Ingosstrakh-Soviet company for foreign insurance

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business insurance

for buyers of employe, property and liability protection — 35¢ a copy; $8 a year — October 21, 1968

Fleet buyers warned on AIA 'no-fault' plan

NEW YORK—Buyers of corporate insurance for fleet vehicles will be confronted with a fresh dilemma by the expected announcement this week of the "no-fault" auto accident compensation program by the American Insurance Assn.

The proposed plan, which would completely eliminate the tort liability system, was attributed to the AIA three months ago by *Business Insurance*. The report at that time was met with a denial by AIA officials.

THE "NO-FAULT" system to be proposed by the AIA includes these features of compulsory first-party coverage:

- Coverage for economic loss, consisting of work loss, hospital and medical expense from auto accidents, and expenses for services for those injured persons would have performed without income. Payments would be made on an accrued basis.
- Auto insurance indemnity would be primary, and collateral sources would be subtracted from the amount of economic loss.
- Insurance would be compulsory and residual liability coverage for out-of-state driving and in the absence of an effective exemption from tort liability would also be compulsory.
- Property damage would be

Continued on page 30

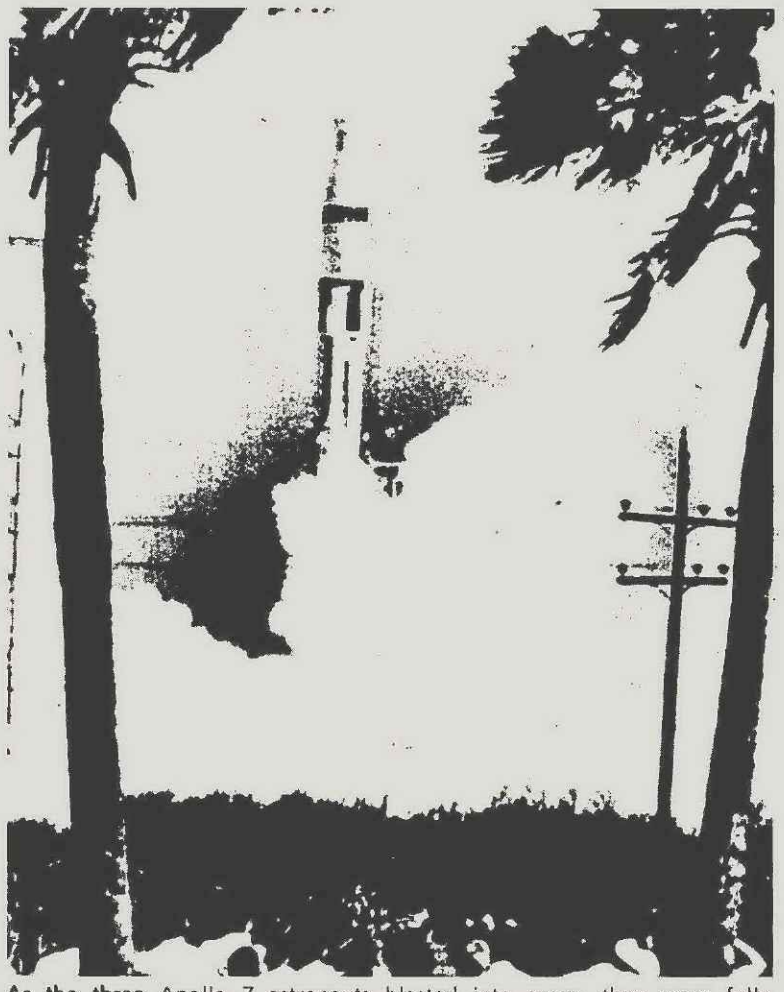
Ex-Crane buyer gets suspended sentence

NEW YORK—George F. McDermott, former assistant treasurer of Crane Co., has been given a two-and-a-half year suspended sentence after pleading guilty to charges in an insurance fraud scheme.

Mr. McDermott, 35, pleaded guilty to four counts of grand larceny and one count of conspiracy, charging that he diverted $870,000 worth of Crane Co.'s excess insurance coverage into Global Risk Underwriters Ltd., a "paper" insurance carrier which he set up in Antigua, British West Indies.

Crane, which has recovered a large portion of the funds, is protected from such embezzlement schemes by fidelity bonds written through Royal Globe Insurance Co.

State Supreme Court Justice Mitchell D. Schweitzer, in giving Mr. McDermott a suspended sentence, placed the former executive on five years' probation.



As the three Apollo 7 astronauts blasted into space, they were fully covered by a number of life policies from government, military, and private sources as well as through Life magazine. A contract with the magazine provides each astronaut with $50,000 straight life insurance underwritten by Citadel Life Insurance Co. On the spacecraft itself, NASA requires third-party liability coverage of most outside contractors such as North American Rockwell Corp., El Segundo, Calif. Wide World photo

INA enters mutual funds; buys airline

PHILADELPHIA—INA Corp., only 24 hours after it announced its plans to enter the mutual fund field, proposed an acquisition of World Airways Corp., whose holdings include a bank with assets estimated at about $900,000,000.

The merger talk at INA was accentuated by speculation in financial circles that it was being sought by Bangor Punta Corp., New York, a widely diversified conglomerate.

According to Bangor, it owns less than 10% of INA Corp. stock, which it said has been a "profitable" investment.

A Bangor spokesman did not close the door on a possible INA acquisition. "Although our ownership of INA stock is an investment," he said, "it has never been ruled out that Bangor is considering a tender offer to acquire the firm."

IT WAS NOT known if the acquisitions by INA Corp. will have any effect on the capacity available for Insurance Co. of North America, the property-liability insurer from whence INA Corp. sprang.

According to Bradford Smith, chairman of INA Corp., the acquisition with World Airways is part of the company's long-range program for making efficient use of its financial and other resources.

INA's action to acquire World Airways was preceded by its announcement to buy Winfield & Co., a San Francisco-based manager of mutual funds with net assets listed at over $250,000.

In addition, INA Corp. has entered into an agreement to acquire all of the common stock of Star Sprinkler Corp., a manufacturer of sprinkler heads and other fire prevention devices.

World Airways, in a transaction executed this summer, acquired First Western Bank and Trust Co. of Los Angeles. ▪

Airline captive eyes umbrella-type cover after startup in 1969

LONDON—The airline industry's proposed captive insurance operation, finally given take-off instructions by a special task force here last week, will restrict itself to traditional coverages at the outset but probably move into umbrella-type coverages later on.

The captive, which has been under discussion since last January as a means of providing enough insurance capacity to handle the new 747s (which can seat nearly 400 passengers) and the 1,450 mph SSTs, will participate with the existing aviation market in providing coverage.

Although it wasn't spelled out how the aviation underwriters will participate in the captive operation, one airline source who was present at the meeting here said that the industry is exploring such forms as reinsurance and coinsurance.

"THE IMPORTANT thing is that the aviation market will participate. There's unlimited flexibility as to how we could work with the market," he said.

Aviation underwriters have indicated they don't give the captive much chance of success, but one insurance executive said he thought the market would be willing to participate to the extent of handling the operation's coverage in excess of $100,000,000.

Traditional coverages for the captive will include hull, passenger liability, third-party liability, passenger baggage, cargo and mail, the industry source explained. Once the captive is off the ground (target date is mid-1969), it could "gradually" move into such umbrella coverages as hangar keeper's liability, workmen's compensation and automobile. These types of coverages are also offered by the two major aviation insurance groups, U.S. Aviation Insurance Group and Associated Aviation Underwriters.

ALTHOUGH membership in the captive would not be confined to members of the Air Transport Assn. and the International Air Transport Assn., under whose auspices the series of discussions on the captive have been held, it's not likely that airline manufacturers or suppliers would participate, *Business Insurance* was told. "It would seem to me their needs would be quite different from ours," a source said. "We have to draw the line someplace."

Sir Giles Guthrie, chairman and chief executive of British Overseas Airways Corp., has agreed to serve as chairman of the new organization and a search is on to find a director-general who would set up and administer the captive.

"We know in which direction we're moving and we know the logical next step," said an airline industry executive who has been in on the discussions from the beginning. "We know we have to be slow and deliberate and to make sure every step we take is the right step." ▪

Royal-Globe USAIG pool consider link

NEW YORK—Royal Globe Insurance Co. may join the U.S. Aviation Insurance Group after all, marking its entry into the commercial airline arena.

USAIG approached the insurer in January about joining the aviation pool, but Royal-Globe declined the invitation, saying that the carrier "valued our independence far too much."

Now, however, sources confirm that negotiations are underway between USAIG and Royal-Globe, the largest independent writer of aviation business along with Insurance Co. of North America. Royal-Globe's participation in the aviation market is restricted to corporate fleets and private planes, but by joining USAIG it would participate in commercial airline business as well.

Although Royal-Globe and USAIG compete for the same business (from private and corporate aircraft) sources indicated that Royal would continue to write this type of business independently. Ford Motor Co. and National Biscuit Co. are among the firms whose aircraft insurance is placed through Royal-Globe.

When Insurance Co. of North America joined Associated Aviation Underwriters earlier this year, the insurer participated in the pool's airline business, products liability and manufacturer's ownership, operation and design coverage. INA, however, continued writing general aviation and field aviation business on its own.

INA and Royal Globe may continue writing aviation business on their own because of a consent judgment signed by USAIG and AAU. ▪

Stewart will press for N.Y. file-and-use law

WHITE SULPHUR SPRINGS, W. Va.—New York's insurance department will press for a rating law which would not require the state to give prior approval to any charges before they could go into effect.

Superintendent of Insurance Richard E. Stewart said that under the so-called file-and-use system "the forces of competition would be allowed to keep rates down.

"When cost increases called for higher rates, the rates could be adjusted without delay and hence without even temporary restriction of the availability of insurance," Mr. Stewart told a meeting of the National Assn. of Casualty & Surety Executives.

"In all cases of aberration—in which a rate was excessive, inadequate, discriminatory or destructive of competition—the department would have full power to suspend or disapprove the rate," Mr. Stewart commented.

Such a rate system is in force in California, Florida, Idaho and Georgia, but one insurance manager told *Business Insurance* that "the big guys are not likely to be too much concerned" with the changeover "because we don't use standard forms."

He added, however, that in cases in which the firm's policies are not tailor-made, such as crime coverage, "it could affect us." He said that he personally is in favor of the file-and-use system because "I'm aware of the abuses of the existing rating laws which put a heavy emphasis on the status quo." ■

Four Canadian provinces join Medicare program

WINNIPEG—Manitoba will become the fourth Canadian province to participate in the federal medical insurance program, effective about April 1 of next year.

British Columbia and Saskatchewan are already participating in the plan and Nova Scotia will also enter on April 1.

It was thought that Manitoba's decision might push Ontario into joining the plan.

When Nova Scotia signed up last month, Ontario Premier John Robarts said, "I rather doubt we're going to be put in the position of financing Medicare for the other provinces without receiving any benefits ourselves."

Enter into union talks, benefits men advised

NEW YORK—The "sex appeal" of union contracts lies in the benefits area—a fact which should make the benefits manager a part of the direct negotiation team.

In making this point E. B. Willis, manager of employe benefits for General Electric Co., said that although there is thorough planning in preparation for union bargaining, during negotiations benefits managers often fail to participate.

In general, said Mr. Willis, the benefits manager's job is to develop, plan and assure that benefit dollars are being spent with maximum security. "It's up to the benefits manager to protect management's rights," he told meeting of the Council of Employe Benefits.

Mr. Willis pointed out that next to direct pay and the cost of materials, benefits are the largest corporate expenditure, which has brought to the surface a corresponding need for alert, professional management of such funds. The benefits manager, he said, needs to manage fringe programs in light of overall principles of his company.

Mr. Willis suggested that day-to-day administration of paper work be delegated to the accounting department. The benefits manager should not become "bogged down" in routine daily demands, he contended.

Under the planning function of the benefits manager is the need to have a set of basic principles, both general and specific, Mr. Willis stated. The benefits manager should also gather information on benefits, such as emerging trends, and should have surveys handy which he can readily review.

Prior to union negotiations the benefits manager should send detailed recommendations to top management on proposed changes and new benefits, he added.

Following union contract negotiations, benefits managers should prepare a summary of changes to assure adequate information for understanding by employes and for administration.

Mr. Willis recommended that one man be responsible for statutory benefits. He also suggested that benefits men become involved in planning for foreign benefits by determining what the local laws are and by sharing in the financial arrangements.

"No longer is the fragmented approach to benefits appropriate," Mr. Willis stated. "Today benefits managers are members of the management team," he said. ■

Judge cites 'sloppy' terms of 'standard' insurance policy

TRENTON, N.J.—The New Jersey Supreme Court has decided to take a closer look at the fine print in an insurance policy covering the operator of a swimming pool service.

The operator, William R. MacDonald, was advised that his insurance policy, written by Glens Falls Insurance Co., did not cover him for damage done when a pool he was servicing popped out of the ground.

But Chief Justice Joseph Weintraub described the wording of a section of the policy excluding "completed operations" —meaning damage occurring after workmen finish the job—as "very strange language."

"Why don't you type in "no-coverage?" It would be so easy. This is sloppy work at best," said Justice Weintraub.

Representative of the insurer, Mark Larner, said the "complete operations" form was standard and was used nationwide.

Until the insurance coverage question is dealt with, there is expected to be a postponement of the negligence suit filed by the pool owners against Mr. MacDonald. ■

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Worldwide capacity problems blamed on 'inadequate' rates

NEW ORLEANS—Inadequate insurance rates were blamed for any lack of capacity existing in the U.S. and London insurance markets by a panel of authorities at the meeting here of the Society of Chartered Property and Casualty Underwriters.

The same panel agreed that there is currently no "general" lack of capacity, but only for special industries like aviation and oil where there is heavy concentration of values in single risks.

For example, William E. Holland, assistant vp of U.S. Aviation Underwriters Inc., New York, pointed out that the new Boeing 747 jets will have a value of $20,000,000 to $25,000,000 each and carry up to 500 passengers each at a liability limit of $150,000 per person. "This would bring the potential loss in a crash to $100,000,000 and the cost of a mid-air collision to $200,000,000," Mr. Holland said.

He added, "If airlines can't get coverage, the jumbo jets can't fly."

LINDSAY FISHER, assistant vp of Employers Reinsurance Corp., Kansas City, acknowledged capacity problems in the aircraft, oil and offshore drilling industries. He said these problems are usually attributed to mergers, development of holding companies and advancing technology.

"But we should take the longer view and admit that the fundamental cause of the capacity problem is a pricing system that doesn't produce profits to increase or even to maintain assets," Mr. Fisher cautioned. "We wouldn't have needed the riot reinsurance program if we had had a prosperous industry."

Capacity problems arise from an accumulation of identifiable factors, according to B. J. Brennan, chairman of E. W. Payne & Co. Ltd., Lloyd's, London.

Mr. Brennan cited five factors: inadequate rates; government legislation that causes rate hangups; government regulations barring the admission of foreign insurers; lack of corporate policy in some insurance companies, and reinsurers' treatment of reinsureds.

"IT IS DISTURBING," Mr. Brennan remarked, "that in an era of increasing values and growing need for insurance, profit margins have virtually disappeared."

Asked what the addition of new "names" (members) at Lloyd's will mean in terms of capacity, Mr. Brennan said they will put more capital into the business and therefore provide a bigger market, but the addition of 20 to 25 foreign "names" is a small number yet a "helpful step."

Lloyd's, according to Mr. Brennan, holds deposits of £100,000,000 and has writings of £500,000,000. "Yet it is impossible to assess the accumulated wealth of members who are liable "down to their socks" for claims against Lloyd's.

An example of the capacity problem discussed by Mr. Holland was the Aircraft Builders Council (ABC) products liability pool which, Mr. Holland said, "is falling of its own weight." Boeing, which had taken a major share of the losses, left the pool several years ago.

MR. HOLLAND said that a pullout from the ABC pool by Lockheed "has been rumored on the street." He doubted that airlines will form their own insurance pool because such pools take major financing and the airlines are already in debt.

F. A. Gorham, general manager of the Oil Insurance Assn., Chicago, said, "The risk potential in some markets is fantastic. McCormick Place is an example where a $20,000 annual premium was collected to cover a $30,000,000 unsprinklered risk."

Reinsurance plays a major part in providing capacity by protecting the assets of primary insurers, according to William J. Gilmartin Jr., vp of Continental Casualty Co., Chicago. "Smaller companies seek reinsurance for catastrophe protection while larger companies seek reinsurance treaties that will level their losses. Either way, the object is protection of the profit and loss statement."

MR. GILMARTIN asserted his belief that "there is plenty of capacity. Price is the problem."

Summaries of the capacity problem included these points:

- Capacity lack is a broadly based international problem that calls for closer cooperation between markets which "cannot go it alone."
- Participation in reinsurance is growing and promises to relieve the capacity problems in some areas.
- Lack of capacity, in the view of some, is strictly a matter of low rates.
- Inadequate capacity is now evident in classes of business in which the law of averages does not work. ■

Peterson blasts House on construction safety

WASHINGTON — Assistant Secretary of Labor Esther Peterson has blasted the House of Representative's failure to enact a construction safety bill as "one more indication that the private pressure groups are the privileged members of society, while the people's welfare comes in a weak second."

The House failed last month to muster the two-thirds vote needed to suspend the rules and pass the measure.

"The construction industry," Mrs. Peterson told a meeting of the National Assn. of Women in Construction, "has the second highest incidence of disabling and fatal accidents—second only to mining.

"Yet the construction industry is the only major industry in the country which has no federal standards for safety on government contracts," she stated.

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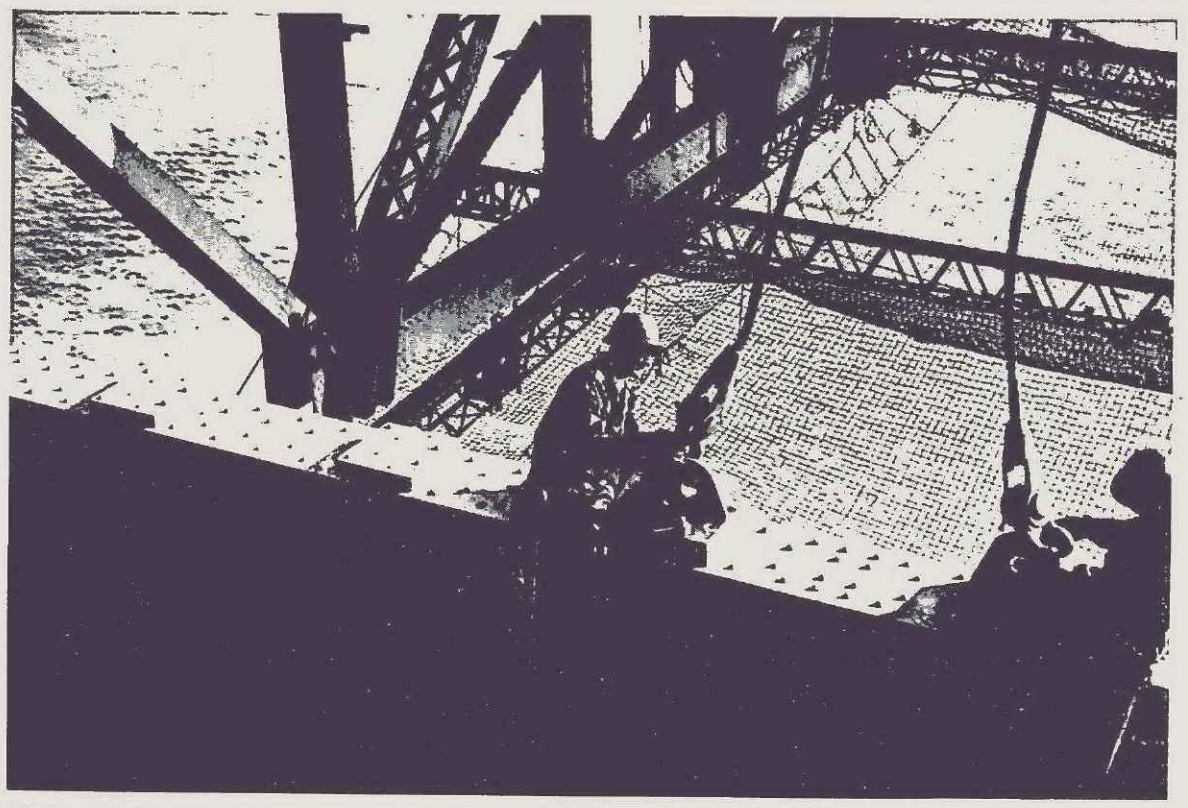

BART workmen wear canvas and glue hard hats. BART's workmen's compensation loss ratio as of last June dropped almost 18% from 1967.

Workers on giant BART project 'measurably' safer under wrap-up

SAN FRANCISCO—Workmen on the Bay Area Rapid Transit project here are "measurably" safer than those on a great many other big construction projects, and the safety level has improved as the giant construction project nears the half-way mark.

The estimated workmen's compensation loss ratio as of last June, for example, was 36.27%, a drop of almost 18% over the year preceding, according to Leland J. Hoagland, director of Transit Insurance Administrators, broker on the project. The improved safety record was achieved despite an increased work force, Mr. Hoagland said

In July, BART employment climbed to 5,000 persons with 60 active construction contractors engaged in the project. "The workmen's compensation ratio," Mr. Hoagland declared, "is 29% lower than the last reported average for the contracting industry in California."

To date, some 300 contractors on the $1.2 billion project have reported 19 disabling injuries per million man hours of work. This record was based on 13,638,000 man hours.

"IT WASN'T accomplished with any magic formula," Mr. Hoagland told *Business Insurance* during a tour of BART installations. "We just work hard at safety."

It is estimated that the premium volume generated by the three parts of the wrap-up—property, liability and workmen's compensation coverages—will total between $40,000,000 and $45,000 000, with $28,000,000 in workmen's compensation premium alone.

The wrap-up carrier alignment was shuffled somewhat Aug. 1, at renewal time. The all-risk property portion of the contract has a $50,000,000 limit, with 18 primary and excess domestic insurers having $9,500,000 in coverage, and the remainder in the London market.

National Surety Corp. of California has the primary $10,000,000 liability coverage. Excess insurance up to $65,000,000 is divided into three layers. Seven domestic insurers have $28,000,000 of the excess with the remainder in the London market.

Workmen's compensation is also written by National Surety. Both the liability and workmen's compensation are reinsured jointly by Fireman's Fund American and Argonaut Insurance. National Surety is a wholly owned subsidiary of the two companies, and the only business written by National Surety is BART. Claims, safety engineering, statistical control and other services are provided by Fireman's Fund and Argonaut

Mr. Hoagland said shrinkage in the London market caused the wrap-up to look for some new insurers and to ask old insurers to take more of the risk. Prior to renewal, BART's $75,000,000 general liability policy had been written by six domestic companies and Lloyd's of London. U.S. insurers had carried about 15% of the risk.

"The entire wrap-up is very complicated," Mr. Hoagland said. For example, the liability contract is partially retroactively rated, part prospectively rated. Deductibles on property risks range from $1,000 to $1,000,000 on individual perils.

However, Mr. Hoagland estimates that the wrap-up will save 40% to 50% in insurance costs assuming that the present favorable loss experience continues

TRANSIT INSURANCE Administrators is a partnership of Hoagland's own firm bearing his name; Fred S. James & Co.; Kindler, Laucci & Day, Levinson Insurance; Putnam, Knudsen & Weaver Inc., John T. Schroder Insuror Inc., and Transwest Insurance Brokers.

The BART tour yielded some

Continued on page 54

In 1968, employers to shell out $66 billion for fringe benefits

NEW YORK—U.S. employers will pay more than $66 billion in contributions to private and government-administrated pension plans, life and health insurance plans and other employe benefit plans this year, the Institute of Life Insurance has reported.

These contributions are up 130% since 1958, when the total was less than $16 billion, the Institute said. Total yearly wages, salaries and "fringe" benefits will top $525 billion, up from $256 billion in 1958.

In its analysis of national income figures, the institute said since 1960 employers' contributions to private plans have risen at a much faster rate than payments into government plans, despite increased Medicare and Social Security payments.

IT ESTIMATED that in 1968, $45 billion will go to government plans (including $24 billion to Social Security) and $21 billion to private plans. The institute pointed out that employes' contributions to benefit plans are not included in these totals and that their payments into government programs alone are almost equal to the employers' contribution.

The report said that for every dollar of wages and salaries employers now contribute 10¢ to benefit programs for workers, as compared with 7¢ in 1958.

THE INSTITUTE cited several reasons for the expansion of fringe benefit payments. It "partly reflects the growth of the work force from 70,000,000 in 1958 to nearly 83,000,000 this year," the institute said.

Other factors for the growth, as cited by the institute, included seven years of economic expansion, improvement in productivity, upgrading of skills in work force, a 20% rise in price levels in the last decade and a higher proportion of Americans in the 65-and-older age group focusing attention on retirement planning. ■

washington watch

Assess future of private pension system after November election

WASHINGTON—The adjournment of the 90th Congress has prompted most Washington columnists to take up the task of reviewing the year's events and prognosticating the future. The private pension plan area is particularly suitable to this type of analysis because many moves toward stricter federal control of these plans were started while the 90th was in session but very few were finished.

The 90th Congress started two major pension bills down the legislative path—the administration's proposed amendments to the welfare and pension plan disclosure act and the labor department's omnibus bill to establish minimum federal standards for vesting, funding and reinsurance.

A substantially amended version of the disclosure bill, which the labor department charged was seriously watered down from the original, was reported out of the House Education and Labor Committee, but it failed to get a rule from the House Rules Committee and was never brought to the floor. The labor department's omnibus pension bill was not even heard on the House side.

THE SENATE Labor Subcommittee took up the omnibus bill along with the disclosure proposal but held only one day of hearings on the two. During the hearings Sen. Ralph Yarborough (D., Tex.) and Sen. Jacob Javits (R., N.Y.) each said he would try for a plank in his party's platform on pension reform.

Private pensions were not mentioned in the Democratic platform but it is probably a safe bet to assume that if Vice President Humphrey is elected both pension bills currently pending will continue to get Congressional consideration.

The Republican platform pledged that the party would "take steps to help improve and extend private pension plans." The key here, of course, lies with Richard Nixon's interpretation of the word "improve," and it is certain that Sen. Javits will be trying to convince him that the best improvement would be his own vesting, funding and reinsurance pension bill introduced in February, 1967.

One area which was just barely touched on in the 90th Congress but which will undoubtedly be the subject of debate in upcoming Congressional sessions is the growing power being placed in the hands of banks by private pension plans.

LAST SUMMER, Rep. Wright Patmen's (D., Tex.) powerful House Banking and Currency Committee released a 1,946-page report which raised a host of fascinating questions in this area and proposed some interesting legislation.

The report, entitled "Commercial Banks and Their Trust Activities: Emerging Influence on the American Economy," was primarily concerned with the phenomenal amount of wealth controlled by bank trust departments. But, it pointed out, one of the reasons for this great wealth has been the "dramatic growth" of pension and other employe benefit fund accounts.

According to the report, since 1955 pension fund assets have grown almost 400% from an estimated $27.4 billion to $100 billion at the end of 1967. Bank trust departments manage more than $70 billion of this $100 billion and will manage more than $200 billion of the $285 billion in pension fund assets expected to be available by 1980.

The report quotes a Columbia University law professor who foresees "a few hundred large pension trusts and mutual fund managers" controlling the hundred largest American industrial concerns, thus having the ultimate power to determine the management and to some extent influence the policy of the bulk of the business of America.

BESIDES RECOMMENDING that the entire trust business in the U.S. be studied carefully by a host of governmental agencies, the report specifically suggests a large number of proposals directly effecting pension plans including the consideration of creating a regulatory agency to assume jurisdiction over certain aspects of employe benefit plans.

Two regulatory blows were struck at the private pension plan system during 1968, either of which could prompt Congressional action in the 91st Congress.

The most important of these was the issuance by the Internal Revenue Service of its revised guidelines for the integration of pension plans with social security. The proposed new formula is extremely complicated but in oversimplified terms it would lower the maximum benefits receivable under integrated plans to 30% of wages above the new $7,800 Social Security wage base from the currently allowable 37½% of wages over the old $4,800 wage base.

The new formula was severely criticized in open hearings in September but it is expected that the final form of the ruling will be issued by the IRS soon in substantially the same form as the original proposal.

IF THIS IS the case the business community will probably either challenge the regulations in the courts or push for legislation which would exempt plans currently in operation from the new regulations.

Another move to further regulate private pension plans was made by the Equal Employment Opportunity Commission. In February the EEOC, which was set up to enforce the employment discrimination section of the 1964 Civil Rights Act, ruled that effective July 1, 1968, any pension or retirement plan which provides for a difference in optional or compulsory retire-

Continued on page 6

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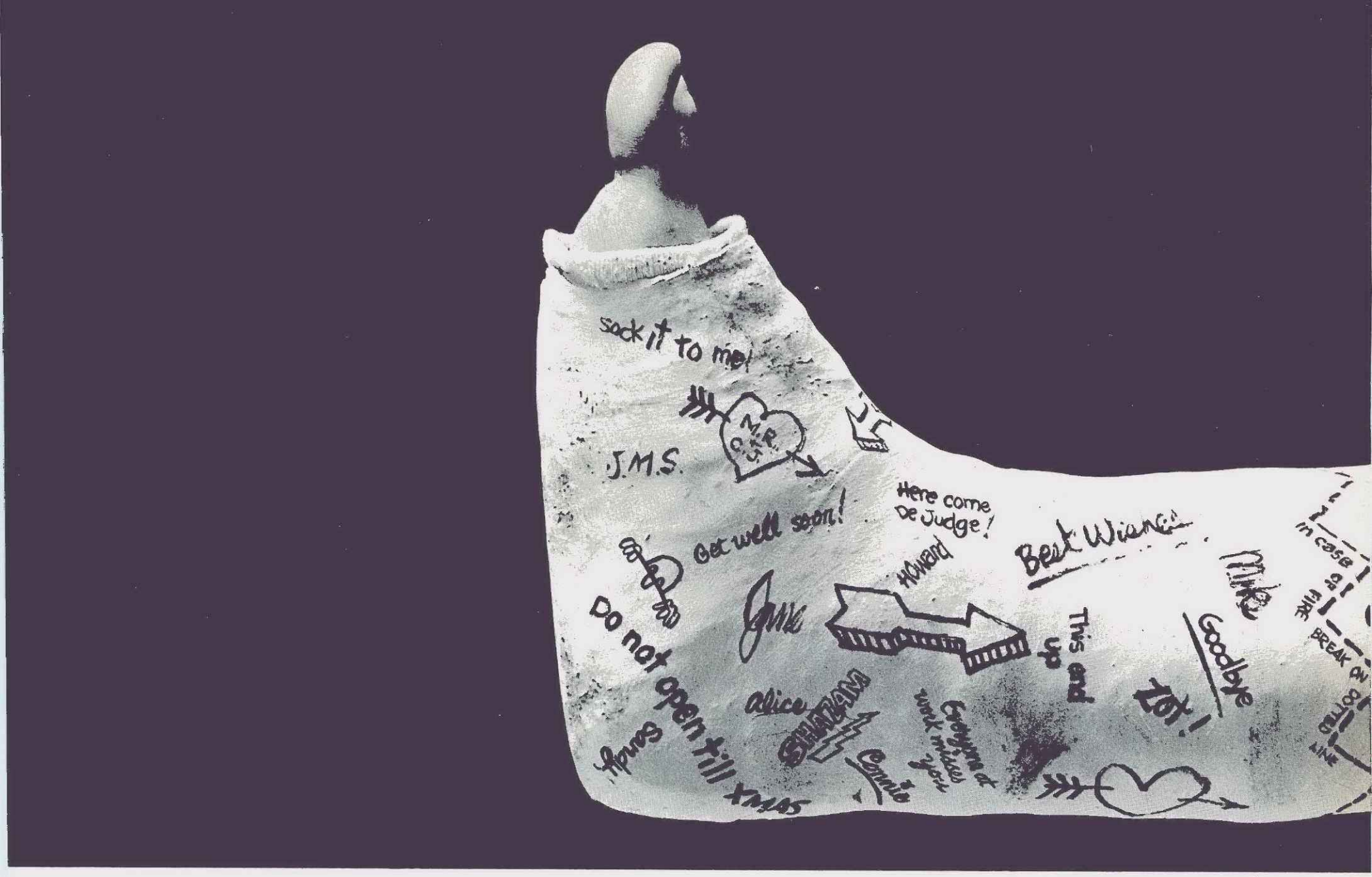

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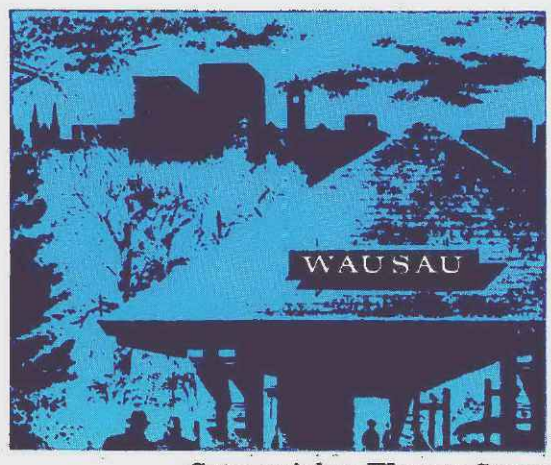

Get a painless Wausau Story for yourself.

Fringes outpace salaries, Purdue prof reports

NEW YORK—A Purdue University professor said here that high paying jobs have become so numerous that remuneration should be guided by tax planning considerations of one kind or another.

Wilbur G. Lewellen, associate professor of industrial management, Krannert Graduate School of Industrial Administration, said that those devices which tax considerations have been most influential in encouraging—pensions, deferred compensation, profit sharing, stock purchase plans and stock options—give rise to pay levels that are clear only upon quite extensive supplementary analysis. Mr. Lewellen participated in a two-day tax symposium here.

He referred to a study by the National Bureau of Economic Research which concentrated on the compensation experience of the top five executives in what are essentially the 50 largest industrial corporations in the U.S. Throughout the study two principles in particular were adhered to in making the necessary calculations.

MR. LEWELLEN told the symposium that "equivalence" between possible series of salary payments on the one hand and a given compensation scheme on the other should be defined in terms of the after-tax present values of the two, and, secondly, that every "current income equivalent" thus created should be designed so that it could be utilized as an alternative in an actual package of executive rewards.

In pointing to the study, he said that during 1950 the noncash elements of the pay package grew quite rapidly in importance. Salary and bonus from 1955 through 1963 accounted on an average for only one-third of the aggregate remuneration enjoyed by the highest paid executive in each of the 50 companies. For the top five executives combined, the corresponding was about 50%.

Clearly, he said, "salary and bonus payments no longer dominate the executive reward structure and indeed, are in most instances actually minority components of the relevant income flows."

Between 1955-63 such items as stock options, stock bonuses, stock purchase plans, profit-sharing plans and stock deferred-pay arrangements generated one-third to one-half of total pay.

JUST AS IT IS possible for a corporation to reduce the personal tax burden on its employes by judicious use of indirect rewards, so is it possible for the firm to realize considerable savings in the cost to itself of providing a given desired level of remuneration, he said.

Mr. Lewellen concluded that the process of "tax minimization" as an element in compensation strategies has had the intended result of keeping overall effective rates on the personal income of the recipients quite modest, simultaneously permitting firms to furnish substantial amounts of top executive remuneration at costs far below those with which they might otherwise have been confronted. ▪

Charge lack of cover for vote machines

ALBANY, N. Y.—A charge that Albany insurance companies will not issue policies covering possible liability of city-loaned voting machines for voter education programs has been leveled by the Albany Chapter of the National Assn. for the Advancement of Colored People.

At the chapter meeting, reports were received that refusal to grant insurance coverage is predicted on fear that damage suits might result against the City of Albany, which has contended that loan of the machines to the chapter is unconstitutional.

Refusal to lend the machines, sought more than a month ago by the chapter in a proposed campaign to educate inner city residents in voting routines, brought demands for action from members at the session.

A group was designated to petition Mayor Corning to use his power as ombudsman—receiver of grievances from citizens—to get insurance coverage for use of the voting machines.

Dr. Harry Hamilton, chapter vp, said no insurance companies contacted would grant coverage. An amount of $500,000 was specified, he said, because of the city's alleged liability.

The mayor, who has an insurance business, was not asked to sell the insurance, it was brought out, but he has not answered a request from the chapter president, Joseph Cohen, to assist in finding another firm to sell the insurance. ▪

Wash Watch...

Continued from page 4

ment ages based on sex will be in violation of the act.

Both the business community and a number of legislators on Capitol Hill objected strenuously to the ruling and the EEOC put off the effective date to October 1. On that date it went into effect slightly revised to permit a gradual adjustment of existing plans that provide for earlier optional retirement of women.

An attempt was made to get a bill passed which would nullify the ruling by permitting "reasonable differentiation between male and female employes in the terms and conditions of pension or retirement plans, provided that such plan is not merely a subterfuge to evade the purposes" of the act. The amendment would have applied to new plans as well as to existing ones.

The proposal ran out of time but had a lot of support on Capitol Hill and will undoubtedly be reintroduced in the 91st Congress. ▪

Portland merger set

Consolidation of two Portland, Ore., insurance agencies resulting in formation of Boquist, Bowen & Fisher has been announced by corporation principals Stan Boquist Jr., A. Thomas Bowen and Fred R. Fisher.

THIS NEWS PHOTOGRAPH DOES NOT NECESSARILY DEPICT AN ACTUAL CLAIM BUT ONLY THE TYPE OF MISHAP COVERED BY UTICA MUTUAL.

[redacted] N.Y.,---BUSINESS UPSET---This was the scene yesterday in the office of [redacted] local realtor after a boiler exploded in the room below. Floor and roof collapsed, trapping office equipment. There were no occupants in the building at the time of accident. [redacted] (wo3t594/8571kp) 1967

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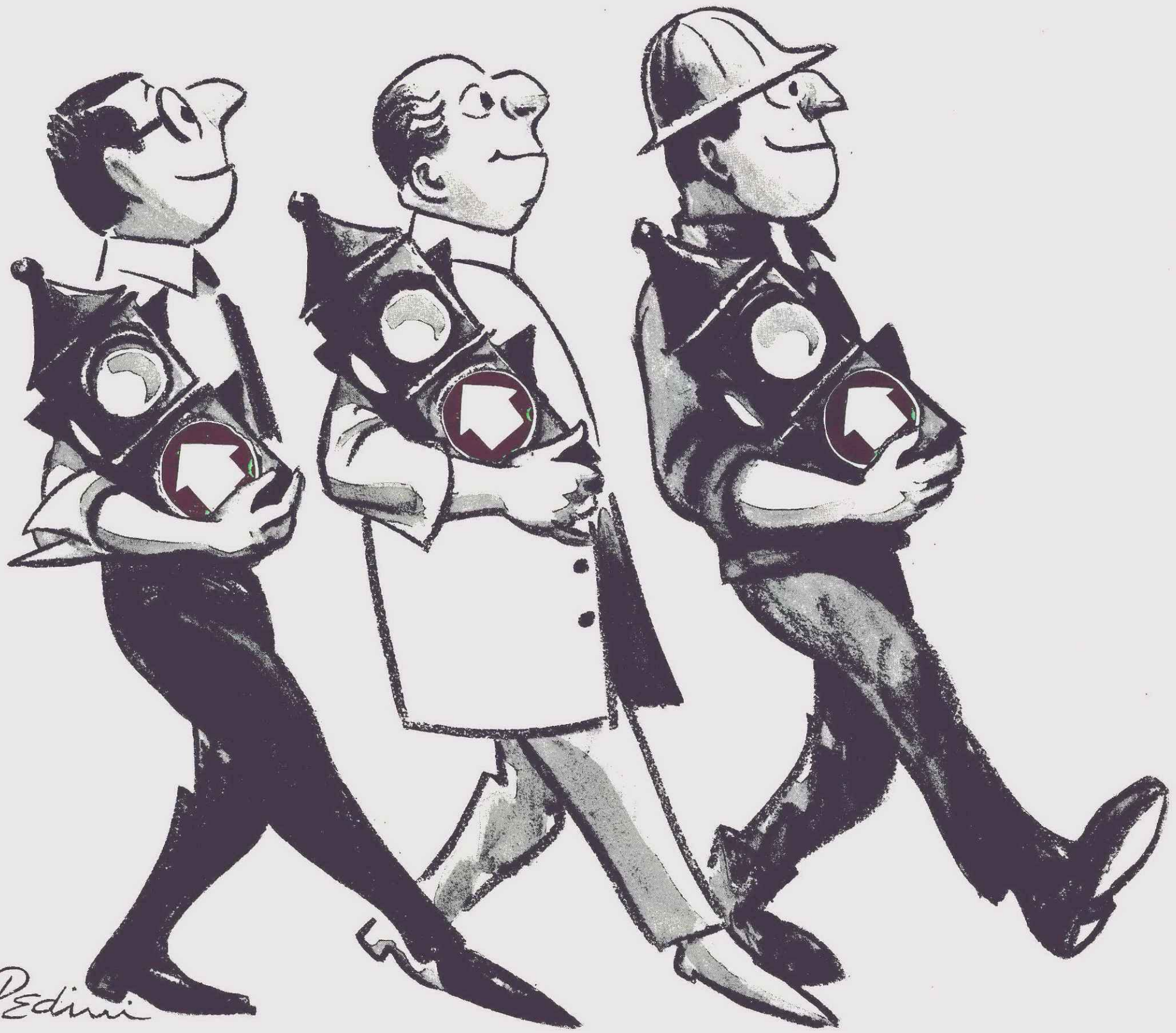
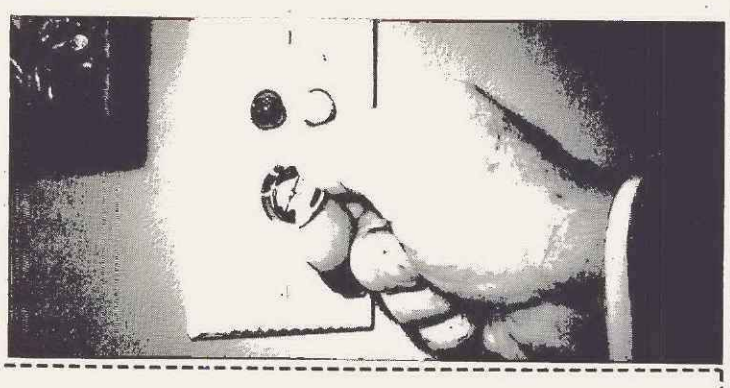


Here's the key to home security– and family peace of mind

An ADT residential burglar alarm system "sensitizes" a home against intruders. If entry is attempted, the system triggers an outside alarm, or silently signals an ADT central station or police headquarters. Occupants can summon police secretly with emergency call devices. ADT, long a leader in supplying protection services to business and industry, designed this new protection system specifically for home requirements. Regular maintenance is included in the low monthly service fee. For further details or free survey, phone your nearest ADT representative listed in the Yellow Pages under "Burglar Alarms" – or, for brochure, send coupon to:



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info for buyers

Info for Buyers offers material that *Business Insurance* believes will be of value to its readers. The complete name and address of each supplier of information is listed so that readers can write directly to the publisher, simply saying that they saw the item in *Business Insurance*.

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.

• A catalog and 12-minute record entitled **Instant Photo ID Systems** have been released by Avant Inc. The catalog gives detailed cost analyses for four basic instant photo ID systems, including the initial equipment, supplies and estimated labor involved. The record analyzes pitfalls to be avoided and is based on eight years' experience with more than 65,000,000 users to date. The information is available from the company at Box 38, Concord, Mass. 01742.

• The board of directors of the National Foundation of Health, Welfare & Pension Plans has made available copies of its seminar summary on **Reciprocity Portability.** The book discusses in detail two basic types of reciprocity, the "money-follows-the-man" type and "pro rata." A cost analysis of pension reciprocity and variations from the basic plans are also included. Cost of the book is $2.75 for foundation members and $3.75 for nonmembers. Write the foundation at P.O. Box 898, Elm Grove, Wis.

• **The Myth of the Hidden Alcoholic** reveals, through an industry example, the part others play in concealing the difficulties of an alcoholic. The pamphlet, useful as an employe handout or for benefits and safety managers may be obtained from the Chicago Council on Alcoholism, 6 N Michigan Ave., Chicago 60602.

• The many uses for a two-way radio, as a security measure for company guards or to cut down on driver mileage and therefore on costs, are explained in a General Electric Co. booklet, **What You Should Know about Two-way Radio.** The item, which describes operation and legal aspects, is offered by Section P of the company, Mobile Radio Business, P.O. Box 4197, Lynchburg, Va. 24502.

• A free bulletin, **Burglars or Vandals Can Break into Your Building Tonight!,** has been published by "Automatic" Vandalarm. The four pages explain a new approach to alarm systems using sound detection at points of entry. This method can detect mechanical failures and disasters as well as vandals. To receive a copy, write Mr. I. M. Sims, Mkt. Dir., P.O. Box 24207, Houston, Tex. 77029.

• Several films on traffic safety, crime prevention and training are presented in a brochure from Edcom Productions. All films are 16mm and can be purchased directly from Edcom or through the Highway Safety Foundation. The price listing is available from Mr. R. P. Daltron, sales promotion manager at Edcom, 285 W. 6th St., Mansfield, O. 44907.

• A series of informative booklets and brochures explaining benefits and features of mutual funds from the investor's point of view is available to insurance companies who have entered or are planning to enter the mutual fund field. A catalog and price list may be obtained from the Investment Co. Institute, 61 Broadway, New York 10006. The materials included are: Mutual Fund Fact Book; The Money Managers; Investing Made Easy; A Woman's Guide to Mutual Funds; Professional Money Management for the Professional Man through Mutual Funds; Planning Your Retirement through Mutual Funds; Mutual Fund Shares—An Aid to Profit Sharing and Pension Plans; Retirement Plans for the Self-employed through Mutual Funds.

• **If You Smoke** is a new pamphlet prepared by the National Clearinghouse for Smoking and Health. Used as an employe handout it would point out five positive steps to help slow down the harmful effects of smoking, while reminding smokers that these are merely a compromise and do not make smoking safe. Single copies are available free from the clearinghouse at 4040 N. Fairfax Dr., Arlington, Va. 22203. Quantity orders are 5¢ a copy or $2.50 per 100 from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

• A free collection of pamphlets is offered by the Phoenix Mutual Life Insurance Co. **Facts You Should Know to Help Your Growing Business** contains seven pamphlets dealing with partnership, key executives, pensions, HR-10, the sole proprietor, and profit sharing. They are free by writing the company's public relations department at One American Row, Hartford, Conn. 06115.

• **You REALLY Don't Have an Employe Drinking Problem . . .** presents seven pertinent facts on alcoholism and answers eight revealing questions about the disease. It is free by writing Mr. Duane D. Daggett, Mngr., Labor Relations Dept., Illinois State Chamber of Commerce, 20 N. Wacker Dr., Chicago 60606.

• **The FIAC Taxicon** is a check list to show an individual's tax liabilities in various pension and profit sharing plans offered by most employers. Prepared by the First Investment Annuity Co. of America, the brochure also describes investment annuities as an addition to pension plans. The chart may be obtained from FIAC, 1500 Chestnut St., Philadelphia, Pa. 19012.

• **What? Not Covered!** is a 50-page booklet which summarizes today's complicated insurance problems and offers a concise discussion of the principal hazards excluded or omitted from the newly revised liability insurance policies. Non-technical language is used to illustrate major gaps in general liability, automobile liability and umbrella excess liability policies and 40 examples of specific losses not covered, with suggested remedies, are given. The booklet is available, for $2, from the Mason Contractors Assn. of America, 208 S. LaSalle St., Chicago 60604. Quantity discounts are available and checks must accompany all orders.

• The St. Paul Insurance Cos. have published a booklet entitled **The St. Paul's Umbrella Excess Liability Protection.** The brochure explains the protection and is illustrated with a chart. It is free by writing Mr. Arne V. Brogger, Sales Promotion Asst., The St. Paul Insurance Cos., 385 Washington St., St. Paul, Minn. 55102.

• Employers Insurance of Wausau offers a pamphlet, **Self-analysis of Services You Should Be Receiving from Your Casualty Insurance Carrier.** It lists 16 questions prepared by the Associated General Contractors of America as a guide to services contractors should get from a casualty insurance carrier. It is free by writing Miss Mary Biwer, Adv. Dept., Employers Insurance of Wausau, 2000 Westwood Dr., Wausau, Wis. 54401.

• **The Story behind Underwriters' Laboratories Inc.** discusses the background and facilities of the organization and steps in testing for public safety and follow-up services. This booklet and a smaller one, **Facts about Underwriters' Laboratories Inc.,** are free by writing Public Information & Education Services, Underwriters' Laboratories Inc., 207 E. Ohio St., Chicago 60611.

• The **1968 Life Insurance Fact Book** contains industry aggregates which, in most cases, are complete through the end of 1967. Sources of data are tabulations of annual statements, surveys made by the Institute of Life Insurance, and statistics compiled by other life insurance organizations, commercial publishers and government agencies. Individual copies are free by writing Mr. Fred DeLuca, Mng. Dir., Institute of Life Insurance, 277 Park Ave., New York 10017.

• **Danger Is Your Companion** is a 16-minute, black and white, sound film for sale through your local chapter of the American Red Cross. It points out the possibility of accidents and shows what is being done to combat carelessness and to train people to give emergency first aid. Stock #321514, cost $24.75.

• The **Boeckh Building Valuation Manual,** a three-volume set, will help insurance managers make decisions on proper coverage and valuations without the help of outside counsel. Each volume discusses depreciation and valuation of land and includes information on land description and measurements. Material is organized according to occupancy and computer-produced cost tables reflect all unit-in-place costs converted to costs per square foot of floor or ground area. The complete set is $99. Individual volumes are: Vol. I, Residential & Agricultural, $38; Vol. II, Commercial, and Vol. III, Industrial & Institutional, $44 each. To order the manual or to get additional information, write the Boeckh Div., The American Appraisal Co., 525 E. Michigan St., Milwaukee, Wis. 53201.

• **Guide for the Family of the Alcoholic** is a 12-page brochure which explains the role of the family in rehabilitation of an alcoholic member. It attempts to aid the non-alcoholic in understanding and facing the serious illness and suggests how the destructive impact of the disease upon the family can be limited. Benefits managers may wish to offer this to personnel workers for use in counseling. It is free by writing Public Relations Dept., Kemper Insurance Cos., 4750 N. Sheridan Rd., Chicago.

U.S. buyers hit British package plan

LONDON—A scheme to package insurance rates on container shipments to Australia was nipped in the bud by British shippers who opposed the concept of sharing premium costs without regard to individual loss statistics.

The plan, which was also opposed by U.S. buyers and insurers interviewed by *Business Insurance,* would allow container operators to assume liability for cargo and to arrange insurance for an entire shipment by classification of cargo instead of letting the shipper buy coverage directly or through his broker.

Cost of the insurance would be absorbed in the shipper's transport rate, a factor which the shippers say leaves the door wide open for unrestrained buying of cargo coverage by container operators.

ALTHOUGH SOME London insurance groups quoted lower rates for the container package plan, most segments of the London and U.S. insurance industries opposed the plan.

A U.S. insurer, for example, rejected any development which restricts a buyer's right of freedom of choice.

Dale E. Taylor, exec vp of Atlantic Mutual, told underwriters at the International Union of Marine Insurance meeting in Monte Carlo that insurers should never lose sight of the fact that it is the buyer of insurance whose interests the industry seeks to serve.

"U.S. insurers should strongly support the right of all cargo shippers to seek insurance on such terms and conditions as they please," he said.

INSURERS ALSO pointed out that losses from improper packing could increase because the plan doesn't differentiate between a shipper who packs carefully and one who does not.

Overseas Containers and Associated Container Transportation, the two groups which devised the package plan, argue they are responsible for packing the cargo so it will be up to them to educate shippers.

Imperial Chemical Industries, a major British chemical shipper, said the sample rates presented by the container groups were higher than what it now pays. The chemical firm said its massive buying power and expert insurance departments accounted for low annual premiums.

The view of London buyers was supported by U.S. firms which maintained, for the most part, that insurance should be left in the hands of the individual company.

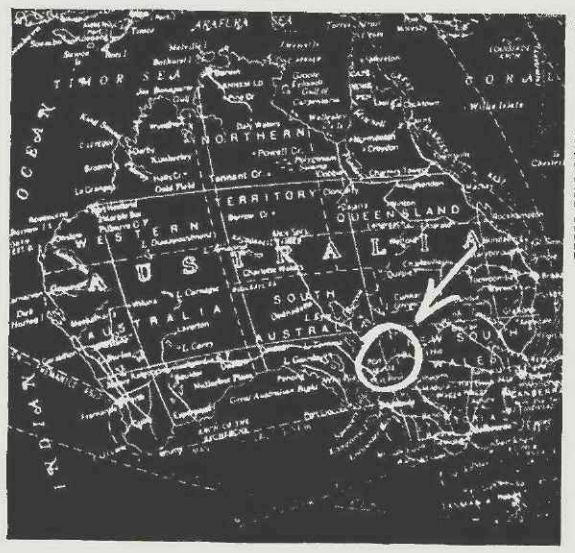
J. Harlan Christensen, insurance manager, Colgate-Palmolive, maintained that insurance buying is the individual shipper's responsibility.

COLGATE, which insures its cargo with a master insurance policy, is a major U.S. shipper of household products.

According to Mr. Christensen,

Continued on page 23

The farther away you build your plants, the closer to your insurance company you ought to be.



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Automakers force products liability on suppliers who can't get cover

by GEORGE YOUNG

NEW YORK—Efforts by automobile parts manufacturers to find insurance companies willing to write products recall coverage have failed amid actions by Detroit automobile companies to pass on recall losses to their suppliers.

Demands by the automobile companies to have their suppliers sign hold harmless agreements were cited as the main reasons why insurers are reluctant to assume liability losses which could become astronomical.

The hold harmless agreements, known as "no defect warranties," make suppliers liable for recall expenses which could be attributed to their products.

Although insurers such as Aetna, Fireman's Fund, Insurance Co. of North America and Kemper have turned down requests by the suppliers, one insurance source said the coverage could be made available on a catastrophic basis using high deductibles, possibly between $500,000 and $1,000,000.

"IT IS UP to the suppliers to get together and form a pool to cover the initial losses," said the source. "Once the deductible has been exhausted insurers would assume coverage."

Claims adjustments for losses absorbed by the suppliers could be handled by the insurance companies if requested," said the source. "Insurers would pay out losses from the pool and suppliers would be afforded the services of professional insurance adjusters."

Product recall losses, which threaten to put hundreds of small suppliers out of business, reached catastrophic proportions in the last two years when 5,800,000 cars were recalled.

The motives of Detroit in passing on a liability which could diminish the number of available parts manufacturers was questioned by one legal source.

"WHILE SAFETY is a concern of automobile companies," he said, "it is unusual for an industry to take a chance on having the number of its suppliers reduced."

Detroit motor companies are going to great lengths to improve the quality of their products, although much of the hulabaloo is a result of government pressure to tighten safety standards within the industry.

"Specifications by the motor companies to improve quality of parts have never been as stringent as they are now," said a spokesman for McCord Corp., Detroit, a supplier of automobile parts.

Other factors in promoting safety are Ralph Nader's consumer protection crusade and the National Traffic Safety Bureau's move to include long-term reliability in federal safety standards.

The Federal Safety Act of 1966 imposed on automobile manufacturers certain liabilities for "any defect" in any motor vehicle or part which "relates to motor vehicle safety."

A spokesman for the Metal Treating Institute said the act is "impractical" in requiring "no defects" relating to auto safety.

"Aside from the inevitable cost involved in complying with the strict requirements of the act, the suppliers may be subjected to a potential liability for any single defect later discovered.

"Defects are inevitable, regardless of the quality control standards and sampling specifications established by the automobile companies.

"No sampling method yet devised can eliminate the possibility of defects. A supplier by giving an express warranty subjects himself to a potential liability which can reach astronomical proportions," said the spokesman.

AN EXAMPLE of an effort to improve quality is a program imposed by General Motors on its nuts and bolts suppliers called "source performance, evaluation, and reporting (SPEAR), which it was said has greatly reduced the number of parts rejected.

In addition, both GM and Ford are sending teams of inspectors to the parts manufacturers' plants to check for compliance with new quality standards. While suppliers contend it is raising their costs, the overall effect has been an improvement, according to a GM spokesman.

Ford, in its efforts to pressure parts manufacturers to raise safety standards, forced Midland-Ross, Cleveland, a brake supplier, to pay almost half the cost of recalling 217,000 cars because of faulty brakes.

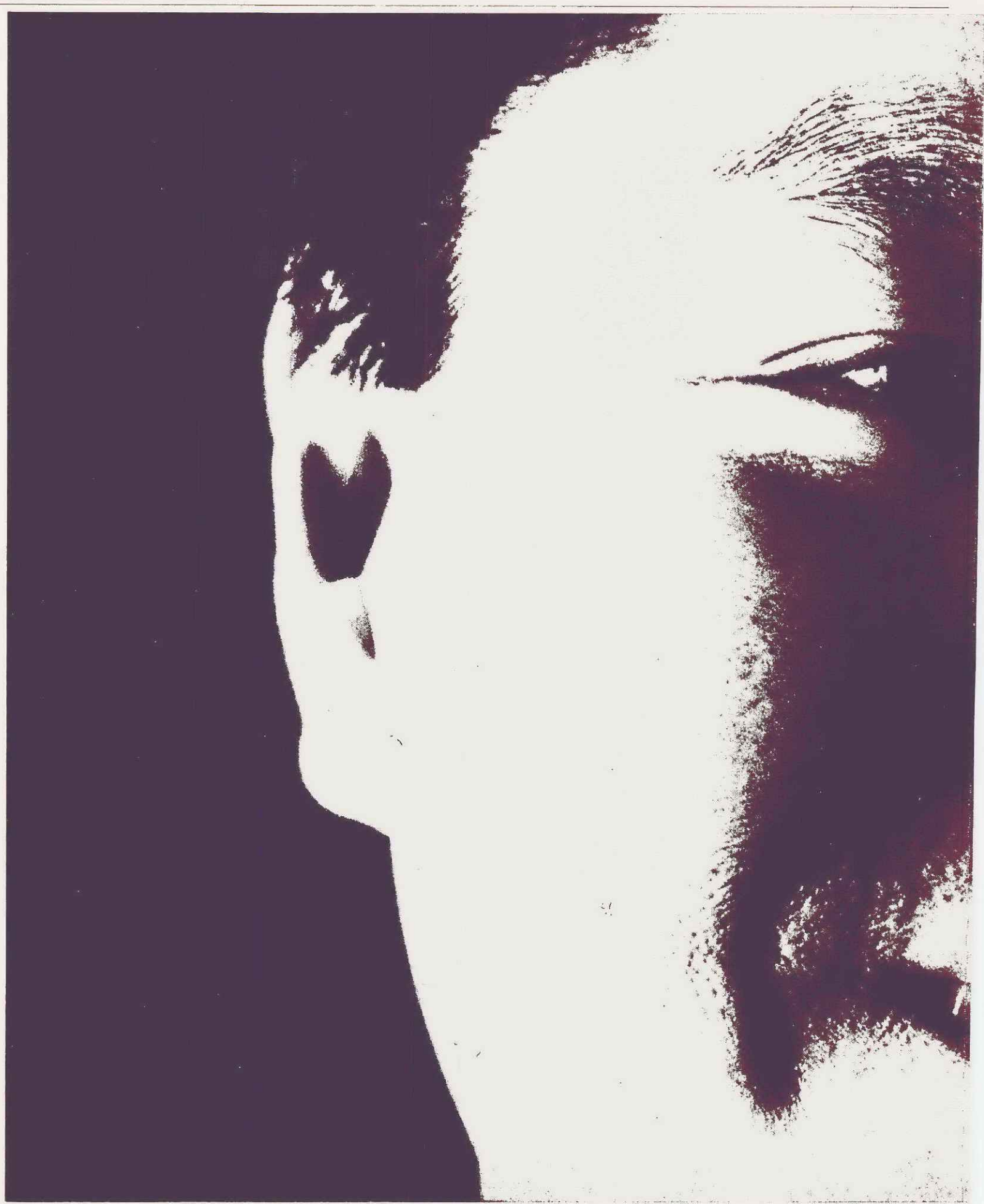
Government pressure to improve safety has resulted in some of the 5,800,000 cars and trucks having been recalled during the past two years, which represents another reason insurers are wary of products liability coverage, in addition to the difficulty in proving why a car has to be recalled.

FOR EXAMPLE, it is possible for a parts manufacturer to build a sturdy, safe piece of equipment, but engineering deficiencies at the automobile company plant could make the product defective after it is installed.

This was pointed up at GM, when an accelerator linkage in its Corvair model was of superior quality but too large for the space available, thus causing the accelerator to stick.

Many of the questions regarding ultimate liability will have to be resolved in the courts, said a spokesman for a nuts and bolts manufacturer.

"Court awards for product liability are soaring," he said. "It is a matter of setting precedents to decide how much liability is at stake for each party involved in the making of a car." ▪



Vandiver named president of Mayfield adjuster firm

D. S. Vandiver has been named president of T. M. Mayfield & Co., insurance adjuster, Charlotte, N.C. Mr. Vandiver, who has been with Mayfield since 1941, will continue to serve as manager of the Anderson, S.C., office. T. M. Mayfield is chief executive officer and chairman.

T. M. Mayfield Jr. has been elevated to vp of the firm in addition to his job of secretary and manager of the Charlotte office. W. A. Mayfield is treasurer and manager of the Charleston office.

Lawyers tell officers, underwriters, accountants how to side step liability

By ROBIN MENZ

NEW YORK—Prominent attorneys from across the country provided practical hints for directors, officers, underwriters and accountants to follow in order to avoid liability in financial transactions and stock offerings.

Impetus for an American Bar Assn. meeting on prospectus liability came from several recent court decisions, such as BarChris, Texas Gulf Sulfur, Globus, Merrill Lynch, Pierce, Fenner & Smith and Glen Alden, in which it was alleged that corporate personnel and outside consultants engaged in improper conduct in the sale of stock.

The BarChris and Globus cases, handed down this summer, held that everyone connected with the stock offering—including corporate officers and directors, accountants and the underwriters—were equally liable for any false information contained in the stock registration. The other cases involved the impropriety of giving out "inside" information about a company's financial status to some and not to others.

SEVERAL SPEAKERS referred to indemnification and insurance protection available to directors and others involved. Milton P. Kroll, of Freedman, Levy, Kroll & Simonds, Washington, identified as one result "a heightened interest in the utility of indemnification provisions and liability insurance as a means of minimizing the risks which the decided cases present for directors and others."

He criticized the available D&O policies as too costly, subject to perplexing interpretive questions and thus far difficult to obtain, particularly for the smaller corporation.

However, he said the recent triumvirate of highly publicized cases emphasizes the severe risks of securities law liabilities to which directors and underwriters are subject and for which the indemnification device may offer no protection.

Consequently, he acknowledged that insurance, to the extent available, ultimately may provide the best answer, although this area is not yet sufficiently developed to afford any certainty.

A number of attorneys repeatedly emphasized the need for thorough investigation of the prospectus by underwriters, directors—inside and outside—and accountants. The recent decisions have broadened the liability exposure of outside directors and accountants.

Jack M. Whitney II, of Bell, Boyd, Lloyd, Haddad & Burns, Chicago, pointed out during his talk that an underwriter could require an issuer to provide SEC liability insurance. As an example, he explained that when a controlling stockholder decides to sell he may be required to purchase such coverage.

HE CRITICIZED THE SEC liability insurance as being too expensive and the coverage as being "jelly like" and "insecure." The insurers, he said, are highly selective, with one underwriter having a record of never paying a claim.

As possible alternatives, he recommended either self insurance or a cooperative insurance program set up by the American Bankers Assn. of America.

A Philadelphia lawyer told his audience that he wasn't retiring from any board because of the BarChris case. Thomas G. Meeker, of Schnader, Harrison, Segal & Lewis, recommended that directors not merely rely on the minutes or resolutions of a board meeting but look at what's done with the minutes and take notes of his own.

Mr. Meeker said that "outside directors set the tune and level for the board" and offered suggestions to board directors. For one thing, he urged directors to read what they sign, verify accuracy of registration statements, look at exhibits and be familiar with minutes of the corporation and keep abreast of developments.

Carl Schneider, of Wolf, Block, Schorr and Solis-Cohen, Philadelphia, advised counsel to make an effort to explain the potential liability to all parties involved. He suggested that every director be exposed to drafting or discussion sessions of the prospectus, giving him an idea of the seriousness of the project at hand.

ONE SPEAKER contended that the BarChris case established nothing new in principle or application of principle but pointed out that the courts have "set up a step ladder as to reasonable investigation." He said that in the BarChris case the outside directors made no investigation, even though the facts were easily and readily available. The case further brought to light that the accounting firm also didn't do enough.

F. Arnold Daum, of Cahill, Gordon, Sonnett, Reindel & Ohl, New York, said the decision has gone to great lengths to spell out that officers and directors can't rely on second-hand opinion but must read documents themselves. "They can't rush through the prospectus, but need the time to go over contracts, financing, etc."

A. A. Sommer Jr., of Calfee, Halter, Calfee, Griswold & Sommer, Cleveland, described accountant's liability in general and as it relates to federal securities laws, namely the Securities Exchange Acts of 1933 and 1934.

In this case, the accountant, Mr. Sommer said, failed to read the prospectus, the interim statements and minutes given him

Continued on page 23

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opinions

A risky proposition

We view Vice President Humphrey's suggestion to finance part of a 50% increase in Social Security out of general government revenue as an extremely risky proposition.

Once the flood gates are opened, employe benefits men interviewed by *Business Insurance* pointed out, it's extremely difficult to keep expenditures in check. Indeed, Ray M. Peterson, retired vp and associate actuary of Equitable Life Assurance Society, worried that once Social Security is funded out of general revenue, "we're off to the races and things would tend to get out of control."

Expenditures from general revenue would probably start off gradually, Mr. Peterson said, "but once you have an uncontrolled expenditure you're stuck with it."

Another result of escalating Social Security, many benefits men predict, would be a de-emphasis of private pension plans, especially for lower paid workers.

As Robert E. Royes, secretary of the employe benefits committee of AT&T, told us about a year ago, major increases in Social Security "would seem to call for a re-examination of private plan provisions." If big Social Security boosts continue, Mr. Royes said, a company would be "well advised to take a look at the total benefits picture to see if too much money is in the retirement area."

Benefits men point out that Social Security was originally intended to provide a "floor of protection" for workers but that the current governmental thinking seems to go considerably beyond this concept. They warn, however, that once this "floor" is raised, costs can go sky-high.

The Republicans, in their convention platform this summer, pledged to "take steps to help improve and extend private pension plans." Richard Nixon has joined Hubert Humphrey in pledging to increase Social Security benefits by tying payments to cost-of-living advances, but so far he hasn't said much about how he'd go about strengthening private pensions.

He did say, as part of a general statement discussing the problems of the elderly, that he will encourage private retirement programs to provide for earlier retirement on a voluntary basis with reduced benefits "in order to give greater freedom to the individual worker and more flexibility to employers."

This pledge sounds to us like so much campaign rhetoric. We sympathize with Mr. Nixon's reluctance to discuss the specifics of how he would get us out of the Viet Nam mess (but we have confidence he can do it; that's the major reason why this publication supports Mr. Nixon's candidacy).

But we can conceive of no such overriding reason to keep mum on the private pension problem. We think it's reasonable to base Social Security increases on fluctuations in the consumer price index, but we believe that anything more would add to the inflationary spiral.

Private pensions, we contend, can take some of the heat off government-sponsored retirement programs and they should indeed be encouraged.

The employe benefit "lobby" wants to know how you'll do it, Mr. Nixon.

business insurance

for buyers of employe, property and liability protection

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WORK ACCIDENT COSTS

Total cost, 1967	$7,300,000,000
Visible costs	3,200,000,000
Other costs	3,200,000,000
Fire losses	900,000,000
Cost per worker	95

On-job accidents cost U.S. employers more than $7.3 billion last year, an increase of 7 per cent over 1966. This figure does not include property damage in accidents except for direct losses from fire. Visible costs include wage losses of $1.5 billion, insurance administrative costs of $900,000,000 and medical costs of $800,000,000. Other costs include the value of time lost by workers other than those who suffer injuries and such factors as time required to investigate accidents and write up reports

Source: National Safety Council

Rebuttal

In our Letters column, there is a letter to the editor from J. M. White, vp and assistant general manager, Lumberman's Underwriting Alliance, Kansas City, Mo. We invite your attention to the letter because Mr. White comments on an editorial that appeared on these pages September 9 regarding the cancellation of an insurance policy for the Douglas Lumber Co., in the heart of the Chicago West Side ghetto.

With regard to the letter, *Business Insurance* did have both sides of the story. It is a short-sighted business that fails to take into account the sociological effects of its action. This very short-sightedness is one of the primary reasons that the insurance industry is beset with so many federal and state investigations into its business practices and a rash of unfavorable editorial comment across the U.S.

The short-range business leverage gained by cancelling coverage in ghetto areas by some insurance companies will, we contend, fall far short of the long-range advantages to be gained by taking the needs of society into consideration. The public service role which insurance companies must play in a free society must be constantly realized.

It should be noted that the LUA action in the Douglas matter took place at the very time that the insurance industry requested and obtained a riot reinsurance program operated by the federal government's Housing and Urban Development Department.

The LUA is content to congratulate itself on having cooperated with the lumber firm "to an extreme," noting that other insurers would have granted a six-month grace period. *Business Insurance* is happy to run Mr. White's letter in full to allow the carrier an opportunity to state its case. However, we stand by our position that insurance companies have a public trust that must temper their natural inclination to maximize profits. We contend that insurance companies must abandon a "public-be-damned" attitude in favor of an outlook that takes the public good into account.

It is no longer sufficient to say: "What is good for business is good for the country."

Special 'Info' section

As a result of the hearty response *Business Insurance* has had to its Info for Buyers column—an estimated 30% of the listings have received 300 or more requests—our December 16 issue will contain an entire section devoted to "Info" listings. In addition to the new items regularly offered, we plan to also list the most asked-for materials of previous issues for the convenience of insurance buyers who may have missed them.

In order to handle more efficiently the large number of listings, each item will be numbered. Coupons will be provided throughout the round-up so that readers may make their requests directly to *Business Insurance*. All companies and associations will be contacted to make certain that their literature is still up to date and available to the public.

Info for Buyers is devoted to keeping corporate executives aware of up-to-date information on the various risk management problems with which they deal, covering all facets of employe, property and liability protection. The special round-up of information in the December 16 issue will be categorized under headings such as: Security; Physical Safety; Cost-cutting; Property; Liability; Life, Health and Pensions; and many others.

Samples of literature pertinent to our audience are always welcome for review by our editors. In some cases, we blush to admit, the response has been somewhat overwhelming, as evidenced by this letter from Northwestern National Life Insurance Co.: "The response has been very gratifying and we are now attempting to fill the hundreds of requests for information. We would like you to withdraw this material for a few months to give us an opportunity to catch our breath."

letters

'Captive' exists

To the Editor: I read with interest the editorial in the September 23 issue of *Business Insurance* titled "A way out of the high risk gamble." I was glad to see that you had endorsed Mr. Hewitt's suggestion that industry needs a multi-industry captive insurance program.

Might I point out that it is not necessary for industry to set up such a captive insurance company or group of companies, since they are already in existence. The Factory Mutuals were set up by industry more than 100 years ago. They are controlled by industry, as a review of their boards of directors will demonstrate to your satisfaction. They are operated in the interests of industry, with emphasis on cooperation in loss prevention, and have been reasonably successful in providing capacity, even in modern times when large risks seem to become gigantic.

Perhaps the solution to the capacity problem is simply to have more of industry turn to the Factory Mutuals for insurance coverage. In this way new premium deposits will add to the resources of these companies and make it possible for them to provide even more protection.

Ambrose B. Kelly
General Counsel, Factory Mutual System, Providence, R.I.

Insurer's side

To the Editor: We compliment you on the excellence of your publication and we appreciate the fair and impartial news items you have published with respect to our company.

However, the editorial "Poor public policy," in your September 9 issue, causes us to feel that you should have had both sides of the controversy in order to editorialize more fairly.

Any successful business must always recognize, as we do, the importance of good public relations. But to be successful, a business must be operated primarily on the basis of sound business practices. These practices cannot be sacrified, even for sociological or public relations purposes.

The Lumbermen's Underwriting Alliance (LUA), organized in 1905 by a group of lumbermen. was intended to serve the insurance needs of the lumber industry. Those lumbermen desiring the services of the reciprocal exchange had to qualify their properties for membership. The policyholders own this reciprocal organization. The premiums they pay into the reciprocal belong to them. Losses paid by the reciprocal are paid out of the policyholders' funds. The management company, U. S. Epperson Underwriting Co., is appointed by the policyholders to operate the insurance business for them. That management company operates as a trustee of the policyholders' funds. If it were improperly to endanger such funds, it could be charged with poor management and a violation of its trust.

The reciprocal exchange has been able to operate successfully for over 63 years in handling insurance needs for thousands of lumbermen because of its adherence to good sound business practices and by providing an excellent fire prevention and fire protection engineering service to its members.

It is true that LUA is "exceptionally well prepared to meet

Continued on page 23

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Prof roasts cities for 'lax' insurance buying practices

ATLANTA—Municipal governments have been called lax for not utilizing effective risk management techniques, according to a speaker at the annual meeting of the American Risk Insurance Assn.

In the last 20 years municipalities have increased their assets, diversity of activities and liability without a corresponding updating of management concept, according to Jerry D. Todd, assistant professor of finance, University of Texas. "The risk management specialty has yet to emerge from the role of insurance purchasing in most municipalities," he said.

In a research report presented to the group, Mr. Todd concluded that:

- Seventy-eight per cent of municipalities surveyed have no written policy statements concerning insurance matters;
- In almost half the municipalities, either the city council or city manager (or mayor) alone determines city policy on insurance practices;
- Only nine of 158 municipalities surveyed indicated they had an insurance manager;
- Only about half the municipalities collect loss statistics for property losses or liability judgments; and
- Large numbers of municipal officials are unaware of the extent of their exposure to liability.

Citing inadequate administrative practices, the Texas educator said municipal officials must begin to realize the need for insurance specialists, not just insurance buyers.

"If municipalities are going to eliminate large, unplanned-for losses at reasonable costs to the taxpayer, they will have to recognize the risk management concept," said Mr. Todd. ■

Association-type group cover hit

SAN FRANCISCO—The National Assn. of Life Underwriters has expressed "deep concern" over the "indiscriminate writing" of association-type group insurance.

In a resolution the group noted that "the failure, rate increases, benefit reductions and cancellations of many of these plans cause undue hardship, ill will and poor public relations." ■

Ohio study shows cancellation pattern exists in ghetto areas

COLUMBUS, O.—Inner city residents and businessmen face a definite problem in obtaining property insurance, a legislative study committee heard from a state insurance department staff member here.

Reporting on a six-month study by the insurance department of cancellations of property insurance in the state, Joe Gilmore, the staff member, said just over 15% of the 6,508 cancellations occurred in Cleveland and of these, nearly 73% were on properties in the inner city.

Any conclusions drawn from the figures, Mr. Gilmore said, should be tempered by the fact that physical deterioration of property is present as well as the possibility of civil disorders. He also noted a reluctance on the part of inner city dwellers to cry out when they are denied insurance and said this could have a bearing on the question of availability of insurance in the inner city.

THE INSURANCE department survey found no evidence of insurance being denied on racial grounds, Mr. Gilmore said, but Sen. John W. E. Bowen (R., Columbus) said he doubted this.

Sen. Bowen cited a case brought to the committee's attention in which insurance on property owned by a white person was increased from $45 for three years to $155 for one year within a few days after it was sold to a Negro. He said the incident occurred in Cleveland.

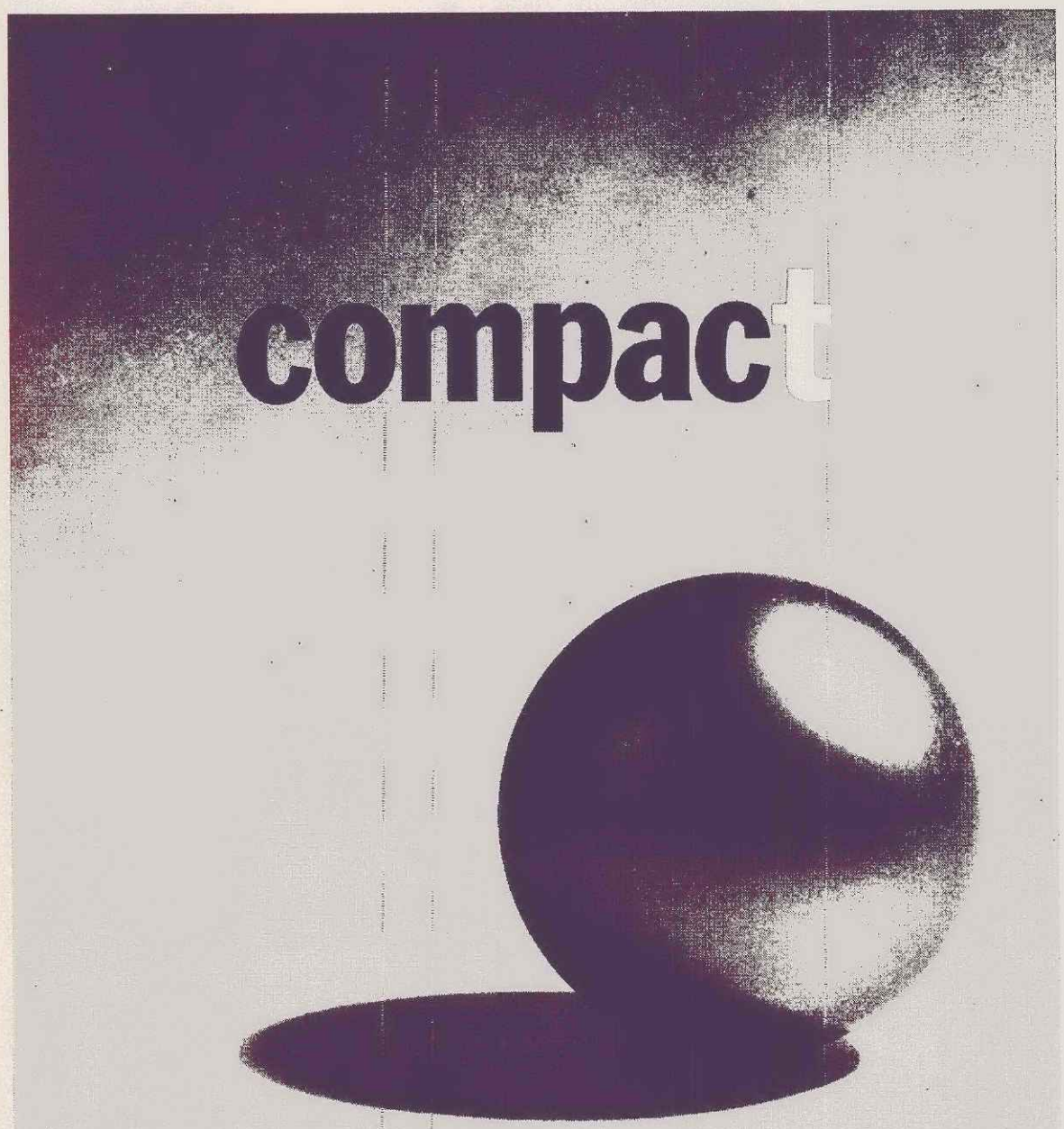
The committee spent most of the day listening to conflicting testimony from insurance company representatives on what the state should do to assure the availability of insurance to inner city residents.

UNDER THE FEDERAL Urban Property Protection and Reinsurance Act, which became effective Aug. 1, the framework is provided for insurance companies to be reimbursed for losses sustained through riots. To qualify, Ohio must have an interim plan by Oct. 29 for providing insurance for insurable property.

An interim plan is being developed by the state insurance director, in cooperation with the insurance industry, and the General Assembly will be expected to adopt some formal legislation when it convenes next year if Ohio is to continue in the federal program.

Proposals advocated by the various witnesses included an assigned risk plan in which participating companies would be required to insure risk properties on a rotating basis; a pooling plan in which all companies would contribute to a central fund for the insuring of risk properties; and a two-pool plan, one for residential properties and one for commercial.

Proponents of the assigned risk plan said that the pool plan would create a super insurance company and would encourage companies to indiscriminately cancel or refuse risk policies and dump them into the pool. ■



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Shippers' premiums increase, but insurers' profits down in '67

MONTE CARLO—Although buyers of hull and cargo insurance paid higher premiums in 1967, insurers say their profits were inadequate because of poor underwriting results.

The comparisons were drawn from reports presented at the 23rd annual meeting of the Council of the International Union of Marine Insurance here, a group of 35 members representing insurers in 33 countries.

For the most part the sagging profit picture reflected a Lloyd's of London report which showed that 1967 had the highest number of peacetime ship disasters.

The report indicated fire and collision losses decreased, while wrecks involving 146 ships represented an increase from 276,139 tons the previous year to 464,608 tons.

THE AGENDA AT the international marine insurers meeting also included reports on containerization, the ocean hull market, safety and cargo handling, liability, loss prevention, nuclear insurance and the growth of supertankers.

It was generally conceded by marine insurers that buyers will have to pay more for hull and cargo insurance if repair costs, devaluation problems, and heavy losses continue to rise.

Other reports stressed the following factors as paramount to the success of marine container insurance programs:

- Higher standards of container construction;
- Inspection and maintenance of containers while in use; and
- Simplified documentation, including clarification of the carriers' liability to achieve maximum economies.

As to stowage of goods in containers, a committee stated that "underwriters' loss and damage experience increasingly emphasizes the urgent need to educate shippers on how to use containers."

THE REPORT said "everything that underwriters have been doing to advance cargo loss prevention with shippers, carriers and others must now be vigorously extended to container transport."

Niklas Kihlbom, a Swedish property-casualty insurance executive, accused marine underwriters of being guilty of a "big blunder" by confusing the public on insuring cargo in containers.

According to Mr. Kihlbom, the insured bill of lading concept is not a "major innovation" as it has been hailed.

Insuring a buyer's cargo in a container has to be fitted to individual needs, right up to the point at which the risk is reported to the insurers, he said.

Dr. P. Graf, General Insurance Co., Switzerland, said marine insurers should support the revisions in the 1924 Hague Rules on carriers' liability in the interests of cargo insurance buyers.

THE REVISIONS, which are up for approval in the U.S., basically increase a shipowner's liability for goods in containers and redefine what constitutes a package.

The American Institute of Marine Underwriters, a group representing U.S. marine insurers, said improved underwriting should produce "some measure" of fair results in 1968.

Carl McDowell, exec vp, said "restoration of a pay-as-you-go basis, which will enable total and major losses to be met out of premium earned in the year of their occurrence, must be achieved if hull underwriting is to be restored to a sound footing."

Coming to grips with the problems of the giant supertankers, underwriters said they should carry more premium because of the increased exposure.

However, a Canadian insurer pointed out that rates have not increased for most companies using the giant tankers.

UNDERWRITERS from the British and Belgium markets told the international gathering that claims for negligence and incompctence of the crew, especially on new supertankers, were rising. The inexperience of operating personnel was cited as one reason for increasing losses.

Leonard A. Locke, a British underwriter, pointed out that the need for crew members is increasing because of a record number of new tankers being built or already underway.

Underwriters are faced with setting premiums for larger and more complex risks before they know if they have rated the smaller counterparts correctly, said Mr. Locke.

According to the British insurer, there is "less spread of risk and an increasing concentration." ▪

Oglesby-Pallay and Fred S. James join

The business of Oglesby-Pallay and Co., Chicago consultant firm, has been consolidated with Fred S. James & Co., nationwide insurance broker and consulting firm headquartered in Chicago.

The principals of the merged firm, now vps of Fred. S. James, are John N. Oglesby and Douglas J. Pallay. Formerly employe benefit plan specialists, they will expand their activities to include all other areas of insurance. Mr. Oglesby has had extensive experience with Liberty Mutual, New England Life and Johnson & Higgins of Illinois. Mr. Pallay was previously with Continental Casualty and Merrill W. MacNamee insurance agency.

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Products liability clause held not to cover firm's breach of guarantee

TALLAHASSEE—A Florida court has ruled that despite a "products hazards" provision, Escambia Chemical Corp.'s comprehensive liability insurance policy did not cover a judgment obtained by a customer because the firm's fertilizer failed to live up to its guarantee.

Escambia represented and guaranteed that its liquid nitrogen fertilizer was as effective and would produce the same results as a competitive dry fertilizer. Under contract with a customer, Escambia furnished and applied to a part of the customer's farm acreage the liquid fertilizer. Another portion of the same farm's acreage was fertilized by the dry type of fertilizer. The corn acreage fertilized by Escambia's liquid product produced a yield substantially less than comparable acreage treated with the competitive dry product.

The customer sued Escambia and secured a judgment representing the damages suffered by him because of Escambia's alleged failure to deliver the product contracted for and capable of fertilizing the customer's corn to the extent and degree of the representations and guarantees made by Escambia as an inducement for the contract. Escambia then sued U.S. Fidelity & Guaranty for declaratory relief, claiming that the judgment paid by it constituted a loss or damage covered by the property damage liability clause of the policy, which reads as follows:

"TO PAY on behalf of the insured all sums which the insured shall become legally obligated to pay as damages because of injury to or destruction of real or tangible personal property during the policy period, including the loss of use thereof, resulting from an occurance."

The Florida First District Court of Appeal noted that the word "occurrence" was specified in the policy to mean "an unexpected event or happening" or a continuous or repeated exposure to conditions, provided the insured did not intend or anticipate that injury to or destruction of real or tangible personal property would result. All exposures to substantially the same general conditions shall be considered as arising out of one occurrence."

The trial court specifically found that the money judgment secured by the customer against Escambia because of breach of contract was not a loss or occurrence within the intent and meaning of the policy provision. The appellate court agreed.

ESCAMBIA contended that the cause of action which resulted in the judgment against it was based on the theory that the liquid fertilizer furnished was defective. As a result of this it failed to produce the anticipated yield which it normally should and would have except for its defective condition. Upon this premise, Escambia argued that its loss resulted from an accident and came within the products liability clause of the corporation policy.

However, the court noted that the action was based on breach of contract and that: "There is no contention by the customer that the product furnished by appellant was so defective as to injure either the customer's person or property, or that this loss resulted from an accident of any kind or nature. Under these circumstances we agree with the trial court that appellant has failed to clearly demonstrate that its loss falls within the intent or purpose of the products liability clause of the policy sued upon. For the foregoing reasons the judgment appealed herein is hereby affirmed." ▪

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Says products liability fastest growing area

SAN FRANCISCO—Products liability has become the "fastest growing" area of liability law, delegates to a seminar sponsored by the American Trial Lawyers' Assn. were told here.

Prof. Thomas Lambert Jr. told the products liability attorneys that their specialty "is second in importance only to the fender bumper, and has even pulled ahead of the slip-and-fall phase of law practice."

MR. LAMBERT, a law professor at Harvard, credited the "fantastic growth" to the increase in the variety and complexity of manufactured goods.

"Other reasons," he added, "are landmark legal decisions in California and some other states that have held that a manufacturer can be sued for a defective product even if he was not negligent in its manufacturing.

"This theory of strict liability," he said, "means that the lawsuit is no longer an inquest into moral fault. You don't stigmatize the defendant. He's still a fine man. He just made a defective product!" ▪

Construction firm installs group life plan

NEW YORK—Underpinning & Foundation Co. Inc. has installed a group life and major medical plan for its salaried employes, according to Sidney P. Gilbert, president of the construction company.

"We've carried Blue Cross and Blue Shield for years" Mr. Gilbert said, "but we realize that the coverage falls short of our overall requirements."

National Preferred Risks Inc., a Great Neck, N.Y., insurance broker, placed the business with New England Mutual Life Insurance Co.

MR. GILBERT, an authority on underground rivers and waterways in Manhattan, is a "firm believer" in life insurance and carries a "substantial" amount of key-man protection.

The major medical will pay up to $15,000 maximum with the 80/20% co-insurance clause. There is a cash deductible of $100. The life insurance pays up to a maximum of $25,000.

Underpinning is also considering adding a salary continuation plan, as further means of protection. ▪

Company exec 'uneasy' about riot plan, capac U.S. regulation

NEW ORLEANS—[illegible] several k[illegible] about several property-liabil[illegible] expressed [illegible] tives ind[illegible] in [illegible]pand [illegible]'s not [illegible]shrink- [illegible] toward [illegible] the pur- [illegible]panies by [illegible]

• There may be widespread "dumping" of undesirable commercial and residential property risks as a result of the hastily contrived riot reinsurance program under the Department of Housing and Urban Development which brought about the organization of FAIR insurance facilities in various states.

• A dual federal-state insurance regulatory system is inevitable as Washington moves to investigate and possibly to control the insurance business, especially auto insurance and coverage of properties in urban areas.

Participants in the panel were: Robb B. Kelley, president and treasurer of Employers Mutual Casualty Co., Des Moines; Ambrose Kelly, general counsel of Factory Mutual Insurance Cos., Providence, R.I.; James S. Kemper Jr., president, Kemper Insurance Cos., Chicago; Glenn B. Morris, president, Security Insurance Group, Hartford; John D. Phelan, president of American States Insurance Cos., and Nathan H. Wentworth, vice chairman of the Continental Insurance Cos.

ON THE CAPACITY problem, Mr. Wentworth cited the problem of insurance mergers in which retention is limited to the amount previously maintained by the larger company. "Producers in Europe and the United States are complaining about shrinking capacity," Mr. Wentworth asserted, "and this serious problem is made worse by those companies that cut back their retentions."

Mr. Kelly noted that reinsurers have "lost their shirts" and that the reinsurance market is sharply curtailed. He suggested three steps to increase capacity: Increase each company's net retentions consistent with its financial resources and premium volume; see that policyholders bring risks up to standard to reduce loss exposure, and get rates up to acceptable levels.

Mr. Wentworth added, "With some foreign reinsurance branches throwing in the sponge, it is important that we overcome ideological differences to organize our market in such a way as to find maximum capacity. The U.S. has the capacity if we organize our facilities properly."

On the effect of FAIR plans, Mr. Kelley conceded that committees that organized FAIR plans in various states were concerned about the possibility that some companies would dump large blocks of residential and commercial risks including peril-ridden supermarkets and bowling alleys. Some have suggested penalizing those companies that engage in dumping. And Mr. Kemper pointed out that the plans would inevitably [illegible] that selective companies wind up with more "junk [illegible]ness."

SEVERAL PANELISTS cited [illegible]he success of a Canadian facility which reinsures urban risks 100% thereby eliminating elaborate machinery of the FAIR plans and simplifying and reducing expenses. "The Canadian facility permits the insurance industry to meet its social responsibility and there has been no pronounced dumping in Canada," Mr. Kelly noted.

On the HUD riot reinsurance program itself, the panelists expressed grave misgivings. Mr. Kemper termed it a "pernicious plan under which the government isn't giving us anything." One panelist noted that HUD does nothing for the insurance industry which it could not do for itself had it organized a riot reinsurance facility.

"In the wake of the riots following the murder of Dr. Martin Luther King," Mr. Kemper continued, "some insurance companies, particularly the American Insurance Assn., ran down to Washington and pleaded for help."

There was sharp disagreement among the panelists about the matter of state vs. federal regulation of the insurance industry, a long-burning issue brought to

Continued on page 22

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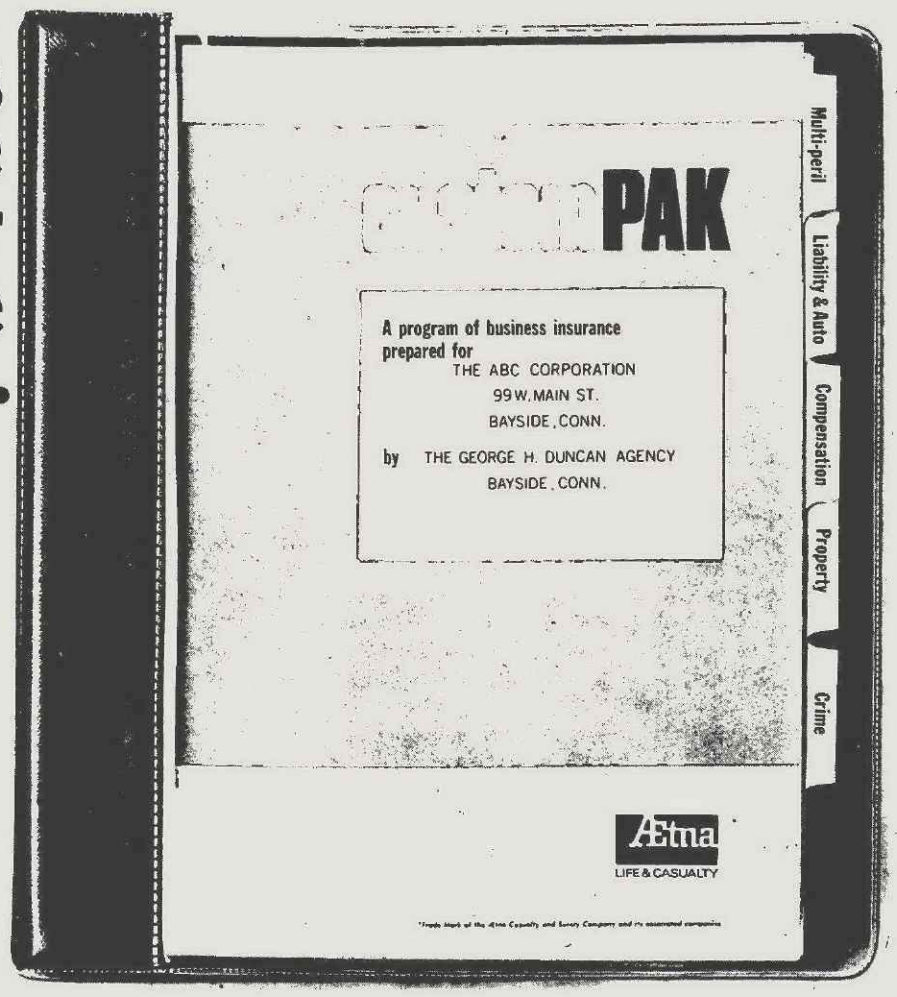

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Experience, study win Cristy Awar... Hervey

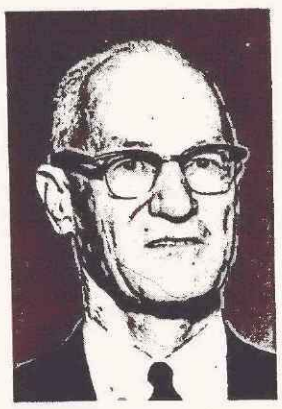
HOUSTON—The experience of managing insurance for a $1 billion pipeline complex in 31 states plus the learning gained in three years of study have made a risk management scholarship award winner of Hubert C. Hervey, 62-year-old insurance manager of Texas Eastern Transmission Corp.

Mr. Hervey won the American Society of Insurance Management's Cristy Award by gaining the highest average in the six examinations of the program in risk management sponsored by the Insurance Institute of America.

The award, named for Jim Cristy, an evangelist for risk management education within ASIM, includes a plaque and a cash award of $250 from ASIM.

Last year the first Cristy Award was presented to Joseph T. Gormally, insurance manager of Pennsalt Chemicals Co., Philadelphia.

Though Mr. Hervey has been an insurance manager for about 20 years, he attributes his high score on the IIA examination series to a "roundtable leadership" course organized by the Houston ASIM chapter.



Hubert C. Hervey

"THREE YEARS ago," he explained, "we got right in on the ground floor of the IIA program in risk management by organizing our own classes in which each of 13 participants took a topic, worked up an outline and conducted a class. When we completed one of the six courses, we'd start on the next course of 13 topics and, in all, we held 78 class sessions over the past three years."

Despite his long experience as a risk manager, Mr. Hervey said, "I surely did learn a lot from the IIA series. Don't forget that when I went to college there was no formal instruction in insurance. The only education in risk management that had been available prior to three years ago was to be found in the conferences of the American Management Assn., of American Gas Assn., to which our company belongs, and through American Society of Risk Management."

Mr. Hervey, who took his IIA examinations at the University of Houston, said that five other members of his "roundtable leadership" group took and passed the risk management tests.

"THIS YEAR we have 23 members signed up for the roundtable class series, so the idea must be catching on," the award winner commented.

Knowledge gained by Mr. Hervey in the IIA program will be put to good use because his company operates 10,000 miles of natural gas pipeline that extends through 31 states from New York to California and down to the Gulf of Mexico.

Texas Eastern also owns such petroleum industry subsidiaries as Pyrofac, which distributes bottled gas to 500,000 customers, most of them in rural areas, a refinery, and a gasoline recycling plant.

"PIPELINES ARE not so peril-free as the public might imagine," Mr. Hervey related. "For example, in some places we face the possibility of a ship dropping anchor and pulling up our line. And corrosion is a continuing problem that we guard against."

To meet these risks, Mr. Hervey maintains a substantial property insurance program as well as an excess liability policy that protects his company to the amount of $20,000,000 per loss.

"Our exposure is especially great where we enter major urban areas with our pipelines," he said.

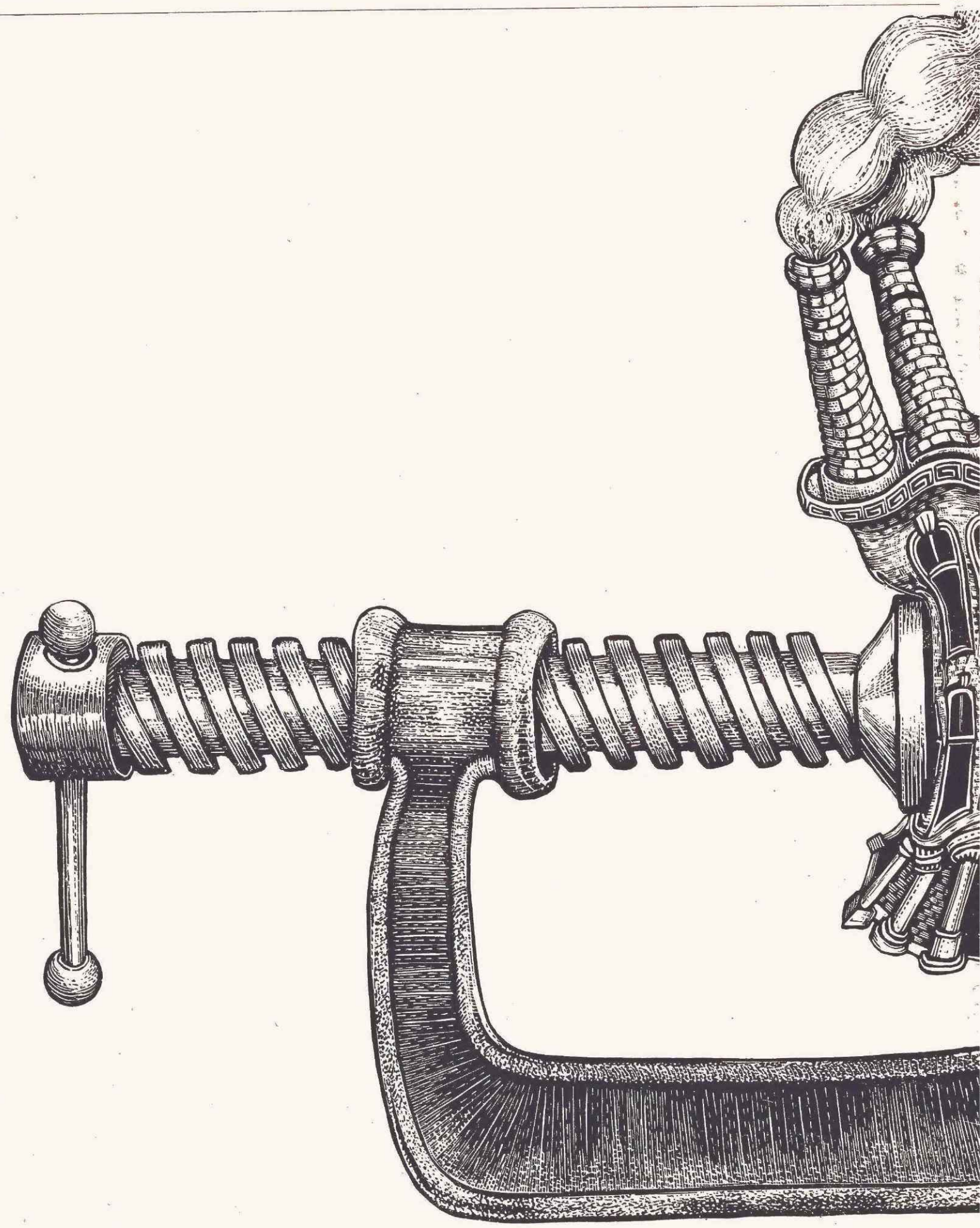
Mr. Hervey handles placement of insurance for Texas Eastern and all of its subsidiaries, but he needed only to approve policies covering a new foreign operation: eight gas wells located in the North Sea. The wells are part of a combine, the American International Oil Co. (AMOCO), which placed the insurance and sent policies to Houston for Mr. Hervey's review.

"Gas wells in the North Sea operate from platforms that are subject to high seas," the insurance manager explained, "and drilling operations are confined to the summer months because of severe weather conditions in the area."

Mr. Hervey said that another foreign operation he insure... cently was the engineering w... done by a subsidiary of Tex... Eastern which supervised the... laying of a pipeline under the North Sea. To gain adequate liability coverage he extended the company's domestic program and placed the remainder of the coverage in Lloyd's.

THE NEW Cristy Award winner came to Texas Eastern from War Emergency Pipelines, a government-operated company in Cincinnati that operated the "Big Inch" and "Little Big Inch" pipelines during World War II. Texas Eastern bought a portion of that system and brought in Mr. Hervey who had been assistant treasurer, with some insurance responsibilities, at War Emergency Pipelines. Prior to entering the c... A... chapt... his wi... dren: Hu... manager i... via Barham, ... Army officer ... Donald, a Ph.D. c... nell University, a... high school student ...

Mr. Hervey will ... Cristy Award plaque o... fice wall next to another ... honoring him for a widely d... gent interest—participation ... the junior livestock sale spon... sored for Future Farmers of America and 4-H participants. ▪



Packing company challenges Connecticut surety bond law

HARTFORD—A new state law requiring slaughterhouses which purchase swine or cattle from Connecticut farmers to furnish a $30,000 surety bond is being challenged in state superior court.

The Shore Line Packing Co., East Haven, Conn., has summoned James J. Casey, state consumer protection commissioner, for an answer.

Mr. Casey said that he had realized the new legislation would create some problems. "I support a law that will protect the people," he added, "but not one that creates too much inconvenience. Probably the only way to resolve the problem is through the courts."

One supporter for the measure had come from the Connecticut Farm Bureau.

The state consumer protection department neither initiated nor supported the proposal, according to Mr. Casey.

IN GENERAL, the law makes it possible for the farmer who sells his cattle or swine to get a guarantee of payment with a surety bond.

Some slaughterhouses, however, have encountered difficulty in obtaining the bonds. Some 16 slaughterhouses in Connecticut are affected by the law, according to recent estimates.

Under the measure, Mr. Casey's department cannot issue a license to a slaughterhouse which does not post a surety bond. ▪

Widow files $225,000 suit in '63 mishap

HOUSTON—A Texas City, Tex., woman has filed a $225,000 federal suit here claiming her husband's death Dec. 6, 1963, was due to a deadly gas expelled at a tin smelting plant where he worked.

Mrs. Betty Jean Penna, joined by her three children, filed suit against Wah Chang Corp. The suit says Philbert J. Penna died because of gas suffocation from hydrogen sulfide produced by roasting ore with an excessively high sulphur content.

"Through gross negligence" and "conscious indifference" to Mr. Penna's welfare, the suit says, the plant manager ordered the processing continued after he was told of the leakage of the deadly gas.

Cal. courts reverse two fire fighter awards

SAN FRANCISCO—California's State Supreme Court has just ruled that the widow of a San Francisco fireman who died of lung cancer should receive a $17,500 death benefit because his death was connected with his work.

The decision is expected by insurance industry observers here to have a "significant effect" on fire fighter claims for workmen's compensation.

The lung cancer victim was Arthur McAllister, who died in 1966 after 32 years with the San Francisco fire department.

McAllister's widow applied for the $17,500 benefit, the maximum the law permits, and a state referee ruled that the payment should be awarded. The Workmen's Compensation Appeals Board reversed this ruling.

THE APPEALS Board ruled that the physician who testified in Mrs. McAllister's behalf had only said that the fireman's inhalation of smoke had been the "probable" cause of the cancer. McAllister, it was reported at the hearing, had smoked at least a pack of cigarets a day.

Justice Matthew O. Tobriner, who wrote the court opinion, said that "in the absence of any evidence to the contrary, probability is enough. As for the cigaret smoking, it may have contributed to his cancer, but so did his fire fighting.

"It is a long-standing rule," Justice Tobriner said, "that a disability may be termed industrial, even if the working conditions only contributed to the disability."

Mrs. McAllister was represented in her appeal to the Supreme Court by San Mateo attorney Joseph W. Cotchett.

In another decision of major importance to the insurance industry, the State Supreme Court reversed a $1,045,000 verdict in six combined damage suits arising from a 1962 forest fire in northern California's Mariposa County.

IN THIS decision, the Court enunciated for the first time in California a rule that a fire fighter cannot collect damages from the person whose negligence caused the fire he may have been injured in.

Winner, in this case, was the Pacific Gas & Electric Co., whose damaged power line was found by a San Francisco Superior Court jury to have been responsible for the 1962 forest fire.

PG&E had been directed to pay $1,045,000 to two injured firemen and to the widows of four other firemen. The Court of Appeal, reversing the award, adopted what lawyers call the "fireman's rule."

The decision by the State Court of Appeal quoted a recent New Jersey decision that "probably most fires are attributable to negligence . . . " and " . . . it would be too burdensome to charge all who carelessly cause or fail to prevent fires, with the injuries suffered by the expert retained with public funds to deal with those occurrences.

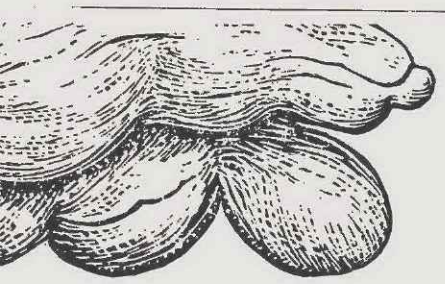
"Hence," the New Jersey decision continued, "for that risk the fireman should receive appropriate compensation from the public he serves, both in pay which reflects the hazard, and in workmen's compensation benefits for the consequences of the inherent risks of the calling."

Offers organ transplant plan

SACRAMENTO—Group medical insurance plans covering human organ transplants have been proposed by California Western States Life Insurance Co.

Policies would pay both the patient and the donor, up to as much as $50,000, and up to $20,000 for use of artificial kidneys.

The company said the transplant benefit could be added to a group plan at a cost of $3 a year for a participating employe and $4.80 a year per dependent. ▪



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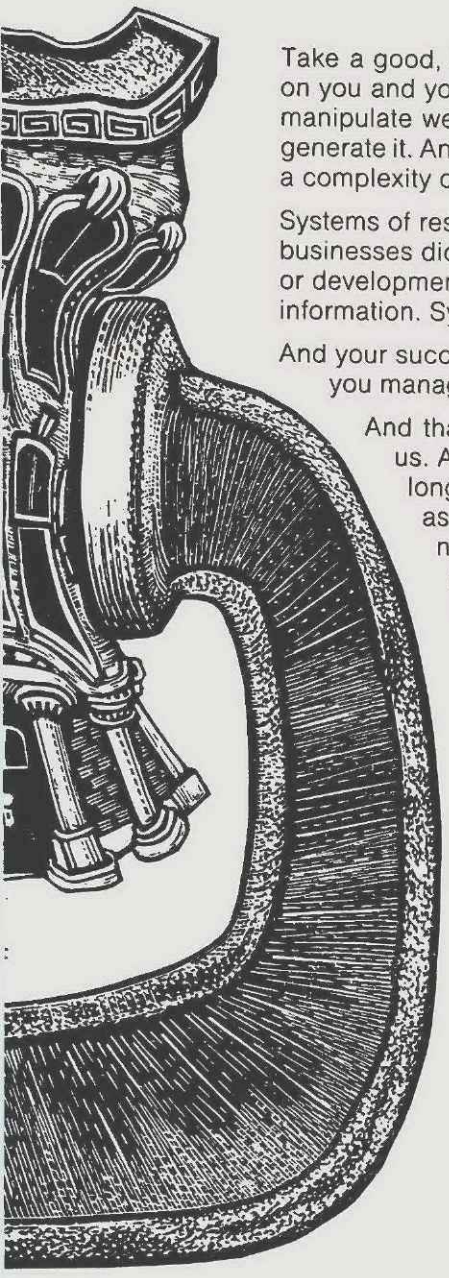

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Employe can get added award if ignorant of other troubles

DES MOINES, Ia.—The state supreme court has ruled that an employe can file for an additional workmen's compensation award if he didn't know of other disabilities at a prior hearing.

The majority held that if a claimant doesn't know of other compensable injuries or disabilities at the prior hearing, he is not barred from using the new information as the basis for additional compensation.

The claimant, William Gosek, was found to be 15% disabled in May, 1964, and several months later he filed to reopen the case. In early 1965 a deputy commissioner of the state industrial commissioner decided that the evidence was insufficient to disclose a change in Mr. Gosek's condition.

The state court stated that the decision depends on the condition of the employe subsequent to the date of the award being reviewed. The Supreme Court found that additional compensation would be allowed and that facts relating to the job-connected injury could not have been uncovered by the exercise of "reasonable diligence."

The court determined that Mr. Gosek was experiencing a psychiatric problem he was not aware of at a first review, and that testimony at a second review disclosed he was suffering from psychiatric and emotional problems. The court said that the commissioner and the trial court erred in holding a claimant must show exclusively a change in condition after prior settlement. ▪

$750,000 suit filed in Astroworld death

HOUSTON—The widows and mother of two Pasadena, Tex., brothers killed during the construction of Astroworld, an amusement center opened this year, filed a $750,000 damage suit against the park and General Steel Erection Co., one of its contractors.

William Robert Jarrell, 27, and Thomas Jarrell, 32, were killed May 24 when a three-ton boat, suspended by a crane, fell on them.

The brothers were installing equipment on the water ride when a cable slipped.

The defendants are charged with negligence in the fabrication and rigging of the equipment used in lifting the boat. The brothers were employes of Dozier Specialty Co.

Ask examination of Ford dealers' pension

DETROIT—Four current and former salesmen of Ford Motor Co. dealerships have filed an $8,000,000 suit here asking for an examination of a Ford dealers' pension plan.

Named in the action are Ford Motor Co.; Detroit Bank & Trust Co., administrator of the plan; the Metropolitan Detroit Ford Dealers; and several individual trustees of the pension plan.

Ford was named, according to the suit, because the firm adds $10 to dealer invoices for each car to cover the dealer's cost of contributing to the retirement fund. The suit was brought in behalf of the more than 1,000 participants in the plan.

According to Carl Van Zant, president of the Automotive Salesmen's Assn. and one of the complainants, there is at least $20,000,000 in the 16-year-old retirement fund, but he said he and the other complainants were given a 1967 report "that showed that only $800,000 had been paid in."

Automotive Salesmen's Assn. is an affiliate of the Seafarers International Union. The union isn't involved in the suit, but Mr. Van Zant said it supplied investigators in the case.

Counsel for the dealers' group said the charge was "an obvious attempt by the salesmen's association to gain publicity among automobile salesmen from their union—a union that has been unsuccessful in organizing sales personnel in the Detroit metropolitan area."

Participants in the dealer pension scheme contribute 2% of their income to the fund, which is matched by each of the 33 dealers who are members of the Metropolitan Detroit Ford Dealers.

The dealer group said that the retirement plan was approved by the Internal Revenue Service and that each year "a full disclosure" of accounting was made to the U.S. Department of Labor, as is required by federal law. ▪

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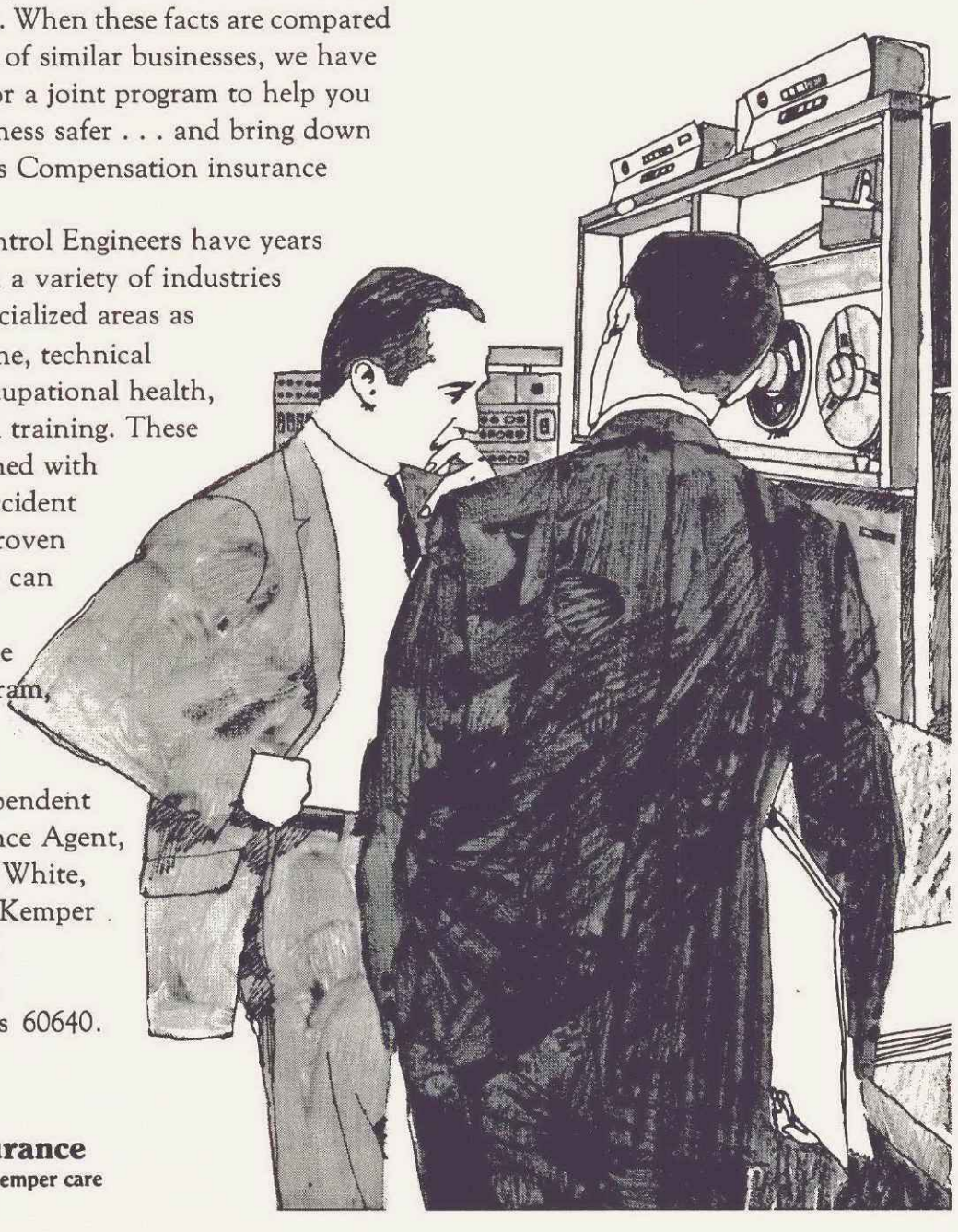

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JFK-approved award subject of lien dispute

ALBANY, N.Y.—An airplane tragedy which claimed five lives, among them a General Electric Co. vp, underlies a controversy in Albany involving a Congressional appropriation of $125,000 to the survivors of one of the victims.

The award, made by Congress upon recommendation of the Navy Department and the late President John F. Kennedy, went to the family of John B. Ryan of Johnson City, a pilot employed by GE.

Mr. Ryan, with Gerald C. Bogardus as copilot and Donald L. Johnson, GE vp, and Mr. Johnson's wife as passengers, was piloting the plane when it collided with a Navy jet near the Naval Air Station at Newport, Fla. The jet was towing a target plane.

Both planes disintegrated and fell into the ocean. The bodies of the four aboard the GE plane were not recovered. The body of the Navy pilot was recovered.

Mrs. Mary Ryan filed for accidental death benefits and the state Workmen's Compensation Board (WCB) made awards to the widow which eventually will amount to $93,000.

A claim against the U.S. government was also made, and the $125,000 award was made.

The insurance fund for General Electric had filed a notice of lien with Mrs. Ryan's attorney on any award she might get from the government. When Mrs. Ryan resisted the lien, GE's insurance company appealed to the WCB, which held in favor of the lien. The widow has appealed to the appellate division in Albany from the lien order.

Mr. Ryan was 43 when the accident occurred Oct. 2, 1962. He and the copilot had left Syracuse for Harrisburg, Pa., where they picked up Mr. and Mrs. Johnson for the Florida trip. ▪

Judge dismisses 1st riot damage suit; cites 'no proof of mob action'

MILWAUKEE, Wis.—The first riot damage suit against the City of Milwaukee, as a result of the July 31, 1967, Negro uprising here, has been dismissed by Circuit Judge Ronold A. Drechsler who ruled on Oct. 3 that there was a "total absence of any proof" of mob destruction.

The case involved a claim by the owners of V. & V. North supermarket, located in the Negro section of Milwaukee's north side, for $1,512 in damages for broken windows and a neon sign on July 31, 1967.

The City of Milwaukee denied liability for damage claims resulting from the disturbances.

TESTIMONY IN the case established that 12 to 15 youths congregated in front of the store but a witness said only one of the youths threw rocks at the store's windows.

The fact that there may have been a riot in certain parts of the city that day, causing property damage, death and personal injuries, was not a controlling factor in the V. & V. North case, the judge said.

Each case must be considered on its own merits rather than on the general condition of the city at the time the damages occurred, he added.

Another test case, which has been taken under advisement by Circuit Judge Robert W. Landry, involves the Bronz-Vil bar, also located in the Negro ghetto. Its owners were paid $506 by three insurance companies—Interstate Fire and Casualty Co. of New Jersey, Lloyd's of London, and New York Underwriters Insurance Co. of Connecticut—for a broken window and merchandise that allegedly was stolen during the July 31 riot.

The three insurance companies have filed suit against the city in an effort to recover the $506. They claim the city is responsible for damages incurred during a riot. A ruling is expected soon in this case. The city, of course, denies that it should be held liable for the damages.

THE THREE insurance companies are basing their case on a 1938 Wisconsin supreme court decision which held the city responsible for damages during the 1934 streetcar strike here.

The 1938 ruling held that the city had to pay the $2,417 claim filed by six insurance companies resulting from damages to Electric Co. property here during the strike against the utility and its streetcar operations. The six insurers had charged that the city failed to protect the Electric Co. property against mob damage.

The high court decision cited a rule of law which states that a municipality must not only try to prevent injury but also must prevent it, except where carelessness or negligence on the part of the property owner were involved.

The Bronz-Vil case is headed for the United States supreme court in any event. Hundreds of thousands of dollars hang in the balance of its outcome.

More than 800 damage claims have been filed against the city, seeking more than $1,000,000 in payments. Of these 800-plus claims, 275 have resulted in lawsuits. Most of the 275 suits have been filed against the city by 52 insurers who paid out more than $500,000 to policyholders whose properties were damaged during the 1967 riot.

The Bronz-Vil case is expected to establish a new legal "riot doctrine" which will define a riot, establish the relationship between a riot and the damages claimed, and determine whether insurers who have paid on the claims are entitled to reimbursement from the municipality.

"If this claim (the Bronz-Vil case) is allowed to be recovered the insurers would be able to keep premiums for riot coverage without paying any claims under the terms of the policy," said Thomas E. Hayes, an assistant city attorney, in defense of the city's position when he testified in court.

"This, in effect, would be a gratuity or unjust enrichment on the part of the insurance companies," he added. Hayes asked for dismissal of the suit on grounds that the three insurers had no legal cause for action. ■

Mutchler gains post

Robert J. Mutchler has been elected assistant treasurer at Pacific Northwest Bell Telephone Co., Seattle, succeeding Ralph M. Lawson, who is retiring.

The post carries responsibility for the company's pension funds, insurance and cash management.

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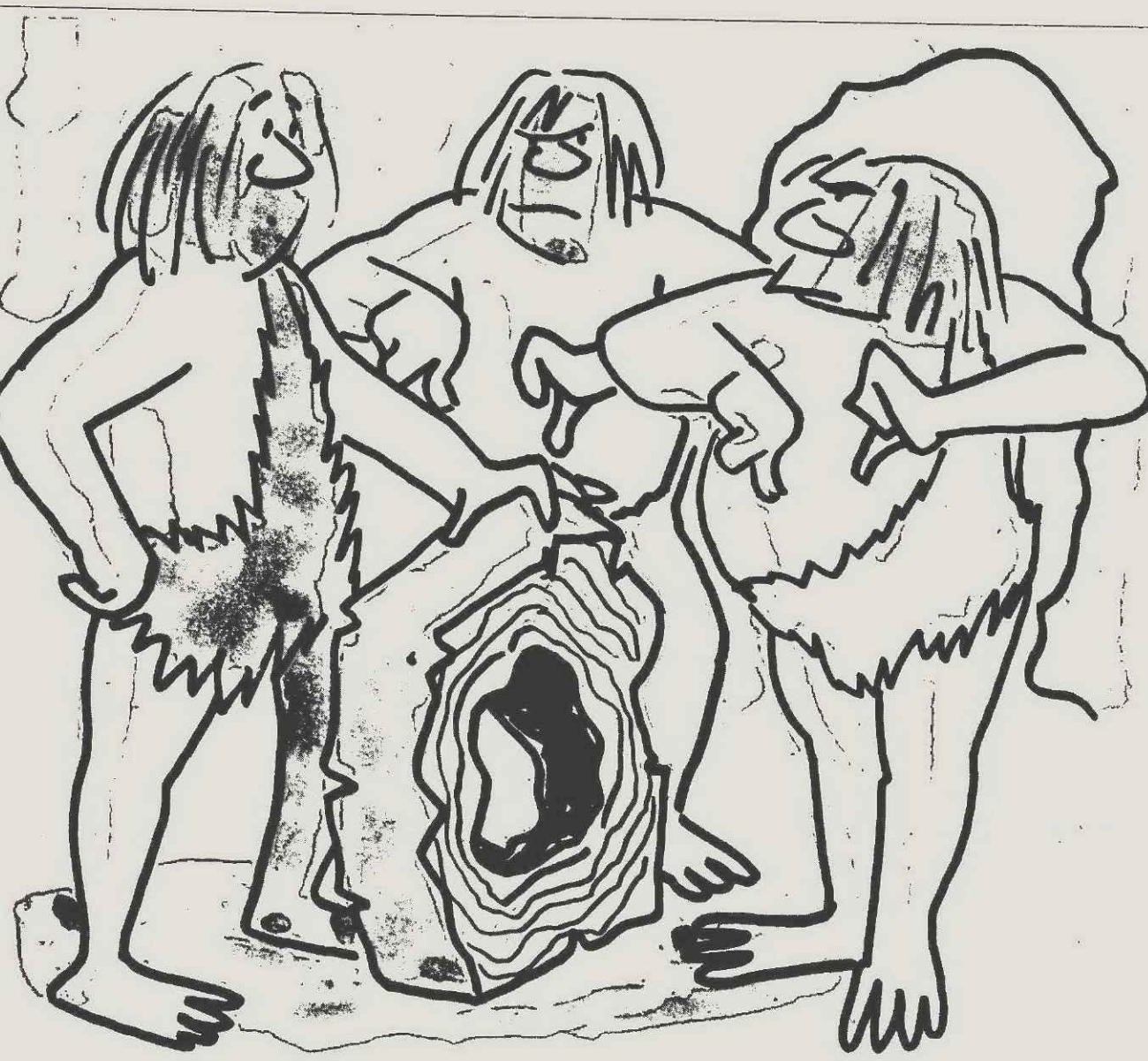

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U.S. role in health care to continue despite election, doctors are told

SAN FRANCISCO—The federal government's role in health care and the spread of health insurance programs will not change, regardless of which political party wins the coming election.

This was the prediction made here by Dr. Philip R. Lee, assistant secretary of Health, Education and Welfare and a major influence in the development of Medicare programs, to a meeting of the Medical Society concerning itself with changes in medical care patterns.

"THE MEDICAL profession," Dr. Lee said, "must organize itself more effectively into medical groups to care for increased patient loads and to seek better insurance coverage for patients who are treated outside hospitals, in their homes or the doctor's office.

"Locally sponsored health care projects," Dr. Lee said, "can help keep costs down and render care more efficiently than can programs ordered by government agencies."

THE MEETING also heard Dr. Dwight L. Wilbur, San Francisco physician and president of the American Medical Assn., and Dr. Stuart C. Cullen, dean of the University of California school of medicine.

Dr. Wilbur acknowledged that medical practice is changing and that "the consumers are inevitably going to demand that doctors practice medicine in a goldfish bowl.

"THE CONSUMERS," Dr. Wilbur added, "are already winning increased representation in medical care projects. This means more and more doctors organize themselves into medical groups to provide pre-paid, insurance-sponsored medical care."

Dr. Cullen reported that University of California now has 1,200 applicants, every one with a college average of B or better, for 128 places in the freshman medical school class. ■

Company's complexity often hides loss potential: Cates

CHICAGO—The complexity of a company's organization can often hide the loss potential for business interruption claims, G. W. Cates told the final session of American Management Assn.'s risk management seminar here.

Mr. Cates, manager of Factory Insurance Assn. in Chicago, said FIA realized it had to make the insured consider this potential when business interruption losses began mounting, sometimes four or five times as fast as those for property damage.

A company that depends on two or three machines that would take a long time to replace should consider duplication of plants rather than having each plant depend on the other for certain functions, he suggested. Stocking of repair parts and additional warehousing of raw materials are other ways to prevent business interruption claims.

TO MITIGATE these problems and aid the underwriting process, he said, the insurance and protection departments and the production and financial executives should hold discussions about plant construction. Well constructed and protected property leads to well defined risks, Mr. Cates said. ■

Execs uneasy...

Continued from page 17

the forefront by the development of holding companies with insurance subsidiaries and by the federal investigation of auto insurance practices.

MR. KELLEY maintained that the report of the New York insurance department on the regulation of holding companies should be promptly implemented lest "promoters from outside the insurance industry seriously endanger professionalism." Dual regulation, as in Canada, is nothing to fear, Mr. Kelley contended.

Mr. Kemper asserted that the development of holding companies "is a test of the intelligence of state regulators" and he said that state regulation can survive if the New York report is modified to permit holding companies under proper state regulation.

Complicated, expensive state regulation is on its way out, in the view of Mr. Kelly. "Even though the insurance business may be chaffing under state regulation, it is dangerous thinking to assume that federal regulation would give us greater freedom of action. Then we'd have nobody to blame but ourselves," he said.

Mr. Kelly predicted that state regulation of insurance will continue to the year 2000. "There is no possibility of federal takeover of the jobs of licensing and company examination," he said, though he conceded that the current U.S. investigations may result in greater federal control of the auto insurance business.

SUMMARIZING their views from the top some panelists made these observations:

Mr. Wentworth: Profitability in the insurance industry is tied to economic conditions, inflationary pressures and social issues. The reinsurers are the key in the present situation. How far will they go to back us in competitive maneuvers?

Mr. Kemper: There is one healthy thing about the entry of conglomerates, even though they may emphasize the importance of cash flow rather than underwriting. Conglomerates will show us how better to use our money. And their entry also forces us to spend more time on long-range planning, market research and marketing development.

Mr. Kelly: Our discussion indicates an uneasiness about the trends in capacity, guaranteed insurability, riots and other social problems as well as the profitability of the insurance business. We ought to think less about the losses of yesterday and the problems of today and look forward more concentratedly to the problems of tomorrow. ■

how to cut your pension costs

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Your pension plan is expensive. And, in this highly competitive era, every expense dollar has got to count. Yet, you can't afford to cut down on the pension benefit formulas your valued people have come to expect.

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GROUP DEPARTMENT

The TRAVELERS INSURANCE Companies

HARTFORD, CONNECTICUT

letters

Continued from page 12

contingencies." It is imperative that it remain in that condition which is true for all insurance organizations. Sociological or public relations factors do not justify impairment of the financial stability of any company.

Any lumber company desiring to remain a member of the exchange had to continue to meet the qualifications of the exchange. LUA was not "being less than kind to one of its own" in terminating the eligibility to Douglas Lumber Co. The management of LUA was merely exercising good sound judgment and carrying out its obligations as required of it as trustee of the policyholders' funds.

As evidence of the fact that LUA cooperated with the insured to an extreme, Douglas Lumber Co. was notified by LUA in Oct., 1967, that it wished to cancel Douglas Lumber's insurance coverage. Most insurance companies would not have taken this action—they would merely issue a formal notice of cancellation to be effective 10 days following receipt of notice. We, however, advised Douglas Lumber Co. that we would withhold cancellation and give it a reasonable opportunity to replace the coverage the LUA wished cancelled.

Douglas Lumber Co. was not only given a reasonable time, but it was given an unreasonably long time to replace its insurance —practically six months. An extension of this much time to replace an insurance program is totally unknown in the insurance business. You can verify this statement by checking with your Chicago-based insurance companies.

DOUGLAS Lumber Co. "alleged" that LUA representatives advised them that the continuity of coverage with LUA would not be affected by the riots that occurred in Chicago. LUA denied this statement categorically. The judge, in stating his conclusions, unequivocally found that Douglas had failed to prove the accuracy of such an allegation.

Finally, and of most importance to fair and unprejudiced editorializing, is the following: Your editorial states "the insurer successfully contended in court that Douglas could not rely on verbal promises made prior to the execution of a written contract which contained cancellation clauses."

LUA DID not deny Douglas Lumber Co. reliance on verbal promises. LUA denied categorically that any such promises ever were made by its representatives and the court found that no such promises were made. Had LUA representatives made such promises, LUA would have lived up to those promises without the necessity for the Douglas Lumber Co. to resort to court action.

It is not our purpose to be arbitrary or controversial in this reply to your editorial. We are sincerely convinced of your intension to be fair. It is hoped that the thoughts expressed in this letter will equip you with more factual information from our side of the question.

J. M. White
Vice President and Assistant General Manager, Lumbermen's Underwriting Alliance

'BI fills the bill'

To the Editor: I read *Business Insurance* regularly because I am trying to learn how to be an insurance manager—not just a taker of what is offered or suggested by our brokers and insurance companies. I tried one other magazine in this general field but found that it was not what I wanted. Your magazine more nearly fills the bill.

We are a small company which pays probably between $75,000 and $100,000 annually in insurance premiums.

I wonder if you could have some articles on setting up an insurance department in a business and proceed to how it is developed, how records are kept, how amounts of coverage are determined, etc. Perhaps someone would like to smooth the road he has already traveled.

G. C. Perry
Secretary-Treasurer, Mississippi Cottonseed Products Co., Jackson, Miss.

Editor's note: In its last issue Business Insurance *initiated a series of articles on risk management written by George Head, director of educational publications for the Insurance Institute of America. Other articles are planned that will give Mr. Perry and other readers basic information on the formation and development of an effective risk management department.*

U.S. buyers...

Continued from page 9

it is unlikely that a similar container group, if it were formed in the U.S., could muster support from buyers to package insurance rates for cargo shipped in containers.

"Most firms are comfortable with their own policies and are not likely to leave the insurance with outside interests," said Mr. Christensen.

American Tobacco, which is insured on a "difference in condition" basis, meaning the firm's cargo coverage picks up where the ship owner's liability leaves off, said it wouldn't consider having an outside interest assume liability for its cargo.

A SPOKESMAN for the firm said it has low insurance rates because of its huge buying power and excellent loss record. In addition American Tobacco has its products packed in containers under company supervision.

"American Tobacco is specific about packing," said the spokesman, "due to the loss factor and customer relationships."

It is doubtful, he continued, if an outside group can improve on insurance coverage or loss prevention already established.

A spokesman for Commerce & Industry Assn., a group representing U.S. industrial shippers, doubted if large corporations with sophisticated insurance departments would pass insurance buying to an outside group.

"INSURANCE departments tend to want to preserve their own preserves," he said.

The spokesman pointed out that there could be factors other than costs involved in the failure of the London package scheme.

"There are incidental relationships between brokers and buyers which make change in procedure unwelcome," he said.

London proponents of the package plan say it failed because brokers, who stand to be eliminated by the plan, established "friendly" associations with shippers. "Those relationships," said one container operator, "had enough influence on some shippers to make them veto the plan." ▪

A few fiery words about insurance, from the people who take the fiery risk out of it.

A few fiery words? Try dip tanks, spray booths, tape storage rooms, printing presses. Then how about kitchen hoods? They can all be fiery. And when they're fiery, they're costly. Costly for their owners, for their insurers, for everyone. Fact is, no one wins when fire strikes.

Kidde makes systems that don't give fire a chance to strike. Systems that are complete detection-extinguishing devices. They come in either carbon dioxide or dry chemical. And they're made from top to bottom by us, just to make sure they're made right. Fact is, there's not too much we can't take the fiery risk out of.

Our systems complement fire insurance because they protect areas, people, and firms from fire loss. So next time you write some business, try consulting us. It may be your best policy. That's Walter Kidde & Company, Inc., Belleville, N.J. 07109.

Kidde

U. S. unit fights 'let buyer beware' philosophy

WASHINGTON—The chairman of the National Commission on Product Safety has expressed confidence that his commission's inquiries will lead to "vastly greater concern" by makers, sellers and buyers for the safety of products that go into people's homes.

Outlining to industry representatives the procedures the commission will follow during its impending two-year investigation, Arnold B. Elkind said, "I am confident that the overwhelming majority of American businesses and industries, who themselves are victimized by occasional conscienceless competition, will support and benefit from our efforts to expose and eliminate those few whose working motto remains 'let the buyer beware.'

"It is the action or inaction of those few which causes untold grief and which ultimately betrays the integrity of a merchandising system which allows such conduct," Mr. Elkind said.

He outlined plans for three "task force" units to tackle the studies of hazardous products.

ONE TASK force will be concerned with collecting all information available on the relationship between household products and accidental injuries and deaths around the home.

The second will be devoted to making a nationwide investigation of the voluntary standards systems employed by industry to test products and assure that they are designed for safety.

The third task force is to study and compile all existing federal, state and local laws and codes designed to protect consumers from accidental injury or death.

About 200 representatives from various industries attended the briefing here. Mr. Elkind disclosed that a three-day hearing is scheduled next month in New York "to get an overview of the safety problem."

THE COMMISSION already has identified about 200 categories of products which are on its list for study. These products, ranging from appliances and lawnmowers to toys and nursery equipment, are not necessarily hazardous, Mr. Elkind said. But they all will get some kind of review so that the commission can select the product categories which are most urgently in need of attention.

Mr. Elkind, who is a successful negligence lawyer, said "reputable industry has nothing to fear from our inquiry." But he stressed that the commission will not hesitate to move against manufacturers who are found to be marketing products that represent an unnecessary hazard to the public.

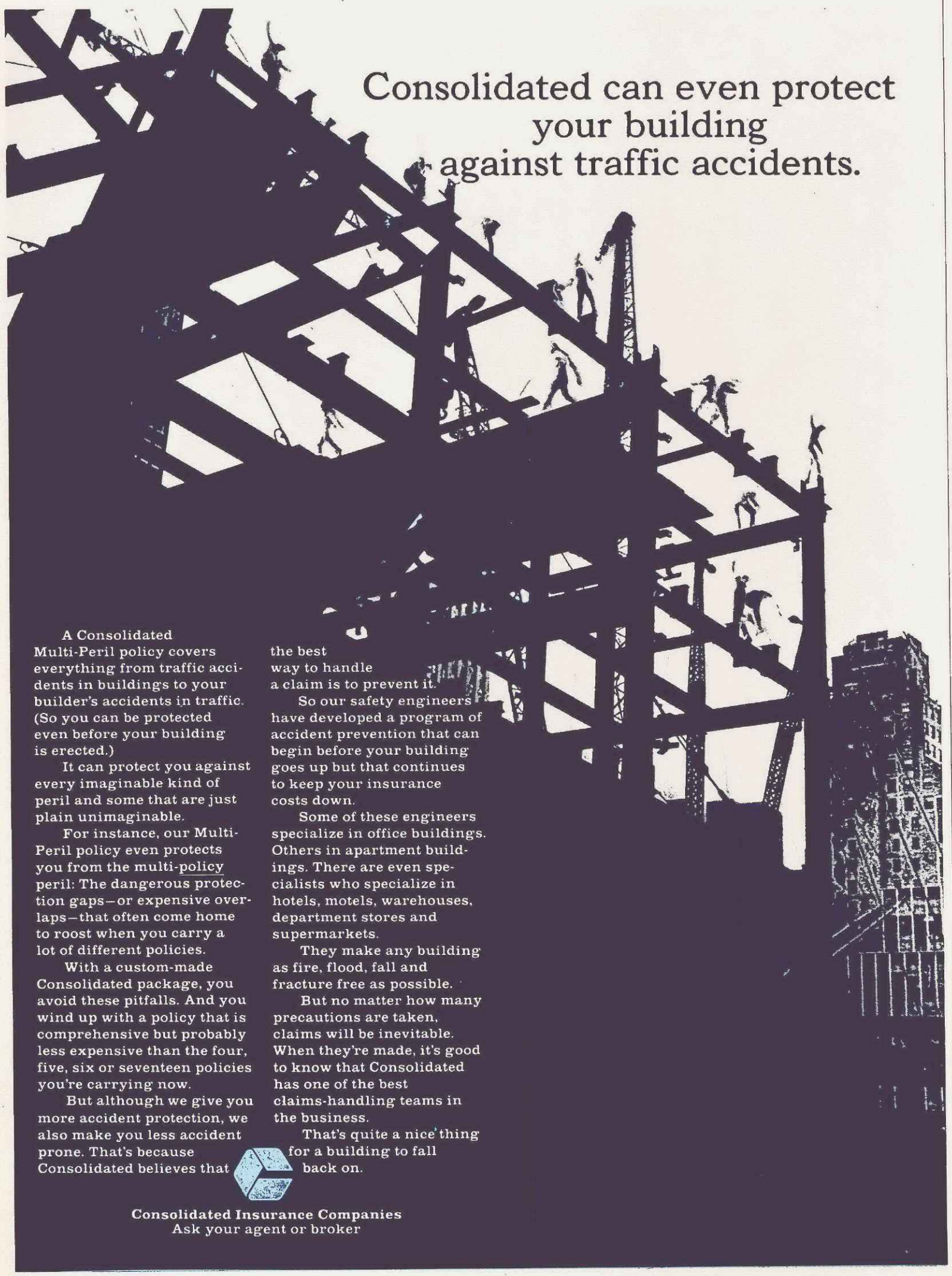
When this happens, he said, "the commission has a clear obligation to warn the public." Where an unreasonable hazard exists, he said, the commission will expect cooperation from the manufacturer, in recalling it from the market, or making other arrangements.

A NUMBER of industry spokesman at the briefing expressed concern about the release of unfavorable information about individual products. Mr. Elkind said the commission will publish soon a regulation outlining the kinds of information which are regarded to be in the public record.

Mr. Elkind characterized himself as "one of technology's biggest boosters. But I am afraid," he added, "that far too many of our blessings are booby traps for the unwary and uninformed. Unless I am badly informed, the original idea of all our gadgets was to make life easier, not shorter."

He said he does not believe industry has the remotest intention "of committing mayhem on its customers," but the statistics show something is wrong somewhere, he added.

"And if the investigation shows that all of them are caused by carelessness, then we must finally come to terms with the truth that human frailty is the most important factor to be considered in manufacturing and marketing products." ■



A Consolidated Multi-Peril policy covers everything from traffic accidents in buildings to your builder's accidents in traffic. (So you can be protected even before your building is erected.)

It can protect you against every imaginable kind of peril and some that are just plain unimaginable.

For instance, our Multi-Peril policy even protects you from the multi-policy peril: The dangerous protection gaps—or expensive overlaps—that often come home to roost when you carry a lot of different policies.

With a custom-made Consolidated package, you avoid these pitfalls. And you wind up with a policy that is comprehensive but probably less expensive than the four, five, six or seventeen policies you're carrying now.

But although we give you more accident protection, we also make you less accident prone. That's because Consolidated believes that the best way to handle a claim is to prevent it.

So our safety engineers have developed a program of accident prevention that can begin before your building goes up but that continues to keep your insurance costs down.

Some of these engineers specialize in office buildings. Others in apartment buildings. There are even specialists who specialize in hotels, motels, warehouses, department stores and supermarkets.

They make any building as fire, flood, fall and fracture free as possible.

But no matter how many precautions are taken, claims will be inevitable. When they're made, it's good to know that Consolidated has one of the best claims-handling teams in the business.

That's quite a nice thing for a building to fall back on.

Consolidated Insurance Companies
Ask your agent or broker

Lawyers tell...

Continued from page 11

and in addition failed to inquire of officers and other executives having responsibility for financial and accounting matters.

THE COURT HELD, Mr. Sommer said, that if the accountant's diligence had been greater he would have discovered that some of the sales included in the three-month unaudited figures were not properly includible; how "tight" BarChris' cash position was; that delinquencies on obligations had become worse with resulting pressure from factors; and that there had been "a material change for the worse in BarChris' financial position."

Mr. Sommer advised accountants to read the prospectus, deepen their investigations, including more interviews with company officers, follow firm's prescribed procedures and spend more time in review. In the BarChris case, the court considered 20½ hours inadequate.

The BarChris case also brought to light that underwriters didn't make a reasonable attempt to verify data but relied on company officers and directors, another speaker mentioned. ■

business insurance/perspective

Urban crisis: What will be the response of the insurance industry?

by John Street

"I can't get insurance. Why? Only because the white people own all the insurance companies. And they won't give it to a Negro." These are the angry words of a frustrated black businessman, addressing last June's American Management Assn. conference on the problems and solutions of the urban crisis.

The reputation of insurance companies, particularly property and liability underwriters, is clearly not very high in the black community. Whether deserved or not, there is substantial room for improvement, and to date there has been little apparent effort to change the situation, other than by the large life insurance companies which have pledged mortgage money for the ghettos.

Therefore, the recently published "Mobilizing for Urban Action—Challenge to Business" (American Management Assn., 135 W. 50th St., New York, N.Y. 10020, 1968, $2.50), a booklet which summarizes last spring's AMA conference, becomes "must" reading for all businessmen and most certainly for those from the property-liability segment of the insurance industry. That a crisis exists is clear. How this industry will react is not so certain.

Opportunities for the Negro in the insurance industry have not been especially impressive. Recent AMA spring and fall insurance conferences and ASIM sessions have revealed a sea of white faces. The College of Insurance in New York has difficulty interesting Negroes because of the visible lack of employment opportunities above the clerical level. Aspiring black brokers and agents have tremendous difficulty with markets and obtaining agency agreements.

It can be argued, that the insurance industry is facing a major crisis within its own house—shrinking or nonexisting underwriting profits, challenges from other financial institutions, restrictive legislation, an inability to attract top management talent, etc. But insurance remains a major industry and must show some greater evidence of responsibility in the urban area. Whether justified on moral grounds or as enlightened self-interest, something more must be done.

The AMA conference produced general agreement that the racial crisis is connected closely to the larger and equally urgent urban situation. Social disorientation, disorders, frustration and sky-rocketing welfare costs are the results of an earlier attitude which either denied that a problem existed or suggested that the federal government alone should try to solve it.

THE CONFERENCE SAW CLEARLY that all businessmen, as individuals and as members of their firms, have a direct stake in a three-pronged attack. This attack includes: "(1) vast programs for new and rehabilitated housing; (2) a many-faceted drive to help the black businessman save his bankrupt economy, and (3) a final solution to the unemployment situation in the ghetto."

Many possible solutions to the housing problem have been suggested, but the fact remains that a combination effort of new housing, rehabilitation of shells and self-improvement will be required. The life insurance companies mortgage commitment of $1 billion will be used up within two years. Where will the additional mortgage money come from? The report noted: "If a man owns his own home, he will want to protect it, not destroy it." Will the property-casualty insurance companies sell him the financial protection he requires? Will the major brokerage houses sponsor ghetto-based brokers and agents?

The principal financial drive must be to return economic control of the ghetto to its residents. In Harlem, for example, the report states that 80% of the 6,000 retail and manufacturing businesses are owned by whites. Financial services such as the Small Business Administration and the recently announced Ford Foundation-sponsored investment plan for poverty areas can be helpful.

Advisory services can give black businessmen the management knowledge for a better-than-even chance to be successful. SCORE, the Service Corps of Retired Executives, and other smaller advisory groups have been established to this end.

Another answer has been the creation of "joint ventures" in ghetto areas, sponsored by outside corporations and staffed by personnel from within the ghetto area. Strong financial and management support can get the endeavor off the ground and stock option arrangements can give the local people the opportunity of buying the business entirely once it has been firmly established.

CRACKING HARD-CORE unemployment means more than making certain jobs available. It means a wholly new approach to the training of those who have had inadequate schooling and who may lack even the barest job motivation. Dr. Leon Sullivan's Opportunities Industrialization Centers have spread successfully from Philadelphia to many other cities across the country. Why? They stress pride and self-respect as they combine vocational and technical training.

Industry must recognize that training for the ghetto dweller means substantially higher costs, both during the training phase and afterwards, and new concepts of motivation must be used. We must not arbitrarily assume that our values are accepted or even understood. We must look at these trainees through their own values, in order ultimately to be successful in allowing them to make a real contribution to our business.

The AMA report really calls for a critical re-evaluation of most of our economic, social and psychological assumptions. The Ford Foundation has suggested that, in addition to the financial return, an investment should also be measured in terms of its "social yield." If risk management is properly the function of the various aspects of the insurance industry, then perhaps the urban crisis can be couched in terms of "environmental risk" and the necessary investments can be directed toward the imaginative management of this risk.

But the strongest argument for the full-scale participation of the private sector in the battle to win the urban crisis was voiced by Floyd Hall, the chairman of Eastern Airlines, when he said: "The business of business is America." No company is too small or too poor for this participation. ▪

Ingosstrakh—Soviet company for foreign insurance

by Sergei Andreyev
Novosti Press Agency
Moscow

Ingosstrakh—Upravlenie Inostrannogo Strakhovaniya SSSR—which handles Russia's foreign insurance placements, has existed as an independent organization since 1948. Before that these functions were carried out by the board for foreign operations under the Gosstrakh SSSR.

Having at its disposal extensive assets, a stable number of insured and broad reinsurance relations, Ingosstrakh is capable of accepting (both for insurance and for reinsurance) major insurance risks and of meeting its commitments in full and on time.

INGOSSTRAKH COOPERATES with the largest insurance societies and companies in many countries throughout the world.

In the USSR and abroad, Ingosstrakh insures export and import goods, coastal shipping and transit cargos, vessels and freights, as well as property interests connected with transportation. Ingosstrakh deals with the insurance of Soviet property abroad, as well as the personal and property interests of foreign citizens abroad. Moreover, it conducts broad reinsurance operations with foreign insurance companies and offices on the acceptance and transfer of risks.

Ingosstrakh is authorized to conclude individual and general contracts on all types of insurance, to liquidate insurance losses and pay indemnities on personal insurance, to issue guarantees on general averages, to perform the functions of average commissioner on behalf of foreign insurance companies, to conclude reinsurance contracts with foreign insurance societies and companies and perform the settlements involved, to acquire and alienate the bonds of foreign insurance societies and to perform other activities essential for the performance of its operations.

Ingosstrakh is liable for its commitments with the entire property in its possession, which may be proceeded against in accordance with the acting legislation.

From the financial and economic point of view, Ingosstrakh is a self-supporting organization. The state does not bear any responsibility for the liabilities of Ingosstrakh. Similarly, Ingosstrakh is not liable for claims presented to the state or its bodies. The indemnities paid by Ingosstrakh for losses and insurance sums in personal insurance are free of government and local taxes, revenues and state duties.

In contrast to foreign insurance societies and companies, Ingosstrakh does not use its capital for investments and does not get any interest on it. However, from the very first day of its foundation, Ingosstrakh has been operating on a profit basis. Ingosstrakh derived profits even in 1965 when, due to the damage inflicted by the "Betsy" hurricane, it had to pay substantial sums on its reinsurance risks.

INGOSSTRAKH CONDUCTS ITS operations both directly and through its offices—agencies in the USSR, general agencies, missions, branches and bureaus abroad. These offices also perform the functions of average commissioner in the interests of Ingosstrakh. Ingosstrakh has offices in the chief sea ports of the Soviet Union and on the territory of some foreign countries.

In the countries where Ingosstrakh has no offices of its own the functions of average commissioners are carried out by various foreign companies and insurance societies. In the USA it is the International Adjusters Ltd. in New York that acts as Ingosstrakh's commissioner.

Ingosstrakh concludes all insurance contracts according to its own rules and tariffs, as well as according to the rules and tariffs generally accepted in international insurance practice. Relations between Ingosstrakh and the insurer are determined by these rules.

AT PRESENT COMPANIES in about 100 countries receive insurance policies of Ingosstrakh. Reinsurance operations are practiced on a large scale. Ingosstrakh reinsures its risks in companies and societies of 37 foreign countries, including nine European and Asian countries of the socialist camp. As a rule, Ingosstrakh submits to reinsurance all risks exceeding $500,000. The largest sum paid recently was that of $6,100,000 paid out under insurance contracts in connection with the wreck of the Soviet cargo vessel Veliky Ustug off the coast of America this spring.

Ingosstrakh, in its turn, accepts for reinsurance risks from foreign companies and societies of 51 countries, including 12 countries of the socialist community. Reinsurance contracts are concluded both directly and through brokers in Great Britain; France, West Germany, Italy and the USA. In the latter, Ingosstrakh conducts operations with such insurance companies as American International Marine Agency (AIMA) in New York and San Francisco; Reinsurance Corp. of New York; American Home Assurance Co.; National Union Fire Insurance Co. of Pittsburgh; Smith, Biggs & Co., Ltd. and others.

Continued on following page

Continued from preceding page

However, the share of reinsurance operations is comparatively small. It is direct insurance contracts that account for ¾ of Ingosstrakh's income.

Ingosstrakh is a member of the International Union of Marine Insurance and takes part in its annual conventions.

The most widespread types of foreign property insurance are transport insurance, hull insurance, fire and other calamity insurance.

Ingosstrakh insures cargoes, anticipated profits, commission, freight and other expenditures connected with the shipment of cargoes. An insurance contract may be concluded on terms "with liability for all risks," "with particular average," "free from particular average, shipwreck excluded."

Relations of Ingosstrakh with Soviet foreign trade associations on export and import freight insurance are regulated by long-term general policies. Under these general policies the insureds—national foreign trade associations—submit, and the insurer—Ingosstrakh—accepts for insurance the goods exported from the USSR and imported to the USSR, and re-export and re-import goods.

Rules for the transport insurance of goods underlie the general policies.

GENERAL POLICIES GRANT the insured associations the highest degree of insurance security stipulated by rules and tariffs both with reference to the scope of liability and its duration, as well as to the continuity of coverage for the entire period of shipment, including the foregoing and following transportation by inland communications (waterways, rail, air and motor transports) and in storage.

Ingosstrakh accepts for hull insurance ships with their machines, equipment and rigging, as well as freights, expenditures on vessel equipment, delivery of vessels to purchasers, and other outlays connected with ship exploitation.

An insurance contract may also be concluded on terms both "with liability for loss and damages" and on more limited terms: "without liability for damage unless stranded," "free from particular average," "with liability only for the total loss of a vessel, including salvage costs," and "with liability for total loss of the vessel only."

TRANSPORT INSURANCE and hull insurance rules make provision for changes in the above basic insurance terms on coordination of the parties or for their supplement with other terms generally accepted in insurance practice.

For instance, Ingosstrakh accepts for insurance with additional risk of damage by ice the vessels and cargoes on lines crossing the Arctic Ocean. As a rule, these vessels and cargoes are connected with the export of timber from the Soviet Northern ports of Igarka and Mezen. Such contracts are based on international agreements on additions in connection with "breach of warranties" with due account of ice conditions on the lines and of the season.

In addition to insuring foreign vessels and cargoes and the export-import freights of Soviet foreign-trade organizations, Ingosstrakh also insures Soviet cargoes on large and small coastal shipping lines, vessels belonging to Soviet cooperative organizations, and ships of the USSR Ministry of Fisheries which are part and parcel of large fishing and whaling flotillas. (The USSR Ministry of the Mercantile Marine does not insure its vessels. Losses due to the damage or wreckage of its vessels are compensated by the state).

INGOSSTRAKH INSURES buildings, structures, storages, goods and semi-manufactured goods, raw materials and other property. Under contracts on insurance against fire and other hazards, losses caused by the damage or destruction of property by fire, lightning or explosions of gas used for household purposes are indemnified, as are the losses sustained due to forced measures for the salvation of property, extinguishing of fire or prevention of its spread.

By special agreement of the parties, the insurance contract may include additional liability for losses inflicted upon property due to underground fire, volcano eruption, earthquake, avalanches, landslides, storms, whirlwinds, hurricanes, rain showers, floods and other natural calamities; as a result of the explosion of steam boilers, gas storages, gas pipelines, machines, apparatus and instruments operating on compressed air or gas, as well as due to the internal damage of electric installations, instruments and machines or to the sudden damage to running water, fire extinguishing and sewerage facilities, and other causes.

In all cases when, according to insurance terms, damages are to be indemnified, all the necessary and expedient expenditures for salvaging (for instance, fire fighting and salvaging of property) and for restoring the property to due order (drying, dismantling, sorting, etc.) are indemnified as well. Such expenditures are compensated within the insurance sum with due account of indemnities for losses.

INSURANCE, IF NOT specially stipulated in the contract, does not apply to goods in safekeeping or on commission, to transport facilities, agricultural and all other mobile machines during their travel or parking outside their permanent site, precious metals in bullion or precious stones without mounting, rare antiquities or works of art, manuscripts, plans, drafts, drawings, specimens, models and moulds, securities, bonds, all sorts of documents, stamps, coins and paper money, bookkeeping and other business books and explosives.

Under the rules of property insurance against fire and other hazards, damages inflicted deliberately or due to the outright carelessness of the insured, beneficiary or their representatives are not indemnified. Neither are those due to their violating fire protection rules, rules for the storage of inflammable or explosive materials and objects or other rules fixed for some kinds of property, warfare, etc.

Indirect damages are not indemnified under all insurance rules.

Ingosstrakh concludes contracts on the insurance of Soviet and foreign international exhibitions, as well as contracts on the individual insurance of automobiles and luggage of foreigners while they are on the territory of the USSR, as well as accident insurance of foreigners.

Ingosstrakh can conclude contracts on other kinds of insurance on terms generally accepted in international insurance practice.

The relations of sides under an insurance contract and in insurance cases are determined by the relevant rules.

Ingosstrakh or its representatives have the right to take part in salvaging and preserving the insured object, taking all measures essential for that. However, the activities of Ingosstrakh's representatives for salvaging and preserving the insured object cannot serve as grounds for the acknowledgment of the rights of the insured to insurance indemnities.

All arguments between Ingosstrakh and the insured with reference to contracts on the insurance of cargoes and vessels are settled at the Marine Arbitration Commission of the All-Union Chamber of Commerce in Moscow, and arguments with reference to property insurance contracts are settled by arbitration or court proceedings in the location of the Ingosstrakh office that concluded the insurance contract. ▪

What is the meaning of 'actuarial liability?'

by Bion H. Francis
corporate director of employe benefits, Crucible Steel Co.

Bion H. Francis

One difficulty in discussing pension plans arises from the fact that important terms and underlying concepts are not precisely defined. For example, what is the *actuarial liability* of a pension plan?

To obtain the answer, let us start with Opinion Number Eight of the accounting principles board of the American Institute of Certified Public Accountants. It states principles used by accountants and auditors to prepare annual report material. This opinion contains a glossary which defines actuarial liability as follows:

> **"Actuarial Liability.** The excess of the present value, as of the date of a pension plan valuation, of prospective pension benefits and administrative expenses over the sum of (1) the amount in the pension fund and (2) the present value of future contributions for normal cost determined by any of several actuarial cost methods. (Sometimes referred to as unfunded actuarial liability.)"

The definition itself, and the material in parentheses at the end of the definition, indicate that this is the definition of *unfunded actuarial liability*. In other words, this definition states that the actuarial liability of a pension plan is the same as the unfunded actuarial liability.

I have before me an actuarial report on a corporate retirement plan signed by one of the largest and most reputable actuarial organizations in the country. This report gives a figure for the "actuarial liability" which has *not* been reduced by the value of the fund. Later in this report the value of the fund is subtracted from the actuarial liability and the difference is called the unfunded actuarial liability.

As defined by Opinion Number Eight, the term "actuarial liability" includes only the unfunded liability; while the practice of this major actuary (and, I believe, of many others) is to include both funded and unfunded liability in the term "actuarial liability." I believe that this latter is the better practice. Perhaps this means simply that I am more accustomed to it.

There should be a term to indicate the actuarial liability involved in a pension plan whether it is funded or unfunded. The term actuarial liability is frequently used for this purpose. However, the definition of actuarial liability in Opinion Number Eight is different and may cause confusion. Therefore, I will use *total actuarial liability* to indicate this hereafter.

THIS TOTAL ACTUARIAL liability may be divided into two parts in another way. Part of this liability is a *vested benefit*. The glossary in Opinion Number Eight says vested benefit is a benefit which is "not contingent on the employe's continuing in the service of the employer."

In other words, the vested benefit is the amount an employe would receive under the pension plan in any event if he lives. This vested benefit is usually contingent upon survival, and may lapse without value if the employe dies.

The remainder of the total actuarial liability is a *contingent liability* which will become a vested benefit as employes qualify for vesting under the retirement plan. We might regard these two portions of the total actuarial liability (in other words the sum of the vested benefits and of the contingent liabilities which are not vested) as a "going concern" liability which remains a liability as long as a company continues to be a going concern.

The portion of this liability represented by vested benefits is the part of the total actuarial liability which is a liability even if a company is liquidated. The difference between the total actuarial liability and the vested benefit is a contingent liability which would disappear in event of a liquidation.

In a sense, there is another kind of contingent liability which is seldom referred to as such. Because of the many changes which may occur in interest rates, mortality rates, and employe turnover, it is impossible to determine the exact cost of benefits which will be paid many years in the future.

As a practical matter, employers and actuaries make "actuarial assumptions" concerning these factors which determine cost. To the extent that these assumptions do not reflect the actual conditions encountered, there can be an increase or decrease in the total actuarial liability. The possibility of such an increase in total actuarial liability can be regarded as a form of *contingent liability resulting from actuarial assumptions*.

The confusion resulting from total actuarial liabilities, vested benefits and contingent liabilities may be compounded when accompanied by reference to liabilities which may or may not be *legal liabilities*. Many retirement plans contain a statement that the plan is not a legal liability of the employer. With this provision, the protection of an employe is provided by the assets in the retirement fund.

ANOTHER FORM of legal liability may be found in a retirement plan. Such a plan may involve a *contractual liability*. This contractual liability usually results from union agreements in which an employer contracts to pay pensions, or contribute to the pension fund at some stipulated level.

Even when a plan is not a legal liability, it can be an *accounting liability*. Opinion Number Eight states that "the cost of the plan should be accounted for on the assumption that the company will continue to provide such benefits. This assumption implies a long-term undertaking, the cost of which should be recognized annually whether or not funded. Therefore, accounting for pension cost should not be discretionary."

Accordingly, if the cost of a plan has been worked out on an actuarial basis acceptable under Opinion Number Eight, it must show on the balance sheet as what might be termed an accounting liability, whether or not it is a legal liability.

Are there any questions? ▪

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Pensions for state-local workers may outstrip private plans: Holland

NEW YORK—Pension plans for state-local employes have kept pace with plans for the private sector and in fact, after 1970, state-local plans may be responsible for almost all of the increases in pension fund accumulation.

The prediction was made by Daniel M. Holland, professor of finance, Sloan School, Massachusetts Institute of Technology, at a Tax Institute of America symposium here. With the aid of pension studies he drew a parallel between the development of private and government pension programs, their effect on one another and on savings and methods used for vesting funds.

Taxes, Mr. Holland contended, have been an encouraging factor in the development of pension plans and have also affected the time of acceleration of pension plan growth. "But the growth of pensions also appears to be a response to underlying structural changes in the economy as well as to particular tax advantages," he said.

IN TERMS OF pure size, pension funds and associated fiscal operations are likely over the next 15 years to reach levels that "dwarf the present magnitudes," Mr. Holland said. Projections indicate that through 1980 pension funds for state-local employe plans will continue to play a more important role each year in the process of savings and the markets for capital—"indeed in 15 years they may very well be a more important source of funds than private industrial plans," he said.

Mr. Holland contended that pension coverage does not lead households to substitute their pension contributions for other forms of saving, but seems actually to induce a slight increase in other savings.

Actually, he said, since "we rely on both Social Security and private pension plans for providing support in old age, it seems fitting that private and public programs complement each other, the one tending to make saving lower than it would be and the other tending to raise saving over the level it would otherwise reach."

Mr. Holland described how the various type plans differ in investing their assets. Insured pension fund holdings are in-debt instruments with corporate bonds and mortgages each about 14% and government securities about 8%.

NON-INSURED private pension funds, he said, are currently holders of corporate securities, with common stock almost half their total assets and bonds well over one third.

As for state-local plans, their assets consist almost wholly of debt claims, "and given the institutional environment and constraints under which they operate, a major portion of assets in this form is likely to continue," Mr. Holland predicted.

But, he said, "there have been very pronounced changes in the relative importance of the debt instruments they hold. Corporate bonds now comprise over half the assets of state-local employe funds, and over the most recent decade close to two-thirds of the additions to these funds have taken this form."

Over this same period, he said, "A not inconsequential amount of mortgages have been taken up and a relatively small amount of common stock."

IN REFERRING to a pension study recently made, Mr. Holland said that state-local plans may show more interest in acquiring corporate stock and private plans may tend to be less vigorous in this area. In regard to financial assets—mortgages—the future could "very well" see increased absolute amounts of purchase by both private and state-local funds, giving a relative rise in the importance of mortgages among assets acquired annually.

Mr. Holland predicted that it may be state-local funds that will first cushion the decline in the pension fund sector's net demand for corporate bonds, and then raise it to higher absolute levels, although relative to other financial assets the demand will not get as high as in 1965. ▪

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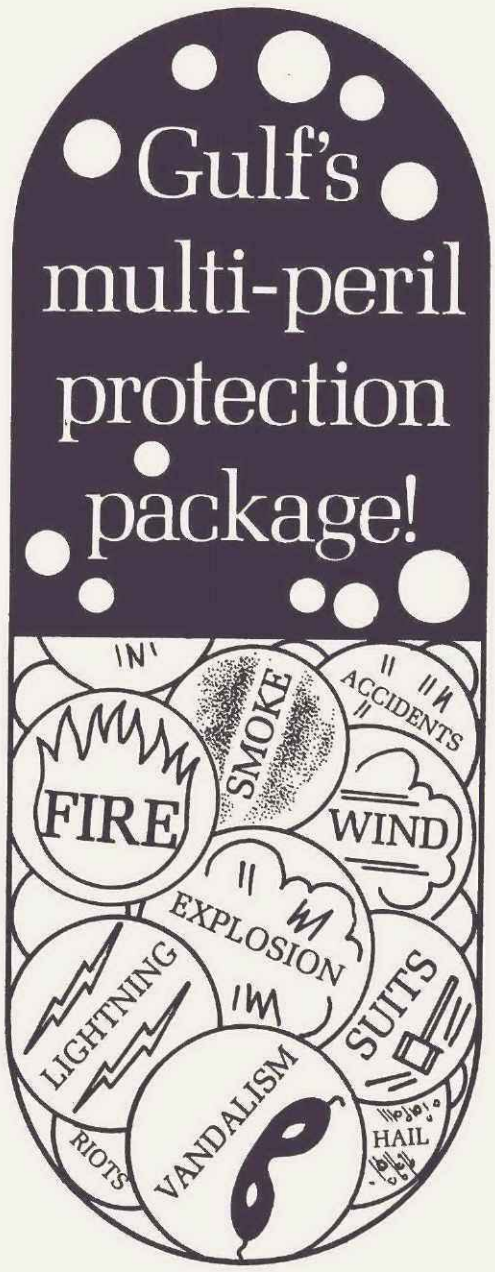

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Allied Chem asks deductible in new cover

NEW YORK—A move toward using deductibles in exchange for lower premiums by Allied Chemical Co. was rejected by two major U.S. insurance associations, prompting the firm to switch coverage to London and other U.S. insurance markets.

Allied, which is embarking on a new fire insurance program, withdrew from Factory Insurance Assn. and Oil Insurance Assn. when an agreement could not be reached on how much premium reduction should be allowed for using deductibles.

The firm was said to be asking for premium reductions based on a deductible of $1,000,000 per occurrence.

Marsh & McLennan, broker for Allied, said the company for the past ten years has had "excellent loss experience," attributed mainly to a concentrated loss prevention program covering all locations.

Factory Insurance Assn., an underwriting group of more than 50 stock companies, said the loss of the Allied account was a matter of price.

While FIA maintained deductibles were a step in the right direction for the petrochemical companies, the group said the problem "boils down to how much discount should be allowed for deductibles and loss prevention improvements."

For example, an FIA spokesman questioned whether a $1,000,000 deductible on the $36,000,000 Cities Service loss last year meant much to insurance underwriters.

"Insurers have to look at the loss potential," he said. "It is one thing to have a $1,000,000 deductible, but a matter of opinion as to how much it is worth to the insurance companies." ▪

Anselmo to staff

Peter J. Anselmo, CPCU, has been appointed to the underwriting staff R. W. Bowman & Co. Inc., N.Y. Mr. Anselmo has been in the insurance field more than ten years.

Fringe benefit cooperation vital: labor leader

NEW YORK—A high-ranking labor union official sees "cooperation" between labor and management over fringe benefits as the only sure road to "economic democracy and industrial peace."

Sol Stetin, general secretary-treasurer of the Textile Workers Union of America, told the Council on Employe Benefits that a "united labor and management is needed in America."

He lauded management for an increasing recognition of the "importance and inevitability" of labor but urged American management to "stop fighting with unions and cooperate."

"There has been growing acceptance on the part of management," Mr. Stetin said. "But there is no reason why labor must continue to struggle, fight, argue and strike for health and welfare benefits in industry and government."

HE SAID that his union is utilizing the bulk of its income to expand the union movement to unorganized sectors of the country.

Mr. Stetin pointed out that there are about 500,000 unorganized textile workers in the southern section of this country. He then outlined some of the inequities suffered by southern, non-union workers.

He claimed that wages run from $800 to $1,000 less per year for southern workers, compared to the average yearly wage of workers in other parts of the country.

Pay for leave time for vacations or holidays costs employers from 6¢ to 8¢ an hour in the South, compared to 16¢ to 18¢ an hour for the rest of the nation.

Shift differentials run only 1¢ to 2¢ an hour in the South, while costs in other parts of the country amount to 22¢ an hour.

Private welfare, insurance and pensions are other areas where the South is "lagging" behind industry in general.

Employers in the South are paying only 5¢ to 6¢ an hour for these benefits, while the U.S. norm is about 22¢.

This means southern industry is paying only about 14¢ to 16¢ an hour on the average for employe fringe benefits, while the rest of the country is spending about 50¢ an hour.

"IN ADDITION there are no provisions for supplemental unemployment benefits," he said.

Although these figures were compiled in 1965, Mr. Stetin has seen "only minor changes in the last three years."

Mr. Stetin also commented on "less than adequate" working conditions in the South, where there are poor plumbing and air conditioning facilities and workers often have to eat their lunches at their machines.

"The way to deal with this problem," he said, "is by permitting these workers to form unions, go through collective bargaining and allow them to enjoy the fruits of American industry and the fruits of labor as 20,000,000 workers are now doing in this country."

He suggested that something comparable to wartime union-management committees be adopted in peacetime, and emphasized the growing need for such a plan in the face of increased automation.

MR. STETIN RECOMMENDED increased cooperative involvement by labor and management in political and social problems, on nation, state, city and community levels.

He also advocated the joint efforts of labor and management to combat growing problems in housing and transportation. ■

Farm workers to get some work comp

MOUNT VERNON, Wash.—Duane S. Stookey, state supervisor of industrial insurance, has announced that some, if not all, agricultural workers will come under Washington's workmen's compensation act on April 1, 1969.

He made the statement as he chaired the first of ten hearings to be held in the state within the next 60 days.

The hearings are a result of petitions from the United Farm Workers of Toppenish, Governor Evans' Farm Labor Advisory Committee and the State Labor Council.

Whether certain exemptions will be allowed is dependent upon legislative action between the projected February filing time and the April 1 implementation date.

THE COST TO THE employer has not been set yet, but Mr. Stookey envisions a "substantial reduction" from the base rate of 14¢ per man hour. "Perhaps as low as 8¢, but don't tie me to that figure." The reduction will be affected by the addition of some 20,000 new accounts to the existing 260 voluntary accounts under the workmen's comp act.

Northwest Washington farmers generally opposed steps designed to bring them under state industrial insurance coverage at the hearing at the Northwestern Washington Extension station here.

The hearing drew more than 100 farmers, businessmen and legislators. ■

what brokers should be listed in an insurance buyer's blue book?

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Mobile, Thames & Batre
ALASKA, Anchorage, LaBow Haynes Co. of Alaska, Inc.
ARIZONA, Phoenix, National-Heard Insurance Agency
ARKANSAS, Little Rock, Rector, Means and Rowland, Inc.
CALIFORNIA, Los Angeles, Kindler, Laucci & Day
San Francisco, Clifton & Company
CANADA, British Columbia, Vancouver, Durham & Bates Agencies Ltd.
Manitoba, Winnipeg, Ryan Agency Limited
Ontario, Toronto, Tomenson, Saunders Limited
Quebec, Montreal, E. A. Whitehead Limited
Saskatchewan, Regina, Ducketts Limited
COLORADO, Denver, Van Schaack & Company
CONNECTICUT, Hartford, Goodwin, Loomis & Britton
DISTRICT OF COLUMBIA, Washington, Howard & Hoffman Incorporated
FLORIDA, Jacksonville, Donald A. Bolton & Company
Miami, D. R. Mead & Company
GEORGIA, Atlanta, Dunlap and Company
Savannah, Palmer & Cay, Inc.
HAWAII, Honolulu, The Hawaiian Insurance & Guaranty Company, Limited
IDAHO, Boise, Stein-McMurray Insurance Inc.
ILLINOIS, Chicago, Stewart-Keator-Kessberger & Lederer, Inc.
INDIANA, Indianapolis, Robert N. Bowen & Associates, Inc.
IOWA, Des Moines, LaMair-Mulock-Condon Co.
KANSAS, Wichita, Wheeler Kelly Hagny Insurance, Inc.
KENTUCKY, Louisville, Nahm and Turner, Incorporated
LOUISIANA, New Orleans, Gillis, Hulse & Colcock, Inc.
MAINE, Portland, Morse, Payson & Noyes
MARYLAND, Baltimore, Riggs-Warfield-Roloson, Inc.
MASSACHUSETTS, Boston, Boit, Dalton & Church, Incorporated
Lowell, Fred.C. Church & Co.
MEXICO, Mexico, D.F., Kennedy & Hijo, A. P.
MICHIGAN, Detroit, General Underwriters, Inc.
MINNESOTA, Minneapolis, Wirt Wilson & Company
MISSISSIPPI, Jackson, Fox-Everett, Inc.
MISSOURI, St. Louis, Lawton-Byrne-Bruner Insurance Agency Co.
NEBRASKA, Lincoln, Weaver-Minier Company, Ltd.
Omaha, Jones-Weaver-Minier-Martland, Inc.
NEW YORK, Buffalo, Laverack & Haines, Inc.
New York, Despard & Co., Inc.
NORTH CAROLINA, Charlotte, James J. Harris & Company
OHIO, Cincinnati, A. W. Shell & Company
Cleveland, The W. F. Ryan Corporation
OREGON, Portland, Jewett, Barton, Leavy & Kern
PENNSYLVANIA, Philadelphia, O-W & Criddle Associates, Inc.
Pittsburgh, O-W & Criddle Associates, Inc.
SOUTH CAROLINA, Columbia, Boyle-Vaughan Agency
TENNESSEE, Kingsport, Bennett & Edwards Agency, Inc.
Memphis, E. H. Crump & Company
TEXAS, Dallas, Munger-Moore & Associates
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UTAH, Salt Lake City, Ed. D. Smith & Sons
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Roanoke, Chas. Lunsford Sons and Izard, Inc.
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New York's blanket employe bond covers city agency check forgery

NEW YORK—The New York City Human Resources Administration expanded its insurance coverage protecting itself against embezzlement only weeks before the disclosure of an alleged check forging operation, *Business Insurance* has learned.

The scandal, which came to light last August with the arrest of four Neighborhood Youth Corps employes, who allegedly consorted in the forgery of over $223,000 worth of paychecks, mushroomed early this month when Mrs. Helynn Lewis, former director of the administration's fiscal affairs, was arrested in California and charged with embezzling $22,912 from the agency.

Investigators are still trying to determine how much money is missing, though estimates run close to $1,000,000.

A SPOKESMAN for the city revealed that the public employes blanket bond, which covered the Neighborhood Youth Corps workers, was increased from $5,000,000 to $8,000,000.

The coverage was written by U.S. Fidelity & Guaranty of Baltimore

According to spokesmen for the city, the scandal "could severely endanger" future city attempts to obtain insurance, especially for projects related to the poverty programs.

Just weeks after city attorneys requested and were granted an increase in coverage, the alleged misappropriations were revealed, and the bonding agent who handled the increase was notified of an impending claim involving the city agency.

THE FORMAL CLAIM will not be submitted until investigators determine the exact amount of loss, one source said.

Though city officials see no problem in recovering the money through the terms of the bond, spokesman for U.S.F&G raised some doubt as to the company's liability in the case. He said a full-scale investigation will be conducted upon receipt of the claim. ▪

Canadian provinces consider no-fault auto compensation

MONTREAL—A no-fault system of auto compensation ready for introduction in all but one of the ten Canadian provinces will give commercial drivers the same rates as private motorists.

According to a royal commission report which studied rates for a no-fault system, commercial drivers involved in an accident would also qualify for workmen's compensation—thus helping to keep insurance rates on par with private motorists.

The new form of compensation, which incorporates an accident benefit feature and uninsured motorist coverage, is expected to begin Jan. 1 in all provinces except British Columbia. That province is waiting for the report of its royal commission on auto insurance before making a decision on necessary amendments to its insurance act.

THE OTHER provinces have already amended their acts to provide for the inclusion of the new coverage in auto insurance policies.

Offered to the insured through the new coverage is an endorsement to the policy extending the accident benefit to cover the insured as a pedestrian. This means that policyholders and their families will be able to file claims for injuries if knocked down by a car while crossing a street.

The accident benefit will pay stipulated amounts for death, dismemberment and disability. The most likely minimum amounts will be $5,000 for death (with a percentage of the death benefit for loss of limbs and eyes) and a disability benefit of $35 per week up to 104 weeks.

If a victim is totally and permanently disabled, payment will continue for an additional 104 weeks. The wife of the named insured will be eligible for a weekly payment of $12.50 for a maximum of 12 weeks.

The accident benefit will be paid to any occupant of the insured automobile or a newly acquired auto. ▪

Fleet buyers...

Continued from page 1

covered to the extent of damage to other automobiles.

• Physical damage would be optionally available to the insured.

A VETERAN observer of the commercial insurance scene noted that provisions of the AIA program to be announced require that auto insurance benefits be primary, and that duplicate benefits be eliminated, indicating that those who support the proposal are concerned about the costs of auto accident injuries that accrue to writers of group accident and health insurance.

Yet the AIA proposal, observers note, doesn't provide for subrogation, permitting claims to fall where they may, including coverage under workmen's compensation.

Under the AIA proposal it is likely, experts say, that some kind of equalization fund would have to be established to bring about parity between individual and heavy commercial users of vehicles. This attitude was evident in Massachusetts where a no-fault proposal ran into heavy sledding in the legislature.

Commercial users, under a "no-fault" system, would have to pay a premium consistent with the losses they cause, insurance authorities say. ▪

Name O'Mara to sales staff

NEW YORK—Thomas J. O'Mara has joined the New York sales staff of *Business Insurance* in the new post of District Manager. He will handle New England, upstate New York and most Canadian territories.

Mr. O'Mara, who lives in Ridgewood, N.J., was formerly in charge of retail advertising sales in the New York office of the Chicago Sun Times and Daily News. ▪

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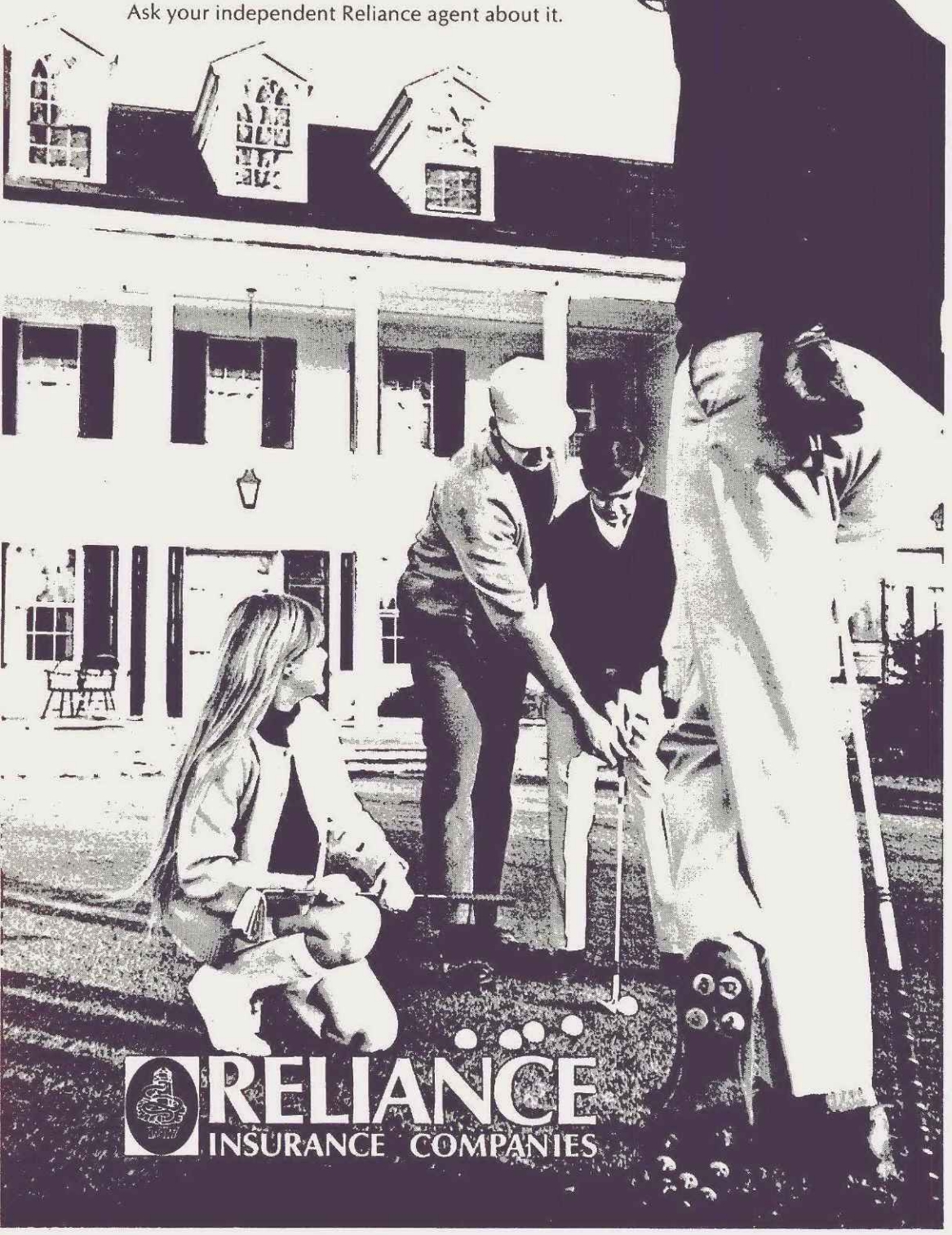

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Experts differ on uses, merits of directors and officers cover

NEW ORLEANS—Sharp differences of opinion about the coverage and merits of directors and officers liability insurance emerged from a panel discussion of the policy at a meeting here of the Society of Chartered Property and Casualty Underwriters.

Panelists did agree that recent court actions against corporate officers and directors have heightened interest in the relatively new coverage. And publicity given to the suits in the past four months has increased premium rates 70% to 100% at Lloyd's, the principal market for D&O liability coverage.

Michael Stevens, assistant secretary of American Home Assurance Co., New York, said that the prime sources of loss under the policies are "wrongful acts" of officers or directors. Purchasers of the coverage, he said, must be profit-making companies that are publicly and "widely" held with at least $2,000,000 in capital stock and at least two years old.

UNDERWRITING considerations in determining whether to accept a risk include gross assets, number of officers and directors, history of past litigation, corporate plans, examination of at least three past annual reports, Securities and Exchange Commission filings, outstanding proxy statements and regular examination of company reports sent to stockholders.

"The rating formula for such policies has many components and involves a good deal of underwriting judgment," Mr. Stevens said. He cited an example: A public utility with many subsidiaries and $5 billion in assets with 16 officers and 305 directors pays an annual premium of $290,000 with a $20,000 retention.

Markets available, in addition to Lloyd's and American Home, include American States Insurance Cos., Indianapolis; Employers Insurance of Wausau, Wis.; Kemper Insurance Cos., Chicago; Pacific Indemnity Co., Los Angeles, and the St. Paul Insurance Cos., Minn., whose writings are confined to the individual directors and officers form and do not include the company form.

Speaking for brokers, Charles Pachner, president of Frenkel Co. Inc., New York, said that many producers attempt to interest clients in directors and officers liability coverage by showing them newspaper clippings and lists of cases. "But such lists and clippings never say that D&O coverage would apply."

MR. PACHNER added that corporate attorneys are usually involved in the decision to purchase D&O coverage, "so make them your friends." One strong argument for buying coverage, Mr. Stevens contended, was that companies fear that suits against officers and directors will be drawn out and very costly.

John Olsen, insurance manager of Ingersoll-Rand Co. and a contributing editor of *Business Insurance*, confessed that "I still don't fully understand the coverage." Two classes of action involved in D&O coverage, according to Mr. Olsen, are third-party suits and corporate "insider" cases. This brings up the question, he said, of to what extent a corporation can indemnify officers and directors.

Mr. Olsen said a Delaware law recently upheld approves indemnification of corporate officers and directors of 35% of the companies listed on the New York Stock Exchange and companies incorporated in the 25 states that copy Delaware corporations law. Legality of indemnification of corporate officers and directors in other states is uncertain, according to Mr. Olsen.

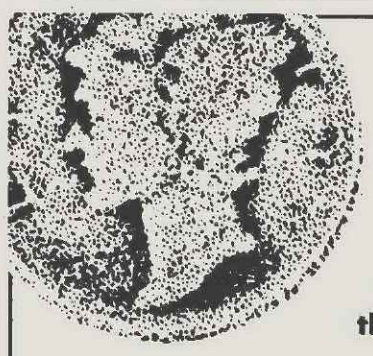
"I don't know of any losses paid under D&O coverage," he remarked, wryly adding, "so it must be profitable for the insurance companies."

MATTHEW LENZ, chairman of the property and liability insurance division of the College of Insurance, New York, summarized arguments against buying directors and officers liability coverage in the absence of an insurance buyer who rejected such coverage and was willing to state his reasons.

Mr. Lenz said rejection could be based on a number of factors including confusion about what coverage is provided; limitations on coverage through retentions, coinsurance and exclusions; ambiguities in policy wording; questions about coverages in derivative suits; lack of control by the insured in the defense of suits; inability to use the company's own attorney when criminal acts may be involved.

Also lack of available underwriting data; the element of "fear" injected into the buying

Continued on page 33



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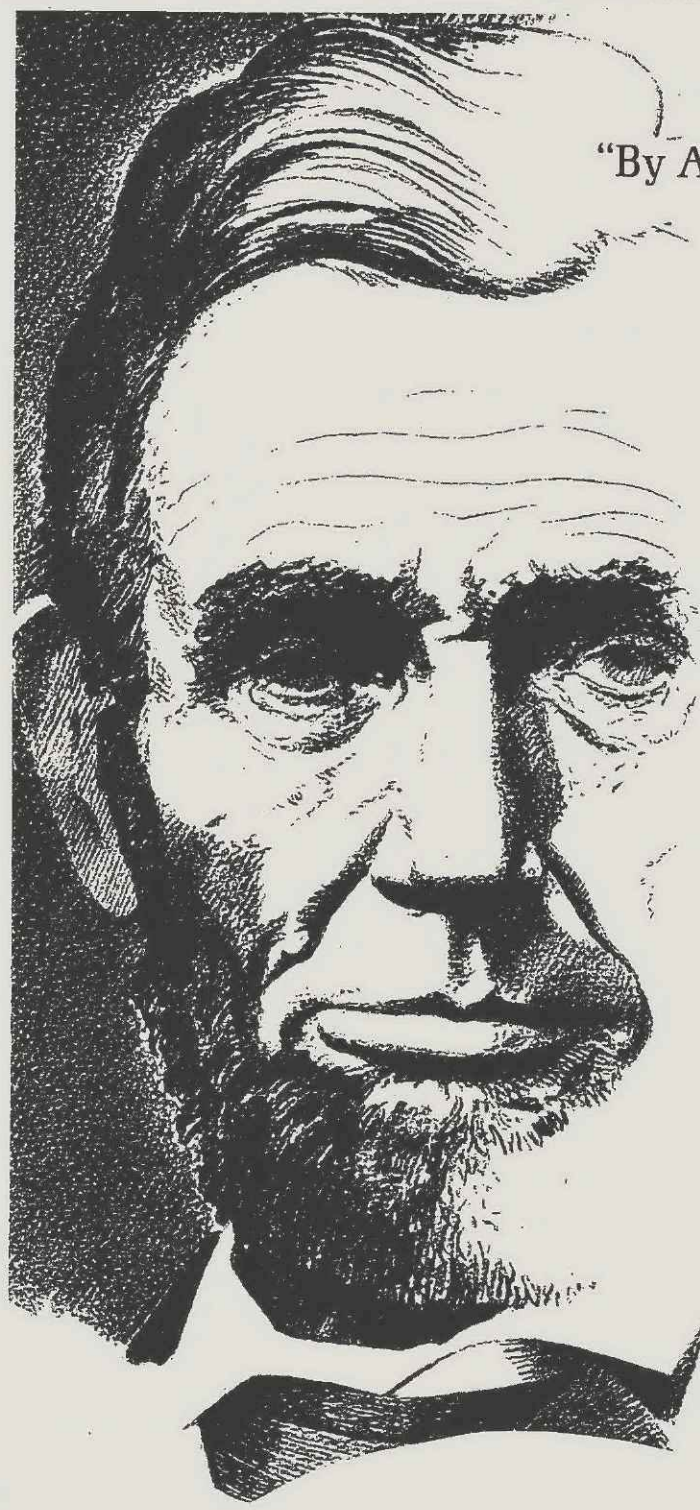

"By All Means, Don't Say 'If I Can,' Say 'I Will'"

Abraham Lincoln

Lincoln lived in a log cabin, went to school for twelve months and by today's standards might have been declared culturally deprived, poverty stricken, oppressed and a victim of his environment. However, being part of a free society, he worked hard, studied and became President of the greatest country on earth.

He believed in private property and said, "Let not him who is houseless pull down the house of another, but let him work diligently and build one for himself, thus by example assuring that his own shall be safe from violence."

Regarding laws he counseled, "Bad laws, if they exist, should be repealed as soon as possible; still, while they continue in force . . . they should be religiously observed."

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Indemnity agreements are a way to transfer risks, says Drake

CHICAGO—The advantages and disadvantages of transferring risk by using an indemnity agreement were discussed by Russell Drake Jr., insurance manager for Allied Supermarkets Inc., Detroit, at a workshop session of the American Management Assn.

Mr. Drake described an indemnity or hold harmless agreement as one of three ways for a company to transfer risks. The other two were retention through planned noninsurance and transfer to an insurance carrier.

The effects of a hold harmless agreement, Mr. Drake pointed out, include shifting the responsibility of a loss from the indemnitee to the indemnitor, creating a new responsibility for the indemnitor and establishing a contractual rather than a tort liability.

He outlined a "typical" broad construction indemnitee contract.

"THE CONTRACTOR agrees to protect, defend, hold-harmless and indemnify XYZ corporation and the directors, officers, employes and architects of XYZ corporation from and against any and all claims, action, liabilities, losses and expenses related to any and all losses or damages allegedly or actually arising out of or incidental to the work, services and activities of the contractor or any of its subcontractors under this contract, including, without limiting the foregoing, all acts and omissions of the officers, employes and agents of the contractor or subcontractors in connection with any installation job or work under this contract or while proceeding to or from the site of any such installation, job or work, whether or not lawful or within the scope of employment."

Mr. Drake pointed out there was no time limitation in this agreement, that it was not limited to "accidents" and that it included an obligation to pay for defense, "which could be the biggest dollar factor."

He offered several alternatives to indemnity agreements, including reliance on common or statutary law, waiver of subrogation, joint or additional insured, owner's protective liability coverage, vendor's liability endorsement and finally a wrap-up.

Mr. Drake said he recommended one insurance carrier for all tenants in a shopping center to facilitate claims handling. In addition, he recommended that the landlord have the burden of placing insurance for property it rents. "We are willing to reimburse the landlord for the cost of the premiums," he said, "and we can get away from acting as an adjuster and broker when the landlord buys the cover."

He said that retailers should ask for vendors' endorsements from their suppliers even though it may cost more initially, because they usually have much expertise in handling their own claims.

Finally, Mr. Drake offered as a general rule that responsible business concerns should take their own negligence under their own coverage. ▪

Ohio approves FAIR plan

COLUMBUS, O.—The Ohio department of insurance has approved the Ohio FAIR Plan of making insurance available to inner cities of the state.

Eugene P. Brown, state insurance director, said he expects all property and casualty companies licensed in Ohio to participate voluntarily.

The plan was developed by the Ohio Insurance Institute to qualify Ohio for federal reinsurance of the riot peril. ▪

dates for buyers

Oct. 20-22, University Insurance Managers Assn. fall conference, Pheasant Run, St. Charles, Ill.

Oct. 24, Delaware Valley Chapter, American Society of Insurance Management, annual conference, Sheraton Hotel, Philadelphia.

Oct. 28-30, University of Wisconsin extension division, corporate risk management course, Wisconsin Center, Madison Wis.

Nov. 6-8, AMA Fall Employe Benefits and Pension Conference and Fall Insurance Conference, Drake Hotel, Chicago.

Nov. 12-13, Railroad Insurance Management Assn., LaSalle Hotel, Chicago.

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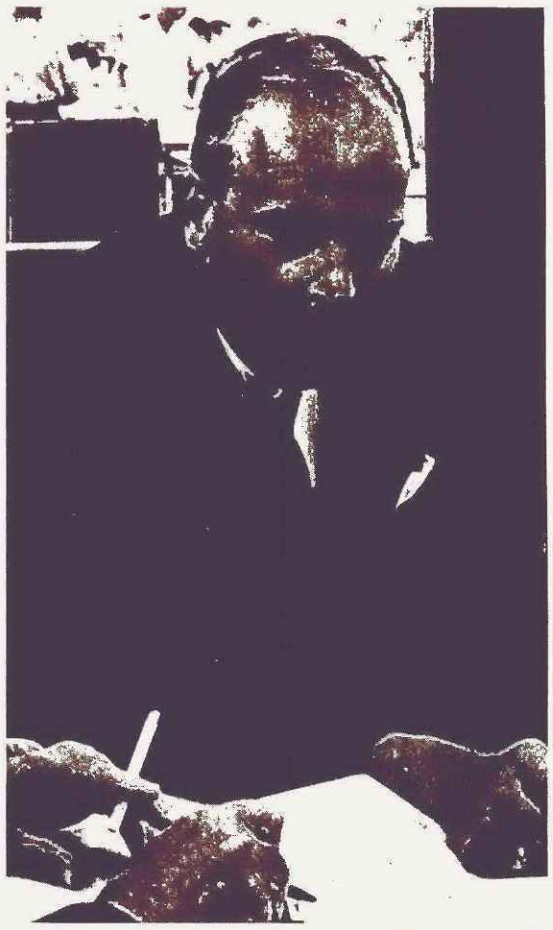

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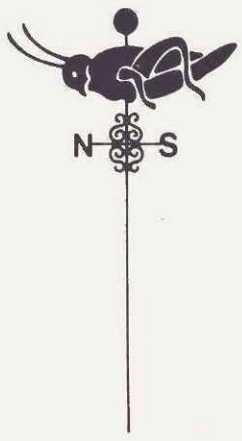

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Foresee bright future and wider horizons for mass market plans

NEW ORLEANS—Mass marketing of insurance and related financial services has a bright future, according to a panel of experts at seminars held here by the Society of Chartered Property and Casualty Underwriters.

Participants suggested that mass marketing to employer-employe groups may soon expand from life, health and auto insurance, which are already sold on a group basis, to homeowners and other personal lines as well as financial services including mutual funds.

Bernard L. Webb, assistant professor of actuarial science at Georgia State College, observed that the biggest stumbling block for mass marketing programs is that employers and prospective employe enrollees are not satisfied that the price reductions in group plans are sufficient.

PROFESSOR WEBB reviewed the results of a survey of attitudes of 376 employers toward group-type auto insurance he made for the Hart subcommittee investigating auto insurance. Only 14 of these employers had group-type auto insurance plans; only eight of the others said they would pay part of such a plan; 106 said they would be willing to institute such plans, and 11 employers said they had been approached by unions concerning group-type auto plans.

"The insurance manager, who is the key man in most companies on the group-type auto question, usually likes the concept but not the product," Mr. Webb asserted.

Misgivings, he said, stem from difficulties of administering plans, possible liability for the employer, reluctance to deprive local agents of commissions, the possibility that the employer would be asked to pay part of the premium, and fear that the plan would interfere with regular company operations.

Mr. Webb said group-type auto programs mentioned by employers surveyed were provided by the Continental National American Group, Insurance Co. of North America, Royal-Globe Insurance Co., Fireman's Fund Insurance Co., Hartford Insurance Co., Chubb & Son, Aetna Insurance Co., Kemper Insurance Cos. and Atlantic Mutual Insurance Co.

RICHARD M. Coffey, manager of the personal security department, Continental National American Group, Chicago, said his company has offered group-type auto plans since 1965 with good results.

"Success of such plans depends upon payroll deduction, employer communication and cooperation and a program of counseling employes," Mr. Coffey said. He added that his company has rejected fewer than 5% of group plan applicants and has taken steps to improve results in some groups with loss prevention programs.

Mr. Coffey added that when employers pay part of the premium under group-type plans, the employer's share is taxable income to the employe.

Gerald E. Myers, partner in Myers-Beatty and Co., Chicago, maintained that price reductions under group-type auto insurance plans are "more mythical than real" because the principal appeal is payroll deduction. "We'll solicit all commercial accounts about whether they are willing to make payroll deductions and if they are, we'll sell," Mr. Myers said.

The nation's only true employe group auto insurance program was described by Robert G. Young, special projects director of League Life Insurance Co., whose employes are covered by a program approved by Michigan's attorney general. League Life pays 33% of the cost for the 175 employes enrolled in a plan that offers a flat rate for physical damage insurance, guaranteed rates for three years, review by a three-member board and dividends paid to employes.

"We think the benefits outweigh the dangers," Mr. Young said. He cited such benefits as lower prices for auto insurance, increased availability of coverage, giving the consumer a bigger "clout," valuable counseling of insureds, and possible safety and claims programs.

Richard S. L. Roddis, professor of law at the University of Washington and former California insurance commissioner, predicted that mass marketing "is here to stay and it will get a lot bigger, even though it is complicated by legal and technical questions."

INSURANCE regulations, Mr. Roddis said, are not presently designed to encompass mass marketing, but he urged state regulatory officials to check the legal implications of such plans "and then get out the way." Mr. Roddis concluded, "We stand on the threshold of a revolution in personal lines marketing that will leave the industry in a stronger economic position and diminish the need for rate regulation."

Panelists noted that at the University of Pennsylvania, staff members may buy any form of insurance they want on a group-type basis through Insurance Co. of North America. When 30 individual policies were cancelled, the university picked up the coverage. ■

D&O cover . . .

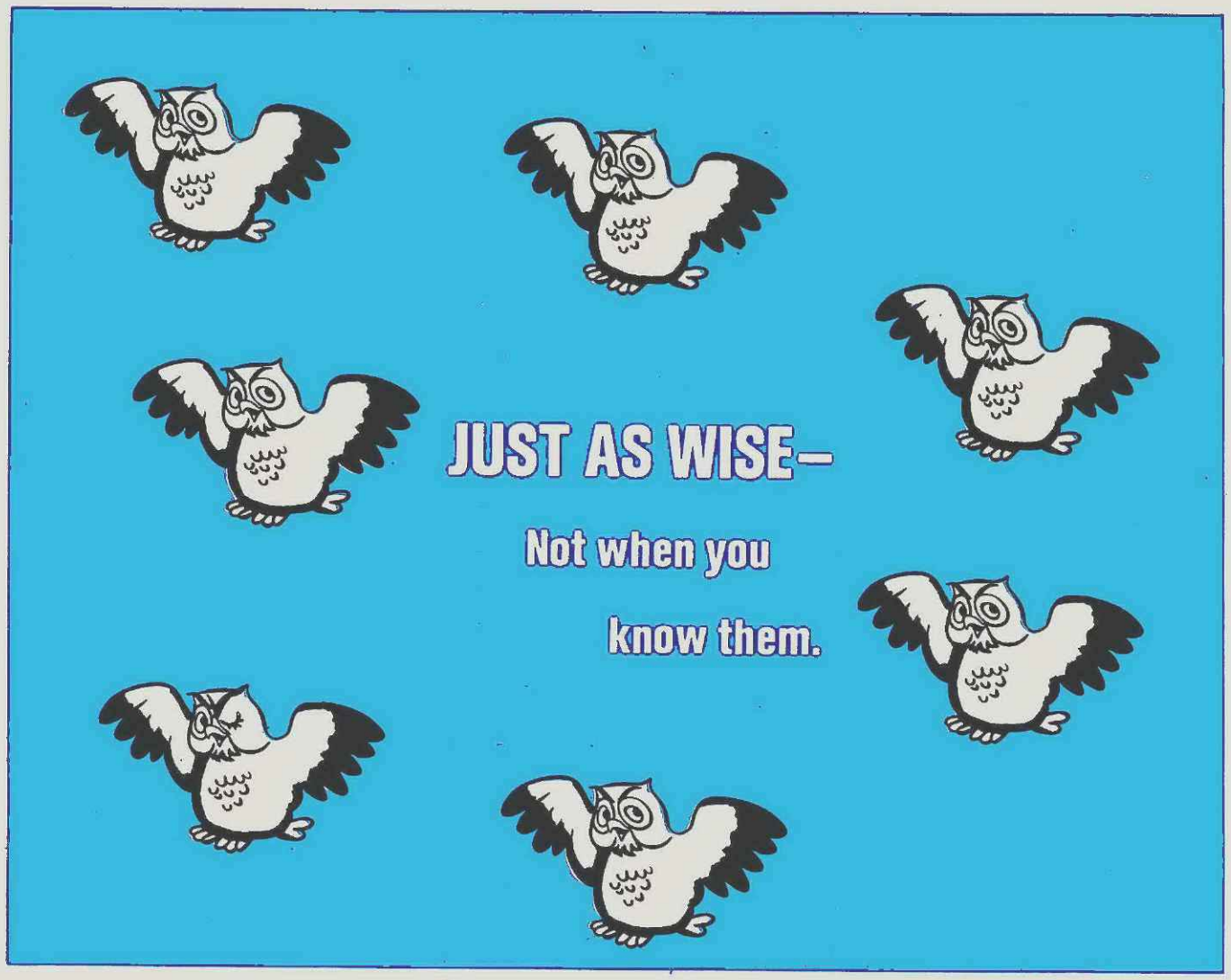
Continued from page 31

decision; questions about division of premium between the company and its officers and directors; cost and the fact that the buying decision is not made by the risk manager.

Mr. Lenz said that the decision to purchase directors and officers liability coverage should be made by the board of directors itself with guidance from the company's counsel or an outside counsel.

It was pointed out that liability for actions of persons serving on the boards of hospitals, civic organizations and the like would be covered under a personal umbrella policy, but such policies carry a business exclusion that creates a gap that may be filled by D&O coverage. Mr. Olsen told the seminar that many companies consider the premium for directors and officers liability coverage a proper part of the remuneration for persons holding such positions.

Officers and directors liability policy forms have been revised three times in the past 18 months and likely will undergo further revision to satisfy ambiguities and possible objections of insurance buyers, Mr. Stevens said. ■



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BART . . .

Continued from page 3

reasons for the relatively good safety record enjoyed by the project.

For example at the twin-bore tunnels which parallel Mission street between the 16th street and 24th Street BART stations, a "Turtle Club" membership was presented Robert Raster, whose life had been saved by the hard hat he was wearing.

Mr. Raster, a carpenter for the construction firm on the tunnel, was struck on the head by an eight-pound sledge hammer that fell from an 18 foot scaffold.

The club membership was presented by E. W. Bullard Jr., president of E. D. Bullard Co., a safety equipment supplier. The club's motto is "Shell on the head —we're not dead."

Mr. Bullard compared the BART construction safety with safety during the Golden Gate Bridge project. "Some 30 years ago," he said, "canvas and glue hard hats were used. That was the first major construction job to go 100% hard hat."

THOMAS J. LASKOWSKI, safety and claims supervisor for Transit, said that one reason premium cost has been reduced is because safety equipment is used in all construction areas.

Other than the hard hat, other personal safety equipment items include face shields, safety glasses, soft-side goggles, ear muffs and plugs, dust respirators and fluorescent vests for traffic control personnel.

Back-up alarms are used on all moving vehicles with a load capacity of two cubic yards or more, Mr. Laskowski pointed out. Other environmental safety equipment includes net and lanyards, first aid kits, fire extinguishers, stretchers, safety hoods, gas and oxygen detection equipment and self-contained breathing apparatus for rescue operations.

In an effort to minimize liability claims, BART engineers and photographers photographed every building in the principal construction area, Mr. Laskowski said. A record of all existing damage in these structures, including fine line cracks in plaster walls was compiled, he said.

"Our record of pre-existing damages," Mr. Laskowski insisted, "has made it impossible for property owners along BART routes to present anything other than valid claims for damage that might have resulted from our construction work."

ANOTHER EXAMPLE of the extent to which the BART has gone to limit claims costs is the establishment of a decompression center in downtown San Francisco.

With as many as 1,500 men working under compressed air, the specter of claims for decompression sickness, the "bends," is very real, Mr. Laskowski pointed out. With a staff of 14, the medical center will cost $20,000 a month.

To date, some 900 tunnel workers have taken examinations at the clinic before beginning to work, and more than 4,500 others are expected to take similar examinations during the next three years.

Seven tunnel workers have already been treated for the "bends." All tunnel workers for BART not only carry a card identifying them as such but also wear "dog tags" to alert almost 300 law enforcement agencies, hospitals, clinics, medical societies and ambulance services in Northern California which have been familiarized with the symptoms and cures for the "bends." ▪

Bus drivers get life coverage

SEATTLE—Some 150 bus drivers and mechanics of the Metropolitan Transit Corp. won a 25¢-an-hour across-the-board wage boost in a one-year contract.

Included in the agreement is a $50,000 insurance policy for bus drivers who are killed during an armed robbery of their vehicle.

Metropolitan operates 100 commuter buses in local service from Seattle to Everett, Tacoma and east of Lake Washington. ▪

No Blue Cross rate hike

HARTFORD—A Connecticut Blue Cross request for a rate hike of 33.2% to 57% has been rejected by State Insurance Commissioner William R. Cotter.

Mr. Cotter said he does not agree with the Blue Cross membership cost projections.

Blue Cross remarked that increased hospital costs caused operating losses on group business of $5,500,000 from January, 1967, through the first quarter of 1968.

Mr. Cotter said, moreover, that if the requested increase is granted, effective January 11, 1949, there will be a projected net gain of $6,400,000 for 1969 and a projected net loss of $3,800,000 for 1970.

Commissioner Cotter has urged Blue Cross to wait until a study is concluded on a possible merger with Connecticut Medical Service before considering any future rate increase.

He said that the study should be completed within 30 days and a merger could conceivably affect costs. ▪

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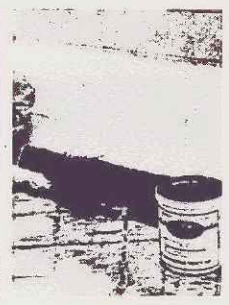

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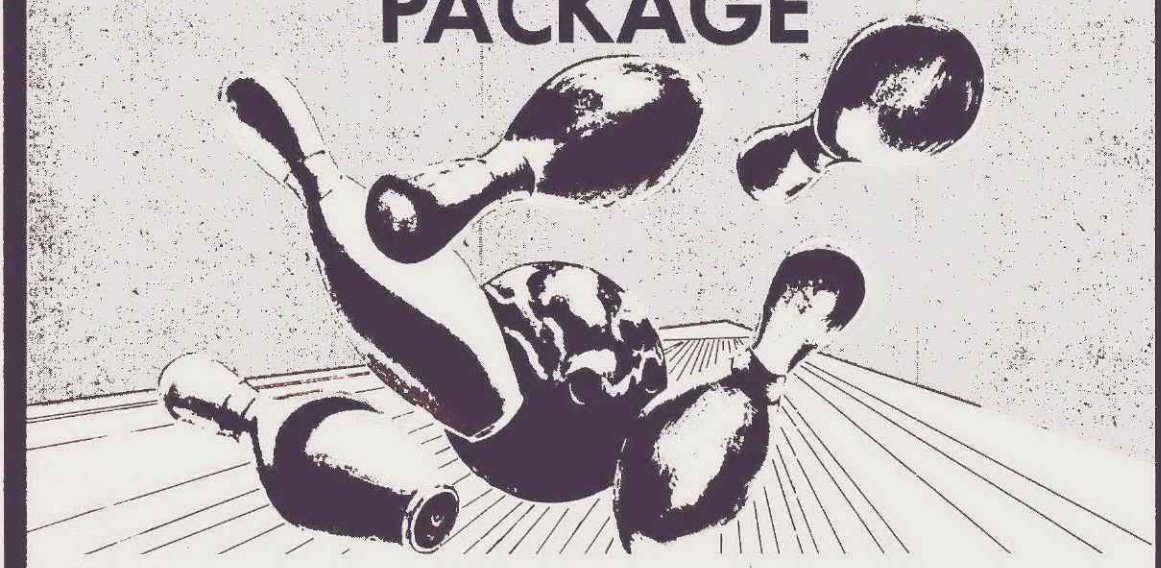

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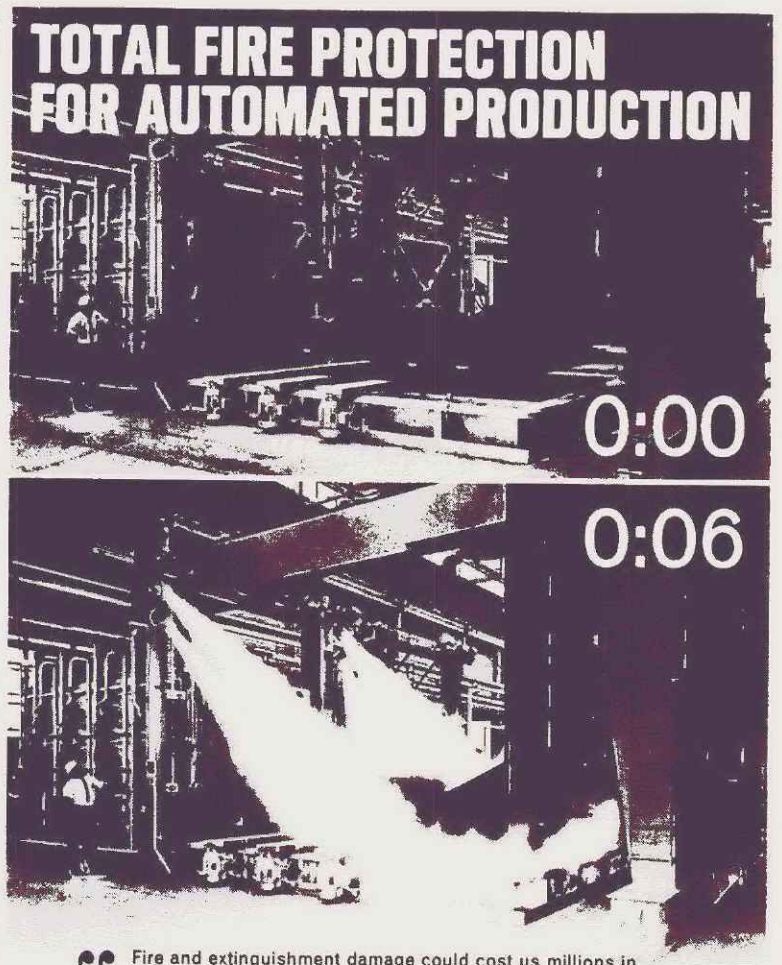

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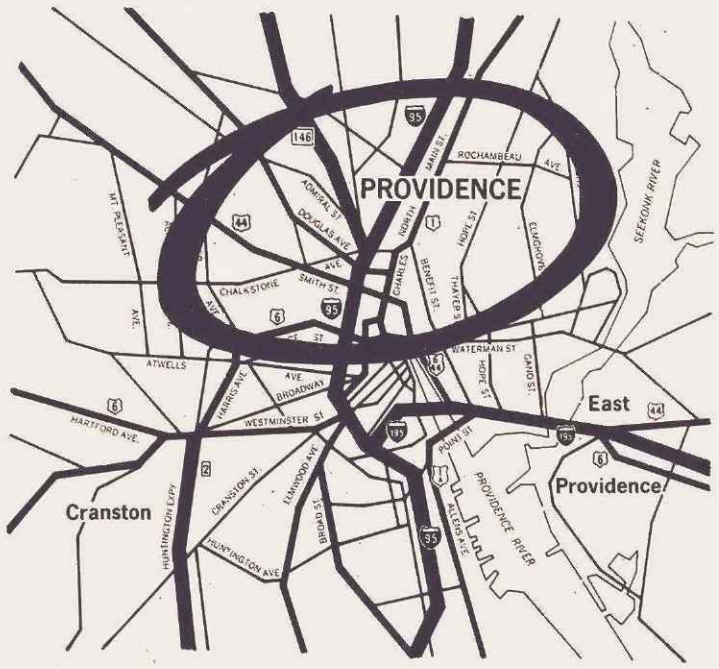

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