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Firemen search in the rain through wreckage of the Southern Airways DC9 that crashed near Huntington, W. Va., killing all 75 on board. Sources indicate that Southern Airways has primary liability coverage, from \$2 million to \$4 million, with Associated Aviation Underwriters. —Wide World photo

AAU has hull, liability cover on Marshall U. football plane

HUNTINGTON, W. Va.—The chartered Southern Airways DC9 that crashed here earlier this month was insured for \$4.5 million by Associated Aviation Underwriters (AAU), *Business Insurance* has learned. AAU also wrote the primary liability cover for Southern. Excess liability coverage, it is believed, is written in the London market.

The plane was carrying 75 persons, including 37 members of the Marshall University football team, the school's athletic director and the university's head coach. Other passengers were fans returning to the Huntington campus from Greenville, N. C., where Marshall had lost a game to East Carolina College.

Although it could not be confirmed, airline sources indicated that Southern Airways has primary liability coverage in the \$2 million to \$4 million range, with an excess of several million dollars written in the London market.

A SPOKESMAN for Marshall University refused to disclose just what type of travel-accident insurance coverage the school had on its football players and staff.

"There are 75 lives involved here," he told *Business Insurance*, "and no details will be released until the families and relatives learn of them first. We are now discussing the situation with our lawyers."

However, it is believed highly unlikely that the university had an aviation nonowned aircraft policy, which would protect the institution from any ultimate liability suits brought by survivors of the dead passengers. Marshall University usually traveled by bus to its games, and this was only the first time it had chartered an aircraft for a game.

"Something like this points up the fact that it is incumbent on every corporation or institution that has occasion to charter an aircraft to check and see if they

have a nonowned aircraft cover," said one airline insurance manager. "I doubt that many have. It's really nothing more than a contingent liability policy in the event you hire, lease or rent an aircraft," he added, noting it is similar to nonowned automobile liability coverage for employes who rent cars.

"Normally, such a policy is available at a reasonable cost, although they may be going up in the light of recent events," he said.

One of the events referred to was the charter airline crash into the Colorado Rockies Oct. 2 when 31 persons, including 14 Wichita State University football players, were killed. This crash has been under investigation by various authorities because of allegations of company licensing violations. (See page 44 for an article on proposed FAA flight regulations concerning educational institutions.)

UAW gets '30 and out'

DETROIT—The United Auto Workers scored a major victory for the growing army of senior citizens by writing the principle of "30 and out" into the union's new three-year labor contract with General Motors.

The UAW and GM reached tentative agreement on the new pact Nov. 11 (they used to call it Armistice Day), capping an eight-week strike against GM and four months of tough bargaining. And from GM, with roughly 400,000 employes under

contract, the UAW moved on to Ford Motor Co., Chrysler Corp., and American Motors, where the contract terms will be basically the same.

While the final form of the 30-and-out early retirement package was not precisely what the UAW had demanded in the opening rounds of the contract talks, it was nevertheless a clear-cut victory for the union. The union got the world's largest industrial corporation to agree that 30

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Massachusetts court won't rule on no-fault; says 'no' to rate cuts

BOSTON—The Massachusetts supreme court has declared the state legislature's 15% cut in property damage, fire, theft and collision insurance rates (included in the recent no-fault auto insurance bill) for 1971 "confiscatory and therefore unconstitutional" under the state and federal constitutions. The court declined to rule on the no-fault provision of the law, however.

The issue arose over whether an insurance company could be required to continue in a business in which it was losing money, according to James D. Casey, general attorney for Liberty Mutual Insurance Co. "The timing of the court's decision was crucial," he said. "We had to have an answer by today," he told *Business Insurance* on Nov. 11, "in order to meet the 45-day notice the company's required to give its policyholders if it does not intend to renew its policies."

Frank L. Farwell, president of Liberty Mutual, meanwhile announced that the major auto insurer would renew its auto coverage policies in Massachusetts. He termed the rate increase declared by Insurance Commissioner C. Eugene Farnam immediately after the court's decision as "recognizing the rapidly rising cost of repairing cars during the past four years since the last increase was granted in property damage rates."

In making a similar an-

nouncement of his company's intention to renew auto coverage in Massachusetts next year Roger C. Wilkins, president of the Travelers Insurance Cos., said that the Travelers "could not have continued to operate at the rates that the law set for coverages not affected by no-fault."

Meanwhile, apparently the modified no-fault insurance law that has caused so much controversy here will stand. "I don't think insurance companies will contest the no-fault plan," said Mr. Casey of Liberty Mutual. "If, indeed,

anyone questions it in court it will probably be a litigant who is not allowed to seek retribution for pain and suffering when the medical costs don't exceed \$500."

Earlier, *Business Insurance* reported that the no-fault insurance program might mean a "windfall" for fleet insureds. Philip Boody, assistant manager of the Massachusetts Automobile Rating and Accident Prevention Bureau verified this. "The employer can get a 25% reduction on his bodily injury coverage

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Late news

Occupational safety bill problem to risk men

WASHINGTON—The broad occupational safety bill passed overwhelmingly by the Senate the other day would introduce a new business interruption exposure to risk managers, and one they are not likely to be able to insure. One of the bill's provisions allows a Labor Department inspector to shut down a plant for 72 hours in the event a condition is found to present an "imminent danger" to the lives of workers. The bill, which gives the Secretary of Labor authority to set occupational health and safety standards for workers in all businesses engaged in interstate commerce, now goes to the House where a similar, though not as muscular, measure has been reported out of the House education and labor committee.

Captive covers Humble workmen

NEW ORLEANS—A captive insurer, Humble Petroleum Casualty Co., covers workmen's compensation for Humble Oil and Refining Co. employes involved in an oil platform explosion that killed two workmen and injured 12 others. A Humble spokesman pointed out that most of the men involved in the blast were employes of contractors who have their own workmen's compensation coverage. Property damage at the platform, 27 miles off the Louisiana coast, was confined to equipment and was not a substantial loss "as things go in the oil industry," according to a Humble source.

Few commercial losses from cyclone disaster

DACCA, Pakistan—International insurance experts speculate that there are likely to be very few commercial losses on the eastern shore island areas of East Pakistan as a result of the cyclone that claimed thousands of lives. It is also believed that no American or European companies have interests in the area.

"We still will be faced with the classic question in the case of cyclones despite the Gargantuan size of this one: What caused the damage, windstorm or rising water?" an AFIA source told *Business Insurance*. "People who want flood insurance always seem to

live in valleys, nobody on a mountain can be persuaded to take it, somehow," he mused.

Another source said that building construction in East Pakistan was "incredibly poor" by European or American standards. "Most structures over there are straw hovels," he said. "Even the better stores are what we'd call bamboo-reed construction. Insurance—even in Pakistani—is still a foreign word over there, a completely alien concept, as it were. Why, 97% to 98% of the houses have never come close to insurance, I'm sure," he said.

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Nine workers killed

Comp and property self-insured for blast

TULSA—Pan American Petroleum Corp. is the self-insurer of both workmen's compensation, and property damage for an explosion that occurred here. Nine workers were killed in the blast of a liquid explosive. Property damage is not believed to be extensive.

Pan American, a subsidiary of Standard Oil of Indiana, has its own insurance department but, according to a source at Standard, the parent firm's insurance department "works rather closely" with its subsidiaries on risk management.

The maximum workmen's compensation death award under Oklahoma law is \$14,500 per employe. Five of those killed were employed by Pan American as members of a research team testing explosives. The four others were employed by Commercial Solvents Corp., New York. The nine were working on a joint project testing uses of liquid explosives in oil exploration. A Pan American official could not say just what the explosive in this particular test was, nor whether it was a new and experimental project.

Property damage, also self-insured on the primary level, is "not expected to be substantial,"

the Standard Oil source told *Business Insurance*. Several pieces of heavy equipment and a storage shed were destroyed in the blast, which gouged a crater 25 feet wide and five feet deep at the testing site 10 miles outside Tulsa.

The cause of the explosion has not yet been determined. It was not discovered until several hours after the nine had perished. However, in a preliminary report, police here suggested the explosives on a truck being used by the crew were set off by sparks from a high-voltage electric line struck by a drilling tower mounted on the truck.



Risk men from throughout the country met at the Drake Hotel in Chicago for the annual insurance, employee benefit and pension conference of the American Management Assn. Coverage of the meeting may be found on pages 7, 15, 21, 22, 24, 27, 28, 30, 31 and 40.

Is Wisconsin prisoner employe of state?

MADISON, Wis.—The Wisconsin supreme court has taken up the case of an inmate who sued the state for compensation for injuries suffered while on the job as a prisoner.

Steven Kopacka sued for benefits under the state industrial compensation law. Mr. Kopacka, now a construction worker in Milwaukee, was paroled June 12, 1966, after serving part of two consecutive ten-year terms for burglary. He claimed a six-foot locker fell and injured his right leg in 1962 while he was lined up for lunch with other prisoners.

The claim was dismissed in 1969 by the state department of industry, labor and human relations and the action was upheld by Circuit Court Judge William C. Sachtjen. The agency contended Mr. Kopacka was not performing his assigned work at the time of his injury.

Appealing Judge Sachtjen's ruling as a test case before the state's highest court, Frederick M. Van Hecke, Mr. Kopacka's attorney, argued that his client should be awarded compensation in the interest of justice. He said that the state profits from the work performed by prisoners and that Mr. Kopacka was making wooden cabinets.

Mr. Van Hecke further argued that although the state can punish criminals and profit from their labors it should not be exempt from paying disability compensation for convicts' injuries incurred during such profit-making activities.

Taking the suit under advisement, Supreme Court Justice Bruce F. Beilfuss raised the question of whether or not the state should be considered an employer in a case of this sort.



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washington watch

Here's the Congressional lineup on insurance after 1970's election

WASHINGTON—While it may be true that both the Republicans and the Democrats won in the Congressional elections early this month, it does not necessarily mean that no one lost. At least, that is what a number of business lobbyists here say, maintaining that, in fact, the business community was the big loser in the elections.

The basis for this attitude is that the Republicans' law-and-order scare tactics—designed to appeal to the much-prized middle

American—basically failed, and that President Nixon will now redirect his campaign for the vote of the blue collar worker by offering something more substantive than speeches denouncing crime and "radicals." The hitch, they say, is that the business community will be picking up the tab for most of the new package.

Expectations are high that President Nixon will launch his new bread-and-butter approach to the middle American in his January State of the Union ad-

dress, promising to ask Congress for such things as a massive new federal health insurance program, broader in scope than Medicare and Medicaid, a federally directed reform of the nation's auto insurance system, a federal program to aid crime victims, federally imposed minimum standards for state unemployment insurance programs, renewed support for a host of consumer bills and a stepped-up attack on corporate polluters.

PROBABLY added to the list

—if the lame duck Congress hasn't already acted on them—will be increased Social Security benefits, and a renewed push for occupational health and safety legislation and welfare reform.

Another aspect of the election that disappointed business representatives here is that, while President Nixon may now happily claim a more conservative Senate overall, and call this a victory, almost all of the liberal labor Democrats are still on Capitol Hill and still in their all-important committee chairmanships.

Sen. Ralph Yarborough, head of the powerful labor and public welfare committee, of course, won't be back, having been beaten in the primary. But, he will be replaced by the current labor subcommittee chairman Harrison Williams (D.—N.J.), who won re-election for his third six-year term.

Sen. Williams was a leader in the fight for the coal mine safety act and is in the forefront of

labor's push for a strong occupational health and act. He is openly sympathetic toward national health insurance, a much broader based Social Security program, federal standards for vesting, funding and reinsurance of private pension plans and federal standards for state workmen's compensation programs.

AS CHAIRMAN of the full committee, Sen. Williams has the option of whether to also continue to head the labor subcommittee or take the chairmanship of the health subcommittee. It's too soon to say, but the betting is that he will do as Sen. Yarborough did and opt for the health subcommittee, with its great potential for public exposure.

If he does, the labor subcommittee would probably go to Sen. Edward Kennedy (D.—Mass.), although Sen. Calborne Pell (D.—R. I.) would have first shot at it. The feeling is however, that Sen. Pell will retain his position as head of the education subcommittee.

Except for Sen. Yarborough, the full committee's Democratic membership was not affected by the 1970 elections. Two of its GOP members were defeated, Sen. George Murphy (R.—Cal.) and Sen. Ralph Smith (R.—Ill.), so at least three vacancies are to be filled in January. Other shifts in the committee's makeup could of course occur as surviving senators jockey for vacancies on other prestigious panels.

Sen. Philip Hart (D.—Mich.), chairman of judiciary's antitrust and monopoly subcommittee, was also reelected, much to the chagrin of the insurance industry.

It can be expected that Sen. Hart will continue his campaign against state insurance regulation, using the panel as his vehicle, with subcommittee staffer Dean Sharp doing his spade work. Of the subcommittee's eight members, only Thomas Dodd (D.—Conn.) was defeated this year.

Sen. Warren Magnuson's (D.—Wash.) commerce committee will likely carry the ball for auto insurance reform in 1970. The strongly consumerist panel lost only one of its 19 members, Joseph Tydings (D.—Md.). Sen. Magnuson was reelected in 1968. ■

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Cat owner files suit against pet hospital

SAN FRANCISCO—A dead cat may cost the Arguello Pet Hospital here \$125,000.

That's the amount sought in a suit filed in Superior Court by attorney Lyle C. Cavin Jr. on behalf of Jonell Houpt, against the pet hospital and one of its employees, Elmo Shropshire.

Miss Houpt claims she took Jason, her cat, to the hospital when the animal seemed to be suffering from a bad cold. When she went to pick up the pet, she was told the bill would be \$53.

Because she did not have that much with her, Miss Houpt told the court, she said she would return later. When she did, the bill had increased to \$73 and Elmo Shropshire refused to take a check.

When Miss Houpt complained, the suit alleges, she was beaten and forcibly ejected from the pet hospital. When she returned again, with cash, the bill had risen to \$97.

After she paid this sum, the suit declares, Miss Houpt was told that the cat had died two days before and the remains had been disposed of.

Touchy Question #29

Big deductibles ought to produce big premium savings, right?

They do—but only if the premium saving is measured not in dollars, but in added insurance purchasing power.

Deductibles work hardest when they're closest to the ground. The cost of creating and handling claim files is a dead loss to all concerned—the insurance buyer, the claimant, and the carrier. Nobody benefits from it except paper manufacturers.

Under any coverage where there are more small losses than big ones, therefore, the first \$100 of a \$1,000 deductible may produce a larger cash saving than the remaining \$900. If the exposure is preponderantly to very high or total loss, a deductible may produce little or no premium reduction. It doesn't make much sense to incorporate a deductible provision in a loss policy on a dynamite factory or a diamond ring. The deductible would just be underinsurance.

The question the risk manager should really ask himself is not "How much premium savings will this deductible produce?" but "Where will those dollars buy me the most protection? At the bottom of the policy? Or at the top?"

For a handy example, let's take a representative group hospital insurance plan,

providing room-and-board benefits of \$30 a day for a maximum of 31 days, with therapeutic charges limited to \$1,000. With no deductible, a typical rate for such a plan is \$6.17 per month for a single employee; \$17.66 for a family man.

Now see what happens if we apply a \$50 deductible. The rate for the single man drops to \$5.06 (18% reduction); for the employee with dependents, it goes down to \$13.29 (25% reduction). But the really important change is that the money available for therapeutic charges jumps from \$1,000 to no limit at all.

In other words, by contracting to pay the first \$50 at the bottom of the hospital bill, we have taken the roof right off the top. There can be no question which plan affords the greater protection. Nobody in this day and age trembles at the prospect of a \$50 loss. What scares any prudent wage-earner is the thought of hospital bills running into a year's pay.

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British businessmen urged to follow U.S. thinking on employe benefits

LONDON—Merits of falling into line with American thinking on employe benefits were stressed at an insurance seminar for British businessmen.

Dryden Gilling-Smith, planning manager of Legal and General Assurance Society of London, told them:

"Most pension and employe benefit schemes have been set up in response to an immediate company need. Many firms are now reaching the point where they can ask how their expenditure should best be directed in the future.

"THE establishment of a clear set of employe benefit objectives

is desirable. In the U.S. the term 'employe benefits' is generally used to cover the whole remuneration package, apart from direct payments in the form of salaries and wages.

"This term is a useful aid to corporate thinking, and I suggest we adopt it in the U.K. unless or until someone can think of a better term."

Mr. Gilling-Smith, who was addressing a conference organized by Investment and Property Studies for the Financial Times and Investors Chronicle, declared:

"Determination of basic employe benefit objectives is a top management function. A single item of expenditure that may ac-

count for some 20% or 30% of the relevant payroll, and which must be expected to make a significant contribution to the company's total business effort, must receive careful consideration at top management level.

"TOP MANAGEMENT must reconcile the possibly conflicting claims of the personnel department, the finance department, and the public relations department.

"Employe benefits play an important role in company image building. The key employes on whom a company may depend, possibly in their 40's and 50's, are very likely to be influenced by

the manner in which they see their elder colleagues in their 60s treated when they retire.

"The employer must look at his competitors in the labor market. This does not mean that one should 'follow the pack,' but it is one of the facts of life that a company can have better benefits than most of its competitors, and yet can have one shortcoming which will have a totally disproportionate effect on an employe's choice of firm."

Mr. Gilling-Smith gave this example of the need for careful assessment of employe benefits in the remuneration package offered by any firm:

"IF A MAN earns a good salary, it is generally assumed by his friends outside the firm that this is the result of his own efforts and energies. The employer may get little credit.

"On the other hand, if a man is

able to maintain a reasonable standard of living in retirement, or if his widow and children are well provided for, then it will be his firm that is likely to get most of the credit for such provision.

"It will be spoken of more widely as being 'A good place to work for.'"

He said that in quite a number of companies it has been impossible in Britain to begin thinking about employe benefit objectives because organizational responsibilities have been completely fragmented.

Salaries, pensions, house purchase, disability incomes and other matters had often been dealt with by different people in the organization who were often highly jealous of their own empires. Even the perfect employe benefit package would not make its proper contribution to the company's business effort unless it was communicated successfully to employes. ■

Minnesota ASIM head elected

MINNEAPOLIS—Frank I. Butterworth, corporate risk manager of Employers Overload Co. here, has been elected president of the Minnesota chapter of the American Society of Insurance Management.

Mr. Butterworth told *Business Insurance* that the chapter is in the process of coordinating an educational seminar program for



Frank I. Butterworth

its members, to be given in 1972 or 1973. Speakers this year will include the Federal Bureau of Investigation's Minneapolis agent, who will discuss the bureau's role in preventing bomb, arson and riot damage.

MR. BUTTERWORTH has been with Employers Overload for three years and was responsible for installing the risk management division in the company. "Our company, founded in 1947, has 15,000 to 20,000 temporary workers throughout the country," he said, "and these people are bonded directly to our customers—something not available from many temporary help agencies." He explained that, although almost every agency says that its workers are bonded, this often means they are bonded only to their agency, not the customer.

It is necessary, he continued, to obtain a special rider on an employe bond in order to hold the agency liable for criminal acts by an employe. "Our agency and the big ones offer this bonding," he said, "but insurance companies are reluctant to write this rider—many agents will even tell you there is no such thing—unless the size of your insurance account makes it worth their while."

Employers Overload's bonding is written by CNA Insurance. ■

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Agents and brokers must change to meet the risk manager's new needs

CHICAGO—Although George M. Betterley, managing partner of Betterly Assoc., Worcester, Mass., hopes to see agents and brokers around for a long time, for the sake of the insurance buyer, he believes that these middlemen must undergo changes in the '70s.

The most important force molding brokers and agents, he said, will be demands from a better educated risk manager who is able to put his need for insurance in proper perspective. Risk problems created by technological, economic and sociological changes will force the middleman to provide new solutions to new problems, he told American Management Assn. members at their annual insurance conference here. The insurance industry itself will prove a third force for change.

The changes, Mr. Betterley said, must also come because "holding companies, conglomerates, agencies purchased by manufacturing, finance and insurance companies, federal insurance, and mass merchandising to corporate employes and customers" are all placing new demands upon the broker.

IN THE future, he said, middlemen should be able to provide their buyer customers with the following:

- A reasonable pedigree—a well-established firm, convenient location, sufficient staff to give depth and continuity and a substantial and varied clientele.

- Appreciation and acceptance of the risk management concept, which dictates that all remedies short of insurance must first be considered in treating risk.

- Emphasis on technical service rather than sales. "The buyer wants a 'helping' hand, not a 'glad' hand, in appraising his risks."

- Marketing skill: "This is still the broker's prime function, and the buyer looks for a wide knowledge of markets, an impartial attitude toward all types of carriers and expertise in dealing with the surplus lines market."

- Engineering services: "The demand varies, but in general if not available from the carrier or an independent source, the broker is expected to fill the gap."

- Intellectual honesty and professional integrity: "These qualities are often the subtle reasons for selecting a broker."

THESE GROWING demands from buyers are going to require more talent, travel, ancillary services and data processing from the broker and all of this, said Mr. Betterley, means the broker needs more money. "The need for capital and the need to spread operating expenses are certainly major reasons for the urge-to-merge trend evident among agents and brokers today."

As a result of this the risk manager can expect to see the number of agencies shrinking in the future, he predicted. "Fireman's Fund, in a move to clean out deadwood, reduced its independent agents from 25,000 (many unproductive) to a lean, highly productive 10,000." The requirement for more talent, financial strength and geographic spread will cause the number of large firms to increase. Buyers can expect to see more of the large firms going public, he said, and more non-insurance companies acquiring successful firms.

The ratio of brokerage firms to agencies will increase, Mr. Betterley told AMA members, in keeping with the buyer's insistence on marketing flexibility, and the scope of services in the mutual fund and consumer credit areas will be expanded. (He added that Insurance Co. of North America reports 2,000 of their agents have already obtained licenses as securities dealers and are selling mutual funds through

the INA Security Corp.)

Mr. Betterley offered four suggestions as to how agents and brokers can better serve their clients in the future. First, he said, they must recognize risk management as a fundamental business management function in which the broker plays a vital, but not all-inclusive, role.

SECOND, they must "beef up their services according to the

needs of the type of clientele they wish to serve. The more customers move from primary to excess forms of insurance without service," he said, "the more they are going to ask the broker to provide precisely what they require in the way of engineering, loss control, and claims service. Brokers should consider all avenues open to them for providing ancillary services—joint ventures, consortiums, mergers, cooperative working arrangements."

Third, agents and brokers need to do a better job of building, organizing and managing their staffs and concentrate on quality rather than quantity, he said.

Fourth, agents and brokers

should examine honestly and candidly the pricing of their services. "While there are arguments favoring the commission method of reimbursement," Mr. Betterley said, "this should not be to the exclusion of negotiated fees, especially for extra services over and beyond what normally accompanies the insurance contract. Consideration must be given to the cash flow problems of the customer, in establishing loss reserves, in advance premiums and retroactive adjustments.

"It is in understanding the services the buyer wants and in making them available with skill and integrity that success lies," he concluded.



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speaking of security

Two N.Y. brokerage firms introduce elaborate internal security systems

NEW YORK—There's probably as much cool cash in the form of negotiable securities in the "cage" of the typical Wall Street brokerage house as in the "cage" of some of the big New York banks. However, banks have a big advantage over the brokerage houses—they don't have quite as many inside thefts.

In the Goodbody & Co. failure (recently, accountants of the fifth largest brokerage firm on the Street refused to certify it as a "going concern"), the company

unabashedly admitted to simply "losing track" of \$18 million in securities since last year's audits. This is probably the worst example of a security problem on the Street. But Goodbody's fellow brokers are quick to admit they have their own problems, too.

"When you have as many people trying to get in and out of such a critical area as the cage, there's a real problem in trying to keep track of who and what is coming in and going out," said one broker. He told *Business In-*

insurance that the first big problem was coming up with an access control system that "doesn't get on anybody's nerves too much but can still do the job."

WALSTON & Co. has taken the situation by the horns. The Big Board member firm is currently spending about \$200,000 a year on its new security systems, according to its security director, Edward F. McElligott. Formerly a lieutenant with the New York Police Department's intelligence

division, Mr. McElligott has apparently put together a fairly taut screen of security. Since it was devised, the firm estimates there's been a 50% decrease in losses.

Mr. McElligott explained that he has employed a mix of television surveillance and detection devices in his vault areas as well as computerized access control system bolstered by uniformed guards at each entrance. This coupled with a once-a-year surprise audit by an outside agency has apparently served to discourage many would-be thieves.

All employees are fingerprinted and photographed (requirements now under N.Y. state law for Wall Streeters). This information is put on an identification badge along with a magnetic number of five digits. "The five digit number is given to the employe at the time of the card's issuance," Mr. McElligott explained. "There's no

way to read the number from the card and the numbers must be punched into a console in the correct sequence along with the insertion of the card before access is granted," Mr. McElligott explained.

The system, manufactured by Holobeam Inc. for Walston, is working well he reports. "The incidence of thefts of securities is way, way down," Mr. McElligott said.

PROBABLY the main reason for the system's success is the cooperation of Walston employees. "The employes of the company are very cooperative. Everybody meets security requirements from the officers of the company right down to the floor sweepers," he pointed out.

Walston's system, aside from protecting the securities cage area and the vaults, also watches over nearly \$10 million on computers.

Despite being pleased with his hardware security system, Mr. McElligott is far from satisfied with other parts of the problem. "I'd like to see a better pre-employment check, and use of the polygraph," he said. The New York State controller's office now does a background check on Wall Street employes. However, there's still a major problem with the system: a three months' wait for the results, he said.

Salomon Brothers recently spent \$95,000 on a hardware access control system of their own as well. The brokerage firm commissioned World Computer Systems Engineering, a subsidiary of World Computer Corp., a Dallas-based firm, to develop one for the firm's security needs.

"OUR COMSAFE system consists of ten badge-readers, one control console, eight television cameras and nine television monitors," explained James O'Connell, director of telecommunications as well as security at Salomon. He explained that his system simply was set up to provide access to security areas to qualified people as well as to prevent access to non-qualified people. Security areas in Salomon's case include both the cashiering department and the computer room.

"During what we call our day mode," Mr. O'Connell pointed out, "We have five television cameras trained on the cage itself, while three are on the computer room entrances and exists. At night we take four of the cameras off the cage and they survey the elevator entrances," he explained.

The system has been in operation for about three months, Mr. O'Connell said, obviously quite pleased with it. "The badge has magnetic numbers on it, the first two of which qualify the badgeholder for all areas in the company. The next four digits identify the department of the individual and the next digits identify the employe himself," he continued.

The badge actually has two uses. Salomon has followed the lead of the military services in cutting down on all the numbers assigned to the employe for the variety of necessary administrative processes. Now it just uses one—the one on the identification badge. The badge is used in the electronic data collection system for punching in and out on the time clock, getting paid by as well as for identification purposes.

"WHEN THE badge is inserted into a reader in order to gain access to a security area," Mr.

Continued on page 48

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following the funds

B.I. workshop panelists tell ways to find and assess money managers

ATLANTA—Alternative ways of handling pension fund investments in a time of a sagging stock market were reviewed by participants in a pension fund investment panel at the *Business Insurance* Management Idea Workshop here, but all panelists recommended flexibility in measuring fund performance and in choosing money management mechanisms.

Participants in the panel were A. H. Blaker, assistant treasurer of the Boeing Co.; Frank Brunetta, assistant to the chairman of PepsiCo Inc.; William Lowe, vp

and treasurer of Inland Steel Co., and Dr. Richard Zoller, director of investments for the Greyhound Corp. The panel was moderated by Richard C. Bjorklund, editor of *Business Insurance*.

"I am one," Mr. Blaker said, "who believes that in pension funds a proportion of the investment should be in fixed income securities, whether bond, mortgages or otherwise. The preponderance can be in equities with cash or short terms varying from period to period in accordance with the economy and the money market. I also believe that

flexibility is necessary and that the investment program changes as conditions change."

HE OFFERED "words of warning" to those whose investment policies are aimed only at maximizing returns, a goal that resulted recently in many people "getting their fingers burned." Mr. Blaker, while granting that there is room to invest in less seasoned equities that he described as "go-gos," counseled pension fund investment managers to avoid excesses.

"You've got to study types of

investment and understand the risks inherent in each," he advised. "Then you've got to ask whether you'll accept that risk in behalf of your company and its employees."

Mr. Blaker, like his colleagues, said that the concept of pension funds as profit centers "has lost its glamor." There is, he added, less and less talk of employee benefits programs as profit centers under which an improved investment performance results in a reduction in employer contributions.

Mr. Brunetta described a recent change in the money management mechanism of the PepsiCo pension fund, an aggregate of \$50 million in several pools of funds that now serve the employees of Pepsi-Cola, Frito-Lay, North American Van Lines, Wilson Sporting Goods, Lease Plan International and Chandler.

"WE HAD a growing awareness of two factors: The effect of

performance on the level of company contributions, and changes taking place in the investment community," he explained. The result was a review of the "management mix" of the overall PepsiCo pension fund, which resulted in a switch from total management by an insurance company, a bank and a pension fund advisor to a system that includes a new investment advisor and three mutual funds to afford the elements of high return, diversification of funds and an easy measurement of performance.

Mr. Brunetta is one of five trustees assisted by outside actuaries who now review pension fund performance at PepsiCo.

"Our first task," he recounted, "was to define performance objective in light of the risk we were willing to absorb. We chose a performance standard of at least 50% better than the Standard & Poor's 500 average in up markets and one of performance no worse than the S&P 500 average during down markets as being in keeping with our willingness to accept risks. Our overall return in both up and down markets would obviously have to outperform the S&P 500 average and, obviously, the more the better."

PepsiCo's overall objective, Mr. Brunetta told workshop participants, was to seek consistent performance among money managers over a suitably long period of years relative to the S&P 500 stock average. The sought-for performance, under the new trustee system, was to be examined quarterly and separately during periods of both rising and declining markets.

TO REACH THESE objectives, Mr. Brunetta's trustee group contacted investment advisors and requested quarterly performance results over a period of years, and screened mutual fund performance records from publicly available records. Both load and no-load funds were considered because the size of PepsiCo's contribution would substantially reduce any fees to be paid to load funds.

Mr. Brunetta offered this word of caution: "We have set our own objectives, which are consistent with what we have identified as our own particular investment requirements. These may not match those of many others and, therefore, the outcome I have described may not be similar to those at which other firms arrive. Nevertheless, the selection process that I have outlined may be appropriate to your requirements and it is one I recommend that your periodically follow in order that you can continue to be reassured that your choice of advisors is the most appropriate for your company."

Mr. Lowe described a pension fund performance examination process that resulted in a shift in money managers similar to that decided upon at PepsiCo.

"Prior to 1969," he explained, "our investment program was handled by a bank finance committee," he said. "Then Inland Steel participated in an investment study that revealed that our trustees' position was at the bottom or near the bottom and we had to pay attention to this situation. Our investment result was lower than all indexes and we felt we ought to do something."

INLAND STEEL took 50% of its pension fund investments away from the bank trustee and divided three-fourths of these investments among three outside investment firms, retaining one-fourth to be invested by an internal investment committee composed of young men who felt

Continued on page 44

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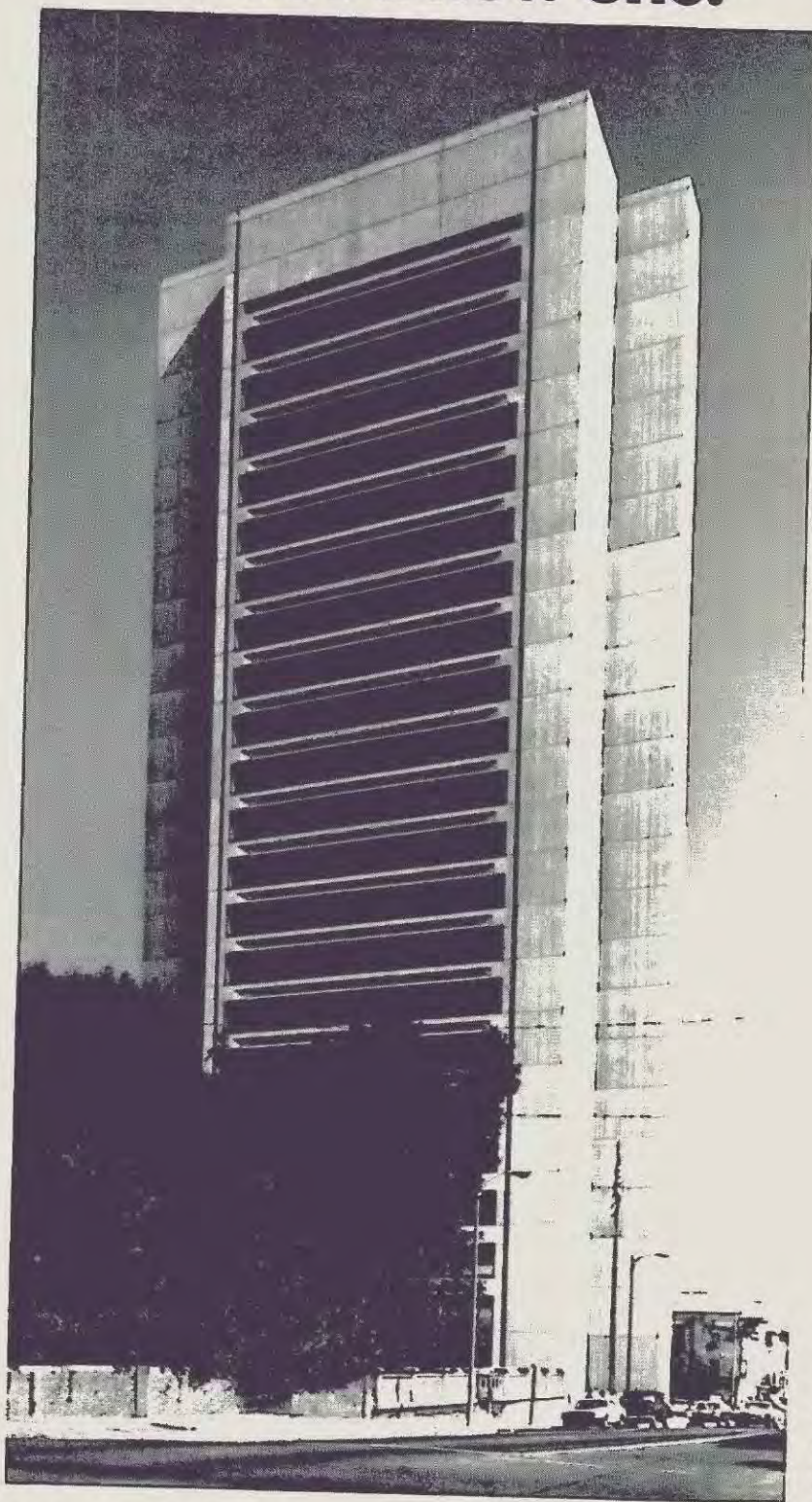
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Readers are invited to submit items for inclusion in this column. A sample of the literature should be sent to: Info for Buyers, *Business Insurance*, 740 Rush Street, Chicago 60611.

• **Employee benefit plans for international companies** has been published by the Victoria Life Insurance Co. The booklet offers summary information concerning selecting qualified insurers, coordinating plans, Social Security and taxation, consolidated accounting, local dividends, international experience rating, retentions and funding techniques. Single orders may be obtained free of charge by writing Gerhard Roper, vice president, Victoria Life Insurance Co., D 400 Dusseldorf, Bahnstrasse 2, Germany.

• The National Safety Council has compiled a list of safety films and their sources—producers, sponsors, distributors—in its **National directory of safety films**. The films are categorized into their respective sections and brief descriptions are provided including such information as whether the film is black and white or color, price of rental, length and film specifications. Price information on the directory may be obtained by writing NSC, 425 N. Michigan Ave., Chicago, Ill. 60611.

• **Mass marketing of property and liability insurance** is a study prepared by Spencer Kimball, Dean and Professor of Law, University of Wisconsin Law School and Herbert Denenberg, Loman Professor of Insurance, Wharton School of Finance and Commerce, University of Pennsylvania, for the Department of Transportation. The authors evaluate the role that mass marketing of insurance plays in overall compensation system reform, the extent to which existing regulatory institutions helped or hindered the attainment of any such role for mass marketing and comment on legislative and administrative changes they felt would bring about an optimum regulatory environment for mass marketing of auto insurance. Single copies are 75 cents and may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C. 20402.

• The 1970-71 edition of **National fire codes** is available from the National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110. The codes consist of 10 volumes containing 206 separate standards and are priced at \$5 per volume or \$40 for the complete set. Subjects of the volumes are: flammable liquids, ovens and boiler-furnaces; gases; combustible solids, dusts and explosives; building construction and facilities; electrical; sprinklers, fire pumps and water tanks; alarm and special extinguishing systems; portable and manual fire control equipment; occupancy standards and process hazards; and transportation.

• A film about **What doesn't have to happen . . . in the crash** has been prepared by the Insurance Institute for Highway Safety, Watergate Office Bldg., Washington, D. C. 20037. The film is a 16 mm, color, 22 minute vehicle which lets the viewer see the crash the way highway loss reduction advocates see it. Slow motion shots range across a wide selection of recent car crash experiments to let you see how—and why—the metal gets twisted, and lives broken. It may be purchased from the Institute for \$195. This Kemper Insurance Group has arranged to show the film, free of charge, to groups which contact local Kemper Insurance Branch offices or write to Robert P. Palmer at Kemper, 4750 N. Sheridan Rd., Chicago, Ill. Kemper provides suggested press releases, introductory remarks and a feed-back report to supplement the film. When contacting a Kemper agent, keep more than one date in mind for the showing of the film.

• **State workmen's compensation laws** is published by the U.S. Department of Labor. The book covers the development of workmen's compensation laws, types of laws, amount and period of benefits, rehabilitation, subsequent-injury funds, provisions in special cases, and the handling of claims. Also included are 15 tables covering waiting periods, numerical exemptions, and agencies administering state workmen's compensation laws. The book may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402 for 40¢.

• The National Fire Protection Assn., 60 Batterymarch St., Boston, Mass. 02110, has released the following updated publications. **Safety standard for hospital laboratories**, No. 56C, 24 pgs., 75¢; **Standard for essential electrical systems for hospitals**, No. 76A, 36 pgs., 75¢; **Standard for hyperbaric facilities**, No. 56D, 52 pgs., \$1; and **Standard for nonflammable medical gas systems**, No. 56F, 28 pgs., 75¢. All publications are 1970 editions.

• The Swiss Life Insurance and Pension Co., General Guisan Quai 40, 8022 Zurich, Switzerland, publishes periodically the **Swiss Life News Letter** with current information on various aspects of European employe benefits. Anyone may be placed on the current mailing list, free of charge, by writing the firm.

• Pacific Employers Insurance Co., an INA Corp. company, has prepared a booklet entitled **INA/PEG total loss control making safety pay**. This publication is offered free of charge. It describes a measuring stick for preparing a loss control profile to aid in the task of pointing out areas that need improvement, suggest new programs to correct the shortcomings and help the employer do away with potential loss producers in his plant. For a copy write the firm to the attention of the Public Relations Dept., 4050 Wilshire Blvd., Los Angeles, Cal. 90005.

• BF&M Management Ltd., Hamilton, Bermuda has made available a booklet **About your own insurance company in Bermuda** describing the functions of the company, which was set up exclusively to manage 'captive' insurance companies on the Is-

land. A copy may be obtained by writing Derek L. Dempster, Manager and Secretary, BF&M Management Ltd., P.O. Box 1007, Hamilton, Bermuda.

• **The problems of total remuneration in the European economic community and United Kingdom** has been released by Towers, Perrin, Forster & Crosby, Inc. The report covers wages, salaries, benefits, and other forms of employe remuneration in the six Common Market countries and the U.K. Also included in the report is an expanded executive remuneration section. The report may be obtained free of charge from the firm at Three Penn Center, Philadelphia, Pa.

• The International Division of Alexander & Alexander has published **Are your company's assets abroad as safe as those at home?** describing the services of the division in placing, writing, and understanding foreign insurance contracts and foreign employe benefits for local nationals abroad and expatriate and third-country (international) employes. For a copy of a pamphlet or more information write the firm at 225 Broadway, N.Y., N.Y. 10007.

• **Proud and tall** is a film released through government sponsored state rehabilitation centers and the Employers of Wausau Co. the 13½ minute, 16mm, color film reveals some of the agonies a person goes through in the rehabilitation process. The story is about a worker who was blinded on the job and with help resumed a solid and useful place as a productive worker. The film is available on a loan basis from local government rehabilitation agencies and the Film Dept. of the Employers of Wausaw Co., Wausau, Wis. 54401.

• The Small Business Administration has compiled an aid for **Preventing employe pilferage.** According to the aid, to prevent pilferage an owner-manager must recognize that some employes cannot be trusted and make all employes aware that he is taking steps to thwart dishonest personnel. Such steps include setting up a system of loss prevention, administering the system rigidly, and auditing it often to discourage dishonest employes who try to bypass the system. Copies are available free from field offices and the Washington headquarters of the Small Business Administration, Washington, D.C. 20416.

• Responsibility for loss or damage to any given shipment is set by the terms of sale. **If you ship by water** is a booklet offered, free of charge, by the Fireman's Fund American Insurance Cos. The booklet contains commonly used sale terms which will help you determine the point at which you assume the risk for the safety of the goods, defines total loss, particular average, and general average. Direct orders to the Public Relations Department, P. O. Box 3395, San Francisco, Cal. 94120.

• Business life insurance may be more efficiently purchased under the minimum deposit plan than under a term insurance plan. The advantage depends largely on the firms opportunity cost of capital. **Buying whole life insurance and investing the difference as compared to term** illustrates numerous situations. The book may be obtained for \$5 from Dr. Stuart Schwarzschild, 78 Carlton Dr., N.E. Atlanta, Ga. 30303. Dr. Schwarzschild is a professor of insurance at the School of Business Administration, Georgia State University.

Free insurance service for U.N. benefit

SAN FRANCISCO—A \$250,000 all-liability policy, including earthquake and breakage coverage, protected the United Nations Benefit Auction preparation activity and remained in effect through the date set for the actual auction, Oct. 24, UN Day throughout the world.

The insurance was arranged by Marsh & McLennan Inc. here, with no charge for the services rendered, as part of their long-time contributions to United Nations efforts.

Fireman's Fund, Reliance and Royal Exchange each participated in the cover for one-third of the liability.

ALL 126 United Nations member countries, plus six "observer nations" were invited to partici-

pate in the international art auction of "one object per country, with each object having official government sanction" of the country involved.

The Oct. 24 auction, at the Fairmont Hotel, included works from 83 countries and the Vatican. It not only commemorated the 25th anniversary of the UN but also benefited UNICEF, the United Nations International Children's Emergency Fund.

"The liability involved in handling fragile art works, many of them worth thousands of dollars and some invaluable, was a bit frightening," explains Patricia Di Giorgio, program chairman of the United Nations Assn. here.

"The auction and the show of all the objects," Mrs. Di Giorgio said, "has been a matter of diplo-

macy-on-a-shoestring. The UN birthday celebration here last June took all our funds, so we had to ask for donations.

"MACY'S GAVE us their seventh floor from Sept. 17 until the auction," Mrs. Di Giorgio continued, "Butterfield & Butterfield donated the warehouse space and J. B. Wright, senior vp of Marsh & McLennan helped us with our insurance problems."

Each object contributed by each government was intended to express "the finest and most characteristic qualities" of that nation's art and culture.

Czechoslovakia sent a Maria Theresia crystal chandelier; Denmark a chair designed by Poul Kjaerholm who is designing furniture for the Kennedy Center for

the Performing Arts.

The U. S. entry was a piece of Steuben glass enclosing a moon-scape, a replica of gifts presented to the moon landing astronauts.

The Belgian entry is a painting by Paul Delvaux, considered that country's most famous artist. Mrs. Di Giorgio believes it worth as much as \$20,000.

Monster insurance

Leaders of an American expedition hunting for the mysterious Loch Ness monster, believed to frequent one of Scotland's deepest lakes, were insured for \$12,500 at Lloyd's against any injury caused by contact with it. They were explorer Jack Ullrich, and microbiologist Dr. St. Clair Strong.



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Kloman and Jones have ideas and will travel

By STEPHEN GILKENSON

DARIEN, Conn.—Two young and vocal members of the risk management profession have left their employers and set up their own financial risk management consultant firm here. They are a bullish pair and are likely to be telling clients there are alternatives to the time-honored tradition of insuring corporate risks by paying premium dollars to insurance companies.

The two are H. Felix Kloman, formerly an assistant vp in the consulting division of Alexander & Alexander, New York, and William J. Jones III, who was assistant treasurer of W. R. Grace & Co. Mr. Kloman is now president of Risk Planning Group

Inc. His senior partner and vp is Mr. Jones.

In a day when new risk management concepts seem to be struggling against more historic insurance traditions, the principals of Risk Planning Group (RPG) believe they have something unique to offer corporations that are looking at their insurance costs and learning they are merely trading dollars and paying for losses before they occur.

Said Mr. Kloman: "To my knowledge we are one of the first firms that approaches risk planning entirely from a risk management point of view, rather than from an insurance standpoint."

MR. JONES, who has the



H. Felix Kloman

broader financial background, is a little more bullish than his partner. Said he: "Our approach

is more financial management; that is, how can you cover the risk and ignore insurance?"

"Our feeling," Mr. Jones went on, "is that most insurance companies today are getting out of the insurance business. They are collecting premiums and using that income to diversify into the broader financial services area. Or they are investing those premiums poorly. Why should your company pay premium dollars out of cash flow to an insurance company, which ties those dollars up in reserves, when you can better use the money yourself. You pay X number of dollars for insurance and employee benefits. The premiums you pay are a percent of earnings and in many cases 15% to 20% of earnings. Your loss experience for the last

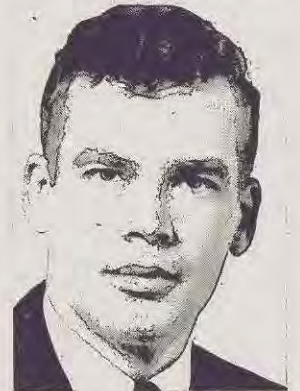
20 years has been X," he added, noting that simple projections can tell a company what that company's experience in the next 20 years might be and what it can safely assume itself.

Risk Planning Group has received substantial financial backing from Ingram, Armistead, Wallace Inc., Nashville, which Mr. Kloman describes as "an aggressive international brokerage house." However, he emphasized, "we are wholly autonomous and will dictate our own policy."

According to Mr. Kloman and Mr. Jones, the goals of the new company will "seek to go well beyond the groundwork laid by insurance companies, insurance brokers and insurance consultants."

FOR EXAMPLE, RPG will seek to become as diverse an organization as possible. Principals (one more senior principal is yet to be hired) and associates must be from the "broadest possible background of education and experience." The company has a board of advisers that includes several of the more respected risk managers now working for U.S. corporations. Also on that board is Herbert S. Denenberg, Loman professor of insurance at the Wharton School of Finance and Commerce, University of Pennsylvania. Other academicians are also being sought as advisors.

In addition, Mr. Kloman point-



William Jones III

ed out, the firm will maintain objectivity by working on a fee basis only. No income will be derived from broker or insurance company commissions.

It is safe to assume that Risk Planning Group will be attempting to bring together two management concepts that for some reason have historically escaped each other. That is, financial management as an important element of risk management.

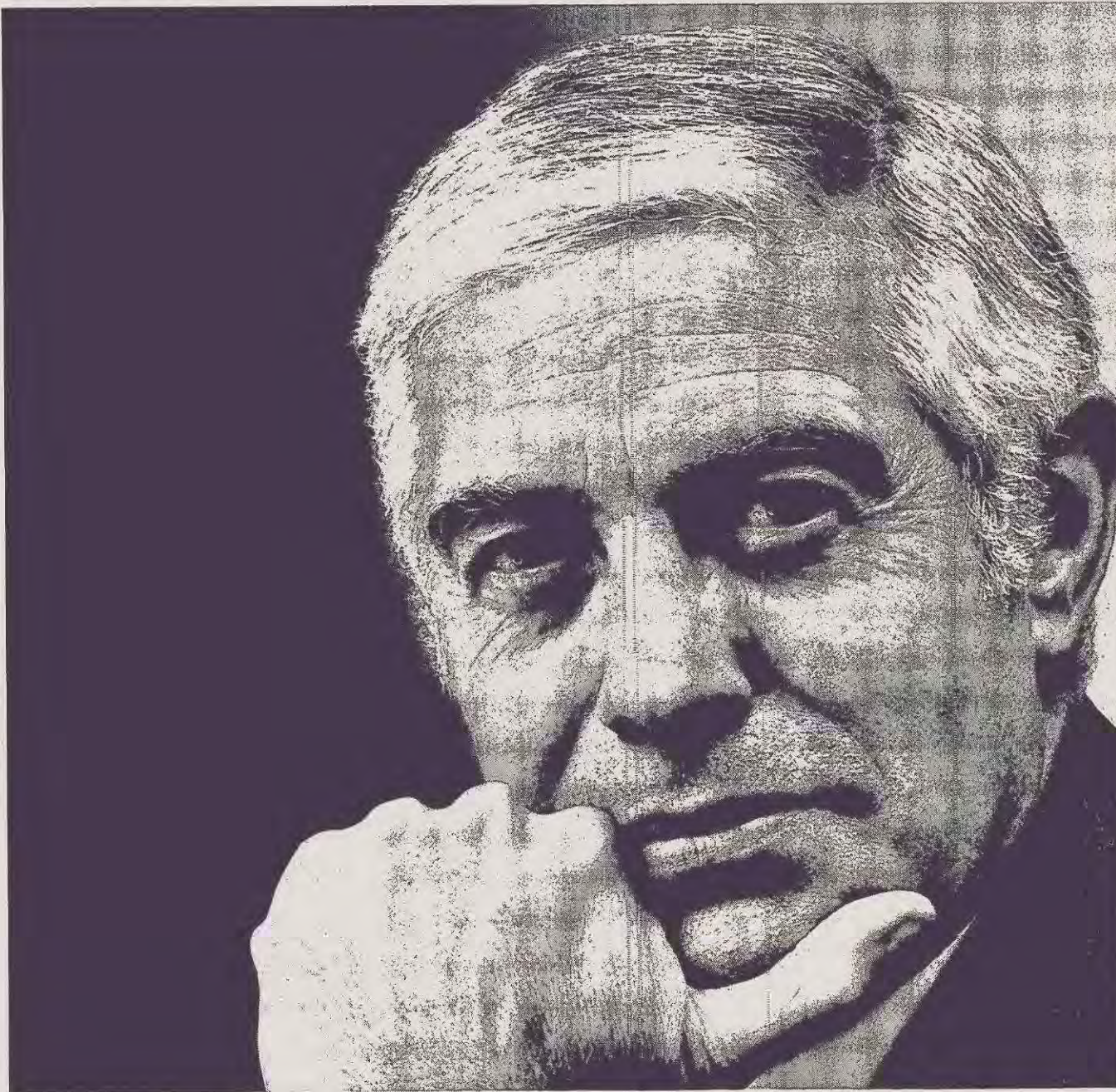
"Risk management is a function of financial management," Mr. Kloman declared, accenting it. "It makes no sense to divorce one from the other. Here, let me use an analogy:

"AN INSURANCE policy is nothing more than a line of credit under which certain sums may be used under certain conditions and for a certain fee (premium). Once you have accepted this thesis then you've got to look at insurance along with all the other financial media that are available to you.

"For instance," he went on, "I had lunch today with the treasurer of a small company that needed, or thought it needed, a \$15 million errors and omissions insurance policy. They were finding it impossible to get the first \$1 million of coverage. I suggested some method of funding for the first \$1 million.

"Then I thought about it. A \$15 million loss wouldn't put this company under. Their maximum

Continued on page 33



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Blue Cross official asks management to stress remedial approach

CHICAGO—The voice of management, and employe benefit management, will be "a fundamental influence" in whatever shape a national health scheme might take in the future, according to the head of the Blue Cross Assn., who urged management to support the "remedial" approach to improving that system.

"We are capable of delivering the finest health care in the world," said Walter J. McNerney, president of the Chicago-based association that represents the nation's 75 Blue Cross plans. "But," he added, "we are not putting the pieces together in a way that makes sense to the consumer and this is a problem of bringing management know-how to a field that has been dominated too long by clinical considerations."

Mr. McNerney spoke to the annual American Management Assn. employe benefits and insurance conference at the Drake Hotel here.

Mr. McNerney spoke of several "myths" being fostered on the public regarding medical care. However, he did admit that the present health system "is so fragmented that it is not a system at all."

THE BLUE Cross Assn. official declared that "it is now time to enunciate national health goals so that the billions (estimated by him to be in the neighborhood of \$70 billion annually) we are spending are channeled into the most productive channels.

"For the cost of one heart transplant, which leaves the patient with a dubious future, we could put a student through medical school," he said, adding that such alternatives suggest the tough questions that must be confronted and they call for the establishment of priorities at the highest level of our national government. "The magnitude of the job to be done is beyond the capacities of the public or private sectors alone. It will require the concerted efforts of both sectors."

Speaking of the many national health schemes being supported and opposed by differing interests, Mr. McNerney said:

"As I see it, none of the current national health bills now being discussed will be passed in their present form," he said, noting that he was not in favor of any of them. "Our current health care system is simply not geared sufficiently to health and the inadequacies are becoming too much to bear in emotional and economic terms. The infusion of professional management can redress the situation."

THE BLUE Cross Assn. head said that for any proposed system to work it should consider eight basic criteria. They are:

- Provide access to all Americans, rich or poor;

- Provide for public and private financing;

- Permit consumer choice of different types of providers, such as group practice, prepaid plans, private insurance and private physicians;

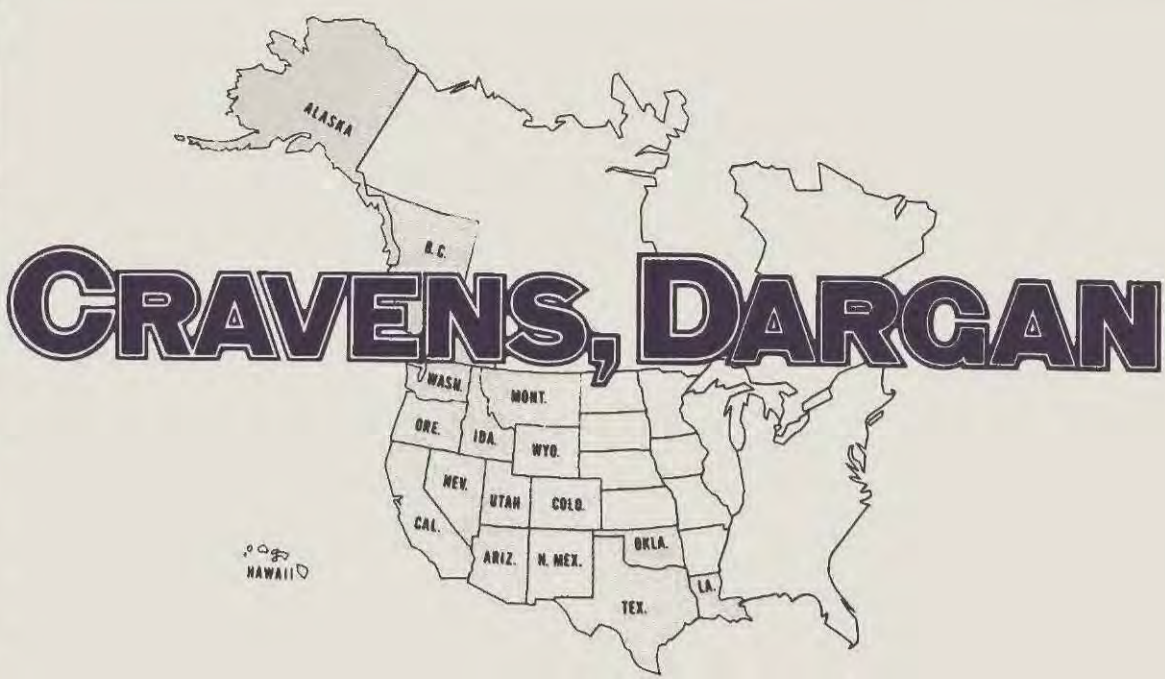
- Earmark funds to promote a more efficient delivery system;

- Encourage innovation and change through incentives;

- Provide economic and professional motivation and satisfaction to health professionals;

- Provide for utilization standards and controls;

- Provide for consumer participation at all levels. ■



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Apple claim no good

Damage claims for sonic boom "shake-up" after the Concorde 002 made trial flights over Britain recently included a farmer who complained that it had made all the apples fall off his trees, and a Scotsman who sought payment for repairing ceiling tiles that fell off his bedroom. The farmer lost his claim, but the Scotsman won his appeal to get 60 cents for the tube of glue he used to put his house back together.

opinions

Beyond the election

WE WERE ASKED the other day to comment on the implications of the 1970 election results for the insurance industry and its customers. That's a tall order for anyone who hasn't got a clear crystal ball, but certain of the results have meanings that are not difficult to read.

Regardless of how President Nixon sees the philosophical makeup of the new Congress, the fact remains that Democrats retained control of both House and Senate and will, therefore, organize both bodies and head major committees. Several Congressional committees are already investigating and drafting legislation that will have a vital impact on the future of insurance and corporate insurance buying.

The massive reelection victory of Sen. Philip A. Hart (D.-Mich.) returns to the Senate one of the most persistent voices for reform of the insurance industry through federal legislation. Sen. Hart, who got 67% of the vote in Michigan, can be expected to continue his investigations and to press for adoption of federal laws in such areas as no-fault auto insurance and prohibition of artificial state law barriers against mass-marketed insurance.

Sen. Warren G. Magnuson (D.-Wash.), who was not up for reelection this year, can be expected to continue his Senate commerce committee investigation of other ills in the insurance industry including carrier insolvencies, a problem that some legislators feel should be tackled at the federal level through the creation of an insolvency fund to protect policyholders and claimants.

Another winner this year was Sen. Harrison A. Williams (D.-N.J.), chief sponsor of a federal occupational health and safety law now pending. Advocates of the bill say they will seek its passage as a "memorial" to Sen. Ralph W. Yarborough (D.-Tex.), an early supporter of U.S. occupational health and safety regulations who was defeated in the Democratic primary by Sen.-elect Lloyd Bentsen. Adoption of U.S. work safety regulations would have a major impact on a number of industries whose workers would get additional safeguards against work injuries and work-related diseases.

Reelection of Rep. John H. Dent (D.-Pa.) gives him another two years to press for passage of legislation governing vesting, funding and portability of pensions and profit-sharing plans.

It is difficult to draw accurate conclusions about the impact on insurance likely to develop from the turnover of 13 gubernatorial seats from Republicans to Democrats. Democratic office holders are typically more responsive to the wishes of organized labor which now wants legislation and regulation conducive to mass-marketed insurance programs which may soon become part of union contract demands.

There is, on the other hand, no strong evidence that insurance commissioners appointed by Democrats are any more vigorous about regulating the industry than are Republican-appointed commissioners. Strong commissioners in New York, California and Michigan are Republican appointees. Many commissioners come from some arm of the insurance industry, anyway, and can be expected to carry on in

business insurance

for buyers of employe, property and liability protection,
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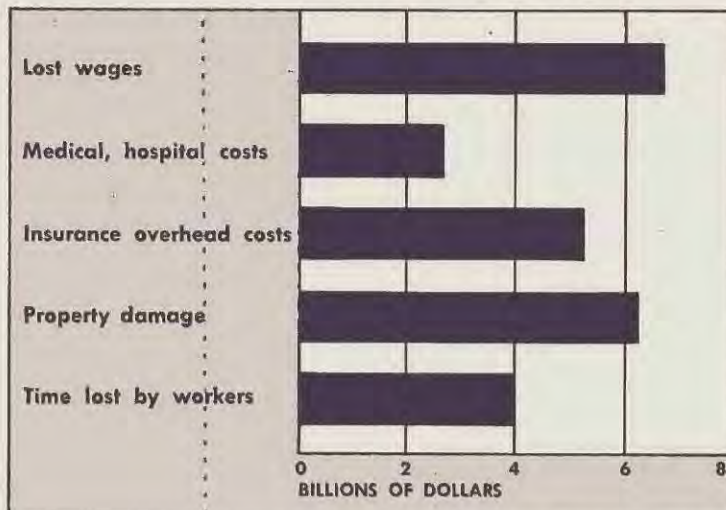
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COSTS OF ACCIDENTS, 1969



Accidents last year took a toll of \$25 billion, divided among categories of losses in this graph. "Time lost by workers" represents the money value of time lost by workers who were not injured but were indirectly or directly involved in accidents. The property damage figure includes \$4.3 billion lost in motor-vehicle accidents and \$1.9 billion worth of property destroyed by fire.

Source: National Safety Council

the established tradition of state insurance regulation.

One thing is clear: The election of 1970 did nothing to dampen consumer and legislative interest in looking into problems related to the insurance industry. If anything, those legislators who have evinced interest in such problems had their concern ratified by the voters.

Thoughts from the FBI

THERE IS considerable food for thought for corporate executives charged with preserving an insuring life and property in the annual report of the Federal Bureau of Investigation.

In almost every area of its wide responsibilities, the FBI reports increased criminal activity and greater demand for its services. On the positive side, the 1970 report reflects the continued effectiveness of the bureau in combating crime. It conducted investigations that resulted in 13,245 convictions, a 96% conviction record for those persons brought to trial. This conviction figure was up 18% over the previous year.

A look at some specific areas of the FBI's major criminal investigations reveals the importance of the bureau's work to corporate risk managers and the insurers who provide them with coverages to protect the value of property and life. Consider these items:

- Reported violations of the Federal Bank Robbery and Incidental Crimes Statute climbed to an all-time high of 2,786 during the fiscal year. Included among these crimes were 2,040 robberies, 592 burglaries and 154 larcenies. During the year the FBI located 641 fugitives in connection with these crimes.

- FBI agents have long been responsible for investigating certain crimes committed aboard American vessels as well as certain violations which deal with shipping. In this area, 33 convictions were obtained during the year and 22 fugitives were located. And, expectedly, an area of mounting FBI activity involves the investigation of crimes committed aboard aircraft, including aircraft piracy, intimidating or threatening members of a flight crew and its attendants, assaults, indecent exposure and certain other forms of misconduct. While the FBI gained 31 convictions during the year, it reported that fewer aircraft were hijacked to Cuba than in the previous year, but there was an increase in violent acts aboard aircraft.

- Embezzlements and fraudulent misapplications of funds of financial institutions regulated by the Federal Reserve Act and related statutes resulted in the fantastic total of 4,125 investigations of theft amounting to \$72.7 million. During the period the FBI gained 712 convictions for acts of embezzlement.

- More than 3,600 convictions were obtained under the Interstate Transportation of Stolen Motor Vehicle Statute. The value of vehicles recovered was more than \$52 million. Under the statute prohibiting interstate transportation of stolen property, the FBI recovered securities valued at more than \$21 million.

- Of special interest to us was the FBI's report on its activities under the National Bankruptcy Act, an act that should be applied to insurance companies which are now exempt from its provisions. "FBI investigations in this field continue to uncover instances of hoodlum intrusion into legitimate businesses for the purpose of fraudulently planning bankruptcies," the report says. "Once in control, the scam operators rapidly deplete the assets (of the company they take over)." We have reported on several instances of "scam" operations within the insurance industry, but unfortunately the FBI has no present jurisdiction over such cases.

- Pilferage, burglary, embezzlement, robbery and fraud involving interstate shipments engaged the FBI in investigations that resulted in 1,013 convictions and savings and recoveries of more than \$15.1 million.

The scope and effectiveness of the FBI in these criminal areas covered by federal laws obviously benefits corporate insured and their insurers. That's why the report is food for thought.

letters

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

Warsaw pact

To the Editor: In your article "Airlines must now seek war-risk liability cover" (Sept. 28), you mention that 85 international airlines operate under the Montreal agreement. Which well-known lines still operate under the Warsaw pact? Where do chartered airlines fit in?

Bernard L. Goldman

Wright Department Stores, Cleveland, O.

Editor's note: There are probably none that any American passenger would recognize, for all airlines that are licensed to touch down in this country must be signatories to the Montreal agreement. The same is also true of charter airlines. It would be well to remember when traveling on domestic lines overseas that the Warsaw pact applies in some cases, and in others it may have been modified by the Hague Protocol, which doubles the \$8,000 limits of the Warsaw pact.

When the question was put to an aviation insurance expert in New York, he said there is no substitute for a good travel-accident policy when traveling abroad. Liability judgments in this country are averaging \$200,000 per passenger—including men, women and children—and no international agreements have yet to come close to this in limits.

Revised information

To the Editor: With regard to your lead article (Oct. 26, 1970) concerning the Wichita State University plane crash either your publication or Pat Thomas of the Civil Aeronautics Board erred in the statement: "The only time an insurance requirement for air taxi operation is made is if the company has a special exemption from the board to fly larger planes." A "large" plane by CAB definition is an aircraft whose maximum certificated take off weight is greater than 12,500 pounds.

Under CAB part 298 economic regulation 574, effective July 1, 1969, the insurance requirements became mandatory for air taxi operators using light (under 12,500 pounds) aircraft as well.

Although the Wichita State Martin 404 was a heavy aircraft, most air taxi operations by far are in light single and multi-engine aircraft, and I feel your readers should be accurately informed on this important point of applicable coverage requirement.

Jay Lavenson

Vice President, Harlan Insurance Services, Philadelphia, Pa.

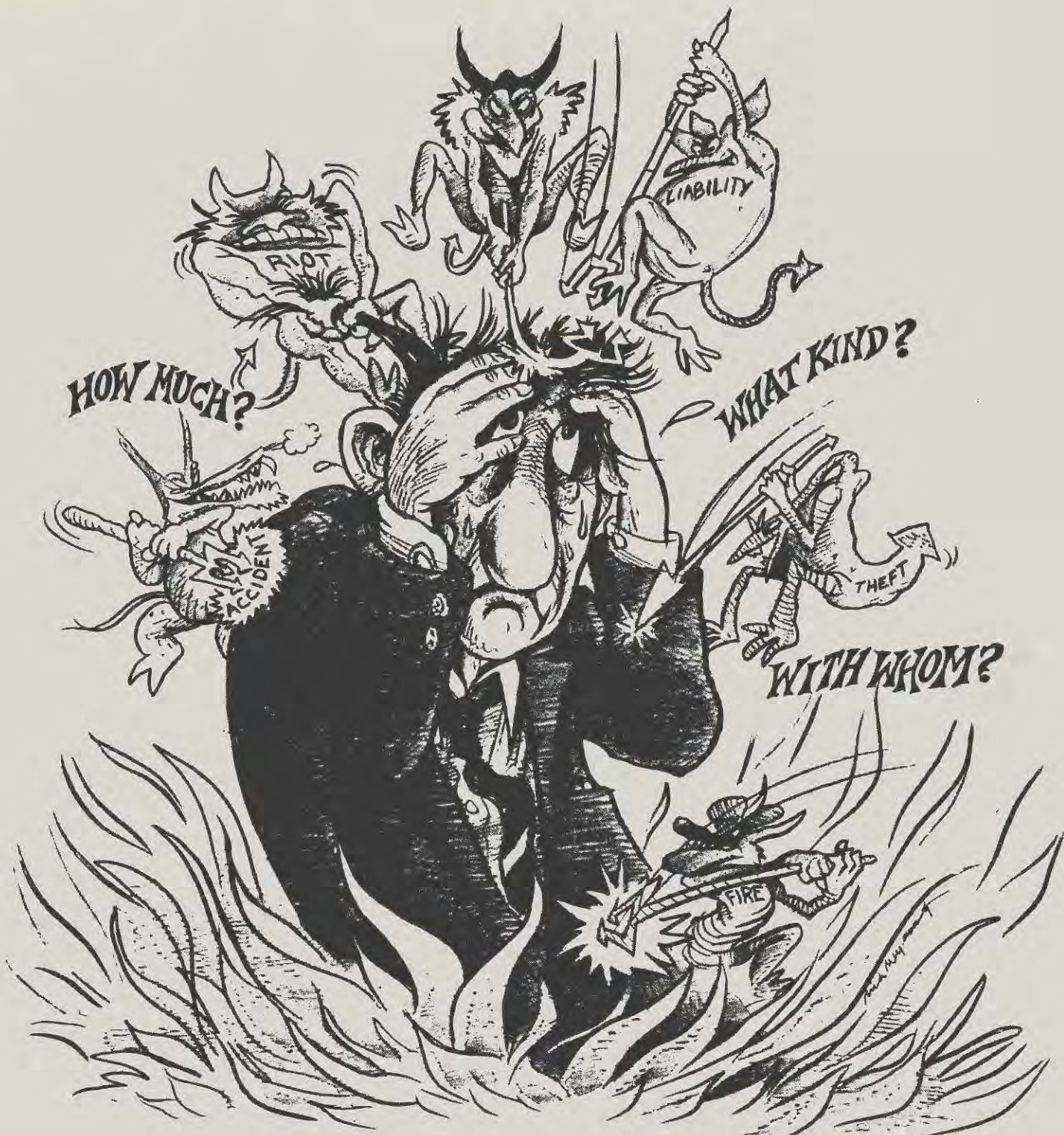
Updating information

To the Editor: We enjoyed the article by Charles F. Levinson that appeared in the Perspective section of the Oct. 12 issue of Business Insurance on "Pools: Why they exist; what they offer."

In the interest of updating your information on Improved Risk Mutuals, we should bring the following to your attention:

- Improved Risk Mutuals is now comprised of 17 fine mutual companies, the Merchants Mutual Insurance Co. of Buffalo having joined the group on Dec. 1, 1969. In addition to our member com-

Continued on page 30



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benefit tax slants

Tax Reform Act: A rundown on the more significant changes wrought

By JOSEPH S. ROBINSON

WASHINGTON—This is the first of three articles on some of the more significant changes brought about by the Tax Reform Act of 1969 and how it affects employe benefits. Subsequent stories will appear in *Business Insurance* between now and the end of the year.

Tax ceiling on earned income: One of the fundamental changes under the Tax Reform Act of 1969 could alter compensation patterns. It provides a ceiling of

the tax rate applicable to earned income. For the year 1971, this ceiling is 60%. For 1972 and later, it is 50%.

The new provision thus narrows the spread between long-term capital gain (which will have a top rate of 35%) and compensation. This could mean that high price executives may prefer more cash on the line in place of pay deals which tend to postpone taxation.

Pension and profit-sharing plans: Years ago, employe benefit managers developed a mix of

current and deferred pay for employes—particularly for higher income executives—as a tax antidote. Many consider pensions as a form of deferred wages if not a savings plan. And so if their tax advantages are materially cut down, the popularity of such plans can likewise be reduced.

What changes did the Tax Reform Act make with regard to qualified retirement plans?

Lumpsum distribution from profit-sharing or pension plans will be taxed differently. Formerly they were treated as a

long-term capital gain. But now, company contributions will be taxed as ordinary income when turned over to the employe.

The new rules only affect company outlays starting in 1970. Thus, that part of the payout which represents employer contributions before 1970 (and all appreciation and earnings on them), will retain capital gains treatment, as before.

There is a special favorable seven-year averaging provision which could help employes. Also, qualified plans can provide for annuity payouts in lieu of lumpsum distribution. In that way, the tax burden could be eased.

AN EXAMPLE of how the tax rules compare under the old and the new law follows:

Old Law: Mr. Johnson retired in 1969 and was paid \$500,000 under the company profit-sharing plan. Mr. Johnson could elect (\$250,000) in his gross income

and pay the tax at ordinary rates or he could choose the alternative tax and pay a flat 25% on the full \$500,000. Obviously, he'll pay whichever is lower—after doing some calculating.

New Law: Mr. Johnson retires in 1978 with a \$500,000 lumpsum payment from the profit-sharing plan. Of that amount, let's say \$100,000 represents company contributions for the years 1970 and after. Thus only \$400,000 is eligible for capital gains treatment. The \$100,000 is taxable as ordinary income. But in figuring the tax on \$100,000 Mr. Johnson can take advantage of the averaging rule which means that 1/7 of \$100,000 or \$14,286 is subject to tax. The resulting tax will then be multiplied by 7 in order to find the full tax.

Non-qualified deferred compensation: The long-term contractual deferred pay deal was developed pursuant to arrangement between the company and the employe. The corporation usually agreed to pay the executive a stated sum of money during a stipulated period of time. In return, the executive agreed that during this time period, which would generally start at retirement (when taxable income dropped off and the tax bracket would be lower) he would be on call as consultant and abide by other contractual conditions, such as not engage in a competing business, etc.

Then in 1960, Internal Revenue set forth guidelines for deferred compensation in Rev. Rul. 60-31. The Service stated that an employer and employe could agree, prior to the time the compensation was earned to defer compensation to a later date. The tax on such income would similarly be put off until the income was paid out. No conditions were necessary.

Prior to passage of the new Tax Act, the tax compensation plans were favorable to both company and employe—provided the agreement was not funded. Of course, the employe had to rely on the naked promise of the company. As a matter of practice, many companies would voluntarily purchase a cash value insurance policy on the life of the employe. The latter would not be hit with a current tax on the premiums; but he had no rights to the policy. The employer could not deduct the premium cost. However, the employe would be taxed at retirement at ordinary rates when he received payments in accordance with the agreement. (I.R.C. Sec. 61(a)). The employer received a tax deduction at the time payments were actually made (I.R.C. Sec 404(a)(5)).

BUT WATCH OUT! Deferred compensation could result in a bunching of income in one year unless the setup is carefully planned. In one recent case, the employer agreed to insure the employe for a large amount, the premiums representing deferred pay. When the employe subsequently quit his job, the employer turned the policy over to him. Result: He was hit with a tax on the cash surrender value of the policy in the year he quit. (Centre 55 TC No. 3).

The funded deferred compensation arrangement had different tax consequences prior to the new Tax Act. Here, the employer would back up his promise by putting money or property either in escrow or in an irrevocable trust. The company could take a current tax deduction for its contribution. But the employe's enjoyment of his security through the nonforfeiture of his rights was gained at the cost of a cur-

Continued on page 35

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Dentists are offered new cover

HARTFORD—The Hartford Insurance Group has announced DDS Pak (Dental and Dental Services Package Program) for the dental profession.

All dentists, regardless of specialty, are eligible for coverage.

It is noted that nearly 100,000 dentists worked in the \$3.5 billion dental services field last year. Moreover, because of the increase in the nation's population and growing concern for better health care, technology is improving.

In addition, unlike some programs that have been designed for various professional groups, the DDS Pak is not a single, rigid policy; rather it is a basic special multiperil program.

PROFESSIONAL liability for dentists and premises liability for dental offices can be insured in a single, combined form. The premium for this combined form is based on a single charge, which also includes coverage for additional interest of employees. Sole other charge is made for employed dentists.

Fire damage liability to \$5,000 is provided for practitioners who are tenants in a building. A single, all-risk form to provide insurance for the dentist's business property may also be included. This is the Hartford group's new dental equipment floater form. Replacement costs for dental equipment can be provided in conjunction with this all-risk coverage.

Partnership professional liability is another part of DDS Pak, on the provision that all partners participate in individual coverage. A personal umbrella contract (called Excess Indemnity Pak) can be added as an option under the DDS Pak.

DDS Pak is available in 36 states at present, *Business Insurance* was told.

Because of existing state laws, it will not be offered in Hawaii, Missouri, North Carolina, Oregon, Texas or Virginia. The Hartford group has filed for approval in the other eight states. ■

Could lose \$1.5 million

SAN FRANCISCO—This city's self-insurance fund may lose \$1.5 million if a court order stands, granting that sum to the legal firm of Lowenthal & Lowenthal for the firm's services in recovering taxes lost to the city through the misconduct of convicted former city assessor Russell Wolden.

Retired Court of Appeal Justice A. F. Bray who served as trial judge in the case, wrote in a memorandum opinion that his earlier award of \$350,000 to the attorneys was "not reasonable." Instead, Judge Bray declared, "the law firm should get a flat 15% of any tax monies recovered by San Francisco."

Since \$9,972,293 has been recovered to date, the Lowenthal & Lowenthal fee would be \$1,495,844. Another \$66,406 may yet be recovered and the same percentage would be applied.

When Mr. Wolden was tried for bribery and conspiracy in connection with under-assessment of San Francisco property, Morris Lowenthal filed a suit against the city, demanding that it move to collect the taxes lost through Mr. Wolden's misconduct. ■

**"When I was a kid,
I built a raft.
And it swamped."**



"This year, we'll place hull coverage on 587 ocean-going vessels," Dick Mittnacht says, "A creaky raft on a choppy lake was my first marine risk. The ones we handle now are bigger."

Dick Mittnacht helps run Johnson & Higgins' Ocean Marine Department. He may work on insurance for a 30,000-ton containership. A supertanker. Or a fleet of ocean-going tugs. Dick says, "Today's specialized ships are revolutionizing the shipping industry. They're getting bigger. The risks are getting more concentrated. You have to be a specialist to get these superships insured." What's true in shipping today is true in every other industry. Your own included. Johnson & Higgins has offices in major cities here and abroad. Call us. We'll make your insurance work for you.

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london line

Oil companies tighten security after threat of possible super-tanker heist

LONDON—Underwriters at Lloyd's have been given a secret warning that Middle East guerrillas may try to hijack a super-tanker.

It is reported here that major international oil companies are taking extra precautions against possible attacks of this kind. The warning has gone out to 70 members of Lloyd's Marine Underwriters' Assn, but it is stressed that it is mainly a precautionary measure, as it is assumed the oil

firms were alerted to such a threat after the guerrillas hijacked four airliners in quick succession, and have already put their security operations in order.

Suggestions that guerrillas may try to use a task force, complete with armed gunboat, in the Persian Gulf are circulating among insurance men.

LLOYD'S LIST, the daily newspaper published by Lloyd's for the shipping and insurance markets, quotes oil companies in

New York as confirming the reports, but adds:

"They are reticent to comment, as no one wants to draw particular attention to such a situation. One oil company says it has received enough hints from various sources to be pretty sure it is a real threat. People in the know are said to think it is a distinct possibility."

With tankers costing up to \$25 million, just as much as a jumbo jet, there is natural anxiety that

they could be the target for the next move by Palestine freedom fighters.

Both the American and British governments are reported to have warned oil companies to be on their guard for such an attack.

* * *

BRITAIN is expected to support proposals to impose strict liability up to an unbreakable \$100,000 limit on airline carriers at the Montreal convention called by the International Civil Aviation Organization for February of 1971.

During a symposium on this scheme at the Royal Aeronautical Society for lawyers, insurers and carriers, Judge Eustace Roskill said that if countries renounced the Warsaw convention it would be a disaster for world air transport. Lawyer Arnold Kean, from the government's trade department, agreed that airlines were pressing for an unbreakable limit

and that this was likely to be adopted.

It followed expensive settlements in American courts, where heavy compensation could be claimed, he said. But he urged that money awarded in damages ought to go as far as possible to accident victims and should not be largely swallowed up in legal costs if this could be avoided.

* * *

DETECTIVES were called when Lloyd's of London got a sudden \$3 million dollar ransom demand for Aristotle Onassis and his wife Jacqueline.

They found that the pay-phone caller, John Humphreys of Cornwall, England, had a delusion that he could harness magnetism to produce unlimited energy to help humanity.

He wanted the shipowner to back his invention, and threatened to kidnap or kill him and Jackie unless the cash was handed over.

The threat was taken seriously by police, but Lloyd's insurance broker, John Newnham, of Lambert Brothers Insurance Ltd., helped them trap the caller after finding that he was trying to contact people handling the Onassis shipping line's insurance.

When Humphreys admitted in trial court that he had falsely pretended he was speaking for Greek rebels and that the kidnap plot was a fake, Judge Alan King-Hamilton decided the safest course was to detain him for long-term mental supervision.

* * *

MOVES TO REDUCE the risk-factor in the transport of nerve gasses have been recommended by Army scientists. They urge that military trucks should have only one vehicle carrying such gas when proceeding in convoy, and that not more than 60 lb of the deadly gas should be carried at a time.

The safety measures follow governmental inspection of a nerve-gas production plant in Cornwall, which sends the gas 150 miles across Britain in trucks to a biological research centre at Porton Down.

But scientists are satisfied that sea pollution off the Cornish coast is unlikely to be caused by the production processes, which have special safeguards for waste disposal arrangements.

* * *

SECURITY MEASURES to stop hi-jackers boarding international jet-liners at London Airport have cost \$3.5 million since the bomb-scares threatened airlines two months ago.

The cost is being borne partly by the State-controlled British Airports Authority and partly by airlines using the airport.

Every British Overseas Airways Corp. aircraft leaving London is now equipped with a portable screening device for checking passengers.

Scotland Yard has provided special "anti-hijacker" squad at public expense to supplement the 200-strong security force run by the airport.

Canadian Transport Minister Donald Jamieson praised the security measures adopted in Britain and said some of them might be followed-up in Canada.

* * *

FIRE INSURANCE rates for many British business firms are being raised by 10% so as to cut out long-term underwriting losses. The changes will come into effect at the start of 1971 and are already causing risk managers to review their commitments. For they are being advised that if they can show better loss-prevention measures, then

Continued on page 26



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We have been so busy "growing" during the last ten years I must confess we have not done a top grade job of over-all communications. A series of letters in this space will tell you who we are and what specialty classes we recommend for making money and increasing professionalism in the decade ahead.

W & A with all of its branches and correspondents in every state is part of HOWDEN'S, a London based international organization which dates back 150 years to 1821 when Alexander Howden travelled down from Scotland and started an insurance business. Today there is a world-wide network of 1400 employees with insurance activities in every country: countless reinsurance treaties, capacity arrangements for property, casualty, marine and aviation, underwriting agencies, company operations, management of Lloyd's syndicates, placement experts in every field.

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B.J. Daenzer
President



A MEMBER OF THE HOWDEN SWANN GROUP

Niggeman: Are 'super risks' in public interest?

CHICAGO—For an industry that has faced some husky line-backers in recent months, and stayed pretty much on the defensive throughout, Louis W. Niggeman, president of the Fireman's Fund American Insurance Cos., did manage to pull off one offensive play here the other day.

He questioned whether companies contributing to the "super-risk" problem were really acting in the public interest.

In a speech to risk managers attending the American Management Assn.'s annual conference here, Mr. Niggeman did point his finger at a few corporate insurance consumers when he said:

"Is there a point beyond which the economic benefits gained by further concentration of values are outweighed by diminishing social returns? Does a business act in the public interest when it creates a 400,000-ton tanker, thereby exposing a tremendous amount of natural resources in ship and cargo loss in a single stroke?"

"INSURANCE can never replace those resources. In view of society's concern for preserving the environment and its resources, I submit that these are questions that managements must ask themselves. And if they don't, it is the risk manager's duty to ask them," the San Francisco-based insurance company prexy asserted.

Mr. Niggeman also questioned some current risk management practices.

"We find many shortcomings in our surveys of risks: poor house-keeping, badly designed buildings from a fire prevention or control point of view, improper placement of hazardous operations, lack of ongoing safety programs," he noted.

Defending the insurance industry's rating and pricing methods, Mr. Niggeman blamed the auto insurance situation for most of the problems and public outcries.

NOTING THAT auto insurance was an industry "loss leader," Mr. Niggeman told his audience, "I would guess that some of your companies have, at one time or another, used loss leaders as a means of generating profitable business. But how many businessmen can use their major line of business as a loss leader year after year and expect to continue to support other product lines? It just cannot be done," he declared.

Touching on another frequent subject at sessions such as the one here, Mr. Niggeman said that he agrees with the feeling of those who believe there is no capacity "crisis" per se. "In a financial sense," he said, "there is no 'capacity problem.'" Rather, he noted, it is more of a marketing problem; that capacity is available but not everyone is

willing to pay the price. He did admit, however, that "there are several industries in which, for one reason or another, buyers cannot obtain all the insurance they require.

But, he added, "often insurance buyers are prone to equate the availability of insurance with the availability of insurance at their price. That can make quite a difference. Everyone likes to buy at the lowest price, but when the buyer's idea of the right price is below the level at which the underwriter can foresee a reasonable expectation of profit, there can be no sale—no capacity and no market—at that price," he said.



Risk managers must ask questions when their managements decide on developing a new "super-risk," said Louis W. Niggeman, president of Fireman's Fund.

Better benefits won at Peabody

STAMFORD, Conn.—Increased benefits and higher wage scales were won by members of local 265 of the International Assn. of Machinists at Peabody Engineering here.

The ratified three-year contract provides for a \$162 monthly pension for workers retiring after 25 years employment, nine paid sick days a year, new accident and disability benefits and a company contribution to the IAM Pension Plan of 15 cents an hour per employee.

Wages were increased by 19% and a new rate scale was set for 1972 ranging from \$3.13 to \$4.82 an hour.

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PACIFIC EMPLOYERS INSURANCE COMPANY / an INA CORPORATION company



Discuss big ship risks

Risk problems faced by world insurers over large ships were discussed at Lloyd's of London by delegates from the International Assn. of Ports and Harbors. They compared insurance rates and loss experience of tankers and dry cargo vessels, and examined the problems of premium rates for large tankers. A. L. King, director of marine terminals, New York Port Authority, and E. S. Olcott, New York Port Authority, were among the group of experts taking part in the discussions.

Risk management to be in first rank of decision-making: Harrington

CHICAGO—Frank G. Harrington is a man much in demand as a speaker these days. The vp of INA Corp. is also chairman of the Insurance Information Institute and as such has been kept hopping around the country by an industry that has lately learned it has an image to protect.

But Mr. Harrington was whistling a somewhat different tune the other day when he spoke to risk managers attending the annual American Management Assn. insurance meeting here. It is a tune that is being heard with increasing frequency these days, although there still appear to be many in the risk management profession who wish it were be-

ing whistled more by their top managements than by Insurance Information Institute chairmen.

"The insurance man," Mr. Harrington said of today's corporate buyer, "for too long has been the low man on the corporate totem pole. In the past, insurance has been a last consideration in most business planning and in business decisions. Tomorrow, it will be in the first rank of decision-making.

"**THE RISK MANAGER** will be increasingly responsible to advise his colleagues in management of the risks they run when they ignore a growing consumerism," Mr. Harrington declared.

"There is a militancy on the

part of buyers and users and the general public," he said, adding that the problem will not go away. "Our society is increasingly oriented to technology, increasingly dependent on the technocratic structure; increasingly critical of old institutions (the establishment, and in that I include the insurance industry) and moving toward new life styles. Product liability suits are now running at better than \$500,000 per year and they tell the tale of what all this means to businessmen in general and insurance men in particular.

"The day will come, if it hasn't already arrived," the INA vp went on, "when a plaintiff's attorney will address this question

to a defendant in a product liability case: 'Was your risk manager involved in the decision to produce this product?' You can write the scenario for that. And it's up to you to provide the happy ending," he told risk managers.

"There are many of us who consider that the risk manager will be the next important step in the growth of modern business management. The risk manager could be a tremendous influence in industry. He could be the catalyst: between all phases of product development from design through manufacture, quality control and the marketing cycles, right through the warranty period."

NOTING THAT SUCH responsibility might also have its rewards, the INA vp said that constructive management of risks, with the total company development, growth and success contin-

ually in mind, will also greatly enhance the risk manager's career. "Instead of finding that their career paths are blocked at a dead end in the treasurer's office, they will find upward mobility possible. All company presidents started some place," he asserted.

While consumerism, ecology and product liability are areas of vital concern to both business and insurance these days, Mr. Harrington said that there are three other often neglected areas that should be considered just as important functions of risk management. He referred to them as the "famous or infamous three A's—accidents, absenteeism and alcoholism."

The industrial accident rate in this country (2 million injured annually and 14,000 more killed) is appalling, he said. "Have we been too preoccupied with 'insurance' to think about safety?" he asked. "One of the cold facts that stares us right in the face is that it was Ralph Nader who aroused the country to safety dangers in automobiles; it was plaintiffs' attorneys who were inquiring about company safety programs. The insurance business has a lot of catching up to do," the vp declared.

Another "buzz word" in business and industry today is absenteeism, Mr. Harrington said. This too should be a concern of risk management, if only because absenteeism and tardiness contribute to shoddy and defective workmanship in products.

The third A, and one that is closely related to the first two, is alcoholism.

"**ALCOHOLIC** workers—or 'problem drinkers'—cost their companies \$8 billion annually in absenteeism, sick leave, wasted time and material and accidents," Mr. Harrington said. "Addiction, either by drugs or alcohol, is thought by many to have common causes. Drug abuse by employees is a growing problem and expensive to industry in turnover, absenteeism, poor work performance, higher insurance rates, thefts and blackmail. Thefts of tools, office equipment and goods amount to \$2 billion a year to support addiction," he said.

While industry is finally approaching the problem and while therapy does work in some cases, Mr. Harrington urged risk managers "to get away from the 'saving someone' approach. Get away from making moral judgements and get that word to your company president," he said.

In most cases, the vp said, there is only one way to deal with the chronic alcoholic and that is to fire him. He cited as an example a study done in a Boeing Corp. helicopter plant in Pennsylvania that revealed that 65 men on the production line "were identified as alcoholics. Boeing just couldn't afford that sort of thing," he said. ■

Higher wage-benefit packages in '70

WASHINGTON—The Department of Labor reported major union contract settlements, covering 5,000 or more workers, in the first nine months of 1970 produced an average increase of 14.7% in the first contract year for the total wage-benefit package.

In the construction industry, the Department's Bureau of Labor Statistics reported a 19.2% first contract year increase in wages and fringe benefits.



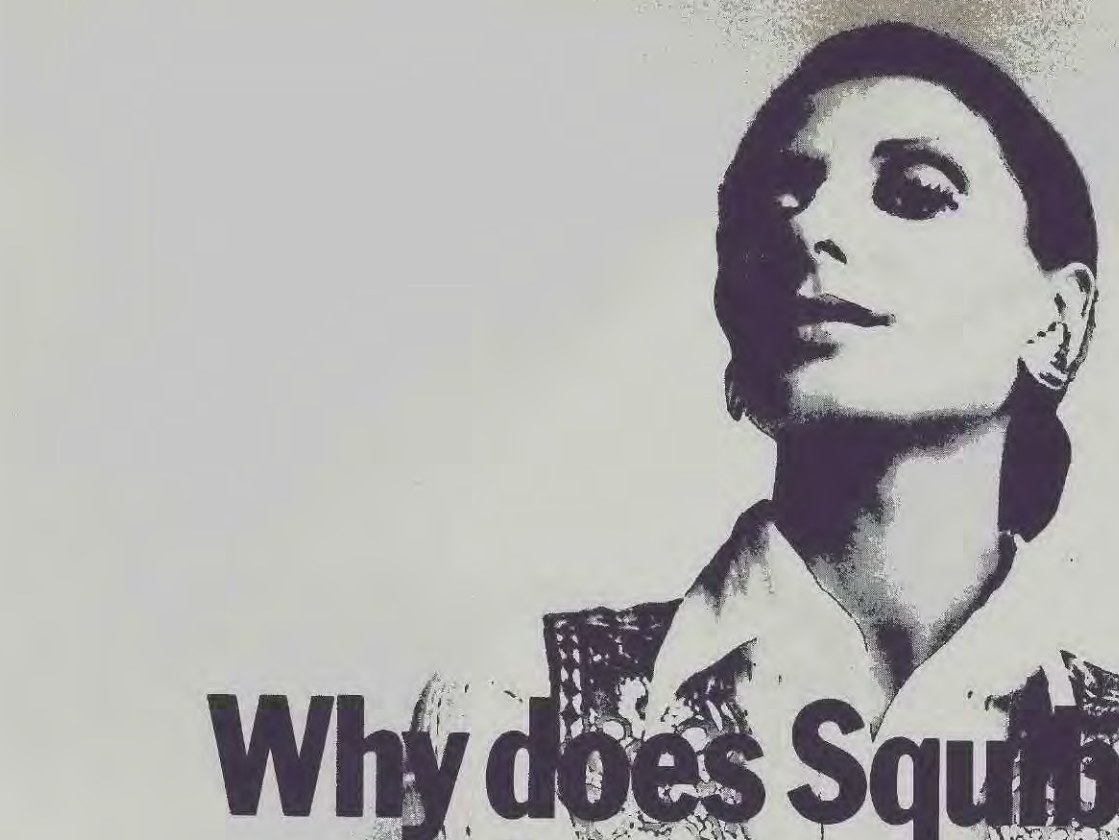
Too old to work... Too young for checkers

Compulsory retirement at age 45-50? Chemical control of aging that dramatically increases life expectancy? Developments like these will pose sweeping social, economic and medical problems. How to fill the leisure years? Who will pay the bills? Will there be a boom in retirement communities?

These are a few of the problems we're thinking about now. We're Marsh & McLennan, industry's leading employee benefit consultants. We've specialized in the complex, changing field of employee benefits for years, helping solve the equally complex problems that develop along with it.

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have their capabilities matched by an insurance underwriter who knew the local markets too, but from an insurance point of view. One that had experienced and knowledgeable people who knew their way around.

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tion that could match its operations wherever markets appeared that offered promise.

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Insurance buyers have misused a valuable product, AMA session told

CHICAGO—There are those who may have thought that the "uncapacity problem" would always be with them. But there were those at the American Management Assn. annual insurance conference here who dissected the problem and revealed some head-on ways of alleviating it.

Defining "uncapacity" itself, Waller B. Smith, director of insurance for United Air Lines here, said there are various types. The first, he said, is lack of capacity that results from a cost-price problem, such as that in the auto insurance field today. Auto insurance may need to be packaged and distributed differently but for this type of lack of capacity, he said, price alteration is a

feasible solution.

A second variety of uncapacity exists, said Mr. Smith, when the "tank really is empty." This is true of the earthquake market in California, which he gave as an example, where only so much coverage, and no more, will be written.

THE AIRLINE exec listed lack of capacity resulting from technological development as the last variety of uncapacity. Using the arrival of the 747 jumbo jet on the aircraft insurance scene as an example, he said that in such a case the "tank is not empty." Through flexibility—an industry supplementing market capacity for a short time and working

with the insurance industry to solve the problem—an infinite number of losses may be handled by the market if the size of those losses is limited, he said.

"It is difficult to assess how much effect the airline industry's pooling efforts had on the market," he added, "but there actually is enough capacity now to be generating some competition among certain segments of the market."

After setting forth the proposition that there is, indeed, enough financial strength among the policyholder surplus of property and liability companies to accept any exposure today, H. Felix Kloman, president of Risk Planning Group, Darien, Conn., suggested

three reasons for the uncapacity problem and the role of the captive in solving it. In 1968, he said, there was \$19 billion of policyholder surplus in U.S. companies, which would indicate that the market could have accepted \$1.9 billion of combined exposure per occurrence.

"Maybe you can shoot holes in that figure," he told *Business Insurance*, "but even if you reduce it to one-tenth of the amount it still proves that the requisite financial strength does exist."

THERE IS A LACK of capacity, he said, because access to the market is impossible under the present, outdated distribution "nonsystem;" the agent-broker structure has been unable to mesh capacity with need. Underwriters themselves are not interested in accepting risks, he said and this is evident in their efforts to separate underwriting results from investment results. The

third reason for lack of capacity, as he sees it, falls on the insurance buyer. "Buyers have been misusing a valuable product," he said, "and have generally been unwilling to absorb losses they could well afford."

"**INSURANCE** is a source of financing akin to a line of credit," Mr. Kloman told AMA members, "and over use of either is bad. Corporations must determine what risks they can accept—and then accept them." This, he believes, will lead to the growing use of the captive insurance company.

He cited statistics that back up the captive trend: Of the 4,800 insurance companies operating in the U.S. today, more than 400 are subsidiary insurance companies. He also predicts that in the not too distant future all 500 of the top corporations in the country will own at least one captive insurer. Some insurance companies he added, already offer adjusting and loss control services to captives.

The four types of captive, and their purposes, he said, are:

- The pure captive, which accepts all, or a portion of, the risks of its parent only.

- The association captive, which underwrites the risks of the members of its sponsoring group.

- The senior captive, which continues to serve the parent company but has expanded to cover other risks as well.

- The out-and-out insurance subsidiary, which operates as a profit center for the parent company. Companies in this category may evolve from the pure or senior captive or be purchased outright.

There is a place for captives, he said, and they can alleviate the current situation because, no matter how small the amount, they do increase capacity and they are interested in accepting risks.

Captives, said Mr. Kloman, will provide tax-deductible premium payments for their parent companies. They can be used to give coverage in foreign countries where local insurance is required by law. They will leave the insurance industry free to provide catastrophe coverage only. And one of their most important services, he emphasized, will be to provide better cash flow, through investment income benefits, to the parent company. ■

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British firms fight toxic air problem

LONDON—Vigorous efforts to reduce the number of industrial deaths caused through toxic pollutants are being made by factory plant inspectors throughout Britain.

The nation's industrial safety chief, W.J.C. Plumbe, reports: "Because for some groups of workers the risk of injury or death from industrial disease is much greater than that from accidents, at least as much effort must be put into the control of toxic contaminants in the atmosphere as into the elimination of the physical cause of accidents." Mr. Plumbe cited pollution of workroom air as an important example of the dangers which must be combated. And noted that they are so insidious that workers are sometimes unable to protect themselves properly, and they have effects that are often cumulative over long periods of exposure.

Helicopters used to curb British hijackings

LONDON—Helicopter "eyes in the sky" are helping security men to combat the menace of truck hijackings in Britain.

They are being used extensively to search for stolen vehicles which are carrying particularly valuable loads. As soon as such trucks are snatched by hijackers, warning messages are flashed to central points which they are likely to pass.

Pilots take off to look for the missing trucks, radio their "spotting" back to Scotland Yard or other security H.Q. and hover over their targets until highway patrol policemen grab the thieves.

THE SCHEME RANKS high among loss prevention measures now being used by the Road Haulage Assn. to cut down trucking thefts. But the secret behind this airborne security success is that lorries with high value consignments carry a special symbol on their roof.

Thieves are unable to notice this on the ground when they grab the truck. But to their chagrin it is easily identifiable from the air by the helicopter-borne watchers.

Police praised this and other security measures adopted by the association when they sponsored a "Hands Off Freight" week in Britain recently.

Chief Detective Inspector Alastair Thompson, of Scotland Yard's Crime Prevention Squad, declared: "The transport industry has now got to grips with the problems of truck security. Arrests of lorry thieves and handlers of stolen goods are higher than ever before.

"THE DAYS OF THE lone freight driver, trundling round the country with valuable cargo neatly stacked ready for thugs to take it away, are nearly over.

"Vulnerable loads are now being escorted by radio controlled escort vehicles in convoy. The crime 'barons' are being squeezed out themselves through the growth of our intelligence department at Scotland Yard which is keeping files on them every day."

The biggest praise for truckers came for the voluntary scheme operated by the Road Haulage Assn. itself in tracking down stolen loads.

An association spokesman told *Business Insurance*.

Seafarers get benefits

NEW YORK—Some 28,000 seafaring members of the Seafarers' International Union of North America are \$100 a month richer (in benefits and wages) with the signing of a new contract last month between the union and its contracted companies operating on the East and Gulf coasts as well as in the Great Lakes.

Wage improvements averaged \$30 a month across the board. An additional 15 cents per day for each man at sea will be contributed by the contracting companies to the Seafarers' Welfare Plan. An SIU spokesman indicated that this increase was largely earmarked to offset the increased cost of current health benefits provided by the welfare plan.

Highlighting the new contract settlement is an additional funding agreement between the union and the various contracting companies that enables the establishment of a full pension after 20 years' service at age 55. ■

"WE CALL IT THE Vehicle Observer Corps, or VOC for short. It is comprised of members of the Road Haulage Assn. and the Freight Transport Assn. who voluntarily scour the streets in their hometown areas when trucks belonging to other members are reported stolen.

"As soon as an observer sees a missing truck, he telephones information to the police. Haulers are sick of victimization by thugs, and this scheme has produced consistently good recovery re-

sults."

Under the recovery scheme, now in its eighth year, registration numbers of stolen vehicles are flashed to a VOC control point by the police precinct to which a hijack is reported.

The control point passes the information to voluntary "group leaders," who in turn advise individual members so that they can search a predetermined area for the stolen truck.

THE PLAN WORKS so

smoothly that within a very short time there is a VOC "good neighbor" patrol along every street in the district.

Thieves find that they cannot move their illicit haul out of the area, and even if they do, there is a VOC message on its way to out of town areas as well before they can get there.

Lorry hijackings are being cut by 50% in some areas as a result of security measures like this.

Thousands of road operators who took part in a special drive

for vehicle security displayed Hands off Our Freight stickers on their windshields, and distributed risk-prevention leaflets to their drivers.

The security drive ended with a special rally for truck drivers so they could watch helicopter guardians at work. Crime prevention police officers, insurance managers, and trucking firm owners joined the rally. There were also prizes for truck drivers who showed special interest in the attempts to beat thieves. ■



Sony Video: The "Eye" of Hurricane Camille

In August 1969, Hurricane Camille whipped her 200 mile-per-hour winds through the Gulf Coast with nearly total destruction. She spawned 100 tornados, flooded lowlands with tides 20 feet above normal, and left 136 persons dead and 55 missing.

Covering the claims resulting from such a disaster would normally have required months of note-taking and interviewing by adjusters working 10-12 hours a day, seven days a week.

But Fireman's Fund American Insurance Companies' claims adjusters were able to make an immediate assessment and evaluation of damages through the use of Sony Video tape equipment. According to Thomas Rodgers, supervisor of Fireman's Fund's 25-man team of adjusters, "The video tape recording system provides more complete evidence than we have ever been able to acquire with still film and notes." And an executive in the company's San Francisco headquarters stated, "This is the closest thing to

being an eye witness. These tapes provide us with the immediate information needed to make decisions regarding large claims settlements."

Don't wait for disaster to strike before trying out Sony video products—get into the "eye" of the action now.

For complete details on how Fireman's Fund American has used their Sony equipment, not only for claims adjustment, but for training and total corporate communications, write for Application Bulletin 146.

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Giles on the law

Human blood gets product liability treatment by Illinois supreme court

By JOHN W. GILES
Attorney at law

WASHINGTON—Is human blood a "product" within the purview of products liability? The Illinois supreme court says that it is and hospitals would do well to examine this case.

An Illinois hospital performed a blood transfusion, using contaminated blood and was held strictly liable to a patient who contracted serum hepatitis. In answer to the hospital's argument that human blood was not a product, the court said the rule regarding products is not limited, and a supplier of mushrooms that

are neither cooked, canned, packaged, or otherwise treated, would be subject to liability. Although whole blood is not a manufactured article of commerce, it must be considered a "product" in much the same way as other articles wholly unchanged from their natural state and distributed for human consumption.

Was the blood transfusion a "service" or a "sale?" The fact that a hospital's principal function is not providing blood for patients, does not mean that it is not engaged in the business of selling that blood for the purposes of the imposition of strict liability. There is no real distinction

to be drawn between a blood bank, which provides hospitals with blood, and a hospital which in turn provides blood for immediate transfusion into its patients. Although a hospital ordinarily provides blood for transfusion purposes ancillary, and as a part of its total services, both it and a blood bank are entities clearly within the distribution chain of the product involved. (Ill. Sup. Ct.—*Cunningham v. MacNeal Memorial Hospital*—9/29/70.)

IN A DYNAMITE explosion case which occurred in Texas, the plaintiffs were awarded \$397,200, but the play was called back. The

court held that a manufacturer of dynamite was under no duty to warn all possible users of the inherent danger in handling superannuated dynamite, nor was it under a duty to see that such dynamite was removed from purchasers' shelves.

An Arizona manufacturer could not be charged with negligence in Texas for violation of an Arizona statute prohibiting the sale of dynamite that is more than 12 months old, because none of the dynamite was more than a year old when it was sold. The sale, anyway, occurred there. For this reason, Texas law should be applied. The explosion occurred while it was on the purchaser's truck, and those injured and killed were employees of the purchaser. The dynamite which did explode was 2½ years old. The court did say that misuse of a product is a recognized defense in a strict products liability action in Texas. As the result of all this, the judgment was reversed and

the case remanded. (*Doss and others v. Apache Powder Co.*—U. S. Court of Appeals for the Fifth Circuit—7/24/70.)

YOUR BUSINESS interruption policy is an important policy. Maybe it should be reexamined.

There was a suit in the District of Columbia under such a policy for loss due to restriction of business hours and sale of alcoholic beverages pursuant to curfew and municipal regulations imposed during civil disorders in Washington. The court of appeals held that the policy insuring against actual loss resulting from the interruption of business, when, as a direct result of damages to property adjacent to insured premises by perils insured against, access to insured premises was specifically prohibited by order of the civil authorities, did not cover loss from fall off of insured's restaurant business due to restrictions, which restrictions did not prohibit access to insured premises because of damages to, or

Continued on page 32

What can you do about the drug problem?



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

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

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

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

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Please send a print of your film, "It Takes a Lot of Help."

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London . . .

Continued from page 20

they may escape some of the hiked premiums.

There will be no increases for risks on premises where sprinklers are installed. But for some non-sprinkler factories there will be 100% rises, and "bad risk" industries like plastics will suffer heavily.

Risk managers in the Assn. of Insurance Managers in Industry and Commerce are complaining that they have not been consulted about the new premiums, which are being imposed by most large insurance firms. But Lloyd's will still negotiate its own rates, though these are likely to go higher to meet rising claims.

SHIPOWNERS who abandon safety precautions because they cost too much are being blamed for their lack of foresight.

Pilots who operate in the Manchester Ship Canal, Manchester, England, complain that the growth of low-flash cargoes in Britain in recent years is causing anxiety.

In a formal statement, they assert: "It would appear that there are a growing number of examples of economic pressures being applied to shipowners which cause them to abandon necessary services. Containment of costs and profitability must not be achieved at the expense of safety precautions."

WORLD LAWYERS have drawn up a draft treaty for dealing with aircraft sabotage at a meeting of the legal committee of the International Civil Aviation Organization after a month-long session in London.

They will submit it to an international diplomatic conference after it has been studied by the full ICAO council. The treaty calls for armed attacks on crew or passengers, or attempts to damage an airliner, to be regarded as severely punishable offenses by international law.

But they are still studying the legal issues of airlines boycotting any country which fails to restore hijacked airliners, crew or passengers to their own countries or departure points.

A possible hijacking treaty will be discussed at a diplomatic conference at The Hague in December.



Compare Kemper

Pre-retirement advice called an obligation and not an employe benefit

CHICAGO—A gold watch, a retirement dinner and drink, a pension check and a few hail, fellow, well-dones before sending an employe home to finish out his years is not nearly enough these days, according to a panel that sat here the other day discussing management's commitment to the retired worker.

Pre-retirement counseling has been called a new employe benefit by some more paternal companies that have instituted programs for their aging employes. Other firms, not so quick to jump into the personal affairs of employes, have avoided similar plans for that reason alone.

A panel of three on the American Management Assn. employe benefit conference program here, however, termed this a poor excuse for avoiding the pre-retirement counseling issue.

SAID ONE: "Pre-retirement counseling should not be considered an employe benefit these days, but an obligation of the company."

Nevertheless, said Dr. Marvin W. Veronee, reluctance of companies to snoop into their employes personal business is the single biggest roadblock facing the growth of counseling. "Many companies simply say, 'We just don't want to interfere in an employe's personal life,'" he said. Dr. Veronee is associate director of retirement studies in the Industrial Relations Center, University of Chicago.

Henry A. Wallfesh, director, Retirement Advisors Inc., New York, agreed. He noted that "unhappy retirees can do a lot of damage to a company. But," he added, "one happy retiree is a walking advertisement for a company."

According to Lee R. Polacheck, president of the National Foundation of Health, Welfare & Pension Plans Inc., Elm Grove, Wis., an employe who is about to retire must make four major adjustments.

The first is an economic adjustment. "Retirement usually means less income," he said. The second is a social change. "Friendships established at work must somehow be replaced or re-directed during retirement." The third is a psychological adjustment. "The importance of a man's life," he said, "especially in our society, tends to be measured by what he accomplishes in the work setting," and when he leaves this setting he must find

his accomplishments elsewhere. Fourth on Mr. Polacheck's list of adjustments is one that must be made because of health. "Retirement usually is accompanied by less physical activity and this, combined with the usual physical problems of aging, can easily become debilitating."

Pre-retirement programs which cost a minimum to fund, can help employes make these adjustments and "minimize the anxiety" of impending retirement, added Mr. Wallfesh. He also noted that such programs "keep morale high" and increase production in the years just prior to retirement. ■

EVERY COMPANY PAYS INSURANCE PREMIUMS: YES? NO!

A lot of companies pay these to themselves. Its called Self Insurance. Premiums on Workmen's Compensation and Public Liability can generate a flow of cash for your own use. Not somebody else's. There's no advance payment for primary losses



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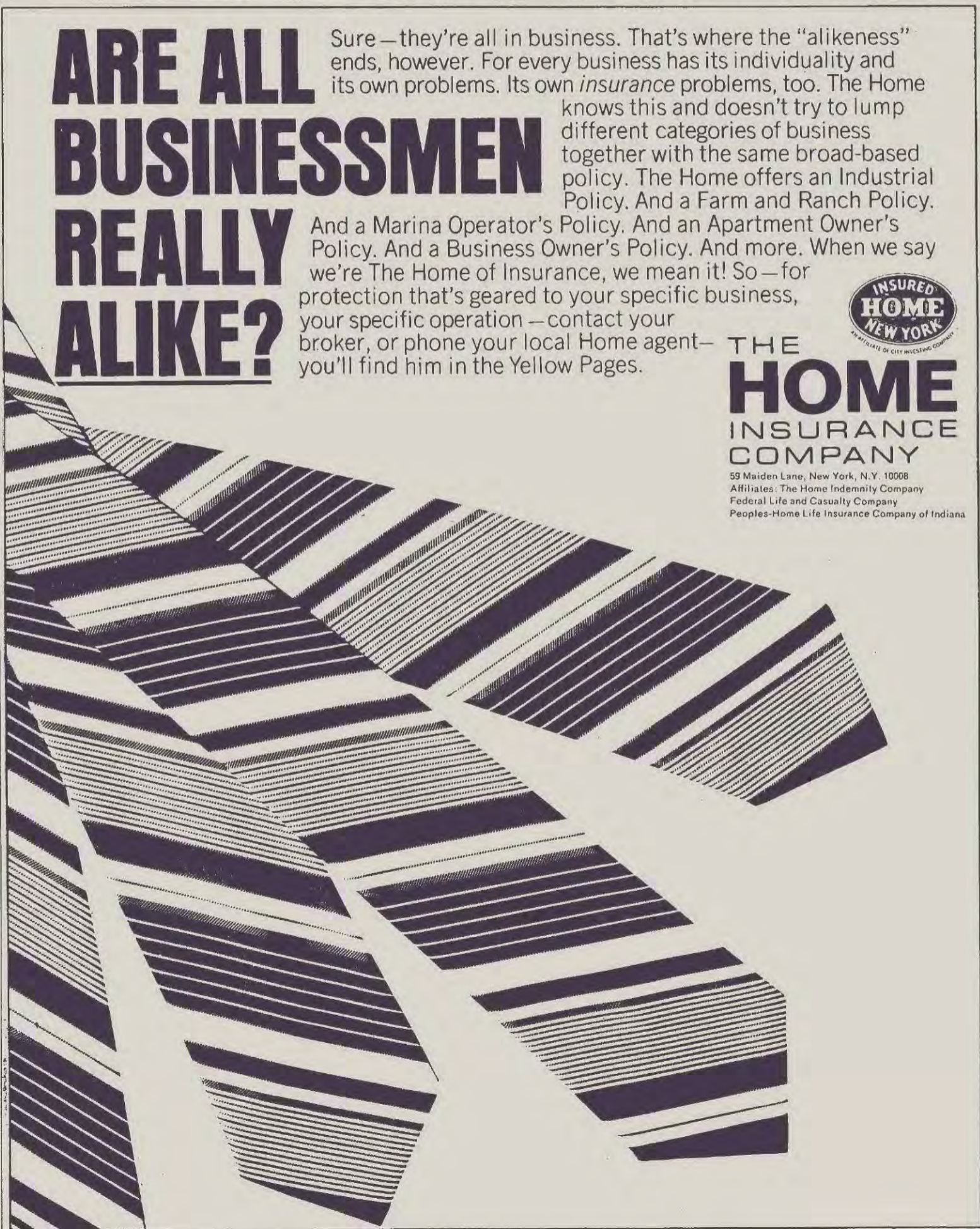
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Claims pregnancy discrimination

HOUSTON—A woman has filed suit here alleging the pregnancy policies of the Texas Employment Commission constitute sex discrimination in violation of the 1964 Civil Rights Act.

In a petition filed in U. S. district court here, Mrs. Mary Vick, 26, alleges TEC refused to refer her for employment in May when she was six months pregnant and ruled that she was ineligible for unemployment compensation.

Mrs. Vick, a mathematical analyst, laid off from another job because of a work force cutback, claims she had medical testimony that she was able to work. ■





Co-chairmen of AMA'S risk management sessions in Chicago were: John F. Bernick, Employers of Nausau; Edward D. Hansen, Trans Union Corp.; and Nils H. Munson, the Dow Chemical Co.

Sierra Club head sees more corporate suits

CHICAGO—The Sierra Club is said to be the foremost conservation group in the U.S. It is growing at the rate of 3,000 new concerned American members per month. Total membership is now about 40,000. They have been called—jokingly, of course, but with a tinge of seriousness—Green Panthers.

The president of the San Francisco-based organization is Phillip S. Berry, an attorney. Mr. Berry describes the major role of the group as a national backbone of legal prosecution. Defendants in actions the Sierra Club brings are environmental polluters. Most are corporations that no longer have the aid of insurance companies when they present their defense

or pay their award.

In a talk to risk managers attending the American Management Assn. conference here, and in a room polluted with cigar and cigaret smoke, Mr. Berry said, "From here on it's going to be more lawsuits, legislative campaigns" and other forms of action. About the only device that won't be used, he said after making a light remark about Green Panthers, is violence.

Mr. Berry said that in the near future he envisions laws being passed by all states that would set up some sort of standard legal requirement. "In exchange for the privilege of doing business in a state," he said, "every corporation would have to introduce adequate environmental controls."

In addition to pressures from both government and groups such as the one he heads, Mr. Berry also sees the labor movement as a driving force pushing environmental protection. "The labor movement may even bring the matter to the bargaining table," the conservationist noted.

In a warning to his audience, Mr. Berry said that he would "hazard a prediction that if socialism does come to this country, it will not be attributable to Marxism but because business failed in its responsibilities." ■

\$1.6 million suit alleges conspiracy

HOUSTON—A \$1.6 million damage suit was filed in federal court here alleging that a local car dealer and the Allstate Insurance Co. conspired to cause a wrecked auto to be poorly repaired and to prevent its owner from negotiating for settlement with the other driver.

Donald L. Holeman, and his wife Wanda, allege that their 1970 Buick, purchased from Marcus Jones Buick, was damaged at an estimated \$993 worth in an Aug. 9 mishap with Miss Diana Gene Cooper.

Mr. Holeman says in the suit that his own insurance, placed with the car dealer's agency, was handled through a company now in receivership and no longer making good its policies.

THE SUIT SAYS that Miss Cooper's insurer, Allstate, caused the car firm to repair Mr. Holeman's car for \$600 and now refused to pay that claim, preventing Mr. Holeman from using his car though he is still paying \$171 a month on it.

The suit claims that Allstate interfered with Mr. Holeman's right to negotiate for settlement of medical and damage claims with the other driver.

Also, that it interfered with his right to contract for proper repair of his car and that it attempted to coerce and force settlement of all claims.

Mr. Holeman alleged that this lessens competition and tends toward monopoly and causes discrimination toward persons in his situation when dealing with auto repair shops.

He asks real and punitive damages, trebled under the provisions of the Clayton Act.

Spokesmen for the car dealer and Allstate declined to comment on the suit. ■



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Fla. suit names three law firms in payments from floundering insurer

MIAMI—Florida's insurance commissioner has sued three law firms over "preferential payments" he claims were made to them by an insurance company in its death throes.

One of the three is the firm of State Rep. Carey Matthews, chairman of the Florida House Insurance Committee.

Insurance Commissioner Broward Williams charged that \$15,000 was paid by North American Guaranty Insurance Co. to Rep. Matthews' firm, Matthews and Mandina of Miami, shortly before North American was placed in receivership by Mr. Williams' office.

IN SUITS filed in Dade County (Miami) Circuit Court, Mr. Williams also sued the firms of Rosenblatt and Roemer, and Walters, Moore and Costanz.

The commissioner, who leaves office soon after losing an election, as receiver in Florida for North American Guaranty, which did most of its business in the state although it was based in Arkansas.

The suits demand that the three firms return \$37,833 given during the final four month of existence of North American Guaranty, which failed in 1967. Interest also was asked.

A state-driected audit in 1969 suggested that Matthews' firm had received \$28,648 in last-minute payments from the Miami-based State Fire and Casuaty Co., another troubled insurer.

MR. WILIAMS' office, however, has taken no action to recoup those payments made to State Fire, which went into receivership shortly after they were made.

Mr. Matthews said the payments to State Fire were far less than what his company was owed.

"Our billings were more than double what we got paid," he said. "If we had not continued to meet our commitments to defend the company it would have had to close earlier."

Rep. Matthew began his work with North American Guaranty as a representative of the S. Mort Zimmerman interests.

NORTH AMERICAN went into receivership after state auditors ruled that its stock portfolio, valued at \$1.8 million, was worth only \$290,672 as an insurance company asset.

Much of the disallowed stock was for Capital Bancshares Inc., headed by Mr. Zimmerman, who himself held controlling interest in State Fire later for a short period before its demise.

Rep. Matthews moved with Mr. Zimmerman to State Fire, where

he became a vp ad general counsel.

A single check to Mr. Matthews' firm, for the full \$15,000, is cited in Commissioner Williams' suit. It was issued on Sept. 5, 1967, a month before North American Guaranty went into receivership.

THE PAYMENT was "made and accepted at a time when the said attorneys had reasonable cause to believe that a preference payment would result because of said payments," said the suit.

Mr. Williams' suit against Rosenblatt and Roemer named Stanley Rosenblatt and David

Roemer individually. It also named three North American Guaranty employes, Thomas Harris, Sidney O. Stetson and Melvin Stewart.

It identifies Mr. Roemer as defense counsel for North American in Florida and as general counsel and secretary of American Equity Underwriters Inc., North American's managing agency.

Taking note of his offices, the suit charged that "he was in possession of such facts as to the company's financial status that he either knew, or reasonably

should have known, that the company was insolvent at the time of illegal transfers."

MR. HARRIS, as executive vp of North American, and Messrs. Stetsca and Stewart, as employes of that ifrm, were cited for signing checks to Messrs. Rosenblatt and Walters.

The third law firm—involving partners David W. Walters, Edward N. Moore and Sarino R. Costanzo—is accused of accepting \$5,164.14 during North American Guaranty's final four months. ■

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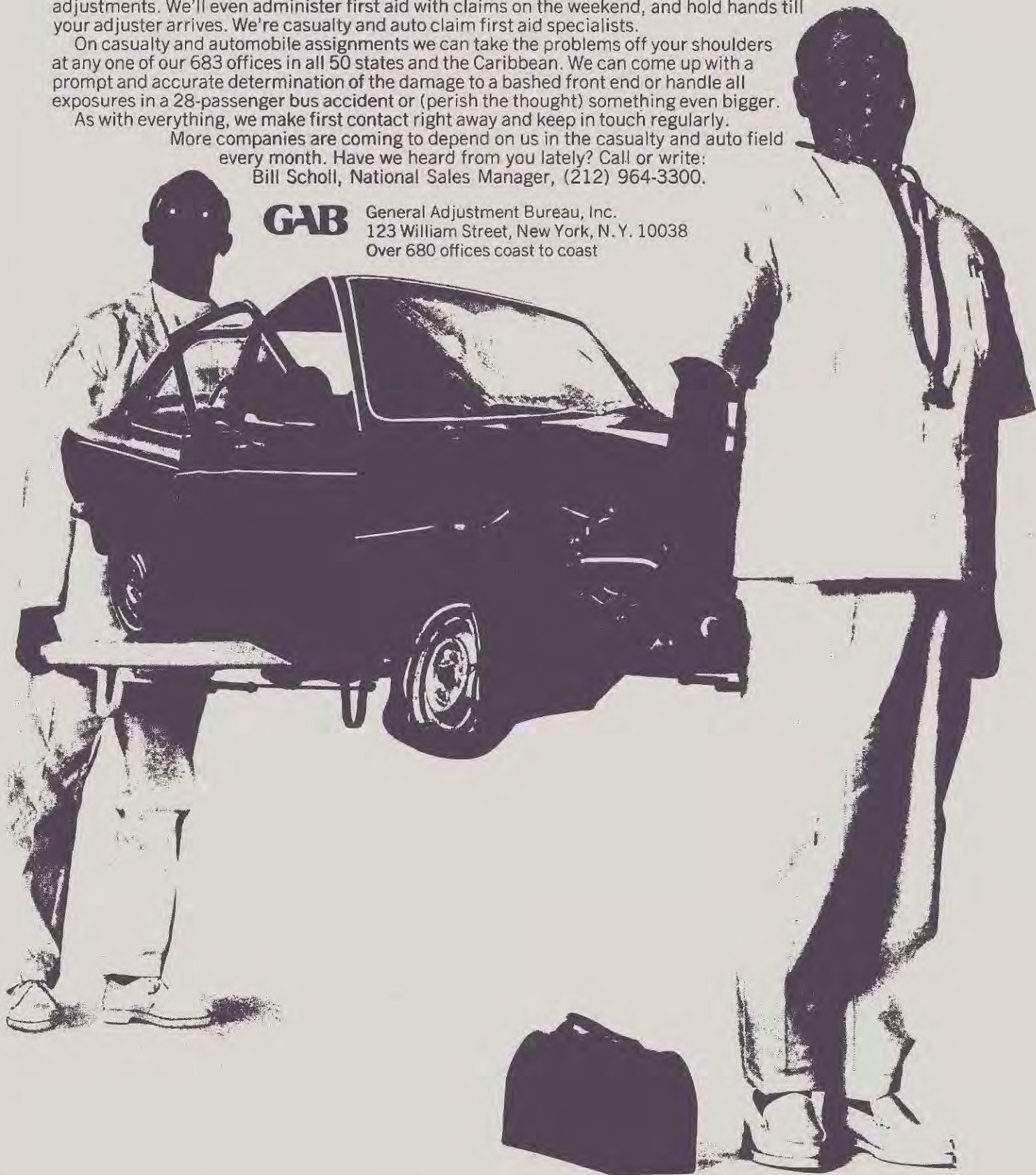
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Gas risk studied

Risk aspects of "natural gas," which is now being extracted from sea-bed sources off the coasts of Britain, are being explored by a government commission headed by Prof. Frank Morton, a chemical expert at Manchester University. He was asked to head the probe after complaints that this gas was as dangerous as gas manufactured by commercial processes, which have been in existence in Britain for many years. Natural gas is being fed to many users because it is cheaper, and there is a \$1 billion scheme in hand to expand its use throughout Britain.

Day-care, drug, rehab and vision benefits get scrutiny at conference

CHICAGO—The establishment of nationwide child day-care services should receive high priority from management in the future, according to Philip Farish, editor, Industrial Relations News.

Mr. Farish, George T. Welch, assistant secretary and director of rehabilitation, Insurance Co. of North America and president, International Rehabilitation Associates, Inc.; Samuel X. Kaplan, president, Pre-Paid Prescriptions Plans, Inc.; and Fred L. Beachler, president, Vision Institute of America, Inc., gave brief talks on leisure time, rehabilitation, and

pre-paid drug and vision care plans at the annual employe benefit and pension conference of the American Management Assn. here.

Mr. Farish said that management will be forced to provide child day-care centers for working mothers in large cities and in tight labor markets where women are a major part of the job force.

AS OF MARCH 1969, of 11.6 million working mothers over four million had children six years of age.

Although unions have ignored

this as an employe benefit, Mr. Farish said that management is thinking of the problem and a possible solution.

In a survey of companies of less than 100 employes to over 1,000 employes in a variety of areas, Mr. Farish said that 19% of the firms have had requests for day-care facilities, 4% of women looking for work ask if such a facility is provided and 32% of the firms' managements have considered providing it.

The survey asked if they felt there was much likelihood of an increase in demand for child-care centers. Of those polled, 62% answered yes (6% of this figure opposed the idea), 29% said no and 9% had no opinion, Mr. Farish said.

OF MANAGEMENT'S concern for rehabilitating disabled employes, George Welch said a more appropriate title for his talk

should be management's lack of concern for the handicapped.

He said that management's credo should be that there are no handicapped people, just people with varying degrees of ability.

Mr. Welch said that insurance companies and management have moral and financial responsibilities to people disabled during their lifetime.

He added that large disability payments were a disservice to the handicapped because they encourage such persons to stay home.

MR. WELCH made the following four recommendations in handling rehabilitation:

- employers must recognize that the most important benefit for an employe is the ability to work.

- no benefits or insurance program should be a deterrent to successful and complete reha-

bilitation.

- the architecture of a working place should not make the work area inaccessible or maneuvering embarrassing to the disabled.

- insurers and employers should cultivate in their own minds that the disabled, properly placed, are the most industrious and loyal of employes.

"Good business and caring for people are synonymous," he added.

Mr. Kaplan said there are two hard questions to be answered when considering prescription drug plans: is there a need for prescription drug benefit programs and is it economically feasible to fill that need?

MR. KAPLAN SAID that in the past 20 years the price of prescriptions had doubled. Moreover, doctors now write ten times the number of prescriptions they wrote before. Prescriptions now comprise 15% of the total medical expense.

There are two types of plans now in use: the service plan and the reimbursement plan, said the president of Pre-paid Prescriptions Plan Inc.

Mr. Kaplan said the reimbursement plan is the better of the two because it eliminates much of the administrative work and hence the cost of the service plan. In addition, it puts more responsibility on the employe to shop around for better prices.

When such plans are instituted, however, he said they should provide for the widest possible range of drugs and the maximum amount of treatment.

PRE-PAID VISION care, according to Fred Beachler, is a worthy benefit to consider because 20% of children entering the first grade have visual problems and 90% of adults over 50 have eye defects.

He feels that preventative and corrective quality vision care will be demanded by consumers in the 70s.

Mr. Beachler said that it would cost management approximately 2¢ an hour per employe to provide visual care and that it would be an immediate benefit management could point to.

Pre-paid vision care presently is considered a fringe of the fringes, Mr. Beachler said. But he added that since almost 62% of our society in the 25-35 age bracket need some form of visual care, a pre-paid visual care plan in the 70s would be filling a very definite need. ■

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For several years a member of Atlantic's Midwest Regional Advisory Council, Mr. Drew had ample opportunity to witness how Atlantic's readiness to accept change led to the acceptance of 8 out of 10 of the Council's recommendations.

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If quality and service are what you seek to help your business grow, write to LeRoy W. Drew, Griggs-Midway Building, St. Paul, Minnesota 55104. Or Mr. Harold A. Eckmann, President, The Atlantic Companies, 45 Wall Street, New York, N.Y. 10005.

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letters

Continued from page 16
panies themselves, we are associated with 15 subsidiary companies.

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- Our qualification standards are based upon our experience and actually contain no provision with respect to whether or not a particular risk may or may not qualify for coverage in the Factory Mutuals or Factory Insurance Assn.

We thoroughly enjoy your articles and if we can be of help

Continued on page 46

Communications—Risk man's burden, blessing

CHICAGO—The risk manager who works at being better informed about intra- and extra-corporate affairs will not only serve his company better and increase its profits but will also advance his own status along the way. Russell A. Drake Jr., director of corporate insurance and assistant secretary of Allied Supermarkets Inc., Detroit, presented guidelines for this advancement through good communications at the annual insurance conference of the American Management Assn. here.

Increased sophistication of risk management education has put the risk man in a position to relieve some of today's economic pressures on his corporation, according to Mr. Drake. The thorough insurance manager will become one of the most knowledgeable people within his corporation about the affairs of its financial, real estate, sales, construction, production, purchasing, personnel and legal departments, he said.

But before he can gain the information necessary from these departments to put him in an advice-giving position in the profit picture he must gain the confidence of his management.

SPECIFIC techniques that the Allied exec himself uses include personal contact with the heads of all departments. "Inquire as to their thinking on and handling of situations," he said, "and when they recognize your sincere interest, you have one foot in the door." Then, he added, you will get the information you need.

If a department head is particularly difficult to get through to, Mr. Drake recommends trying to reach him by going through his secretary. A line of communication must be established.

Mr. Drake is in touch with each division at Allied at least once a month to find out if there are any problems he hasn't been informed of and to keep the two-way flow of communication in the company open.

Another technique that gives a very clear overall picture of what is going on in a corporation is to become a signator to every appropriation request that is made, he said.

COMMUNICATION on an intra-corporation basis has to be established differently for every corporation, said Mr. Drake, but a method that has proved vital and successful for him is emphasis of Allied's insurance manual. "When I grant or deny a request I always refer to the section of the manual pertaining to it," he said. And through his reference others are forced to read and become familiar with it.

He has also set up a system at Allied whereby loss prevention notes and memos go out every time a problem arises so that departments are constantly aware of his department's current activity.

between himself and the management open, Mr. Drake said, "I provide my management with an annual insurance report, even though they don't ask for one." This keeps them acquainted not only with what he's doing but with why he's doing it, he told AMA members.

As a last form of good communication, helpful not only to management but also to the risk manager, Mr. Drake mentioned Allied's policy of annual review of long-range objectives for all corporate departments. These are reviewed by the chairman of the board, critiqued and then revised by the department heads to insure that there is no overlapping of work between departments. ■

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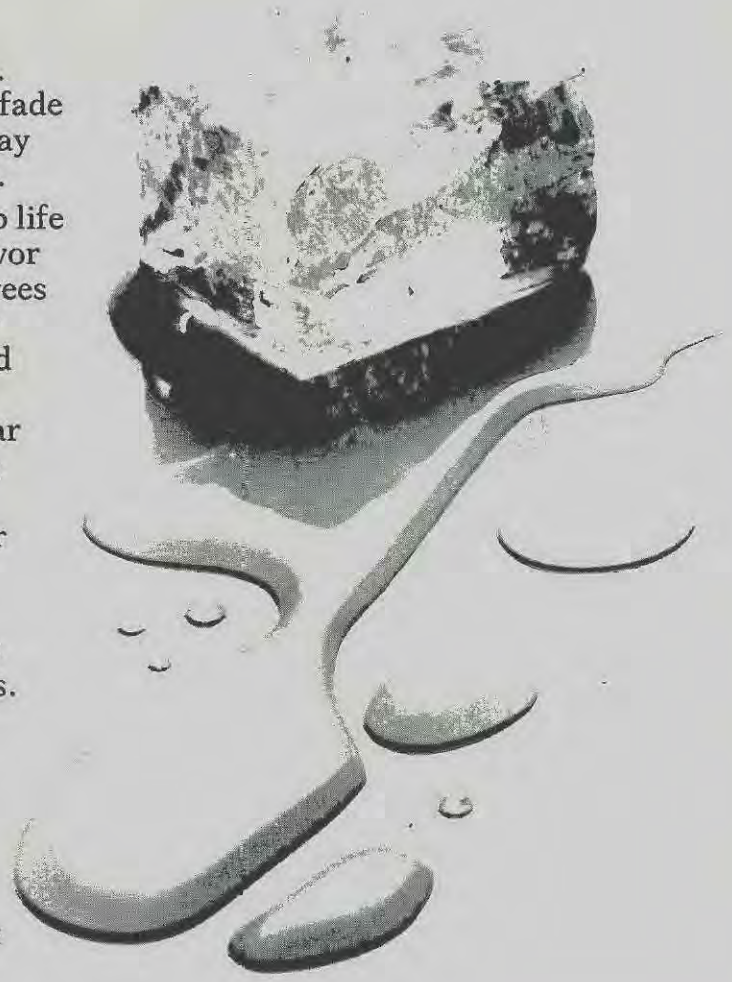
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Lloyd's new location

Lloyd's of London is moving part of its premises out of town for the first time in its 300-year history. New computer techniques will be adopted for its \$1.5 billion annual world premium income at its data processing building in the town of Romford, fifteen miles from its ancient City of London headquarters. The new location has just been opened by chairman Henry Mance.



OUR CONCERN IS PEOPLE

LIFE & CASUALTY

Giles . . .

Continued from page 26

destruction of, adjacent property. It was common knowledge that the disturbances were centered miles from the property involved. The court, in denying relief, pointed out that though the loss alleged resulted from the curfew and municipal regulations, these did not prohibit access to the premises because of damage or destruction to adjacent property. (*Judges Inn v. Liberty Mutual Fire Insurance Co.*—268 At. 2nd 611 8/70.)

WHEN DOES COVERAGE under a products liability policy arise? When does it commence to be effective as far as the product that is being manufactured is concerned?

At the time of the explosion the defendant manufacturer car-

ried products liability insurance and public liability insurance with another insurer. The manufacturer sent chemicals to another plant for grinding before shipment to the manufacturer's customers. The product was not then in its completed form. The explosion occurred in the plant where the grinding was taking place. The insurer contended that product liability insurance is intended to protect the manufacturer from liability to third persons after its finished or manufactured products have entered the channels of trade.

Since the explosion occurred while the product was being manufactured, the risk should be covered by public liability insurance. The Illinois court agreed with this contention saying that the controlling factor here is not that the manufacturer regards bulk chemical as a "manufactured product" because it is done with it, but that the chemical was

not yet a finished product from the standpoint of the ultimate user, nor had it yet entered the channels of trade or stream of commerce when the injury-producing incident arose. The manufacturer's market was for ground chemicals only, and sales of bulk chemical were negligible. Therefore, the bulk chemical was work in process inventory and not yet finished goods to which a product liability risk would reasonably attach. The accident occurred before the product had been placed in the channels of trade. (Ill. Ct. App. 1st Dist. *Swift & Co. v. The London & Edinburgh Ins. Co., Ltd.*—9/29/70.)

CAN YOU PROTECT your trade secrets from prying photographers in Texas? The U. S. Court of Appeals says, "Yes." The chemical company (plaintiff) here had developed a highly secret but unpatentable process for

producing methanol, a secret which the company had taken special precautions to safeguard. The area photographed from the airplane was the plant designed to produce methanol by this secret process, and because the plant was still under construction, parts of the process were exposed to view from directly above the construction area.

The court adopted the rule of the Restatement of Torts which says that one who discloses or uses another's trade secret, without a privilege to do so is liable to the other if (a) he discovered the secret by improper means or (b) if his disclosure or use constitutes breach of confidence reposed in him by the other in disclosing the secret to him. The Texas rule is clear. One may use his competitor's secret process if he discovers it by reverse engineering applied to the finished product, or by his own independent research, but he may not

avoid these labors by taking the process from the discoverer without his permission at a time when the discoverer is taking reasonable precautions to maintain its secrecy. The court concluded by saying that it realized that industrial espionage of the sort here perpetrated has become a popular sport in some segments of our industrial community. However, our devotion to freewheeling industrial competition must not force us into accepting the law of the jungle as the standard of morality expected in our commercial relations. To require DuPont here to put a roof over the unfinished plant to guard its secrets would impose an enormous expense to prevent nothing more than a school boy's trick. Judgment was for the plaintiff, DuPont (C.A. 5th Circuit. *E. I. duPont de Nemours & Co., Inc. v. Christopher*—7/20/70.)

THE FACTS are gruesome but the legal result is interesting in this workmen's compensation case.

The manager of a food store was discovered lying in a pool of blood in a walk-in freezer of the store. He was dead. He had been killed by blows on the head with a hammer owned by the store. The body of the assistant manager, who was in the store at the same time, was later discovered near his home.

The coroner's jury found that the manager had probably been killed by the assistant manager who later committed suicide. The Industrial Accident Board could not explain the death, but it did award death benefits to the manager's widow. Was this award proper?

The Idaho court reviewed the cases in other jurisdictions involving assaults on employees. It noted that these cases fall into three classifications. The first is where the assault is inherently related to the employment such as those arising out of work disputes. These generally result in compensation.

The second class is assaults which are inherently personal and private in their origin. These are generally not compensable.

The third class are completely inexplicable assaults, such as assaults by lunatics. The majority of the states do not grant compensation in this third class, because there is no proof of employment risk resulting in the harm.

The Idaho supreme court thought this a proper case for compensation since the injury was at work and could not be proved to be personal in origin. (*Idaho Sup. Ct. Mayo v. Safeway Stores, Inc.* 7/18/69.)

CRIS OF anguish from consumer advocates no doubt will be heard over the Supreme Court's decision March 16 not to become involved, or for the time being at least, in the automobile pollution controversy.

In a per curiam opinion, the Court affirms a district court's denial of New York City's motion to intervene in proceedings to determine whether the Justice Department consent decree entered against the major U. S. automobile manufacturers and their association is in the public interest, and dismisses for want of jurisdiction an appeal from the district court's refusal to consolidate a private action with the government's suit against the automobile manufacturers. (*City of New York v. U. S.* No. 1121, judgment affirmed 3/16/70; *Grossman v. Automobile Manufacturers Assn., Inc.*, No. 1122, appeal dismissed 3/16/70.)



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From potatoes to a dynamic \$200 million complex

Potato farmer Jack Simplot was already well-established in the business by 1930. That's when he began to diversify around the economy of the potato. He used its residue for cattle feed and launched large-scale feedlot operations. Today, J. R. Simplot Company markets over 200,000 steers and 70,000 lambs each year.

In the forties, Jack Simplot perfected dehydrating and freezing techniques. At present Simplot Food Division processes 2 million pounds of French fries daily.

Simplot has moved into mining, fertilizer production, poultry processing, and soil treating services. Sales of the Boise headquartered company have climbed to about \$200 million annually. And potatoes still provide the foundation.

Insurance to grow on

The Simplot complex includes a wide range of specialized activities. And each requires specialized handling

of workmen's compensation insurance. Jess Swan, president of J. W. Swan Agency, Boise, brought Argonaut and Simplot together in 1955. Today, a master policy covers over 5,000 Simplot employees coast-to-coast.

Hugh Larkin, Industrial Relations Manager for Simplot, sees it this way: "We keep growing in new directions, and our compensation needs keep changing. But whatever we do, Argonaut covers us—*carte blanche*. With their safety engineering help, we now have a 77% experience modification. That converts into a good many dollars saved when we renew our policy."

New directions of insurance needs

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Overseas: SAIGON, VIETNAM • BANGKOK, THAILAND

Kloman . . .

Continued from page 14

loss in the past 50 years was \$35,000 and it was only one of two losses in the past 50 years. The question I raised is: Do you even spend \$150,000 a year for insurance with this kind of loss experience?"

Self-assuming risks such as this one, Mr. Kloman and Mr. Jones both feel, is only one of the alternatives available to good risk management in the future. Others are captive insurance companies, pooling arrangements and negotiating lines of credit are others.

"MY FEELING has always been that insurance should be treated as a banking function," Mr. Jones said. "Why not negotiate a line of credit with a bank equal to the maximum probable loss at any one of the company's locations," the vp asked. The same might also apply to employee benefits, he added.

"In the case of employee benefits there are many alternatives to paying hard premium dollars for primary coverages. Maybe a company won't want to set up a captive, but why can't it pay some life insurance benefits, pension benefits, accident benefits and disability benefits out of operating costs.

"Take the area of pensions, for example," Mr. Jones noted. "I have always felt there has been a lack of communications between the investment manager, benefits manager and the actuary. Closer communications among the three could produce additional earnings to the corporation or benefits to the employees. By this I mean large and small corporations have not looked carefully enough at the factors used to produce a company's annual pension cost. I've found that interest assumptions and turnover assumptions should be discussed on an annual basis and, depending on the experience of the corporation and its pension fund investments, adjustments by the actuary should be made. These adjustments are not being made and its costing stockholders money." Both RPG principals agree that there will always be a need for reinsurance or catastrophe layers of coverage in the future. Moreover, they believe that these markets would be greatly enhanced if more companies would self-assume risks at the primary level. "This is where insurance companies are really getting killed," said one.

THE FORMATION of RPG has been a germ in Mr. Kloman's mind for the past five years. Mr. Jones has been batting it around for three years. The pair got down to the serious details a little more than a year ago.

Both men have been warned that it may be an inopportune time to go into business, but neither could disagree more. Said Mr. Jones: "I think it's an extremely fortunate time to get into it. Companies are looking at their cash flows and they don't like what they see. There are ways to cut corners on insurance costs. I'd even go so far as to say that with proper financial risk management we can save a company something in the area of 15% to 20% on insurance dollars."

Cowan named up

Ross Cowan, formerly resident secretary in charge of sales at Fireman's Fund American Insurance Cos., New York, has been named vp of underwriting and sales with the Whitehill Agency Inc., New York.

RPG is already working for varied companies in five states. Of two of their clients, for instance, one is a small printing company and the other is a major bank. The printing company account has them developing an overall and continuing risk management program. For the bank, RPG is accessing the viability of one of its subsidiaries in the insurance area. The company is also working with the University Insurance Managers' Assn., which is studying the possibility forming an insurance pool.

As for themselves, both Mr. Kloman and Mr. Jones are finding themselves in a pool of sorts after having left respected employers at successful points in their careers. It is not exactly a sink or swim proposition, for they are extremely optimistic of the potential financial risk management has to offer. Moreover, both are young enough (Mr. Kloman, 35; Mr. Jones, 32) to roll with the punches. ■

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Green Stamps: A benefit beyond the fringe?

NEW YORK—Sperry & Hutchinson naturally considers the giving of Green Stamps as an employee incentive benefit to be—well, the greatest thing since green stamps came along.

And with good reason, perhaps, for a growing number of U.S. companies have adopted trading stamps as a benefit that goes beyond the usual fringes. Redemption stamps are now being used, for example, to reward an employee for a job well done, increased sales, a good suggestion, a period of time with no accidents or practically anything an employee may do to earn an award.

The S&H incentive division, in operation for about nine years, is growing rapidly and contributes approximately \$25 million annually to the firm's coffers. Other

trading stamp firms (King Korn, for instance) have similar incentive programs, but S&H still remains the industry's jolly giant.

"We are active in many types of incentive programs, said Merritt Anderson, national sales manager for S&H's incentive division. "Many of the safety programs have paid their own way. Employee recruiting has come on strong recently but sales incentives are our biggest dollar volume. Suggestion and reduced absenteeism programs are also popular."

THE SMILING, pleasant Mr. Anderson then pointed out that his company had subsidiary incentive divisions, such as a travel award program, headquartered in Detroit, and a prize point setup.

"The travel awards are usually given to salesmen," he noted. "You know, the man with the biggest sales volume wins a trip to Puerto Rico or Mexico, that kind of thing."

Prize point incentives have been around much longer than have stamp incentives, according to Ephraim Glassman, operations manager for the incentive division. "The basic difference between a prize point program and a stamp program is the ultimate payoff," he said. "The employees accumulate points rather than stamps. They then receive a prize point check, which looks just like a bank check. They are given a catalogue, which is priced in prize points, and order what they want. It is a mail order redemption."

Mr. Glassman told *Business Insurance* that "prize points were the original way the business was done. They date back quite a few years."

He noted that the prize point concept had a few draw-backs, such as the length of time involved because of the mail ordering as well as the fact that people would rather go to a redemption center so they could actually see their prize before they got it.

ONE OF THE PRIZE point program's strong points is that "it is anonymous. If there is an anti-stamp feeling, like that encountered at some service stations, or the problem of conflicting stamps, you have to use a prize point program."

He explained that by conflict-

ing stamps he meant that if a grocery store gave trading stamps other than S&H to its customers, it would be difficult for a dealer to award the store's employees with S&H Green Stamps.

One reason for the burgeoning popularity of stamp incentive programs could well be their relatively low cost. S&H programs have been started for as little as \$150.

"The stamps cost the employer \$2.50 per 1,000," Mr. Anderson pointed out. "It takes 1,200 stamps to fill a book."

HOWEVER, Mr. Anderson felt that there was more to it than merely the cost factor. "Let's be realistic," he said. "You'd insult a guy if you gave him a two-bit piece at the end of the week. You give him 100 stamps and it's a different thing entirely. Most of those rewarded would know that it takes \$120 in retail sales to get enough stamps to fill a book. That way 100 stamps have much more value than their actual monetary worth. They just look good."

There are even more reasons for the growth of the concept. "Families can combine their stamps because of these programs. The man can bring his stamps home from work and give them to his wife, who probably got some while she was shopping. They add up," Mr. Anderson noted. "Also, cash has no identity. It goes into the budget, or somewhere and you don't see it. Stamps, on the other hand, are turned into merchandise which has a more lasting impression."

Whatever the reasons, Sperry & Hutchinson Co. has more than 4,000 active accounts in the incentive division including, to name a few, General Electric Co., Xerox Corp., Coca Cola Co. and National Cash Register.

"You might recall the TWA campaign when they offered their employees \$1 million for providing good service to customers," Mr. Anderson said, smiling. "Well, that program is now being done with Green Stamps rather than money. And they've told us that since the switch to stamps, there has been

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S&H will not acquire Paige

NEW YORK—The Sperry and Hutchinson Co. will not acquire John C. Paige & Co., its Boston-based insurance broker. It had been announced earlier this year that an acquisition agreement in principle had been reached between the parties (*Business Insurance*, July 6).

Although no reason for the decision was given, Daniel A. Carpenter, who heads the Boston partnership, told *Business Insurance*, "It was just a case in which things didn't work out the way we thought they would originally."

According to Mr. Carpenter, the decision to break off the agreement will "not in any way" affect the broker-client relationship Paige and the S&H stamp people have enjoyed for years. "We are continuing business with them as usual," he said. "We still see a need and room for qualified and professional brokerage houses such as ours without becoming a giant."

The drug problem: Business becomes concerned

By GEORGE LANGWORTH

NEW YORK—When you ask a businessman about his company's exposure to or experience with the abuse of drugs, chances are you'll either get a mouthful of platitudes on the subject or an avoidance maneuver faintly reminiscent of an ostrich.

Still, there seems to be an emerging problem of drug abuse in business. Diverse, murky and extremely complicated, it's simply too scary for many people to handle, apparently. Drug abuse includes the shock of entering the executive bathroom one day and catching a glimpse of a guy yanking his belt tightly around his hip and jamming a needle into his arm.

Drug abuse also includes the waft of sweet smelling smoke you might notice occasionally in the hall. But the press of whatever you're involved with at the time gives you only a second or two to wonder how that smell got all the way up on the 53rd floor.

IF YOU EVER stop along the highway for a cup of coffee at an all-night truck stop you might see some of your fellow travelers helping their coffee out by popping a little blue-green, or black or brown "pick-me-up." "The only thing is," said one source at a large drug rehabilitation organization here, "it's not just truck drivers any more—it's the decision-making executives who're looking to speed."

"Oh, that's incredible," replied a medical director of one large container manufacturer when *Business Insurance* asked him to comment on this. "We don't notice a wide usage of amphetamines ("speed" or "ups"). Heroin's the problem."

"What about marijuana? Well, if an employe's smoking it while he's on line," said another source, "then we have a problem. In general, we don't concern ourselves with what an employe does while he's off the job. That's his business."

Another spokesman from a manufacturing firm pointed out that there are many people with weekend drug habits. "There's not much we know in the way of dependable statistics on this—either about just how common it is or how badly it effects the employe's functioning during the week." When first queried about the drug abuse phenomenon, the source likened it to an iceberg: "I don't see much of it yet, but then again I know a lot is there somewhere."

CLEARLY, there are a bewil-

Tax slants . . .

Continued from page 18
rent tax on the company's contribution. (I.R.C. Sec. 402(b)). If the employe's rights to the fund were forfeitable, however, he would not be currently taxed. That resulted not only in the loss of the company's current tax deduction for its contributions, but also loss of the later deduction at retirement time when it actually made payment to the employe.

Through changes in Sections 402 (b), 403 (c) and 404 (a)(5) of the Internal Revenue Code under the Tax Reform Act, the lost tax deduction threat to the employer under funded plans on which the employe's rights are forfeitable, was removed. This change allows a tax deduction when the company actually makes payment to the employe. ■

dering array of ideas and attitudes about drugs, and few of them bear any relation to each other. Most people talked to agree that drugs are first of all an educational problem. "Everyone in the company should have a working knowledge of all drugs (not just "pot" or heroin), what they do to you, what the law regarding them says, etc."

But what is a company's responsibility in this problem? How does the management respond to employe drug abuse? "When industry confronted a similar dilemma a decade ago regarding the alcoholic," said the Research Institute of America in one of its September staff recommendations, "most companies adopted the attitude that a man's drinking habits were his own private af-

fair. A handful of companies—most of them industrial giants—created elaborate programs aimed at rehabilitation. Eventually, industry recognized that the best approach to alcoholism was in terms of its affect on job performance," the recommendation pointed out.

Several of those firms surveyed by *Business Insurance* indicated that they felt drugs should be handled like alcoholism. "As with alcohol," said one medical director, "we explain to our employes that if they are caught using a drug which is illegal they may well be fired. Our approach is that the employe is responsible for keeping himself in good health so that he can perform his job. The extent which drugs impair his performance is

the degree to which his use of drugs jeopardizes his job," he explained.

How fast are companies waking up to the drug problem? What kind of impetus do they have? "Generally, the business firms in the larger cities, we find, acknowledge the drug problem faster than their rural-based counterparts," noted the medical director of one giant life insurance company who preferred to stay nameless. "All of them have to face up to it, however. Drugs are everywhere now."

EVERYWHERE? "There's only one high school and a grammar school in our little town," explained the medical director in a large Connecticut manufacturing plant there the other day. "Kids

can buy heroin or cocaine there as easily as I could buy candy at the corner newsstand. Marijuana is about as hard to find as water," he said.

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business insurance/perspective

New frontier for insurance: Rehabilitative medicine

by Raymond Q. Seyler, M.D.,
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consultant to the INA MEND Institute,
Human Resources Center,
Albertson, N. Y.

IN THE PRAGMATIC world of the insurance industry, any talk of new frontiers is likely to raise eyebrows or produce yawns. But the fact is, there is a new frontier that we in the industry have not fully explored. The new frontier is rehabilitative medicine.

Ironically, one of the concerns that has preoccupied us—the spiraling cost of doing business—may be the very thing that will compel an overdue look at this new frontier.

Let's consider just a few accident statistics—excluding property damage—to set the parameters for our subject. The most recent complete government figures are from 1968. In that year, when the nation lost \$22.7 billion in accidents in which death and injury occurred:

- Wage losses, both current and future, accounted for \$6.3 billion.
- Medical fees and hospital expenses represented \$2.4 billion.
- Lost wages for the injured, but not disabled, totalled \$3.5 billion.
- Almost \$5 billion was spent by insurers for insurance administrative and claim settlement costs.

From a productivity point of view:

- In 1968, approximately 245 million work days were lost to work injuries.
- More than 135 million future work days were lost due to 1968 injuries.
- The cost of work accidents to industry rose to about \$100 per man per year.

• The total cost of work accidents increased by 8%.

AT PRESENT, THERE ARE approximately 5½ million disabled Americans under age 65. Of this number, less than a million receive disability payments under federal old age, survivors or disability health insurance programs. The re-

medicine and public health. Traditionally, rehabilitative medicine was regarded as an ex post facto sort of undertaking: the restoration, if possible, of some degree of lost function to the disabled. But just as public health has extended to areas once peculiar to clinical medicine, while clinical medicine has become increasingly involved in epidemiology, so

'And because the objective is sound . . . a new partnership is emerging: rehabilitative medicine and the insurance industry.'

mainder—some 4½ million considered so severely disabled as to be unable to obtain and hold permanent jobs—are wholly without disability benefits. For them, survival—bare survival—is found through public assistance, organized charities, or kindness of family or friends.

While it is evident no program can be devised that can return all these individuals to productive lives, it's also evident substantial numbers could become self-supporting if more would be done to assist them medically, vocationally, psychologically and financially. And because this objective is sound, both humanistically and economically, a new partnership is emerging: rehabilitative medicine and the insurance industry.

Until relatively recently, rehabilitative medicine was a poor cousin to clinical

has rehabilitative medicine expanded to include preventive medicine. In the words of Dr. Howard Rusk, director, New York University Medical Center, Institute of Rehabilitation Medicine, rehabilitation is the "third phase of medicine." In short, it has come of age.

The import of this to the insurance industry is much greater than may be realized at first glance. While our industry has long recognized the economic importance of preventive medicine in the sense of accident prevention, a new concept that is just emerging is that involvement in rehabilitative medicine may also prove to be economically sound. For example, if an insured becomes disabled to a degree that might require long-term maintenance as an unemployable, the cost to the carrier can be substantial. However, in

many cases, immediate and comprehensive assistance to the insured to provide him with new skills, in spite of his disability, may make him once again employable and take him off lifetime maintenance rolls at less total cost than the outlay required for retraining. For example, a claimant entitled to \$100,000 for permanent total disability might be treated medically, retrained and provided additional financial help for a total expenditure of \$25,000. The insurer so involved not only saves \$75,000, but returns a self-supporting, tax-paying citizen to the community.

AN ADDITIONAL ECONOMIC plus that may be realized by this approach is that costly secondary disability, a common occurrence with the severely disabled living sedentary lives, is often obviated.

While the economic advantages stated above should be sufficient to focus attention on the soundness of insurance industry involvement in rehabilitative medicine, two other factors can be cited to make the point even more emphatic: Increased longevity brought about by rapidly advancing medical technology will increase the maintenance pay-out and soaring costs of medical care will make that maintenance more expensive.

In considering programs of rehabilitative medicine, what should the objectives of an insurance company be? At Insurance Company of North America, we list the following:

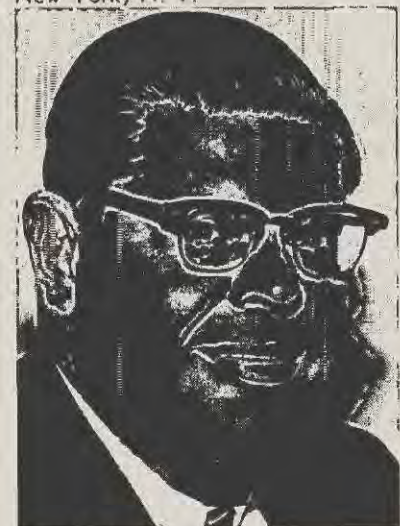
- Greater service to policyholders.
- Control of loss prevention.
- Accident prevention.
- Private over governmental care.
- Rehabilitated becoming insurance buyers.
- Contributing to community health and welfare.
- Profit and growth.

Paradoxical as it seems, greater expenditures for rehabilitation by insurance companies can save money, as has been illustrated. Thus, profits are enhanced and greater growth is possible. Growth and profit can be positively affected by our first point, providing

Continued on following page

Do corporations really want insurance risk managers?

by Gerald W. Wilson,
analyst of corporate insurance,
New York, N. Y.



Gerald W. Wilson

IT IS NOT readily apparent whether or not corporations really want corporate insurance risk management. Talking to corporate insurance managers (who on this subject are very reticent with regard to their own experiences) one cannot but be impressed with the rather universal experience common to most of them that the transition from insurance buyer to risk manager is extremely difficult. It appears that the transition, if made at all, is an individual and personal one and there is no guarantee that the designation is incorporated into the corporate structure or that any successor would fall heir to the assignments as insurance manager.

As long as the risk management function is performed on a personal basis there is scant probability that it would be codified into the corporate functions as assigned to the corporate risk (or insurance) manager.

Perhaps the patent conservatism of many risk managers and in some the obvious "nervous nellie" attitudes are directly attributable to the personal, if not

informal, assignments of the risk management functions to the insurance managers position by upper management. In those corporations where the access to the communication streams are highly informal and personal this appears particularly true.

Any insurance manager looking for employment in his specialty and probing what his prospective employers say they would want for the job cannot long escape the conclusion that whatever he as an applicant may consider as the concrete realities of his specialty—his employers hold a somewhat more limited view. This view is somewhat between a competent insurance buyer and an escoteric (but cheap) financial wizard. In any event the chemistry of the insurance manager with his immediate supervision becomes the most important factor in his career.

MOST POSITIONS FALL into one of three situations:

- Management training spots—this recognizes the fact that the position has an

overview of the whole corporation inherent in few other positions. The emphasis however becomes one not on the professional capacity and the career benefit of this specialty to the corporation but relegates its consideration of it to the more prevalent specialties such as accountant or attorney. There are not that many qualified corporate insurance people available.

• Assistant—staff to treasurers, financial vp or personnel vp. This is the more ordinary placement of the specialty within the corporations and the best to be expected. It is here that the insurance hat is most firmly set on the head of the manager. Occasionally another assignment will be given to the manager such as analysis of a real estate, plant expansion or merger situation. But expansion into realms of plant operation and planning are performed only obliquely as the contribution to be made can be immediately justified at the propitious moment. To this extent the insurance manager must build up a personality account upon which he must capitalize to further perform his function. He must perform within the acceptable criteria set by his immediate superiors since he is operating in personal rather than functionally accepted territory. Like all executives he is subject to second guessing by both his management and his agent or broker, insurance consultants if he has them and every representative of outside services which may be assisting

Continued on following page

Frontier...

Continued from preceding page
greater services to policyholders. Clearly, that company which provides the greatest benefits for a given cost will do better in marketing insurance coverage. By offering a comprehensive program for rehabilitation, a more attractive package can be presented.

PREVENTING LOSSES brings into play new concepts in rehabilitative medicine. In the paper, "The future role of rehabilitative medicine in community health," (Medical Clinic of North America, Vol. 53, No. 3, pp. 719-733, May 1969) Goldwater Memorial Hospital physicians M. Itoh, M.D. and M. H. M. Lee, M.D., F.A.C.P., and consultant to the INA MEND Institute, Human Resources Center, Albertson, N.Y., see expanded programs in rehabilitative medicine as the key to this. Using an epidemiological approach to functional diagnosis, analyses are made of host, agent, and environmental factors in preventing disabilities, both primary and secondary.

Primary disability prevention is no stranger to our industry; most larger companies have divisions concerned with such things as industrial safety, high-risk group surveillance, and health education. In the area of secondary disability, however, we are less sophisticated. This is due, at least in part, to our unfamiliarity with advances in rehabilitative medicine. Increasingly, there is concern on this front for early diagnosis of disabling factors, and the prompt and total treatment of the disabled with a view toward rehabilitation, rather than simple survival. Even tertiary prevention has a place in the new concept. In some cases, where the disabled can't be retrained, a wife or other family member might be specially educated to obtain a job that will keep the family economically self-sufficient. A side benefit of such an effort might be a reduction in medical problems related to emotional stress for a breadwinner who suddenly faces loss of earning power.

Accident prevention and loss prevention go hand in hand. While all in our industry have some understanding of accident prevention, a related aspect—problems of controlling multiple causative factors of illness—is less well understood. Recently, more attention has been paid to this concept as the public has become alarmed at our deterioration more shall be heard on this subject.

The matter of private over governmental health care for our citizens is an old debate that continues as the public demands more and more in the way of services. By this time, it must be clear to all that the private sector has lagged in

meeting this responsibility. But by greater involvement in rehabilitative medicine, our industry can properly and profitably assume a more important role, rather than leave it to government. The net result of this stronger expression of responsive, community-oriented free enterprise would be to have more independence on the part of a less heavily taxed citizenry.

AMONG THESE MORE independent

'By becoming a prime mover for rehabilitative medicine in the community, we can make a real contribution to the public.'

citizens we could count our retrained, self-supporting ex-disabled, who also would be good insurance customers and witnesses to what we can accomplish for the individual and the community.

Contributing to the health and welfare of the community is the net result of all the other objectives enumerated here. While the benefits should be apparent to all, it might be well to consider the question of industry image in this context. The hard truth is that ours is an industry that is not understood. And in all honesty, our reputation for being monolithic, unfeeling, and yes, even inhuman, has been won by us less by our deeds than by our lack of them. By becoming a prime mover for rehabilitative medicine in the community, we can make a real contribution to the public good and to our own private enterprise.

While we at INA consider ourselves pioneers in insurance company rehabilitative medicine, we also realize we have only just scratched the surface of this promising and exciting field.

But while our effort to date is fairly modest, the results we've achieved are not, and what they portend for the future is impressive indeed.

CONSIDER THESE STATISTICS compiled between October, 1965, and December, 1969, when INA served 13,742 rehabilitation cases. In that period:

- 9,715 cases of financial rehabilitation were served, of which 4,269 were closed.

- 4,027 medical and vocational cases were served, of which 1,654 were closed.

In terms of financial impact on INA, the following applied:

- In the financial and rehabilitation area, INA saved \$4,159,013.

- In the medical and vocational rehabilitation area, INA saved \$2,631,662.

In brief, by applying progressive

thinking to rehabilitation, almost 6,000 cases were closed at a corporate savings of almost \$7 million. Looked at another way, in order for INA to have produced an underwriting profit of almost \$7 million, using a 2% profit figure, the company would have had to write approximately \$339.5 million in new premium business.

In terms of community impact, using an average age of 40 years with 25 years of productivity left per worker, and assuming a median income of \$7,182

educational needs of the disabled. As its name implies, the MEND program encompasses most of INA's work relative to rehabilitative medicine.

The MEND concept, originally developed by an INA subsidiary many years ago, is an outgrowth of extended benefits for workmen's compensation policies. At present, as a total company program, all appropriate cases of physical injury or disease arising under contracts written by INA and its subsidiaries are eligible for rehabilitation consideration, not just workmen's compensation. This includes third party claimants. Cases arising from auto and general liability accident and sickness and reinsurance are also included.

The INA MEND program includes early medical rehabilitation, financial assistance to the injured party and his family, long-range psychological counseling for the insured and his family and vocational and educational training.

The INA MEND Institute, located at the Human Resources Center at Albertson, Long Island, has been operative only two years. There are four major areas of activity: research, vocational evaluation, library services, and educational seminars. Research projects now underway include:

- Relation between industrial stress and physiological changes in disabled and normal workers.

- Intrinsic nature of attention and its relationship to safety in the normal and disabled worker.

- Geometry of the work station and its relation to fatigue and productivity for the normal and disabled worker.

- Correlative value of skills and task requirements in predicting vocational success in retarded workers.

Much valuable experience about disabled workers is being gained at Abilities Inc., another facility within the Human Resources Center. Abilities Inc. is a small factory doing competitive subcontracting for a number of Long Island industries. What makes Abilities Inc. unique is that its entire work force is either disabled or retarded. In this sense, the factory is also a laboratory in which the disabled can learn, and where knowledge concerning the disabled can be derived.

What INA has done to date with rehabilitative medicine is not presented as a model to be copied by everyone interested in the field. But it does show what one company has been able to accomplish in a relatively short time.

Our industry is standing on a new frontier. Rehabilitation represents more than an economic opportunity for insurance companies. It leads the way to a whole new way of doing business in a rapidly changing society. ■

Risk men...

Continued from preceding page
him. He is constantly faced with a dilemma. His job is to prevent or ameliorate loss consequences. But he gains credit when his insurance premium equates with his loss receipts. In short, as an insurance buyer he is measured, as a resource manager or administrator he is not accepted.

- The last category of insurance manager is an ever present reality, although it is never labelled as such. That is the financial or personnel department liaison clerk. This job is to take orders and transmit orders for insurance coverages and to see to the orderly payment of premiums and losses and to see to the timely transmission of information to and from insurance carriers. These positions would more appropriately be called insurance buyer or broker's (or agent's) representative. Any deviation would fall into the category of creating problems and a person holding such a job has a long road to the fields where he could exercise corporate risk management. Chances are the broker or

agent would have to be sold the merits of risk management first.

THE AUTHOR HAS TALKED to numerous corporations concerning risk management and has been amazed at the reactions elicited when it was suggested that the corporate insurance risk manager would be involved or could make a contribution in such areas as:

- Property conservation (a program for construction and practices which would reduce the effects, probabilities and chances of losses to property);

- Planning for expansion of plant and process so as to maximize profitability and increase asset value;

- Real estate and leases;

- Review of contracts from the standpoint of reducing assumption of liability and orderly assumption of liability by built in administrative agreements. That a manager would be concerned with a company's purchase orders caused one vp of finance to almost have a heart attack on the spot. As a part-time attorney he felt personally insulted at the presumption;

- Corporate assumption of insurable losses when not justified by commensurate premium savings;

- Proposal of alternative employee benefit plans and, or in lieu of, wage increases and wage and other continuance schemes. Trying to get a reactive management to waste time creating plans that may never go into effect is one of life's more adventurous experiences.

THERE ARE SEVERAL possible ways to improve the picture which appears prevalent concerning the acceptance by corporations of insurance risk management as a part of insurance risk handling within the corporation.

As insurance brokers and agents and attorneys must be licensed so perhaps should insurance managers. Every corporation with assets or sales in excess of \$99 million should not be allowed to purchase insurance without a qualified RM (risk manager) in its employ.

Elimination of all unlicensed (as brokers or agents) insurance consultants is necessary. The detrimental effect of insurance consulting upon the profession of corporate insurance risk management is a subject for a different article.

The future of business management portends to be one of increased recognition of the role it performs in the area of

resource management (both physical and human); no other function has more direct relationship to this than the insurance risk management function with its process for handling loss probabilities. It is a shame that business management rejects this and in the main prefers to discourage development of this within the organization at a logical point through persistent non-recognition of the risk management potential within the insurance function. It is fairly obvious that whatever risk management is being performed within these corporations it is being performed in a haphazard manner and the cost is being reflected perhaps in such areas as: the persistence of marginal ventures, higher than feasible overhead costs, heavy debt commitments, cash flow impairments and perhaps emphasized disemployment of women and men over the age of 40 and last of all, antiquated transport and distributive systems. ■

Gerald Wayne Wilson is an analyst of corporate insurance in New York. He received his A.B. degree in economics from Williams College in 1950. Mr. Wilson has operated his own consultant firm and served at several insurance companies, Cities Service and North American Rockwell.

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CNA Enterprise

Predicts no-fault auto will improve highway safety

CHICAGO—The future of the no-fault auto system is very bright, though admittedly it has rough edges that need to be smoothed, according to Ben Schenck, first deputy superintendent of insurance in New York.

He also regards the institution of no-fault compensation as a definite means of improving highway safety.

The New York system, if approved by the legislature, would hold the owner of a commercial

vehicle 100% liable for any accident in which that vehicle is involved. This, said Mr. Schenck, is equitable because the commercial owner is in a better position than the private auto owner to affect whether or not an accident will

happen; he has strict control over the type of vehicle his company uses and how, when and where it is driven. It will be possible for auto insurance rates to vary more with safety devices used on a car under the proposed New York plan and this, he said, coupled with experience rating of commercial vehicles as a whole and each company on an individual basis, should lead to greater efforts to raise safety standards.

Mr. Schenck, speaking at the annual insurance conference of the American Management Assn. in Chicago, added that treatment of commercial vehicles is not a fundamental point in any no-fault auto system and "could go either way."

WHAT IS fundamental, he said, is to devise a system that is, in practice, a means of compensating auto victims. Our present system, he said, is composed of tort law and liability insurance, which are in basic conflict with one another, and does not work for the benefit of the victim.

Tort law is designed to make the wrongdoer pay for the loss he causes, he said, but liability insurance is designed to make sure that he never pays. In practice, said Mr. Schenck, only 44 cents of the auto insurance premium dollar goes to the auto victim; 8.5 cents of that pays for losses already paid by other forms of insurance, such as hospital coverage, and 21.5 cents is for pain and suffering.

Also, he added, 23 cents out of the auto premium dollar goes for claims and adjustment, whereas in workmen's compensation cases this cost is only ten cents and in health insurance cases the cost is only five cents.

The relationship of the auto victim, under the present tort system, he continued, changes with the size of his claim. It is worth something for an insurer to pay money on small claim just to get rid of it, the state official noted, and in reverse it is economically worth something to the insurer to fight a big claim.

"AND SO THE fact is that the 21.5 cents for pain and suffering often goes to the less seriously injured victim with the smaller claim. That 21.5 cents becomes a

form of overpayment in some cases and underpayment in others.

"Our present system is fundamentally wrong," said Mr. Schenck, "and won't be cured by piling palliatives such as rate freezes and increased numbers of judges to handle court cases on top of it." The no-fault system, however, raises many questions worth consideration, he added. Among those he posed were:

Will it be a state or federal system?

Will it be a private system at all or will it be run by the government?

Will it be handled under auto insurance or will it be merged into some larger form of insurance?

To what extent will no-fault auto be compatible with the present system of individual auto insurance sales? Will it promote mass automobile coverage merchandising?

Will the levels of coverage be determined entirely by mandate or will the required levels be low, leaving room for the consumer to pick and choose? ■

Singers insured for \$3.5 million

LONDON—Seven "pop" stars were insured for more than \$3.5 million when the company engaging them floated a new share issue worth nearly \$8 million on the London Stock Exchange. This was the amount their lives were valued at for the purpose of the company's assets in launching its new stock.

The stars included Eric Clapton, Jack Bruce, and Ginger Baker, who won international fame as The Cream and have sold four million records in the U.S. The others were Barry and Maurice Gibb (members of the Bee Gees) John Mayall, and Georgie Fame.

Management executives of the business group, including Robert Stigwood, its chairman, were insured for \$1.5 million as part of the flotation.

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Stamps . . .

Continued from page 34

greater participation and greater response."

The 4,000 accounts are serviced by some 550 people, 50 of them incentives specialists. "The other 500 are our regular field representatives force. They look into new programs for us in their areas. In fact, the bulk of our in-plant campaigns come from our field force."

SPERRY & Hutchinson was the first trading stamp company to venture into the incentives field. "There are other companies in it now, but we are the only national outfit. We entered the area after a great deal of research. We finally decided the product was needed and jumped in," he said.

Mr. Anderson pointed out that a program could be easily started because "about 78% of the families in this country save stamps as it is. They are already sold."

The company also makes it easy by providing promotion material and counseling aid to any company desiring a program.

"Employers like it," Mr. An-

derson pointed out, "because we help them get everything going. All they have to do is buy the stamps. They don't have to worry about merchandise redemption or any of the after effects."

A typical stamp incentive campaign by S&H and the company using the program could be broken down and represented as follows:

SAFETY—a lumber products company.

PROGRAM—To reduce lost-time accidents in both lumbering and mill operations and to lead the industry in safety.

TIME—One year (to be repeated for three years).

PARTICIPANTS—All employees, mill and woods (275).

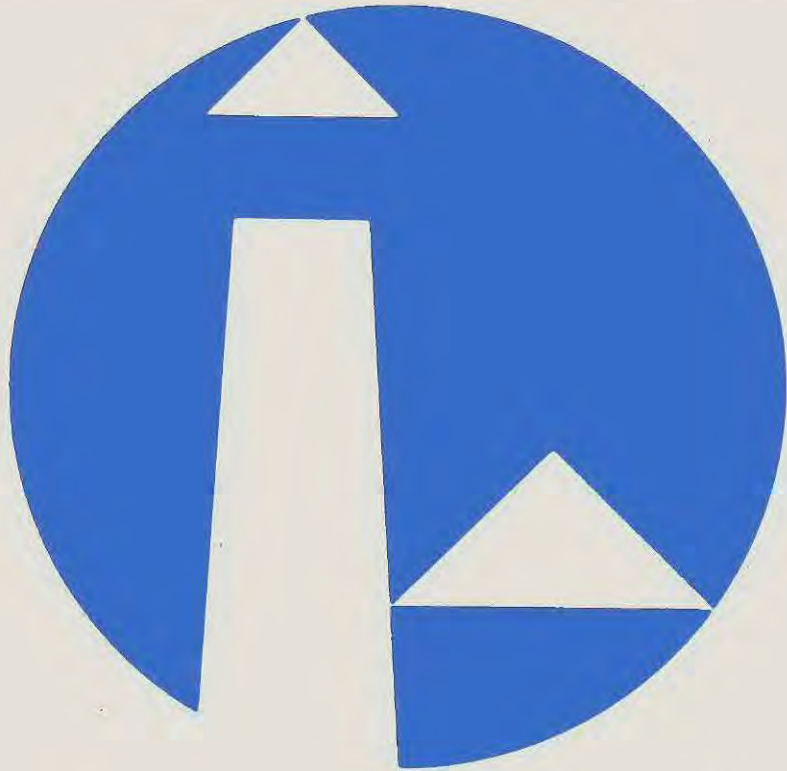
AWARDS—For each accident-free month, 400 stamps.

DEFAULT—A lost-day accident loses stamps for the individual for two months.

BONUS—each individual with a 12-month accident-free record qualifies for a 1,000 stamp bonus providing he attends two safety meetings on his own time. Total of 2,000 stamps for a second accident-free year and 3,000 for a third.

PROMOTION—Posters, bulletins, pay check enclosures. ■

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Consumer Reports finds fish sticks as bad now as they were in 1961

NEW YORK—The editorial director of Consumer Reports magazine has taken issue with a story that quoted a frozen fish stick manufacturer as saying a report in the September Consumer Reports on the quality of fish sticks was factually wrong and merely a reprint of an article that ran five or six years ago (*Business Insurance*, Sept. 28).

The magazine named a number of frozen fish sticks as being substandard for a variety of reasons, including the presence of large, stick-in-the-throat type bones. Other reasons for the low ratings included sanitation findings as well as texture, taste and odor.

an official at Consumers Fish Co., Chicago, one of the companies named as producing a substandard product, declared that the Consumer Reports story was merely a reprint. "What they say may have had a ring of truth then but is completely erroneous now."

Denying this, Donal Dinwiddie, editorial director of Consumer Reports, told *Business Insurance* that any similarity between the two articles is based on the fact that the Consumers Union of the U.S., of which Consumer Reports is the publication, found that little had changed in the fish stick industry in the years between 1961 and 1970. In other words, he said, things the Consumers Union

testers found to be bad in 1961 were found in approximately the same condition during the more recent tests.

Commenting on the contention by the fish stick company spokesman that the magazine had its facts wrong, Mr. Dinwiddie said claims made about the frozen fish stick industry in its 1970 report can be readily substantiated by the magazine. ■

Committee says 'no' to no-fault

MADISON—The Wisconsin advisory committee on auto accident liability has said "no" to no-fault insurance.

Rejecting the no-fault theory as inadvisable, the committee recommended retention of the present system, with modifications.

The committee's decision completed a package of proposals which will be presented to its parent body, the legislative council judiciary committee. Ultimately, the recommendations will go to the 1971 session of the state legislature.

Among the advisory committee's proposals were:

- Legislation making uninsured motorist coverage mandatory for all auto insurance policies sold in Wisconsin.
- A study to determine if all Wisconsin motorists should be required to carry insurance.
- Legislation forcing insurance companies to offer medical pay coverage with auto policies.
- A study to determine if insurance companies should be required to offer coverage for lost income due to an auto accident.

In an earlier action, the advisory committee recommended elimination of dollar limits in wrongful death cases, changes in the state comparative negligence statute and raising the jurisdiction of small claims courts from the present \$500 to \$1,500. ■

IRS backs down on 'public interest' law firms' tax status

WASHINGTON—The Internal Revenue Service has backed down from its challenge of the tax-exempt status of "public interest" law firms, saying it will continue to allow donations to these firms to be tax deductible as long as they "engage in litigation that can reasonably be said to represent a broad public interest rather than a private one."

Shortly before the November elections, the IRS announced it would conduct a 60-day study of such organizations, punctuating the intent of the study with the later-rescinded statement that donors could no longer be certain of tax deductions on funds given even to such organizations that already have favorable status.

The news cheered businesses that have been—or are afraid they may be—on the receiving end of Nader-type pollution and consumer law suits brought by the growing number of these "public interest" law firms.

But it also raised suspicions that the move was spurred by pre-election politics designed to show the business community that the Republican party is on its side, and raised the full wrath of the consumer movement.

Even the President's own Council on Environmental Quality and his consumer advisor, Virginia Knauer, joined in protesting the proposed IRS move.

Court rules...

Continued from page 1 rates if he's subject to workmen's compensation laws of the state and if he accepts an endorsement eliminating coverage for extra passengers," Mr. Boody pointed out.

This last condition might be undesirable for the employer who allows his employe to use the insured vehicle for his own personal use. However, for vehicles other than cars such a condition could be considered appropriate, Mr. Boody said.

"Another effect this rate reduction will have is that the corporate insured's excess limit charges will be reduced," he pointed out.

The provision under the no-fault plan disallowing recovery of damages for pain and suffering if medical charges do not exceed \$500 is another part of the windfall. "The vast majority of accidents will fall near this range," Mr. Boody pointed out, adding, however, that this amount was probably still a bit small.

Because corporate insureds have assets they are frequently a target of tort litigation in such cases. Because of the no-fault law's ban on pain and suffering recovery under such medical charges and a stipulated maximum awarded for personal injury of \$2,000, Mr. Boody predicted that tort law might well prove much less expensive for corporate insureds in the future. ■

Pakistan...

Continued from page 1

Eastern News, a Pakistani news agency here, estimated that the death toll would reach 500,000. Officially, the government placed the toll at 55,000. Mass burials of up to 5,000 in some cases were reported. The 120-mile-an-hour cyclone propelled a 20-foot tidal wave across the entire east Pakistani coast, flooding over 100 offshore islands. More than a million people were said to be homeless as a result of the storm.

"Most of the companies operating over there are local ones," one source pointed out, adding that the government was quite nationalistic in its insurance regulations. He noted that while AFIA and American International Underwriters were active to some extent, British companies formed the bulk of foreign companies operating here. ■

UAW...

Continued from page 1

years is enough time to spend working in an automobile factory, and that years of service, and not age, should be the determining factor for a company-paid pension.

Briefly, the UAW-GM plan provides for a pension of \$500 a month for a retiree with 30 years' service at age 58, reduced by 8% per year for each year retirement is earlier than age 58. But the age requirement will be reduced to age 56 effective Oct. 1, 1972, the second year of the plan.

The UAW had asked for the flat \$500 benefit after 30 years, regardless of age. GM had offered a plan with the age 58 requirement. The year's postponement of the start-up was a concession to the corporation; the lowering of the age requirement in the second year was a concession to the UAW.

The new contract also provides for an increase in the basic pension rate, an increase in the pension benefits for present retirees, and beefed-up insurance benefits. ■



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D-11

speaking of safety

Human sense is still better than alarm sense

By WILBUR CHARLES

FT. WAYNE, Ind.—Modern fire alarm systems have established a remarkable record of efficiency in the saving of both lives and property. A large portion of that success has been due to the use of automatic fire and combustion detectors, as reported in previous issues of *Business Insurance*. But no mechanical device now in operation or yet to be developed can approach the capabilities of human senses.

Automatic devices "watch" where men cannot reach and when men are away. But when men are present, they see, smell, hear, feel or taste a fire faster and react quicker than any man-made automatic device.

To initiate a call and warning, one merely actuates the nearest manual fire alarm station. These devices are wall-mounted pull boxes which, when operated, activate an alarm signal. Modern stations are of the single action type, to ensure that a building occupant will have no trouble operating the device under fire conditions. Single action means that a single pull of the operating lever will initiate the alarm—no sequence of opening a door and then pulling a lever. Manual stations may be obtained either as breakglass stations, to deter false alarms, or as non-breakglass stations. In the breakglass type, a glass rod is usually installed in the path of motion of the lever. Pulling the lever breaks the glass and sounds the alarm simultaneously, so that the single action feature is retained.

MANUAL STATIONS may be (1) non-coded, (2) non-coded presignal, (3) coded, or (4) coded presignal. Types (2) and (4) have an added general alarm feature.

One pull on the lever initiates an alarm from a non-coded manual station. Operating instructions are usually in brightly colored lettering on the front of the manual station, while complete resetting and testing instructions are usually listed on the inside of the cover. Manual stations are usually constructed so that they provide a visual indication that they have been operated.

A non-coded presignal manual station initiates a pre-signal alarm that sounds in selected areas only. After investigation by authorized personnel, and if a general alarm is deemed necessary, it can be initiated with a key-operated manual switch.

A coded manual station is constructed so that the act of pulling the lever winds an operating spring. The spring drives a code movement which causes four rounds of a one, two, three or four digit code signal to be transmitted to the fire alarm control panel. This code signal not only sounds the fire alarm, but also indicates where the code signal originated, thus locating the fire. Many coded stations are available with a non-interfering feature; that is, if an alarm is initiated at any station, and another alarm is almost simultaneously initiated at a second station electrically farther away from the control panel, the station first actuated will complete its four full rounds of code without interference from the second station.

THE CODED presignal manual station transmits its four rounds of distinctive code to all presig-

nal devices throughout the system. If conditions warrant, a general alarm may be sounded by inserting and turning a special key in a switch on the side of the station. These stations are also available with a non-interfering or priority feature.

Manual stations are usually designed for mounting on either flush or surface type electrical boxes. The housings are usually secured to the backplates with hinges and special folding arms that prevent damage from dropping.

The choice of manual stations is dictated largely by the type of

alarm system in which they are used.

Non-coded systems, for example, are designed for small one-story schools, commercial and industrial buildings where immediate evacuation will provide the best protection. Actuation of any non-coded manual station in the system sounds a continuous alarm on all indicating devices.

MASTER CODED Systems are for use in schools, factories, etc. where a distinctive common-coded general evacuation alarm is required. Actuation of any non-coded manual station in the sys-

tem sounds a panic-free rhythmic cadence (march time) on all indicating devices.

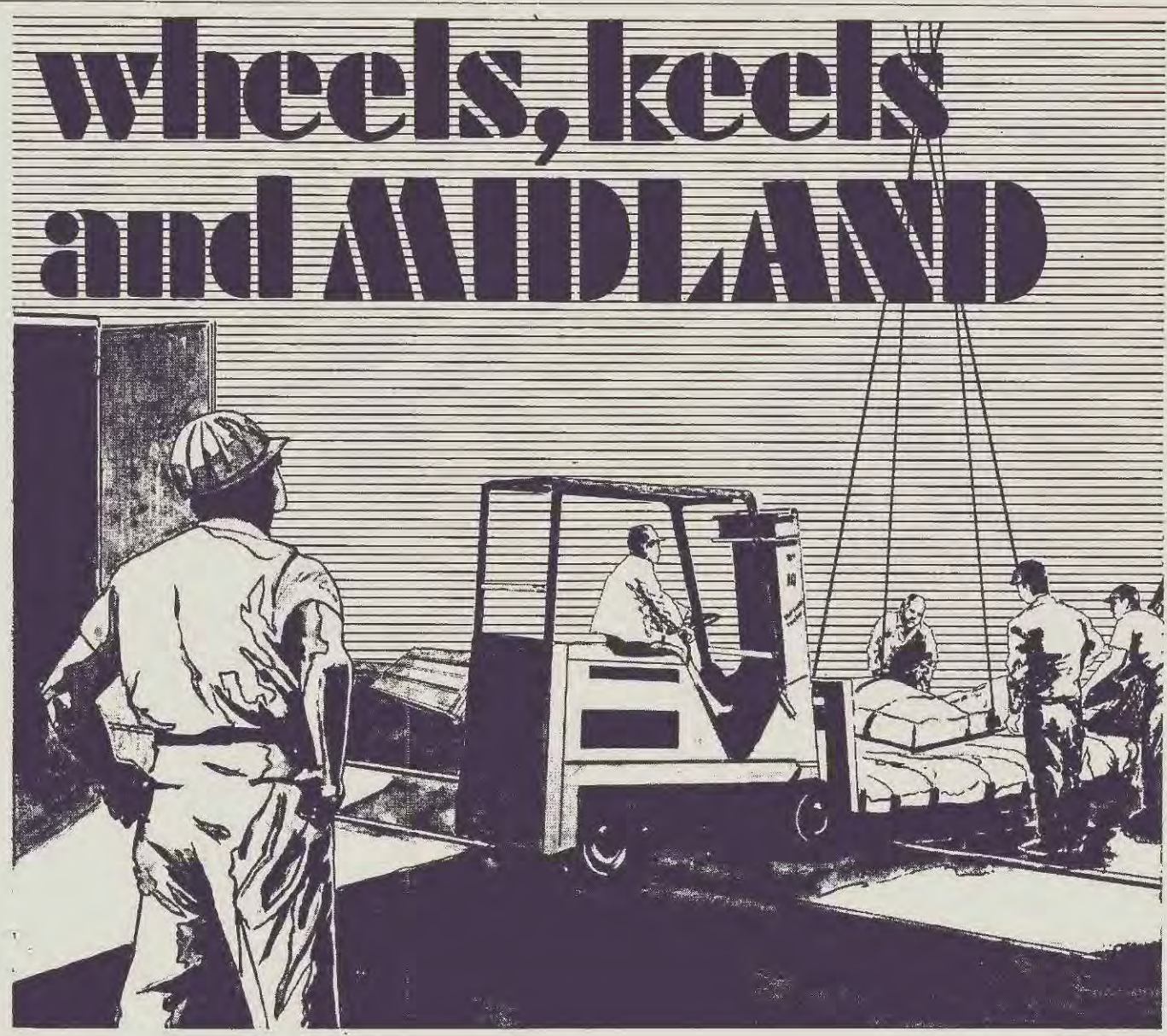
Presignal non-coded systems are devised for small hospitals, motels, rest homes and commercial buildings where the occupants are disabled or unfamiliar with evacuation procedures. Actuation of any non-coded presignal manual station in the system sounds a continuous alarm on all presignal devices, allowing authorized personnel to evaluate the danger and sound a general alarm if necessary by inserting and turning his special key.

Zone non-coded systems are

used in a wide variety of structures where a general alarm is needed, together with a rapid indication of the fire's location. Actuation of any non-coded manual station in the system sounds an immediate general alarm, and at the same time shows the zone of that initiating device on an indicator panel.

Zone coded systems are for use in large or fairly complex structures where it is important to have an immediate general alarm announcing the area of the fire to all personnel. Actuation of any non-coded manual station in the

Continued on page 49



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FAA rule would raise school air requirements

WASHINGTON—A proposed rule has been published by the Federal Aviation Administration in an effort to impose more stringent maintenance and operating requirements on educational institutions transporting groups by air. The action follows the Oct. 2 crash of a Martin 404, leased by Wichita State University, which killed 31 persons.

More stringent maintenance and operating requirements for educational institutions would put them in the same class as air-

travel clubs, Irving Ripps, FAA information specialist, explained. Under Part 123 of the Federal Aviation Regulations, air-travel clubs must:

- Employ a crew that meets the same qualifications as those of commercial air carriers.
- Demonstrate the ability to conduct an emergency evacuation in 90 seconds.
- Have cabin interiors with self-extinguishing flammability characteristics.
- Have automatic slides that operate within ten seconds of activation.
- Have one flight attendant for each fifty seats.

These are basically the same rules that apply under Part 121 of the Federal Aviation Regulations to all certificated air carriers (commercial flights).

NOTICE OF THE proposed rule was filed Oct. 27, said Mr. Ripps, and the public has until Dec. 28 to make comments. "Usually it is the professional public

that responds to the notices," he told *Business Insurance*, "but because of the widespread interest following the Wichita State University crash we may get comments from anyone." The FAA will make a final rule after the Dec. 28 deadline.

The FAA has taken steps to inform educational institutions of the aviation regulations incident to the operation of large aircraft through its field offices. The National Transportation Safety Board, which conducted a public hearing following the Wichita State University crash, expressed the hope that regulations and procedures governing passenger operations of large aircraft would not only be thoroughly examined with a view toward making them more stringent, but also that their applicability would be made more understandable.

Secretary of Transportation John A. Volpe is now conducting an investigation of all aircraft charter operations.

Testimony taken at the hearing in Wichita indicated that the crash of the Martin 404 was operational in nature and that there were no mechanical failures or malfunctions affecting the performance of the aircraft. ■



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Funds . . .

Continued from page 10

they had the expertise to make the money perform well.

"This new arrangement gives us, in a sense, full investment competition," Mr. Lowe said, but he added that Inland Steel will carefully watch the results of each segment of its pension fund investment program.

Mr. Lowe said that current operations of the Inland Steel pension fund trace from the adoption of salaried employees' annuity by the company in 1934, a program that was extended to wage employees in 1943. In 1949, he recounted, the United Steel Workers negotiated a pension plan for USW members at Inland Steel.

"We faced the decision of going the insurance route for the USW plan or choosing a trustee plan, which was what we chose in the end," Mr. Lowe explained.

DR. ZOLLER told the workshop that the Greyhound-Armour pension fund employs 13 different money managers including banks, insurance companies, and one investment advisor. The fund is comprised of 12 separate funds with aggregate assets of more than \$500 million and 1969 contributions of more than \$38 million.

"The 13 different managers all have full discretion because we have collected a lot of plans and a lot of managers," he explained. "We don't think of our operation as a profit center, but we do ask each manager to submit a 'profit plan' each year, which we evaluate and take action. We have sometimes changed managers. We ask an understanding with each money manager about investment strategy. Sometimes when results lag, we'll ask the manager what he's going to do differently to improve performance. Finally, we reward good performance and vice versa."

Dr. Zoller said that there is evidence that the professional money managers haven't done as well as the stock market in the sagging economy. "We have seriously considered passive money management systems and even random selection is an alternative to look at. One thing that would help in reaching a decision would be audited performance records for money managers," he said.

Panelists agreed that it is

worthwhile to check the performance of your pension fund investment program against that of other pension, profit-sharing and savings funds. In addition to Standard & Poor's index, they watch closely the performance of stock reported by such firms as A. G. Becker & Co., and Smith Barney Co.

Mr. Lowe, who said his fund has a 75% equity position, told a questioner that the investment aim of his fund is "having assets on hand to pay benefits. Therefore, we make appropriate investments at any given point of time."

Dr. Zoller said that because of variability of return it is not possible to set required percentages of return for a fund. ■

Solvency account is healthy

MADISON, Wis.—The State Department of Industry, Labor and Human Relations reported that Wisconsin employers would not be forced to pay a solvency tax next year on overdrawn unemployment compensation accounts.

According to Lawrence A. Burley, the agency's unemployment compensation administrator, the state's solvency account is high enough to avoid the special tax.

The solvency account, which guarantees the payment of unemployment compensation even though some employers' accounts may be overdrawn, had a balance of \$30.3 million or \$3.3 million more than the minimum required, Mr. Burley said.

The minimum requirement is four-tenths of 1% of the gross wages paid by the 40,000 employers in Wisconsin to their 1,100,000 employees. If the solvency account drops below the minimum, all employers must pay the special tax.

Most employers of four or more persons pay a payroll tax to finance the unemployment compensation program in Wisconsin.

Mr. Burley said gross 1969 wages in Wisconsin totaled \$7.5 billion, compared with \$6.9 billion in 1968. Next year will be the third year in succession that Wisconsin employers will not have paid the solvency tax, he noted. ■

\$39.6 million all-risk cover on stadium written by Home Insurance

CINCINNATI—A three-year \$39.6 million insurance contract covering all-risks for the City of Cincinnati's new Riverfront Stadium, including time element coverage, becomes effective Dec. 1.

Ten agents responded to advertisements seeking coverage. The city favored a package policy submitted by Perkins & Geohegen Inc., a Cincinnati company, who obtained all of the coverage from the Home Insurance Co. through its Columbus offices.

The annual premium installment is \$43,032, the city's purchasing agent, John G. Kreig, said.

PERKINS & Geohegen also won the contract for Cincinnati's convention center in August 1967.

Jack Abbott, a Perkins & Geohegen vp, said his agency began looking for a market for the stadium insurance last February, and "had it set by May."

The agency wanted a buyer with capacity to "take the whole account," Abbott said. It went to eight companies and some observers say the city got a bargain.

Ten agencies bid the city's specifications, which conformed, generally, to recommendations by the Cincinnati Insurance Board, which has a consulting contract with the city.

HOME INSURANCE Co. underwriters "drew on the recommendations as guidelines," Mr. Abbott said.

Four agencies were eliminated on "points of legality," Mr. Krieg said, and one other agent, who submitted three bids, was eliminated on one of them.

The city's specifications described seven property categories, and as many as seven underwriters were listed on bids submitted by a single agent. A city spokesman now says he liked the "package" characteristic of the Perkins & Geohegen bids.

Underwriters for Home Insurance were Barry Wolfe and Thomas Waugh, both in the Columbus office. Mr. Abbott said their work was well-studied and well-detailed.

THE SPREAD of prices submitted by the 10 agents was large but does not indicate criteria for sharp evaluation. The value of the deductibles in the seven categories was the biggest decision, Mr. Abbott suggested; they influenced the spread of prices and also led to the alternate bids.

A series of deductibles on the structure and property starting at \$10,000, then \$25,000, \$100,000, \$250,000, and \$1 million were studied.

Mr. Abbott agrees with the principle that deductibles in excess of \$50,000 on all-risk coverages of this kind force "entirely different thinking," and it puts the specific provisions in the "excess type coverage," he said.

The city apparently thinks so, too; they settled on the lesser deductibles—\$10,000 on the structure and contents.

THE NEW stadium's computer-operated scoreboard, and Astro-Turf, used here for the first time over all of the playing field, and also on a practice field used by the Cincinnati Bengals' football team, was given special attention.

The chief risk to the Astro-Turf may be tobacco-chewing coaches stationed on the corners of the baseball diamond; the city decided for a \$550,000 limit with \$1,000 deductible.

The sophisticated scoreboard gets an all-risk coverage, including vandalism and mischief, with a \$1.2 million limit and \$1,000 deductible.

Parking facilities provided by the city in underground garages are a feature of the stadium, as well as convenient driveways which allow patrons to disembark at special gates. The city chose to insure its patrons on a space basis at the rate of \$600 per parking space, for a total of \$2.52 million.

THE CITY can also recover for interrupted business in the stadium, parking lots, and scoreboard (lost income from advertisers who bought scoreboard time for ex-

ample). The limit is \$1.8 million with \$10,000 deductible.

The city's posture is acquiring insurance of this broad scope is "for protection on the bond holders," Mr. Krieg said. The insurance value of the structure and its contents, at \$33 million, is, of course, the major provision in the contract.

Other provisions include boiler and machinery (\$100,000 limit per accident, with a \$50,000 object limit) and personal liability (an umbrella coverage with a \$10 million limit. Both the per-person coverage and occurrence coverage have \$500,000 limits).

PRIOR TO Dec. 1, the city was



All-risk coverage, amounting to \$39.6 million, on Cincinnati's new Riverfront Stadium is costing the city \$43,032 annually.

protected by the insurance ordered by the baseball and football teams, and the risk insurance carried by general contractors Huber, Hunt and Nichols. The city was named an insured in the policies of the two teams.

The interleague all-star base-

ball game in July, and the first two games of the World Series also were responsibilities on the Cincinnati Reds, and were covered by endorsements to the Reds' regular policies.

Contract for concession services
Continued on page 48

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letters

Continued from page 30

when you are researching for future articles, please let us know.

Edward Robedee

General Manager, Improved Risk Mutuals, White Plains, N. Y.

High level

To the Editor: I certainly enjoyed participating in the workshop. I enjoyed more the opportunity to see and hear the others. The level of your workshop was every bit as good as the national seminar of CPCU. The wide range of subjects and the wide range of industry representatives added to the excellent programs.

Your hospitality was most enjoyable and you and your staff

are to be congratulated for an excellent meeting in all respects.

H R Woodworth

Secretary-Underwriting, Insurance Co. of North America, Philadelphia

Workshop beneficial

To the Editor: My overall impression of the *Business Insurance* workshop is very good. I felt that I, as an individual responsible for the purchase of insurance, benefited immensely.

I would like to compliment you on having the vision to include individual subjects such as the session on "Nader's Raiders," "Union's Look at the Future," and "Project GM."

Congratulations on a well organized and executed workshop.

B. T. Ray

Columbus and Southern Ohio Electric Co., Columbus, O.

Top-notch speakers

To the Editor: Congratulations on a beautifully organized conference. Your roster of speakers was top notch, and I was impressed with the give-and-take mood of the workshop sessions. We are particularly interested in the areas of consumerism, pollution, benefits, and social responsibility. I picked up some new ideas at the workshop to pass on to other members of the communications department.

Barbara Mock

Communications Dept. CNA Financial Corp., Chicago, Ill.

Continue seminars

To the Editor: Please accept my congratulations and appreciation for an excellent seminar. It is always encouraging to know that some people related to our business try to keep abreast of those current and pressing topics that exist today.

I just hope that it is your intention to continue these seminars on a regular basis, and I look forward to being with you again.

Howard Miller

Halberstadt Corp., New York, N.Y.

'A fine effort'

To the Editor: Having attended and conducted more than my full share of seminars over the years, I think that I am a pretty good judge of such activities. Certainly *Business Insurance's* Atlanta conference was one of the best I have seen in years. The program was new, refreshing and educational. It was well conducted, the speakers were good and it covered many of the pressing risk management problems now being faced by corporate executives.

You are to be congratulated both on a fine effort and for the courage to sponsor a worthwhile meeting during a year that other organizations have experienced little or no success in this area.

B. H. Suter

Director, Client Services, Risk Management Dept., EBASCO Services Inc., New York, N.Y.

Refreshing seminar

To the Editor: I would like to take this opportunity to thank you for all of the work that you and your staff must have put into the recent *Business Insurance* Workshop.

It is the first seminar that I have attended where meetings ran on schedule.

The expertise of the faculty was not only refreshing but deeply appreciated.

I think the workshop was worth the expenditure and I look forward to next years meeting.

Jerry McGreal

Employee Benefit Department, Ingram, Armistead, Wallace Inc., New Orleans, La.

A job well done

To the Editor: It was indeed a pleasure to be with you earlier this week in Atlanta for the very fine seminar put on by *Business Insurance*. It was very well done, very informative, and very enjoyable being with so many very fine and intelligent people. In regard to the "intelligent people," this is not seen often enough in our industry.

Jerry Wightman

The Wightman Agency, Inc. Clayton, Mo.

D&O premiums

To the Editor: Thank you for sending me a copy of the issue of *Business Insurance* devoted to the workshop in Atlanta.

There is one item that I would like to call to your attention. You have quoted me as saying that there is no doubt of the validity of a corporation paying 100% of the premiums on the directors and officers liability policy. I tried to make it very clear in my remarks that this was the case *only* in states such as New York and Delaware which have adopted legislation specifically permitting the corporation to pay the premiums.

In states where such legislation has not been adopted, there is substantial doubt as to whether the corporation could pay 100% of the premiums. This is fairly serious matter since many corporations are incorporated in states which do not have the New York or Delaware type of statute.

Joseph F. Johnston Jr.

Partner, Rufo Johnston & Zucotti, New York.

Lease insurance

To the Editor: I seem to remember reading an article in your publication regarding a company that was insuring or guaranteeing lease payments. We would certainly appreciate any information you could give me as to when the article may have appeared.

Al J. Schardin

Baker Insurance, Fargo, N. D.

Editor's Note: Business Insurance carried an article entitled "Offers lease coverage on business rentals" on page 2 of our July 15, 1968, issue.

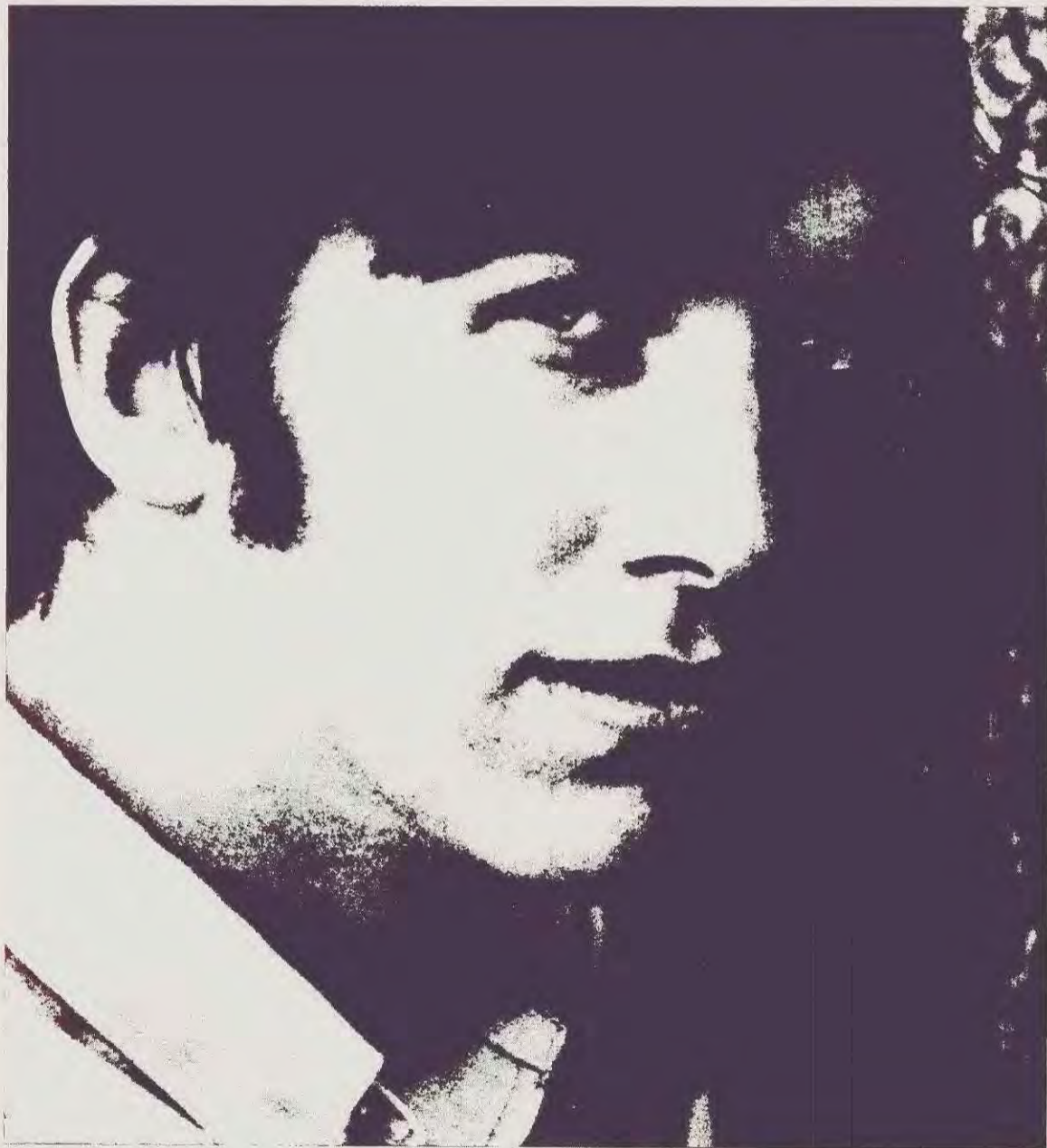
Provide form

To the Editor: In the July 20, 1970 Dear Gerry column, Mr. Wilson mentioned that "some corporations require an employe to sign a form" when personal vehicles are used for company business. I would greatly appreciate a sample of such a form or information as to where we might obtain same.

John R. Pence

Manager of Administration, Ocean Science and Engineering Inc., Washington, D.C.

Editor's note: A sample form provided by Mr. Wilson can be found on page 52 of the Nov. 9 issue of Business Insurance.



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A joint session of the American Management Assn.'s annual employe benefit and pension conference and annual insurance and benefits conference in Chicago hears one of many speakers who discussed the insurance and benefits environment of the '70s.

Frank B. Hall & Co. makes move to acquire Parker aviation brokers

NEW YORK—In the insurance brokerage business, where mergers and acquisitions have been occurring at roughly the same frequency as landings and take-offs at JFK International Airport, another biggie took place Oct. 30 when Frank B. Hall & Co. moved to acquire Parker & Co. and two smaller firms. Parker is a major aviation insurance broker.

The deal was worked out between Hall and International Utilities Corp. International Utilities will also divest itself of Seltzer, Mitchel, Coyle Co., Philadelphia, and George E. Brown & Sons, Berkeley, Cal. The transaction will involve 775,000 shares of Hall common stock with a current market value of about \$19.6 million.

The real significance of the acquisition is that it will increase Hall's commission and fee income by more than 30% next year.

In 1969, Hall reported commissions and fee income of \$13 million. Since then it has acquired several other brokers, most recently Brown, Crosby & Co., New York and C. A. Sporn & Co., New Orleans.

However, the substantial portion of its broker activity is with international carriers outside this country. It is said, for example, that the company has the business of "virtually" every South American and Central American air carrier.

Mr. Holmes, who foresees the day when there will be only 10 or 12 large public insurance brokerage firms, said the Parker acquisition will also strengthen Hall's position from a geographical standpoint. The firm now has 10 domestic offices and eight foreign bases. When the Parker merger becomes effective Dec. 31, Hall's locations will increase by seven in this country and three outside the U.S. They are Miami, Atlanta, Jacksonville, Philadelphia, Berkeley, Boston, Washington, Mexico City, Caracas and Bermuda.

PARKER CURRENTLY employs about 300 persons. Hall, including Brown & Crosby which comes into the fold Jan. 1, has about 650 employees.

According to Mr. Holmes, Parker will be run as an operating subsidiary of Hall. Both R. Lester Cizek, chairman, and Richard W. Davidson, president, will retain their present positions.

At the end of 1969 Frank B. Hall & Co. was considered the fourth largest broker in the country, with Fred S. James right on its heels in fifth place. Some said the two were running "neck and neck." The new acquisitions are not likely to change this much since James has also been conducting an ambitious acquisition program. However, said Mr. Holmes, "there's no doubt in my mind who's fourth now."

Survey reveals producers see trend is toward fees

LOS ANGELES—Early results from a survey conducted by the northern California chapter of the Society of Chartered Property & Casualty Underwriters indicate that a significant number of brokerages are now charging fees in addition to, or in lieu of, commissions. Considerable variation in techniques and rationale, however, was also reported.

Members of the chapter reported on the survey at the annual national meeting of the society in Los Angeles.

Though many participants in the survey predicted the trend toward fees would continue they were pessimistic about the possibility of its leading to an increase in their incomes. It was pointed

out that the recent growth of consulting firms that now collect fees over and above the producer's commission, combined with restrictions on market flexibility, may force producers to adopt a compensation plan geared to services rendered rather than to the amount of insurance sold, at least on large accounts.

Improved cost accounting, though difficult, the CPCUs suggested, would allow hourly charges to be justified to the client. According to the survey, such charges now being made range from \$25 to \$50 an hour. The basis for their amount is the salary of the individual whose time is billed times a multiple to cover overhead.



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MARKS OF SERVICE

Value of the German Mark

In the fall of 1923, the mark—the unit of currency in Germany—had declined so far in value because of inflation that four trillion marks were worth only one dollar.

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THE THREE international utilities insurance brokerage subsidiaries had commissions, fees and other income of about \$9.7 million for the 12 months ending June 30, 1970. Of that amount \$8.2 million was on Parker & Co.'s books. The combined commission and fee income of Hall and its newly acquired companies is expected to reach more than \$31 million in 1971, according to Douglas King, Hall's secretary.

Melvin A. Holmes, president of Hall, said that the new acquisitions will "provide a much more balanced operation" for his company. "It complements the Hall operation and fills some of the voids," he told *Business Insurance*. "In the transportation field we will now have a real expertise in the trucking, marine and aviation fields," he added.

Parker & Co. has been a leading aviation insurance broker for years. Its clients number more than 100 airlines, the largest being Pan American. Others on the list are National, Delta, Piedmont and a piece of Eastern Airline's insurance brokerage business.

Lloyd's personal hijack offer finds skittish market

MIAMI—New Yorkers appear to be the most apprehensive air travelers, judging from their response to a Miami agent's recent offer of hijack insurance.

Frank Gabor said New Yorkers have been the most responsive to the insurance coverage he has developed with underwriters at

Lloyd's of London.

"So far we've had requests from about eight cities," said Gabor. "The first day out, we had calls from Rochester and Los Angeles."

PHILADELPHIA also has shown greater interest to the cov-

erage than Miamians, although Mr. Gabor's home city is considered something of a skyjack capital.

Business hasn't been exactly booming since the new protection was announced in October, but Mr. Gabor is confident that it will pick up as word gets around that it is available to fearful passen-

gers.

"By December we should be selling it in some quantities," he said.

His greatest concern is that somebody will make off with a Boeing 747 loaded with insureds before coverage becomes widespread enough to provide a profitable return.

"THE LIABILITY could prove pretty high with a small premium," he explained.

If each passenger had signed up for the blue-ribbon policy—which, for an \$88 premium, would return them \$500 per day they are hijacked—the liability could run \$175,000 for each day an aircraft is held.

The potential payout for 350 inconvenienced passengers runs to \$1.75 million, since the maximum coverage is for 10 days.

Mr. Gabor believes his company is the first to offer the insurance. As a managing general agent, his firm will write most of its business through other agencies.

TOUR GROUPS have accounted for most of the business so far.

He expects that most of the policies will be sold through travel agents, in the best position to offer coverage to such traveling groups.

"If a whole planeload bought the coverage, it would involve a charge of only \$2.50 a person," returning a flat \$500 to a passenger diverted from his schedule.

Passengers willing to pay more for greater protection may choose

between several higher-priced policies.

HE CAN buy a \$50 policy that will repay what Mr. Gabor describes as "a \$5,000 consolation prize."

At the head of the stack is a policy that sells for \$75 on domestic flights, \$65 for most international flights but \$88 for flights to the Mideast, a recent trouble spot for commercial aviation and its passengers.

For that fat premium, a traveler stands to earn \$500 for each day he is diverted up to 10 days, plus \$2,500 worth of medical coverage and \$5,000 life insurance.

"When it's a large deal, we have to wire Lloyd's back home in London," Gabor said. "The big deal sales are subject to bargaining too."

HIJACK insurance can't be purchased through airport vending machines.

Three days' notice normally is required, he explained.

Mr. Gabor doesn't believe the coverage is excessive, considering the "great financial and physical inconvenience" that can result from a criminal diversion.

But he said the premiums could go down substantially as more policies are sold and the insurers' risks begin to decline as a result.

Until they do, Mr. Gabor will be watching those 747s pretty closely.

Stadium . . .

Continued from page 45
in the new stadium are a carry over from Cincinnati's abandoned Crosley Field, and is held by the Buffalo-based Cincinnati Sports Service Inc. The firm orders its own insurance as a provision of its contract with the teams.

Capacity of the new stadium is about 57,000 persons, for football, and a few thousand less for baseball. The city already has held one musical concert in the stadium, and rented it to the city's two colleges, University of Cincinnati and Xavier University, for a football doubleheader.

The city has not officially accepted delivery on the facility, however, and work was still going on this month by electrical and plumbing subcontractors. The \$1.2 million scoreboard has proved troublesome and has never been entirely operational.

Security . . .

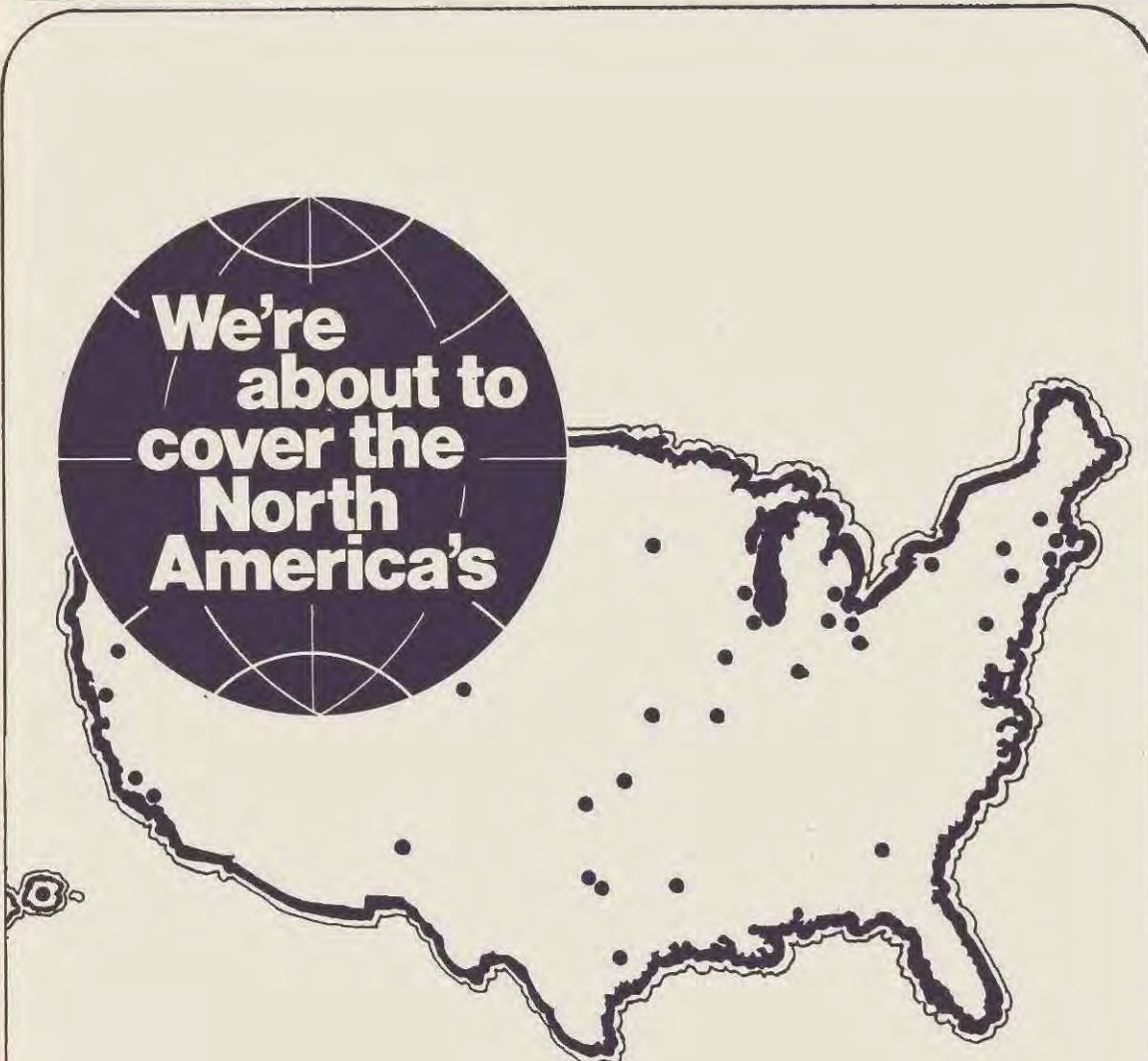
Continued from page 8
O'Connell pointed out, "a memory disc in the console checks the number on the badge with its retained list of acceptable numbers for access to this space. If the badge's number is not on the list of those legitimately granted access to this space the badge is locked into the machine and a guard is summoned.

"When somebody loses a badge they notify the guard and he takes that number out of the system," Mr. O'Connell explained. "We're extremely pleased with this system. But you know it's quite difficult to tell how well it's stopping theft. There's no solid evidence yet that our thefts are decreasing," he admitted.

Salomon does believe in the access control system's deterrent capability, however. "The employee doesn't completely understand how this thing works. Consequently, he's liable to attribute properties perhaps a bit more magical than what it can actually do. As a result the 'mystique' of the system helps to dissuade the thief," Mr. O'Connell explained.

Some firms are constantly photographing all activities in the cages during the day. Mr. O'Connell feels this communicates too much of a "Big Brother" attitude of management toward employees. "People begin to feel that you're questioning their integrity which isn't good for morale," he explained.

The COMSAFE system employed by Salomon gives a similar but less obtrusive capability. The guard observes who is going in or out of a door to a limited access area on his monitor in the system's console. He has the capability, Mr. O'Connell noted, of taking a close-up look at the person and what he's carrying without the knowledge of the person at will.



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Ask tanker pollution fine hike after Pacific Glory

LONDON—Britain is being pressed to set a penalty of more than \$100,000 for tanker operators who break pollution regulations.

This surprise move came during a debate in Parliament on the Pacific Glory fire of Oct. 24, which caused an oil-slick scare along 100 miles of coastline.

The tanker, owned by C. Y. Tung, collided with the Allegro, owned by Petroleum Marine Carriers Corp. of Nassau, and a marine inquiry in London is now sitting to apportion responsibility

for the accident at sea. **PACIFIC GLORY**, on charter to Shell, has been moved to safe waters after its thousands of tons of oil were transhipped to another vessel off Southampton Water. The incident was a sudden disaster at sea, and there is no suggestion that any vessel was breaking normal anti-pollution rules.

But during the debate in Parliament, when it was decided to accept the amendments to tanker laws set out in the international convention convened by IMCO, several members of Parliament complained that current penalties were too low for future super-tankers. They urged that they should be put as high as £50,000 sterling so as to stop anxiety that some owners might be tempted to break pollution laws on excessive scales, even though these might be "maverick" firms with no connection with reputable operators. IMCO is (Inter-Governmental Maritime Consultative) Organization), a specialized agency of the United Nations.

Anthony Grant, government spokesman on pollution, said that at present top fines were being hiked from \$2,500 to \$12,500, and could go even higher if there was a serious offence. Speakers declared that it must be made commercially unrewarding to pollute the sea, and Mr. Grant told them that in government opinion the present proposals were thought to be sound and valuable in the light of modern shipping controls.

Oil companies had cooperated with the anti-pollution lobby in acceptable ways, he asserted.

EARLIER, at Brussels, Mr. Grant had told delegates to an international colloquium on oil spillage that there should be limitations on the size of tanks in

giant oil carriers. One major oil firm, British Petroleum, is planning to double its super-tanker fleet from 21 200,000-tonners to 45 of the large-size vessels in the next four years. The British government's national fund for meeting any public emergency in the catastrophe field, such as exceptional oil pollution, has been raised from \$300 million to \$500 million. ■

Alarms . . .

Continued from page 43
system sounds an area code on all indicating devices, signifying the existence of a fire and the area or zone within which the alarm was initiated.

SELECTIVE CODED systems are designed for large or complex structures where it is important to immediately notify occupants to evacuate and to alert fire fighting personnel as to the location of the fire. Actuation of any coded manual station in the system sounds four rounds of a coded alarm which indicates the specific location of the device from which the alarm was initiated.

Presignal coded systems are used in large or complex structures where it is vital to locate the fire immediately, and where key personnel should be alerted without unnecessarily alarming the occupants. Actuation of any coded presignal manual station in the system indicates the precise location of the originating device to key personnel at selected locations, permitting them to investigate, evaluate and, if necessary, sound a general evacuation alarm by inserting a special key into the manual station and turning it.

The foregoing descriptions indicate results that occur when any of the four different manual stations are actuated. Automatic fire and smoke detectors that are employed in the fire alarm system produce the same results. ■



Ernest L. Whalon, insurance manager of International Utilities, Philadelphia, has been awarded the Insurance Institute of America's diploma in management studies. The diploma is granted to persons in property and liability insurance who have completed a four-semester program and four national examinations in the management area. Mr. Whalon is secretary of the Delaware Valley chapter of the American Society of Insurance Management.

Pays taxes, but . . .

PITTSBURGH—A federal judge here has ruled that \$4,500 paid by a bank robber to the Internal Revenue Service to satisfy a tax lien is not refundable.

The case involved a man who paid his back taxes two days after he held up a Pittsburgh area bank in 1964 and escaped with \$18,500.

TransAmerican Insurance Co., which covered the bank's losses, filed the suit in the U. S. District Court to recover the money paid to the IRS.

Chief Judge Rabe F. Marsh said the insurance firm could not force the IRS to refund the money and dismissed the case.

In his opinion, Judge Marsh noted that the IRS had no knowledge of the taxpayer's involvement in a robbery until a week after the payment was made. Marsh said:

"Title to currency passes with delivery to person who receives it in good faith." He pointed out that a "less stringent rule would disrupt commerce."

The bank robber had paid the money to satisfy a tax lien incurred when he operated a tavern in a Pittsburgh suburb.

Although the man had squared his debt with the federal government he got little sympathy from the state court.

He pleaded guilty to the bank holdup in Criminal Court in 1965 and was sentenced to eight years in prison.

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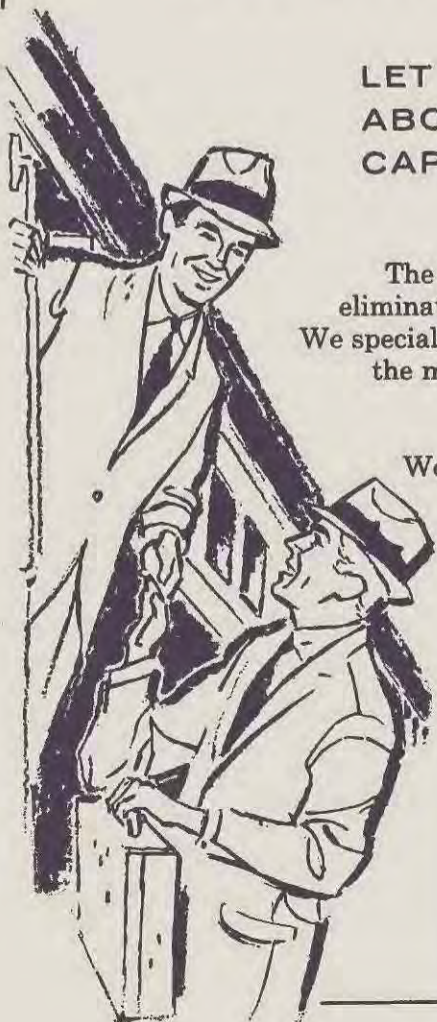
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Drugs...

Continued from page 35

One hears a lot about adolescent abuse of drugs—but how does this occur in business? "Am I on the record or off the record?" is the first line of reply most often heard to this question. "Sure, I find addicts," he says, once his anonymity is assured. "We have a lot of young people who work in our plant.

"Some you might classify as from an underprivileged background—we have a lot of young black people who're predominantly from the South. They almost never use drugs, contrary to what some people typically say. Perhaps they're not as sophisticated as their peers in the black ghettos down there in New York," he said.

He explained that his drug problem surfaced generally among white male employees from 20 to 26 years of age. "They blew grass while they were in Vietnam in the Army is the usual story I hear. Then somebody turned them on to heroin, or worse as it's called. Heroin gives him an escape from the bad situation over there. It's cheap, and abundant. The army simply turns its back on drug abuse, according to what I've heard from some of their former charges. If the services do happen to stumble over the fact that they have an addict on their hands they give him an honorable discharge and fly him back home in a hurry to get rid of him."

"**HIS PROBLEMS** begin when he finds that the 100 milligrams or so of heroin he needs every day is a \$75 habit here. He usually isn't making that much from his job, so he has to steal to support his habit, and usually from the company. They tell me the average return on stolen merchandise is about 20¢ on the dollar—you can imagine how much the addict has to steal to support his \$75 a day habit," the source explained.

"No, we don't have a formal program on drug abuse. No the management hasn't any awareness of the problem. I've just dictated my second letter to the president on a drug program—it's still on my machine. The first one apparently didn't get much of a rise—I never got in to see him. Maybe this one will be different," he said.

The outlook is not quite as bleak everywhere, however. Fidelity bonding underwriters, for instance, tend to take a "wait-and-see" approach to what they brand as "alarmist" warnings about the proliferation of drug abuse in business. "We find that gambling is a bigger risk problem to us than drugs or alcohol," said Joe Dacunto, an underwriter with Fidelity and Deposit Co.

Apparently, discovering an addict or a "pill-popper" is quite rare in the fidelity bonding process. Mr. Dacunto pointed out that applications are obtained from all people to be bonded. In addition, former employers are queried. "If there's nothing mentioned it's tough to find out. There's really no loss prevention we practice ourselves in this area. We look for a comprehensive system of internal controls within the structure of the firm to prevent losses of all kinds," he explained.

HE NOTED that to date he had seen no claims involving drug abuse, nor any discovery of addicts during the normal course of their application investigations.

The head of an investigative division for Fidelity and Casualty Co. explained that his department never kept a tabulation on

how many drug users have been discovered during the course of investigation. "So far there's been a few," said John Bonhard casually. "It does show some increase in trend. We're learning of an instance of drug abuse maybe every other day now."

He noted that principal sources for these discoveries were credit agencies and informants. "We do inform the insured when we find an addict or someone who's using drugs heavily," Mr. Bonhard said. He disagreed with Mr. Dacunto's feeling about gambling. "Life and limb are involved in drug abuse—but this simply isn't a problem in gambling," Mr. Bonhard replied. He admitted, however, that there were still fewer losses covered under fidelity bond agreements that originated from drug abuse problems than those losses incurred on employees who had a yen for dice-tossing and the like.

Whatever fidelity bond writers' experience with drugs has been, the number and kinds of safety and security (not to mention liability) problems triggered by increased use of drugs by employees could go on and on. It has been the practice in the financial industry as well as other fields that rely heavily on public confidence, that whenever an addict was discovered he was promptly fired for fear of the public reaction if it ever got out.

A FORMER medical director of the Chase Manhattan Bank emphatically denies this was ever considered as an alternative practice by that bank. He indicated that the bank attempted to find help for the addict, taking a rehabilitative attitude toward these problems in general and resorting to firing the addict only when necessary.

Utilities such as Consolidated Edison Co. of New York Inc. or New York Telephone have a particularly heavy exposure due to their massive manpower needs. New York Telephone, for example, intends to hire 300,000 new young employees in the next 12 months. Many if not all of these young people will have been exposed not only to drugs but also to their peers' collective pressure to try them. Consequently, there will inevitably be that percentage of addicts, speed and acid freaks as well as pot heads among the employee population.

Dr. S. Charles Franco, medical director of Con Ed tells how his company, rather than shaking its hands and its head is trying to come up with a reasonable antidote to the inevitable dose of blight the company has to contend with. "Business has been hard put to come up with a solution to its particular problems associated with drugs, such as abnormal behavior, absenteeism, poor work performance, thefts and pushing of drugs," he said.

Dr. Franco noted that companies simply must take action to develop a formalized program to deal with drug abuse. He put forth the following as his suggested outlines for such a campaign:

- Recognition of the signs of drug addiction and drug abuse problems among job applicants and regular employees.
- Referral of drug addicts and others with drug abuse problems to rehabilitation services.
- Hiring and retention of adequately rehabilitated addicts and others who have abused drugs.
- Security of company property and operations.

HE CONCEDED that recognizing the signs of drug addiction and drug abuse are very difficult. "However, there are certain signs which may indicate the existence of drug abuse such as erratic be-

havior, stupor, confusion, frequent agitation, lack of coordination, excessive absence and unsatisfactory work performance. This requires, of course, an education program for supervisors," he noted.

Dr. Franco stated that "Business is not able to rehabilitate active drug addicts at work; the same applies in cases of serious drug abuse of other types." He indicated that close liaison between the company and a rehabilitative program was more appropriate. In addition, the soft drug user, said Dr. Franco "often involves fairly long term psychiatric treatment. Self-help group therapy may open up greater treatment opportunities. Serious drug abuse may be associated with deep-rooted personality disorders which of themselves are difficult to treat."

Dr. Franco warned against combining an alcohol treatment program with drug rehabilitation efforts. "There's a world of difference between the two conditions," he said. He also cautioned the business community against "quicky" methods. "Even with the Methadone (a drug alternative to heroin that leaves the addict able to function normally) treatment, a proper period of follow-up after the first phase of six weeks will go well into six to 10 months of the second phase of treatment," he said.

Dr. Franco stipulated that before a rehabilitated addict was hired by a company (which he urged with proper precautionary procedures) documented proof of the medical treatment effort should be obtained along with some evidence of the stability of the applicant's rehabilitation.

HE URGED business to cooperate with the police in cases of suspected drug traffic and apprehension of individuals caught in the act of pushing drugs. Another source pointed out that it was the pusher who made addicts of people. Any security program must maintain a special vigilance against this insidious danger.

The medical director of a computer firm noted that the company must maintain a rehabilitative posture toward its employees who are victimized by drugs: "We can throw these addicts away and forget about them. At first that's the easiest way. But sooner than we think we will find that we have no manpower left. We will have forgotten them out of existence and into drugs," he said. ■

Dental group to sponsor package plan

HARTFORD—The Connecticut State Dental Assn. board of governors has voted to sponsor a "mass purchasing" plan of professional insurance coverage for its 1,850 members.

The plan, underwritten by the Security Insurance Group of Hartford and endorsed by the American Dental Assn., provides broad property and professional liability coverage for participating dentists.

It also contains a \$1 million "extra protection layer" to cover claims exceeding basic policy limits.

DR. ROBERT Zeoli of New Haven, chairman of the state group's council on insurance, told *Business Insurance* that the plan is "completely voluntary."

"Our members," he continued, "will benefit from premium savings made possible by the mass or volume purchasing power of the group." ■

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