurance* reporter to put him in touch with ASIM officers. "We'll invite them down to testify on the bills that affect their interests," he pledged, "all we need to know is their names and where to get in touch with them." *Business Insurance* was only too happy to comply.

We wish that we could act as a catalyst between corporate insurance buyers and legislators in every state, but that isn't possible. It's up to local ASIM chapters and their officers to assert themselves and make themselves and their positions known to state officials who have a profound effect on the insurance marketplace.

The international picture

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

What U.S. firms do in these areas overseas, then, is business insurance news. Risk problems of U.S. companies overseas will be explored in a "special emphasis" international issue of *Business Insurance*, on August 18, devoted to these problems.

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

Some of the other key editorial areas in the special report will include:

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

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

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

- U.S. business must be kept aware of what foreign governments are doing to regulate insurance companies, agents and brokers, retirement funds and even more broadly about the very strength of the local currency.

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

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

However, the main emphasis will be on how U.S. firms find capacity, minimize risk of all types and handle employee benefits in their overseas operation.

letters

Alcohol problems

To the Editor: I have been reading with interest your articles on alcoholism. I am glad to see that you and your fine staff realize the tragic effects this disease can have on our population and industry. Your reporting and concern are doing much to awaken the responsible leaders of industry.

As president of the National Council on Alcoholism, Delaware Valley Area, and an insurance man, I am all too painfully familiar with the mounting problem as it currently exists. Your most recent publication presented a very fine treatise on alcoholism which I am having reprinted for wide distribution.

I hope that you are able to continue to impress your readership with the urgency of this problem. I thank you very much for your enthusiasm in the past and for continued success in the future. If either the National Council on Alcoholism or I can be of any assistance to you in this grave matter, please do not hesitate to contact me.

Frank G. Harrington

Senior Vice President, Insurance Co. of North America, Philadelphia, Pa.

Franchise query

To the Editor: Your March 3 issue has a feature article on page 3: "Resist overtures of group auto advocates, ASIM session urged."

Reference is made as to . . . "how corporations can make money on franchise insurance programs. . ."

As subscribers to your publication, we would like to know more about this particular subject.

R. O. Strothman

President, Strothman & Mock, Inc., Pittsburgh, Pa.

Editor's Note: Mr. Strothman has been in touch with Duane Cooksey, insurance manager of Super Valu Stores, who talked about how corporations can make money on franchise insurance setups.

MAPI query

To the Editor: In your Dec. 16, 1968, issue of *Business Insurance*, your article in Perspective, a risk exposure questionnaire distributed by the Machinery and Allied Products Institute, is referenced.

We would appreciate the address of the Institute, so that we may obtain a copy.

Larry V. Poulson

Insurance Department, Colorado Interstate Corp., Colorado Springs, Colo.

Editor's Note: The Institute is located at 1200 18th St., N.W., Washington, D.C. 20006.

Extra copies

To the Editor: In the April 14 *Business Insurance* there is an article of deep interest to myself and my associates. Would it be possible for you to send me six copies of this particular issue?

King Cayce

New York, N.Y.

Editor's note: Because of exceptional reader interest in the special pension and profit-sharing report in the April 14 issue our supply of copies is exhausted. We suggest that reader Cayce and others wanting articles in that issue reproduce them with notations that they were published in *Business Insurance*.



"Is there a quote here from Mutual Benefit?"

"There is. And it's right on target. Ties in all the southern and west coast plants. Has several new ideas on executive compensation, too."

A lot of group pension proposals are like late-night movies on television: chances are, you've seen them before.

Simply because they're boiler plate, slightly warmed over.

But not Mutual Benefit's. Even though we're big (over 11 billion insurance dollars in force), we don't suffer from systemitis.

We refuse to submit a packaged proposal. Every plan we design starts from the standpoint of the client's needs.

And it's well organized. By a staff of home office experts and the creative talents of group pension specialists serving you from offices across the country.

For example, maybe we'll come up with a way to increase pension plan benefits without raising the cost.

Or suggest a more efficient utilization of present funds.

Or we may be able to consolidate a number of plans and save money. Money that could fatten a group life plan. Or provide a long-term disability plan. Or improve Major Medical benefits.

Of course, a briefcase full of quotes from companies with household names might impress the man who buys the plan.

Until he finds out that household names won't guarantee the best results.

Incidentally, Mutual Benefit has a new booklet, "Developing the Company's Retirement Plan." Very informative. Write for your free copy.

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retirement benefit insurance. Flexibility in funding approach, benefit structure and plan design.

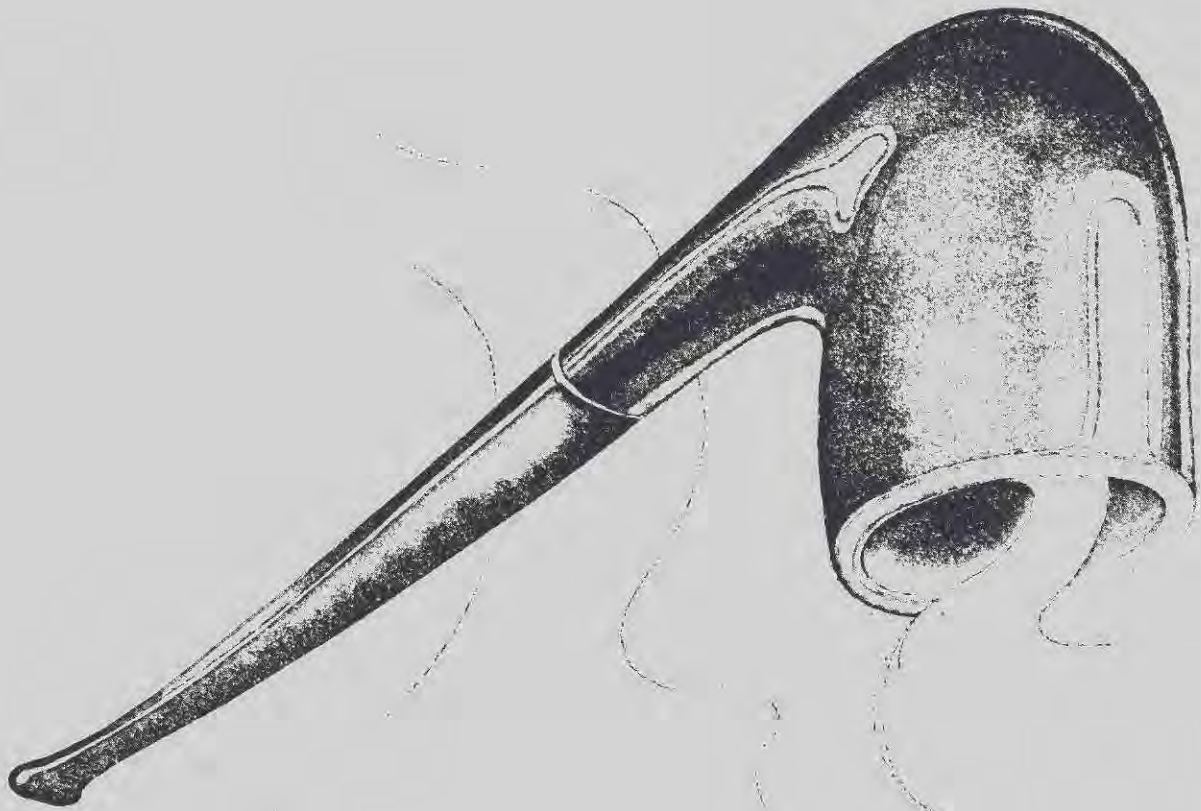
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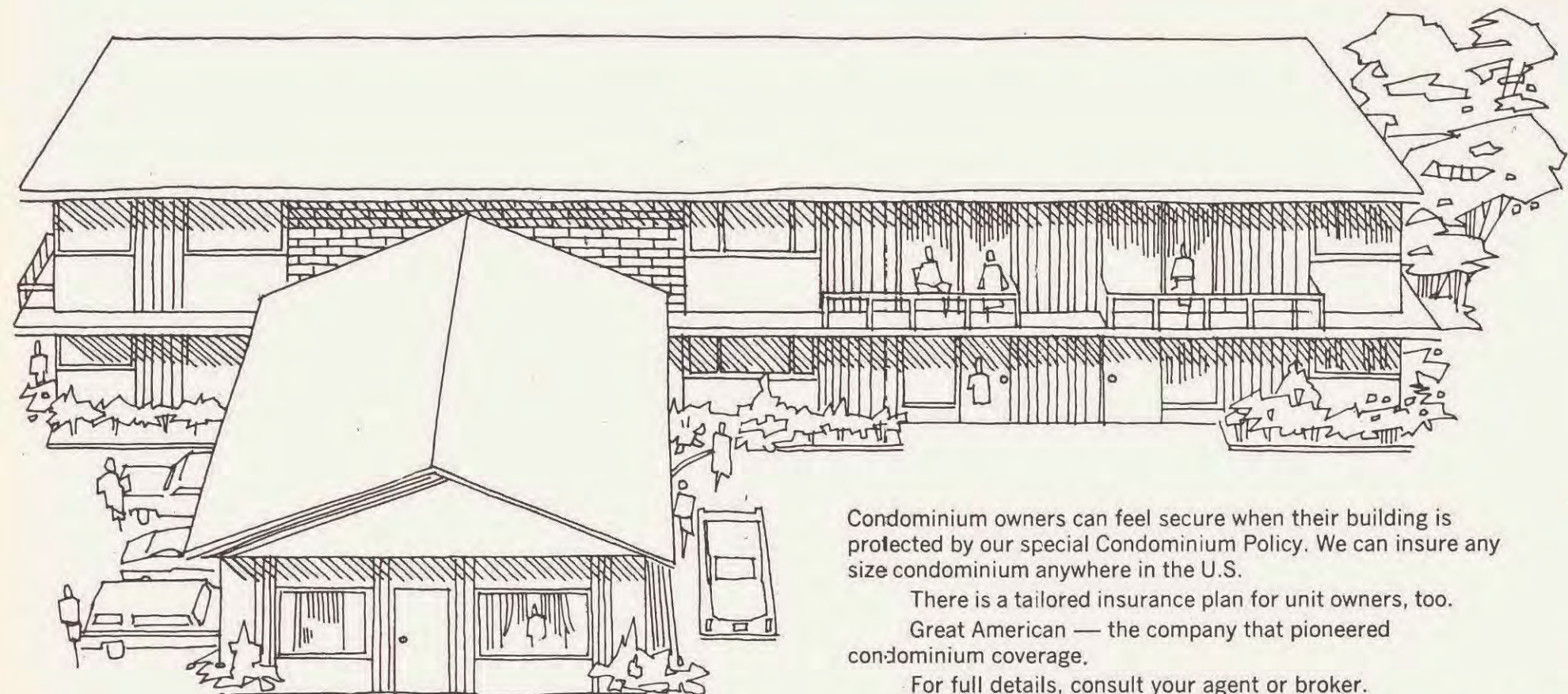
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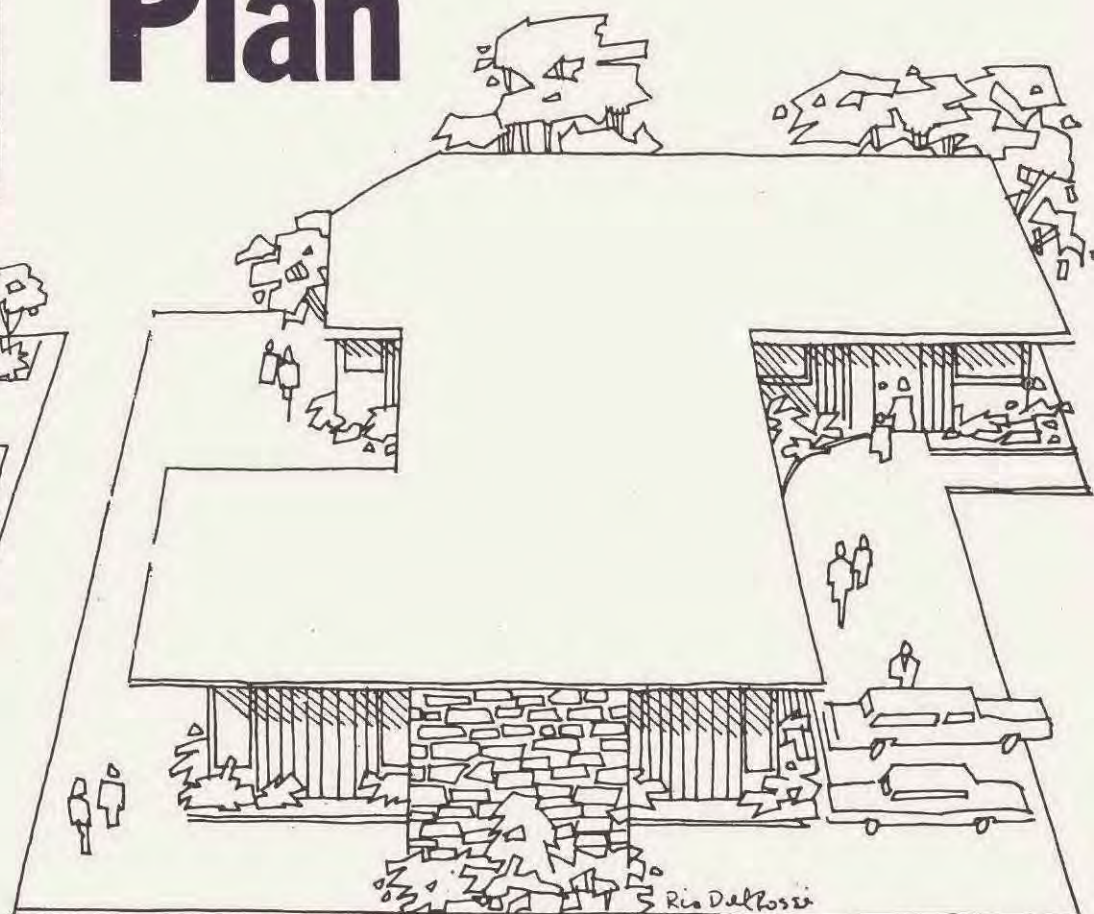
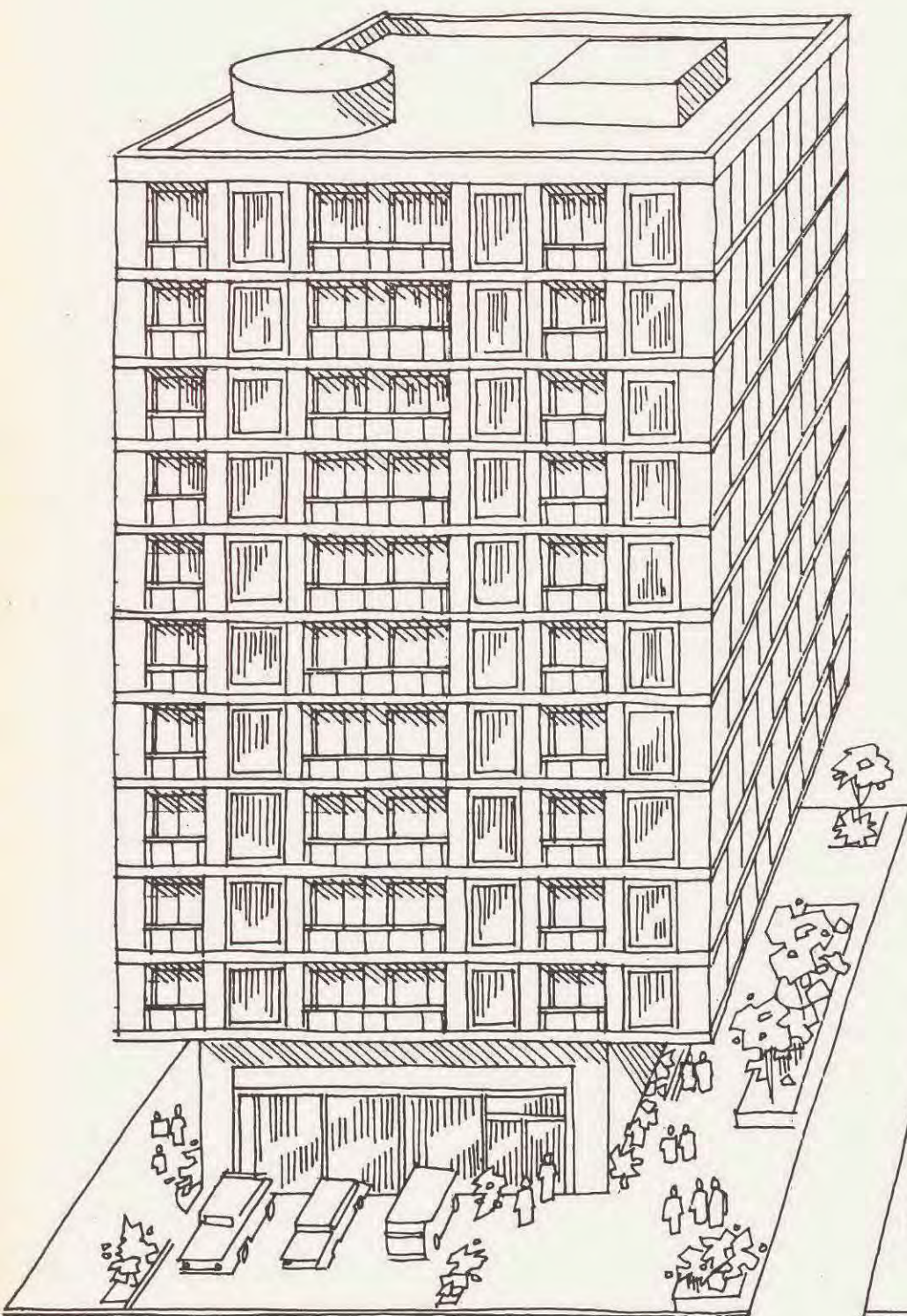
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business insurance/perspective

Insurance company solvency: Will your insurer be here when you need him?

by William H. Rodda,
president,
Marine Insurance Handbook, Inc.



William H. Rodda

The solvency of his insurance company is vital to the policyholder should a loss occur. There is no magic formula by which the future solvency of an insurer can be predicted. Large as well as small companies have encountered financial difficulties. State insurance department examinations of insurers usually are made at three-year intervals, and that is a long time in this swiftly moving era of finance. How can a policyholder evaluate the probable continued solvency of his companies?

The principle to be followed in judging insurers is to make a comparison of two or more companies. The judging of a single company is difficult even for the professional unless the company is one of the giants that has unquestioned financial stability. It is almost impossible for the insurance buyer to judge one company by the limited information that is readily available. It is practical to judge the relative stability of two or more companies.

Most corporate insurance buyers have several companies available to them. Even when the insurance is to be placed through a single agent, the chances are that the agent represents more than one company. The comparative strength becomes evident with an examination of the statements of the companies.

OCCASIONALLY IT may be necessary to consider a single company for some special line of insurance. There are relatively few companies that write certain specialty lines of coverage such as dram shop liability, some forms of professional liability coverage, rain insurance, or other policies which may be needed by some businessmen. It may be necessary for a buyer to consider whether a particular company is sufficiently stable to justify buying a policy. This eliminates the possibility of comparing several companies but the principles

which are described here will be helpful in deciding whether to buy from the company.

The conventional way of comparing the financial strength of insurance companies is to consult one of the rating services that analyzes company data and sets up ratings of insurers. This information is published in books which may be purchased, or which may be consulted in most large libraries or in the offices of insurance companies and agents.

A typical rating by such a service is divided into two parts. One shows the rating according to operational stability and management, while the other indicates size of assets and surplus. The rating which is intended to indicate stability and management may be the same for a small company with only a million dollars or so of surplus as for the giant with hundreds of millions of dollars in surplus. This is a recognition that many small insurers are excellently managed and that their probable stability rivals that of their giant competitors. The rating by size presents little more information than could be ascertained by an examination of the company's financial statement. It is most important in determining whether the company is sufficiently large to handle the size of exposure to loss which the policyholder may have. The ratings of these services can be used more effectively if the buyer looks at the company financial statements and adds his own evaluation.

An important question to be considered is whether the company is licensed in the buyer's state. The mere fact that a company is licensed is not a guarantee of strength. Financial requirements for the securing of an insurance company license are very low in some states. The first few years of a company's operations are precarious ones so that a new company even though licensed may be facing problems. The licensing in the state is most important in order to secure service and also to reach the company for legal processes if there should be a dispute. It is usually easier to secure information about a company in a state where it has a license. Companies are required to file detailed statements with the state in which they are licensed, and this information is available to policyholders. A state insurance department can also tell whether there have been numerous complaints about a company. An accumulation of claims may be an indication that a company is encountering financial problems.

THE ANNUAL statement of an insurance company is the basic document which is available to the policyholder. A condensed form of this statement is published by most insurance companies and this is available upon request from the company or its agents. It is similar in principle to the annual statement of a commercial firm but the items of assets, liabilities, income and expenses have different names. The statement is in two parts. One part is the statement of condition which shows assets and liabilities

and the surplus of assets above liabilities. This surplus figure is very important and will be referred to later in relation to certain liabilities. The surplus figure may be compared roughly to the net worth in a commercial statement of condition. The actual net worth of an insurance company may be considerably different from the surplus shown on the statement but the comparison with a commercial statement is helpful from an accounting standpoint. This statement of condition is also called a balance sheet.

The other part of the annual statement is the operating statement or income statement. This shows the sources of the company's income during the year, the losses and expenses, and the profit or loss resulting from the year's operations.

An examination should be made of the statements of condition and the operating statements over a period of several years. A well-run company is making progress. It is true in the insurance business as in other businesses that a company cannot stand still. A static picture of assets or operations is really an indication that the company is going backward. In fact, unless the statements show progress that is greater than the rate of inflation, the company is losing ground.

The principal assets of an insurance company are stocks and bonds. Life insurance companies may also invest in mortgages because they do not need to maintain the liquidity of investments that is essential for a property or liability insurance company. Smaller insurance companies tend to keep a high proportion of their assets in high quality bonds. There is always the possibility that an insurance company will need to liquidate some assets in order to pay for a catastrophe loss, or to pay for a series of heavy losses. Fluctuations in the prices of common stocks might result in additional losses to the company in cases of liquidation during a period of low stock market prices. Larger companies can afford to put a substantial amount of their assets into common stocks because they have a relatively larger amount of money available to meet emergencies. A high proportion of investments in bonds is generally an indication of conservative management.

REAL ESTATE MAY appear as an asset but this usually consists of office buildings in which the company conducts its own operations. There may be legal restrictions on the amount of real estate that a company can own in some states. Real estate is not considered a good investment for large portions of an insurance company's assets because it is not liquid and would not be easily convertible into cash to meet an unexpected catastrophe or series of losses.

A high proportion of assets in real estate may be reason to question a company's position. There was a case several years ago in which an excessive valuation was placed upon a company-owned building in order to indicate that the assets were higher than they actually were.

This can be a device for concealing insolvency.

A high ratio of the surplus to the total assets of the company is an indication of reserve strength. Authorities differ as to a satisfactory proportion of surplus to assets. A good rule to follow in comparing companies is that the higher the ratio of surplus to assets, the stronger is the financial position of the company.

Another factor to be considered is the amount of premiums written by the company in relation to its assets and surplus. A very high amount of premiums written in relation to surplus shows that the company is extending its operations to a greater extent than a company with a smaller proportion of premiums to the surplus. High premium writings generally carry with them a high degree of liability to losses. An adverse experience from a large amount of premium writings may deplete the surplus and threaten the company solvency.

TWO RESERVES that appear in the company statement are extremely important. One is the unearned premium reserve and the other is the reserve for unpaid claims. There is no reliable way to determine from the statement itself whether these are adequate.

The unearned premium reserve consists of the funds which the company holds on behalf of policyholders for the proportion of their insurance that has not yet been earned. On the day that a policy is written the entire premium for the policy is unearned. This is gradually reduced as the term of the policy runs. The reserve is set up by formula and is not calculated for each policy. The formulas are sufficiently precise so that this reserve generally is adequate in the absence of any active manipulation by management.

The reserve for unpaid losses is more difficult to calculate and has been manipulated in some insurance companies in order to conceal an impending insolvency. An insurance company that writes a high proportion of liability, automobile and workmen's compensation insurance should have a higher proportion of unpaid losses than a company whose principal business is fire or other property insurance. Losses of property usually can be settled within a few weeks after the occurrence, whereas liability and compensation claims may take years to settle. In the case of workmen's compensation claims there may be a continuing liability for ten years or more.

Many insurance companies have had unsatisfactory operating results during recent years. This does not mean that the companies are necessarily in danger of insolvency. The income from investments can be used to offset the losses from underwriting operations. The important question is whether the company shows an overall growth during recent years. Has the surplus increased in proportion to the increased premium writings of the company? Does it appear that

Continued on following page

Continued from preceding page
the reserves are being kept in line with increased premium writings? Any change in the pattern of assets and liabilities or in the operating statement may be an indication of internal problems.

ONE OF THE NEW features of insurance company operation during the past few years has been the change in control from previous management to conglomerates or other outside financial organizations. This development is too new for any conclusions to be drawn as to whether the results will be good or bad for the policyholder. The new management of one insurance company has acted to withdraw a substantial amount of the company's surplus from the insurance company. The company's surplus is sufficiently large so that no harm to the company's solvency is expected. Concern has been expressed that similar action with other less financially strong compa-

nies might result in the weakening of a company.

Reputation of an insurance company may well be considered in the evaluation of the company. Even more important perhaps is the reputation of the persons who are involved in the company management. Integrity of company personnel is essential for the protection of the policyholders' interests.

Insurance company stability may be compared to the credit rating of a firm's customers. Smart businessmen do not depend upon an old credit rating but are careful to keep up to date with the customer's current rating and operations. Periodical review of an insurer's financial position is just as essential. Changes in company operations may be signals of impending trouble. Curtailment of operations, retrenchment as to territory in which the company is operating, reduction in the size of policy amounts, or merger or purchase by another company

should prompt questions. No one of these situations necessarily means that a company is in trouble but they may show that some change in pattern has become necessary.

There are more reasons than possible insolvency to be observed when a company begins to decline. The company that is taking over another insurance company may not have the facilities that the policyholder needs, the facilities for special risks or size of policies, or claims service may not be what the businessman needs. Any change in company management, ownership, or operation may be reason for the insurance buyer to consider placing his insurance in another company. It is just as important to keep abreast of your insurer's progress and stability as it is to keep in touch with your investments. It is unwise to let a portfolio of stocks or bonds sit for years without review and it can be just as dangerous to buy insurance from the same

companies year after year without any review of their current status. ■

William H. Rodda, a CPCU and a member of Phi Beta Kappa, graduated with honors from Rutgers University. His experience includes management of reinsurance pools, agency and special agency work, management of an adjusting company and fire protection and safety engineering. He was for many years manager of the Transportation Insurance Rating Bureau. He is currently the president of Marine Insurance Handbook, Inc., which publishes the standard inland marine insurance rate book for agents. He is a consultant to companies in the multiple line insurance field. He is the author of several of the principal textbooks on insurance subjects, including Property and Liability Insurance and Inland Marine and Transportation Insurance and is co-author of Managing Personal Finances.

Risk management approach to earthquake

by Donn P. McVeigh,
partner,
Warren, McVeigh & Associates,
San Francisco, Cal.

Risk analysis is one of the first and most important steps that a professional risk manager must perform. He must identify and evaluate all possible sources of potential major loss to his company. This analysis should not be biased by, nor have any necessary relationship to, the available insurance market. An example of some of these exposures would include:

Ordinary payroll	Punitive damages
Depreciation	Criminal liability
Credit	Intentional liability
Earthquake	On-shore war risks
Flood	Strike losses
Surface water	Unexplainable inventory shortages
Sewer backup	Loss of goodwill
Collapse	Loss of key executives due to alcoholism
Subsidence	

Anyone familiar with the current insurance market would realize that some of these exposures are insurable, and others are not. This discussion, however, is concerned with only one of these perils—earthquake. Should this peril be insured—and, if so, on which facilities—and for how much—and at what deductible—and under what type of insurance contract? To a significant degree, the answers to these questions depend on management's risk control policy and the risk manager's evaluation of the exposure.

Loss evaluation

If the subject facilities are located in California, or any other area subject to earthquake—and, of course, all areas are, to some degree—the risk manager will assume that earthquakes are certain to occur, and some may be expected to be of considerable magnitude. This raises the question as to how much damage to the organization's property can be expected from the most severe earthquake which can be anticipated.

This question can never be precisely answered and to obtain a reasonably close approximation it would be necessary for a structural engineer specializing in earthquake resistant design to survey each building and examine the plans, in order to estimate the percentage of damage that could be anticipated.

Except for certain high-rise structures, and other vulnerable buildings such as unreinforced brick or concrete block, modern building codes in California provide reasonably good assurance that earthquake damage will be only a fraction of the property value. Modern reinforced concrete, steel, or masonry buildings behave quite well in earthquakes, although certain "lift slab" struc-

tures of concrete construction have proved vulnerable. Buildings of wood or steel construction are exceptionally resistant to damage. Damage occurs principally to structures that are older, have poor anchoring of heavy masonry parts, were built of inferior materials, or of good materials with poor workmanship.

Except for California, and some other areas such as Alaska where earthquake frequency is of relatively greater concern, reliance on the earthquake safeguards provided by local building codes should be discounted. It should be noted, however, that the earthquake provisions of the California-type building codes emphasize protection of life rather than property. Simply because a structure is built "according to code," the risk manager should not discount the possibility of earthquake loss.

Should the risk manager conclude, however, that none of his facilities presented any major loss potential, he would properly choose not to insure. What, however, constitutes "major loss potential?"

Risk retention

If the value of maximum probable loss exceeds the corporation's predetermined risk retention level, this would constitute major loss potential. The risk retention level should be predetermined by top management and, if accepted risk management practice is followed, this level is established at as high a level as is financially tolerable. The criteria utilized in establishing the amount of risk retention are complex and are beyond the scope of this discussion.

Once the "per loss" limit of risk retention is established, this level should provide the risk manager with a guideline to what should be insured as well as his deductible amount. If the value of maximum probable loss exceeds this level, insurance should be purchased. The deductible should not be less than this level.

Management, including all too often risk management, is usually reticent about the use of major deductibles. Occasionally, the insurance market will force a decision which utilizes a major deductible, but, if this pressure is eliminated, many organizations still insure consistently to the first dollar or use deductibles which are smaller than their financial structure would dictate. In the long run, the use of a major deductible should be cost reducing. It simply costs money to transfer risk—both large and small losses—generally a cost about equal to the losses themselves; however, with earthquake insurance, the cost is even greater.

The fact that earthquake insurance rates are high with relation to the predicted loss exposure makes it difficult and not always possible to secure adequate coverage against earthquake damage, even when it is felt necessary. There

are a number of reasons for this, including the fact that companies must consider the catastrophe potential in a single earthquake in which many hundreds of their insureds may suffer damage. Also, major earthquakes occur in widely separated intervals and companies are not allowed to accumulate tax-free reserves to plan for these contingencies. An example of the discrepancy between earthquake insurance premium and losses is typified by the 1967 California experience: Earthquake premium volume for all companies was \$5.2 million, with losses of \$406—the loss ratio is almost zero. For these and other reasons, earthquake rates must be considered high in relation to the actual loss potential. Specific earthquake coverage is therefore often prohibitive but occasionally, if it can be included in a difference-in-conditions or other blanket policy including other perils, the cost may be kept to an acceptable level.

Forms

The wording of the deductible clause and the proper earthquake form are also important considerations. Standard bureau forms can be roughly categorized into two classifications: the Pacific territories forms and the "rest of the country" form. The Pacific forms carry a minimum 5% mandatory deductible that is generally less than the corporation's level of risk retention; this deductible can be increased for a rate credit. The form utilized in the rest of the country does not require a mandatory minimum deductible—an optional 2% deductible may be added by endorsement, for a reduction in rate. In many cases, this optional deductible is much too small. It should also be noted that, in both territories, the deductible is calculated at a percentage of property value, excluding land, but including foundations. In most cases, foundations are subject to earthquake damage.

The type of form utilized also has a significant bearing on the amount of insurance that is required. Under the Pacific forms, whether the fire policy is extended to cover earthquake by the earthquake damage assumption endorsement, or is written separately under the earthquake policy form, an apportionment clause is included. This basically means that recovery for earthquake damage is restricted to the same proportion of liability as existing fire coverage. If, in the judgement of the risk manager, maximum probable loss due to earthquake is substantially less than that for fire, he is faced with the problem of "over-insuring" this exposure in order to meet the requirements of the Apportionment Clause. Occasionally, variations are allowed—usually when created by earthquake market problems—but this is an

area of concern not to be overlooked.

The form used in the rest of the country is a separate policy known as the earthquake and volcanic eruption policy; this policy does not contain an apportionment clause, but does require a minimum 50% co-insurance clause. Thus, different amounts of insurance can be carried for earthquake and fire insurance without contribution.

It should also be noted that another peril similar to that of earthquake is that of earth movement or subsidence, which may or may not be due to earthquake. This coverage is also excluded under most physical damage policies and is a most desirable coverage to have if it can be reasonably purchased.

As can be seen, there are no pat answers to the desirability of insuring against earthquake. The risk manager must first analyze the loss potential, and if an exposure exists, he must then decide how much of this exposure should be insured, and how much should be retained by his firm. Of course, another method of risk retention is co-insurance—deliberately insuring less than the co-insurance requirement—and this can be utilized in combination with a deductible. The premium, as well as market availability, will for the most part, dictate the type of contract under which earthquake insurance is placed. ■

The answer man

This feature is designed to give *Business Insurance* readers an opportunity to get answers to questions related to risk management and employee benefits administration. Ask the Answer Man about sources of information, a special problem in your company, a market for a particular line of insurance. You may wish to ask for information on an insurance carrier or on particular facets of an employee benefits program. Send your questions to the Answer Man, Business Insurance, 740 Rush St., Chicago, Ill. 60611.

Dear Answer Man:

Please advise me of the proper source from which to acquire text books and study materials for the degree of Chartered Property and Casualty Underwriter.

M. D. Hill

Cleburne, Tex.

ANSWER MAN SAYS: Information on the degree may be obtained by writing The American Institute for Property and Liability Underwriters Inc., 270 Bryn Mawr Ave., Bryn Mawr, Pa. 19010, in care of Mrs. Horos.



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Deaths of 11 in office fire blamed on failure of victims to act quickly

NEW YORK—The deaths of 11 office workers and the critical injuries to six others in a fire in a Fifth Ave. office building, were attributed to the victims' failure to call the fire department immediately and leave the building quickly.

Chief Fire Marshal Vincent Canty said an investigation showed that the fire originated with tracing paper in the third-floor drafting offices of David Rosen & Associates. Victims attempted to put out the fire themselves.

Victims then attempted to take an elevator to the lobby, but because of the number of people trying to get into the car, the door was blocked and the eleva-

tor could not be started, Chief Canty said.

A STAIRCASE NEXT to the elevator leading to the lobby was found undamaged after the fire, a building department spokesman said. If the victims had opened the door and walked down the stairs, they would all have left the building uninjured, the spokesman observed. The building department also conducted an investigation of the fire.

"People panic in an emergency situation," the spokesman said. "They try to leave a burning building the same way they've always left."

There were no emergency evacuation procedures established for the building at the time of the fire, and fire department and building department sources reported that such procedures are not required by city law.

The building department investigation showed that the 59-year old building, located at 595 Fifth Ave. and owned by Acruem Associates, did not violate fire or building department regulations and did not contribute in any way to the fire, Thomas Burke, the department's director of operations, said.

However, attorney Harry H. Lipsig has filed a \$1.3 million suit

in Manhattan federal court on the behalf of Mrs. Silva Carol, widow of one of the victims. The suit alleged that the negligence of the owners and operators had contributed to the death of David Carol, a consulting engineer from Clifton, N.J.

THE WESTCHESTER Fire Insurance Co. covers the building for \$300,000 multiperil property damages and \$1 million liability. Bernard Reuben & Co. is the broker.

The David Rosen & Associates' third-floor offices were the only ones damaged in the fire, and its employees the only casualties. ■

Barger views problems

California Insurance Commissioner Richards Barger has created a new committee to consider problems of California regulation of holding companies.

Giles...

Continued from page 13

However, if he decides not to go back in business, that fact does not impede recovery, but he must prove the length of time it would have taken him to restore the business. He is entitled to recover in either event.

In a recent case in Illinois, a policy was issued by the defendant insurance company to the plaintiffs insuring them against direct loss by fire due to interruption of their business as a grocery and meat market. In 1958 the building in which the store was located was condemned by the city of Chicago for the construction of an expressway.

THE PLAINTIFFS' tenancy was to be terminated by June 30, 1958, and demolition was scheduled for August 1, 1958. The plaintiffs did not request an extension of time to stay in the building. On June 27, 1958, three days before the plaintiffs were required to surrender the premises, the fire damaged the building in which the store was located and destroyed the business.

Although the building was razed on schedule, the plaintiffs claimed that they had every intention to remain at their location and continue their business until some later date in 1958, at which time space would be available to them in a building owned by their father. The insurance company maintained that damages should be limited to the loss sustained as the result of business interruption in between the dates of June 27 and June 30.

In deciding for the plaintiffs, the court noted that the plaintiffs could have remained on the premises at the sufferance of the City of Chicago and until such time as a petition for ejectment was filed and fully processed. Although no formal extension of occupancy was granted and apparently none would have been granted because of the policy of the relocation board not to do so once a contract to wreck was in force, nevertheless the assistant director of the relocation board testified that in the past condemnees had remained on the premises for a period of months following the termination of their tenancy.

THE COURT believed that there existed a definite prospect of business earnings and continuance of a going business when the fire curtailed the operations. Although the prospective period of business earning was indefinite, the insurance company did not demonstrate that plaintiffs could not have remained on the premises at the sufferance of the City of Chicago well beyond June 30, 1958, or that the building would necessarily have been demolished on August 1, 1958, were it not for the fire. The fact that the plaintiffs did not resume business is irrelevant, said the court.

This case is a good example of what perseverance will do. Nixon does not have a complete monopoly on perseverance (Ill. Ct. App. 1st Dist. *Dileo v. U.S. Fidelity and Guaranty Co.* 3/12/69). ■

Nevada laws

Nevada Gov. Paul Laxalt has signed into law AB 274 establishing monthly wage maximum earned by employee for purposes of industrial insurance premium, and SB 449 confirming privilege of assigning life insurance policies.

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Products liability passes 'slips and falls' in number of suits

NEW YORK—Products liability suits are where it's at.

That's what plaintiffs' lawyers are panting about.

And products liability suits have now passed "slips and falls" in the number of suits filed in the U.S., Thomas F. Lambert, editor-in-chief of the American Trial Lawyers Assn., told an American Management Assn. seminar on product liability risk management.

"And if a no-fault auto insurance system is adopted, products liability suits will pass fenders-and-bumpers suits," he said.

MR. LAMBERT said that there are three chapters in the products liability saga. Chapter one began in the 1800s when the first product liability suit was filed.

Chapter two began in 1900 when the courts ruled that negligence in a causal sense or manufacturers' irresponsibility were the tests in these suits. "He (the manufacturer) is the bad man was the test," Mr. Lambert said.

"Today strict, but not strict, strict, strict liability doesn't stigmatize the manufacturers. It's the product that's looked at," he said.

He said that investigators for plaintiffs in products suits ask, "Who's in charge of safety? If the answer is no one, they know they've got a case," he said.

"If he gets a name, the investigator then asks, 'Is he in charge of safety for employees or for the consumer?'"

AT THE SAME seminar, Gerald L. Maatman, vp and manager of loss control engineering for Kemper Insurance, warned that "the level of safety or the state of the art is not a static thing but moves with technology and field experience. Thus what was accepted as adequate safety yesterday is not so today and even less so tomorrow."

Mr. Maatman urged that companies adopt a cost-benefit approach to product safety, comparing the cost of quality control and the value of quality which is

a factor in setting prices.

"There is no question that unless a reversal or, at the very least, a containment of products liability claims, is achieved, the price and available market for the insurance coverage will provide increasing problems for corporate risk managers," Mr. Maatman predicted.

He said the insurance buyers should use the insurer to provide knowledge of product claims incurred by other manufacturers engaged in similar fields.

AND THE insurance company's engineering staff should be called on in the area of human factors engineering as it might relate to evaluating the interac-

tion of products and their users.

He said that the insurer should also take part in stimulating an awareness of product safety and evaluate the completeness of the insured's programs.

"We find it not at all surprising that the success of any corporate product safety program clearly seems to be tied to the same key ingredient as that found necessary in a conventional corporate accident-prevention program—namely, the active interest and support of top management," Mr. Maatman said.

Finally, Mr. Maatman said, the insurance carrier should suggest avenues of redesign and labeling in the post evaluation of products claim cases.



Members of a product liability risk management seminar at the American Management Assn. spring insurance conference included William White, executive director of the National Commission on Product Safety; Fred B. Martin, assistant director of domestic and foreign insurance, Dow Chemical Co.; Donald L. Peyton, managing director, U.S.A. Standards Institute, and Richard W. Bland, risk manager, Panhandle Eastern Pipe Line Co.

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Auto coverage applies to fight

SAN FRANCISCO—Superior Court Judge Walter Carpeneti has ruled here that uninsured motorist coverage may be applied to an assault and battery case.

Judge Carpeneti's decision came in the case of Volkswagen Insurance Co. versus Gutierrez, involving a situation in which two cars collided while competing for a parking space.

The drivers left their cars and proceeded to engage in "fisticuffs."

Judge Carpeneti ruled that "this action arose out of use of the motor vehicle, as covered in the policy and thus was an accident insofar as the victim was concerned."

"The insurer," Judge Carpeneti ruled, "is not insuring the uninsured motorist but the injured victim against loss. If the insured can prove that the uninsured's wilful or intentional acts leave the victim legally entitled to recovery, then recovery should be allowed, despite the fact that he could not have recovered against the carrier of a wilful tortfeasor who was insured."

Rockwell chairman backs pension portability

WASHINGTON—The chairman of North American Rockwell Corp. has backed the development of pension plan portability as "a major contribution towards the improvement and expansion of the private pension plan system."

Willard F. Rockwell Jr. said this month that pension plans as they are currently operated inhibit the mobility of the American labor force.

"Those of us in the so-called defense industries are keenly aware of the importance to our economy of the mobility of both labor and management," Mr. Rockwell told a symposium sponsored by the American Enterprise Institute.

"UNDER THE circumstances

it certainly makes no sense for us to promote a private pension system that is geared to the old-fashioned idea that it is in the best interests of every company to hold on to every man as long as it possibly can," Mr. Rockwell contended.

He disclosed that his company has begun "an intensive study" of the transfer of pension credits between the plans of various intracompany units "in a manner reflecting the value of the funding to date." He added that "we believe an equitable and feasible system can be developed which will contain the additional bonus of administrative economies."

"I would like to suggest that if such transfer of funds is possible within a corporate structure, there is no question of the future

possibility of such transfers between corporations as well," Mr. Rockwell stated.

While Mr. Rockwell was generally satisfied with the investment performance of pension plans, he noted inadequacies in some of the benefit provisions.

"NO EXAMINATION of the question of vesting, for example, can fail to reveal that many present vesting plans come too late to include most of a company's employees," he noted.

Also, the best plans are found in the higher paid industries," Mr. Rockwell stated. "The service industries still lag behind in pension systems, and this, unfortunately, operates to exclude a disproportionate number of women and Negroes—not, I sug-

gest, an especially salutary situation in these days of racial tension and upheaval."

Mr. Rockwell further stated that most private pension plans don't provide adequate survivor benefits "In most plans that I know of the pension ends with the death of the retiree," he said.

NORTH AMERICAN Rockwell is "greatly concerned" over the problems and complexities of vesting, Mr. Rockwell stated. "There are several reasons for this. One is that we have been and are making a number of significant acquisitions and mergers each year, and each one of these poses a pension problem."

"On the other hand, it is not presently possible for a large, diversified, multimarket corpora-

tion to have a single line of benefits applicable to all salaried employees," Mr. Rockwell maintained. "The competitive picture and profit potential vary too greatly from industry to industry."

But, he said, "the transfer of qualified employees between companies is not only desirable but necessary if the parent company is to fully exploit the depth of skills that made the acquisition desirable in the first place."

TAKING UP the area of pension investments, Mr. Rockwell said that "we are now at the stage when a company with a well-invested pension fund can edge out a competitor whose pension fund is turning in a poor performance, and whose cost structure is therefore higher."

With corporate pension funds yielding in some cases 8% to 10% as well as developing important growth in asset values, a difference of ½% in the yield will usually result in 10% to 12% difference in long-term costs, Mr. Rockwell noted.

"And I might add that with increased application of technology, we are getting increasingly better performance data and thus more accurate and meaningful performance measurement," he stated.

Firm needn't defend case second time

ALBANY, N.Y.—An Albany trucking firm does not have to defend a tractor-trailer-automobile collision suit a second time, the appellate court has ruled.

The five-judge appeal court reinstated the verdicts of a Rensselaer County supreme court jury that dismissed suits by a West Stephentown father and daughter, for automobile accident injuries.

The appeal court said there was no basis to support the determination setting aside the jury's verdicts in the cases of Mrs. Florine M. Sedgwick Rifenburgh, now of Pittsfield, Mass., and her father, Ransom G. Sedgwick, West Stephentown.

ON OCT. 7, 1960, the father was driving his daughter, then 15 years old, to her first job at an East Greenbush dog kennel when their car collided on the Averill Park-North Greenbush road with a tractor-trailer owned by J. D. Maroney Inc.

The daughter and father were hurt and sued for injuries. The jury rejected both suits. The court set aside the verdict as it affected the daughter only, ordering a new trial of her suit on the grounds that she may have been prejudiced by the jury's finding that the father was not entitled to collect damages.

The Albany law firm of Dugan, Casey, Burke & Lyons appealed in behalf of the Maroney firm and the appellate court agreed with the jury's verdict dismissing both suits.

"A verdict should not be set aside unless the preponderance in favor of the plaintiff was so great that any finding in favor of the defendant could not have been reached upon any fair interpretation of the evidence," said the appellate division. Associate Justice Walter B. Reynolds wrote the opinion for the unanimous decision reinstating the jury's verdicts of dismissal.

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Meister Brau fire causes net to dip

CHICAGO—Meister Brau Inc., a midwestern brewer and manufacturer, reported a \$161,797 loss for the first quarter of 1969 due in part to a fire at a subsidiary medical chemical plant.

The loss, estimated at more than \$500,000, was insured by the Insurance Co. of North America. The fire began in an over heated ceiling furnace, according to a Chicago Fire Department report. The fire department estimated the loss at \$5,000 to the building and \$3,000 to the contents at the time of the fire.

A Meister Brau spokesman termed the plant a "total loss."

Meister Brau lost \$27,368 in the first quarter of 1968 but earned \$291,364 for the year on sales of \$39.3 million.

ALTHOUGH the firm spokesman said the building was "fully insured" with fire and business interruption coverages, Meister Brau has estimated income from the Medical Chemical Corp. plant at breakeven until production facilities are reinstated. The spokesman said that it had leased a plant and expected to be in operation by June 1.

Ohio payroll plan on again

DAYTON, O.—On-again, off-again plans for payroll deduction automobile insurance in Ohio are on again, at least temporarily.

The original plan submitted last year by one insurance company has been challenged twice and approved twice. A third challenge is still possible.

The Transportation Insurance Co., a member of the Continental National American group of insurance companies, filed the plan last year with the state department of insurance.

DEPARTMENT OFFICIALS challenged the plan on the grounds it might discriminate against individuals. A public hearing was held and the plan was approved.

The next development was a challenge filed by the Ohio Assn. of Insurance Agents.

The Agent group charged that the plan discriminated against Ohio insurance buyers not covered in proposed payroll deduction plans.

Also charged by the agent group was that the plan, as submitted, constituted a form of group casualty insurance not allowed under Ohio law.

The agents also questioned the method of premium collection.

A public hearing on the agent objections was conducted in October, 1968.

EUGENE BROWN, Ohio's director of insurance, has now ruled the objections invalid.

Whether the agent group intends to take Mr. Brown's most recent decision to court on appeal is unknown. Douglas Avery, the association's representative in Columbus, was unavailable for comment.

Brooks Trueblood, of the state department of insurance, said that no notice of intent to appeal has been filed.

Nationwide Insurance Co. has also filed a payroll deduction auto insurance plan, said Trueblood. No objections have been filed on it.

Until that time, he said, some orders are being jobbed out.

Business Insurance learned that a settlement has been reached with INA on the fire loss but not the business interruption loss.

Although the loss occurred Jan. 25, only a partial payment of \$75,000 was made in the first quarter. A Meister Brau spokesman said that the settlement would be included in a future quarter's income.

Because the plant has to be operated under antiseptic conditions, finding a suitable site and getting specialized equipment has proven somewhat nettlesome in settling the business interruption claim, it was learned.

Aetna to pay off on school blaze

WETHERSFIELD, Conn.—This town will recover full damages from two fires caused by vandals in the woodworking shop at Webb Junior High School, a town spokesman has disclosed.

Aetna Insurance Co., an affiliate of the Connecticut General Life Insurance Co., is the insurer.

It is estimated that \$16,673 in damages resulted from the March 30 blaze in the woodworking shop and reading room and \$900 damage in the same area Feb. 28.

The risk was placed through INA's Cleveland office by the Wilson, McBride Agency. The claim is being handled by the General Adjustment Bureau.

Advise 'systems' pay approach for execs

NEW YORK—Corporations should initiate a "systems approach" of compensating key executives whereby "the effect of each component on the others is by design rather than by chance."

This advice is contained in the "TPF/C Letter," published by management consultant Towers, Perrin, Forster & Crosby.

An executive compensation program, according to the consultant, should include: Base salary; incentive or bonus payments; stock ownership plans; health, disability and survivors' benefits; and such prerequisites as extended vacations, medical exams, company automobile and club memberships.

Executives should be surveyed to determine the relative importance they place on alternative compensation approaches, the Towers, Perrin letter said. The age, length of service, family situation, and fixed-income needs should be analyzed to determine "which types of awards might be the most appropriate to meet these individual needs," the material continued.

"MAXIMUM incentive impact will be gained from a system that provides the flexibility to pay individual executives in the manner most appropriate to their personal circumstances," according to the consultant.



What a combination

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financial briefs

Aetna approves 500,000 shares for key-employee stock-option plan

HARTFORD—Aetna Life & Casualty Insurance Co. stockholders, at the annual meeting in Hartford, approved a stock-option plan for key employees involving 500,000 shares of common stock.

Chairman Olcott D. Smith out-

lined a number of profit-oriented programs designed to improve results from operations, including a schedule for settling liability insurance claims to reduce the impact of inflation, and needed rate boosts to restore health and property-liability in-

surance lines to profitability.

He said, too, that more states are adopting the "open competition" rating laws, providing insurance companies with greater freedom in pricing products.

Security Corp.'s net income of \$3.04 per share was the highest in five years, chairman E. Clayton Gengras told the annual stockholders meeting in Hartford. He also predicted that if the company can break even on underwriting results (a money loser in recent years), the 1969 earnings can amount to \$6 a share. The firm voted to give a quarterly dividend of 50¢ per share, payable May 1 to stockholders of record April 11.

Hartford Fire Insurance Co. adjusted net income rose to \$53.3 million—or \$2.46 a share—during 1968, up from \$42.4 million—or \$1.95 a share—in 1967. Investment income was up to \$59.4 million in 1968, compared with \$51.5 million in 1967. Adjusted underwriting losses declined to \$5 million in 1968, from \$11.2 million in 1967.

(Hartford Fire is the parent company of the Hartford Insurance Group, which also includes Hartford Accident and Indemnity Co., Hartford Life Insurance Co., and other interests).

The merger agreement with ITT (International Telephone and Telegraph Corp.) has been postponed until objections of the Justice Department have been resolved.

THE HARTFORD Fire Insurance Co. has reported net adjusted operating income for 1969's first quarter rose to \$6,340,000, or 31¢ a share, from the \$6,120,000, or 28¢ a share, earned a year ago.

For the first quarter of 1969, the Hartford's net investment income rose to \$15,800,000, compared with \$14,099,000 a year ago. For the 12-month period ended March 31, 1969, investment income was up to \$61,190,000, from \$53,430,000 for preceding 12 months.

Adjusted operating income for 12 months ended March 31, 1969,

was \$58,886,000, or \$2.48 a share, compared with \$4,890,000, or \$2.21 a share, earned in the preceding 12-month time span.

Premiums written by Hartford Fire and subsidiary companies comprising Hartford Insurance Group totaled \$238,016,000 for the first three months of 1969, compared with \$225,580,000 a year ago.

Stockholders, attending the Travelers Insurance Cos. annual meeting in Hartford, approved all company proposals.

They include an increase in authorized common stock from 44 to 75 million shares; creation of a new class of 10 million shares of preferred (called preference stock, with maximum liquidation preference of \$250 million), and adoption of a stock option plan for officers and other key executives.

Finance committee chairman Roger C. Wilkins disclosed that the firm plans expansion in the life insurance and computer service fields, but he would not elaborate on details.

Net premiums of Gulf Group Inc., a holding company entirely owned by University Computing Co., were up \$10.3 million from 1967, and reached \$77.4 million. A. R. Buchel, president of Atlantic and Select Insurance Cos., owned by Gulf, said the group's underwriting expenses were reduced .93% to a new low of 36.36%. On a consolidated basis of the holding company and all of its subsidiaries, Mr. Buchel reported that capital and surplus increased \$68.03 million to a new high of \$137.58 million and assets reached \$243.30 million, from \$173.91 million in 1967. Adjusted earnings after tax, including realized capital gains, were \$3.86 million.

NEW HIGHS in sales, insurance in force, premium income and assets for combined operations of Gulf Atlantic Life and Western Security Life, also owned by Gulf Group Inc., were reported by Walter Lehmkuhl, president.

Total income of the two companies increased 26.8% over 1967, to reach \$7.9 million. Total insurance in force grew by 25.6% for an all-time high of \$428.2 million. Sales in all classes of life insurance reached \$211.2 million, a 29% gain over 1967.

J. Victor Herd, chairman of The Continental Corp., announced that written premiums

of the corporation's affiliates were up 21% for the first quarter of 1969, compared with 1968, and totalled \$271 million. Net income and realized gains were \$21.7 million, a gain of \$5.1 million over 1968, or 26¢ per share.

The loss ratio for the group through March was 68% and the expense ratio was 32.5%, for a combined ratio of 100.5%. Comparable figures in 1968 were 68.5%, 32.9% and 101.4%. Continental's investment income for the first quarter was \$20.5 million, up 17% from the first quarter of 1968.

Consolidated net, after-tax income for Fireman's Fund American Insurance Cos. and Fireman's Fund Life Insurance Co. was up \$2.42 million in 1968, reaching \$32.02 million. Sales by the property-liability companies were up 16.4% over 1967, with premium income recorded at \$680.02 million. All major classifications of business written contributed to the increase.

Premiums written by the life company rose to \$60 million and during 1968 the company reached the billion-dollar mark in life insurance in force. Volume of ordinary life in force was up \$84.48 million, reaching \$288.81; group life in force climbed to \$769.09, up \$323.66 from the previous year.

Paint firm sets four-day working week

EVERETT, Mass.—Kyanize Paints Co. has put its 95 employees on a four-day week on a permanent basis, following successful response to an experimental program over a month's time.

"We've been experimenting with the shorter work week long enough to be satisfied that it works for us," according to plant manager Bernard MacDougall.

"The experiment showed us that we could make more shipments to distributors early in the week, eliminating the lost time of shipments made over weekends.

"IN FACT, FOR us it means better service to our customers and elimination of much lost time that occurred under the five-day week."

The company has customers in 41 states and operates another plant in Springfield, Ill.

The Illinois plant will adopt the four-day week schedule beginning May 19. The union there has already agreed to the plan.

THE KYANIZE management came up with the idea of a shortened work week with a longer working day and members of the Kyanize Shop Assn. (an independent union) did not object. They sanctioned the move by a three-to-one vote.

Mr. MacDougall disclosed that the number of job applications has increased. "Our employees have been talking about how much they like the four-day week and more people want to come to work here."

The Kyanize employees formerly reported at 7:30 a.m., and went home at 4 p.m.

The new hours are 7 a.m. to 4:30 p.m., Monday through Thursday.

Anyone who has to work on a Friday, for whatever reason, is being paid at the over-time rate.

The briefer work week was agreed to by management and union outside of the regular collective bargaining agreement.

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benefit tax slants

IRS allows employee carry-over for pension fund contributions

By JOSEPH S. ROBINSON

NEW YORK—A Treasury-approved pension or profit-sharing plan may permit covered employees to deposit on a voluntary basis an additional 10% of their compensation.

This voluntary "add-on" to an employee benefit plan is an attractive tax-sheltered device in which employees can build up income on the most favorable terms. The dividends, interest and gains escape tax during the build-up period—and the money, when finally collected, can receive capital gains treatment.

Adding frosting to the cake, Internal Revenue has recently made the 10% contribution rule even more inviting by allowing

employees to pyramid their voluntary payments. Here's the story:

UP TO NOW, most experts thought that the 10% ceiling on voluntary contributions applied on a year-to-year basis with no carryovers. In other words, if a covered worker failed to deposit his 10% in a particular year, it was thought that he couldn't make up the underpayment in a succeeding year.

Not so, says IRS. Voluntary contributions can be made in any year so long as the total of such

contributions for all years does not exceed 10% of the aggregate basic compensation received for all years since the employee became a participant under the plan.

For example, let's say the Ajax Corp. has a Treasury-approved retirement plan that permits voluntary contributions. Mr. Jones, a participant, has made no contributions for three years. In the current year, Mr. Jones may voluntarily hand over 10% of this year's current salary—plus an amount equal to 10% of his

total pay for the past three years.

While IRS ruled on a plan that permitted voluntary contributions from its inception, it is still not clear whether the same rule applies when an existing plan is amended to permit such voluntary contributions.

For instance, suppose Mr. Jones was covered under a pension plan for three years. His plan does not provide for voluntary contributions. If the pension plan is now changed to allow for 10% voluntary contributions, can Mr. Jones now deposit 10% of his current year's salary plus the previous three years—years in which the plan had no voluntary contribution provision? (Technical reference: Rev. Rul. 69-217).■

\$65,000 award

Two iron workers have been awarded \$65,000 each by a Providence, R. I., superior court jury after being injured in 1964 when a scaffold collapsed.

Wind damage hits Dayton apartments

DAYTON, O.—Damage estimated at \$3 million or more was caused by a wind storm that hit a section of this area.

Ernest Eckelman, director of property management for Multicon, the Columbus-based firm that owns a \$2 million, 121-unit apartment project, said the heavily damaged buildings are fully insured.

All but two of the project's 14 buildings sustained some damage, he said.

The company insurance used by Multicon generally does not cover the belongings of tenants, said Mr. Eckelman. "Most tenants have their own. We suggest that when we lease apartments."

Analysis...

Continued from page 7, medical care paid for entirely by the employer, and coverage for preventive medicine and dental care.

The labor leader also asked that boosts in pension benefits come from increased pension fund earnings, so that labor is not left with the decision of "wages or fringes."

In urging that hikes in pensions come from "the fat in the pension fund, rather than at the expense of part of the wage package," he noted that pension-fund earnings may soon reach the 8%-10% level of some mutual funds if the present boom continues.

DANIEL R. BREON, assistant to the director of personnel, Goodyear Tire & Rubber Co., took a hard look at paid nonwork periods, and concluded that the old saw "a fair day's work for a fair day's pay" is no longer a useful guide in bargaining agreements, if indeed, it ever was.

"It's safe to say vacations are bigger and better," Mr. Breon observed, taking note of the increased popularity of five and six week maximums, and the seven-week top vacation negotiated by brewery workers in Baltimore.

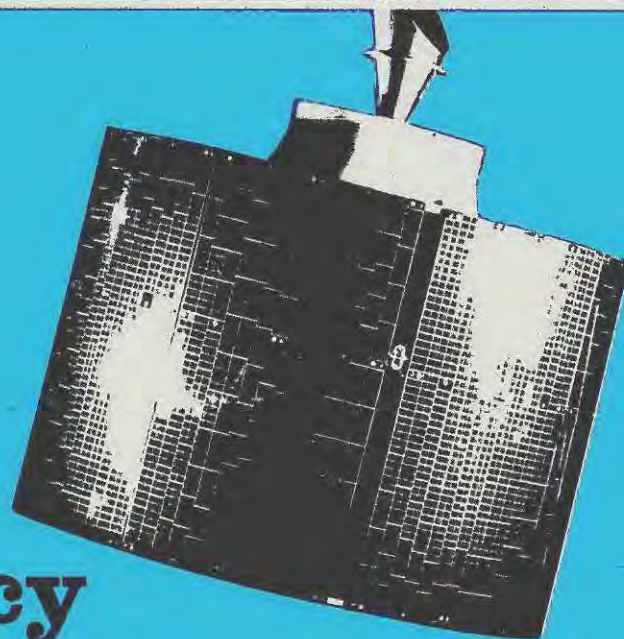
Service requirements have also been relaxed, with the three-week vacation after ten years' service common, he said, and the vacation bonus is also being introduced. Steelworkers in the steel and aluminum industries last year negotiated a \$30 bonus for each week of regular vacation, he said.

THE VACATION pattern in the rubber industry, Mr. Breon said, is now two weeks after one year; three weeks after five years; four weeks after 15 years; five weeks after 22 years; and six weeks after 30 years.

The rubber industry generally provides nine holidays, Mr. Breon said, with many industries giving a tenth, eleventh and twelfth holiday, sometimes including the worker's birthday, along with generous overtime for work performed on these days.

On another paid non-work front, the retirement age is coming down while benefits are going up, Mr. Breon said. In the rubber industry the pattern is now retirement at age 55 with 15 years' service or at age 62 with 10 years' service. ■

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Supreme Court eases way for stockholders to sue officers

WASHINGTON—The Supreme Court last week acted on a batch of cases affecting corporate liability, two of which will make it easier for stockholders to sue officers and directors.

Earlier this month the court declined to review a lower court decision involving Texas Gulf Sulphur Co., holding that executives can't profit from inside dope until the information has been widely disseminated.

Now the court has gone two steps further. It let stand a lower court ruling that officers and directors can be held liable for damages to stockholders even if the executives didn't reap profits from stock transactions but instead gave out false and

misleading information.

In addition, the Supreme Court refused to review another lower court decision that the insider trading ban upheld in the Texas Gulf Sulphur case also applies to foreign companies whose stock is listed on a U.S. stock exchange.

INSURANCE experts pointed out that under current directors and officers liability insurance policies, corporate executives would not be covered if they were involved in any of these manipulations.

Not only does the D&O policy covering executives exclude profits made by directors and officers to which they weren't legally entitled—under “unjust

enrichment” and “short-swing profit” exclusions—but the policy also excludes any dishonest acts.

This exclusion presumably would include the giving out of false and misleading information, as in the case involving three officers of Applied Devices Corp. which the Supreme Court last week declined to review.

IN OTHER ACTION the court held that the U.S. government is not liable for damages caused by army troops during a 1964 civil riot in the Panama Canal Zone. The suit was brought by the YMCA national board, which contended that a YMCA building was damaged during the occupation by the troops.

Small banks...

Continued from page 1

man. After Mr. Bolton left office in January, he joined the law firm of Arvey, Hodes & Mantynband whose senior partner is Col. Arvey.

Political and financial authorities in Chicago told *Business Insurance* that Mr. Bolton personally directed the placement of investments by the insurance department's bureau of liquidation. On one occasion, a financial consultant reported, assistants to Mr. Bolton went to the director's table in a hotel dining room during lunch to ask about the disposition of funds of a high-risk auto insurer that went bankrupt.

Mr. Bolton, after learning of the *Business Insurance* investigation, was not available for comment.

Certificates of deposit for 11 companies in various stages of liquidation amount to more than

\$4.7 million. Some financial consultants suggest that these funds could earn greater returns if they were invested in short-term corporate paper which currently yields more than 7% as against 6¼% maximum yields on certificates of deposit.

Albert Verb, head of the insurance department's bureau of liquidation, disputes this contention, saying that certificates of deposit in established banks offer both safety and the liquidity that is required when final distributions are made from the “estates,” as Mr. Verb terms the companies in liquidation.

“We are committed to a conservative investment policy to meet our responsibility to claimants against these companies,” Mr. Verb asserted. “We do what is prudent and that's why we will move these deposits to larger, established banks as they mature in the small banks favored by the previous administration.”

AT & T plan...

Continued from page 1

He said that the controversy over the savings plan doesn't involve union against nonunion personnel as much as it does salaried versus nonsalaried people. The savings plan, he explained, has been structured for salaried employees and couldn't be expanded to nonsalaried workers—most of whom, but not all, are union personnel—without considerable change.

Mr. Shaughnessy charged that the new savings plan is another example of “Ma Bell's lack of concern for her nonmanagement employees.”

HE NOTED, too, that in June, 1968 AT&T cancelled an employee stock plan in which all employees could have participated.

Mr. Shaughnessy said that he questions how a public utility can establish a savings plan that “discriminates” against nonmanagement personnel.

He continued: “We demand that the money being allocated

for the savings plan be used to benefit all employees by immediately assuming the full payment of all employees' Blue Cross and Blue Shield premiums and by an adjustment in the wage maximum as well as going rates.”

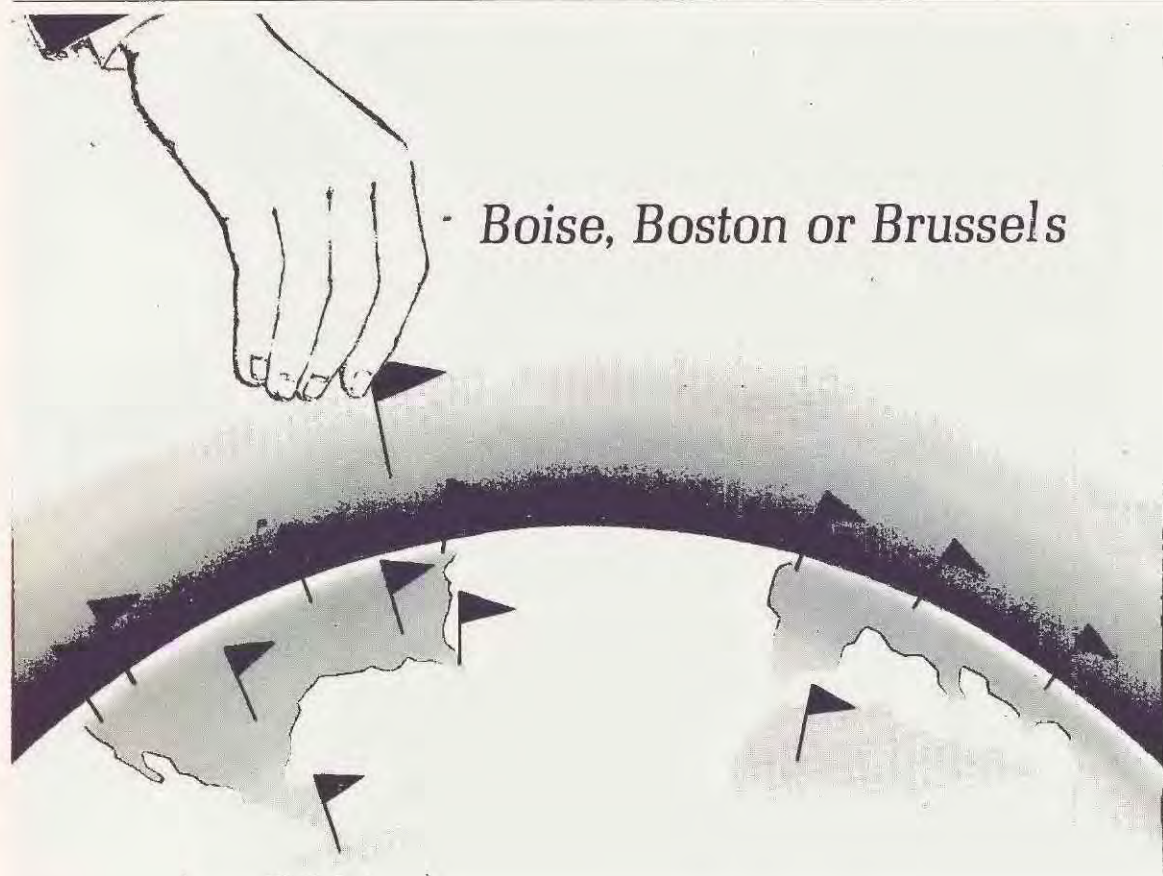
Lloyd's...

Continued from page 1

were willing to go along with the all-industry idea only if underwriters were willing to guarantee that they would reinstate coverage. ABC members and insurers will meet June 3 in Los Angeles to thrash out details of the plan.

Lloyd's is faced with another serious premium volume problem in the offshore drilling area. The London market is currently threatened with a substantial volume loss in the possible move of British Shell and SEDCO to self insure.

It's estimated that London needs at least \$25 million in annual premiums to continue underwriting offshore drilling operations.



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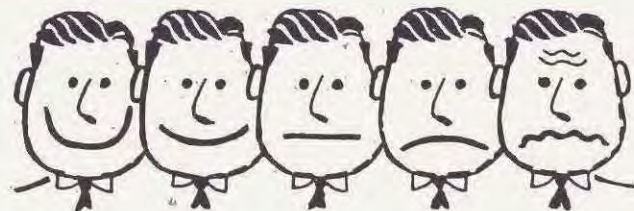
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SEC liability cover costs soar 25%-50% and U.S. market fussy

NEW YORK—A trio of experts on SEC liability at the American Management Assn. spring insurance conference described the coverage as applying to a specific act, the offering of securities for public sale.

It was described as a manuscript liability policy, covering the registrant of the public offering, the underwriting group and the sellers, if any.

Robert F. McKeon, a Johnson & Higgins vp and a panel member, said that the coverage may be adaptable in certain other merger and acquisition areas.

He said the carriers are looking very carefully at the firm making the offering and domestic carriers would change policy language slightly. London writes a wider range of companies at higher premiums, he said.

He said brokers should provide guidance on coverage required, on the availability of the coverages and have expertise in the registration process.

ANOTHER PANEL member, John C. Whiteside, assistant secretary of Seaboard Surety Co.,

Evils of drink not reason to quit job

HARTFORD—An unidentified Connecticut bartender who quit his job because he could not resist the temptation to imbibe has been ruled not eligible for unemployment benefits by a First District Commissioner.

Evidence showed that the claimant was employed as a bartender at a restaurant for four years.

FINDING HE could not resist the temptation to partake of the liquor accessible to him and because alcohol is harmful to him due to a diabetic condition, the claimant decided to quit his job.

The commissioner concluded that the claimant's inability to exercise self-control while working with alcoholic beverages was not imposed on him by the requirements of his job, but stemmed from a lack of willpower.

The commissioner therefore found that the claimant's quitting was not so job-connected as to require an unemployment compensation commission ruling that he left work with sufficient cause "connected with his employment" as prescribed in the state statutes.

Auto dealer adds to fund

WEST HARTFORD, Conn.—Bernard L. Bodine, president of Russell Pontiac, has announced addition of \$50,000 to the dealership's profit-sharing retirement fund.

The fund was organized six years ago and in each of the first five years, the company contributed \$25,000.

Benefits are paid either at retirement or death of full-time employees (20 hours weekly). The plan is effective after four years of employment and payments are based both on years of service and salary earned during his or her employment.

outlined factors in writing SEC liability coverage, commenting that insurers are often accused of relying on hunches and impressions in this area. He said he prefers to call it judgment.

Some of the underwriting factors include the nature of the registrant's business; the affiliations of directors and officers with other businesses; earnings growth over the long term; dividend record; previous experience in preparing the statement by lawyers, underwriters and accountants; reputation of all concerned; and the kind of security being offered.

He said the domestic market avoids debentures, bonds, convertibles and primary offerings

in favor of secondary ones.

He said the U.S. capacity is \$5 million "with no problem" with \$25 million to \$40 million limits subject to the availability of reinsurance.

Mr. Whiteside said that premiums have increased 25% to 50% in the last year with coverages on a \$5 million secondary offering costing about \$35,000. He commented that this premium is average and could be higher with discounts if the registrant, underwriter or sellers are omitted from coverage.

SEC policy coverage runs the statute of limitations on the offering, usually about three years.

ALLAN KRAMER, partner in

Shea, Gallop, Climenko & Gould, said that under the Securities & Exchange Act of 1933, those who could be sued included each person named as underwriter (and not necessarily the one from whom the stock was purchased), each director listed and each officer of the company if he signed the offering statement.

The plaintiff doesn't have to rely on information in the prospectus and doesn't even have to know of the registration statement, he said. The test of accuracy is the effective date of the statement, he said.

Anyone who buys the offering within three years, Mr. Kramer said, can sue for his loss below the offering price. For example, if bought at the offering price of \$20 and the share drops to \$15, the corporation can be sued for \$5 a share, assuming that a misstatement or omission of a statement of material fact can be proved.

Gallivan heads college buyers

STATE COLLEGE, Pa.—The western Unit of the University Insurance Managers Association elected as its president James R. Gallivan, supervisor of insurance at the University of Illinois.

Charles A. Reedy, insurance officer at Notre Dame University, and James R. Roesch, administrative assistant at Ohio State University, were reelected vp and secretary-treasurer at a joint meeting held here with the eastern unit. The eastern unit does not elect officers.

More than 40 university insurance managers attended the meeting here.

It was decided to review the possibility of linking the two organizations, and more joint meetings are planned.

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Private noninsured pensions put 52% of assets into stocks

WASHINGTON—Private non-insured pension funds—which had total assets of a record \$80.5 billion at the end of 1968—have increased their holdings in common stock from 35% of assets in 1960 to 52% at year-end, the Securities & Exchange Commission has reported.

At the same time, holdings of corporate bonds by noninsured pension funds have declined from 47% in 1960 to 33% in 1968, SEC said.

SEC reported in a separate bulletin that noninsured pensions now hold an estimated \$53.4 billion in common stocks—or about 7.8% of total stock outstanding.

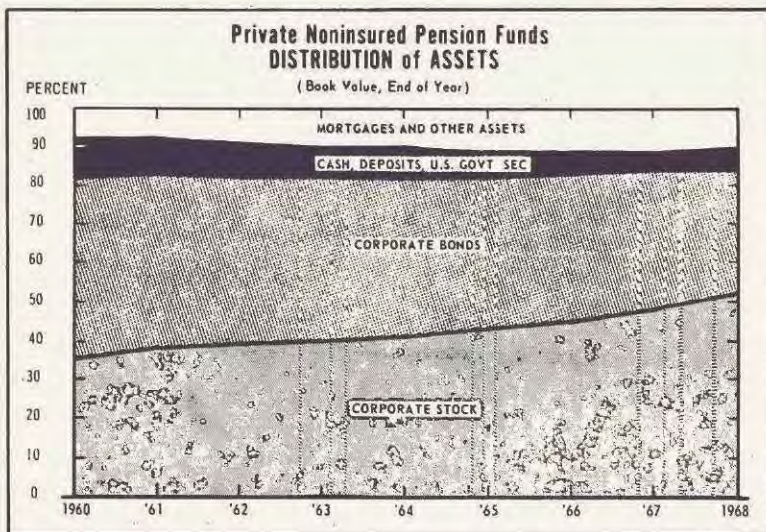
For a table showing the shift of noninsured pension fund investments, 1950-1967, see the *Business Insurance* editorial page 16.

Pension funds increased their liquidity as measured by the proportion of cash, deposits and U.S. Government securities to total assets, and there was also a "moderate shortening" in the maturity schedule of U.S. Government securities held in 1968, SEC stated.

Mortgage holdings, which registered large dollar and percentage increases in the first half of the decade, decreased by \$35 million last year, the SEC report showed. They now account for 5% of total assets, down from a high of 6% in 1966.

Between 1960 and 1968, total assets of both public and private insured and noninsured pension funds almost doubled, SEC said, reaching a level of \$214 billion at year-end 1968. Private funds increased at a much greater rate than government funds during the sixties and currently account for 54% of total assets against 48% at the end of 1960.

Within the private pension fund sector, the noninsured plans have displayed the greatest growth SEC said. However, the commission noted that insurance companies' pension fund re-



serves amounted to \$35 billion last year, and that "the very substantial growth" of life insurance separate accounts is indicative of the industry's bid for a larger share of private fund business.

SEPARATE ACCOUNTS, the SEC explained, are used for funds of some pension plans and variable annuities to allow more aggressive investments than per-

mitted for general funds under most state laws.

State and local retirement funds have shown the greatest growth within the government sector, SEC said, increasing 137% from 1960 through 1968, as compared to only a 43% increase for the federally-administered funds. Total government pension funds had assets of \$98.6 billion at the end of 1968.

Woman who found mouse in her soda pop gets \$20,000

ALBANY, N.Y.—A \$20,000 award by an Albany County supreme court jury to a woman who discovered a dead mouse in her soda bottle has been upheld by the appellate division.

The court, however, disallowed \$8,000 in interest charges attached to the verdict in favor of Mrs. Margaret Hyatt.

The appellate court said that the award against Pepsi-Cola Albany Bottling Company Inc. "was not so large as to be shocking and legally excessive."

Mrs. Hyatt had sent her son George, now 20, to a nearby grocery store eight years ago, where he bought several Pepsi Colas. After opening and drinking some

of the contents of one of them, she said she "observed" the mouse in the bottle.

She contended that she suffered intestinal disorders for more than a year, lost almost 100 pounds and suffered a rash and loss of hair.

"The issue of damages is factual and thus is essentially a jury determination," said the appeal court, conceding that the award was "liberal" but not "excessive."

Products liability coverage for the some 500 franchised Pepsi-Cola bottlers is arranged by the local bottlers, who are independent businessmen, it was explained.

Prepaid dental plan starts in Boston area

BOSTON—A program designed to make going to the dentist less painful—at least financially—has been launched in Boston and is expected to be in operation throughout Massachusetts in three months.

The prepaid dental care insurance plan, sponsored by the Massachusetts State Dental Society and administered by Massachusetts Blue Cross, will, it is hoped, improve dental health, especially of children, by encouraging people to see their dentists.

It is contended that insured people will visit the dentist before their teeth actually begin to ache, and send children to dentists more frequently than under pay-as-you-go approaches.

THE PLAN IS called Prepaid Dental Care. Its main proponent, Dr. Harry K. Bailey, plan president, campaigned vigorously for eight years to gain approval.

Initial program step is enrollment of as many as possible of the Bay State's some 3,000 dentists. Goal is 85% participation.

In about two months' time, Prepaid Dental Care intends to start the sale of insurance, through Massachusetts Blue Cross. At the outset, enrollment is to be limited to groups of 200-plus. (A group can be employees of a business concern, a union, a social club, or, for that matter any other type of organization.)

Basic plan will cost \$3.60 a month for an individual, \$10.85 a month for a family. Thus, annual costs are \$43.20 for a single person, \$130.20 for a family.

For these fees, each family

member will receive dental care up to \$300 annually (maximum), the care to include X-rays, two cleanings, fluoride treatment for children, fillings, extractions, anesthesia, root canal work on front teeth and denture repair.

The coverage begins with no waiting period for the basic plan.

Dentists are paid 95% of their "customary and prevailing" fees.

IN THE EVENT an individual or family seeks coverage greater than that provided by the basic plan, these can be added in various block steps—and with increased payments.

For example, at an additional cost of \$2.45 per month for an individual and \$6 for a family, coverage can be obtained for another \$300 worth of dental work, including gold inlays, porcelain crowns, root canal work on all teeth, gingivectomy, complete upper or lower dentures, bridge-work and surgical removal of erupted or impacted teeth.

Total cost for the basic plan plus the above would be \$72.60 a year for an individual, \$202.20 for a family. However, total care to be provided would be up to \$600 for a single person, \$600 for each family member.

If an individual or a family wishes to raise the table of allowances to \$750 a year coverage, this can be done by paying \$3.65 extra a month over the basic plan for an individual or \$9.05 a month over basic cost plan for a family.

If an individual or a family
Continued on page 34

dates for buyers

June 16-18, American Management Assn., Modernizing the pension plan, American Management Assn. Bldg., 135 W. 50th St., New York.

June 18-20, American Management Assn., Modernizing the group insurance plan, American Management Bldg., 135 W. 50th St., New York.

July 9-11, American Management Assn., Fleet management—managing the company automobile fleet, Barbizon-Plaza Hotel, New York.

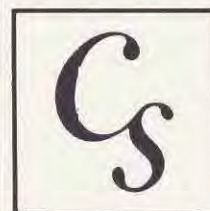
Sept. 8-10, American Management Assn., Office operations—effective management of company information: records, files and documents, New York.

Sept. 9-12, International Rendez-vous, Monte Carlo.

Sept. 22-26, American Management Assn., Fundamentals of employee benefit management, American Management Assn. Bldg., 135 W. 50th St., New York.

SCHIFF TERHUNE announces the acquisition of S. GEORGE LEVI & COMPANY.

Schiff Terhune is a worldwide insurance brokerage firm operating primarily in the fields of Property and Casualty Insurance, Business Life Insurance, and Employee Benefit Plans. The combination of the two firms will provide a broader base from which to service their clients. S. George Levi & Company will continue to operate in Philadelphia as a subsidiary of Schiff Terhune.



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State welfare head sees Medicaid deficit

HARTFORD — A \$30,000,000 deficit in the Connecticut Medicaid program is predicted by State Welfare Commissioner Bernard Shapiro.

Half of that figure, however, is reimbursable from the Federal government, he said.

Nursing home costs alone will account for close to \$24,000,000 of the \$34,000,000 appropriated for all medical services by the state legislature.

Hospital costs also escalated sharply in 1968 and they are expected to increase even more in 1969.

ALTHOUGH Medicare paid for much of the hospitalization of those 65 and older, the state welfare department still spent some \$9,000,000 on hospital care for those eligible for Medicaid.

Payments to physicians in 1967-68 totaled more than \$3,000,000—as did the cost of drugs.

Dental bills amounted to \$850,000—a \$250,000 jump over the preceding year.

Part of the higher costs, Mr. Shapiro said, is attributable to larger numbers of persons now eligible for Medicaid.

IN JULY, 1967, the annual income limits were increased as were personal property limits.

It is now estimated by the state welfare department that some 15,000 additional families will thus become eligible for Medicaid in the course of a year.

Mr. Shapiro warned that the welfare department alone cannot do much to control the rising costs of medical services since it finances only a small segment of the total needs of the Connecticut population.

Such elements as drug controls, a drug-bid system and control of ambulance services as well as authorization of length of hospital stays have contributed

to lessening of actual cost patterns.

At the same time, Mr. Shapiro remarked that Connecticut has pioneered new approaches to help people meet medical expenses regardless of individual economic status.

It is anticipated, for example, that the new fee schedule will increase the willingness of physicians to treat welfare patients in their offices, thus reducing the load on over-burdened emergency rooms and out-patient clinics at community hospital facilities.

During this trial period, however, the welfare department intends to give close scrutiny to excessive care and overutilization.

Goldberg ponders union pension

NEW YORK—The United Steelworkers of America voted former Supreme Court Justice Arthur J. Goldberg, who was for 13 years general counsel for the union, a \$25,000 annual pension, but Mr. Goldberg hasn't decided to accept it.

Following news that the steel union had approved the pension arrangement of a 1960 contract Mr. Goldberg had when he was the union's counsel, the former justice requested that the pension be held in abeyance until the president of the American Bar Assn. had appointed a committee to examine the matter and assure everyone that it was "free of even the appearance of impropriety."

Blasting damage held not compensable by N.Y. Court

ALBANY, N.Y.—Damage awards to homeowners from blasting, concrete breaking and piledriving are not allowable unless the work can be shown to have been done negligently, the appellate division has ruled in a Queens County parkway construction case.

Mr. and Mrs. Leonard Horn, awarded \$7,175 for damages to their home in the Jamaica section of Queens County by a court of claims decision against the state, were denied the award by the appeals court.

Associate Justice Lawrence H. Cooke, writing the opinion for the unanimous decision of the five-judge court, said the judgment in these cases should not be determined from "cause" but on

the basis of whether the work was done "negligently."

The state was building the Grand Central Parkway, near the Horn home, and the blasting and similar work was being done by a subcontractor of Tully & DiNapoli, the general contractor.

Damages did occur from concussion, jarring and vibration, but this alone, said the appeals court, did not justify an award. There was no showing during the court of claims trial that use of the piledriver (within 20 feet of the house) or the explosions was negligent, or that the contractors did not do the work properly, or that the inspections and recommendations were improper and were not followed.

\$252,500 awarded to Okla. widow

BRISTOW, Okla.—A district court here has awarded \$252,584 to the widow of a bulldozer operator who was fatally injured last spring when his tractor ruptured an underground pipeline.

It is one of the highest damage claims of its kind returned in the state.

Jimmy McKay, a bulldozer operator for the Southwestern Power Administration, struck the underground pipeline last May while digging pits for brush storage near Comanche in the southern part of the state.

Oil spurted from the ruptured line, covering Mr. McKay and the tractor, when a spark ignited the material and he was burned. He died 27 days later.

The court record indicated the pipeline was unmarked on the adjacent fencing and there was some question about whether the pipeline was at sufficient depth.

The jury approved Mrs. Eva Mae McKay's claim that the Continental Pipeline Co. of Ponca City was liable for the wrongful death and pain and suffering of her husband, along with the expenses incurred in the incident.

The death and suffering damages totaled \$204,872 and compensatory damages amounted to \$47,711.



Sometimes it pays to pass up a tax deduction. Ask George.

Thirteen years ago, George almost lost his top salesman. A competitor had offered Roy a job with a fine package of fringe benefits. George couldn't afford to lose him and had two choices: to give him a good raise, which would be tax-deductible, or offer him a benefit program, which wouldn't.

George and Roy decided on the

benefit program — a deferred-compensation plan which would give Roy \$10,000 a year at retirement, or \$10,000 a year for 10 years to his wife if he should die prematurely. Roy stayed — and continued to do an outstanding selling job for George.

To provide the funds to meet these obligations, George bought a Mass Mutual convertible-life

policy. The premiums weren't deductible, of course, but when Roy died last year, the company received the proceeds income-tax free and recovered all the premiums they'd paid in. The annual payments they make to Roy's widow are deductible. And there's still a sizeable tax-free sum to compensate the company for Roy's loss — and to help pay

the costs of recruiting and training his successor.

George knows now that it sometimes pays to pass up a deductible.

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Valuable Aquatarium marine life protected only by Mother Nature

ST. PETERSBURG BEACH, Fla.—If the success or failure of your business depended on the health and safety of whales, porpoises, giant sea turtles, penguins and other marine life, how would you go about protecting your investment with insurance?

If you approached the problem like management of the Aquatarium, which claims to be the world's largest marine attraction, you'd leave marine life up to Mother Nature, but you'd have plenty of other policies to cover other potential eventualities.

Carl Selph, general manager of the huge, domed installation here, told *Business Insurance* that the matter of insuring marine life has been explored thor-

oughly and the only firm that would remotely consider it was Lloyd's of London—but the premiums would have been prohibitive.

"AND MAYBE IT'S a good thing they didn't go ahead," said Thomas Hucknall, of Upham Insurance Agency, which provides policies for the Aquatarium. "Last time we looked into the matter, it was only for two trained whales. Both died shortly after we got the report back."

The Aquatarium, which is owned by First America Corp., does have several unusual types of policies in addition to ones standard for most businesses.

With its huge structures lo-

cated on the shore of the Gulf of Mexico, the Aquatarium has what Mr. Hucknall describes as a "wave-wash" policy on the building. This has a \$1 million ceiling, with \$25,000 deductible. While it includes hurricane damage, the insurance representative pointed out that the real threat would be from high waters during a big blow, rather than from the winds because of the sturdy construction of the buildings. He added that the policy is on an all-risk basis and is split among two companies.

THE AQUATARIMUM'S best protection against loss of marine mammals and fish is through its continuing program of finding new ones. A "catching boat," which goes out to "lasso" some of the mammals, has a general marine policy with added personal protection and indemnity clauses running to \$500,000. This is written by Firemen's Fund.

The same company also writes a \$200,000/\$1,000,000 policy for damage or liability that might result from breakage and flooding by any of the 34 reef tanks at the Aquatarium, Mr. Hucknall explained.

With extensive water handling and air condition equipment on hand, the marine attraction carries full coverage on it through a boiler and machinery policy written by Maryland Casualty. ■

Dental...

Continued from page 32

wanted to go to a third and still higher level of protection—which would include orthodontics—this also could be obtained.

Cost for an individual would be less than \$1 a month in addition to costs for basic insurance, plus the second level.

Cost for a family would range from \$9.45 a month to \$14.15 a month, in addition to the two lower levels, depending on amount of orthodontics coverage sought.

ALL COVERAGE in excess of the basic plan requires an eight-month waiting period, unless dental work is necessary because of an accident.

Dr. Bailey, who is also director of dental services for the Harvard University Health Services, told *Business Insurance* that he anticipates "widespread" acceptance in the profession since the state dental group is the sponsor and has long been involved in urging legislative and administrative approval on the state level for this plan.

Henry Jones, Massachusetts Blue Cross president, remarked that a separate card—not a Blue Cross card—is to be issued when group policies are sold.

Once the plan's proponents gather sufficient working experience in handling the 200-member-plus groups, they will seek to include smaller groups, and, eventually, open membership to individuals and families not members of any organization or group.

Previous attitudes of disinterest toward dental care insurance, Dr. Bailey added, have changed drastically.

He said that one thing focusing public attention on Massachusetts dental problems has been the significant amount spent on dental care under Medicaid. ■

Biancardi to head Employers' new product safety division

WAUSAU, Wis. — Employers Insurance of Wausau has appointed Michael F. Biancardi director of its newly created product safety division. Mr. Biancardi will plan and direct product safety techniques and consult with policyholders in establishment of product safety programs. Seminars will be arranged with policyholders and also with associations of mutual interest.



Michael F. Biancardi

Gordon B. Lemke, vp of safety and health services, said the new division was established "in response to the growing concern of manufacturers over the complex and far-reaching problems of product safety."

Mr. Biancardi will assist in claims review and analysis of their causes and also develop

training programs for Employers' own consultants. As corporate safety manager for Allis-Chalmers, Milwaukee, for 12 years, he specialized in development of product-safety activities and concepts.

"Identifying potential product safety problems and training engineering and marketing staffs in product safety improvements and precautions have been among Mr. Biancardi's special responsibilities," Mr. Lemke said. "We expect him to greatly strengthen our capacity to serve policyholders."

During the summer of 1968 Employers hosted a national symposium on product safety that was attended by nearly 100 business and industry leaders. "This symposium program will continue," Mr. Lemke told *Business Insurance*, "but probably on a regional basis" to enable a larger attendance.

Mr. Biancardi is a past national president of the American Society of Safety Engineers and was elected a Fellow in 1965. Since 1959 he has been a director of the National Safety Council and currently serves as chairman of the Industrial Conference. ■

Museum recovers rare art—insurer recovers claim check

URBANA, Ill.—Four insured and two other valuable paintings stolen in May, 1967, from the University of Illinois are back home at the campus Krannert Art Museum.

Involved in the recovery will be a payment by the university of \$75,800 to the Hartford Insurance Co. for a claim paid on the theft. The paintings are estimated to be worth close to \$250,000. One of them is a Homer Winslow painting, and another is Peter Paul Ruben's "The Banquet of Tereus."

James R. Gallivan, supervisor of insurance for the university, told *Business Insurance* that about six weeks ago a man made several phone calls to the university requesting a ransom for the paintings. The university, Mr. Gallivan said, refused to use its personnel to retrieve and verify the authenticity of the paintings.

HARTFORD Insurance Co. also refused to involve its personnel in the ransoming but left an award for the caller at the Champaign County state's attorney's office.

In addition, Hartford contacted Robert E. May, head of arson and fraud division of the American Insurance Assn., who worked with local authorities on the original investigation of the theft.

After more phone contact with the man requesting a ransom for the paintings, they were dropped off at a campus fraternity house and returned to the university. They were without their frames and will require some restoration work.

Mr. May said, "I don't think the individual who had the paintings could sell them." He did, however, believe the paintings could have been disposed of for a substantial sum. ■

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As in the case of Andrews vs. Andrews, when a Consolidated claims man bargained on the theory that true love could even avert a possible invasion of privacy suit.

In the hotel when the comedy of errors occurred, he settled the fracas on the spot by scouting down Staff Sergeant Andrews’ young bride and bringing her to the elder Andrews’ room.

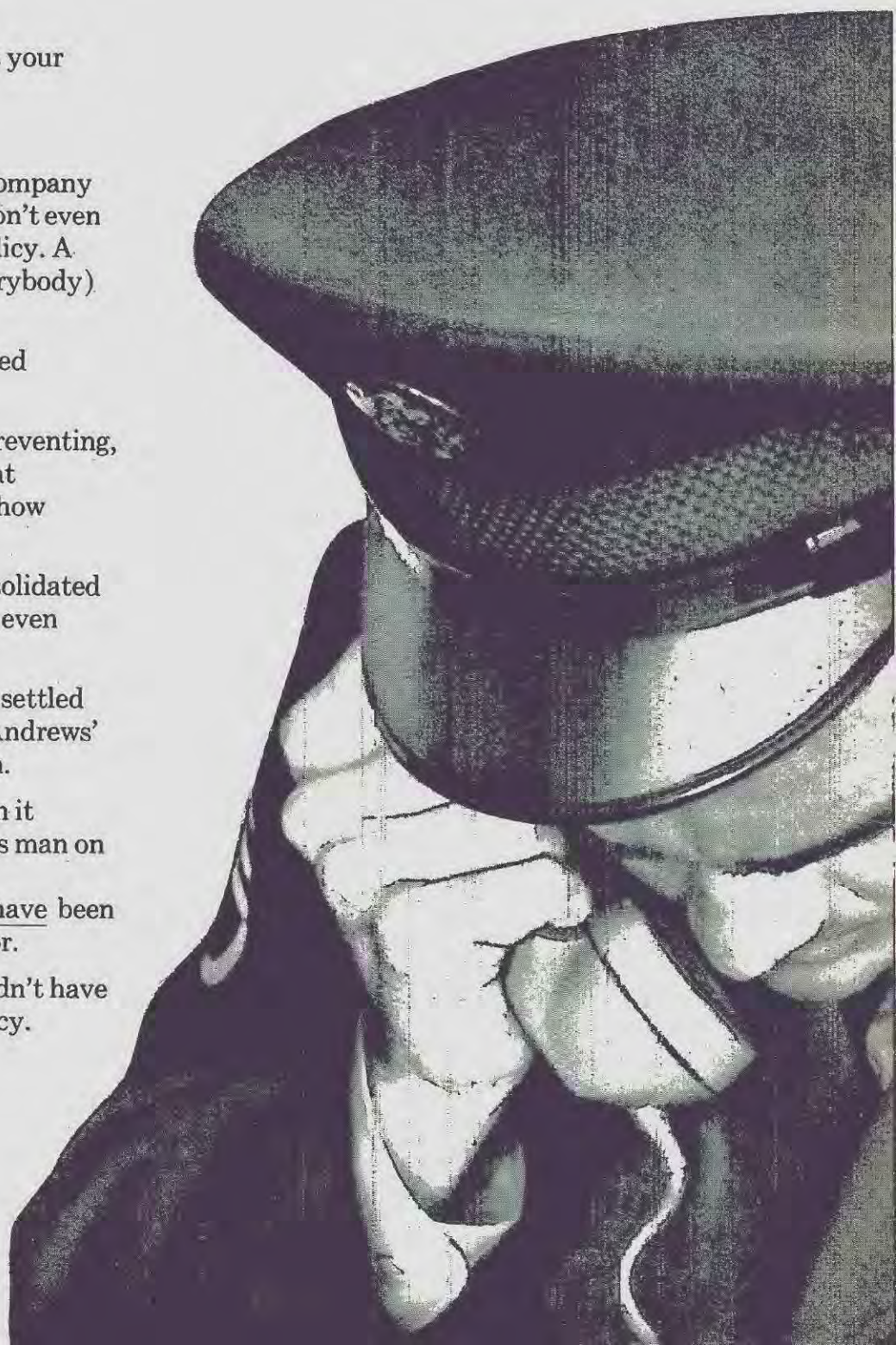
Not that all potential claimants are push-overs when it comes to honeymooners. Not that there’s always a claims man on the scene to save the day. But in the absence of either, Consolidated’s omnipresent loss prevention engineers have been known to send more than one desk clerk to the eye doctor.

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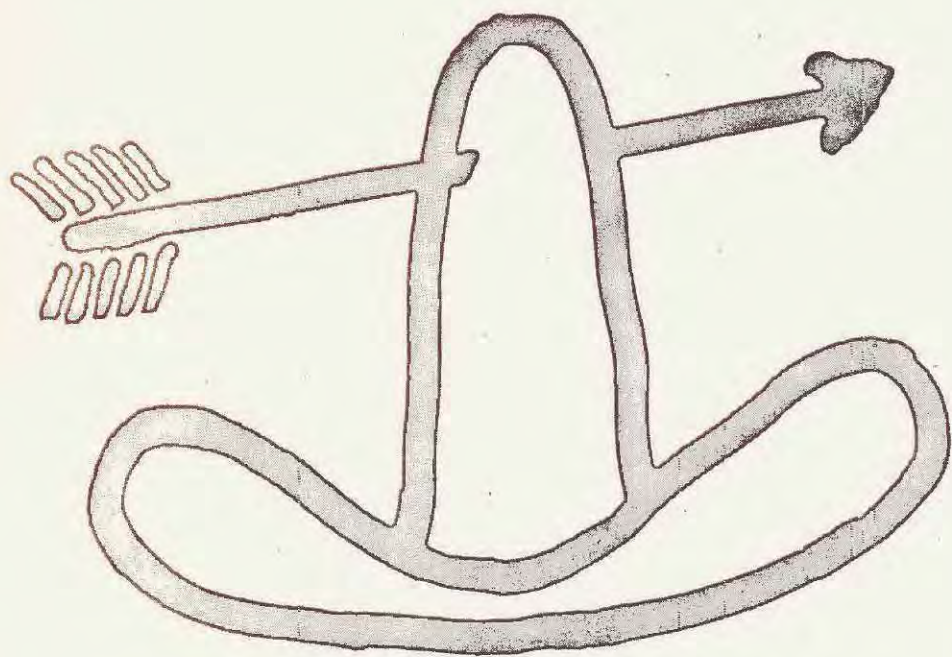


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