Inflation hurts bondholders, profit sharers told

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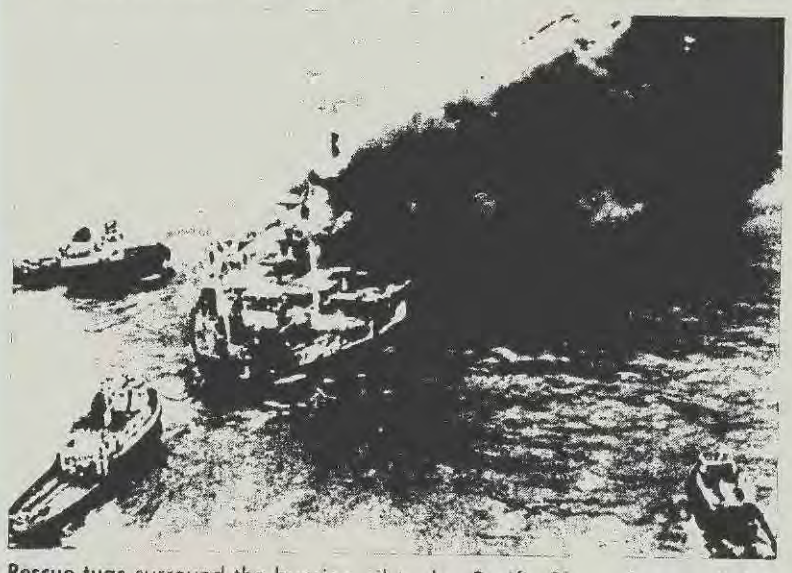

Rescue tugs surround the burning oil tanker Pacific Glory after it collided with another tanker off the Isle of Wight. About 70% of the loss on the $7.5 million risk is covered by the London market. —Wide World photo

Hull Syndicate has 20% of tanker loss

NEW YORK—The hull and machinery risk on the $7.5 million Liberian oil tanker Pacific Glory, which was heavily damaged after colliding with another tanker off the Isle of Wight late last month, was split in several insurance markets, *Business Insurance* has learned.

About 70% of the loss will end up in London, with Lloyd's share set at 41%. Other London insurers will be hit for 29%. The American Hull Insurance Syndicate has a 20% share of the loss, and the remaining 10% is believed to be in other European markets.

The 42,777 gross ton Pacific Glory burned and began seeping oil into the sea after colliding with the Liberian-registered, Greek-owned Allegro. The latter vessel, which is entirely insured in foreign markets, sustained only minor damage. Pollution liability that may result from the incident will be covered under the Tanker Owners Voluntary Agreement Concerning Liability for Oil Pollution (TOVALOP).

According to marine underwriters here, damage to Pacific Glory is extensive. However, she is salvable and just how much of her $7.5 million value will be recoverable is not yet known.

While pollution damage did not appear to be as extensive as first believed, the owner of Pacific Glory will be liable for "reasonable clean up costs" incurred by the British government in attempts to disperse the fuel oil. Under the TOVALOP agreement, the vessel's owners are liable for a maximum of $100 per gross registered ton or $10 million, whichever is less. In Pacific Glory's case, the maximum liability would be about $4.3 million. Clean up costs, however, are expected to be substantially less than that. If it is determined that the Allegro was responsible for

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Expect no claim denials under Canadian War Measures Act

MONTREAL—The invocation of the War Measures Act in the troubled Canadian province of Quebec has had little, if any, effect on claims handling procedures here, according to persons involved directly with the insurance industry.

The War Measures Act, written in 1914 and never before invoked during peacetime, states in part, "The issue of a proclamation . . . shall be conclusive evidence that war, invasion, or insurrection, real or apprehended, exists. . . . " Since many insurance policies, including standard fire policies, exclude damage caused by insurrection, Canadian policyholders have become somewhat wary about the state of their coverage and Canadian insurers have reported a flood of phone inquiries.

"The act does not declare a state of war or insurrection," said Charles Moreau, president of the Insurance Federation of Canada. "Absolutely nothing has been changed regarding claims or coverage in policies as a result of the invocation of the act. The clauses which protect insurance companies from paying damages incurred during wars or rebellion are a matter for interpretation by the courts."

A SPOKESMAN for the Canadian Underwriters Assn. felt that a blanket ruling on how claims could be honored would be impossible. "Every insurance company has a different wording regarding acts of God, war or insurrection," he said, "but the courts normally rule in favor of the claimant."

The key words to be considered are "apprehended," since only a state of "apprehended insurrection" exists; and "caused by" because most policies state that loss must be "caused by" insurrection rather than "during" a period of insurrection.

An opinion issued by Reed Shaw Osler Ltd., a large Canadian brokerage firm, said that "only a state of apprehended insurrection exists; this is not sufficient for the exclusion to apply; an actual insurrection must take place."

The opinion also pointed out, "The onus is on the insurer to prove the application of the exclusion and, where the policy is so worded, that damage or loss was caused by insurrection—not merely that it occurred during the insurrection."

Arthur Bacon, senior vp of Reed Shaw Osler, noted, "to my knowledge, there have been no cases of payment withheld because of the act. The whole thing has been blown out of proportion in the papers outside of Montreal. The situation ain't good but ain't that bad."

Continued on page 45

UAW is now picking up insurance tab for strikers at General Motors

DETROIT—General Motors is sending the bills to the United Auto Workers for continued insurance coverage for some 400,000 striking UAW members at GM plants. The UAW, despite its fast-dwindling resources, has agreed to pay the bill and has taken steps to raise additional funds to cover the premiums.

The two-month-old strike against GM, meanwhile, showed signs of dragging on into 1971. GM said it would require two to three weeks to get back into production following ratification of a new contract, and the company, suffering from its first financial loss since the long UAW strike in 1946 ($77 million in the quarter ended last Sept. 30), is not anxious to start up in December only to shut down again for the seven paid holidays at the end of the month.

The UAW, at a special constitutional convention in Detroit in late October, approved a dues increase that should bring in an additional $10 million a month from those UAW members who are working. This new money was tagged specifically for insurance premiums for striking GM members. The dues increase became effective Nov. 1, but the money will not be available until December.

MEANWHILE, GM already has billed the union for $21 million for striking GM employes. The initial invoice, for something more than $3.2 million, took care of the October premium to Metropolitan Life for group life coverage. The balance, $17 million, was the October payment for November coverage for hospital-medical-surgical and prescription drug benefits, mostly to Blue Cross-Blue Shield. Sickness and accident coverage lapsed Sept. 30 and is not included in the GM-UAW arrangement.

The UAW started out with a $121 million "war chest" when the strike began Sept. 15. Benefit payments to UAW members, which started two weeks later, have averaged $14 million a week, indicating that the strike fund will run dry by the end of November. Since not all of the strike fund was liquid, the UAW arranged a $38 million line of credit with the Teamsters, Rubber Workers and Steel Workers unions to make the fund available for cash payouts to strikers.

But the strike fund makes no provisions for insurance premiums, so the union agreed to reimburse GM for the payments to keep the policies in force and coverage uniterrupted. The union probably will not make any payment until January. ■

Steel layoffs won't block most benefits

NEW YORK—Workers caught up in a growing number of steel company layoffs across the country will be fairly well provided for, according to corporate steel execs and union officials.

Unlike laid-off workers in some other major industries, steel workers are protected by a supplemental unemployment benefit plan. Another protective edge is that steel men with larger families are paid higher lay-off benefits.

Five major steel companies have laid off a total of 10,000 workers since the GM strike began Sept. 14. If Bethlehem Steel Corp. lays off 10,000 more—as it has been rumored it will—coupled with further layoffs by Republic Steel Corp., Jones & Laughlin Steel Corp., ARMCO Steel Corp., many thousands of workers will be depending on company benefits.

More than 90% of the steelworkers are unionized, and their pensions, life insurance, medical coverage and earnings status are protected according to the worker's age and length of service with the company.

DURING LAYOFFS and shutdowns "everyone suffers, and everyone wants more. We are constantly working for more benefits," according to one Pittsburgh labor source. "We would like to see the federal government guarantee pensions. We would like to have larger pensions, greater work incentive, longer vacations and a better deal all the way around for the younger, less skilled workers."

As it stands now, steelworkers seem to be well protected during layoffs by a detailed benefit program. A worker is assured of receiving credit toward his pension if he is laid off for no more than two years. If a worker is not laid off, but moved down to a lower paying job, he does not have to take a total cut in pay, and his chances for moving back up once the period of low production is over are good. As for medical coverage, all workers are eventually left on their own as the layoff extends into a year. Life insurance, on the other hand, is guaranteed by steel companies for at least six months, and can be carried for as long as 18 months if the worker pays the premiums.

Benefits for laid-off workers in the steel industry include:

Continued on page 45

Expect new IRS ruling to control funds given to Nader-like law firms

WASHINGTON — Corporations that have been—or are afraid they may be—on the receiving end of Nader-type pollution and consumer lawsuits brought by the growing number of so-called public interest law firms shouldn't get their hopes too high over the Internal Revenue Service's announcement of a 60-day study to decide whether to lift the tax-exempt status of these law firms.

It is true that the IRS could call a screeching halt to a majority of these public interest suits by ruling that contributions to these firms are no longer tax exempt, thus cutting off their principal source of finances.

But, most insiders feel the IRS will not go that far. Instead, it is felt, the agency will only place some controls over the way in which tax-exempt contributions can be spent, or over the amounts that can be contributed, or both.

The Nixon administration has emphatically denied having anything to do with the IRS threat to these law firms. But the timing of the announcement, less than one month before the election, was significant.

THERE IS LITTLE doubt that the question of the tax exempt status of these organizations has political overtones, and that the Nixon administration might reap political advantage from a direct move against them.

More and more corporations are being hit by pollution and consumer-demand suits and almost all of them fear a step up in the trend if Congress passes a strong bill authorizing class action suits in federal courts.

This has had an especially bitter impact because it is occurring at a time when corporations are being hit by tight money, decreasing profits, a bear market and strikes.

Fueling suspicions that the IRS move was at least partially designed to show industry that the Administration is on its side, is the fact that the IRS took an especially tough line from the start, warning that donors can no longer be certain of tax deductions on funds given even to such law firms that already have favorable tax rulings.

THUS, IN EFFECT, the agency attempted to lift the tax exempt status of these firms before the study was even started.

However, most observers felt even the IRS knew it could not enforce such a line and within a week the agency announced that foundations and other contributors will be "fully protected in making contributions under the advance assurance implicit in outstanding rulings."

The agency cautioned, however, that the reassurance extends only to situations in which funds are "for support of current operations under the rulings."

The impact of public interest law firms on business has been phenomenal. A look at two court victories of the Center for Law and Social Policy will serve as an example.

THE CENTER IS headed by Charles Halpern, a Yale law school graduate and the son of a late New York judge. It was formed in mid-1969.

In one court action, the center succeeded in stopping the Secretary of Interior from issuing any more construction permits to oil companies, thus blocking construction of the giant Trans-Alaskan Pipeline System until a task force studies whether the line can be built without ruining the countryside.

In another action, the center succeeded in forcing the National Highway Safety Bureau to reopen a case involving a General Motors recall of 50,000 defective truck wheels. It argued that 150,000 other GM trucks displayed the same defects and should also be called in.

The court ordered the NHSB to reopen its investigation, rejecting the view that the agency alone should decide recalls, without citizen consultation. ■

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$365,000 awarded in N.Y. suit

ALBANY—A supreme court jury here has awarded three persons a total of $365,000 in a products liability suit against the Chrysler Motor Co. following an automobile accident in which it was alleged the power steering unit had failed. Chrysler will appeal the decision.

Litigation is likely to drag on, according to a source at the automaker's Detroit headquarters. However, if the award is ultimately upheld, a large portion of it would be retained by the company, since Chrysler's insurance program is on a loss-rated basis.

Although not named a co-defendent in the case, the part that allegedly failed causing the accident was manufactured by T.R.W. Inc., a Cleveland-based supplier for Chrysler. If the award is upheld, Chrysler may subrogate against the supplier.

The $365,000 was awarded to three persons injured in a crash south of Albany Aug. 2, 1967. Mrs. Marsha Codling was given $200,000 for permanent injuries sustained in the collision, and her husband, Frank W. Codling, was awarded $150,000 for injuries and his wife's medical expenses. The driver of the car in which the power steering unit allegedly failed, Christion Paglia, was awarded $15,000 for his injuries. ■

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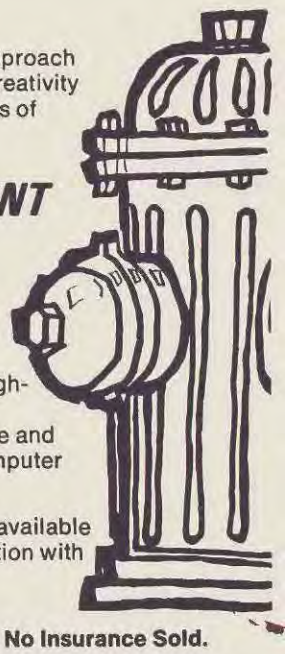

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Bernstein foresees far deeper role for the government in insurance

NEW YORK—The setting was the Society of Chartered Property and Casualty Underwriters luncheon at the Hilton Hotel. The performer was George K. Bernstein, federal insurance administrator of the Department of Housing and Urban Development. The performance, according to some members of the audience, should have been entitled "Variations on a Theme by Bernstein."

George Bernstein appears to be a concerned man, concerned enough about the state of insurance in this country to have given essentially the same speech at lunches, seminars and conventions for the past few months. And the speech, as he gave it here, is not an easy one on his audiences.

"I am not optimistic about the state of private enterprise in insurance," he opened. "The insurance industry does not seem to want insurance business anymore. The industry is withdrawing and failing to write lines that used to be profitable for them to write.

"The federal government will step in and fill the needs of the public," Mr. Bernstein continued. "We have already stepped into the workmen's compensation area, as well as Medicare and even Medicaid.

"THERE IS a bill in Congress right now, which has passed the Senate, which will put the government in the crime insurance business." He also mentioned the FAIR plans and the riot reinsurance program.

The government has had to step into the crime and flood insurance fields, Mr. Bernstein feels, because insurance companies were rapidly backing off. "But the government has extracted a price for its involvement in flood insurance. We have asked that building be stopped in flood plains, among other things, and have denied insurance where this request has not been honored."

He pointed out that insurance rates have been soaring because of the rising crime rate and the lack of police protection. "And the rates soar because of experience," he said.

In other areas, he noted that the insurance industry is withdrawing in the windstorm field —that there is a pullout after each hurricane. Assigned risk plans are gaining more strength in automobile insurance, he said.

"THERE ARE many reasons for what is happening. We, as a society, treat the symptoms rather than the cause. We still allow drunks on the highway, there are still criminals on the streets," he said.

At the other end of the spectrum, Mr. Bernstein asserted that "the primary responsibility of the director of an insurance company is to his stockholders. He is there to maximize profits. There is obviously a profit squeeze at the moment, so the insurance companies turn to areas other than insurance to guarantee profits, such as banking or investments."

He attacked both members of the insurance profession and outside influences, like politicians, for escalating the problem. "People who are responsible for the writing of insurance," he said, "forget that you are supposed to take the bad along with the good. Insurance set up to guarantee profits is not insurance at all. It is a profit structure much like that of a utility.

"Rates," he continued, "are now becoming the focus of politicians. Every time anyone raises insurance rates, you can rest assured that some politician is going to attack the raise. What happened in Massachusetts is an absolute farce. Those politicians, and others, who forget that insurance is a product of experience are just as responsible as the insurance companies for the market drying up."

HE FELT that Washington was becoming the alternative for people who look at insurance with a social conscience. "Anyone in our society who meets some kind of standard is going to get insurance. The states seem unwilling to solve social problems through social means. The federal level is the only alternative."

He said that there "will be crime insurance written on the federal level within the next year. And if the government gets in, it is going to keep getting in deeper. We live in a 'What have you done for me lately' society, which means crime insurance today, auto insurance tomorrow; reinsurance today, direct writing tomorrow. We've got the name in Washington; we damn well better get the game."

The more that government gets involved, the more the role of the insurance company will be reduced to that of a financial intermediary and less, as time goes on, the federal official noted.

"The hope for the insurance industry is for insurance people to expand their horizons," Mr. Bernstein said. "If the states will pay the price, will the insurance industry go along with them? A yes answer is the hope for the future." ■

Celia costs

Phoenix Assurance of London estimates that Hurricane Celia has cost it $600,000 in claims. Net premium income for its U.S. business in the first half of 1970 was $38 million, compared with $36.5 million in same period last year, and its statutory underwriting loss was $730,000, against $639,000.

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washington watch

Forecast hazy for national safety legislation in 'lame duck' session

WASHINGTON—Confusion is mounting in the nation's Capitol as time nears for Congress to return to its first "lame duck" session in 20 years to pass, or not to pass, a host of highly controversial issues, one of the most important of which is occupational health and safety.

Washington usually abounds with politicians, lobbyists and general gadflies who, for the asking, are willing to tell you the "mood" of the Capitol at any given time, or the "general feeling" of the legislators on a particular issue.

But, things are different now. No one seems to know exactly what to expect during the final days of the 91st Congress.

THERE ARE THOSE who say it will be strictly a "goof off" session, with such a high degree of absenteeism and partisanship that nothing will get done.

They say the Social Security amendments will be turned into a "Christmas tree" bill, with members attaching all sorts of riders to it knowing it is considered "must" legislation. This, they say, will bog Congress down hopelessly in petty arguments and political maneuverings.

Others of course, see another side, saying the leadership will be able to take control and with bipartisan support—unhindered by pre-election jitters—get the necessary work done including passage of an occupational health and safety bill.

Almost everyone agrees that if Congress does do anything meaningful, the safety bill will be one of the issues where action will center. But, there will still be a furious fight, not—initially at least—over whether to pass a bill, but over which one to pass.

In the final days of the pre-election Congressional session, it became apparent that the lines were quite closely drawn for the floor fight between the Administration-backed bill, introduced by Rep. William Steiger (R.-Wis.) and Sen. Peter Dominick (R.-Colo.) and the stronger proposals reported out of the Senate and House labor committee's of New Jersey Democrats Sen. Harrison Williams and Rep. Dominick Daniels.

BETTING WAS that Sen. Williams had it in the Senate, Rep. Steiger in the House. But, no one can be certain what effect the election had on the already narrow vote margin on both sides.

Will Rogers once said that an honest politician is one who, when bought, stays bought. But, someone else has said that an honest man is hard to find, and lobbyists are scampering around trying to make certain that their particlar legislators stay "honest" in the Will Rogers sense, and return to the "lame duck" session with the same inclinations they had prior to the November elections.

The Senate is scheduled to take up the matter on the floor, after first considering the so-called "farm" bill. Action in the House will follow the Senate debate.

The principal difference between the two approachs is that the Administration wants to establish a five-member, independent, presidentially-appointed National Occupational Safety and Health Board to set standards, and a separate Occupational Safety and Health Appeals Commission to adjudicate alleged violations brought by the Secretary of Labor.

UNDER THE Williams-Daniels approach—which is strongly supported by organized labor—the labor secretary would set and enforce standards.

A second difference exists over the employer's basic responsibility under the act. The Administration language holds that the employer must furnish employment free from "readily apparent" hazards "which are causing or are likely to cause death or serious harm."

The Daniels bill requires the broad, vague mandate that employers maintain safe and healthful working conditions. This is tightening up somewhat in the Williams bill, although still not to the Administration's satisfaction. Sen. Williams would require employers to furnish employment "which is free from recognized hazards so as to provide safe and healthful working conditions."

The controversial "strike with pay" clause in the Daniels bill has been eliminated in the Williams proposal and is not likely to be a major issue in the eventual compromise. Under the Daniels bill the employe would have had the right to "absent himself" from certain areas where toxic substances were being used without proper protective equipment.

Sen. Williams did, however, go along with the Daniels proposal to allow the Labor department inspectors to shut-down plants or industrial processes where "imminent danger exists," although under the Williams approach the labor secretary must be assured first that there is not time to obtain a court order.

The Administration would place the entire matter in the hands of the federal district courts. ■

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SAN FRANCISCO—California's district court of appeal has ruled a motorist need not be in actual physical contact with his automobile to be protected by Uninsured Motorist provisions.

In the case of *Cocking* v. *State Farm Mutual Automobile Insurance Co.*, the trial court held that no liability existed. The appeal court reversed the ruling.

In the case, the permissive user of an automobile was struck and injured by the car of an uninsured motorist while he was preparing to put on chains as required by road conditions. ■

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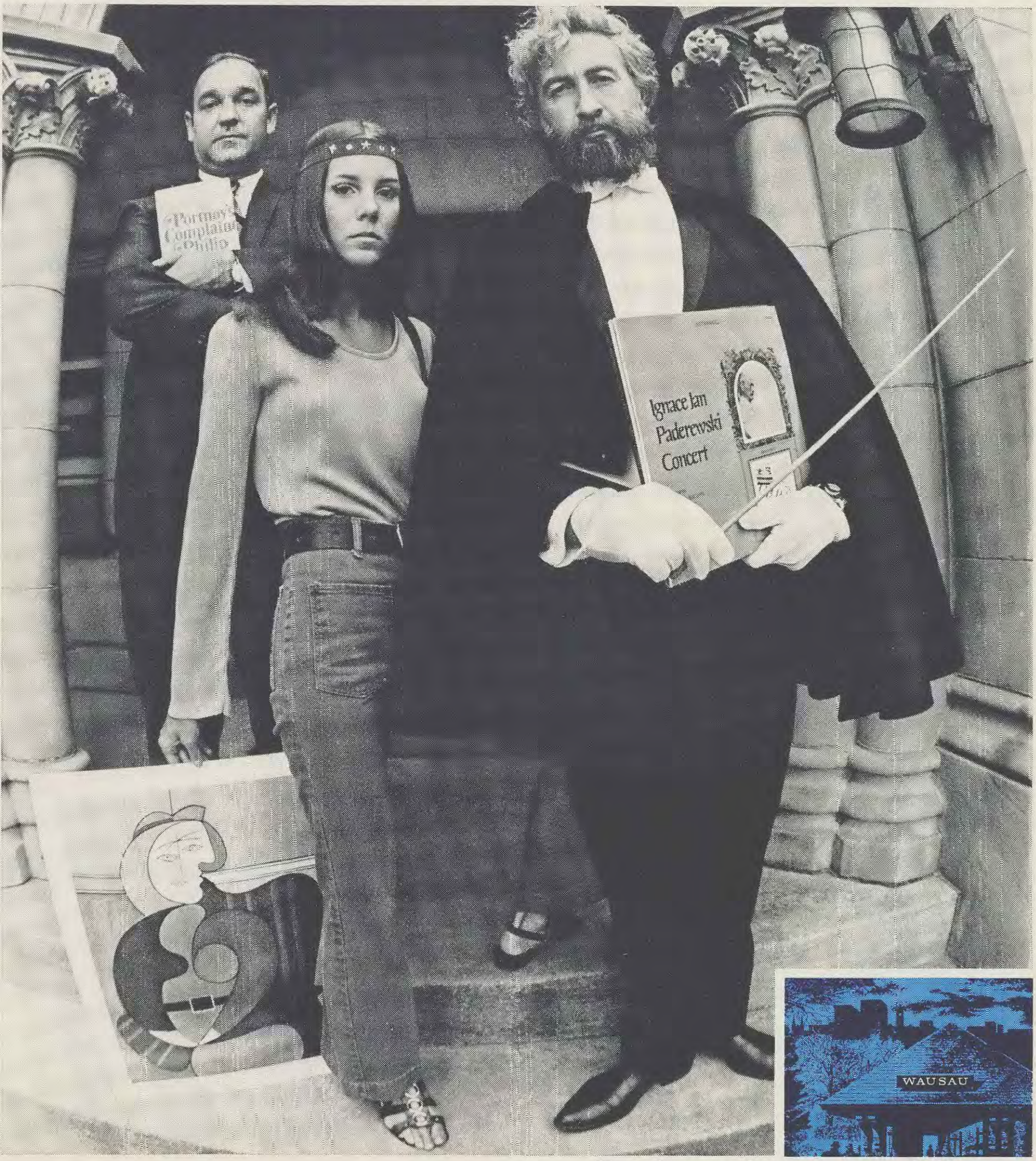

Employers Insurance of Wausau

Risk services for '70s: What to ask and expect

By TERESA NORTON

LOS ANGELES—The risk manager of the '70s will be very sensitive to the cost effectiveness of the services he uses, says C. C. Griffin, assistant insurance manager for Carnation Co. here. As a result, the old question "Commissions or fees?" remains a problem.

Mr. Griffin told Chartered Property & Casualty Underwriters at their annual meeting that he opts for working on an agreed-fee basis. He noted that not only would this reduce the effect of a broker making less money when he does a good job but also that commissions are part of the premium and insurance premiums are taxable. "Brokers are also the only professional men who don't operate on a fee basis," he added.

"To effectively carry out the risk management principles, however, whether by fee or commission," he said, "a program must be guided by a risk man who recognizes a need for services and is knowledgeable in obtaining and using them." A company that does not employ a capable risk man must rely on its broker to take over the risk management job and should periodically utilize the services of an outside consultant, he suggested.

SERVICES available to a manager include: risk marketing, computerized loss statistics reports, loss consulting, safety engineering, self-insurance consultation, actuarial advice and risk analysis. "From the standpoint of a large corporation all these are available from the broker," Mr. Griffin said, "but risk marketing is his best area—the rest are ancillary."

In the present situation insurance companies are losing money and the cost of doing business is rising for corporations; in between is the large broker who is doing a profitable business now and getting bigger by merger, Mr. Griffin said. "The broker is in a good position now to do research and development in the risk management area in order to supply his clients' needs in the '70s."

He gave warning, however, that the demand for risk management services in some companies may not be as strong as the need because "many organizations do not have risk managers who recognize risks." Companies should employ generalists who can see the risks, he told the participants, because they can't afford all the specialists that would be necessary. It is up to the risk manager to look for the outside services.

An all-sides-present, six-member panel explored not only the current and future demands for risk management services, but also predicted how supply sources may have to change to meet the needs.

"THE TASK of a risk manager is to provide a secure base from which the corporation can reach its goals and the '70s will see a refining of the risk manager's methods," E. W. Altstaetter, corporate director of insurance for North American Rockwell Corp., Pittsburgh, told the CPCUs.

Just as the corporation employs its total reserves toward its growth, internal development, return on invested capital, profits per share and external expansion, said Mr. Altstaetter, so will the risk man have to employ his total reserves to avoid, reduce, assume and, as a last resort, transfer losses. The speed required in decision making will increase and data processing expansion will aid him here, according to the speaker. The trend toward more direct contact between risk managers and underwriters will continue, the executive said, and there will be less reliance on the broker "in his traditional role—he will become more of a program manager for companies as more and more of them go multinational."

And the risk manager of the '70s will be demanding not only more services but also a higher quality, says William S. Mortimer, director of insurance at Norton Simon Inc., New York. He will expect higher standards from his supplier, according to Mr. Mortimer, because he will be more qualified and will be managing a much larger staff than he does today.

Specialization of services is definitely the key to the future, he believes, and he seriously doubts "how much service will be supplied by the insurance contract. The place for insurance will be in the excess market." Specialization will end the duplication of effort that exists today and in the future "insurance companies will do the dumb-dumb work. The risk manager and the broker will be doing the creative work."

According to Mr. Mortimer, risk analysis is the most difficult area in which to specialize. Reasonably good service now exists in the risk reduction area, even though it is more oriented to the insurers' needs than to the customers', he said, "but some good independent consultants are now available and maybe they'll give the insurers some competition."

IN THE FUTURE increased risk assumption will bring about the decline of the broker's function as a risk marketer; "the risk manager will be doing more of his own marketing on large accounts and the broker will be called in only to help him. So it will become a two-party proposition," he predicted.

Another form of specialization will be in increasing demand, he told the CPCUs, as a result of the capacity problem. More pooling of risks by industrial concerns will bring about a need for an organization to help the pools work economically.

Claims handling, as corporations turn more and more to self-insurance, he said, will become a more important administrative area to be taken over by specialized product liability claims men. "I can see trade organizations having other people set up claims-handling arrangements for them. When we have an exploding-bottle case it not only hurts our image but also that of the whole industry" and this will lead to cooperation between companies.

"Insurance companies have one good 'in' in this respect," Mr. Mortimer said, "and that is their geographical distribution. Claims handling will have to be done on a wide basis and they have the men.

"There's a job for the insurance industry to do in the future if they can change," he concluded.

Continued on page 50

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Stock market dip changes profit-sharing valuation at S. C. Johnson

CHICAGO—"The sudden and severe drop in the stock market averages in the spring of 1970 has convinced the trustees of the S. C. Johnson & Son Inc. employes' deferred profit-sharing trust that a better method is needed to value participants' account balances," stated John A. Cardon partner, Lee, Toomey & Kent, Washington, D.C., the legal counsel for the S. C. Johnson trust.

Mr. Cardon spoke at the Council of Profit Sharing Industries' 23rd annual conference here.

The S. C. Johnson company decided that an annual valuation date was unfair to the employe for the following reasons: "The value of the trust might be considerably higher at separation than almost a year ago and such would unfairly deprive the employe of considerable money, and conversely, the current value of the trust might be considerably below that of about a year ago and such would create a dangerous excess drain on the funds of the trust, i.e., paying out value it did not have."

AS A RESULT of the inadequacy of an annual valuation date, Mr. Cardon said the S. C. Johnson & Son Inc. employes' profit-sharing trust adopted in 1953 a quarterly valuation date that "provides that an employe retiring or otherwise leaving the company receive his share in the trust as valued on the single day of each calendar quarter preceding his date of termination."

With the great fluctuations in the stock market, especially in the latter half of 1969 and the first half of 1970, Mr. Cardon said that it then became clear to the trustees that a single date, "no matter whether that be quarterly, annually, or monthly, or even daily," was unfair to the retiree. As a result, the trust sought a plan that would be "fair to all employes (retiring and continuing) and not endanger the solvency of the trust that contained more than one valuation date.

According to Mr. Cardon, there is obviously more security for the employe in an averaging situation. C. S. Johnson decided that the best plan was to average three valuations, the current plus the immediate past two. It was felt that this method would closely follow the actual balance in normal market cycles.

Mr. Cardon explained how the three-point averaging method would have protected the account in the past. "From June through September of 1966 the market fell 11% from 870 to 774, and the actual balance in a participant's account was down over 5%. However, using the average valuation method, the balance was 'protected' and declined a mere 2%. Greater still was the protection afforded in early 1968. While the market dropped over 7% in the first three months, and participant's actual balance dropped 8%, the average method only allowed the balance to slide 1%. The strongest protection would have been in the quarter of April-June 1970. The Dow Jones Industrial Average, which was 786 on March 31, fell to 689 on July 2, a decline of over 12%. The actual balance of a participant fell 11% including the contribution. The same participant, if he had been under the average method would have had his balance drop .2%.

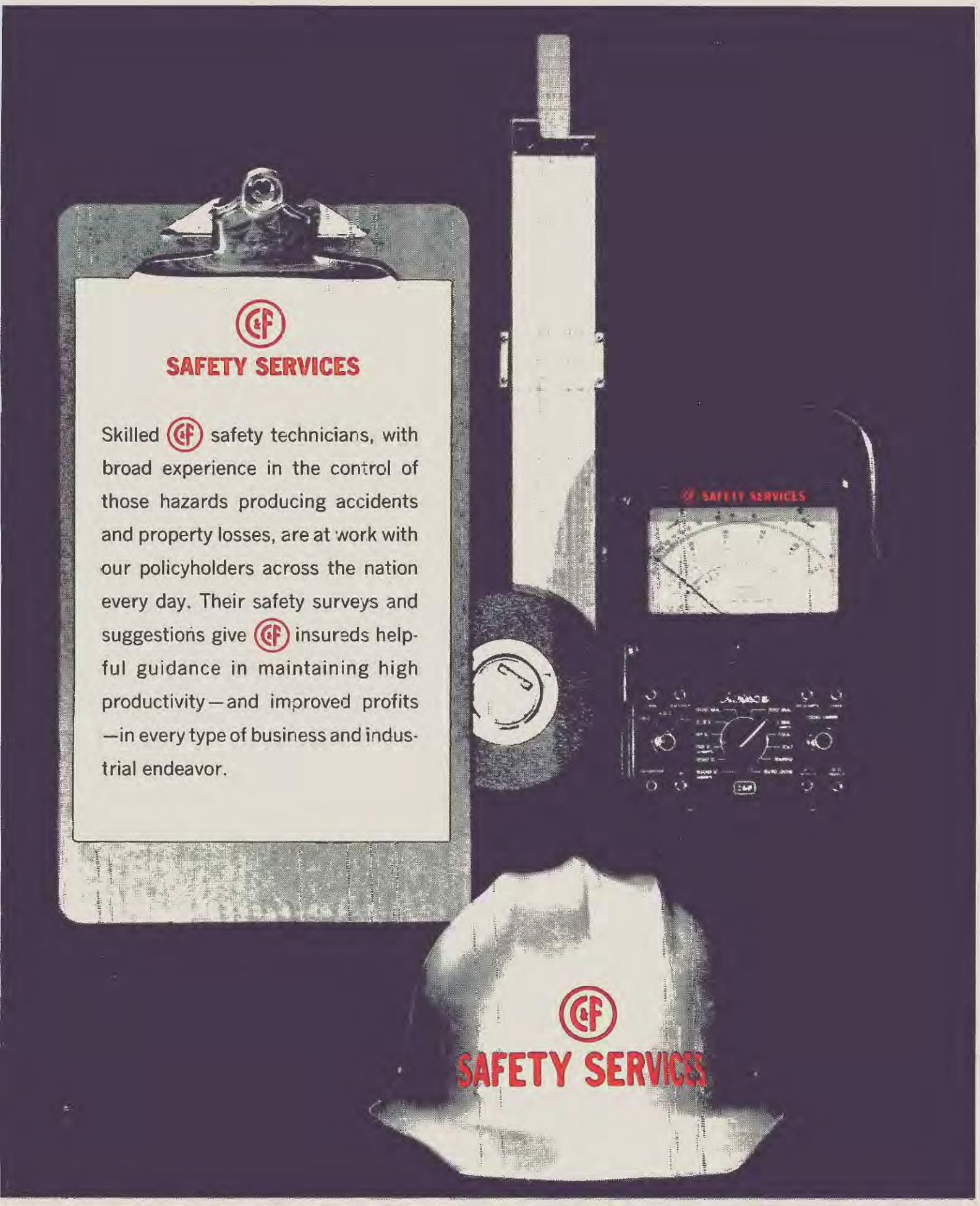
"DURING THE MARKET fall of early 1962, the trust held up fairly well and even though the market fell 23% from January through June, the trust was only down 14% not including the company contribution. With the contribution added to the account balance it was down only 3%. The averaged figure is higher at June because of the trend of the numbers and the addition of the contribution. Actually, a participant who had a true balance of $8,214 in June had an average balance of $8,953, almost 9% greater than the true balance.

"What happens in the other direction when the market and the actual balance climb quickly? The best example of this occurred in the quarter of April-June 1968 immediately following Lyndon Johnson's 'abdication.' The actual balance of a participant, including his new contribution, rose almost 12%. The rise in the average balance was not quite that steep—about 7% but still a healthy gain. And, in less than a year (March 1969) the actual balance, while being buffeted at the start of the long market slide, had lost ground to the average balance and the protection was again being afforded the participant and his average balance was ahead of his actual balance by 1%."

Mr. Cardon concluded that the data "leads to the philosophy of the recommended change to valuing each participant's account as an average of his or her latest three quarterly valuations. As has been said before, it is a form of mutual insurance where all the remaining participants with all their aggregate worth can better afford to absorb (and eventually regain) the losses than the few participants who are leaving the trust at a very unfortunate time." ■

Chamber taps Kirby

Shipping chief John H. Kirby, who as managing director of Shell International Marine in London is helping solve the three big tanker explosions that hit world insurance markets last winter, is tapped as the next president of the British Chamber of Shipping. He is being replaced at Shell International by Bernard Blakeley, currently managing director of Shell Tankers (U.K.), but will stay with the group until early 1972.



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

• **The size and shape of the medical care dollar** has been released by the U.S. Department of Health, Education, and Welfare. The 1969 edition contains 15 charts presenting the background facts relating to the medical care dollar: who pays; what and how much is bought; for whom it is spent, and how and why it has grown. Medical care outlays include those spent for health services and supplies, such as hospital care, physicians' service, drugs, and those for medical-facilities, construction and research. Single copies are 40¢. Direct orders to the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C.

• **Plant movement, transfer, and relocation allowances**, bulletin No. 1425-10, is part of the major collective bargaining agreements series published by the U.S. Department of Labor. This report is concerned with management's and labor's solutions to three important collective bargaining issues: the protection afforded employes displaced by plant shutdowns and plant movements; the rights and options of workers in transfers between plants or companies that are party to a common agreement; and the factors governing payment of relocation allowances when these are available to employes. Single copies are $1.25 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D. C.

• The 1970 edition of **A list of worthwhile life and health insurance books** has been published jointly by the Institute of Life Insurance and the Health Insurance Institute. The 80-page booklet provides a reference guide to current writings on personal insurance including 445 book titles and a list of 27 periodicals. Items of special interest to the management of insurance companies are contained in sections on investments, actuarial mathematics, estate planning, gerontology, Social Security and Medicare. Single copies may be ordered from either organization for 25¢ each. Both at 277 Park Ave., N. Y., N. Y. 10017.

• The Swiss Life Insurance and Pension Co. has made available free of charge, the following speeches in booklet form: "Scope of the master cover contract" by Y. M. Thakkar; "Advantages and limitations of multi-national pension coverage in Europe" by William B. Jadden; and "Background and objectives of Swiss Life multinational program" by Dr. Hans Ammter. The addresses were given at the Swiss Life European employe benefit conference held May, 1970. Direct requests to the firm at General Guisan Quai 40, 8022 Zurich, Switzerland.

• Bliss Portland Co. has released two brochures describing their Super Jet-X water-powered nozzle that can send a steady flow of foam up to 30 feet to control class A and B fires, the nozzle can supply up to 1500 cubic feet of foam per minute; and their Jet-X-15 generator that provides foam dispersion for vast industrial complexes where rapid fire control is essential and for high piles stock and high hazard areas where inside firefighting is impossible. Inquiries should be addressed to Mr. Clifford Fox, Advertising Dept., Bliss Portland Co., 80 Second Street, S. Portland, Maine 04106.

• **A guide to Social Security in Western Europe** is a booklet covering both state and occupational benefits in 18 European countries. The guide highlights the country by country differences in Social Security and taxation practice which prevail in the area of national sovereignty. Copies may be obtained free of charge by writing Noble Lowndes International Ltd., 32, Lowndes St., London, S. W. 1, England.

• **Financing rehabilitation services** is one of a series of five papers prepared for the use of delegates to the National Citizens Conference on Rehabilitation of the Disabled and Disadvantaged by the U.S. Department of Health, Education, and Welfare. The booklet discusses the basics of rehabilitation funding, how to obtain additional funds and contains a list of federal programs and amounts of appropriations. Copies are 25¢ each and may be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• The Wyatt Co., 1629 K St., N.W. Washington, D.C. 20006, has made available to readers of *Business Insurance* free copies upon request of a reprint of the article **Pricing a life insurance company by actuarial methods** by Ellis D. Flinn, F.S.A. and Franklin B. Dana, F.S.A. which appeared in Mergers and Acquisitions. The article details a new actuarial approach to valuing a life insurance company, and determining the price to pay in acquisition.

• **The legal liability of owners and operators of general aviation-aircraft** is a summary of law presented by the United States Aircraft Insurance Group. Some of the topics covered are: extent of liability; degree of care; vortex turbulence; collisions; power lines and towers; guest or passenger; student pilots; statutory provisions; and USAIG claim services. The booklet may be ordered, free of charge, from the Public Relations Dept., United States Aviation Underwriters, Inc., 110 William St., N. Y., N. Y. 10038.

• **FM Insurance Company Ltd.** is a booklet describing the services of this international firm, owned and operated by the Factory Mutual System. The firm provides property insurance coverage and loss prevention engineering outside of the North American continent. Copies may be received, free of charge, upon request from Bruce P. Mattoon, vice president, Factory Mutual Public Relations & Publications, 1151 Boston-Providence Turnpike, Norwood, Mass. 02062.

• **TEBC Client Fact Book** is a brochure that discusses several current aspects of employe benefit plans and describes the facilities and services of Titan Employe Benefit consultants. Some of the services covered are: administrative and actuarial; study and appraisal of existing plans; new plan design and installation; employe communications; appraisal of insurance proposals; and plan analysis in mergers and acquisitions. Direct requests to the firm at 529 Fifth Ave., New York, N.Y. 10017.

• Zurich Insurance Co. offers two booklets, free of charge, describing their firm and listing their international locations. The **Zurich Group . . . a world of security** lists the firms service centers and provides a brief description of the company and history. **International list of addresses** lists their various addresses in cities throughout 26 countries of the free world. The addresses in the booklet are printed in German, French, English, Italian and Spanish. For copies of either booklet write the firm at 111 W. Jackson Blvd., Chicago, Ill. 60604.

• **Two aspects of benefit planning for international companies** has been published by Swiss Life Insurance and Pension Co., for the purpose of drawing attention to certain basic concepts and to enunciate a few generalized rules of pension plan administration in Western Europe. Free copies may be ordered from the firm at General Guisan Quai 40, 8022 Zurich.

• AFIA Worldwide Insurance, 110 William St., N. Y., 10038, has made available, free of charge, a foreign insurance slide chart. The chart lists AFIA's telephone service facilities throughout the U.S. At a quick glance it answers 20 questions about insurance in 81 countries. Some of the questions are: is non-admitted insurance prohibited; is coverage for direct damage from explosion, windstorm, and riot written; is third party motor vehicle liability insurance compulsory; and are fidelity and crime covers generally available.

• A brochure listing the INA offices, principal agents and claims agents in the major cities of 110 countries in Europe, Asia, Africa, Australia and Latin America has been published by the Insurance Company of North America. **INA International Facilities** may be ordered from the firm at 1600 Arch St., Philadelphia, Pa., 19101.

• A manual for the purpose of supplying information and ideas concerning **Representative forms and records for the administration of profit sharing plans** has been published by the Council of Profit Sharing Industries, 20 North Wacker Dr., Chicago, Ill. The book is not intended to be a sample forms book that can be adopted to the needs of any particular firm. It is merely an attempt to show what other companies are doing and suggests administrative ideas which might help profit sharing companies appraise their own administration. The manual may be ordered for $10 per copy. Direct orders to Walter Holan at COPSI.

• A detailed outline of its **International group and pension activities** has been published in booklet form by Swiss Life Insurance and Pension Co., International Dept. The booklet describes where, when, and how the firm provides its services internationally. For free copies write the firm at General Guisan Quai 40, 8022 Zurich, Switzerland.

COPSI hears inflation hurts bondholders

CHICAGO—"As a result of traditional bond investors willingness and ability to divert a substantial portion of assets to equities, the whole philosophy behind bond portfolio management is undergoing a change" according to Robert G. Kirby, who spoke at the Council of Profit Sharing Industries' 23rd annual conference here.

Mr. Kirby, executive vp, Capital Research & Management Co., Los Angeles, discussed bonds vs. equities for investment portfolios and Charles A. Pingree, vp, Old Colony Trust Co., Boston, discussed the value of common stock investments at the investment program of the conference.

Mr. Kirby said the prevailing high interest rates are a product of a long period of inflation, something that is here to stay, and the "impact of inflation on the bond market breaks down into two components, one political and one economic."

THE POLITICAL factor, he felt, was the present Administration's war on inflation.

"The basic economic fact is that inflation has so damaged the investment return of the bond investor over a long period of years that he is no longer willing to restrict himself to bonds. He is insisting on the ability to invest in equities as well as fixed income securities, and, over the past few years, bonds have increasingly had to compete with stocks for the same investment dollar," Mr. Kirby said.

He said common stocks were socially unacceptable investments 35 or 40 years ago. And that it was in the "1950s, after about a quarter of a century of being hit in the face with the inflationary pie every time we made a fixed income commitment, did it begin to dawn on us that, in reality, bonds were riskier than stocks. This great discovery spread and was expounded broadly and finally brought about statutory and policy changes to give a variety of institutional investors greater investment flexibility."

Mr. Kirby said that this choice of freedom to invest in equities hindered rather than helped, in the short run, for the fact that many portfolios really began to invest in equities in time to participate in the 1969-70 stock market.

HOWEVER, Mr. Kirby said that as the trend to place investment dollars into either bonds or stocks, whichever offers the more attractive risk/opportunity relationship, the following changes are likely to take place. "First, the rate of inflation is going to have a direct and immediate impact on interest rates. Second, marketability will become increasingly important in debt securities. And third, maturities will probably shorten, and for some of the same reasons that greater marketability will be demanded; i.e., investment institutions will

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University insurance managers are told to form financial pool

WEST LAFAYETTE, Ind.—Insurance managers from 56 universities, many of which are beset with problems basic to Sociology I and confronted by an insurance industry that has stuck its head in the sand because sand was being kicked in its face anyway, met here last month and were told that the academic world should band together and form a financial risk pool.

The recommendation was made by the consulting division of Alexander & Alexander, New York. The University Insurance Managers Assn. (UIMA) will now conduct a feasibility study that will be the subject of a report to be delivered to member universities when their insurance managers meet next at the American Society of Insurance Management's annual convention in San Francisco in February.

Aside from that, and the fact that the three-day meeting at Purdue University cemented and strengthened the newly formed UIMA, the gathering seemed to be an exercise in communications.

For one thing, several leading university insurance underwriters were present. Said one observer there: "It was rather amazing. Most of these insurance managers were for the first time confronting underwriters personally. I don't think either side has realized what the other's problems have been."

THE ALEXANDER & Alexander recommendations were essentially two. One would create the "University Property Pool" and the other would set up a "University Risk Control Board."

The former plan would spread certain property losses, on a self-rating basis, among a group of participating institutions. The pool would cover the first $1 million of loss, providing $900,000 of property insurance in excess of a $100,000 deductible per occurrence.

The University Property Pool, which A&A believes could be operational by July 1, 1971, would be funded by charging premiums to each participating university. Premiums would be based on a pre-established percentage of operating budget. The participating universities would then buy catastrophe insurance in excess of the $1 million per occurrence through the conventional insurance markets.

The property pool, according to the recommendation, would be administered by an insurance company, which would hold the funds and charge a fee for its services. It would take about $4.5 million to capitalize and interest would be distributed to participating universities on funds remaining in the pool. After a period of years (at least five and not more than ten, the report recommends), excess funds in the pool would be dispersed among participants.

THE A&A report, drawn up by H. Felix Kloman, a former vp in the consulting division who has since departed A&A to become a principal in a new financial risk management firm (Risk Planning Group Inc.) also recommended that a University Risk Control Board be set up by the UIMA. That body would undertake the following:

- Prepare risk management guidelines for all participating colleges and universities.
- Encourage direct meetings between university insurance managers and home office underwriters of insurance companies.
- Continue to work between university financial officers and insurance companies on risk management problems affecting universities.
- Collect and publish pertinent data regarding exposures to loss, actual losses and insurance practices.
- Act in liaison with the Na-

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Intentional polluters aren't eligible for coverages from CNA Insurance

CHICAGO—CNA Insurance has announced that it will refuse to write liability, property and surety coverages on industrial risks that are "so indifferent . . . to our country's environmental problems as to refuse to take prompt and appropriate action to correct offending conditions."

A CNA executive predicted to *Business Insurance* that if the insurance industry follows the lead of CNA Insurance, polluters would have to self-insure for rather substantial limits and take catastrophe coverages in the reinsurance market or in London. He added, however, that London insurers have taken a similarly dim view of insuring polluters, particularly against pollution liability.

Robert Johnson, CNA Insurance's vp for liability, property and surety underwriting, emphasized that the first step in the new program involves extending CNA's engineering services to insureds that may have pollution problems. Inspection and advisory services of the insurance carrier will be aimed at eliminating both planned and accidental pollution.

A STATEMENT issued to CNA staff members said: "Where we have reason to believe existing accounts have a significant contamination or pollution problem, we will not only alert them to such conditions, but make fully available to them all of our facilities to aid in taking the necessary steps to curtail the problem. For those insureds who have been warned by responsible public agencies of such problems, similar provisions will be made."

Mr. Johnson said refusal to write coverages could result if a responsible public body notifies the insured that it is polluting beyond tolerable limits. In some instances, he said, CNA will set the standards and determine if the insured is meeting its responsibilities to the public.

He said that the new policy of refusing to write coverage for polluting industries is a "substantial economic step" involving 5% to 6% of CNA's book of business.

Mr. Johnson told *Business Insurance* that the CNA Insurance decision to crack down on polluters may have an important impact on companies involved in exotic technology. CNA, sometimes known as "Lloyd's of Chicago," is an important market for risks that many other insurers decline to handle.

The decision to refuse to write essential coverages for polluting industries was taken by CNA, according to Mr. Johnson, "because we believe that some kind of outside prodding is needed. This is an exercise of Insurance Power."

Though CNA's policy will apply to all "intentional polluters," the company will continue to cover accidental pollution under liability policies that follow a new filing by the Multi-Line Insurance Rating Bureau. ■

Judge gives Wilson ok to work in south

ST. LOUIS—Philip M. Wilson, under indictment on 16 counts of mail fraud in connection with insurance operations, has been granted permission to leave the eastern district of Missouri to work in the south for the Caribbean Book Distributors Inc.

Federal District Judge James Meredith granted Mr. Wilson permission to leave his jurisdiction in the belief that Mr. Wilson has arranged legitimate employment as a promotion man. Judge Meredith had previously denied permission to go south to Charles Earl Brown, an associate of Mr. Wilson who is also under indictment.

Mr. Wilson, Mr. Brown, Monte Schuff and William E. Fox, free on $20,000 bond each, will go on trial Dec. 7 on charges that they used the mails to sell worthless insurance. Involved in the alleged scheme were high-priced coverages in the fire, aviation and marine lines and high-risk personal auto insurance.

Among the companies operated by Mr. Wilson and his associates were Trans-American Excess Underwriters Ltd., Bankers Security Mutual Insurance Co. and Farmers and Merchants Mutual Insurance Co. headquartered in St. Louis.

Indictment names four in scheme

COLUMBUS, O.—Four Columbus men have been named in a series of illegal loans, some of which involved the Ohio School Employes Retirement System (SERS), according to indictments handed down here the other day.

The four men—Gerald A. Donahue, Sidney Griffith, Harry Groban and James B. Lore—were indicted on 19 counts involving bribery connected with loan commitments of $14.8 million from the retirement system to finance construction projects.

In a separate but related indictment, Messrs. Donahue, Griffith and Groban are also charged with making "a false statement in writing" to the Ohio treasurer's office to obtain financing that exceeded the state's legal lending limit of $50 million for three publicly held firms.

The bribery counts, however, allegedly involve loan commitments made by the SERS. That body administers the Ohio School Employes Fund. Mr. Lore was chief investment officer for the retirement system until he left about a year ago to head a firm called LCM Corp.

The indictments charge that Messrs. Donahue, Griffith and Groban "did corruptly promise to give a sum of money" to Mr. Lore and that Mr. Lore "did corruptly solicit or accept a sum of money" to help secure the SERS loan commitments. SERS officials have said that only a few of the loans were actually made, however.

The first three men named in the indictment are officials in Crofters Inc., a money-finding firm. ■

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Paint captive is said to have scraped up $10 million in capacity

NEW YORK—The Bermuda-based VERLAN, a "mini-captive" spawned by the Paint, Lacquer and Varnish Assn., has apparently bloomed into a full-fledged front-line insurer.

Late last month, the company made "at least $10 million" in capacity per plant site available to the majority of the association's 700 members, excluding only manufacturers of raw materials. Until then it had been able to scrape up only $2.5 million per risk.

Launched with a hefty contribution from the Washington-based trade association nearly a year ago, VERLAN remained in a limited capacity. Larger paint companies' insurance requirements apparently couldn't fit into the "tight girdle" of protection it was able to provide.

Reinsurers also contributed to VERLAN's early sluggishness when they apparently balked for the same reasons that had promoted several small paint firms' coverage to be cancelled outright or doubled in cost. According to one source, the loss of coverage last year among small paint companies was due not so much to their loss experience as to their chronic "bad-housekeeping" practices.

E. A. Foy, head of the Cincinnati-based Foy Johnson Paint Co. and president of the association, acknowledged that the major impetus for forming the captive was the complaints of a number of member companies that they were losing their coverage or were facing huge rate hikes. He declined to comment on the cause, however.

THE ORIGINAL route VERLAN pursued in attempting to satisfy its reinsurance needs was apparently a pro-rate treaty reinsurance agreement through its broker. Under this scheme, the reinsurer would rescind any right of rejection extending a blanket agreement to reinsure any and all risks the captive might come up with. In this instance, the reinsurer would be sacrificing a certain amount of safety for the large dollar volume attendant to the blanket agreement.

There were only two problems with this method. As the insurance manager at Benjamin Moore & Co. put it, "They would have to come up with a pretty good bargain to entice us to break our long-standing relationship with Factory Insurance Assn." While making it a little easier for the shakier risks to come under the umbrella, the treaty reinsurance agreement would have been rather expensive and not that competitive. There was also a broker's commission to contend with.

The other problem was the limited capacity. VERLAN's credibility and long-term chances for survival were seriously hampered by its seeming inability to come up with more capacity for the requirements of many of its larger members.

So, a few days before the annual convention of the trade association was to be held in Boston last month (where, it was said, VERLAN would have to "strut its stuff" or be sent packing) its officials decided on some drastic action.

FIRST OF all, it was decided the broker had to go. (In one rejected application for a treaty agreement by VERLAN in a New York-based reinsurer's office Wohlreich & Anderson Ltd. was listed as the captive's broker.) Apparently a broker was an encumbrance the fighting captive could ill afford at this critical time—both in terms of his cost as well as inability to come up with the necessary reinsurance.

The fearless captive then went shopping in the reinsurance markets itself. Since many reinsurers deal only through an intermediary, VERLAN's chances of success at this point weren't exactly assured. Eight days later however, the company announced at the association's convention that it had come up with $7.5 million in additional capacity along with promises from some to go higher if necessary.

Some experts in the reinsurance of captives were skeptical of VERLAN's "instant capacity." Said one source: "Each site's reinsurance is negotiated between the captive and the reinsurer, and only after a thorough inspection of the risk made by an engineering group satisfactory to the reinsurer. This takes time—more than seven or eight days, I would think."

Other experts felt that VERLAN has apparently offered the new capacity as an enticement to the bigger paint companies and to dissuade doubts of the captive's viability by smaller companies. "Ten million dollars in capacity would only be needed by one of the largest paint plants. These plants have consistently maintained excellent housekeeping procedures and consequently have pretty good loss records. As such, they would, by their tradition be the preferred risks of the bunch and shouldn't be hard to reinsure. It's the smaller ones that bear watching," said another source, suggesting that any "fudging" being done by VERLAN was quite calculated.

SHOPPING at General Reinsurance Life Corp. and the Skandia Insurance Group among others, VERLAN apparently developed a facultative excess reinsurance agreement which looks like (to hear them tell it) one of those deals where everybody comes away with just what they wanted. Under the facultative excess agreement, the insurer must have an independent inspection

Continued on page 46

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Recall self-assumed

CHICAGO—The cost of recalling 433,000 possibly contaminated Big Time, Butter Nut and Pay Day candy bars will be borne by Consolidated Foods, their manufacturer.

A spokesman for the company said that evidence of rodent hair was found in "a small sample" of the candy and "as soon as we received this information we went to our computers to see who had received shipments from this production run and contacted those distributors. We are fairly sure all the candy is off the market now."

Distributors were asked to return the product to Consolidated Foods for disposal.

speaking of safety

High-rise fire prevention problems increase as our buildings grow taller

NEW YORK—Since the early 1920s, cities have emphasized their vertical growth as climbing "fireproof" skyscrapers were assembled into impressive, new skylines. Although they would house thousands of people, these new edifices inspired confidence in their immunity from fire because their makeup largely avoided materials that would burn.

Since World War II construction design of high-rise buildings has progressed both in its techniques as well as in its capabilities to provide greater comfort and beauty to the high-rise building occupant. Unfortunately, this progress has been detrimental in certain cases, according to some experts. Disastrous high-rise fires recently in Canada and Chicago have been joined by the two-death tragedy of a fire in an incompleted downtown Manhattan skyscraper to serve notice that something is wrong with our approach to fire safety in new, tall buildings.

Different circumstances in each of the three fires caused deaths. Correspondingly, three different approaches to fire safety in high-rises have been developed by officials in each instance.

IN CANADA, where perhaps the earliest recognition of the new fire safety problems in high-rise buildings has taken place, the National Research Council came out with a series of recommendations concerning ventilation and evacuation in large buildings.

A newsletter put out by the Associate Committee on the National Building Code of the National Research Council explained the problem: "Research studies . . . have indicated that normal air flows in a high building in winter time could, following the outbreak of fire, result in early fouling of stair and elevator shafts with smoke and, later, widespread contamination.

"More dramatic were a series of false fire alarms in a tall building in eastern Canada," the letter explained, "that make it apparent that, even in the absence of smoke, the emergency evacuation of a high building poses very serious problems. In these particular cases, the elevators were not used and the whole population of the building attempted to use two stairwells. The resulting overcrowding was so excessive that movement almost completely stopped," the letter pointed out.

A spokesman from the National Research Council's National Building Code division told *Business Insurance* about some specific recommendations and changes recently incorporated into the building code, resulting from this and similar incidents as well as subsequent research tests carried out. "We've added a new explanation to the code of potential danger in the evacuation of tall buildings," he said.

THE NEW addition notes that current methods for holding a fire on any one floor don't usually prevent the vertical movement of smoke and other effluents through shafts to the upper stories of tall buildings. The code flatly brands the operation of elevators in such buildings as "unsafe," specifying that their control should be in the hands of the firemen, exclusively, he explained.

The spokesman also noted that the code, in recognizing these potentially severe smoke conditions, was supplemented by new provisions covering "essential requirements" for control of smoke movement. (These are contained in a separate "special paper" in a form suitable for use by engineers. The title is "Explanatory Paper on Control of Smoke Movement in High Buildings," NRC No. 11413, available from the National Research Council of Canada in Otawa.)

In addition, another of the proposals outlines the principle of a phased rather than an immediate evacuation of the occupants of a tall building. "The idea is to remove only those people in the immediate vicinity of the fire. The fire alarm system would be modified so that they would be the only ones who would hear the alarm. Occupants of other floors farther from the fire would stay where they are until directed to move by the firemen," the spokesman explained.

Obviously, various design techniques to modify the patterns of air flow in the building would be necessary in order to substantially limit the degree of smoke migration. Several of these methods were thoroughly researched by the National Council, including the injection of air into major shafts and the venting of others, using ventilated or pressurized lobbies to elevators or to the stairshaft, as well as total pressurization of a building with the venting of the fire floor. The special paper reports on the appropriate uses of each method.

THE COUNCIL also called for a requirement that there be a communication system on every floor that could be controlled from a central point on the ground floor. The superintendent of the building or the fire department would be in control of the network in the event of fire so that occupants of any single story of the building could be advised immediately on the appropriate action.

Meanwhile a non-profit group in Chicago, called the Chicago Committee on High-Rise Buildings, is busy trying to raise funds to conduct a study of the safety problems attendant to high-rises. The group is composed of some 25 executives from design firms, contractors, trade associations, manufacturers, education and government. The group currently has three research projects underway on building foundations, fire hazards in general in high-rise buildings and metal-curtain walls.

The group's leader takes a practical point of view about the problem. "You can make a building completely safe so that nothing could possibly happen to its occupants, but then it would simply be too expensive to rent—to anybody," said Joseph F. Fitzgerald Jr., Chicago building commis-

Continued on page 44

dates for buyers

NOV. 9-11, Insurance and benefits in the environment of the 70s, American Management Assn., Drake Hotel, Chicago, Ill.

NOV. 16-18, Alcoholism as a management problem, and Drugs as a management problem, American Management Assn., at the New York headquarters 135 W. 50th St., New York City.

NOV. 17-19, 1970 Fall Conference, National Fire Protection Assn., Sheraton-Nashville Motor Hotel, Nashville, Tenn. Additional information is available from NFPA 60 Batterymarch St., Boston, Mass.

DEC. 4-9, 16th Annual Education Conference, National Foundation tion of Health, Welfare & Pension Plans, Inc., Hilton Hawaiian Village & Ilikai Hotels, Honolulu, Hawaii.

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Lawyers also face harsh malpractice dilemma

By PATRICK A. THOMAS

NEW YORK—Members of the legal profession here, and all over the country, have been unwilling participants in one of the greatest disappearing acts since the golden age of vaudeville. Only this time there is no applause when the performance ends, for what is dematerializing is the availability of professional liability, or malpractice, insurance.

The market for this type of insurance has been disappearing for two basic reasons: many insurance companies no longer deem it wise and proper to write coverage for professional people or it has become so costly as to be prohibitive, particularly for small firms or attorneys in individual practice

And it is disappearing because, as one broker put it, "The general public is becoming more litigation conscious. Doctors, architects, lawyers, everybody is getting hit. I mean, the way things are going, if you are wearing a blue shirt, and I don't like blue shirts, I just might sue you."

ANOTHER BROKER agreed that the public was lawsuit happy, but felt the main reason for the disappearance was that "the loss ratio has been bad. I don't mean the frequency, I mean the severity of loss. Most cases of this kind get thrown out of court but when lawyers get hit, they really get hit."

He also noted that legal costs are very high because of the length of time from the beginning to the resolution of the case.

But whatever the reasons, from the reticence of insurance companies to the, as one insurance man said, "this Nader-era new consumerism" on the part of the public, the fact remains that lawyers who desperately need this insurance have been having an increasingly more difficult time trying to get it.

A few facts stand out from the dilemma: New York City attorneys have a harder time finding the insurance or pay higher premiums for it than do lawyers anywhere else, including other parts of New York state; attorneys practicing individually and small firms have more trouble finding coverage than do large firms; numerous bar associations across the country are looking into the feasibility of group plans for their members who have had their coverage summarily dropped by insurance companies and some group plans are already in operation.

THERE IS NO doubt that the market is tight but coverage is available, for those who can afford it, and there are indications that all is not so bleak for individuals and small firms.

A large Kansas City company, Employers Reinsurance Corp., offers the coverage, but it is expensive and carries a $5,000 deductible, which is a burden to small firms and individuals.

Another organization offering the coverage is the St. Paul Insurance Cos., who have been reported as being one of the companies dropping the insurance.

John W. Boylston, executive assistant in charge of the New York office of the company, denied that St. Paul was discontinuing the coverage but added, "We don't particularly want it."

MR. BOYLSTON pointed out that his company did have a tailor-made plan for large New York firms. "The lawyers excess policy is written only in the New York office and is, therefore, only for New York firms. It is for large, corporate firms in this area and contains a provision for arbitration so the firm can avoid bad publicity if the situation should arise when they need the coverage. The policy has a maximum limit of $5 million but most of the firms go to other companies for excess coverage," he said. "Each premium is filed individually for each firm so there is no standard rate file."

He said that his company was skittish about covering small firms and individuals "because they have a problem with shifting help. A good percentage of professional error is traceable back to the gal Friday or clerk," he noted. "Large firms have a large number of employes who are both experienced and steady. Individuals and small firms sometimes just can't keep help long enough."

The problem has reached such proportions that one New York attorney, Arnold Stream, has suggested self-insurance or a pool to ease the strain.

"This is just an idea and I don't really know if it will work," Mr. Stream told *Business Insurance*. "I brought it up for discussion because something has to be done. The insurance people are charging us into the ground. This way we can escape the profit motive."

HE REITERATED this was just an idea and that he had no definite plan but that "it is a possibility. The bar associations can make lists of lawyers available and we could bring together enough professional people in the Greater New York area to fund this thing," he said.

Though a self-insurance pool remains a possibility, it has been attacked on several fronts as being "too dangerous." One broker seemed to sum up the general feeling when he said, "It might work for a while but I don't think it's the answer for them. It would be fine until they took a few big losses. Then, who knows?"

There are, however, glimmering bright spots on the horizon. One of them is a set-up between a Long Island broker and the Professional Insurance Co. of New York. The coverage is on an exclusive basis between the company and Arnold J. Flegenheimer, Inc., an excess and surplus lines brokerage in Roslyn, N.Y.

Arnold J. Flegenheimer point-

Continued on page 20

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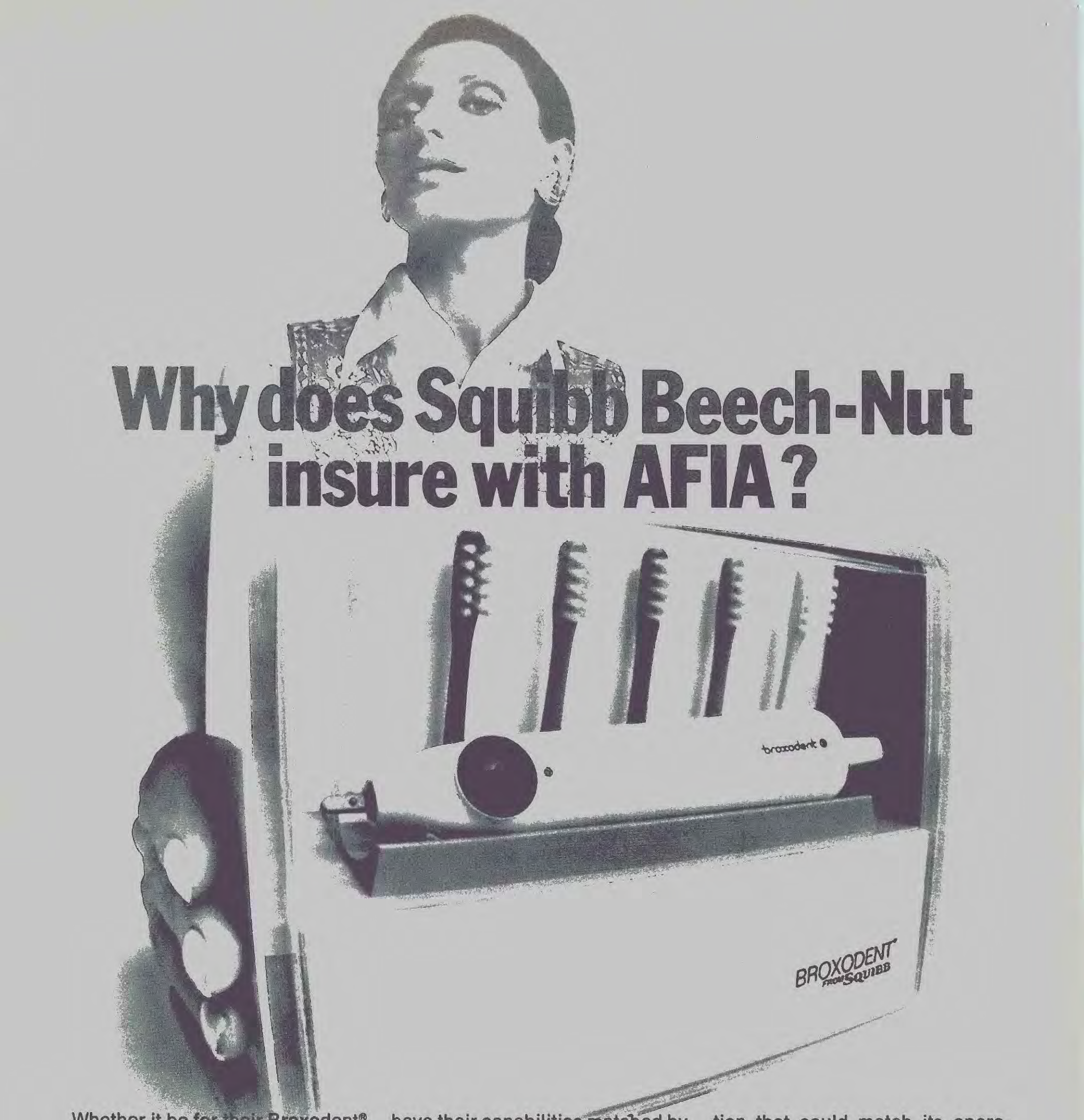

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Average Fringe benefits reach 31% of payroll

NEW YORK—Fringe benefits reached 31% of the typical payroll in 1969. Expenditures for fringes jumped from $10 per employe per week 20 years ago up to $20 just ten years later and up again to $40 in 1969—what's worse (or better) is it's only getting bigger, said the employe benefits director of Quaker Oats Co. at a conference held here by the Council on Employe Benefits.

"Now it's not just the treasurer's office that's concerned," said Robert B. MacPhail, manager of benefits planning for the cereal manufacturing firm. "It has everybody in the company going. But, I guess we can take comfort in the fact that we aren't out of the mainstream of things any longer—at least," he added.

Mr. MacPhail enumerated several pressure points that he felt prodded the accelerated evolution of employe benefits. Aside from progressive union demands, he indicated that there was a much greater degree of involvement in fringe benefit planning among the top management of a company. He pointed out that the undaunted continuation of inflation seemed to keep benefits under the gun for improvements. Also, said Mr. MacPhail, "we have a much younger, much more militant work force to satisfy. This necessitates our coming up with new benefits to satisfy these new employes' very different needs."

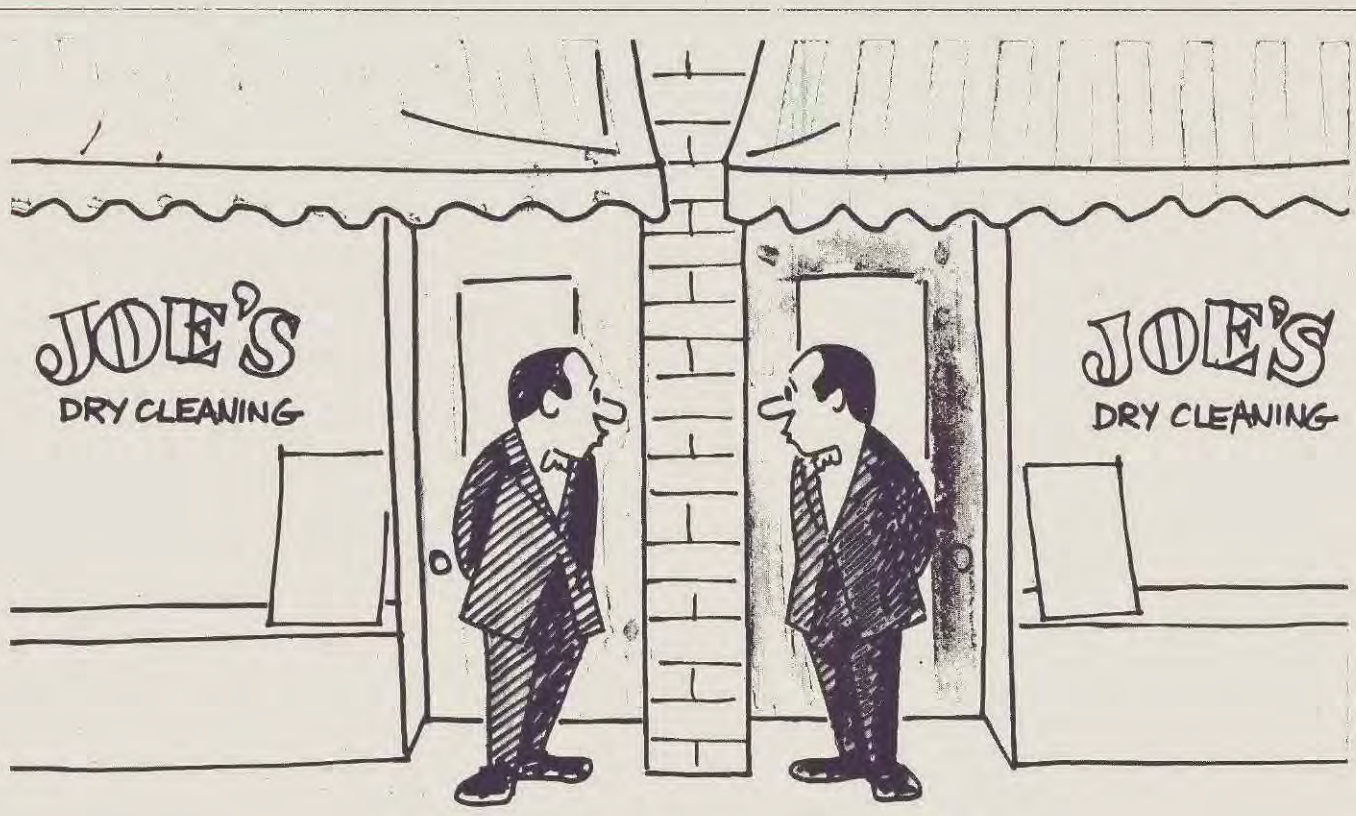
IT SEEMS THAT the more the benefits expert does for his company the more is expected of him, Mr. MacPhail complained. Once he alerts people in his firm to the qualities of a new benefit, this new awareness turns on him with a higher expectation of him from the employes, he said.

According to Mr. MacPhail, employe benefits directors have good reason to look to the crying towels usually reserved for football coaches and their like. Social Security benefits are going up and with them corporately-provided retirement benefits and private pensions have become the favorite whipping boy of legislators, he pointed out.

Mr. MacPhail detailed still more sweeping changes in employe benefits in the '70s, specifically:

- Retirement plans will offer benefits that will be higher than today's with much less required service with a company.
- All pensions will be final-pay averaged, with escalators built in to keep pace with inflation.
- Unreduced early retirement pensions will be available on a much wider scale than today.
- Survivors' benefits will be available to employes without any reduction of the pension benefit.
- The full cost of hospital charges will be met in future medical care plans.
- Health care benefits programs will treat as a matter of course dental, drug, and vision care coverage as well as annual physicals (and other means of preventive medicine)—all more and more exclusively at company expense.
- Cost-of-living adjustments will be built into disability programs.
- Disabled employes will be acquiring pension credits in the near future on a wide scale.
- Group auto and group homeowners' coverage will be available through the company employe benefits program as a rule rather than as an exception in the future.
- Companies now realize that in order to keep their top management on the job they must provide their executives with competent investment and estate planning.
- Executives are asking their benefits directors for help in searching for tax-sheltered forms of compensation.

All in all, it seems that benefits directors have only begun to see their jobs begin to grow, according to Mr. MacPhail. ■



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Gun death qualifies under policy

NEWARK—A New Jersey court has ruled that the death of an alleged looter at the hands of police during a riot here in 1967 should be considered "accidental" and therefore qualify for accidental death benefits under a policy written by the Metropolitan Life Insurance Co.

Judge Ervin S. Fulop has ruled in favor of Mrs. Joyce A. Furr, whose 24-year-old son William was shot in the back by Newark police as he was leaving a liquor store, which reportedly was being looted during the riots.

Mrs. Furr was the beneficiary of a life insurance policy written by Metropolitan. However, the insurance company denied liability in the amount of a $1,970 accidental death benefit. The company's attorneys contended that the insured death was not "accidental within the additional indemnity provision because his death was the foreseeable, natural and probable consequence of his own action.

"Although the foregoing is a sufficient defense," Metropolitan argued, "it is also true that the accidental death benefit should be barred as a matter of public policy since the insured's death grew out of and was directly related to the insured's own criminal conduct."

In handing down the decision, Judge Fulop said, "It cannot be said that the criminal conduct of the insured has been proved in this case. The evidence points in that direction, but proof of criminal conduct requires the overcoming of a presumption of lawful conduct."

Mr. Furr, it was discovered after the shooting, was carrying a six-pack of beer as he left the store during the riots. Police allegedly told him to halt. He did not and, after warning shots had been fired over his head, was shot in the back. ■

Named secretary

Bruce T. Davidson has been named secretary, group administration underwriting division, at the Travelers Insurance Cos. home office in Hartford. He joined the firm in 1959.

40,000 in association to be eligible for plan

HARTFORD—The Hartford Insurance Group is expected to sign a contract soon for Connecticut's largest mass auto insurance "package."

The plan, sponsored by the Connecticut State Employes Assn. (CSEA), will be offered to all of the state's 40,000 employes.

In addition to the CSEA and the Hartford Group, parties to the projected contract will be United Group Administrators Inc., agents for CSEA group life coverage, and the state of Connecticut.

NO SPECIFIC figures have yet been released on the savings the plan will realize, but other such plans have claimed savings averaging 15%. (Savings come from smaller commissions to agents, central record-keeping and collection of premiums by employers.)

State comptroller Louis I. Gladstone confirmed that the CSEA had been given clearance to negotiate for a contract.

"We still do not have a plan," he said, "but once we have, we will decide on it."

No difficulty is envisioned during negotiating phases, however.

IF MR. GLADSTONE gives his "Go" gesture, the state's formidable data processing system will be used to implement the payroll deduction element of the plan.

Each state employe who drives is to be individually solicited to join the plan. The worse the driving record the higher the premium, of course. But the better the driver's record appears, the lower the premium.

The Hartford Group has not yet filed its plan with the state insurance department.

Five other firms have, however. They are Aetna Life & Casualty, CNA (Continental National American), Travelers, Connecticut General Life and Royal-Globe.

The firms have already entered into three known mass auto contracts—Royal-Globe with Chas. Pfizer & Co., Groton; CNA with Electric Boat Co., also Groton; and Aetna Life & Casualty with New Haven Typographical Union Local 47, ITU (International Typographical Union).

All three contracts are with companies or organizations with less than the state's 40,000 employes ■

Bank, city, officer sued by widow

SAN FRANCISCO—A $1 million wrongful-death suit has been filed in superior court here against Bank of America, the city and police officer William D. Taylor by the widow and children of a man allegedly shot and killed by Officer Taylor while he was working as an off-duty bank teller.

The Bank of America is self-insured against such suits.

Filed by Sacramento attorney Leo M. O'Connor on behalf of Patricia Brumfield and her children, the suit contends that Mr. Brumfield walked in and asked to cash a check.

A teller, believing Mr. Brumfield to be a suspect in some earlier bad check incidents, telephoned to verify the check. Mr. Brumfield turned and walked out of the bank. Officer Taylor, alerted by the other teller, followed him and when Mr. Brumfield did not stop, he drew his policeman's pistol and allegedly shot Mr. Brumfield, killing him.

Officer Taylor later claimed Mr. Brumfield had suddenly turned around "as if to draw a weapon" but other witnesses disputed this claim. The officer was later exonerated by both the district attorney and police department.

The suit alleges that Officer Taylor had been "negligently and carelessly instructed in when to discharge a dangerous firearm and the bank and the city should have known he was prone to using unnecessary physical force." ■

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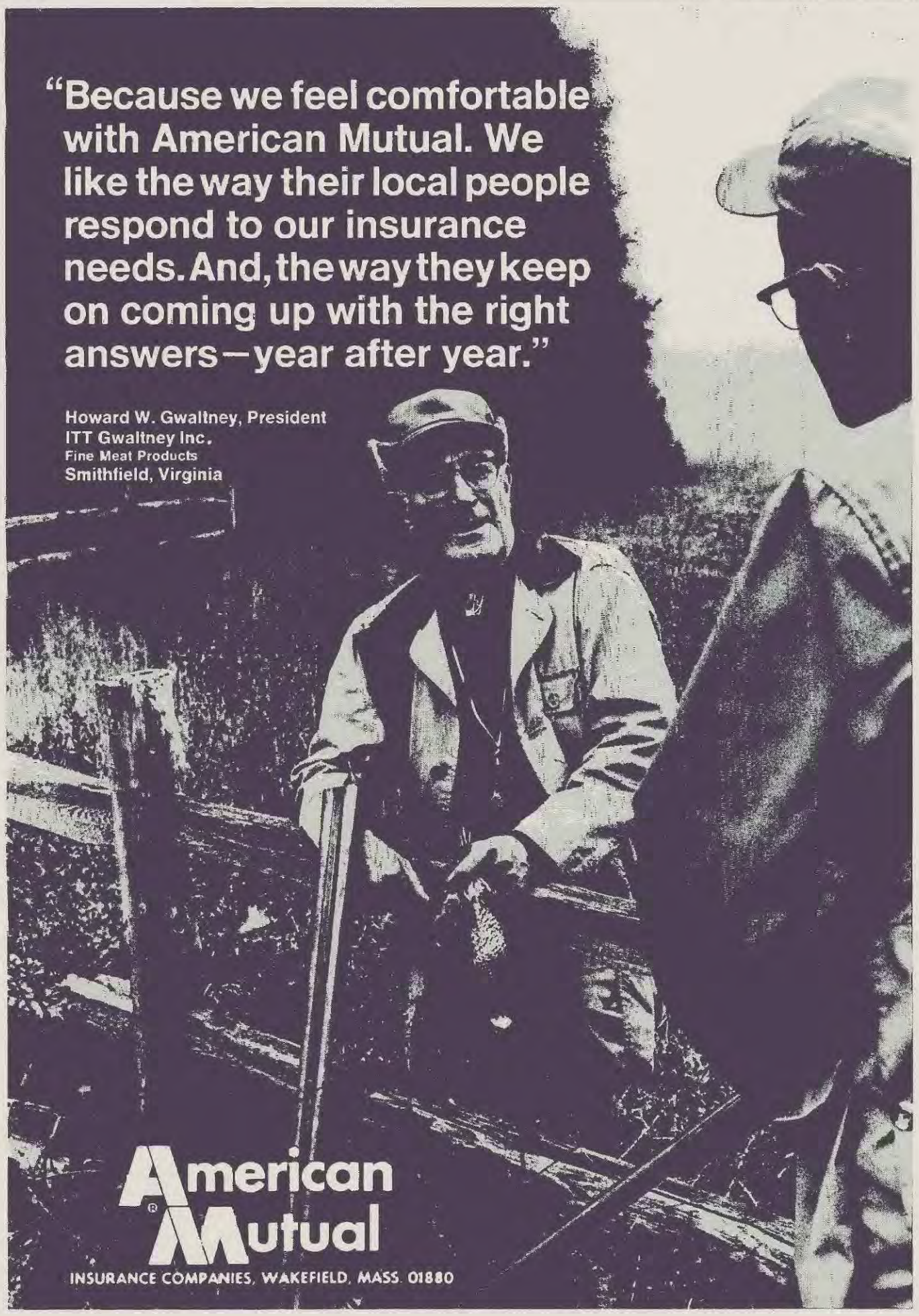

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opinions

Insurance Power

WE'VE HEARD MUCH in recent years about the uses and misuses of Black Power, Student Power, White Power, Italian Power and even Flower Power.

But our ears and thoughts perked up the other day when a man mentioned that his company was going to apply "Insurance Power" to the problem of environmental pollution. His company is committed to assist its insureds in eliminating pollution through engineering improvements. And in those instances in which insureds continue to intentionally violate pollution regulations, their liability, property and surety coverages will be cancelled.

Since every industrial company needs insurance, the executive reasoned, the threat of losing coverage would be an application of Insurance Power for the public good.

We applaud such positive steps by the insurance industry to improve risks and, while doing so, improve the entire climate of our society. There has been a good deal of evidence recently that the insurance industry is taking its social responsibilities more seriously and is applying Insurance Power to areas other than environmental pollution. Consider some examples:

• The Insurance Institute for Highway Safety, formed a decade ago when insurers were timid about criticizing auto makers, has taken forthright stands on the safety and repairability of autos under the leadership of a new IIHS president, Dr. William Haddon. This awakening has put Insurance Power on the side of those who have long contended that safety is more important than styling at a time when motor vehicles annually cause 56,000 deaths, two million injuries and an economic loss of more than $12 billion.

• Life insurance companies have committed more than $2 billion to financing new housing in core areas of major cities and to building businesses to create jobs for blacks and other deprived minorities in inner-city areas. Among the job-creating and service facilities built with the first $1.3 billion of life insurance funds were medical centers, retail and wholesale mercantile businesses, social service centers, industrial plants and 90,000 housing units.

• Insurers, particularly those writing workmen's compensation, have taken a leading role in fostering the concept of physical and vocational rehabilitation. In many communities insurers strongly support rehabilitation facilities, an application of Insurance Power that saves money for policyholders and restores to usefulness those injured in work accidents and other mishaps.

• Liability insurers, possibly because of the growing interest in consumerism, have used Insurance Power to encourage new interest on the part of insureds in product quality control and a tightening up of all facets of production and service that might lead to products liability claims. Some insurers have strongly suggested that insureds form products safety committees or appoint a products safety czar within their organizations to avert injuries from products and consequent claims.

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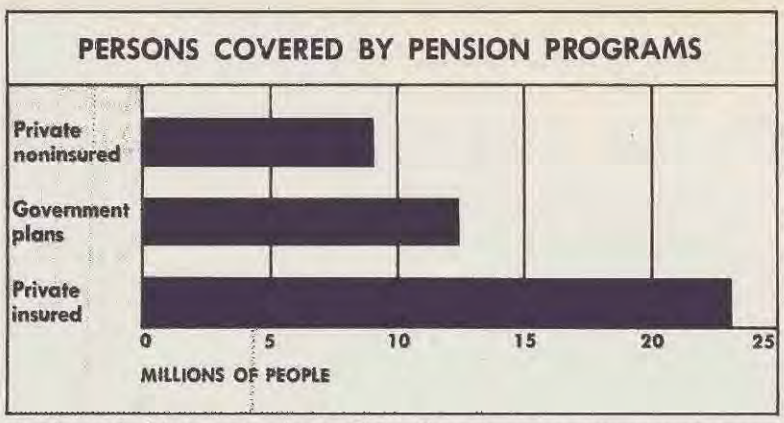

At the end of last year, about 47.5 million Americans were participants in private and public pension and retirement programs, an increase of some 3.1 million over the previous year. Of these, the vast majority (23 million) were covered by noninsured private plans. Government-administered plans, including those of federal civilian employes, state and local government employes and railroad workers, accounted for 12.3 persons. Private plans insured with life insurance companies accounted for another 9.1 million, but that figure grew to 10 million during 1969.

Source: Institute of Life Insurance

• Numerous auto insurers in their corporate advertising programs have mounted appeals to the public to use pressure of police, legislators and courts to deal sternly with the problem of the drinking driver. They have used insurance dollars to bring out in the open a national scandal: The fact that drinking is involved in about half of all fatal accidents.

There are many less dramatic examples of uses of Insurance Power, including such things as the continuing effort of fire insurance companies to support adequate funding and staffing of fire departments, insurance companies' participation in campaigns for uniform traffic laws and ordinances and support by insurers of efforts to cut crime.

Yet there remain many areas in which Insurance Power isn't being applied sufficiently. These areas come quickly to mind:

• Lack of insurance participation in efforts to pass effective gun control laws. Now it is clearly apparent that we also need strict laws governing the sale and possession of explosives, but on this the insurance industry is also strangely silent.

• Failure of the insurance industry to show leadership in recruiting and training black employes. A new book, Negro Employment in Finance, published by the industrial research unit of the Wharton school at the University of Pennsylvania, finds that in 1967 the percentage of Negro employes in 68 insurance companies employing 329,000 persons was only 3.3.% And most of the few black employes were in menial, low-salaried positions. These figures clearly indicate the Insurance Power needs to be applied to job discrimination.

• Failure to apply Insurance Power to support work-safety laws on the state and federal levels. While unions and now many consumers have given vocal support to stringent occupational safety legislation, the insurance industry has been mighty quiet on the subject, preferring to follow the short-sighted position taken by manufacturers' groups that claim they can handle safety inadequacies in most cases without legislation and government inspection.

These are areas where Insurance Power should be used for public good, but we are pleased that someone has put a label on a concept that is obviously taking root within the insurance community. It is interesting to speculate about the role of corporate risk managers and employe benefits administrators in encouraging the application of Insurance Power in appropriate situations. Those who spend corporate insurance dollars can have great influence on how Insurance Power ought to be applied.

Dynamic ideas

OUR FIRST VENTURE into the field of educational seminars—the *Business Insurance* Management Idea Workshop—got high marks from participants in the Atlanta meeting. Their enthusiasm is especially gratifying because we found it challenging to put together a program that would serve the needs of a broad range of readers, including those who are not solely involved in risk management or employe benefit programs.

Certainly one reason for the participants' enthusiasm was the chance it gave them to freely exchange ideas with faculty members and other registrants. Many of the sessions on the program ended in give-and-take discussions among everyone attending.

We like to think that another plus at the workshop was the diversity of the speakers. Unlike programs that present only insular points of view with people of similar attitudes talking to each other, the Management Idea Workshop exposed participants to such shocking things as a fiery unionist's view of employe benefits, a Nader's Raider's advice on product liability claims control, a Senate aide's slant on what's wrong with insurance and the thoughts of a young attorney who is out to get General Motors.

We plan to sponsor more workshops, varying the format to suit the needs of our readers. Now under consideration is a series of shorter workshops that will zero in on specific subjects in a high-intensity way. Such sessions would give even greater opportunity for audience participation and the free idea exchanges that marked the Atlanta meeting.

Readers of *Business Insurance* and participants in the first workshop are welcome to submit their programming ideas to us to aid us in planning future sessions.

letters

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

'No mushrooming'

To the Editor: A paragraph in your Aug. 31 column, Following the Funds, quotes Investment Company Institute figures on fund sales and assets, and then adds the unsupported statement: "Meanwhile, redemptions have mushroomed."

In fact, redemptions of mutual funds have remained consistently low throughout the long bear market and in August reached their lowest dollar volume in four years.

As a percentage of average net assets, the redemption figure for the 12 months ended in August was 6.4%. This compares with an average of 7.3% in 1969 and 7.9% in 1968. The average in 1967 was 6.9%.

We trust you will agree that these figures show little evidence of "mushrooming." Instead they reflect stability and confidence on the part of fund shareholders, particularly during a trying period.

Tait Trussell
Director of Public Relations and Advertising Investment Company Institute, Washington, D.C.

Don't blame me

To the Editor: Since I generally enjoy your writing, I was distressed to see in your editorial of Oct. 12 on college insurance that you had revived a cliche I thought had long since been put to rest.

You said that the campus disorders are "the responsibility of the entire society that created the conditions the demonstrators protest."

Baloney.

It's not my responsibility, or yours, or that of millions of other self-respecting citizens. Rather the blame rests with the namby-pamby college administrators of the publish-or-perish school (the heck with teaching or discipline) and with those parents who look with doting eyes on the bearded, brainless brats they have spawned and spoiled.

Charge me if you like for helping to screw up this business but don't hang on me any liability for the insane capers on the campus.

Name withheld
Chicago, Ill.

Not a 'front'

To the Editor: While I am not prone to writing to the editors of various business publications, I find in the current case that it is necessary to make an exception. On page 26 of the Aug. 31 issue of *Business Insurance* it was stated "Other viable U.S. underwriters of overseas products liability include Continental, Chubb and Employers-Commercial Union. They, however, just as companies like Aetna and Travelers who write similar business, have cooperative arrangements with overseas companies that 'front' for them abroad." I am not aware of the source of your information but I would like to suggest that before statements of that nature are published, the facts concerning underwriters, other than those whom you are interviewing, be cross-checked before publication.

Continued on page 42

Why grown-up businessmen still believe in Santa Claus.

Maybe it's because some pretty grown-up insurance companies think more about their image than they do about their clients.

So even when they're hit with a fraudulent claim—or a jacked-up loss—they'd often rather pay it than ask a lot of embarrassing questions.

Then, too, they're also grown-up enough to know that there's more money where that came from.

And there usually is. Until their policyholders get the connection between outrageous claims and escalating premiums.

At which point they usually pull out and place their insurance with a company like Consolidated.

Particularly in tight-money times like these.

Good times or bad, the only time we pay a fishy nuisance claim is when fighting it would be even worse: When it would damage our client's image or when it would increase his premiums.

Which is why we're just as tough and thorough about eliminating the causes of claims and losses.

Our claims and loss prevention departments don't win us any popularity contests.

Only lots of sadder, wiser, and ultimately wealthier clients.

No, gentle reader, there is no Santa Claus. Only soft, comfortable insurance companies.

Just ask your agent or broker.

Consolidated Insurance Companies
345 Adams Street, Brooklyn, New York 11201
When you need a company. Not just a policy.

Lawyers . . .

Continued from page 14

ed out, "The premium rate will be $245 a year, subject to company approval. There is the possibility that certain more hazardous risks will be surcharged and their premiums will be that much higher. Limits will be $100,000 and $300,000 with a $1,000 deductible."

HE ALSO NOTED that most of the lawyers' liability problems arise because of failure to file a claim or appeal before the statute of limitations runs out. Other problem areas are estate work, legal work in the securities field and patents, according to Mr. Flegenheimer.

Professional Insurance Co. of New York has been specializing in the liability coverage of doctors but now has about 200 attorneys as clients. The aim is to be covering 1,000 to 1,500 lawyers by the end of next year, according to Robert Nugent, secretary of the company.

Mr. Nugent felt that another contributing factor to the tribulations of lawyers is the affect of inflation on settlements. "A settlement in 1965 wasn't like a settlement in 1970," he said.

He pointed out that his company is being very careful in their underwriting. "As of right now," he said, "we will absolutely not write coverage for patent or securities attorneys or any attorney who specializes in criminal proceedings. In the future, maybe we will. We have only been writing this kind of coverage for about a year and have limited experience."

HE SAID THAT the $245 premium rate would have been $150 three years ago.

Edmund M. Dunst of the Philip R. Dunst Co., a New York brokerage firm which has "quite a few" lawyers as clients, said that $1,000 and $5,000 seemed to be the standard deductibles for malpractice coverage.

"The answer to the tight market for this coverage," Mr. Dunst said, "is having the lawyer pay the defense costs. In the past, defense costs were written into the policies and the insurance companies ended up defending lawyers on the action in a nuisance claim. I think the solution is to have the deductible apply to loss and defense costs."

Regarding group plans, Mr. Dunst felt that "a plan similar to the one the Hartford is writing for the Los Angeles County Medical Assn. might work."

THE NEW YORK State Bar Assn. is in the process of setting up just such a plan. One spokesman at the state bar told *Business Insurance*, "The new plan is innovative and, with a little luck, it just might work."

Fred Benson, a bar member and insurance claims executive, has worked for three years on the plan. "We finally decided to do business with CNA because they would give us a 'true association' deal," Mr. Benson said.

"Under the plan, the bar will participate to some extent in the underwriting," he went on. "We will have review boards in each district to examine claims. These district committees could act as mediation teams if needed. We will have people involved in the supervision of claims. A big factor is that the policy can't be cancelled without the consent of the claim review board. This is basically a partnership between us and CNA."

The policy will cover libel, slander and personal liability, as well as professional liability. It will also cover a man practicing outside his firm. "It will probably increase rates," Mr. Benson said, "but we will have a guaranteed premium for three years and a guarantee of coverage for five years.

"WE, WITH THE help of CNA, will also set up an education program to help the participating attorneys in keeping proper diaries and things of that nature because the bulk of complaints involve missing the statute of limitations," he went on.

The State Bar will use an extensive promotion program, complete with massive literature mailings and small talks to district bar meetings, "to convince lawyers of the importance of this insurance," Mr. Benson said.

He also said that defense costs would become a part of the deductible "if the man loses the case or settles. If he wins, it would not be equitable to make him pay the costs."

Other bar associations are looking into the feasibility of group plans and one such organization, the Assn. of the Bar of the City of New York, has had one in operation since mid-1969.

A SPOKESMAN for Marsh & McLennan, the city bar's broker, declined to speak in specifics but did say, "The plan has been successful both from the point of view of the insured and the insurer. The loss experience has been excellent and there have been very few claims."

He said that there has been substantial participation, "meaning several thousand lawyers, which shows us that the product was definitely needed."

The plan has been in effect since July, 1969.

Julius Rolnitzky, executive director of the New York County Lawyers' Assn., said his group is studying the possibility of starting a group plan. "Last year, several of our members complained about having their insurance cancelled and came to us for help. We set up a committee to look into the possibility of group insurance because this type (malpractice) is absolutely necessary in these times," he said.

Their headway is veiled in mystery as the chairman of the group insurance committee has refused to make any findings public. But it is certain that the problem is being studied.

A source close to that committee reported that both the committee and a brokerage firm have been looking for several years but have not been able to find a company with a "suitable" plan. He said that the Lawyer's Assn. would welcome an approach by any company with an idea for a group plan.

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Auto group accused of ethnic bias

SAN FRANCISCO—The California State Automobile Assn. was accused, in a Federal Court suit, of refusing to sell insurance to Spanish speaking persons unfamiliar with English.

The suit, filed on behalf of approximately one million Spanish speaking residents, by California Rural Legal Assistance, asks for $100,000 in punitive damages and $2,000 in actual damages for two men whose applications for insurance were rejected by the Club.

Andres Cruz, of Healdsburg, complained he was unable to get insurance from the Club but succeeded in obtaining a policy from another company in hours. ■

Blames violence for premium rise

EUGENE, Ore.—Increased student disorders and violence on university campuses throughout the country as well as direct damage of $400,000 to Oregon school property has been blamed for a 156% jump in insurance premiums on state-owned college buildings.

Oregon's state system of higher education has previously paid an estimated $42,000 to insure $105 million worth of dormitories, married student housing, student unions, parking structures and health service buildings on Oregon campuses. Under the proposed rate increase, cost for insuring the same structures will jump to an estimated $107,000. The state previously paid a rate of 4.4¢ per $100 value. The new rate will be 11.3¢ per $100.

Freeman Holmer, state system vice chancellor for administration, said $258 million worth of state college buildings, or about 70% of the total, are covered with state "restoration fund" insurance and will not be affected by the rate increase.

Kemper Insurance Co., according to Mr. Holmer, has cancelled its insurance with the state system. This had covered about 10% of the total $363 million of buildings. Other companies have picked up the former Kemper coverage, he said.

Robert Smith, speaker of the Oregon house of representatives, recently stated that property damage in the past 20 months had reached the $400,000 figure. ■

Aetna sues U.S. for $1,350

NEW HAVEN, Conn.—Aetna Life & Casualty, Hartford, has filed suit in U.S. district court against the U.S. marshal's office for $1,350, which the insurance company claims was stolen April, 1968, from a bank insured by Aetna.

The money was seized by the Federal Bureau of Investigation from David E. Collins after he was captured and charged with the $11,380 holdup of the North Grosvener Dale, Conn., office of the Hartford National Bank & Trust Co.

Aetna insured the bank for robbery and later paid the claim.

THE U.S. marshal's office received the money from the FBI.

Federal officials told *Business Insurance* that the suit amounted to a technicality of the law. Although Mr. Collins, 31, was convicted of the robbery and sentenced in October, 1968, to 15 years in prison, federal authorities cannot prove that the money confiscated from the bandit was part of the bank holdup loot. In addition, Mr. Collins, who is serving time in a federal correctional institution, will not sign a release on the $1,350.

And because of these technical points, the U.S. marshal's office said it would not directly hand over the cash to Aetna.

Aetna, then, has one alternative: Sue the federal government.

In the event the case is finally settled to agreement of both parties, Aetna will get the money and concede to legally represent the government if Mr. Collins sues to regain the confiscated cash. ■

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BI 11

And you.

Penn Central wheelings, dealings may rule out possible d&o claims

WASHINGTON—An Interstate Commerce Commission investigative report has indicated that there may have been "very substantial dealings" by officers of the Penn Central Co. in stock of the company and its affiliates that may have worked to the "ultimate disadvantage" of the company's rail subsidiary.

If such charges are found to be true it could likely negate directors and officers liability insurance coverage that the Penn Central has on its present and former executives. Several suits are pending and more are anticipated against directors and officers of the financially depleted company. The Penn Central has d&o in the London market.

It was disclosed here that ICC chairman George M. Stafford has sent a letter to several key members of Congress in which he suggested the commission will either use the material it's turning up on the Penn Central in an ICC hearing, or refer it to the Justice Department for possible criminal action.

The ICC has been investigating the financial transactions of the railroad and its various affiliates, and of the railroad's officers in its stock and that of its actual or potential affiliates. The possibility has arisen, Mr. Stafford has indicated, that there were large dealings by corporate executives who held stock in the company prior to its financial problems.

SEVERAL weeks ago, the investigations subcommittee of the House commerce committee revealed data that, it said, indicates substantial insider selling of Penn Central Co. stock shortly before a $100 million debenture offer fell through in May. Twelve stock brokers were named by the subcommittee has having had heavy sales of Penn Central stock in those weeks. It was also noted by the subcommittee that seven banks and other institutional investors made significant sales around the same time.

It was reported in July that Securities and Exchange Commission records reflected sales of more than 40 000 Penn Central shares by 15 Penn Central executives in 1969 and early 1970.

In hearings by a Senate commerce committee subcommittee the following month, Sen. Vance Hartke (D.-Ind.), who heads the committee, suggested that some Penn Central officals had sought a major diversification into the aircraft field more for personal gain than for the benefit of the railroad subsidiary.

One of the primary exclusions in the standard directors and officers liability insurance policy, of course, rules out coverage in cases where the officers or directors reaped financial profits that were not afforded other stockholders.

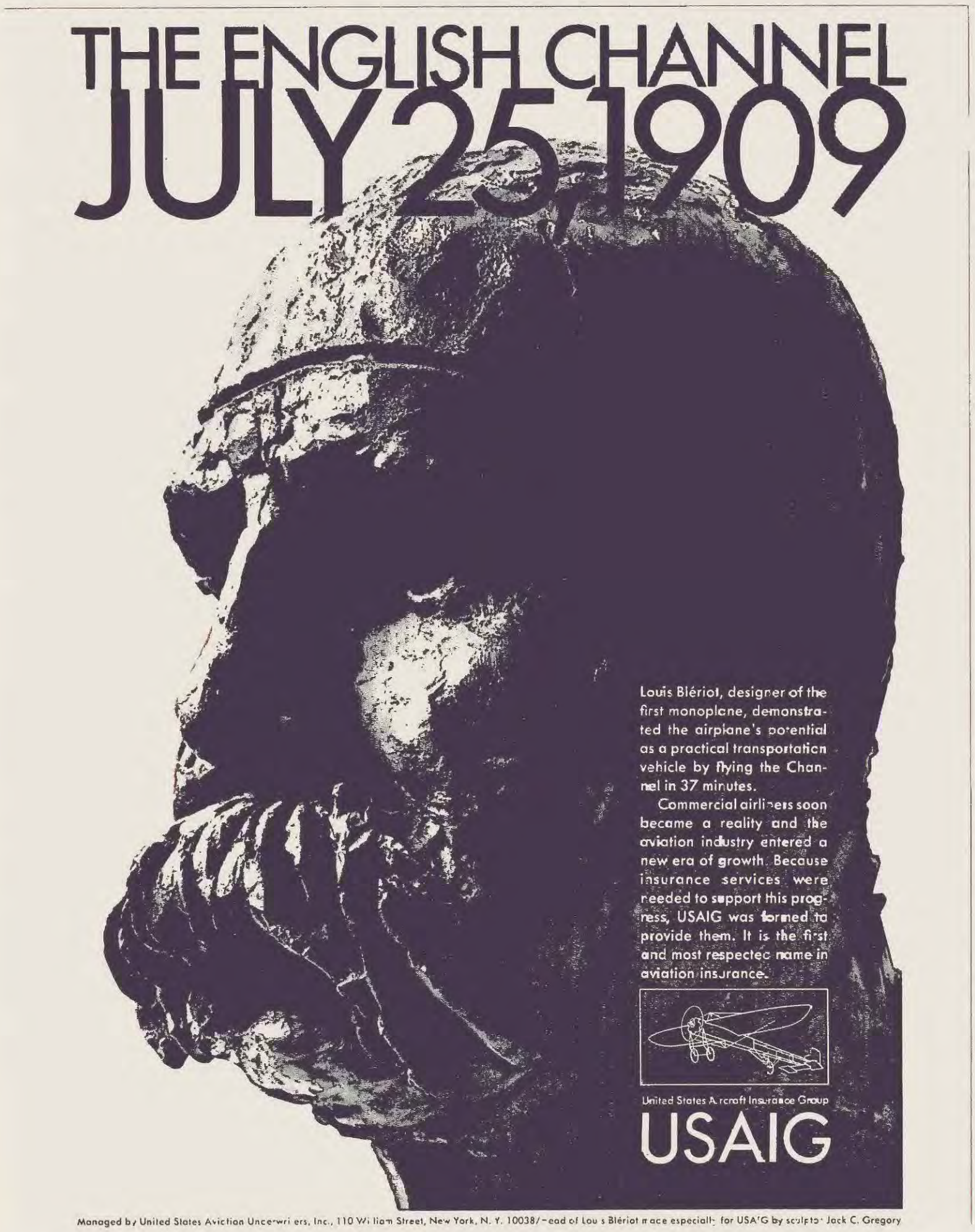
AN OFFICIAL at the ICC here told *Business Insurance* that the investigation into the Penn Central case "is continuing." It will not be released until complete and referred "to the proper channels," he said, noting that could be either through an ICC hearing or Justice Department action. There have been reports that the Justice Department already has a substantial file on the case and may move against Penn Central directors and officers shortly, although this could not be confirmed.

"This material should only be disclosed in a commission hearing or, if appropriate, referred to the Department of Justice for possible criminal prosecution," ICC Chairman Stafford has been quoted as saying.

The Stafford letter was written to Sen. Warren Magnuson (D.-Wash.), chairman of the Senate commerce committee, in response to pressure from that body for a preliminary report on the progress of the ICC investigation of the Penn Central Co. Copies were also sent to Rep. Harley Staggers (D.-W. Va.), chairman of the House commerce committee, and Rep. Wright Patman (D-Tex.), chairman of the House banking committee.

Sen. Hartke, after being asked to comment on the Stafford letter, said that stock dealings by the Penn Central officers "may have led to much of the railroad's financial difficulties." He urged the Justice Department to take "appropriate action as soon as possible."

Findings of his subcommittee's hearings, he said, have indicated that some Penn Central officers may have gained personally from the business activities they controlled. "It is inexcusable for officers charged with a public trust and with providing public transportation to divert resources and funds from an industry already in grave crisis." ■



First suit is filed in fatal bus crash

NEW YORK—A suit has been filed in a Brooklyn federal court against the owner of the bus that crashed recently near Allentown, Pa., killing seven children on a trip from a New York state day camp.

The action asked for "substantial" damages, leaving the actual amount to be fixed by what the plaintiff apparently hopes will be a sympathetic jury. Defendants named in the suit include the Academy Charter Coach Co., Tedesco Bus Co., Inc., Tedesco Co. N.Y., Keansburg-Long Branch Co., Inc., Michael Grazioso, Frank Tedesco and Hubert Days.

The companies and individuals mentioned were the owner and operators of the bus. Frank Tedesco is the owner of the companies. Mr. Days was the driver of the bus that crashed. Mr. Tedesco and two of his employes have been referred to a grand jury in Allentown for indictment for involuntary manslaughter, by a justice of the peace after he had conducted a preliminary hearing.

Isaac Sherman, a Queens lawyer and father of 11-year-old Joanne Sherman (one of several injured in the bus crash) brought the action in federal court here. A spokesman for Mr. Sherman said that Mr. Sherman's daughter has been operated on four times to date for compound fractures of her right leg and left ankle.

As reported previously, the bus and Mr. Tedesco's operations were insured by Transit Casualty Co., a St. Louis company handling a major portion of bus insurance throughout the country. ■

Funds are told to avoid big money managers

By GEORGE LANGWORTH

NEW YORK—Pension fund administrators: Stay away from big money managers to whom you are just another account. Your alternatives might be either self-administration or the smaller money manager who'll pay more intensive attention to your fund's needs.

This was the advice handed out to pension fund administrators at an American Management Assn. briefing last month by one of the money managers of what was touted as "the most successful pension fund in the U. S."

Actually, Frank Wilkens, vp of general investment funds for General Tire & Rubber Co., began by discussing the relative merits and demerits of self-administration of the pension fund. He and another money manager have done quite well with General Tire's 30 employe benefit funds (with a current aggregate of $270 million in assets). Last year, for example, their common stock pool was down only 6% while the Standard & Poor's 500 went down 11.4%, and so far the pool is down only 1% in 1970. During the 15 years he's also managed the fund, General Tire has made no contributions to the pension fund.

S&P 500 performance, in the meantime, is relatively pale by comparison: —9.6%.

MR. WILKENS' past record of in-house performance as well as his glowing explanations of the process certainly pricked up his listeners' ears. However, one inescapable fact of in-house management he brought up obviously gave them pause. "The management of a company cannot expect to pay their in-house money managers to whom they've entrusted the discretion over what is probably the largest and most volatile pool of money in the company in the same manner as they would their administrative assistant vps," he said.

"Comparable management of the desired caliber is probably making as much if not more than the top executive of your company in his own operation down on the Street. *If* you can find the good fund manager, expect to pay him *well*," he warned.

Still, the advantages of in-house management looked awfully good as Mr. Wilkens described them. "Really, the largest advantage you have when you set up your own fund management is that you only have to deal with your own money block's limitations. You aren't subject to the investment restrictions of a large organization with several billion dollars. One thing you can do is take a full position in a smaller company. By smaller company I mean those with anywhere from 1½ million to 3 million shares outstanding. We can take a full position in this company with 75,000 shares whereas a larger organization might have to look at at least a half a million shares to fulfill its own full position requirements," he noted.

He also pointed out that the self-managed fund could sell easier than a larger investment organization. An ominous example of this problem was the bath taken by several pension funds managed by large New York banks whenever the banks began to discover that the timing was good to unload Penn Central this past summer. Apparently the massive trust departments with equally massive holdings of the railroad company's stock did not move fast enough to suit Rep. Wright Patman (D.-Tex.), who currently is conducting an investigation into the matter.

IN ADDITION, Mr. Wilkens said that an in-house management team was in a much better position to make decisions faster and to get the most out of the timing of their decisions as opposed to some of their larger counterparts. "And that's especially if you don't have to deal with a committee," he added. One of the apparent problems in investments is undue reliance upon committee approval once an investment decision has been made by the portfolio manager. In such cases, the value of the timing at the heart of the buy or sell decision is lost in the shuffle.

Another problem large organizations frequently encounter is also avoided by the self-administered fund, he said. "There is quite a competition for ideas in this field just as there is for our brokerage dollar," Mr. Wilkens explained. He said that the research analyst whose job is to attract brokerage to his firm with his good ideas doesn't want to lose control of his ideas.

If an analyst from one brokerage firm tells his idea to buy a certain industry to a larger investment organization, he explained, chances are that in order for that firm to take full advantage of the analyst's idea it must go to several big houses to fill its needs—in addition to splitting out a portion of brokerage to "pay" the analyst's firm. The analyst doesn't want this because with this situation he's lost control of his idea.

His firm would have more time to obtain the appropriate amount of stock to "service the idea" if the analyst goes to the smaller management firms, one after the other with his idea, serving their needs then moving on to other smaller funds or managers. "The way this works is that the smaller you are chances are the faster he'll talk to you," Mr. Wilkens said.

ANOTHER thing fortunate about the money manager who's responsibility extends no further

Continued on page 34

When it comes to insurance brokers, how big is big enough?

Little insurance brokers are great guys. They'll do anything for you.

Except handle your problems when they really get complicated. They may know what to do, but they just don't have the resources to do it. Especially in the multinational area.

Giant brokers, on the other hand, have all kinds of resources and specialists. Nothing exceeds their reach.

Of course, they may be somewhat impersonal. And when they get bogged down in miles of red tape and layers of bureaucracy you may wish you were back dealing with your brother-in-law.

So, what is the right size?

Big enough to get a complex job done for you anywhere in the world—which means at least among the top ten brokers. Yet small enough to establish the rapport so necessary to understanding your problems.

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R.B. JONES INSURANCE

In New York were Benedict & Benedict

benefit tax slants

Court did not allow group insurance assignment in this revenue tax ruling

By JOSEPH S. ROBINSON

NEW YORK—Rev. Rul. 69—54 says in no uncertain language that if you want to have a valid assignment of group term insurance, *both* state law and the master contract must allow the assignment of all ownership rights in the policy.

In a recent case, Bartlett set up an insurance trust by transferring several ordinary life policies plus his group insurance to it. Under the trust agreement, Bartlett assigned to the trustee all right, title and interest he had in the group term insurance provided by his employer. Unfortunately, the master contract specifically ruled out assignments.

Held: The entire proceeds of the group term policy were included in Bartlett's estate when he died. (See Bartlett, 54 T.C. No. 153).

* * *

THE NEW TAX law, as previously reported in this column, cracks down on capital gain for lump-sum payouts from a qualified retirement plan. But in actual practice, the dent is hardly noticeable in the average case—unless the benefits are paid out many years hence. Reason: Only the *employer* contributions made from 1970 and thereafter are treated as ordinary income under the new rules. All pre-1970 contributions and appreciation (before and after) are still accorded capital-gains treatment.

Furthermore, although the 25% alternative tax on capital gain has been limited to the first $50,000, this is outweighed by the inclusion of capital gain in the regular income averaging formula. So except for very large payouts, the averaging rule offers a better tax break than the old alternative tax.

* * *

PEOPLE WHO run small companies should be alerted that they can arrange to have the business pay their medical bills. Money received under an "accident or health plan for employes" isn't taxable income. A business may have different plans for different classes of employes, or leave out some entirely. The tax court recently upheld a plan limited to officers—a couple who owned and ran a small firm.

In 1965, their corporation paid $3,000 in medical bills for them. The IRS claimed the sum was taxable, but the tax court disagreed. By law, a plan must be "for employes," the court said, but employes could also be stockholders. The man and wife did most of the work; no excluded employe had comparable duties. There were a dozen lesser employes, but only one had worked more than four months. Their short tenure was "a natural basis" for exclusion.

And as the $3,000 qualified as non-taxable benefit, the corporation could also deduct it as a business expense. (See Smith, TC Memo 1970-248.)

* * *

A NEW FORM, W-AP, the voluntary withholding exemption certificate on pension/annuities is now available at the Internal Revenue district director's office. Those who have retired on taxable pensions can use this form if they elect to have their taxes withheld on the retirement income under the new rules commencing in 1971.

The withholding, which covers only payments spread over a period in excess of a year (lump-sum payments are not eligible will generally commence three months after the request has been furnished to the payer. Withholding may be later ended if a written notice of termination is signed. (See I.R.C. Sec. 3402 (0)).

* * *

IRS HAS increased the standard mileage deduction for the business use of a car to 12¢ a mile for the first 15,000 business miles each year and 9¢ a mile for all business miles over 15,000. This means that if you choose to use the standard allowance, you don't have to worry about detailed records . . . you get a straight lump-sum mileage deduction for oil, gas, repairs, depreciation, insurance, etc. (See Rev. Proc. 70-25).

* * *

LIFE INSURANCE premiums which were paid by the employer were held to be taxable to the employe for the tax year in which the employment terminated and the policy vested in the employe. In an analysis of the facts of the case, it was disclosed that in the years prior to actual vesting, the policy was tied up to a number of restrictions which excused the employe from tax on premiums for all such years. (See Centre, 55 TC No. 3).

* * *

UNDER A qualified pension plan, the employer purchased insurance for employe. However, part of the premium was contributed by the employe who also had the right to change the beneficiary.

Internal Revenue holds the portion of the insurance proceeds representing the employe's contribution was part of his taxable estate. (See Rev. Rul. 70-211). ■

Hospital loses suit

FORT LAUDERDALE, Fla.—After two days of testimony, a circuit court jury awarded Mrs. Mary A. Cilio of Fort Lauderdale $75,000 in damages against the Plantation General Hospital.

In the suit, filed last year, Mrs. Cilio charged that while a patient in the hospital she suffered permanent injuries to her right hip. She maintained she suffered the injuries as a result of two falls from her hospital bed while in the hospital's care and that the hospital was negligent in providing her with the proper care.

Broward County Circuit Court Judge Stephen R. Booher, who heard the case, ordered the hospital's owner, Hospital Development Service Corp., to pay the $75,000. ■

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British to work with ASIM on study of captive insurer operations

LONDON—Captive insurance company operations are being studied by a special research group of the Assn. of Insurance Managers in Industry and Commerce.

It will base its findings on a survey that it is making with the aid of risk managers in leading British companies, help from the British insurance industry, and informational assistance from the American Society of Insurance Management and other U.S.-based insurance interests. Publication of its report is expected toward the end of 1971, *Business Insurance* understands, and will provide the first major assessment here of the importance of captives in the advancing insurance market.

But AIMIC members stress that this is an evaluation exercise, and that they are taking no sides in the controversy over the issue of whether or not risk managers should support captives in their discussions with corporate management. They want merely to provide a "package report" on all aspects of the situation, and are open to any opinions held by business or insurance experts.

ANTHONY P. BENSON, chairman of AIMIC's group researching captive insurance companies, explained: "The survey has been undertaken with a view to providing background information in view of the generally increasing interest in this subject at the present time.

"The basic intention is that our study should be an evaluation exercise. None of the group's members has fixed views on the subject, and what we are seeking is to make available as much information as possible on this technically difficult subject. Numerous offers of help have been received from the company market and brokers, and also from insurance interests in Europe, the U.S. and the West Indies.

"We will be seeking help from ASIM on the significance of captives in the American scene. At least one major international American insurance company has contacted us, and has provided a useful and objective study of the pros and cons of captive operations as it sees them.

"Our brief is to examine and report on captive insurance companies with particular reference to the advantages and disadvantages affecting their creation. This will include their methods of operation, legal taxation and fiscal aspects of such operations, classes of business in which they offer particular advantages, and their current utilization.

"WE ARE ALSO surveying the present and potential relationship of captives to the general insurance market, the possible development of 'captive-mutual' trade associations, the availability of reinsurance facilities for captives, and alternative arrangements for whole or partial self-insurance by industrial groups.

"In view of the diverse motives that may lie behind the formation of a captive, we do not see our role as the provision of a definitive study or set of guide lines. Our purpose is to provide our members with an accumulation of basic facts to consider if they contemplate the formation of a captive."

Mr. Benson explained that in recent years the use of tax havens in the Bahamas for captives run by management companies on a fee-paying basis had attracted some attention in the British industrial market.

He felt captive development was much more advanced in the U.S., where they had in some cases been able to obtain significant advantages from their operation. Not least of these was the necessity for substantially increased safety consciousness in their industrial function. But he made it clear that AIMIC's role is to provide the facts, and then let risk managers find the answers.

AIMIC'S RESEARCH committee consists of members drawn from pharmaceutical, food, electrical, computer, and hotel industry fields.

Captives already exist in several parts of British industry. The big Unilever group runs the Blackfriars captive; Imperial Chemical Industries has I.C. Insurance Ltd; and Reed-International Publishing, a paper and publishing group, runs Publishers and General. Additionally, the oil and shipping industries have long had captive associations.

There are examples of "joint ventures (in which an insurance company is established with its capital held equally by an industrial parent and an established traditional insurance company) in a number of fields.

Rising insurance premiums, particularly in fire coverage, are leading more British corporations to consider cost saving by creating captives. But other motives are also influencing this trend, and a balanced evaluation of the subject will not be an easy task for the insurance manager.

Lloyd's has a natural interest in this, through reinsurance and other aspects, and the broker section of the British market will no doubt follow this development keenly. ■

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Challenge Canadian benefits

OTTAWA, Ont.—The Canadian government's intention to pick up only the cost of unemployment insurance benefits resulting from unemployment over and above the national average of 4% "denies the principle that society is responsible for all umemployment," a spokesman for the Canadian Labor Congress told the Commons labor committee here the other day.

Andy Andras, director of the CLC's legislation department, charged that the proposal in the government's "white paper" on unemployment insurance breaks with the "sound principles of social insurance" approved by the International Labor Organization. He urged that the proposal be dropped.

Under the existing scheme, the Canadian government pays an amount equal to 20% of the combined employer/employe contributions into the state umemployment insurance fund. The proposed plan would free the government of any charge if the national unemployment rate is less than 4% of the work force. ■

Insolvencies, rates plague insurance regulators

LOS ANGELES—Insolvency problems and rising insurance rates are the biggest headaches for insurance regulators of Illinois, California and Pennsylvania.

At the annual meeting of the Society of Chartered Property & Casualty Underwriters here regulators from these states—three of the top four in amount of premium written—reviewed their roles in serving today's insurance consumer.

Illinois' Director of Insurance James Baylor acknowledged that his state had more than its share of insolvency problems. Corrective steps he is taking, which he says will lead to "regulation for solidity," include revision and expansion of 15 carrier-rating tests.

The tests are applied to every company writing in the state. Mr. Baylor emphasized that they are designed to "evaluate companies, not throw them out. But if your company is in violation of one major test, you probably can't be admitted in Illinois." After taking the tests companies are placed into four categories, the director said, and those put in the fourth group for having failed at least one minor and two major tests "are the real cause for worry."

THE ILLINOIS department is also working on a series of tests for insurance company management. "Stockholders' testing of management has been inadequate," Mr. Baylor said, "so the insurance department should be able to bring pressure to bear on management to correct its errors." He believes that tests similar to Illinois' will be adopted by more states in the interest of the consumer good.

"Consumerism," he said, "is the essence of insurance and it has been grossly misunderstood by the industry. CPCUs are in a position to do some good for the U.S. by bringing the concepts of consumerism to bear on their companies."

The operations of the California Insurance Guaranty Assn., according to that state's Commissioner of Insurance Richards D. Barger, have had a salutory effect on the insolvency problem. The bill is a result of Sen. Warren Magnuson's (D.—Wash.) efforts to create the California Insurance Guaranty Corp. and followed an unsuccessful attempt to establish a voluntary plan in the state.

"It has made companies in the plan more aware of the problems of other companies," Mr. Barger said, "because they don't want to pick up the tab for the next insolvency. We have formed a rotating system of examining the companies—those that need it the most will get it the most."

HE STRESSED, however, that an insolvency fund is not a substitute for good regulation and that it could be "the seeds of a state's own destruction if it is used improperly." The fund is not an initial protection, he said, but a last resort.

Twenty-nine states now have post-insolvency assessment plans, he said, but if the rest aren't more successful in getting their own bills passed they may need "federal convincing." He predicts that 1971 will be the key year on the issue.

Speaking on rising insurance rates, George F. Reed, insurance commissioner in Pennsylvania, said that consumer education and involvement is one way to solve the problem. And in his state, he is making an effort to deal with "the lack of understanding by the public of what insurance is all about."

In preparation for last December's auto rate increase in Pennsylvania, he sent an open letter to all drivers explaining the increase and their involvement, through accidents and theft, in his decision. He also suggested what citizens could do to improve the state's loss record.

"There was a need for this to be explained by a person in my position," Mr. Reed said, "because it is not enough that the government protect the needs of the consumer. It must also educate him and develop a responsibility on his part. There is much the consumer must do for himself.

"A regulator," he said, "must go beyond the insurance aspects of his job and into the education of the people to solve their own problems." ■

Illinois rate solution?

LOS ANGELES—James Baylor, director of insurance in Illinois, says he doesn't intend to see insurance consumers in his state suffer as a result of the recently declared moratorium on rate increases in Florida.

He told the Society of Chartered Property & Casualty Underwriters, at their annual meeting here, that he sees the "possibility of issuing cease-and-desist orders to those companies operating in states with inadequate rates.

"I don't accept the premise that losses in other states by companies domiciled in Illinois can be made up by artificially suppressing rates in one state and increasing ours," he declared.

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Government still studying FIA claim on Brandeis University reinsurance

WASHINGTON—The ever-steepening property insurance road for college campuses may have had a few degrees added to its grade as a result of an opinion issued by the federal insurance administrator.

Administrator George K. Bernstein, has withheld payment on a reinsurance claim to Factory Insurance Assn. pending the outcome of an investigation of the losses arising out of the takeover of a Brandeis University computer center by dissident black students last year.

Until now, if campus property was damaged during an outbreak of protest, damage claims were paid by the insurance company issuing the coverage. The carrier then submitted the claim for reimbursement from the government under the terms of what is called the federal riot reinsurance program, actually the Urban Property Protection and Reinsurance Act of 1968.

Mr. Bernstein explained that the payment had been temporarily withheld on the relatively small claim, about $6,750, until an investigation could be made of the "circumstances surrounding the occupation." He said the investigation would attempt to discover if the university had taken "necessary and reasonable steps" to minimize losses.

HE ALSO pointed out that his decision goes far beyond the small amount of money involved, adding that there might be "a million-dollar claim tomorrow," the implication being that if "necessary and reasonable steps" were not taken in that instance, the larger claim could be turned down as well.

When asked just what "necessary and reasonable steps" were, Charles Weicking, assistant federal insurance administrator, told *Business Insurance*, "That's what we don't know and that is the purpose of the investigation. We just know that Factory Insurance Assn. may not have a viable claim."

Mr. Weicking pointed out that insurance policies contain a provision requiring the policyholder to take those "necessary and reasonable steps" to minimize losses and that FIA had not submitted information sufficient to establish that the steps had actually been taken during the Brandeis incident.

In a published statement, Mr. Bernstein noted "The implications of possible failure by university authorities to take such action as is necessary to avoid riot losses are so great, with respect to future reinsurance claims and our responsibilities under the act (which was created at the same time as the FAIR plans and provides reinsurance coverage for companies cooperating in the plans), as to mandate further investigation of the circumstances in which any loss occurred.

"THE RIOT reinsurance program," he added, "should not be viewed as a vehicle to subsidize acquiescence in student violence."

This new position by the government may make insurance companies much more cautious when it comes to settling such claims hereafter. "This may make the insurance carriers a little more reticent to pay off quickly in cases of this kind," Mr. Weicking pointed out.

"This opinion also points up the fact," he went on, "that insurance coverage is not automatic and it might have some effect on the institutions as well. If you have fire insurance on your factory, say, but you take no steps toward fire prevention and provide nothing for extinguishing a fire, there is a good chance that your insurance company won't pay off if your building burns."

F. J. Goodfellow, general manager of FIA, noted, "We have volunteered to assist the government in any way we can. They said we had not supplied adequate information to support a claim but we are prepared to tell them whatever we know about the loss."

MR. GOODFELLOW felt that Brandeis had been "clearly covered" by his company and that FIA was "definitely liable."

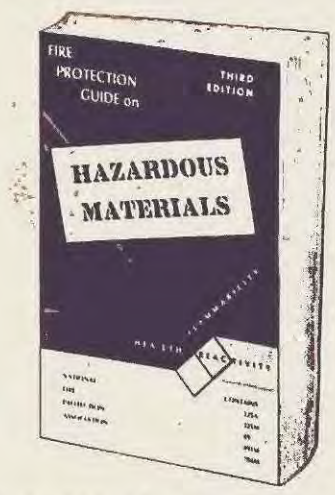
When asked what would happen if the government decided against FIA after the investigation, he replied, "Well, then it becomes an industry problem and I really don't know what will happen. This is a very ticklish thing but I'd like to see their justification for not paying if they do decide against us."

"When do you think the investigation will be over and we'll get our money?" he queried. "When do you think the Vietnam war will be over?"

The claim which precipitated the whole affair was submitted after black students occupied a Brandeis computer center, for 11 days in January 1969.

THEY PRESENTED a number of demands, which have since been met, including the admission of more black students and professors and the establishment of a black studies program.

The university obtained a court order to eject the students but managed to negotiate a settlement before the order was enforced. ■



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Computer medical info service is touted as a new employe benefit

NEW YORK—A new software computer services company has come up with a "life-saver credit card," which is being pushed as a valuable new employe benefit called "Computerlife."

Developed by Compumedic Controls Corp., a New York-based firm, the new computer system stores sufficient critical medical data in a comprehensive medical history format for each of its subscribers. The subscriber's doctor, upon receiving the blue, white and red plastic identity card, can then call toll-free from anywhere in the continental U.S. to obtain needed medical information concerning his patient.

Companies as well as their employes will readily reap the value of the new employe benefit, according to the firm's officials. At a top cost of $12 per year for each employe (in larger employe group lots the price goes down) the company can give its personnel a subscription to the information service.

The new service is the logical development of many "identity bracelets" developed in the past to identify hemophiliacs or diabetics caught in emergency situations. Built around the in-house designed minicomputer that makes it possible, the information service in effect takes over the time consuming medical record-keeping necessary for the doctor to keep up with his patient's medical history. Such information becomes invaluable to his patient, especially if he were to be injured in an accident while on vacation, for example.

ANY ATTENDING physician could easily become an expert on the vital medical statistics of his new patient as his former family doctor was by a quick phone call to the service center located here in New York. The doctor simply dials the phone number on the card. A registered nurse or advanced medical student is on the other end of the line 24 hours a day seven days a week. This precaution is taken to make sure the inquirer is indeed a medical professional as well as to insure that the information asked for is adequately communicated to the calling doctor.

A registered nurse relays information from a patient's medical history over long-distance telephone to a doctor waiting at the other end of the line.

The inviolability of the subscriber's medical record is maintained because the only way to obtain the information from the computer is to key into the computer the many-digit number embossed only on the subscriber's plastic "credit card." In addition, the card has no name or other identification on it other than the number itself. The information obtained with the number on a card is therefore only useful if the card can be matched up with the person to whom it refers, thus necessitating some form of consent by the subscriber.

The value of such a service as an employe benefit to any company is apparent in the case of those of its employes required by their work to travel a great deal, the company believes. Since there are no extra charges other than the annual subscription cost, regardless of the number of utilizations of the service, the company's cost in providing the benefit could be held at a definite level.

A doctor interviewed by *Business Insurance*. brought up one issue at which that all-important person in the new health service may balk—"What's in it for me?" he asked. "Compumedic Controls Corp. claims they're taking a big workload of paperwork off my back by keeping track of the medical records of my patients. But, in essence, you're giving me additional paperwork to fill out in order to accomplish this. How am I to be compensated for this additional requirement of my

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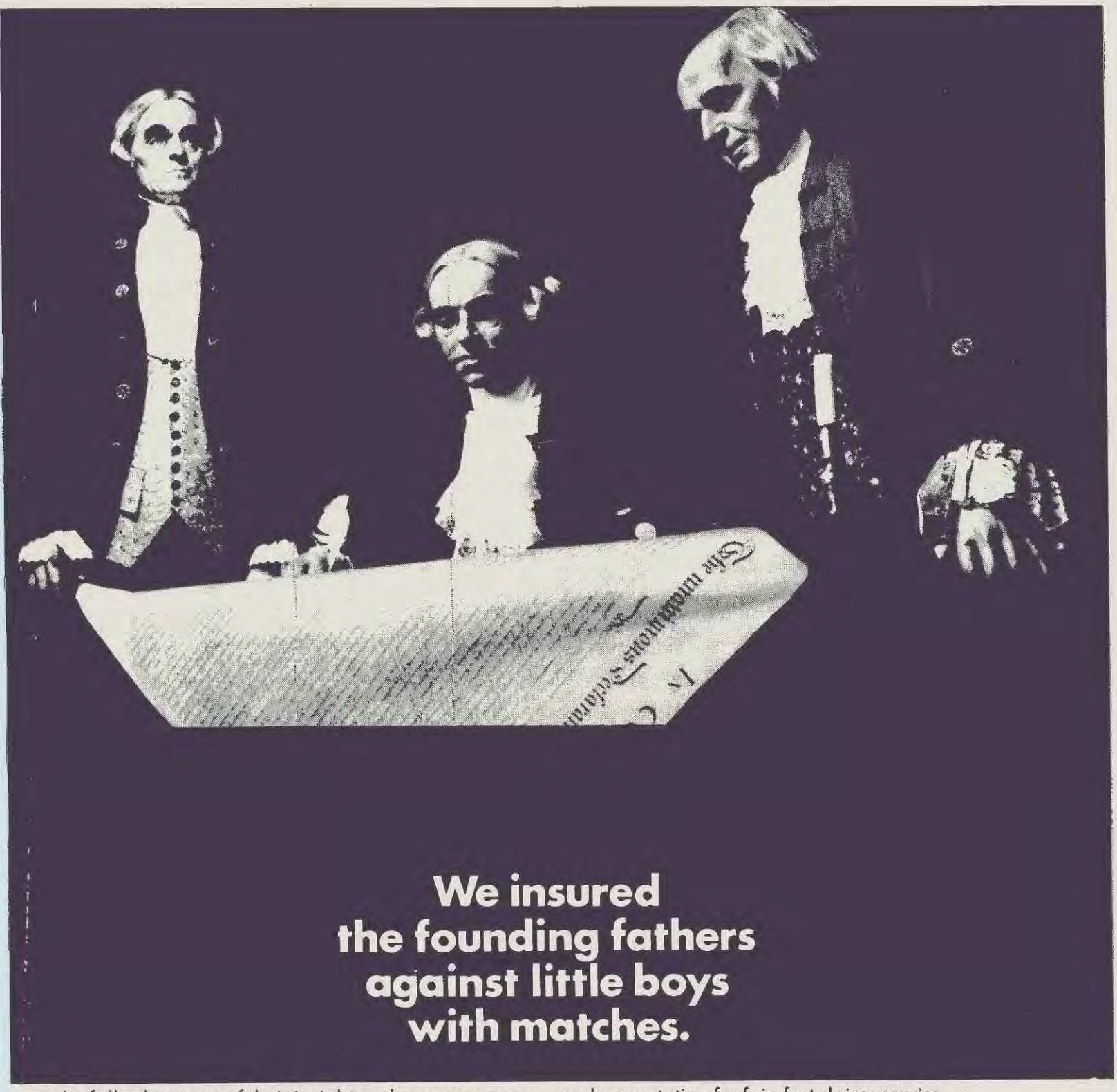

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Giles on the law

Tire tread defect costs producer $89,000 payment to hunters

By JOHN W. GILES
Attorney at law

WASHINGTON—A hunting trip might end up costing you, as a manufacturer, $89,000. Four hunters on a Canadian trip sustained injuries when their camper-truck veered from the road due to a blowout of the left rear tire. The hunters brought this action against the tire manufacturer and the dealer-seller to recover for their personal injuries.

At the trial, the plaintiff's experts testified that the blowout was the result of a defect in the manufacture of the tire, which caused the separation of the rubber coat stock or of the tread from the cords within the tire. The defendant's expert was of the opinion that the tread separation was the result of impact damage. The jury returned a verdict of $89,000 for the plaintiffs. The dealer-seller was allowed indemnity against the manufacturer. The court said that since the dealer's liability stemmed solely from its passive role as the retailer of a defective product furnished to it by the manufacturer, indemnity against the manufacturer would be allowed. However, the court added that the dealer was not entitled to attorney's fees, since he was required to defend the action against the breach of warranty claims and therefore was in the position of defending his own wrongful conduct. (*Farr* v. *Armstrong Rubber Co.* and *Elmer N. Olson Co.*—Minnesota Supreme Court—7/24/70.)

* * *

DO YOU HAVE TO suffer physical contact to recover for an injury in Michigan and Maine? No, these states have abolished this rule, and Michigan has done so in spite of the fact that New York has not adopted the rule.

The Michigan court says that after close scrutiny of precedent, and the authority upon which those cases rested and an examination of the changed circumstances relating to the factual and scientific information available, it must be concluded that the "impact" requirement of the common law should not have a continuing effect in Michigan. Where a definite and objective physical injury is produced as the result of emotional distress proximately caused by the defendant's negligent conduct, the plaintiff, in a properly pleaded and proved action, may recover in damages for such physical consequences to himself, notwithstanding the absence of any physical impact upon the plaintiff at the time of the mental shock. However, absent specific knowledge of plaintiff's unusual sensitivity, there should be no recovery for hypersensitive mental disturbances where a normal individual would not be affected under the particular circumstances. Furthermore, the plaintiff will have the burden of proof that the physical harm or illness is the natural result of the fright proximately caused by the defendant's conduct.

In the Maine case, the Coca-Cola Co. claimed that a foreign substance in a bottle did not result in any physical injury. The presence of the foreign substance did cause nausea and mental distress. So Maine now rejected its former ruling in *Herrick* v. *Evening PUB. Co.*—120 Maine 138 and said that in the light of advances made by medical science and the improvement in investigatory techniques since this court decided Herrick in 1921, they declined to follow it any longer. Instead, they adopted the rule that in those cases in which it is established by a fair preponderance of the evidence that there is a proximate causal relationship between an act of negligence and reasonably foreseeable mental and emotional suffering by a reasonably foreseeable plaintiff, such proven damages are compensable, even though there is no discernable trauma from external causes. (See Mich. Supreme Court—*Daley* v. *LaCroix*—9/22/70, and Me. Sup. Judicial Court—*Wallace* v. *Coca-Cola Bottling Plants, Inc.*—9/17/70.)

* * *

IF YOU DO NOT notify your insurer of an accident for four years your excuse that the policy was misfiled will not be of much value.

A city purchased a liability policy covering liability for events arising out of a highway construction project. During the policy period, a welder on the project was injured when he fell from a scaffold. He sued the city for damages. The city did not notify the insurer until four years later. The city explained the delay in notification because the policy was misfiled with the city's engineering department,

Continued on page 36

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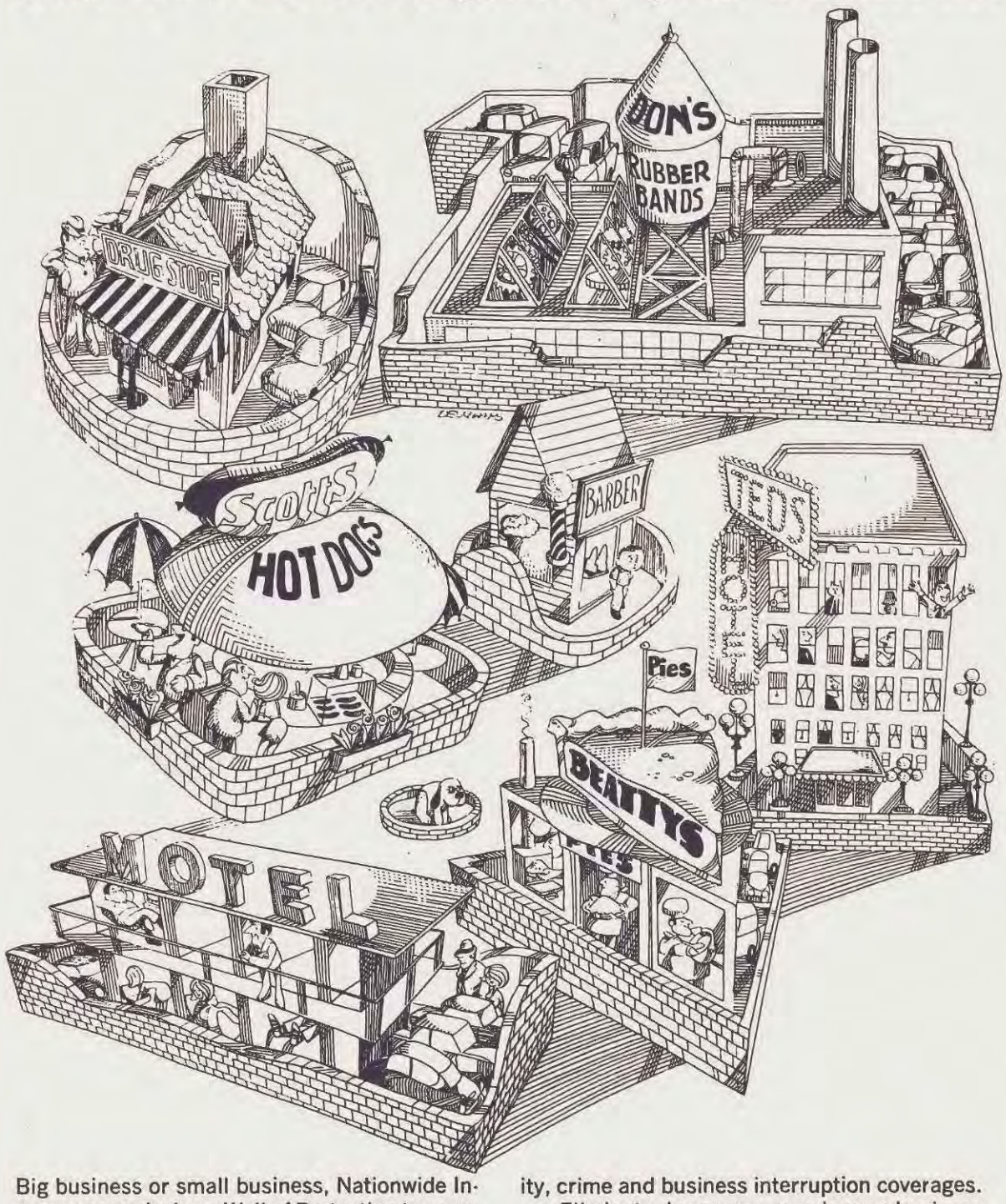

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Continued from page 29

time?" he added.

Dr. Ira Freifer, head of the Medical Advisory Board of the Computerlife system, acknowledged that compensation for the doctor's filling out the form was the responsibility of the subscriber. However, additional charges for other official statements on the state of the subscriber's health could be avoided with the service, he pointed out.

This problem of taking up a doctor's time with the original data form and subsequent verifications (regularly asked for by the service company on an annual basis) of the information may not be as far-reaching as the doctor indicated. In group practice plans, much of the testing that results in the information going on the patient's medical record is handled by paramedical personnel, as has been the case in the military for some time. Consequently, the task of filling out the form may very well be handled by these same people, rather than the doctor himself. In the case of the physician in private practice his nurse might conceivably be called on to handle it, since in many cases she already has the responsibility of running the tests.

Whatever the answer to this question, no one denies the potential of such a service. The 250,000-member Veterans of World War I service organization was one of the first groups to offer it to its members late last month. ■

Kodak adds $2.5 million to benefits

ROCHESTER, N.Y.—Eastman Kodak Co. has implemented a new basic health care plan that is slated to increase hospital and surgical-medical benefits and provide more uniform coverage for its employes throughout the country.

A Kodak spokesman indicated the new plan is being set up through Blue Cross and Blue Shield. The company has an existing contract with the Blue plans. Its major medical program is covered through Metropolitan Life Insurance Co.

Kodak now pays the entire cost of employes' health coverage. It will continue to do so after Nov. 1 unless and until premiums are increased. The cost of such increases will be shared by the company and the employe "on about a 50-50 basis."

THE COMPANY said it plans to absorb the additional $2.5-million cost of improved benefits under the new program.

A major significance of the new health care plan is the fact that all Kodak people working in the U.S., regardless of location, will enjoy similar, and in most cases the same, benefits.

For example, under the new plan, which goes into effect Nov. 1, all Kodak people for the first time will have coverage for in-hospital visits by physicians except for maternity or surgical reasons, in-hospital maternity care for mother and infant up to 120 days, an increase to $115 for obstetrical costs, and complete emergency accident benefits.

Creation of a nationwide Kodak basic health care, the spokesman noted, is in answer to growing hospital maternity care for mother and infant. ■

'Riot-proof' bank built in Isla Vista

SANTA BARBARA, Cal.—Although, figuratively speaking, the milk has already been spilled and it's sort of like "closing the barn door" after the theft of the cow—Bank of America hopes that its new Isla Vista branch will be sufficiently riot proof to avert any future drain on the bank's self-insurance funds.

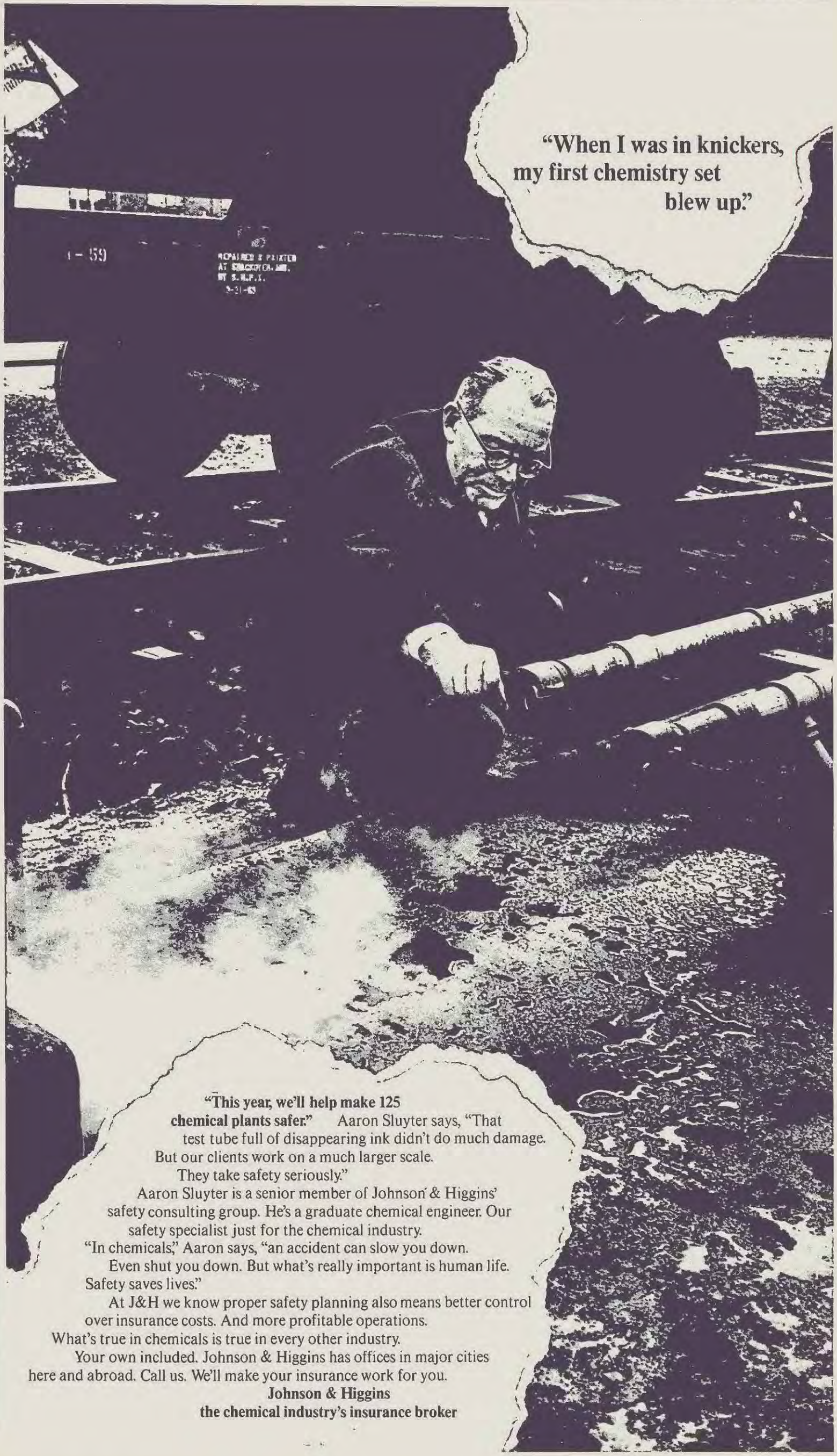
The new $425,000 building in the University of California campus community of nearby Isla Vista replaces the one which was burned by young rioters last February.

The new building is windowless, of concrete and steel, in a Spanish baroque architectural style, with a red tile roof which reportedly cost $16,000 and has been so slanted that "fire bombs thrown on the roof would roll right back at them."

Glass on the front doors has been specially treated to repel any object thrown against it.

As a tribute to students, the bank placed a placque in the concrete at the entrance. It reads: "For social change, fair play and peace, Kevin P. Moran, April 18, 1970."

Mr. Moran was the student killed while attempting to stop dissidents from burning the bank for the second time. His death reportedly was from a rifle allegedly fired by police. ■



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Stock options popular despite the poor climate

NEW YORK—A survey of 565 of the nation's largest companies, spanning 30 industries, has shown that, for the most part, stock option plans, a popular executive employe benefit, have remained relatively the same even though the climate for them has worsened.

The survey, made by McKinsey & Co., a New York management consulting firm, showed that only 100 of the 565 companies had made any changes in their stock option plans since last year's tax reform legislation made them a little less attractive. The new law will levy more heavy taxes on substantial capital gains and reduce the tax load on ordinary earned income.

Compensation specialists in many companies are attempting to come up with new ways to provide top management with incentive rewards since the new law, combined with the dive in the stock market and high interest rates which make it more expensive to borrow money to exercise options, have somewhat tarnished the reputations of the traditional option plans.

But the changes are not as radical or as rapid as might have been expected, according to a spokesman for McKinsey & Co. He felt that the reason there had not been much action in the stock option area is that, with profits nosediving, most companies were wary of asking shareholders to enhance option plans for executives.

The survey showed that 91% of the manufacturing companies talked to had stock option plans as compared to 84% last year. Also, many of the executives of these companies had made strong capital gains exercising their stock options before the market plunged.

The survey pointed out that five executives had stock option gains of over $1 million each in a single year. At the same time, 19 others had gains of over $500,000 each while 120 other executives gained over $100,000.

The spokesman for the surveying company felt that many of the gains had been swallowed by the bear market and were probably not realized.

While stock option plans have not changed a great deal, executives have enjoyed pay raises nevertheless even in the face of slipping profits. The survey showed that top management's pay rose 4.6% last year while profits only mustered a 1.5% rise. ■

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Fire chief charges lack of cooperation

HALIFAX—The executive director of the Canadian Assn. of Fire Chiefs has criticized chemical companies for not providing adequate information on dangerous chemicals.

J. L. Arnott told the association's annual meeting here that there are increasingly more dangerous cargoes on Canadian roads and railways and no adequate guide exists to help firemen cope with accidents.

Mr. Arnott said he is attempting to get help from the industry in setting up a national committee to deal with the problems. However, he noted, he is getting little cooperation.

For example, he pointed out, in an effort to compile up-to-date information on all dangerous chemical compounds, their reaction on exposure and methods firemen can use to control them in emergency situations, he had contacted Du Pont of Canada Ltd. But, he said, he "got the run-around."

"You get pushed from pillar to post," he told the association members. "No one tells you anything."

A national committee involving fire chiefs and industry, he said, would assist in establishing information on what new chemicals are in use and their characteristics. The data would be published in a booklet, he said. ■

Houston sued under 1899 pollution act

HOUSTON—Fourteen major industrial plants and the City of Houston were named in a water pollution suit filed in federal court here Sept. 18 by a national organization of sports fishermen.

The Bass Anglers Sportsman Society of America and its local affiliate, the Baytown Bass Club, filed the suit under the 1899 Federal Refuse Act. The act permits citizens to initiate pollution actions, and collect half of any fines levied, by presenting evidence to the U.S. attorney.

It provides a maximum fine of $2,500 for each instance of dumping refuse or pollutants into a navigable waterway or tributary without a permit from the Army Corps of Engineers.

THE COMPANIES sued, mainly in the Houston Ship Channel area, were: Champion Papers Inc., Armco Steel Corp., Diamond-Shamrock Chemical Co., Crown Central Petroleum Corp., Ethyl Corp., the Du Pont plant at nearby La Porte, U.S. Gypsum Co., Shell Chemical Co., Olin Corp. and Goodyear Tire & Rubber Co. Also sued were the Dow Chemical Co. at Freeport, Gulf Chemical & Metallurgical Corp. at Texas City, Texas-Eastman at Longview and the Aluminum Co. of America plant at Point Comfort.

Officials of most of the companies expressed surprise but declined comment until they could study the suit.

The allegation against the City of Houston was illegal dumping of refuse from the city's fertilizer operation at a treatment plant.

Mayor Louie Welch acknowledged the plant has been creating air pollution since an electrical failure burned out a sludge dryer several months ago. But he said he knew of no water pollution from the plant.

Ray Scott of Montgomery, Ala., president of Bass Anglers Sportsman Society of America, said there are some 1,700 companies in Texas dropping refuse into the streams of the state, "and not one has a permit from the Corps of Engineers."

THE SUIT asks U.S. District Judge Woodrow Seals for a permanent injunction against disposal of any refuse or pollutants into the state's waterways by Houston and the 14 companies.

The suit is termed the most sweeping—and promises to be the most complex and protracted—pollution suit filed here since Harris County named 54 companies in a landmark pollution suit in 1956.

Scott said his group filed suit itself after U.S. Atty. Anthony Farris was advised of the allegations and failed to take action.

Mr. Farris said the group sent him a letter without furnishing any proof of violations. He said the letter arrived only about three days ago and observed: "The government doesn't move that fast."

The suit was filed by Houston attorney L. A. Greene Jr. ■

$7,000 too steep a premium for art

NEW YORK—$300,000 worth of uninsured paintings were taken from an apartment here by some selective, or amateur, thieves.

The paintings, including works by Jackson Pollock, Picasso, and Thomas Hart Benton, were taken from Byron Caran Jr. and Jason McCoy, a nephew of Jackson Pollock. The thieves left another $700,000 worth of paintings and etchings scattered around the floor.

Mr. Caran said that, although he did have such an extensive art collection, he could not afford to pay the $7,000 a year in insurance premiums quoted him to insure the collection.

The paintings that were stolen were taken from the walls while the others were stored unframed in closets. Since they were not displayed prominently the thieves probably thought they were of little value, according to police.

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Big money . . .

Continued from page 23

than his one fund is his ability to move. For the money manager with massive holdings it's much more difficult to change investment strategy in mid-stream than it is for the single or smaller fund manager, Mr. Wilkens said.

"Large money managers," mused Mr. Wilkens with a smile, "well, they just have problems that I don't think I would want. You can't have a feel for your fund portfolio's risks without being involved in the midst of the action. It's a good cross-check of your investment banker. It's quite helpful in the mergers and acquisitions area, which incidentally is good preliminary training for a money manager itself. But besides all this, the self-administration of a fund simply gives you more continuity of management. You don't have to go through the pitfalls of the outflux of old and the influx of new people," he said, summing up his ideas of the upside of self-administered pension funds.

However, Mr. Wilkens was quick to add that the proposition certainly had its downside as well. "The biggest problem you face of course is people. Where do you get them, how do you pay them and how do you keep them —especially if they are good? If you do find someone who looks like a good prospect, let him learn by managing a small piece of the fund. I'd say it probably takes at least five years and at least one bear market to really train a money manager," he laughed.

General Tire & Rubber's fund management team's history is probably unique. Only one of the six or seven people who handle the funds came from outside the company. Mr. Wilkens was the controller for a plastics plant. Another member of the team came from the rubber company's mergers and acquisitions department.

"THE MERGERS area is probably good background for a prospective money manager. It teaches a man to look for facts," Mr. Wilkens said. "Of course, if you start to deal too much in facts while running a portfolio, by the time you know all the facts it's too late. Another problem is that all the facts indicate a 10% rise in profits but the price of the stock might well still go down," he added.

The driver of the world's fastest land vehicle, which broke the speed record recently at 622.4 mph, was covered by a $100,000 accidental death and dismemberment policy written by CNA Insurance. Gary Gabelich, driver of the Blue Flame, was also covered by blanket accident medical reimbursement in the amount of $10,000 and $200 weekly accident income payable from the first day of injury through 52 weeks. The coverage applied up to speeds of 700 mph. The tests on the rocket propelled vehicle were conducted at the Bonneville Salt Flats in Utah. The Blue Flame was designed and constructed for the Institute of Gas Technology in Chicago by Reaction Dynamics Inc., Milwaukee, Wis., and is sponsored by 48 companies in the U.S. and Canada. CNA also insured the last driver to set a land speed record in 1965.

At any rate, the in-house team was set up 13 years ago with $25 million that the company "handed over without too many restrictions," bidding the new money managers "to go and see how it's done." Apparently they haven't done badly. Mr. Wilkens and his partner make the investment decisions, buys and sells and a board of three members including the chairman ("he lives in Washington, D. C., and stays out of the action") sets up the investment policy.

Mr. Wilkens told *Business Insurance* there were few policies actually written down for his department. He noted, however, there are some "cardinal rules" they tried to follow. The fund manager has no other corporate function other than to run the pension fund money. There are little or no other administrative duties he should be saddled with. He said that he felt that managing the fund was a full time job. "The death of a fund manager is getting involved with administrative details," he pointed out.

The administrative details of handling brokerage, talking to computer people and handling reports is left to "a girl with five or six assistants back in Akron," he said. There are two fund managers here in New York along with a secretary, "and that's about it. We have an economist for the company who doubles as the economist for the fund. Also, we do a fair amount of investing in real estate. Because it's so complicated we have two guys who do nothing but handle the real estate portion of our portfolio," Mr. Wilkens said.

HE NOTED that "back when we were doing private placements—we tried venture capital a few years ago to see what it was like—my companion and I handled them ourselves." Mr. Wilkens gave the appearance of a man with burnt fingers when asked about the venture capital area, however. He related that he'd had mixed results. A couple went okay but not that good, a couple went bankrupt and a couple were quickly gotten rid of—was how he put it.

"These private placements—you just can't ignore them. You have to have someone to spend a lot of time with them. You never hear from them when things are all right—only when they are going down the drain and need more money. We don't do any venture capital anymore," he said. He stated flatly that he didn't believe that the venture capital investment was as good an investment as an established company's stock. "Even if it quadruples your investment it can't affect you as much as a more normal-sized gain in a large position of some established company's stock," he explained.

Normally, (outside of a bear market, that is) the General Tire & Rubber fund's portfolio is split up the following way: 50% in common stocks, 20% in real estate and the rest in convertible bonds. The fund managers maintain "little or no straight debt as a rule." Mr. Wilkens, however, admitted that because of the condition of the market recently he was 40% in cash at the moment. ■

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Four-fifths union pacts now provide group life

WASHINGTON—A study conducted by the Bureau of National Affairs' collective bargaining negotiations and contract service has revealed that four out of five union contracts in manufacturing industries now provide employes with some group life insurance coverage. By contrast, a similar study done in 1961 reported that only two-thirds of the unions surveyed had life insurance benefits in their agreements.

The BNA study reports that the amount of the insurance usually ranges from $5,000 to $7,500. Some provide less than $5,000, but others are known to reach $10,000 or more.

In a majority of the contracts looked at by the bureau, a flat or constant rate of coverage is provided, regardless of an employe's income.

More than half of the contracts surveyed require that an employe work from one to three months before coverage begins. Physical examinations are seldom required and in about half the programs an employe can convert from the group to an individual policy upon retirement.

Some of the agreements, according to the bureau, contain a provision to extend life insurance to employes if they are laid off. But in most cases the period of coverage is limited to not more than three months from the date of lay off.

The study also took a look at transition and bridge benefits. Transition benefits, which generally provide a set monthly benefit for up to two years for an employe's survivor, were found in few of the contracts. Bridge benefits, which follow the transition period and continue until the survivor remarries or becomes eligible for full Social Security payments, were found in even fewer contracts.

Life insurance coverages after retirement is available in less than half the contracts surveyed, but where they appeared they were usually paid for in full by the employer. Moreover, in most instances life insurance benefits for retirees generally decline after retirement to a set minimum base that is determined by the former employe's length of service and/or salary level, according to the bureau. ■

Risk certification near

LAS VEGAS—"Quite a radical change in risk management" was foreseen by David Warren as a result of the adoption of a risk certification program by the Insurance Consultants' Society. Mr. Warren, partner in Warren, McVeigh & Assoc., San Francisco, told *Business Insurance* of the society's plans after its annual meeting here.

The society, made up of 25 member companies from the U.S. and Canada, has worked for two years on a body of standards and ethics that will put risk consultants in a position to certify their work. "The standards," said Mr. Warren, "evolved as a result of Certified Public Accountants being asked to certify insurance programs. They couldn't do this, and so they turned to the consultants." But until now there were no standards to enable consultants to certify either.

The basic form of the standards was approved by the society at its Las Vegas meeting. When the program is operational qualified consultants will be able to certify a company's asset protection program (insurance) and its entire risk management program.

At the meeting Leonard J. Silver, president of First Insurance Management Cos., Wyncote, Pa., was elected president of the society.

Hall buys N.Y. broker

NEW YORK—As of Jan. 1, 1971, the girth of Frank B. Hall & Co. Inc. will be a bit larger as a result of a merger between that company and Brown, Crosby & Co. Inc.

According to Melvin A. Holmes, president of Frank B. Hall & Co. Inc., Brown, Crosby and its 85 New York employes will continue to operate, as a division of Hall, at its present address until the completion of Hall's new headquarters in 1972. Hall boasted 370 New York employes before the merger.

Both firms are headquartered in New York City and are two of the nation's oldest brokers. Hall, the third largest publicly held insurance brokerage firm in the country, was founded in 1862. Brown, Crosby has been in operation since 1871.

Brown, Crosby & Co. Inc. specializes in casualty and property insurance lines.

Earlier this year, Hall merged with C. A. Sporl & Co. Inc. of New Orleans, one of the major brokerages in the Gulf area. ■

Deep-water port to cut risk costs

LONDON—Britain is now backing plans for a deep-water port off the Scottish coast at government level so as to cut insurance costs for large tankers and similar vessels.

The scheme, outlined in *Business Insurance* (April 13), provides for a massive deep harbor to be built off the Clyde by an industrial consortium. The project, known as Oceanspan, has now been debated by peers in the Upper Chamber of Britain's Parliament. The Earl of Perth, a prominent Scottish banker, urged that it should get national support.

He told the House of Lords: "Ships of 200,000 tons for conveying oil and iron ore are becoming commonplace. Few places in the U.K. or Europe can take them. The North Sea is pretty shallow, and the English Channel is becoming very congested.

"**THE MAIN** cost of running these very big ships is the insurance. It is stated that as much as 50% of the total cost of running 200,000 ton vessels is the insurance.

"Ships that have to face the hazards of a shallow sea or congested traffic lanes naturally have to bear high insurance rates. If a deep harbor can be found, where they can easily unload, then the situation is easier and insurance costs can be cut."

He said that Chevron Oil Co. was hoping to use the Clyde for a refinery, and there could be many other users for a major deep-harbor project.

Spokesmen for the government said that the Oceanspan project has been accepted in principle, and there will be further discussions with local authorities and businessmen to see what it will cost. ■

Giles . . .

Continued from page 30

instead of the city comptroller, who maintained an index of all policies filed with him. No one in the city's employ checked beyond the city comptroller's office at the time of the accident and the lawsuit.

The insurance company declined to defend the action. The city contended that the insurer should furnish a defense because (1) the policy was issued to protect a municipality in the discharge of a governmental function and is therefore subject to the public policy of conserving public assets; (2) because the delay was excusable under the circumstances, since the policy was misfiled and (3) because the defendant insurer was not prejudiced by the delay, since there was available to it extensive investigations of the accident made by two other insurance companies, the injured man's employer, the injured man's lawyers, and the city.

None of these arguments moved the court. With respect to the argument that there was no prejudice in the delay, the court pointed to the strict requirement of timely notice. The offer of investigation reports by others is not a substitute for timely notice. The city breached the conditions precedent of the policy by failing to give the required notices, the court held, and it was barred from asserting its right to be defended under the policy. (*City of Chicago v. United States Fire Insurance Co.*—Illinois Appellate Court, First District—5/15/70.) ■

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D-11

British fire association is making an effort to cut corporation losses

LONDON—Chief executives of major British corporations are to get an appeal from Ernest F. Bigland, of the Guardian Royal Exchange insurance group, urging them to learn the facts about fire prevention.

This is part of the national campaign, outlined in *Business Insurance*, Aug. 31, to cut down fire damage in industry and so reduce insurance risks.

He has told the Fire Protection Assn. in London: "Far too few firms ever trouble to obtain the facts that are so readily available on ways to safeguard their premises from fire. Our material is often not being seen by the right people, or is not being obtained in sufficient quantities for all branches and departments concerned.

"WE ARE ABLE to offer managements practical guidance on ways to establish and maintain a fire control system without themselves having to become unduly involved," he said. "Only by education and providing factual information can we hope to persuade people to take the action necessary for the protection of themselves and their property from fire.

"I shall personally be writing to the chief executives of major companies urging them to take the necessary action, and hope that by the end of 1970 many more firms than hitherto will be in the picture about their fire safety."

Mr. Bigland, chairman of the Fire Protection Assn., now estimates that in Britain only as few as 1% of the sizeable industrial firms take the trouble to learn the full facts about fire prevention. Yet there is a mass of material available from the insurance companies who support the association, and other sources.

The planning control program that Mr. Bigland urges industries to accept is being issued in booklet form by the Fire Prevention Information Center set up by leading insurance companies. It sets out in logical sequence the steps that managements can take in evaluating their fire risks and taking appropriate action.

FIRE PROTECTION, it says, is as much a function of management as labor relations, and while managers need not become experts, they should at least know where fire protection is required.

The program booklet lists the main fire starters in industry, and materials most commonly first ignited. It urges that firms should plot potential fire hazards on a plan of their premises.

In extending fire control procedures, firms need first to appraise the fire risks relating to four specific areas: buildings, plants, materials and people. But they should also keep a simple checklist on the basic precautions needed for their business, routine checks specially applicable to their business, and "good housekeeping" procedures common to all businesses.

An essential part of the program is a system for reporting back to management on any hazards that arise from day to day.

Business management is the target of the fire safety campaign because it is feared fire losses will rise at the rate of 10% a year, or double the Gross National Product's theoretical rise, unless greater pains are taken to improve safety standards. ■

Aim posters at cutting cargo losses

NEW YORK—In an effort to cut cargo losses, the American Institute of Marine Underwriters (AIMU) has designed container check-list posters for shippers to tack up in loading areas.

"Often workers just want to load the cargo and get moving," an AIMU spokesman said. "We felt that a poster in the loading area would be a good idea because if a worker has a reminder right in front of him, chances are he'll make the checks."

The posters, which have the heading, "Inspect! It's Up to You," give seven inspection suggestions. Doors, corner castings, refrigeration equipment and sheathings are listed as key areas that should be gone over thoroughly. Also, posters tell workers to get inside the container, shut the door and check for areas where light comes through, indications that the compartment is not watertight.

"The checks do not take long, but can save a lot of money for shippers," the spokesman said. "Leakage and faulty doors are the biggest problems and these can be spotted right away in inspection."

He noted that the AIMU container committee came up with the project in July and has so far given 6,000 posters to marine insurers, who in turn pass them on to policy holders. ■

Health group will help government

OTTAWA, Ontario—In response to a government white paper on unemployment insurance, the Canadian Health Insurance Assn. has offered to spare the government the rigors of trying to bring in the program on its own

CHIA spokesmen, in fact, told the Commons labor committee that, according to their legal experts, the government would be breaking the law if it took on the burden alone. Justice department lawyers, however, have already told the government that a 1940 amendment to the constitution gives it the right to administer supplementary benefits through the unemployment insurance program.

On the other hand, G. N. Watson of Crown Life Insurance Co. told the committee that pregnancy and sickness benefits should not be classified as unemployment insurance. Mr. Watson told the committee, "The opinion we have received is that it would be unconstitutional."

Disregarding the legal issues, the spokesmen felt that the insurance industry could do a better job of providing such protection if necessary legislation was passed in each province. ■

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business insurance/perspective

Fringe benefits of future: Markets of enormous size

by E. B. Weiss,
Doyle Dane Bernbach,
New York, N.Y.

E. B. Weiss

ZERO POPULATION growth here at home is inevitable. Our survival leaves no alternative.

For marketing, this raises the question: Does zero *population* growth—especially when accompanied by zero *production* growth (here, too, there are no alternatives)—equal zero *market* growth?

With respect to products, the answer obviously is in the affirmative. Markets for products, in number of product units, cannot very well expand dynamically when the number of units produced is restricted by legislative fiat. Dollar volume could continue to expand through higher prices, but not product units in numbers. And expansion in dollar volume under production restrictions is not likely to be large enough to represent true dynamic growth.

Services will, of course, continue to expand their share of market. This has been the fundamental trend of the past 10 years. (Our growth in employment for the past decade did not come from production. Production employment has been static for years in numbers and, as a per cent of those employed, actually has been dropping consistently.) That trend toward services would be enormously accelerated by population control and production control.

AT SOME TIME in the future we will be buying $2 worth of services for every $1 of products!

In brief, we are racing toward a white collar society. The blue collar worker will follow the farm worker into eclipse. (Farming and manufacturing not so long ago accounted for at least 75% of all the employed. Right now that combined figure is clearly heading toward an unbelievable 25%! It will go lower—*much* lower.)

The purchasing power of the new almost all white collar society will create markets—largely for services—that will provide marketing with greater opportunities than existed at the peak of our production-oriented society.

The income, the fringe benefits, the social benefits of our future white collar society will total up to markets of enormous dimensions. Much of what has developed in Sweden with respect to social legislation will be adopted here. It already has been.

However, if you conclude that Sweden is a "socialistic state" (Aren't we well on that same road?), then turn to France for a prevue of the share of wealth that will represent the disposable income of our rapidly emerging white collar society.

RUN DOWN THIS partial list of the present-day privileges of the French worker and, as a marketing man, ask yourself what a similar socio-economic program for the employed could mean to marketing in the states under zero population and production growth.

'The fringe benefits, the social benefits of our future white collar society will total up to markets of enormous dimensions.'

From 1952 to 1962, average hourly wages in France went up about 100% and in the years 1956 to 1962 net income of the nation's (then 14.7 million) households increased 67%. Since 1962, the average hourly pay of all French blue and white collar employes has gone up another 55%, and their net purchasing power 25%.

In 1969, average French blue and white collar paychecks rose still another 9%, and they are expected to increase "at least" 9% more through 1970.

There is complete prebirth-to-burial coverage of everyone by the all-encompassing national social security system and fund into which each French employer pays an amount equal to 32.5% of every employe's wage or salary. As a matter of fact, all French men and French women today are entirely covered by the vast and wide-ranging national social security system, whether they are wage or salary earners, farmers, professionals or self-employed, artisans or craftsmen, disabled or retired.

ALSO, ALL French wage and salary employes now get four-week paid vacations, plus at least ten other paid holidays a year.

Almost all employers give their employes "13th month" pay as a Christmas-New Year bonus, along with housing allowances, much less than cost, main meals for employes in factory and office canteens and restaurants, sports and social centers, winter and summer vacation chälets and camps for employes and their children.

Practically every worker in industry and many of those in commerce now are covered by a negotiated contract.

Last year 2,409 new contracts for higher pay and other benefits were signed, covering 4,300 enterprises and one out of six employes in the country. So far this year, some 1,500 similar new contracts have been negotiated and signed. Commented moderate daily Figaro: "What is new is not only the wide and deep importance of the accords reached over the past 12 months, but above all, the friendly spirit of the negotiations."

ON FEB. 10, 1969, the Counseil National du Patronat Francais or Federation of French Industries—the over-all business organization representing French enterprise—signed with the French trade union organizations a socially pioneering contractual guarantee of employment security. Even the most radical and powerful French trade union organization afterward declared that, "No such agreement on employment security with comparable guarantees exists in any other 'capitalist' country."

The CNPF also has signed another progressive agreement, this one according higher direct payments to those partially unemployed, i.e., those not at the moment working a full, regular-rate-of-pay, 40-hour week.

The CNPF and trade union representatives, furthermore, have been meeting regularly to elaborate upon an agreement concerning improving and enlarging employe training, and the pay these trainees are to receive when away from work during this technical schooling toward a higher-skill capacity, responsibility and wage or salary bracket.

Also in progress are various negotiations toward companies paying their workers a monthly salary instead of an hourly wage.

THE PURCHASING power of the average pay per working hour rose 5.4% in 1962, another 2.9% in 1963, 4.4% in 1964, 3.1% in 1965, 2.9% in 1966, 2.3% in 1967, 9.7% in 1968 (the year of average 15.5% national wage increase), and in 1969, another 2.8%.

At the average wage-price ratio in October, 1962, the average Frenchman had to work 22 minutes to earn a bottle of "ordinary" (equivalent to "good" outside France) table wine; by October, 1967, only 17 minutes. By the end of 1969, the worktime for the cost of the wine certainly was less, but official figures are not yet available.

Continued on following page

Current fire control research

by John M. Rhodes,
vp and director of research,
Factory Mutual Research Corp.,
Norwood, Mass.

MANY DEVICES and methods have been developed over the years to control fire loss, and some of them such as the automatic sprinkler have been spectacularly successful. Yet, the automatic sprinkler has sometimes been unable to do the job it is supposed to do—not because it was defective, but because it was deprived of adequate water.

When we look at the fire record we find that complete absence of automatic sprinklers is the dominant factor in nearly one quarter of the catastrophe-type fires. Regrettably, many people do not yet recognize the value of this kind of protection. Even more tragic, though, is the fact that in nearly one half of the large fires, sprinklers had been provided but were unable to do the job for which they were intended because their water supply had been shut off.

Too often valves controlling sprinklers have been shut before the fire started, usually to make minor changes in the sprinkler system, and then forgotten. And valves are frequently closed too soon, before the fire is out. Then when fire redetecitement or is unapproachable because of heat or smoke from the fire. Special precautions are dependent on people and even people well trained to do the right thing need equipment that will prevent doing the wrong thing.

Some new methods of preventing shut valves are already available and some are still under development. They are designed to make it easy to tell whether sprinkler control valves are open or shut. One of the newly developed valves is called the PIVA, which stands for post-indicator valve assembly. It has a see-through hole in the aboveground portion of the valve assembly to indicate that the valve is open. The hole is closed off as the valve is shut off.

THIS POSITION indicator is permanently attached to the valve disc; hence when it says "open," it *is* open. Unfortunately, the traditional indicator post can sometimes be misleading. The target may sometimes say "open" when the valve is actually shut, such as when the valve gate from wear or age separates from its stem velops the valve is forgotten in the exand drops into the closed position. The PIVA's position can be seen easily from a distance of several hundred feet, and by feel it can be checked even in the dark.

Still more effective control over sprinkler valves is expected from two valves now under development. They are designed to be completely buried with the water mains they control. Both of them, through electrical circuitry, indicate on a centrally located panel that they are open. One of the valves is designed for operation in the conventional way. The other will have means for operating it from the control panel. At least one of these valves should be available within a year.

Another approach has been to develop a sprinkler system that needs no human intervention and will shut itself off when a fire is out. It consists principally of a valve controlled by water pressure that stays closed until a sensitive heat sensor sends it a signal to open. Then when the heat sensors determine that the fire is out, the valve waits a while to be sure, and

Continued on following page

French . . .

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Also in discussion, and negotiation, are the number of hours an employe may be absent from work for training, and how much he or she will be paid during those training hours. Actually, among the many French enterprises which locally provide the instructors and facilities for training toward higher-pay skills and responsibilities, a number are already providing from 80% to 100% regular pay for such study and training periods away from work.

The Comites d'Enterprise—that is, the committee of representatives elected by all employes of a factory or company—may take up directly with the management, in regular meetings and discussions, everyday and long-term matters of work conditions, work speed and hours, job reclassifications. In fact, there now must be a delay of from a minimum of eight days to as much as three months before a final decision can be taken to terminate anyone's employment.

IF AN EMPLOYE is put on short-time work (32 hours instead of his previous 40 hours), the "lost" eight hours will be paid at the rate of between 25¢ and 30¢ an hour from state funds (to which employers have contributed). Some firms individually have set up funds to provide "make-up" extra pay even for those whose *overtime* (more than 40) hours have been reduced!

In the case of those who become unemployed, because of an economic recession or an insufficiently competitive position or general failure of a company, a sizable amount of severance pay is given. Various funds from the employers, the state, and the workers' trade union organizations pay out altogether between 60% and 85% of the former wages and more, according to number of dependents.

A French enterprise cannot decide, just like that, to go out of business or even close down one of its factories. Even a claim of bankruptcy is not nearly enough to allow a company's owners and managers a substantial production cutback or the dismissal of large numbers of employes. The official publication of the American Chamber of Commerce in France dryly has observed that "discharging of employes in France involves a considerable number of formalities."

France heads the nine leading industrial countries of the world in the amount she spends in social aid. Social charges absorb 14.1% of the country's GNP; the firm forecast is that French social security benefits will increase something like 10% more each year through 1975.

A SUM equivalent to 32.5% of every employe's wage or salary is paid by every employer into the national social security fund. The employe, on the other hand, pays 6.5% of his or her wage—up to a certain point—into the national social security fund. The total French national "social" budget, more than half of it consisting of payments into and through the national social security fund, now actually amounts to $27 billion a year, compared to the remaining French state budget of $30 billion. At the current rate of the national "social" budget's growth and disbursement, by 1975 or sooner, it will be higher than that of the state budget for everything else. Indeed, 15% of the nation's total income now is derived from social security payments.

There is the defrayment by social security of practically all childbirth costs—prenatal allowances, paid in three instalments during pregnancy; then the maternity allowance, one installment of it paid at birth, and the other, six months afterward. The medical costs, too, are paid out of the "sickness" social security coverage.

Also, there are direct housing allowances from the social security fund for those not in the higher wage brackets, who have children.

In the case of medical, surgical and dental care, the national social security fund reimburses every French person for 75% of the cost of most of such treatment; for 80% of the cost of medical fees and costs of hospitalization, analyses or laboratory tests, and any extra costs involved in hospitalization; for 75% of the cost of most drugs and medicines, and 89.5% for certain particularly expensive medicines. As for the small percentage of general medical costs not reimbursed by the state social security fund, many have funds from their employers or their labor organizations covering most or all of this.

WHETHER HE IS a wage earner or not, every Frenchman aged 65 or more is entitled to a minimum pension equivalent to about $500 a year. But for those who have automatically contributed through most of their working years to the national social security fund, the full pension is 20% of average wages over the past ten years if retirement is at age 60, or 40% of the average previous wage if retirement is at age 65. But with other state and private pension payments, an individual's retirement pension income can amount to much more. Almost everyone, from executives down to apprentices and office boys, is covered by these private funds, which at retirement add another approximately 20% of average wages over the last ten years to a retiree's pension.

A law of August, 1967, made profit sharing obligatory in all firms employing 100 or more, and having profits of at least 5% of capital. Up to mid-spring, 3,315 agreements had been signed in 5,399 enterprises to give well over 2,000,000 employes a greater interest in the competitiveness and profitability of their companies. Of the first 1,500 of these agreements analyzed by the French Ministry of Labor, employes were provided with an average 15% share in company profits before taxes.

And now to revert to the questions with which I started this column: Will zero population and production growth mean stagnant markets?

Well—France has had zero population growth for years (despite special provisions by the state for larger families). And France has been quite prosperous for the last decade.

As for zero production growth—well, I conclude this could give marketing new opportunities of fantastic dimensions.

I hope I'm still around when it happens. ■

(Reprinted from Advertising Age, *Oct. 19, 1970.)*

Fire control

Continued from preceding page

closes. If the fire should rekindle, the valve will reopen automatically and send water to the sprinklers again. No one has to touch anything, there is no need to shut a valve, and most important, the human urge to turn off the water too soon is greatly reduced because the valve will turn off automatically when water is no longer needed. Along similar lines, a sprinkler is in the development stages which will operate independently in a fire and shut itself off when the fire is out.

In another approach to extinguishment of fire, chemically thickened water is being tested in a completely new and different sprinkler system. This "water" stays put on a burning object. Not only does it take much longer for the heat of a fire to evaporate this material but the film thickness resists the penetration of radiant heat also. The development appears very promising, and should reach the market in a year or so.

EARLY IN THE 1960s a large storage of roll paper was destroyed by a fire that also destroyed its sprinklered storage building. The fire raised important questions. Why should fire destroy a building with automatic sprinklers, a good water supply and open valve? Why did the fire grow so fast?

Improved material-handling methods had made it possible to pile roll paper on their ends instead of on their sides, a much more efficient use of storage space for a large segment of the paper industry. Fire experience showed that damage when rolls are stored on end was several times as great as when stored on side. Fire tests showed the fundamental reason for the severity of such fires.

In the early stages, the spread of fire in the spaces between the rolls is rapid, but not unusual. As the fire burns through layer after layer of the rolls, however, the paper begins to unwind or exfoliate and the burning rate increases abruptly. The burning paper that sloughs off exposes larger surfaces, greatly intensifies the fire and causes it to spread laterally to other rolls.

Other tests to determine the effect of sprinkler-water discharge showed that normal, or even high-density sprinkler discharges did not prevent ceiling temperatures from getting high enough to stress exposed steel severely. As a result of the test program it was learned that the space between the rolls and the unwinding of the paper is what causes the fire severity. Unless there is a strong water discharge from sprinklers, exposed structural steel may buckle, crippling the sprinkler system, and let the fire spread out of control. The tests also showed how to handle such fires, how to protect roll-paper storage with automatic sprinklers, and how to protect steelwork.

STORAGE OF ordinary combustibles on pallets came in for additional attention during the 1960s because of the demands for higher piling to use space more economically. Unfortunately, such storage introduces conditions highly favorable to the spread of fire. When a fire starts in such storage, it travels vertically between adjacent stacks above the point of its origin. Sprinklers first operate directly over the fire which then appears to be subdued. However, fire in the pile by this time has begun to spread horizontally through the channels in the pallets. It then moves progressively vertically and horizontally until a large section of storage has become involved. Obviously, many sprinklers may operate over such a fire. Research tests showed that such fires can be controlled by automatic sprinklers, but that a better than average system is vital.

The magnitude of the high-piled storage challenge, while large and important of itself, was found to harbor an even greater challenge: the wooden pallets on which materials are stored. When not in use, the pallets must be put somewhere. Usually they are piled in compact groups in the general storage area. An 8-foot-high storage of these pallets presents as much of a challenge to protection in terms of heat release and difficulty of control as 30-foot piling of most palletized goods.

Variations in burning rate between most combustibles have been relatively small. However, there are some materials used in large quantities today such as rubber tires, roll paper, and plastics of several kinds that are outside the general class. One of these is flexible polyurethane, a material in great demand for a wide variety of uses including automobile seat cushions, furniture padding, and mattresses. It is easily ignited, fire develops quickly and the burning is intense. However, through research, storage arrangements, sprinkler system design and water demands have been so related that reliable loss control can be provided for these storage areas.

'Chemically thickened water is being tested in a completely new and different sprinkler system.'

One of today's major problems is that of high-piled rack storage. For ordinary palletized storage, about 30 feet is the maximum practical height. Greater heights cause crushing of the lower portions of the storage. There are no such limitations imposed by racks, and, because floor area is the dominant cost factor in warehouse design, the heights possible with racks are economically attractive. Heights well over 100 feet appear to be practical. Some storage buildings are even supported by the racks they contain.

AN EXTENSIVE research program on rack storage protection is now in progress at the new 60-foot-high Factory Mutual Test Center in West Glocester, Rhode Island. The program is a collaboration between industrial insurers, fire protection specialists, manufacturers of materials handling and storage equipment, manufacturers of fire protection equipment, and corporations having large storage facilities. More than 100 tests have been made to date with rack storage up to 20 feet high. The tests are now involved with storages 50 feet high. A tremendous amount of data has been gathered as a result. From this information will come practical, standardized methods for successful loss control in rack storage areas.

In addition to large-scale fire testing, there is great interest in the basic science of fire. This basic research will provide deeper insights into the complex interactions between fire and its environment. These insights can help creative people conceive new techniques of greater effectiveness for controlling fire.

Three classes of problems are now under study. One of these is the behavior of fire at an idealized surface. The surface may be horizontal, or vertical or somewhere in between. The object is to predict combustion rates of fully inflamed surfaces. In this problem we are not concerned with what occurs within the solid or liquid fuel, except for overall factors such as the heat required to vaporize the fuel and the combustion energy available in the fuel vapors. We do concern ourselves with buoyancy-induced motions of the air, the fuel vapor, and the flame, and the transport of energy to and from the flame.

The second class of problem relates to the interaction of fire with the fuel, including fire spread. This work is concerned with specific characteristics of the burning fuel, such as its ability to absorb radiation, the rate at which heat penetrates into it, the effect of physical transformations in the burning fuel, such as vaporization, char formations, melting, and fissuring. It is expected that scientifically justifiable procedures for predicting large-scale behavior of a given fuel from small-scale tests will emerge from these studies.

THE THIRD PROBLEM involves the buoyancy-driven motion of the hot gases from a fire as confined by ceiling and walls. Ability to predict this gas motion is important in overcoming the natural tendency of the rising gas column to block the downward-projected water from sprinklers, or other extinguishing agent from reaching the fire. ■

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letters

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The international capabilities of the Employers-Commercial Union Cos. and its affiliates worldwide are among the strongest in the industry and can boast of having its own admitted facilities in almost all of the countries of the world.

We would thank you to consider this letter not as a complaint but rather as an attempt to clarify what is obviously a misunderstanding in the minds of some on your staff as well as competitors who do not appreciate the operations of the Employers-Commercial Union Cos.

William Hansen
Assistant Vice President, International Risk Department, Employers-Commercial Union Co., Boston, Mass.

Where AFIA works

To the Editor: In the Oct. 12 issue of *Business Insurance* there is the following article by Charles F. Levinson, "Pools: Why they exist; what they offer" in which he describes AFIA as follows:

AFIA: Ten American carriers writing all coverage world-wide except in Western hemisphere.

This "except in Western hemisphere" is incorrect. The Internal Revenue Code defines Western hemisphere as ". . . any country or countries in North, Central, or South America, or in the West Indies. . ."

AFIA operates in all parts of the free world with the exception of the United States, Commonwealth of Puerto Rico, Canada and countries where it's member companies operate. Accordingly, this summary of AFIA should read:

Ten American carriers writing all coverage world-wide except in the United States, Commonwealth of Puerto Rico, and Canada.

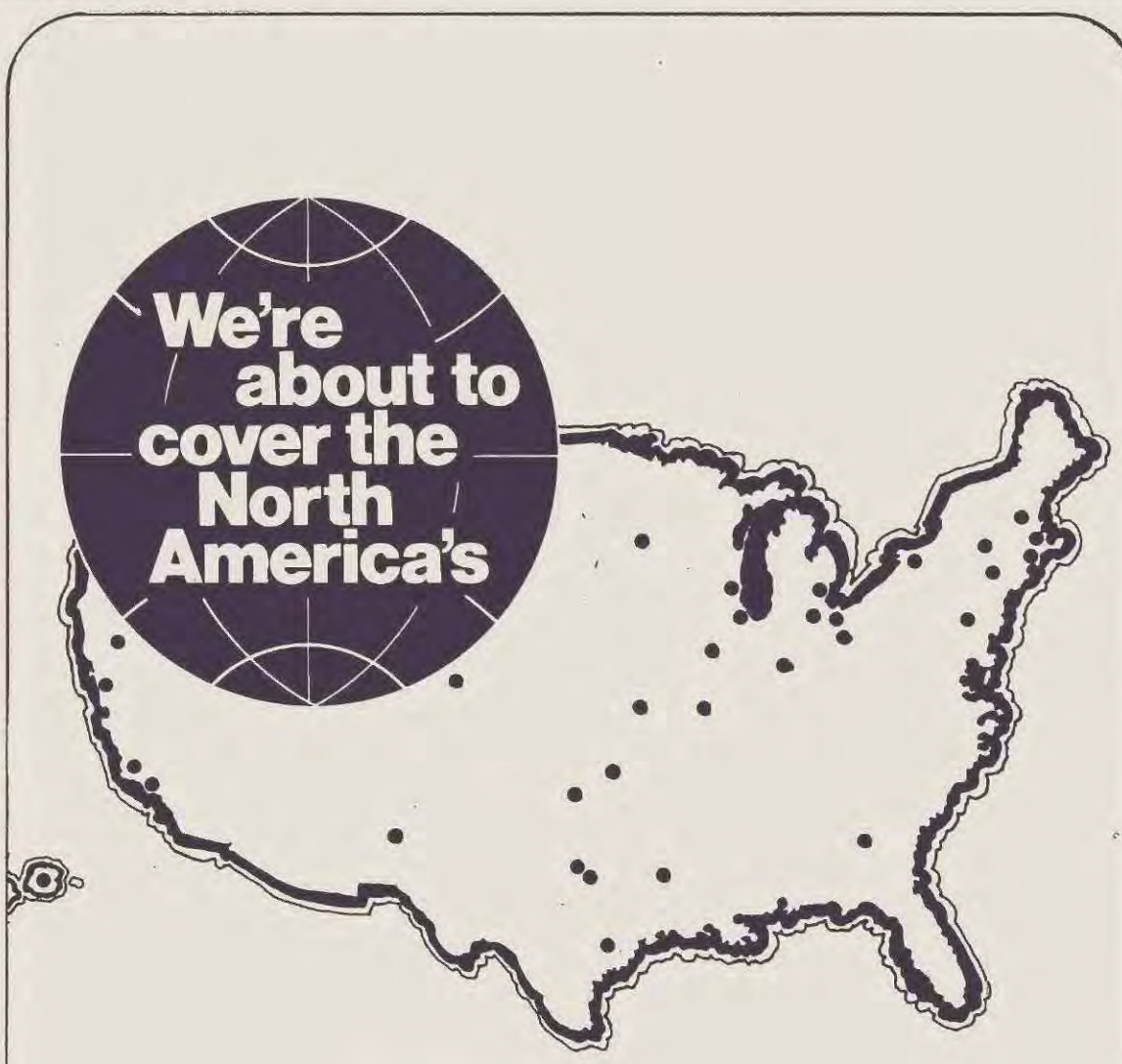
I should appreciate your having this error corrected with suitable prominence as soon as possible.

Harrington Putnam
Vice President, AFIA Worldwide Insurance, New York, N.Y.

Mention our name

To the Editor: The June 22 issue of *Business Insurance* contained an informative article, "New fire extinguisher system is catching on with U.S. companies." In the same issue we carried an advertisement describing AFA's participation in the sale, installation and maintenance of these systems. I was surprised, therefore, to find no mention of our company in your article. Although we do not manufacture this equipment, we believe that our role of installing, servicing and maintaining these systems is important to the end users.

Philip Kleinman
Chairman, Executive Committee, AFA Protective Systems, Inc., N.Y., N.Y.



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Stewart concedes fed regulation has some advantages, but not enough

WASHINGTON—Richard E. Stewart, superintendent of insurance of the State of New York, is an unlikely person to admit that federal insurance regulation may have certain advantages over state regulation.

In a speech here late last month, however, Mr. Stewart did just that, although he did not back down from his position that state regulation is still the best of the two alternatives.

"A single regulatory agency in the national government would probably be more efficient and more uniform in its operations, and less susceptible to certain kinds of political pressure," Mr. Stewart told the annual meeting of the American Life Convention.

Moreover, he added, federal regulation "could close gaps in enforcement traceable to the incompleteness of any one state's control over interstate activities. Duplication of work, at least as among territories, would be reduced. A single national agency would offer a mechanical convenience, and perhaps a philosophical hospitality, to very large, national enterprises. Geographical favoritism should be reduced. Rules for the conduct and taxation of a major group of financial intermediaries, and rules for the use of some massive aggregations of capital, might be better integrated with national economic policy," the superintendent went on. "Finally," he added, "if national policy called for the national government to continue to expand its role as a provider of insurance, the national government as insurer would probably find the private insurance industry more cooperative if the national government also had regulatory leverage over it."

ADMITTING that some or all of those are formidable advantages, "depending on where you sit," Mr. Stewart declared that "from the public point of view they are outweighed by the advantages of a state system.

As the New York insurance regulator sees it, there are four essential advantages to the state regulatory system:

- The state system already exists. "It is usually better to improve existing institutions than to throw them out and start over," Mr. Stewart said. "Such a shift to exclusive national regulation would pre-empt much that is good along with the bad."
- The states are closer to the people than the national government. The big insurance problems of the future, Mr. Stewart noted, are "almost sure to be concerned with markets." Moreover, he added, "market problems tend to depend on local conditions" and "all the means to regulate market conduct of insurers exist at the state level."
- The pluralism and diversity within the state system is an advantage. Pluralistic institutions such as state regulatory bodies involve agencies of limited size, and therefore the scope for creative top leadership is broadened. "The likelihood that such leadership will be found at the top of an agency somewhere is, of course, greater in a system with many tops than in a system with only one."
- The national alternative always hangs over state regulation. "The state agencies are subject to review, investigation and embarrassment by the Congress and others in national government. Without doubt this surveillance makes the state regulators do a better job. With national regulation, however, the watchers would not be so skeptically watched or credibly menaced."

Noting that because of the latter point what we really have is a "mixed national-state system." Mr. Stewart said the future of state regulation will see the two levels of government continuing to "press upon each other, and both will press upon the insurance business.

"Reinforcement is likely, duplication is possible," Mr. Stewart said of the mix, "but the use of national power to insulate the insurance business from the efforts of the states to protect their citizens is out of the question.

"Whatever its lack of symmetry, our mixed regulatory system works and, unlike other regulatory systems, shows signs of improving with age. It is also certainly better and more vital than anything we would have planned in the past or would be able to plan now." ■

Prof asks new answers by hospitals

SAN FRANCISCO—Unless hospitals take the lead in providing comprehensive community health care, government will force them to do so, a group of hospital administrators was told here by Dr. Leonard J. Duhl, University of California professor of urban social policy and public health.

Dr. Duhl, a former aide in the U.S. Department of Housing and Urban Development, said "most hospital officials have avoided getting into this area not so much because of opposition to the concept of comprehensive care but simply because of preoccupation with day to day problems.

"But now," he told a regional meeting of the American College of Hospital Administrators, "you must step in and take leadership, or programs will be imposed by people who do not have day to day experience in the area."

INSTEAD OF waiting for prospective patients, many who have little experience with the medical establishment, hospitals must develop "an outreach system," Dr. Duhl declared.

"In the future," he added, "we will have to deal with the least interesting and most costly kind of medical care, the 80% of medicine that requires the least technology and the most personal attention.

"One possible solution to the problem might be a sort of franchise system, similar to those organizations able to establish performance standards the customer knows will be met wherever he goes.

"In the medical field," Dr. Duhl proposed, "franchises would allow the coordinating body to set such needed performance criteria, buy in quantity to cut cost, and train personnel but still let each individual operation have the autonomy it needs to function properly in its own community." ■

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High-rise . . .

Continued from page 13

sioner. "People are becoming quite concerned about the safety of high-rise buildings. We don't feel safety in residential high-rises is adequate, but we want to study the alternatives," Mr. Fitzgerald told *Business Insurance*.

The committee has asked several safety consultants for proposals on making this study, Mr. Fitzgerald said, adding that Chicago had been lucky so far. "We've had a couple of narrow escapes because of too many people being notified about a fire in a residential building. There would be a panic. Everyone would be sleeping and they all couldn't get out of the building through the available exits," he said.

MR. FITZGERALD agreed that the phased withdrawal rather than the wholesale, disorganized flight of a multi-storied building's occupants was the best way. He also put his support behind the Canadian proposal to place the control of the elevators in a high-rise building solely in the hands of the firemen. "We have a lot to learn about these problems," Mr. Fitzgerald added.

"Well, the National Fire Protection Assn. stipulates in its recommendations that elevators not be used by the public in the case of a fire or other emergency," replied Walter Fiegel, code engineer for Otis Elevator Co. "They recommend that elevators not be considered as the primary means of egress from a building. Instead, the stairwells are deemed the first line of escape," he said.

Mr. Fiegel explained that ideally (this is not always included in all municipal building codes yet, apparently), an elevator's operating wires are insulated and inside of metal pipes to protect them against fire. In addition, he pointed out, the company recommends a more proper use of the elevators in a burning high-rise building as a means of approaching a fire.

It's common practice for firemen to man an elevator, controlling it from a key switch in the street-level lobby that overrides all other demands bringing these elevators back to floor level. The firemen usually approach the fire in the elevator up to the floor below where the fire actually is. Then they get out and enter the burning area by way of the stairs. Also, the firemen have to press a button in order to open the door. If the button is released the door immediately slams shut, Mr. Fiegel explained.

THESE ISSUES came to a head this past August here in New York when a fire broke out on the 33d floor of the nearly completed skyscraper at One New York Plaza. Besides demolishing some of the new quarters of Oppenheimer & Co., the fire also resulted in two deaths and one man being badly burned when the elevator car they were in, for whatever reason, jammed with it's doors open on the fire floor.

Building department and fire officials of the city show a marked reticence to discuss the fire. Robert Lowery, fire commissioner of New York, in declining a request for an interview, informed *Business Insurance* that a thorough investigation of the incident was underway.

In the meantime, however, the N.Y. Board of Fire Underwriters' bureau of fire prevention has issued a detailed report on the case. After several attempts to contact the fire department (the first was a tripped fire alarm on the fire floor that produced no results—it wasn't hooked up to anything, it seems), the report said, "the fire department responded within three minutes, but by this time, the 33d and 34th floors were raging infernos with so much smoke and heat that the firemen could operate on the floor for only a short time. It was five hours before the fire was brought under control and in those five hours, two lives were lost, 30 men were injured and almost $10 million damage was caused."

W. Robert Powers, NYBFU bureau superintendent pointed out that "this fire has provided a major full-scale test for new methods of construction as well as for equipment and operations common in modern high-rise buildings. The transmission of fire between floors, the distribution of smoke throughout the building, and the failure of structural elements prove the necessity of reviewing present requirements and practices," he said.

IN HIS REPORT on the One New York Plaza fire, Mr. Powers made a number of recommendations based on this experience. "People just haven't planned on this. The exit facilities are no worse in big buildings than they have been—it's just that now they are being used. You have to remember that our experience with tall buildings here in New York has traditionally been fantastically good. Essentially, except for the plane crashing into the Empire State Building in the '40s and a wierd fire that killed a couple of firemen at Times Square, we haven't lost any people in them," he said.

Mr. Powers indicated that he felt that a real problem that will have to be dealt with is the centralized air conditioning system. "The air conditioning, in connecting one floor to another for the transmission of smoke may not carry enough of it to cause damage but it probably will cause panic among the occupants. The code calls for cutting off fans; however, it didn't say "all" fans. The exhaust fans continue to run there," he pointed out.

In anticipation that his report's recommendations may be questioned, Mr. Power said that, "the recommendations included in the analysis are not any more severe than are needed: One New York Plaza is a good example of the need for some adequate planning."

The report recommended that the use of highly flammable foamed cushioning should be prohibited. "The fire hazard of such material that emits flammable vapors and has a high rate of heat release constitutes a serious threat," the report charges.

THE TOTAL "fire load" of so-called "fire resistive" buildings must be reduced, says the report, or automatic sprinkling systems will have to be installed. "The use of combustible furnishings, thermal insulation, electrical insulation, floor surfaces, partitions, and ceiling tile has changed the fire hazard considerably from the days of the steel desks and chairs, linoleum or terrazzo floors, and a minimum of light and phone wires," the report pointed out.

The report recommended that wire of any kind traveling through the air conditioning system should be encased in metal conduit or special ducts.

The report took note of the spray-on insulation that had loosened and fallen away from the steel beams because a high level of oxidation had loosened the bond. This exposed the beams to direct fire, resulting in substantial warping damage to the building. "The protection of steel members in a really fire-resistive building must be accomplished by materials that cannot be readily removed or damaged.

"It is apparent that sprayed fiber may not be universally applied to the proper thickness, that proper adhesion to steel may not take place and that the protection may be removed in many locations, such as at partitions, where ducts or wiring are run, and where clamps and brackets are attached," the report said.

The report recommended further that fire barriers be erected between the various floors of a building in the vertical flues between the building's exterior walls and inner walls. Adequate insulation against heat for wiring connections between floors was also called for.

IT WAS ADVISED that one air conditioning system be set up to serve only a single floor. Alternatively, since this is contrary to modern practice, a subdivision of the return air shaft by fire stops to restrict the continuous flow of air and subsequent fire spread would be in order, according to the report.

The building should be sprinklered or at least be equipped by automatic smoke detectors installed at each opening in the return air shaft, according to the report.

"Air supply for computer rooms should be from a location remote from the building air conditioning intake and discharge, so that the

Continued on page 46

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Report death disco in France uninsured

GRENOBLE, France—Owners of "Snappy," a discotheque near here that burned earlier this month, killing some 144 patrons, are believed to have had no insurance on their building.

"Snappy" had been rebuilt only last winter upon the ashes of a similar club, owned by the same three proprietors, that had burned last February.

Preliminary reports indicate that fire exits in the building had been both padlocked and nailed shut to prevent patrons from entering the cafe without paying. French authorities have filed a charge of homicide through negligence in connection with the fire on the basis of facts unearthed so far. This tactic is the customary "first step" of a criminal investigation in France.

So far, six separate safety violations have surfaced in the construction and operation of the cafe. The only doorway not locked and boarded up to keep gatecrashers out had a turnstyle of New York subway-type design blocking egress. Such access-control devices are banned in places of public assembly in France.

ALTHOUGH a building permit had been obtained for constructing the concrete-block structure, apparently no record exists of the inspection of the premises prior to its operation, as required by law. Had such an inspection been conducted, presumably the use of an interior lining of a highly flammable plastic and papier-mache decor would have been prevented.

In addition, there was no telephone to sound an alarm, nor was there a hydrant or hose connection nearby for fire fighting.

Such glaring violations indicate that the building was not insured, although this could not be confirmed. Two of the three owners of "Snappy" perished in the blaze, while the third, hysterical from the ordeal, repeatedly denied any knowledge of the administrative matters of the club or its legal requirements.

French penal code statutes call for a charge of homicide in the case of negligence of a building's owner. The civil code also provides for culpability in the case of negligence that causes injury to a third party. Although the surviving owner faces possible culpability under both laws, it was indicated that the chances of civil suits were small. This was due to the surviving owner's apparent lack of sizable assets. ■

Tanker . . .

Continued from page 1

the incident, liability would likely fall with her owners.

The Allegro had an admiralty writ nailed to her mast several days after the accident as she was anchored off Southampton. The writ prevents the vessel from leaving British territorial waters until liability is determined. The tanker's owners may, however, post a bond to release the vessel.

Resorts on Britain's South Coast were told that under the TOVALOP agreement $4.3 million was available for clean-up costs for a tanker of the Pacific Glory size, though if it had been a supertanker up to $10,000,000 would have been at hand.

THIS WOULD have been recoverable through insurance sources from the U.K. Protection and Indemnity Club, which had reinsured heavily with Lloyd's, on behalf of the owners, C. Y. Tung, who are members of TOVALOP.

But five days after the incident Pacific Glory was aground on a sandbank, ten miles from Portsmouth navy base, without any signs of major pollution. ■

Layoffs . . .

Continued from page 1

• Pensions: A worker with two or more years' service will receive $6.50 times his number of years of service each month for up to two years. However, if his layoff lasts for more than two years, and he is not eligible for retirement, he loses all rights to his pension. This policy does not affect the employe who is within two years of retirement. If he is laid off during his 28th or 29th year, he will still receive his pension at the end of the 30th year. The younger man who has not come close to retirement age is not out of luck either. Under the "40-50" plan, or the deferred vested pension, he is eligible if he is at least 40 and has put in 15 years of service. At 65 he will receive his pension. Another plan assures the steelworker who is over 55, with at least 15 years of service, his full pension when he reaches retirement age. If a worker is less than 55 and has worked for more than 15 years, and these two figures add up to 80, he receives his pension immediately. This pension consists of $6.50 times the number of years of service plus a $75 monthly supplement.

• Sickness and accident: Abused in the past, sickness and accident benefits are less liberal during layoffs, according to a corporate industrial relations executive. In proportion to length of service with a company, the steelworker is provided one to 12 months of medical benefits. The benefits include up to $730 of semiprivate hospital care under Blue Cross, full physician-surgical benefits on a prevailing fee basis and major medical up to $20,000 in a lifetime.

• Life insurance: The steelworker receives $5,500 to $8,000 a year life insurance from the company. If laid off he will recieve from six to 12 months' coverage, depending again on his length of service. When company coverage ends, he may elect to pay premiums himself for up to a year.

• Unemployment compensation: In addition to state unemployment, the man who has worked for at least two years receives 26 times his straight hourly earning per week for up to 52 weeks. If state unemployment runs out before the layoff ends, as it does after six months in many states, the company will match that amount for 26 weeks. This money is drawn from a special fund, and if the fund reaches a certain "low" level payments will be decreased. Supplement unemployment benefit funds among the steel companies are healthy, said one labor official.

• Earnings protection: This policy was initiated to protect the highly skilled worker who is moved down to a less skilled job in times of cutbacks. This benefit is intended to guarantee that an employe's straight-time hourly earnings for hours worked in any quarter will not be less than 85% of what he made in the previous year. ■

War act . . .

Continued from page 1

HIS VIEWS WERE shared by John Herbert of J. H. Minet & Co., a Montreal brokerage. "We have not been affected at all," he said. "The government has locked a few people up, and let some of them go. It is nice to know we're being looked after."

He pointed out that there had been "no overt act since the murder of Pierre Laporte. We had bombings here prior to that but they've had bombings in the U.S., too."

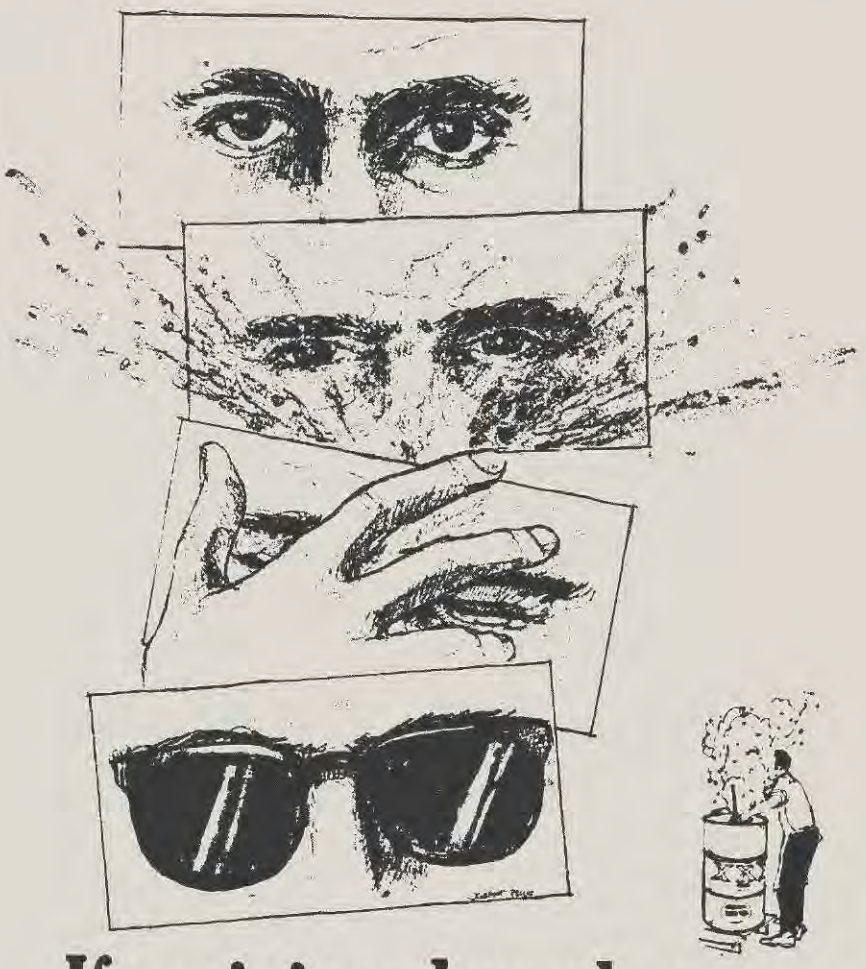
Some fear was voiced by Egan Chambers, president of Chambers and Sweatland Co. Ltd., insurance agents, when he said, "A problem could arise now if there was a riot and you suffered damages to your home or automobile. The insurance company could say the damage was a result of the current situation."

The interpretation of "apprehended insurrection" also has a great bearing on how insurance is handled. A legal opinion given to Reed Shaw Osler Ltd. stated, "As of today, the FLQ (Quebec Liberation Front) members are only criminals. Even if the FLQ is connected with a political party or even if they are being used by a political party, their acts cannot be construed to create a state of insurrection—on the basis of the present situation."

THE OPINION, which was verbal, went on to say, "If the army is used purely to do police work or to react to an attack, this could not be construed to be the use of military power—for example, if on the other hand, the army were instructed to bomb or demolish a property, this might be considered to be the use of military power."

Regarding the legal opinion, a spokesman for the company said, "We, of course, cannot speak for the insurance companies who are unwilling to declare themselves at the present time. If losses do occur as a result of the acts of the FLQ, the insurance companies involved may well seek their own legal opinions."

A number of different sources in Canada pointed up the fact that the War Measures Act was in force all throughout World War II and that most insurance companies paid claims as usual. ■



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Captive . . .

Continued from page 12

done at each plant of each applicant risk.

The prospective risk's plant must pass this inspection to the satisfaction of the reinsurer or the plant's coverage is simply rejected. If the plant passes the inspection, the risk must assume a deductible (usually a $100,000 minimum) and the reinsurer negotiates the coverage with the captive. VERLAN retained the Kemper Insurance Group's National Loss Control Corp. to handle this for them. This arrangement will apparently force any former "bad" risks to clean up their exposures.

The reinsurer in turn will be able to cover insurable risks' insurance needs to a much higher level of capacity because he has a substantive examination of their condition to base his moves on. This presumably supplies insurance for the smaller paint companies without it, added capacity and competitive rates for VERLAN with which to attract the larger companies to its fold as well as a steadily-growing volume of new premiums for the reinsurers. Although the reinsurers may not get rich quite as fast as they would under the pro-rata treaty agreement method, each step toward that end they do take will be a lot safer.

Mr. Foy told *Business Insurance* that to date three binders for direct fire, occupancy, use, direct damage and all-risk coverages were currently in effect for $2.5 million or less in each instance. However, he indicated that several of the bigger companies had applied for quotes since the additional capacity was made available. He predicted that several more binders would have taken effect.

VERLAN'S "razzle-dazzle' last month was apparently to answer such complaints as those voiced by a vp of finance at Sapolin Paints Inc. the other day.

"Well, I don't think we would be interested in changing our relationship. But VERLAN is really intended for the smaller companies. They're not able to get insurance they want without paying penalties for their bad housekeeping. VERLAN will simply have to make them clean it up eventually if it plans to get them covered. As for us, well, we've been with Factory Mutual for 40 years now, I think."

The spokesman from Benjamin Moore expressed his ambivalence at the nebulous state of VERLAN prior to the late October announcement. Hearing later of the increased capacity being offered by VERLAN he felt somewhat more receptive to the idea, he said.

A spokesman for VERLAN pointed out that in addition to their first phase responsibility of inspecting prospective risks' plants to conform to reinsurers' requirements, the National Loss Control Corp. would also head up a comprehensive loss prevention program for all the captive's insureds. This would help them to maintain a consistently lower level of risk, he indicated.

Mr. Foy told *Business Insurance* that with the captive's newly added capacity he felt VERLAN could adequately handle the insurance needs (excluding liability) of about 95% of the trade association's membership of 700 paint, lacquer and varnish manufacturers', excluding those manufacturers of raw materials. ■

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$750,000 products suit allowed

DAYTON—A $750,000 products liability suit brought by an Ohio woman who charges a teapot gave her toxic lead poisoning has received a boost from a U.S. district court judge who refused to dismiss the action at the request of the defendant company.

Judge Carl A. Weinman has given the McGrory Corp. 30 days in which to file their answer to a suit brought by Lois G. Netzley.

The woman alleges she received the teapot as a gift in 1959 but did not use it for ten years. She first brewed tea in it in the spring of 1969 and continued to use the pot until November 1969, when she became aware of the lead poisoning. She contends she has suffered an eye injury, some vision loss, colon inflamation and general disabilities of the mouth, tongue and gums as a result of the lead contents in the teapot glaze. Tannic acid in the tea is alleged to have caused a chemical reaction.

In seeking dismissal of the suit, the McGrory Corp. claimed the suit was not in accord with Ohio's law on commencing court action within four years. Judge Weinman called the argument "without merit" and noted there was no alleged sales contract between the woman and the company. ■

High-rise . . .

Continued from page 44

computer rooms will not be subject to smoke from fires in other sections of the buildings," the report recommends.

Another important point brought up by the report was that "elevator call buttons should not be of a type that will call an elevator to a floor because of heat, smoke or flames." Apparently, this phenomenon was responsible for stopping the elevator in which the two men died at One New York Plaza at the fire floor where its doors jammed open.

Windows in One New York Plaza were the man-sized plate-glass type that pivoted around for cleaning on a vertical axle. Fixed by several complicated latches on either side, these windows could only be opened by a special tool of a peculiar shape. Since this tool was not available to firemen they could not open windows to ventilate the fire. Breaking them would have endangered the throngs that converged in the sidewalks and narrow streets surrounding the building.

Consequently, the Fire Underwriters' report recommended that "special equipment for fire department use for operating windows, shutters, fans and elevators should be provided and a planned procedure for emergency operation of the air conditioning system should be formulated."

"The most important thing," Mr. Powers concluded, "is planning. Prefire plans should be drawn up for all buildings. This should include procedures for notifying occupants, calling the fire department, routes of exiting from the various floors and protection of valuable equipment. This is simply not done. You cannot find any of these fundamental requirements being carried out in at least a dozen large buildings in New York," Mr. Powers charged. ■

Centralized financial planning: A corporate dream

LOS ANGELES—While there is much talk of centralized financial planning few, if any, companies have established such a central unit, according to two CNA Insurance executives who spoke at the annual meeting of the Chartered Property & Casualty Underwriters.

But, although the companies may not be ready, the earning capacity of the public has increased so rapidly that financial service markets are beginning to define themselves. According to James E. Carter, assistant vp and director of planning for liability, property and surety, and James W. Hamilton, manager of CNA's liability, property and surety associated professional agencies program, distinct areas in need of financial planning help are beginning to develop.

These areas involve people who earn $10,000 to $20,000 a year and spend 5% to 6% of their annual gross income on products and services similar to those currently offered by many of the large multiple-line insurance companies. The markets include blue- and white-collar workers, who could use financial services on a payroll-deduction basis and managers of small- and medium-sized businesses, they said.

"THERE ARE more than 5 million families in this group," Mr. Carter said, "and sales to 1% of them would mean $50 million a year."

"Financial packages assembled in the same way the insurance industry has assembled the homeowners package (the 'Dagwood Sandwich' style, as he characterized it) won't do the trick," Mr. Hamilton said. "Financial services thinking must start with the consumer's needs, not the underwriter's outlook."

"What businesses are included in the field of financial services?" the CNA spokesmen asked. In answer to the question they listed property, casualty, life, health, title and credit insurance, equity growth products; short-term borrowing; tax service; auto financing; retirement and travel services; some real estate services, and budget help.

The cradle-to-grave money requirements of the consumer must be met, they concluded.

BUT THE NEEDS may not be met as fast as they develop, the two executives felt, because a great deal of "logrolling" among existing distribution systems within companies is necessary to clear the way for an offer of financial services on an integrated basis. The vested interests of holding company executives, they said, are one thing delaying the system and personnel problems are another. Before a company can offer a sound program, skills must be upgraded, more computer people will be needed and more agents must pass the National Assn. of Securities Dealers' examination. And all this must be done at an affordable price.

The old corporate boundaries don't mean much any more and perhaps financial services must be "rammed through by a 'Czar company,' " they theorized.

The consumer *will* get what he needs, however, they believe, because "diverse people have a real stake in making financial services work and high level of industry teamwork may develop as a result."

Other consumer influences that are nudging insurers into the financial service field include carriers' loss of relative market position, according to David L. Sanders, vp of Kindler, Laucci and Day, Los Angeles. "There has been a 38% decrease from 1935 to 1966 in money received from families," he said. "The public began to realize that erosion of purchasing power was damaging their savings and their money began to go into mutual funds and private pension plans.

"CORPORATE executives responsible for pension plans began to question the theory of the long-term fixed dollar and the merchandising of life insurance along with mutual funds was enthusiastically greeted by the public." ■

COPSI names new officers

CHICAGO—James J. Cassidy, executive vp, Hill & Knowlton, Inc., was elected 1970-71 chairman of the Council of Profit Sharing Industries.

Other officers chosen at the 23rd annual conference here are Jacques D. Wimpfheimer, president, American Velvet Co., first vice chairman; Weir C. Swanson, vp, personnel, Jewel Cos., Inc., second vice chairman; and Robert H. Clements, vp, Continental Illinois National Bank, treasurer.

Directors elected to serve three-year terms were Theodore D. Bower, special assistant to the vp, taxes, Sears, Roebuck and Co.; Roger H. Cushman, profit sharing fund director, Signode Corp.; Wendell Fish, director employe services, Dart Industries, Inc.; Richard A. Hoerner, chairman emeritus, Hoerner Waldorf Corp. and S. R. Sandberg, exec. vp, Kellogg Co.

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Union members get almost 23 cents an hour in fringe benefits

WASHINGTON—The Bureau of Labor Statistics has released a report containing a brief history of employe benefits and their bargaining in this country stating, among other things, that American factory workers receive almost 23¢ in extra benefits for every dollar earned in straight-time hourly wages.

In other words, an employer paying a union member $4 an hour is also paying an average of 90¢ an hour for pensions, paid vacations, profit sharing, holidays, health and life insurance and other employe benefits. This amounts to $36 a week per employe at that wage.

The report pointed out that the pay for these extra benefits is even more important today than in the past because employes do not have to pay income tax on the money used to finance such programs.

THE BREAKDOWN for extra benefits for each dollar earned in straight time work in 1968, the last year for which figures were available, is as follows:

Pensions	6.2¢
Vacations, holidays	5.9¢
Health, life insurance	4.5¢
Overtime, shift differentials	4.5¢
Profit sharing, disability insurance	1.5¢
Total	22.6¢

As part of the historical analysis, the report said, "No longer are average hourly earnings a satisfactory measure of a worker's compensation for his labor; no more are payments beyond wages for time worked mere 'fringe' benefits. Today's worker receives a compensation package that includes not only his pay envelope, but also smaller bundles that have great importance to him and that constitute items of significant cost to his employer."

Benefits that are common today were not always so, according to the report.

"Workers' ability to provide for their economic security was enhanced by the passage of the National Labor Relations Act of 1935 (Wagner Act), which guaranteed their right to join labor unions and to bargain collectively with their employers," it states. "Unions began to deviate significantly from the traditional scope of collective bargaining—wages, hours and working conditions—and began to negotiate plans that would give workers more and better protection than that provided by legally required programs. However, not until 1948 did the courts interpret the Wagner Act to require employers to bargain over pension and retirement plans and not until 1949 did they make the same decision regarding health and insurance plans."

Since that time such programs have progressed to such an extent that between 1961 and 1969, almost half of the union-agreement covered workers received new or improved pensions; about the same number received new or improved vacation plans; and about two thirds received new or improved health and insurance, the bureau said.

The report also notes that existing benefit programs would continue to be improved and that the future would see the establishment of new ones. ■

31 horses insured

The 31 thoroughbred race horses that were killed or destroyed when a wooden stable was leveled by fire at Garden State Park here last month were insured by the Horsemen's Benevolent Protective Assn.'s blanket fire and extended coverage, which is written in the London market.

COPSI . . .

Continued from page 9

ibility in managing bond portfolios."

Mr. Kirby stated that for the "first time in the almost 40 years that our organization has been managing mutual funds and other portfolios, we have purchased some straight, long-term bonds." He added that "we do it with a very spooky feeling—a little like an Egyptian stealing into downtown Tel Aviv—but we are afraid we can no longer hold to the time-honored conclusion that common stocks are the best answer to all investment problems."

Mr. Pingree however feels that, historically, common stocks make good investments. He cited a comprehensive study done at the University of Chicago by Professors Fisher and Lorie. "It indicated that the average annual compound rate of return, dividends included, on all New York Stock Exchange issues was 9.3% from Jan. 1926 to Dec. 1965. Moreover, of equal interest, this study showed that the lowest return for any 15-year period or longer was 8.2% (1928-65) and the highest 17.5% (1941-65)."

Mr. Pingree said, "Two factors should be noted which have contributed to this past superior stock performance. Price earnings ratios have doubled since the end of World War II, and we are all painfully aware of the uptrend in interest rates which hopefully has culminated during this year."

"HOWEVER," he added, "this absolute increase in equity values' obviously did not take place in a vacuum. Over the past 30 years our population has expanded from 132 million to 205 million. Gross National Product has risen from $100 billion to $970 billion and personal consumption expenditures from $71 billion to $614 billion."

Mr. Pingree indicated that corporate profits have increased from $7.2 billion in 1940 to around $45 billion currently, and that corporate dividends then were $4 billion and are currently $25 billion.

"These past results are valuable not because they can predict or even imply future investment results," according to Mr. Pingree, "but because they illustrate that equity ownership over the long-term is desirable and rewarding in a vigorous, forward-moving, capitalistic economy."

Looking to the financial situation of 1980, Mr. Pingree said that "By then our population will have expanded to around 235 million. It will be younger, more affluent and will be spending at an annual rate of $1.2 trillion on goods and services. Our Gross National Product will have risen in current dollars to the astronomical figures of between $1.8 to $2 trillion. It has been estimated conservatively that corporate profits after taxes will approach $122 billion with corporate dividends paid of $52 billion. Of this increase of around 6-7% annually, real growth will account for approximately 4% while inflation will continue at an estimated annual rate of between 2 to 3½%, offering small solace to those living on a fixed income."

MR. PINGREE added that "Deferred profit-sharing plans are one of the most effective methods continually gaining in popularity for providing an individual with a capital fund which may be used at a future date for retirement or other benefits . . . to produce an optimal long-term total return consistent with an acceptable degree of risk to the participants.

"Thus, the long-range investor is faced as always with a choice of alternatives as how to best achieve this objective. One is to secure principal and assure a stable yet static income despite the almost universal agreement that the dollars will become less valuable in terms of purchasing power as the years pass. The other attitude is to accept the premise that the decade of the 'social 70s' will bring many changes, some predictable, others difficult, if not impossible, to identify now either as to their content or ultimate effect on the securities markets. We believe at this moment . . . that sociological and economic environment will continue to be favorable for equity ownership. This conclusion suggests that primary reliance of successful investment policy will fall as it has in the past on the shoulders of carefully selected common stocks for major and emerging companies. Fixed Income Securities would not be discarded entirely, but would be considered as a competitive alternative to equities and purchased and or held only under such conditions as would indicate equivalent or superior investment results over a designated time span," Mr. Pingree concluded. ■

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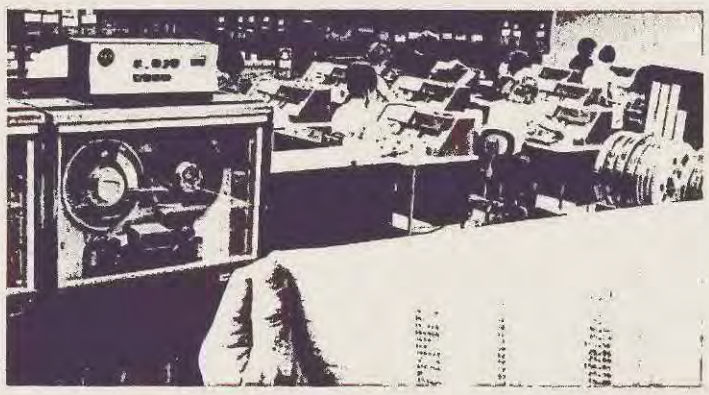

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Panel stresses risk man's start-to-finish role in product liability area

LOS ANGELES—"If we are going to prevent rising losses in the product liability area the old attitude of paying claims and adjusting rates as necessary has got to go. We must apply loss prevention techniques to the product liability area and engineers will have to expand their knowledge to go into it."

And one of the first steps that Jack L. Miller, insurance specialist at Abbott Laboratories in Chicago, said must be taken is careful examination of insureds' goods "not according to what industry they are in but according to how product-liability conscious they are. If insureds aren't rewarded by special rates for good loss prevention techniques, they'll self-assume."

At the annual meeting of the Society of Chartered Property & Casualty Underwriters here Mr. Miller presented the buyer's point of view on a panel also composed of an insurance consultant, Arthur A. Widtmann, risk management department of EBASCO Services Inc., Chicago, and a carrier, Verne E. Brown, executive assistant, liability section, St. Paul Cos., St. Paul, Minn.

"PRODUCT LIABILITY loss prevention can be sold to manufacturers," Mr. Miller maintained, "because it will benefit their reputations: No doubt the cost of safety engineering and control will add to the cost of products, but the producer of dangerous products is going to pay for injuries so his costs will go up too."

Mr. Miller pointed out another ramification of the production of dangerous products: that manufacturer's claims costs will be redistributed to all insurers and their clients and the public may decide that their money is being spent too unproductively.

Lawsuits, how to avoid them and what to do if you are involved in one, were another area touched on by the speaker.

"Acceptability of a product is the business of the manufacturer's risk manager," he said; a motorcycle for eight-year-olds may sell, but it is up to the risk manager to decide if it is acceptable. The risk manager will have to offset the desires of the promotion- sales- and esthetic-minded people with safety standards. It is also up to this person, he noted, to keep advertisments from puffing or suggesting improper use of the product. And the adveritsing and sales people won't invite the risk man into their areas, he emphasized; he'll have to force his way in.

IF A CLAIM is made, Mr. Miller said, the risk manager should use it to expand his knowledge of how the product is working. And a claim coupon attached to a product, he added, is a great idea; it builds the manufacturer's image and saves him money in record keeping.

A central source is needed within a company to coordinate all complaints. An inhouse claims man can keep records of claim trends and alert management to possible dangers. He will also have enough experience, Mr. Miller added, to discern the claimant who is honest from the one who is not. The claims man might even get involved in rehabilitation, he suggested.

In gathering information on claims the sales force should not be neglected, he told the audience. Salesmen often have first knowlege of a problem and may be in a position to alleviate it. In his opinion, however, they should not be empowered to offer monetary settlements and the amount of the company's product they can offer as a settlement should be regulated.

"Well, so you're sued anyway," Mr. Miller continued. "Get good defense—find out who's the best and then educate him on your product's facts: its safeguards, accompanying literature, and who could be called on as an expert witness. Counselor will probably need a visit to your facilities. He should be able to 'sell' your case but you have to give him the product's facts to sell."

DEFENSE costs are high, the pharmaceutical spokesman said, so consider them well at the inception of a claim. Two points to remember, he said, are that if you settle right away many more claims may follow in an attempt to get in on the "easy money," but if you go to court you may also get publicity that will lead to more suits.

One further problem, that of transferring a product liability loss back to a foreign manufacturer, was discussed by Mr. Miller. If a manufacturer is not serviceable for suit in the U.S. the importer is served, he said, and he must defend the product as though it were his own. The next step is to bring suit against the manufacturer under international law or the law of his country. But the most prudent thing to do, Mr. Miller told the CPCUs, is to agree ahead of time with the foreign maker on who will be liable for costs of defense—look at this possibility prior to it's happening.

The relationship between product cost and product safety is an area that must be promoted. Mr. Miller concluded. "Mention safety features in advertising and then costs won't seem so inordinate to the consumer."

Speaking on product liability in relation to services, as opposed to hard products, St. Paul's Verne Brown said that a risk manager's role in deterring these claims is important not only before they happen but afterwards, also. He detailed four areas in which the risk man must work.

THE FIRST is elimination of inaccurate comments by professional and service people. "Almost half the cases brought against doctors," he said, "are caused by other doctors." A casual remark by a patient's second doctor, such as, "Why didn't you see me first?" can be the basis for suit. To end this very problem St. Paul has developed a program through which they appear at medical associations to review claims with doctors, Mr. Brown said. He added, however, that although claim reduction has occurred, the technique has never been used to muzzle anyone.

Written records of professional people, when they are called upon in their homes, are often nonexistent, he said, and form the second problem area. It is vital that information disseminated away from the office be transferred to formal records.

The third area for the risk manager to be aware of is elimi-

Continued on page 51

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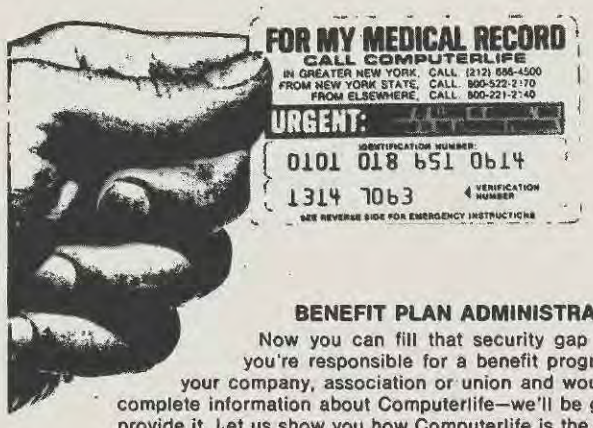

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Services. . .

Continued from page 6

ed. "I hope they can because I need special services to help me do my job."

RISK MANAGEMENT consultant David Warren, partner, Warren, McVeigh & Assoc., San Francisco, pointed out that because a company must face *all* its risk (insurable, semi-insurable, and uninsurable) a blend of services is needed. "Some of you will need service in depth, professionally," he said; "some of you can do without."

The advice of a risk management consultant is necessary, he said, because an insurance company is not qualified to design all the alternatives that a company could use and give cost comparisons on them. He described workmen's compensation as an example of the need for "more than an insurance policy:"

"The needs of the risk manager of the '70s *will* be more specialized and, to that end, *we're* trying to be more specialized," said Frank E. Raab, president of Pacific Employers Insurance Co. (PEG), Los Angeles. He sees his job as one of developing the insurance-allied services the risk man needs and seeing that the talent of the insurance industry is used properly.

PACIFIC EMPLOYERS has expanded into four service specialty areas through formation of International Safety Academy, International Rehabilitation Assoc., General Traffic Service Co. Inc. and Employers Self Insurance Service. Each of these units, said Mr. Raab, was the result of existing specialists within INA Corp., PEG's holding company, and the realization that they could be of service to those not insured by INA and PEG.

The International Safety Academy provides risk managers, safety engineers and industrial management with an on-going program of occupational safety and loss control in 21 areas. "In addition to conferences on modern safety management techniques for experienced professionals," the president said, "the academy gives special attention to the education of the small businessman and his unique needs. It also conducts seminars and distributes educational material to the individual safety specialist in rehabilitation, alcoholism, drug addiction, environmental health, air, stream and noise pollution and product safety."

In the area of rehabilitation International Rehabilitation Assoc. (IRA) grew out of INA's successful MEND program, which has served 14,000 people in the past four years and showed a direct saving of more than $7 million to INA's insurance companies. "This organization," said Mr. Raab,"is designed to serve the rehabilitation needs of self-insureds, manufacturing and business corporations, property-liability insurance companies and reinsurance companies. The program includes financial rehabilitation, medical management, vocational and educational training and psychological guidance-planning.

"The great thing about this service is that it changes the insurance involvement from one of being an antagonist in the claims-settling process to being a protagonist in an affair of humanity," he said. "And it makes the risk manager's company look good while saving it money."

IRA SERVICES are available on an hourly, per diem or retainer basis.

General Traffic Service Co. Inc. (GTS) was organized some years ago to effect low-cost recovery of subrogation claims for underwriters, including the servicing of interests of their clients. It covers all underwriting lines of business and, said Mr. Raab, "today their dollar recovery amount approaches $4 million annually." The specialists know their field so well, he added, that surprisingly few cases are actually placed in litigation. Most are settled by direct negotiation.

Because underwriters, through GTS, are able to offer recovery services to insureds at a minimum cost, he said, GTS already represents a substantial number of larger U.S. and foreign corporations in recovery matters.

The primary objective of Employers Self Insurance Service (ESIS) is to reduce the self-insured's cost by effectively administering the claims, loss prevention activities and clerical work involved in risk assumption. Safeway Stores, Pacific Intermountain Express, Foremost, McKesson-Robbins and Fairchild Instruments all use ESIS to manage their self-insurance programs. "Self-insurance got its start in workmen's compensation," Mr. Raab said, "but just last month ESIS landed its largest single account in New York when Safeway self-insured with its liability coverage."

"INSURANCE companies are going to have to be innovative if they are to survive," Pacific Employers' president said; "but to be innovative we are going to have to keep a close ear tuned to the risk manager and his requirements." He likes to say that he thinks his company can "zig or zag in any direction that is required."

Oren Lane, senior vp at Emett & Chandler, Los Angeles, sees a "bright future" for brokers who follow the specialization trend.

His own company, under its holding company, Pinehurst Corp., has developed a group of separate entities, each operating as its own profit center, to meet the diverse needs of business of the future.

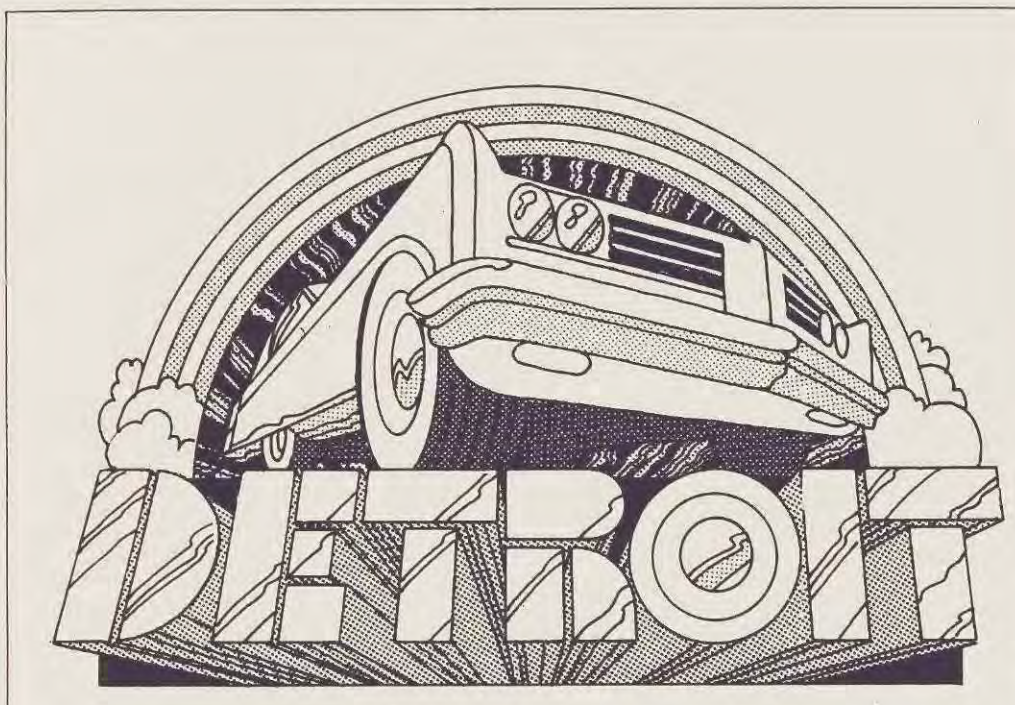
Their recently acquired Risk Management Inc. is now managing almost 30 captive insurance companies. "This concept has gained momentum through the years," he said, "not only as a solution to the capacity problem but also because of its tax advantages."

EMETT, CHANDLER & Stever, Pinehurst's group broker and consulting firm, arranges group life, accidental death, disability coverages and medical, major medical and dental plans on both insured and uninsured bases.

Ron Stever and Co., acquired by Pinehurst in 1964, he told the group, specializes in employe compensation and benefits and in related personnel matters. The firm's consulting services include pensions, deferred profit sharing, savings and thrift plans and stock options; group life, health and disability plans and personalized communication to individual employes of benefits and their costs.

The purchase of R. L. Kautz & Co. in 1969, Mr. Lane said, brought to Pinehurst experts in the area of establishment and administration of self-insurance plans for corporate workmen's compensation liability.

Other areas of Pinehurst's specialization include its formation of Founders Life Insurance Co. and Commonwealth Assurance Co., a surplus lines writer. ■



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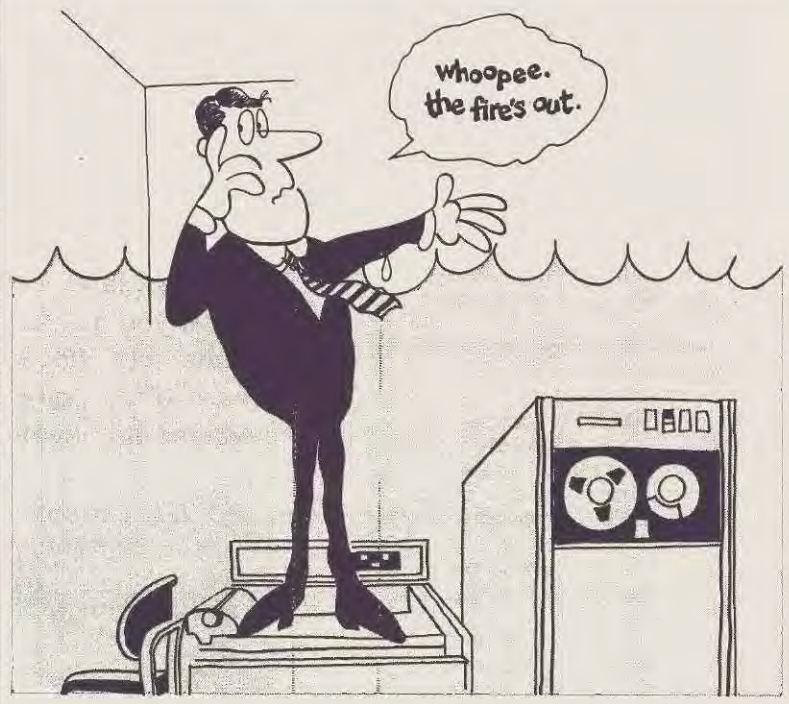

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Product...

Continued from page 49

nation of any verbal or written guarantee of results not required by law. Plastic surgeons are the biggest offenders here, he said, and a verbal or written guarantee takes a suit out of common law and into contract law.

The fourth, and perhaps most important, area that Mr. Brown noted is admission of fault. "Don't immediately admit that you're wrong," he said. There may be intervening facts that the performer of the service is unaware of and immediate admission of fault can lead to a contractual claim. You are no longer saying "Was I responsible?" but "How much do I have to pay?" he pointed out.

IN THIS AREA of intervening facts Mr. Brown remarked on liability trends in the paramedical field. According to the captain-of-his-ship theory, he said, the doctor may be liable for negligence by a team member, but his liability is secondary and he may be able to pass it off to the medical assistant or paramedical person in question or to the institution that trained him.

The importance of expert testimony, and keeping it of a caliber equal to that of the person in question, was also stressed by the St. Paul man. "If you are a doctor in the country," he said, "call on another country doctor who would have the same knowledge under the same circumstances. Don't go to the Mayo Clinic."

These same four look-out areas apply to service people, he said, with a few variations. If a company repairman fixes an appliance he should keep a list of both the complaint and the repair, perhaps with a note to the effect that it is in working order after he has serviced it, signed by the customer. Such records should be kept until the statute of limitations, which varies from state to state, has expired. It was also pointed out during the panel discussion that the statute of limitations, if the case involves a child, may not begin until he reaches the age of 21 and can file suit.

Experts must be available to review claims as soon as they are discovered, Mr. Brown said. "Know who these people are ahead of time and have them constantly well backgrounded in your product so they can go to the scene on a moment's notice."

AND IN A "warning and knowledge situation," panel discussion later revealed, a product involved in a claim, though dangerous in and of itself, may not be just cause for suit. If the consumer has not taken into account the knowledge and experience needed to handle the product, he may himself be at fault.

The insurance company spokesman agreed with Mr. Miller on the necessity of utilizing the knowledge of the company sales force to prevent claims. Certain faults, such as those in heavy equipment, he said, may not be noticed right away by the consumer. Sales people, however, may be aware of a problem because of unusual requests for parts or service. They should let the risk manager know of these cases immediately.

Dealing with product liability situation in the machinery and equipment manufacturing field, said EBASCO's Mr. Widtmann, requires the risk manger to oversee rigid production and quality control procedures. Speaking as the middleman between the buyer and the insurer he offered the CPCUs some guidelines developed by his company.

"The goal of the manufacturing department must be error-free production," he said, and design criteria must be established and adhered to by the quality control people. He listed the following steps as necessary for product liability loss prevention:

- Establishment of minimum standards for inspection and quality control people.
- Preparation of detailed instruction for inspectors.
- Removal of obsolete drawings and standards from points of inspection.
- Availability of specifications and working instructions at all inspection centers.
- Calibration, with substantiating records, of all test and inspection equipment on a periodic basis.
- Imposition of good housekeeping practices in areas where products are built.
- Establishment of equipment and environmental conditions suitable for final inspections.

STRICT ACCURACY must also be sought in labeling and instruction manuals, the consultant said, and these should point out possible dangers from use of unauthorized repair parts and include troubleshooting hints.

Mr. Widtmann pointed out that claims, once they are made, should be handled promptly so as not to "tarnish the manufacturer's public image. To guard against this, complete cooperation and understanding between the insured and insurer is paramount." Tips for smooth work between the insurer and insured include:

- Prompt reporting of all claims, no matter how minor. Delay may jeopardize the possibility of a speedy and appropriate settlement and may also jeopardize coverage.
- Expediting the claim with an early investigation to produce facts fresh in the minds of witnesses. The insurer should discuss claims with the manufacturer before making any payment since it is the manufacturer's product that is 'on trial.'
- The insurer must have complete understanding of the characteristics of the product involved and, hence, must place almost complete reliance on the manufacturer. ■

Retiree benefits increased

HARTFORD—The Hartford Insurance Group has boosted retirement income for employes and widows of employes who retired prior to 1970.

In a letter to the nearly 1,500 retirees and widows affected, chairman-president Harry V. Williams remarked that those on fixed incomes are, naturally, hardest hit in a period of rising costs.

Amount of each retiree's increase is directly proportionate to the number of years since his retirement prior to 1970.

For example, in most cases those who retired 20 years ago will receive an increase of 30%; those who retired 10 years ago will receive an increase of 15%; and those who retired five years ago will receive a 7½% increase.

The minimum increase is $5 a month; the maximum is $100.

Approximately one-quarter of the Hartford's retired employes live in Connecticut, with large numbers in Florida, California, New York and Illinois. ■

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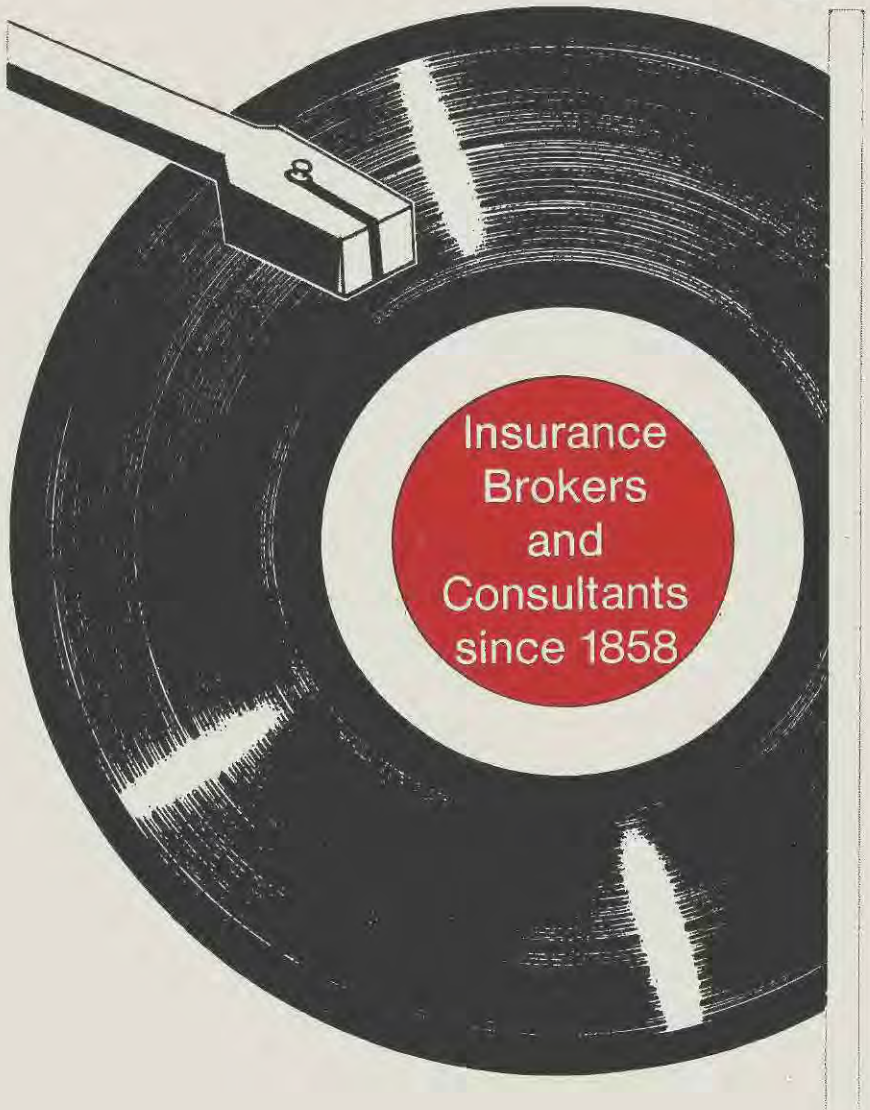

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Canadian asks higher pollution fines

OTTAWA—Transportation Minister Don Jamieson has proposed a bill that would give the Canadian government massive regulatory control over oil tankers in Canadian waters.

His bill, similar to, yet with more teeth than, the Tanker Owners Voluntary Agreement Concerning Liability for Oil Pollution (TOVALOP) plan, was promised on the heels of an oil pollution problem, caused by a tanker wreck, in Nova Scotia's Chedabucto Bay.

Mr. Jamieson's plan would affix an upper limit of $137 per ton to a maximum of $14 million on the liability of the ship and cargo owners for damages and cleanup costs. The TOVALOP agreement, in effect a year now, calls for a maximum liability on the ship's owners of $100 per ton or $10 million, whichever is less.

For any claim exceeding the limit, the proposed bill contains a provision for a maximum levy of 15 cents per ton on all tanker cargoes in Canadian waters to be paid into a Maritime pollution claims fund. An estimated $3 million would be yielded by the levy in a normal year.

THE $14 million limit permits full coverage on tankers of up to 100,000 tons, but leaves the position of some of the larger supertankers uncertain. The limit is also a compromise for the government, which originally asserted that the polluters should pay the entire cost of any disaster. The compromise was reached after insurance companies maintained that a larger risk would be impossible to cover.

A spokesman for the transport department pointed out that the bill would give the government power, based on "practicality," to set a maximum limit on the size of oil tanker cargoes permitted in Canadian waters.

The bill would also provide for special equipment to be built into tankers to permit control of oil spills, as well as concerning itself with navigational equipment qualifications of tanker officers.

Another provision of the bill is the appointment of pollution control officers with the power to board tankers in order to make inspections and to order them out of Canadian waters if pollution-control standards are not met. ■

$950,000 airline suit

BURLINGTON, Vt.—A $950,000 suit has been filed in federal district court here against Northeast Airlines as the result of a 1968 plane crash at Moose Mountain, near Lebanon, N. H.

The estate of Edmund G. Rousse of Barre, Vt., executive secretary of the Vermont state interdepartmental office on aging at the time of his death, seeks the sum from the airline, Fairchild Hiller Corp., Wilcox Instrument Corp., and Koolsman Instrument Corp.

The court action alleges "improper operation" of the plane and "faulty equipment" were the cause of the crash, which claimed 32 lives in October, 1968. ■

Here's Dear Gerry's employe driving form

CHICAGO—*A July 20 Dear Gerry column, "How to handle the employe who uses his own auto," has engendered wide response from* Business Insurance *readers. The columnist, Gerald Wilson, corporate insurance analyst, mentioned a form, to be signed by the employe, advising him of his company's liability responsibilities and many readers have requested further information on this form.*

Mr. Wilson points out that the form below is only an example and that any form would have to be tailored to the particular needs of the corporation involved. "This would mean manuscripting an agreement utilizing at a minimum both the personnel and legal departments of the corporation," he said.

He recommends that risk managers have under their automobile liability policies owned, rented and hired coverage and fairly broad contractual coverage. It might even be advisable, he said, to include part of the wording from the company insurance policies, relevant to coverage for employes using their personal autos for company work on an excess basis, in the driving agreement.

ACCORDING TO Mr. Wilson this agreement should be emphasized as not granting any more coverage than ordinarily would be afforded because "we are only dealing with the situation in which an employe is driving his personal car on company business." Questions about whether an employe is acting within the scope and course of his employment at the time of the accident giving rise to a claim, he noted, are probably best ignored in the agreement.

The purpose of the agreement, said Mr. Wilson, is: "To advise the employe of his position in the event of an accident while using his car on company business and to deny that the company has responsibility for furnishing insurance except as would be required over and above his responsibility to furnish insurance protecting the company. The company's insurance only operates when it is involved as a defendant and, in a sense, this agreement operates as a waiver of subrogation against the employe for coverage afforded by the company over their required or stipulated amount."

The driving agreement, in conjunction with the automobile reimbursement request often used, Mr. Wilson said, reiterates to the employe the employer's interest in and right to accident information from him. Here's Mr. Wilson's sample:

Employe's Driving Agreement

In consideration of payment by this company of an allowance of cents per mile or other reimbursement for use of employes personal automobile with permission (specific authorization), it is hereby agreed:

1. This company shall not be responsible for physical loss or damage to the personal automobile except as a third party tort feasor for acts outside of this agreement it being agreed that reimbursement amount includes a portion representing automobile collision and comprehensive insurance whether or not carried by the employe.

2. The company shall not furnish financial responsibility on behalf of any employe using his or her personal car on company business under this agreement, for any accident occurring during the time this agreement is in affect.

In no event will the company furnish insurance for public liability or property damage in an amount not in excess of:

- Financial responsibility limits found to be applicable.
- The actual amount (limits of liability insurance) actually carried on the personal automobile, or by any other person responsible for the use of the automobile.
- For limits of public liability of: $10,000 per person bodily injury; $20,000 more than one person bodily injury; $5,000 property damage per occurance, whichever is the greater.

3. This agreement shall not be construed to cover hired or rented vehicles rented by or on behalf of the company. Nor shall reimbursement under this agreement be construed as rental or hire of the employe's personal automobile.

4. This agreement shall not be construed as a hold-harmless agreement between the employe and the company with regard to actions against the company as a third party tort feasor for accidents involving the personal automobile used in this agreement with any other vehicle owned or operated by the company or its agents. Nor, is this agreement to be construed as a waiver of the rights by the employe under any workmen's compensation law or employe benefit plan of the company.

5. It is understood and agreed that any insurance afforded for the use of the personal automobile will include the company as an additional insured responsible for the use of the automobile under the omnibus or other insured clause and that such insurance will not abridge this right.

6. It is agreed that if the employe is regularly using his personal automobile on business of the company that he will pay the appropriate rate under the proper premium classification which will not deny the right of insurance to the employer (company).

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Hijack not covered

Mafia agents in Italy are blamed for stealing seven lengths of anchor chain that was in transit to an American steam tanker, Ogden Yukon, while in port at Augusta, Sicily. The consignment was sent by a British firm for delivery to the vessel before it left Sicily, but Italian agents say that the truck carrying it was hijacked. Although the truck load was insured in London for $17,000, the consignors believe that the cover does not include hijacking in this way.

American Velvet Co. invests 27% of profits annually for its employes

CHICAGO—"Its all about getting along with people," Joseph Sposato, union representative, A. Wimpfheimer & Bros., Inc., said of the management-labor relationship under profit sharing at American Velvet Co., Stonington, Conn.

Mr. Sposato and Jacques Wimpfheimer, president of American Velvet, addressed the Council of Profit Sharing Industries' 23rd annual conference here.

Mr. Sposato said that it was the "sincerity of purpose" on the part of management at American Velvet that led to more than 25 years of continual production. He also cited that in 1960 when the International Textile Workers Union requested all local unions to demand a 5-cent-an-hour across-the-board raise in wages, the local union met with the management of American Velvet and realized that the company could not afford the raise at that time so it relinquished its demand.

MR. WIMPFHEIMER believes that "profit sharing permits a man to be a man—he exercises his desire for responsibility, his conscience is at work, he has dignity—he is a full man and as a full man he has energy to expend and a willingness to expend it."

American Velvet was founded in 1845 by Mr. Wimpfheimer's grandfather and has remained a privately-owned company. In 1937 when the company was faced with a 16-month strike over an increased work load, his uncle and father—then representing management—decided that they had three choices open to them: "sell out and quit; move south to a depressed area where unions were weak and labor costs low and utilities cheap, or stay in Stonington and work out a solution."

Mr. Wimpfheimer's father took over the management of the business and coined the phrase "sincerity of purpose" that is still used.

In 1939 the management offered Local 110 Textile Workers Union a profit sharing plan that the union turned down for fear that it was "some kind of sharp management trick." But the union accepted the idea in 1940 and it was incorporated in the contract.

THE AMERICAN Velvet profit-sharing plan simply is: Annually 27% of its profits, before taxes, are invested into the fund and then distributed to the eligible employes. Each employe receives two-thirds of his profit sharing in cash and one-third is placed in the company's pension trust in the employe's behalf.

According to Mr. Wimpfheimer, an employe is eligible for profit sharing after 120 days with the firm. The holdings and listings of the pension trust are distributed quarterly to the employes.

Mr. Wimpfheimer said that the company spends an average of $3 per hour, per employe, before profit sharing on fringe benefits. The company itself ends up with one-fourth of what it makes annually.

When asked how they managed to make any money, the president said it was because they haven't been faced with strikes or lengthy arbitration periods and as a result end up in the black.

ACCORDING to Mr. Wimpfheimer, the American Velvet company is very conscious of communicating with the employes "man to man." Every morning top management spends 45 minutes talking with employes throughout the plant and immediately afterwards discuss any problems that might have been brought up.

"On the labor's part," he continued, "they have a formal local organization which elects yearly a shop committee composed of nine of their in-plant members to represent them in discussions and bargainings with management, and to generally run their business."

Meetings are held between the shop committee and management to discuss any problem to stop small grievances from becoming large ones.

There is also a "pops" committee consisting of all the past union presidents, used, according to Mr. Wimpfheimer, as a sounding board for new ideas. There is also a subcommittee of "pops" comprised of three members of "pops" and three members of management called the planning board. "It is sort of a court that gathers information on wages, work loads, job classification, overtime," and presents their findings to the shop committee.

MR. WIMPFHEIMER said that all this has led to mutual cooperation and trust between management and employes. A result of this trust, he said, is their employes "are the highest paid, most efficient velvet weavers in America."

And the company has not done too badly either. According to Mr. Wimpfheimer, American Velvet has not had a losing year since 1940. ■

Rehab study released

SAN FRANCISCO—A study of the rehabilitation of injured workmen by the California Division of Industrial Accidents found that in 3,635 cases of so-called permanent disabilities, 53.5% return to work for the same employer following the accident. The study, entitled "Report on the Rehabilitation of Injured Workmen," is available from the division on request.

Of this number 41.7% return to the same job with new responsibilities.

Only 35.5% of injured workers return to jobs with a new employer and 14% take that job without retraining.

IN 11% OF THE cases studied, rehabilitation takes the form of cash payment ot the injured employe, with 4.5% being for investment in his own business and 6.5% for capital investment ■

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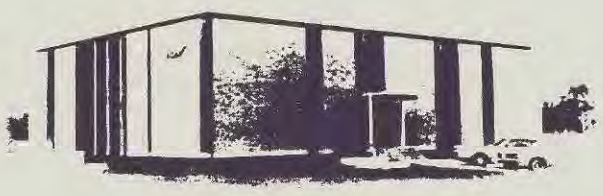

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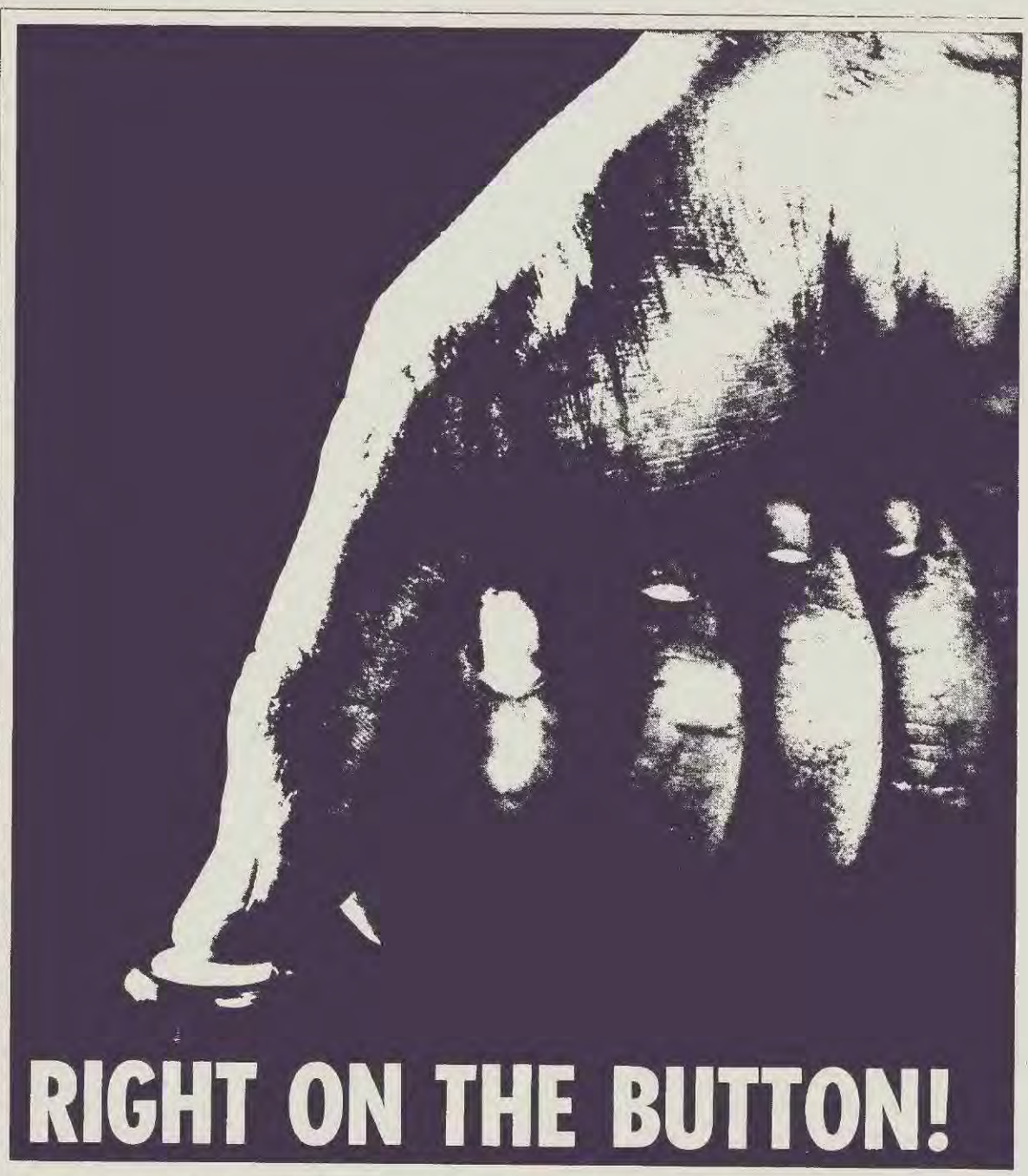

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The "cat is out of the bag!" If there could have been any doubt as to what *practices and services* of insurance companies are held "most important" by agents, the answer in a recent survey is now crystal clear:

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British take new steps to stem oil pollution on coasts, shipping lanes

LONDON—Oil pollution is still causing concern in Britain, although active steps to reduce its hazards are being undertaken on the coasts and in shipping lanes.

According to the Advisory Committee on Oil Pollution of the Sea, which represents industrial and local enforcement agencies in the U.K., pollution became more frequent last year.

But tracing the origin of the pollution, and identifying the ships responsible, proved difficult. Chairman Lord Jellicoe said: "The committee is gravely concerned about the increasing incidents of spillages caused by accidents and collisions. This renders all the more necessary the preventive measures to reduce the incidence of accidents and to mitigate their effetcs."

TO REDUCE pollution, which is ruining beaches and killing sea birds, the government-controlled Board of Trade is to put new oil-slick dispersal apparatus at 30 strategic centers. It has produced through government scientists a device costing less than $800, which may be patented for export use. It consists of two metal booms fixed to the side of a tug and a pump that forces anti-pollution detergent along the booms to spray on sudden oil-slicks.

But ocean-going shipping interests, represented in the U.K. Chamber of Shipping, complain that 600,000 tons of oil is being tipped into the oceans every year by Japanese and other shipping nations that neglect suitable precautions.

John Kirby, managing director of Shell International Marine, claims that the Japanese own 10% of the world tanker tonnage, but are responsible for virtually half the major pollution through the discharge of oil during tank cleaning. He said that wholesale pollution by countries that fail to employ the preventive "load-on-top" anti-pollution systems is equal to five Torrey Canyon disasters.

This British-devised system does away with oil discharge, and has been adopted by many tanker owners. But Japanese refiners are not co-operating, and are unlikely to do so until Japan passes the necessary legislation, he asserted. This could be as long as five years, on the evidence of past international maritime conventions. Britain plans to take action this fall to apply the convention to British ships. ■

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High court will review Cal. case

WASHINGTON—The Supreme Court has agreed to review a California case involving the withholding of unemployment compensation from a claimant whose former employer has challenged his eligibility.

The case (*Business Insurance*, June 22, 1970) was appealed by the state after a U.S. district court overturned a state law that cut off unemployment insurance benefits to a worker if his employer challenged his rights to such payments. Forty-seven other states have similar laws, which force an unemployed worker to wait until his employer's challenge has been decided by a referee before the compensation can be paid. Only Vermont and Washington have no such practice.

New York and Maryland joined California in asking the Court to hear the case.

The district court in San Francisco which made the original decision had ruled that it was unfair to make a worker wait for financial aid because his former employer attempted to halt the payments. The court also ruled that the average seven-week delay in ruling on appeals conflicted with the Social Security Act, which requires that payments be made "when due."

California employers have often challenged unemployment claims against them because, under state law, the higher a company's unemployment rate, the more money it must pay into the state unemployment insurance fund. The employers, in the past, have been able to challenge the claims for reasons ranging from the employer claim that the worker merely quit to technical violations of the law based on eligibility.

In 1969, the referees decided in favor of only 53% of the unemployed workers. Benefits were denied in the other 47%.

California has contended that to pay the unemployment insurance benefits before the referees final decisions were reached could cost the state more than $1 million in 1970 alone. ■

City liable

The city of Long Beach learned this week that California state law cannot be flouted with impunity. The district court of appeals reversed a trial court ruling that Long Beach should not be liable for damages by virtue of its permitting use of motorized wheelchairs on sidewalks, a practice prohibited by state law.

University . . .

Continued from page 10

tional Assn. of College and University Business Officers.

THE STUDY upon which the recommendations were made was based on detailed responses from 41 universities to a questionnaire and interviews with university insurance managers and underwriters.

The deteriorating insurance situation facing universities, Mr. Kloman told *Business Insurance*, cannot be blamed on either the university or insurance establishments. If anything, both are equally at fault for not predicting the future.

"The current situation was brought on by factors including the inability of insurance companies to respond to the changing situation and the slowness of the universities to change their risk management practices. Insurance companies by their very nature look at the past and make the assumption that the past is repititous," Mr. Kloman said, noting that the past has probably been least repititous when it comes to university insurance risks.

Mr. Kloman, whose newly formed financial risk management firm will continue to work with UIMA in studying the feasibility of a property insurance pool, admitted that there are several possible hang-ups to such a plan.

CITED AS one, for example, is the possibility that some state universities may not be able to allocate funds to such a pool because of state laws. However, he said, many university insurance managers feel that "state laws will be changed if there is no other viable insurance alternative."

Another problem, of course, is financial conditions facing most state and even private universities. Capitalization of the scheme may be an initial drawback, as well as the fact that the $100,000 deductible per occurance may be unattractive to universities fortunate enough to have lower deductibles in policies written in the conventional market. Mr. Kloman feels, however, that the proposal has been structured in such a way that capitalization could come largely from premium savings that result when the primary layer or $1 million is withdrawn from the conventional markets.

One of the main advantages of such a pool is the very pooling concept itself.

"If property losses are bad," Mr. Kloman said, "it would insulate the conventional insurance market from them and help protect the available catastrophe market. If loss experience is good, the universities would get some of their money back," he added, noting that the key to the success of such a pool would likely come as a result of better risk management techniques.

An effective pool could be set up with a minimum of 15 to 18 universities, Mr. Kloman said. Universities would have to have an annual budget of $70 million or more, Mr. Kloman feels, before participation would be economically sound for that institution. A university with a budget of $70 million, for example, would pay a premium of $56,000 the first year and an estimated $35,000 thereafter. ■

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